

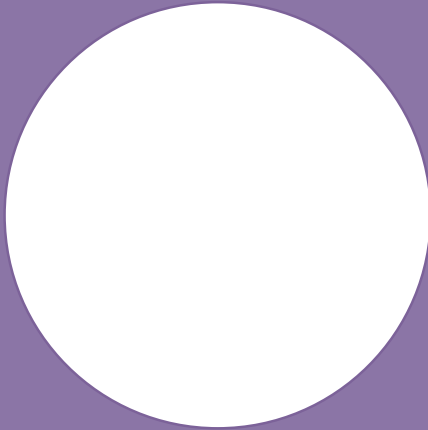


*Universal Service and Access Agency
of South Africa (USAASA)*

Annual Report

2006 / 2007

07
06



“ The social appropriation of ICT’s by the majority of the marginalised in our society is now nearer than before.

The Universal Service and Access Agency of South Africa (USAASA) has been restructured and repositioned to assist in this work. ”

*Minister of Communications: Dr Ivy Matsepe -Casaburri,
Budget Speech 2007*



BOARD OF DIRECTORS

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*



Cassandra Gabriel
Chairperson of the Board



Bheki Maduna



Hawa Bibi Khan



Zingisa Mzaidume



Andy Mooke



Phumelele Ntombela-Nzimande



Linden Petzer



Sare Grobler
Board Secretary

SENIOR MANAGEMENT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*



James Theledi
(Chief Executive Officer)



Winile Lamani
(Head: Project Services)



Ricky Naidoo
(Head: Regulatory and
Corporate Affairs)



Keith Keys
(Chief Financial Officer)



Debbie Pauw
(Head: Human Resources)



Peter Makaneta
(Head: Internal Audit)

TABLE OF CONTENTS

Universal Service and Access Agency of South Africa (Formerly Universal Service Agency)

Table of Contents

| | |
|---|-----------|
| FOREWORD BY MINISTER OF COMMUNICATIONS | 5 |
| 1. STATEMENT BY THE CHAIRPERSON OF THE BOARD | 6 |
| 2. STATEMENT BY THE CHIEF EXECUTIVE OFFICER | 9 |
| 3. UNIVERSAL SERVICE AND ACCESS FUND REPORT | |
| 3.1.1 GENERAL REVIEW OF THE STATE OF AFFAIRS | 10 |
| 3.1.2 SERVICES RENDERED BY THE UNIVERSAL SERVICE AND ACCESS FUND | 10 |
| 3.1.3 CAPACITY CONSTRAINTS | 11 |
| 3.1.4 NEW ACTIVITIES | 11 |
| 3.1.5 EVENTS AFTER THE REPORTING DATE | 11 |
| 3.1.6 PROGRESS WITH FINANCIAL MANAGEMENT IMPROVEMENT | 11 |
| 3.1.7 SUBSIDISATION OF UNDER-SERVED AREA LICENCES | 11 |
| 3.1.8 KEY PERFORMANCE AREAS OF THE UNIVERSAL SERVICE AND ACCESS FUND | 15 |
| 4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA) | |
| 4.1.1 SERVICES RENDERED BY USAASA | 22 |
| 4.1.2 GOING CONCERN | 22 |
| 4.1.3 CAPACITY CONSTRAINTS | 22 |
| 4.1.4 EVENTS AFTER THE REPORTING DATE | 22 |
| 4.1.5 PROGRESS WITH FINANCIAL MANAGEMENT IMPROVEMENT | 22 |
| 4.2 DIVISIONAL PERFORMANCE REPORTS | |
| 4.2.1 FINANCIAL MANAGEMENT DIVISION | 22 |
| 4.2.2 SUPPLY CHAIN MANAGEMENT UNIT | 26 |
| 4.2.3 INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) UNIT | 26 |
| 4.2.4 HUMAN RESOURCES DIVISION | 26 |
| 4.2.5 PROJECT SERVICES DIVISION | 32 |
| 4.2.6 CORPORATE AFFAIRS DIVISION | 36 |
| 5. ACHIEVEMENTS OF THE UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA | 38 |
| 6. BOARD OF DIRECTORS CORPORATE GOVERNANCE REPORT | 39 |
| 7. AUDIT AND RISK MANAGEMENT COMMITTEE REPORT | 42 |
| 8. STATEMENT OF RESPONSIBILITY REPORT | 44 |
| 9. OTHER | 44 |
| 10. APPROVAL | 44 |
| 11. ANNUAL FINANCIAL STATEMENTS | 46 |
| 12. GLOSSARY OF TERMS | 81 |

Universal Service and Access Agency of South Africa (Formerly Universal Service Agency)



It is a great pleasure and honour for me as the Minister of Communications to present this foreword to the Universal Service and Access Agency of South Africa's (USAASA) 2006/07 Annual report.

USAASA was born in 2006, following the promulgation of the Electronic Communications Act (ECA), to facilitate and guide the establishment of Information and Communication Technologies in under serviced areas of South Africa. This is a huge task for the Agency and requires a high level of dedication and commitment to deliver against its mandate. I must congratulate the Agency on the progress it has made in this regard.

The vision of the Department of Communications (DoC) is to make South Africa a global leader in harnessing Information and Communications Technologies (ICTs) for socio-economic development.

In this regard, the social appropriation of ICTs by the majority of the marginalised in our society remains a critical challenge. It is my view that USAASA must play a central role in addressing these challenges.

Unlike its predecessor, the mandate of USAASA has been tightened considerably, to ensure that it plays an important role in co-coordinating universal access and service not only in telecommunications but also in the broadcasting and postal sectors as well.

To ensure it delivers against its mandate, as required by the ECA, I have reconstituted its Board under the Chair of Ms Cassandra Gabriel and approved the appointment of a new Chief Executive Officer (CEO), Mr. James Theledi. Since their appointment, the Board, in partnership with the Agency's management has been hard at work developing a new strategy that will enable it to deliver against its mandate.

This repositioning strategy was recently presented to the Portfolio Committee on Communications, to myself, Deputy Minister Padayachie and my Department.

The core focus of USAASA's strategy revolves around the following three pillars:

- Guide and co-ordinate universal service and access initiatives;
- Subsidise infrastructure development through the Universal Service Fund; and
- Play an advisory role on the promotion of the goals of universal service and access.

Underpinning these pillars is a strong research component that will inform the Agency's programmes.

In the next few months this strategy will be discussed with all of the Agency's key stakeholders in government, industry and civil society.

I am certain that, with the new vibrancy of its Board and Management, USAASA is finally on track to meet its mandate in terms of the ECA, thus ensuring that ICTs are embraced at all levels of society as a critical tool for socio-economic development.

A handwritten signature in black ink, reading "Ivy Matsepe-Casaburri".

Dr. Ivy Matsepe-Casaburri
Minister of Communications

1. STATEMENT BY CHAIRPERSON OF THE BOARD

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

On behalf of the Board, I present the annual report of the Universal Service and Access Agency of South Africa (USAASA) and the Universal Service and Access Fund (USAF) for the financial year ended 31 March 2007. This is the 10th report in the history of the Agency and the first under the new Electronic Communications Act, No. 36 of 2005. I was appointed as Chairperson of the Board by the Honourable Minister of Communications in December 2006, and served in this capacity for the last four months of the financial year. The previous Chairperson of the Board, who served for the first eight months of the financial year, was Mr Chose Choeu, whose term expired at the end of November 2006.



This report will cover three key areas, namely:

- the dominant external and internal environmental factors during the year under review;
- the key successes of the Agency in addressing the challenges facing it; and
- the important strategic objectives that have been implemented to give the Agency its new direction and focus.

Dominant environmental factors during the year under review

One of the key factors affecting the Agency in the financial year under review was the uncertainty created by the change in legislation. While the legislative transition to the Electronic Communications Act is welcomed, the period of uncertainty about the future of USAASA at the time, created a state of paralysis for the Agency.

Consequently, the Agency was unable to adequately plan for the immediate future and a number of factors affected the internal environment: staff contracts expired, which resulted in labour challenges; budgets were inadequately conceived; lease agreements came to an end necessitating relocation to new premises; and senior employees resigned, leaving posts vacant for an extended period of time. This included the position of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Head of Human Resources (HR) and the Board Secretary. The vacuum in the Board secretariat and support services impacted negatively on the Board operations.

The conditions under which the Agency operated in the financial year under review have been less than optimal and the shortcomings in the Agency's performance are a direct result of the uncertainties faced in the external and internal environment.

In addition to the legislative uncertainties, the CEO resigned in May 2006, after which the former Chief Operating Officer (COO) acted as CEO for a period of six months. A new CEO was appointed in December 2006, but resigned after only a month. It took a further four months to complete the recruitment of a new CEO. I was appointed as Acting CEO by the Board during this four-month period, and served as Acting CEO during the last two months of the financial year under review. The Agency has, therefore, had two CEO's and two Acting CEO's during the year under review. The lack of consistent leadership during this financial year has also had an adverse effect on employee morale and the Agency's performance.

The ECA was promulgated in 2006, enshrining the continued and long-term existence of USAASA and an expanded mandate that extends to both telecommunications and broadcasting service and access. In terms of the Act, the Agency is conceived as being the central point of universal service and access delivery for all communities of poor and marginalised people in South Africa; in particular, those communities where the market fails to deliver access and affordable services.

Key successes in stabilising USAASA

The uncertainties that arose during the period of legislative transition impacted negatively on virtually every area of USAASA's internal operations and external performance. However, much success was achieved in stabilising USAASA in the last quarter of the financial year. Most significantly, employee contracts were renewed, senior management positions were filled, and USAASA was relocated

1. STATEMENT BY CHAIRPERSON OF THE BOARD

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

to new offices in Midrand, Gauteng. The recruitment process for the CEO position was expedited, thanks to the commitment and dedication of the Board, and the new CEO took up office in June 2007.

A turn-around strategy for USAASA was also initiated in the last quarter of the financial year. This has included a rigorous process of strategic and business planning around USAASA's extended mandate, and strengthening internal operational capacity and processes to deliver on this mandate.

Much work has yet to be done to achieve these objectives. However, the Board is satisfied that the process has started in a vigorous and robust manner, that there is competent leadership in place to address the challenges with a sense of urgency and dedication, and that USAASA's stakeholders are committed to working closely with the Agency to achieve its mission.

Key strategic objectives of USAASA

Critical to USAASA's future strategy is a review of its existing programmes and projects. USAASA embarked on a thorough review of the Telecentres, Cyberlabs, School subsidies and Under-Served Areas Licences (USALs) subsidies during this financial year to evaluate the success and sustainability of the models adopted. Consultation with all role-players is currently ongoing to identify the key challenges and to remodel and resuscitate these programmes to achieve universal service and access. In light of the Honourable Minister's new policy directions on the Provincial Under-Served Area Network Operators (PUSANOs), USAASA is working closely with the Independent Communications Authority of South Africa (ICASA) and the current Under-Served Areas Licensees (USALs) to develop a sustainable model for these provincial licences.

USAASA's new mandate in the ECA sets out a broad mission for the Agency. The success of USAASA's strategy will be dependent on being able to identify and focus on specific interventions that achieve the greatest impact for the investment in universal service and access delivery.

The schools connectivity programme will continue to be important in USAASA's future strategy. Much work is being done with ICASA and the operators to integrate the e-rate and USAASA subsidies in an ambitious programme to connect the schools, beginning with those schools in the lowest quintiles.

USAASA will also continue to investigate the best models for community access points and work with the Government Communication and Information System (GCIS) and the Department of Public Service and Administration (DPSA) to support the Thusong Community Service Centres. The effectiveness of these centres (formerly Multi Purpose Community Centres) is also being reviewed, in terms of governance and effectiveness, and USAASA is committed to continue working with the relevant stakeholders to ensure the success of the Thusong Community Services Centres.

The Agency has experienced some success in commissioning relevant research around universal service and access, and other developing countries are drawing on our lessons learnt. However, much work still needs to be done by USAASA to mine the significance of this information and to disseminate the learning's in a relevant way to the industry. Research will continue to be extremely important in USAASA's strategy, to understand our target market, to craft important definitions to guide us, to find the best models and international best practice for universal service and access, and to monitor and evaluate the effectiveness of our strategy and programmes. The GIS portal developed by USAASA, with assistance from the Human Sciences Research Council (HSRC), will be revamped and upgraded to create a single point of information for all universal service and access initiatives in the country.

USAASA is strengthening its capacity to play a greater policy and regulatory advisory role with regard to achieving universal service and access. Many areas of the ECA needs to be translated into regulation that will give effect to the law. USAASA will be working closely with the regulator to implement a programme to address these regulatory needs, to ensure, for example, that broadcasters are brought on board through mechanisms that allow them to contribute to the Universal Service and Access Fund (USAF), just as the telecommunication operators are currently doing.

1. STATEMENT BY CHAIRPERSON OF THE BOARD

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

A key success factor for USAASA achieving its strategic objectives depends on its ability to access the contributions to the USAF collected by the National Treasury, and on having an adequate operational budget to manage the USAF.

Stakeholder consultation and support

The Board wishes to thank all our stakeholders in the industry for their support during a difficult period of legislative transition.

It is no secret that USAASA has suffered from negative perceptions in the past, and a major contributing factor was insufficient consultation by the Agency with important stakeholders. It is a key strategic objective of the Agency going forward, to build and strengthen our relationships with industry players, especially the operators who contribute to the USAF. Universal service and access is not the responsibility of USAASA alone, but the responsibility of USAASA on behalf of the industry and jointly with the industry.

Special recognition needs to be made of the leadership provided to the Board and the Agency by the previous Chairperson, Mr Chose Choeu. The following Board members whose terms ended during the past financial year also deserve special recognition: Mr Linden Petzer and Ms Phumelele Ntombela-Nzimande. Their unflinching commitment and dedication to USAASA during their term is highly appreciated.

On behalf of the Board, I thank the Honourable Minister, Dr Ivy Matsepe-Casaburri, for her ongoing support and leadership, and the Honourable Deputy Minister, Mr Roy Padayachie, for his hands-on commitment and participation in USAASA's strategic repositioning. We also recognise the support received from the Portfolio Committee on Communications in addressing USAASA's challenges. A special thank you to the Department of Communications, under the leadership of the Director-General, Ms Lyndall Shope-Mafole, for its continued guidance and support.

To my fellow Board members, thank you for your hard work, expertise and commitment to dispatching your duties for the Agency.

To the management team and the employees of USAASA, the Board and I thank you for your energy and drive in ensuring that the Agency goes from strength to strength.

Cassandra Gabriel

Chairperson of the Universal Service and Access Agency of South Africa (USAASA)



2. STATEMENT BY CHIEF EXECUTIVE OFFICER

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*



The report from the Chairperson provides a useful insight on the operational and strategic challenges confronted by the Agency and the Fund during the financial year under review.

From a distance and a broad assessment, one realizes that over the past 10 years, the Agency has played a critical role in facilitating access to ICT infrastructure by communities who would have otherwise never had this access.

This geographic roll-out of ICT facilities and services by the Agency has had its own limited successes and raised a range of issues around sustainability and governance models underpinning these access centers.

Of supreme concern for most stakeholders, has been the lack of overall information and definitions of what is universal service and access and which areas should be identified as under-serviced especially in the light of increased mobile coverage and uptake by many South Africans in remote and deep-rural communities.

To some extent there has been a reasonable and justified expectation from all South Africans that in terms of the Telecommunications Act of 1996 and its Amendment in 2001, the Agency was supposed to have provided leadership on the issues of universal service and access.

This failure continues to be an indictment on the Agency and the ECA has again reiterated the importance of the Agency in meeting the developmental challenges faced by the country to bringing about digital inclusion and promoting affordable access to ICTs for socio-economic development.

The ECA also recognises the universal service and access challenges faced by Citizens in the Broadcasting sector. This has created collaborative opportunities between the Agency and the Media and Diversity Development Agency (MDDA).

Universal service and access is shared challenge and requires collaboration with a number of stakeholders for the vision of digital inclusion to be realised. Government has made it clear that access, cost and training remain the focus areas in addressing the ICT challenges. The broad campaign to promote ICT for all and increase the use and uptake of ICTs in our lives will be key in unleashing the potential of every South African.

It is this passion and vision that makes working for the Agency an exciting opportunity. I would like to thank the Board and the Minister for providing me with this unique opportunity to lead the Agency in the coming few years. Indeed, I take this personal responsibility serious and I will be working very closely with the team at the Agency and other stakeholders. Our work ahead is not insurmountable, but it requires hard work and commitment to deliver on the broader universal service and access cause in general and in the ICT industry in particular.

James Theledi
Chief Executive Officer

3. UNIVERSAL SERVICE AND ACCESS FUND REPORT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

3.1.1 General review of the state of affairs

The Universal Service and Access Fund (USAF) received a Parliamentary appropriation of R31,164m (2006: R29,400m). Together with an approved rollover of R22,514m (2006: R61,268m), the total funds available for subsidies (excluding interest income) was R53,678m (2006: R94,274m). Subsidies were granted in terms of Section 66 (1) a-f of the Telecommunications Act, (Act No. 103 of 1996) (now repealed) and Section 88 (1)(a)-(e) of the Electronic Communications Act (Act No. 35 of 2006). The funds were utilised in the following manner:

- R2,807m (2006: R2,977m) on research towards making telecommunication services affordable and accessible [Section 66 (1) (a)];
- R2,807m (2006: R1,961m) to holders of a licence in terms of Chapter V of the Telecommunications Act, which imposes obligations on the holder relating to the extension of its telecommunication service to areas and communities which are not served or not adequately served by telecommunication services, for the purpose of financing such extension [Section 66 (1) (b)];
- R10,277m (2006: R20,642m) for public schools and further education and training institutions referred for the provision of Internet services and equipment necessary to access the Internet [Section 66 (1) (c)];
- R12,347m (2006: R33,251m) for the establishment of centres where access can be obtained to telecommunication facilities [Section 66 (1) (d)];
- R5,950m (2006: R10,186m) to assist small businesses and co-operatives to acquire and construct infrastructure to provide telecommunication services to areas which are not served or not adequately served by telecommunication services [Section 66 (1) (f)];
- R0,939m (2006: R2,256m) on overhead expenditure that cannot be directly allocated to the programmes mentioned above, including project management, consultants and auditing services.

3.1.2 Services rendered by the Universal Service and Access Fund

The core business of the Universal Service and Access Fund is to subsidise projects aimed at providing universal access and universal service to telecommunication services by the communities in the under-served areas of South Africa in accordance with Chapter VIII of the Telecommunications Act of 1996 as amended. The management of the funds in the Universal Service and Access Fund is the responsibility of USAASA.

The Universal Service and Access Fund was established in accordance with the provisions of Chapter VIII of the Telecommunications Act of 1996, as amended, and its mandate as stipulated in Section 66 of the Act, states that funds in the Universal Service and Access Fund shall be utilised exclusively for the following:

- For the assistance of needy persons towards the cost of the provision to or the use by them of telecommunication services;
- To Telkom and to any other holder of a licence in terms of Chapter V which imposes obligations on the holder relating to the extension of its telecommunication service to areas and communities which are not served or not adequately served by telecommunication services, for the purpose of financing such extension;
- To public schools and public further education and training institutions referred to in Section 45 (3) for the procurement of Internet services and equipment necessary to access the Internet;
- For the establishment of centres where access can be obtained to telecommunication facilities;
- For the establishment of public information terminals;
- To assist small businesses and co-operatives to acquire and construct infrastructure to provide telecommunication services to areas which are not served or not adequately served by telecommunication services; and
- To facilitate the provision of multimedia services.

3. UNIVERSAL SERVICE AND ACCESS FUND REPORT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

3.1.3 Capacity constraints

The exponential growth in the delivery of USAF projects imposed additional pressures on the Agency. The increased pace of growth in the Information and Communications Technology (ICT) industry and the introduction of new Under-Serviced Areas Licensees (USALs) to be subsidised by the Universal Service and Access Fund has resulted in the Agency initiating a restructuring process. Additional resources are required for USAASA to keep pace with the changes envisaged in the Electronic Communications Act.

3.1.4 New activities

The establishment of Community Digital Hubs in three presidential poverty nodes is an indication of the Agency's commitment to enable communities to have access to proper ICT services. The three Community Digital Hubs were deployed in Inanda, KwaMashu, Ntuzuma (INK) (KwaZulu-Natal), Maluti-a-Phofung (Free State) and Cradock (Eastern Cape). Community Digital Hubs are advanced ICT centres aimed at creating awareness of ICT services in the under-serviced areas by exposing communities to various technologies that include e-education, e-health, e-business development, and on-line access to government services.

3.1.5 Events after the reporting date

No significant events that had an impact on the financial period ending 31 March 2007 occurred after the reporting date.

3.1.6 Progress with financial management improvement

The Agency continues to improve its financial management control systems. In the year under review, a number of new policies were developed that comply with the Public Finance Management Act (Act No. 1 of 1999). The approval of the supply chain manager and management accounting posts is an indication of the Agency's commitment to improving its financial management systems.

3.1.7 Subsidisation of Under-Serviced Areas Licences (USALs)

The Under-Serviced Areas Licences project has, over the years, become the most prominent government programme ensuring that communities in under-serviced areas have access to ICT-related services such as telephony. As part of the second phase of awarding licensees to communities, USAASA partnered with the DoC and ICASA in visiting communities in the already-identified geographical areas to ensure their participation and ownership of the programme. The road-shows covered districts such as Uthukela and Umsunduzi in KwaZulu-Natal.

After the intensive road-show process, licences were awarded to:

- NorthCom (Pty) Ltd
- Ulwembe (Pty) Ltd
- Ukhahlamba (Pty) Ltd

USAASA has been in contact with these USALs. A briefing session will be held to explain the terms and conditions of the subsidy agreement, and to avoid the teething problems experienced with the first seven USALs.

A brief summary of what has been happening with the individual licences follows.

3. UNIVERSAL SERVICE AND ACCESS FUND REPORT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

USALs Background

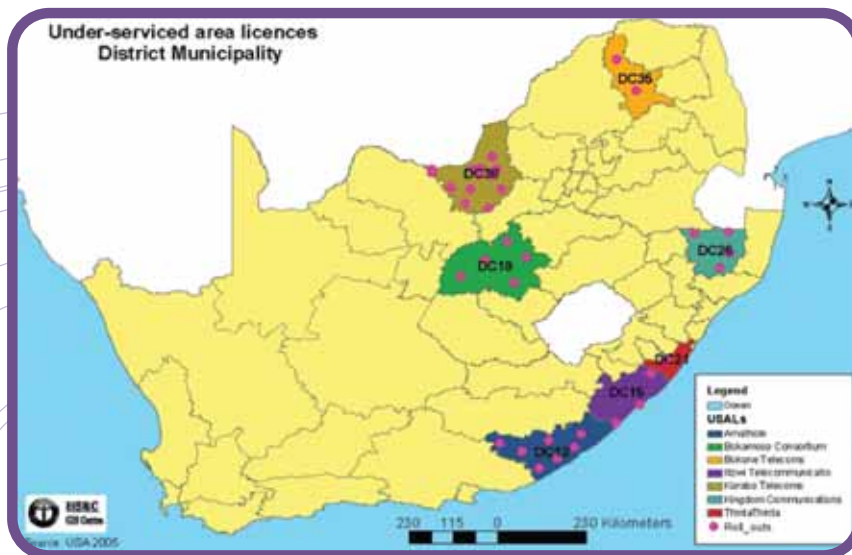
In 2001, the Minister of Communications issued policy directives to the effect that SMME's would be permitted to provide telecommunications services for the specific purpose of advancing universal access in geographic areas with a tele-density of up to 5%. By tele-density, the Minister was referring to fixed line telephony.

The objective of the policy directives were to:

1. To enhance universal access in the most under-served geographic areas, and
2. To extend participation in the provision of telecommunications services to persons who have been historically kept out of the market, including women, youth and the disabled.

ICASA issued the Invitation to Apply (ITA) inviting previously disadvantaged groups from the designated groups to apply for Under-served Area Licence (USAL). Once licenced, successful licencees qualified for a R15 million subsidy over a period of three years from the Universal Service and Access Fund (USAF).

The first phase of the USAL licensing process gave birth to seven USAL Licensees. Below is the brief report on each of them:



*Amatole Telecommunication Services
Location: DC 12 Amatole District
Province: Eastern Cape*

Background

Amatole Telecomms started operating in January 2005 and were granted a licence in May 2005.

Infrastructure Rollout

In the few years that Amatole have been in existence, they have managed to sign and finalise an agreement with their current technical partner, Tellumat.

In July 2006 they were granted a WIMAX Spectrum which makes them the only USAL to own a rollout license of WIMAX in the country, along with other big operators such as Telkom, Sentech, Neotel and i-Burst. Amatole plans to go live by 1 September 2007. Their entire rollout will take approximately three years to complete.

Subscriber Base

Amatole's mobile service was officially launched on 1 November 2005 and sold 5,000 starter packs within the first two months of going live. Since November 2005, they have 100 active pre-paid subscribers. This number is expected to increase once all interconnection issues have been resolved.

Funding

Amatole received a subsidy of R15 million from USAASA. To date they have received R5m.

Governance Structure

Amatole has a total of seven Board members with a Non Executive Chairman. All shareholders are represented at Board level with board meetings held monthly.

Amatole Telecomms Highlights and Challenges

The past two years have been filled with highlights and challenges for Amatole:

- They have managed to pay in full their Microwave equipment for the Company's backhaul links;
- Deposits for core networks have been paid in full;
- Deposits for WIMAX equipment paid in full;
- Core team of technicians to deploy their network already trained on WIMAX equipment;
- Bought their own office space for operational and call centre facilities;
- Agreement reached with Neotel on projects and infrastructure sharing;
- Agreement reached with USAASA to release outstanding funding;
- Data and fixed voice tariffs approved by ICASA; and
- Fixed number range with ICASA council for approval.

Challenges to-date includes:

- Interconnection decision pending from Competition Commission;
- Obtaining additional funding for operational expenditure; and
- Obtaining additional funding to roll-out infrastructure in a shorter period.

Bokamoso Telecomms (B- Tel)

Location: DC 18 (Lejweleputswa District)

Province: Free State

Background

B-Tel (Bokamoso Telecomms) began its operations in November 2004 when they received their licence from ICASA to operate and provide services in the Capricorn District, which includes areas such as Bethlehem, Kroonstad and Welkom.

Infrastructure Rollout

B-Tel is currently finalising the Design of its Network Backbone Infrastructure.

Subscriber Base

B-Tel has a subscriber base of 350.

Funding

B-Tel qualified for a R15 million subsidy, over a period of three years, from USAASA.

Governance

B-Tel has a Board of five Directors and a full-time Managing Director. The B-Tel Board meets quarterly.

B Tel Highlights

- The approval of its application for a Signaling Code from ICASA

Ilizwi Telecomms (ITEL)

Location: DC 15 (OR Tambo District)

Province: Eastern Cape

Background

ITEL was incorporated in 2002 with the primary objective of offering telecommunications solutions to under serviced areas.

ITel is composed of diverse shareholders and beneficiaries from the OR Tambo District Municipality. Our shareholders are representative of broad based Black Economic Empowerment companies and majority of which are women owned enterprises (WOE) and disabled groups.

Infrastructure Rollout

ITEL has managed to rollout its own network that includes regional infrastructure and national roaming. They provide following services:

- Mobile (prepaid, post paid and community service phones);
- Fixed line (prepaid services, post paid services and Internet); and
- Data services (narrow and broadband).

Funding

ITEL qualified for a R15 million subsidy, over three years, from USAASA. To date they have received R5,950 000,00.



USAASA employees at work

3.1.8 Key Performance Areas of the Universal Service and Access Fund

Table 1: Key Performance Areas and Indicators, 2006/07 Financial Year

| Strategic Objectives (SO) | Key Performance Area | Action Plan/Activities | Key Performance Indicators | Target 2006/07 | Achievement |
|--|--|--|---------------------------------|----------------|---|
| Application of USAF money for payment of subsidies | Universal Service and Access Fund (USAF) management policies | Develop and implement USAF management policies | Approved USAF Management Policy | June 2006 | This policy has not been developed. |
| | Subsidise telecommunications licensees | Subsidise USALs | New USALs | 14 | No new USAL licences were issued by ICASA during the year under review. |
| | | | Existing USALs | 6 | A total of R5,95m was distributed to USALs that provided audited financial statements reflecting infrastructure development. |
| | Subsidise universal ICT access facilities | Deploy qualifying projects: MPCC Telecentre, Community Telecentre and Telecontainers | New sites deployed | 32 | 14 new Telecentres were established during the year under review. The remaining 6 Telecentres could not be completed due to ownership issues with the relevant municipalities |
| | | | Existing sites maintained | 139 | 102 operational sites have been subsidised or equipment maintained ; connectivity for 114 centres has been paid for in full by USAF |
| | | | New sites deployed | 20 | Not achieved |

| Strategic Objectives (SO) | Key Performance Area | Action Plan/Activities | Key Performance Indicators | Target 2006/07 | Achievement |
|--|--|--|---|----------------|--|
| Application of USAF money for payment of subsidies (Cont'd) | Subsidise universal ICT access facilities (Cont'd) | Deploy qualifying projects: community digital hubs | Existing sites maintained | 275 | The maintenance of the hardware provided at all sites was paid for from USAF funds |
| | | | New sites deployed | 3 | Not achieved because of the demarcation of the provincial border, as well as the ownership model being affected in the presidential poverty nodes. |
| Build capacity in the under-serviced areas for optimal utilisation of ICTs | Capacity building | Deploy qualifying projects: multimedia upgrade | Existing sites maintained | 3 | Certain digital hubs that were established in the previous year were left incomplete; it is noted that some of the services offered were not being utilised. This indicates that inadequate needs analyses were conducted before implementation of the plan. |
| | | | New sites deployed | 33 | No new sites were deployed due to the organisation conducting a comprehensive review of its programmes. |
| | | e-Readiness Programme | A number of people were trained in ICT | 33 | 30 individuals were exposed to this training. |
| | | | A number of people trained in ICT received refresher training | 142 | 39 individuals were engaged in refresher course training. The shortfall is the result of a breakdown in partnership co-ordination. |

| Strategic Objectives (SO) | Key Performance Area | Action Plan/Activities | Key Performance Indicators | Target 2006/07 | Achievement | |
|---|----------------------|---|--|---|---|--|
| Building and maintaining the strategic and operational capacity of the Agency to manage the Universal Service and Access Fund | | e-Mails | A number of new schools were connected | 50 | All planned connections were achieved. | |
| | | | A number of existing sites with e-mail connectivity were maintained | 180 | USAF continued to fully subsidise connectivity to 89 sites. | |
| | | Community websites | A number of new sites were established | 10 | No new websites were established. | |
| | | | A number of existing sites were maintained | 15 | All websites were appropriately maintained. | |
| | | Ensure business process re-engineering and restructuring in line with policy/regulation changes | Develop/advertise tender specifications and appoint a service provider | Contracted OD expert | April 2006 | A consultant was appointed; however, the terms of reference did not make provision for practical implementation. |
| | | | Develop change management strategy | Approved organisational structure and effectively aligned all business processes | July 2006 | A theoretical strategy was developed and the revised structure approved by the Board. |
| | | | Clarify roles and responsibilities | New job descriptions and performance contracts to be drawn up | October 2006 | Job descriptions were developed for all positions approved in the staff structure. |
| | | | Manage the termination of employment contracts | Develop and approve plan, terminate contracts, advertise vacant positions, interviews and appoint new employees | November 2006 | The process was adversarial albeit legally correct. However, the human factor was not calculated, which |

| Strategic Objectives (SO) | Key Performance Area | Action Plan/Activities | Key Performance Indicators | Target 2006/07 | Achievement | |
|--|---|--|---|----------------|---|---|
| Building and maintaining the strategic and operational capacity of the Agency to manage the Universal Service and Access Fund (Cont'd) | | | | | resulted in strenuous relations. The vacancies were advertised; an interview process followed and positions filled through the engagement of those employees whose contracts were ending. | |
| | Build and develop human resource capacity to manage the Fund | Develop and implement an integrated HR strategy and develop and retain skills for all employees | Approve and implement HR strategy | March 2007 | | |
| | | Provide effective human resources management and development services | Management capacity programme, leadership development programme and skills training for employees and Board | 50 employees | | This target was not achieved due to lack of leadership in the HR Division. |
| | Ensure appropriate financial management systems are in place and are maintained | Ensure appropriate costing model of activities and financial implications are determined with policy changes (Management Accounting) | Appropriate procedures were implemented and maintained | Monthly | | Control mechanisms have been put in place to monitor compliance with HR procedures. |
| | | | Approved MTEF Budget by the Board and DoC | August 2006 | | The MTEF budget for the period 2007-2010 was approved by the Board and submitted to the DoC by 30 September 2006. |
| | | Adjusted estimates of expenditure | November 2006 | | A submission for increased funding was made to DoC for consideration in July 2006. | |
| | Ensure development/maintenance of effective and efficient internal and accounting central system (Financial Accounting) | Unqualified Audit Report with no emphasis on matter | May 2007 | | This matter is outstanding as the 2006/07 audit process is incomplete. | |

| Strategic Objectives (SO) | Key Performance Area | Action Plan/Activities | Key Performance Indicators | Target 2006/07 | Achievement |
|--|--|--|---|----------------|--|
| Building and maintaining the strategic and operational capacity of the Agency to manage the Universal Service and Access Fund (Cont'd) | Ensure appropriate financial management systems are in place and are maintained (Cont'd) | Ensure development/maintenance of effective and efficient internal and accounting central system (Financial Accounting) (Cont'd) | GAAP/GRAP and PFMA/TR guideline compliance monitoring and reporting | Monthly | All relevant legislation and regulations have been adhered to. |
| | | Maintain a fair, transparent and equitable supply chain management system (SCM) | Respond to audit queries promptly | June 2007 | All audit queries presented by the external auditors have been appropriately responded to. |
| Promote universal service and access | Stimulate public awareness of the benefits of telecom services | Subsidise local and national ICT promotion events | Develop, implement and review policies ensuring a proper asset management system and the efficient and effective maintenance of an suppliers database | Monthly | The policies are constantly under review to ensure that efficient and effective financial management of the organisation is maintained. |
| | | Develop and distribute publications and promotional material | Competitive supply chain management system | Monthly | Aligned to the above, the policies relative to the supply chain management processes are implemented at all times. |
| | | | Launches and conferences | 15 | A conference was convened to report on research conducted and the impact of the ECA. In addition, 3 launches were arranged (INK Community Digital Hub, Prince Albert Telecentre and Swartruggens). |
| | | | Publications and promotional material (annual reports, newsletters, posters, pamphlets) | 10,000 | The production and distribution of the 2005/06 Annual Report as well as 1 000 copies of the ECA was completed. In addition, various advertorials were developed and published. |

| Strategic Objectives (SO) | Key Performance Area | Action Plan/Activities | Key Performance Indicators | Target 2006/07 | Achievement | |
|---|---|--|--|--|---|---|
| Conduct investigations and research into the achievement of universal service and access to telecommunications services | Conduct research on universal service and access | Research on determination of the categories of the needy and on ICT penetration and utilisation | Obtain public participation, submit report to Minister | July 2006 | Stakeholder and public participation was achieved through the USAASA conference. | |
| | | Research on alternative ICT technologies available to achieve universal service and access. | Conduct research and develop report | March 2007 | This matter is an ongoing exercise as technology is constantly developing. | |
| | | Research on the definition of universal service and access in terms of broadcasting environment. | Conduct research and develop report | March 2007 | The completion of this project has been rescheduled for the 2007/08 financial year, due to the lack of financial resources. | |
| | Provide effective internal/external communication and customer relations services | | Monitoring and evaluating the subsidisation activities of the Agency | Monitor all existing sites and present information on website reporting facility | 423 | Work in progress |
| | | | Develop and implement an integrated communication strategy | Implement communication channels | August 2006 | This project has been rescheduled for the 2007/08 financial year. |
| | | | | Improved public image and awareness of activities of the Agency | March 2007 | This project has been rescheduled for the 2007/08 financial year. |
| | | | | Implement the new name (USAASA) of the Agency and develop branding accordingly | June 2007 | The first phase of this project has already been started with the issue of tender documents. It is anticipated that the project will be completed by 31st July 2007 |

| Strategic Objectives (SO) | Key Performance Area | Action Plan/Activities | Key Performance Indicators | Target 2006/07 | Achievement |
|---------------------------|--|--|---|----------------|--|
| | Provide effective and professional legal services | Draw contracts, facilitate outsourced legal opinions, provide guidance for labour relations matters | Compliance with all legal requirements | Monthly | All service level agreements (SLAs) have been standardised, whilst USAL subsidy agreements for future implementation have also been revised. |
| | Ensure reliable and secure IT infrastructure supporting all operations of the Agency | Develop and implement best-practice policies and procedures | Master Systems Plan | March 2007 | This has been rescheduled for the 2007/08 financial year to ensure alignment with the strategic plan. |
| | | Maintaining ICT systems | Disaster Recovery and Business Continuity Plan | March 2007 | This has been rescheduled for the 2007/08 financial year to ensure alignment with the strategic plan. |
| | | | Provide and source appropriate skills and resources to support network | Monthly | The maintenance, security and desktop support of the ICT systems of the organisation were outsourced during the year. |
| | Provide effective knowledge management and knowledge systems services | Develop a knowledge management strategy | Approve and implement knowledge management strategy | June 2006 | No progress has been made as it is considered best left until the organisational structure has been approved in full. |
| | | Provide support and input in areas of technical standards, Internet governance, e-Models and content development | Provide support in procurement specifications of goods and services, contributions to research, interventions in problems and presentations on new technologies | Monthly | The Manager: IT provided the necessary support in the recommendations for new equipment and assessment, and adjudication of suppliers' quotations. |

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

4.1.1 Services rendered by USAASA

USAASA is mandated through the Electronic Communications Act to manage the Universal Service and Access Fund (USAF). The services rendered by USAASA in deploying USAF projects are outlined in the Universal Service and Access Fund Management Report.

The Agency was established in terms of Electronic Communications Act (Act No. 36 of 2005). The Agency is mainly responsible for promoting the goal of universal service and access. In doing so, it has the following mandates:

- To make recommendations to the Minister of Communications to determine what constitutes universal access by all areas and communities in South Africa;
- To foster adoption and the use of new methods of attaining universal access and service;
- To encourage, facilitate and offer guidance in respect of any scheme to provide universal access and service;
- To encourage any scheme to provide telecommunications services as part of reconstruction and development projects as contemplated in Section 3(a) of the Reconstruction and Development Programme Fund Act, 1994 (Act No. 7 of 1994); and
- To stimulate public awareness of the benefits of telecommunications services.

4.1.2 Going concern

The directors confirm that they are satisfied that the company has adequate resources to continue in business for the twelve month period from the date of this report.

4.1.3 Capacity constraints

(See the Chairperson of the Board and CEO's Statement see pages 4 and 7)

4.1.4 Events after the reporting date

The Minister of Communications, during her budget speech made an announcement as part of resolving USALS issues that they will be combined by province to form Pusanos.

4.2 Divisional performance reports

The Universal Service and Access Agency of South Africa Operations Report focuses on performances related to individual divisions within the Agency.

4.2.1 Financial Management Division

The Finance Division set itself the following targets for the period under review:

- To maximise the potential investment income from funds held at recognised financial institutions;
- To ensure that both administration costs as well as subsidy disbursements remain within the funding limitations of USAASA and USAF respectively;
- To monitor, review, develop and implement measures to limit exposure to fraud and risk;
- To liaise with the Internal Audit division and ensure that regular internal audit functions are conducted; and
- To ensure compliance with PFMA and Treasury Regulations.

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

Achievements

Achievements against the business plan targets are summarised below:

- **Investment income**

- Funds are invested in low-risk, interest-bearing accounts with commercial banks;
- The stabilisation of interest rates over the past year saw the interest of R2,122m earned during this financial year remain relatively constant with interest earned during 2006 (R2,436m); and
- It is pertinent to note that all interest earned is immediately allocated to USAF and is not made available for the funding of administration costs.

- **Budgetary control**

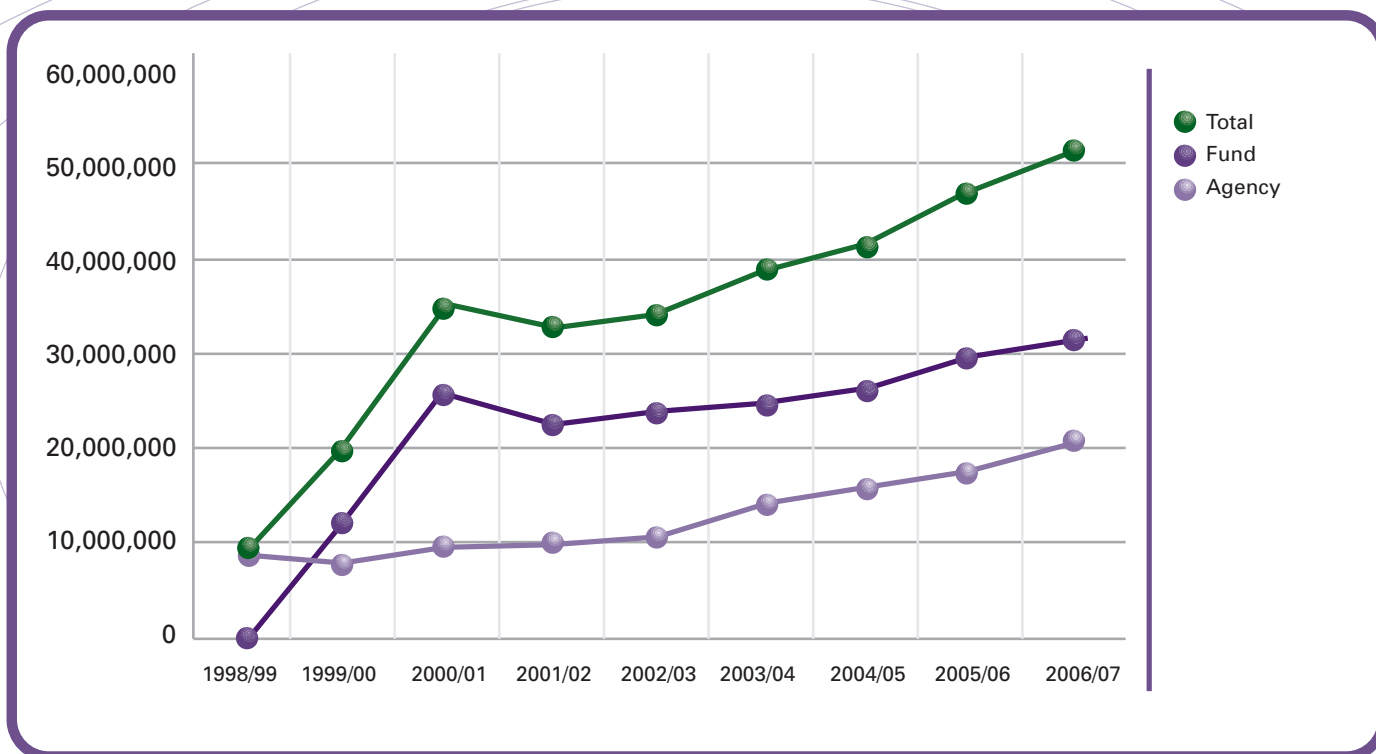
- Reference to (and analysis of) the annual financial statements will reveal the following:

- **Revenue**

- The parliamentary appropriation for USAASA amounted to R20,100m (2006: R17,500) which represents an increase of 14,85% compared with the previous year;
- USAF received a 6,00% increased appropriation from Parliament of R31,164m (2006: R29,400m).

The following graph reflects the parliamentary appropriations since the inception of USAASA.

Graph 1: Parliamentary appropriations since the inception of USAASA



4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

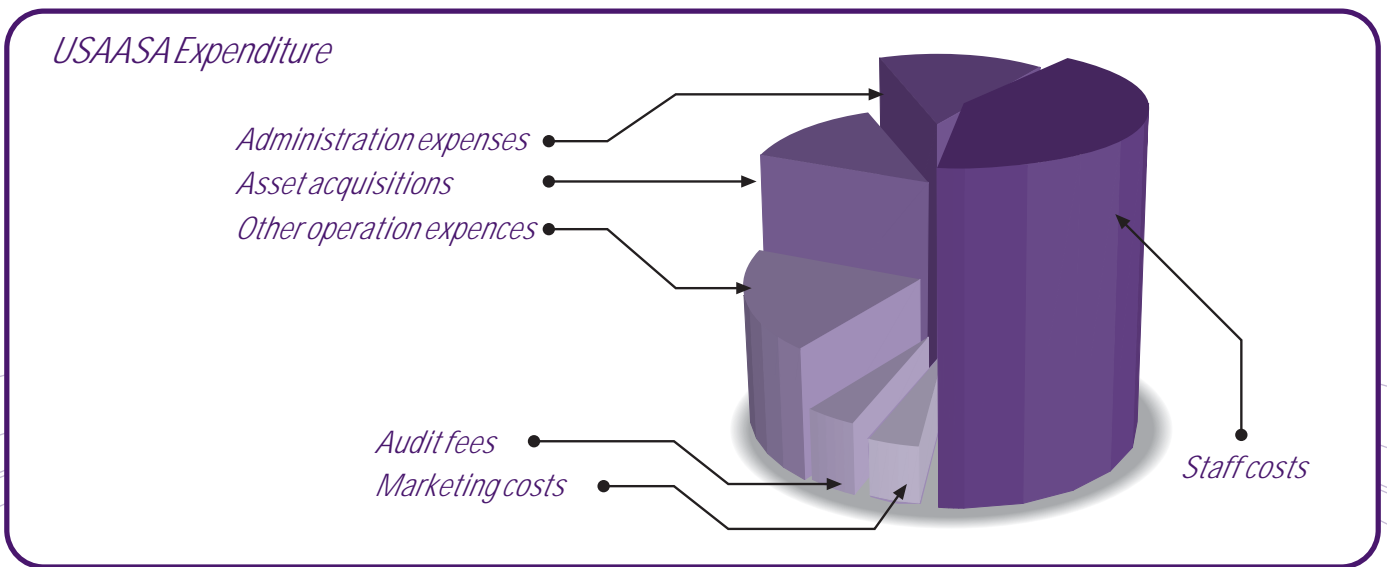
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- **Expenditure**

USAASA expenditure for the year amounted to R18,449m (2006: R17,863m), representing an increase of 3,38%. A decision was taken to ensure a small surplus for the year under review, in order that the accumulated deficit of R0,571m reflected in the previous year's financial statements was appropriately eliminated.

The graph below provides an insight into the expenditure of USAASA for the past year.

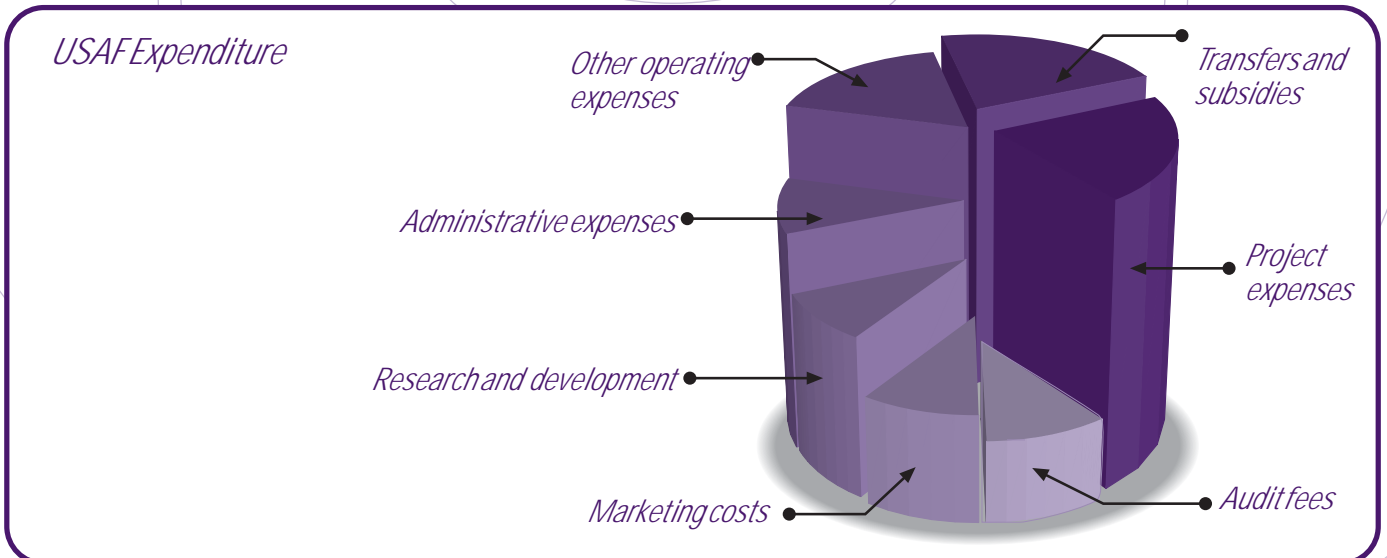
Graph 2: USAASA expenditure, 2006/07 financial year



During the year under review, USAF distributed R32,320m (2006: R71,415m) through subsidies. This is a decrease of 54,74% and is directly attributed to available funding.

The graph below provides an indication of the disbursements effected during the 2006/07 financial year.

Graph 3: Disbursements effected during the 2006/07 financial year



4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

• Surplus

- USAASA

The surplus for the year of R1,774m (2006 (deficit): R0,228m) was planned to achieve the objective of eliminating the accumulated deficit of R0,571 from the previous year, and results in an accumulated surplus of R1,203m at the end of the year under review.

- USAF

A Surplus of R,966m (2006: R38,754m) is the net result of the current year's transactions. This deficit was financed from surplus funds rolled over from the previous year.

Cash reserves

The cash reserve of USAASA was limited to R0,136m on 31 March 2007, as compared with R0,393m on 31 March 2006.

The reconciled cash reserves of USAF are as follows:

| | <u>R'000</u> |
|--|---------------|
| Cash and cash equivalents (as per Statement of Financial Position) | 26,979 |
| Less: Accounts payable | 3,505 |
| Funds available for discretionary grant funding (2006-2007) | <u>23,474</u> |



Launch of Mayibuye Telecentre in Prince Albert - Western Cape

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

4.2.2 Supply Chain Management (SCM) Unit

In December 2005, the Board resolved that the capacity of the unit should be enhanced by the creation of a Supply Chain Manager position. The SCM Manager was appointed on 1 June 2006.

The unit successfully advertised and implemented seven tenders during the year under review.

The Agency continues to support Black Economic Empowerment (BEE) and develop Small, Medium and Micro Enterprises (SMMEs).

4.2.3 Information and Communications Technology (ICT) Unit

The ICT functions of USAASA are supported by an outsourced company. The role of the ICT Unit is to manage the outsourced company, while assisting other units in terms of project management, technical advisory services and research.

4.2.4 Human Resources Division

The Human Resources Division was set up to provide guidance and support on various roles including functions such as strategy; transformation; operations (employee relations, change management, training and development, policies and procedures, senior recruitment); all levels of selection and recruitment; and administration, information systems and surveys.

In the year under review, the Human Resources Division underwent several changes and challenges, especially with the resignation of Senior Managers and the expiry of some contracts. These challenges in turn derailed the division from its focus. However, the division has re-energised and is currently contributing on all the required levels, namely transactions, transformations and operations.

Employment equity

USAASA prides itself on being a responsible employer of choice and has gone through several changes to ensure that other races and women play a central role in the management of the organisation.

During the 2006/07 financial year, there was a decrease in the number of women in roles at senior management level, but a substantial increase in the number of women in middle management positions.

Employee relations

USAASA strives towards achieving sound labour relations between Management and Stakeholders through fair employment practices and the protection of employee rights. However, due to the end of the three-year contracts and the uncertainty of employment which prevailed throughout this period, the matter was referred to the Commission for Conciliation, Mediation and Arbitration (CCMA). To ensure stability within USAASA, permanent employment contracts were offered to staff members in line with the continuous lifespan of the Agency, as per the new Electronic Communications Act.

USAASA also, for the first time, signed a "Recognition Agreement" with the majority Labour Union, namely the Communications Workers Union (CWU), during this period.

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*



USAASA staff at a recent strategy workshop, Hammanskraal.

This financial year showed an increase in turnover as a direct result of the ending of employment contracts. A more active management style also resulted in an increase in corrective action being taken against employees – the number of disciplinary cases increased from 1 to 3 in this financial year.

To identify the developmental areas within the Agency, a climate study was conducted by an independent consultant. Recommendations from this study will be used as a guide to transform USAASA's Human Capital Strategy.

Performance management

To ensure that USAASA complies with the recommendations of the King II Report and Corporate Governance best practice, performance bonuses were paid to all staff members relating to their performance over the previous financial year. General staff received 8%, managers received 6% and senior managers received 4% of their annual salary as a bonus.

Training and development

To enhance the competency levels of the Agency, 10 employees received financial assistance for job-related part-time tertiary studies.

To ensure a better understanding of the Electronic Communications Act, all staff members and Board members attended a workshop on the topic and the implications of the Act for USAASA.

In total, all members of staff attended one or more courses during the period under review as part of USAASA's plan of lifelong learning.

Internal communications

To improve internal communications among the various divisions, meetings between the following parties were introduced:

- staff and management;
- management and the Union, which was identified as a barrier to employee satisfaction;
- an open workplace area;
- monthly Union meetings;
- staff members;
- staff and the Union; and
- senior management.

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)

General human capital statistics pertaining to the 2006/07 financial year are given below.

Table 2: General human capital statistics, 2006/07
01 April 2006 To 31 March 2007

Senior Management Profile By Gender

| Gender | Female | Male |
|--------|--------|------|
| | 3 | 3 |
| Total | 3 | 3 |

Supervisors And Junior Staff Profile By Gender

| Gender | Female | Male |
|--------|--------|------|
| | 12 | 13 |
| Total | 12 | 13 |

People With Disabilities

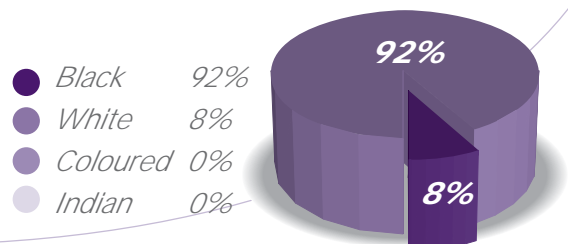
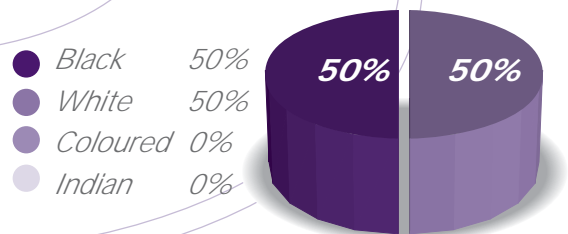
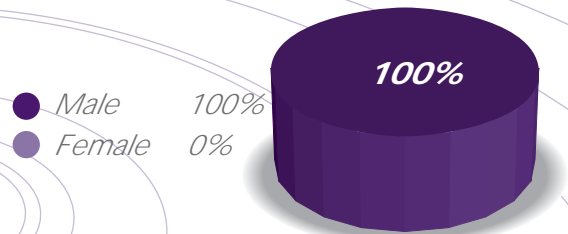
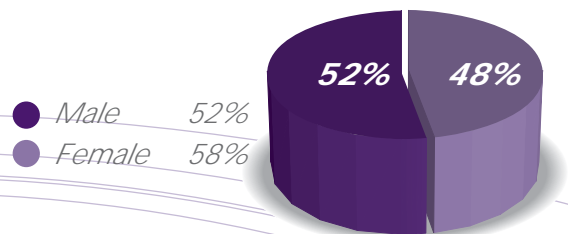
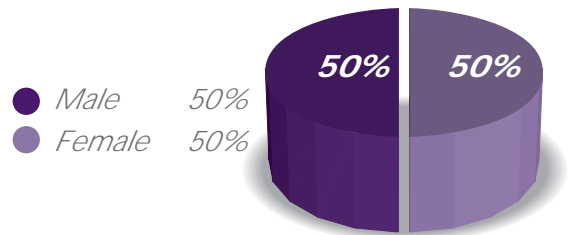
| Gender | Female | Male |
|--------|--------|------|
| | 0 | 1 |
| Total | 0 | 1 |

Senior Management Profile By Race

| Race | Black | White | Coloured | Indian |
|--------|-------|-------|----------|--------|
| Female | 3 | 0 | 0 | 0 |
| Male | 3 | 0 | 0 | 0 |
| Total | 6 | 0 | 0 | 0 |

Supervisors And Junior Staff Profile By Race

| Race | Black | White | Coloured | Indian |
|--------|-------|-------|----------|--------|
| Female | 11 | 1 | 0 | 0 |
| Male | 12 | 0 | 0 | 0 |
| Total | 23 | 1 | 0 | 0 |



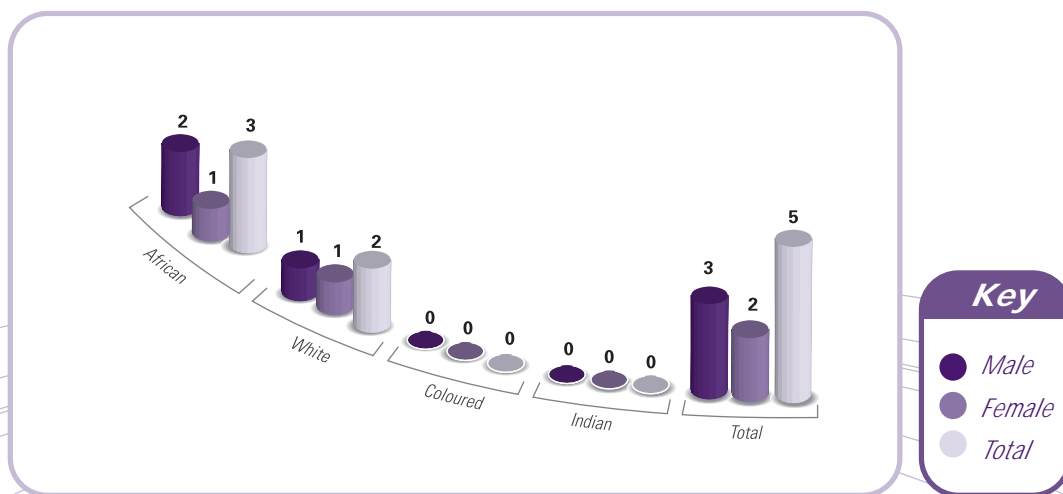
4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)

01 April 2006 to 31 March 2007

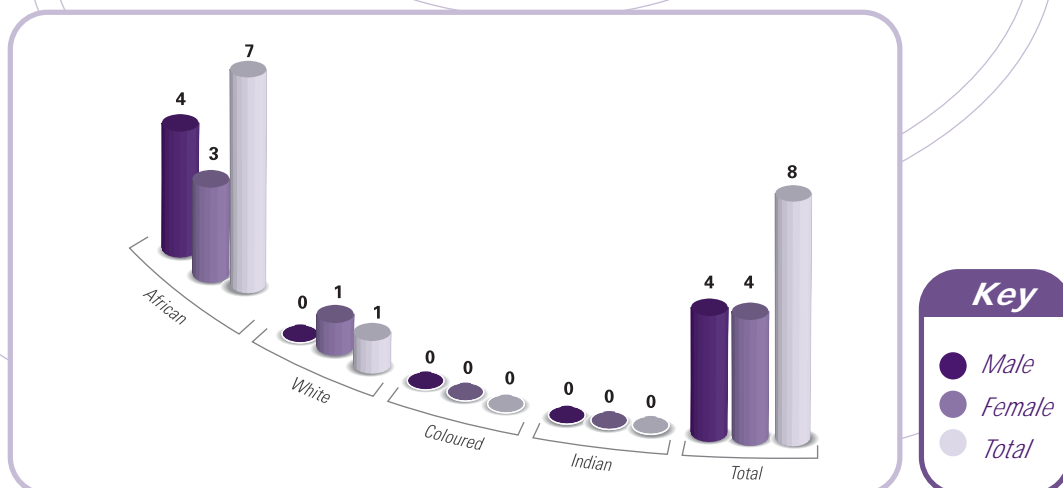
Senior management

| GENDER | African | White | Coloured | Indian | Total |
|--------|---------|-------|----------|--------|-------|
| Male | 2 | 1 | 0 | 0 | 3 |
| Female | 1 | 1 | 0 | 0 | 2 |
| TOTAL | 3 | 2 | 0 | 0 | 5 |



Middle management

| GENDER | African | White | Coloured | Indian | Total |
|--------|---------|-------|----------|--------|-------|
| Male | 4 | 0 | 0 | 0 | 4 |
| Female | 3 | 1 | 0 | 0 | 4 |
| TOTAL | 7 | 1 | 0 | 0 | 8 |

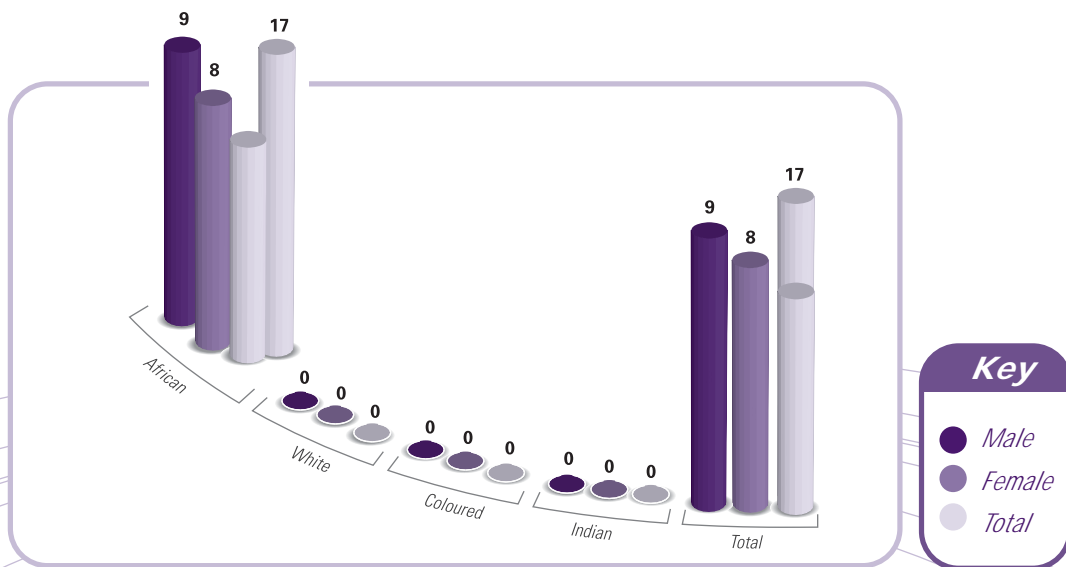


4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)

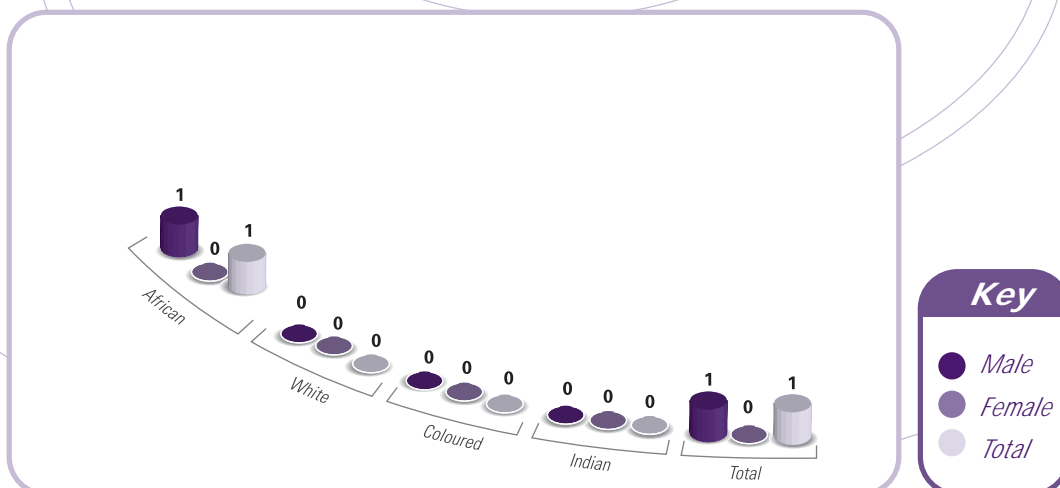
General staff

| GENDER | African | White | Coloured | Indian | Total |
|--------|---------|-------|----------|--------|-------|
| Male | 9 | 0 | 0 | 0 | 9 |
| Female | 8 | 0 | 0 | 0 | 8 |
| TOTAL | 17 | 0 | 0 | 0 | 17 |



People with disabilities

| GENDER | African | White | Coloured | Indian | Total |
|--------|---------|-------|----------|--------|-------|
| Male | 1 | 0 | 0 | 0 | 1 |
| Female | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 1 | 0 | 0 | 0 | 1 |

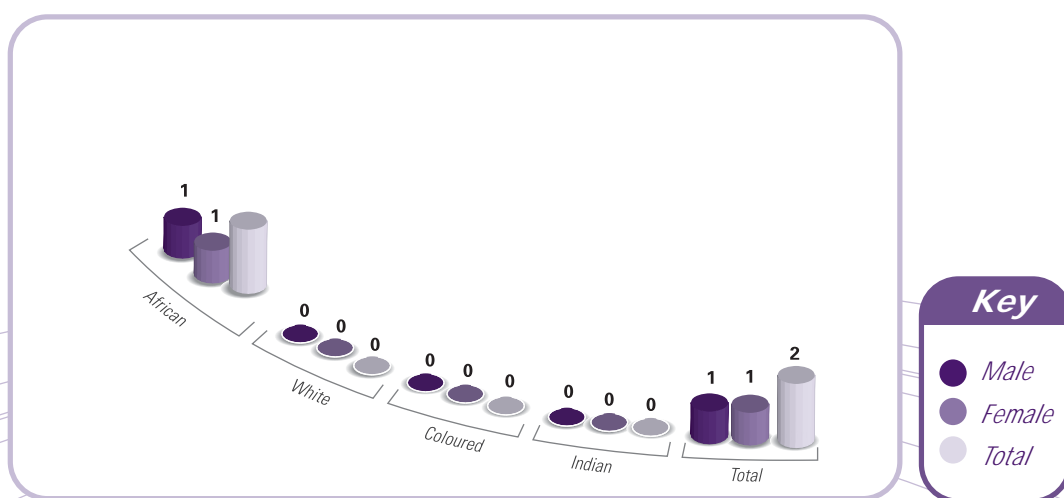


4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)

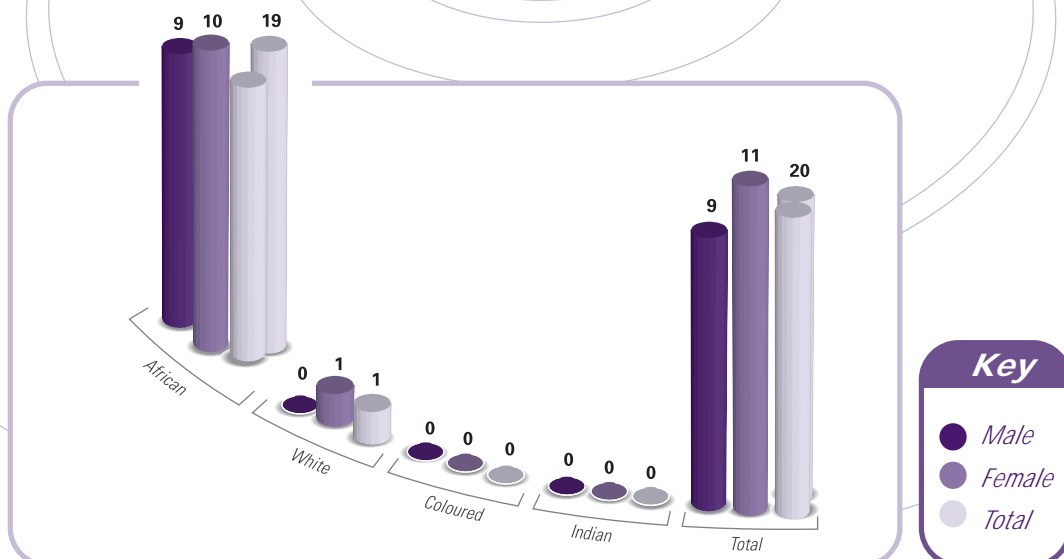
Internship contractors

| GENDER | African | White | Coloured | Indian | Total |
|--------|---------|-------|----------|--------|-------|
| Male | 1 | 0 | 0 | 0 | 1 |
| Female | 1 | 0 | 0 | 0 | 1 |
| TOTAL | 2 | 0 | 0 | 0 | 2 |



Union members

| GENDER | African | White | Coloured | Indian | Total |
|--------|---------|-------|----------|--------|-------|
| Male | 9 | 0 | 0 | 0 | 9 |
| Female | 10 | 1 | 0 | 0 | 11 |
| TOTAL | 19 | 1 | 0 | 0 | 20 |



4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

4.2.5 Project Services Division

The core programmes for the year under review were as follows:

- Providing Internet connectivity in under-serviced areas;
- Setting up ICT Community Digital Hubs;
- Deployment of Telecentres, Telecontainers, Cyberlabs, MPCCs and Gateway sites;
- Rehabilitation of existing facilities;
- Increasing capacity in ICT-use in the under-serviced areas; and

It is the responsibility of the Project Services Unit to deploy universal access and ICT services to under-served communities in South Africa. Various projects were undertaken during the 2006/07 period; some of which were in partnership with other stakeholders. Services undertaken were in the areas of Internet connectivity, Telecentre roll-out, maintenance of Cyberlabs, capacity building, etc.

As part of the deliverables the following was achieved:

- **Telecentres:** In total 14 new Telecentres were rolled out within Multi Purpose Community Centres. The provincial breakdown of new Telecentres is as follows: Gauteng (2), North West (3), Limpopo (3), KwaZulu-Natal (2), Eastern Cape (2), and Western Cape (2). The set target for roll-out was 20; challenges experienced were around the failure by municipalities to complete the targeted sites for deployment. All Telecentres are community access centres and should provide six levels of service, namely:
 - Voice (Telephony);
 - Data (Internet and e-mail);
 - Computer services;
 - Video (DVD/CD Rom);
 - Typing, fax, photocopier; and
 - ICT skill training.

A total of 102 existing Telecentres were maintained. Maintenance activities ranged from supplying equipment such as generators, to the repair of equipment, payment of rent, payment for accreditation of Telecentres, etc. The main challenges experienced were around sustainability, governance and the high number of break-ins to the Telecentres.

- **Multimedia equipment:** A total of 40 Telecentres within Multi Purpose Community Telecentres were earmarked for the supply and installation of multimedia equipment. This equipment was to be fitted in the Batho-Pele General Service Counters for the provision of e-government services to communities. The package also included provision of Internet connectivity. However, none of these Telecentres was rolled out due to the change in strategy in terms of the equipment to be provided, and the review of the Internet connectivity solution strategy.
- **Internet connectivity:** A total of 11 sites received Internet connectivity. The focus was mainly on maintaining the 192 sites that had been installed during the previous financial year. The main challenge was the strategic review of the type of solution required, costs involved in getting the sites connected, usage of the service, and bandwidth capacity based on communities needs.
- **ICT Hubs:** No ICT Community Digital Hub was deployed in the year under review, due to renegotiations with other stakeholders in terms of contributions by the different partners, as well as governance of the structure. Another major challenge was around the site selected for the roll-out.

The maintenance of the three existing Digital Community Hubs was continued, although only two are currently functional. The Maluti-a-Phofung Community Digital Hub experienced serious problems around governance, operational costs and the location of the site. Possible relocation is being explored.

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

- **School Cyberlabs:** No new Cyberlabs were deployed during the period under review due to financial constraints. A total of 150 Cyberlabs were maintained, which exceeded the set target. The focus was on the supply and repair of equipment, provision for remote support, etc. The Cyberlabs experienced several break-ins in which equipment was stolen; other challenges included the level of capacity building. The provision of qualified educators to teach lessons and to provide ICT support also proved challenging.
- **Capacity building:** Various partnerships were entered into in order to provide training to Telecentre managers. Cellular network operator MTN SA provided a comprehensive package that covered the following modules: Computer training, Train the Trainer, Business Management and Mentoring. A total of 30 people participated. A further 39 people received training in the Unlimited Potential Curriculum through the partnership with Microsoft SA Capacity Building; this programme will enable further ICT skills training in under-served communities at minimal cost, while also ensuring sustainability of the Telecentres. Twelve more candidates received training on Telecentre governance.
- **Community websites:** No new websites could be established due to financial constraints; instead, the focus was directed towards maintaining the 20 existing websites. The objective is to empower Telecentres to develop, maintain and market their own websites.
- **e-Mails:** A total of 50 schools received e-mail connectivity to enable communication among students and with the outside world.
- **Launches:** Three sites were launched during the year under review. These were:
 - Inanda, KwaMashu, Ntuzuma (INK) Hub (May 2006)
 - Prince Albert Telecentre, which was launched as part of the National Imbizo Week 2006 for the Western Cape Province (October 2006)
 - Swartruggens Telecentre, which was launched as part of the Imbizo Focus Week 2007 (March 2007)
- **Audit of sites:** The Project Services Unit undertook an exercise to audit all the sites deployed by USAASA since its inception. The audit entailed looking at existing equipment and infrastructure, services provided and income generated, in order to assess viability of the site, governance structure, etc. The findings will be used to inform USAASA's strategy on deployment of new access points.

During the year under review, the Agency deployed 3 Community Digital Hubs in presidential poverty nodes, 50 Telecentres and 148 e-School Cyberlabs.



A Learner at one of USAASA's Training centres.

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

Universal Service and Access Agency of South Africa (Formerly Universal Service Agency)

The Community Digital Hubs and ICT Access Centres

The Agency has identified the following factors as obstacles to the sustainability of the Telecentres:

- Limited human capacity to manage and operate ICT facilities;
- Under-utilisation of ICT facilities due to lack of computer training and skills;
- High rate of technical failure, especially connectivity;
- High cost of ICTs;
- ICT applications are sometimes inappropriate to meet the needs of the communities they serve; and
- Various social, economic, political and cultural conditions.

To address these problems, the Department of Communications and the Agency initiated a new project to establish Community Digital Hubs as part of the hub-and-spoke system in community ICT access centres, to be deployed in the rural and urban renewal nodal points. The Community Digital Hubs are advanced ICT centres where local communities can access ICT services (including skills development and capacity building for optimal utilisation of ICT services). These centres will foster an integrated approach in the use of ICTs for social and economic development in the nodal areas of South Africa.

In February 2006, Minister of Communications, Dr Ivy Matsepe-Casaburri, together with Free State MEC of Agriculture, Mr Casca Mokitlane, launched the first Community Digital Hub in Maluti-a-Phofung. The Hub is located in the Thabo Mofutsanyane District Municipality within the Department of Agriculture facilities at Weltevrede, a few kilometres from the town of Qwaqwa.

The Maluti-a-Phofung Community Digital Hub was initiated to promote universal access to ICTs by the local agricultural community, and to achieve the following:

- Empowerment of emerging farmers around Weltevrede in Qwaqwa to utilise ICTs optimally in the development of business skills and expertise in agriculture;
- Establishment of a well equipped ICT facility to facilitate access to government services through personal computers (PCs), the Internet, e-mail and multimedia services; and
- Provision of computer training to interns identified by the Agricultural College, to enable them to train the emerging farmers and the local community in ICT skills.

The Hub includes a PC Refurbishment Centre established by USAASA in collaboration with Microsoft South Africa. Within its first three months of operation, the refurbishment centre had refurbished 243 PC systems to be deployed to local schools, libraries, clinics and community centres.

Another ICT product deployed by the Department of Communications and the Agency during the year under review was the ICT Telecontainer, used to promote universal access, especially where there is limited availability of formal buildings. The design of the Telecontainer encompasses the use of low voltage equipment and advanced insulation to assist in reducing power consumption and heat emission. Energy efficiency is accomplished through the state-of-the-art technology design of the unit.

The flagship project during the year under review was the upgrading of the Qalabotjha MPCC to provide high-speed Internet, fax, scanner and photocopying facilities. The Qalabotjha MPCC is located at Qalabotjha Township in Villiers under the Mafube Municipality. The roll-out of Qalabotjha MPCC was a unique one as it represented the first MPCC to be rolled out through corporate sponsorships in collaboration with the local municipality and USAASA.

Through the participation of private entities such as Telkom, Nedcor and Cell C, the MPCC has been upgraded to provide ICT services that were previously a distant dream for rural communities. The Agency's subsidy enabled Cell C to provide the Community Service Telephone service to generate revenue for the sustainability of the Telecentre. The Agency also provided business and ICT training for managers and operators of the Telecentre. The launch of the collaboration, which was co-ordinated by the Deputy Minister for Correctional Services, the Honourable Cheryl Gillwald, was attended by various dignitaries including Deputy Minister of Communications, the Honourable Roy Padayachie, and the Executive Mayor, the Honourable Josie Ralebenya.

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

Community Websites and e-Mail for Schools

As part of its ICT-for-development initiative, the Agency has also introduced the concept of **Community Websites** and **e-Mail for Schools**. The primary objective of these initiatives is to encourage communities to use the Internet, websites and e-mails as the catalyst for the development of information societies in their areas.

A total of 50 Telecentres benefited from the Community Website initiative. Every website is as unique as the community it profiles and many of them bear a rich historical background. For example, the Bhamshela Telecentre in KwaZulu-Natal is situated on the site where the great Bhambatha War took place 100 years ago. Seventy-five percent of the community websites reside within Telecentres in the presidential poverty nodes, and the other remaining 25% in other under-serviced areas. In addition, a programme of training and grooming 50 webmasters to sustain these sites is being implemented.

To date, 50 schools have benefited from the e-Mail for Schools programme. Each school has received a unique domain name together with a total of 1,000 e-mail accounts for the use of learners and teachers. This initiative will assist greatly in closing the digital divide.

Open Source Software School Cyberlabs

In its efforts to support Free Open Source Software (FOSS), USAASA has introduced the Open Source Software (OSS) version for School Cyberlabs. During the financial year under review, 10 schools in the presidential nodal points benefited in this programme. It is expected that the programme will be expanded to include more schools and to support the Department of Communications' OSS strategy.



Launch of Inanda Digital Hub, Kwa-Zulu Natal.

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

4.2.6 Corporate Affairs Division

This division celebrated its second year of existence during the year under review and has steadily grown in stature. With the introduction of the Electronic Communications Act (Act No. 36 of 2005), the division is looking forward to meeting its new mandate.

As part of the research studies that were conducted in the 2005/06 financial year, the Corporate Affairs Division embarked on a fact-finding mission to measure their impact on the industry as a whole. Through the Forge Ahead Convergence Seminar that was hosted with Forge Ahead in August 2006, it was able to get a bird's-eye view of the industry and of the impact it could have in future access and service projects. The positive contributions made by various industry players, especially the researchers themselves, were invaluable.

The solid working partnership that has been forged with the Department of Communications and ICASA in dealing with and executing several policy directives has also strengthened in the year under review. Their continuous co-operation, especially during bilateral's, public awareness initiatives and road-shows is invaluable in the endeavour to promote the usage of ICT in under-served communities across the country.

Research

According to Section 59 (3) (c) of the Telecommunications Act, (Act No. 103 of 1996), USAASA is mandated to research and keep abreast of developments in South Africa and elsewhere on telecommunications services and information technology; and make investigations as deemed necessary.

The division, together with Forge Ahead, successfully arranged and facilitated the USAASA and Forge Ahead Convergence Seminar. The aim of this seminar was to officially present research studies conducted by USAASA to stakeholders, and to discuss the expectations from the industry based on (at that time Convergence Bill) and later Electronic Communications Act. The Regulatory and Corporate Affairs Division thanks everyone who attended this seminar; your contributions and recommendations were highly appreciated and more information on the studies will be made available during the new financial year.

The research studies that were presented at the seminar are as follows:

1. **Affordability Study and Definition of Needy Persons in South Africa:** This study seeks to define the "needy person" as indicated in the Act. This process will result in facilitation and policy formulation for the subsidisation of needy people. The study was undertaken in order to define who should get assistance from the Universal Service Fund (now known as the Universal Service and Access Fund).
2. **ICT Penetration in South Africa:** This study was commissioned to establish the extent to which penetration has been achieved in the country. It also reviewed various indicators regarding universal service and access to ICT in South Africa.
3. **USA Impact Study on Universal Service and Access, and Benchmarking of the Universal Service and Access Agency of South Africa:** This study was aimed at assessing the impact USAASA had in South Africa from 1997 to 2004. The study also benchmarks the Agency against similar agencies or institutions in other jurisdictions and countries.
4. **The Achievement of the Objectives of Telecommunication Act:** The purpose of the study was to reflect on the objectives of the Act since its promulgation; it is hoped that the study will remain of relevance to all stakeholders, especially the policymakers.

4. UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

The study on telecommunications affordability found that a "basket of basic telecoms services" would cost a user between R800 and R1 500 per month. At the low end of the price spectrum, the basic telecoms basket of services would include telephony, a PC and dial-up Internet access; the higher end of the spectrum would include broadband Internet access such as ADSL. The study was undertaken in order to define who should qualify for financial assistance from the Universal Service and Access Fund. The categorisation of the needy took into consideration issues such as disabilities, gender, youth and age. Using the living standards measure (LSM), a user would have to fall into LSM 5 (average household income of R2 548.87 per month) or above to be able to afford the basket. The study found that the 15 million South Africans categorised as LSM 4 and below cannot afford the basic basket of ICT services. The study demonstrates that the challenge to provide telecoms services to needy people in South Africa is huge; government will, therefore, have to determine where to focus its initial efforts in this regard.

The study on ICT penetration in South Africa reviewed various indicators regarding universal service and access to ICT in South Africa. These indicators included the following:

- Total number of landlines and public phones available, connected and to be rolled out in future;
- Total number of cell phone subscribers;
- Total number of Community Service Telephones (CST) phones available, connected and to be rolled out;
- The number of home computer users;
- The number of Internet users;
- The number and type of Community ICT Access Centres (e.g. MPCCs, Public Information Terminals (PITs), Telecentres, School Cyberlabs, libraries, etc); and
- Schools with access to computer facilities.

Public awareness initiatives

The Corporate and Regulatory Affairs division is responsible for the promotion of universal service and access in the country through public awareness initiatives. During the year under review, the division participated in various activities aimed at informing the public about its programmes and activities, which included the following:

- Launch of Universal Service and Access Agency of South Africa ICT Centres (Telecentres, Community Digital Hubs, e-School Cyberlabs and Multi Purpose Community Centres). A detailed list of sites launched in the year under review is provided under 5.1;
- June 16 Youth Day Celebrations in Soweto (Johannesburg);
- Department of Communications and ICASA, USALs road-shows;
- SACF and USAASA provincial road-shows; and
- the 8th Annual African ICT Achievers Awards

In all its activities, the division was motivated by its legislative and policy mandate of promoting the goals of universal service and access, within the context of the overall national strategy of achieving a "better life for all [South Africans]".

2005/06 Annual Report Project

The responsibility for ensuring that all annual reports presented by the Agency are compiled, edited, designed and produced rests with this division. The division successfully completed this task during the year under review, which enabled the Agency to table the Annual Report 2005/06 in Parliament on 29 September 2006.

5. ACHIEVEMENTS OF THE UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

5.1 Launches

Inanda, KwaMashu, Ntuzuma (INK) Community Digital Hub

On 19 May 2006, USAASA, in collaboration with Isibani Soluntu Community Development Trust, KwaZulu-Natal Department of Economic Development, MTN, Durban Smart Exchange, Durban Institute of Technology (DIT) and the INK Area Based Management Office, launched INK Digital Hub with great success. The Hub was established and launched with the aim of providing the following to surrounding communities:

- To create a sustainable Information and Communication Technology skills base within the INK poverty node;
- To improve telecommunication systems across the node through the provision of telecommunications options other than voice;
- To support job creation and economic development initiatives for SMME's and co-operatives; and
- The development of digital opportunities for the INK communities to utilise ICT's to enhance education, health, business development and access to government services on-line.

The centre was launched by the Minister of Communications, Dr Ivy Matsepe-Casaburri; Ethekwin Mayor, Mr Obed Mlaba; and Isibani Soluntu Community Development Director, Mr Mtholephi Mthimkhulu.

Malibongwe (ICT) Telecontainer launch

In October 2006, USAASA, together with the Department of Communications, launched the Malibongwe ICT Telecontainer in the Prince Albert Municipality. The launch formed part of the Minister's imbizo visit. The Telecontainer was donated to this community by USAASA during the Women's Mutingati (Women in ICT) Conference held in Cape Town in 2005.

The Telecontainer consists of six computers with Internet access, six telephone lines (donated as part of the partnership with Cell C), a photocopier, printer, scanner and fax machine. This project emphasises USAASA's mandate to ensure that all communities, irrespective of their location, have access to critical government services.



The future: Learners performing at the launch of the Prince Albert Mayibuye Tele-centre Western Cape.

6. BOARD OF DIRECTORS' CORPORATE GOVERNANCE REPORT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

Introduction

The Board is the accounting authority of the Agency in terms of the Public Finance Management Act (PFMA). It is the responsibility of the Board to provide strategic direction and leadership to the Agency and to ensure good corporate governance.

All levels of USAASA subscribe to the values of good corporate governance and are committed to applying the principles of the PFMA and related regulation. The Agency has strengthened its efforts to ensure that business is conducted with discipline, integrity, transparency and social responsibility.

Board Secretary

The Board Secretary supports the Chairperson and Chief Executive Officer to ensure the effective functioning of the Board and committees. In addition, the Board Secretary ensures that the Board complies with the principles of good corporate governance (King II Code), the provisions of the Electronic Communications Act and the Public Finance Management Act. The Board members have direct access to the services of the Board Secretary and all records of the Agency. The Board Secretary attends all Board and Committee meetings to take minutes of the proceedings.

After the resignation of the previous Board Secretary on 30 November 2006, USAASA was without a Board Secretary for four months. This resulted in the appointment of an Acting Board Secretary to ensure continuous Board-related processes.

A new Board Secretary was appointed on 1 April 2007. A process of locating missing documents and finalising the outstanding minutes from Board and Committee meetings has been embarked on, with the assistance of Board Members who were there at the time.

Board Committees

The Board of USAASA has established various committees to assist the Board in the fulfillment of its responsibilities. These include the Audit and Risk Management Committee, the Human Resources and Remuneration Committee, and the Operations and Mandates Committee.

The roles and responsibilities of the Board Committees are reflected in the Terms of Reference for each committee. The committees function according to these terms of reference and the Board monitors and evaluates the committees based on these terms.

A formal code of ethics is in place to guide the manner in which business is conducted and to complement the USAASA mission and values.

Board Committees were established in an effort to assist the Board to carry out its duties and responsibilities with minimal limitations and in compliance with the provisions of the PFMA, the Telecommunications Act and other relevant legislation.

In terms of Section 80(2) of the Electronic Communications Act (Act No. 136 of 2005), the Minister may appoint up to seven Board members. In 2006/07, the Board comprised of seven members, including one executive and six non-executive Board members. However, the terms of the chairperson and two other Board members ended in the last quarter of the year under review. The current chairperson was appointed on 1 December 2006 and was requested by the Board to perform the duties of the Acting CEO until a suitable candidate was appointed.

6. BOARD OF DIRECTORS' CORPORATE GOVERNANCE REPORT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

| Board and Committee Members | Board | Executive Committee (Exco) | Audit Sub-committee | Operations and Mandates Committee | Human Resource and Remuneration Committee |
|---|----------|----------------------------|---------------------|-----------------------------------|---|
| Number of meetings | 8 | 5 | 7 | 3 | 3 |
| Executive members | | | | | |
| Ms Motlatso Ramadiba Acting CEO | 1 | 3 | 4 | 2 | 3 |
| Ms Cassandra Gabriel Acting CEO | 4 | 3 | 2 | 1 | - |
| Non-Executive members | | | | | |
| Mr Chose Choeu Chairperson (Term ended 30/11/06) | 8 | - | - | - | 1 |
| Ms Cassandra Gabriel Chairperson (Term started 1/12/06) | 2 | 3 | 2 | 1 | - |
| Mr Linden Petzer | 8 | 4 | - | 3 | - |
| Mr Andy Mooke | 8 | 5 | - | 2 | 3 |
| Ms Hawa Bibi Khan | 6 | 2 | 5 | - | - |
| Ms Phumelele Ntombela- Nzimande | 5 | - | - | - | 2 |
| Mr Bheki Maduna | 6 | - | 7 | - | 3 |

Executive Committee

The Executive Committee (Exco) is chaired by the Chairperson of the Board. The committee membership comprises the Board Chairperson and the Board Committees chairpersons. Exco is responsible for expediting decision-making processes between Board meetings.

6. BOARD OF DIRECTORS' CORPORATE GOVERNANCE REPORT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

Operations and Mandates Committee

This committee is responsible for assisting the Board to ensure the appropriate alignment of operations of the Agency with the legal mandate as enshrined in the Telecommunications Act, and any other delegated functions of the Board.

The Committee considers and recommends for approval by the Board the strategic plan, and ensures that the strategic objectives, goals, values, mission and vision are linked with the mandate in accordance with relevant legislative requirements. During the year under review, the Committee also provided strategic leadership in the research studies that the Agency commissioned.

USAASA is mandated to manage and administer the Universal Service and Access Fund in accordance with Electronic Communications Act. The Operations and Mandates Committee is instrumental in interrogating the proposals received for the roll-out of ICT infrastructure, services subsidies and grants.

Human Resources and Remunerations Committee

The purpose of this committee is to ensure that the Agency conducts its business in accordance with the relevant labour legislation. The core functions of the committee include advising the Board on human resources strategy, employment equity targets, training, and capacity building planning. This committee also reviews the human resources policies of the organisation.



USAASA Board of Directors:

*(Back Row, L-R) Andy Mooko, Hawa Bibi-Khan, James Theledi (CEO) Bheki Maduna.
(Front Row L-R) Zingisa Mzaidume, Cassandra Gabriel (Chairperson), Berenice Francis.*

7. AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

The Board of USAASA has established and maintains an Audit Committee as its subcommittee. The Audit Committee comprises of five members, three of whom are independent non-board members. The majority of persons serving on USAASA's Audit Committee are financially literate and their diverse skills assist in the effective monitoring of risk management, internal controls and governance processes.

The Chairperson of the Audit Committee is an independent person who is knowledgeable of the status of the position and has the requisite business, financial and leadership skills. In accordance with the requirements of the Public Finance Management Act and the Treasury Regulations in terms thereof, the Board of USAASA has approved the Audit Committee's written terms of reference under which the Audit Committee operates.

The Audit Committee has evaluated itself to measure its effectiveness, and the Board has committed to strengthening the support provided to the Audit Committee to enable it to discharge its responsibilities effectively.

Audit Committee members and attendance

The Audit Committee performs its responsibilities as required in terms of the PFMA and Treasury Regulations. The tasks performed by the Audit Committee have been categorised into three main areas, namely, Internal Audit and Internal Controls; Risk Management, Corporate Governance and External Audit; and the Annual Financial Statements.

| Name of member | Number of meetings attended |
|---|------------------------------------|
| Ms S. Nxumalo (Independent Chairperson) | 7 |
| Ms H.B. Khan (Board member) | 5 |
| Mr B. Maduna (Board member) | 7 |
| Mr M. Motshumi (Independent) | 6 |
| Ms M. Manyama (Independent) | 5 |

The Board has established a system of internal audit under the control and direction of the Audit Committee. During the financial year ended March 2007, the Audit Committee reviewed:

- the activities and effectiveness of the internal audit function;
- the accounting and auditing concerns identified as a result of the internal/external audits; and
- the effectiveness of internal control systems.

Risk management

During the period under review, a risk management strategy and fraud prevention plan have been formalised. This was done by conducting a formal risk assessment through which strategic and operational risks were identified. Action plans were developed by management and the Board to mitigate the risks identified. As a result, a risk register was developed, which is monitored by the internal audit function for effectiveness.

Review of operations during the year

The Audit Committee has noted the following key activities that could have had an impact on the internal control environment of the Agency:

7. AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

Expiry of employees contracts

USAASA employees contracts came to an end during November 2006. This lowered the morale of the staff and could have led to internal control weaknesses. However, all employees were requested to re-apply for their positions and all those who were subsequently employed were given permanent employment contracts. This served to restore some stability to the entity.

Senior management turnover

Chief Executive Officer

During the financial year under review, the Agency has had two chief executive officers. Dr Sam Gulube resigned in May 2006 and was replaced by Dr Raymond Ngcobo in December 2006, who resigned on 1 February 2007. The former Chief Operating Officer, Ms Motlatso Ramadiba, took the position of Acting CEO from June 2006 to November 2006. The newly appointed Chairperson of the Board, Ms Cassandra Gabriel, acted as CEO from 1 February to 31 May 2007.

Chief Financial Officer

The Chief Financial Officer, Mr A Louw, resigned on 31 July 2006. He was replaced by the current CFO, Keith Keys, during October 2006.

Senior Manager: Projects

The contract of the Senior Manager: Projects, Kedibone Serero-Chiloane, ended on 30 October 2006. The post was filled by the incumbent Senior Manager, Winile Lamani, in November 2006.

Senior Manager: Human Resources

The Senior Manager: HR, Thandi Dibakwane, resigned in July 2006. Her post was only filled in December 2006 by Debbie Pauw.

Head of Internal Audit

The Head of Internal Audit, Zwiitwaho Mushope, resigned in January 2007. His position was filled in April 2007 by Peter Makaneta.

New Developments

The committee has noted the introduction of the new disclosure by the Auditor-General. For the first time this year additional categories of disclosure have been added i.e. Other matters and Other Reporting Responsibilities. The attention is drawn to the following items reported under "Other Matters" on the Audit Report:

Material corrections made to the financial statements submitted for audit.

The board had approved the funding of R15 million to Mogalakwena project in line with the objectives of the fund. This obligation was disclosed as a liability in our financial statements. However, the process of finalising the legal documentation took time. This has resulted in the revision of the financial statement to reflect this obligation as a contingent liability in line with financial reporting guidelines (refer to Note 19 - contingent Liabilities on USAF Financial Statements)

Matters of Governance

The entity granted an initial R5m to the holders of Under-Serviced Area Licences issued by ICASA and enters into an agreement for further disbursements of R10m. This agreement includes, among others, the spending of the initial R5 million on infrastructure. USAASA did not disburse most of subsequent subsidy as the majority of the Under-Serviced Area Licensees did not adhere to their agreed contractual commitments i.e. proof of infrastructural spending. The entity understands the importance of this issue. The working committee has been established between all the affected parties i.e. USAASA, ICASA and the DoC to address this matter as USAL's are under dire need for financial support.

External audit and review of annual financial statements

The Audit Committee evaluated and reviewed the annual financial statements of USAASA and USAF for the year ended 31 March 2007 and concluded that they comply, in all material respects, with the South African Statements of Generally Accepted Accounting Practice. The review covered the following:

- Underlying accounting policies or changes thereto;
- Major adjustments and managerial judgments;
- Significant adjustments flowing from the year under audit;
- Compliance with General Accepted Accounting Practice;
- The appropriateness of the going concern assumption; and
- The reports of the Auditor-General for USAASA and USAF.

The Audit Committee agrees that the adoption of the going concern assertion is appropriate in preparing annual financial statements for USAASA and USAF. The Audit Committee has, therefore, recommended the adoption of the Annual Financial Statements by the Board of USAASA.

7. AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

Review of annual financial statements

The review of Annual Financial Statements paid specific attention to:

- Underlying accounting policies or changes thereto;
- Major estimates and managerial judgments;
- Significant adjustments flowing from the year-end audit;
- Compliance with Generally Accepted Accounting Practice, the Public Finance Management Act and other statutory precepts;
- The appropriateness of the going concern assumption; and
- The Report of the Auditor-General for the Universal Service and Access Agency of South Africa and the Universal Service and Access Fund.

The Committee has evaluated the Annual Financial Statements of the Universal Service and Access Agency of South Africa and the Universal Service and Access Fund for the year ended 31 March 2006 and concluded that they comply, in all material respects, with the South African Statements of Generally Accepted Accounting Practice.

The Audit Committee agrees that the adoption of the going concern assertion is appropriate in preparing annual financial statements for the Universal Service and Access Agency of South Africa and the Universal Service and Access Fund. The Committee has, therefore, recommended the adoption of the annual financial statements by the Board of USAASA.

8. STATEMENT OF RESPONSIBILITY REPORT

The financial statements were drawn up in accordance with the Statement of Generally Recognised Accounting Practice (GRAP) as stipulated in Section 55(1)b of the PFMA.

The Board confirms its responsibility for the accuracy of the accounting records and the fair presentation of the financial statements, and reiterates that, to the best of its knowledge, the following financial statements have been prepared in accordance with GRAP as prescribed by the National Treasury. The financial statements of the Universal Service and Access Agency of South Africa are complete and are free of material misstatements, including omissions.

9. OTHER

There are no other material facts or circumstances not disclosed, that would have an effect on the understanding of the state of financial affairs of the Universal Service and Access Agency of South Africa and the Universal Service and Access Fund.

10. APPROVAL

The annual financial statements set out in the following pages have been approved by the Board/Accounting Authority.

Cassandra Gabriel
Chairperson of the Board

James Theledi
Chief Executive Officer

2007/07/24



2006 - 2007 ANNUAL FINANCIAL STATEMENTS

Contents

1. Report of the Auditor General
2. Statement of Financial Performance
3. Statement of Financial Position
4. Statement of Changes in Net Assets
5. Cash Flow Statement
6. Notes to the Annual Financial Statements

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF
UNIVERSAL SERVICE AND ACCESS AGENCY OF SOUTH AFRICA (USAASA)
FOR THE YEAR ENDED 31 MARCH 2007.**

Introduction

1. I have audited the accompanying financial statements of the USAASA which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 49 to 62.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
 - selecting and applying appropriate accounting policies; and
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 647 issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used;
 - reasonableness of accounting estimates made by management; and
 - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

REPORT ON THE FINANCIAL STATEMENTS

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

Basis of accounting

8. The USAASA's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements.

Opinion

9. In my opinion the financial statements present fairly, in all material respects, the financial position of USAASA as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting as discussed in note 1 to the financial statements and in the manner required by the PFMA.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Internal control

10. The changes in management from the prior year without the proper handover procedures resulted in the current management having insufficient information to submit statutory returns and thus no payment was made.
11. Poor monitoring controls to ensure compliance with the reporting framework resulted in material corrections in the annual financial statements.

Material non-compliance with legislation

12. The entity did not remit the outstanding PAYE and workman's compensation amounting to R555 831 from the prior years to the relevant authorities. The penalties and interest on the outstanding balance at year-end was not disclosed in the financial statements.

Material corrections made to the financial statements submitted for audit

13. An adjustment of R92 579 was made to account receivables as the balance was understated. In addition, the provision for bad debts was reduced by R78 927 as it was overstated.

Special investigations in progress

14. As reported in the prior year, an investigation was conducted regarding the relocation costs of R150 000 paid to one of the senior managers. Legal opinions are still being sought on the Agency's prospects of recovering the relocation allowance paid. The outcome of the investigation was still pending.

REPORT ON THE FINANCIAL STATEMENTS

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

OTHER REPORTING RESPONSIBILITIES

Performance information not received in time

15. I was not able to review the reported performance information as set out on pages 26 to 38 of the annual report, since the information was not received in time to enable us to complete an evaluation of the quality of the reported performance information.

Responsibility of the accounting authority

16. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Responsibility of the Auditor-General

17. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007 issued in Government Gazette No. 29919 dated 25 May 2007.

18. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit finding

20. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of USAASA because the system relevant for generating information on strategic objectives of USAASA could not provide adequate information for the purposes of the evaluation.

APPRECIATION

21. The assistance rendered by the staff of the Universal Service and Access Agency of South Africa during the audit is sincerely appreciated.



P Stamper for Auditor-General
Johannesburg

31 July 2007



AUDITOR - GENERAL

Statement of Financial Position as at 31 March 2007

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

| | | 31 March 2007 | 31 March 2006 |
|---------------------------------------|-------|----------------------|----------------------|
| | Notes | <u>R'000</u> | <u>R'000</u> |
| REVENUE | | | |
| Government grants received | 3 | 20,100 | 17,500 |
| Gains on disposal of assets | 4 | - | 44 |
| Other income | 5 | 123 | 88 |
| TOTAL REVENUE | | <u><u>20,223</u></u> | <u><u>17,632</u></u> |
| EXPENDITURE | | | |
| Administrative expenses | 6 | 2,547 | 1,840 |
| Staff costs | 7 | 9,060 | 8,620 |
| Marketing costs | 8 | 544 | 358 |
| Audit fees | 9 | 356 | 329 |
| Other operating expenses | 10 | 5,942 | 6,679 |
| Losses on disposal of assets | 4 | - | 37 |
| TOTAL EXPENDITURE | | <u><u>18,449</u></u> | <u><u>17,863</u></u> |
| SURPLUS/(DEFICIT) | | 1,774 | (231) |
| | 11 | | |
| Finance income | | - | 3 |
| Surplus/(Deficit) for the year | | <u><u>1,774</u></u> | <u><u>(228)</u></u> |

Statement of Financial Position as at 31 March 2007

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

| | | 31 March 2007 | 31 March 2006 |
|---|-------|---------------|---------------|
| | Notes | R'000 | R'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 2,280 | 564 |
| Current assets | | | |
| Loans and receivables:current | 13 | 520 | 450 |
| Cash and cash equivalents | 14 | 384 | 57 |
| | | 136 | 393 |
| TOTAL ASSETS | | 2,800 | 1,014 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | 1,597 | 1,585 |
| Provisions | 16 | 1,087 | 1,010 |
| | | 510 | 575 |
| TOTAL LIABILITIES | | 1,597 | 1,585 |
| NET ASSETS | | | |
| CAPITAL AND RESERVES | | | |
| Accumulated surplus/(deficit) | 17 | 1,203 | (571) |
| TOTAL NET ASSETS AND LIABILITIES | | 2,800 | 1,014 |

Statement of Changes in Net Assets as at 31 March 2007

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

| | | 31 March 2007 | 31 March 2006 |
|---|-------|---------------|---------------|
| | Notes | R'000 | R'000 |
| Balance at 1 April 2005 as originally stated | | | |
| - correction of prior period error | 18 | - | 31 |
| As restated | | - | (374) |
| Surplus/(Deficit) for the year | | - | (343) |
| As restated | | - | (228) |
| Surplus/(Deficit) for the year | | (571) | (571) |
| | | 1,774 | - |
| Balance as at 31 March 2007 | | 1,203 | (571) |

Cash Flow Statement as at 31 March 2007

Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)

| | | 31 March 2007 | 31 March 2006 |
|---|-----------|----------------|---------------|
| | Notes | R'000 | R'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from government and customers | | 19,896 | 17,612 |
| Cash paid to suppliers and employees | | (18,096) | (17,418) |
| Net cash inflows from operating activities | 21 | 1,800 | 194 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds on disposal of: | | | |
| Property, plant and equipment | | | 174 |
| Acquisition of: | | | |
| Property, plant and equipment | | (2,057) | (142) |
| Net cash flows from investing activities | 20 | (2,057) | 32 |
| Net increase/(decrease) in cash and cash equivalents | | (257) | 226 |
| Cash and cash equivalents at the beginning of the year | 14 | 393 | 167 |
| Cash and cash equivalents at end of the year | 14 | 136 | 393 |

1. Statement of compliance

The Universal Service and Access Agency of South Africa (USAASA) was established in the Republic of South Africa in terms of section 58 of the Telecommunication Act, No. 103 of 1996 (as amended) to manage the Universal Service Fund in terms of section 66 of the act. Section 87(1) of the Act revised the name of the USAASA from the Universal Service Agency to the Universal Service and Access Agency of South Africa. The USAASA is recognised as a Schedule 3A public entity of the Public Finance and Management Act, No. 1 of 1999. (PFMA).

The financial statements have been prepared in accordance with the Statement of Generally Recognised Accounting Practice (GRAP) and South African Generally Accepted Accounting Practice (SA GAAP) as stipulated by Section 91 of the PFMA. GRAP was adopted by the USAASA in 2005/6.

2. Accounting policies

The following are the principle accounting policies of the USAASA which are, in all material respects, consistent with those applied in the previous year, except as otherwise indicated:

2.1. Basis for preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP

GRAP 1: Presentation of financial statements
GRAP 2: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors

Replaced Statement of GAAP

AC101: Presentation of financial statements
AC118: Cash flow statements
AC103: Accounting policies, changes in accounting estimates and errors

Notes to the Annual Financial Statements 31 March 2007

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

1. Terminology differences:

| Standard of GRAP | Replaced Statement of GAAP |
|------------------------------------|-----------------------------------|
| Statement of financial performance | Income statement |
| Statement of financial position | Balance sheet |
| Statement of changes in net assets | Statement of changes in equity |
| Net assets | Equity |
| Surplus/deficit | Profit/loss |
| Accumulated surplus/deficit | Retained earnings |
| Contributions from owners | Share capital |
| Distributions to owners | Dividends |

2. The cash flow statement can only be prepared in accordance with the direct method.

3. Specific information has been presented separately on the statement of financial position such as:

- Receivables from non-exchange transactions, including taxes and transfers;
- Taxes and transfers payable;
- Trade and other payables from non-exchange transactions;

4. Amount and nature of any restrictions on cash balances is required.

Paragraph 11 – 15 of GRAP 1 has not been implemented due to the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

2.2. Revenue recognition

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the useful life of the relevant asset by equal annual installments.

Revenue received via the National Revenue Fund forms part of the Department of Communications budget vote. The USAASA only recognizes revenue once the revenue has been appropriated by Parliament over the period for which it was appropriated.

2.3. Interest

Interest income is accrued on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity

2.4. Fruitless and wasteful expenditure

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 to the income statement in the period in which it is incurred.

Notes to the Annual Financial Statements

31 March 2007

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

2.5. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are held with registered banking institutions with maturities of three months or less and that are subject to an insignificant risk of change in value. For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts.

2.6. Retirement benefit costs

The USAASA operates a defined contribution fund for employees, the assets of which are generally held in separate trustee-administered funds. All payments to the defined contribution fund are fully paid for by the USAASA as per the employment contract of each employee and are charged to the income statement in the year to which it relates. The USAASA does not guarantee the performance of this fund nor the preservation of the capital invested.

2.7. Provisions

Provisions are recognised when the entity has a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be estimated reliably. Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

2.8. Taxation

The USAASA is not required to make provision for SA Normal Taxation in the financial statements, since it is exempted in terms of Section 10(1) cA(i) of the Income Tax Act 58 of 1962 as amended. The USAASA is defined as a public authority in terms of the VAT Act 89 of 1991 as amended and is not required to register for VAT (Value Added Tax). The USAASA is also exempt from paying Skills Development Levy in terms of Section 4 (d) of the Skills Development Levies Act No. 74 of 2002.

2.9. Property plant and equipment

Property, plant and equipment are recognised as assets if it is probable that future economic benefits associated with an item will flow to the Agency. Property, plant and equipment are stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

Depreciation period

| | |
|------------------------|---------|
| Motor vehicles | 5 Years |
| Computer equipment | 3 Years |
| Office equipment | 5 Years |
| Furniture and fittings | 5 Years |

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

Property held for resale is recorded at lower of cost or recoverable value.

Notes to the Annual Financial Statements *31 March 2007*

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

2.10. Leases

The leases entered into by the company are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.11. Financial instruments

Recognition

Financial assets and financial liabilities are recognized on the Agency's statement of financial position when the Agency becomes a party to the contractual provisions of the instrument. All "regular way" purchases and sales of financial assets are initially recognized using trade date accounting.

Measurement

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

Accounts receivable

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

Accounts payables

Accounts payables are subsequently held at cost less payments made.

2.12. Comparative figures

Comparative figures are adjusted to conform to changes in presentation in the current year.

2.13. Statement of Materiality and Significance

Materiality over the period under review was based on 0.5% of the appropriated budget for a given year. Quantitative and qualitative materiality are determined by the "USAASA & USAF: Materiality and Significance Framework" which has been prepared in terms of the stipulations of Treasury Regulation 28.3.1.

| | 31 March 2007 | 31 March 2006 |
|---|---------------|---------------|
| | R'000 | R'000 |
| 3 Government Grants | | |
| Department of Communications | 20,100 | 17,500 |
| 4 Gains / losses on disposal of assets | | |
| Gains on disposal of assets | - | 44 |
| Losses on disposal of assets | - | 37 |
| 5 Other income | | |
| Tender levies | 98 | 63 |
| Sundry income | - | 25 |
| Bad debts recovered | 25 | - |
| | 123 | 88 |

Notes to the Annual Financial Statements 31 March 2007

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

| | 31 March 2007 | 31 March 2006 |
|---|---------------|---------------|
| | R'000 | R'000 |
| 6 Administrative expenses | | |
| Levies | 7 | 28 |
| Workman's compensation | 30 | (63) |
| Office teas and cleaning | 107 | 161 |
| Sundry expenses | 59 | 139 |
| Fees for services | | |
| - Board members | 641 | 303 |
| - Audit committee members | 99 | 130 |
| Legal fees | 265 | 36 |
| Entertainment | 12 | 35 |
| Stationery and printing | 372 | 176 |
| Venues and facilities | 429 | 253 |
| Bad debt written off | - | 94 |
| Bank charges | 31 | 40 |
| Training and staff development | 495 | 508 |
| | 2,547 | 1,840 |
| 7 Staff costs | | |
| Wages and salaries | 7,576 | 7,044 |
| - Basic salaries | 6,348 | 5,791 |
| - Performance awards | 475 | 286 |
| - Other non-pensionable allowance | 637 | 814 |
| - Leave payments | 44 | 70 |
| - Overtime pay | 72 | 83 |
| Social contributions (Employer's contributions) | 1,484 | 1,576 |
| - Medical | 124 | 246 |
| - UIF | 39 | 36 |
| - Pension | 1,321 | 1,294 |
| | 9,060 | 8,620 |
| 8 Marketing costs | | |
| Communications | 18 | 160 |
| Advertising | 526 | 198 |
| | 544 | 358 |
| 9 Audit fees | 356 | 329 |

Notes to the Annual Financial Statements 31 March 2007

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

| | Notes | 31 March 2007 | 31 March 2006 |
|--|-------|---------------|---------------|
| | | R'000 | R'000 |
| 10 Other operating expenses | | | |
| Fruitless and wasteful expenditure | 23 | 5 | 274 |
| Consultants, contractors and special services | | 938 | 1,125 |
| Equipment items expensed | | | |
| - Data equipment | | 41 | 36 |
| - Office equipment | | - | 4 |
| Maintenance, repairs and running costs | | 856 | 1,127 |
| - Property and buildings | | 100 | 30 |
| - Machinery and Equipment | | 520 | 839 |
| - Other maintenance, repairs and running costs | | 236 | 258 |
| Depreciation | | 341 | 413 |
| - Motor vehicles | | - | 15 |
| - Computer equipment | | 227 | 278 |
| - Office furniture and fittings | | 52 | 55 |
| - Office equipment | | 62 | 65 |
| Municipal services | | 115 | 103 |
| Travel and subsistence | | 932 | 1,085 |
| Courier and delivery charges | | 24 | 32 |
| Communication costs | | 873 | 916 |
| Rentals in respect of operating leases | | 1,817 | 1,564 |
| - Buildings | | 1,303 | 1,016 |
| - Plant, machinery and equipment | | 108 | 63 |
| - Vehicles | | 374 | 451 |
| - Plants | | 32 | 34 |
| | | 5,942 | 6,679 |
| 11 Finance income | | | |
| Interest on | | | |
| - Cash and bank deposits | | - | 3 |

Statement of Financial Position as at 31 March 2007

Universal Service and Access Agency of South Africa (Formerly Universal Service Agency)

12 Property, plant and equipment

| | Buildings | Vehicles | Computer Equipment | Office Furniture & Fittings | Office Equipment | Total |
|---|--------------|--------------|--------------------|-----------------------------|------------------|------------------|
| Opening net carrying amount | | | | | | |
| Gross carrying amount | - | - | 345 | 103 | 116 | 564 |
| Accumulated depreciation | - | 90 (90) | 1,585 (1,240) | 624 (521) | 352 (236) | 2,651 (2,087) |
| Additions | 1,002 | - | 175 | 868 | 12 | 2,057 |
| Depreciation charge | - | - | (227) | (52) | (62) | (341) |
| Closing net carrying amount 31 March '07 | 1,002 | - | 293 | 919 | 66 | 2,280 |
| Gross carrying amount | 1,002 | 90 | 1,760 | 1,492 | 364 | 4,708 |
| Accumulated depreciation | - | (90) | (1,467) | (573) | (298) | (2,428) |
| Opening net carrying amount | | | | | | |
| Gross carrying amount | - | 116 | 527 | 172 | 187 | 1,002 |
| Accumulated depreciation | - | 286 (170) | 1,951 (1,424) | 680 (508) | 718 (531) | 3,635 (2,633) |
| Additions | - | - | 142 | - | - | 142 |
| Disposals | - | (101) | (46) | (14) | (6) | (167) |
| Depreciation charge | - | (15) | (278) | (55) | (65) | (413) |
| Closing net carrying amount 31 March '06 | - | - | 345 | 103 | 116 | 564 |
| Gross carrying amount | - | 90 | 1,585 | 624 | 352 | 2,651 |
| Accumulated depreciation | - | (90) | (1,240) | (521) | (236) | (2,087) |

Notes to the Annual Financial Statements 31 March 2007

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

| | 31 March 2007 | 31 March 2006 |
|---|---------------|---------------|
| | R'000 | R'000 |
| 13 Loans and receivables | | |
| Current | | |
| Prepayments and Advances | 399 | 151 |
| - Staff Advances | 53 | 91 |
| - Prepayments | 346 | 60 |
| Less: Impairment of debtors | (15) | (94) |
| | 384 | 57 |
| 14 Cash and cash equivalents | | |
| Cash and balances with banks | 136 | 392 |
| Cash shown as current assets | - | 1 |
| | 136 | 393 |
| 15 Trade and other payables | | |
| Trade creditors | 957 | 300 |
| Accruals | 130 | 701 |
| Administered funds | - | 9 |
| | 1,087 | 1,010 |
| 16 Provisions | | |
| Salary and related expense provision | | |
| Opening balance | 503 | 460 |
| Utilisation of provisions during the year | (44) | (255) |
| Provisions made during the year | 21 | 298 |
| Closing balance | 480 | 503 |
| Compensation Commissioner | | |
| Opening balance | 72 | 120 |
| Utilisation of provisions during the year | (72) | - |
| Provisions made during the year | 30 | (48) |
| Closing balance | 30 | 72 |
| Total Provisions | | |
| Opening balance | 575 | 580 |
| Utilisation of provisions during the year | (116) | (255) |
| Provisions made during the year | 51 | 250 |
| Closing balance | 510 | 575 |
| Analysis for reporting purposes: | 510 | 575 |
| Current provisions | 510 | 575 |

Notes to the Annual Financial Statements 31 March 2007

Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)

| | 31 March 2007 | 31 March 2006 |
|--|----------------|---------------|
| | R'000 | R'000 |
| 17 Accumulated surplus/(deficit) | | |
| Balance at the beginning of the year | (571) | 31 |
| - correction of prior period error | - | (374) |
| As restated | <u>(571)</u> | <u>(343)</u> |
| Surplus/(Deficit) for the year | 1,774 | (228) |
| Balance at the end of the year | <u>1,203</u> | <u>(571)</u> |
| 18 Prior period error | | |
| PAYE | - | 374 |
| Prior period error | | |
| In 2005/2006 it was discovered that the Agency owed the South African Revenue Service R 483,106 arising from income taxes not remitted and interest and penalties for the late remittance of income tax. | | |
| 19 Net cash inflows from operating activities | | |
| Cash receipts from customers and transfers from National Dept's. | 19,896 | 17,612 |
| Cash payments to suppliers and employees | (18,096) | (17,418) |
| Net cash inflows/ outflows from operating activities | <u>1,800</u> | <u>194</u> |
| 20 For net cash flows from investing activities | | |
| Proceeds on disposal of: | | |
| Property, plant and equipment | - | 174 |
| Acquisition of: | | |
| Property, plant and equipment | (2,057) | (142) |
| Net cash flows from investing activities | <u>(2,057)</u> | <u>32</u> |
| 21 Cash generated from/(utilised in) operations | | |
| Surplus/(deficit) before tax | 1,774 | (228) |
| Net gain on disposal of assets | - | (7) |
| Non-cash movements/working capital changes | 26 | 429 |
| Depreciation | 341 | 413 |
| Increase/(Decrease) in payables | 77 | (159) |
| Increase/(Decrease) in provisions | (65) | (4) |
| (Increase)/Decrease in receivables | (327) | 179 |
| Net cash flows from operating activities | <u>1,800</u> | <u>194</u> |

Notes to the Annual Financial Statements 31 March 2007

*Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)*

| | 31 March 2007 | 31 March 2006 |
|--|---------------|---------------|
| | R'000 | R'000 |
| 22 Operating lease arrangements | | |
| Lessee | | |
| Property lease | | |
| At the reporting date the entity had outstanding commitments under non-cancelable operating leases, which fall due as follows: | | |
| Up to 1 year | 1,003 | 1,105 |
| 1 to 5 years | 4,576 | 169 |
| | 5,579 | 1,274 |
| Equipment lease | | |
| At the reporting date the entity had outstanding commitments under non-cancelable operating leases, which fall due as follows: | | |
| Up to 1 year | 103 | - |
| 1 to 5 years | 60 | - |
| | 163 | - |
| Total | | |
| At the reporting date the entity had outstanding commitments under non-cancelable operating leases, which fall due as follows: | | |
| Up to 1 year | 1,106 | 1,105 |
| 1 to 5 years | 4,636 | 169 |
| | 5,742 | 1,274 |
| 23 Fruitless & Wasteful Expenditure | | |
| Fruitless and wasteful expenditure – current year | 5 | 274 |
| Analysis of Current Fruitless and wasteful expenditure | | |
| Incident | R | R |
| Interest paid to suppliers for late settlement of accounts | 5,000 | 369 |
| Penalties and interest - WCA | - | 15,275 |
| Relocation allowance | - | 150,000 |
| Interest and penalties - SARS | - | 109,103 |
| | 5,000 | 274,748 |
| Disciplinary steps taken/criminal proceedings | | |
| Nil | | |

Notes to the Annual Financial Statements 31 March 2007

Universal Service and Access Agency
of South Africa (Formerly Universal Service Agency)

24 Senior Management Emoluments

| | Fees for Meeting | Salary | Performance payments | Fees for Other Services | 31 March 2007 R'000 | 31 March 2006 R'000 |
|--|------------------|--------|----------------------|-------------------------|------------------------|------------------------|
| Executive Management | | | | | | |
| Chief Executive Officer - Dr S. Gulube | - | 129 | - | - | 129 | 656 |
| Chief Financial Officer - Mr. A. Louw | - | 206 | - | - | 206 | 458 |
| Chief Operations Officer - Ms. M. Ramadiba | - | 573 | 4 | - | 577 | 150 |
| Mrs. K. Serero-Chiloane (Senior Manager) | - | 286 | 14 | - | 300 | 458 |
| Mrs. T. Dibakwane (Senior Manager) | - | 177 | - | - | 177 | 458 |
| Mr. T. Thupaatlase (Senior Manager) | - | 424 | 11 | - | 435 | 345 |
| Mr. D Memela | - | - | - | - | - | 164 |
| Ms. D. Pauw (Senior Manager) | - | 108 | - | - | 108 | - |
| Mr. W. Lamani (Senior Manager) | - | 160 | - | - | 160 | - |
| Chief Financial Officer - Mr. K. Keys | - | 160 | - | - | 160 | - |
| Chief Executive Officer - Dr R. Ngcobo | - | 88 | - | - | 88 | - |
| | - | 2,311 | 29 | - | 2,340 | 2,689 |
| Non Executive Management | | | | | | |
| Mr. C. Choeru | 26 | - | - | 88 | 114 | 102 |
| Mrs. P. Ntombela-Nzimande | 18 | - | - | 26 | 44 | 3 |
| Ms. H. B. Khan | 32 | - | - | 36 | 68 | 55 |
| Mr. L. Petzer | 38 | - | - | 24 | 62 | 79 |
| Mr. A. Mooke | 46 | - | - | 78 | 124 | 32 |
| Mr. B. Maduna | 40 | - | - | 75 | 115 | 32 |
| Ms. Z. Mzaidume | 11 | - | - | - | 11 | - |
| Ms. C. Gabriel | 22 | - | - | 81 | 103 | - |
| | 233 | - | - | 408 | 641 | 303 |
| Audit Committee Members | | | | | | |
| Ms. S. Nxumalo | 62 | - | - | - | 62 | 71 |
| Ms. M. Manyama | 17 | - | - | - | 17 | 25 |
| Mr. M. Motshumi | 20 | - | - | - | 20 | 34 |
| | 99 | - | - | - | 99 | 130 |

25 Inter-entity Transactions

| Name of entity | Nature of the relationship | Transaction Type | R'000 | R'000 |
|---------------------------------|----------------------------|------------------|--------|--------|
| Department of Communications | Executive Authority | Appropriation | 20,100 | 17,500 |
| Universal Service & Access Fund | Fund management | Fund management | 169 | 14 |
| Balances | | | | |
| Name of entity | Nature of the Relationship | | R'000 | R'000 |
| Universal Service & Access Fund | Fund management | | 160 | 9 |



2006 - 2007 ANNUAL FINANCIAL STATEMENTS

Contents

1. Report of the Auditor General
2. Statement of Financial Performance
3. Statement of Financial Position
4. Statement of Changes in Net Assets
5. Cash Flow Statement
6. Notes to the Annual Financial Statements

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF
UNIVERSAL SERVICE AND ACCESS FUND (USAF)
FOR THE YEAR ENDED 31 MARCH 2007.**

Introduction

1. I have audited the accompanying financial statements of the USAF which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 67 to 80.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Practice (GAAP) and Statement of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 647 issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The public entity policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements.

Opinion

9. In my opinion, the financial statements present fairly, in all material respects, the financial position of USAF as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting as described in note 1 to the financial statements and in the manner required by the PFMA.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Internal control

10. Inadequate review of payments and poor monitoring to ensure compliance with the requirements of the Electronic Communications Act resulted in irregular expenditure.
11. Poor monitoring controls and lack of independent review to ensure compliance with reporting framework resulted in material correction in annual financial statements.

Material non-compliance with applicable legislation

12. Section 88(1) of the Electronic Communications Act specifies that moneys in the USAF should be used exclusively for the payment of project subsidies. During the year management engaged in a campaign for an amount of R 226 771 in the European market in order to secure additional funding. This expenditure was irregular and was not disclosed in the annual financial statements as required.

Material corrections made to the financial statements submitted for audit

13. The financial statements, approved by the accounting authority as submitted for audit on 31 May 2007 have been materially revised. A net adjustment of R14.6 million was processed to correct the overstatement of expenditure and payables.

Matters of governance

14. The Fund did not adequately in terms of the agreements entered into with the Under Serviced Area Licenses (USAL's) operators follow up on the certificates of completion and the quarterly reports from the licensees who have been awarded an initial subsidy of R 5 000 000. The majority of USAL's did not adhere to their contractual commitments. The Fund did not have policies and procedures to address the monitoring of contracts. This would ultimately result in the Fund not meeting its objectives of providing universal access to under-serviced areas.

OTHER REPORTING RESPONSIBILITIES

Performance information not received in time

15. I was not able to review the reported performance information as set out on pages 12 to 21 of the annual report, since the information was not received in time to enable us to complete an evaluation of the quality of the reported performance information.

REPORT ON THE FINANCIAL STATEMENTS

*Universal Service and Access Fund
(Formerly Universal Service Fund)*

Responsibility of the accounting authority

16. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Responsibility of the Auditor-General

17. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007 issued in Government Gazette No. 29919 of 25 May 2007.

18. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit finding

20. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of USAF because the system relevant for generating information on strategic objectives of USAF could not provide adequate information for the purposes of the evaluation.

APPRECIATION

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



P. Stamper for Auditor-General
Johannesburg

31 July 2007



AUDITOR - GENERAL

***Statement of Financial Performance for the year ended
31 March 2007***

*Universal Service and Access Fund
(Formerly Universal Service Fund)*

| | | 31 March 2007 | 31 March 2006 |
|--|-------|----------------|-----------------|
| | Notes | R'000 | R'000 |
| REVENUE | | | |
| Government grants received | 3 | 31,164 | 29,400 |
| Gifts, sponsorships and donations received | 4 | - | 825 |
| TOTAL REVENUE | | 31,164 | 30,225 |
| EXPENDITURE | | | |
| Administrative expenses | 5 | 541 | 325 |
| Research and development costs | 6 | 2,807 | 2,977 |
| Marketing costs | 7 | 1,727 | 5,349 |
| Audit fees | 8 | 256 | 177 |
| Project expenses | 9 | 1,317 | 706 |
| Transfers and subsidies paid | 10 | 25,530 | 60,999 |
| Other operating expenses | 11 | 142 | 882 |
| TOTAL EXPENDITURE | 20 | 32,320 | 71,415 |
| DEFICIT | | (1,156) | (41,190) |
| Finance income | 12 | 2,122 | 2,436 |
| Surplus/(Deficit) for the year | 13 | 966 | (38,754) |

Statement of Financial Position as at 31 March 2007

*Universal Service and Access Fund
(Formerly Universal Service Fund)*

| | | 31 March 2007 | 31 March 2006 |
|---------------------------------------|-------|---------------|---------------|
| | Notes | R'000 | R'000 |
| ASSETS | | | |
| Current assets | | 26,985 | 26,987 |
| Loans and receivables:current | 14 | 6 | 1,269 |
| Cash and cash equivalents | 15 | 26,979 | 25,718 |
| TOTAL ASSETS | | 26,985 | 26,987 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 16 | 3,505 | 4,473 |
| TOTAL LIABILITIES | | 3,505 | 4,473 |
| CAPITAL AND RESERVES | | | |
| Accumulated surplus | 13 | 23,480 | 22,514 |
| TOTAL CAPITAL AND RESERVES | | 23,480 | 22,514 |
| TOTAL RESERVES AND LIABILITIES | | 26,985 | 26,987 |

Statement of Changes in Net Assets as at 31 March 2007

*Universal Service and Access Fund
(Formerly Universal Service Fund)*

| ACCUMULATED SURPLUS/DEFICT | 31 March 2007 | 31 March 2006 |
|---------------------------------------|----------------------|----------------------|
| | R'000 | R'000 |
| Balance at 1 April 2005 | - | 61,268 |
| Surplus/(Deficit) for the year | - | (38,754) |
| Balance as at 31 March 2006 | <u>22,514</u> | <u>22,514</u> |
| Surplus/(Deficit) for the year | 966 | - |
| Balance as at 31 March 2007 | <u><u>23,480</u></u> | <u><u>22,514</u></u> |

Cash Flow Statement ***31 March 2007***

Universal Service and Access Fund
(Formerly Universal Service Fund)

| | | <u>31 March 2007</u> | <u>31 March 2006</u> |
|---|-----------|----------------------|----------------------|
| | Notes | R'000 | R'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from government and customers | | 32,427 | 33,297 |
| Cash paid to suppliers | | (33,288) | (72,610) |
| Cash utilised in operations | 17 | (861) | (39,313) |
| Interest received | | 2,122 | 2,435 |
| Net cash inflows/ outflows from operating activities | 18 | 1,261 | (36,878) |
| Net increase/(decrease) in cash and cash equivalents | | 1,261 | (36,878) |
| Cash and cash equivalents at the beginning of the year | 15 | 25,718 | 62,596 |
| Cash and cash equivalents at end of the year | 15 | 26,979 | 25,718 |

Notes to the Annual Financial Statements 31 March 2007

Universal Service and Access Fund
(Formerly Universal Service Fund)

1. Statement of compliance

The Universal Service and Access Fund (USAF) was established in the Republic of South Africa in terms of section 87 of the Electronic Communications Act, No. 35 of 2005. Section 87(1) of the Act revised the name of the Fund from the Universal Service Fund to the Universal Service and Access Fund. The USAF shall be utilized exclusively for the payment of subsidies in terms of Section 88 (1) (a)-(e). The USAF is recognised as a Schedule 3A public entity of the Public Finance and Management Act, No. 1 of 1999 (PFMA).

The financial statements have been drawn up in accordance with the Statement of Generally Recognised Accounting Practice (GRAP) and South African Generally Accepted Accounting Practice (SA GAAP) as stipulated by Section 91 of the PFMA. GRAP was adopted by the USAF in 2005/6.

2. Accounting policies

The following are the principle accounting policies of the USAF which are, in all material respects, consistent with those applied in the previous year, except as otherwise indicated

2.1. Basis for preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

| Standard of GRAP | Replaced Statement of GAAP |
|---|--|
| GRAP 1: Presentation of financial statements | AC101: Presentation of financial statements |
| GRAP 2: Cash flow statements | AC118: Cash flow statements |
| GRAP 3: Accounting policies, changes in accounting estimates and errors | AC103: Accounting policies, changes in accounting estimates and errors |

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

1. Terminology differences:

| Standard of GRAP | Replaced Statement of GAAP |
|------------------------------------|-----------------------------------|
| Statement of financial performance | Income statement |
| Statement of financial position | Balance sheet |
| Statement of changes in net assets | Statement of changes in equity |
| Net assets | Equity |
| Surplus/deficit | Profit/loss |
| Accumulated surplus/deficit | Retained earnings |
| Contributions from owners | Share capital |
| Distributions to owners | Dividends |

Notes to the Annual Financial Statements

31 March 2007

Universal Service and Access Fund *(Formerly Universal Service Fund)*

2. The cash flow statement can only be prepared in accordance with the direct method.
3. Specific information has been presented separately on the statement of financial position such as:
 - a. Receivables from non-exchange transactions, including taxes and transfers;
 - b. Taxes and transfers payable;
 - c. Trade and other payables from non-exchange transactions;
4. Amount and nature of any restrictions on cash balances is required.

Paragraph 11 – 15 of GRAP 1 has not been implemented due the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

2.2. Revenue recognition

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the useful life of the relevant asset by equal annual installments.

Revenue received via the National Revenue Fund forms part of the Department of Communications budget vote. The USAF only recognised revenue once the revenue has been appropriated by Parliament over the period it was appropriated for.

2.3. Interest

Interest income is accrued on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity

2.4. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is 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 to the income statement in the period in which it is incurred.

Notes to the Annual Financial Statements *31 March 2007*

Universal Service and Access Fund
(Formerly Universal Service Fund)

2.5. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are held with registered banking institutions with maturities of three months or less and that are subject to an insignificant risk of change in value. For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts.

2.6. Investment Policy

Accumulated funds not committed in the short-term are held in interest-bearing instruments.

2.7. Taxation

The USAF is not required to make provision for SA Normal Taxation in the financial statements, since it is exempted in terms of Section 10(1) cA (i) of the Income Tax Act 58 of 1962 as amended. The USAF is defined as a public authority in terms of the VAT Act 89 of 1991 as amended and is not required to register for VAT (Value Added Tax). The USAF is also exempt from paying Skills Development Levy in terms of Section 4 (d) of the Skills Development Levies Act no 74 of 2002.

2.8. Financial instruments

Recognition

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual rights and obligations of the instrument. All "regular way" purchases and sales of financial assets are initially recognised using trade date accounting.

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 Fund's principle financial assets are accounts receivable and cash and cash equivalents.

Accounts receivable

Accounts receivable are stated at their nominal value.

An allowance for impairment is established if there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and the recoverable amount.

2.9. Comparative figures

Comparative figures are adjusted to conform to changes in presentation in the current year.

2.10. Statement of Materiality and Significance

Materiality over the period under review was based on 0.5% of the appropriated budget for a given year. Quantitative and qualitative materiality are determined by the "USAASA & USAF: Materiality and Significance Framework" which has been prepared in terms of the stipulations of Treasury Regulation 28.3.1.

Notes to the Annual Financial Statements 31 March 2007

*Universal Service and Access Fund
(Formerly Universal Service Fund)*

| | 31 March 2007 | 31 March 2006 |
|--|---------------|---------------|
| | R'000 | R'000 |
| 3 Government grants | | |
| Department of Communications | 31,164 | 29,400 |
| 4 Gifts, sponsorships and donations received | - | 825 |
| 5 Administrative expenses | | |
| General administrative expenses | 540 | 323 |
| Bank charges | 1 | 2 |
| | <u>541</u> | <u>325</u> |
| 6 Research and development costs | | |
| Total research and development costs incurred for the year | <u>2,807</u> | <u>2,977</u> |
| 7 Marketing costs | | |
| Promotion: Schools | - | 20 |
| Promotion: Communities | 1,727 | 5,143 |
| Promotion: Small business | - | 186 |
| | <u>1,727</u> | <u>5,349</u> |
| 8 Audit fees | <u>256</u> | <u>177</u> |
| 9 Project expenses | | |
| Procurement | 476 | 418 |
| Traveling | 841 | 288 |
| | <u>1,317</u> | <u>706</u> |
| 10 Transfers and subsidies paid | | |
| Transfers: Communities | | |
| Subsidies: Schools | 9,303 | 28,416 |
| Subsidies: Private entities | 10,277 | 22,583 |
| | 5,950 | 10,000 |
| | <u>25,530</u> | <u>60,999</u> |

Notes to the Annual Financial Statements 31 March 2007

*Universal Service and Access Fund
(Formerly Universal Service Fund)*

| | 31 March 2007 | 31 March 2006 |
|--|---------------|---------------|
| | R'000 | R'000 |
| 11 Other operating expenses | | |
| Fruitless and wasteful expenditure | - | 60 |
| Consultants, contractors and special services | 142 | 822 |
| | 142 | 882 |
| 12 Finance income | | |
| Interest on | 2,122 | 2,436 |
| - Cash and bank deposits | | |
| | 2,122 | 2,436 |
| 13 Accumulated surplus/(deficit) | | |
| Balance at the beginning of the year | 22,514 | 61,268 |
| Surplus/(Deficit) for the year | 966 | (38,754) |
| Balance at the end of the year | 23,480 | 22,514 |
| 14 Loans and receivables | | |
| Current | | |
| Prepayments and Advances | | |
| - Prepayments | 66 | 1,329 |
| Less: Impairment of debtors (provision for doubtful debts) | (60) | (60) |
| | 6 | 1,269 |
| 15 Cash and cash equivalents | | |
| Cash and balances with banks | 26,979 | 25,718 |
| 16 Trade and other payables | | |
| Trade creditors | 3,505 | 4,473 |
| | 3,505 | 4,473 |

Notes to the Annual Financial Statements ***31 March 2007***

Universal Service and Access Fund
(Formerly Universal Service Fund)

| | 31 March 2007 | 31 March 2006 |
|--|---------------|-----------------|
| | R'000 | R'000 |
| 17 Cash utilised in operations | | |
| Surplus/(Deficit) | 966 | (38,754) |
| Interest received | (2,122) | (2,436) |
| Non-cash movements/working capital changes | | |
| Increase/(Decrease) in payables | 295 | 1,877 |
| Decrease in receivables | (968) | (1,195) |
| | 1,263 | 3,072 |
| Net cash flows from operating activities | (861) | (39,313) |
| 18 Net cash inflows/ outflows from operating activities | | |
| Cash receipts from customers | | |
| Cash payments to suppliers and employees | 32,427 | 33,297 |
| Cash generated from/(utilised in) operations | (33,288) | (72,610) |
| | (861) | (39,313) |
| Interest received/(paid) | | |
| Dividends received/(paid) | 2,122 | 2,435 |
| Taxation paid | | |
| Net cash inflows/ outflows from operating activities | 1,261 | (36,878) |

Notes to the Annual Financial Statements 31 March 2007

Universal Service and Access Fund (Formerly Universal Service Fund)

19 Contingent liabilities

Under Serviced Area Licensees

The Under Serviced Area Licences (USAL) were granted in terms of section 40(A) of the Telecommunications Act No. 103 of 1996 (as amended) and subsidised in terms of section 66(f).

All licensees have received their first tranche payment and the Fund awaits the submission of their audited financial statements proving establishment of infrastructure to the value of R 5m prior to effecting any further payments.

| | Nature of commitment | Balance 1 April 2006 | Paid | Future commitment (2007/8) | Future commitment (2008/9) | Total commitment |
|-------------------------------------|----------------------|----------------------|-------|----------------------------|----------------------------|------------------|
| Karabo Telecom's (Pty) Ltd | USAL Subsidy | 10,000 | - | 5,000 | 5,000 | 10,000 |
| Bokone (Pty) Ltd | USAL Subsidy | 5,000 | 5,000 | - | - | - |
| Kingdom Communications (Pty) Ltd | USAL Subsidy | 10,000 | - | 5,000 | 5,000 | 10,000 |
| Thinta-Thinta (Pty) Ltd | USAL Subsidy | 10,000 | - | 5,000 | 5,000 | 10,000 |
| Bokamoso (Pty) Ltd | USAL Subsidy | 10,000 | - | 5,000 | 5,000 | 10,000 |
| Ilizwi Telecommunications (Pty) Ltd | USAL Subsidy | 10,000 | 0,950 | 4,050 | 5,000 | 9,050 |
| Amatole Telecom's (Pty) Ltd | USAL Subsidy | 10,000 | - | 5,000 | 5,000 | 10,000 |
| | | 65,000 | 5,950 | 24,050 | 25,000 | 59,050 |

Mogalakweni Project

15,000

This project is being entered into in partnership with Sentech, SITA and the Limpopo province to provide ICT facilities to schools and hospitals in the district. A contingent liability has arisen as the Fund has committed itself to partly funding the project and is awaiting the formalization of legal process between all parties.

74,050

**Notes to the Annual Financial Statements
31 March 2007**

*Universal Service and Access Fund
(Formerly Universal Service Fund)*

20. Allocation of Transfers, Subsidies and Overheads 2007

| | Sec 66 (1) | Research | Telecom- munications facilities, equipment and services | Capacity building | Promotion and launches | Project management and procurement (Direct overheads) | Total |
|-------------------------------|------------|--------------|---|----------------------|------------------------------|--|---------------|
| Telecommunications licensees | b | 2,807 | - | - | - | - | 2,807 |
| Schools | c | - | 10,277 | - | - | - | 10,277 |
| Communities | d | - | 2,504 | 6,799 | 1,727 | 1,317 | 12,347 |
| Under services area licensees | f | - | 5,950 | - | - | - | 5,950 |
| Total Projects | | 2,807 | 18,731 | 6,799 | 1,727 | 1,317 | 31,381 |
| Consultants | | - | - | - | - | 142 | 142 |
| Audit fees | | - | - | - | - | 256 | 256 |
| Annual report | | - | - | - | - | 540 | 540 |
| Bank Charges | | - | - | - | - | 1 | 1 |
| Total Overheads | | - | - | - | - | 939 | 939 |
| Total Projects | | 2,807 | 18,731 | 6,799 | 1,727 | 2,256 | 32,320 |

Notes to the Annual Financial Statements
31 March 2007

Universal Service and Access Fund
(Formerly Universal Service Fund)

20. Allocation of Transfers, Subsidies and Overheads (Continued)2006

| | Sec 66 (1) | Research | Telecom- munications facilities, equipment and services | Capacity building | Promotion and launches | Project management and procurement (Direct overheads) | Total |
|---------------------------------|------------|--------------|---|----------------------|------------------------------|--|---------------|
| Needy persons | A | 2,977 | - | - | - | 36 | 3,013 |
| Telecommunications licensees | B | - | 1,961 | - | - | 23 | 1,984 |
| Schools | C | - | 20,622 | - | 20 | 246 | 20,888 |
| Communities | D | - | 28,034 | 74 | 5,143 | 565 | 33,816 |
| Under services area licensees | F | - | 10,000 | - | 186 | - | 10,186 |
| Multi media services | g | - | 142 | - | - | 2 | 144 |
| Total Projects | | 2,977 | 60,759 | 74 | 5,349 | 872 | 70,031 |
| Consultants | | - | - | - | - | 822 | 822 |
| Audit fees | | - | - | - | - | 177 | 177 |
| Annual report | | - | - | - | - | 323 | 323 |
| Fruitless and Wasteful expenses | | - | - | - | - | 60 | 60 |
| Bank Charges | | - | - | - | - | 2 | 2 |
| Total Overheads | | - | - | - | - | 1,384 | 1,384 |
| Total Projects | | 2,977 | 60,759 | 74 | 5,349 | 2,256 | 71,415 |

Notes to the Annual Financial Statements 31 March 2007

*Universal Service and Access Fund
(Formerly Universal Service Fund)*

| | 31 March 2007 | 31 March 2006 |
|---|---------------|---------------|
| | R'000 | R'000 |
| 21 Fruitless & Wasteful Expenditure | | |
| Fruitless and wasteful expenditure | - | 60 |
| | - | 60 |
| Analysis of Current Fruitless and wasteful expenditure | | |
| Incident | | |
| Bad debt provision. Appropriate legal instruction has been made for the collection of this debt | | |
| 22 Inter-Entity Transactions | | |
| Transactions | 31 March 2007 | 31 March 2006 |
| <u>Name of entity</u> | <u>R'000</u> | <u>R'000</u> |
| <u>Nature of the relationship</u> | | |
| USAASA | 169 | 14 |
| Department of Communications | 31,164 | 29,400 |
| Balances | | |
| | 31 March 2007 | 31 March 2006 |
| <u>Name of entity</u> | <u>R'000</u> | <u>R'000</u> |
| <u>Nature of the Relationship</u> | | |
| USAASA | 160 | 9 |

Glossary to the Annual Report 31 March 2007

1. *DOC* : *Department of Communications*
2. *USALS* : *Under Serviced Area Licences*
3. *USAASA* : *Universal Service and Access Agency of South Africa*
4. *USAF* : *Universal Service and Access Fund*
5. *PUSANO* : *Provincial Under Serviced Area Network Operators*
6. *ICASA* : *Independent Communications Authority of South Africa*
7. *GCIS* : *Government Communication and Information System*
8. *DPSA* : *Department of Public Service and Administration*
9. *HSRC* : *Human Science Research Council*
10. *ECA* : *Electronic Communication Act*
11. *GIS* : *Geographic Information System*
12. *MDDA* : *Media and Diversity Development Agency*
13. *INK* : *Inanda, Ntuzuma and KwaMashu*
14. *WIMAX* : *Worldwide Interoperability for Microwave Access*
15. *I.T.A* : *Invitation To Apply*
16. *B-TEL* : *Bokamoso Telecommunications*
17. *I-TEL* : *Ilizwi Telecommunications*
18. *PFMA* : *Public Finance Management Act*
19. *SMME's* : *Small Medium and Micro Enterprises*
20. *BEE* : *Black Economic Empowerment*
21. *CCMA* : *Commission for Conciliation, Mediation and Arbitration*
22. *CWU* : *Communications Workers Union*
23. *ICT* : *Information and Communications Technology*
24. *MPCC's* : *Multi Purpose Community Centres*
25. *LSM* : *Living Standard Measure*
26. *DIT* : *Durban Institute of Technology*
27. *SCM* : *Supply Chain Management*
28. *GRAP* : *Generally Recognised Accounting Practices*
29. *GAAP* : *Generally Accepted Accounting Practices*



UNIVERSAL SERVICE AND
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