



Independent Communications  
Authority of South Africa

# annual report 2005





**strategic statement**

To be a functionally effective, continually relevant and credible regulator of the South African communications sector



## chairperson's review



**MANDLA LANGA**  
**Chairman**

(1 July 2000 – 30 June 2005)

I hereby present to Parliament the annual report of the Independent Communications Authority of South Africa (ICASA) for the financial year 1 April 2004 – 31 March 2005.

I have had the privilege and responsibility of chairing the first Council of ICASA that has led the organisation during its formative years from 1 July 2000 until 30 June 2005. During this time we have tried to shape a credible, coherent and effective regulatory body that could deal with the immense challenges facing the communications sector.

At the time of preparing this Annual Report, the Convergence Bill of 2005 was being debated by the Parliamentary Portfolio Committee on Communications (PPCC). This Bill presents a substantial revision to the current telecommunications and broadcasting sectors and is without doubt the most important legislative development since the Telecommunications Act and the Independent Broadcasting Act.

Our regulation has evolved from a time when no framework was in place, to a system based on transparency, fairness and the public interest. On the whole, I believe we have done well to protect the public interest, whilst establishing stability, growth and development in strategic sectors of the economy.

We have a right to trumpet our own achievements, as ICASA has been instrumental in stabilising a rapidly developing industry, whilst operating on an inadequate budget.

I am proud to say that during the year under review, the broadcasting division has produced policies and licensing

proposals that could extensively reshape the broadcasting sector for years to come. These policies and proposals impact on the public broadcaster, regional television broadcasting, the commercial radio market, community television, community radio, pay television and subscription broadcasting generally. The amount of work generated during this time is a remarkable achievement and is dealt with in detail in this Report.

ICASA has continued the fundamental transformation of the broadcasting sector from the apartheid state's monopoly control and a censorship regime to a prosperous, competitive and increasingly black-owned and controlled sector. We now have a sector that plays a vital role in the promotion of indigenous content, diversity of views and opinions, and freedom of expression.

ICASA is confident that the regulation of subscription broadcasting and the introduction of new entrants into the subscription broadcasting market will dramatically change the way the market is structured, introduce competition, address niche market needs and provide consumers with choice and diversity in programming.

ICASA is required by law to promote investment in the South African broadcasting industry. Over the next few years, we could see the doubling of the number of commercial sound broadcasting licences in South Africa.

We are very excited about opening up new opportunities in North West, Mpumalanga, Limpopo and Northern Cape provinces. We are also confident that these commercial opportunities will stimulate investment and entrepreneurship in the so-called second

economy of broadcasting. No economic market is risk free, but we believe that private commercial radio is now a market that is far more attractive to investors and advertisers.

The amendment of the SABC's radio and television licences was indeed a historic moment for both the public broadcaster and the regulator. ICASA conducted the most comprehensive consultative process in our history which took the best part of 15 months to reach fruition. In making its decision on the licence conditions to be imposed on the SABC in respect of each of its broadcasting services, ICASA attempted to strike an appropriate balance between, on the one hand, protecting the viability of public broadcasting services and, on the other hand, ensuring that the SABC's licences properly reflect its reorganisation into the public service division and the commercial service division (and, especially, the status of the SABC's various services as public broadcasting services).

In granting regional television licences to SABC 4 and 5, ICASA decided to suspend the issuing of these licences until the SABC had secured appropriate and necessary funding.

In accordance with the spirit of the Constitution, we are committed to promoting the provision of television broadcasting services at regional level to cater for all language and cultural groups, especially those languages that have been marginalised.

We have also reserved frequencies for digital terrestrial broadcasting in anticipation of the finalisation of government policy on the migration from analogue to digital.

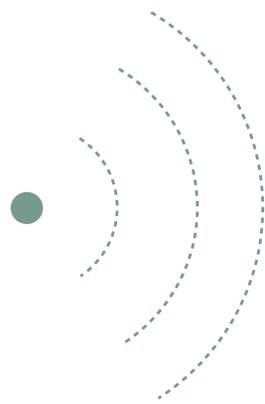
ICASA is confident about the development of this technology, while mindful of the need to protect consumers when migration becomes a reality.

South Africa stands at the beginning of a new digital era. In order to fully reap the benefits of the technology, we must have a supportive regulatory framework that encourages competition, diversity and universal access for all citizens. Regulatory solutions must be found to ensure that the digital revolution becomes an integral part of our developing economies.

South Africa has learned that delays in the opening up of our various communication sectors can have an adverse impact on the related policy goals of increased competition, greater choice in content and carriage as well as affordable communications.

We want to ensure that both local and foreign investors have confidence in our ability to open up markets and attend to regulatory bottlenecks without delay. In this spirit, we look forward to implementing the rapid liberalisation of our sector and promoting competition in all telecommunications and broadcasting markets.

One of the aims of further liberalisation must surely be the increased roll-out of different forms of broadband in South Africa. Every regulator takes pride in its capability to usher in competition. It was with a great sense of mission that ICASA welcomed this possibility, with the processes that flowed from the Telecommunications Amendment Act of 2001, which outlined the route that should be taken to license the Second Network



## chairperson's review continued

Operator (SNO). However the disappointing delays in the licensing of the SNO have been well documented. I had always envisaged that by the time my term ended the SNO would have been not only licensed but openly competing for business.

It is likely that the SNO will be licensed during 2005. This is our main priority and we have a dedicated team of ICASA councillors, management and staff working on this important project.

From ICASA's side, there is much work to be done. While increased competition offers more choice, the duplication of certain network elements is neither financially nor practically sound, and our challenge will remain to ensure a fair and non-discriminatory access regime.

The importance of the Convergence Bill, in whatever form it finally eventuates, cannot be overstated. The legislation as it currently stands, we have seen, often cannot accommodate the demands of technological change. The Convergence Bill is aimed at addressing that structural flaw that current legislation presents.

The opportunity presented by the Convergence Bill provides the occasion to remedy possible past defects with sector legislation. A golden opportunity exists to correct problems that may have presented themselves in the past.

Regulation is an ongoing process. As markets evolve so must regulation. So while much has been done in terms of establishing a regulatory framework, ICASA still has several major tasks ahead of it.

During the last year ICASA reviewed and updated certain critical telecommunications regulations and guidelines, including:

- Chart of Accounts and Cost Allocation Manual (COA/CAM) for mobile operators
- Interconnection Guidelines
- Facilities Leasing Guidelines
- Review of Fees and Charges for PSTS Services (Rate Regime)
- The Numbering Plan; and
- Number Portability Guidelines.

These are dealt with in more detail in this Annual Report.

While we await the reformation promised by the Convergence Bill, it is important for ICASA to continue with the tasks required by the Telecommunications Act, including the Ministerial Determinations.

It is our mission that ICASA should continue to facilitate a world-class communications environment with accessible services at affordable prices and should promote competition at all levels and in all markets.

As my term as Chairperson comes to an end on 30 June 2005, I would like to thank the President and the Minister for giving me the opportunity to serve the country and to lead the organisation for the first five years of its existence. I am grateful for the confidence that has been shown in my abilities.

I would also like to thank the Parliamentary Portfolio Committee on Communications for the oversight role they have played and continue to play with respect to ICASA, its finances and the appointment of Councillors.

ICASA is an important constitutional institution that cannot afford to lose its role as a credible, fair and expert authority. I trust that the regulator will continue to chart new waters and reach new heights in the quest to open up markets, provide more choice in services and content and lastly, to protect the principles of our great Constitution.



*ICASA 4th year Anniversary and Stakeholder meeting 2004*

## chief executive's overview



**JACKIE BOITUMELO MANCHE**  
Chief Executive Officer

It gives me great pleasure to present the Independent Communications Authority of South Africa's (ICASA) Annual Report for the year ending March 2005.

During the period under review, the ICASA executive management team has managed the organisation well in support of the Council. Despite successes in taking forward the mandate of ICASA, a number of challenges remained. The challenges identified include the following:

- Difficulty in attracting and retaining highly qualified staff
- Under-funding
- Inefficient and lengthy processes in key processes such as licensing, thereby undermining the credibility of the regulator

ICASA embarked on a number of initiatives aimed at addressing some of the challenges that continue to face the regulator. These initiatives centred around the following:

### Performance Management

In an effort to build an organisation that is responsive, ICASA introduced an organisational performance management system. This initiative is a first step in building a performance driven organisation, and to also reward outstanding performance. A common performance management framework was designed and implemented across the whole organisation.

### Job Grading and Salary Parity

One of the outcomes of the creation of ICASA out of a merger of IBA and SATRA was the discrepancies in staff salary levels. This not only created huge discontent among staff, but also led to a difficult relationship with the unions. During the year under review, a consultative and comprehensive job evaluation and grading process was undertaken to ensure parity in salary levels below senior management. A new salary structure was proposed and implemented. This marked an important achievement in our efforts to attract and retain skilled staff. A similar exercise will be undertaken for senior management as part of the organisational transformation process.

### Funding Model

ICASA is a public entity wholly funded by government. ICASA continues to face significant funding constraints, which limit its ability to regulate the increasingly complex communications sector. International comparisons of regulatory authorities reveal that ICASA has one of the lowest budgets among a set of comparable regulators. The liberalisation of the South African communications sector with its rapidly increasing range of services and number of players provides new challenges for ICASA. In making a case to meet these challenges, ICASA proposed to government a funding model that would provide ICASA with the necessary resources to take on these challenges on a sustainable basis. The recommendation was made as part of the drafting of the forthcoming amendment to the ICASA Act.

## FUTURE STRATEGIC CHALLENGES

After five years of its existence, ICASA is yet again at a crossroads. Changes in the legislative environment, new roles and responsibilities and imperatives for more affordable communications services have put ICASA under pressure to transform. ICASA has embarked on a comprehensive strategy to transform the organisation, primarily in response to the legislative changes in the communications sector. Both the Convergence legislation and the amendment to the ICASA Act will affect ICASA's operations. The strategic formulation process is aimed at giving effect to ICASA's vision which is to be an **effective**, **continually relevant** and **credible** regulator of the South African Communications sector.

The term *continually relevant* speaks to the rapid changes in the communications industry – the convergence of technology and services, the further liberalisation of the market that has brought in new services such as voice over Internet protocol (VOIP), the increase in the number of players and therefore competition – all of which would require ICASA to respond rapidly to these changes and to the needs of the sector.

ICASA will have to keep up with these changes in order to fulfil its regulatory mandate and to provide a predictable and suitable regulatory framework for the converged environment. In the migration from the current to the converged environment, ICASA must maintain its role as a transparent and *credible* regulator.

This will be necessary to ensure continued stability in the sector, and to create an environment conducive to both local and foreign investment, economic growth and job creation.

Our strategy rests on three drivers of value by which we will exceed the expectations of our stakeholders and customers, and maximise ICASA's impact on the growth of the communications sector. The three drivers of value are:

- In-depth understanding and effective regulation of the communications sector. In order to be a knowledgeable and proactive regulator of the communications sector, ICASA will develop policies that promote investment growth in the communications sector, protect vulnerable communities and groups, and drive the improvement of services to under-served communities and groups.
- Functional effectiveness. ICASA will meet its stakeholder objectives by satisfying the needs of its customers of putting into effect appropriate regulation, providing transparent and responsive processes that address the needs of the sector it serves and providing relevant information needs.
- World-class execution of all its functions. The new organisational strategy is based on the drive to bring about efficiencies to the internal functioning of the organisation – at both the administrative and Council levels. This calls for building the organisational management capabilities necessary for additional mandates that will be brought about by the new legislation.

## chief executive's overview continued

### ORGANISATIONAL POSITIONING TO MEET FUTURE CHALLENGES

Due to the changed legislative environment, ICASA will have to:

- Review and adopt an organisational strategy in support of the legislative imperatives
- Develop new policies and regulations in line with the legislation
- Amend and repeal policies and regulations in conflict with the legislation
- Reissue all licences in terms of the new categories specified by the legislation
- Restructure the organisation in line with the legislative imperatives

Executive management has committed itself to become a responsive, learning organisation that is relevant to our stakeholders and customers. We will do so by aligning resources with strategic priorities, building organisational capability by attracting top talent and improving leadership and management competencies, and instilling a culture of performance. To ensure that the strategy is implemented successfully, a number of key interventions have been identified: key of which will be implementing an organisational structure that supports the strategy, cascading the strategic plan into operational plans, and reviewing progress regularly using a balanced score card.

### ACKNOWLEDGEMENTS

As a statutory body implementing a public mandate, ICASA aligns itself with national vision and priorities. In this regard, I would like to express my sincere gratitude to the Parliamentary Portfolio Committee on Communications for the oversight role it continues to play. I would also like to thank the Ministry of Communications,

including the Department under the leadership of the Director-General for their support during this reporting period.

I wish to thank the ICASA Council for leading and guiding the executive management team on strategic issues. Most of all I would like to extend my personal gratitude to ICASA's most valuable asset, ICASA staff and executive management. Your commitment to contributing to ICASA's mandate and therefore the national policy objectives is an inspiration to us all. I look forward to another exciting year in the movement of the organisation from its present position to a desirable but uncertain future position full of promises. Notwithstanding the fact that the organisation has never been to this future place, I am confident that the pathway that we have crafted is clear and concise to all of us.



ICASA Aids Awareness Day

## council members



**MANDLA LANGA**  
Chairman  
(1 July 2000 – 30 June 2005)



**PARIS MASHILE**  
Chairman  
(1 July 2005 – 30 June 2010)



**NADIA BULBULIA**  
(1 July 2002 – 30 June 2006)



**LUMKO MTIMDE**  
(1 June 2002 – 30 June 2006)



**MTHOBELI ZOKWE**  
(1 July 2005 – 30 June 2009)



**DR TRACY COHEN**  
(1 July 2004 – 30 June 2008)



**MAMODUPI MOHLALA**  
(1 July 2002 – 30 June 2006)



**ZOLISA MASIZA**  
(1 July 2004 – 30 June 2008)



## highlights of the year

### THE UNDER-SERVICED AREA LICENSING PROCESS

ICASA held licence application hearings into seven Under-Serviced Area Licence (USAL) areas. The hearings were followed by final evaluations, Ministerial approval and ICASA issuing the first seven USAL licences. The objective of these licences is to ensure that telecommunication services are rolled-out to areas where there was no service or limited service provision in the past. It is intended that through this licensing, access to telecommunications services at affordable costs particularly in the rural communities is attained.

### FURTHER LIBERALISATION OF THE TELECOMMUNICATIONS MARKET

In September 2004, the Minister for Communications announced policy changes that seek to further liberalise the telecommunications market. These included the carrying of voice by value-added network service providers, self-provision of links by mobile operators and the resale of spare capacity by private telecommunication network service (PTNS) operators. ICASA, in response, convened a colloquium to solicit public input, and drafted and published regulations in pursuance of these determinations.

### REVIEW OF FEES AND CHARGES FOR TELKOM

ICASA reviewed the Price Control Regulations, which require Telkom to levy fees and charges according to the prescribed determination. This was a consultative public participatory process

and it included the publication of a discussion document, draft regulations and hearings into the proposed regulations. The proposed regulations, once implemented, would result in lower overall tariff increases by Telkom.

### SABC LICENCE AMENDMENT

The SABC submitted its amendment applications in terms of the Broadcasting Amendment Act in March 2004. ICASA received eleven (11) representations as well as the SABC's response to the submissions, and conducted hearings in September and October 2004. In February 2005 ICASA published proposed licence conditions for the SABC and invited public comment by March 2005.

### COMMUNITY TELEVISION BROADCASTING SERVICES

ICASA launched a Position Paper on Local Television in November 2004, following a public process that invited the industry and the public to comment on an economic study about the viability of commercial regional and local television and the development of a regulatory framework for community television in South Africa.

Closely related to the Local Television Policy, is the Special Event Licence for Community Broadcasting Services. ICASA published amendments to existing regulations that would allow scope for a temporary/limited period community television broadcasting licence in addition to a community television licence as contemplated in the Position Paper.

## SUBSCRIPTION BROADCASTING

ICASA published a Discussion Paper in April 2004 for public comment and conducted public hearings in August 2004. The subscription broadcasting policy was launched with the publication of a Position Paper and regulations. The aim of the policy exercise is to develop a policy framework for subscription broadcasting and to introduce new entrants in the subscription broadcasting market.

## SKA SURVEYS IN NORTHERN CAPE

ICASA is involved with planning and conducting terrestrial interference surveys for the South African national bid for the Square Kilometre Array (SKA) radio telescope project. A series of RF SKA surveys were completed and contributed significantly to the South African bid for the project. This project is aimed at the development of the largest-to-date radio-astronomy telescope, currently estimated at US\$1,5 billion. South Africa is a strong contender with several sites identified in the Northern Cape and, as the southern hemisphere sites are preferred, competes with Australian sites in the western desert.

## PARTICIPATION IN INTERNATIONAL FORA

ICASA was elected to chair the African Communications Regulatory Authorities Network (ACRAN/RIARC) from 2002 to 2005. ICASA played a key role in African and Southern African regulatory activities in its participation and chairpersonship of TRASA subcommittees dealing with policy. ICASA is also serving on the TRASA Executive Committee, as the second Vice President, 2004 – 2006.

## Summary of Licences Issued

Category of licence	Type of licence	Number of licences issued	
<b>Telecommunications</b>	Private	23	
	Telecommunications Network		
	Under Serviced Area Licences	7	
	Licence Amendments	4	
	<b>Total 34</b>		
<b>Broadcasting</b>	4 year Community Radio Licences	55	
	Short-term (30 days) Community Radio Licences	32	
	4 year Community Television Licence	1	
	Short-term (30 days) Community Television Licence	1	
	Commercial Radio Licences	10	
	Commercial Television Licence	1	
	<b>Total 100</b>		
	<b>Engineering</b>	Aeronautical	5 268
		Amateur	6 341
		Exams & Certificates	19 175
Fixed		60	
Land Mobile		46 119	
Maritime		4 049	
Radio Dealer		5 378	
Satellite		223	
<b>Total 86 613</b>			



## promoting universal access

The Independent Communications Authority of South Africa (ICASA) is established to regulate the telecommunications and broadcasting sectors in the public interest, in accordance with national policy goals and imperatives.

### 1. PROMOTING UNIVERSAL ACCESS

One of ICASA's most critical areas of service delivery is the promotion of universal access to services in the telecommunications and broadcasting sectors – colloquially known as bridging the information divide between the urban and rural, the rich and poor.

In the telecommunications sector, universal access to services translates to promoting community access to basic telephony. Recently, this right has come to include access to information and communication technologies, and services such as Internet access and electronic government services such as e-health.

#### Telecommunications

The amended Telecommunications Act, of 1996, provides for a new category of telecommunications licence called under-served area licence (USAL). This licence category seeks to enhance access to telecommunications services and create job opportunities in areas with a lesser telephone penetration in both rural and urban areas.

Following the enactment of the Amendment Act, the Minister of Communications declared 27 areas as under-served in December 2001. USAL licences provide for telecommunications services, including voice over Internet protocol (VOIP), fixed mobile services, public pay telephones and long distance calls to be transported through trunk networks of any operator licensed to carry international traffic.

The following seven companies were awarded licences in the first licensing phase:

1. Bokone Telecomms (Pty) Limited, Capricorn district, Limpopo
2. Kingdom Communications (Pty) Limited, Zululand district, KwaZulu-Natal
3. Thinta Thinta Telecommunications (Pty) Limited, Ugu district, KwaZulu-Natal
4. Ilizwi Telecommunications (Pty) Limited, OR Tambo district, Eastern Cape
5. Karabotel (Pty) Limited, Central district, North West
6. Bokamoso Consortium (Pty) Limited, Lejweleputswa district, Free State
7. Amatole Telecommunications (Pty) Limited, Amatole district, Eastern Cape.

A second invitation to apply for the USAL licences was published in the period under review, covering 14 under-served areas in Limpopo, North West, Gauteng and Mpumalanga. The closing date for this second phase of licensing was in April 2005.



*Handover of USAL licences*

## Broadcasting

One of ICASA's objectives in promoting universal service and access to broadcasting services can be measured by people's access to a wide range of content, provided in various genres and languages. Access also relates to ownership of broadcasting services by communities and previously disadvantaged groups and individuals.

In pursuit of universal access to services in the broadcasting sector, ICASA issued and published a number of broadcasting licences and policies:

In March 2002, the SABC submitted its amendment applications in terms of the Broadcasting Act of 1999 as amended by the Broadcasting Amendment Act of 2002. The Act requires the SABC to apply to ICASA for such amendments to its existing licences as are necessary in order to reflect the reorganisation of the Corporation into public service and commercial service divisions and to comply with its related obligations in terms of the Broadcasting Act and the Independent Broadcasting Act.

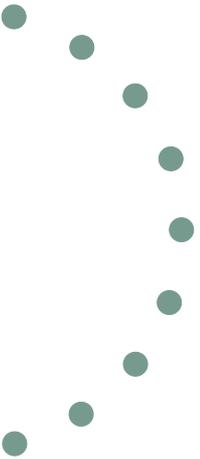
In accordance with the notice to license the SABC in terms of the 1999 and 2002 Acts, ICASA received 11 representations as well as the SABC's response to the representations in July 2004. Public hearings were held in September and October 2004. One of the objectives of this exercise was to bring the SABC in line with all other broadcasters with respect to conditions that address the mandate of all the SABC stations, be they public or commercial. In December 2003, ICASA received an application from the South African Broadcasting Corporation for two Regional Television Services namely SABC 4 and SABC 5. In its application, the SABC

proposed that SABC 4 would broadcast in the Limpopo, North West, Gauteng, Free State and Northern Cape provinces in Setswana, Sesotho, Sepedi, Xitsonga, Tshivenda, Afrikaans and English.

For SABC 5, the SABC proposed that it would broadcast in Mpumalanga, the eastern border of Limpopo, Gauteng, KwaZulu-Natal, Eastern Cape and the Western Cape in isiZulu, isiXhosa, isiNdebele, isiSwati, Afrikaans and English. The SABC's licence application was gazetted for public comment in January 2004. ICASA received written representations from Sentech and e-tv, both requesting an opportunity to make oral presentations. Sentech subsequently withdrew its request, and ICASA then conducted public hearings in respect of the two applications in Polokwane and Cape Town in October 2004.



*SABC licence amendment process*



## promoting economic growth and job creation

Furthermore, ICASA approved an application to amend the licences of SABC 1 and SABC 2 in order to allow for the expansion of these services to the Supingstad, Madibogo, Motswedi and Kuruman areas. ICASA also granted an application for the power upgrade of the SABC 1 and 2 transmitters in Ulundi and Harrismith, to enable the SABC to meet its universal service obligations. Meanwhile, the SABC has also applied to increase the coverage area of Ikwekwezi FM by means of two additional frequencies namely, 106.3 MHz in Johannesburg and 106.0 MHz in Pretoria.

The Position Paper for Low Power Sound Broadcasting defines a low power sound broadcasting service as a community or commercial sound broadcasting service which radiates power not exceeding 1 Watt. The introduction of Low Power licences would encourage investment in the broadcasting industry and ensure that broadcasting services, when viewed collectively, are controlled by persons or groups of persons from a diverse range of communities in South Africa. This type of licence would also ensure fair competition between broadcasting licensees, address issues of diversity in languages, and promote the objectives of the second economy and ownership by the previously disadvantaged.

ICASA has decided to license two categories of low power sound broadcasting services:

- Commercial low power sound broadcasting services – services operating from and broadcasting to shopping malls/centres, sports grounds, showgrounds and drive-in movie theatres, or any other similar service ICASA may deem appropriate, and

- Community low power sound broadcasting services – services operating from and broadcasting to old age homes, links between places of worship, links between places of worship and retirement villages, or any other similar service ICASA may deem appropriate.

In November 2004 ICASA published an invitation for communities in the 13 nodal point areas identified in the government's Integrated Rural Development Strategy to apply for community sound broadcasting licences. The nodal point areas have been identified by government to serve the needs of the rural areas in South Africa. ICASA is committed to deliver on government's request to provide community radio stations in these areas. This invitation called on applicants to submit application forms for 18 frequencies as allocated by ICASA on or before 1 June 2005.

ICASA launched a Discussion Paper on Local Television in August 2003. A Community Television Broadcasting service is a service which is fully controlled by a non-profit entity and is provided for non-profit purposes; and encourages members of the community served by it or persons associated with or promoting the interests of such community to participate in the selection and provision of programmes to be broadcast in the course of such broadcasting service. In addition to the Discussion Paper, the industry and the public were also invited to comment on an economic study on the viability of commercial regional and local television.

The Position Paper and regulations on Community Television Broadcasting Services was published in November 2004. ICASA decided that at this stage it would not be appropriate to license commercial local television and decided to focus only on the licensing of community television broadcasting services. The aim

is to fulfil the commitment made in ICASA's Triple Inquiry Report, 1995, of encouraging the freeing of the airwaves and continue the process that began with the licensing of community sound broadcasting services. This process will promote diversity and choice and provide communities with a voice and platform for development.

In December 2004, ICASA published a Discussion Paper on self-help stations followed by a Position Paper. Self-help stations promote access to broadcasting services in areas which operators do not view as economically viable. A self-help station is a community owned and funded relay station which transmits the signal of a broadcaster (in the licence area) in cases where, for technical or other reasons, the broadcaster's signal cannot be received. The purpose of the Discussion Paper was to review ICASA's current policy and regulations. Current policy was originally conceived and implemented as a technical and administrative solution and did not take into account policy considerations such as universal service and the diversity obligations of broadcasters using self-help stations.

## 2. PROMOTING ECONOMIC GROWTH AND JOB CREATION

ICASA plays an important role in promoting economic growth and job creation in both the first economy and the emerging economy. Telecommunications is a R99 billion industry, contributing 6% to the country's GDP, while broadcasting contributes R9 billion. Both sectors have recorded impressive growth in their figures in the past year.

### Telecommunications

In September 2004, the Minister announced 1 February 2005 as the date for the introduction of further liberalisation in the telecommunications industry through the following measures:

- VANS could obtain facilities from operators other than Telkom
- VANS could provide voice services over their networks
- Mobile operators could provide their own fixed links
- PTNS may resell spare capacity

The Telecommunications Act makes provision for the granting and issuing of a licence to a Second Network Operator (SNO) to provide public switched telecommunication services, and to compete with the current monopoly incumbent, Telkom. In February 2005, the Minister granted the SNO to a consortium made up of Communitel, Two Consortium, Esitel (Eskom), Transtel, Nexus Connection and TATA Communications. Once the shareholder structure and business plan have been submitted to ICASA, a licence will be issued to the SNO.

ICASA has embarked on a licence amendment process in terms of the Telecommunications Act regarding the Public Switched Telecommunications Service licence held by Telkom. ICASA has proposed amendments to the licence and this has been presented to Telkom. The amendments to Telkom's licence are meant to prepare Telkom for operating in a competitive environment. The rationale for this amendment process emanates from the impending competition being introduced against Telkom. The process seeks to level the playing fields for all by allowing the SNO to compete with Telkom in an equitable manner. The two licences will be issued on similar terms, with the SNO licence being issued on terms that are no less favourable than those of Telkom.



## promoting economic growth and job creation continued

Value-added network services (VANS) are telecommunication services that provide services such as electronic data exchange, electronic mail, protocol, conversion and managed data network services among others. The September 2004 Ministerial Determinations changed the regulatory framework for value added network services (VANS) licensees. ICASA proposed a new regulatory framework for VANS and conducted public hearings in this regard.

In January 2005, ICASA submitted the proposed amended VANS regulations to the Minister for consideration and approval in terms of the Act. The new regulatory framework seeks to enable VANS to enter other segments of the telecommunications market and compete with Telkom, the SNO, USALs and other operators. The regulations require applicants to ensure participation by historically disadvantaged persons in terms of management and control, procurement, enterprise and skills development. Further, the regulations require licensees with turnover above R1 million to achieve 15 and 30 percent equity ownership by historically disadvantaged persons within 12 and 24 months of the issue of the licence, respectively.

### Frequency Management

One of ICASA's key mandates is the management of radio frequency spectrum. This is a finite national resource which, if unmanaged, would obstruct the delivery of essential broadcasting and telecommunication services.

The Telecommunications Act calls for ICASA to issue radio frequency spectrum licences to the Mobile Cellular Telecommunication Service (MCTS) licensees in the 1800MHz and

3G frequency spectrum bands. Access to these frequencies will provide the MCTS operators with improved capacity for their delivery of services.

ICASA has already issued radio frequency spectrum licences in the 1800MHz frequency spectrum band to Vodacom and MTN, in which the two operators made an undertaking to the Minister of Communications to provide 5 000 000 SIM card connection packages and 250 000 terminal equipment units. Both undertakings would be delivered according to an implementation timetable approved by ICASA. Cell C was also licensed with access to the 1800MHz frequency spectrum band.

Both Vodacom and MTN applied for test licences during 2004 to undertake 3G (third generation) trials to test their equipment. This was to inform their procurement decisions in order to maximise



*Councillor Mamodupi Mohlala making a point at an ICASA hearing*

the benefits of this technology. In December 2004, ICASA issued Vodacom with a 3G licence, subject to Internet access universal service obligations determined by ICASA.

One of the important aspects in the management of frequency spectrum is the maintenance of the table of frequency allocations. The South African Table of Frequency Allocations (SAFTA) is a national assignment of radio frequency spectrum in line with International Telecommunications Union (ITU) requirements.

The South African Table of Frequency Allocation was published in August 2004. It currently covers frequencies from 20MHz to 70GHz. ICASA will embark on the re-planning of high frequency (HF. 9 KHz -20 MHz) in the next financial year.

For the period under review, the following frequency spectrum assignments were processed:

#### Frequency Spectrum Applications:

Applications completed	2 018
Frequencies assigned	3 014
Cancellations	764
Co-ordination (cross border)	83

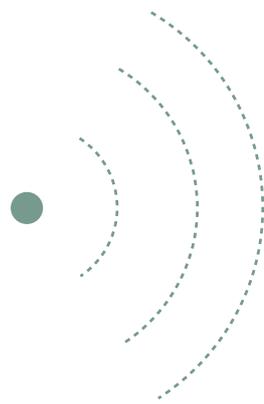
During the reporting period over 5 000 new frequency spectrum licences were issued. In total more than 85 000 licences (new and renewals) were issued during the year under review. Approximately 8 500 licences were cancelled either on request or due to non-payment. The total number of valid licences in each category is listed below:

#### Valid Licences Per Category

Category	Number of valid licences in 2005
Aeronautical	5 268
Amateur	6 341
Exams & Certificates	19 175
Fixed	60
Land Mobile	46 119
Maritime	4 049
Radio Dealer	5 378
Satellite	223
<b>TOTAL</b>	<b>86 613</b>

In support of ICASA's mandate and policy decisions, a number of broadcasting spectrum initiatives were undertaken for the year under review:

- The annual review of the terrestrial broadcast frequency plan in accordance with the IBA Act
- Participation in the deliberations of the SABC licensing process in terms of the Amendment Act of 2002
- Formulation of the Digital Broadcasting Plan. This includes the development of a plan for the digital migration as an initial submission to the International Telecommunications Union in order for South Africa to meet the ITU February 2005 deadline
- Secondary Markets Frequency Assignment. The generation of frequencies for the secondary, commercial radio broadcasting markets for Limpopo, North West and the Northern Cape
- ITU Frequency Protection (aimed at coordinating the protection of frequencies to prevent cases of interferences)



## promoting competition, choice and diversity

between different countries) – completed ITU frequency registration forms for each frequency assignment in the plan. Council approved the registration of frequencies with the ITU, and the registration of frequencies with the ITU in the Master International Frequency Register

- Nodal Points Frequency Assignments. The generation of frequencies for the nodal points community radio stations to support the Integrated Rural Development Strategy.

Several member-countries have requested the ITU to convene regional radio conferences to plan the migration from analogue to digital technology for broadcasting services.

The digital migration policy process is part of the broader socio-economic imperative of bridging the digital divide, creating jobs and promoting electronic government and education, as well as encouraging diversity and choice.

The first of these Radio Communication Conferences (RRC-04) was held in Geneva in May 2004. The conference sought to establish the technical basis for the planning of the digital terrestrial broadcasting service for both radio and television in the frequency bands 174-230 MHz (Band III) and 470-862 MHz (Band IV/V) for parts of Region 1 (Europe, Africa and the Middle East) and Region 3 (Islamic Republic of Iran).

The second RRC session will establish a new regional agreement for these bands to be used for terrestrial digital broadcasting. ICASA participated in task teams established by the Department of Communications (DoC) to formulate a South African plan which was subsequently sent to the ITU in February 2005.

### Broadcasting

ICASA published a Discussion Paper on Subscription Broadcasting in April 2004 for public comment and held public hearings in August 2004.

The policy aims to provide for the licensing of new entrants into the subscription broadcasting market. This policy process is part of a licensing framework that seeks to promote investment and create jobs in the formal economy.



*Value added network services hearings*

### 3. PROMOTING COMPETITION, CHOICE AND DIVERSITY

Since inception, the telecommunications and broadcasting sectors have been dominated by state monopolies in many countries around the world. Recent economic reforms call for the introduction of competition through the licensing of new market players and service providers. With competition comes affordability and choice, as well as quality of service for the general public.

In telecommunications, processes to license the second national operator to compete with Telkom in the fixed line market and licensing of VANS to provide a variety of telecommunications services are all measures intended to promote competition and choice for the consumers of telecommunication services in South Africa.

#### Telecommunications

The Chart Of Allocations/Cost Allocation Manual (COA/CAM) is a reporting framework for telecommunications operators that deals with the underlying costs of providing a particular service such as a local or national long-distance call.

Costs can then be compared to the charge for the service levied by the operator and a decision made regarding the reasonableness of the charge taking into account the relevant costs. This enables ICASA to monitor operator charges to ensure that customers are not overcharged for services. ICASA undertook a review of COA/CAM for mobile operators, and the relevant regulations were promulgated in the year under review. Proposed implementation

plans were received from the mobile operators as required in terms of the regulations.

ICASA embarked on a major exercise to review Telkom's tariffs, culminating in the publication of Rate Regime Regulations<sup>1</sup>. These Regulations provide the basis for the level of charges and fees, including monthly rental and local, national long-distance and international call charges, for services offered by public switched telecommunications service (PSTS) operators such as Telkom. The Rate Regime Regulations allow for restrictions on price adjustment proposals by Telkom<sup>2</sup> and are necessary to ensure that consumers are not unduly burdened in markets such as the PSTS in which there is minimal or no competition.

A consultation document on the Rate Regime was developed and published for public comment. Written representations were received and hearings were held. Draft regulations were generated, taking into account inputs obtained through the consultation process. The thrust of the proposed regulation is to ensure that Telkom achieves efficiencies in its service delivery processes that can then result in lower tariffs to its customers.

Following the submissions received on the draft regulations, ICASA published the regulations for a further round of consultation. ICASA is in the process of finalising these regulations which should be implemented by September 2005.

The Telecommunications Act requires ICASA to develop a numbering plan for telecommunications services. With the imminent licensing of the Second Network Operator and under-

<sup>1</sup>Government Gazette 22870, Notice 1248, of 26 November 2001 (Rate Regime Regulations)

<sup>2</sup>The methodology used to restrict the increases is the price cap mechanism where the overall increase in a basket of services is restricted to inflation minus a productivity factor set at 1,5%. The maximum single price movement allowed for any item in the basket is CPI + 5%.



## promoting competition, choice and diversity continued

serviced area licences, the numbering plan is anticipating meeting the operators' numbering requirements.

The numbering plan is neutral and clearly structured, identifying various number ranges for specific telecommunications services. Number ranges not in use are reserved for future growth to accommodate new service demands. A proper allocation and numbering procedure, commonly referred to as the Numbering Conventions, is included.

ICASA has finalised the numbering plan through the normal regulation-making process and is awaiting the promulgation of the numbering plan by the Minister.

Number portability allows telecommunications users to choose an operator/service provider and to change location and/or service providers without losing their number. ICASA embarked on rule-making processes in order to meet the number portability requirements of the Telecommunications Act. Draft Number Portability and Functional Specification regulations were published for public consultation.

Written representations were received on the draft regulations and hearings were conducted. The regulations have been finalised, and ICASA is on track to meet the implementation timeline of the end of 2005.

### Broadcasting

The licensing of public, commercial and community broadcasting services provides not only competition among the various

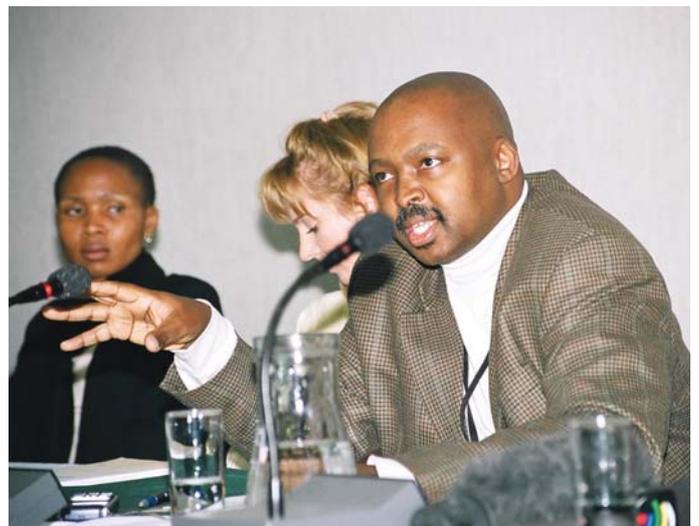
broadcasters, but also choice for the public. The following commercial sound-broadcasting licensees applied for amendments to their respective licences:

#### Radio Oranje (Pty) Limited

ICASA approved an application for some technical amendments from Radio Oranje. These include the reactivation of the transmitter site in Boesmanskop and Springfontein, the establishment of a transmitter site in Sasolburg and a power reduction at the transmitter sites in Ladybrand and Christiana.

#### Cape Talk

ICASA approved an application for the Cape Talk shareholding amendment to its broadcasting licence.



SABC Licence Amendment

### **Jacaranda FM (Pty) Limited**

ICASA approved the Jacaranda FM (Pty) Limited shareholding amendment to enable New Africa Investment Limited (NAIL) to dispose of its media stake as envisaged in the NAIL/Tiso Consortium transaction.

### **Kaya FM (Pty) Limited**

The Authority approved the Kaya FM (Pty) Limited shareholding amendment application to enable New Africa Investment Limited (NAIL) to hold their shares in Kaya FM directly and not through its wholly owned subsidiary, New Africa Media Holdings (NAMH).

### **P4 Radio Cape Town (Pty) Limited**

ICASA approved a shareholding amendment to allow P4 International to dispose of its stake in P4 Radio Cape Town (Pty) Limited.

### **P4 Radio Durban (Pty) Limited**

ICASA approved a shareholding amendment to allow P4 International to dispose of its stake in P4 Radio Durban (Pty) Limited. Furthermore, ICASA renewed P4 Radio Durban (Pty) Limited's commercial sound broadcasting licence.

### **East Coast Radio (Pty) Limited**

ICASA approved an application to amend the shareholding structure of East Coast Radio (Pty) Limited, allowing Kagiso Media Limited to own 100% of the issued shares in East Coast Radio. The East Coast Radio Share Trust will also be replaced by a Profit Participation Scheme.

### **Midi TV (Pty) Limited (e-tv) – Self-help Stations**

ICASA considered 20 self-help station applications from e-tv as part of e-tv's expansion to fulfil its mandate of universal coverage. ICASA approved 19 self-help stations. The self-help station in Hex River Valley was refused and e-tv was ordered to put the previously granted 519.25 MHz frequency at the Hex River into operation.

### **M-NET LICENCE AMENDMENT PROCESS**

In June 2004, ICASA gave notice of its intention to effect various amendments to M-Net's licence. In broad terms these amendments are to:

- delete all references to the open window, thereby resulting in M-Net providing a purely encoded service, unavailable to anyone other than subscribers to the M-Net service; and
- ensure that ICASA's consent be obtained, whether by way of an amendment in terms of the IBA Act or by a prior written consent process, to various direct and/or indirect shareholder changes.

Hearings were held in January 2005. A committee of Council, after the hearings, decided to continue with the process and issue a notice in terms of section 52(5) that essentially repeats only the provisions of the first notice with respect to the closure of the open window, thereby making no amendment to the ownership and control provisions in the M-Net licence.



## monitoring and enforcement

### 4. MONITORING AND ENFORCEMENT

Telecommunications, frequency spectrum and broadcasting licences issued by ICASA are often accompanied by a set of conditions related to the type of service provided. These conditions range from performance standards, conditions related to ownership as well as environmental standards.

#### Telecommunications

The Telecommunications Act requires ICASA to play the role of an adjudicator among telecommunications industry players by investigating complaints, and to see to their resolution in the public interest.

The following are the complaints dealt with in terms of the Telecommunications Act:

#### **Copasa v Cell C**

Copasa, a voluntary association representing the interests of participants within the cellular commercial payphone industry, alleged that Cell C, which in terms of its licence obligations ought to roll out community service telephones (CSTs) in areas with a teledensity of less than 10%, is rolling out its CSTs in areas which have a high teledensity. A pre-hearing meeting was held in March 2005. The complaint has been held over pending the outcome of the review application between MTN and Cell C which is presently before the High Court, and which deals with the same issue.

#### **Internet Solutions (Pty) Limited/MTN Network Solutions**

Internet Solutions lodged a complaint against MTN NS on the conduct of MTN NS in operating as an Internet service provider without a valid VANS licence. The allegations were rebutted by

MTN NS by the production of documents. ICASA is currently awaiting a response from the attorneys of Internet Solutions.

#### **Telkom SA Limited/Atala International RSA cc**

Telkom lodged a complaint against ATALA alleging that it is providing an international telecommunications service, other than through the gateway of Telkom. The respondent cannot be traced and Telkom has been advised of ICASA's inability to notify the respondent of the complaint.

#### **Telkom SA Limited/Valley Junction Trading 70 cc**

Telkom alleges that Valley Junction is providing an international telecommunications services other than through the gateway of Telkom. The respondent cannot be traced and Telkom has been advised of ICASA's inability to notify the respondent of the complaint.



*M-Net open window hearings*

### Telkom v Globecast/Newsforce

Telkom lodged a complaint against Globecast Africa and Newsforce Africa. Newsforce Africa is the holder of a Satellite News Gathering licence and the requisite spectrum licence. Telkom's complaint was based on the allegation that the respondent was providing a National Long Distance Telecommunications Service or an International Telecommunications Service, services which, in Telkom's view, require a Public Switched Telecommunication Service (PSTS) licence.

A pre-hearing conference was held in March 2004, and the hearing into the technical points in contention raised by Globecast/Newsforce was held in July 2004. The technical points in contention raised by Globecast/Newsforce were dismissed. Globecast/Newsforce instituted review proceedings in the High Court prior to the hearings on the rest of the issues. ICASA is opposing the review application.

### Dr Hobbs v MTN

Dr Hobbs bought a cellular phone starter pack from MTN and went overseas without using it. On his return the window period within which it had to be used had expired. In terms of the packaging documents the window period was for six months. MTN contends that the period was changed and reduced to three months. Attempts to resolve the dispute were unsuccessful. Dr Hobbs approached the Public Protector. Several attempts to mediate the complaint were unsuccessful and he was advised to lodge a complaint in terms of the Telecommunications Act.

### Broadcasting

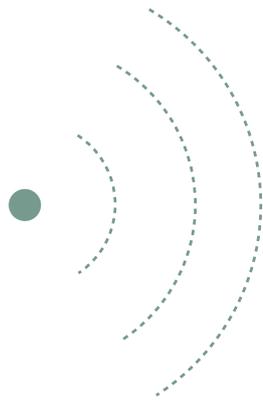
ICASA has the responsibility to monitor the performance of broadcasters as stipulated in the broadcasting licences, and investigate complaints against broadcasters.

During the period under review, 94 complaints were received. The complaints were categorised as follows:

Category	Number of complaints
Advertising	2
Blasphemy	1
Defamation	3
Hate speech	2
Mismanagement	23
Other	16
Pornography	2
Programming	36
Technical	9
Total	94

The majority of complaints were received from Gauteng, KwaZulu-Natal, Western Cape, Eastern Cape and Free State. Further complaints were received from Limpopo, Mpumalanga, Northern Cape and the North West.

ICASA received 16 complaints against the SABC, one against M-Net, four against e-tv, one against the commercial sound broadcasters and 55 against community sound broadcasters. Matters of serious non-compliance by broadcasters are referred to the Broadcasting Monitoring and Complaints Committee (BMCC).



## monitoring and enforcement continued



*The broadcasting monitoring and complaints committee*

The BMCC is a standing committee of Council established in terms of the IBA Act. The BMCC adjudicates complaints that have been referred to it by ICASA and considers matters of policy relating to compliance of broadcasters.

The BMCC was constituted in 1994 and Adv. Jules Browde SC was elected as the Chairperson. In 2002 the committee was enlarged to make it more representative of the country and the population. The following members currently serve on the committee:

Member	Race	Gender
1. Adv. Jules Browde	White	Male
2. Ms. Irene Menell	White	Female
3. Ms. Keneiloe Mohafa	African	Female
4. Dr. Devi Rajab	Indian	Female
5. Prof. Tina Uys	White	Female
6. Ms. Irene Baloyi	African	Female
7. Mr. Yaswant Gordhan	Indian	Male
8. Adv. Fayeza Kathree	Indian	Female
9. Mrs. Sophia Mosime	African	Female
10. Prof. Nomvula Mtetwa	African	Female
11. Mr. Mhlaliseni Mthembu	African	Male
12. Ms. Rene Smith	Indian	Female

The following broadcasters appeared before the BMCC for a range of contraventions to relevant legislation, and to broadcasting licence conditions:

### **P4 Radio – Durban**

P4 Radio Durban, for failure to keep programme logs and to submit broadcast information to ICASA about its programming. The BMCC recommended a R15 000 fine, but that payment be suspended for six months on condition that during that period there is no further contravention of its broadcasting licence.

### **Vaaltar FM**

Vaaltar FM, for failure to submit recordings as required by the IBA Act, and its programme recordings were also incorrectly labelled. The BMCC issued a serious warning to the radio station.

### **Ilitha Community Radio**

Ilitha Community Radio (ICR) appeared before the BMCC for failure to produce an audited statement of income and expenditure, to keep a log of all programme broadcasts in a form acceptable to ICASA and to provide details of the directors, members or trustees including their gender, race and addresses. The BMCC issued ICR with a warning not to repeat the offence.

### **Radio Maritzburg**

Radio Maritzburg appeared before the BMCC for failure to keep recordings of programmes in a form acceptable to ICASA, mismanagement, dismissal of volunteers at the station without disciplinary action being taken against them, lack of a management structure, alleged nepotism, a non-representative board, lack of community participation, and failure to hold an annual general meeting.

The BMCC recommended that the station's licence be suspended for a period of five months effective from 1 November 2004 to 31 March 2005 to enable the station to hold an AGM and for a task force to be set up to put the station on a sound footing.

### **Radio Today**

Radio Today appeared before the BMCC for changing the station's identification from Radio Today to 1485 AM Gold without written consent from ICASA, changing its programming format by including extensive amounts of business in its prime slots, and also by changing its music format to target the youth. The licensee changed its target market to focus on discerning business professionals, and allegedly curtailed community



*Radio Today hearings*

participation by withdrawing its open line that enabled community members to participate in the programming of the station.

The BMCC recommended that members of the Action Group be given an opportunity to express their views on the changes to the programming at a general meeting of listeners to be held by the end of February 2005. The BMCC also recommended that Radio Today be given an opportunity to remedy these by the end of February 2005.

### **Spectrum Management**

The Telecommunications Act vests ICASA with powers of controlling, planning, administering, managing, and licensing radio frequency spectrum. ICASA ensures good spectrum management through enforcing compliance with the Act in terms of spectrum



## setting technical standards

usage and efficient use of the spectrum (occupancy) while minimising and solving incidents of harmful interference by stamping out illegal spectrum usage by unlicensed defaulters in order to prevent spectral chaos.

ICASA conducts inspections, monitoring, interferences investigations, maritime audits and examinations.

Of the regularly monitored range of frequencies, the following were of significance:

- Illegal transmission from cordless telephones on GSM bands, radio trunking frequencies and Aircraft bands that have rendered these frequencies unavailable to licensees. To date, 953 illegal cordless telephones have been confiscated with a number of fines issued.
- The conviction of two individuals involved in the illegal trade of cordless phones. Two radio dealers were fined R200 000 and R100 000 respectively for contravening the Act.
- A partnership has been entered into with the South African Receiver of Revenue Services customs division, to detain shipments of cordless telephones until inspected by ICASA officials in all ports of entry.
- Unlicensed broadcasting stations had their transmitters seized with the assistance of the police. These include broadcasting at the premises of Coconut Grove (Blue Lagoon), and Teks FM in Secunda.

The Durban, Port Elizabeth and Cape Town offices also perform maritime surveys. These offices have technical officers who carry

out marine surveys on behalf of the South African Maritime Safety Authority (SAMSA) and conduct Global Maritime Distress and Safety System (GMDSS) examinations in accordance with the memorandum of understanding between ICASA and SAMSA. A total of 598 marine surveys were conducted, 167 GMDSS exams and 1 195 maritime radio telephone exams were conducted.

ICASA undertakes high-site inspections to proactively minimise interference and illegal transmissions on high traffic carrying sites. A total number of 136 high site inspections were conducted during the period under review. At the SAPS container in Mossel Bay variations to licence conditions were found and notices to comply were issued. In that way ICASA proactively deals with high sites, which minimises potential for interference and/or illegal use of spectrum.

New sites are commissioned to ensure that they conform to the licence conditions. Specifications and alarm audits are performed to ensure there are no discrepancies in the number of licences.

The most notable high site inspections were:

- Inspection of the Chubb premises on the Durban South Coast resulting in the recovery of outstanding licence fees owed to ICASA.
- Audits conducted at the premises of Alpha Security and Pro Radio. Applications were completed to update the licences to the correct number of radios and transmitters being used and to capture the installation detail and ownership registration. Warnings for irregularities were issued in both instances.

ICASA has a responsibility to monitor the radio frequencies to ensure safety by tracing and isolating the interference on the video link frequency that was used for surveillance at the inauguration of the South African President and the 10 Years of Democracy celebrations at the Union Buildings. ICASA also monitored the frequency band for the SAPS to ensure the safe arrival and departure of international guests at the Waterkloof Air Force base.

## 5. SETTING TECHNICAL STANDARDS

In terms of the Telecommunications Act, ICASA type-approves and licenses telecommunications equipment against relevant standards covering Technical Performance, Electrical Safety and Electromagnetic Compatibility (EMC). The following equipment is governed by type approval licensing provisions:

### Amateur Radio Regulations

ICASA has developed draft Amateur Radio Regulations, which aim to facilitate the use of amateur radio among young people and to introduce it into the school curriculum, thereby promoting the study of science and technology.

Radio amateurs or 'Hams' use two-way radio communication to make contact with other radio amateurs all over the world. As radio amateurs are permitted to use a wide range of frequencies and types of transmission, they must be qualified operators.

### Telecommunication Line Terminal Equipment (TLTE)

Telecommunication equipment that interfaces with Public Switched Telephone Network (PSTN) is classified as Telecommunication Line Terminal Equipment (TLTE), also referred

to as Customer Premises Equipment (CPE), Terminal Equipment or Telephone Attachments. This category includes, amongst others, modems, all types of phones, fax machines, speech recorders and lightning protection devices.

### Switching Systems (SWS)

Telecommunications equipment with one or more input ports that are capable of connecting to the Public Switched Telecommunication Network (PSTN), and a number of extension ports to which TLTE may be connected, and the ability to interconnect incoming and extension ports together for the purpose of exchanging electronic information – is classified as a Switching System (SWS). This category includes, amongst others, Private Automatic Branch Exchange (PABX), Integrated Services Digital Network (ISDN), Automatic Call Distribution System (ACD), and Automatic Call Processing System (ACP).



ICASA monitoring vehicle conducting tests for SKA bid



## consumer protection

### Radio Frequency (RF) Equipment

RF Type approval relates to manually checking the performance of equipment (from a provided test report) with respect to a given standard and verifying compliance.

This category includes, amongst others, two way radios, cellular phones and base stations and Short Range Devices.

### Line Maintenance Organisations

Two categories of Line Maintenance Organisations are licensed:

- Line Maintenance Organisation type 1 (LMO-1)**  
 An organisation that is licensed to install, alter and maintain ICASA approved PABX switching unit(s) as well as the associated extension line cabling and terminal equipment.
- Line Maintenance Organisation type 2 (LMO-2)**  
 An organisation that is licensed to install and maintain telephone cabling and reticulation.

The following table shows the output of the type approval unit for the period under review:

Category	Number of applications			
	Received	Licensed	Renewed	Cancelled
TLTE	305	223	367	0
LMO-1	97	41	128	0
LMO-2	10	1	12	0
SWS	324	64	355	0
Supplier registration	63	45	0	0
RF equipment	987	854	0	0
<b>TOTAL</b>	<b>1 786</b>	<b>1 228</b>	<b>862</b>	<b>0</b>

### Type Approval Regulations

The Telecommunications Act has been amended to include radio equipment and to more clearly define the type approval process. The regulations were published for public comment and the final regulations will be submitted to the Minister for promulgation.

### Analogue TLTE Regulation

The Analogue Telecommunications Line Terminal Equipment (TLTE) regulations cover the standards applicable to analogue equipment connecting to the Public Switched Telephone Network (PSTN). The regulations were published for public comment and these comments have been incorporated into the regulations which will be submitted to the Minister for promulgation.

## 6. CONSUMER PROTECTION

ICASA's outreach programme on consumer education is geared towards informing communities about its regulatory activities, consumer rights with regard to telecommunications services and accessing services offered by ICASA. For the period under review, ICASA undertook outreach programmes in Limpopo, Eastern Cape, Gauteng, KwaZulu-Natal, and Free State provinces. The target for the roadshows were rural and previously disadvantaged communities.

The outreach programme revealed the following problems:

- Absence of Public Pay Phones and Community Service Phones;
- Delays in installation of telephone services;
- Absence of signal distribution and television services; and
- Absence of network services for mobile telephones.

In partnership with community organisations, ICASA held community workshops as part of the outreach programme. The purpose of these workshops is to advise communities about the developments that are taking place in the industry such as liberalisation of the ICT sector and how communities can benefit from these developments. Workshops were held in Umlazi (Durban), Soshanguve (Pretoria), Bloemfontein, Hammanskraal and Sandton (Alexandra and Yeoville communities).

ICASA's responsibilities include the resolution of consumer complaints. Further to the resolution, complaints are analysed for identification of issues facing consumers.

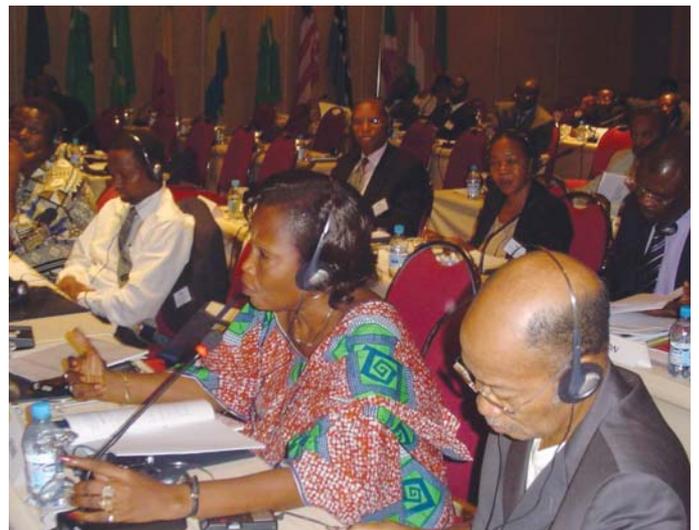
Arising from an analysis of complaints, major consumer issues are identified and public processes instituted for intervention by ICASA. In the year under review, problems encountered with the Asymmetrical Digital Subscriber Line (ADSL) service provided by Telkom were identified for investigation.

ADSL service is a broadband service, providing conversion of a telephone line, by connection of a modem, to provide a super fast Internet connection with the ability to use the telephone, Internet and fax at the same time using the same line.

ICASA investigated the cost of the ADSL service, the introduction of the capping on the service (for both international and local usage), the port prioritisation in favour of some customers and the

failure to guarantee the speed promised. Submissions were invited from the public, and 446 submissions were received. Public processes have been initiated which will culminate in public hearings.

The ICASA Advisory Committee on People with Disabilities formulated a consolidated broadcasting and telecommunications approach to address the needs of people with disabilities. A draft code of good practice on disability issues in the broadcasting and telecommunications sector was distributed for comment by the industry and relevant stakeholders in November 2004.



*RIARC in session.*



## participation in international bodies

### 7. PARTICIPATION IN INTERNATIONAL BODIES

ICASA plays an important role in the development and implementation of Telecommunications Regulators Association of Southern Africa (TRASA's) guidelines and projects. ICASA chairs two of TRASA's specialist committees, namely Numbering and Standards and is a committee member of many of the initiatives of TRASA. ICASA is also serving on the TRASA Executive Committee, as the second vice President, from 2004 to 2005.

The Numbering and Standards Committee, which South Africa co-convenes with Mozambique, presented two documents to the AGM: a draft Terms of Reference for the Numbering Operations Group, and a Report on the Standards discussion document for the SADC region.

During the period under review, ICASA was serving as chair for the African Communications Regulatory Authorities Network (ACRAN/RIARC). The objectives of the Network are:

- To create a platform for African broadcasting regulators to discuss key regulatory issues pertinent to sustaining democracy and development; and
- To position broadcasting as a medium of communication within the relevant ICT programme and address the needs of the African people.

Technical assistance was provided to the Lesotho Telecoms Authority (LTA) on the Lesotho Spectrum Management Project funded by the World Bank. The project involved installing and commissioning the fixed Direction Finding Unit and acquiring a mobile Direction Finding Unit for Lesotho.

The Bloemfontein Regional Office conducts terrestrial interference surveys for the South African national bid for the Square Kilometre Array (SKA) radio telescope project. This project is aimed at developing the largest-to-date radio-astronomy telescope, currently estimated at US\$1,5 billion. South Africa is a strong contender with several sites identified in the Northern Cape and, as the southern hemisphere sites are preferred, competes with Australian sites in the western desert.

ICASA, under the leadership of the Department of Communications, also plays an active role in the programmes of the International Telecommunications Union (ITU). ICASA's involvement in international telecommunications standards setting plays an important role in assisting South Africa to fulfil its obligations under the World Trade Organisation (WTO) Standards Code requirements. ICASA's participation is critical to ensure that technical regulations, standards, testing and certification systems do not create unnecessary obstacles to international trade.

One of the major projects of the ITU for the last three years has been the preparation for the World Summit on the Information Society, in which ICASA submitted an input and fully participated in the Summit's deliberations.

In August 2003, ICASA was approached by Standards South Africa (STANSA), to assist in the facilitation of the National ICT Standards Committee (TC71). ICASA and STANSA participated in the plenary meeting of the JTC1 held in Berlin in October 2004. Also present at the meeting was the International Electrotechnical Commission (IEC) and the International Organisation for Standardisation (ISO).

## stakeholder management

The aim of the meeting was to standardise ICT standards. ICT standards may be used as reference in the regulations pertinent to the ICT, telecommunications and broadcasting sectors.

### 8. STAKEHOLDER MANAGEMENT

ICASA hosted a stakeholder meeting in June 2004 at which it briefed stakeholders about its programme for the year.

ICASA also hosted a colloquium to discuss the September 2004 Ministerial Policy Determinations. The colloquium succeeded in getting industry players to discuss the implications of the further liberalisation of the telecommunications sector, and also in highlighting the regulatory implications for ICASA.

ICASA continues to host international delegations visiting South Africa on fact-finding missions regarding the regulation of telecommunications and broadcasting.

ICASA took part in the following industry exhibitions:

- International Telecommunications Union's Africa Telecom 2004, held in May 2004 in Cairo, Egypt
- Science, Education and Technology Week, held in May 2004 in Ennerdale, Gauteng
- Futurex 2004, held in May 2004 at the Sandton Convention Centre
- World Telecoms Day, held in June 2004 in Mbalenhle, Secunda
- The Sangonet Exhibition in March 2005
- The Royal Agricultural Show
- The Gamalakhe Library Information Stand
- The Edendale Information Library Stand
- Port Elizabeth Harbour festival

- The Nqamakwe Exhibition and the Confimvaba Human Rights day
- Exhibitions were also held in Mguna, Mbashe and Zwelitsha.

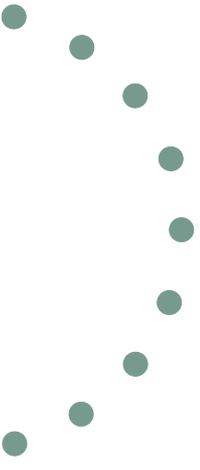
ICASA, through its Council, not only accounts to the South African public by appearing before Parliament and its committees or through the publication of annual reports but also by providing media access to its regulatory activities through interviews with the media.

For the period under review, ICASA's regulatory activities attracted extensive media coverage.

ICASA licenses, develops regulations and makes policy through public participatory and transparent processes. These enable stakeholders and the public in general to input into the work of ICASA.



ICASA 2004 Stakeholder meeting



## corporate governance

### 9. CORPORATE GOVERNANCE

#### Council

Council is appointed by the President of the Republic, in terms of the Independent Communications Authority Act 13 of 2000. The Council plays a strategic leadership, regulatory, adjudicatory and oversight role. The Council holds regular weekly meetings at which it makes decisions on policy, licensing and regulations. All decisions are recorded by means of Council resolutions and minutes.

#### Council Committees

In terms of the Act, Council may establish standing or special committees with a view of assisting it in the effective and efficient exercise of its powers and duties. Such committees must consist of one or more Councillors (of whom one must chair the committee), designated by Council. Council may delegate functions to a committee of Council. The mandate of each committee is defined in a council resolution constituting the committee.

#### Council Code of Conduct

The Code of Conduct for Councillors defines the standards of integrity and conduct that Councillors are expected to maintain. It codifies information on the environment within which ICASA operations are to be conducted, including constitutional and legislative principles. The code promotes constant commitment to the highest standards of collective and individual independence, impartiality, dignity and effectiveness.

#### Executive Management Committee

The executive comprises the Chief Executive Officer, the Chief Financial Officer, and the General Managers of the business units. The Executive Management is responsible for managerial, administrative and operational matters. The Executive Management presents recommendations to Council on policy and regulatory matters.

#### Internal Audit

Internal Audit's primary purpose is to provide its stakeholders with assurance regarding the adequacy and effectiveness of ICASA's control systems and where appropriate, the quality of performance of its business operations as evaluated against agreed performance standards. The Internal Audit function is in-house and operates in terms of an approved audit plan focusing on risks identified during the enterprise-wide risk assessment process. It also fulfils its mandate in accordance with an approved Charter, which was updated in November 2004.

A fraud hotline has also been in operation since the 2003/2004 financial year.

#### Risk Management Committee

A risk management committee was established during the period under review to identify and to mitigate risks facing ICASA. The committee approved the Fraud Prevention Plan and has made progress in establishing risk management policies and procedures thereby ensuring that adequate systems are being applied to achieve compliance with those policies and procedures.

### Tender Committee

ICASA's Tender Committee is established in terms of section 76(4) of the Public Finance Management Act (PFMA). It is the function of the Tender Committee to consider bids for the purchase of goods and services, or the sale of ICASA's movable property to the best advantage of the organisation. It further makes recommendations to ICASA's Council on procurement decisions. All analysis, assessments and evaluations of submissions by the Tender Committee are underpinned by the Public Finance Management Act ("the PFMA"), the Preferential Procurement Policy Framework Act of 2000 ("PPPF Act") and the Preferential Procurement Regulations of 2001.

During the year under review the committee recommended a number of tenders for Council approval totalling R9 017 228,00.

### 10. ICASA AND ITS PEOPLE

As at the end of March 2005, ICASA had a total of 283 permanent employees and five temporary, six interns and three short-term contract employees. The year under review was focused on finalising staffing issues pertaining to the merger of SATRA and the IBA into ICASA. The major challenge was that of addressing salary disparities. Equally pressing is the ability to retain key employees from being 'poached' by the industry whilst striving to enhance gender and race representation in the engineering and technology division.

The percentage of staff turnover for the year under review was 8,12%, compared to 6,98% in the previous year. ICASA therefore continues to face a challenge of retaining skilled staff due to its low salary levels relative to the industry it regulates. However,

vigorous efforts at retaining and developing quality staff through appropriate rewards such as performance bonuses and parity in salaries have started to pay off.

**Table 1: ICASA's demographic profile as at 31 March 2005**

Population group	Total	% in each group		Variance
		March 2005	March 2004	
African	170	60,0	55,9	4,1
Asian	18	6,4	6,6	(0,2)
Coloured	23	8,1	9,2	(1,1)
White	72	25,5	28,3	(2,8)
<b>Grand total</b>	<b>283</b>	<b>100,0</b>	<b>100,0</b>	



*ICASA staff during Aids Awareness Day*



## ICASA and its people

The above statistics are presented graphically in Figure 2 below, in which the 4% upward shift in African representation can be noted, against the 4.1% downward trend of the other population groups.

**Figure 1**

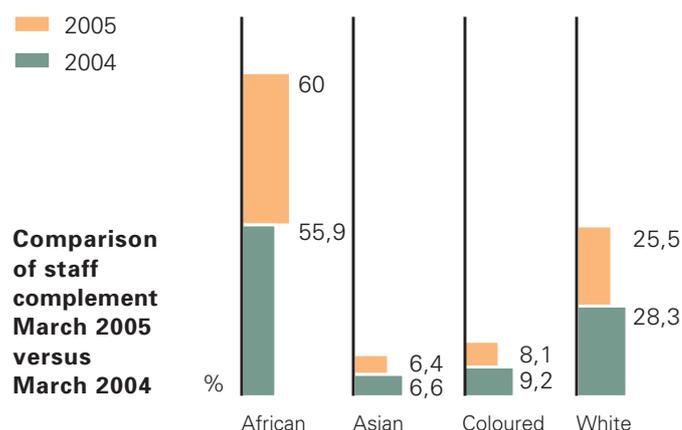


Figure 1: Comparison of staff complement March 2005 versus March 2004



ICASA staff during Employee Wellness Day

**Table 2: ICASA's racial demographics**

Branch	African	Asian	Coloured	White	Total
Broadcasting	24	0	3	4	31
CEO's office	1	1	0	0	2
Council	5	1	0	1	7
Council Aides & Support	10	2	5	2	19
Engineering & Technology	53	8	9	51	121
OFBS	42	2	4	10	58
Internal Audit	3	1	1	0	5
Legal, Communications & Consumer Support	19	2	1	0	22
Telecommunications	13	2	0	2	17
<b>Grand total</b>	<b>170</b>	<b>19</b>	<b>23</b>	<b>70</b>	<b>282</b>

From the above, it is clear that under-representation of the targeted groups is evident in the Engineering and Technology division. This is an area which has remained historically white-male dominated, and the availability of appropriately qualified and experienced previously disadvantaged individuals remains a challenge. ICASA is actively recruiting previously disadvantaged individuals into this technologically oriented division and has also embarked on training in this field.

**Table 3: Comparative gender status by division as at March 2005**

Division				% Female		Variance
	Female	Male	Total	2005	2004	
Broadcasting	18	13	31	58,0	60,0	(2)
CEO's office	2	0	2	100	100	0
Council and Aides	17	9	26	65,4	67,8	(2,4)
Engineering & Technology	34	88	122	27,9	29,2	(1,3)
OFBS	33	25	58	56,9	57,1	(0,2)
Internal Audit	3	2	5	60	-	60
Legal, Communications & Consumer Support	11	11	22	50	64,7	(14,7)
Telecommunications	9	8	17	52,9	43,7	9,2
<b>Grand total</b>	<b>127</b>	<b>156</b>	<b>283</b>	<b>44,8</b>	<b>44,9</b>	<b>(0,0)</b>

Gender representation is at 44,8%, constituting a slight decline from last year's figure of 44,9%. The Engineering and Technology division, once again, reflects skewed gender representation that needs urgent attention.

**Figure 2**

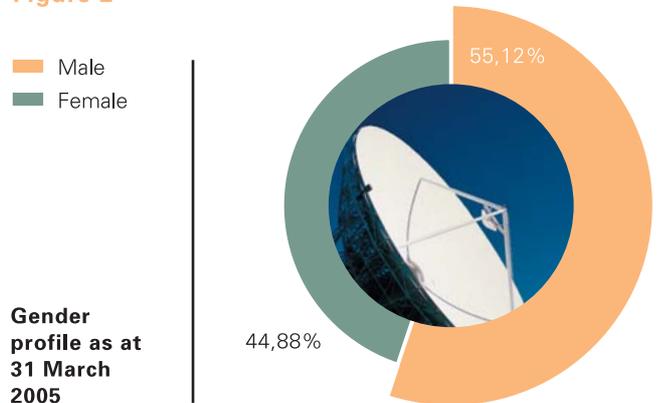


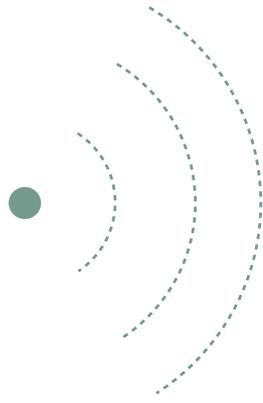
Figure 2: Gender profile as at 31 March 2005

### Recruitment and Selection

For the period under review, Human Resource Management and Development concluded the restructuring process by confirming 17 employees to positions. Four positions remain unconfirmed whilst two employees chose voluntary retrenchment packages. This process followed the conclusion of competency assessments for employees that were affected by the restructuring process. Due to the high turnover rate of employees, recruitment and selection remains an ongoing process.

### Employee Training and Development

ICASA recognises the importance of a skilled workforce, and therefore employee training and development, in contributing to the ICASA mandate. A total of 4,47% of payroll costs was spent on training and development. ICASA's ongoing focus has been on the development of soft skills as well as technical training in the Engineering and Technology division. Bursaries continued to be issued to employees to improve their skills and qualification levels.



## ICASA and its people continued

### Salary Discrepancies

One of the results of the merger of IBA and SATRA was the discrepancies in salary levels of staff. Three (3) salary structures existed – two (2) inherited from the IBA and SATRA and a third newly developed as a result of the creation of ICASA. Huge salary differences existed across the organisation for staff with similar skills, levels of responsibility and rank in the organisation. During the period under review, consultative and comprehensive job evaluation processes were conducted within ICASA to address salary inconsistencies. A new salary structure was proposed and implemented. Staff members whose salary and benefits were on par or above the proposed level were not affected by the new proposed structure, while those who were below were brought to the new levels. Furthermore, work under way includes implementing a skills audit for all positions and job descriptions.

### Performance Management System

In an effort to instill a performance culture, ICASA introduced an interim Performance Management System for the first time in its history. A Performance Management System is an important tool for identifying, developing and rewarding staff for outstanding performance. All employees signed a Performance Agreement based on Key Performance Indicators identified for each staff member.

To ensure consistency in employee appraisal across the organisation, a standardised Performance Appraisal System and framework was adopted and implemented. As this was an interim system introduced in the middle of the financial year, assessments were carried out for the last two quarters, namely end of December 2004 and end of March 2005. The results of the

assessments of performance were used to determine and reward performance, and bonuses were paid out to staff who delivered outstanding performance.

### Employee Wellness Programme

During the year under review, ICASA launched and implemented an employee wellness programme. The programme is aimed at providing a caring environment, and assisting employees to deal with both work related and personal challenges. ICASA recognises that one's entire wellbeing has a bearing on one's ability to perform in the work place. A service provider was contracted to provide counselling services at all hours.

The HIV/Aids scourge affects us all as individuals and employers. To that extent, ICASA launched an HIV/Aids programme as part of its Employee Wellness Programme. The main highlight was the



ICASA Family Day

month long initiative for the month of November which culminated in the ICASA HIV/Aids Day on 01 December 2004. The month long initiative raised awareness among staff on reducing and mitigating the devastating effects of this dreaded disease, and also to reach out to those infected and affected by HIV/Aids. ICASA collected and donated clothing and food to two orphanages and charity organisations: the Carl Sithole Centre (Salvation Army) in Soweto, and the Itirele High School in Diepsloot.

In addition, as part of our initiatives to give back to our communities, ICASA staff members adopted 2 (two) families that have been affected by HIV/Aids. Various staff members signed a pledge providing monthly financial support to the 2 (two) child headed families: the Makuka family in Soweto, and the Morobi family in Diepsloot.

In the year under review ICASA hosted the following internal events for employees:

- Family Day
- Take A Girl Child To Work
- Awarding of Long-Service awards to staff
- FNB/Radio 702 Walk The Talk
- Women's Day
- Heritage Day
- World Aids Day.



*ICASA Aids Awareness Day*



## litigation annexure

The following is a list of litigation matters dealt with by the Legal Department during the year under review:

### **Len Marshall v ICASA**

On 30 October 2003 summons was issued against ICASA by Len Marshall for the recovery of R95 982,00 on the basis that he was overcharged for licence fees. ICASA instructed a firm of attorneys to defend the matter. An exception has been noted in court against the Plaintiff's summons as it does not disclose a cause of action.

### **South African Jewish Board of Deputies v ICASA and Others**

The South African Jewish Board of Deputies launched an application to review and set aside the decision of the acting Chairperson of the BMCC not to hold a formal hearing on a complaint it lodged against the Islamic Unity Convention, broadcasting as Radio 786. ICASA, together with the acting Chairperson of the BMCC, decided not to oppose the matter. The court held that the acting Chairperson of the BMCC had erred in refusing to convene a formal hearing and referred the matter back to the BMCC for a formal hearing. The Islamic Unity Convention [Radio 786] launched an application for leave to appeal against the decision of the court. The application for leave to appeal was dismissed. The Islamic Unity Convention then petitioned the Chief Justice to appeal to the Supreme Court of Appeal (SCA), which was also dismissed.

The Islamic Unity Convention then approached the Constitutional Court with an application to appeal against the decision of the SCA, which was also refused.

The preparations for the hearing into the complaint have commenced and the hearing is scheduled to take place shortly.

### **Otherchoice v ICASA**

Otherchoice (trading as Don't Panic TV) approached the court for a declaratory order to the effect that it is not required to hold a broadcasting licence as required in terms of sections 32 and 39 of the IBA Act. Subsequent to this, Multichoice made an application to join the proceedings due to the fact that it had an interest in the matter. Multichoice has filed its answering papers and Otherchoice is yet to file its replying papers.

### **Good News Community Radio v ICASA**

Good News Community Radio launched an application at the Durban High Court to review and set aside ICASA's decision to refuse it a four-year community sound broadcasting licence, and for granting same to Izwi-Lomzansi (another four-year licence applicant in the KwaZulu-Natal province). The court dismissed the application with costs on the basis that ICASA had complied with the necessary procedure set out in the IBA Act. Good News was subsequently granted leave to appeal against the decision to the full bench of the Natal Provincial Division of the High Court.

### **Radio Pretoria v ICASA**

During 2001 Radio Pretoria launched an application to review and set aside ICASA's decision to refuse the granting of a one-year temporary sound broadcasting licence at the Transvaal Provincial Division, Pretoria. The application was dismissed with costs but Radio Pretoria was granted leave to appeal to the Supreme Court of Appeal in Bloemfontein. The application was also dismissed with costs.

Radio Pretoria then petitioned the Constitutional Court for leave to appeal against the decision of the Supreme Court of Appeal. This application was also dismissed.

#### **Radio Pretoria v ICASA (Urgent applications for permission to remain broadcasting pending the finalisation of the review into the four community sound broadcasting licence refusal)**

Radio Pretoria launched an urgent application for an interdict permitting it to continue broadcasting until the finalisation of its intended review application on the Authority's refusal of a four-year community sound broadcasting licence. The court granted the application which effectively allowed Radio Pretoria to continue broadcasting pending the finalisation of the review in this regard. The review application is discussed below.

#### **Nothnagel v ICASA and RAF**

A spouse to a former employee of ICASA instituted a claim against the Road Accident Fund (RAF) for loss of support in respect of her husband who died as a result of a motor vehicle accident while conducting official ICASA business. The RAF has served ICASA with a third party notice which in effect joins ICASA to the proceedings as defendants. The matter has been referred to ICASA's insurers at the time of the accident who have since entered an appearance to defend the matter.

#### **Buthelezi and Dibakwane v ICASA**

The Applicants referred a matter to the Commission for Conciliation, Mediation and Arbitration (CCMA) against ICASA on

the basis that ICASA effected unilateral changes in their job descriptions due to unilateral restructuring (that was necessitated by the merger between the former SATRA and the IBA) and that this was tantamount to an unfair act or omission involving demotion.

After negotiations, the parties agreed on a settlement which resulted in the employees taking voluntary severance packages.

#### **Vilakazi Tau Attorneys v ICASA**

ICASA engaged the services of Vilakazi Tau Attorneys as consultants and there was subsequently a dispute over the quality of work. This resulted in the consultant issuing summons against ICASA for payment of monies for professional services rendered. After negotiations, the parties agreed to settle the matter out of court.

#### **Muslim Community Broadcast Trust (MCBT) v ICASA**

MCBT instituted review proceedings against ICASA's decision to refuse the granting of a four-year community sound broadcasting licence which was granted to RAU Radio. ICASA has served and filed its opposition papers and is awaiting replying affidavits from MCBT.

#### **IFM 102.2 v ICASA**

IFM instituted review proceedings against ICASA's decision to refuse IFM a four-year community sound broadcasting. The parties have filed the necessary court papers and are awaiting the allocation of a court date for the matter to be argued.



## **litigation annexure** continued

### **Radio Rippel v ICASA**

Radio Rippel instituted review proceedings against ICASA's decision to refuse Radio Rippel a four-year community sound broadcasting licence. The parties are finalising the relevant affidavits to be filed in court.

### **Vaal Community Radio (VCR) v ICASA**

VCR instituted review proceedings against ICASA's decision to refuse VCR a four-year community sound broadcasting licence. The parties are finalising the relevant affidavits to be filed in court.

### **Radio Pretoria (RP) v ICASA**

Radio Pretoria instituted review proceedings against ICASA's decision to refuse Radio Pretoria a four-year community sound broadcasting licence. The parties have filed the necessary affidavits and the matter has been set down for 2 June 2005 at the Transvaal Provincial Division.

### **Impact Radio v ICASA**

Impact Radio instituted review proceedings against ICASA's decision to refuse the granting of a four-year community sound broadcasting licence which was granted to Mams Community Radio. The parties are finalising the relevant affidavits to be filed in court.

### **Telkom SA Limited v AT&T, ICASA and IBM (Main Application)**

The matter was set down for 13 September 2004 and by agreement between the parties was postponed. Telkom withdrew its application and the relief it sought against IBM.

### **Telkom SA Limited v AT&T, ICASA and IBM (Interlocutory Application)**

Telkom brought an application for certain confidential documents which were erroneously made available to it, to form part of the record in the above-mentioned main application and for leave to supplement its papers on the basis of the confidential documents. The court dismissed Telkom's application with costs.

### **Telkom SA Limited v Nedtel Cellular (Pty) Limited and 12 Others "Least Cost Routing/Premicells"**

The appeal by Telkom against the decision of the Transvaal Provincial Division that ruled in favour of the use of least cost routing systems was set down before the Supreme Court of Appeal. On the eve of the appeal hearing Telkom withdrew its appeal.

### **Nexus (Pty) Limited v Minister of Communication and Others**

The matter came before court on 28 September 2004 and an agreement between the parties was made an order of court to the effect that the Minister will not implement her decision of 26 August 2004 in any way whatsoever pending negotiations. The review application into the matter has since been withdrawn and the parties constituting the Second National Operator are currently in discussions with the Authority regarding the granting of a public switched telecommunications service licence.

### **Optis Communications (Pty) Limited v Minister of Communications and Others**

On 16 September 2004, the Applicant brought an urgent application against the Minister of Communications and six others prohibiting the Minister, pending the outcome of the application, from approving the granting of a licence to the Second National Operator or any of the respondents, and that ICASA be interdicted from recommending the granting of a licence in the Second National Operator to any of the respondents. The court dismissed the application on the basis that the Applicant did not have sufficient interest in the matter.

### **Aerosat CC vs. ICASA and Two Others**

The matter came before court for argument on 14 October 2004. After hearing arguments from the respective Senior Counsel, the court reserved judgment. ICASA is still awaiting judgment.

### **S v Lynette Dicks**

A former employee of ICASA was found guilty of fraud and sentenced to a fine of R6 000 or 12 months' imprisonment suspended for three years.

### **AMT Trading 109 BK v ICASA**

The Applicant launched an application to compel the authority to issue 1 000 labels to affix to Samsung Model E700 cell phones. The cell phone in question had already been type-approved by ICASA in favour of Samsung South Africa. The parties agreed to hold the matter in abeyance pending the Applicant furnishing ICASA with an electro-magnetic report, safety report and radio frequency report. The Applicant has not provided this information and has been put on terms to comply or withdraw its application.

### **Telkom SA Limited v Competition Commission**

This is a review application instituted by Telkom against the Competition Commission. ICASA is not party thereto. The matter relates to a complaint lodged by SAVA (South African VANS Association) in terms of the Competition Act. It is Telkom's contention that the Commission has no jurisdiction to entertain the complaint as the subject matter relates to telecommunications services. The Commission believes that it has concurrent jurisdiction to entertain the complaint. The Commission approached ICASA to join the proceedings by way of filing an affidavit to counter Telkom's allegations. The Commission was requested to identify the areas which it seeks ICASA to deal with and such indication is awaited.

### **T. Tsotetsi v ICASA**

The matter was set down for argument on 11 March 2005 and ICASA's review application was dismissed with costs by the Labour Court. A request for the full text of the judgment has been made to the Labour Court to enable ICASA to study the text and take a decision on the future conduct of the matter.

### **Startrack Communications Africa (Pty) Limited vs. ICASA**

In 2001 ICASA received an application for a frequency licence from Startrack which was subsequently refused. Startrack then launched an urgent application for interim relief permitting Startrack to use the radio frequencies 1525 to 1559 MHz and 1626.5 to 1660.5 MHz pending the final determination. The application for interim relief was not opposed by ICASA. The main application, however, was and is still being opposed. Negotiations between the parties were initiated and it was agreed between the



## **litigation annexure** **continued**

parties that the Applicant should apply for a value-added network service licence; for type approval of its MT 2000 mobile satellite data gathering system terminal; and for spectrum, and make use of satellite space segment. Startrack has applied for the necessary licences. The type approval in respect of its MT2000 mobile satellite data gathering system terminal has been granted. The other two applications are still pending.

### **Tetramobile Radio (PTY) Limited v ICASA**

Tetramobile brought an urgent application at the Pietermaritzburg High Court for an order interdicting and restraining ICASA from seizing its equipment due to its alleged failure to pay outstanding licence fees amounting to R1,3 million. ICASA opposed the matter. However, it entered into negotiations with Tetramobile as a consequence of which Tetramobile agreed to pay an amount of R801 336 as part-payment towards licence fees. Negotiations on the remaining issues will be discussed before the balance is paid.

### **MTN v ICASA and Cell C**

MTN launched a review application against ICASA's decision to approve Cell C's rollout plans regarding community service telephones in urban areas. Cell C has raised an exception against the review application. ICASA, in the meantime, is exploring a possible settlement of the matter between the parties.

### **Cell C v MTN**

Cell C has instituted a court action against MTN for an order declaring that a call which originates from a community service telephone installed by Cell C in an under-serviced area (as set out in its community service rollout plan) constitutes a community service call for the purposes of an interconnection agreement concluded between Cell C and MTN. Though ICASA is cited as a Second Respondent in the matter, there is no relief sought against it.

## executive management



**JACKIE MANCHE**  
Chief Executive Officer

**WOJTEK SKOWRONSKI**  
(GM – Engineering & Technology)



**ERIC NHLAPO**  
(GM – Broadcasting)



**PETER HLAPOLOSA**  
(GM – Telecommunications)



**BRIDGET MOHLALA**  
(Chief Financial Officer)



**JAYSHREE NAIDOO**  
(GM – Legal, Communications,  
Customer Protection & Council  
Support)





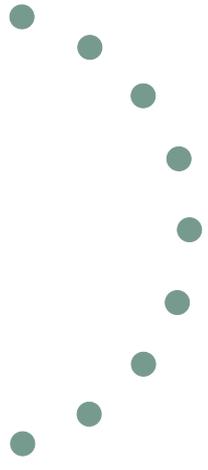
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The annual financial statements were submitted for audit on 29 July 2005 and have been signed by Ms JB Manche in her capacity as Chief Executive Officer.

The supplementary schedule set out on page 76 does not form part of the annual financial statements and is presented as additional information.

JB MANCHE  
Chief Executive Officer



## Statement of Responsibility for the year ended 31 March 2005

The Chief Executive Officer, in her capacity as accounting officer, under the direction and control of Council is responsible for the preparation and integrity of the annual financial statements and related information included in this annual report.

In order for the Council to discharge its responsibilities, management has developed and continues to maintain a system of internal control for which the Council has ultimate responsibility. The Council reviews its operations primarily through internal audit activities and various other risk-monitoring committees.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the entity's policies and procedures. Trained, skilled personnel with an appropriate segregation of duties implement these controls. They are monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate control framework.

To review the system of internal control, an internal audit function has been set up that conducts operational, financial and specific audits and co-ordinates audit coverage with the Auditor-General. The Auditor-General is responsible for reporting on the annual financial statements.

The annual financial statements are prepared in accordance with Generally Accepted Accounting Practice and incorporate responsible disclosure in line with the accounting philosophy of the entity.

The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Council believe that the entity will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the annual financial statements.

The annual financial statements for the year ended 31 March 2005, set out on pages 56 to 76, have been approved by the Council and are signed on its behalf by:

**JB MANCHE**

Chief Executive Officer

29 July 2005

# Corporate Governance Report

## for the year ended 31 March 2005

### CORPORATE GOVERNANCE STATEMENT

The Independent Communications Authority of South Africa ("ICASA") confirms its commitment to the principle of openness, integrity and accountability as advocated in the King II Code on Corporate Governance. Through this process, Parliament and other stakeholders may derive assurance that the entity is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. Monitoring the entity's compliance with the King Code on Corporate Governance forms part of the mandate of the entity's audit committee. The entity has complied with the code in all material respects during the year.

### ROLES AND RESPONSIBILITY OF THE COUNCIL

The Council has ultimate responsibility for the management and strategic direction of the entity, as well as for attending to legislative, regulatory and best practice requirements.

Accountability to Parliament remains paramount in Council's decisions.

To assist the Council in discharging its collective responsibility for corporate governance, several committees have been established to which certain of the Council's responsibilities have been delegated. These committees operate with written terms of reference and comprise, in the main, councillors and management. The chairman of each committee is a Council member.

### AUDIT COMMITTEE

The role of the Audit Committee is to assist the Council by performing an objective and independent review of the functioning of the entity's finance and accounting control mechanisms. It exercises its function through close liaison and communication with management, the internal audit department and the Auditor-General. The committee has met four times since its 2004 report (dated: 28 July 2004).

The Audit Committee operates in accordance with a written charter authorised by the Council and provides assistance to the Council with regard to:

- ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- matters relating to financial accounting, accounting policies, reporting and disclosure;
- activities, scope, adequacy, and effectiveness of the internal audit function and audit plans; and
- review and approval of the Auditor-General audit plans, findings and fees.

### Internal audit

The entity's Internal Audit Department has specific mandate from the Audit Committee and independently appraises the adequacy and the effectiveness of the entity's systems, internal controls, and accounting records, reporting its findings to management and the Auditor-General, as well as the Audit Committee.



## **Corporate Governance Report** **for the year ended 31 March 2005** **continued**

The risk audit manager as head of the Internal Audit Department has direct access to the chairman of the Council.

Internal audit's coverage plan is based on risk assessments performed and is updated annually. This ensures that the audit coverage is focused on and identifies areas of high risk.

### **ACCOUNTING AND AUDITING**

The Council places strong emphasis on achieving the highest level of financial management, accounting and reporting to Parliament. The Council is committed to compliance with statements of Generally Accepted Accounting Practice.

It is the Council's responsibility to prepare annual financial statements that fairly present:

- the state of affairs as at the end of the financial year under review;
- operating results for the year; and
- cash flow for the year.

# Report of the Audit Committee

## for the year ended 31 March 2005

**GRAHAM ROSENTHAL**  
Chairperson – Audit Committee

### INTRODUCTION

The Audit Committee has pleasure in presenting to Parliament its report for the financial year ended 31 March 2005 as required by the Treasury Regulations issued in terms of the Public Finance Management Act, Act 1 of 1999 (as amended) (PFMA).

### AUDIT COMMITTEE MEMBERS AND ATTENDANCE

In accordance with its charter, the Audit Committee has met four times since its 2004 report (dated: 27 July 2004). The membership and attendance at those meetings was as follows:

<b>Member</b>	<b>Meetings attended</b>
Graham Rosenthal (Chairperson)	4
Ismail Mamoojee (External Member)	2
Portia Nobanda (External Member) (resigned 31 December 2004)	–
Lily Zondo (External Member)	4
Jacqueline Huntley (External Member) (appointed 1 July 2005)	1
Mandla Langa (Chairperson of ICASA) (term ended 30 June 2005)	3
Paris Mashile (Chairperson of ICASA) (appointed 1 July 2005)	1
Nadia Bulbulia (Councillor of ICASA)	3
Jackie Manche (CEO of ICASA)	3

### AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee has:

- complied with its responsibilities and obligations as set out in section 38(1)(a) of the PFMA and Treasury Regulation 3.1.13; and
- complied with and discharged all its responsibilities according to the Audit Committee charter, which regulates its formal terms of reference.

### THE EFFECTIVENESS OF INTERNAL CONTROL

As evidenced by the emphasis of matters paragraph in the Auditor-General's report on the annual financial statements, internal audit reports and the management letter of the Auditor-General, the Audit Committee concurs that there is a need for improvement in certain internal controls as well as compliance with prescribed policies and procedures and regulations.

The executive management of ICASA, with the assistance of the Internal Audit Department, have undertaken as a priority to devote concerted effort and time in the year ahead to improving and implementing internal controls and related policies and procedures as well as compliance with regulations. The Audit Committee will closely monitor this process.



## Report of the Audit Committee for the year ended 31 March 2005 continued

### EVALUATION OF FINANCIAL STATEMENTS

The Audit Committee has reviewed:

- the audited annual financial statements and discussed them with the Auditor-General and the CEO (in her capacity as accounting officer);
- the Auditor-General's management letter and related management responses; and
- the accounting policies and practices.

There were no significant adjustments resulting from the audit.

The Audit Committee is satisfied that the annual financial statements comply in all material respects with Generally Accepted Accounting Practice.

The Audit Committee concurs and accepts the conclusion of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.

**GRAHAM  
ROSENTHAL**

Chairperson  
Audit Committee  
29 July 2005

# Report of the Auditor-General to Parliament on the Financial Statements of the Independent Communications Authority of South Africa (ICASA) for the year ended 31 March 2005

**I VANKER**  
**for Auditor-General**

## 1. Audit Assignment

The financial statements as set out on pages 56 to 75 for the year ended 31 March 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 16(1)(b)(iii) of the Independent Communications Authority of South Africa Act, 2000 (Act No. 13 of 2000). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

## 2. Nature and Scope

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

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

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material

respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

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

## 3. Audit Opinion

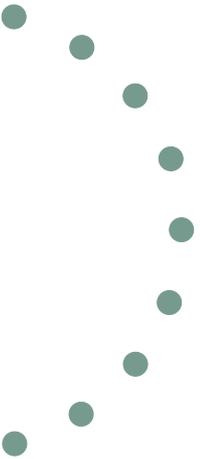
In my opinion the financial statements fairly present, in all material respects, the financial position of the Independent Communications Authority of South Africa at 31 March 2005 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) as amended (PFMA).

## 4. Emphasis of Matter

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

### 4.1 Non-compliance with laws and regulations

- 4.1.1 Section 76(4)(c) of the PFMA and Treasury Regulations (TR)16A regarding supply chain management have not been fully complied with.
- 4.1.2 National Treasury practice notes in connection with supply chain management have not been fully complied with.



## Report of the Auditor-General for the year ended 31 March 2005 continued

4.1.3 Numerous weaknesses were identified in the tender process.

4.1.4 Contrary to section 38(a)(i) of the PFMA, policies and procedures in respect of accounts payable, bank and cash and fixed assets had not been implemented during the year. These have been approved subsequent to the year end. Furthermore, policies for administered revenue (receivables and payables) as well as budgeting did not exist.

4.1.5 Contrary to the VAT Act, certain VAT payments to the South African Revenue Services (SARS) were made late. Arising from the historical incorrect treatment of VAT, management and SARS have recomputed and agreed the VAT commitment as at 31 March 2005.

4.1.6 Contrary to TR15.12.3 regarding electronic payments, ICASA issued a significant number of cheques exceeding R2 000.

4.1.7 The ICASA Act, and delegation of authority were contravened as some cheques were signed by only one person.

4.1.8 As disclosed in the annual financial statements, certain payments to the National Revenue Fund (NRF) were not made within the 30 days prescribed by the ICASA Act.

4.1.9 TR12.1.2 regarding the limit on insurance premiums was exceeded, resulting in possible irregular expenditure.

### **4.2 Capital commitments**

The valuation of commitments to the amount of R20 437 529 included in the amount as approved and not yet contracted disclosed in note 17, could not be verified.

### **4.3 Provision for leave pay**

We noted that certain employees carried excessive leave balances exceeding 100 days. This has arisen from the former SATRA and IBA. ICASA is currently formulating a policy to address this.

### **4.4 Adequacy of insurance**

It appears that ICASA may be over-insured. ICASA was insured for R172 698 866 relating to fixed assets, whilst the net book value of fixed assets disclosed in the financial statements was R15 121 190. The assets disclosed in the renewal review of the insurance policy did not agree with the fixed assets register.

### **4.5 Fixed asset register**

Various asset listings exist within the JD Edwards system, the MR System and the manual list. We noted inconsistencies between these listings and certain deficiencies in respect of accuracy.

### **4.6 Leasehold improvements**

Leasehold improvements to the value of approximately R360 272 have been expensed but should have been capitalised, as prescribed by Generally Accepted Accounting Practice (GAAP).

#### 4.7 Administered revenue

4.7.1 ICASA is responsible for the administration and collection of fees due on behalf of the National Revenue Fund (NRF). The annual financial statements as presented only reflect cash collected and the related NRF creditor. Accountability and disclosure will be enhanced through the preparation of separate NRF-related financial statements.

4.7.2 Disputes exist between ICASA and two broadcasters. Arising from this, ICASA has experienced difficulty in collecting long outstanding debtors of approximately R34,3 million at year end, which are not reflected on the balance sheet (refer to note 4.7.1.) Furthermore these disputes have also given rise to delays in the billing of licence fees.

4.7.3 The frequency spectrum licence accounting system (LS System) is not integrated into the JD Edwards system. This gives rise to problems with collection, accounting for revenue and the enforcement of licence terms.

4.7.4 Variances were identified between the trial balance and the general ledger for Company 21 – Telecommunications.

#### 4.8 Information systems audit of the general controls surrounding the information technology environment

The audit indicated that although some controls were in place, the following weaknesses existed in the general control environment:

- Policies were not in place for the monitoring of the activities of consultants.
- Due to a lack of formalised change control procedures, controls over programme changes were inadequate.

- Disaster Recovery Plans and Business Continuity Plans were not tested.
- Service level agreements were not entered into by ICASA and service providers to clarify the respective parties' responsibilities.
- Programmers had access to the production environment.
- A number of critical security parameter settings on the Novell server were not adequately set to provide optimal protection.
- A System Development Life Cycle framework did not exist.
- Various access control, segregation and security weaknesses were identified in the JD Edwards application.

Weaknesses pertaining to change control, password and logical access controls on the operating system and user account management raised concerns regarding the integrity of the data.

#### 5. Appreciation

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



AUDITOR-GENERAL

I VANKER

for Auditor-General

Johannesburg

31 July 2005



## Accounting Officer's Report for the year ended 31 March 2005

I have pleasure in presenting to Parliament the Independent Communications Authority of South Africa's ("ICASA") fifth annual report. The report covers the period 1 April 2004 to 31 March 2005. As required by section 16(1)(b)(i) of the ICASA Act, 2000, the Authority has prepared a detailed annual report of the activities during the year.

### BACKGROUND

ICASA is the regulator of telecommunications and the broadcasting sectors. It was established in July 2000 in terms of the Independent Communications Authority of South Africa Act No.13 of 2000. It took over the functions of two previous regulators, the South African Telecommunications Regulatory Authority (SATRA) and the Independent Broadcasting Authority (IBA). The two bodies were merged into ICASA to facilitate effective and seamless regulation of telecommunications and broadcasting and to accommodate the convergence of technologies.

ICASA's key functions are to:

- make regulations and policies that govern broadcasting and telecommunications;
- issue licences to providers of telecommunications services and broadcasters;
- monitor the environment and enforce compliance with rules, regulations and policies;
- hear and decide on disputes and complaints brought by industry or members of the public against licensees; and
- plan, control and manage the frequency spectrum and protect consumers from unfair business practices, poor quality services and harmful or inferior products.

### APPLICABLE LEGISLATION

ICASA derives its mandate from four statutes. These are the ICASA Act of 2000, The Independent Broadcasting Act of 1993, the Broadcasting Act of 1999 and the Telecommunications Authority Act No. 103 of 1996.

### GENERAL REVIEW OF THE STATE OF FINANCIAL AFFAIRS

The Authority has prepared annual financial statements in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) as amended.

The Authority's income comprises government grants appropriated by Parliament and interest income earned on cash balances. The government grants received increased from R138 million in the 2004 financial year to R187 million in the year under review. The increase is mainly attributable to additional funds being received to settle the Authority's value-added tax liability.

During the year National Treasury issued a Circular whereby the Authority was granted permission to retain interest earned on favourable bank account balances. As a result R14,4 million has been recognised as interest income.

In terms of section 15(3) of the Independent Communications Authority Act no. 13 of 2000, the Authority is required to pay all fees received and held on their behalf to the National Revenue Fund. The Authority held an amount of R27 million at year end which represents amounts due to the National Revenue Fund.

The financial position and results of operations are fully dealt with in the annual financial statements on pages 56 to 75.

### **COUNCILLORS' AND EXECUTIVE MANAGEMENT'S REMUNERATION**

Details of Councillors and executive management's remuneration are set out in note 16 to the annual financial statements.

### **EVENTS AFTER THE REPORTING DATE**

Due to various amendments to the VAT Act, notice was given that the Authority's VAT registration would be cancelled with effect from 1 April 2005. Therefore future activities and resulting transactions will be accounted for excluding any VAT effect. This represents a non-adjusting event after year end.

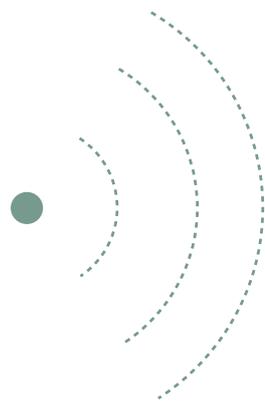
### **BUSINESS ADDRESS**

*Physical address:*

Pinmill Farm  
164 Katherine Street  
Sandton

*Postal address:*

Private Bag X10002  
Sandton  
2146



## Income Statement

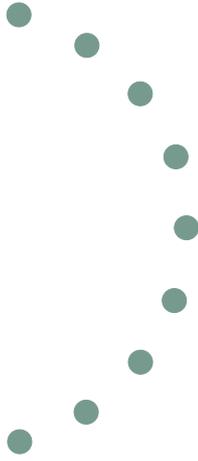
for the year ended 31 March 2005

	Notes	2004/2005 R	2003/2004 R
Government grants	2	<b>128 633 740</b>	123 954 190
Total grants appropriated		<b>186 927 833</b>	138 350 000
Additional grant for VAT funding		<b>(45 341 000)</b>	(7 204 000)
Income deferred – government grants		<b>(12 953 093)</b>	(7 191 810)
Other operating income	3	<b>50 886</b>	–
Total revenue		<b>128 684 626</b>	123 954 190
Operating expenses	3	<b>(144 800 191)</b>	(112 272 260)
(Deficit)/surplus from operations		<b>(16 115 565)</b>	11 681 930
Fruitless and wasteful expenditure	4	<b>4 132 814</b>	(4 676 859)
Irregular expenditure	4	<b>(570 081)</b>	–
Interest income	5	<b>14 486 995</b>	–
Net operating surplus		<b>1 934 163</b>	7 005 071

## Balance Sheet

as at 31 March 2005

	Notes	31 March 2005 R	31 March 2004 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	15 121 190	14 404 067
<b>Current assets</b>			
Other receivables	7	11 479 439	13 039 840
Prepayments		1 854 787	1 819 314
National Revenue Fund administered assets	8	27 021 839	32 345 695
Cash and cash equivalents	9, 15	74 450 945	53 266 281
<b>Total assets</b>		<b>129 928 200</b>	114 875 197
<b>EQUITY AND LIABILITIES</b>			
<b>Reserves</b>			
Accumulated deficit		(22 517 271)	(24 451 434)
Start-up fund		33 731 342	33 731 342
<b>Current liabilities</b>			
Trade payables	10	29 730 960	24 492 968
Provisions	11	11 640 140	10 518 168
National Revenue Fund creditor	12	27 021 839	33 216 056
Deferred income – government grants	13	50 321 190	37 368 097
<b>Total equity and liabilities</b>		<b>129 928 200</b>	114 875 197



## Statement of Changes in Equity for the year ended 31 March 2005

	Accumulated deficit R	Start-up fund R	Total R
<b>Balance at 1 April 2003</b>	(31 456 505)	33 731 342	2 274 837
Surplus for the year	7 005 071	–	7 005 071
<b>Balance at 31 March 2004</b>	(24 451 434)	33 731 342	9 279 908
Surplus for the year	1 934 163	–	1 934 163
<b>Balance at 31 March 2005</b>	<b>(22 517 271)</b>	<b>33 731 342</b>	<b>11 214 071</b>

## Cash Flow Statement

for the year ended 31 March 2005

	Notes	2004/2005 R	2003/2004 R
<b>Cash flows from operating activities</b>		<b>26 770 823</b>	1 371 451
Cash received, being government grants		<b>128 633 740</b>	123 954 190
Cash paid to employees and suppliers		<b>(116 173 802)</b>	(122 557 804)
Net cash generated from operations	14	<b>12 459 938</b>	1 396 386
Interest income		<b>14 486 995</b>	–
Interest paid		<b>(176 110)</b>	(24 935)
<b>Cash utilised in investing activities</b>		<b>(5 586 159)</b>	(7 089 828)
Acquisition of property, plant and equipment	6	<b>(5 692 605)</b>	(7 089 828)
Proceeds on disposal of property, plant and equipment		<b>106 446</b>	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>21 184 664</b>	(5 718 377)
Cash and cash equivalents at the beginning of the year		<b>53 266 281</b>	58 984 658
<b>Cash and cash equivalents at the end of the year</b>	15	<b>74 450 945</b>	53 266 281



## Notes to the Annual Financial Statements for the year ended 31 March 2005

### 1. Accounting policies

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and the Public Finance Management Act, Act 1 of 1999 as amended. The annual financial statements have been prepared under the historical cost convention and incorporate the following principal accounting policies, which are consistent in all material respects with those applied in the previous year, except where stated otherwise.

#### 1.1 Government grants

The Authority is financed from money appropriated by Parliament. Government grants to cover operating expenses are recognised when it is probable that future economic benefits will flow to the Authority and these benefits can be measured reliably. The grant is recognised to the extent that there are no further obligations arising from the receipt of the grant.

Government grants relating to specific long-term projects are deferred, where appropriate, to recognise them as income in the same period as the relevant expense, so as to match them with costs for which they are granted.

Government grants relating to the purchase of property, plant and equipment are included in current liabilities as deferred income and are recognised as income over the periods and in the proportions in which depreciation on the property, plant and equipment is charged.

#### 1.2 Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation. Costs include all costs directly attributable to bring the assets to working condition for their intended use. Depreciation is calculated on historical cost using the straight-line method over the estimated useful lives of the assets, which equates to the following rates per annum:

Office equipment	20%
Computer equipment	33,33%
Monitoring equipment	20%
Furniture and fittings	16,70%
Motor vehicles	20%
Test equipment	20%
PABX	20%
Computer software	50%
Other equipment	20%

Expenditure on capital projects in progress is capitalised as Capital Work-in-Progress and only allocated to the relevant asset category when the property, plant and equipment is commissioned and brought into use. Such assets are only depreciated once the asset is brought into use.

## **1.2 Property, plant and equipment** (continued)

Repairs and maintenance are generally expensed during the financial period in which they are incurred. However, major renovations are capitalised and included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Authority. Major renovations are depreciated over the remaining useful life of the related asset.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset.

## **1.3 Impairment of assets**

At each balance sheet date, the Authority reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised as an expense, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under the standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

## **1.4 Interest received**

As of the financial year ended 31 March 2005 and in accordance with a National Treasury communication (dated 12 July 2004) all interest earned on surplus funds and funds collected on behalf of National Revenue Fund during the year is recognised as income.

## **1.5 Taxation**

No provision has been made for income tax as the Authority is exempted in terms of section 10(1) (cA) (1) of the Income Tax Act, 1962 (Act No. 58 of 1962).

## **1.6 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and bank current accounts.



# Notes to the Annual Financial Statements

for the year ended 31 March 2005  
continued

## 1.7 Leases

Rentals payable under operating leases are charged to income as and when incurred.

## 1.8 Provisions

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions for restructuring costs are recognised when the Authority has a detailed formal plan for the restructuring and the Authority has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Restructuring provisions only include those direct expenses that are necessarily entailed by the restructuring and not associated with the ongoing activities of the enterprise.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees as at the balance sheet date.

## 1.9 Retirement benefits

The Authority operates defined contribution plans, the assets of which are generally held in trustee-administered funds. Pension benefits are provided for employees by means of separate pension funds to which contributions are made by employees and the Authority. The Authority's contributions to defined contribution retirement benefit plans are charged to the income statement in the year to which they relate.

## 1.10 Start-up fund

In terms of section 20(1) of the Independent Communications Authority of South Africa Act No.13 of 2000, "All assets, rights and obligations, which immediately before the establishment date (of ICASA), vest in the former authorities pass to the Authority on that date." Accordingly this start-up fund which arose from the transfer of assets to the SA Telecommunications Regulatory Authority by the Department of Communications (DoC) with effect from 1 April 1997, transferred to ICASA on 1 July 2000.

## 1.11 Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The Public Finance Management Act (PFMA), and
- Regulations issued in terms of the PFMA by National Treasury.

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

All irregular and fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

### 1.12 Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Authority becomes a party to the contractual provisions of the instrument.

#### Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

#### Financial assets

The Authority's principal financial assets are accounts receivable, deposits and cash and cash equivalents.

#### Trade receivables

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

#### Financial liabilities

The Authority's principal financial liabilities are accounts payable, accruals and provisions. All financial liabilities are measured at amortised cost, comprising original debt less principal payments and amortisations.

#### Trade payables

Trade and other payables are stated at their nominal value.

### 1.13 National Revenue Fund ("NRF")

In terms of section 15(3) of the Independent Communications Authority Act No. 13 of 2000, the Authority is required to pay all fees received and held on their behalf to the NRF within 30 days after receipt of such revenue.

Separate bank accounts are held for the purpose of collecting these revenues and paying them across to the NRF. The Authority has an obligation in terms of statute to administer these funds on behalf of National Treasury and to pay them across within a prescribed time limit.

Accordingly, the licence fees received and banked are accounted for on a cash receipts basis and the balance of licence fees received not yet paid across to the NRF are separately disclosed as administered assets under current assets in the balance sheet. The corresponding obligation to pay these funds across to the NRF is reflected as a creditor under current liabilities in the balance sheet.

### 1.14 Comparative figures

Where necessary, comparative figures have been re-classified to conform with changes in presentation in the current year.

## Notes to the Annual Financial Statements

for the year ended 31 March 2005  
continued

	Notes	31 March 05 R	31 March 04 R
<b>2. Government grants</b>			
Grants received based on original allocation from Department of Communication ("DoC")		<b>140 947 000</b>	116 376 000
Additional funds received from DoC		<b>639 833</b>	14 770 000
Funds received from DoC for VAT		<b>45 341 000</b>	7 204 000
		<b>186 927 833</b>	138 350 000
VAT funding reflected as a liability		<b>(45 341 000)</b>	(7 204 000)
		<b>141 586 833</b>	131 146 000
Amounts transferred to deferred income – government grants		<b>(12 953 093)</b>	(7 191 810)
– long-term projects	13	<b>10 123 241</b>	(2 747 405)
– capital expenditure	13	<b>(23 076 334)</b>	(4 444 405)
		<b>128 633 740</b>	123 954 190
<b>3. Net operating surplus</b>			
Included in the net operating surplus are the following:			
<b>Other operating income</b>			
Profit on disposal of property, plant and equipment		<b>50 886</b>	–
<b>Operating expenses</b>			
Auditors' remuneration		<b>455 636</b>	436 644
Current year		<b>127 805</b>	56 116
Prior years		<b>327 831</b>	380 528
Bad debts provision		–	3 715
Impairment charge		–	76 473
Professional fees		<b>12 979 558</b>	7 299 300
Depreciation	6	<b>4 919 832</b>	4 621 536
Office equipment		<b>102 892</b>	80 649
Computer equipment		<b>883 726</b>	809 207
Monitoring equipment		<b>1 762 724</b>	565 360
Furniture and fittings		<b>131 900</b>	359 956
Motor vehicles		<b>128 618</b>	150 602
Test equipment		<b>188 446</b>	287 061

	Notes	31 March 05 R	31 March 04 R
<b>3. Net operating surplus</b> (continued)			
PABX		12 337	12 765
Computer software		1 675 444	2 300 997
Other equipment		33 745	54 939
Property, plant and equipment adjustments		90	(2 866)
Loss on disposal/write-off of property, plant and equipment		–	28 687
Operating lease rentals		21 687 569	20 239 477
Office equipment		3 230 314	3 671 898
Office premises		18 457 255	16 567 579
Staff costs		79 308 127	57 931 800
Salaries		72 928 776	55 911 585
Provident/pension fund costs		6 379 351	2 020 215
Executive management and councillors' remuneration included in staff costs above	16	7 408 664	6 394 912
Average number of employees		313	291
<b>4.1 Fruitless and wasteful expenditure</b>			
(Release)/provision for interest on late payment of VAT		(4 651 924)	4 651 924
Interest costs		–	24 935
<b>4.2 Potential fruitless and wasteful expenditure</b>			
Interest costs		176 110	–
Penalty on late PAYE payments		343 000	–
		(4 132 814)	4 676 859
<b>4.3 Potential irregular expenditure</b>			
Insurance costs		570 081	–
Insurance premiums incurred exceeded the allowable amount of R250 000 as stipulated in Treasury Regulations.			
<b>5. Interest income</b>			
Interest income		(14 486 995)	–
Interest income has been accounted for in accordance with accounting policy note 1.4.			

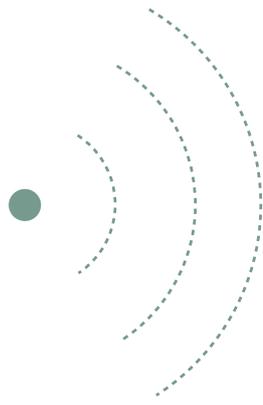


## Notes to the Annual Financial Statements

for the year ended 31 March 2005  
continued

	Office equipment R	Computer equipment R	Monitoring equipment R	Furniture and fittings R
<b>6. Property, plant and equipment</b>				
<b>31 March 2005</b>				
<b>Cost</b>				
Balance as at 1 April 2004	1 962 857	6 141 054	27 747 730	3 417 489
Additions	333 769	607 883	188 116	2 065 442
Movement in work-in-progress	–	–	710 719	–
Disposals	–	–	–	–
Asset scrapping	(37 910)	(773 217)	(2 088 774)	(7 689)
Balance as at 31 March 2005	<b>2 258 716</b>	<b>5 975 720</b>	<b>26 557 791</b>	<b>5 475 242</b>
<b>Accumulated depreciation</b>				
Balance as at 1 April 2004	1 702 404	4 925 849	19 839 690	3 224 061
Charge for the year	102 892	883 726	1 762 724	131 900
Disposals	–	–	–	–
Asset scrapping	(37 910)	(773 217)	(2 088 774)	(7 600)
Balance as at 31 March 2005	<b>1 767 386</b>	<b>5 036 358</b>	<b>19 513 640</b>	<b>3 348 361</b>
<b>Net book value at 31 March 2005</b>	<b>491 330</b>	<b>939 362</b>	<b>7 044 151</b>	<b>2 126 881</b>
<b>31 March 2004</b>				
<b>Cost</b>				
Balance as at 1 April 2003	1 898 777	5 934 242	18 637 828	3 416 715
Additions	64 080	475 307	991 068	–
Movement in work in-progress	–	–	7 278 306	–
Assets write-off	–	(195 058)	–	(1 089)
Assets reinstated	–	–	840 528	4 899
Assets impaired	–	(73 437)	–	(3 036)
Balance as at 31 March 2004	1 962 857	6 141 054	27 747 730	3 417 489
<b>Accumulated depreciation</b>				
Balance as at 1 April 2003	1 621 755	4 283 013	18 433 802	2 860 577
Charge for the year	80 649	809 207	565 360	359 956
Assets written-off	–	(166 371)	–	(1 089)
Assets reinstated	–	–	840 528	4 617
Balance as at 31 March 2004	1 702 404	4 925 849	19 839 690	3 224 061
<b>Net book value at 31 March 2004</b>	<b>260 453</b>	<b>1 215 205</b>	<b>7 908 040</b>	<b>193 428</b>

Motor vehicles R	Test equipment R	PABX R	Computer software R	Other equipment R	Work-in-progress R	Total R
4 997 411	11 632 514	1 178 092	11 657 145	417 945	1 903 662	71 055 899
1 155 141	252 830	54 700	214 585	74 207	745 932	5 692 605
–	–	–	1 530 868	–	(2 241 587)	–
(83 443)	–	–	–	–	–	(83 443)
(46 850)	(243 813)	–	–	(792)	–	(3 199 045)
6 022 259	11 641 531	1 232 792	13 402 598	491 360	408 007	73 466 016
4 513 405	11 099 569	1 139 627	9 999 804	207 423	–	56 651 832
128 618	188 446	12 337	1 675 444	33 745	–	4 919 832
(27 882)	–	–	–	–	–	(27 882)
(46 850)	(243 813)	–	–	(792)	–	(3 198 956)
4 567 291	11 044 202	1 151 964	11 675 248	240 376	–	58 344 826
1 454 968	597 329	80 828	1 727 350	250 984	408 007	15 121 190
4 541 551	11 451 119	1 178 092	10 180 219	289 366	5 898 337	63 426 246
500 660	169 577	–	822 195	128 579	3 938 362	7 089 828
–	–	–	654 731	–	(7 933 037)	–
(44 800)	–	–	–	–	–	(240 947)
–	11 818	–	–	–	–	857 245
–	–	–	–	–	–	(76 473)
4 997 411	11 632 514	1 178 092	11 657 145	417 945	1 903 662	71 055 899
4 407 603	10 803 274	1 126 862	7 698 807	152 484	–	51 388 177
150 602	287 061	12 765	2 300 997	54 939	–	4 621 536
(44 800)	–	–	–	–	–	(212 260)
–	9 234	–	–	–	–	854 379
4 513 405	11 099 569	1 139 627	9 999 804	207 423	–	56 651 832
484 006	532 945	38 465	1 657 341	210 522	1 903 662	14 404 067



## Notes to the Annual Financial Statements

for the year ended 31 March 2005  
continued

	31 March 05	31 March 04
	R	R
<b>6. Property, plant and equipment</b> (continued)		
<b>Capital work-in-progress comprises:</b>		
JDE systems up-grade	11 880	–
Storage area network	396 127	–
IT Software and related project costs	–	1 530 868
Fixed direction-finding (DF) equipment	–	372 794
	<b>408 007</b>	1 903 662
Capital work-in-progress represents assets that have not been commissioned by year end and for which depreciation has therefore not been provided.		
<b>7. Other receivables</b>		
<b>Amount due from Department of Communications</b>	–	12 459 391
Funding for VAT on grants received	<b>45 341 000</b>	19 663 391
Amounts received to date	<b>(45 341 000)</b>	(7 204 000)
<b>Staff debtors</b>	<b>263 137</b>	422 890
Staff debtors	<b>350 295</b>	510 048
Provision for doubtful debts	<b>(87 158)</b>	(87 158)
Deposits	<b>75 056</b>	156 359
Amount due from the South African Revenue Services for VAT over-payment	<b>8 964 174</b>	–
Interest receivable	<b>2 170 338</b>	–
Sundry debtors	<b>6 734</b>	1 200
	<b>11 479 439</b>	13 039 840

**31 March 05**  
**R**

31 March 04  
R

**8. National Revenue Fund administered assets**

In order to achieve fair presentation the Authority separately discloses the amounts held in bank accounts that relate to the licence fees and income collected on behalf of the NRF, as these do not represent assets owned by the Authority.

Cash and cash equivalents	<b>27 021 839</b>	32 345 695
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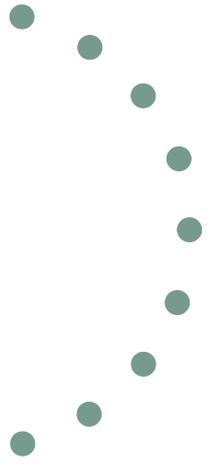
Due to administrative backlogs, in certain instances during the year, not all payments were made within the 30 day time limit.

**9. Cash and cash equivalents**

Cash and cash equivalents comprise cash and short-term, highly liquid investments that are held with registered banking institutions with maturities of three months or less and that are not subject to significant interest rate risk. The carrying amount of these assets approximates their fair value.

**10. Trade payables**

Trade creditors	<b>13 834 821</b>	7 155 372
Accruals	<b>4 546 503</b>	2 755 186
South African Revenue Services – value added tax	–	14 295 592
Other sundry creditors	–	286 818
Amount due to the Department of Communication	<b>11 349 636</b>	–
VAT funding	<b>45 341 000</b>	–
Utilised during the year	<b>(33 991 364)</b>	–
	<b>29 730 960</b>	24 492 968



## Notes to the Annual Financial Statements

for the year ended 31 March 2005  
continued

	Provision for interest on VAT R	Leave pay provision R	Provision for PAYE penalty R	Bonus provision R	Re- structuring provision R	Provision for RSC levies R	Total R
<b>11. Provisions</b>							
Balance at 1 April 2003	–	6 318 373	–	1 168 427	–	163 050	7 649 850
Additional provisions	4 651 924	–	–	161 338	750 071	–	5 563 333
Utilisation/release of provisions	–	(2 531 965)	–	–	–	(163 050)	(2 695 015)
Balance at 31 March 2004	<b>4 651 924</b>	<b>3 786 408</b>	–	<b>1 329 765</b>	<b>750 071</b>	–	<b>10 518 168</b>
Additional provisions	–	<b>3 854 851</b>	<b>343 000</b>	<b>6 733 561</b>	<b>310 764</b>	–	<b>11 242 176</b>
Utilisation/release of provisions	<b>(4 651 924)</b>	<b>(844 119)</b>	–	<b>(3 563 326)</b>	<b>(1 060 835)</b>	–	<b>(10 120 204)</b>
Balance at 31 March 2005	–	<b>6 797 140</b>	<b>343 000</b>	<b>4 500 000</b>	–	–	<b>11 640 140</b>

The leave pay and bonus provisions relate to the existing liabilities arising as a result of services rendered by employees. The leave pay provision is provided for based on cost-to-company packages. Included in the leave pay provision is a debit balance of R260 460 being amounts owed by employees for leave taken in excess of their entitlement.

The bonus provision comprises three months pro-rata remuneration in respect of the 13th cheque liability and performance related bonus.

The provision for RSC levies has been included in accruals for the current financial year.

**31 March 05**  
**R**

31 March 04  
R

**12. National Revenue Fund creditor**

The amount held on behalf of the National Revenue Fund is represented by the following under the administration of the Authority.

Balance outstanding at the beginning of the year	<b>29 665 371</b>	460 513 667
Licence, application and annual fees received	<b>1 226 444 192</b>	973 266 476
Broadcasting	<b>35 243 647</b>	22 166 083
Telecommunications	<b>1 051 303 909</b>	805 740 037
Frequency Spectrum	<b>139 896 636</b>	120 103 479
Interest received (refer note 1.4 and 5)	<b>–</b>	25 256 877
	<b>1 256 109 563</b>	1 433 780 143
Paid to NRF	<b>(1 231 511 437)</b>	(1 404 114 772)
Revenue received to be paid to NRF	<b>24 598 126</b>	29 665 371
Unallocated receipts and other payables	<b>2 423 713</b>	3 550 685
	<b>27 021 839</b>	33 216 056

The amount owing to the National Revenue Fund has been paid over subsequent to the year end. The amount disclosed as unallocated receipts and other payables relates to amounts received in the licence fee bank accounts, which have not been allocated to the relevant licensee by year end. This is merely a timing issue and ongoing reconciliation of these accounts is performed. Once the origin of the receipt is established it is transferred to the account of the relevant licensee and paid across to the National Revenue Fund.



## Notes to the Annual Financial Statements

for the year ended 31 March 2005  
continued

	31 March 05 R	31 March 04 R
<b>13. Deferred income – government grants</b>		
<b>Long-term projects</b>		
Balance at beginning of the year	10 123 241	7 375 836
Movement for the year:		
Grants to be utilised in a future period	(10 123 241)	2 747 405
Balance at end of the year	–	10 123 241
<b>Capital expenditure</b>		
Balance at beginning of the year	27 244 856	22 800 451
Movement for the year:	23 076 334	4 444 405
Grants to be realised over the useful life of the assets	3 122 858	7 629 653
Grants to be utilised in a future period	21 687 326	2 078 407
Realised in the current year	(1 733 850)	(5 263 655)
Balance at end of the year	50 321 190	27 244 856
	<b>50 321 190</b>	<b>37 368 097</b>
<b>14. Net cash generated from operations</b>		
Net operating surplus	1 934 163	7 005 071
Adjustment for non-cash items:		
Loss/(profit) on disposal/write-off of property, plant and equipment	(50 886)	28 687
Depreciation	4 919 832	4 621 536
Impairment of assets	–	76 473
Net interest (received)/paid	(14 310 885)	24 935
Asset adjustment	90	(2 866)
	(7 507 686)	11 753 836
Adjustment for changes in working capital:		
Decrease in other receivables, prepayments and National Revenue Fund administered assets	6 848 784	425 311 827
(Decrease)/increase in trade payables, provisions and National Revenue Fund creditor	165 747	(442 861 087)
Increase in deferred income – government grants	12 953 093	7 191 810
	<b>12 459 938</b>	<b>1 396 386</b>

	31 March 05	31 March 04
	R	R

#### 15. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following amounts:

Current accounts	66 723 271	45 518 008
Call account	7 387 626	7 387 627
Deposit account	333 295	348 306
Petty cash	6 753	12 340
	<b>74 450 945</b>	<b>53 266 281</b>

#### 16. Councillors' and Executive Management's remuneration

Details of remuneration paid are as follows:

##### *Chairman*

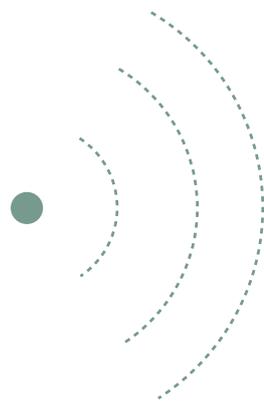
M Langa	645 507	608 970
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##### *Councillors*

N Bulbulia	501 177	472 809
T Cohen (appointed 1 July 2004)	375 883	–
JN Hope (term ended 30 June 2004)	167 058	472 809
P Mashile (appointed 1 July 2004)	375 883	–
ZR Masiza (appointed 1 July 2004)	375 883	–
M Mohlala	501 177	472 809
L Mtimde	501 177	472 809
LMS Ncetezo (term ended 30 June 2004)	167 059	472 809
G Petrick (term ended 30 June 2004) *	167 059	409 768

##### *Executive management*

JB Manche (CEO) (appointed 1 July 2004)	688 257	–
N Nyoka (CEO) (resigned 31 December 2003)	–	609 669
T MacDonald (CFO) (acting CEO from 1 January 2003 to 30 April 2004)	209 809	480 492
B Mohlala (CFO) (appointed 16 August 2004)		
– gross remuneration	438 133	–
– performance bonus	53 978	–



## Notes to the Annual Financial Statements

for the year ended 31 March 2005  
continued

	31 March 05	31 March 04
	R	R
<b>16. Councillors' and Executive Management's remuneration</b> (continued)		
<i>Executive management</i> (continued)		
P Hlapolosa (GM)		
– gross remuneration	<b>533 753</b>	480 492
– performance bonus	<b>43 839</b>	–
J Naidoo (GM)		
– gross remuneration	<b>533 753</b>	480 492
– performance bonus	<b>8 967</b>	–
E Nhlapo (GM)		
– gross remuneration	<b>533 753</b>	480 492
– performance bonus	<b>43 839</b>	–
W Skowronski (GM)		
– gross remuneration	<b>533 753</b>	480 492
– performance bonus	<b>8 967</b>	–
	<b>7 408 664</b>	6 394 912

\*Councillor G Petrick acted as Chief Executive Officer for the period 1 May 2004 to 30 June 2004 without additional remuneration.

<b>17. Capital commitments</b>		
Approved and contracted for	<b>3 783 646</b>	3 721 413
Approved not yet contracted	<b>35 200 000</b>	7 395 000
	<b>38 983 646</b>	11 116 413

This expenditure will be financed by cash resources and capital grants received from DoC.

### 18. Future minimum operating lease payments

The future minimum lease payments under operating leases for property and equipment are as follows:

Within one year	<b>15 470 908</b>	14 288 490
Between two and five years	<b>61 518 750</b>	63 594 550
After five years	–	9 211 659
	<b>76 989 658</b>	87 094 699

The operating leases entered into represent arrangements to lease office premises and certain computer equipment.

	Notes	31 March 05 R	31 March 04 R
<b>19. Contingent liabilities</b>			
Penalties for VAT:			
Independent Broadcasting Authority		-	2 072 600
ICASA		-	970 564
Litigation		-	600 000
		-	3 643 164

**20. Related party relationships and transactions**

Refer to notes 2, 6 and 9 for details of transactions and balances with the Department of Communication.

**21. Financial instruments**

**Forward foreign exchange contracts**

No foreign exchange contracts were entered into during the current year under review.

**Loans receivable and bank loans**

There were no loans receivable or bank loans during the current year under review.

**Credit risk**

Financial assets which potentially subject the Authority to concentrations of credit risk consist principally of cash, short-term deposits and receivables. The cash equivalents and short-term deposits are placed with high credit quality financial institutions. Receivables are presented net of the allowance for doubtful receivables. The Authority has no significant concentration of credit risk.

**Interest rate risk**

Cash and short-term deposits have maturities less than three months and are not subject to significant interest rate risk.

**Fair values**

At 31 March 2005 and 2004, the carrying amounts of cash and cash equivalents, other receivables and trade payables approximated their fair values due to the short-term maturities of these assets and liabilities.

**Risk management policies**

There is no significant exposure to foreign currency risk, interest rate risk, market risk, credit risk and liquidity risk.

**22. Post balance sheet event**

Due to various amendments to the VAT Act, notice was given that the Authority's VAT registration would be cancelled with effect from 1 April 2005. Therefore future activities and resulting transactions will be accounted for excluding any VAT effect.

## Notes to the Annual Financial Statements

for the year ended 31 March 2005  
continued

	Notes	31 March 05 R	31 March 04 R
Income		<b>143 171 621</b>	123 954 190
Government grants	2	<b>128 633 740</b>	123 954 190
Interest income		<b>14 486 995</b>	–
Profit on disposal of property, plant and equipment		<b>50 886</b>	–
Operating expenses		<b>141 237 458</b>	116 949 119
Auditors' remuneration	3	<b>455 636</b>	436 644
Current year		<b>127 805</b>	56 116
Prior years		<b>327 831</b>	380 528
Bad debts	3	–	3 715
Bank charges		<b>290 544</b>	178 434
Depreciation	3	<b>4 919 832</b>	4 621 536
Equipment rental	3	<b>3 230 314</b>	3 671 898
Foreign exchange losses		<b>5 755</b>	–
Penalties		<b>400 846</b>	–
Property, plant and equipment adjustments	3	<b>90</b>	(2 866)
General expenses, stores and supplies		<b>10 614</b>	–
Impairment of property, plant and equipment	6	–	76 473
Information technology		<b>3 460 271</b>	3 246 239
Insurance		<b>821 957</b>	1 030 313
Finance costs and release of VAT provision		<b>(4 475 814)</b>	4 676 859
Loss on disposal/write off of property, plant and equipment	3	–	28 687
Regulatory bodies and related expenditure		<b>1 658 364</b>	850 331
Motor vehicle expenses		<b>972 188</b>	844 886
Office premises rental and related costs		<b>21 606 837</b>	19 262 124
Office maintenance and repairs		<b>2 904 627</b>	1 925 469
Printing and stationery		<b>968 656</b>	849 850
Professional fees	3	<b>12 979 558</b>	7 299 300
Publications		<b>306 639</b>	307 100
Publicity and advertising		<b>2 485 490</b>	1 283 713

	Notes	31 March 05 R	31 March 04 R
Restructuring costs		<b>(310 764)</b>	833 071
RSC levies		<b>174 644</b>	280 890
Salaries and related expenses	3	<b>79 308 127</b>	57 931 800
Telephones, postage and fax		<b>4 237 260</b>	3 918 244
Training and conferences		<b>2 153 747</b>	911 679
Travelling and subsistence		<b>2 672 040</b>	2 482 730
<b>Net operating surplus</b>		<b>1 934 163</b>	7 005 071









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