

# ANNUAL REPORT 2017 | 2018



Leading inclusive  
connectivity towards the fourth  
industrial revolution



**USaf**

The Universal Service and Access Fund



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# LIST OF ACRONYMS/ABBREVIATIONS

|                   |   |
|-------------------|---|
| <b>AGSA</b>       | Auditor General of South Africa   |
| <b>APP</b>        | Annual Performance Plan   |
| <b>BARC</b>       | Board Audit and Risk Committee  |
| <b>BDM</b>        | Broadcasting Digital Migration  |
| <b>CEO</b>        | Chief Executive Officer   |
| <b>DTPS</b>       | Department of Telecommunications and Postal Services  |
| <b>EC</b>         | Eastern Cape  |
| <b>ECA</b>        | Electronic Communications Act, 2005 (Act No 36 of 2005)   |
| <b>ERP</b>        | Enterprise Resource Planning  |
| <b>EXCO</b>       | Executive Management Committee  |
| <b>FS</b>         | Free State  |
| <b>GITO</b>       | Government Information Technology Officers  |
| <b>GRAP</b>       | Generally Recognised Accounting Practice  |
| <b>ICASA</b>      | Independent Communications Authority of South Africa  |
| <b>ICT</b>        | Information Communications Technology   |
| <b>ISP</b>        | Internet Service Provider   |
| <b>ITU</b>        | International Telecommunication Union   |
| <b>KZN</b>        | KwaZulu-Natal   |
| <b>LP</b>         | Limpopo   |
| <b>MEC</b>        | Member of the Executive Council   |
| <b>MP</b>         | Mpumalanga  |
| <b>MTSF</b>       | Medium Term Strategic Framework   |
| <b>NDP</b>        | National Development Plan   |
| <b>NC</b>         | Northern Cape   |
| <b>NEMISA</b>     | National Electronic Media Institute of South Africa   |
| <b>NGP</b>        | New Growth Plan   |
| <b>NRI</b>        | Network Readiness Sub-Index   |
| <b>NW</b>         | North West  |
| <b>PFMA</b>       | Public Finance Management Act   |
| <b>PWDs</b>       | Persons with Disability   |
| <b>SA Connect</b> | South Africa Connect: Creating Opportunities, Ensuring Inclusion South Africa Broadband Policy (2013) |
| <b>SANRAL</b>     | South African National Roads Agency Limited   |
| <b>SANS</b>       | South African National Standards  |
| <b>SAP</b>        | Systems, Applications and Products  |
| <b>SCM</b>        | Supply Chain Management   |
| <b>SIP 15</b>     | Strategic Integrated Project (15) - Expanding Access to Communication Technology                      |
| <b>SITA</b>       | State Information Technology Agency   |
| <b>SLA</b>        | Service level agreement   |
| <b>SOC</b>        | State Owned Companies   |
| <b>STBs</b>       | Set-top boxes   |
| <b>USAASA</b>     | Universal Service and Access Agency of South Africa   |
| <b>USAF</b>       | Universal Service and Access Fund   |





# A

## GENERAL INFORMATION

## USAASA's GENERAL INFORMATION

|                                |  |
|--------------------------------|--|
| Chairperson of the Board       | Mr Mawethu Cawe  |
| Acting Chief Executive Officer | Mr Sipho Mangqibisa  |
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| Bankers                        | Nedbank South Africa   |
| Auditors                       | Auditor-General South Africa   |



## CHAIRPERSON'S FOREWORD

MAWETHU CAWE

It is a great honour to present the annual report for the 2017/18 financial year outlining performance outcomes against the predetermined strategic objectives of the Universal Service and Access Fund (USAF).

The world we live in today is one where the information that we use to make decisions moves at the speed of light. Incredibly, in the time it takes one to take a single decision in one's head, a bit of data has travelled around the world...twice.

When I reflect upon the increasing interconnectivity of our world, I can only marvel at how this interconnectivity has revealed how incredibly interdependent we – as human beings – are on each other.

The way we work, the way we relax, the way we connect to our fellow human beings (not to mention to an increasing array of electronic devices that now power our world) has forever been changed by digital communications and mobile computing technologies.

This interconnectivity drives the world forward at a mind-blowing pace. Whether we realise it or not, it affects the lives of every single one of us. Even the people who do not have access to this interconnected world are being affected.

In fact, people who do not yet have access to the internet are being prevented from participating in the fast-moving world that the rest of us are privileged to be able to access from our fingertips.

Universal access to digital telecommunications is so important that it has been deemed a universal right by the United Nations. We as South Africans have a moral duty to make sure that we leave no man behind in the unfolding discord of the global technological revolution.

The so-called mobile miracle that is unfolding across the continent hinges upon the roll-out of backbone infrastructure that can sustainably meet the exponentially growing demand for digital communications.

Therefore, Universal Service and Access Agency of South Africa (USAASA) was established by the Electronic Communications Act of 2005 (ECA) mainly to ensure that all South Africans, irrespective of geographic boundaries and economic status, have access to broadband infrastructure and services. For USAASA to achieve this, the ECA also established the USAF to be managed by the Agency. The Fund is financed by the contributions from electronic communications service, electronic communications network service and broadcasting service licensees.

Knowing all of this has been fuelling my sense of urgency as I continued to fulfil my duties as the chairperson. As head of the statutory body playing an integral part in South Africa's fourth industrial revolution, I am conscious of the mammoth task entrusted to me and the Board by the Republic of South Africa Government, to transform and impact lives in a sustainable manner. The Board has to account for the roll-out of broadband and digital set-top boxes (STBs) to the people in our society who cannot afford to carry the financial burden. It is a responsibility that we, as the Board, do not take lightly.

USAASA has made great strides in assisting the country to meet international conventions, commitments and policies that affect universal service and access by facilitating the connection of villages with information and communications technologies (ICTs) and establishing community access points, connecting primary healthcare facilities with ICTs, and connecting local government departments and these will continue to be our focus areas during the 2018/19 performance cycle and into the future. To achieve this, USAASA will continue to collaborate closely with all stakeholders for purposes of ensuring the best possible outcome for all parties.

The Board, in cooperation with members of USAASA senior management, put a considerable effort into developing, assessing and approving USAF's 2018/19 annual performance plan (APP), while carefully monitoring performance against strategic outcome oriented goals and working to improve audit outcomes.

The year under review was a particularly challenging one as the Board had to actively address issues of governance and risk that had materially impacted on the roll out of STBs and broadband infrastructure as well as the performance of the Fund and the Agency as a whole.

The rollout of the digital migration project in South Africa has been fraught with obstacles. However, the Board is proud to announce that it has managed to successfully conclude the intense litigation battle that faced USAASA, in relation to, firstly, the encryption debacle, which was settled by the Constitution Court in May 2017,

and secondly, the irregular and questionable procurement processes that were put in place in the 2015/16 financial year, which were set aside by the court ruling in the year under review, amid the alleged anti-competitive conduct that is still under investigation by the Competition Commission. As a result, USAASA was forced to apply from National Treasury for the retention of surplus funds, to the tune of just over R19 million for legal fees incurred during the year under review. There is still an ongoing dispute under review in the arbitration matter between the Agency and one STBs manufacturer with regard to a rand/dollar exchange rate variance and, hopefully, the matter will be finalised in the new financial year.

Irrespective of difficult circumstances during the financial year, the Board still managed to uphold its mandate. This had to be done in the face of public scrutiny and widespread criticism over the lack of cohesive leadership in this crucial space, where ICT meets humanity.

During the year under review, USAASA experienced enormous challenges with the implementation of the broadcasting digital migration (BDM) project, one of them being the loss of inventory (STBs and antennae) under the control of South African Post Office (SAPO) and installers. This led to the qualified audit opinion against the Fund. USAASA will continue to engage SAPO and installers to ensure that effective and adequate control measures are put in place in the next financial year (2018/19).

I am extremely proud to be serving as Chairperson of such a cohesive Board with such exuberant members. Despite all odds, the Board was able to provide strategic leadership and also ensure that the Agency achieved an unqualified audit opinion. This performance bears testament to the Board's excellent teamwork, unquestionable integrity and dedication.

I would be remiss if I did not highlight the immense contribution that Mr Sipho Mngqibisa has made in providing stable leadership, having been asked to step in as acting CEO in the last month of the year under review. He has continued to provide the requisite leadership in the new financial year. Mr Mngqibisa, thank you for all the time and effort you have put in – at great personal cost – to ensure a stable transition in leadership at USAASA. Your unwavering dedication and the vast experience you bring to the table are instrumental in turning the misfortunes of USAASA into positive anecdotes.

As some of us are approaching the end of the three-year term, I want to express my gratitude to my fellow Board members. It has been a privilege to have led this wonderful Board and an honour to serve with you.

I thank the Minister of Telecommunications and Postal Services, Honourable Dr Siyabonga Cwele, Deputy Minister, Honourable Stella T Ndabeni-Abrams, and the Portfolio Committee of Telecommunications and Postal Services for their support and leadership as the Board navigated a challenging service delivery environment. Their confidence in me and their willingness to grant me the opportunity to serve the Agency as Chairperson are greatly appreciated. My three years at USAASA have been most fulfilling and have given me the opportunity to gain valuable experience in the sector.

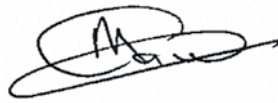
My thanks also go to the previous ministers of communications, the Honourable Ayanda Dlodlo and Honourable Mmamoloko Kubayi-Ngubane for their contribution and support, notwithstanding their short stint with us. Finally, I acknowledge the Honourable Nomvula Mokonyane for her steadfast leadership since she took over, which has brought the broadcasting digital migration (BDM) project back on track.

Many changes are going to affect the digital economy and infrastructure landscape in the short term, with South Africa switching off analogue signal distribution during 2019 as the

BDM project comes to a close, and the finalisation of the National Integrated ICT Policy White Paper on the horizon.

As head of the oversight body of USAASA and USAF, I am monitoring developments with cautious optimism. The Board remains vigilant in ensuring that it delivers the functional capacity outputs that will assist the Government in its budgetary commitments in connecting South Africa.

In conclusion, I convey my gratitude to USAASA management and the entire staff for their commitment to supporting the Board, even in the face of seriously challenging situations. It is our values, integrity and service delivery orientation that keep the organisation on track as we drive inclusive participation in ICT through USAF.



**Mr Mawethu Cawe**

Chairperson of the Board of Directors





## FOREWORD BY **ACTING CHIEF EXECUTIVE OFFICER**

SIPHO MNGQIBISA

I have been standing in as acting Chief Executive Officer (CEO) since the CEO was placed on suspension in March this year. Although I took up the position in the latter part of the financial year under review, I have been the senior executive having acted on two occasions as Executive Manager Performance Management and serviced at the Executive Committee (EXCO) for the past three years.

Thus, I hereby present the annual performance results that reflect the predetermined objectives, key performance indicators and targets for USAF for the 2017/18 financial year.

USAF's performance worsened from 33% in the previous financial year to 30% this year. This is attributable largely to the annual performance plan (APP) not being aligned to the operating environment and the SMART principle (specific, measureable, actionable, realistic and time-bound). We put measures in place and developed a new APP in the year under review to achieve this goal.

USAF received a qualified audit opinion, which, as management, we will address as we strive for a clean audit. As operational activities are within our control, we will apply prudence to ensure that we

achieve full compliance which is anticipated to result in clean audit outcomes in future. The EXCO is working closely with chief risk officer to develop a clear action plan to ensure that the Fund is on track for the mid-term review by the Auditor-General in September 2018. We will also ensure that all progress is reported to the Board Audit and Risk Committee (BARC) timeously.

USAF 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 36 of 2005 (ECA) as amended – that enables USAASA to collect all the licensed operator levies due to the Fund from the Independent Communications Authority of South Africa (ICASA). The predetermined objectives, key performance indicators and targets for the 2017/18 financial year as outlined in this APP have been prepared in accordance with the Agency's mandate.

Management continued to focus on reviewing the organisation's development during the 2017/18 financial year, ensuring that USAASA's human capital and processes are fit-for-purpose in delivering value-for-money support in the achievement of its

objectives. Management dutifully administers USAF, to ensure that the Agency is adequately resourced in terms of technical and other requisite skills, with experienced and motivated human capital that is supported by cost-effective and efficient processes. USAASA management is developing a risk mitigation plan that is aimed at assisting both the Fund and the Agency to meet their strategic goals and, consequently, their mandate.

The momentum that has been building on the broadcasting digital migration (BDM) project is now in full swing, thanks to several developments that took place in the financial year under review. We welcome the re-establishment of the Digital Advisory Council and commit to working with the Council to come up with an integrated installation strategy to accelerate rollout in a well-coordinated manner.

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

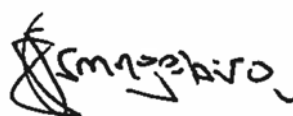
These plans are further supported by the National Infrastructure Plan formalised through the Infrastructure Development Act, No 23 of 2014, which seeks to achieve 100% access to digital ICTs for all South Africans by 2020 as a driver of new economic opportunities

and digital equity that forms part of the Strategic Integrated Project (SIP-15).

The National Integrated Information and Communication Technologies Policy White Paper approved by Cabinet on 28 September 2016 makes recommendations on new or amended legislation arising from the White Paper. The most significant proposal for universal service and access relates to the creation of the Digital Development Fund (DDF), which would replace USAASA and USAF. This will change the policymaking and regulation-making powers that currently lie with the Agency (USAASA), and the Fund (DDF) will be responsible in the main for identifying, awarding and managing projects.

A special word of thanks to my USAASA colleagues. We have endured a difficult year fraught of drastic changes. Thank you for your commitment and dedication to providing access to ICTs for all through your diligent and tireless work.

In conclusion, I convey my sincerest thanks to the USAASA Board for its commitment and dedication in continuously guiding and supporting the management team of USAASA as it fulfils its duties in responsibly administering USAF.



**Mr. Sipho Mngqibisa**

Acting Chief Executive Officer





# Strategic Overview

## Vision

Universal Access and Service to ICT for All.

## Mission

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

## Values

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

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

# Legislative and other Mandates

## Constitutional Mandates

The Constitution of South Africa (1996) describes the Bill of Rights as a cornerstone of democracy in South Africa and states that: 'It enshrines the rights of all people in our country and affirms the democratic values of human dignity, equality and freedom.' Section 16 of the Bill of Rights is one of the sections unpinning the higher guiding principle of 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: Section 16 of the Bill of Rights**

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

## Legislative Mandates

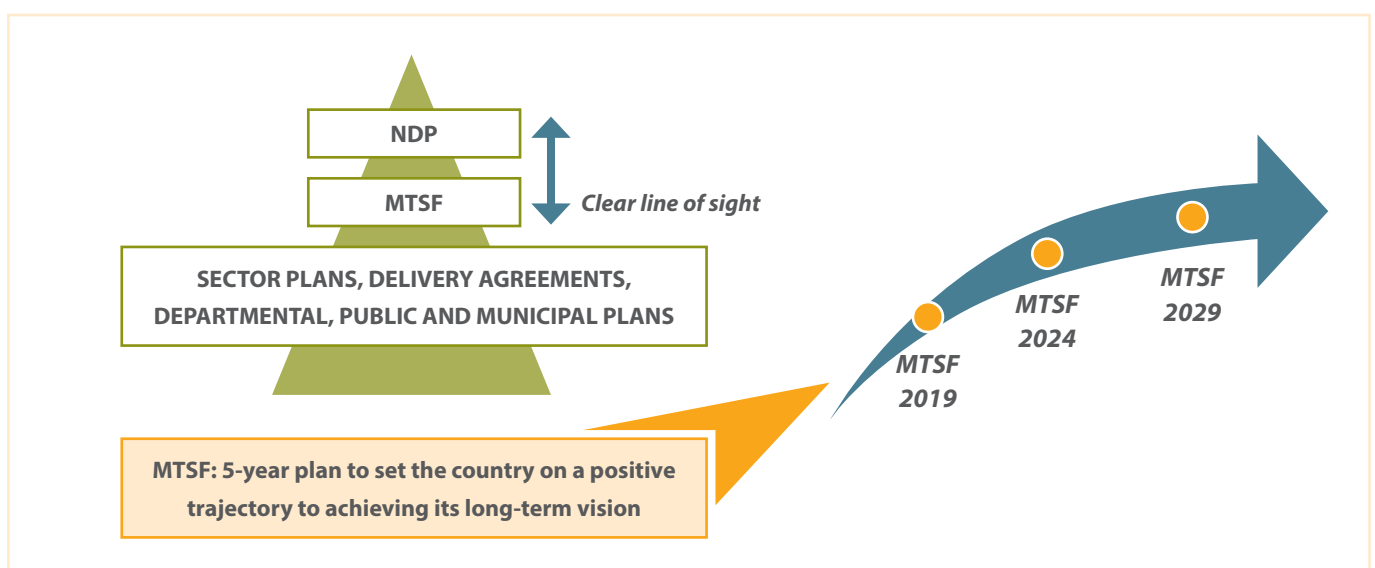
The Universal Service and Access Fund of South Africa (was established by an Act of Parliament. The existence, functions, duties and mandate of the Fund are governed by Section 88 of the Electronic Communications Act 36 of 2005 (ECA), which came into operation on 19 July 2006. The Fund is financed by contributions from electric communications licensees. The money in the Fund must be used for specific subsidies to needy persons, underserved areas and schools. In terms of the ECA, the Fund must:

- Use 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 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 Mandate

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.



Source: Department of Planning Monitoring and Evaluation, 2015

**Figure 2: South Africa's Planning Horizon in the Context of the National Development Plan**



## *National Development Plan (NDP)*

The NDP has important implications for the USAF and on how the 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. It encompasses the following critical policy instruments, which are also driving Government's policy agenda:

- 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 (PICC) launched Strategic Integration Project (SIP-15);
- Industrial Policy Action Plan, which supports the reindustrialisation of the economy.

### *New Growth Path strategies*

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

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

### *SIP-15: Expanding Access to Communication Technology*

Aim: 100% access to digital ICTs 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, **USAASA** and the private sector.

This has been deleted because it appears word for word on the next page.

### *Medium-Term Strategic Framework*

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

The 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 by 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 superfast 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.

### *South Africa's Broadband Policy: South Africa Connect*

In terms of the ECA, the Department of Communication of South Africa published a policy document, 'South Africa Connect: Creating opportunities, ensuring inclusion: South Africa's broadband policy'. This was Gazetted on 6 December 2013.

SA Connect guides the ICT sector as a whole, and 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 the USAF, and 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 sub-strategies of SA Connect are:

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

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

| Strategy intervention                   | Aspects addressed by the strategy   | Intended outcomes   | Indicators   |
|---|---|---|--|
| <b>1. Digital readiness</b>             | <ul style="list-style-type: none"> <li>Institutional capacity</li> <li>Regulation and administrative bottlenecks</li> <li>Efficiency and effectiveness</li> <li>Data and analysis for monitoring and evaluation and policy reformulation</li> <li>Establishment of the National Broadband Council</li> <li>Rationalisation of state-owned companies (SOCs)</li> </ul> | <ul style="list-style-type: none"> <li>An enabling regulatory and administrative environment that facilitates broadband rollout</li> <li>Broader public interest preserved</li> <li>Level playing fields with fair market conditions</li> <li>Dedicated council to advise Minister on policy, planning and implementation</li> <li>Autonomy, accountability and efficiency of regulator</li> <li>Access, price and quality of broadband</li> <li>Time and cost of network build approval</li> <li>Degree of disruption due to network build</li> <li>Environmental impact of network builds</li> <li>Targets met</li> <li>Coverage price</li> </ul> | <ul style="list-style-type: none"> <li>Autonomy, accountability and efficiency of regulator</li> <li>Access, price and quality of broadband</li> <li>Time and cost of network build approval</li> <li>Degree of disruption due to network build</li> <li>Environmental impact of network builds</li> <li>Targets met</li> <li>Coverage price</li> </ul>  |
| <b>2. Digital development</b>           | <ul style="list-style-type: none"> <li>Pooling of public sector demand</li> <li>Public sector networks</li> <li>Open access to network regulation</li> </ul>  | <ul style="list-style-type: none"> <li>High-capacity future-proof network capacity procured for key public sector broadband needs at more affordable rates</li> <li>Government's ongoing operational communications expenditure reduced through upfront capital expenditure</li> <li>Risk of investment in network extensions for operators reduced through anchor tenancy</li> </ul>   | <ul style="list-style-type: none"> <li>Speed, quality and cost of network capacity at Government facilities</li> <li>Speed of rollout and quality of service</li> <li>Network reach and price of access</li> <li>Increased investment by network operators</li> <li>Take up of services in public sector, schools and clinics</li> </ul>   |
| <b>3. Building the digital future</b>   | <ul style="list-style-type: none"> <li>Mechanisms for sharing of infrastructure</li> <li>Coordination of infrastructure rollout</li> <li>Enhanced use and licensing of spectrum</li> </ul>  | <ul style="list-style-type: none"> <li>Where competition is viable, this will produce the best outcomes, but infrastructure sharing and cooperation to be enabled on network builds to reduce cost</li> <li>Economies of scale enabled in medium-density and low-income areas through government investment and guarantees in network extensions</li> </ul>   | <ul style="list-style-type: none"> <li>Network reach</li> <li>Cost to communicate</li> <li>Speed, quality and cost of network capacity</li> <li>Speed of rollout</li> <li>Increased investment by network operators</li> <li>Improved penetration</li> </ul>   |
| <b>4. Realising digital opportunity</b> | <ul style="list-style-type: none"> <li>Capability and capacity</li> <li>Research and development (R&amp;D), innovation and entrepreneurship</li> <li>Industry development</li> <li>Local content and applications</li> </ul>  | <ul style="list-style-type: none"> <li>Uptake and use enabled through institutional capacity and individual capability and institutional absorption</li> <li>More equitable access to higher-quality government services</li> <li>Reduce pressure on scarce public sector facilities by moving resources online</li> <li>The benefits of broadband in terms of economic growth and enhanced quality of life are realised through relevant content and applications</li> <li>Promote growth through enabling economic infrastructure and associated industrial development</li> </ul>  | <p>Demand stimulation through:</p> <ul style="list-style-type: none"> <li>Funding local content</li> <li>Supporting apps to market</li> <li>E-government services</li> <li>ICT start-ups</li> <li>Registration of ICT-related patents</li> <li>Increased demand-side skills: ICT specialists, engineers, lawyers, economists</li> <li>Number of PhDs in area of ICT</li> <li>% of GDP spent on R&amp;D</li> <li>Increased demand-side skills: e-literacy campaign, ICT in school curriculum</li> </ul> |

The Minister of Telecommunications and Postal Services announced in his budget vote, 2015 the following eight district municipalities as areas of focus over the next three years for the first phase of broadband rollout under the auspices of the South Africa Connect

policy. The USAF will be aligning its activities to these municipalities and, consequently, to the South Africa Connect policy objectives and implementation plans.

Table 2: Underserved municipalities

| District           | Government | Health     | Police     | Post Office | School       | School Independent | Thusong   | Total        |
|--------------------|------------|------------|------------|-------------|--------------|--------------------|-----------|--------------|
| Dr. Kenneth Kaunda | 27         | 38         | 15         | 27          | 220          | 13                 | -         | 340          |
| Gert Sibande       | 106        | 73         | 37         | 31          | 519          | 22                 | 9         | 797          |
| O.R. Tambo         | 43         | 133        | 17         | 23          | 1 204        | 24                 | -         | 1 444        |
| Pixley ka Seme     | 46         | 38         | 27         | 14          | 96           | 4                  | -         | 225          |
| Thabo Mofutsanyane | 98         | 74         | 30         | 30          | 480          | 32                 | 3         | 747          |
| uMgungundlovu      | 111        | 57         | 25         | 34          | 501          | 41                 | 2         | 771          |
| uMzinyathi         | 52         | 45         | 12         | 10          | 475          | 6                  | 1         | 601          |
| Vhembe             | 52         | 119        | 20         | 33          | 949          | 34                 | 3         | 1 210        |
| <b>Total</b>       | <b>535</b> | <b>577</b> | <b>183</b> | <b>202</b>  | <b>4 444</b> | <b>176</b>         | <b>18</b> | <b>6 135</b> |

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. An integrated broadband model is also proposed, as depicted below:

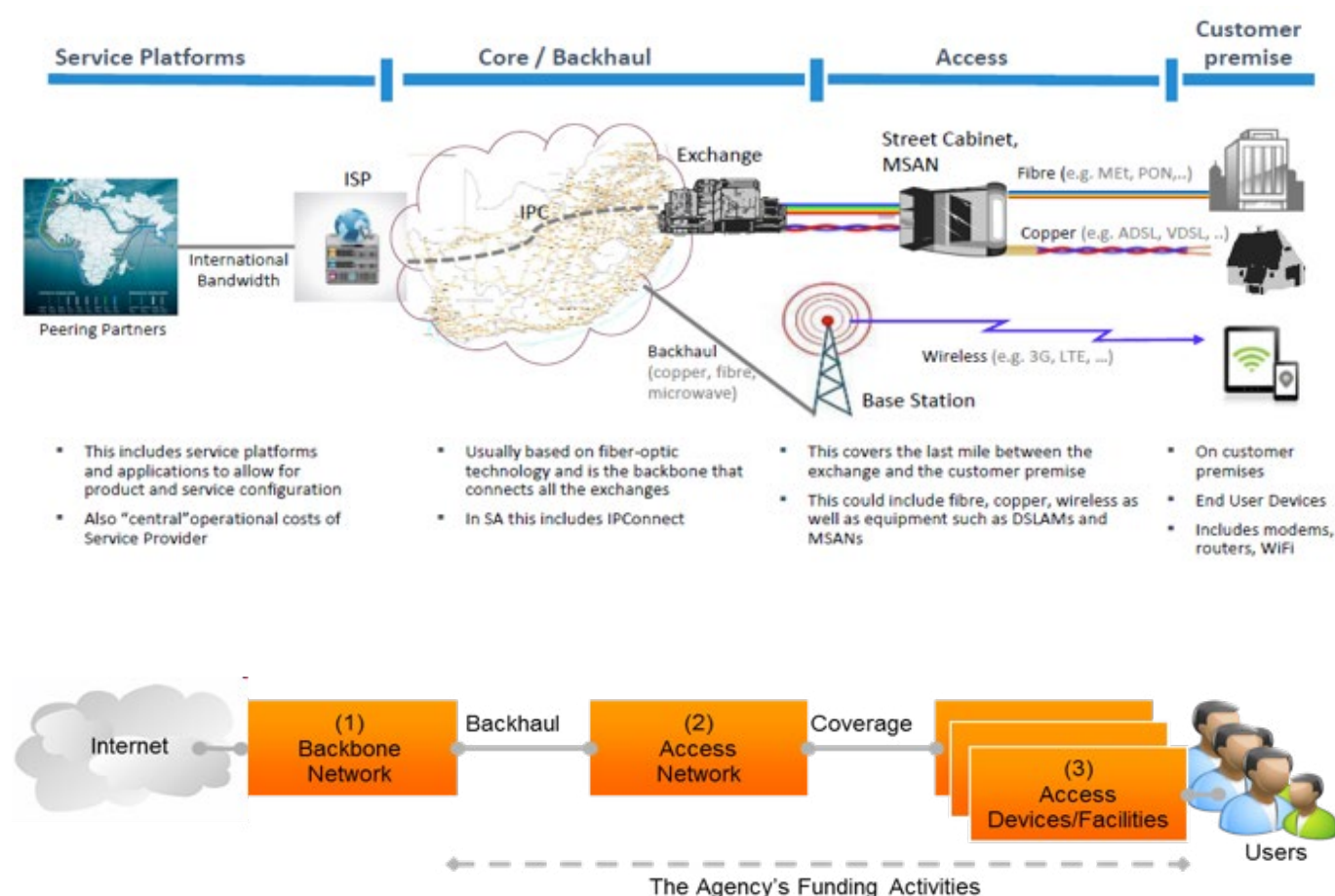


Figure 3: Integrated broadband model

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 Msinga Local Municipality (KwaZulu-Natal); Emalaheni Local Municipality (Eastern Cape), Joe Morolong Municipality (Northern Cape), Ratlou (North West, Mutale Local Municipality (Vhembe District Municipality, Limpopo) and Chief Albert Luthuli Local Municipality (Gert Sibande District Municipality, Mpumalanga).

In the 2018/19 financial year, the USAF focus will remain on the eight district municipalities announced by the Minister of Telecommunications and Postal Services as the first phase of implementing the National Health Insurance pilot phase. Broadband infrastructure and services are to be deployed in the underserved parts of OR Tambo District Municipality in the Eastern Cape and UMgungundlovu District Municipality in KwaZulu-Natal.

### ***World Summit on Information Society (WSIS) Commitments***

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

- 1) to connect villages with ICT and establish community access points;
- 2) to connect universities, colleges, secondary schools and primary schools with ICT;
- 3) to connect scientific and research centres with ICT;
- 4) to connect public libraries, cultural centres, museums, post offices and archives with ICT;
- 5) to connect health centres and hospitals with ICT;
- 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 put in place technical conditions to facilitate the presence and use of all world languages on the internet;
- 9) to ensure that more than half the world's inhabitants have ICT within their reach.

The USAF has made great strides in assisting the country to meet these goals and recognises the importance of making the

Department of Telecommunications and Postal Services (DTPS) and other stakeholders aware of this. The USAF also remains cognisant of the value of its contribution to the UNCRPD 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

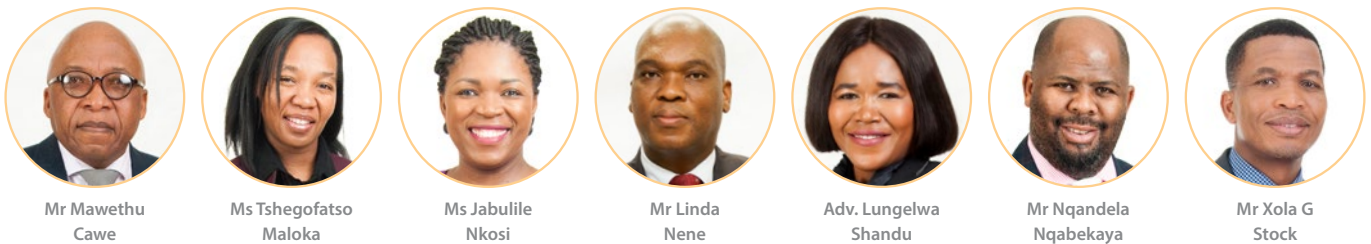
To mainstream ICT access for PWDs globally, it is suggested that funds be channelled towards:

- Promoting accessible public access facilities;
- Subsidising accessible handsets and/or monthly subscriptions;
- The provision of relay services and purchase accessibility 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 R&D of AT tools, e.g. development of speech-to-text engines in official languages;
- Facilitating the training of persons with disabilities in using accessible ICT;
- Facilitating the development of curricula and training of information technology professionals on mobile ICT accessibility; and
- Providing accessible STBs (including to PWDs) to facilitate digital migration.

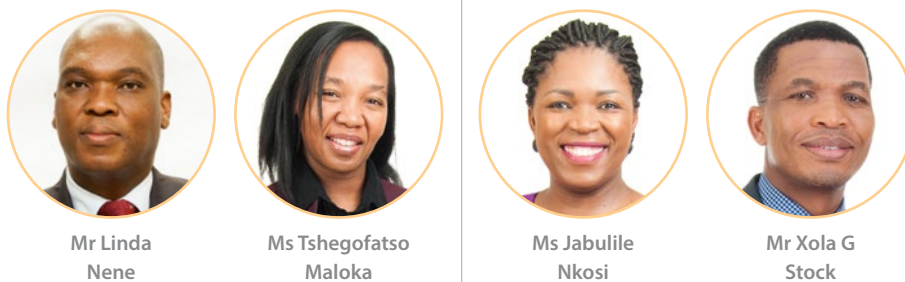
# Organisational Structure

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

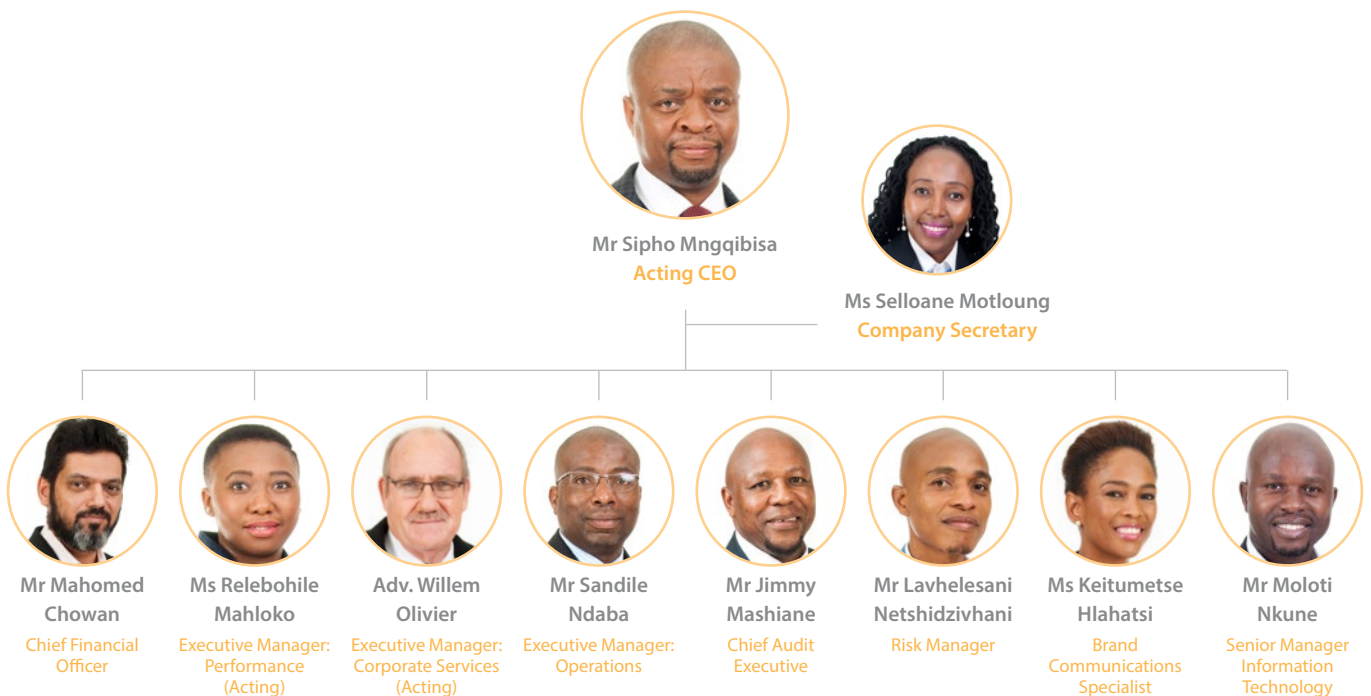
## USAASA Board of Directors



## Board Audit and Risk Committee (BARC)



## Executive Leadership





# Board of Directors Profiles

## Mr Mawethu Cawe

### Current position(s)

- Chairperson of the Board of USAASA since 1 September 2015 (3 year term)
- Owner and Managing Director of Amawethu Farming and Investments since April 2013

### Qualifications

- University of Fort Hare: Bachelor of Arts (BA) in Communications,
- University of The Witwatersrand: Certificate in Industrial Relations (CPIR),
- University of South Africa (UNISA): Advanced Diploma in Labour Law
- University of the Witwatersrand: Postgraduate Diploma (Human Resources)
- University of the Witwatersrand: Master in Management
- University of the Witwatersrand: Certificate in Executive Coaching and Mentoring

### Work history

Mr Mawela was HR practitioner at Anglo American from 1985 to 1991, before moving to Nestle as Head of HR Gauteng, Vodacom as Group HR Senior

Consultant, Technikon SA as Senior HR Manager and Times Media as Group Executive: HR and Transformation. He founded Amawethu Farming and Investments in 2013. Throughout his career, Mr Cawe has participated in rural developments projects to help improve the lives of rural communities.



## Ms Tshogofatso Maloka

### Current position(s)

- Board member of USAASA since 1 September 2015 (3 year term)
- BARC member of USAASA since 1 September 2015
- Member of Human Resources and Remuneration Committee of USAASA
- Director and Founder of Ponagatso ya Bothale, Bothale Services and Tshoganyetso

### Qualifications

- University of Witwatersrand: B Com Accounting
- University of Natal: B Com Honours
- Chartered Accountant (CA) (SA)

### Work history

Ms Maloka joined KPMG in 2004 as an Accountant, before moving to MTN as Assistant Manager in Business Finance in 2007 and then Standard Bank in 2010 as Financial Manager in personal and business banking. Before starting her own ventures in 2015, she was Senior Finance Manager at RMB Corporate Banking.



**Mr Linda Nene****Current position(s):**

- Board member of USAASA since 12 December 2016 (3 year term)
- Chairperson of the USAASA Board Audit and Risk Committee since 12 December 2016
- Member of USAASA Operations Committee
- Member of USAASA Social and Ethics Committee
- Group Compliance Manager at PetroSA Parow since 1 September 2007
- Non-executive Director: PetroSA Equatorial Guinea SOC Limited since May 2016
- Non-executive Director: Work Dynamics since April 2016

**Qualifications**

- University of Cape Town: B Commerce (Accounting)]
- Monash University: Post Graduate Diploma in Management (specialising in corporate governance)
- The Institute of Internal Auditors:
- CCSA (Certification in Control Self-Assessment)
- GIA (SA) (General Internal Auditor-SA)
- FIIASA (Fellow of the Institute of Internal Auditors SA)
- CRMA (Certification in Risk Management Assurance)
- Compliance Institute of South Africa (CISA):
- CCP (Certified Compliance Professional)
- CPrac (SA) - (Compliance Practitioner)
- Southern Business School: Risk Management Strategies in the Public Sector



- Institute for International Research: Management Development Programme

**Work history**

Mr Nene joined BoE Group in 1999 as Acting Audit Manager and then moved to Engen Petroleum where he served in various auditing roles. He held positions at Chevron Oil SA and Provincial Treasury Western Cape before returning to PetroSA.

He has also served on various audit committees and is a member of the Institute of Internal Auditors, Institute of Risk Management SA and Compliance Institute of South Africa.

**Adv. Lungelwa Shandu****Current position(s):**

- Board member of USAASA since 1 September 2015 (3 year term)
- Chairperson of Operations Committee at USAASA
- Member of USAASA Human Resources and Remuneration Committee
- Member of USAASA Social and Ethics Committee
- Member of Firearms Appeal Board – Ministry of Police
- Part-time arbitrator and panellist for Tokiso Dispute Settlement and Metal and Engineering Bargaining Council

**Qualifications**

- University of Durban Westville – Post Graduate Qualification – LLB.
- University of Durban Westville – Graduate Qualification – B Proc.
- University of Witwatersrand – Masters in Public Policy Management (Incomplete)
- Kettering Foundation, Dyton, Ohio USA – Certificate – Deliberative Democracy
- Certificate – Voice training for public speaking – Voice Clinic
- Certificate Substantive Law, Conciliation, Jurisdictional Rulings, Managing Dismissals and Arbitration – CCMA
- Certificate (Conduct Outcomes based Assessment) – PALAMA
- Certificate (Training Facilitator) – Siyanqoba.

**Work history**

Adv. Shandu was admitted to practice law in 2000 and was a member of the Durban Bar of Advocates. Since 2006 she has worked as a part time



commissioner, mediator and arbitrator for various labour dispute resolution agencies, which include the CCMA and various bargaining councils. As a lawyer her area of expertise is labour law, gun law and communications law. She has consulted on ICT policy for various institutions including the Department of Communications and Media Institute of Southern Africa.

### Mr Ngandela Ngabekaya

#### Current position(s):

- Board member of USAASA since 1 September 2015 (3 year term)
- Member of USAASA Human Resources and Remuneration Committee
- Member of USAASA Operations Committee
- Member of USAASA Social & Ethics Committee
- Executive Chairman – Amazotsho Investment Holdings
- Council Member of Engineering Council of South Africa
- Director of Schloss Consulting

#### Qualifications

- Milpark Business School: Master in Business Administration
- Cape Peninsula University of Technology: National Diploma in Electrical Engineering
- University of the Witwatersrand: Certificate in Convergence and New Media in the information Society
- University of the Witwatersrand: Certificate in Telecommunication Policy, Regulation and Management
- University of Pretoria: Programme in Project Management

#### Work history

Having started his career as a technician at Orbicom in 2003, Mr Ngabekaya served that company in various capacities, including Regulatory Affairs, until Jan 2006. In the ensuing years, he held positions at various organisations, both in the public and private sectors, including Director: Planning and



Foresight at the Presidential National Commission on Information Society and Development; Senior Manager: Business Development at Electronic Communications Security. More recently, he was the Administrator at Local Government Sector Education and Training Authority (LGSETA), after working as Chief of Staff in the Ministry of Higher Education and Training. Subsequent to that, and following a short stint of running Schloss Consulting on a full-time basis, he was recalled to go and serve as Special Advisor to the Minister of Higher Education and Training. He now serves as the Special Advisor to the Minister of Transport.

### Mr Xola G Stock

#### Current position(s):

- Board member of USAASA since 12 December 2016 (3 year term)
- Member of USAASA Board Audit and Risk Committee
- Member of USAASA Human Resources and Remuneration Committee
- Member of USAASA Social & Ethics Committee
- Board member of South African Institute of Chartered Accountants
- Board member of Makhulong A Matala NPC
- Chief Financial Officer: Avon Peaking Power (Pty) Ltd and Dedisa Peaking Power (Pty) Ltd, and affiliated entities

#### Qualifications

- University of Cape Town: B Com in Accounting and Economics Majors
- University of Cape Town: Postgraduate Diploma in Accounting
- University of Johannesburg: Masters in Commerce in International Accounting
- CA(SA)

#### Work history

Having completed his articles at PwC, Mr Stock held auditing and financial management positions at Barloworld, Johnnic Communications and UTI before being appointed Executive: Management Accounting at SARS in 2008,



which seconded him to National Treasury's Chief Procurement Office for a year to October 2013.

He also served as President of SAICA's Northern Region Council from 2015 to 2017 and on the Institute of Directors in Southern Africa and the Board of ABASA.

**Ms Jabulile Nkosi****Current position(s):**

- Board member of USAASA since 12 December 2016 (3 year term)
- Member of USAASA Board Audit and Risk Committee
- Member of USAASA Operations Committee

**Qualifications**

- Potchefstroom University: BCompt (Accountancy),
- University of the Witwatersrand: Higher Diploma in Computer Auditing
- Institute of Internal Auditors: Certified Internal Auditor
- Information Systems Association: Certified Information Systems Auditor
- Institute of Internal Auditors: Certificate in International Internal Audit Quality Assessment

**Work history**

Ms Nkosi has held Assurance and Consulting positions at several organisations including Presiding officer (IEC), Internal Audit divisional head (SSA), Senior IT Auditor (Netcare), Business Executive Information Systems Auditor (Auditor General), Head of Advisory (SikelaXabiso), until she was appointed as Business Optimisation Specialist as SID Advisory and management consulting.



She also served on the Policy Committee, the Performance Audit Advisory Committee and the Tender Committee of the Auditor General of SA, the Working Committee on Municipal Systems and the INTOSAI Working Group on IT. She is a member of the Institute of Internal Auditors, Institute of Risk Management, Information System Association and Institute of Directors of South Africa.

# EXCO members



**Sipho Mngqibisa**

Acting Chief Executive Officer

**Qualifications**

- Bachelors Degree Law
- Certificate in Legislative Drafting
- Certificate in Programme Project Management
- Certificate in Telecommunications Policy
- Certificate in Satellite Communication Fundamentals
- Certificate in Alternative Regulatory Strategies for Telecommunications



**Mahomed Chowan**

Chief Financial Officer

**Qualifications**

- Bachelor of Accountancy
- Postgraduate Diploma in Accounting
- CA(SA)



**Selloane Motloun**

Company Secretary

**Qualifications**

- Baccalaurius Procuratoris Degree
- Certificate in Legislative Drafting
- Certificate in Management of Mining and Minerals Policy
- Internet aspects of Copyright and Trademarks – in progress
- Legal aspects of Electronic Commerce – in progress



**Relebohile Mahloko**

Acting Executive Manager Performance

**Qualifications**

- BCom Accounting
- Certificate in Project Management
- Certificate in New Managers Programme
- Postgraduate Diploma in Management (M&E)
- Masters in Management (M&E) – in progress



**Adv. Willem Olivier**

Acting Executive Manager Corporate Services

**Qualifications**

- B Juris LLB
- Certificate in Bid Committees in the Public Sector
- Admitted Advocate



**Sandile Ndaba**

Executive Manager Operations

**Qualifications**

- Bachelor of Science
- National Diploma in Datametrics
- Postgraduate Diploma in Business Management
- Masters of Business Leadership
- Certificate in Information and Technology Management





**Jimmy Mashiane**

Chief Audit Executive

**Qualifications**

- National Diploma in Internal Audit
- Certificate in Management Advanced Programme
- Certificate in Fraud Examination



**Lavhelesani Netshidzivhani**

Risk Manager

**Qualifications**

- BCom Accounting Science
- Certificate in Certified Enterprise Risk Management



**Keitumetse Hlahatsi**

Brand Communications Specialist

**Qualifications**

- Diploma in Information Technology
- Certificate in Public Relations Campaign Planning
- National Diploma in Public Relations Management - in progress



**Moloti Nkune**

Senior Manager ICT

**Qualifications**

- Bachelors Degree in Information Technology
- National Diploma in Information Technology
- Cert ITIL Version 3 Intermediate Examination
- Cert ITIL Version 3 Foundation
- Certificate in Practical Project Management
- Certificate in Insight Transformation Leadership
- Certificate in Conducting Disciplinary Hearing
- Certificate in IT Governance
- Cert in Diversity Management



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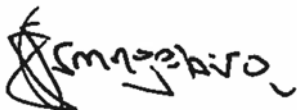
PERFORMANCE  
INFORMATION

# Statement of Responsibility for Performance Information

The Chief Executive Officer (CEO) is responsible for establishing and implementing systems of internal control designed to provide reasonable assurance of the integrity and reliability of the 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 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 plan and APP of the public entity for the financial year ended 31 March 2018.

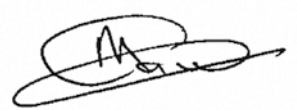


**Mr Siphon Mngqibisa**

Acting Chief Executive Officer

The performance information of the entity set out on pages 28 to 34 was reviewed by the Board Audit and Risk Committee (BARC) and approved by the Board.

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 2018 has also been examined by AGSA as the external auditors of the Agency and the Fund and its report is represented on pages 48 to 52.



**Mr Mawethu Cawe**

Chairperson of the USAASA Board of Directors



# Auditor-General's Report: Predetermined Objectives

AGSA performs the necessary audit procedures on the performance information to provide limited assurance in the form of an audit conclusion. The audit conclusion on the performance against predetermined objectives is included in the report to management, with material findings being reported under the Predetermined Objectives heading in the report on other legal and regulatory requirements section of the auditor's report.

Refer to page 44 of the Auditors Report, published as Part E: Financial Information.



# Situational analysis

## Service Delivery Environment

South Africa is a middle income country with a population, as of the mid-year report by Statistics South Africa, had an estimated population of 57.7 million<sup>1</sup> people. Out of the number indicated above, the unemployment rate as of second quarter of 2018 stood at 27.2 percent. The number of people with access to social grants has more than doubled from 12.7 percent in 2003 to 30.8 percent in 2017. Over the same period, the number of households receiving some form of a social grant also continued to grow, ranging from 29.9 percent in 2003 to 43.8<sup>2</sup> percent in 2017, and as of February 2018, the grant beneficiaries stood at 17,453,451<sup>3</sup> and representing more than one third of the current population. The Eastern Cape has the highest numbers of social grant beneficiaries at 41.8%, followed by Limpopo at 40.1%, Northern Cape at 37.5%, KZN at 36.4% and 22.5% in the Western Cape, with the Gauteng Province having the least number at 18.7%.

The General Household Survey results released by Statistics South Africa in 2017 found that there was high access to telecommunications for households nationally, as only 3.5% of households did not have access to either landlines or cellular phones. Nationally, 88.2% of households had access to at least one cellular phone, whilst 8.2% of households had access to both a landline and a cellular phone. The report indicated that only 0.1% of households had only a landline. Households in historically rural provinces such as Mpumalanga (95.0%) and Limpopo (94.4%) were very reliant on the more accessible

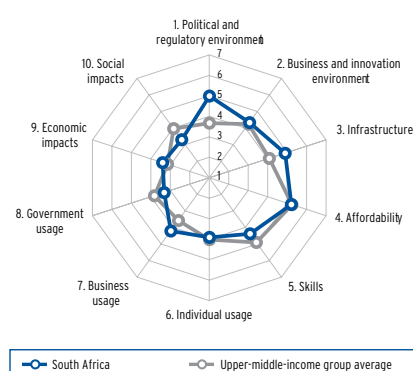
cellular telephones than landlines. By contrast, a combination of both cellular phones and landlines in households were most prevalent in the more affluent provinces, namely Western Cape (19.6%) and Gauteng (10.2%).

The 2017 GHS Report indicated that over six-tenth of South African households (61.8%) had at least one member who used the Internet either at home, workplace, place of study, or Internet cafés. Moreover, access at home was most high in the Western Cape (25.7%) and Gauteng (16.5%), whilst Internet access was lowest in Limpopo (2.2%) and Eastern Cape (3.5%). In the midst of the low levels of Internet access reported above, USAASA through the Universal Service and Access Fund has facilitated for the deployment of broadband networks in the O R Tambo District Municipality in line with the Broadband Implementation Plan driven by the Department of Telecommunications and Postal Services, through its State-Owned Entities.

The World Economic Forum Network Readiness Index (NRI) of 2015 measures the country's overall potential to exploit the opportunities presented by the ICT sector, and the impact of the sector on the competitiveness of the country against others. In terms of the NRI rankings South Africa has been on a gliding scale from position 70 (out of 144 countries) in 2013 gliding to position 75 (out of 148 countries) in the 2015 NRI report and 65 out of 139 countries in the 2016 report. The Readiness Sub-Index measuring skills, government usage and social impacts values for South Africa fall below the group average of other similar jurisdictions.

Source: Global Information Technology Report 2016

| R  | Rank         | Value      |
|--|--------------|------------|
|  | (out of 139) | (1-7)      |
| <b>Networked Readiness Index</b>                 | <b>65</b>    | <b>4.2</b> |
| Networked Readiness Index 2015 (out of 143)      | 75           | 4.0        |
| Networked Readiness Index 2014 (out of 148)      | 70           | 4.0        |
| Networked Readiness Index 2013 (out of 144)      | 70           | 3.9        |
| <b>A. Environment subindex</b>                   | <b>33</b>    | <b>4.7</b> |
| 1st pillar: Political and regulatory environment | 26           | 5.0        |
| 2nd pillar: Business and innovation environment  | 65           | 4.3        |
| <b>B. Readiness subindex</b>                     | <b>69</b>    | <b>4.8</b> |
| 3rd pillar: Infrastructure                       | 44           | 4.9        |
| 4th pillar: Affordability                        | 74           | 5.2        |
| 5th pillar: Skills                               | 95           | 4.4        |
| <b>C. Usage subindex</b>                         | <b>75</b>    | <b>3.8</b> |
| 6th pillar: Individual usage                     | 77           | 3.9        |
| 7th pillar: Business usage                       | 32           | 4.2        |
| 8th pillar: Government usage                     | 105          | 3.3        |
| <b>D. Impact subindex</b>                        | <b>93</b>    | <b>3.4</b> |
| 9th pillar: Economic impacts                     | 57           | 3.4        |
| 10th pillar: Social impacts                      | 112          | 3.3        |



<sup>1</sup> [www.statssa.gov.za](http://www.statssa.gov.za) (accessed on 08 August 2018)

<sup>2</sup> Statistics South Africa website

<sup>3</sup> Fact Sheet: Issue No.2 of 2018 – 28 February 2018 from [www.sassa.gov.za](http://www.sassa.gov.za)



The report indicates that government investment on ICT deployment of infrastructure is high compared to similar jurisdictions but below par in ICT skills, usage and social impacts. This means that government needs to invest more funds in the promotion of uptake and usage of ICT service offerings by providing beneficiaries with relevant ICT skills and thus promoting uptake and usage which ultimately lead to positive social impacts.









# USAF Strategic Outcome-Oriented Goals

Outlined below are the USAF's strategic goals for the 2017/18 financial year to effect changes for the benefit of the Fund's beneficiaries and key stakeholders:

| USAASA STRATEGIC GOAL      | Increased connectivity to underserved and unserved areas   |
|----------------------------|--|
| Strategic Objective        | Increased digital literacy through the establishment of smart communities                            |
| Key Performance Indicators | Number of smart communities established  |
|                            | Number of ICT training programmes rolled out to improve the digital literacy rate of targeted groups |

| USAASA STRATEGIC GOAL      | Increased connectivity to underserved and unserved areas                           |
|----------------------------|--|
| Strategic Objective        | Increased rollout of electronic communication infrastructure in underserved areas  |
| Key Performance Indicators | Number of underserved areas with access to electronic communication infrastructure |
|                            | Number of public institutions utilised as anchor clients to the broadband networks |
|                            | Number of free public Wi-Fi hotspots deployed                                      |
|                            | Number of existing sites with connectivity maintained                              |

| USAASA STRATEGIC GOAL      | Increased connectivity to underserved and unserved areas                  |
|----------------------------|---|
| Strategic Objective        | Increased access to digital broadcasting services                         |
| Key Performance Indicators | Number of set-top boxes and antennae procured                             |
|                            | Percentage of set-top boxes and antennae distributed for registered users |

## Organisational Performance

### Summary of USAF Performance

USAASA successfully completed broadband networks in the underserved local municipal areas of Impendle (KwaZulu-Natal) and Nyandeni (Eastern Cape) and connected 76 and 242 sites respectively.

332 sites in the OR Tambo region were signed off during the year under review. USAASA also provided ICT training to 28 teachers at schools for learners with special needs in the OR Tambo region.

Challenges were experienced in maintaining connectivity at required levels in ICT centres, clinics and schools, due partly to delays in implementation of contracts with service providers.

The BDM project was executed successfully, despite some operational challenges. The annual target of the procurement of 181 399 STBs and antennae was met, while the 60% target for the distribution of procured STBs was 36% short of target. Fraud was perpetrated by some installers in North West, where vouchers were redeemed without installations having taken place.

During the year under review, a number of awareness programmes relating to the BDM project took place in Free State, Limpopo and North West.

The overall performance of the division was 30%.

# The USAF 2017/2018 Annual Performance Report

## 1. SMART VILLAGES

| Strategic objectives, performance indicators, planned targets and actual achievements |   |                          |   |   |   |
|---|---|--------------------------|---|---|---|
| Strategic objectives  | Performance Indicator   | Planned Target 2017/2018 | Actual Achievement 2017/2018  | Deviation from planned target to Actual Achievement for 2017/2018   | Comment on deviations   |
| Increased digital literacy through the establishment of Smart Villages                | Number of smart communities established   | 1                        | The planned target was not achieved.<br>0   | The target is largely informed by the SMART Communities Masterplan currently developed by the ICT Information Society Development and Research Branch of Department of Telecommunications and Postal Services | The evaluation report to determine the number of smart communities established was not developed as planned. The SMART Communities Masterplan is not concluded by ICT Information Society Development and Research Branch to inform the defined parameters for a smart village to enable the evaluation process |
| Increased digital literacy through the establishment of Smart Villages                | Number of ICT training programmes implemented to improve the digital literacy rate of targeted groups | 2                        | Target was fully achieved.<br>2 ICT training programmes were conducted as planned | None  | None  |

## 2. BROADBAND

| Strategic objectives, performance indicators, planned targets and actual achievements |   |                          |  |   |  |
|---|---|--------------------------|--|---|--|
| Strategic objectives  | Performance Indicator   | Planned Target 2017/2018 | Actual Achievement 2017/2018   | Deviation from planned target to Actual Achievement for 2017/2018   | Comment on deviations  |
| Increased roll out of electronic communication infrastructure in underserved areas    | Number of underserved local municipal areas with access to electronic communication infrastructure. | 2                        | The planned target was not fully achieved.<br><br>Only 1 underserved local municipality, Impendle Local Municipality was provided with electronic communications infrastructure                              | The deployment of electronic communication infrastructure was not completed by close of the financial year in Nyandeni local municipality   | The adverse weather conditions and violent taxi strike in Nyandeni Local Municipality resulted on deployment of electronic communication infrastructure being completed after the year end |
| Increased roll out of electronic communication infrastructure in underserved areas    | Number of public institutions utilised as anchor clients to the broadband networks.                 | 4 anchor clients         | The planned target was fully achieved as planned.<br><br>1 South African Post Office (SAPO) at Impendle<br>3 Clinics at Impendle<br>1 Magistrate Court at Impendle<br>1 main office of Impendle Local Office | None  | None   |
| Increased roll out of electronic communication infrastructure in underserved areas    | Number of free public Wi-Fi hotspots deployed   | 40                       | The planned target was not fully achieved as only 27 of the planned 40 was achieved  | The planned target of 40 free public Wi-Fi hotspots deployed was not achieved and a shortfall of 13 free public Wi-Fi hotspots was recorded | The target was largely attributed to the poor terrain of the area  |



## 3. DEPLOYMENT AND MAINTENANCE

| Strategic objectives, performance indicators, planned targets and actual achievements |  |                              |   |  |   |
|---|--|------------------------------|---|--|---|
| Strategic objectives  | Performance Indicator                                  | Planned Target 2017/2018     | Actual Achievement 2017/2018  | Deviation from planned target to Actual Achievement for 2017/2018  | Comment on deviations   |
| Increased roll out of electronic communication infrastructure in underserved areas    | Number of existing sites with connectivity maintained  | 38 ICT centres               | The target was not achieved.<br>None of the 38 ICT centres were connected consistently throughout the year  | A proper assessment of the infrastructure and technology suitable to provide connectivity to the 38 ICT Centres that were deployed in prior years was not conducted to inform the deployment model and this resulted upon the target not being achieved as planned | Under performance is attributed to poor planning and lack of detailed data base of the sites deployed in prior years in order to inform decision making.  |
| Increased roll out of electronic communication infrastructure in underserved areas    | Number of existing sites with connectivity maintained  | 93 clinics                   | A planned target of 93 clinics with connectivity maintained was not fully achieved.<br>A minimum of 20 clinics out of the planned total number of 93 clinics were connected resulting in the planned target not fully achieved  | Poor performance of the appointed service providers and lack of monitoring systems for network performance of the deployed infrastructure contributed to under performance   | Under performance is attributed to lack of contract management of the appointed service providers and heavy reliance on the network monitoring systems of the service providers and this resulted on inadequate data being submitted to substantiate the claimed connectivity |
| Increased roll out of electronic communication infrastructure in underserved areas    | Number of existing sites with connectivity maintained. | 129 educational institutions | A planned target of 129 educational institutions with connectivity maintained was not fully achieved.<br>A minimum of 77 educational institutions out of the planned 129 educational institutions were connected and resulting in the target being not fully achieved | Poor performance of the appointed service providers and lack of monitoring systems for network performance of the deployed infrastructure contributed to under performance   | Under performance is attributed to lack of contract management of the appointed service providers and heavy reliance on the network monitoring systems of the service providers and this resulted on inadequate data being submitted to substantiate the claimed connectivity |

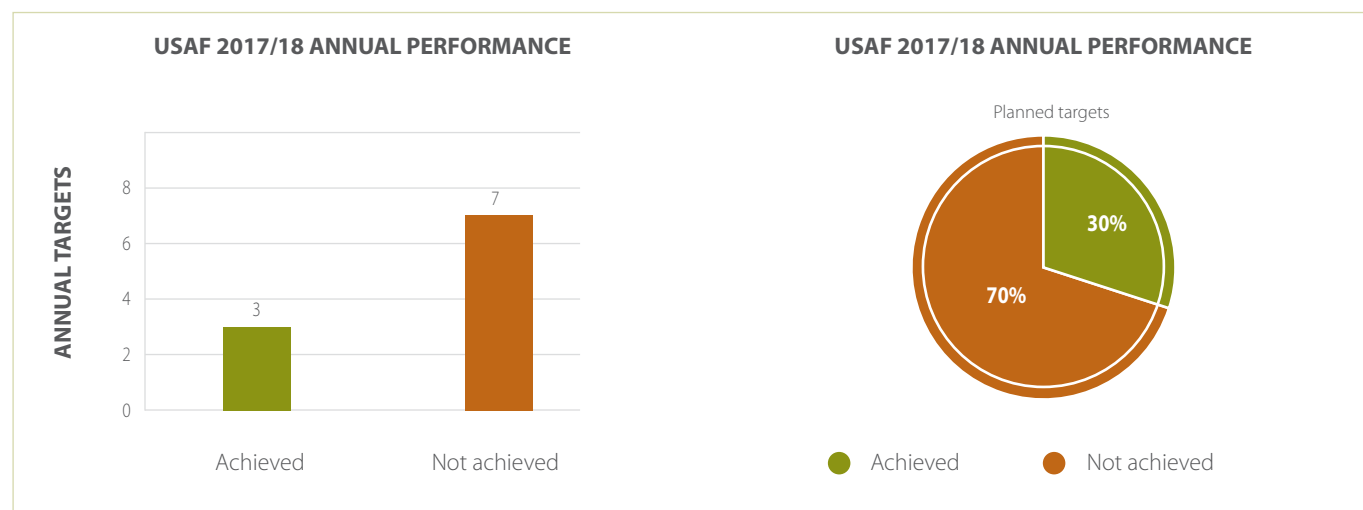
## 4. Broadcasting Digital Migration (BDM)

| Strategic objectives, performance indicators, planned targets and actual achievements |  |                          |   |   |  |
|---|--|--------------------------|---|---|--|
| Strategic objectives  | Performance Indicator  | Planned Target 2017/2018 | Actual Achievement 2017/2018  | Deviation from planned target to Actual Achievement for 2017/2018       | Comment on deviations  |
| Increased access to digital broadcasting services                                     | Number of set-top-boxes and antennae procured                              | 181 399                  | The planned target was over achieved.<br><br>196 200 set-top-boxes and 494 880 antennae were procured and delivered to South African Post Office resulting in total number of 691 080 units delivered | There was 509 681 more set-top-boxes/antennae procured than anticipated | More set-top-boxes and antennae procured than anticipated  |
| Increased access to digital broadcasting services.                                    | Percentage of set-top-boxes and antennae distributed for registered users. | 60%                      | The planned target was not fully achieved.<br><br>23.53%  | There was a shortfall of 36.47%   | Under performance is attributed to lack of a monitoring mechanism for allocated set-top-boxes for installation to registered users and also failure by the Agency in monitoring the Service Level Agreement entered into with SAPO for distribution of the set-top-boxes |

## SUMMARY OF USAF PERFORMANCE

The below graphs depict the Fund's achieved annual targets against the planned annual targets in the 2017/18 approved Annual

Performance Plan. Three (3) of the ten (10) planned targets were achieved, being 30% of the total planned targets, and seven (7) of the ten (10) planned targets were not achieved, being 70% of the total planned annual targets.



## Strategy to overcome areas of under performance (indicators and action plans)

| SMART VILLAGES   |   |   |
|--|---|---|
| INDICATOR  | DEVIATION   | ACTION PLAN   |
| Increased digital literacy through the establishment of Smart Villages |   |   |
| Number of smart communities established.                               | Under-performance is attributed to non-conclusion of the SMART Communities Masterplan and Framework by the Department of Telecommunications and Postal Services which defines the parameters for a smart village and this would enable the Agency to produce evaluation reports on underserved areas where broadband services have been provided. | <p>USAASA is collaborating with the ICT Information Society Development and Research Branch of the Department of Telecommunications and once the concept document on SMART Communities Masterplan and Framework has been developed and the evaluation studies will be conducted to determine the number of smart communities established.</p> <p>Amendments to USAF APP 2018/19 have been effected and the indicator has been removed to operational plan for reporting</p> |

| BROADBAND   |   |   |
|---|---|---|
| INDICATOR   | DEVIATION   | ACTION PLAN   |
| Increased roll out of electronic communication infrastructure in underserved areas.                 |   |   |
| Number of underserved local municipal areas with access to electronic communication infrastructure. | Under-performance is attributed to poor planning which resulted in delays on the appointment of the broadband service provider. The adverse weather conditions and the violent taxi strike in Q4 of the 2017/18 of the financial year at Nyandeni Local Municipality resulting on the delayed implementation of the planned target. | <p>The planned target was subsequently achieved in Q1 of the new financial year.</p> <p>A total number of 151 public schools, 29 clinics, 20 public free Wi-Fi hotspots, 10 government facilities and 2 municipal offices were connected and 30 high sites linked to the deployed network were constructed.</p> <p>USAASA is going to collaborate with DTPS, ICASA, Broadband Infraco and SITA on the planning of the rollout of broadband in order to circumvent poor planning and improvement on contracting management of the service provider in order to deliver the desired performance outcomes.</p> |

| FREE PUBLIC Wi-Fi HOTSPOTS DEPLOYED   |  |   |
|---|--|---|
| INDICATOR   | DEVIATION  | ACTION PLAN   |
| Increased roll out of electronic communication infrastructure in underserved areas. |  |   |
| Number of free public Wi-Fi hotspots deployed.                                      | Under-performance is attributed to poor planning and inadequate contract management of the appointed service provider. | The service provide has been put into terms and there is revised scheduled to deliver on outstanding 13 sites for Quarter 1 2018/19 financial year. |

| NUMBER OF EXISTING SITES WITH MAINTAINED CONNECTIVITY                               |   |  |
|---|---|--|
| INDICATOR   | DEVIATION   | ACTION PLAN  |
| Increased roll out of electronic communication infrastructure in underserved areas. |   |  |
| Number of existing sites with connectivity maintained.                              | <p><b>A total number of 38 ICT Centres with connectivity maintained.</b></p> <p>Under performance is attributed to poor planning and project management of the sites deployed in prior years.</p> <p><b>A total number of 93 clinics with connectivity maintained.</b></p> <p>Under performance is attributed to lack of contract management of the appointed service providers and heavy reliance on the network monitoring systems of the service providers and this resulted on inadequate data being submitted to substantiate the claimed connectivity.</p> <p><b>A total number of 129 educational institutions with connectivity maintained.</b></p> <p>Under performance is attributed to lack of contract management of the appointed service providers and heavy reliance on the network monitoring systems of the service providers and this resulted on inadequate data being submitted to substantiate the claimed connectivity.</p> | <p>Amendments to USAF 2018/19 have been effected and the target has been integrated on broadband sites to reflect this area of work.</p> <p>Under performance is attributed to lack of contract management of the appointed service providers and heavy reliance on the network monitoring systems of the service providers and this resulted on inadequate data being submitted to substantiate the claimed connectivity. The Agency will work with Broadband Infraco and ICASA to develop a monitoring system and also involve ICASA as the relevant authority in regulation of the broadband service provision in the country to foster accountability.</p> |

| BROADCASTING DIGITAL MIGRATION                    |   |  |
|---|---|--|
| INDICATOR   | DEVIATION   | ACTION PLAN  |
| Increased access to digital broadcasting services | <p>Under performance is attributed to lack of a monitoring mechanism for allocated set-top-boxes for installation to registered users and also failure by the Agency in monitoring the Service Level Agreement entered into with SAPO for distribution of the set-top-boxes.</p> <p>The introduction of bulk installation and subcontracting of local installers contributed significantly to inventory not being accounted for</p> | <p>USAASA is going to work closely the Project Management Office of the Department of Communications, Sentech and the South African Post Office to develop a service delivery model that will ensure adequate accountability on distribution and installation of set-top-boxes to registered users.</p> <p>The Service Level Agreement with South Africa Post Office on distribution of set-top-boxes will be reviewed to cater for bulk installation.</p> <p>The project risk will be monitored closely in order to anticipate incidents associated with bulk installation and subcontracting of local installers</p> |





## GOVERNANCE

# Board of Directors

The Board of USAASA is regarded as the Accounting Authority in terms of Section 49 of the Public Finance Management Act (PFMA) and it 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 the USAF;
- Act with fidelity, honesty, integrity and in the best interests of the public entity in managing the financial affairs of the Fund;
- Prevent any prejudice to the financial interests of the state;
- Maintain effective, efficient and transparent systems of financial and risk management and internal control;
- Maintain an appropriate procurement and provisioning system 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 played its role in providing effective leadership based on the principles of honesty, professionalism, good governance and ethical business practices, and also exercised its oversight responsibility over financial and performance management and reporting, while ensuring compliance with all relevant legal prescripts and policy imperatives.

All Board committees and the Board are guided by the principles of the King VI Report on Corporate Governance and the Companies Act, which are embedded in the approved USAASA Board Charter.

## Portfolio Committees

The Board of the Agency is directly accountable to Parliamentary Portfolio Committee on Telecommunications and Postal Services and from time the Board is required to provide updates on the state of the Agency's financial and non-financial performance and financial 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 STBs by the Agency.

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

Portfolio Committee engagements for the 2017/18 financial year are outlined below:

| DATE                 | MEETING /ACTIVITY  |
|----------------------|--|
| 17 – 21 July 2017    | CTO's Commonwealth ICT Roundtable  |
| 11 – 13 Sept 2017    | 2017 CTO ICT Forum in Mozambique   |
| 14 – 15 Sept 2017    | CTO Council Meeting in Mozambique  |
| 3 Oct 2017           | Presentation of USAASA and USAF annual reports to Parliament                             |
| 29 Oct – 01 Nov 2017 | GovTech Conference in Durban   |
| 28 Nov 2017          | Portfolio Committee (PC) briefing on progress report on PC oversight visit to Mpumalanga |
| 20 Feb 2018          | Portfolio Committee briefing first and second quarter performance                        |
| 6 Mar 2018           | Portfolio Committee briefing by USAASA – (concerns raised by the PC)                     |

## Executive Authority

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

## 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 set out in the King IV Report on Corporate Governance. USAASA is legally bound to comply with all laws, rules and regulations applicable to it. The Board Audit and Risk Committee (BARC) 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:

- BARC
- Human Resources and Remuneration Committee (REMCO)
- Operations Committee
- Social and Ethics Committee

Within the powers conferred by legislation and stipulated in the 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 the relevant stakeholders transparently and promptly;
- Ensured the Agency complies with relevant laws, regulations and the code of business practice.

The role of the Board requires 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.

### The USAASA Board Charter

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.

It outlines the following:

- Composition of the Board;
- Duties, roles and responsibilities of the Board contained in the ECA;
- Board procedures and the establishment of Board committees that assist the Board in the execution of its duties;
- Matters reserved exclusively 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.

### Remuneration of Board members

| Name                  | Position                        | Comments                    | Total Remuneration R'000 |
|-----------------------|---------------------------------|-----------------------------|--------------------------|
| Mr Mawethu Cawe       | Chairperson: Board of Directors | Appointed 1 September 2015  | 291                      |
| Mr Nqabekaya Nqandela | Member: Board of Directors      | Appointed 01 September 2015 | 167                      |
| Adv. Lungelwa Shandu  | Member: Board of Directors      | Appointed 1 September 2015  | 247                      |
| Ms Tshogofatso Maloka | Member: Board of Directors      | Appointed 1 September 2015  | 117                      |
| Mr Linda Nene         | Member: Board of Directors      | Appointed 12 December 2016  | 185                      |
| Mr Xola Stock         | Member: Board of Directors      | Appointed 12 December 2016  | 173                      |
| Ms Jabulile Nkosi     | Member: Board of Directors      | Appointed 12 December 2016  | 221                      |

The Board members are only remunerated in USAASA

### Board attendance

| COMMITTEE MEMBERS     | DATE           |                |                |                |                |                |                |                |                |                |                |                |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                       | 25/04/<br>2017 | 27/05/<br>2017 | 30/06/<br>2017 | 31/07/<br>2017 | 18/08/<br>2017 | 29/09/<br>2017 | 27/10/<br>2017 | 31/10/<br>2017 | 30/01/<br>2018 | 03/02/<br>2018 | 23/02/<br>2018 | 01/03/<br>2018 |
| Mr Mawethu Cawe       | P              | P              | P              | P              | P              | P              | P              | P              | P              | P              | P              | P              |
| Mr Nqabekaya Nqandela | A              | P              | A              | A              | P              | P              | P              | P              | P              | P              | A              | P              |
| Adv. Lungelwa Shandu  | P              | P              | P              | A              | P              | P              | A              | P              | P              | P              | P              | P              |
| Ms Tshogofatso Maloka | P              | P              | P              | P              | A              | P              | A              | A              | A              | A              | A              | P              |
| Mr Linda Nene         | A              | P              | P              | P              | P              | P              | P              | P              | P              | P              | P              | P              |
| Mr Xola Stock         | P              | P              | P              | P              | A              | P              | A              | P              | P              | P              | P              | P              |
| Ms Jabulile Nkosi     | P              | P              | P              | P              | P              | P              | P              | A              | P              | P              | P              | P              |
| Mr Lumko Mtimde       | P              | P              | A              | P              | P              | P              | P              | P              | P              | P              | P              | P              |

A = Apology P = Present

No separate meetings were held under USAF, information is similar to the information in USAASA

### USAASA Committees

| Committee                             | No of meetings held | No of members | Name of members  |
|---------------------------------------|---------------------|---------------|--|
| Board Audit and Risk Committee (BARC) | 8                   | 4             | Mr LC Nene – Chairperson<br>Ms JA Nkosi<br>Mr GX Stock<br>Ms T Maloka      |
| Operations Committee                  | 4                   | 4             | Adv. LC Shandu (Chairperson)<br>Mr N Nqandela<br>Mr LC Nene<br>Ms JA Nkosi |

## Operations Committee

The Operations Committee is chaired by Adv. 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 on trends and new developments in universal service and access both within South Africa and internationally.
- Reviewing and managing USAF projects, processes and systems in line with the Agency's vision and mission, the mandate and requirements of the Act.
- Supporting the implementation of the USAF manual to effectively manage the fund.

## Social and Ethics Committee

The Social and Ethics Committee, which is chaired by Mr Xola Stock, comprises four independent non-executive members. The overall responsibility of the committee is to provide strategically oversight and direction on good corporate ethics matters, which include the following:

- Monitoring the Agency's activities, in the light of legislation, other legal requirements or prevailing codes of best practice, on matters of social and economic development, including the Agency's standing on good corporate citizenship, including promotion of equality;
- Contribution to development of the communities in which the Agency's activities are conducted.

- Financial management and reporting practices;
- Internal Audit activity;
- External Audit processes; Internal financial controls;
- Management of risks; and
- Compliance with laws, regulations and ethics.

### *Approval of Policies/Strategies*

In the financial year under review, BARC did not recommend new policies to the Board since the ones it approved in the previous financial year were still applicable.

### *Performance Management*

BARC reviewed reports from Internal Audit and AGSA on performance management and made recommendations to management and the Board. The committee's activities in 2017/18 included:

- Reviewing Internal Audit quarterly reports; and
- Reviewing USAASA's performance management systems, focusing on economy, efficiency, effectiveness and impact against key performance indicators and performance targets set by the Board.

### *Fraud and Corruption*

BARC reviewed USAASA's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. It ensured that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

## Board Audit and Risk Committee (BARC)

BARC, which is chaired by Mr Linda Nene, comprises four independent non-executive members.

The Chairperson and members of BARC were appointed on contract for three years and are remunerated in accordance with the daily tariffs approved by the Minister of DTPS and the Board.

BARC reviewed and evaluated the manner in which the Agency carried out its responsibilities in:

## BARC Meeting Attendance

| COMMITTEE MEMBERS     | PERIOD   |          |          |          |          |          |          |          |
|-----------------------|----------|----------|----------|----------|----------|----------|----------|----------|
|                       | 21/04/17 | 22/05/17 | 28/07/17 | 30/07/17 | 27/09/17 | 20/10/17 | 16/11/17 | 27/01/18 |
| Mr Linda Nene         | Present  | Present  | Present  | Present  | Present  | Present  | Present  | Present  |
| Ms Tshegofatso Maloka | Apology  | Present  | Present  | Present  | Apology  | Apology  | Apology  | Present  |
| Mr Xola Stock         | Present  | Present  | Present  | Apology  | Present  | Present  | Present  | Present  |
| Ms Jabulile Nkosi     | Present  | Present  | Present  | Present  | Present  | Present  | Present  | Present  |

The remuneration of BARC members in the 2017/18 financial year is reflected below:

| Name                  | Position    | Total Remuneration R'000 | Comments                    |
|-----------------------|-------------|--------------------------|-----------------------------|
| Mr Linda Nene         | Chairperson | 45                       | Appointed in December 2012  |
| Ms Jabulile Nkosi     | Member      | 36                       | Appointed in January 2017   |
| Ms Tshegofatso Maloka | Member      | 13                       | Appointed in September 2015 |
| Mr Xola Stock         | Member      | 31                       | Appointed in January 2017   |

## Company Secretary

The Company Secretary is responsible for ensuring that the Board and its committees are functioning optimally in terms of the relevant legislation and corporate governance principles. Board members have unrestricted access to the advice/guidance and services of the Company Secretary on issues of governance, legislative and regulatory requirements.

The Company Secretary provides support to the Board in compilation of the APP, agendas and meetings packs for Board and Board committees.

The Company Secretary also ensures that the Board's policies and instructions are communicated to the relevant persons in the Agency and that pertinent issues from management are referred back to the Board where appropriate. The Company Secretary plays a key role in the induction process of new directors, encompassing both directors' duties and responsibilities in general and specific matters pertaining to the Agency and the sector in which it operates. The Company Secretary also coordinates Board performance evaluation and identifies training requirements and ongoing programmes for directors to keep them well informed of developments in the Agency and on matters relevant to their responsibilities generally.





LINDA NENE

## REPORT OF THE CHAIRPERSON OF BARC

### Report of BARC

We are pleased to present USAASA's Board Audit and Risk Committee report for the financial year ended 31 March 2018.

#### *Audit Committee Responsibility*

BARC 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 BARC discharged all the responsibilities contained therein.

The committee monitored the USAF Annual Financial Statements and performance information included in this annual report, reviewing significant financial and non-financial reporting issues contained herein.

#### *The Effectiveness of Internal Control*

In the financial period under review, BARC reviewed and evaluated the manner in which the Agency carried out the following responsibilities:

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

#### *Management of Risks*

Risk management is the coordination of activities to direct and control an organisation's risk. The Board has adopted an enterprise risk management process that is aligned to Public Sector Risk Management Framework. Other works of reference include SANS 31000:2009 and King IV Report on Corporate Governance. The features of this process are incorporated in the risk management framework and policy. Oversight for adequacy and effectiveness of risk management is delegated to BARC.

The USAF has, pursuant to the achievement of organisational objectives, conducted strategic, operational and project risk assessments. The process entails the assessment of risks and opportunities (including new and emerging risks and opportunities), analysis and evaluation of risks and opportunities, and design and implementation of appropriate risk responses. Furthermore, a risk appetite and tolerance limits framework was developed and approved to ensure that risks are within the approved parameters.

A Risk Management Committee was established whose purpose is, among others, to provide ongoing oversight of risk management and ensure execution of effective risk management. Furthermore, the Risk Management Committee ensures accountability and appropriate risk ownership, thereby ensuring mitigation of unacceptable risks.

BARC oversees risk management on an ongoing basis to ensure management of risk in a way that supports the organisation in setting and achieving its strategic objectives, operational goals and project objectives. BARC has assumed responsibility for risk management by setting the direction for how risk should be approached and addressed by the USAF. Risk profile reports covering strategic risks, operational risks, project risks, fraud and emerging risks are reviewed by BARC and advice provided to ensure effective and efficient risk management.

A self-assessment risk maturity exercise was conducted, making use of National Treasury's questionnaire, and a level five score was achieved. Areas of improvement included the strengthening of the Risk Management Committee and ownership of risk management by

line functions. During the 2018/19 financial year, BARC has resolved to ensure that the Risk Management Committee will be chaired by an independent member of BARC to ensure a higher level of risk accountability and ownership.

### ***Internal Audit***

We have reviewed the work of Internal Audit to ensure that it is in line with the Internal Audit Charter.

As stipulated in the Internal Audit Charter, approved by BARC, Internal Audit should:

- have unlimited access to the information, records, property and personnel of the Agency;
- have full and free access to BARC and the Chairperson of the USAF Board;
- obtain cooperation of personnel from all divisions of the organisation and other specialised services from within or outside the organisation;
- have adequate financial, human and technological resources and the support of BARC; and
- report administratively to the CEO and functionally to BARC.

We have taken note of the key significant audit findings raised by Internal Audit in the period under review. BARC noted with concern emerging risks and control breakdowns, into which Internal Audit was requested to conduct extensive reviews. The two main key emerging risks and control breakdown activities were:

- Payments made to the service provider for broadband rolled out in OR Tambo Municipality (King Sabata Dalindyebo Local Municipality and Mhlontlo Local Municipality); and
- SAP/ERP post-implementation review.

### ***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 judgments included in them. BARC also reviewed summary financial statements, significant financial returns to regulators and any financial information contained in such documents.

### ***Compliance with Laws, Regulations and Ethics***

BARC ensured that the management of the USAF has the necessary checks and balances in place to ensure that there is compliance with 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 Internal Audit's written reports on the scope of reviews of compliance, any significant findings and the resolution thereof, and the follow-up on findings and recommendations;
- Monitoring developments and changes in the law relating to the responsibilities and liabilities of management and also monitoring and reviewing the extent to which management is meeting its obligations; and
- Monitoring developments and changes in the various rules, regulations and laws that 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 the USAF's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. BARC ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

### ***In-Year Management and Monthly/Quarterly Reports***

BARC 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 was in accordance with the PFMA.

### ***Evaluation of Financial Statements***

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

### ***Auditor's Report***

BARC concurs with and accepts the conclusions of AGSA on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of AGSA.



**Mr Linda Nene**

Chairperson: Board Audit and Risk Committee



D

HUMAN RESOURCES  
MANAGEMENT

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



**E**

FINANCIAL  
INFORMATION





MAHOMED  
CHOWAN

## REPORT OF THE CHIEF FINANCIAL OFFICER

The Agency is pleased with the continued commitment from DTPS in ensuring the USAF received the total budget allocation of R133.7 million for the 2017/18 financial year. This has enabled USAASA to play an active role through the USAF in bringing ICT services closer to the underserved communities and enhance the quality of education and health services available to these communities by deploying broadband connectivity to educational institutions and primary healthcare facilities.

USAASA remains conscious of the responsibility to ensure that the Agency is able to spend the funding allocations for day-to-day operations through effective procurement processes in compliance with the PFMA, the Preferential Procurement Policy Framework Act (PPPFA) and other relevant legislative prescripts. While in the 2017/18 financial year a deficit of R206.8m was recorded, it should be viewed against the surplus of R656.8m recorded in the previous financial year. USAF cash reserves totalled R1.4 billion at the end of 2017/18.

There was an increase in the rollout of BDM in 2017/18 compared to the 2016/17 financial year. As BDM equipment is moved out of the warehouses and installed, it is taken out of inventory and is expensed. This, coupled with a reduction in funding for BDM in the financial period under review (R79.1m) against the previous period (R589.4m), has resulted in a deficit.

This has been a challenging year for the Agency in administering USAF, in respect of the migration to a SAP ERP system and the attendant challenges relating to this. The biggest amongst these was that a long term support and maintenance contract was not negotiated parallel with the handover of the system and this resulted in the Agency not having any SAP support services for approximately 6 months.

Implementation and support services consultants left USAASA in early May 2017, two months after the implementation of the SAP system at the end of March 2017. After a six-month gap, an interim implementation and support services contract was entered into in October 2017 as an emergency measure. It was only at this point, when support services again became available, that the processing of financial information could start in earnest.

USAASA management took a decision to prioritise the processing of USAASA's financial information on the SAP system, which took place between October 2017 and January 2018. The bulk processing of USAF's Q1, Q2 and Q3 financial information started in early February 2018 and was concluded in late March 2018 (Q4 financial information was processed in April 2018, on schedule).

This decision was taken for technical reasons; the so-called networks in the SAP system, which are effectively cost collector buckets to which costs can be allocated, were not available by the end of October 2017. The networks for USAF were still being set up by the interim implementation and support services consultants when work started on the bulk processing of USAASA's financial information.

Two teams were working in parallel during this time. One team provided support in the bulk processing of USAASA's financial information, while the other worked to set up the networks necessary to start the bulk processing of USAF's financial information in the SAP system.

The Auditor-General was unable to obtain satisfactory audit evidence in order to verify inventory allocated to installers for the purposes of bulk installations in the roll-out of the BDM project. USAF received a qualified audit from the Auditor-General on its 2017/18 financial statements as a result.

The PMO within the DoC instructed USAASA to facilitate bulk installations in the interest of ramping up the uptake of readily available DTT equipment. This was a change to the original approach of beneficiaries collecting the equipment themselves directly from a SAPO branch, because installers would now take possession of equipment in bulk in order to conduct bulk installations in high-priority roll-out areas. This means that equipment could now be received by installers on behalf of beneficiaries. Unfortunately, some equipment destined for specific beneficiaries could not be accounted for at year end.

During the audit process, the Auditor-General selected a sample of uninstalled equipment and was unable to obtain sufficient assurance from the results of the sample that the uninstalled equipment could be accounted for.

In response, the Board resolved to place the bulk installation programme in abeyance until two requirements could be met:

- 1 – Until unaccounted for DTT equipment could be accounted for, and that the necessary steps had been taken to recover the costs of equipment unaccounted for from the responsible parties; and
- 2 – Until controls could be refined and strengthened in the bulk installation project.

In conclusion, a word of thanks goes to the USAASA Board of Directors, BARC, the CEO and ACEO for their sterling leadership, encouragement and dedication to the success of the Agency, and to my very dedicated financial management services team for its determination to prepare the financial statements under very challenging conditions.



**Mr Mahomed Chowan**  
Chief Financial Officer

# Statement of Responsibility:

## Annual Financial Statements

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

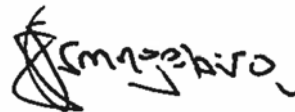
The USAF Annual Financial Statements have been prepared in terms of Generally Recognised Accounting Practice and are in line with the USAF's accounting policies and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the systems of internal financial control and that they place reliance on BARC to oversee management's implementation of sound internal control systems, procedures, policies, and approval frameworks to maintain a strong control environment. The directors are not aware of any material breakdown in the functioning of these controls, procedures and systems during the year under review.

The directors are of the opinion, based on the information and explanations given by management and Internal Audit activity, that the system of the internal control provides reasonable assurance and that the financial records may be relied upon in preparing for the Annual Financial Statements.

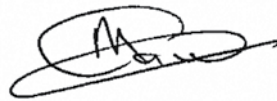
The directors have every reason to believe that the Annual Financial Statements, which were prepared on a going concern basis, fairly present the financial results of the Fund and its position at the end of the financial year and that the Fund will be a going concern for the year ahead.

The Annual Financial Statements of the USAF for the year ended 31 March 2018, as set out on pages 53 – 74 were approved by the Board of Directors on 31 May 2018 and signed on their behalf by:



**Sipho Mngqibisa**

Acting Chief Executive Officer



**Mawethu Cawe**

Chairperson

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

## Report on the audit of the financial statements

control systems to ensure that all items of inventories relating to set-top boxes and antennae owned by the entity and held by third parties are recorded in the final inventory listing and the general ledger. This resulted in the inventory balance in note 20 to the financial statements being understated by R 38 600 293 and expenditure relating to digital terrestrial television project overstated by R 38 600 293.

### Qualified opinion

1. I have audited the financial statements of the Universal Service and Access Fund set out on pages 53 to 74 which comprise the statement of financial position as at 31 March 2018, the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matter described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Universal Service and Access Fund as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Management Finance Act (PFMA).

### Basis for qualified opinion

#### *Inventories*

3. The Universal Service and Access Fund did not include all items of inventories in the entity's accounting records as required by the Generally Recognised Accounting Practice (GRAP), GRAP 12 - Inventories. The inventories were held on behalf of the public entity by third parties responsible for bulk installations. The entity did not implement adequate internal

### Context for the opinion

4. I 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 this auditor's report.
5. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Emphasis of matters

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

#### *Restatement of corresponding figures*

8. As disclosed in note 16 to the financial statements, the corresponding figures for the year ended 31 March 2017 have been restated as a result of new information becoming available to the public entity in the 2017/18 financial year.

*Uncertainty relating to the future outcome of litigation*

9. With reference to note 11 to the financial statements, the public entity has opened a case against some of its service providers for fraudulent claims made from the entity for services not actually provided. The ultimate outcome of the matters cannot presently be determined and therefore the contingent asset disclosed accordingly in the notes to the financial statements.

*Events after the reporting date*

10. With reference to note 19 to the financial statements, the public entity received a court order after year end, which states that the invalidity of the service legal agreements entered in to by the public entity and the service providers which resulted in the entity incurring irregular expenditure, is suspended.

## Responsibilities of the accounting authority for the financial statements

11. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting authority is responsible for assessing the Universal Service and Access Fund'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

13. 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 the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

# Report on the audit of the annual performance report

## Introduction and scope

15. 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.
16. 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.
17. 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 strategic objectives presented in the annual performance report of the public entity for the year ended 31 March 2018:



| Strategic objectives   | Pages in the annual performance report |
|--|--|
| Strategic Objective no: 1.1 - Increased digital literacy through the establishment of Smart villages.  | 28                                     |
| Strategic Objective no: 1.2 - Increased roll out of communication infrastructure in underserved areas. | 29 – 30                                |
| Strategic Objective no: 1.3 - Increased access to digital broadcasting services                        | 31                                     |

18. 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.
19. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

**Strategic Objective no: 1.2 - Increased roll out of communication infrastructure in underserved areas.**

**Indicator number 6 - Number of existing sites with connectivity maintained.**

20. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the planned target of 38 ICT centres, 93 clinics and 129 educational institutions. This was due to the portfolio of evidence supporting the indicator not agreeing to the reported achievement. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 0 ICT centres, 20 clinics and 77 educational institutions as reported in the annual performance report.
21. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objective:
- Strategic Objective no: 1.1 - Increased digital literacy through the establishment of Smart villages.
  - Strategic Objective no 1.3 - Increased access to digital broadcasting services

## Other matters

22. I draw attention to the matters below.

### Achievement of planned targets

23. Refer to the annual performance report on pages 28 to 34 for information on the achievement of planned targets for the year and explanations provided for the under achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 20 of this report.

### Adjustment of material misstatements

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Strategic objective 1 - Increased digital literacy through the establishment of Smart Villages; Strategic objective 2 - Increased roll out of electronic communication infrastructure in underserved areas and Strategic objective 3 - Increased access to digital broadcasting services. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

# Report on the audit of compliance with legislation

## Introduction and scope

25. 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.
26. The material findings on compliance with specific matters in key legislations are as follows:

### Expenditure management

27. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R215 000 as disclosed in note 14 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The irregular expenditure was caused by procurement processes not being complied with. Irregular expenditure amounting to R215 000 was incurred on the three quotations not sourced for travelling expenditure.

### Annual financial statements, performance and annual report

28. 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 current assets and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

## Other information

29. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
30. 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.
31. 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 selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
32. After I receive and read the annual report, and if I conclude that there is a material misstatement, I am required to communicate

the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

33. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

### Financial and performance management

34. The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.
35. The annual financial statements contained material misstatements due to lack of review of supporting schedules submitted to finance for preparation of financial statements. As a result, material adjustments were made to the annual financial statements submitted for auditing.
36. Management did not implement adequate internal controls for the public entity's business processes relating to the bulk installation process.
37. There is a lack of adequate systems and processes in place to monitor compliance with applicable laws and regulations. This was evidenced by the fact that the entity does not have contract management policies in place and non-compliance on SCM related matters were raised during the audit.

Auditor General

Pretoria  
31 July 2018



# ANNEXURE

## Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
  - conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the

USAASA's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity's to cease continuing as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

## Universal Service and Access Fund

**AUDITED ANNUAL FINANCIAL STATEMENTS**

for the Year Ended 31 March 2018

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The audited annual financial statements are set out on pages 53 to 74, which have been prepared on the going concern basis.



## Universal Service and Access Fund

AUDITED ANNUAL FINANCIAL STATEMENTS for the Year Ended 31 March 2018

## STATEMENT OF FINANCIAL PERFORMANCE

|   | Notes | 2018<br>R'000 | 2017<br>R'000 |
|---|-------|---------------|---------------|
| <b>Revenue</b>                                |       |               |               |
| Revenue from exchange transactions            |       |               |               |
| Interest received - investment                | 15    | 105 712       | 108 696       |
| <b>Revenue from non-exchange transactions</b> |       |               |               |
| <b>Transfer revenue</b>                       |       |               |               |
| Government grants & subsidies                 | 21    | 133 712       | 644 540       |
| <b>Total revenue</b>                          | 4     | 239 424       | 753 236       |
| <b>Expenditure</b>                            |       |               |               |
| ICT Rapid Deployment and Connectivity project | 2     | (977)         | (11 691)      |
| Digital Terrestrial Television project        | 2     | (417 792)     | (65 289)      |
| Broadband project                             | 2     | (26 617)      | (17 791)      |
| Audit Fees                                    |       | (837)         | (1 497)       |
| Administrative Expenses                       | 5     | (3)           | (21)          |
| <b>Total expenditure</b>                      |       | (446 226)     | (96 289)      |
| <b>(Deficit) surplus for the year</b>         |       | (206 802)     | 656 947       |

## Universal Service and Access Fund

AUDITED ANNUAL FINANCIAL STATEMENTS for the Year Ended 31 March 2018

## STATEMENT OF FINANCIAL POSITION

|  | Notes | 2018<br>R'000    | 2017<br>R'000    |
|--|-------|------------------|------------------|
| <b>Assets</b>                          |       |                  |                  |
| <b>Current Assets</b>                  |       |                  |                  |
| Inventories                            | 20    | 605 609          | 662 050          |
| Receivables from exchange transactions | 6     | 20 037           | 25 266           |
| Cash and cash equivalents              | 7     | 1 399 788        | 1 867 015        |
|  |       | <b>2 025 434</b> | <b>2 554 331</b> |
| <b>Total Assets</b>                    |       | <b>2 025 434</b> | <b>2 554 331</b> |
| <b>Liabilities</b>                     |       |                  |                  |
| <b>Current Liabilities</b>             |       |                  |                  |
| Payables from exchange transactions    | 8     | 24 185           | 104 480          |
| <b>Total Liabilities</b>               |       | <b>24 185</b>    | <b>104 480</b>   |
| <b>Net Assets</b>                      |       | <b>2 001 249</b> | <b>2 449 851</b> |
| Accumulated surplus                    |       | <b>2 001 249</b> | <b>2 449 851</b> |

## Universal Service and Access Fund

AUDITED ANNUAL FINANCIAL STATEMENTS for the Year Ended 31 March 2018

## STATEMENT OF CHANGES IN NET ASSETS

|   | Accumulated<br>surplus<br>R'000 | Total net<br>assets<br>R'000 |
|---|---------------------------------|------------------------------|
| <b>Balance at 01 April 2016</b>             | 1 792 904                       | 1 792 904                    |
| Changes in net assets                       |                                 |                              |
| Surplus for the period                      | 656 947                         | 656 947                      |
| Total changes                               | 656 947                         | 656 947                      |
| Opening balance as previously reported      | 2 449 671                       | 2 449 671                    |
| Adjustments                                 |                                 |                              |
| Adjustment of prior year expenses           | 180                             | 180                          |
| <b>Balance at 01 April 2017 as restated</b> | 2 449 851                       | 2 449 851                    |
| Changes in net assets                       |                                 |                              |
| Deficit for the period                      | (206 802)                       | (206 802)                    |
| Transfer to National Revenue Fund           | (241 800)                       | (241 800)                    |
| Total changes                               | (448 602)                       | (448 602)                    |
| <b>Balance at 31 March 2018</b>             | 2 001 249                       | 2 001 249                    |

## Universal Service and Access Fund

AUDITED ANNUAL FINANCIAL STATEMENTS for the Year Ended 31 March 2018

## STATEMENT OF CASH FLOWS

|   | Notes | 2018<br>R'000 | 2017<br>R'000 |
|---|-------|---------------|---------------|
| <b>Cash flows from operating activities</b>                 |       |               |               |
| Receipts  |       |               |               |
| Grants  |       | 133 712       | 644 540       |
| Payments  |       |               |               |
| Suppliers   |       | (464 851)     | (684 952)     |
| <b>Net cash flows from operating activities</b>             | 9     | (331 139)     | (40 412)      |
| <b>Cash flows from investing activities</b>                 |       |               |               |
| Transfer to National Revenue Fund                           |       | (241 800)     | -             |
| Interest Income   |       | 105 712       | 108 696       |
| <b>Net cash flows from investing activities</b>             |       | (136 088)     | 108 696       |
| <b>Cash flows from financing activities</b>                 |       |               |               |
| Repayment of inter-entity loan                              |       | -             | 135           |
| <b>Net cash from financing activities</b>                   |       | -             | 135           |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |       | (467 227)     | 68 419        |
| Cash at the beginning of the period                         |       | 1 867 015     | 1 798 596     |
| <b>Cash and cash equivalents at the end of the year</b>     | 7     | 1 399 788     | 1 867 015     |

## Universal Service and Access Fund

AUDITED ANNUAL FINANCIAL STATEMENTS for the Year Ended 31 March 2018

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

## Budget on Cash Basis

|   | Approved<br>budget | Adjustments   | Final<br>Budget | Actual<br>amounts<br>comparable<br>between<br>final basis | Difference<br>on budget<br>and actual | Reference  |
|---|--------------------|---------------|-----------------|---|---------------------------------------|--|
|   | R'000              | R'000         | R'000           | R'000   | R'000                                 |  |
| <b>Statement of Financial Performance</b> |                    |               |                 |   |                                       |  |
| <b>Revenue</b>                            |                    |               |                 |   |                                       |  |
| <b>Revenue from exchange transactions</b> |                    |               |                 |   |                                       |  |
| Interest received                         | -                  | -             | -               | 105 712   | 105 712                               | Interest income earned from short-term investment - Call Account   |
| Revenue from non-exchange transactions    |                    |               |                 |   |                                       |  |
| Transfer revenue                          |                    |               |                 |   |                                       |  |
| Government grants & subsidies             | 133 712            | 29 500        | 163 212         | 163 212   | -                                     | Transfers received from DTPS amounting to R133.7 million and approved retention of surplus funds from previous financial year amounting to R29.5 million                             |
| <b>Total revenue</b>                      | <b>133 712</b>     | <b>29 500</b> | <b>163 212</b>  | <b>268 924</b>  | <b>105 712</b>                        |  |
| <b>Expenditure</b>                        |                    |               |                 |   |                                       |  |
| ICT Rapid Deployment and Connectivity     | (20 187)           | -             | (20 187)        | (977)   | 19 210                                | Savings realised due to contracts ending during the year   |
| Digital Terrestrial Television            | (80 371)           | (1 500 627)   | (1 580 998)     | (417 792)   | 1 163 206                             | Distribution of Set Top Boxes has increased due to bulk installations. Committed funds amounting to R1.5 billion from previous financial year are available to complete the project. |
| Broadband                                 | (31 730)           | -             | (31 730)        | (26 617)  | 5 113                                 | Projects to be completed in the following financial year   |



## Universal Service and Access Fund

AUDITED ANNUAL FINANCIAL STATEMENTS for the Year Ended 31 March 2018

# STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

## Budget on Cash Basis

|   | Approved<br>budget | Adjustments | Final<br>Budget | Actual<br>amounts<br>comparable<br>between<br>final basis | Difference<br>on budget<br>and actual | Reference  |
|---|--------------------|-------------|-----------------|---|---------------------------------------|--|
|   | R'000              | R'000       | R'000           | R'000   | R'000                                 |  |
| Audit fees  | (1 400)            | -           | (1 400)         | (837)   | 563                                   | Audit cost incurred during the year mainly for 2016/17 audit process |
| Administrative expenses   | (24)               | -           | (24)            | (3)   | 21                                    | Bank charges incurred during the year have decreased.                |
| Total expenditure   | (133 712)          | (1 500 627) | (1 634 339)     | (446 226)   | 1 188 113                             |  |
| Deficit from operations   | -                  | (1 471 127) | (1 471 127)     | (177 302)   | 1 293 825                             |  |
| Actual Amount on<br>Comparable Basis as<br>Presented in the Budget<br>and Actual Comparative<br>Statement | -                  | (1 471 127) | (1 471 127)     | -   | -                                     |  |

During the financial year the Agency received approval of R29.5 million from National Treasury for the retention of surplus funds.

## Universal Service and Access Fund

### AUDITED ANNUAL FINANCIAL STATEMENTS for the Year Ended 31 March 2018

# 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,

### 1.1 Significant judgements (continued)

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. At 31 March 2018 the prime interest rate was 10%.

Provision for impairment of financial instruments

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

### 1.2 Revenue from non-exchange transactions

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

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

### 1.3 Revenue from exchange transactions

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

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

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

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

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

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

### 1.4 Fruitless and wasteful expenditure

Fruitless expenditure 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.

## 1.10 Financial instruments (continued)

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

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

### Classification

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

#### Class

Other receivables

#### Category

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

Trade creditors and accruals

Other payables

#### Category

Financial liability measured at amortised cost

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.



## 1.10 Financial instruments (continued)

### 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.

### Impairment and uncollectibility of financial assets

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

### Financial assets measured at amortised cost:

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

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

## 1.10 Financial instruments (continued)

### Financial assets measured at cost:

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

### Derecognition

#### Financial assets

The entity derecognises a financial asset only when:

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

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

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

#### Financial liabilities

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

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

### Presentation

A financial 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. Contingencies are disclosed in note 11.

### 1.12 Inventories

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 01/04/2017 to 31/03/2018.

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**

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

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

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



# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

|   | 2018<br>R'000 | 2017<br>R'000 |
|---|---------------|---------------|
| <b>2. Project expenses</b>  |               |               |
| Broadband Infrastructure  | 26 617        | 17 792        |
| ICT Rapid Deployment and Connectivity Programme   | 977           | 11 692        |
| Digital Terrestrial Television (DTT)  | 417 792       | 65 287        |
|   | 445 386       | 94 771        |
| The DTT expense is the installation costs and the cost of the inventory (Set-top-box and antenna or dish) which has been installed.   |               |               |
| <b>3. Auditors' fees</b>  |               |               |
| Statutory audit   | 837           | 1 497         |
| <b>4. Revenue</b>   |               |               |
| Department of Telecommunications and Postal Services  | 133 712       | 644 540       |
| Interest on cash and bank deposits  | 105 712       | 108 696       |
|   | 239 424       | 753 236       |
| The amount included in revenue arising from exchanges of goods or services are as follows:  |               |               |
| Interest on cash and bank deposits  | 105 712       | 108 696       |
| The amount included in revenue arising from non-exchange transactions is as follows:  |               |               |
| Taxation revenue  |               |               |
| Transfer revenue  |               |               |
| Department of Telecommunications and Postal Services  | 133 712       | 644 540       |
| <b>5. Administrative expenses</b>   |               |               |
| Bank charges  | 3             | 21            |
| <b>6. Receivables from exchange transactions</b>  |               |               |
| Other receivables   | 20 037        | 25 266        |
| South African Post Office held at 31st March 2018 R12.621 million to pay DTT installers on behalf of USAASA. Interest earned of R7.416 million up to 31 March 2018 credited to USAF on 01 April 2018. |               |               |
| <b>7. Cash and cash equivalents</b>   |               |               |
| Cash and balances with banks  | 22            | 758           |
| Short-term deposits   | 1 399 766     | 1 866 257     |
|   | 1 399 788     | 1 867 015     |
| Significant portion of the bank balance relates to the BDM project which was launched in December 2015. Cash and cash equivalents are unencumbered.   |               |               |

|   | 2018<br>R'000 | 2017<br>R'000 |
|---|---------------|---------------|
| <b>8. Payables from exchange transactions</b>       |               |               |
| Trade creditors                                     | 2 253         | 2 114         |
| Other payables                                      | -             | 50 942        |
| Accruals  | 21 932        | 51 424        |
|   | 24 185        | 104 480       |
| <b>9. Cash generated from /(used in) operations</b> |               |               |
| Surplus / (deficit) before taxation                 | (206 802)     | 656 947       |
| Adjustments for:                                    |               |               |
| Interest income                                     | (105 712)     | (108 696)     |
| Changes in working capital:                         |               |               |
| Inventories   | 56 441        | (492 434)     |
| Receivables from exchange transactions              | 5 229         | (25 265)      |
| Payables from exchange transactions                 | (80 295)      | (70 964)      |
|   | (331 139)     | (40 412)      |

#### 10. 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.

##### 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.

**11. Contingent Asset**

A sub-contractor of an installer in the North West province redeemed installation vouchers without having actually performed the work. USAASA was informed of this on the 5th April 2018 by the installer. A total of 432 DTT antennas and 400 DTT STBs have been redeemed. Management is still investigating and will be claiming from the installer, the value of all installations which were not performed as well as for any equipment (antennas and STBs) that have not been recovered. The BDM expense will be reduced by the value of installations and equipment that were not performed. A case has been opened at the Rustenburg South African Police Services.

**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

South African Post Office - Entity controlled by the same shareholder

Sentech - Entity controlled by the same shareholder

**Transactions**

|  |                                      | 2018<br>R'000 | 2017<br>R'000 |
|--|--------------------------------------|---------------|---------------|
| Name of entity                                       | Transactions                         |               |               |
| Department of Telecommunications and Postal Services | Transfer Revenue                     | 133 712       | 644 540       |
| Sentech  | Project expenses                     | -             | 3 350         |
| SAPO   | Digital Terrestrial Television (DTT) | 162 264       | 21 618        |
|  |                                      | 295 976       | 669 508       |

**Balances**

|                |                                     | 2018<br>R'000 | 2017<br>R'000 |
|----------------|-------------------------------------|---------------|---------------|
| Name of entity | Balances                            |               |               |
| Sentech        | Liability due to project expense    | (1 418)       | (1 418)       |
| SAPO           | Receivables due to project expenses | 12 621        | 2 524         |
|                |                                     | 11 203        | 1 106         |

**13. Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure

Opening balance

Fruitless and wasteful expenditure – current year

Analysis of fruitless and wasteful expenditure

Incident

Management response

1. Interest charges due to overdraft balance

2. Additional fees on late Travel amendments

|  |  |   |   |
|--|--|---|---|
|  |  |   |   |
|  |  | 1 | - |
|  |  | - | 1 |
|  |  | 1 | 1 |
|  |  |   |   |
|  |  |   |   |
|  |  |   |   |
|  |  |   |   |
|  |  | - | - |
|  |  | - | 1 |
|  |  | - | 1 |

|   | 2018<br>R'000 | 2017<br>R'000 |
|---|---------------|---------------|
| <b>14. Irregular expenditure</b>        |               |               |
| Reconciliation of irregular expenditure |               |               |
| Opening balance                         | 721 298       | 184 745       |
| Irregular expenditure - current year    | 208 173       | 536 553       |
| Irregular expenditure condoned          | (910 232)     | -             |
|   | 19 239        | 721 298       |

The R207 million of Irregular expenditure incurred in the current financial year is in relation to BDM equipment acquired. USAASA had applied to the High Court to have the BDM panel of suppliers set aside as it was deemed to be irregular by the Auditor General in the 2015/16 financial year. On the 13 March 2018 the Court ruled in USAASA's favour.

|   |   |         |           |
|---|---|---------|-----------|
| 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.   | 207 958 | 530 478   |
| 2. Non-compliance with legislation - unapproved scope variation                         | Scope variation above 15% limit without National Treasury approval  | -       | 3 262     |
| 3. Non-compliance with SCM procedures.  | Three quotations not sourced for travelling expenditure. Misinterpretation of the cost containment instruction as related to the use of travel management companies | 215     | -         |
| 4. Bidding processes were not complied with.  | Bidding process not complied with. Purchase order not issued. The matter to be investigated   | -       | 2 813     |
|   |   | 208 173 | 536 553   |
| Analysis of expenditure awaiting condonation per age classification                     |   |         |           |
| Current year  |   | 215     | 6 075     |
| Prior years   |   | 19 024  | 12 949    |
|   |   | 19 239  | 19 024    |
| Details of irregular expenditure condoned   |   |         |           |
| Bidding process not complied with in relation to Broadcasting Digital Migration tender. | Condoned by (condoning authority) High Court of South Africa, Gauteng Division, Pretoria  |         | (910 232) |

|             |  | 2018<br>R'000    | 2017<br>R'000    |
|-------------|--|------------------|------------------|
| <b>15</b>   | <b>Investment revenue</b>  |                  |                  |
|             | Interest revenue   |                  |                  |
|             | Interest on cash and bank deposits   | 105 712          | 108 696          |
| <b>16</b>   | <b>Prior period adjustments</b>  |                  |                  |
|             | During 2016/17, the entity experienced problems with regards to verification of the percentage of projects completed. This led to errors in amounts presented as project expenses and accruals. The following areas were affected: |                  |                  |
|             | Statement of financial position  |                  |                  |
|             | Decrease in Payables   | -                | (180)            |
|             | Increase in Accumulated Surplus  | -                | 180              |
|             | Statement of Financial Performance   |                  |                  |
|             | Decrease in Project expenses   | -                | (180)            |
|             | Increase in surplus from operations  | -                | 180              |
| <b>17</b>   | <b>New standards and interpretations</b>   |                  |                  |
| <b>17.1</b> | <b>Standards and interpretations effective and adopted in the current year</b>   |                  |                  |
|             | The were no new effective Standards and interpretations adopted in the current year.   |                  |                  |
| <b>18</b>   | <b>Commitments</b>   |                  |                  |
|             | 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  | 1 165 064        | 1 510 086        |
|             | - in second to fifth year inclusive  | 5 882            | 6 190            |
|             |  | <b>1 170 946</b> | <b>1 516 276</b> |

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



|           |  | 2018<br>R'000 | 2017<br>R'000 |
|-----------|--|---------------|---------------|
| <b>19</b> | <b>Events after the reporting date</b>   |               |               |
|           | <p>On the 05th April 2018 an installer brought Broadcasting Digital Migration inventory to the offices of USAASA and advised that it was recovered from his sub-contractor that had presented installation vouchers for redemption at SAPO but had not performed the installation. Management proceeded on the 6th April 2018 to Rustenburg for investigation and opened a criminal case against the sub-contractor. The matter is under investigation.</p> <p>The High Court on 13 March 2018 invalidated the panel of manufacturers for Broadcast Digital Migration and on 31 May 2018 USAASA received confirmation that the contracts entered into may nevertheless continue until concluded. This is important as usually when contracts are invalidated, the parties should be restored to their original position. In this case it would be impractical as this would involve the de-installation of set top boxes and accessories and return to manufacturers for reimbursement.</p> <p>The nett effect of the orders is that the High Court reviewed and found the procurement process in the BDM Project to be flawed and therefore invalidated the establishment and appointment of the panel of service providers to manufacture set top boxes and related accessories. Secondly the High Court suspended the invalidation of the service level agreements entered into by USAASA with CZ Electronics, Leratadima, BUA Africa, TEMIC, Ellies and QEC.</p> <p>The Court therefore condones all expenses incurred in the execution of these service level agreements.</p> <p>The court order of 31 May 2018 should be read and interpreted as if given on 13th March 2018. This paves the way for USAASA to procure afresh should the need arise.</p> |               |               |
| <b>20</b> | <b>Inventories</b>   |               |               |
|           | Inventories - BDM  | 605 609       | 662 050       |
|           | Inventories recognised as an expense during the year   | 264 399       | 40 728        |
| <b>21</b> | <b>Transfers and subsidies received</b>  |               |               |
|           | Department of Telecommunications and Postal Services   | 133 712       | 644 540       |





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