

THE BUDGETARY REVIEW AND RECOMMENDATION REPORT (BRRR) OF THE PORTFOLIO COMMITTEE ON TELECOMMUNICATIONS AND POSTAL SERVICES, DATED 25 OCTOBER 2016

The **Portfolio Committee on Telecommunications and Postal Services (PCTPS)**, has considered the performance and submission to National Treasury for the medium term period of the Department of Telecommunications and Postal Services. The BRRR presented is for the Department of Telecommunications and Postal Services (DTPS). It covers the period 01 April 2015 to 31 March 2016, and reports as follows:

1. INTRODUCTION

Over the last 22 years of a democratic South Africa, a major transformation has taken place in Information and Communication Information (ICT) legislation, policy, regulation and the delivery of services to all South Africans.

One of the policy goals of the Department, however, is to make telecommunications services accessible and available to the widest number of people at affordable prices. To this end, the Electronic Communications Act of 2005 introduced a converged, unified licensing regime and witnessed the surge of hundreds of alternative service providers. Other technologies have since emerged, and that includes the Internet of Things (IoT).

Although broadband is defined differently in different countries given the level of bandwidth provided in these countries, it is, however, commonly defined as “always on access, at work, at home or as provided by a range of fixed-line, wireless or satellite technologies with higher bandwidths capable of supporting genuinely new and innovative interactive content, applications and services and the delivery of enhanced public services”.¹

An imperative step by the Department towards enabling further ICT sector growth after the last 15 years was achieved through the Department’s gazetting a Discussion Paper and the ICT Policy Recommendation Report by the ICT Policy Review Panel to enable government to focus sharply on the policy environment that will advance the development of the ICT sector².

2. MANDATE OF COMMITTEE

Chapter 4 of the Constitution of the Republic of South Africa gives a mandate to Portfolio Committees to legislate, conduct oversight over the Executive and also facilitate public participation. The Committee may also investigate any matter of public interest that falls within the ICT area of responsibility.

¹ Sawyer *et al*, (2003)

² DTPS Annual Report (2015/16)

The Portfolio Committee on Telecommunications and Postal Services derives its mandate from the Constitution and is guided by the Rules of Parliament to conduct an oversight role over the Department and its entities; facilitates the passing of legislation; and approves annual departmental budgets. Moreover, the role of the Committee is to consider the Budgets, Strategic and Annual Performance Plans of the Department and its entities that fall within the portfolio.

3. RESPONSE OF THE COMMITTEE TO GLOBAL TRENDS

During the financial year under review, the Portfolio Committee on Telecommunications and Postal Services (the Committee) conducted a meeting on Over the Top (OTT) services in the South Africa in Parliament on 26 January 2016. The meeting's objective was to provide a platform for the exchange of views on how to deal with matters of governance and regulation around the OTTs within the ICT sector. The discussion touched on the penetration of OTT trends in South Africa; network quality of service; consumer rights, and the role of the Independent Communications Authority of South Africa (ICASA) in respect of regulatory implications and responsibility. It touched on the role of the Department on policy matters; the role of Parliament on legislative matters; as well as issues of current discussion on OTTs and disparities in the application of laws in respect thereof. It further, the challenges between Operators and OTTs and the issue of cyber security in respect of OTTs was discussed. Other issues discussed included the governance and the impact of OTTs on the revenue streams of Telecommunications Operators.

Various invited stakeholders made presentations during the meeting that OTT regulation will protect profits, not customers.

The mobile industry across the world is changing and at a far faster pace than many would have expected. One of the Mobile Network Operators (MNOs) articulated that alienating OTT players and the unique services they offer will only disempower consumers.

By creating partnerships with OTT players, network providers have the ability to find ways for everyone to benefit.

3.1. DEPARTMENT OF TELECOMMUNICATIONS AND POSTAL SERVICES (DTPS)

3.1.1. OVERVIEW OF DTPS

The Department of Telecommunications and Postal Services is mandated to develop ICT policies that create conditions for an accelerated and sustained shared growth of the South African economy and to ensure the development of robust, reliable, secure and affordable ICT infrastructure. The policies contribute to the development of an inclusive information society in which information and ICT tools are key drivers of economic and societal development. The Electronic Communications Act (2005) allows the Minister of Telecommunications and Postal Services to draft policies to fulfil South Africa's obligations under bilateral, multilateral, and international treaties and conventions. The Act sets guidelines for the determination of certain licence fees by the Independent Communications Authority

of South Africa; promotes universal service and electronic communications services in underserved areas; promotes the participation of small business in the ICT sector, and enhances the capacity of and exercises oversight over state-owned enterprises. The department also contributes to building an ICT skills base in the country to ensure equitable prosperity and global competitiveness.

In addition to the Electronic Communications Act (2005), the department's mandate is derived from the following legislation:

- the Electronic Communications and Transactions Act (2002);
- the Sentech Act (1996);
- the Postal Services Act (1998);
- the South African Post Office SOC Ltd Act (2011);
- the South African Postbank Limited Act (2010);
- the State Information Technology Agency Act (1998); and
- the Broadband Infraco Act (2007).

3.2. DURING THE 2015/16 FINANCIAL YEAR, THE DEPARTMENT FOCUSED ON THE FOLLOWING STRATEGIC PROGRAMMES:

3.2.1. ICT Policy Review

In the 2015/16 financial year, the Department made strides with regards to the ICT Policy Review process. The Department conducted briefings with relevant stakeholders, including the Portfolio Committee on Telecommunications and Postal Services on the ICT Policy Review Panel's Policy Recommendations Report, which highlighted a range of policy options and possible policy approaches to inform the development of the ICT White Paper. Thereafter, the Department developed the draft National Integrated ICT Policy White Paper. The Minister approved the National Integrated ICT Policy White Paper for tabling at Cabinet (Economic Sectors, Employment and Infrastructure Development Cabinet Committee). After the tabling, the White Paper was deferred for additional input and will be re-submitted to Cabinet in the first quarter of the 2016/17 financial year, focusing on the identification and prioritisation of legislative amendments followed by the drafting of ICT Legislation.

3.2.2. Broadband

South Africa Connect and the associated strategy and plan, gives expression to South Africa's vision of the National Development Plan (NDP) of "a seamless information infrastructure by 2030 that will underpin a dynamic and connected, vibrant information society and a knowledge economy that is more inclusive, equitable and prosperous". In this regard, the Department contributes to Government Outcome 6 which is focused on the development of an efficient, competitive, and responsive economic infrastructure network.

In the 2015/16 financial year, the Department planned to provide connectivity to 1296 identified government institutions through the implementation of Phase 1 of the Digital Development Plan. However, the Department was unable to achieve the set target fully. Although the Department established the Project Management Office to manage the SA Connect project as well as developed a draft Programme Implementation Plan and a Project Management Plan, the actual connectivity was severely hampered by delays in appointing the connectivity service provider as planned. However, to address this challenge, the Department has made an undertaking to engage relevant stakeholders including exploring other options to ensure that broadband is rolled out in the rest of the country.

Regarding the implementation of Phase 2 of the Digital Development Plan, during the reporting period, the Department developed a Phase 2 business case document which was submitted to National Treasury. The Department highlighted that due to the fiscal constraints, Treasury only allocated funding for Phase 2 to commence in 2018/19.

3.2.3. Cyber Security

Cyberspace comes with new types of challenges to the governments of the world, and it therefore introduces a further dimension to national security. It is a borderless platform that enables more sophisticated threats such as cyber crime, cyber terrorism, cyber war and cyber espionage. For this reason, the cyber threats need to be addressed at both global and national levels.

On 2 September 2015, the government published a 128-page draft Cybercrimes and Cybersecurity Bill for public comment. The bill is part of a set of laws and policy initiatives in South Africa that aim to regulate the ever-expanding online economy and the surge in cyber-related crimes from a South African (and global perspective). The current legal framework to combat cybercrime is a hybrid of legislation and the common law.

During the reporting period, the Department ensured that the ICT Infrastructure of the Virtual Cybersecurity Hub was reconfigured and strengthened after which the Department commissioned and launched the virtual Cybersecurity Hub on 30 October 2015. The Cybersecurity Hub offers alerts and warnings, announcements, security related information dissemination, incident handling and incident response support as services to its constituents³.

3.2.4. Service Delivery Improvement Plan

The Department has developed a draft Service Delivery Improvement Plan (SDIP) following extensive consultation with the Department of Public Service and Administration as well as relevant internal stakeholders. The draft SDIP was developed in compliance with the requirements of the Public

³ DTSPS Annual Report (2015/16)

Service Regulation 2001 and the White Paper on the Transformation of Service Delivery (Batho Pele)⁴.

In developing the SDIP, the Department collated and analysed information on the performance levels of the main services offered by the Department to identified beneficiaries as well as the actual and the desired standards of such services. Following approval of the draft SDIP, the Department will commence with its implementation and the monitoring and evaluation of such implementation. Furthermore, as part of further improving service delivery, in the 2016/17 financial year, the Department has embarked on the identification, documenting and mapping of identified core business processes so as to enable process automation in the medium term.

3.3. PURPOSE OF THE BRR REPORT

Section 77 (3) of the Constitution of South Africa provides for an Act of Parliament which will provide for a procedure to amend the Money Bills before it. The Money Bills Amendment Procedure and Related Matters Act, 2009 (Act 9 of 2009) thus enables Parliament to amend aspects related to tabled Money Bills.

According to Section 5 of the Money Bills Amendment Procedure and Related Matters Act, the National Assembly, through its Committees, must annually assess the performance of each national Department. These should be considered by the Committee on Appropriations when it is considering and reporting on the Medium Term Budget Policy Statement (MTBPS) to the House in November of each year and should be submitted to the Minister of Finance and the relevant portfolio Minister. Therefore, the annual assessment of the Department provides the starting of the procedure for the BRRR.

The Act also requires Committees of the National Assembly to annually submit the BRRR after the adoption of the Appropriation Bill and before the adoption of the reports on the MTBPS. The BRRR and the reports on the MTBPS serve as an indication whether amendments might be proposed to the fiscal framework and the budget bills when these are introduced the following year. In fact, when the Minister of Finance introduces the National Annual Budget, a report to Parliament setting out how the Division of Revenue Bill and the national budget give effect to, or the reasons for not taking into account, the recommendations contained in the BRRR and the reports on the MTBPS.

The purpose of this report is to provide an account of the work done by DTSPS and entities during the 2015/16 financial year. The focus will be to highlight key achievements made as well as challenges encountered as reported in the 2015/16 financial year, to establish whether the Department and its entities have achieved their aims and objectives as set out in their Annual Performance Plans, concerning the following:

- Medium Term Estimates of expenditure, its strategic priorities and measurable objectives;

⁴ DTSPS Annual Report (2015/16)

- Prevailing strategic plans;
- Expenditure reports relating to such departments published by National Treasury in terms of Section 32 of the Public Finance Management Act;
- Financial statements and annual reports of such departments;
- Reports of the Committee on Public Accounts relating to the department; and
- Any other information requested by or presented to a House of Parliament.

Furthermore, the report also makes reference to the previous financial years (2014/15) BRRR to ascertain whether they have been acted upon.

Finally, it summarises the observations made by the Committee after considering all necessary supporting documents, presentations and oversight visits and or a public hearing before making recommendations aimed at improving service delivery.

3.4. METHODOLOGY

The Committee met with the Department and the following entities: SENTECH, National Electronic Media Institute of South Africa (NEMISA), the South African Post Office (SAPO), the State Information Technology Agency (SITA), Broadband Infraco (BBI), Universal Access and Services Agency (USAASA) and .ZA Domain Name Authority (.ZADNA).

The Committee consulted various sources to make objective and informed assessments and recommendations on the Department's performance during the 2015/16 financial year. The source documents consulted are:

- The 2015 State of the Nation Address (SoNA);
- The DTPS Strategic and Annual Plans 2015/16;
- DTPS Annual Report and Financial Statement for 2015/16;
- The Strategic Plans and Annual Performance Plans of the entities that fall under the DTPS, as well as their Annual Reports and Financial Statements for 2015/16;
- Quarterly reports of the Department;
- Auditor-General of South Africa reports presented before the Committee on the audit outcomes of the Department;
- The National Development Plan;
- National Treasury Section 32 Reports;
- The 2014/15 BRR Report; and
- Committee meetings.

4. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

4.1. 2015 State of the Nation Address

The reflection on the 2015 State of the Nation Address had been considered and its relevance outlined on how to propel the agenda of universal access and services. The State reform focused on the boosting of State Owned Companies (SOCs) in the ICT infrastructure.

The SONA 2015 flows from the National Growth Path (NGP) which clearly articulates that the national five-year economic plan for the country was built on a knowledge economy, an economy that was underpinned by access to affordable high-speed broadband. It was projected that in 2015 about 250 000 jobs would be created from the infrastructure internet projects, and the (MTEF highlighted government's commitment to implement the NDP and the 14 outcomes of government⁵.

The SONA must not be viewed in isolation, as the DTPS was developing the implementation plan for SA Connect and the objective was to provide ubiquitous and affordable broadband for all the citizens by focusing on both supply side and demand side interventions.

The government also emphasised the need to include universal access and service obligations, broadband connectivity to communities, schools, public institutions and under-served areas. There was a need to expand the reach of services, especially network services like infrastructure. The SONA 2015 highlighted that the country needs to deal decisively with the issue of escalating data costs as this had created barriers for the poor. This went back to the issues of accessibility and affordability. The ICT sector was impacting on the current business model of SAPO as more and more people were moving away from the traditional ways of communicating.

4.2. NATIONAL POLICY FRAMEWORKS

The discourse around the digital divide typically refers to socio-economic inequalities in access to, and use of, ICTs. The assumption is that use of such technologies, particularly the Internet, might result in several beneficial outcomes and that non-use excludes people from full participation in contemporary society. In the past decade, digital divide discussions have moved from the use or non-use to a nuanced recognition of different types of access, motivation, skills and Internet use in a discourse that centres on digital inclusion and inequality.⁶

Internet access is now considered in terms of quality, ubiquity, and mobility; skills as having technical, social, critical, and creative elements; motivation and awareness of the benefits as determined by both individual and social circumstances; and engagement as driven by the everyday life needs of individuals through content created by and for them so that engagement is effective and sustainable⁷. It is important to stress that tangible outcomes result from the combination of all these components in South Africa and the rest of the world. There are 12,3 million adults in South Africa (aged 15 or older) who now use the Internet; one in three of the population. Internet use has more than doubled in the

⁵ State of the Nation Address (SONA) 2015: Analysis of implications for the sector

⁶ van Dijk (2005),

⁷ Helsper, (2015).

last four years. If this rate of growth is maintained, then more than half of the population will be online by the end of 2015, and more than two-thirds could be online by the end of 2016⁸.

At the same time, the National Development Plan and the, 2015 State of the Nation Address by President pronounced the goal of 100% connectivity in South Africa by 2020. Therefore, as the Internet and Broadband make their full weight felt in more high-impact areas such as healthcare, education and government services, access to digital services will only become more essential for everyone in the years to come.

4.3. The National Development Plan (NDP)

The government has some key policies. These include the long-term plan, the NDP, which aims to eliminate poverty and reduce inequality by 2030. Also, it identifies the ICT sector as one of the main contributors to job creation by reducing the cost to communicate, as well as putting policies and regulations in place. Chapter Four of the NDP, entitled *Economic infrastructure - the foundation of social and economic development*, focuses on three pillars where the ICT sector has a critical role. These are:

- South Africa needs to maintain and expand its telecommunications infrastructure to support economic growth and social development goals;
- Social services and wage goods should be affordable so that the majority can achieve decent standard of living; and
- There should be channels to influence factors that influence citizen's well-being.

4.4. Medium Term Expenditure Framework

The BRR Report also includes the assessment of performance and is guided by the Medium Term Expenditure Framework (2014-2019).

4.5. South Africa Connect

South Africa Connect, the national broadband policy and the associated strategy and plan, gives expression to South Africa's vision of the NDP of "a seamless information infrastructure by 2030 that will underpin a dynamic and connected vibrant information society and a knowledge economy that is more inclusive, equitable and prosperous". In this regard, the Department contributes to the development of an efficient, competitive, and responsive economic infrastructure network (Outcome 6) by developing ICT policies and legislation as well as overseeing the operation of public entities within the sector.

5. Evaluation of Response by the Department and Minister of Finance

⁸ www.worldinternetproject.net/_.../413_wip_south_african_2012.pdf

In tabling the MTBPS in 2015, the Minister of Finance raised the following generic issues and agreed with recommendations made by all Committees' BRR Reports:

- Plans to intensify efforts to carry out expenditure reviews aimed at increasing efficiency of spending and combating waste should be supported. In particular, in-house reviews should be complemented by independent expenditure reviews;
- Serious concern should be expressed concerning reduced national efforts to facilitate economic growth through infrastructure-led growth. Reflecting this, growth in the percentage of gross fixed capital formation is lower than last period;
- In the medium-term, managerial interventions (controls on automatic pay progression and performance bonuses, reduction in the rate of hiring in non-critical areas) may assist government in its commitment to ensuring that the upward trend in the wage bill does not adversely impact its budget deficit targets.

6. 2015/16 Committee Budget Report

On 12 May 2015, the Committee considered the Strategic Plan of the DTPS and its public entities for the 2015/16 financial year, and it was satisfied with the Annual Performance Plans for 2015 – 2016 of the Department; USAASA; .ZA Domain Name Authority; SAPO; SENTECH; Broadband Infraco; SITA and INeSI. The Committee, however, recommended that the Minister:

- Ensure DTPS that all its entities fill all critical funded vacant positions especially those at Senior Management Service (SMS) level within three (3) months from the tabling of the APP;
- Ensure the finalisation of new policy directives on Transparency Pricing Policy to deal with the cost of communications;
- Ensure the finalisation of new policy directives on National Spectrum Policy that will support the digital dividend;
- Ensure that sub-programmes on Research, Market and Economic Analysis are allocated sufficient resources;
- Ensure that the mandate and funding of BBI, the funding model and the budget of SAPO and funding of iNeSi are reviewed;
- Should ensure that all entities include timeframes against their targets and each target must include a budget attached to it to ensure efficient oversight by Parliament;
- Ensure that the Department and its entities have existing Disaster Recovery Plans;
- Ensure that SITA develops as a matter of urgency a Cyber-Security vision and strategy that will ensure government-wide data protection;
- Ensure that USAASA's mandate is reviewed to be in line with the modern broadband and data services;
- Ensure that the Department and all entities, especially iNeSI and SAPO, review the ratio of the spending on salaries versus operational costs;

- Ensure that clear time frames in respect of completion of rationalisation of SOCs is made available;
- That the Department reduces the amount allocated for professional consultancy fees to reflect the approved amount in relations to the discussions led by the Minister of only allowing 5% expenditure on consultants;
- That the Department, National Treasury and BBI urgently intervene to avoid unintended consequences while the entity's future is being finalised,
- Conduct an audit of legislated policies and regulations that became law, but were not implemented by the Department;
- Ensure that INeSI develops a new marketing strategy to ensure that more people are aware of the e-skills initiative;
- Ensure that the Minister engage the SITA Board to revise its bloated structure and instead develop a new strategy that will maximise the efficiency of the institution;
- Ensure that the Minister engage the SITA Board on the establishment of the proposed subsidiaries and their importance, and submit a report to Parliament within three (3) months after the APP process;
- Ensure that the filling all vacant Board positions in affected entities is expedited.

7. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE OF DTPS

7.1. DEPARTMENT'S FINANCIAL PERFORMANCE 2015/16

7.1.1. Expenditure Trend of the Department for 2015/16

TABLE 1: DTPS Expenditure Trends 2015/16

Programme Name	2015/2016			2014/2015		
	Final Appropriation	Actual Expenditure	(Over)/ Under Expenditure	Final Appropriation	Actual Expenditure	(Over)/Under Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Administration	223,030	221,864	1,166	237,525	226,641	10,884
International Affairs and Trade	43,310	41,542	1,768	45,667	45,431	236
Policy, Research, & Capacity Development	97,132	73,979	23,153	111,347	78,183	33,164
ICT Enterprise Development and SOE Oversight	490,231	488,959	1,272	786,602	785,781	821
ICT Infrastructure Development	551,550	473,753	77,797	1,055,516	1,045,640	9,876
Total	1,405,253	1,300,097	105,156	2,236,657	2,181,676	54,981

Source: National Treasury (2014-2016)

The Department's final allocation for the 2015/16 financial year amounted to R1,405 billion and is made up of the baseline allocation of R1,413 billion and an adjustment of minus R10 million. The adjusted allocation includes additional R1,9 million for higher personnel remuneration and the decrease of R10 million under goods and services which was transferred to the new Department of Communications as a result of a transfer of function. The spending for the 2015/16 financial year amounted to R1,300 billion (92,5 %) from the adjusted budget of R1,405 billion and the underspending is R105,2 million. The spending rate is 5% less than the 2014/15 financial year's expenditure. The underspending is mainly due to the delay in filling vacant positions and the implementation of the South Africa Connect Broadband project. The Cabinet Lekgotla took a decision to designate Telkom as the Lead Agency during its July 2015 meeting and requested the Department to conduct a value for money analysis and present the outcome to Cabinet also outlining the legal processes to be followed to effect the appointment⁹.

The largest element of operational expenditure in 2015/16 was R221,2 million spent under the Administration programme mainly on goods and services and compensation of employees. The next largest element was R83,6 million under the ICT Infrastructure Support programme, followed by R73,6 million under the Policy, Research and Capacity Development programme, again primarily for goods and services and compensation of employees¹⁰.

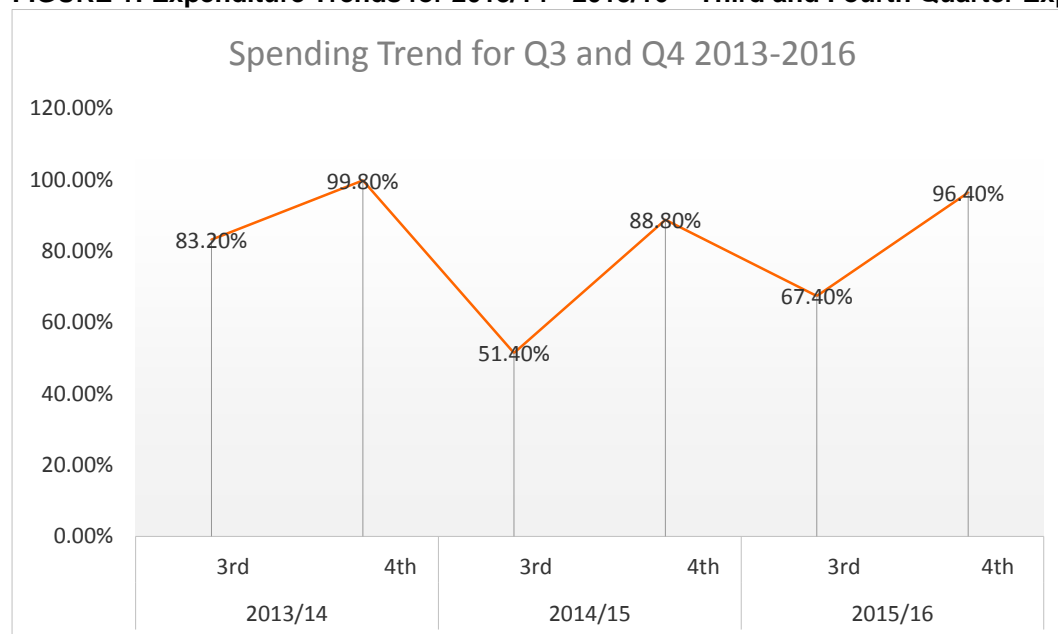
⁹ DTPS Annual Report (2016)

¹⁰ National Treasury (2015)

The Broadband project funds had been diverted with the transfer of R100 million to Sentech for Digital Terrestrial Television Migration Project Dual illumination, and R50 million to the SA Post Office (SAPO) for the National Address roll-out project¹¹.

7.1.2. Quarterly spending trend of THE DEPARTMENT (2013/14 - 2015/16)

FIGURE 1: Expenditure Trends for 2013/14 - 2015/16 – Third and Fourth Quarter Expenditure

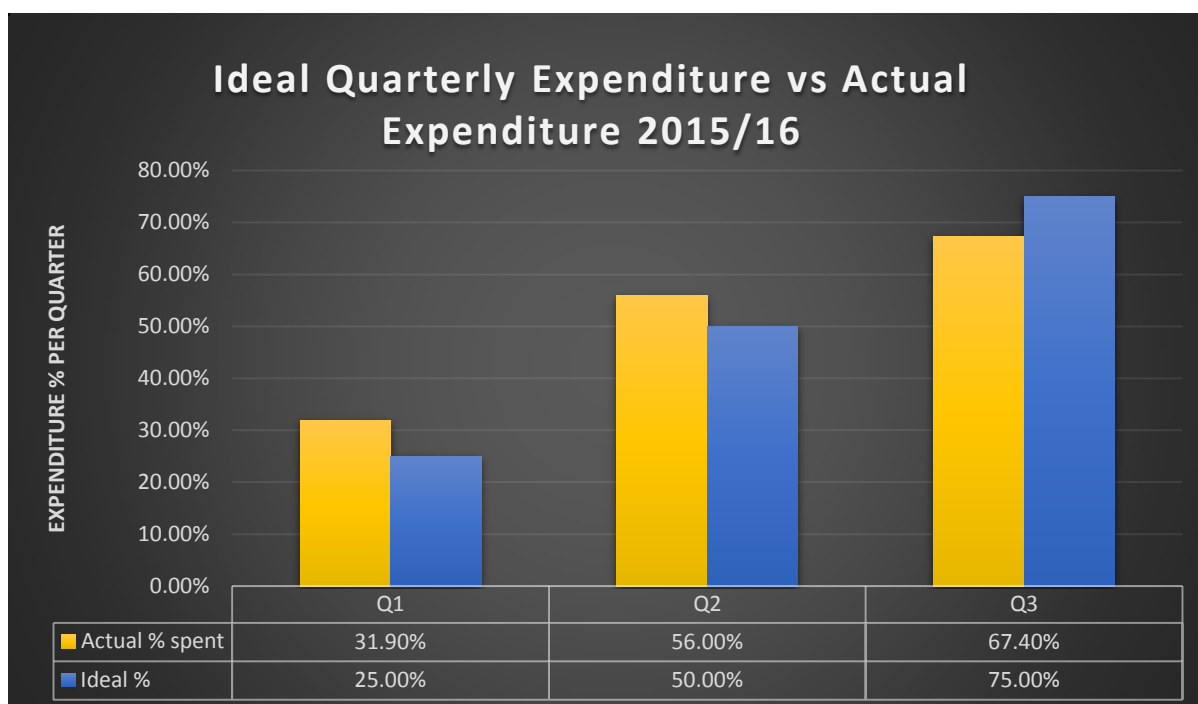


Source: National Treasury (2013 – 2016)

The Figure 1 above which is similar to previous financial years (2013/14 and 2014/15) the Department spent large amounts of their budgets in the last quarter of the financial year. The figure below highlights that an expenditure trend or fiscal dumping of the department in the last two quarters which are by their nature very short, December holidays, people take leave.

FIGURE 2: Expenditure Trends for 2015/16 – First Three Quarters DTPS Expenditure

¹¹ Standing Committee on Appropriations: Department of Telecommunications and Postal Services on its Jan-Jun 2016 performance: hearing



Source: National Treasury (2014-2015)

From the figure 2 above, at the end of quarter 3 of 2015/16, the department had transferred R678,2 million or 93.1% of the total available budget for transfers. Transfers to Provinces and Municipalities to the end of quarter 3 were R12 600. Transfers cannot be compared to previous financial year because the department was established effective from the 2015/16 financial year¹².

Transfers to Departmental Agencies and Accounts to the end of quarter 3 were R504,6 million, which was for the USAASA: Operations (R50,4 million); USAASA: Broadcasting Digital Migration (BDM): Distribution And Project Management Costs transfer (R196 million); NEMISA for its operations (R36,6 million) and Universal Service Access Fund for its operations (R40,4 million) and for BDM set box subsidy (R181,2 million).

Transfers to Foreign Governments and International Organisations to the end of quarter 3 were R24 million, which was for membership fees for the International Telecommunications Union (ITU) and the Universal Postal Union (UPU).

Transfers to the Entities to the end of quarter 3 were R148,9 million, which was for Sentech for dual illumination relating to the digital migration project (R84 million); and transfers to SAPO (R64,9 million) as a subsidy to implement a new delivery model to meet its universal service obligations while ensuring that postal service delivery in underserved areas is achieved at the lowest cost possible.

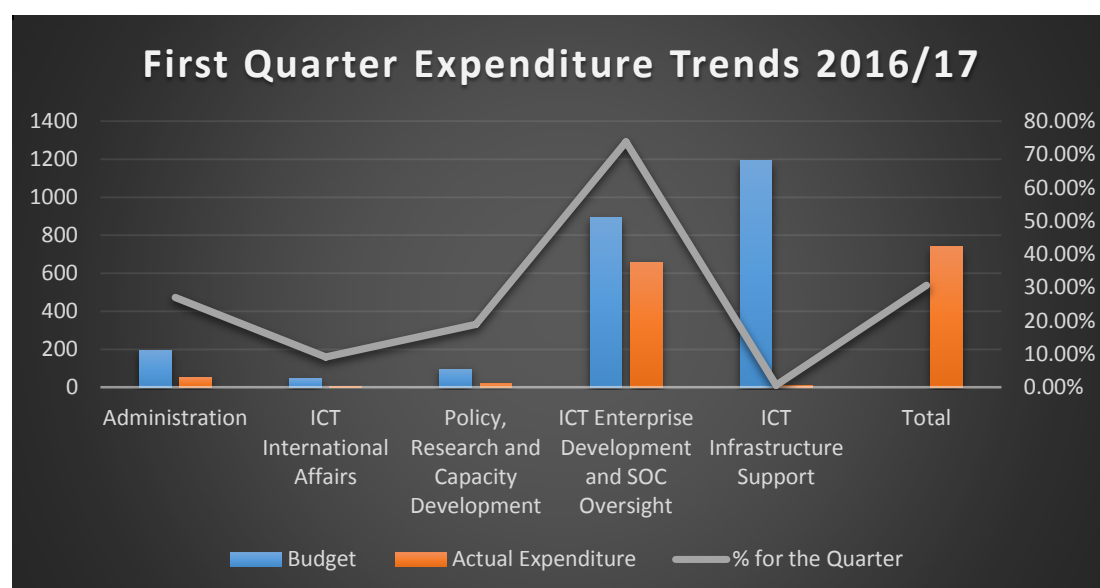
¹² National Treasury (2014-2015)

Transfers to Households to the end of quarter 3 were R713 000, which was for social benefits (R672 000) and R41 000 for other transfers to households as condolences contribution to staff members as well as gifts and donations.

The department has spent R945,4 million to the end of quarter 3 which is 67,4% of the total budget, while originally scheduling drawings of R1 billion resulting in slow spending of R99,5 million at this point in the year. This is mainly due to goods and services specifically under agency and support which relates to the delayed rollout of the broadband as well as consultants and professional services: business and advisory services such as the National Roaming project, Rapid Deployment and Cybersecurity.

It must, however, be noted that the Department was always short of meeting the National Treasury benchmark that requires government departments to spend at least 25% in each quarter, which means the 3rd quarter expenditure (September – December 2015) should have been at 75% and not 67% to avoid a spike or fiscal dumping in the fourth quarter (January – March 2015). It is important to note that this is better than the previous year around the same quarter where the department had spent about 51,4%.

FIGURE 3: First Quarter Expenditure Trends 2016/17

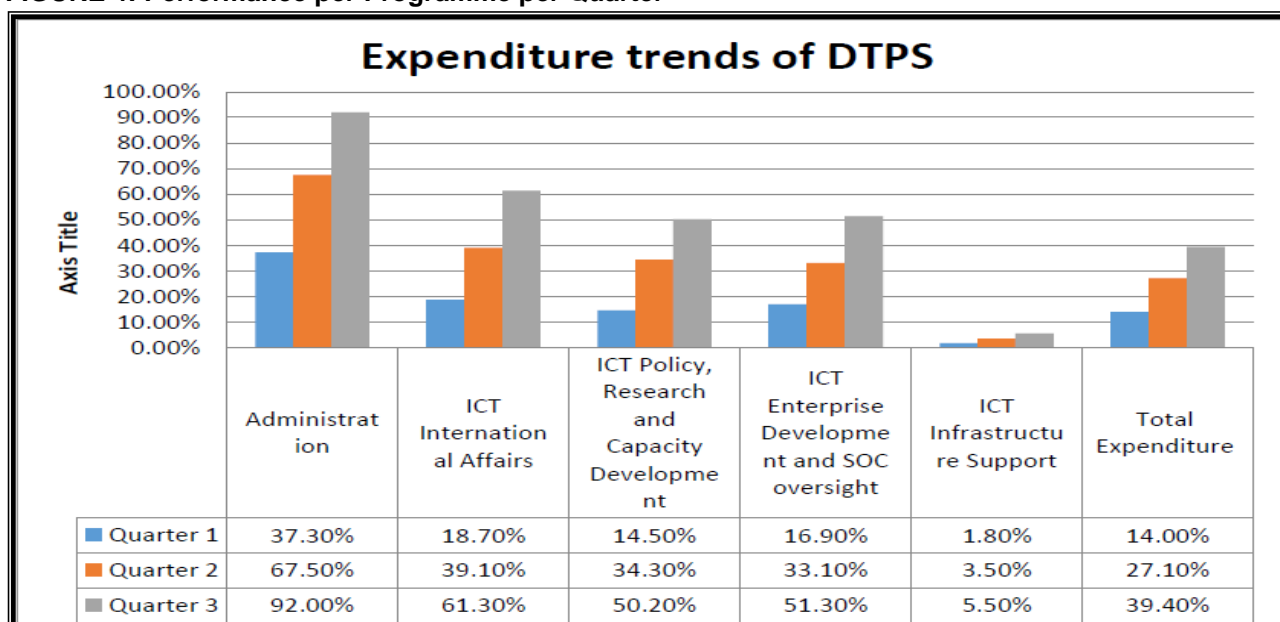


Source: National Treasury (2016/17)

The Department of Telecommunications and Postal Services has a total main budget appropriation of R2,4 billion for the 2016/17 financial year. For the period April to June 2016, the Department has spent a total amount of R739,3 million or 30,6% of the available budget as highlighted in figure 4 above. This is lower than the projected expenditure of R965,5 million up to the end of this period.

7.2. DEPARTMENT'S FINANCIAL PERFORMANCE PER PROGRAM 2015/16

FIGURE 4: Performance per Programme per Quarter



Source: National Treasury (2015/16)

First Quarter Expenditure

The DTPS had a 2015/16 available appropriation of R1,4 billion. The department had an available budget of R684,7 million for operations. Of this, the department had spent R95,9 million for Quarter 1 2015/16, or 14%, the majority of which had been used on goods and services and compensation of employees.

Transfers and Subsidies amounted to R728,6 million of the available budgets and of this amount the department had transferred R354,3 million, or 48,6%, mainly to departmental agencies and accounts. An amount of R115 million was transferred to USAASA for its operations (R17m) and the distribution and Project Management Costs (R98m) associated with the BDM; R28 million to Sentech for Dual Illumination costs; R11,8 million to NEMISA for its operations; R174,5 million to Universal Service Access Funds (USAF) for its operations (R24.5m) and the payment of subsidies for broadcasting digital migration project (R150m) as well as R28,4 million to SA Post Office as a subsidy to implement a new delivery model to meet its Universal Service Obligations (USOs).

Second Quarter Expenditure

The DTPS had a 2015/16 available appropriation of R1,4 billion. Transfers and Subsidies accounted for R728,6 million of the available budget and of this amount the department had transferred R605,5 million, or 83.1%, mainly to departmental agencies and accounts. An amount of R230,7 million was

transferred to the USAASA for its operations of which R196 million of these funds was for the distribution and project management costs associated with the broadcasting digital migration project; R56 million to Sentech for dual illumination costs relating to the digital migration project; and R23,1 million to NEMISA for its operations. A total of R221,7 million was transferred to USAF (R40,5 million) for operations and R181,2 million for the broadcasting digital migration set-top box subsidy, antenna and installation costs.

SA Post Office received transfers of R49,6 million as a subsidy to implement a new delivery model to meet its universal service obligations.

The department had an available budget of R686,6 million for operations. Of this, the department had spent R186 million, or 27,1%, the majority of which has been used for compensation of employees and goods and services.

Third Quarter Expenditure

The DTPS had a 2015/16 available budget of R1,4 billion. Transfers and Subsidies accounted for R728,6 million of the available budget and this amount; the department had transferred R678,2 million, or 93,1%, mainly to departmental agencies and accounts. An amount of R246,4 million was transferred to USAASA for its operations, of which R196 million of these funds was for the distribution and project management costs associated with the broadcasting digital migration project; R109 million to Sentech for dual illumination costs relating to the digital migration project; R36,6 million to NEMISA for its operations. A total of R227,6 million was transferred to USAF (R40,4 million for its operations and R181,2 million for the Broadcasting Digital Migration Set-top box subsidy, antenna and installation costs).

SAPO received transfers of R64,9 million as a subsidy to implement a new delivery model to meet its universal service obligations.

Summary of Quarters 1 to 3

Programme 1 - Administration spent the largest portion of the operational budget on the third quarter of 2015/16 financial year for goods and services and compensation of employees. The second biggest was programme 3; Policy, Research and Capacity Development followed by ICT Infrastructure Support, again primarily on goods and services and compensation of employees. There has an inconsistent spending pattern by various programs in the department and this will have to be closely guided.

7.2.1. Programme 1: Administration – R223,030 million

The purpose of this programme is to provide strategic support to the Ministry and overall management of the Department. The Programme consists of the following six (6) sub-programmes:

- Ministry

- Departmental Management
- Internal Audit
- Corporate Services
- Financial Management
- Office Accommodation

In the 2015/16 financial year, programme one has been allocated R223,030 million compared to R237,50 million in the previous financial year. The 53% of operational expenditure in 2015/16 was on Administration, representing R221,2 million, mainly for goods and services and compensation of employees. There was a decrease of R14,459 million of funds allocated under this programme when compared to 2014/15. The Department did not meet all its targets under this programme, and as a result, performance could be classified as average. The Department encountered challenges with regards to the mapping process of its Internal Control Framework. There was underspending of R166 million under one sub programme; Corporate Services.

The costs under this programme are higher than the approved projection of R180 million due to the payments to the Special Investigative Unit (SIU), for costs incurred in the forensic investigation of officials of the department that was not budgeted for. Other cost drivers in this programme include higher rental costs than budgeted for; legal fees relating to employee disciplinary matters and settlement payment as well as for the write-offs relating to theft and losses.

7.2.2. Programme 2: International Affairs – R43,3 million

The purpose of this programme is to ensure alignment between South Africa's international activities and agreements in the ICT sector and the country's foreign policy. ICT International Affairs Programme consists of the following sub-programmes:

- **International Affairs** coordinates the functions and responsibilities of the Department to meet South Africa's international ICT obligations through bi-laterals, multi-laterals and tri-laterals; and
- **ICT Trade/Partnerships** develop and advance the country's interests in international trade forums through participation in World Trade Organisation ICT-related initiatives and other international trade agreements, such as South African-European Union Trade Agreement and bilateral agreements with counterpart countries. South Africa's national interests are also promoted in these forums.

It has become a norm for this programme as evidenced by the three past financial years when it was allocated the least amount, which constitutes an average of 3% of the total budget.

In the current financial year programme 2 is allocated R43,3 million compared to the previous year's adjusted allocation of R45,6 million. From a total allocation of R 43,3 million, R41,5 million was spent

which represents 95,9% expenditure as well as an under-expenditure of R1,7 million under this programme which way more than R 236 000 of the previous year.

Operational expenditure in 2015/16 was R16,9 million, the majority of which was spent on goods and services and compensation of employees. The main cost driver under this programme is travel and subsistence as the branch undertakes a substantial amount of international trips. The department admits that there is weak control in the number of delegates travelling abroad and this will be strictly monitored in future. Underspending on the compensation of employees is mainly attributable to staff resignations and the dispute with the dismissed DDG of the branch. The department is in the process of filling the positions.

7.2.3. Programme 3: Policy, Research and Capacity Development – R97,1 million

The programme develops policy that support the development of an ICT sector that creates favourable conditions for accelerated and shared growth of the economy. It also develops strategies that increase the uptake and use of ICTs by the majority of the South African population to bridge the digital divide.

The Policy, Research and Capacity Development Programme consist of the following sub-programmes:

- **ICT Policy Development** drafts legislation, regulations, policy and guidelines that govern the broadcasting, telecommunications, postal and IT sectors, thus ensuring broad-based economic development within the ICT sector;
- **Economic and Market Analysis** is responsible for economic analysis and growth projections. This sub-programme also undertakes market research to explore areas that require policy intervention;
- **Research** is responsible for understanding the ICT landscape and delivering a National ICT Strategy;
- **Information Society Development** renders delivery management services in support of an ICT information society, development and usage; and
- **Capacity Development** provides direction for the advancement of e-Skills graduates and society in general to function effectively in the emerging information society.

The programme receives 7% of the total budget and has been allocated R98 million compared to the previous financial year adjusted allocation of R88,9 million. There was a decrease of R14,215 million of funds allocated under this programme when compared to 2014/15.

From a total allocation of R97,1 million under programme 3, R74 million was spent which represents 76,2% expenditure as well as an under-expenditure of R23 million under this programme which is less than the R33 million of the previous year.

7.2.4. Programme 4: ICT Enterprise Development and SOC Oversight – R786,6 million

The purpose of this programme is to oversee and manage government's shareholding interests in the ICT public entities. This programme also facilitates growth and development of Small Micro Medium Enterprises (SMMEs). The ICT Enterprise Development and SOC Oversight Programme consist of the following sub-programmes:

- **Public Entity Oversight** provides oversight relating to State Owned Companies by managing Government's shareholder interests in public enterprises to support the attainment of key national goals and strategic priorities;
- **Small, Medium and Micro Enterprise (SMME) Development** facilitates the growth and development of ICT SMMEs; and
- **ICT Support** oversees and manages transfers to public entities and state owned companies (SOCs) responsible for the management and protection of South Africa's ICT environment.

From a total allocation of R786,6 million under programme 4, R785,7 million was spent which represents 99,9% expenditure as well as an under-expenditure of R821 000 under this programme which is less than the R1,3 million in 2014/15.

Operational expenditure in 2015/16 was R22,3 million, the majority of which was spent on goods and services and compensation of employees. The main cost driver is travel and subsistence mainly attributable to the extensive parliamentary engagements under this programme. The expenditure on compensation of employees is below the allocated budget due to the delay in filling positions.

7.2.5. Programme 5: ICT Infrastructure Support – R1,05 billion

The purpose of this programme is to promote investment in robust, secure and reliable ICT infrastructure that supports the provision of a multiplicity of applications and services. The ICT Infrastructure Support Programme consists of the following sub-programmes:

- **Broadband** is responsible for developing and facilitating the implementation of the ICT infrastructure broadband strategy and implementation plan and ensures that broadband goals are achieved; and
- **Digital Terrestrial Television** is responsible for making transfers to Sentech to roll out ICT infrastructure for the migration of signal distribution from analogue to digital.

A total of R551,550 million was allocated under this programme; this constituted 39% of the available appropriation for 2015/16. There was a decrease of R503,966 million of funds allocated under this

programme when compared to 2014/15. The Department underspent by R77,714 million on the sub programme.

Operational expenditure in 2015/16 was R83,6 million, the majority of which was spent on goods and services and compensation of employees. Under this programme, the main cost driver is agency and support however the expenditure under this line item is low due to the delay in implementing the Broadband plan. As a result, R150,2 million of the R200 million was shifted to cater for the overspending in other programmes such as to increase transfer payments to SA Post Office and Sentech.

7.3. FINANCIAL ALLOCATION TO ENTITIES OF THE DEPARTMENT OF TELECOMMUNICATIONS AND POSTAL SERVICES

The following shows the transfer of funds to entities and agencies reporting to the Department of Telecommunications and Postal Services:

7.3.1. South African Post Office (SAPO) – R64,8 million

SAPO is a schedule 2 public entity in terms of the PFMA. It is a government business enterprise established to provide postal and related services to the public and derives its mandate from the South African Post Office SOC LTD Act (Act 22 of 2011) and the South African Postbank Limited Act (No 9 of 2010). The Postal Services Act (Act 124 of 1998) grants SAPO the exclusive mandate to conduct postal services. This Act further makes provision for the regulation of postal services and the operational functions of the postal company, including Postbank's universal service obligations and associated financial services.

In addition, for the 2015/16 financial year, the following were the key focus areas for SAPO:

- Finalise and implement the Strategic Turnaround Plan;
- Create a customer centric organisation to restore customer confidence;
- Position SAPO as a key service partner that delivers government services;
- Corporatisation of Postbank and increase access to financial services;
- Ensure good corporate citizenship and corporate governance; and
- Property evaluation, balance sheet structure, funding solutions, capital adequacy, and the implementation of the turnaround plan.

7.3.2. Sentech – R109 million for Digitisation

Sentech's mandate is to provide broadcasting signal distribution for broadcasting licensees, with a particular focus on accelerating the implementation of government ICT interventions within the framework of the NDP and the strategic integrated project for expanding access to communication technology.

SENTECH's strategic goals and the three main priorities for the 2015/16 are:

- **Infrastructure Roll-Out**
 - DTT Network Expansion: complete 4 Greenfield sites;
 - Connect and install 300 terminals;
 - FM: Connect 33 Community Radio Broadcasters;
 - FM: Install 31 transmitters for the South African Broadcasting Corporation (SABC); and
 - Digital Media: Connect 1 new customer on Hybrid Broadcasting Platform.
- **Organisational Performance**
 - Redesign the Organisational Structure.
- **Financial Sustainability of the Company**
 - Generate Net Profit Before Tax of R195,7 million; and
 - Receive the 3rd clean audit in a row.

7.3.3. Universal Service and Access Agency of South Africa (USAASA) – R66,4 million (Operations) USAF R52,3 million (Operations); and USAF (Set-Top Boxes, subsidies, antennae and installations cost) R181,1 million.

USAASA sole mandate is to promote universal service and access to electronic communication services, electronic communications network services and broadcasting services.

To contribute to the achievement of government priorities and outcomes; USAASA is to pursue the following strategic goals for the 2015/16 financial year:

- Facilitate the rollout of broadband infrastructure in the identified underserved areas;
- Subsidise 5 million needy households with Set-Top Boxes (Scheme for STB Ownership Support);
- Provide 2 under-served areas with the Internet (Albert Luthuli and Vhembe local municipalities);
- Provide 3 schools for Persons with Disabilities with Internet service (Gert Sibande District Municipality, Mutale local Municipality and Vhembe District Municipality);

7.3.4. National Electronic Media Institute of South Africa(NEMISA) – R36,6 million

In contribution to this broader mandate of DTPS, NEMISA provides many needed skills training at an advanced level for the broadcasting industry. It is accredited by the Council for Higher Education and offers diploma courses, short courses and internships in three subjects: Television production, radio production and creative multimedia.

In the 2013/14 financial year, the Department merged NEMISA with e-Skills and ISSA into a single entity called Ikamva National e-Skills Institute (iNeSI). The following are the strategic objectives of NEMISA¹³:

¹³ NEMISA Annual Plan (2015)

- Transforming NEMISA into technology, research, training and development Centre of Excellence on ICT;
- Ensuring financial viability and institutional sustainability;
- Having a secure, efficient and effective organisation with key outcome; high-performance organisation;
- Improving and aligning stakeholder and strategic partnerships both internally and externally; and
- Expanding the accessibility and reach of NEMISA's product offerings with **key** outcomes; a recognised training institution of choice from all over South Africa.

7.3.5. Broadband Infraco (BBI) – No allocation from Government

BBI mandate is to offer “open access” wholesale backhaul connectivity services to other service providers although this term is not well defined in the licence or regulatory environment in South Africa.

BBI interventions are focused on two areas; namely long-distance fibre optic cable and participation of BBI in the international connectivity projects. The long-distance fibre optic network to provide a high capacity communications services to the main metropolitan areas that will over time be expanded into the previously under-services areas. While, at the same time, the company participates in the international connectivity project, most particularly the cable project that will connect South Africa to the United Kingdom along the west coast of Africa.

BBI's strategic goals and the three main priorities for the 2015/16 financial year were to:

- **Strengthening Capex Management**
 - Embark on developing the institutional structure to minimise the current funding challenges through focussing on effective Capex management;
- **New Product Development for additional revenue stream focussed on:**
 - Comprehensive Open-Access, carrier-neutral, connectivity enabler that offers higher industry service level performance and diverse route coverage.
- **SA Connect**
 - BBI has extensive pre-existing infrastructure that can be important in the implementation of SA Connect connectivity projects.

7.3.6. STATE INFORMATION TECHNOLOGY AGENCY (SITA) - No allocation from Government

SITA is governed by the founding legislation, State Information Technology Agency (SITA) Act (Act No 88 of 1998), as amended by the SITA Act (Act No 38 of 2002). Section 6 of the Act states the following as the objectives of the agency:

- To improve service delivery through the provision of information technology, information systems and related services, in a maintained information system security environment, to government departments and public bodies; and
- To promote the efficiency of government departments and public entities through the use of information technology.¹⁴

Also, the Act¹⁵ separates SITA's services into mandatory services (services that SITA must provide) and non-mandatory services (services that SITA may provide). SITA's strategic goals and the three main priorities for the 2015/16 are:

- **E-government**
 - Drive modernisation of the public sector;
 - Improve government business processes; and
 - Enhance access to government services by the citizens.
- **Data Security**
 - Safeguard and protect government information.
- **Value-added (IT) Procurement**
 - Generate Net Profit Before Tax of R195,7 million; and
 - Receive the 3rd clean audit in a row.

7.3.7. .ZA Domain Name Authority (. ZADNA) - No allocation from Government

The .ZADNA was established to assume responsibility for the .ZA Domain Name Space. The entity was established in terms of Chapter 10 of the Electronic Communications and Transaction Act (ECTA), 2002.

.ZA Domain Name Authority has not been allocated any budget for the period under review. The transfer payment did not flow due to the entity being self-sustainable. In order to contribute to the achievement of government priorities and outcomes; ZADNA is to pursue the following strategic goals for the 2015/16 financial year:

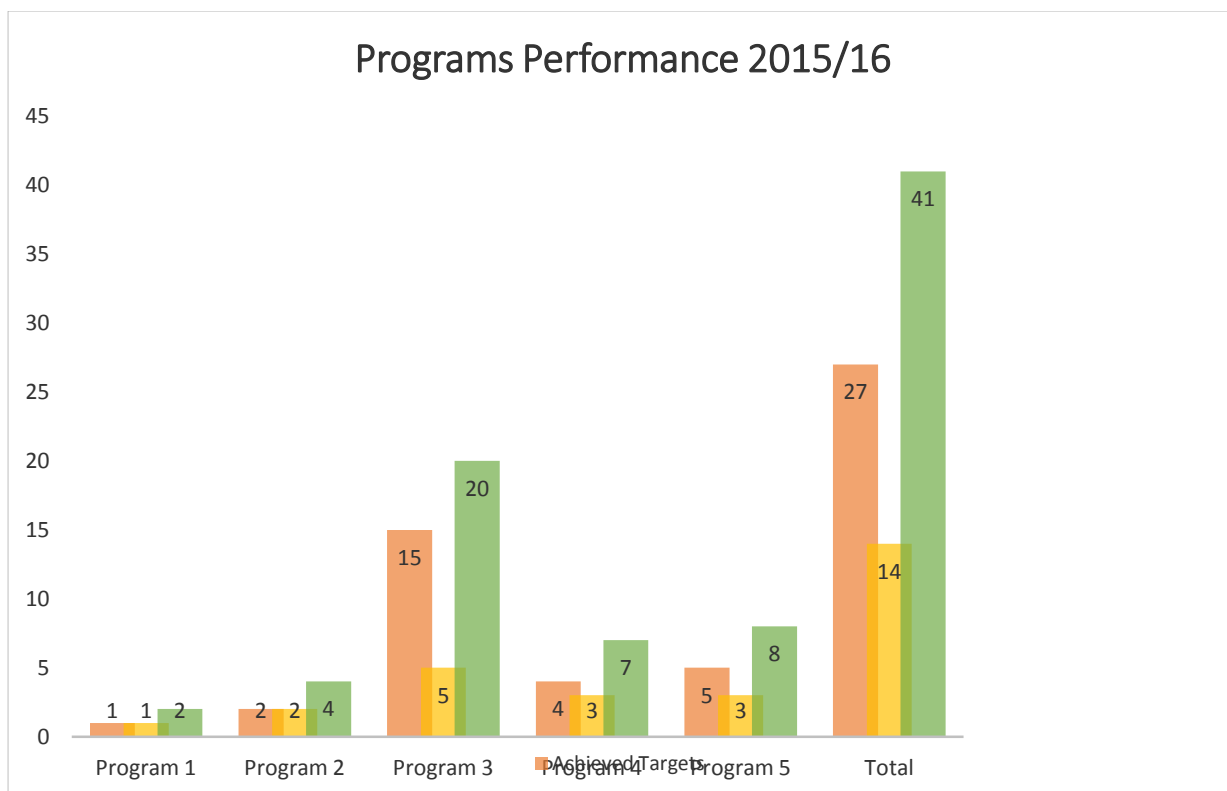
- Inclusive, vibrant domain name community;
- Enhanced regulatory and policy environment;
- Developed centre of operational excellence; and
- Inclusive Internet Governance.

7.4. SERVICE DELIVERY PERFORMANCE FOR 2015/16

FIGURE 5: Programs targets achieved versus targets not achieved

¹⁴ SITA Act No 38 of (2002)

¹⁵ Ibid



Source: DTPS Annual Report (2015/16)

The general performance of the Department is summarised below regarding each strategic objective, and it is followed by the assessment of each programme's performance.

- The Department highlighted that it had established the Project Management Office to manage the SA Connect project as well as developed a draft Programme Implementation Plan and a Project Management Plan; the actual connectivity was severely hampered by delays in appointing the connectivity service provider as planned. However, to address this challenge, the Department is engaging with relevant stakeholders as well as exploring all available options to ensure that going forward, the planned connectivity is rolled out in line with allocated resources. Regarding the implementation of Phase 2 of the Digital Development Plan, during the reporting period, the Department developed a Phase 2 business case document which was submitted to National Treasury. However, due to fiscal constraints Treasury only allocated funding for Phase 2 to commence in 2018/19, with an allocation of approximately R60 million.
- During the reporting period, the Department added that it ensured the ICT Infrastructure of the Virtual Cybersecurity Hub was reconfigured and strengthened after which the Department commissioned and launched the virtual Cybersecurity Hub on 30 October 2015. The Cybersecurity Hub offers alerts and warnings, announcements, security related information dissemination, incident handling and incident response support as services to its constituents.

- The Department had developed a draft Service Delivery Improvement Plan (SDIP) following extensive consultation with the Department of Public Service and Administration as well as relevant internal stakeholders. The draft SDIP was developed in compliance with the requirements of the Public Service Regulation 2001 and the White Paper on the Transformation of Service Delivery (Batho Pele).

During the reporting period, the Department in its quest to develop and implement the National e-Strategy undertook consultation with Provinces on the National e-Strategy Framework. Such consultations were conducted through the Provincial Broadband Steering Committee in North West, Limpopo and Northern Cape Province. Further consultation took place with the State Information Technology Agency (SITA) and the National ICT Forum Working Committee on e-Commerce so as to provide for institutional mechanisms to be used for the development of the e-Strategy.

7.4.1. TARGETS NOT ACHIEVED AGAINST THE PERFORMANCE INDICATORS AS PER THE APP 2015/16

- The Department did not achieve 14 targets from a total of 41 targets for the current financial year. This is against the backdrop of not having achieved 21 of the 29 targets in the 2014/15 financial year;
- The target under programme 1, which was to develop and implement an organization-wide integrated internal control framework was not achieved due to lack of specialised skills to undertake the mapping process. However, the project is being prioritised in the 2016/17 financial year with appropriate resources. This is against the backdrop that the 99,5% of the Administration programme funds have been spent. It is also important to note that a target with similar indicator was not achieved as not all elements of the internal control framework were fully implemented as amongst others, the appointment of the CFO did not materialise.
- The first target under programme 2, which was to facilitate International cooperation to strengthen national and regional capacity in the postal sector with the performance indicator, improvement in connectivity and financial services in rural and underserved areas through collaboration with the International Telecommunications Union (ITU) and Universal Postal Union (UPU), was not achieved due to delays to a revision in the approach proposed by the ITU to conduct a feasibility study because of transfer of funds from the previous completed SA-ITU UPU Cooperation Agreement.
- The second target under the programme 2, which was to facilitate International cooperation to strengthen national and regional capacity in the postal sector with the performance indicator, the improvement in sub-regional postal services, was not achieved due to delays in the appointment of

the consultant by SAPO which was only finalised in February 2016. New timelines have been developed towards finalising the project.

- The first target under programme 3, to implement the Digital Opportunities Programme in line with SA Connect was not achieved due to the MoU with the African Centre of Excellence for Information Ethics was only concluded in beginning of the fourth quarter, hence all Provinces could not be targets as planned. However, the remaining Provinces are being prioritised by the African Centre of Excellence for Information Ethics.
- The second target under programme 3, to implement the Policy and the legislative programme was not achieved due to the requirement from Cabinet Committee for minor changes to be made to the White Paper document, it was not gazetted as planned. The Department has made the required amendments and plans to resubmit to Cabinet in the 2016/17 financial year.
- The third target under programme 3, to promote the transformation of the ICT Sector through ICT SMME development and implementation of the ICT B-BBEE Sector Code because of lack of HR capacity, this was due to the extended absence of the project manager owing to ill health. Going forward, Digital entrepreneurship is being implemented through the Digital Opportunities Programme which is currently under way.
- The fourth target under programme 3, to ensure the availability of updated and relevant ICT research and ICT statistics to inform evidence-based policy making. The achievement of the planned target was largely impacted by the resignation of the Project Manager which resulted in HR capacity constraints. However, in the 2016/17 financial year, ICT Research is being prioritised with the appropriate HR capacity in place.
- The fifth target under programme 3, to develop and implement the National e-Strategy was not achieved due to a change in the approach to the development of the National e-Strategy. There were delays in achieving the target. However, the development of the e-Strategy has been identified as a priority project in the 2016/17 financial year.
- The first target under programme 4, to promote the transformation of the ICT Sector through ICT SMME development and implementation of the ICT B-BBEE Sector Code was not achieved due to HR capacity constraints. However, going forward in the 2016/17 financial year, the project has been assigned to the Policy and Strategy Branch. It is important to note that this target was also under program 3 and also not achieved. It will be important for the department to ensure that targets are not duplicated and resources optimised.
- The second target under programme 4, to facilitate the Corporatisation of the Postbank by appointing board members was not achieved because background checks of the participating candidates for board membership took longer than anticipated to complete. Furthermore, the Department is awaiting feedback from the South African Reserve Bank (SARB).
- The third target under programme 4, to facilitate the Corporatisation of the Postbank by the establishment of the Postbank Holding Company was not achieved because progress was hampered by the need for extensive engagement with relevant stakeholders including SARB and

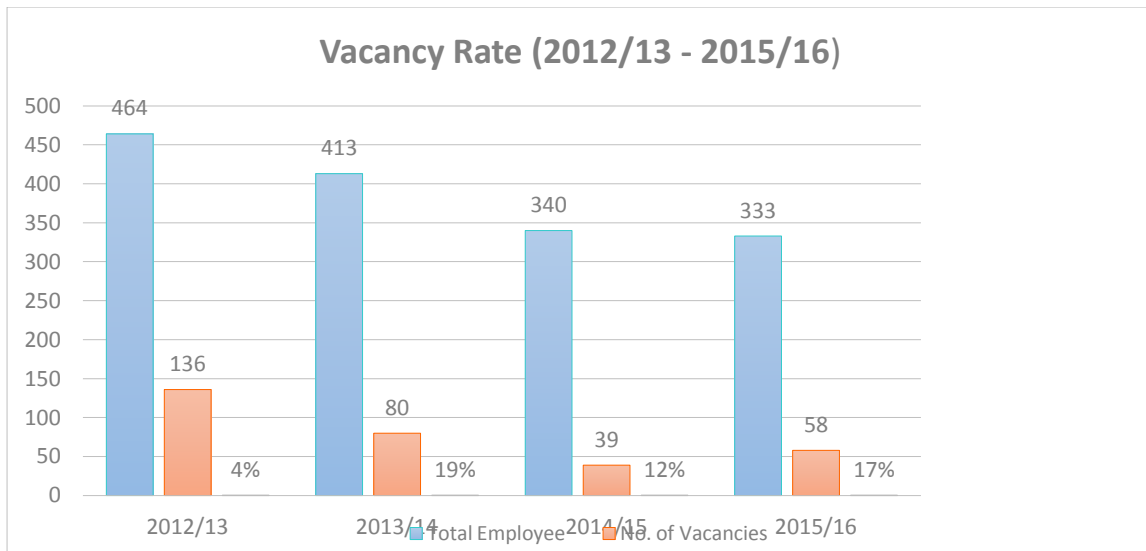
National Treasury to clarify the conflicting requirements of the Postbank Act and the Banks Act with regard to the public company requirements.

- The fourth target under programme 4, to facilitate the Corporatisation of the Postbank by Incorporation of the Postbank Company was not achieved due to the delays in obtaining SARB's decision on the request for authorization to establish the Bank and the Postbank Board appointments.
- The fifth target under programme 4, to conduct proactive and stringent oversight to improve performance and sustainability of SOCs was not achieved due to various reasons which include, review of the mandates and funding models of Sentech and SITA were largely affected by HR capacity constraints, the Draft iNeSi Bill required the inclusion of Social Economic Impact Assessment System (SEIAS) vetting which was a requirement introduced subsequent to the development of the APP and furthermore, the process of developing the iNeSi Bill is dependent on further engagements between the DTPS and the Department of Higher Education and Training, which is currently ongoing.
- The target under programme 5, to implement the Digital Development and Digital Future Programmes in line with SA Connect was not achieved due to the Department experienced challenges in the appointment of the Service Provider which negatively impacted the commencement of the connectivity. However, engagements with relevant stakeholders are currently underway to resolve the challenge.

7.4.2. HUMAN RESOURCES- (2012/13 TO 2015/16 FINANCIAL YEARS)

In the 2015/16 financial year, departmental targets were not met due to "HR constraints", some of which are as a result of the high vacancy rate. The Department is evidently unable to function optimally because of high vacancy rates. The graph below depicts the vacancy rates of the Department over the years:

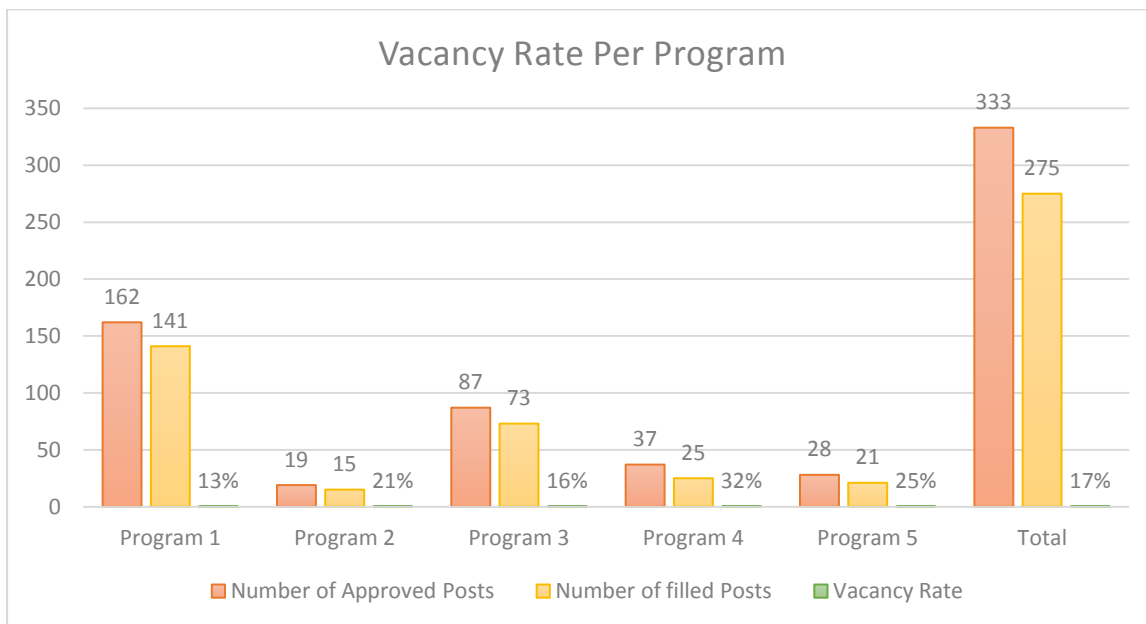
FIGURE 6: Vacancy Rate (2012/13 – 2015/16)



Source: BRRR (2015) & DTPS Annual Report (2015/16)¹⁶

The figure above highlights a very inconsistent trend in filling vacant positions. The vacancy rate had increased during the financial year under review and this against the background that a number of targets have not been met due to capacity constraints around human resources.

FIGURE 7: Vacancy rate per program



Source: Annual Report (2015/16)¹⁷

The final appropriation for compensation of employees for the 2015/16 financial year was R196, 447 million. The actual expenditure was R181, 693 million; a variance of R14, 754 or 8%. The filling of vacant posts, particularly those that are funded remains a persistent challenge to the Department.

¹⁶ DTPS Annual Report (2015/16) Page 99

¹⁷ DTPS Annual Report (2015/16) Page 99

As at 31 March 2016, the Department's vacancy rate stood at 17,4% with 20% of these vacancies falling at Senior Management Level (13-16); and Highly Skilled Supervision (9-12) at 18,8%. A breakdown of the vacancies by programmes shows that Programme 4: ICT Enterprise Development and SOC Oversight, Programme 2: International Affairs and Trade; and Programme 3: Policy Research and Capacity Development had the highest vacancy rates; 32,4%, 21,1% and 16,1% respectively.

As at 31 May 2015 the Department had not concluded Performance Agreements (PAs) for all SMS members. The DG submitted her PA to the Minister on 29 May 2015 for discussion and finalisation. However, to date HR has a copy of the unsigned PA and a letter requesting a meeting with the Minister to conclude and sign her PA. The Department also noted that most Senior Managers submitted their PAs to their Supervisors on time, however, the Supervisors concluded and submitted them late to HR. These were outstanding from 2014/15, and the Department should provide an update in this regard.

7.5. FINANCIAL PERFORMANCE AND AUDITED FINANCIAL STATEMENT OF THE DEPARTMENT

Financial mismanagement has great implications on the Department's ability to roll out infrastructure, e-Skills and e-Government to respond to the needs of the information society. The AG noted that while the financial statements of the Department were presented fairly, this was an improvement from the previous financial year (2014/15) where the AG found that financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section (4)(1)(b) of the PFMA. There were, however, persistent internal control issues that the AG found.

With regards to expenditure management and procurement and contract management; the AG established that the suppliers were not paid within 30 days. Furthermore, the AG did find that there were no effective steps taken to prevent irregular expenditure, amounting to R27 065 000¹⁸. Most of the issues that come out relate to procurement procedures not being followed.

Goods and services of a transaction value above R500 000 were in certain instances procured without inviting competitive bids, as required by Treasury Regulations 16A6.1. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of Treasury regulation 16A6.4. The cause of this was that management did not implement adequate controls to ensure that the procurement of goods and services comply with the requirements of the Department's Supply Chain Management Policy. There is a need to ensure that proper review and approval processes are in place to identify payments that do not comply with the requirements of the Department's Supply Chain Policy.

TABLE 2: Summary of Audit Outcomes for the last five financial periods

¹⁸ The AG's Report found in the DTPS Annual Report. Pg 129. Also refer to Note 27 of the Audited financial Statements

DEPARTMENT	2012/13	2013/14	2014/15	2015/16	DEPARTMENT
Department of Telecommunications & Postal Services	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Department of Telecommunications & Postal Services

Source: AG (2012/13-2015/16)

7.5.1. REPORT OF THE AUDITOR-GENERAL AUDIT OUTCOMES OF THE DEPARTMENT 2015/16

TABLE 3: Irregular, fruitless, wasteful and unauthorised expenditure

Year Incurred	Irregular Expenditure R'000	Fruitless and wasteful expenditure R'000
2012/13	R 44 910	R 1 075
2013/14	R 73 55	R 774
2014/15	R1 182	R 21
2015/16	R 223 377 (R 27 352 new)	R 11 983 (R46 new)

Source: DTPS Annual Plan (2015/16)

Irregular, fruitless, wasteful and unauthorised expenditure

The Department has over the years accumulated irregular expenditure amounting to R223 million¹⁹ by 2015/16 and at the same time consistently getting unqualified audit opinions over the last 4 financial years. During the 2015/16 financial year an additional R27,3 million²⁰ was incurred and the total amount of R223 million awaiting condonation for non-compliance with the PFMA or other legislation respectively.

Fruitless, wasteful and unauthorised expenditure

By 31 March 2016, the Department had incurred fruitless and wasteful expenditure amounting to R11,9 million; it should be highlighted that for the 2015/16 financial year the Department incurred R46 000²¹ of fruitless and wasteful expenditure which is double the figure incurred in the 2014/15 financial year. It should also be mentioned that R11 983²² is awaiting resolution.

7.5.2. OTHER ISSUES RAISED BY THE AG

¹⁹ Note 27 DTPS Annual Report Pg 202

²⁰ Ibid

²¹ DTPS Annual Report (2015/16) Page 204

²² DTPS Annual Report (2015/16) Page 204

Usefulness of annual performance information

NEMISA, SAPO and USAASA have regressed on the usefulness of information and the common findings were:

- Indicators not well defined;
- Indicators not verifiable; and
- Targets not specific and measurable.

Reliability of performance information

NEMISA and SAPO have regressed on the reliability of information with findings as follows:

- Reported information not completed
- Reported information not valid
- Reported information not accurate

TABLE 4: AG's Findings

Drivers of internal control			
Auditee	Leadership	Financial and performance management	Governance
DTPS			
SITA			
SAPO			
Sentech			
USAASA			
USAF			
NEMISA			
BBI			

Source: AG (2016)

	Good
	In progress
	Intervention required

Leadership

Inadequate leadership capacity prevented consistent oversight on compliance with laws and regulations. SAPO remains a serious concern and intervention was needed, and it was also concerning that and USAF has regressed.

Financial and performance management

Inadequate processes in place for regular review and monitoring of compliance with legislation.

Investigations

Investigations initiated in terms of presidential proclamation and conducted by the Special Investigative Unit (SIU) were still in progress at the end of the financial year. These proclamations referred to tender irregularities, hosting of the ICT Indaba, improper or unlawful conduct by an official of the department which resulted in the department purportedly breaching a contract and improper conduct by employees relating to the recruitment, selection and appointment of an official. Some of the matters as included in the proclamation had already been finalised internally, and the involved employees were charged with misconduct and subsequently dismissed.

7.5.3. KEY MESSAGES FROM THE AG

- Portfolio's 2015-16 audit outcome was stagnant
- The number of compliance findings increased in 2015-16
- Key positions remain vacant or suspended, with the following positions filled in acting capacity:
 - One director-general (DTPS);
 - One chief executive officer (NEMISA);
 - Four chief financial officers (USAASA, NEMISA, Sentech and SAPO);
 - Two chairpersons of the board (USAASA and SITA); and
 - One chief operations officer (SAPO).

7.5.4. KEY RECOMMENDATIONS FOR IMPROVEMENT BY THE AG

- Auditees that submitted financial statements of poor quality for auditing should strengthen their processes and controls, to create and sustain a controlled environment that supports reliable reporting. The financial reporting has to be an ongoing process for the entire financial year;
- Regular workshops between AG and the Audit Committees to ensure that there are action plans are corrective measures are implemented;
- AG recommended that the following best practices be implemented by all auditees to prevent material misstatements and not -compliance with legislation:
 - Leadership should prioritise filling all vacant managerial and key official positions that have remained vacant for extended periods;
 - Leadership should develop a training programme to ensure that all staff are up to date with the requirements of their jobs and relevant legislation;
 - Implement an effective performance management system, which ensures that consequence management is implemented;
 - Auditees should implement daily and monthly processing and reconciling controls over the areas where material misstatements were identified in the submitted financial statements; and
 - The information for the secondary financial information should not be prepared only when compiling the year-end financial statements, but regularly, and reviewed monthly.

- Auditees should identify the cause of the material misstatements identified during the audit and ensure that adequate and immediate action is taken to address them; and
- To do away with the irregular expenditure, the AG recommended that capacity is reinforced with stricter procurement management and the consequences management be enforced following the PFMA guidelines.

7.5.5. ACTION REQUIRED FROM THE OVERSIGHT STRUCTURE

- Oversee and follow up on filling key vacancies in the portfolio (quarterly interactions portfolio to report on their vacancy rates);
- Senior management, political leadership and oversight structures should continue to pay close attention to supply chain management transgressions. Investigate the incidents of non-compliance, take appropriate corrective steps and implement consequence management;
- Oversee key projects, reporting on the milestones of the projects;
- Monitor Financial viability or health of entities within the portfolio;
- Continue to have the portfolio account for their performance quarterly; and
- Monitor quarterly progress reports determining whether the SAPO is resolving the outstanding qualification matters.

8. Summary of BRRR process:

8.1. In respect of Sentech, the Committee noted the following:

- Sentech has received a clean audit, and the entity was sustainable and generated assets;
- Sentech has experienced a 2% shortfall in revenue. It has been exposed to a year of volatility in the market have navigated through these difficult situations;
- Sentech highlighted the challenge of running the dual illumination networks and that the exercise was very costly;
- Sentech identified 12 top risks and noted that plans were made to mitigate controls;
- 14 KPIs were achieved (82%), and 3 KPIs were not achieved (18%). Therefore, performance against plans received 82% against its targets;
- Sentech highlighted that the shortwave network has reached end of life and revenue was going down but indicated that a different business model is being explored;
- Overall, Sentech, as an entity was solvent and liquid, and was strong and vigorous;
- Sentech will diversify product offerings and venture into innovation products;
- The outcomes achieved in respect of manufactured capital includes a satisfied customer base and increased service offering;
- The Committee commended the unqualified audit opinion (clean audit) achieved in four consecutive years, improved labour relations at Sentech, its commitment to driving revenue, profitability, stability, accountability, support for socio-economic enterprise development and its focus on developing new skills; and
- The reasons for non-achievement of the 3 KPIs as per the entity included were as follows:

- The number of data connectivity terminals was not installed due to the instability of VSAT technology which has resulted in the product being discontinued. The challenges with VSAT had impacted on profitability;
- The number of digital terrestrial sites was not achieved due to delays experienced and after resolving to replace the non-performing supplier; and
- Performance ratings were not achieved primarily as a result of engagements between the employee representative and management about the 13th cheque matter.

8.2. In respect of .ZA Domain Name Authority, the Committee noted the following:

- The Auditors highlighted that the annual financial statements of The .ZA Domain Name Authority (NPC) present fairly in all material respects;
- Members commended the entity for ensuring cost containment by remaining at the old premises;
- Board approved several internal controls²³:
 - Delegation of authority;
 - Amendments of Procurement Policy and Procurement;
 - Amendments to Financial Policies and Procedures; and
 - Amendments to Travel and Subsistence Schedule.
- Members raised a concern on the awareness of the work of the entity which had been conducted in the urban areas and not able to reach the rural communities;
- Members raised the issue of budget surplus and wanted to know if some of the money could be returned to the fiscus. The surplus accrued to R10,5 million to date;
- Members noted the number staff members in relation to number of board members and wanted to know the rationale of 9 board members against 3 employees and wanted to know if the board was not bloated;
- Members noted the number of vacant posts and wanted to know if the entity was planning to fill the vacancies; and
- The quality of the content of the annual report against the presentation was highlighted as the information did not correlate.

8.3. In respect of SITA, the Committee noted the following:

- SITA received an unqualified audit opinion from the AG with an emphasis on matters and findings. For the past three years, the entity received unqualified audit opinion. At the same time, SITA has regressed regarding the irregular expenditure which has increased from R13,9 million to R63,4 million but have made considerable strides in the reduction of the fruitless and wasteful expenditure from R8,5 million to R1,3 million. SITA has since improved its system of internal control resulting in a better identification of irregular expenditure;

²³ . ZaDna Annual Report (2015/16)

- The actual revenue collected in the year under review is R5,458 billion; it is below the revised budget of R5,592 billion. The actual year to date service revenue performance was under the revised budget by R517,8 million, while the agency revenue over performed by R384,1 million. Similarly, in the previous financial year, the Entity underperformed on revenue collection, an under performance of R92,7 million²⁴. A reason cited for underperformance in the previous financial year is that a project to upgrade a customer's network did not materialise;
- The Entity, for the 2015/16 financial year, had 22 planned targets and of these 22 targets, 15 or 68% were achieved. In the previous financial year, 2014/15, the Entity had 25 planned targets, and of these 25 targets 19 or 76% were achieved. This means that SITA's overall performance has dropped by 8% when compared to the performance of the two previous financial years;
- For the year under review, the entity, through the procurement programme had planned to achieve seven targets. Of the seven targets, six were achieved and one was not achieved. The non-achieved target relates to the awarding of tenders on time. The entity had planned that 70% of tender awards is completed within the turnaround time, unfortunately, only 55% was achieved – thus a deviation of 15%. The entity contends that the reason for the deviation is mostly due to the unavailability of evaluators from clients and numerous clarifications required from bidders during evaluation;
- The purpose of service delivery programme is to provide high-quality IT services to enable the government to deliver efficient and convenient services through the use of ICT. In response to its purpose, this programme had planned to achieve seven targets during the year under review. However, only three of the seven targets were met. The four non-achieved targets relate to the following:
 - Approval of the award recommendation for the new Integrated Financial Management System (IFMS) project. The specific planned target was on “lead site implementation”. Hundred percent of the target was not met, and the entity contends that the delay in awarding the tender adversely impacted this target and other Annual Performance Plan (APP) targets related to IFMS. The two other planned targets not achieved also relate to the IFMS; and
 - The Entity had planned to implement 90% of security ICT controls. Only 45% was achieved resulting in underachievement of 45%. The reason cited by the Entity for the deviation is that “Cybersecurity implementation timelines were not met due to delays in the approval of business cases, tender publications and bid award process. The physical security tender had to be cancelled due to an unfavourable audit report.

²⁴ State Information Technology Agency, (2014/15)

- The purpose of the infrastructure programme is to optimise the provisioning of SITA's IT infrastructure services to increase availability, flexibility, scalability, predictability and security. For the year under review, this programme only had one target. The target relates to the implementation of infrastructure upgrades and modernisation plan. The specific target was to complete 90% of milestones as per the Annual Plan. However, the Entity managed to achieve 80% instead. The reason for the deviation is attributed to the "revised implementation approach due to prioritisation and reduction in Capex funding". In the previous financial year, the Entity had five planned targets, and all targets were met;
- The purpose of the financial sustainability programme is to ensure effective and efficient financial management and to ensure financial growth and sustainability. In the previous financial year, this programme performed poorly wherein only one of the four planned targets was achieved. There has been an improvement in the year under review as three of the four planned targets have been met. The target that was not realised relates to the profitability of the Entity. The plan was to achieve a 3% surplus after tax, instead, a 2,9% deficit was achieved. According to the Entity, this is mainly due to the accounting impairment of the IFMS and JIG intangible assets. The same target in the previous financial year was underachieved by 0,7%;
- The purpose of the organisation programme is to build and maintain the organisational capability to enable SITA to achieve its strategic imperatives; this programme had only one target, that of improving High-Performance Organisation (HPO) baseline. This target was met both in the previous year and in the year under review;
- The purpose of the governance and administration programme is to provide leadership, strategic management, governance, and risk and resource management in line with government's accepted norms and standards; For the year under review, the programme had two planned targets. Of the two targets, only one was achieved. The non-achieved target relates to compliance with internal control framework. The target was to resolve 100% of the Management Letter Points (MPL) emanating from the 2014/15 financial year. However, the Entity managed to achieve 81,5%;
- The committee noted that SITA was reporting on the revised budget for the year under review with the revised Capex of R661 million reduced from R956,2 million due to projects reprioritisation and limited funds within the entity. Even though the budget was reduced, the entity underperformed, particularly under the infrastructure programme;
- SITA created programmes that laid the foundation for better insight into the operational environments in finance, supply chain and certain technical operations and this has enabled the entity to renegotiate some of the major contracts from suppliers such as the Microsoft, Software age and IBM which has been reduced by R400 million;

- SITA highlighted that the Capex program of R900 million had to be reduced to R661 million which was going to harm the organisation which will have implemented the systems but left with no cash to manage those systems. The preservation of cash was therefore very key;
- SITA has successfully connected the eight (8) banking sites making it easier for the public to attain new ID cards through the Department of Home Affairs Modernisation Projects; and
- SITA participated in the training and development of 210 youth. The programme emphasised women empowerment; with 60% of the learners and interns being young female candidates.

8.4. In respect of NEMISA, the Committee noted the following:

- The AG gave NEMISA an unqualified audit opinion but with findings;
- In Programme 3, the AG highlighted, evidence provided for achievements against planned targets of 57% of the indicators was insufficient and unreliable;
- In Programme 4, the AG highlighted, audit evidence for the variance between targets and actual achievement was not sufficient and appropriate;
- The AG also highlighted, Misstatements on reported information for Programmes 2, 3 & 4. (The same finding was made by the AG in the previous financial year);
- Errors in the financial statements. This pertains to the incorrect valuation of property, plant and equipment, exclusion of debtors from debtor's balances, reporting of money received, reporting on leave and bonuses, remuneration and the impact of intangible assets which were restated;
- Material misstatements which had to be corrected for the Institute to obtain an unqualified opinion;
- The Institute did not take adequate steps to prevent irregular and fruitless and wasteful expenditure:
 - *Irregular expenditure* amounting to R3,1 million. Of that amount, about R2,5 million was incurred due to "deviation from competitive bidding". The Institute reports that the case is under investigation; and
 - *Fruitless and wasteful expenditure*, of R88 100. NEMISA had to pay about R83 500 to SARS for interest and penalties on a late payment. Fruitless and wasteful expenditure increased by R80 600 when compared to the previous year's R2, 790 million.
- Inadequate processes implemented for collection, collation, monitoring and reporting on performance;

- The accounting authority did not exercise oversight responsibilities sufficiently on financial and performance reporting, compliance and related internal controls to ensure that the financial and performance reports were accurate (free from material errors);
- The entity highlighted that most of the targets which were not achieved were as a result of the fees must fall movement, which made access to the CoLabs impossible; and
- There were number of highlights and achievements:
 - There has been 78,7% of the performance achievement;
 - Graduated 74 students. There were 18 in broadcasting and engineering, 21 in Television, 23 Graphic design and 12 in animation;
 - Learners spent 70% of their learning at a workplace and 30% through face to face interactions;
 - Expansion of collaborative networks in Free State, North West and Mpumalanga;
 - Launch of the **SHE WILL CONNECT** programme; and
 - Digital literacy programme which reached communities of the National Health Insurance sites.

8.5. In respect of USAASA and USAF, the Committee noted the following:

- In 2015/16 financial year, the Universal Service and Access Agency of South Africa (USAASA), and Universal Service and Access Fund (USAF) has been allocated a budget of R264 million and R233,5 million respectively. This includes an additional R196 million allocated to USAASA for Broadcasting Digital Migration (BDM) project costs and logistics. This budget for USAASA enabled the entity to deliver broadband services to the underserved of Chief Albert Luthuli and Mutale municipalities in Limpopo;
- However, it has been noted that USAASA accumulated a surplus of R191 million at the close of the financial year owing to the delays in launching BDM;
- Another setback for this entity is the non-completion of Enterprise Resource Planning (ERP) system at the end of 2015/16 and has been reported that it will be finalised in the fourth quarter of 2016/17;
- About USAF and its project delivery of rolling out broadband infrastructure and services in underserved areas, a surplus of R271 million tied up to BDM devices has been recorded as surplus. At the end of the 2015/16 financial year, USAF cash reserves totalled R1,8 billion and over 70% of this amount held for project commitments relating to BDM;
- The USAF sustained a surplus at the end of 2015/16 of above R32 million. In compliance with Treasury Regulation 6.4, a request has been made to the National Treasury through DTPS to retain the surplus and roll it over to 2016/17. In this regard, funds were mostly unspent due to delays in the implementation of the Broadcasting Digital Migration project;

- On the positive note, USAASA made a meaningful contribution to driving meaningful economic participation of the majority of South African citizens and creating capacity within the broader economic landscape. This has been made possible through preferential procurement to enhance participation by black entrepreneurs in the mainstream of economic activity;
- The AG has, after considering the financial statements of USAASA, agreed that these statements reflect an unqualified audit opinion on matters of emphasis;
- Regarding **strategic planning and performance management**, the effective, efficient and transparent systems of risk management and internal controls on performance information management were not maintained as required by section 51(1)(a)(i) of the PFMA;
- On **expenditure management**, the AG raised a concern indicating that effective steps were not taken to prevent **an irregular expenditure**, amounting to R687 000 and this is in contravention of section 51(1)(b)(ii) of the PFMA and Treasury Regulations. In respect of this transgression, disciplinary action actions were not taken against the officials who incurred irregular expenditure and fruitless expenditure, as required by section 51(1)(e)(iii) of the PFMA and Treasury Regulations;
- On **leadership**, the management did not uphold and promote compliance with key legislation including internal policies, laws and regulations; and
- Unlike the USAASA, USAF had no issues of non-compliance with relevant legislation. Regarding **fruitless and wasteful expenditure**, USAF incurred an interest charge of R205 000 on the overdraft balance on 31 March 2016 due to challenges of changing Bank signatories.

8.6. In respect of SAPO, the Committee noted the following:

- SAPO financial statements indicate that the entity incurred a total comprehensive loss of R1,1 billion during the year ended 31 March 2016 against a net loss of R1,5 billion for the year ended 31 March 2015. The entity is not generating sufficient revenue to finance their high-cost base. These conditions, along with other matters as outlined in the going concern note 47 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern;
- The AG notes that SAPO did not adequately review the useful lives and residual values of property, plant and equipment at each reporting date in accordance with IAS 16, Property, plant and equipment. Furthermore, the AG was also not able to determine the consequential impact that any adjustments would have on the loss for the period and the accumulated loss in the consolidated and separate financial statements;

- The SAPO Group and company did not have adequate systems to collate and maintain data to calculate a current best estimate for the site restoration provision. The AG was not able to determine the impact on the site restoration provision by alternative means;
- In contravention of Section 55(2)(b)(i) of the PFMA, SAPO did not have adequate systems to maintain complete records of irregular expenditure. Due to the lack of systems, the AGSA was not able to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, the AG was unable to determine whether any adjustment to irregular expenditure, as disclosed in note 50 to the consolidated and separate financial statements, was necessary;
- Again and in contravention of Section 55(2)(b)(i) of the PFMA, SAPO did not have adequate systems to maintain complete records of fruitless and wasteful expenditure. Due to this lack of systems, the AGSA was not able to confirm the amount of fruitless and wasteful expenditure to be disclosed by alternative means;
- Financial statements were not prepared in accordance with Section 55 of the PFMA and Section 29 of the Companies Act due to misstatements and supporting records not available;
- The annual return for the company was not filed within 30 days as required by Section 33 of the Companies Act;
- Information Technology (IT) Audit revealed significant control weaknesses due to key risks that were not adequately managed and mitigated within the IT focus areas resulting in non-compliance with Section 51 of the PFMA. SAPO highlighted that the process to award a tender for the network upgrade is at the advanced stage;
- SAPO indicated that it had prioritised the audit findings of the AGSA and ensured that all the executives have KPIs linked to their performance contracts;
- The SIU released its report for SAPO, and the report was submitted to the President for his consideration on 25 June 2015 in terms of section 4(1)(g) of the SIU and Special Tribal Act, Act No.74 of 1996 as per the Presidential Proclamation. The President referred the Report to the Minister who in turn presented the report before SAPO Board. The question is what progress has been made by the SAPO Board and management to implement the recommendations by SIU especially on consequence management;
- The appointment of the SAPO Board and the filling of key management positions, including the CEO, seems to have brought a semblance of leadership stability;
- The Strategic Turnaround Plan (STP) has good intentions but is hampered by a lack of funds and a lack of skills due to a mass exodus of skilled personnel. SAPO noted that the biggest challenge was to implement the strategic turnaround plan without the necessary finances;

- The ambiguity of SAPO's key performance indicators seems to be the reason it becomes difficult for them to report on their performance clearly;
- On a positive note, though, there have been on-going engagements with union leaders which have resulted in Employment Relations (ER) stability thus far, which then allows the Group to focus on important operational matters;
- SAPO noted that the cost saving measures would not ensure the survival of the entity, but the promise of increased business from government needs to be implemented to ensure an improvement in revenue and able to finance the cost base;
- SAPO highlighted that there was a deferred capital expenditure and the entity had only spent R46 million on capital expenditure due to not enough contracted revenue;
- SAPO had implemented a number of cost measures such as the rationalisation of transportation for mail delivery and placing a moratorium on overtime and travel; and
- SAPO highlighted that the entity is left with 14 months of operational cash flow to survive and this was very concerning for the members.

8.7. In respect of BBI, the Committee noted the following:

- BBI managed to maintain an unqualified audit opinion for the fifth consecutive year. However, it still posted a total comprehensive loss for the year amounting to R91 million –following a more severe loss of R245 million for 2014/15. This loss came despite revenue increasing by 23,6% and cost of sales decreasing by 17,6%. The company is striving hard to implement its updated business model from a single customer to one based on multiple customers;
- BBI reported a growth of the customer base from 18 to 23 as at March 2016.
- Steady growth in year on year revenue from R366 million to R451million which bodes well for placing the Company on a sustainable trajectory;
- BBI realised the benefit of migrating new customers on to its infrastructure; thereby reducing lease costs from third parties. The Company is also optimising its colocation; metro-lease and maintenance cost inputs continuously;
- BBI has executed its Build, Grow and Expand strategy, which has resulted in numerous successes;
- BBI has generated a gross profit and the increase in gross profits was as a result of decreased cost of sales;
- Internal control matters have improved, depicting a stable operating environment.

- BBI has implemented its turnaround strategy which resulted in the reduction of irregular expenditure to zero;
- Environmental issues and social issues have improved;
- Improvement in the Annual Performance Plan for the financial year 2015/16 have been identified with BBI achieving 0,1% in respect of compact shareholder achievements, which was better than the target;
- Financial Performance has improved the top line, and gross profit improve the loss compared to the previous year;
- Revenue and cost of sales significantly increased. Revenue increase resulted from additional revenue from key customers, new contracts and retention of existing customers. The increase in costs sales was mainly due to low fibre lease and maintenance costs and continual drive to optimise costs;
- The financial position of BBI reflects assets as R141 million and equity and liabilities on R110 million;
- Infrastructure delivery and service performance of fibre rollout has improved;
- Human Resource performance have significantly improved. Most employees have signed performance contracts except three employees;
- BBI has identified the likelihood not to continue as a going concern. This was considered the biggest risk to the liquidity of the entity; and
- To minimise a risk to the funders, the funding plans will be based on the project financed basis.

9. BRRR 2015/16: RECOMMENDATIONS BY PORTFOLIO COMMITTEE:

9.1. Recommendations relating to the Department and some entities:

The Committee recommends that the Minister of Telecommunications and Postal Services should:

- Ensure the filling of key vacancies in the portfolio, specifically in the Department, NEMISA, USAASA, Sentech and SITA;
- Ensure that all board positions which are about to come to an end such as those under USAASA are advertised and filled as a matter of urgency;
- Ensure that the spending pattern of departmental programmes is consistent with National Treasury recommendations;
- Ensure that consequence management as prescribed in the PFMA is undertaken across the portfolio so as to prevent irregular, wasteful and fruitless expenditure;

- Ensure that effective tracking of irregular and wasteful expenditure in the portfolio is done and that the Committee receives a report indicating what corrective measures have been undertaken to recover the outstanding monies;
- Ensure that tracking of SAPO as a going concern is done on a continuous basis, so that the entity can continue its operations for the foreseeable future and invest its current resources to secure its long term sustainability. The Minister should further consider if Public-Private Partnerships (PPP) are necessary for certain SAPO operations, and he should encourage Cabinet members to commit to increasing their departments' support for SAPO to ensure that SAPO secures government business as a way of generating sustainable income;
- Ensure that the Department develops risk mitigating strategies to overcome the significant risks relating to DTT procurement, the management of contracts and contract escalations. The Committee recommends continuous engagement between the DTPS, DOC and USAASA to resolve gaps in the delivery of the DTT;
- Ensure that the position of the Chief Director: Government Information Technology Office be filled as a matter of urgency to achieve the objectives of the department in line with its mandate;
- Ensure that all the SIU investigations across the portfolio are finalised and that corrective measures are implemented;
- Ensure that transfers from the Department to entities are done timeously and not towards the end of the 3rd Quarter of the financial year;
- Ensure that under-expenditure of funds in the Department and all entities are not reflected as a surplus;
- Ensure that the Department and all entities have realistic targets and that the term 'partially achieved' for performance indicators/targets not achieved is done away with;
- Ensure implementation of consequence management across the board;
- Ensure that the leave policy is enforced as employees including senior managers have been taking a lot of sick leave;
- Ensure that there are proper processes and a set of clear criteria to direct how cases of labour misconduct are dealt with, so that precedent can be set;
- Ensure that the issue of the National Broadband Advisory Council is resolved;
- Ensure that recommendations raised in the previous BRRR are adequately addressed;

- Ensure that the Department develops the requisite internal control measures to facilitate compliance by the Department and to monitor the entities on compliance matters;
- Ensure that the Department develops an action plan and provide quarterly reports on corrective measures taken to resolve the AGs findings;
- Ensure that there is alignment between money spent and the targets which have been achieved by the department. There were cases where some programmes had spent 100% of the budget and had not achieved all the set targets; and
- Ensure that operational deficiencies identified by the AG form part of the KPIs for all the senior managers of the entities.

9.2. Recommendations relating to specific entities:

That the Minister and Department should ensure that the following corrective measures are taken:

9.2.1. On Sentech

- Ensure that a plan is implemented to address the high costs of obtaining a Sentech license by community radio stations;
- Ensure that the appointment of the CFO is finalised;
- Ensure consideration of amendments to the Sentech Act as it is outdated and there was a need for a strategy to sustain the environment;
- Ensure employment equity is implemented, in particular in relation to people with disability;
- Ensure that Sentech provides a list of SMMEs who have gone through the enterprise development program; and
- Ensure that consequence management is enforced.

9.2.2. On SITA

- Ensure that the risk of losing businesses such as the Department of Home Affairs is acknowledged and to ensure that key interventions are made timeously to prevent the loss of its business;
- Ensure that all the outstanding court cases are resolved;
- Ensure that SITA would engage with the Department of Higher Education and Training with a view to developing an information system which would provide data on how many students have gone through the technical and vocational education (TVET) colleges;
- Ensure that there is consequence management for SITA employees responsible for the misleading figures contained in the initial 2015/16 budget and APP;

- Ensure that SITA provides a list of departments which have outstanding debt with the entity to the Committee;
- Ensure that steps are taken to provide for a quicker turnaround time on the supply chain processes;
- Ensure that the entity develops a quicker turnaround time on the disciplinary hearings;
- Ensure that the backlog of the National Certificate Vocational (NCV) is cleared;
- Ensure that SITA provides a list of the 210 students who participated in the training and development programme of the entity to the Committee;
- Ensure that SITA conducts a skills gap analysis;
- Ensure that the issue around late payment of invoices by debtors is resolved;
- Ensure that the audit committee develops an action plan with clear tracking mechanisms around the findings of the AG; and
- Ensure that the implementation of the Integrated Financial Management System (IFMS) is completed.

9.2.3. On NEMISA

- Explore the possibility of conducting the workshops outside of the institutions of higher learning in order to minimize the disruption to the program by student protest action at campuses;
- Ensure that legislation in respect of the establishment of the new entity should be finalised in order to stabilise the entity;
- Ensure that vacant posts, including that of the CEO and CFO, should be finalised ASAP;
- Ensure engagement with the Minister of Higher Education and Training to determine whether NEMISA was reporting to the appropriate department in view of the need to ensure alignment of the entity's courses and qualifications with the South African Qualifications Act (SAQA);
- Ensure that an action plan is developed detailing what corrective measures would be implemented to address the shortcomings identified in the AG Report; and
- Ensure that consequence management is enforced and that former employees who were guilty of misconduct are charged and that where possible, misappropriated funds are recovered.

9.2.4. On .ZADNA

- Ensure that there is quality check on the submitted document so that the information on the presentation is aligned to the Annual Report;
- Ensure that all the open vacancies budgeted for must be filled in order to ensure enough capacity to achieve all the targets;
- Ensure that there is a clear awareness and active marketing strategy for the uptake on the registration of names;
- Ensure that the target market in the awareness events is predominantly disadvantaged communities and SMMEs;
- Ensure effective mechanisms are in place to achieve full-targeted revenue in view of the concerning fact that revenue for the year under review was underachieved by R500 000; and
- Ensure that the entity explores and implements further cost cutting measures.

9.2.5. On USAASA and USAF

- Ensure that USAASA fills critical, funded vacancies;
- Ensure that consequence management is enforced - even those people who have left the company;
- Ensure effective financial controls to eradicate the irregular expenditures;
- Ensure that financial transfers between the USAF and USAASA accounts occurs in terms of applicable accounting standards and legislation, including treasury regulations;
- Ensure that the Organisational Development (OD) is finalised and the implementation of the ERP is completed to strengthen the financial controls;
- Ensure that the finance department is strengthened for effective financial controls; and
- Ensure that disciplinary and corrective measures are taken in respect of all irregular expenditure.

9.2.6. On SAPO

- Ensure that consequence management is enforced and that former employees guilty of misconduct are charged and, where possible, misappropriated funds recovered;
- Ensure that an action plan is developed detailing what corrective measures would be implemented to address the shortcomings identified in the AG Report;
- Ensure that targets are well-defined and SMART;

- Ensure SAPO's outdated technology is adequately addressed by upgrading the IT network infrastructure;
- Ensure that SAPO redevelops its internal audit management plan to overcome the entity's biggest challenge, namely its dysfunctional internal audit function;
- Ensure an alignment of senior management and staff for effective capacity to achieve the set targets;
- Ensure that legal matters such as the Eco-point lease termination is finalised;
- Ensure that critical positions such as the CFO & COO are filled urgently; and
- Ensure that there is an action plan to address the findings of the AG and that regular progress updates are incorporated in the entity's quarterly reports.

9.2.7. On BBI

- Ensure that consideration be given to revising the agreements between the shareholders (IDC and the DTPS) and the entity, which is currently reflected as shareholder's loan (R1,8 billion) on the financial statement and not as equity. This will hamper BBI's borrowing ability;
- Ensure proper employment equity by prioritising the hiring of people with disabilities;
- Ensure that measures are in place to increase revenue and to generate enough funds for future operations; and
- Ensure the intake of interns to increase the capacity of the workforce and contribute to the development of youth.

Report to be considered.