



# ANNUAL FINANCIAL STATEMENTS

31 March 2003

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# ANNUAL FINANCIAL STATEMENTS

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## Introduction

The maintaining of accounting and other records, as well as an effective system of internal control, is the responsibility of the Council's CEO. In the opinion of the Council of the HSRC this requirement has been complied with.

The preparing of financial statements that fairly present the state of affairs of the HSRC as at year-end and the operating results for the year is the responsibility of the Council of the HSRC. The Auditors are expected to report on the Annual Financial Statements. The HSRC's Annual Financial Statements are prepared on the basis of the accounting policies set out therein. These policies have been complied with on a continuous basis.

## Approval and post-balance sheet events

The 2002/03 Annual Financial Statements set out on pages 78 to 117 were approved by the Council of the HSRC on 29 May 2003. In the Council's opinion the Annual Financial Statements fairly reflect the financial position of the HSRC at 31 March 2003 and the results of its operations for the period then ended. No material facts or circumstances have arisen between the date of the balance sheet and the date of approval, which affect the financial position of the HSRC as reflected in these Financial Statements.

The Council is of the opinion that the HSRC is financially sound and operates as a going concern.

A handwritten signature in black ink, appearing to read 'G.J. Gerwel', written over a horizontal line.

Professor G.J. Gerwel  
Chairperson: HSRC Council

A handwritten signature in black ink, appearing to read 'F.M. Orkin', written over a horizontal line.

Dr F.M. Orkin  
President and CEO

Pretoria, 29 May 2003



# REPORT OF THE AUDITOR-GENERAL

*to the Minister of Arts, Culture, Science and Technology on the financial statements and the performance information of the Human Sciences Research Council for the year ended 31 March 2003*

## 1. Audit assignment

The financial statements as set out on pages 78 to 117, for the year ended 31 March 2003, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 13(3) of the Human Sciences Research Act, 1968 (Act No. 23 of 1968). These financial statements, the maintenance of effective control measures and compliance with the relevant laws and regulations are the responsibility of the accounting authority of the Human Sciences Research Council. My responsibility is to express an opinion on these financial statements, based on the audit.

The performance information contained in the Council's report for the year ended 31 March 2003 as set out on pages 78 to 100 is the responsibility of the accounting authority. My responsibility is to provide an assessment of the fairness and consistency of the performance information of the Human Sciences Research Council (HSRC) against the predetermined objectives set out in the Human Sciences Research Council's strategic plan. My role is not to express an opinion on the appropriateness and relevance of the performance measures themselves nor to evaluate or comment on the entity's actual performance.

## 2. Nature and scope

### 2.1 Audit of financial statements

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

An audit includes:

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

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

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

## **2.2 Audit of performance information**

The Human Sciences Research Council has reported its performance on page 100 of its Council's report, under the title "Table 7: Performance targets". My assessment covers only that section, but does not include all other pages of the Council's report. To assess this additional information adequately would require a separate examination. I did review the entire report for consistency with the performance information.

I assessed the performance information against the entity's predetermined objectives set out in the Human Sciences Research Council's strategic plan.

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

## **3. Audit opinion**

### **3.1 Audit of financial statements**

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Human Sciences Research Council at 31 March 2003 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

### **3.2 Audit of performance information**

In my opinion, the performance information furnished in terms of section 55(2)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) fairly presents, in all material respects, the performance of the Human Sciences Research Council for the year ended 31 March 2003 against predetermined objectives on a basis consistent with that of the preceding year.

## **4. Appreciation**

The assistance rendered by the staff of the Human Sciences Research Council is sincerely appreciated.



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**N. Manik**  
for Auditor-General

Pretoria 28 July 2003



# COUNCIL'S REPORT

for the period ended 31 March 2003

## 1. Mandate and objectives of the HSRC

The mandate of the Human Sciences Research Council (HSRC) is derived from the Human Sciences Research Act (No. 23 of 1968) as amended.

The following summarise some of the main functions of the Council provided in the Act:

- (a) to undertake or cause to be undertaken research on behalf of the State or any person or authority;
- (b) to advise the Minister with respect to the undertaking and promotion of social scientific research and its utilisation for the benefit of the country;
- (c) to effect co-ordination of research;
- (d) to co-operate with departments of State, universities, technikons, colleges of education, training colleges, schools and other persons and authorities for the promotion and conduct of research;
- (e) to co-operate with persons and authorities in other countries conducting or promoting research in the human sciences; and
- (f) to publish or cause to be published the results of research.

The Act also mandates the HSRC to undertake contract research on any subject in the field of the human sciences and to charge fees for research conducted or services rendered.

It is planned to revise the Human Sciences Research Act over the next year or two to align it with the recent strategic reorientation of the HSRC, as well as with the White Paper on Science and Technology, the national R&D strategy, other research-related policies and other relevant legislation such as the Public Finance Management Act (PFMA).

## 2. Governance of the HSRC

### 2.1 The Council

Strictly speaking, "the HSRC" or "Council" refers to the group of up to ten people, including a chairperson, appointed for a period of four years by the Minister of Arts, Culture, Science and Technology. Appointees have distinguished themselves in the field of the human sciences or possess special qualifications in relation to some aspect of the functions of the Council. The Council appoints the President and CEO of the HSRC, on a five-year contract, and s/he serves as a further *ex officio* member.

More colloquially, and in this report, "the HSRC" is taken to refer to the wider organisation – including approximately two hundred and forty employees in five centres – and "the Council" to the abovementioned group of people, who are the governing body of the wider HSRC.

The Council receives its annual Parliamentary grant from, and also reports to, the Department of Science and Technology (DST).

### 2.2 Members of the Council

The present Council's term of office expires on 31 October 2003. The members of the Council during the 2002/03-period were:

- Professor G.J. Gerwel (Chair)
- Dr N.N. Gwagwa
- Ms N. Jordan
- Dr V.T. Maphai
- Professor W.E. Morrow
- Mr E. Motala
- Ms P. Ntombela-Nzimande
- Mr M.V. Sisulu
- Dr F.M. Orkin (President and CEO of the HSRC)

The Minister of Arts, Culture, Science and Technology appointed Professor W.E. Morrow, the Dean of Education at University of Port Elizabeth, to the Council during 2002. At the conclusion of the reporting period there were two vacancies on the Council.

In March 2003 the Minister called for nominations for suitable candidates to be considered for appointment to the next HSRC Council. The new Council's four-year term of office will start on 1 November 2003.

The Council met on 23 May 2002, 15 August 2002, 14 November 2002 and 3 February 2003.

## 2.3 Responsibilities of the Council

In terms of the Public Finance Management Act (PFMA), the Council is the accounting authority for the HSRC. The Act sets out the fiduciary requirements, corporate governance duties and a range of general responsibilities of the accounting authority.

The Council is responsible *inter alia* for preparing financial statements that accurately reflect the HSRC's position and results at the end of a financial year, which is set at 31 March. The Office of the Auditor-General is responsible for reporting on the financial statements of the organisation.

In the year under review, applicable accounting standards were adhered to, and adequate accounting records and an effective system of internal control maintained in the organisation. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, were applied on a consistent basis.

The PFMA requires organisations funded with public money to formalise delegations. On 15 August 2002 the Council accordingly approved written delegations to the CEO. These in turn provide the framework for delegations from the CEO to the Executive Directors (EDs), which will be finalised at the beginning of the 2003/04 financial year. By extension, there will be subsequent delegations from the EDs to Directors and other senior levels of staff, as appropriate.

The Council has no reason to believe that the HSRC will not be a going concern in the year ahead.

## 2.4 Subcommittees

The Council has five subcommittees: an Executive Committee, a Human Resources Committee, a Remuneration Committee, a Research Committee and an Audit Committee.

### 2.4.1 Executive Committee

On 31 March 2003 the Executive Committee comprised the following members:

Professor G.J. Gerwel (Chair)

Dr V.T. Maphai

Mr E. Motala

Dr F.M. Orkin (President and CEO)

The Executive Committee did not need to meet during the year under review.

### 2.4.2 Human Resources Committee

On 31 March 2003 the Human Resources Committee comprised the following members:

Dr V.T. Maphai (Chair)

Ms N. Jordan

Dr F.M. Orkin (President and CEO)

The Human Resources Committee met jointly with the Remuneration Committee on 23 May 2002, 15 August 2002, 14 November 2002 and 3 February 2003.

### 2.4.3 Remuneration Committee

On 31 March 2003 the Remuneration Committee comprised the following members:

Professor G.J. Gerwel (Chair)

Dr V.T. Maphai

Mr E. Motala

Dr F.M. Orkin (President and CEO)

The Remuneration Committee met jointly with the Human Resources Committee on 23 May 2002, 15 August 2002, 14 November 2002 and 3 February 2003.

### 2.4.4 Research Committee

On 31 March 2003 the Research Committee comprised the following members:

Professor G.J. Gerwel (Chair)

Ms N. Jordan

Dr V.T. Maphai

Mr E. Motala

Dr F.M. Orkin (President and CEO)

The Research Committee met on 5 August 2002 and 21 January 2003.

#### 2.4.5 Audit Committee

The members of the HSRC Audit Committee are appointed for a calendar year. During 2002/03 the Audit Committee comprised three specialist external members and two members of Council.

The specialist members were:

Mr S.A.H. Kajee, BCompt (Hons) CIA AGA(SA) MBA (Chair)

Ms P.N. Mnxasana, BCompt CA(SA) (until March 2003)

Mr R.J. Page-Shipp, MSc

The members of Council on the Audit Committee were:

Dr N.N. Gwagwa

Dr F.M. Orkin (President and CEO)

The Audit Committee functions in terms of the Public Finance Management Act (PFMA) and associated Treasury regulations. Although the Audit Committee has not yet adopted formal terms of reference as outlined in the *King Report*, it structures its activities and reporting according to a planned schedule. It reviews the periodic internal audit reports, the proposed budget for the year, quarterly and annual financial statements, the annual external audit report of the HSRC, and the annual report of key performance indicators; and reports on these at the ensuing meetings of the Council.

A strategic assessment of the HSRC's risk areas during its transition was conducted in 2001/02 under the guidance of the Audit Committee. It monitors risk management in the organisation on an ongoing basis (see section 7, below).

The Audit Committee submits a summary of its activities to the Council on a regular basis.

It met on 9 May 2002, 1 August 2002 and 24 January 2003.

#### 2.5 Research Ethics Committee

The Council approved the establishment of a Research Ethics Committee (REC) in 2002. The REC has been mandated to approve the research ethics component of all HSRC research proposals from the start of the new financial year, that is, 1 April 2003. It will promote a culture of ethical conduct and research integrity in the HSRC and recognise the authority of Ethics Committees at other institutions to approve proposals on behalf of the HSRC where necessary. The REC has eleven internal representatives from the Research Programmes and five external members.

During 2002/03 the external Committee members were:

Professor Peter Cleaton-Jones – Wits Dental Research Institute (Chair)

Professor Martin Prozesky – Unilever Ethics Centre, University of Natal

Dr Percy Mahlali – Senior Technical Advisor to the Director-General of the Department of Health

Ms Khanyisa Nevhutalu – Ethics Institute of South Africa

Dr Martin Bulmer – University of Surrey, UK

The deputy chairperson of the Ethics Committee is Professor Linda Richter, a research executive director in the HSRC.

The HSRC's newly established Research Ethics Committee held its first meeting on 27 November 2002. It met again on 12 February 2003 and 12 March 2003.

#### 2.6 Council members' remuneration

Council members who are not HSRC staff members or Government officials receive *honoraria* for the services they render to the Council in accordance with the relevant determination by the National Treasury.

Non-HSRC members of the Audit Committee are reimbursed on an hourly claims basis, according to professional fee schedules.

Where Council members were requested to provide additional advisory services to the HSRC on the basis of their professional specialities, they were reimbursed in accordance with the professional advisory fees recommended by the Auditor-General.

#### 2.7 Council members' interest in contracts

No contracts involving Council members' interest were entered into in the year under review.

## **2.8 Losses, irregularities and other matters**

No instances occurred as referred to in Section 55(2)(b) of the PFMA. The organisation did not suffer any material losses through criminal conduct nor any irregular expenditure, fruitless or wasteful expenditure that occurred during the financial year; thus there were no criminal or disciplinary steps taken as a consequence nor were there any losses recovered or written off.

## **2.9 Overview of the Council's four-year term**

The present Council of the HSRC was appointed on 1 November 1999, and its term of office expires on 31 October 2003. This Council, with its relevant subcommittees, carried considerably more responsibilities and accountability for the overall performance of the HSRC than its predecessors, following the promulgation of the Public Finance Management Act (PFMA) in 1999, as well as the integration of principles of the two *King Reports on Corporate Governance* into the terms of reference of governing bodies of public entities. With its emphasis on outputs and responsibilities, rather than a rule-driven approach, the PFMA and related policy documents placed an increased emphasis on improving corporate governance compliance, overall strategic guidance and risk monitoring.

When appointed, the new Council of the HSRC faced a number of strategic challenges:

- The HSRC was facing a declining trend in real Parliamentary income and a low level of research earnings as well as a sub-critical mass of researchers.
- The 1997 international review of the HSRC as well as the 1998 system-wide review of Science, Engineering and Technology Institutions under the auspices of the Department of Arts, Culture, Science and Technology had noted that the HSRC was inwardly-focused, overloaded with administrative staff, beset by cumbersome procedures and producing research of uneven quality and relevance. The corresponding recommendations needed to be operationalised, prioritised and implemented within the organisation, and in line with the broader context of S&T policy developments and national priorities.
- A new President and CEO for the HSRC needed to be appointed, following a period of uncertainty with acting and interim appointments made by the previous Council.

The 1999 Council consisted of eleven members, including the Council Chair, Professor Jakes Gerwel, and the Interim President, Dr Mokubung Nkomo. It lost three members in the course of the three years; two (Professor Colin Bundy and Professor Motsaidi Moeti) because of career moves to other parts of the world, and one because of the appointment of Dr Mark Orkin, originally serving as Council member, into the position of President of the HSRC. The Minister of Arts, Culture, Science and Technology appointed one more member of Council, Professor Wally Morrow, during 2002/03.

Despite its reduced capacity in terms of numbers, the HSRC Council set the frameworks for, achieved and monitored the achievement of, an extensive range of strategic objectives set for the HSRC during the early stages of its term of office. This was assisted by the blend of skills and experience among Council members. Although the objectives and functions of the Council are prescribed in the Human Sciences Research Act, the Council has regularly reflected on its duties and direction, as well as the appropriate execution of its mandate in the context of South Africa's development challenges as part of the responsibilities of corporate governance. It has requested a meeting with the Minister of Arts, Culture, Science and Technology to pass on lessons learned through its four-year term of office, and to indicate its commitment to support the work of the next Council of the HSRC.

Key achievements and developments during the Council's term are outlined below. More detail is available in the four annual reports produced during the Council's term.

A first-phase transformation plan approved by the Council, in response to recommendations contained in the SETI reviews and a subsequent Cabinet Memorandum, was implemented in April 2000. On the management's assessment of the employment capacity of the HSRC with a diminishing Parliamentary grant, 37 employees were retrenched from the support groups and 32 from the research groups.

Shortly after its inception, the new Council embarked on a process to appoint a permanent President of the HSRC. The position had been vacant for two years. Following a competitive selection process, including participation by HSRC stakeholders and staff, the Council appointed Dr F.M. Orkin as President and CEO of the HSRC, effective from 1 August 2000.

The HSRC thereafter accelerated its transformation, primarily by seeking to respond to the changing needs of major Government users for policy-relevant social research, and to changes in the National Science and Technology environment.



Following consultations with the HSRC's research and support divisions, as well as stakeholders represented by the Council, a new vision was clarified, "social science that makes a difference", complemented by a five-part COUPE strategy: **C**ontracts and grants, **O**utreach to collaborators, **U**ser needs, **P**erformance in terms of equity and of efficiency, as well as **E**xcellence of scientific outputs and publications. In this way the vision of the organisation could be operationalised and implemented in a captivating way. The COUPE strategy is monitored through key performance indicators, both quantitative and qualitative.

In 2000/01 the HSRC resolved upon a further three-pronged organisational transformation exercise that was implemented in 2001/02. The previous three research groups were replaced by ten problem-orientated, interdisciplinary "new priority areas", or NPAs, working in co-operation with one another. The NPAs were subsequently renamed Research Programmes. The existing sixty researchers chose locations in the Research Programmes. The recruitment or promotion of research leaders was followed by a rapid ontake of research specialists and additional junior researchers and interns, as earnings rose rapidly from the successful pursuit of tenders as well as local and international foundation grants. Suitable recruitment allowed the percentage of black researchers to increase from 36,3% in March 2000 to 47,7% in March 2003. At the same time, the percentage of research staff (excluding research interns) with masters and doctoral degrees increased from 67,8% in March 2000 to 91,2% in 2003.

This re-orientation and expansion of the research capacity has equipped the organisation to handle applied research across almost the entire spectrum of policy-relevant social science, especially for government departments and other public-sector users. It augments this capacity by extensive collaboration with other research organisations, enabling the undertaking of multi-country, multi-year, large-scale research projects.

A second aspect of the transformation was to re-open premises in the major metropolitan areas, where research leaders made themselves available to join the organisation. By March 2003, three of the Research Programmes were headed from Cape Town and one from Durban, and the offices were soon complemented with new, smaller offices in Bloemfontein and Port Elizabeth. The five centres are well placed for researchers in major metropolitan areas, as well as the supervision of fieldwork. Communication amongst centres was established by the installation of video-conferencing facilities and a wide-area computer network.

Thirdly, the Council addressed the imbalance between the proportion of administrative and research staff that had been identified by the 1997 review. A new, reduced and re-conceived administrative structure was identified in line with international benchmarks, and the reduction of the administrative staff from 140 to 93 was extensively consulted with the Staff Union. Recruitment into the vacancies allowed the representation of black staff in support services to increase from 45,5% in March 2000 to 59,8% in March 2003.

The proportion of women in management (director level and above) across the organisation increased from 27,3% to 32,1% over the same period. Representation of disabled people, however, has not yet reached the public sector target of 2%.

At its quarterly meetings, Council monitored regular performance, financial and audit reports received from the CEO and members of the HSRC's management. It debated progress, and made and requested reflection on broader organisational priorities and conceptual tensions: notably how to ensure a balance between income-generating, responsive research and reflective, pro-active, critical research; how to ensure that the imperatives of organisational development and transformation remain sustainable; how to procure access for marginalised communities; and how to rise to the challenges of NEPAD. The Research subcommittee engaged critically with these strategic issues in meetings with researchers, strategic planning *lekgotlas* and research conferences of the HSRC.

Among subcommittees required in terms of the PFMA and related legislation, the Council's Audit Committee, chaired by an external expert, Mr Sikkie Kajee, has introduced the concepts of risk management, self-evaluation and ongoing emphasis on accountability in terms of financial and institutional performance.

Council also approved the establishment of an HSRC Research Ethics Committee, to discuss and provide ethical guidance, in response to submitted research proposals involving human subjects. This independent committee consists of experts from within and outside the HSRC, and complies with international standards of institutional ethical practice.

Following the amalgamation of the HSRC's Staff Union with the Public Servant's Association (PSA), the HSRC management and the Union signed a Recognition Agreement in May 2002 to give the latter collective bargaining rights. The HSRC management and the PSA thereafter negotiated a collective agreement signed in February 2003 in respect of implementing new

integrated terms and conditions of service for HSRC staff. At the same time, remuneration packages for all staff on a cost-to-company basis were introduced.

Improved performance management documents and process, including new key performance areas for researchers, was undertaken in time for the latest appraisal of staff. Management and the Union have undertaken to discuss the overall performance system subsequently.

Early in 2003 Council, following some initiatives by management and the interventions by the Union, identified four pillars to enhance and accelerate the transformation of the organisation:

- professional development, training and support of staff;
- improvement of representivity;
- a strategy to improve internal and external communication; and
- representation and participation of researchers in decision-making forums.

Frameworks for implementation in each respect have been developed for Council's approval, after inputs from research Executive Directors and the Union.

With the foregoing measures, the Council hopes it has addressed most of the deficiencies identified in the 1997 review, and hands over to its successors a reshaped, relevant, energetic, high-quality national resource.

However, despite the large achievements of the organisation during Council's term of office, there is no reason to become complacent. Some performance targets set for the organisation have been attained. Others have been improved on but not yet fully achieved, such as the employment of black and especially African staff at the senior researcher levels of the organisation. This is a challenge facing many other research institutions and the public sector generally. Council has encouraged the HSRC management to focus strongly on development programmes that will build up representivity and participation of all population groups, and has monitored progress closely in this regard.

Both the level and choice of other targets and objectives need to be reviewed constantly, because an organisation such as the HSRC has to remain dynamic in a changing environment. For example, research quality has initially been monitored through the number of publications in peer-reviewed journals. While this has secured a necessary improvement in output, the measure can perhaps now be refined appropriately.

The Council has, itself and in engagement with seminars of researchers, periodically debated the changing balance in kinds of funding, and its possible implication for the research undertaken, the role of critical social enquiry, and the accessibility of the Council's services to different sectors of HSRC users. It has stressed the need for the organisation always to examine its own research thoroughly, to sustain work that is in the interest of long-term development as much as short-term imperatives, and also to ensure that research findings are communicated widely and to various publics.

Handover challenges to the new HSRC Council include the interpretation and implementation of recommendations from the forthcoming institutional review, the installation of a new management information system to cope with the greatly increased volumes of work, as well as updated legislation to replace the current Human Sciences Research Act, and decisions on a new name and identity for the HSRC.

To conclude its four-year term overview, Council wishes to acknowledge the outstanding work of the CEO and the energy and dedication of himself, his research and support management teams, and all the staff, which has gone into achieving the goals of the HSRC and transforming it into what it has become. It also records its appreciation for the punctilious way in which Council's secretary, Ms Jurina Botha, has discharged her work.

### **3. Organisational developments**

Far-reaching restructuring of the administration of the HSRC and the transformation of its research components were undertaken during 2001/02, as described in the previous Council's Report. The 2002/03 reporting year has seen organisational consolidation and rapid growth in research activity, in implementing a new vision and associated strategy for the organisation. These broad developments are outlined in the remainder of section 3. The expansion of research, and the changing balance of contracts and grants, are presented in sections 4 and 5. Section 6 provides an overview of the growth and composition of the HSRC's staff complement.

### 3.1 Background: Strategic direction

Following the appointment of the current HSRC Council in 1999 and the CEO in 2000, the HSRC accelerated its transformation in response to the evident needs of major Government and public sector users for policy-relevant social research, and the priorities of the National Science and Technology Framework.

On taking office in August 2000, the CEO introduced the vision of "social science that makes a difference". After consultations with HSRC research and support divisions as well as the Council and other stakeholders, the HSRC's five-part COUPE strategy was developed, by which the vision was to be achieved, and financial and organisational sustainability assured. The five components of the acronym are:

- Increasing **contract** research earnings and research grants in line with annual targets – achieved especially through large-scale, multi-project, interdisciplinary research programmes – to ensure the HSRC's financial sustainability.
- Undertaking assertive **outreach** to universities, NGOs, and other research entities, locally and internationally, to secure their collaboration in these programmes and their component projects.
- Focusing the programmes on the needs of **users** – especially of public-sector entities and Government Departments at national, provincial and local level – for policy-relevant research and implementation monitoring.
- Enhancing organisational **performance** in line with key performance indicators, through capacity-building, appointing more senior and representative staff, and modernising support functions.
- Achieving **excellence** in research through scholarship, publications, debate and professional engagement.

The COUPE strategy is monitored through key performance indicators (KPIs) for the organisation, both quantitative and qualitative, developed within the "balanced scorecard" framework at the instance of the DST. The set of quantitative indicators is tabulated in section 9, and a subset of seven key indicators and associated targets is covered each year in the message from the CEO.

The relevance of the measures is scrutinised each year by the HSRC Council and its Audit Committee. Annual self-assessments on these KPIs are done, with reporting to the Minister's National Advisory Council on Innovation, via the DST.

Late in 2002/03 Key Performance Areas (KPAs) for researchers at the various levels were established, organised under the COUPE framework, for use in the performance appraisals early in the forthcoming year. KPAs for administrative staff positions had been established previously, during the restructuring. In this way, the annual setting and subsequent monitoring of objectives for staff is aligned to the strategic focuses of the wider organisation.

### 3.2 Consolidation of the organisation's administration and infrastructure

Building on the comprehensive restructuring during the previous reporting period, the administrative components were consolidated in the current financial year and a start was made on new management systems.

New senior appointments were made to fill the vacancies in Corporate Services that existed at March 2002. Directors for IT and Finance were appointed, as well as a new director for HR. The Marketing Manager of HSRC Publishers was seconded in a part-time capacity to act as Director of the Corporate Communications Unit, and performance-based internal promotions led to the appointment of the heads of Business Development and HSRC Publishers as Directors.

The rapid expansion of the organisation and new offices across the country required more modern, effective and IT-based service delivery from the administrative components. Following a planning workshop with research Executive Directors in September 2002, Project Phoenix was launched – a consolidated attempt to meet immediate internal user needs by significantly improving service delivery in three key areas: IT infrastructure, websites and management information.

The IT infrastructure was improved by increasing bandwidth between offices, deploying new file servers, installing new software and outsourcing elements of IT support that required a national presence. The HSRC's websites – on the Internet as well as the intranet – were thoroughly redesigned. The websites are now easier to navigate, look more appealing, and users have access to richer and more up-to-date content. Information management was improved by providing online access to financial reports extracted from the finance database, and by posting electronic templates, corporate stationery, and various other guides and forms on the intranet to assist with the preparation of proposals, research reports and other aspects of project administration.

Project Phoenix also provided a foundation for the intended HSRC enterprise management system. Business processes were documented, infrastructural weaknesses identified and mechanisms put in place to improve the flow of information

– prerequisites to the subsequent introduction of the new system.

As the third aspect of Project Phoenix, the Library and Information Services of the HSRC were radically updated to meet the changing requirements of the organisation. Introduced by the new Head and Deputy Head, the HSRC's new virtual library is now accessible to researchers working from the different research offices. An information portal was developed to provide easy access to the HSRC library catalogue, electronic databases, newspapers and other reference sources, e-journals (with over 30 000 full-text journal articles available) as well as Government publications. Other changes implemented during 2002/03 included strengthening of the social science collection in the form of printed and digitised documents, partnership arrangements with other institutions, engaging in knowledge management activities including the maintenance of the HSRC intranet and a research outputs database, applying communication technologies to enhance service delivery, and ongoing staff development.

HSRC staff voted in favour of amalgamating the existing staff association into the Public Services Association (PSA) during 2001/02. Following detailed negotiations with the Union, a recognition agreement was signed on 9 May 2002.

Thereafter, comprehensive new terms and conditions of employment of HSRC staff were also negotiated with the Union. The collective agreement in this regard, signed in February 2003, introduced remuneration packages for all staff, on a cost-to-company basis. Historical imbalances with regard to medical aid and housing subsidies were addressed in the subsequent integration of salary scales. The leave system was modernised to use calculations based on working days as opposed to calendar days, and to provide market-related sick leave. The arrangements for accumulated vacation leave were tightened to encourage staff to take this leave. At the same time, improved study leave benefits were introduced.

These changes enabled the organisation to achieve payroll equity in terms of gender as well as race, to reduce future liability in terms of potential leave pay-outs, and to ensure that institutional support for staff development was strengthened. Agreement was also reached on once-off pay-outs to affected staff *in lieu* of adjusted leave benefits, after Council, via its Audit Committee, approved both the proposed terms and conditions and the associated payments.

In terms of labour relations, three retrenched employees, retrenched during the 2001/02 restructuring, referred their case to the CCMA. Two further cases from yet earlier restructuring of the organisation are in process. A member of the research staff was dismissed on grounds of under-performance.

In response to the dismissal and the rapid changes underway in the organisation, the Union held a general staff meeting in September, where concerns with the proposed new conditions of employment, the degree of autonomy of Executive Directors, and progress on race representivity were raised, to be communicated to management. Management took up these issues in discussions with the Union, at the same time as the Union requested the Minister and Council to keep oversight of the process. An *ad hoc* committee of Council subsequently had discussions with management and Union representatives.

Council decided that documents should subsequently be submitted to it covering necessary developments, some already underway, in three main respects: trends and measures regarding the improvement of representivity, including the expansion and update of the HSRC's employment equity policy; arrangements for the professional development of staff; and means of improved internal communication. The latter would include a development previously suggested by the EDs to Council, the establishment of a researcher forum to enable greater involvement of the wider body of researchers in relevant aspects of HSRC decision-making.

### 3.3 Management, communication and monitoring systems

The cycle of regular meetings previously initiated among Research Managers and their counterparts in Corporate Services has been systematised and adapted during the review period.

Executive Directors held monthly ED workshops. Following a strategic planning session near Stellenbosch in June 2002 to clarify how the CEO and EDs could best organise their collaboration, the monthly agenda was specifically structured to ensure coverage and subsequent uptake of matters requiring attention. Part of the agenda is reserved for a major policy discussion, such as shaping a professional development strategy for the organisation. Another part is linked to the business of the intervening meetings of the Council and to the periodic submissions to the Minister of Arts, Culture, Science and Technology, his Department and his National Advisory Council on Innovation, and the counterpart Parliamentary Portfolio Committee. Yet other parts deal with periodic reports, such as the financial situation; and organisational learning, such as delegations.

There were also fortnightly sessions among the top thirty to forty Research Managers to share new contacts, review tender opportunities, and consider the volume of work and other organisational demands on the research sections.

Well-attended research seminars were held almost weekly, some also attended by interested staff from Government Departments, NGOs and higher education institutions.

Two large *lekgotlas* were held before year-end to review major user needs, to plan and prioritise Research Programmes' and projects' responses, and to consider the overall budget envelope. Members of the Council's Research Committee met with EDs and senior researchers in two sessions, before and at the end of this planning process, to set some broad parameters of the work programme and discuss questions related to the nature, purpose and emphasis of the HSRC's social science research. The CEO thereafter finalised Parliamentary grant allocations, external income targets and vacancies for appointments with representivity quotas for the individual Research Programmes. Each Programme then convened review panels, with outside experts, to scrutinise major projects drawing upon the Parliamentary grant.

The CEO addressed all staff early in the year on the Business Plan for the year that had been submitted to the Minister of Arts, Culture, Science and Technology as well as on other matters of corporate interest. The presentation was repeated in the new Cape Town and Durban offices, as an opportunity for him to meet new staff there. The arrangement of a "happy hour" at the close of business on the first Friday of the month was sustained, at which information was shared on recent achievements of the organisation. The annual event to recognise the achievements of colleagues receiving doctoral degrees or long-service awards was re-introduced.

By the end of the review period, four of the eleven Research Programmes were headed out of the Cape Town and Durban offices. Further, smaller offices had been opened in Bloemfontein and Port Elizabeth. The official launch of the Bloemfontein office was envisaged for the coming year. With the Pretoria office, these locations also serve for the co-ordination of fieldwork teams for surveys using the HSRC's new master sample.

The five offices are conceived as sites of a single national HSRC presence. Video-conferencing was introduced to be able to sustain the meetings and seminars mentioned above, as well as convenient interactions among members of project teams from different sites, on a national basis but without excessive air-travel. A telephone switchboard that spans all the sites is envisaged, and arrangements have been discussed with Telkom for it to be integrated with the HSRC's national wide-area network.

### 3.4 Developments in the Research Programmes

The structure and leadership of the eleven Research Programmes is shown in Table 1:

Research Programme	Label	Executive Director
Assessment Technology and Education Evaluation	ATEE	Dr Anil Kanjee
Child, Youth and Family Development	CYFD	Professor Linda Richter
Democracy and Governance	DE&G	Professor Roger Southall
Employment and Economic Policy Research	EEPR	Dr Miriam Altman
Education Policy Research	EPR	Dr Mokubung Nkomo
Human Resources Development	HRD	Dr Andre Kraak
Integrated Rural and Regional Development	IRRD	Mr Mike de Klerk
Knowledge Management	KM	Dr Michael Kahn
Social Aspects of HIV/AIDS and Health	SAHA	Dr Olive Shisana
Social Cohesion and Integration	SCI	Professor Wilmot James
Surveys, Analyses, Modelling and Mapping	SAMM	Dr Udesch Pillay

Table 1: Research Programmes

By 1 April 2002, all eleven research Executive Directors (EDs) had been appointed. Approval was subsequently granted for Dr Mokubung Nkomo, ED for EPR, to accept a majority-time secondment to the University of Pretoria. Professor Linda Chisholm became acting ED of the Research Programme.

During 2002/03, research EDs were able to develop and grow the New Priority Areas (NPAs) for research, subsequently renamed Research Programmes. Within some of them, substructures or units were identified, and research directors or chief research specialists were assigned to lead them. New research staff were recruited in areas requiring additional capacity. New administrators within the Research Programmes were appointed and trained to undertake the significant financial, operational and reporting activities at project and programme level. The next section contains more information on trends and developments in the Research Programmes, and their detailed activities are covered in the front section of this Annual Report.

By March 2003, the end of the reporting period, the number of researchers had grown from 99 to 130. This meant that researchers increased from 52% to 56% of all staff. The new appointments were mostly at Specialist Researcher level, improving qualification and experience levels overall.

At the same time, junior researchers were appointed in contract positions of one to three years, in new project-based research-internship programmes in several of the Research Programmes. Junior researchers were involved in research projects and benefited from mentoring from experienced researchers while pursuing their own formal studies.

The growth at Specialist level, together with the inception of the internship schemes, meant that the proportion of Specialists in the researcher complement remained at approximately two-thirds. The improvements in the proportions of black and female researchers are dealt with in section 6.

The eleven Research Programmes were set up to be multidisciplinary, cross-cutting and flexible and orientated to development problems and user needs. They are proving to function well in terms of intra-institutional collaboration. Recent examples of collaboration between Research Programmes in the HSRC include HRD and EEPR on the *Biennial Directory* (funded by the ring-fenced DST grant); CYFD, SAHA and SAMM on the SABSSM study (funded by the HSRC, Nelson Mandela Children's Fund and other donors); and EPR, SAMM and ATEE on the rural education project (funded by the Nelson Mandela Foundation). Inter-institutional collaboration has also been maintained in a majority of projects, and is discussed subsequently.

Planning for the forthcoming institutional review was the responsibility of a team consisting of a member of Council, ED and Senior Researcher representatives, the CEO and staff in the Office of the CEO. During 2002/03, the draft terms of reference for members of the review panel were approved by Council and made available to people nominated to serve on the panel. Membership of the panel was also finalised after seven of the nominees accepted their invitations. The panel will consist of experts from South Africa, elsewhere in Africa and abroad.

#### **4. Review of research activities**

The purpose, activities, users and impact of many of the research projects carried out by the eleven Research Programmes of the HSRC are given in the Highlights near the beginning of the Annual Report, and in more detail in the sections devoted to each of the Programmes. This part of the Council's Report concentrates instead on the financial and other aspects of the HSRC's research process and systems: the relationship of the Parliamentary grant to external earnings, improvements in the composition of the external earnings, trends in the mix of projects by size, outreach to research collaborators, the enhanced publication and communication of results, and investments in research infrastructure to ensure its sustainability.

##### **4.1 Earnings from research contracts and grants**

Aspects of the COUPE strategy described in section 3.1 seek to assure the financial sustainability of the HSRC by focusing on tenders and grant applications for large-scale applied social research projects. It follows that a key indicator of the HSRC's progress (among the many measures covered below in section 9) is the level of earnings from such contracts and grants. The growth in this indicator has been dramatic since the CEO introduced the COUPE strategy and corresponding organisational developments on taking office in mid-2000/01.

Annual earnings from research contracts and grants, i.e. from activities that were invoiced to users before the end of the respective financial year, have risen in nominal terms from R6m in 1999/2000, through R16m in 2000/01 – when COUPE was

initiated – to R28m in 2001/02 and R61m in 2002/03, the year under review (including a R5m special grant for the national HRD project). The gold bars in Figure 1 illustrate the trend of three consecutive years of strong growth in research earnings.

The research earnings level of R61m for 2002/03 is noteworthy in three respects: it represents a 114% nominal increase over the previous year; it considerably exceeds the target of R45m; and for the first time it approximately equals the Parliamentary grant income. The latter is shown for recent years in nominal terms by the grey bars in Figure 1. The projected research-earnings target for 2003/04 is also shown.

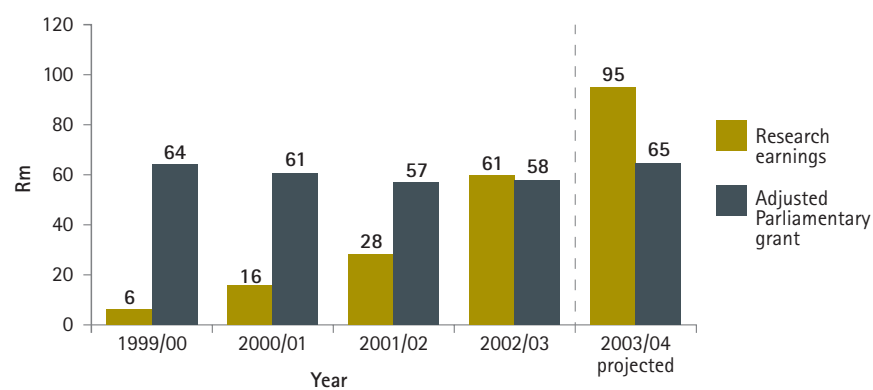


Figure 1: Research earnings vs. Parliamentary grant (in nominal rands)

The Parliamentary grant, assigned in terms of the Government's Medium Term Expenditure Framework, was R60,087m for 2002/03 (excluding the R5m ring-fenced amount for the national HRD strategy), compared to R60,492m in 2001/02. In other words, the Parliamentary grant for 2002/03 was held roughly constant in nominal terms compared to the previous year, and did not allow for inflation.

As shown in Table 6 in section 5, these figures then have to be adjusted for deferred income regarding depreciable assets and approved project roll-over.

The adjusted Parliamentary grant for the year 2002/03 is R58,505m, shown in the top row of Table 2 below (and compared there to R56,713m for 2001/02). The HSRC uses this funding to undertake projects that anticipate research needs, handle tasks for sectors or communities of users that cannot afford to commission work, leverage donor funds in shared undertakings, create infrastructure, build external networks and internal capacity, and update technology.

The research income from contracts and grants of approximately R61m mentioned above appears in Table 2 as two separate lines: Contract income (including foundation grants etc.) of R56,179m, and the special HRD project grant of R5m. In addition, Table 2 shows that the HSRC receives income from various other sources: notably commercial services of R2,537m, as well as product sales, rent and interest.

When all these revenues from sources other than the Parliamentary grant are summed, and taken as a share of total HSRC revenue, the proportion is found to have increased for each of the past three years, from 31,1% through 44,0% to 57,6%.

This increased reliance on income sources other than the Parliamentary grant enabled the HSRC to expand its researcher capacity to be able to respond to a broader range of current and anticipated user needs. However, the HSRC remains mindful of risks associated with setting unrealistic external income targets and taking on an unsustainable permanent research complement. Both aspects of risk will continue to be closely managed.

Although it will be seen in section 4.2 below that the HSRC only wins a proportion of the tenders it applies for, and does not apply for innumerable other tenders, the size of the likely market for applied social science research is not limitless, and other parties such as tertiary institutions are expanding their interest in it. Over the next two to three years the HSRC will develop a firmer idea of the sustainable balance between funding from the Parliamentary grant and the various forms of external income.

Funding Source	2002/03			2001/02	Variance
	Budget	Actual	Variance	Actual	Actual
			Actual vs. Budget		2001/02 vs. Actual
	R'000	R'000	%	R'000	%
Parliamentary grant	59,776	58,505	-2%	56,713	30%
Utilised for Research		51,392		24,320	111%
Utilised for Institutional Costs		8,695		36,172	-76%
Deferred Income		-1,582		-3,779	100%
National HRD Project	5,000	5,000	0%	5,000	0%
Contract Income	36,868	56,179	52%	23,158	143%
Commercial Services	1,545	2,537	64%	3,620	-30%
Rent Received	6,787	7,419	9%	6,986	6%
Profit from Sales	1,440	1,969	37%	1,674	18%
Investment Income	2,000	4,081	104%	2,816	45%
Other Income	1,584	1,147	-28%	1,236	-7%
<b>Total Income</b>	<b>115,000</b>	<b>136,837</b>	<b>19%</b>	<b>101,203</b>	<b>35%</b>

Table 2: HSRC income for 2002/03 and 2001/02

Profit from sales covered books, computerised programmes and tests. They increased compared to 2001/02. This growth rate is largely due to a new approach to publishing, discussed in more detail in section 4.5. The sales of tests in which the HSRC has no research interest are to be relinquished to retail agencies following a tendering process, as part of the organisation's sharper strategic focus.

The value of research funding newly awarded from contracts and grants during 2002/03 across the eleven Research Programmes approached R150m in value. However, many of these contracts were for multi-year projects, with amounts to be received and spent in subsequent years. The largest example is a R53m grant received from the W.K. Kellogg Foundation, to be used over five years.

Another example is the ring-fenced amount of R5m per year, for three years, granted to the HSRC by DST. The ring-fenced amount was allocated to fund a decision-support platform for the national Human Resources Development strategy, and the 2002/03 year saw its second year of funding. These longer-term contracts bode well for the meeting of future earnings targets.

#### 4.2 Changing composition of research earnings

The tenders to which the HSRC responds are typically issued by South African Government Departments or public entities, at national, regional or local level. International competitive tenders – user-defined and with predetermined closing dates – are also predominantly issued by publicly-funded agencies. Usually working in conjunction with external collaborators, the HSRC submitted 73 proposals of this kind during the 2002/03 financial year. The success rate, on information available at May 2003, was 33%. This is in line with international standards for similar development-research organisations. This rate is one of the half-dozen key indicators tracked by the CEO in his introduction to the Annual Report.

More recently, the HSRC has started to reap the benefits of submitting proposals to international and national foundations or grant-making agencies in response to their open calls for proposals. These allow applicants to determine the research problem and approach within a specified broad thematic area. Some 37 funding applications of this kind were submitted in 2002/03, of which 84% were known to be successful by May 2003.



Twenty-six of the tender or grant applications were prepared at the request of the potential funder – a clear indication that the HSRC is increasingly being considered a “first port of call” by its users. Of these, 81% were known to be successful by May 2003. The overall success rate of 110 proposals submitted during 2002/03, as known by May 2003, was 50%.

The rising blue and red lines in Figure 2 show the increases in the proportions of HSRC research earnings from researcher-initiated foundation funding, and from approaches to the HSRC by funders. (By contrast, the green line shows how income from tenders has levelled off in the latest financial year.)

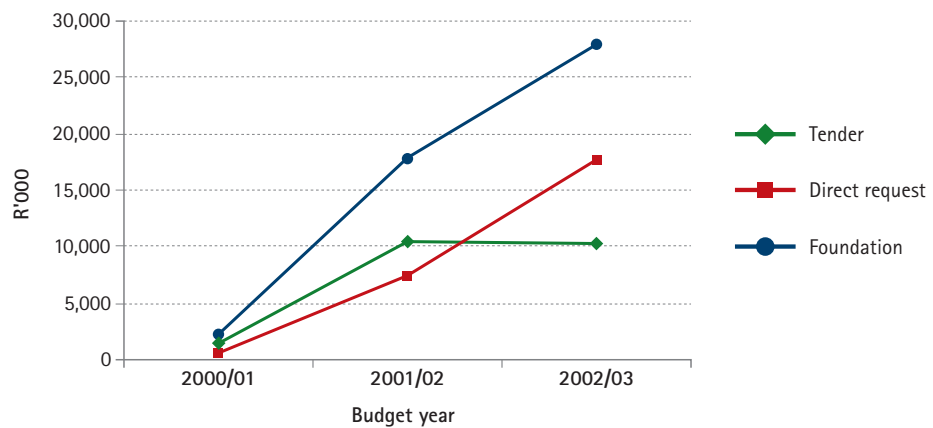


Figure 2: Categories of external research earnings

These changing proportions have helped the HSRC to maintain a sound balance, as it has expanded, between longer-term research orientated to national priorities and shorter-term consultant-type research work driven by the immediate needs of the market. The national R&D strategy issued by DST in 2002 noted the importance of maintaining this balance, at the same time as the HSRC Council’s Research Committee (see section 2.4.4) engaged HSRC management and senior research staff in deliberations on the issue in a special seminar in August 2002.

A corollary of the increase in foundation grants is that a rising proportion of the HSRC’s external research income comes from international sources. This extends the S&T funding base of the country as a whole, and the benefits are experienced not only by the HSRC but also by its collaborators in tertiary institutions and NGOs. The red line in Figure 3 shows how the level of external income from international sources has risen over the last two financial years to match that from local sources.

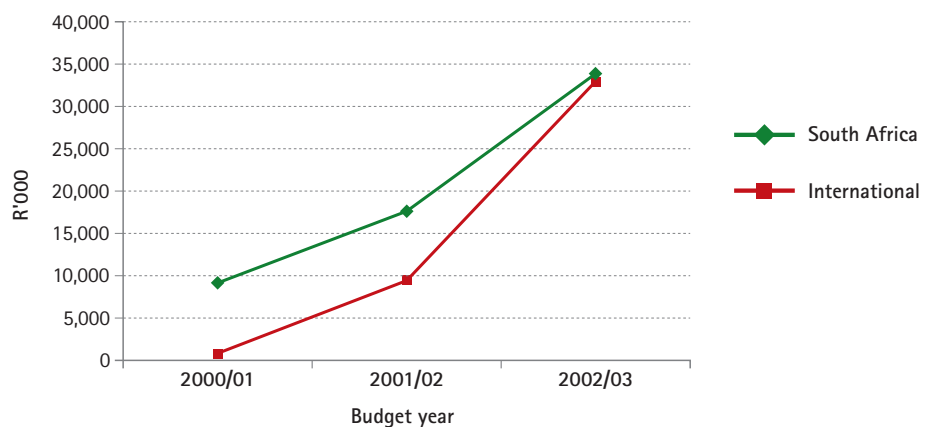


Figure 3: SA vs. international sources of external research funding

The increased volume of work brought has been handled partly by the extended complement of senior researchers, but also by taking advantage of partnerships with universities and technikons, research NGOs, and private sector consultancies. These relationships are described further in section 4.4.

At the same time as enhancing the HSRC's financial sustainability, the focus on tenders and grants described in this section helps to ensure that the HSRC's social science "makes a difference", by both assuring the relevance of the organisation to its users and enabling it to extend the range and quality of its services to them.

#### 4.3 Nature and distribution of research projects and external earnings

During 2002/03, 250 research projects were running, compared to 137 in the previous financial year. Of these, 138 (as against 57) were completed within the year. This increase in smaller, short-term projects may be related to the large number of highly qualified new researchers joining the HSRC. Some of these smaller projects were legacy projects that needed to be completed; others represent responses to requests for short-term, specialised, policy-relevant advisory services; and yet others represent more new, extended, large-scale projects. In addition, the 2002/03 year also saw the introduction of smaller projects funded by the Parliamentary grant specifically for the preparation of scientific publications, as encouraged by the COUPE strategy to advance scientific excellence.

However, it remains the case that the major share of research earnings continues to be accounted for by longer-term, large-scale, externally funded projects. This is illustrated in Table 3. This table displays the 12 largest projects funded entirely or largely by external funds or grants, initiated or continued by the HSRC during 2002/03. The total of the amounts earmarked for the year corresponded to well over half of the R61m research earnings. Most of these projects extend over two to three years. This is a positive indication for the sustainability of the COUPE strategy.

In the funders and users of the research, the table shows an impressive mix of national and local government departments, public-sector entities, and overseas and South African foundations or research collaborators. This diversity is partly a product of the outreach element of the COUPE strategy, discussed in the next section, and enabled by the excellent networks of the HSRC research leaders.

Project	Funder	Rm 2002/03
HRD ring-fenced grant from DST	Department of Science and Technology	5.0
Quality Learning Project (QLP)	JET Education Services, funded by National Business Trust	4.5
Strategy for the care of orphans and vulnerable children in Botswana, South Africa and Zimbabwe	W.K. Kellogg Foundation	4.3
Southern African Regional Poverty Network (SARPN)	Department for International Development (UK)	4.3
SABSSM Survey: HIV Survey	Nelson Mandela Children's Fund and Nelson Mandela Foundation	3.4
District Development Support Programme (DDSP) Assessment Modelling Initiative (AMI)	Research Triangle Institute, funded by USAID	3.2
National R&D survey (Frascati survey)	Department of Science and Technology	3.0
Master Sample	Swiss Development Co-operation	1.9
Birth to Twenty study	Wellcome Trust	1.8
Impact of HIV/AIDS on the Health Sector	Centers for Disease Control (CDC), via national Department of Health and Medunsa	1.5
Private Higher Education in South Africa	Ford Foundation	1.5
CHAMP (Collaborative HIV/AIDS and adolescent mental health project) in Valley of 1000 Hills	National Institutes of Mental Health (USA)	1.4

Table 3: Top 12 projects funded entirely or largely by external revenue

#### 4.4 Outreach to collaborators and stakeholders

A recommendation in the 1997 review of the HSRC by the Department of Arts, Culture, Science and Technology (DACST), was that the organisation should reach out much more vigorously to the research community at universities and technikons, and to parastatals, NGOs and the private sector, locally and abroad. This goal is being realised in many ways.

- Several senior research leaders in the HSRC hold joint appointments at universities, NGOs or statutory councils for 10 to 20% of their time.
- Some HSRC experts are appointed to render services as Ministerial advisers, and others are requested to do so on an *ad hoc* basis.
- Several Research Leaders also serve in their individual capacities as members or chairpersons of advisory councils of local and international organisations such as Umalusi, SAQA, Stats SA, Technikon SA, the Ford Foundation, W.K. Kellogg Foundation and the World Health Organisation.
- Five HSRC research experts are on secondment to Government Departments or projects.
- HSRC-based research networks such as the Social Aspects of HIV/AIDS and Health Research Alliance (SAHARA), the Southern African Regional Poverty Network (SARPN) and the Africa Genome Project provide platforms for interchange between researchers, and with decision-makers, donor organisations and end-users of research.
- Through COHORT, the HSRC is involved in a number of collaborative initiatives. These include the Science and Technology for Poverty Reduction initiative (SATPOR) under the R&D strategy of DST, and the Great Africa Rift spatial development initiative aimed at NEPAD.
- The approval process for larger Parliamentary grant-funded projects involves external peer review. External experts are also often appointed to provide guidance or quality control in the course of the project, and major research outputs are normally peer-reviewed prior to publication.
- The newly established Research Ethics Committee consists of external and internal experts, and provides guidance on ethical issues related to planning, conducting and reporting on research involving human subjects.
- Memoranda of understanding were signed with service-orientated organisations such as the National Institute for Crime Prevention and Reintegration of Offenders (NICRO) and the Umsobomvu Youth Fund. The memoranda address ways in which the respective organisations may co-operate, share information and identify research priorities on a consultative basis, in areas of common interest.

Opportunities to collaborate with academics, consultants and colleagues from other science councils are actively pursued in the preparation of funding applications and projects. Of the total of 55 competitive tender or grant applications mentioned in section 4.2 that were successful in the review period, 34 (62%) involved external partners. (The percentage is even higher, 88%, in the case of the successful competitive tenders.) Of the 250 projects in the HSRC research portfolio in 2002/03, 51% involved external partners. This figure is slightly lower than the 61% reported for 2001/02, perhaps because of the greater researcher capacity now in-house, but much higher than the 22% of the year before.

During 2002/03, the HSRC organised a number of major research conferences in which members of the research community, major funders, users and decision-makers interacted on policy issues, thereby enhancing the possibility of research uptake. Examples include the Human Genome conference (arranged by SCI), a conference on private higher education (HRD), HIV/AIDS in the region (SAHA), fertility (CYFD), and several workshops dealing with poverty reduction and land issues in the region (the Southern African Regional Poverty Network, SARPN, which is housed in IRRD). Some of these conferences had participation at Ministerial level, from South Africa as well as other countries including Botswana, Mozambique and the UK.

International networks are also expanding, and distinguished academics from within and outside South Africa regularly participate in projects and workshops of the HSRC. As with national networks, such international relationships broaden the HSRC's pool of expertise and provide capacity-building for mid-level colleagues. Recent project-related international visits involved collaboration with international research counterparts in Finland and India. An annual workshop is convened by the HSRC and the National Research Foundation in South Africa with social scientists from the CNRS in France.

In December 2002, the HSRC signed a memorandum of understanding with the Chinese Academy of Social Sciences (CASS).

This agreement provides a framework within which exchange visits and workshops can take place, information and research materials be exchanged, and joint projects encouraged.

#### 4.5 Publishing and publications

The 2001/02 Annual Report referred to the development in the latter part of that year of a new publishing and dissemination strategy. The new strategy emphasised the widest possible dissemination of the HSRC's output in both print and electronic form, based on the premise that publishing the HSRC's research product was a non-profit function. This strategy pointed to the development of a publishing website that would house electronic versions of all HSRC publications, with free access and free downloading of all the HSRC's public outputs.

In 2002/03 this strategy was implemented. This involved the recruitment of a core internal staff of six, responsible for the business management of HSRC Publishers, the commissioning and quality control of all publications, and their editing, design and marketing. Print, warehousing, distribution and sales representation functions were outsourced to three Cape-based companies. One of these was also tasked with the development and management of HSRC Publishers' website.

In 2002/03, HSRC Publishers produced 43 publications: 18 books (5 new and 13 reprints), 3 research monographs, 9 client reports and 12 occasional papers. Except for some confidential client reports, electronic versions of the publications were produced simultaneously with the print versions and made available online.

The series of occasional papers is an innovation designed to offer succinct and timely contributions to current debates, as well as to disseminate research findings and engage with the broader research community. The first six of these papers were produced for the IRRD Research Programme and were released to coincide with the World Summit on Sustainable Development (WSSD) in August–September 2002. Each dealt with one of the core themes of the Summit.

At the end of the 2002/03 year, a further 4 new books, 2 client reports and 5 occasional papers were in various stages of production.

Sales of the publications generated R0,557m in 2002/03. This amount was generated from the sale of 2 308 individual publications sold through bookshops or ordered via the HSRC Publishers website, while an additional 3400 units were sold by way of bulk and co-publishing deals with NGOs and overseas publishers. In total, 9 700 units were sold in 2002/03.

A feature of HSRC Publishers' operations in the second half of the reporting year was the particular attention paid to the publicising and marketing of the HSRC's research products, nationally and internationally. This included mounting exhibitor stands at the WSSD, the Zimbabwe Book Fair (finally held in Cape Town), and the conferences of a number of academic and other professional associations. The HSRC was represented for the first time at the London and Frankfurt Book Fairs and at the annual conference of the African Studies Association of North America. These visits facilitated the negotiation of co-publishing arrangements with international publishers and the initiation of a series of discussions with a number of international distributors for the global distribution of all HSRC publications. A finalised arrangement is anticipated in the forthcoming year.

A comprehensive list of HSRC publications is provided elsewhere in the 2002/03 Annual Report. Statistics from the publications list are summarised in Table 4. The benefits of employing more, and more senior, researchers are reflected in the number, range and quality of publications produced in the course of 2002/03. The number of refereed articles per researcher exceeded the target – one of the CEO's six key indicators – of 50%.

Category	No. in 2002/03	No. in 2001/02
Books and chapters in HSRC books	45	43
Books and chapters in non-HSRC books	75	24
Journal articles	74	31
<i>Refereed</i>	66	20
<i>Non-refereed</i>	8	11
Research reports to clients/users	98	50
<b>Total</b>	<b>292</b>	<b>148</b>

Table 4: Publications

#### 4.6 Corporate Communications

The HSRC exhibited in the South African Pavilion for the duration of the World Summit on Sustainable Development (WSSD) in Johannesburg in August–September 2002. Corporate Communications played a key role in WSSD outreach activities, the formal opening of the Durban office in April 2002, and when the 2001/02 Annual Report of the HSRC was launched to stakeholders and the media in October 2002. The Research Programmes were assisted with the formulation and graphic design of their publicity brochures.

Initial suggestions for the process of formulating a communications strategy were presented to the CEO and Executive Directors in August 2002. The Marketing Manager of HSRC Publishers assumed responsibility as part-time Acting Director of Corporate Communications in December 2002 following the resignation of the incumbent.

In March 2003, the first edition of the bimonthly newsletter, *HSRC Review*, was produced. As well as being published on the website, this publication is mailed and e-mailed to 8 000 stakeholders, members of national, provincial and local government, Parliamentary committees, media and secondary schools in South Africa, as well as to collaborators and funders nationally and internationally.

The HSRC Internet website, accommodating access to the organisation's activities, products and services by the broader public, has been extensively revamped and restructured at the same time as the upgrade of the intranet, as part of Project Phoenix described in section 3.

The electronic media monitoring service that monitors and evaluates media, radio and television coverage, reported that the HSRC received estimated free coverage to the value of R3,3m during 2002/03, compared to R1,2m in 2001/02.

Internally, the Department began developing communication platforms between the various divisions in the HSRC and, seeking to align external and internal messages, towards resuming the formulation and implementation of an integrated communications strategy including a "re-branding" of the organisation.

Two further major activities envisaged in the meanwhile cover improved media relations, including media conferences, briefings, releases and monitoring; and the co-ordination of report launches, opinion editorials, articles, supplements and interviews.

#### 4.7 Investments in research infrastructure

Surpluses accumulated in previous budget years began to be deployed during 2002/03 according to the framework approved by the Minister. Two major instances are mentioned here.

A video-conference facility was installed to support communication between the major centres where HSRC has offices, with associated refurbishments. It has been widely used from the outset, for management and staff meetings, project teamwork, and recruitment interviews.

Secondly, a representative master sample of 10 000 households from the whole of South Africa was created, representing a breakthrough in sampling methodology for large-scale surveys. With this resource, the HSRC is able to undertake research projects requiring longitudinal, comparative work and panel studies. Supplemented by a grant from the Swiss Development Co-operation, part of the accumulated HSRC surplus was deployed to pay for expert statistical consultancy services, aerial photography and groundwork to create the sample and its digitised database of maps and demographic profiles.

The first use of the sample was for the Nelson Mandela/HSRC survey on HIV/AIDS. The methodology employed to ascertain actual levels of HIV prevalence in South Africa had not been applied at such a large scale in the past. The investment in research infrastructure soon showed returns in the winning of other survey-based contracts using the master sample. In addition, funding was awarded to the HSRC to consult on the replication of the HIV/AIDS survey in neighbouring countries.

### 5. Financial results and sustainability

For the 2002/03 financial year, the HSRC's turnover, i.e. total revenue, was R136,837m (R100,537m in 2001/02). The increase was attributable mainly to the substantial growth in research contract and grant earnings shown earlier in Table 2 on page 89.

Overall expenditure was R147,314m for the year. The difference of R10,477m between income and expenditure for the year is reduced to a final net deficit of R1,462m for 2002/03 (compared to a surplus of R9,078m at the end of 2001/02), through the

approved spending of an amount of R7,433m from the surplus of the previous year. The plan for the disposal of the surplus was approved by the Minister of Arts, Culture, Science and Technology.

This approved spending is shown in Table 5. The new master sample described in section 4.7 accounted for R3m. Additional fieldwork of R1,078m was needed for the Nelson Mandela/HSRC study of HIV/AIDS, and the project had previously earmarked funds of R2,731m. The R0,624m used for accumulated leave pay-outs enabled the HSRC to place all staff on similar conditions of employment and reduce future liabilities in this regard. A further amount of R1,582m was transferred from grant income to deferred income *in lieu* of depreciable assets bought during the current financial year.

Within the totals for income and expenditures for the 2002/03 financial year, as reflected in the income statement on page 103, are various noteworthy trends, compared to the previous year. Increased spending on salaries, work farmed out and other expenses reflect the increase in research activities during the year, whereas increases in general operating costs were caused by the expanded presence of the HSRC in five national offices. The benefit of the video-conference facility is shown in the fact that travel expenses were less than budgeted.

	R'000
<b>(Deficit) for the Year</b>	<b>(10,477)</b>
<b>Less use of approved Surplus Funds:</b>	7,433
HSRC portion of master sample	3,000
Extra fieldwork on HIV survey	1,078
Project funds for SABSSM study	2,731
Balance of accumulated leave	624
<b>Transferred to Deferred Income</b>	<b>1,582</b>
<b>Net (Deficit) for the Year</b>	<b>(1,462)</b>

Table 5: Reconciliation of the deficit for 2002/03

The balance sheet on page 102 shows that at 31 March 2003 the HSRC had total assets of R134,868m (R95,311m in 2001/02), and current liabilities of R73,198m. The HSRC continues to receive state funding – R65,030m for 2003/04 plus the ring-fenced R5m for the HRD project – and already has firm commitments for external income in excess of R45m. It should accordingly remain a going concern.

The Parliamentary grant allocation for the 2002/03 financial year is broken down in Table 6.

	2003 (R'000)	2002 (R'000)
Parliamentary grant as per income statement	58,505	56,713
<b>Plus: Net adjustment in respect of deferred income</b>	<b>1,582</b>	<b>3,779</b>
<b>Total</b>	<b>60,087</b>	<b>60,492</b>

Table 6: Parliamentary allocation

The total Parliamentary grant of R60,087m shown for 2002/03 does not include the ring-fenced R5m for the HRD project. The HSRC received an amount of R1m, earmarked for the start-up phase for Indigenous Knowledge Systems South Africa (IIKSSA), which was administratively supported by the HSRC, and is not included in the R60,087m received in terms of the Medium Term Expenditure Framework (MTEF) allocation for 2002/03.

## 6. Human resources

The HSRC's staff complement at the end of the 2002/03 financial year was 232, which is 40 more than the previous year-end total of 192. Natural attrition provided space for 21 further staff members to be appointed during the year. A dual emphasis on expanding senior researcher capacity, while achieving equity targets at all levels, once again characterised the recruitment drive.

Of the 61 new staff members who joined the HSRC during 2002/03, 40 were new researchers. The strategic focus on research excellence and increased contract and grant income required that most were in the levels of specialist researchers. However, 13 junior researchers were appointed on 3-year contracts within Research Programmes, as part of the HSRC's commitment to growing research capacity internally.

The 21 new appointments made in administrative positions included new Directors of Finance, IT – vacant following the restructuring of the organisation in 2001/02 – and a replacement Director of HR. Administrative staff were installed to manage newly-established offices in Bloemfontein, Cape Town, Durban and Port Elizabeth. Because of the simultaneous researcher appointments, the ratio between researcher and administrative positions in the HSRC continued to increase, as planned. By 31 March 2003, 56% of HSRC members of staff were in research positions, compared to 52% at 31 March 2002. The end-year target of 60% should be attained in the new year, since the budgeted vacancies for research considerably exceed those in administration.

Among researchers the percentage of blacks improved from 45% to 48% over the reporting year, and among administrative staff from 58% to 60%. The former increase is below target, so firm quotas for representivity have been attached to the new researcher vacancies.

The proportion of researchers in the total staff, and the proportion of researchers who are black, are among the six key indicators highlighted in the CEO's annual statement.

Changes in representivity at the higher levels occur more slowly because of the small numbers of people involved and low attrition. Among administrative staff of deputy director level and above the percentage of black staff rose slightly from 38% to 39%, and among researchers of Specialist and above, the percentage remained stable at 39%. The new quotas will accelerate progress at this level.

Among senior administrative staff, women increased their share from 46% to 57%. Among senior researchers, female representation went down to 31% in 2002/03 from 33% in 2001/02, having increased from 18% the year before. The latter stratum needs specific attention.

The proportions of black staff per employment level are shown in Figure 4, for the current and previous reporting periods. The proportion has improved at almost every level, and by around half in senior levels (5 and above, i.e. Assistant Director or Chief Researcher and above). Even so, advances at senior levels started from a low base, so there is room for further improvement.

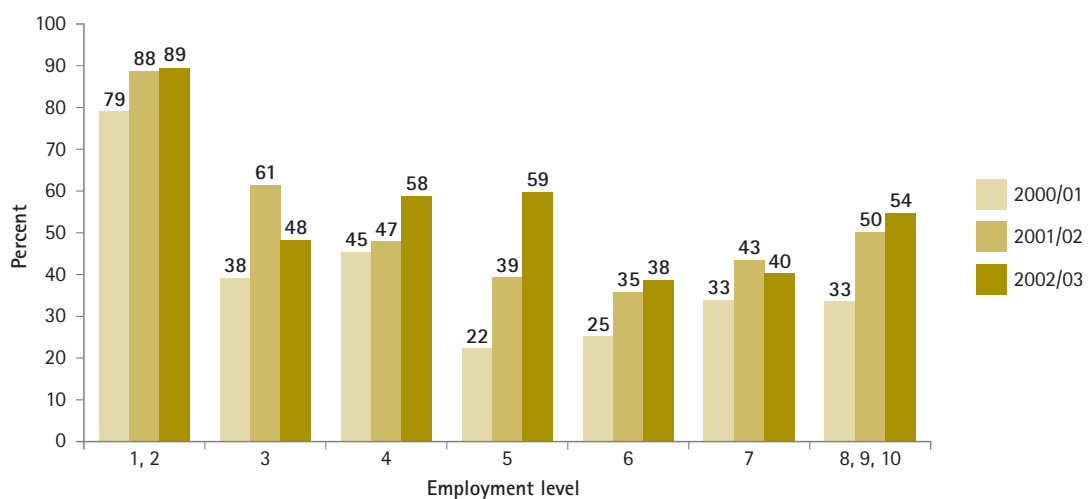


Figure 4: Percentage of black employees in employment levels, 2000/01 to 2002/03

The proportions of female staff per employment level are shown in Figure 5, for the 2000/01, 2001/02 and 2002/03 years. The most noticeable increase is at the upper employment levels, but again off a low base.

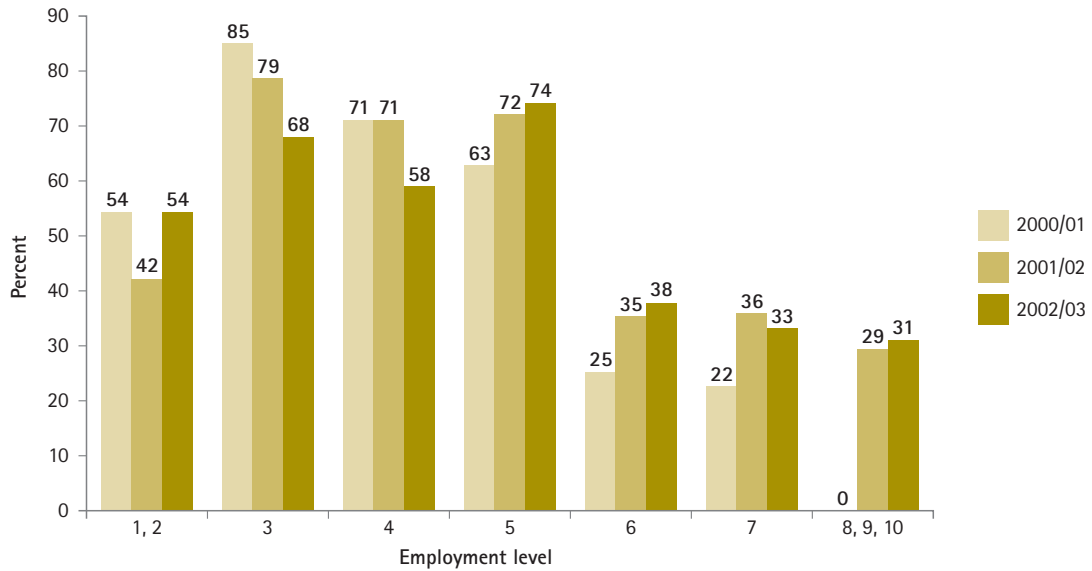


Figure 5: Percentage of female employees in employment levels, 2000/01 to 2002/03

Disabled people comprise less than 1% of the staff, whereas 2% is the target for Government Departments. The aim is to improve this proportion in recruiting for the remaining vacancies.

Among researchers, there have been noteworthy changes in proportions of blacks with masters or doctoral degrees, and of whites with doctorates over the last two years, as shown in the upper portions of the bars in Figure 6. Because of the new strategy of taking on appreciable numbers of junior researchers as interns, whose qualifications are also reflected, the targets set in 2001/02 need to be revised for the coming year.

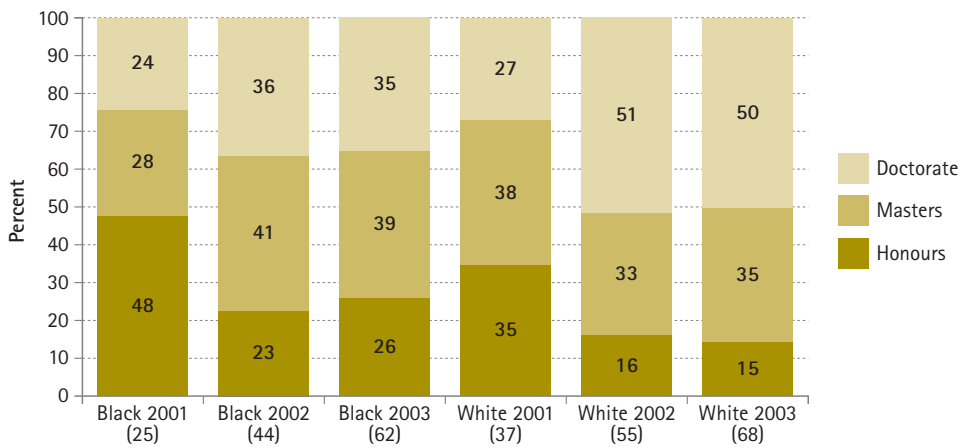


Figure 6: Proportions of researchers with masters and doctorates



During 2002/03, negotiations with the Union led to the implementation of uniform conditions of employment for all staff, as described in section 3.2. With the encouragement of Council, work started on the development of an integrated Employment Equity policy involving capacity development and career pathing, and investigations into an HIV/AIDS in the workplace policy commenced. Prior to mid-2002, performance appraisals were conducted. Some 59% of staff received some or other form of performance-based award: a half or full merit award, an increase of a notch on the salary scale, or a rank promotion.

## 7. Strategic risk assessment

The Audit Committee monitors risk management in the HSRC on an ongoing basis. During the year under review, the CEO periodically reported on progress made with actions taken to mitigate risks in the organisation. Various initiatives, workshops and meetings were conducted during the year to create awareness of the risk profile within the organisation.

Three aspects of the three-year audit plan to address the Risk Assessment report completed in 2001 – namely the development of a fraud prevention plan, a corporate governance review and an information technology audit – were commenced in a partnership with outsourced audit partners. The initial consultative workshops have been completed for the Fraud Prevention Plan, covering a management group representative of all key areas within the HSRC, Council, the Chair of Council, and an Audit focus group. The completed Fraud Prevention Plan, Corporate Governance Review and IT Report are expected towards the middle of 2003.

The HSRC management team devoted specific attention to the financial aspects of the Risk Assessment Report, with the help of comments and guidance from specialist members of the Audit Committee. The latter identified the most general risks of assuring research quality and the knowledge management culture suitable for a research institution. In response to this the Executive Directors adopted a two-way approach. They decided at the November 2002 research *lekgotla* to assign 160 hours of development time for each researcher, to be incorporated in Research Programme budgets and work plans; and to foster the production of journal articles. The target for the latter, one of the six key indicators publicised by the CEO, has been met.

Management prepared a document to address remaining matters in the risk assessment, that was submitted to the EDs for follow up. On advice of the Chair of the Audit Committee, the fifth and final phase of the risk assessment that concentrates on the post-restructuring was postponed since it was felt that it was too soon to obtain an objective result. The final phase will now be completed in July–August 2003, in time for the HSRC's institutional review planned for late September 2003.

## 8. Major events between the financial year-end and the publication of this report

- The Free State office of the HSRC was officially launched on 24 April 2003. Dignitaries who attended included the premiers of the Free State and Northern Cape.
- The first HSRC internal research conference took place on 12 and 13 June 2003, intended to allow for communication and sharing of ideas between researchers from the different Research Programmes and locations. The conference was opened by the Deputy Minister of DST, and attended by approximately 180 HSRC researchers and interns. Nearly 100 papers were read and discussed in 30 parallel streams.
- The HSRC Researcher Forum was established after mid-year with the approval of Council, after consultation with researchers about its make-up. The Forum seeks to advance communication among researchers and their involvement in the shaping and improving of the policy and practice of HSRC research. Forum representatives will participate in the Executive Directors' workshop and attend meetings of the Council.
- Policy documents to enhance progress on staff equity, professional development and internal communication in the organisation were submitted to Council and then consulted with staff or Union representatives towards systematic implementation.
- Preparations continued for the external review of the HSRC, from 29 September until 10 October 2003, to be conducted by a distinguished panel of relevant sectoral representatives from South Africa, elsewhere in Africa and abroad.
- A study of the impact of HSRC research was undertaken, drawing on interviews with users, stakeholders and producers, and other sources of evidence such as media coverage and policy uptake.

- The Minister of Arts, Culture, Science and Technology received nominations for the new HSRC Council from the public and the HSRC.
- Following the conclusion of a thorough tendering process, scoping and planning began for an integrated project management and information system and associated IT infrastructure. This will provide the Research Programmes and support services with the convenient and up-to-date information required to run the increasing number of research projects, especially those extending over several years, sites and partner organisations in which the HSRC specialises.

## 9. Achievement of performance targets

Targets were set in the 2002 KPI report of the HSRC to the National Advisory Council on Innovation (NACI). The organisation's actual performance – as measured against previous performance and annual targets – is summarised in Table 7 (overleaf).

The HSRC was in excess of, or on target for, seven of the seventeen KPIs for which targets had been set; it was close to target, with improvement on the previous year, for a further five KPIs, and it was substantially off target in only four respects.

With regard to objectives number 6 and number 7, i.e. the percentage of projects with external researcher participation and with external funding, there was still a majority of collaborative or externally funded projects. However, the respective proportions are smaller than expected because of an appreciable number of smaller projects registered as a response to *ad hoc* user needs, and towards improving the publication of scientific articles. For objective number 8, i.e. free media coverage, the HSRC was without a Director for Communications for half of the year. The extent of media coverage of outputs is expected to improve, although the target was probably over-optimistic.

With regard to objective number 19, the percentage of staff on study bursaries, the level was maintained. It is hoped that the new intake of interns as well as the implementation of a new, integrated professional development programme for staff will boost the proportion of staff on bursaries for the reporting period. Objective number 16, the number of research staff with masters and doctoral degrees, had deteriorated slightly as a result of the intake of interns. The target will be adapted to reflect the change in approach, but performance on this indicator should also improve following the implementation of a new staff development programme and improved use of study bursaries.

The progress of the organisation against quantitative targets, as reflected in this section, is one of the ways in which organisational performance is monitored. Led by the CEO, executive management as well as the Council is kept informed of progress, and corrective action taken if and when required. However, this monitoring progress is an interactive one, where adjustments are also considered as organisational developments unfold. Qualitative indicators of progress and success are also carefully included as part of the strategic and operational management of the organisation, as will be clear when the results of the forthcoming impact study of HSRC research, and recommendations on the HSRC review are discussed and taken on board by the Council and HSRC management team.

Strategic objective	Key performance indicator	Target 2002/03	Performance 2002/03	Past performance 2001/02
<b>Contracts and earnings</b> <i>Increasing research earnings</i>	("Financial investment perspective")			
1.	Achievement of income target: Total income	R115m	R136.8m	R101.2m
2.	Achievement of income target: External research income	R45m	R61.179m	R28.158m
3.	Dependency ratio: External research earnings as a percentage of total research earnings (Parliamentary grant plus external research earnings)	42%	50%	31%
4.	Known successful proportion of total competitive tender/funding applications submitted, at May	34%	33%	32%
5.	Variance in budgeted expenditure: Surplus or deficit for year, as % of turnover	5%	1.1%	9%
<b>Outreach</b> <i>Assertive outreach to universities and NGOs, locally and internationally</i>	("Stakeholder perspective")			
6.	% of research projects with external researcher participation	60%	51%	61%
<b>User needs</b> <i>Focusing the research on user needs, especially of Government "clusters" for policy-relevant research</i>	("Customer perspective")			
7.	"User-driven approach" – % of research projects that are partially or fully externally funded	70%	54%	70%
8.	Free media coverage	R9m	R3.3m	R1.2m
<b>Performance – equity</b>	("HR and transformation perspective")			
9.	% black staff: overall	55%	53%	52%
10.	% black research staff	54%	48%	45%
11.	% female	Not set	51%	54%
<b>Performance – efficiency</b>	("Financial perspective" and "Organisational perspective")			
12.	Share of Parliamentary allocation spent on research	Not set	86%	40%
13.	Productivity of HSRC investment in its employees: External research earnings per head (permanent and longer-term contract staff)	R150 000	R263 702	R146 656
14.	Share of payroll spent on researcher salaries	67%	64%	62%
15.	Proportion of researchers in total staff	60%	56%	52%
<b>Excellence</b> <i>Achieving excellence in research</i>	("Organisational perspective" and "Innovation and learning perspective")			
16.	Human capital: Proportion of researchers with M and D degrees	85%	80%	82%
17.	Number of books, journal articles, reports (per researcher head)	2.25	2.4	1.85
18.	Number of refereed journal articles per researcher head	0.5	0.55	0.25
19.	Percentage of staff receiving study bursaries	15%	8.2%	8.3%

Table 7: Performance targets



# NOTES

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# BALANCE SHEET

as at 31 March 2003

	Notes	2003 R'000	2002 R'000
<b>Assets</b>			
<b>Non-current assets</b>		<b>52,778</b>	<b>46,235</b>
Property, plant and equipment	1	45,928	39,385
Investment property	2	6,850	6,850
<b>Current assets</b>		<b>82,090</b>	<b>49,076</b>
Inventories	3	970	1,172
Trade and other receivables	4	15,306	13,570
Cash and cash equivalents	5	65,814	34,334
<b>Total assets</b>		<b>134,868</b>	<b>95,311</b>
<b>Funds and liabilities</b>			
<b>Capital and reserves</b>		<b>61,670</b>	<b>70,565</b>
Income funds		13,203	23,680
Capital funds		42,059	42,059
Deferred income	6	6,408	4,826
<b>Current liabilities</b>		<b>73,198</b>	<b>24,746</b>
Payables and accruals		66,293	19,557
Provisions	7	6,905	5,189
<b>Total funds and liabilities</b>		<b>134,868</b>	<b>95,311</b>



# INCOME STATEMENT

for the year ended 31 March 2003

	Notes	2003 R'000	2002 R'000
<b>Revenue</b>	<b>8</b>	<b>136,837</b>	<b>100,537</b>
Research and related income		58,716	26,112
Government grants		58,505	56,713
Special Government grants		5,000	5,000
Other operating income		14,616	12,712
<b>Less: Expenditure</b>	<b>8</b>	<b>(147,314)</b>	<b>(92,125)</b>
Employee cost		(64,731)	(37,929)
Depreciation		(4,265)	(2,037)
Sub-contractors		(31,660)	(27,416)
Other operating expenditure		(46,658)	(24,743)
<b>(Deficit)/Surplus for the year</b>		<b>(10,477)</b>	<b>8,412</b>



# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2003

R'000	Income funds					Total
	Surplus funds	Own risk insurance fund	General reserve	Capital funds	Deferred income	
<b>Balance at 31 March 2001</b>	<b>14,868</b>	<b>400</b>		<b>37,581</b>	<b>1,047</b>	<b>53,896</b>
Allocated to income during the year					(1,370)	(1,370)
Net surplus for the year	8,412					8,412
<i>Previously reported</i>	9,078					9,078
<i>Correction previous year error</i>	(666)					(666)
Revaluation of land and buildings				4,478		4,478
Allocated from income to reserve for working capital during the year	(18,000)		18,000			
Portion of Parliamentary grant utilised to acquire depreciable fixed assets for the year					5,149	5,149
<b>Balance at 31 March 2002</b>	<b>5,280</b>	<b>400</b>	<b>18,000</b>	<b>42,059</b>	<b>4,826</b>	<b>70,565</b>
<i>Previously reported</i>	5,946	400	18,000	42,059	4,826	71,231
<i>Correction previous year error</i>	(666)					(666)
Allocated to income during the year					(3,537)	(3,537)
Net surplus for the year	(10,477)					(10,477)
Portion of Parliamentary grant utilised to acquire depreciable fixed assets for the year					5,119	5,119
Transfer general reserve to income funds	2,000		(2,000)			
<b>Balance at 31 March 2003</b>	<b>(3,197)</b>	<b>400</b>	<b>16,000</b>	<b>42,059</b>	<b>6,408</b>	<b>61,670</b>



# CASH FLOW STATEMENT

for the year ended 31 March 2003

	Notes	2003 R'000	2002 R'000
<b>Cash flows from operating activities</b>			
Cash receipts from grants		63,505	61,713
Cash receipts from customers		69,077	34,827
Cash paid to suppliers and employees		(94,395)	(84,822)
Cash generated by operating activities	<b>13</b>	<b>38,187</b>	<b>11,718</b>
Interest received		4,081	2,816
<b>Net cash inflow from operating activities</b>		<b>42,268</b>	<b>14,534</b>
<b>Net cash outflows from investing activities</b>			
Additions to property, plant and equipment		(10,819)	(5,200)
- Motor vehicles		(112)	(51)
- Office furniture		(888)	(485)
- Computer, video-conferencing and other equipment		(6,420)	(4,627)
- Refurbishments		(3,367)	0
- Library books and artwork		(32)	(37)
Proceeds from the sale of property, plant and equipment		31	93
<b>Net increase in cash and cash equivalents</b>		<b>31,480</b>	<b>9,427</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>34,334</b>	<b>24,907</b>
<b>Cash and cash equivalents at end of year</b>	<b>5</b>	<b>65,814</b>	<b>34,334</b>





# SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2003

## Basis of presentation

The annual financial statements have been prepared on the historical cost basis in accordance with the general accepted accounting practice and incorporate the following principal accounting policies below, which have been consistently applied in all material respects with those of the previous financial year, unless otherwise stated.

## Revenue

Revenue includes investment and non-operating income exclusive of value-added taxation. Revenue that resulted from the rendering of research and related services is acknowledged at the stage of completion, determined according to the percentage cost to date in relation to the total estimate cost of the project. Revenue from the sale of goods is recognised when significant risk and rewards of ownership of goods are transferred to the buyer. Revenue arising from royalties is recognised on an accrual basis in accordance with the substance of the relevant agreement.

## Parliamentary grants received

### Baseline grant

Parliamentary grants are accounted for in the period to which each grant relates.

## Grants for depreciable and non-depreciable assets

### Depreciable assets

Current year Parliamentary grants in respect of depreciable assets (excluding land and buildings) are allocated to income over the period of and in proportion to the depreciation, which is written off against such assets. A corresponding amount in respect of the relevant non-depreciable assets disposed of during the year is also allocated to income in the period in which it is disposed of. The balance of the Parliamentary grant not recognised in the income statement is disclosed as deferred income.

### Non-depreciable assets

Parliamentary grants in respect of non-depreciable assets are allocated to income when received. A corresponding amount is then transferred from income funds to capital funds as an appropriation of accumulated funds per income statement. Freehold land and buildings (owner-occupied property), now subject to depreciation, was previously classified as a non-depreciable asset and was treated according to this policy.

## Property, plant and equipment

### Freehold land and buildings

Freehold land and buildings will be treated as owner-occupied property. Owner-occupied property will be stated at fair value less depreciation. The owner-occupied property will be depreciated at 2% *per annum*.

### Valuation method

A valuation of owner-occupied property will be performed every three years, based on the income capitalisation method. The market value is determined from the ability of the property to produce a rental income, taking into account the expenses 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. Any surpluses that occur due to the revaluation of land and buildings are directly allocated to capital funds.



# SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2003 (continued)

## Equipment

Artwork is treated as an investment and is not depreciated and carried at cost.

All other equipment is stated at cost and depreciated on the straight-line basis over their estimated useful lives. The annual depreciation rates applied to the various categories of equipment are:

Motor vehicles	25%
Office furniture	20%
Computer and other equipment	33.3%
Library books and manuscripts	33.3%
Software	50%

## Investment property

Investment property is property held to earn rentals. Investment property is stated at fair value and a valuation will be performed every three years based on the income capitalisation method. The fair value is determined from the ability of the property to produce a rental income, taking into account the expenses 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. Any surpluses that occur due to revaluation of the investment property are directly allocated to the capital funds.

## Inventories

Inventories are valued at the lower of cost price or net realisable value. The net realisable value is the net of the selling price, during normal business, less any completion costs or selling costs. Cost is determined on the weighted average method. Inventories are made up of the following categories:

- Test sales*
- Reading aids*
- Publications*

## Operating leases

Lease agreements are classified as operating leases, where substantially the entire risk and rewards incident to ownership, remain with the lessor. Lease income is recognised on a straight-line basis over the lease term. Cost incurred in earning lease income is charged against income. Initial direct costs incurred specifically to obtain the operating lease are written off when incurred.

## Post-employment benefit cost

Pensions are provided for employees by means of three separate pension funds to which contributions are made. With regard to the Human Sciences Research Council 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 income statement as soon as the liability is known. With regard to the Associated Institutions Pension Fund (AIPF) and the Temporary Employees Pension Fund (TEPF), only the Council's contributions to the pension funds are recognised in the income statement.

## Deferred income

Parliamentary grants in respect of certain depreciable assets are allocated to income over the period of, and in proportion to, the depreciation, written off against such assets. A corresponding amount in respect of the relevant non-depreciable assets disposed of during the year is allocated to income in the period in which it is disposed of. The balance of Parliamentary grants not recognised in the income statement is disclosed as deferred income. Other funds (included previous year surplus funds) that are utilised in respect of the acquisition of depreciable assets are not treated as deferred income.



# SUMMARY OF ACCOUNTING POLICIES

*for the year ended 31 March 2003 (continued)*

## **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 accounted for at the rate of exchange ruling at the balance sheet date, or at the forward rate determined in forward exchange contracts. Exchange differences arising from conversion are recognised in the income statement in the period in which they occur.

## **Post-retirement medical aid benefits**

The HSRC does not provide for post-retirement medical aid benefits to employees, with the exception of specific employees who opted to remain on the previous condition of service when the benefit was terminated.

## **Capital funds**

A Parliamentary grant in respect of non-depreciable assets is allocated to income when it is received. A corresponding amount is then transferred from income funds to capital funds as an appropriation of accumulated funds per income statement. Freehold land and buildings (owner-occupied property), now subject to depreciation, was previously classified as a non-depreciable asset and treated according to this policy. Other funds (including previous year surplus funds) that are utilised in respect of the acquisition of non-depreciable assets are not accounted for in capital funds.

## **Provisions**

Provisions are raised when a present legal or constructive obligation exists as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## **Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, receivables and trade payables. These instruments are generally carried at their estimated fair value. Receivables are carried net of the estimate doubtful receivables.

## **Comparative figures**

Comparative figures have been restated to show the effect of the correction of the previous year error as indicated in note 16.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003

## 1. Property, plant and equipment

2003	Total	Land and buildings	Artwork	Motor vehicles	Office furniture	Computer, video-conference and other equipment	Software	Library books, manuscripts
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>Opening net carrying amount</b>	<b>39,385</b>	<b>34,300</b>	<b>209</b>	<b>49</b>	<b>452</b>	<b>4,308</b>	<b>0</b>	<b>67</b>
Gross carrying amount	60,317	35,000	209	193	2,894	17,304	0	4,717
Accumulated depreciation	(20,932)	(700)	0	(144)	(2,442)	(12,996)	0	(4,650)
Additions	10,819	3,367	21	112	888	6,048	372	11
Transferred to investment property	0	0	0	0	0	0	0	0
Adjustments	(11)	0	0	0	0	(11)	0	0
Carrying amount	(141)	0	0	0	0	(141)	0	0
Accumulated depreciation	130	0	0	0	0	130	0	0
Depreciation	(4,265)	(700)	0	(38)	(284)	(3,073)	(127)	(43)
<b>Closing net carrying amount</b>	<b>45,928</b>	<b>36,967</b>	<b>230</b>	<b>123</b>	<b>1,056</b>	<b>7,272</b>	<b>245</b>	<b>35</b>
Gross carrying amount	70,995	38,367	230	305	3,782	23,211	372	4,728
Accumulated depreciation	(25,067)	(1,400)	0	(182)	(2,726)	(15,939)	(127)	(4,693)

2002	Total	Land and buildings	Artwork	Motor vehicles	Office furniture	Computer and other equipment	Software	Library books, manuscripts
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>Opening net carrying amount</b>	<b>38,629</b>	<b>37,372</b>	<b>209</b>	<b>0</b>	<b>37</b>	<b>962</b>	<b>0</b>	<b>49</b>
Gross carrying amount	58,220	37,372	209	142	2,399	13,416	0	4,682
Accumulated depreciation	(19,591)	0	0	(142)	(2,362)	(12,454)	0	(4,633)
Additions	5,200	0	0	51	485	4,627	0	37
Revaluation of buildings	(2,372)	(2,372)	0	0	0	0	0	0
Adjustments	(35)	0	0	0	0	(35)	0	0
Depreciation	(2,037)	(700)	0	(2)	(70)	(1,246)	0	(19)
<b>Closing net carrying amount</b>	<b>39,385</b>	<b>34,300</b>	<b>209</b>	<b>49</b>	<b>452</b>	<b>4,308</b>	<b>0</b>	<b>67</b>
Gross carrying amount	60,317	35,000	209	193	2,894	17,304	0	4,717
Accumulated depreciation	(20,932)	(700)	0	(144)	(2,442)	(12,996)	0	(4,650)

### Land and buildings

Freehold land and buildings consists of Stand 3242, situated at 134 Pretorius Street, Pretoria, at valuation value in 2001.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003 (continued)

## 2. Investment property

Riviera, Pretoria: Portion 58 (a portion of Portion 14), of the farm Rietfontein 321, measuring 2,3371 hectares, and the remaining portion of Stand 233, measuring 7 189 square metres, Registration division JR, Transvaal, situated at 185 Rose Street, Riviera, Pretoria. The property is leased out under an operating lease.

An independent external valuator, Fenwick Valuations, carried out a valuation on 28 March 2002 to determine the open market value between a willing seller and a willing buyer as on the date of valuation. The property was valued at R6,850m.

	2003 R'000	2002 R'000
<b>Opening net carrying amount</b>	<b>6,850</b>	<b>0</b>
Transferred from property, plant and equipment	0	2,372
Fair value adjustment gain	0	4,478
<b>Closing net carrying amount</b>	<b>6,850</b>	<b>6,850</b>

## 3. Inventories

Merchandise (Reading aids, Test sales, Publications)

	970	1,172
	<b>970</b>	<b>1,172</b>

## 4. Trade and other receivables

Trade debtors

12,066 11,882

Balance as at year end

17,867 14,326

Provision for bad debts

(5,801) (2,444)

South African Revenue Service (VAT)

3,240 1,688

**15,306 13,570**

## 5. Cash and cash equivalents

Bank balances

6,789 8,516

Call deposits

58,851 25,343

Cash on hand

174 475

**65,814 34,334**

## 6. Deferred income

Government grants received, to be recognised in future accounting periods

Balance at the beginning of the year

4,826 1,047

Portion of grant used for depreciable assets

5,119 5,149

9,945 6,196

Less: Allocated to income statement

(3,537) (1,370)

Portion of grant used for depreciable assets

(3,537) (1,370)

**6,408 4,826**



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003 (continued)

## 7. Provisions

### Provision – Redundant stock at year end

- Balance at the beginning of the year
- Additional provision during the year
- Utilised during the year

### Provision – Staff leave and bonuses

- Balance at the beginning of the year
- Additional provision during the year
- Utilised during the year

### Provision – Severance packages

- Balance at the beginning of the year
- Additional provision during the year
- Utilised during the year

### Provision – Legal cost

- Balance at the beginning of the year
- Additional provision during the year

## 8. Net deficit for the year

Net deficit is arrived at after taking into account the following items:

### Research and related income

- Contract income
- Commercial services

### Government grants

- Parliamentary grant
- Parliamentary grant received
- Less: Transferred to deferred income
- Special Parliamentary grant

### Other income

- Sundry income
- Investment income
- Rent received
- Profit from sales
- Property, plant and equipment
- Inventories

### Audit fees

- Current year provision
- Previous year under-provision

	2003 R'000	2002 R'000
<b>Provision – Redundant stock at year end</b>	<b>0</b>	<b>751</b>
- Balance at the beginning of the year	751	0
- Additional provision during the year	0	751
- Utilised during the year	(751)	0
<b>Provision – Staff leave and bonuses</b>	<b>5,346</b>	<b>3,033</b>
- Balance at the beginning of the year	3,033	3,058
- Additional provision during the year	2,313	0
- Utilised during the year	0	(25)
<b>Provision – Severance packages</b>	<b>0</b>	<b>144</b>
- Balance at the beginning of the year	144	6,295
- Additional provision during the year	0	144
- Utilised during the year	(144)	(6,295)
<b>Provision – Legal cost</b>	<b>1,559</b>	<b>1,261</b>
- Balance at the beginning of the year	1,261	0
- Additional provision during the year	298	1,261
	<b>6,905</b>	<b>5,189</b>
<b>Research and related income</b>		
Contract income	56,179	22,492
Commercial services	2,537	3,620
	<b>58,716</b>	<b>26,112</b>
<b>Government grants</b>		
Parliamentary grant	58,505	56,713
Parliamentary grant received	60,087	60,492
Less: Transferred to deferred income	(1,582)	(3,779)
Special Parliamentary grant	5,000	5,000
	<b>63,505</b>	<b>61,713</b>
<b>Other income</b>		
Sundry income	1,147	1,236
Investment income	4,081	2,816
Rent received	7,419	6,986
Profit from sales	1,969	1,674
Property, plant and equipment	20	58
Inventories	1,949	1,616
	<b>14,616</b>	<b>12,712</b>
<b>Audit fees</b>		
Current year provision	350	336
Previous year under-provision	0	404
	<b>350</b>	<b>740</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003 (continued)

### 8. Net deficit for the year (continued)

	2003 R'000	2002 R'000
<b>Depreciation of fixed assets</b>		
Motor vehicles	38	2
Office furniture	284	70
Computer and other equipment	3,073	1,246
Land and buildings	700	700
Software	127	0
Library books and manuscripts	43	19
	<b>4,265</b>	<b>2,037</b>
<b>Staff costs</b>	59,559	33,553
Retirement benefit cost	4,609	3,498
Defined contribution plan	4,513	3,374
Defined benefit plan	96	124
Post-retirement medical benefit	606	878
Severance packages	(43)	0
Over-provision in previous year	(108)	(144)
Previous year provision	0	(6,294)
Payments on previous year provision	0	6,150
AIPF provision	65	0
AIPF payment	65	0
AIPF provision on payment due	0	0
Provision for retrenchments 2002	0	144
	<b>64,731</b>	<b>37,929</b>
<b>Professional and consultancy fees</b>	<b>2,566</b>	<b>0,625</b>
<b>Foreign exchange differences included in the net deficit for the year</b>	<b>0,016</b>	<b>0</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003 (continued)

## 8. Net deficit for the year (continued)

### Council members and executive management remuneration

2003	Fees for services as Council members	Managerial services			Total
		Basic salary	Bonuses and performance-related payments	Retirement fund and medical aid contributions	
	R	R	R	R	R
<b>Council members of the HSRC</b>					
Professor G.J. Gerwel (Chair)	3,044	-	-	-	3,044
Dr N.N. Gwagwa	-	-	-	-	-
Ms N. Jordan	5,396	-	-	-	5,396
Dr V.T. Maphai	-	-	-	-	-
Professor W.E. Morrow	-	-	-	-	-
Mr E. Motala	4,464	6,000	-	-	10,464
Ms P. Ntombela-Nzimande	2,682	-	-	-	2,682
Mr M.V. Sisulu	894	-	-	-	894
<b>Executive Member</b>					
Dr F.M. Orkin (President and CEO of the HSRC)	-	847,306	63,942	140,116	1,051,364

### Rentals in respect of operating lease

The HSRC has leased office space to the South African Local Government Association (SALGA) at 134 Pretorius Street, Pretoria for a period of 60 months effective from 1 June 1999. The lease payment is currently R58 160 per month. There is an escalation clause of 10% per year in the contract. The lease agreement is renewable at the end of the lease term.

	Up to 1 year		1 to 5 years	
	2003	2002	2003	2002
	R	R	R	R
Future minimum lease payments	756,080	687,346	127,952	884,032

The HSRC has leased office space to the Department of Public Works at 134 Pretorius Street, Pretoria for a period of 60 months, effective from 1 May 2001. The lease payment is currently R 355 409 per month. There is an escalation clause of 8% per year in the contract. The lease agreement is renewable at the end of the lease term.

	Up to 1 year		1 to 5 years	
	2003	2002	2003	2002
	R	R	R	R
Future minimum lease payments	4,577,671	4,232,598	10,730,986	15,308,657

### Operating lease in respect of investment property

The HSRC has leased office space to the Department of Public Works at 185 Rose Street, Riviera, Pretoria for a period of 60 months, effective from 1 August 2002. The lease payment is currently R168 047 per month. There is an escalation clause of 10% per year in the contract. The lease agreement is renewable at the end of the lease term.

	Up to 1 year		1 to 5 years	
	2003	2002	2003	2002
	R	R	R	R
Future minimum lease payments	2,151,004	1,955,456	8,851,960	10,966,964





# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003 (continued)

## 8. Net deficit for the year (continued)

### Investment property

	2003 R'000	2002 R'000
Rental income	2,016	1,833
Direct operating expenses	0,099	0,072

## 9. Pension funds

Pension benefits are provided by membership of the Associated Institutions Pension Fund (AIPF), the Temporary Employees Pension Fund (TEPF) and the HSRC Pension Fund (HSRCPF). The AIPF and TEPF are State-controlled which assumed responsibility for under-funding of these funds. The HSRCPF is a defined benefit and a defined contribution plan that provides lump sum payments and pensions to retirees or their dependants as well as death benefits. The HSRCPF is registered in terms of the Pension Fund Act 1956 as amended.

The fifth statutory actuarial valuation report of the HSRCPF was completed, effective from 1 October 2002. On the first day of October in each subsequent year a statutory valuation will be completed. At valuation date, compared to the previous year, there were 175 members in the HSRCPF, consisting of 169 defined contribution members and 6 defined benefit members. Seven members are currently entitled to benefits from the HSRCPF of which five members had paid-up benefits and two are current pensioners. The administrators of the fund, ABSA Consultants and Actuaries, completed an interim valuation of the fund on 31 March 2003.

For the purpose of the interim valuation, the assets in respect of the defined contribution members (174 members) were taken into account at full market value as these members are now entitled to the full market value investment return achieved under the HSRCPF after the implementation of investment choices. The total value placed on the assets in respect of the Defined Contribution members as at valuation date amounted to R23,577m.

With regard to the pensioners and the members entitled to Defined Benefits under the HSRCPF (four members), assumptions were made regarding the expected experience of the HSRCPF in respect of deaths, withdrawals, rates of salary increase, early retirements, as well as the expected yield on the assets of the HSRCPF and operational costs. The assumptions were used to calculate the discounted value of the accrued liabilities for all the defined benefit members of the HSRCPF as at interim valuation date for comparison with the available assets of the HSRCPF. The assumptions used in this valuation differ from those used in previous valuations in respect of withdrawal, early retirement and mortality. In view of the remaining members the assumption was made that none of the aforementioned will take place. The accrued liabilities to these members as at interim valuation date amounted to R1,780m.

The accrued liabilities of the five members with paid-up benefits in the HSRCPF as at a statutory valuation date amounted to R0,253m. The accrued liability of the two members receiving current pensions in the HSRCPF as at statutory valuation date amounted to R0,203m.

### Pension fund valuation:

	Defined Benefit Pension Fund	
	2003 R'000	2002 R'000
Present value of funded liabilities	1,780	1,408
Future value of plan assets	(3,975)	(5,081)
Funded status	(2,195)	(3,673)
Actuarial losses	(1,800)	-
Net asset	(3,995)	(3,673)
Number of members	4	8

The apportionment of the surplus will be completed with the next statutory valuation of the fund in October 2003, therefore the asset cannot be determined at 31 March 2003.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003 (continued)

## 9. Pension funds (continued)

Principal actuarial assumptions:

	2003 %	2002 %
Valuation rate	9,1	11,5
Inflation rate	5,9	8,6
Salary increase rate	6,9	9,6
Expected investment return	9,1	11,5

Pension fund members:

	HSRC Defined Benefit Pension Fund	HSRC Defined Contribution Fund
Members as a percentage of total employment	1,75%	75,98%
Contribution rate	25,90%	23,43%
Members	7,50%	7,50%
Employer	18,40%	15,93%

## 10. Post-retirement medical benefits

An actuarial valuation of the cost of post-retirement medical benefits due to all employees, determined in April 1997, indicated a total liability of R22,2m. As from 1 August 1997, post-retirement medical benefits are provided by membership of a Provision Fund (Fund) administered by Liberty Life of Africa Limited, Policy Number 232193. The Fund is actuarially valued every three years after which benefit statements are provided to members showing their and the HSRC's contributions together with the interest earned.

The membership and funding of the Fund are as follows:

The HSRC, for members of staff older than 30 years of age on 1 August 1997 who belonged to the medical aid scheme and who selected the Defined Contribution basis of funding, pays an actuarially calculated lump sum as well as further monthly predetermined contributions into the individual member's accounts in the Fund. Contributions are revised annually and, although likely to increase each year, the HSRC's maximum contribution increase is capped at 13% per year. The HSRC, for members of staff younger than 30 years of age on 1 August 1997 who belonged to the medical aid scheme and who selected the defined contribution basis of funding, contributes a monthly amount of R300 on behalf of the member of the Fund. These monthly contributions are kept to the same level annually.

The value of the members' accounts in the Fund for both categories of members as at valuation date, 1 September 2000, amounted to R7 500 136,27.

The HSRC, for staff who did not belong to the medical aid scheme on 1 August 1997, contributes a monthly amount of R100 on behalf of the member to the Fund. These monthly contributions are kept to the same level annually. The value of the members' accounts in the Fund at valuation date, 1 September 2000, amounted to R49 342,64. 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, contribute an amount of R100 per month on behalf of the member to the Fund. The value of the members' accounts in the Fund at valuation date, 1 September 2000, amounted to R121 937,59.

The lump sum, if applicable, and monthly contributions paid by the HSRC, represents the HSRC's total obligation in this regard towards the members' post-retirement medical costs. When the member leaves the service or dies employed by the HSRC, the contributions plus applicable growth are, according to a vesting scale, payable to the staff member. A reserve account has been established in terms of the Fund. The account is maintained by contributions paid from time to time by the HSRC and may, subject to the approval of the Administrator, Management Committee and the necessary approval of the Commissioner for Inland Revenue, be used to provide for an increase in the level of benefits on retirement, in retirement, on death or on withdrawal or to stabilise the cost of the HSRC of providing future benefits under the Fund. The value of the reserve account, at valuation date, 1 September 2000, was R785 002,11.

The Fund value as at 31 March 2003 was R6 641 560,62. The next actuarial valuation will be performed on 1 September 2003.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003 (continued)

## 11. Uncovered foreign currency monetary items

At 31 March 2003 the HSRC had the following foreign exchange currency transaction not covered by forward exchange contracts.

2003		2002	
Euro	US Dollar	Euro	US Dollar
'000	'000	'000	'000
0	42	98	43
Rand	Rand	Rand	Rand
'000	'000	'000	'000
0	336	991	497

## 12. Contingent liabilities

### Litigations and claims

At 31 March 2003 there were pending labour-related cases between the HSRC and retrenched employees. The most recent estimate indicated that claims amounting to R2 089 603 have been instituted against the HSRC by retrenched employees. The HSRC is of the opinion that no liability will be incurred in this respect.

## 13. Reconciliation of net (deficit)/surplus to cash generated from operations

	2003	2002
	R'000	R'000
Net (deficit)/surplus	(10,477)	8,412
Adjustments for:		
Provisions	1,716	(4,164)
Deferred income	1,582	3,779
Depreciation	4,265	2,037
(Profit) on sale of property, plant and equipment	(20)	(58)
Interest on investment	(4,081)	(2,816)
<b>Operating (deficit)/surplus before operating capital changes</b>	<b>(7,015)</b>	<b>7,190</b>
<b>Working capital changes</b>	<b>45,202</b>	<b>4,528</b>
Decrease in inventories	202	360
(Increase) in trade and other receivables	(1,736)	(4,902)
(Decrease)/increase in trade payables and accruals	46,736	9,070
<b>Cash generated by operating activities</b>	<b>38,187</b>	<b>11,718</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003 (continued)

## 14. Financial risk management

### Interest rate risk

The Council invests surplus cash on fixed notice deposits for periods of 32 days. Interest rates on these deposits are fixed for the period of investment. Other funds are kept in the current and call accounts at variable interest rates.

### Liquidity risk

The Council maintains sufficient funds available in call and current accounts to meet its three-month cash flow requirements. Temporary surplus cash is invested in fixed deposits.

### Credit risk management

The Council invests temporary cash surpluses with a major South African bank of high standing.

## 15. Capital expenditure

	2003 R'000	2002 R'000
Approved by management, but not yet contracted	2,683	3,727
The capital expenditure is to be financed as follows:		
Internally generated funds	2,683	3,727

## 16. Correction of error

The prior year figures have been adjusted with the correction of an error relating to research income received in advance before the previous year end allocated as income in that year. The effect of the change was as follows:

Decrease in net surplus of the prior year	(666)
Increase in provisions and accruals	666

## 17. Spending of surplus as approved by National Treasury

Approval was obtained from National Treasury for the utilisation of surplus funds on specific projects as identified in the 2001/02 HSRC Business Plan. The Council, through the CEO, subsequently approved the application of unspent funds from certain categories to extra expenditure on prioritised research, of R1,809m. The Council consequently requested the application of more flexible categories to the surplus. The Department of Science and Technology supported the request to National Treasury. The HSRC is currently awaiting National Treasury's response.



## REPORT OF THE HUMAN SCIENCES RESEARCH COUNCIL (HSRC) AUDIT COMMITTEE — 2002/03

We are pleased to present our report for the financial year ended 31 March 2003.

The Audit Committee reports that it has complied with its responsibilities arising from section 38 of the Public Finance Management Act, 1999. This report has been prepared according to the Treasury Regulations for public entities issued in terms of the PFMA and promulgated in Gazette 7372 on 25 May 2002. The HSRC is listed as a national public entity in Schedule 3A of the Act.

The entity's accounting authority, the HSRC Council, appointed the present Audit Committee members on 14 November 2002.

During the year under review (2002/03) the Committee consisted of Messrs S.A.H. Kajee (specialist member and Chairperson), and R.J. Page-Shipp (specialist member), Ms P. Mnxasana (specialist member) and Dr N.N. Gwagwa (Council member). The accounting officer of the HSRC, Dr F.M. Orkin (CEO and Council member), is an *ex officio* member of the Audit Committee. There is currently a vacancy for specialist member on the Committee since Ms Mnxasana's resignation at the end of March 2003.

The Audit Committee met on 9 May 2002, 1 August 2002 and 24 January 2003. In addition to the above members, persons attending Committee meetings by standing invitation include the Head of Internal Audit, the Chief Financial Officer and representatives of the Office of the Auditor-General and its agent. Where necessary, the Committee met separately with external and internal auditors.

The Audit Committee has reviewed the Annual Financial Statements of the HSRC, the Report of the Auditor-General and periodic reports submitted to the Audit Committee by the Head of Internal Audit of the organisation. In the context of our understanding, the Committee is satisfied that the major financial risks of the entity are appropriately managed and that the financial statements are a fair reflection of the HSRC's activities in the last fiscal year. The management letter of the Auditor-General has not reported on any significant or material non-compliance with prescribed policies and procedures.

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**S.A.H. KAJEE**  
Chairperson of the Audit Committee  
Human Sciences Research Council

Pretoria, 31 July 2003



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