ADMINISTERED REVENUE ON BEHALF OF NATIONAL REVENUE FUND

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Report by the Accounting Officer to Parliament

for the year ended 31 March 2007

Report by the Accounting Officer

It is with pleasure that ICASA presents to Parliament of the Republic of South Africa, the Annual Financial Statements on the Administered Revenue for the year ending 31 March 2007. In prior financial years ICASA reported the Administered Revenue on a cash basis in its main financial statements.

Background

ICASA regulates the communications, broadcasting and postal sectors which are governed by the Broadcasting Act, Electronic Communications Act (which repealed the IBA Act and the Telecommunications) and the Postal Services Act. In terms of the ICASA Act, all monies collected in its regulatory activities must be paid over to the National Revenue Fund within 30 days of receipt.

ICASA collects fees from the following:

- Broadcasting;
- Telecommunications;
- Frequency Spectrum; and
- Postal Services.

Postal regulatory functions previously performed by the Department of Communications were transferred to ICASA with effect from 1 January 2007.

Previously, licence fees were recognized on the cash accounting basis. Accordingly, an impairment analysis was not required and was not conducted. During the financial year under review, licence fees were based on an accrual basis, and accordingly the impairment of the corresponding debtors was carried out.

For the period under review, Revenue increased by 16% from the 2005/2006 financial year with an average growth of 17% in respect of Broadcasting and Telecommunication fees.

Events after the reporting date

Council and Executive Management are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with within the financial statements that would affect the financial statements for Administered Revenue significantly.

Business address

Physical address:	Postal address:
Pinmill Farm	Private Bag X10002
164 Katherine Street	Sandton
Sandton	2146
2128	

Stanley Mamaregane
Acting Chief Executive Officer
31 July 2007

INTRODUCTION

1. I have audited the accompanying financial statements of the ICASA Administered Revenue which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out from pages 129 to 133.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No.108 of 1996) read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 647 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of Accounting

8. The policy is to prepare financial statements on the basis of accounting determined by the National Treasury as set out in accounting policy note 1.1.

Opinion

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

OTHER MATTERS

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

OTHER REPORTING RESPONSIBILITIES

Material adjustments made to the financial statements submitted for audit

10. Material adjustments were made to the annual financial statements submitted for audit on 31 May 2007. These adjustments related to an increase in licence and application revenue of R367.2 million, an increase in impairment of accounts receivable of R20 million, an increase in interest income of R11.6 million, an increase in accounts receivable of R347.2 million and an increase in National Revenue Fund payables of R346 million.

APPRECIATION

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

Ms. M.A. Masemola for Auditor-General
Johannesburg
31 August 2007

AUDITOR-GENERAL

Statement of financial performance

for the year ended 31 March 2007

Notes 31 MARCH	31 MARCH	2007 (R)	2006 (R)
Licence and Application Fees	**2**	**2 121 114 457**	**1 826 976 601**
Expenditure		**(25 029 916)**	**(22 537)**
Impairment of accounts receivables	3	(25 013 886)	(1 150)
Bank charges		(16 030)	(21 387)
		2 096 084 541	**1 826 954 064**
Interest income		11 606 643	10 812 341
		2 107 691 184	1 837 766 405
Funds transferred		**(1 725 297 144)**	**(1 455 223 367)**
Licence and Application fees transferred to National Revenue Fund during the year		(1 713 706 531)	(1 444 432 413)
Net Interest income transferred to ICASA		(11 590 613)	(10 790 954)
Funds accrued to the year		**382 394 040**	**382 543 038**

Statement of financial position

for the year ended 31 March 2007

	Notes	31 MARCH 2007 (R)	31 MARCH 2006 (R)
Assets			
Current Assets		**427 282 328**	**446 067 937**
Accounts receivables	3	405 541 534	402 737 880
Cash and cash equivalents	4	21 740 794	43 330 057
Total Assets		**427 282 328**	**446 067 937**
Liabilities			
Current liabilities		**427 282 328**	**446 067 937**
Inter-company loans		1 814 036	1 824 316
National Revenue Fund payables	5	425 468 292	444 243 621
Total liabilities		**427 282 328**	**446 067 937**

Cash Flow Statement

for the year ended 31 March 2007

	Notes	31 MARCH 2007 (R)	31 MARCH 2006 (R)
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from licensees		1 692 117 268	1 460 740 631
Cash transferred to National Revenue Fund and ICASA		(1 725 313 174)	(1 455 244 754)
Cash generated (utilized in) /generated from operations		**(33 195 906)**	**5 495 877**
Interest received		11 606 643	10 812 341
Net (decrease) / increase in cash and cash equivalents		**(21 589 263)**	**16 308 218**
Cash and cash equivalents at the beginning of the year		43 330 057	27 021 713
Cash and cash equivalents at the end of the year	**4**	**21 740 794**	**43 330 057**

1 Accounting policies

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

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

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

Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Reporting date	Balance sheet date

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

1.1 Basis of preparation

The annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through profit and loss.

The annual financial statements incorporate the following principal accounting policies, which are consistent in all material respects with those applied in the previous year, except where stated otherwise.

The annual financial statements incorporate the following principal accounting policies:

1.2 Significant judgments

In preparing the annual financial statements, management is required to make estimates and assumptions that effect the amounts represented in the annual financial statements and related disclosures. It also requires management to exercise its judgment in the process of applying the accounting policies. Use of available information and the application of judgment are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

Provision for impairment of accounts receivables

A provision for impairment of accounts receivables is established when there is objective evidence that ICASA will not be able to collect all amounts due according to the original terms of receivables. The calculation of the amount to be provided for impairment of accounts receivables requires the use of estimates and judgments.

1.3 Revenue Recognition

Revenue comprise fees earned from application fees, issue of licences, licence amendment application fees and the annual licence fees from Broadcasting Services, Frequency Spectrum Services and Telecommunications Services.

Revenue is accounted at amortized cost/basis using the risk free bond rate.

1.4 Cash and Cash Equivalents

Cash and cash equivalents are carried in the statement of financial position at fair value; they comprise deposits held on call with banks and bank accounts.

1.5 Licence fees receivables

Licence fees receivables are recognized initially at fair value and subsequently measured at amortized cost using the risk free government bond rate, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that ICASA will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the risk free bond rate. The amount of the provision is recognized in the income statement.

1.6 Licence fees due to National Refund Fund

Licence fees due are recognized initially at fair value and subsequently measured at amortized cost using the bond rate.

1.7 National Revenue Fund

In terms of section 15(3) of the Independent Communications Authority Act (Act No.13 of 2000), ICASA must pay all fees received to the National Revenue Fund within 30 days after receipt.

Notes to Administered Revenue
for the year ended 31 March 2007

		Notes	31 MARCH 2007 (R)	31 MARCH 2006 (R)
2.	**Licence and Application fees**			
2.1.	**Broadcasting Services**			
	Community Sound Broadcasting licence application fees		211 400	141 100
	Commercial Television licence fees		43 479 511	36 007 994
	Commercial Sound Broadcasting licence fees		13 427 467	12 454 142
	Community sound licence fees		-	50
	Public Broadcasting Licence fees		-	20 000
	Unearned fiancé income		(452 043)	(348 003)
			56 666 335	**48 275 283**
2.2.	**Telecommunication Services**			
	Under Serviced Area Licence application fees		420 000	1 230 000
	Net operating income licence fees		1 642 435 418	1 435 196 476
	Fixed licence fee		53 972 962	-
	Universal Service Fund		153 438 705	142 033 677
	Telecommunications Network licence application fees		544 883	891 631
	Unwinding adjustment		12 278 928	8 357 946
	Unearned finance income		(3 337 240)	(2 554 794)
			1 859 753 656	**1 585 154 936**
2.3.	**Frequency Spectrum**			
	Commercial radio application fees		3 521 070	1 674 627
	Commercial radio licence fees		160 475 180	130 839 357
	Miscellaneous fees		32 407	816 292
	South African Maritime Safety Authority		-	303 225
	Radio frequency equipment fees		1 310 355	1 266 871
	Type Approval Labels income		329 524	450 669
	Annual licence fees		34 842 021	54 811 648
	Type approval		4 043 023	3 319 797
	Exam related fees		79 886	63 896
			204 633 466	**193 546 382**

		Notes	31 MARCH 2007 (R)	31 MARCH 2006 (R)
2.4.	**Postal Services**			
	Annual Licence fees		61 000	-
			2 121 114 457	**1 826 976 601**
3.	**Accounts Receivables**			
	Broadcasting services		23 933 668	41 851 197
	Frequency spectrum services		37 248 879	55 608 047
	Telecommunications Services		373 101 156	306 088 760
	Debtors unapplied (Broadcasting services)		-	1 723 510
	Postal services		61 000	-
	Vat output		-	370 313
	Unearned finance income		(3 789 283)	(2 902 797)
			430 555 420	**402 739 030**
	Less: impairment of accounts receivables		**(25 013 886)**	**(1 150)**
	Broadcasting services		(100 950)	(1 150)
	Telecommunications services		(24 912 936)	-
			405 541 534	**402 737 880**
4.	**Cash and cash equivalents**			
	Balances with banks			
	Call accounts		11 090 138	9 125 531
	Deposit accounts		10 650 656	33 646 406
	USAL Bank account		-	978 032
	Cash clearing account		-	(419 912)
			21 740 794	**43 330 057**

		Notes	31 MARCH 2007 (R)	31 MARCH 2006 (R)
5.	**National Revenue Fund payables**			
	Cash with banks		21 740 794	43 330 057
	Licence fees receivables		61 941 127	82 262 574
	Accruals for licence fees		368 614 293	320 476 456
	Inter-company loans		(1 814 036)	(1 824 316)
			450 482 178	444 244 771
	Impairments of receivables		(25 013 886)	(1 150)
			425 468 292	**444 243 621**

Independent Communications Authority of South Africa
Private Bag X10002, Sandton 2146
e-mail: info@icasa.org.za
www.icasa.org.za

Design and Layout:
Blackmoon Advertising and Research (PTY) Ltd
+27 12 346 8933