Human Sciences Research Council (HSRC)
Audit and Risk Committee Report

We are pleased to present our report for the financial year ended 31 March 2010.

Audit committee membership and attendance

The CEO has a standing invitation to the meetings of the audit and risk committee. Other invitees include the chief financial officer (CFO), the chief risk officer (CRO), the directors of human resources, finance and information technology, as well as the internal and external auditors of the HSRC. The audit committee met five times during the year and has therefore complied with the minimum number of meetings as set out in its approved audit committee charter (at least four times). Listed hereunder are the members and number of meetings attended by each:

Name of member	Meetings attended
Mr S. Pityana (chair of the outgoing audit and risk committee)	1
Professor P. Zulu (appointed 24 February 2010)	0
Professor P. Naidoo (chair of the newly appointed audit and risk committee)	0
Mr A. Mashifane (expert member)	2
Mr R. Page-Shipp (expert member)	4
Mrs P. Nzimande (acting chair for one meeting)	1
Ms R. Xaba (expert member)	5

Audit committee responsibility

The audit committee reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of controls is designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the PFMA and the King II Report on Corporate Governance requirements, internal audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved through the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

From the various reports of the internal auditors, it was noted that the system of internal control has been effective and efficient during the year under review. The audit committee is satisfied with management's response and action plans proposed with regard to weaknesses identified as included in various reports of the outsourced internal auditors and the Auditor-General.

The audit committee will monitor management's progress towards resolving these matters on a regular basis, as required in terms of the audit committee charter. Having considered the above, the audit committee has no reason to believe that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

Evaluation of annual financial statements

The audit committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General of South Africa and the board;
- Reviewed the Auditor-General of South Africa's management letter and management's response thereto;
- Reviewed the appropriateness of accounting policies and practices adopted; and
- Reviewed significant adjustments resulting from the audit.

The audit committee, having considered the financial position of the HSRC and the report of the board, concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

The audit committee concurs and accepts the Auditor-General of South Africa's conclusions on the annual financial statements. It is of the opinion that the audited annual financial statements be accepted and read together with the audit report of the Auditor-General of South Africa, and has therefore recommended the adoption and approval of the financial statements by the board.

Professor P. Naidoo
Chair of the audit committee

Report of the Auditor-General to Parliament on the Financial Statements of the Human Sciences Research Council for the year ended 31 March 2010 Report on the Financial Statements

Introduction

I have audited the accompanying financial statements of the Human Sciences Research Council, which comprise the statement of financial position as at 31 March 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages 118 to 184

Accounting Authority's responsibility for the financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Public Finance Management Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009.* Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Human Sciences Research Council as at 31 March 2010, and its financial performance and its cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Public Finance Management Act of South Africa.

Emphasis of matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

As disclosed in note 30 to the financial statements, the corresponding figures for 31 March 2009 have been restated as a result of errors discovered during 2010 in the financial statements of the Human Sciences Research Council at, and for the year ended, 31 March 2009. There were also restatements of certain corresponding figures, also disclosed in note 30 to the financial statements, because of the change in the accounting framework from South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) to South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP).

Report on other legal and regulatory requirements

In terms of the PAA of South Africa and General notice 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009 I include below my findings on the report on predetermined objectives, compliance with the Public Finance Management Act and financial management (internal control).

Findings

No matters to report

Internal Control

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the Public Finance Management Act but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

No matters to report

Auditor-General

Pretoria
31 July 2010

AUDITOR-GENERAL
SOUTH AFRICA

CONTENTS

1. Introduction

1.1 Mandate and objectives of the Human Sciences Research Council (HSRC)

The mandate of the organisation is derived from the Human Sciences Research Council Act, 2008 (Act No. 17 of 2008) (HSRC Act). This act was assented to in September 2008, and came into operation on 5 December 2008.

The HSRC Act outlines the mandated purpose of the HSRC, namely to promote human sciences research of the highest quality in South Africa in order to improve understanding of social conditions and the processes of social change. The act also mandates the HSRC to engage with members of the South African human sciences community, elsewhere in Africa and the rest of the world through networks and joint programmes of research on pressing social issues relevant to human welfare and prosperity.

2. Governance of the HSRC

2.1 The governing body of the HSRC and relevant legislation

The HSRC is a national public entity, listed in Schedule 3A of the Public Finance Management Act, (Act No. 1 of 1999) (PFMA) as amended. The public-purpose mandate of the HSRC is aligned with the classification.

As a national public entity, the HSRC is ultimately accountable to the Parliament of the Republic of South Africa. It reports to parliament via the Minister of Science and Technology (also known as its executive authority, in terms of Section 1 of the PFMA).

The HSRC is governed and controlled by a board (also known as its accounting authority, in terms of Section 49 of the PFMA). The Minister of Science and Technology is responsible for appointing members of the HSRC Board in accordance with the requirements of its founding legislation.

The HSRC Board must, with the approval of the Minister appoint a suitably skilled and qualified person as the CEO. Once appointed, the CEO becomes an *ex officio* member of the HSRC Board.

2.2 Structure, composition and size of the HSRC Board

With the approval and promulgation of the HSRC Act of 2008, new requirements for the composition, selection and appointment of board members had to be adhered to. Incumbent members of the HSRC governing body were accordingly requested by the Minister of Science and Technology to remain in office until such time as the new board was constituted. The term of office of members of the governing body established in accordance with requirements of the 1968 Act was accordingly extended, so that they were serving as board members in terms of the 2008 HSRC Act on 1 April 2009, when this reporting period commenced.

Section 5 of the 2008 HSRC Act indicates that the Board of the HSRC should consist of:

(a) a chair designated by the Minister;
(b) not less than six and not more than nine other members; and
(c) the chief executive officer, who is a member of the board by virtue of his or her office.

The act further stipulates broad requirements for board membership. The composition of the board must be broadly representative of the demographics of South Africa, and of the various sectors in the field of human sciences. Members are appointed in their personal capacity. At least one of the members appointed to the board must have financial expertise, while at least one other member must be a distinguished representative of the social science research community in the rest of Africa.

The term of office of the board is three years and members may be reappointed after expiry of their term. The board, in the year under review, had a number of changes due to the appointment of the new board in accordance with the requirements of the 2008 HSRC Act. The new board took office as of 1 November 2009.

With the exception of the chief executive officer of the HSRC, all members of the HSRC Board are thus independent. The roles of chair of the board and chief executive officer of the HSRC vest in different persons.

Old board members, appointed prior to 1 November 2009:

- Professor J. Gerwel (chair) - Board member (Human resources)
- Ms N. Gasa - Board member
- Dr P. Gobodo-Madikizela - Board member
- Mr E. Motala - Board member (Human resources)
- Mrs P. Nzimande - Board member (Human resources and finance)
- Mr S. Pityana - Board member (Audit and risk)
- Professor E. Webster - Board member (Human resources)
- Dr O. Shisana (CEO) - Board member (All subcommittees)
- Mr A. Mashifane - Sub-board member (Audit and risk, and finance) – resigned 1 September 2009
- Mr R. Page-Shipp - Sub-board member (Audit and risk)
- Ms R. Xaba - Sub-board member (Audit and risk)

New board members, appointed as of 1 November 2009:

- Mrs P. Nzimande (interim chair) - Board member (Finance)
- Professor R. Hassan - Board member
- Professor L. Qalinge - Board member
- Professor P. Zulu - Board member (Audit and risk)
- Mr P. Masobe - Board member
- Professor A. Lourens - Board member (Finance)
- Professor A. Sawyerr - Board member
- Professor P. Naidoo - Board member (Audit and risk)
- Professor E. Webster - Board member
- Dr O. Shisana (CEO) - Board member (All subcommittees)
- Mr R. Page-Shipp - Sub-board member (Audit and risk)
- Ms R. Xaba - Sub-board member (Audit and risk, and finance)

2.3 Board meetings and attendance of meetings

Board meetings are scheduled annually in advance in line with compliance imperatives including, but not limited to, the approval of the strategic plan, business plan, annual financial statements and annual report. During the year under review, the following meetings were held by the board and its committees:

Name of member	Board meetings attended	Audit and risk meetings attended	Human resources and remuneration meetings attended	Finance meetings attended
OUTGOING BOARD MEMBERS				
Professor J. Gerwel (chair of the old board)	1	NA	1	NA
Ms N. Gasa	0	NA	NA	NA
Dr P. Gobodo-Madikizela	2	NA	NA	NA
Mr E. Motala	2	NA	2	NA
Mrs P. Nzimande (chair of the old finance committee)	2	NA	1	1
Mr S. Pityana (chair of the old audit and risk committee)	0	1	NA	NA
Professor E. Webster	0	NA	0	NA
Dr O. Shisana (CEO)	2	3	2	2
NEWLY APPOINTED BOARD MEMBERS				
Professor R. Hassan	2	NA	NA	NA
Professor L. Qalinge	2	NA	NA	NA
Professor P. Zulu	2	0	NA	NA
Mrs P. Nzimande (interim chair of the new board)	1	NA	NA	2
Mr P. Masobe	0	NA	NA	NA
Professor A. Lourens (chair of the new finance committee, appointed 24 February 2010)	1	NA	NA	0
Professor A. Sawyerr	1	NA	NA	NA
Professor P. Naidoo (chair of the new audit and risk committee)	2	0	NA	NA
Professor E. Webster	0	NA	NA	NA
Dr O. Shisana (CEO)	2	2	2	2
SUBCOMMITTEE MEMBERS OF THE AUDIT AND RISK COMMITTEE AND FINANCE COMMITTEE				
Mr A. Mashifane (resigned)	NA	2	NA	2
Mr R. Page-Shipp	NA	4	NA	NA
Ms R. Xaba	NA	5	NA	2

NA: Member not serving on subcommittee, or on the board.

A special committee of the board was held on 16 March 2010 to consider the CEO's appointment. This committee comprised of Mrs P. Nzimande, Professor A. Sawyerr and Professor P. Zulu.

The number of meetings per committee (for outgoing and newly appointed board) was as follows:

Board meetings	Two meetings for the outgoing board and two meetings for the newly appointed board.
Audit and risk committee	Three meetings for the outgoing board and two meetings for the newly appointed board.
Finance committee	Two meetings for the outgoing board and two meetings for the newly appointed board.
Human resources and remuneration committee	Two meetings for the outgoing board and two meetings for the newly appointed board.

2.4 Board charter and subcommittees

At 31 March 2010, the board had constituted the following subcommittees:

- audit and risk committee
- finance committee
- human resources and remuneration committee
- research committee.

The newly appointed HSRC Board adopted its charter at the first meeting held on 20 November 2009. Each of the subcommittees of the board is constituted and operates in accordance with its own approved terms of reference.

a. Audit and risk committee: During 2009/10 the audit and risk committee comprised three specialist external members and two members of the board. The CEO has a standing invitation to the meetings of the audit and risk committee. Other invitees include the chief financial officer (CFO), the chief risk officer (CRO), the directors of human resources, finance and information technology, as well as the internal and external auditors of the HSRC.

A separate report of the audit and risk committee is provided on pages 113 to 114.

b. Finance committee: The finance committee comprised one specialist external member, two members of the board (including the CEO) and two internal members, that is, the CFO and the director of finance.

c. Human resources and remuneration committee: This committee consists of three board members and chaired by a member of the board, and two internal members, that is, the CFO and the director of human resources.

d. Research committee: The research committee contributes to the development of the overall research portfolio and approach of the HSRC by engaging with HSRC management and staff around critical developments in the research arena. Members of the research committee are also invited to attend and contribute to the HSRC's annual strategic planning lekgotla, and the research conference of the HSRC.

2.5 Induction and orientation

At the inaugural meeting of the new HSRC Board in November 2009, the CEO presented a comprehensive introduction to the HSRC, its activities and plans. The introduction included information on the legal framework under which the HSRC operates; the organisation's mandate and broad strategy; corporate governance; shareholder's compact; performance indicators and targets; organisational structure and staffing, as well as budget and sources of funding. This initial introduction would be followed by a more detailed and structured two-day board induction and strategic planning meeting in April 2010.

2.6 Board members' remuneration

Board members who are not HSRC staff members or government officials receive honoraria for the services they render to the HSRC in accordance with the relevant stipulation by the National Treasury. Where board members are requested to provide additional advisory services to the HSRC on the basis of their professional areas of expertise, they are reimbursed in accordance with the professional advisory fees recommended by the Auditor-General of South Africa. These services include requests for a board member to serve on interview panels for executive directors (EDs) of the HSRC, in accordance with an agreement reached with the union (the Public Servants Association).

Non-HSRC members of the audit and risk committee and the finance committee are reimbursed on an hourly claims basis according to professional fee schedules.

Note 29.3 in the annual financial statements contains more information on board members' remuneration.

2.7 Board self-evaluation

The board self-evaluation has not been completed for the year under review, due to the appointment of the new board in November 2009. The governance tools were due to be reviewed and adopted at the board induction and strategic planning meeting, planned for April 2010.

2.8 Board secretariat function

The board secretariat provides professional and logistical support to the HSRC Board. It is housed in the office of the CEO.

3. Other aspects of corporate governance

3.1 The shareholder's compact

Although this is not specifically required of governing bodies of public entities listed under Schedule 3A of the PFMA, the HSRC concluded a shareholder's compact with its executive authority in accordance with requirements of the Department of Science and Technology's (DST) policy on governance standards for science, engineering and technology institutions (SETIs).

This compact, which is updated and signed on an annual basis, represents the agreement between the executive authority (minister) and the board, and is a reflection of the expectations of each party, expressed in terms of outcomes and outputs that need to be achieved. Expectations in relation to the performance of the HSRC are informed by its mandated objectives, as well as strategic objectives and performance targets outlined in its three-year strategic plan and the business plan for the forthcoming financial year. A framework for regular reporting and a schedule containing a list of supporting documents to be submitted to the Department of Science and Technology are also included in the compact.

3.2 Compliance

The board is satisfied that the HSRC complied with the requirements of implementing and managing the shareholder's compact during 2009/10. Regular monitoring of progress made against performance targets enabled its management to remain proactive in addressing potential problems throughout the year. The board appreciates the way in which the Minister and Department of Science and Technology honoured the undertakings mutually agreed to in the shareholder's compact.

As part of the quarterly reports submitted via the Department of Science and Technology to the National Treasury, a compliance report is included. Full compliance was maintained during the period under review.

3.3 Delegation of authority

Section 56 of the PFMA allows the Board of the HSRC to delegate powers and duties entrusted to it, to officials in the HSRC. The board nevertheless remains accountable for actions under delegation and does not divest any of its powers, duties or functions by virtue of any delegation.

The HSRC Board reviewed and approved an updated version of the delegation of authority on 25 May 2009. This version incorporated new job designations in the HSRC, to enhance efficiency and accountability in respect of decision making and performance of the HSRC.

3.4 Corporate ethics

3.4.1 Code of ethics and register of interests

The Board of the HSRC approved a code of ethics which would be binding on members of the HSRC Board as well as all employees of the HSRC. The code of ethics is based on shared institutional and ethical values, and also provides a framework for the establishment and maintenance of a register of interests of board members and employees of the HSRC. The chief risk officer in the HSRC has been entrusted with the implementation and annual updating of the register of interests.

3.4.2 Research ethics and research ethics committee

The HSRC also functions in accordance with a board-approved code of research ethics. The establishment of a research ethics committee (REC) was approved by the governing body of the HSRC in 2002. The mandate of the REC is to review all HSRC research proposals from the perspective of research ethics. The research ethics committee aims to promote a culture of ethical conduct and research integrity in the HSRC, and reports annually to the board.

3.5 Strategic risk management

3.5.1 Institutional arrangements

During the 2009/10 financial year, the enterprise risk management unit was transferred to the office of the CEO, with the chief risk officer reporting directly to the CEO as recommended by the King III report.

The HSRC risk management forum was established during 2009/10. The risk management forum had two meetings during the financial year (2009/10) after which a risk management committee (RMC) was instituted to provide oversight on the HSRC's risk management activities. The RMC submits its reports to the audit and risk committee of the HSRC Board, and is chaired by a specialist member of the audit and risk committee. The RMC charter was adopted at the first meeting of the RMC, which took place on 4 February 2010.

A strategic risk assessment workshop was facilitated by the internal auditors of the HSRC. This resulted in the identification of the top 20 strategic risks of the HSRC.

In accordance with National Treasury Regulations, the enterprise risk management unit reviewed the risk management framework in conjunction with the fraud prevention policy during the 2009/10 financial year. The reviewed risk management framework was cascaded to all levels of management to ensure continued guidance and assistance to all officials with regard to the implementation of risk management.

3.5.2 Information technology (IT) strategy

The IT strategic plan was reviewed, to be aligned with the HSRC's strategic plan and objectives as well as the King III report. The IT steering committee is now constituted in line with corporate governance requirements. The IT department addressed all the risks identified in the previous audit report. All policies and procedures pertaining to IT are now in place.

The HSRC's disaster recovery policy is in place and the full implementation will be in 2010/11.

3.5.3 Business continuity

A business continuity plan was approved by the audit and risk committee during the 2009/10 financial year. The plan will be updated annually and simulations conducted to test the effectiveness of the plan.

3.6 Fraud prevention

An ethics and fraud hotline was established in line with the HSRC's fraud prevention policy. It provides a confidential channel for employees to anonymously blow the whistle on workplace misconduct such as theft, fraud, dishonesty, harassment, unethical behaviour or workplace safety hazards.

3.7 Judicial proceedings filed during the year

a. Ad. criminal matters (fraud)

There were two cases of fraud that were reported to the South African Police Service. One matter has been finalised and the accused was found guilty and sentenced to seven years imprisonment.

b. Ad. civil matters

There are two civil matters in motion. The HSRC has entered appearance to defend in both matters with a counterclaim in one. The HSRC has initiated civil proceedings against a subcontractor in Kenya for unaccounted expenditure. The matter is still pending.

3.8 Sustainable development

3.8.1 Environmental and energy awareness

The HSRC is committed to sustainable development, and encourages all staff to identify ways of saving and effectively utilising resources such as energy, paper and money.

3.8.2 Social responsibility

The HSRC has an ongoing commitment to the economic, social and environmental aspects of its engagement with stakeholders as well as the environment.

In executing the public-purpose research mandate of the HSRC, all staff members are required to be sensitive to developmental issues, and to the special needs of marginalised or vulnerable groups. The research ethics committee, which may also serve external applicants, helps to raise awareness of the needs and concerns of potential participants and beneficiaries of research.

4. Management

Senior management of the HSRC consists of the CEO, the CFO and research executive directors (EDs). The CEO is the only executive member serving on the HSRC Board. Management is responsible for developing organisational strategy and policy for consideration by the board; for implementation of this strategy and policy; and for the day-to-day running of the organisation. Management also ensures that legislation and regulations are adhered to and that appropriate internal financial controls are developed, implemented and maintained. Bi-monthly 'ED workshop' meetings of executive directors, chaired by the CEO, focus on strategic issues, whereas regular meetings of the CEO, EDs, deputy EDs and senior managers responsible for operations and research (staff at unit head or director level upwards) attend to the development and implementation of policies, procedures and other day-to-day management issues.

5. General review of the state of affairs

5.1 Financial affairs

The financial affairs of the HSRC are sound and supported by substantial financial assets. Its parliamentary grant remains the single most important source of income, and this has shown a steady increase since the 2001/02 financial year. Its external research revenue is made up of income from international and South African sources. Once again, international funding agencies contributed the majority of the external research income. Income received from South African public funding sources (public sector including government departments and public corporations), remains an important source of external research income. Other revenue, which has grown from previous years, includes rental income; the income from rendering an own cafeteria service in the HSRC building; and sales of publications.

During the year under review, the overall turnover of the HSRC was the highest amount ever achieved. By the end of the 2009/10 reporting period, the HSRC ended with a surplus of R229 000. This demonstrates that the HSRC has the necessary capacity to spend and deliver on research and related activities, while maintaining sound financial discipline to avoid over- or underspending.

5.2 Accounting framework

The annual financial statements are prepared in accordance with SA Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), effective from 1 April 2009. Where necessary and required by the standards, the annual financial statements were adjusted retrospectively.

5.3 Going concern status of the HSRC

The HSRC Board reviewed the annual financial statements for 2009/10 and information regarding the forthcoming financial year, to assess the going concern status of the HSRC. Based on this information, the accounting authority has every reason to believe that the HSRC will remain a going concern:

- It continues to receive substantial parliamentary grant funding. Its total parliamentary allocation for 2009/10 was R148 million (exclusive of VAT). The projected MTEF allocation for 2010/11 is R170 million (exclusive of VAT).

- In terms of funding for 2009/10, the HSRC has succeeded in raising a total amount of R341 million, the highest amount it has ever achieved. This amount was made up of the parliamentary grant of R148 million and external income of R193 million – notably external research income from a range of external sources to supplement funding from its parliamentary grant.

- Research revenue increased by 3.5% from the previous financial year indicating the HSRC's ability to raise external income according to its predetermined targets.

5.4 Material losses, irregular expenditure and fruitless and wasteful expenditure

Material losses referred to in Section 55(2)(b) of the PFMA are defined in the materiality framework that was developed and agreed to in terms of National Treasury Regulation 28.1.3. This framework is attached to the approved strategic plan of the HSRC.

Any such losses, irregular expenditure and fruitless and wasteful expenditure are disclosed in the Notes 31 and 32 to the annual financial statements accompanying this report. The accounting authority is satisfied that the organisation acted swiftly and comprehensively to address all the matters identified during 2009/10.

The irregular expenditure reported was as a result of non-compliance with the procurement process. The fruitless and wasteful expenditure reported was as a result of the payment of interest on late payments made to SARS and Telkom.

6. Performance information

Performance information management and strategic performance targets

The HSRC has the necessary systems and procedures to support planning, delivery and reporting on its performance. Strategy development is the responsibility of the CEO, supported by senior management, with oversight from the HSRC Board.
The 'PAITECS' strategy (**P**ublic-purpose, **A**frica focus, **I**mplementation networking, **T**ransformation, research **E**xcellence, **C**apacity building and **S**ustainability) was derived from findings and recommendations from the 2003 institutional review of the HSRC, as well as other developments in the internal and external environment of the HSRC.

Goal		Key performance indicator	Target	Performance results	Reason for variance
P		**Public-purpose**			
To consolidate and strengthen its public-purpose research activities.	1	Percentage of all research projects that are conducted for the benefit of the public.	92% (at least) by 31 March 2010.	97.4% 190 out of 195	**Target exceeded.** There is strong institutional commitment to ensure strategic alignment of all research projects and programmes to national priorities, and that research findings are made available in the public domain.
To conduct research and engender dialogue relative to policy issues of national priority through the work of research programmes, a cross-cutting policy analysis unit and evidence-based demonstration centres.		(Not linked to a key performance indicator, however the existence of the policy analysis unit in PACE, and the work of the HSRC described elsewhere in the annual report, demonstrate performance in these areas.)			
A		**Africa focus**			
To strengthen research collaboration and network activities in partnership with higher education institutions in South Africa as well as individuals and institutions in other parts of Africa.	2	Percentage of all research projects with a budget of R1 million or above that are done collaboratively with African researchers in other parts of the continent.	35% (at least) by 31 March 2010.	32.6% 15 out of 46	**Target not achieved.** Many large projects currently undertaken by the HSRC were commissioned to address national priorities in South Africa and therefore did not provide for collaboration or networking with institutions or individuals in other parts of Africa. Achievement against this target has continued to improve in the course of the budget year, and surpasses performance of 2008/09 as well as 2007/08.
	3	Number of visiting research fellows from elsewhere in Africa at the HSRC.	10 (at least) during the period 1 April 2009 to 31 March 2010.	7	**Target not achieved.** Challenges in finding suitable research fellows from other parts of Africa include global competition for highly qualified researchers and stringent requirements for work permits in South Africa. Institutions in other parts of Africa also often have limited capacity, making it difficult to release senior staff for extended periods of time. The HSRC continues to explore opportunities that will provide support for visiting appointments and exchange programmes.

Goal		Key performance indicator	Target	Performance results	Reason for variance
I		Implementation networking			
To increase the relevance, utilisation and potential impact of human and social science research by means of collaboration with strategic partners and implementation networks.	4	Percentage of large research projects with implementation networks.	70% (at least) by 31 March 2010.	84.8% 39 out of 46	**Target exceeded.** There is strong institutional commitment to ensure involvement of critical stakeholders in the planning and execution of research projects, to enhance the relevance of the research and likelihood of eventual uptake of research findings and recommendations.
T		Transformation			
To accelerate transformation in the HSRC, with particular reference to African representation in senior research and management positions.	5	Percentage of researchers at senior level (SRS/SRM and above) who are African.	45% (at least) by 31 March 2010.	42.9% 27 out of 63	**Target not achieved.** It is a challenge to recruit and retain staff in this category. Achievement against this target has continued to improve in the course of the budget year, and surpasses performance of 2008/09 as well as 2007/08. Although this particular target (African) has not been met, the overall target for black* senior research staff has been met and exceeded (65.1% black, 34.9% white). This is due to the HSRC's commitment to employment equity in all recruitment and appointment processes. (*"black people" is a generic term that includes African, Coloureds and Indians, as per definition in the Employment Equity Act, No. 55 of 1998.)
	6	Percentage of researchers at senior level (SRS/SRM and above) who are coloured.	8% (at least) by 31 March 2010.	11.1% 7 out of 63	**Target exceeded.** See above – indicators 5, 6, 7 and 8 are related.
	7	Percentage of researchers at senior level (SRS/SRM and above) who are Indian.	7% (at least) by 31 March 2010.	11.1% 7 out of 63	**Target exceeded.** See above – indicators 5, 6, 7 and 8 are related.
	8	Percentage of all researchers at senior level (SRS/SRM and above) who are white.	40% (or less) by 31 March 2010.	34.9% 22 out of 63	**Target exceeded.** See above – indicators 5, 6, 7 and 8 are related.

Goal		Key performance indicator	Target	Performance results	Reason for variance
To retain and empower critical staff and skills in the HSRC.	**9**	Attrition rate of permanent staff at the HSRC.	12% (or less) by 31 March 2010.	8.8% 19 out of 217	**Target exceeded.** For this indicator, only permanent staff members (on indefinite employment contracts) were considered. Few resignations were received in this category due to favourable working conditions in a relatively harsh economic climate.
	10	Percentage of staff trained in gender sensitivity.	75% (at least) up to 31 March 2010.	83.3% 409 out of 491	**Target exceeded.** The capacity development unit ensured that appropriate training providers were sourced and appointed. The financial and logistical support from the capacity development unit enabled more staff from research and support units to attend gender sensitivity training.
E		**Research excellence**			
To promote and affirm research excellence by emphasising publication of peer-reviewed scholarly articles by senior, as well as emerging, HSRC researchers.	**11**	Peer-reviewed publications in an internationally accredited scientific journal, per senior researcher (SRS/SRM and above).	1.3 (at least) by 31 March 2010.	1.52 96 produced by 63 researchers in this category	**Target exceeded.** Emphasis was placed on publication targets in individual performance management processes; support provided for placement of journal articles once accepted.
	12	Peer-reviewed publications in a recognised scientific journal per junior researcher (RS/RM and lower).	0.6 (at least) by 31 March 2010.	0.83 48 produced by 58 researchers in this category	**Target exceeded.** Emphasis was placed on publication targets in individual performance management processes. Senior researchers are encouraged to involve more junior researchers in co-authoring of journal articles as part of mentoring.
C		**Capacity building**			
To contribute to human capital development in the human and social sciences.	**13**	Number of interns (research trainees) enrolled in a masters programme.	32 (at least) during the period 1 April 2009 to 31 March 2010.	38	**Target exceeded.** Capacity development programme and funding facilitated the recruitment and appointment of interns; funding for capacity development also available via several externally-funded projects.

Goal		Key performance indicator	Target	Performance results	Reason for variance
	14	Number of interns (research trainees) enrolled in a PhD programme.	21 (at least) during the period 1 April 2009 to 31 March 2010.	35	**Target exceeded.** Capacity development programme and funding facilitated the recruitment and appointment of interns; funding for capacity development also available via several externally-funded projects.
	15	Number of postdoctoral fellowships.	18 (at least) during the period 1 April 2009 to 31 March 2010.	14	**Target not achieved.** There is a limited pool of postdoctoral candidates in the country. Universities are able to appoint such candidates on fellowship grants, whereas the HSRC has to appoint them on salary. Strong competition to appoint these candidates is also experienced from the public and private sectors.
S		**Sustainability**			
To ensure the financial sustainability of the HSRC.	**16**	Percentage of grants that are extra-parliamentary.	54% (at least) by 31 March 2010.	56.6% Actual income excluding PG: R155 922 000+ R36 754 000 = R192 676 000/ R340 646 000 (Total revenue)	**Target exceeded.** The HSRC is dependent on the achievement of external income to meet its overall budget and cash flow obligations. This aspect of its performance is measured at research unit level, and carefully monitored and managed throughout the year.
	17	Percentage of all grants that are multi-year (at least three years).	45% (at least) by 31 March 2010.	64.0% R136 022 243 out of R212 419 738	**Target exceeded.** The achievement of multi-year grants is an institutional priority. Multi-year grants are also generally linked to larger budgets.

10 out of 14 selected targets achieved or exceeded

7. Discontinued activities/activities to be discontinued

There were no discontinued activities in the year under review for the HSRC.

8. New/proposed activities

There are no new/proposed activities for the 2010/11 financial year for the HSRC.

9. Events after the reporting date

The HSRC management has decided to enter into a restructuring process that will be effective from 1 July 2010. The rationale for restructuring is as follows:

- To better align HSRC research thrust with national priorities;
- To support the national ten-year innovation plan;
- To reduce duplication, and focus research work in programmes;
- To facilitate institutional response to the wishes and direction of the HSRC Board; and
- To streamline the top management structure for greater efficiency and effectiveness.

This restructuring does not entail any loss of staff, as it only refers to alignment with the national priorities.

10. Business address

134 Pretorius Street
PRETORIA
0002

11. Approval

Mrs P. Nzimande
Interim chair of the HSRC Board
29 July 2010

	Note	2010	2009
		R'000	R'000
Revenue		**340 646**	**322 460**
Research revenue	2.1	155 922	150 594
Parliamentary grants	2.2	147 970	140 334
Other revenue	3	36 754	31 532
Expenses		**340 417**	**327 492**
Administrative expenses	4	79 508	78 388
Research cost	5	64 520	77 655
Staff cost	6	154 458	132 543
Other operating expenses	7	26 676	26 746
Finance cost	8	2 397	2 713
Depreciation, amortisation and impairment expense	14.1/14.2	12 858	9 447
Surplus/(deficit) for the period		**229**	**(5 032)**

STATEMENT OF FINANCIAL POSITION as at 31 March 2010

	Note	2010 R'000	2009 R'000
ASSETS			
Current assets			
Cash and cash equivalents	9	18 235	47 027
Trade and other receivables from exchange transactions	10	41 606	26 794
Inventories	11	4 166	3 517
Prepayments and advances	12	2 643	1 852
VAT receivable	13	3 523	-
		70 173	**79 190**
Non-current assets			
Property, plant and equipment	14.1	179 655	177 131
Intangible assets	14.2	6 593	3 882
Prepayments and advances	12	29	58
Operating lease accrual	15	76	905
		186 353	**181 976**
Total assets		**256 526**	**261 166**
LIABILITIES			
Current liabilities			
Trade and other payables from exchange transactions	16	35 093	38 918
VAT payable	13	-	668
Income received in advance	17	26 283	34 228
Current finance lease liability	18	3 290	3 434
Current provisions	20	12 041	10 647
		76 707	**87 895**
Non-current liabilities			
Non-current finance lease liability	18	2 181	3 672
Operating lease commitments	15	735	811
		2 916	**4 483**
Total liabilities		**79 623**	**92 378**
Net assets		**176 903**	**168 788**
NET ASSETS			
Reserves		144 404	143 653
Accumulated surplus/(deficit)		32 499	25 135
Total Net assets		**176 903**	**168 788**

	Note	Capital funds R'000	Total: Reserves R'000	Accumulated surplus/ (deficit) R'000	Total: net assets R'000
Balance at 1 April 2008		**74 665**	**74 665**	**9 398**	84 063
Changes in accounting policy	14.1.1	-	-	444	444
Correction of prior period error	30	-	-	20 325	20 325
Restated balance		**74 665**	**74 665**	**30 167**	104 832
Surplus/(deficit) on revaluation of Property, plant and equipment		68 988	**68 988**	-	68 988
Surplus/(deficit) for the period		-	-	(5 032)	(5 032)
Balance at 1 April 2009		**143 653**	**143 653**	**25 135**	**168 788**
Surplus/(deficit) on revaluation of Property, plant and equipment	14.1.1	751	**751**	-	751
Change in accounting policy	14.1.1	-	-	7 135	7 135
Surplus/(deficit) for the period		-	-	229	229
Balance at 31 March 2010		**144 404**	**144 404**	**32 499**	**176 903**

	Note	2010 R'000	2009 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		319 238	332 939
Sales of goods and services		155 922	150 594
Grants		147 970	140 334
Interest received		(2 243)	(5 385)
Other receipts		17 589	47 396
Payments		335 081	321 312
Employee costs		154 458	132 543
Suppliers		64 520	77 655
Interest paid		1 438	1 478
Other payments		114 665	109 636
Net cash flows from operating activities	21	**(15 843)**	**11 627**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(12 616)	(16 073)
Proceeds from sale of fixed assets		18	111
Proceeds from sale of investments		2 243	5 385
Net cash flows from investing activities		**(10 355)**	**(10 577)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of finance lease liability		(2 594)	(886)
Net cash flows from financing activities		**(2 594)**	**(886)**
Net increase/(decrease) in net cash and cash equivalents		(28 792)	164
Net cash and cash equivalents at beginning of period		47 027	46 863
Net cash and cash equivalents at end of period	9	**18 235**	**47 027**

1.1 Basis of preparation

The annual financial statements have been prepared using the accrual basis of accounting, in terms of which items are recognised as assets, liabilities, net assets, revenue and expenses when they satisfy the definitions and recognition criteria for those elements, which in all material aspects are consistent with those applied in the previous year, except where a change in accounting policy has been recorded.

The financial statements are prepared in South African Rand (R) and all values are rounded to the nearest thousand (R'000) except where otherwise indicated.

The annual financial statements have been prepared in accordance with the effective standards of Generally Recognised Accounting Practice (SA Standards of GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB).

1.2 Changes in Accounting Policy and Comparability

Accounting Policies have been consistently applied, except were otherwise indicated below:

For the year ended 31 March 2009 the entity complied with the three effective GRAP standards, and all relevant GAAP standards. For the year ended 31 March 2010 the entity has adopted the accounting framework as set out in point 1.1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The entity changes an accounting policy only if the change:

(a) is required by a Standard of GRAP; or
(b) results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

1.3 Going Concern Assumption

The annual financial statements have been prepared on a going concern basis.

1.4 Offsetting

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a SA Standard of GRAP.

1.5 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the HSRC and revenue can be reliably measured. Revenue is measured at fair value of the consideration receivable on an accrual basis. Revenue includes investment and non-operating income exclusive of value-added taxation, rebates and discounts. The following specific recognition criteria must also be met before revenue is recognised:

a. Research revenue

Revenue that resulted from the rendering of research and related services is recognised at the stage of completion, determined according to the percentage cost to date in relation to the total estimated cost of the project.

b. Other revenue

Revenue from the sale of goods is recognised when significant risk and rewards of ownership of goods are transferred to the buyer. Sale of goods includes publications, sale of food and parking. Revenue from royalties is recognised on an accrual basis in accordance with the substance of the relevant agreement. Rental income is recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished.

c. Interest income

Revenue is recognised as interest accrued using the effective interest rate, and is included in other revenue in the statement of financial performance.

d. Parliamentary grants

Revenue from parliamentary grants shall be measured at the amount of the increase in net assets recognised by the entity.

1.6 Taxes

HSRC is exempt from income tax in terms of Section 10(1)(a) of the Income Tax Act No. 58 of 1962.

1.7 Property, plant and equipment

Property, plant and equipment (other than land and buildings and artwork) are measured at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. The cost of an item of property, plant and equipment is recognised as an asset when:

- It is probable that future economic benefits associated with the item will flow to the entity;
- and the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

All other repair and maintenance costs are recognised in the statement of financial performance as incurred. The present value of the initial expected estimate cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations of owner occupied property are performed every three years based on the income capitalisation method. The market value is determined from the ability of the property to generate rental income taking into account the related expenses, the rental income which is capitalised at a market-related rate and taking into account the risk, age and condition of the property with existing buildings. Any surpluses that occur due to the revaluation of land and buildings are allocated to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised. A revaluation deficit is recognised in the statement of financial performance, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Artwork is measured at fair value less accumulated depreciation on artwork and impairment losses recognised after the date of the revaluation. Valuations of artwork are performed every five years based on the current market value method. The market value factored into each assessment is the artist, the medium used and the size in relation to the overall aesthetic appeal (to the market) of each artwork. Any surpluses that occur due to the revaluation of artwork is allocated to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of financial performance. A revaluation deficit is recognised in the statement of financial performance, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

The revaluation surplus included in net assets in respect of an item of property, plant and equipment is transferred directly to accumulated surpluses or deficits when the asset is derecognised. This involves transferring the whole of the surplus when an asset is retired or disposed of. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

Depreciation is applied on a straight-line basis as follows:

a. Freehold land

Land has an unlimited useful life and therefore is not depreciated but stated at fair value.

b. Freehold buildings

The HSRC identified the following major components of buildings:

- lifts
- telephone system
- fixtures
- buildings

The useful lives of the various components of buildings have been assessed to be:

lifts	25 years
telephone system	25 years
fixtures	25 years
buildings	25-100 years

c. Equipment, motor vehicles and artwork

The useful lives of the various categories of equipment have been assessed to be:

office furniture	22 years
motor vehicles	5 years
computer and other equipment	5-22 years
library books and manuscripts	20 years
artwork	25 years

d. Leasehold assets

These assets are depreciated over the shorter of the contract period or the assessed useful lives of the assets.

All assets that were bought with donor funds or grants except freehold land and buildings and that were donated to the community, on termination of the project, are depreciated over the shorter of the lease term or the useful life of project.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of financial performance in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

1.8 Intangible assets

An intangible asset is recognised when:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- It is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be used reliably.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the asset to which it relates. The amortisation is calculated at a rate considered appropriate to reduce the cost of the asset less residual value over the shorter of its estimated useful life or contractual period. Residual values and estimated useful lives are reviewed annually.

Intangible assets that meet the recognition criteria are stated in the statement of financial position at amortised cost, being the initial cost price less any accumulated amortisation and impairment losses.

Amortisation is charged to the statement of financial performance so as to write off the cost of intangible assets over their estimated useful lives, using the straight-line method as follows:

- IT software average of 5-20 years
- user rights 20 years

1.9 Impairment of non-financial assets

The HSRC assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That excess is an impairment loss and it is charged to the statement of financial performance.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the statement of financial performance. Any impairment deficit of a revalued asset is treated as a revaluation decrease in the revaluation reserve only to the extent of the existing reserve.

The HSRC assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated and matched against their carrying values and any excess of the recoverable amounts over their carrying values is reversed to the extent of the impairment loss previously charged in the statement of financial performance.

1.10 Inventory

Inventories are valued at the lower of cost price or net realisable value. The net realisable value is the estimated selling price, less the estimated completion costs or selling costs.

Cost for the cafeteria is determined on the weighted average method. Cost for publications is determined by using specific identification of their individual costs.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The classification of the leases is determined using GRAP 13 – Leases.

a. Operating leases: lessee

Lease agreements are classified as operating leases where substantially the entire risks and rewards incident to ownership remain with the lessor. Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset/liability. The asset is not discounted.

b. Finance leases: lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased assets or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the incremental borrowing rate for the HSRC. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

The depreciation policy for depreciable leased assets is as follows:

- computer and other 3-5 years
- vehicles 5 years
- user rights 20 years

c. Operating leases: lessor

Lessors shall present assets subject to operating leases in their statement of financial position according to the nature of the asset. Lease revenue from operating leases shall be recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished. The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets.

1.12 Employee benefits

a. Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave, bonuses and non-monetary benefits such as medical care) are recognised in the period in which the service is rendered and are not discounted.

b. Post-employment benefit costs

Pension funds

The entity contributes to a pension fund for the benefit of its employees. The plan is a defined benefit plan. The cost of providing these benefits is determined based on the projected unit credit method and actuarial valuations are performed every second year. Pensions are provided for employees by means of two separate pension funds to which contributions are made. With regard to the HSRC pension fund (HSRCPF), and with effect from 1 April 1992, previous and current service costs and adjustments based on experience and additional funding for retired employees are acknowledged in the statement of financial performance as soon as the liability is known.

With regard to the Associated Institutions Pension Fund (AIPF), only the council's contributions to the respective pension fund are recognised in the statement of financial performance, thus a defined contribution plan.

c. Post-retirement medical aid benefits

The entity contributes to a medical aid for the benefit of its employees. The plan is a defined benefit plan. The cost of providing these benefits is determined based on the projected unit credit method and actuarial valuations are performed every second year.

The HSRC contributed voluntarily to post-retirement medical aid benefits of specific employees who opted to remain on the previous conditions of service when the benefit was terminated. The HSRC does not provide for post-retirement medical aid benefits to any other category of employees.

1.13 Foreign currency transactions

Transactions in foreign currencies are accounted for at the rate of exchange ruling on the date of the transaction. Liabilities in foreign currencies are translated at the rate of exchange ruling at the reporting date or at the forward rate determined in forward exchange contracts. Exchange differences arising from translations are recognised in the statement of financial performance in the period in which they occur.

1.14 Provisions and contingencies

Provisions are recognised when:

- the HSRC has a present obligation as a result of past events;
- probable that an outflow of resources

embodying economic benefits or service potential will be required to settle the obligations; and

- a reliable estimate can be made of the obligation.

Provisions are not recognised for future operating losses. If the HSRC has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. Contingent assets and contingent liabilities are not recognised.

1.15 Financial instruments

a. Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured for all debtors with indications of impairment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Trade and other receivables are classified as loans and receivables.

b. Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

c. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise of cash at banks and on hand, including investments and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

These are initially and subsequently recorded at fair value.

1.16 Related parties

The HSRC operates in an economic sector currently dominated by entities directly or indirectly owned by the South African government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. We regard all individuals from the level of executive director and council members as key management per the definition of the financial reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by key management individuals, in their dealings with the entity.

1.17 Comparative figures

When necessary, comparative figures have been adjusted to conform to changes in presentation in the current period. The note affected by prior year adjustments in the current year is Note 30.

1.18 Significant accounting judgments, estimates and assumptions

The preparation of HSRC financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the HSRC accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - HSRC as lessor

HSRC has entered into commercial property leases on buildings. HSRC has determined, based on evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for these contracts as operating leases.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are depreciated over their useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Impairment testing

Property, plant and equipment and intangible assets are considered for impairment if there is a reason to believe that impairment may be necessary. The future cash flows expected to be generated by the assets are projected taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current carrying value and, if lower, the assets are impaired to the present value.

Revaluation of Property, Plant and Equipment

The HSRC measures its land and buildings at revalued amounts with changes in fair value being recognised in statement of changes in net assets. The entity engaged independent valuation specialists to determine fair value as at 31 March 2009. The key assumptions used to determine the fair value of the land and buildings are further explained in Note 14.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial performance cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Pension benefits

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date.

Future salary increases and pension increases are based on expected future inflation rates. Details about the assumptions used are given in Note 22.

1.19 Translation of foreign currencies

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- Foreign currency monetary items shall be translated using the closing rate.
- Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.
- Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss shall be recognised directly in net assets. Conversely, when a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss shall be recognised in surplus or deficit.

1.20 Prepayments and advances

Payments made in advance to suppliers are in respect of computer warranties. There is no contractual right to receive a refund in cash or another financial instrument from the suppliers.

1.21 Irregular and fruitless and wasteful expenditure

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

- The PFMA, 1999 (Act No. 1 of 1999); or
- The State Tender Board Act, 1968 (Act No. 86 of 1968).

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. All irregular, fruitless and wasteful expenditure is recognised against the specific class of expense to which it relates and disclosed in a note to the financial statements when it has been identified.

1.22 Standards issued but not yet effective

At the date of authorisation of these financial statements, the following accounting standards of Generally Recognised Accounting Practice (GRAP) were in issue, but not yet effective:

GRAP 18 -	Segment Reporting
GRAP 21 -	Impairment of Non-cash-generating Assets
GRAP 23 -	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24 -	Presentation of Budget Information in Financial Statements
GRAP 25 -	Employee Benefits
GRAP 26 -	Impairment of Cash-generating Assets
GRAP 103 -	Heritage Assets
GRAP 104 -	Financial Instruments

Application of all of the above GRAP standards will be effective from a date to be announced by the minister of finance. This date is not currently available.

		2010	2009
		R'000	R'000
2	**Revenue**		
2.1	**Research revenue**		
	Private sector	1 847	3 918
	Public corporations	2 397	5 286
	Public sector	6 316	9 021
	International funding agencies	104 247	104 962
	National and provincial funding agencies	41 037	26 720
	Professional services	78	222
	Innovation fund	-	465
		155 922	**150 594**
2.2	**Parliamentary grants**		
	Parliamentary grants received	147 970	140 334
		147 970	**140 334**

		2010 R'000	2009 R'000
3	**Other revenue**		
	Rental income	10 593	11 032
	Publication sales	1 006	1 237
	Interest received	2 243	5 385
	Cafeteria income	7 896	9 871
	Royalties received	304	195
	Revenue capital assets	13 477	3 812
	Secondment income	1 235	-
		36 754	**31 532**
4	**Administrative expenses**		
	General expenses	7 419	5 813
	Skills development levy	1 411	1 225
	Insurance	1 164	1 119
	Sundry operating expenses	2 567	1 589
	Hire of equipment	30	(401)
	Consumable goods	5 263	4 419
	Printing and photocopying	3 030	4 320
	Postal, telecom and delivery fees	8 013	7 167
	Publicity functions and conferences	6 750	5 316
	Audit fees	2 923	2 502
	Consultant fees	40 690	45 748
	Net foreign exchange gains/(loss)	248	(429)
		79 508	**78 388**
5	**Research cost**		
	Direct labour expense	37 737	29 941
	Direct research cost	26 783	47 714
		64 520	**77 655**

		2010 R'000	2009 R'000
6	**Staff cost**		
	Wages and salaries	142 402	122 047
	Defined contribution plan	11 835	10 103
	Social contributions (employer's contributions)		
	- official unions and associations	88	72
	Post-retirement medical benefit		
	- employer contributions	396	397
	- decrease in liability	(263)	(76)
		154 458	**132 543**
	Average staff for the financial year ended 31/03/2010	487	441

Note:

Council member and executive director's remuneration is disclosed in note 29.3.

		2010	2009
		R'000	R'000
7	**Other operating expenses**		
	Staff training and development	3 268	4 224
	Legal fees	395	364
	Maintenance, repairs and running costs	16 375	16 661
	- Property and buildings	8 063	8 108
	- Other maintenance repairs and running costs	8 312	8 553
	Entertainment	431	485
	Profit/(Loss) on disposal of assets	2 395	(1)
	Bad debts written off	1 620	3 721
	Operating lease expenses	1 593	1 194
	Non-research related expenses	599	98
		26 676	**26 746**

		2010	2009
8	**Finance cost**		
	Finance lease cost	959	1 235
	Bank interest	1 438	1 478
		2 397	**2 713**

		2010 R'000	2009 R'000
9	**Cash and cash equivalents**		
	Cash at bank	3 728	5 269
	Cash on hand	45	44
	Short-term investments*	14 462	41 714
		18 235	**47 027**

*Included in the short-term investments are funds invested on behalf of donors.

		2010	2009
		R'000	R'000
10	**Trade and other receivables from exchange transactions**		
	Trade receivables	39 977	26 269
	Other receivables	5 534	4 392
	Less: Impairment allowance	(3 905)	(3 867)
		41 606	**26 794**
10.1.1	**Trade receivables: Ageing**		
	Current (0 - 30 days)	35 112	22 836
	31 - 60 days	999	4
	61 - 90 days	730	365
	91 - 120 days	380	-
	121 - 365 days	1 924	1 892
	+ 365 days	832	1 172
		39 977	**26 269**
10.1.2	**Impairment allowance: Ageing**		
	121 - 365 days	(1 957)	(1 938)
	+ 365 days	(1 948)	(1 929)
		(3 905)	**(3 867)**
10.2.1	**Reconciliation of the impairment allowance**		
	Balance at beginning of the year	(3 867)	(4 015)
	Contributions to provision	(1 802)	(2 197)
	Impaired debts written off against provision	1 764	3 919
	Reversal of provision	-	(1 574)
	Balance at year end	**(3 905)**	**(3 867)**

		2010 R'000	2009 R'000
10.2.2	**Trade receivables past due but not impaired**		
	Trade receivables which are less than 3 months past due are not considered to be impaired. At 31 March 2010, R2 109 000 (2009: R369 000) were past due but not impaired.		
	The ageing of amounts past due but not impaired is as follows:		
	1 month past due	999	4
	2 months past due	730	365
	3 months past due	380	-
		2 109	**369**
10.2.3	**Trade receivables impaired**		
	As of 31 March 2010, trade receivables of R3 905 000 (2009: R3 867 000) were impaired and provided for.		
	The ageing of these receivables is as follows:		
	3 to 6 months	1 175	1 164
	Over 6 months	2 730	2 703
		3 905	**3 867**
	The fair value of trade receivables approximates their carrying amounts.		
11	**Inventories**		
	Finished goods	3 954	2 867
	Publications	3 803	2 790
	Cafeteria	151	77
	Work in progress*	212	650
		4 166	**3 517**

The amount of write down of inventories recognised as an expense is for the year ended 31 March 2010, R0 (2009: R54 113)

* Work in progress consists of books in production.

		2010 R'000	2009 R'000
12	**Prepayments and advances**		
	Prepayments and advances (short term)	2 643	1 852
	Prepayments and advances (long term)	29	58
		2 672	**1 910**

The long-term portion of prepayments is in respect of computer warranties.

		2010 R'000	2009 R'000
13	**VAT**		
	VAT input	5 689	4 977
	VAT output	(2 166)	(5 645)
	VAT receivable (payable)	**3 523**	**(668)**

14.1 Property, plant and equipment

2010	Total	Land	Lifts	Telephone systems	Fixtures	Buildings	Leasehold property	Artwork	Motor vehicles	Office furniture	Computer and other equipment	Library books and manuscripts
Reconciliation of carrying value	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Opening net carrying amount	**177 131**	**23 000**	**2 550**	**638**	**4 213**	**118 246**	**3 088**	**89**	**1 522**	**4 998**	**18 787**	-
Gross carrying amount	**219 690**	23 000	3 335	765	4 321	122 350	4 033	214	2 037	6 484	48 425	4 726
Accumulated depreciation	**(42 559)**	-	(785)	(127)	(108)	(4 104)	(945)	(125)	(515)	(1 486)	(29 638)	(4 726)
Additions and revaluations	**17 178**	-	-	-	**39**	**1 892**	**61**	**1 927**	**3 048**	**4 474**	**5 737**	-
Additions	**16 427**	-	-	-	39	1 892	61	1 176	3 048	4 474	5 737	-
Revaluation	**751**	-	-	-	-	-	-	751	-	-	-	-
Disposals and adjustments	**(2 408)**	-	-	-	-	-	-	**(12)**	-	**(349)**	**(2 047)**	-
Cost of disposal	**(18 944)**	-	-	-	-	-	-	(44)	-	(685)	(18 215)	-
Accumulated depreciation of disposal	**16 536**	-	-	-	-	-	-	32	-	336	16 168	-
Depreciation	**(12 246)**	-	(133)	(31)	(173)	(1 326)	(406)	(7)	(329)	(549)	(9 292)	-

14.1 Property, plant and equipment (continued)

2010	Total	Land	Lifts	Telephone systems	Fixtures	Buildings	Leasehold property	Artwork	Motor vehicles	Office furniture	Computer and other equipment	Library books and manuscripts
Reconciliation of carrying value	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Closing net carrying amount	**179 655**	**23 000**	**2 417**	**607**	**4 079**	**118 812**	**2 743**	**1 997**	**4 241**	**8 574**	**13 185**	**-**
Gross carrying amount	**217 924**	23 000	3 335	765	4 360	124 242	4 094	2 097	5 085	10 273	35 947	4 726
Accumulated depreciation	**(38 269)**	-	(918)	(158)	(281)	(5 430)	(1 351)	(100)	(844)	(1 699)	(22 762)	(4 726)
Historical cost would have been:	-	5 138	-	-	-	73 117	-	1 346	-	-	-	

The land is registered as Stand 3242 Pretoria, measuring 7 655 m², Registration division JR, Transvaal and is situated at 134 Pretorius Street, Pretoria. The building consists of a reception area, offices, parking area, conference centre and a cafeteria built on land as mentioned above. The valuation was conducted in March 2009 by an independent valuer, Mr L Nel of Dijalo Valuation Services Management (Pty) Ltd, using the income capitalisation method. Transactions involving the sale of other buildings were investigated as an alternative basis of valuation but were not used because of uncertain comparability. Under the income capitalisation method, the market value is determined from the ability of the property to produce a rental income, taking into account the expense to produce the rental income, capitalised at a market-related rate, taking into account the risk, age and condition of the property with existing buildings.

The rental income is based on the ability of the building to produce market-related income stream, based on market-related rentals, and it is determined on a five-year lease period with an escalation of 10% per year.

14.1 Property, plant and equipment (continued)

2009	Total	Land	Lifts	Telephone systems	Fixtures	Buildings	Leasehold property	Artwork	Motor vehicles	Office furniture	Computer and other equipment	Library books and manuscripts
Reconciliation of carrying value	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Opening net carrying amount	**104 267**	**5 138**	**2 683**	**669**	**2 092**	**65 807**	**2 636**	**82**	**1 319**	**4 189**	**19 652**	**-**
Gross carrying amount	**138 014**	5 138	3 335	765	2 109	69 163	3 215	198	1 666	5 394	42 305	4 726
Accumulated depreciation	**(33 747)**	-	(652)	(96)	(17)	(3 356)	(579)	(116)	(347)	(1 205)	(22 653)	(4 726)
Additions and revaluations	**84 531**	**17 862**	**-**	**-**	**2 212**	**53 187**	**818**	**16**	**371**	**1 180**	**8 885**	**-**
Additions	**15 544**	-	-	-	2 212	2 062	818	16	371	1 180	8 885	-
Revaluation	**68 987**	17 862	-	-	-	51 125	-	-	-	-	-	-
Disposals and adjustments	**(2 747)**	-	-	-	-	-	-	-	-	**(90)**	**(2 657)**	-
Carrying amount	**(110)**	-	-	-	-	-	-	-	-	(90)	(20)	-
Cost of disposal	**(119)**	-	-	-	-	-	-	-	-	(90)	(29)	-
Accumulated depreciation of disposal	**9**	-	-	-	-	-	-	-	-	-	9	-
Transfer to assets	**(2 637)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2 637)**	**-**
Cost of the transfer	**(2 736)**	-	-	-	-	-	-	-	-	-	(2 736)	-
Accumulated depreciation	99	-	-	-	-	-	-	-	-	-	99	-

14.1 Property, plant and equipment (continued)

2009	Total	Land	Lifts	Telephone systems	Fixtures	Buildings	Leasehold property	Artwork	Motor vehicles	Office furniture	Computer and other equipment	Library books and manuscripts
Reconciliation of carrying value	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Depreciation	(8 920)	-	(133)	(31)	(91)	(748)	(366)	(9)	(168)	(281)	(7 093)	-
Closing net carrying amount	**177 131**	**23 000**	**2 550**	**638**	**4 213**	**118 246**	**3 088**	**89**	**1 522**	**4 998**	**18 787**	**-**
Gross carrying amount	**219 690**	23 000	3 335	765	4 321	122 350	4 033	214	2 037	6 484	48 425	4 726
Accumulated depreciation	**(42 559)**	-	(785)	(127)	(108)	(4 104)	(945)	(125)	(515)	(1 486)	(29 638)	(4 726)
Historical cost would have been:	-	5 138	-	-	-	71 226	-	-	-	-	-	-

		2010 R'000	2009 R'000
14.1.1	**Property, plant and equipment at deemed cost**		
	Property, plant and equipment recognised at deemed cost		
	Leasehold property	14	-
	Computer and other equipment	1 925	403
	Office furniture	4 020	41
	Artwork	1 176	-
	Net assets	**7 135**	**444**
	Adjustment to carrying amounts previously reported		
	Leasehold property	10	-
	Computer and other equipment	1 583	41
	Office furniture	3 859	27
	Artwork	1 176	-
		6 628	**68**
	Deemed cost was determined using the depreciated replacement cost for all items of Property, plant and equipment.		
14.1.2	**Compensation received for losses on Property, plant and equipment – included in operating surplus**		
	Computer and other equipment	18	-
		18	**-**
14.1.3	**Details of valuation**		
	The effective date of the revaluations was 31 March 2010. Revaluations were performed by an independent professional valuer from Gillian Scott-Berning, Harriet Hedley, BA (Hons) History and Christie's Fine Arts Course. Harriet Hedley is not connected to the HSRC. Artwork is revalued independently every 5 years.		
	Artwork	751	-
		751	**-**

14.2 Intangible assets

2010 Reconciliation of carrying value	Total R'000	Software R'000	Usage rights R'000
Opening net carrying amount	**3 882**	**3 882**	-
Gross carrying amount	**4 377**	4 377	-
Accumulated depreciation	**(495)**	(495)	-
Additions	**3 323**	1 143	2 180
Depreciation	**(612)**	(530)	(82)
Closing net carrying amount	**6 593**	**4 495**	2 098
Gross carrying amount	**7 700**	5 520	2 180
Accumulated depreciation	**(1 107)**	(1 025)	(82)

2009 **Reconciliation of carrying value**	**Total** **R'000**	**Software** **R'000**	**Usage rights** **R'000**
Opening net carrying amount	**1 327**	**1 327**	-
Gross carrying amount	**1 551**	1 551	-
Accumulated depreciation	**(224)**	(224)	-
Additions and revaluations	**90**	**90**	-
Additions	**90**	90	-
Disposals and adjustments	**2 637**	2 637	-
Cost of disposal	**2 736**	2 736	-
Accumulated depreciation of disposal	**(99)**	(99)	-
Depreciation and impairment	**(172)**	(172)	
Depreciation	**(172)**	(172)	-
Impairment	**(355)**	(355)	-
Reversal of impairment	**355**	355	
Closing net carrying amount	**3 882**	**3 882**	-
Gross carrying amount	**4 377**	4 377	-
Accumulated depreciation	**(495)**	(495)	-

		2010	2009
		R'000	R'000
15	**Operating leases accruals and commitments**		
	Operating lease accruals	905	808
	Movement for the year	(829)	97
	Balance at year end	**76**	**905**
	Operating lease commitments	(811)	(822)
	Movement for the year	75	11
	Balance at year end	**(736)**	**(811)**
15.1	**Operating lease arrangements as the lessee:-**		
15.1.1	**Future minimum lease payments**		
	Up to 12 months		
	Cape Town lease	2 515	2 309
	Durban lease	1 030	60
	Mthatha lease	-	93
	Port Elizabeth lease	147	135
	Sweetwaters lease	73	65
		3 765	**2 662**
	1 to 5 years		
	Cape Town lease	1 311	3 816
	Durban lease	1 228	-
	Mthatha lease	-	-
	Port Elizabeth lease	50	197
	Sweetwaters lease	161	-
		2 750	**4 013**

15.1.2 Other disclosures

Cape Town lease

The HSRC has leased office space from Old Mutual Assurance Company (South Africa) Limited at Plein Street, Cape Town, portions of the 10th, 14th and 16th floors and the entire 12th and 13th floors for a period of seven years, effective from 1 October 2006. The lease payment is R192 383 per month (VAT excluded). The contract is expected to include an annual escalation of 9% in the rental.

Durban lease

The HSRC has also leased property in Durban from Alliance Properties. The lease agreement is for three years commencing on 1 May 2007 and has expired on 30 April 2009. The lease payment has an escalation clause of 10%. The lease payment is R55 353 per month (VAT excluded).

Port Elizabeth lease

The HSRC is leasing a property from the Masig Family Trust, 44 Pickering Street, Newton Park, Port Elizabeth. The lease arrangement commenced on 30 August 2008 and expires on 30 July 2011 with an option to renew. The lease payment is R11 236 per month (VAT excluded).

Sweetwaters lease

A lease agreement was signed between the HSRC and Mr F.A. Bhalya in respect of a property referred to as Sweetwaters Bus Depot. The agreement came into operation on 1 March 2008 and is valid for five years. Rental payments were R5 545 per month. The contract includes an annual escalation of 10%.

		2010	2009
		R'000	R'000
15.2	**Operating lease arrangements as the lessor:-**		
15.2.1	**Future minimum lease payments**		
	Up to 12 months		
	National Department of Public Works lease (Pretoria)	866	10 388
		866	**10 388**
	1 to 5 years		
	National Department of Public Works lease (Pretoria)	-	866
		-	**866**

Other disclosures

National Department of Public Works lease (Pretoria)

The operating lease undertaken between the HSRC, as the lessor and the National Department of Public Works, as the lessee, is conducted currently on a monthly basis.

The lease contract is for a period of three years, effective from 1 May 2007. The lease payment is R934 772 per month (VAT excluded) with an annual escalation of 9%.

		2010	2009
		R'000	R'000
16	**Trade and other payables from exchange transactions**		
	Trade creditors	21 914	4 983
	Accruals	9 759	30 252
	Post-retirement medical aid accrual	3 420	3 683
		35 093	**38 918**

The HSRC considers that the carrying amount of trade and other payables approximates their fair value.

		2010	2009
17	**Income received in advance**		
	Bill & Melinda Gates Foundation	5 161	4 374
	Water Services	3 563	6 402
	CASP	3 592	-
	Going to Scale	1 836	366
	Department of Education	1 767	-
	Project Accept	1 446	2 490
	IPDM	1 153	-
	Open Society Initiative	1 085	-
	Wellcome Trust	1 005	-
	Sahara OVC	948	2 383
	Other projects/funding agencies	4 727	18 213
		26 283	**34 228**

Income received in advance relates to research work still to be completed in the new financial year.

18 Finance lease liability

31 March 2010

Amounts payable under finance leases	**Minimum lease payment R'000**	**Future finance charges R'000**	**Present value of minimum lease payments R'000**
Within one year	3 759	469	3 290
Within two to five years	2 758	577	2 181
	6 517	1 046	5 471
Less: Amount due for settlement within 12 months (current portion)			(3 290)
			2 181

The average lease term is 43 months and the average effective borrowing rate is prime plus 2%. Interest rates fluctuate with the bank repo rate. Some leases have fixed repayment terms and others escalate between 15% per annum. Obligations under finance leases are secured by the lessor's title to the leased asset.

31 March 2009

Amounts payable under finance leases	**Minimum lease payment R'000**	**Future finance charges R'000**	**Present value of minimum lease payments R'000**
Within one year	4 110	676	3 434
Within two to five years	3 960	288	3 672
	8 070	964	7 106
Less: Amount due for settlement within 12 months (current portion)			(3 434)
			3 672

The average lease term is 43 months and the average effective borrowing rate is prime plus 2%. Interest rates fluctuate with the bank repo rate. Some leases have fixed repayment terms and others escalate between 15% per annum. Obligations under finance leases are secured by the lessor's title to the leased asset.

	2010 R'000	**2009 R'000**
19 Capital commitment		
Approved by management, but not yet contracted.	-	2 500
The capital expenditure is to be financed as follows:		
Internally-generated funds and grants approved for capital expenditure.	-	2 500

		2010 R'000	2009 R'000
20	**Current provisions**		
	Annual bonus	2 892	2 612
	Provision for leave	9 149	8 035
		12 041	**10 647**

The 'Provisions' balance includes leave pay and bonus provisions which relate to the HSRC's estimated liabilities arising as a result of services rendered by employees.

	Annual bonus	Provision for leave
1 April 2009	2 612	8 035
Contributions to provision	6 607	12 481
Expenditure incurred	(6 327)	(11 367)
31 March 2010	**2 892**	**9 149**
1 April 2008	2 142	7 969
Contributions to provision	3 496	9 924
Expenditure incurred	(3 026)	(9 858)
31 March 2009	**2 612**	**8 035**

		2010	2009
		R'000	R'000
21	**Net cash flows from operating activities**		
	Surplus/(deficit) for the year	229	(5 032)
	Adjustment for:		
	Depreciation and amortisation	12 858	9 447
	(Gain)/loss on sale of assets	2 395	(1)
	Contribution to provisions - current	1 394	537
	Finance costs	959	1 235
	Impairment loss/(reversal of impairment loss)	1 620	3 721
	Interest earned	(2 243)	(5 385)
	Net foreign exchange (gains)/loss	248	(429)
	Operating surplus before working capital changes:	**17 460**	**4 093**
	(Increase)/decrease in inventories	(649)	(819)
	(Increase)/decrease in trade receivables	(15 538)	12 217
	(Increase)/decrease in other receivables	(1 142)	-
	(Increase)/decrease in prepayments	(762)	917
	(Increase)/decrease in VAT receivable	(3 523)	-
	Increase/(decrease) in trade payables	(3 829)	6 969
	Increase/(decrease) in VAT payable	(668)	668
	Increase in income received in advance	(7 945)	(11 937)
	Movement in lease accruals	829	(172)
	Movement in lease commitments	(76)	(309)
	Cash generated by/(utilised in) operations	**(15 843)**	**11 627**

		2010	2009
22	**Post-retirement medical benefits**	**R'000**	**R'000**

22.1 Defined contribution plan

As from 1 August 1997, post-retirement medical benefits were provided by membership of a Provision Fund administered by Liberty Group Limited.

The HSRC, for staff who did not belong to the medical aid scheme on 1 August 1997, contributes a monthly amount of R100 to the Fund on behalf of the members. The HSRC, for staff who joined the service of the HSRC after 1 April 1998, irrespective of whether they joined the medical aid scheme or not, contributes an amount of R100 per month to the Fund on behalf of the members.

	2010	2009
Present value of obligation	3 420	3 683
Fair value of plan assets	-	-
Liability recognised in the statement of financial position	**3 420**	**3 683**
Current service cost		
Present value of obligation at beginning of year	3 683	3 759
Interest cost	327	350
Current service cost	11	10
Benefits paid	(397)	(396)
Actuarial (gain)/loss on obligation	(204)	(40)
Present value of obligation at year end	**3 420**	**3 683**

22.2 Liabilities

The liabilities for the HSRC with regard to subsidies in respect of continuation member health care costs can reasonably be regarded as the following:

- The liability in respect of existing continuation members
- The liability in respect of members in active employment

For the members in active employment, the total liability is normally assumed to accrue evenly over the full potential period of active membership starting from the date of joining the HSRC up to the date of death, disability or retirement.

The result of these calculations is an estimate of the cost of these subsidies, based on assumptions regarding the future experience, and does not influence the actual cost of these subsidies. The actual cost will be determined by the actual experience in the future.

The previous assessment of the liability with regard to subsidies in respect of continuation member health care costs was done on 31 March 2008. The next assessment of the liabilities needs to be performed at the next financial year end.

22.3 Particulars of the liabilities

In respect of the members in active employment, the employer subsidises 50% of the subscription (excluding contributions towards a medical savings account) to the applicable Discovery Health Comprehensive Plan at retirement. The subsidy amount will not increase after retirement. However, at death of the member or the member’s spouse, whichever occurs first, the subsidy will reduce to the same percentage of the subscription for a single life as at the date of retirement. It has been assumed that this member will belong to the Discovery Health Comprehensive Essential Plan at retirement.

Continuation members of the HSRC do not receive a certain percentage subsidy of each member’s medical aid premium after retirement, but receive a fixed amount based on an actuarial calculation when the member retires. This amount does not increase annually and the full subsidy is payable to the member’s dependant on death of the member or to the member on death of the member’s dependant, if any.

22.4 Particulars of the liabilities

The membership details of the members in active employment and who are entitled to a subsidy after continuation as at reporting date:

	Number of members		Average past service - years	
	2010	**2009**	**2010**	**2009**
Male members	1	1	19	18
Total/weighted average	**1**	**1**	**19**	**18**

The average age of these members was 39.6 years as at reporting date, compared to 38.5 years in respect of the active members as at 31 March 2009.

Details of the continuation members as at reporting date:

	Number of members		Average subsidy per month - R's		Average weighted age - years	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Male members	41	41	588	588	75	74
Female members	43	45	407	408	78	77
Total/weighted average	**84**	**86**	**498**	**498**	**77**	**76**

22.5 Valuation results

The results of the current valuation compared to the results as at 31 March 2009 are as follows:

22.5.1 Accrued liabilities

	2010	**2009**
	R'000	**R'000**
Liabilities in respect of:		
Members in active employment	82	98
Current continuation members	3 338	3 585
	3 420	**3 683**

The calculation of liabilities is based on the subsidies that are to be paid in the future, and not based on the expected medical utilisation. Assuming that the current level of cross subsidisation between active and continuation members under the medical scheme will continue into the future, the calculated liability represents the employer liability in this regard.

22.5.1 Accrued liabilities (continued)

Costs for the period 1 April 2009 to 31 March 2010:

	Interest cost	Service cost
	R'000	R'000
Members in active employment	9	11
Current continuation members	318	-
	327	**11**

The accrued liabilities of active members decreased, by approximately 16.8% (2009: 13.9%) during the current period. This increase is as a net result of the following factors:

- The change in the average age and average accrued service of the active members qualifying for the subsidy led to additional liabilities of approximately 14.8% (2009: 15.5%).
- The liabilities have decreased by approximately 18.9% (2009: 3%) due to the lower than expected increases in the monthly subsidies.
- The net change in the assumption in respect of the discount rate and the medical inflation rate has decreased the liabilities by approximately 12.7% (2009: 4.6%).

The decrease observed in respect of the accrued liabilities of current continuation members of approximately 6.9% (2009: 2.4%) is the net result of the following factors:

- The change in the assumption in respect of the discount rate has decreased the liabilities by approximately 5.3% (2009: 2.1%).
- Two members died during the valuation period which led to a decrease in accrued liabilities of approximately 1.5%.
- The ageing of the continuation member population led to a reduction in accrued liabilities of approximately 0.1% (2009: 2.6%).

In order to show the sensitivity of the key assumption used in calculating the liabilities in respect of the active members, the effect was calculated on an increase or decrease of 100 basis points in the medical inflation assumption. The results are as follows:

Assumption	Variation	Accrued liability in respect of active members	Change in total accrued liability
		R'000	%
Medical inflation +	100 basis points	97	19
Medical inflation -	100 basis points	69	(16)

The liability in respect of current continuation members remains R3 338 000 (2009: R3 585 000) under both scenarios, since it is not affected by medical inflation.

22.5.1 Accrued liabilities (continued)

The effect of assumed future subsidy increases of 1%, 3% and 5% annually was calculated in order to show the sensitivity of this key assumption. The results are as follows:

Accrued liabilities	1% increase R'000	3% increase R'000	5% increase R'000
Liabilities in respect of:			
Members in active employment	89	107	133
Current continuation members	3 524	3 968	4 540
	3 613	**4 075**	**4 673**

22.5.2 Mortality

No mortality rates have been used in respect of the period before retirement. In respect of the period after retirement, the published PA90 (ultimate) mortality tables for males and females respectively were used.

22.5.3 Interest and inflation rate

The basis for the valuation should be based on current market conditions. The future investment return assumption, taking into account the average term of the liabilities, should be based on the yield of the R186 (2009: R186) government bond, as at 31 March 2010. The inflation rate is based on the difference between an appropriate index-linked bond, the R197 (2009: R197), and the R186 (2009: R186) government bond. Medical inflation is expected to exceed general inflation by 3% (2009: 3%) per annum and no provision for future increases in respect of continuation members are allowed for.

The following valuation assumptions were used compared to the assumptions as at 31 March 2009 which are consistent with the requirements of IAS19:

	% per annum	
	2010	**2009**
Discount rate	9.2	8.9
General inflation rate	5.7	5.9
Medical inflation rate	8.7	8.9

22.5.4 Withdrawals

No withdrawal assumptions were used for the valuation.

22.5.5 Early retirements

An average age was assumed at retirement of 60 years in respect of all members and that the full subsidy will be paid irrespective of the number of years' service.

22.5.6 Number of dependants

The HSRC has assumed that at retirement the member will have one dependant, being a spouse.

The HSRC has used the actual number of dependants of the continuation members as provided.

The HSRC has also assumed that a wife will be 5 years younger than her husband.

22.5.7 Amount of subsidy

For the continuation members, monthly subsidies were used as at 31 March 2010 provided by the HSRC.

For the active member, the monthly subscription projected (excluding contributions towards a medical savings account) as at 31 March 2010 using the subscription at 1 January 2010, together an assumption of 8.7% per annum for medical inflation between 1 January 2010 and 31 March 2010. The resultant values are as follows:

Discovery Health - Comprehensive Essential Plan	R'000
Member	1 412
Member + 1 dependant	2 760

23 Contingent liabilities

Pending claims

All the claims are being contested based on legal advice. It is highly unlikely that any contingent liability exists.

24 Events after the reporting date

The HSRC management has decided to enter into a restructuring process that will be effective from 1 July 2010. The rationale for restructuring is as follows:

- To better align the HSRC research thrusts with national priorities.
- To support the national ten-year Innovation Plan.
- To lend greater clarity of roles, reduce redundancy and duplication.
- Facilitate institutional response to the wishes and directions of the HSRC Board.
- To streamline the top management structure for greater efficiency and effectiveness.

This restructuring does not entail in any loss of staff, as this restructuring only refers to the alignment with the national priorities.

25 Taxation

No provision has been made for taxation as the HSRC is exempt from tax in terms of Section 10 of the Income Tax Act.

26 Going Concern Assumption

The annual financial statements have been prepared on a going concern basis.

27 Standards issued but not yet effective

At the date of authorisation of these financial statements, the following accounting standards of Generally Recognised Accounting Practice (GRAP) were in issue, but not yet effective:

GRAP 18 - Segment Reporting
GRAP 21 - Impairment of Non-cash-generating Assets
GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24 - Presentation of Budget Information in Financial Statements
GRAP 26 - Impairment of Cash-generating Assets
GRAP 103 - Heritage Assets

Management believes that the adoption of these standards in future periods will have no material impact on the financial statements of the HSRC as most of them are irrelevant.

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

28 Significant accounting judgments, estimates and assumptions

The preparation of the HSRC annual financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments
In the process of applying the HSRC accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the annual financial statements:

Operating lease commitments – HSRC as lessor
The HSRC has entered into commercial property leases on buildings. The HSRC has determined, based on evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for these contracts as operating leases.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment and intangible assets
Property, plant and equipment and intangible assets are depreciated over their useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset useful lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Impairment testing
Property, plant and equipment and intangible assets are considered for impairment if there is a reason to believe that impairment may be necessary. The future cash flows expected to be generated by the assets are projected taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current carrying value and, if lower, the assets are impaired to the present value.

Revaluation of Property, plant and equipment
The HSRC measures its land and buildings at revalued amounts with changes in fair value being recognised in statement of changes in net assets. The entity engaged independent valuation specialists to determine fair value as at 31 March 2009. The key assumptions used to determine the fair value of the land and buildings are further explained in Note 14.

Fair value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial performance cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Pension benefits

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date.

Future salary increases and pension increases are based on expected future inflation rates. Details about the assumptions used are given in Note 22.

29 Related parties

The HSRC is a schedule 3A National Public Entity in terms of the Public Finance Management Act (Act 1 of 1999 as amended) and therefore falls within the national sphere of government. As a consequence the HSRC has a significant number of related parties being entities that fall within the national sphere of government.

Unless specifically disclosed, these transactions are concluded on an arm's length basis. There are no restrictions in the HSRC's capacity to transact with any entity.

29.1 Transactions with related entities

The following is a summary of transactions with related parties during the year and balances due at year end:

	Services rendered		Services received	
	2010	**2009**	**2010**	**2009**
	R'000	**R'000**	**R'000**	**R'000**
Major public entities				
Agriseta	1	-	-	-
Centre for Education Policy Development	-	3 637	-	-
Development Bank of Southern Africa	1 355	1 290	-	19
Independent Development Trust	-	1	-	-
Medical Research Council	23	80	-	102
SA Medical Research	-	-	-	6
National Heritage Council	656	-	-	-
National Research Foundation	1 444	-	-	-
SABC	52	-	1	-
Stats SA	-	-	18	-
South African Revenue Service	-	1 325	-	-
State Information Technology Agency (SITA)	-	-	393	1 504
South African Qualifications Authority	21	67	-	78
SA Post Office	-	-	-	12
Telkom SA	-	-	2 924	228
Umgeni Water Board	-	4	-	-
Commission for Gender Equality	-	4	-	-
Department of Trade and Industry	-	1 998	-	-
Independent Electoral Commission	2 725	4 702	-	-
Bubesi Registrars (Pty) Ltd	-	-	-	4 470
Bankseta	1	-	-	-
Department of Science and Technology	296	-	-	-
Merseta	860	-	-	-
National Statistics Bureau (NSB)	49	-	-	-
National Energy Regulator of South Africa (NERSA)	167	-	-	-
National Institute of Health	56	-	-	-
National Prosecuting Authority	1 259	-	-	-
National Youth Development Agency	331	-	-	-
Research Foundation for Mental Hygiene, Inc	1 630	-	-	-
South African Institute of International Affairs	-	-	1 149	-
National Science and Technology Forum	-	-	17	-
46664 Concerts	59	-		-
	10 985	**13 108**	**4 502**	**6 419**

29.2 National government business enterprises

	Services rendered		Services received	
	2010 R'000	**2009 R'000**	**2010 R'000**	**2009 R'000**
CSIR - Built Environment Unit	-	491	-	-
CSIR - Natural Resources and the Environment	666	-	-	-
	666	**491**	**-**	**-**

29.3 Fees paid to board members and executive management remuneration:

	2010 Allowance R	**2010 Travel R**	**2010 Total R**	**2009 Total R**
Ms N. Gasa	-	-	-	2 240
Professor J. Gerwel	3 327	-	3 327	6 022
Dr P. Gobodo-Madikizela	4 950	-	4 950	-
Professor R. Hassan	4 950	-	4 950	-
Professor A. Lourens	2 475	-	2 475	-
Professor W. Morrow	-	-	-	2 240
Mr E. Motala	4 950	-	4 950	12 116
Professor P. Naidoo	4 950	-	4 950	
Mrs P. Nzimande	20 215	-	20 215	4 480
Mr S. Pityana	3 327	-	3 327	10 502
Professor L. Qalinge	4 950	4 350	9 300	-
Professor A. Sawyerr	5 438	-	5 438	-
Dr O. Shisana (*ex officio* as CEO)	1 994 714	-	1 994 714	1 836 753
Mr M. Sisulu	-	-	-	4 480
Professor E. Webster	-	-	-	4 480
Professor P. Zulu	5,802	-	5,802	-
Executive directors	11 640 095	-	11 640 095	10 345 312
	13 700 143	**4 350**	**13 704 493**	**12 228 625**

29.4 The following is a list of executive directors for the years ended 31 March 2009 and 2010

2010	2009
Dr M. Altman	Dr M. Altman
Dr K.M. Kondlo (resigned 31/03)	Mr M. Fox (resigned 31/03)
Prof. D. Labadarios	Dr K.M. Kondlo
Dr A. Kanjee	Prof. D. Labadarios
Dr T. Masilela	Dr A. Kanjee
Dr U. Pillay	Dr T. Masilela
Prof. L.M. Richter	Dr U. Pillay
Dr V. Reddy	Prof. L.M. Richter
Prof. L.C. Simbayi	Prof. L. Simbayi (acting)
	Dr V. Reddy
	Prof. M.J. Kahn (retired 31/03)

30 Prior period – Adjustments

The following prior period errors and changes due to the changes in the accounting framework from SA GAAP to SA Standards of GRAP have been identified and the specific effect on annual financial statements. The errors have been corrected and comparatives restated accordingly. Affect on 2009 annual financial statements are as follows:

These prior period errors have no tax effect as the HSRC is exempt in terms of the Income Tax Act.

30.1

Overstated research revenue (Change in accounting framework)

Research revenue from donors (local and foreign) was incorrectly accounted for as rollovers on 31 March 2008, resulting in an overstatement of research revenue for the period then ended. This was done to align the revenue with GRAP 9.

	R'000
Decrease in research revenue - Private sector	26
Decrease in research revenue - Public sector	1 615
Decrease in research revenue - Innovation fund	130
Decrease in research revenue - International funding agencies	10 513
Decrease in research revenue - National funding agencies	1 690
Decrease in research revenue - Other research grants	4 631
Decrease in research revenue - Professional services	20
Decrease in other revenue - Publication sales	192
Increase in accumulated surplus/(deficit)	(18 818)

30.2 Understated research revenue (Change in accounting framework)

Research revenue from donors (local and foreign) was incorrectly accounted for as rollovers on 31 March 2009, resulting in an understatement of research revenue for the period then ended. This was done to align the revenue with GRAP 9.

	R'000
Increase in research revenue - Private sector	(523)
Increase in research revenue - Public corporations	(61)
Increase in research revenue - Public sector	(2,354)
Increase in research revenue - International funding agencies	(6,209)
Increase in research revenue - National funding agencies	(918)
Increase in research revenue - Other research grants	(8,833)
Increase in research revenue - Professional services	(10)
Increase in other revenue - Cafeteria income	(94)
Decrease in administrative expenses - General expenses	(283)
Decrease in income received in advance - Other funding agencies	19,285

30.3 Accounting for finance leases (Error)

Finance leases on computer and other equipment were incorrectly accounted for as operating leases in prior periods. Correction of the lease classifications resulted in the following:

	R'000
Decrease in administrative expenses - Hire of equipment	(3 682)
Decrease in other operating expenses - Other maintenance repairs	(21)
Decrease in other operating expenses - Operating lease expenses	(63)
Increase in finance cost - Finance lease cost	1 235
Increase in depreciation and amortisation expense - Finance lease assets	2 911
Increase in Property, plant and equipment - Finance lease assets	6 057
Increase in operating lease accrual - Leases	(1)
Decrease in operating lease commitments	420
Increase in current finance lease liability	(3 434)
Increase in non-current finance lease liability	(3 670)
Decrease in accumulated surplus/(deficit)	248

30.4 Operating leases (Error)

Lease straight-lining calculated for the year ended 31 March 2009 either incorrect or incomplete. Corrections resulted in the following adjustments:

	R'000
Decrease in other revenue - Rental income	1 216
Increase in other operating expenses - Property and buildings	6
Decrease in other operating expenses - Operating lease expenses	(10)
Decrease in trade and other receivables from exchange transactions	(1 051)
Increase in operating lease commitments - Leases	(2)
Increase in trade and other payables from exchange transactions - Accruals	(6)
Decrease in accumulated surplus/(deficit)	(153)

30.5 Post-retirement medical aid liability (Error)

Post-retirement medical aid liability not accounted for in prior periods due to incorrect classification as voluntary contributions. Liability accounted for as follows:

	R'000
Decrease in staff cost	(76)
Decrease in trade and other payables from exchange transactions - Accruals	(3 683)
Decrease in accumulated surplus/(deficit)	3 759

30.6 Overstated revenue (Error)

Due to drawdown's from investment accounts accounted for but never processed, revenue and investments were overstated for the period and income received in advance was understated.

	R'000
Decrease in research revenue - Public sector	63
Decrease in research revenue - International funding agencies	1 312
Decrease in investments	(63)
Increase in income received in advance - Other funding agencies	(489)
Increase in income received in advance - World Bank	(823)

30.7 Understated revenue (Error)

Interest earned on investment not accounted for in the prior period.

	R'000
Increase in revenue	(242)
Increase in investments	242

30.8 Property, plant and equipment (Error)

The HSRC reassessed the useful lives and residual values of the Property, plant and equipment for the year ended 31 March 2010 for the first time. The reassessment resulted in the following adjustments to net assets and to the 2009 results previously reported:

	R'000
Decrease in depreciation and amortisation expense - Lifts	(9)
Decrease in depreciation and amortisation expense - Telephone systems	(24)
Decrease in depreciation and amortisation expense - Fixtures	(60)
Increase in depreciation and amortisation expense - Buildings	66
Decrease in depreciation and amortisation expense - Leasehold property	(619)
Increase in depreciation and amortisation expense - Artwork	9
Decrease in depreciation and amortisation expense - Motor vehicles	(123)
Decrease in depreciation and amortisation expense - Office equipment	(104)
Increase in depreciation and amortisation expense - Computer and other equipment	1 869
Increase in depreciation and amortisation expense - Software	149
Decrease in accumulated depreciation - Lifts	(153)
Decrease in accumulated depreciation - Telephone systems	147
Decrease in accumulated depreciation - Fixtures	53
Increase in accumulated depreciation - Buildings	(1 371)
Decrease in accumulated depreciation - Leasehold property	1 227
Increase in accumulated depreciation - Artwork	(124)
Decrease in accumulated depreciation - Motor vehicles	429
Decrease in accumulated depreciation - Office equipment	574
Increase in accumulated depreciation - Computer and other equipment	3 364
Increase in accumulated depreciation - Software	(246)
Increase in accumulated surplus/(deficit)	(5 053)

30.9 Prior period provisions (Error)

Provisions were incorrectly recognised and derecognised in prior periods resulting in incorrect disclosure of trade and other payables and expenses.

	R'000
Increase in administrative expenses - Work farmed out	683
Decrease in research cost - Direct labour expense	(140)
Increase in trade and other payables from exchange transactions - Accruals	(141)
Decrease in accumulated surplus/(deficit)	(402)

30.10 VAT claimed in prior periods (Error)

VAT incorrectly claimed in prior periods were rejected by SARS.

	R'000
Decrease in VAT input	(9)
Decrease in accumulated surplus/(deficit)	9

30.11 Interest paid to SARS (Error)

Interest paid to SARS accounted for incorrectly in prior period.

	R'000
Decrease in VAT input	458
Increase in VAT output	(542)
Decrease in accumulated surplus/(deficit)	84

30.12 Prior year accrual (Error)

Prior year accrual for publications revenue calculated incorrectly.

	R'000
Increase in other revenue - Publication sales	(6)
Increase in trade and other receivables from exchange transactions - Other receivables	12
Increase in VAT output	(6)

30.13 Overstated revenue (Error)

Revenue and trade receivables were overstated in the prior period due to invoices issued incorrectly/not in accordance to contracts.

	R'000
Decrease in research revenue - International funding agencies	454
Decrease in research revenue - Other research grants	5
Decrease in trade and other receivables from exchange transactions - Trade receivables	(459)

30.14 Revenue classification (Error)

Research revenue classified and accounted for incorrectly resulted in a reclassification of detailed disclosures.

	R'000
Decrease in research revenue - Public corporations	84
Increase in research revenue - International funding agencies	(84)

		R'000
Items affecting the accumulated surplus/(deficit) as at 1 April 2008:		
30.1	Reversal of 31 March 2008 rollovers	(18 817)
30.3	Accounting for finance leases	248
30.4	Correcting operating leases	(153)
30.5	Accounting for post-retirement medical aid liabilities	3 759
30.8	Property, plant and equipment	(5 053)
30.9	Correcting provision reversals	(402)
30.10	Prior year correction on VAT	9
30.11	Correction on interest paid on VAT	84
Amount disclosed in the statement of changes in net assets		**(20 325)**

31 Irregular expenditure

Irregular expenditure	87 447

Did not obtain three quotations, therefore the procurement process was not followed. This is still under investigation and no disciplinary action has been taken as yet.

32 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	179 295

Interest of R166 737,99 was paid, as a result of a late payment of PAYE in December 2008 to SARS. Penalties were waived, but not the interest. The employee responsible for the late payment is no longer an employee of the HSRC, therefore no disciplinary action could be taken.

Interest was levied on telephone accounts to the value of R3 557,38. Although paid, the matter is being disputed with the service provider.

33 Reconciliation of the budget with the surplus in the statement of financial performance

	R'000
Net surplus per the statement of financial performance	229
Adjusted for :	
Interest paid	153
Net foreign exchange (gain) or loss	(248)
Royalties received	(304)
Fruitless and wasteful	170
Approved budget	-

34 Financial instruments

In the course of the HSRC operations it is exposed to interest rate, credit, liquidity and market risk. The HSRC has developed a comprehensive risk strategy in order to monitor and control these risks. The risk management process relating to each of these risks is discussed under the headings below:

Interest rate risk

The HSRC manages its interest rate risk by fixing rates on surplus cash funds using short- to medium-term fixed deposits.

Credit risk

Financial assets, which potentially subject the HSRC to the risk of non-performance by counter-parties and thereby subject to credit concentrations of credit risk, consist mainly of cash and cash equivalents and receivables from non-exchange transfers.

Refer to Note 10 for the ageing of receivables from non-exchange transfers.

The HSRC manages/limits its treasury counter-party exposure by only dealing with well-established financial institutions approved by National Treasury through the approval of their investment policy in terms of Treasury Regulations.

Liquidity risk

The HSRC manages liquidity risk through proper management of working capital, capital expenditure and actual vs forecast cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.

Market risk

The HSRC is exposed to fluctuations in the employment market, for example, sudden increases in unemployment and changes in the wage rates. No significant events occurred during the year that the HSRC is aware of.

Fair values

The HSRC's financial instruments consist mainly of cash and cash equivalents and held-to-maturity financial assets. No financial instrument was carried at an amount in excess of its fair value, and fair values could be reliably measured for all financial instruments. The following methods and assumptions are used to determine the fair value of each class of financial instruments:

Cash and cash equivalents

The carrying amount of cash and cash equivalents and held-to-maturity financial assets approximates fair value due to the relatively short- to medium-term maturity of these financial assets.

Other receivables from exchange transactions

The carrying amount of other receivables from exchange transactions approximates fair value due to the relatively short-term maturity of these financial assets.