

# *Annual Financial Statements 31 March 2002*

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

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# Annual Financial Statements

31 March 2002

## Introduction

The maintaining of accounting and other records, as well as an effective system of internal control, is the responsibility of the Council's President. 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 a responsibility of the Council of the HSRC. Auditors are expected to report on the Annual Financial Statements. The HSRC's Annual Financial Statements are prepared on the basis and accounting policies set out therein. These policies have been complied with on a continuous basis.

## Approval and post-balance sheet events

The Annual Financial Statements set out on pages 62 to 91 were approved by the Council of the HSRC on 23 May 2002. In the Council's opinion the Annual Financial Statements fairly reflect the financial position of the HSRC at 31 March 2002 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.



Prof. G.J Gerwel  
Chairperson: HSRC Council



Dr F.M. Orkin  
President and CEO

Pretoria, 23 May 2002

# Report of the Auditor-General

to the Parliament on the Financial Statements of the Human Sciences Research Council  
for the year ended 31 March 2002



## 1. Audit assignment

The financial statements as set out on pages 62 to 91, for the year ended 31 March 2002, 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 annual report for the year ended 31 March 2002 set out on pages 62 to 91 is the responsibility of the accounting authority. My responsibility is to provide an assessment of the fairness and consistency of the Human Sciences Research Council's performance information. My role is not 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 audit of the performance information embraced the standard for assurance engagements issued by the Auditing Standards Board.

I assessed the performance information against the criteria of fair and consistent performance information.

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 2002 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practice.

### 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 2002 against predetermined objectives on a basis consistent with that of the preceding year.

# Report of the Auditor-General

to the Parliament on the Financial Statements of the Human Sciences Research Council  
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## 4. Emphasis of matter

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

### 4.1 Matters not affecting the financial statements

#### 4.1.1 Systems and internal control

Attention is drawn to system weaknesses and the non-compliance of systems and controls that were identified during the year under review, which were brought to the attention of management by way of a management letter. The following are the more significant areas in which there appeared to be system weaknesses or non-compliance with implemented systems and control measures.

- Inventory
- Accounts receivable
- Accounts payable
- Research income

Management has indicated that the aforementioned was as a result of the rapid restructuring that took place within the Council and that appropriate steps have already been taken to ensure the maintenance of effective systems as well as the compliance with implemented systems and controls.

#### 4.1.2 Non-compliance with Generally Accepted Accounting Principles

The information disclosed in note 9 to the financial statements in respect of employee benefits (Pension Fund) does not fully comply with the disclosure requirements of the relevant accounting statement. The following issues were not disclosed:

- Retirement benefit obligations / asset recognised;
- Total expense recognised which includes actuarial gains and losses;
- Actuarial return on the fund;
- Principle actuarial assumptions used at balance sheet date.

#### 4.1.3 Computer audit

During the year under review, a computer audit on the logical access controls and security parameter settings within the information technology environment of the Council, has revealed certain weaknesses in the access, logging and prevention of corruption environment. Management, in response to the findings, referred to various corrective steps taken and envisaged to rectify the weaknesses identified.

## 5. Appreciation

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



for: AUDITOR-GENERAL

15 July 2002

# Council's Report

for the period ending 31 March 2002

## 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 main objectives of the HSRC according to the act are to:

- promote, support and co-ordinate research;
- advise the minister on research priorities;
- disseminate research findings;
- facilitate and evaluate the implementation of research findings;
- promote the training of research person power;
- place the full spectrum of disciplines in the human sciences at the disposal of all the inhabitants of the Republic.

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 two to three years to align it with the recent strategic reorientation of the HSRC, as well as with the White Paper on Science and Technology and other research-related policies.

## 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 employees in five centres - and "the Council" to the above-mentioned group of people, who then also comprise the governing body of the wider HSRC.

### 2.2 Members of the Council

A new Council took office with effect from 1 November 1999. The members of the Council during the 2001/02 period were:

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

At the conclusion of the period there were three vacancies on the Council. Professor Colin Bundy and Professor Moitsadi Moeti had resigned during the previous period to take up senior academic positions in the U.K. and U.S. respectively; and Dr Orkin's previous position as an external member of Council became vacant when he was appointed CEO, and thereby became an *ex officio* member.

The Minister of Arts, Culture, Science and Technology is expected to appoint three new Council members during 2002.

# Council's Report

for the period ending 31 March 2002

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

The Council met on 24 May 2001, 16 August 2001, 22 November 2001 and 21 February 2002.

## 2.4 Subcommittees

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

During the year under review, the Executive Committee and the Research Committee comprised Professor Gerwel (Chair), Dr Maphai, Mr Motala and Dr Orkin. The Human Resources Committee comprised Dr Maphai (Chair), Mrs Jordan and Dr Orkin.

The Human Resources and Remuneration Committees met jointly on 21 February 2002. In lieu of a Research Committee meeting, the entire Council on 21 February considered the research business plan of the organisation for the coming financial year. The Executive Committee did not need to meet during the year under review.

## 2.5 Audit Committee

The members of the HSRC Audit Committee are appointed for a calendar year. During 2001/02 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) (from February 2002)

Mr R.J. Page-Shipp, MSc

The members of Council on the Audit Committee were Drs Gwagwa and Orkin.

The Audit Committee functions in terms of the Public Finance Management Act (PFMA). 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 and the annual external audit report of the HSRC, the budget and financial statements, and the key performance indicators, and reports on these to 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 (see section 7, below). The Audit Committee submits a summary of its activities to the Council on a regular basis. It met on 10 May 2001 and 14 February 2002.

## 2.6 Council members' remuneration

Council members who are not HSRC staff members receive honoraria for the services they render to the HSRC 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.

# Council's Report

for the period ending 31 March 2002

## 2.7 Council members' interest in contracts

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

## 3. Organisational developments

In the 2001/02 reporting year, the most important development at the HSRC was the far-reaching transformation of both the research and the administrative sides of the organisation, in order to implement a new vision and associated strategy for the organisation. These developments are outlined in the remainder of section 3. The impact of the new vision and associated restructuring upon the HSRC's research activities is presented in section 4, especially the marked increase in earnings from contracts and grants that has simultaneously improved the financial sustainability of the organisation and enabled it to extend the range of applied social-scientific services it can supply to its public-sector users and other stakeholders.

### 3.1 Background: new strategic direction

With the appointment of a new HSRC Council in 1999 and a new CEO in 2000, the HSRC accelerated its transformation in response to the changes in the needs of major government users for policy-relevant social research, and in the National Science and Technology Framework.

On taking office in the latter half of the previous reporting period, in August 2000, the CEO introduced the vision "Social science that makes a difference" and advanced a three-part vision to extend and transform existing HSRC disciplinary strengths into more relevant and far-reaching social-scientific services to the HSRC's users:

- From social research to national socio-economic research programmes.
- From social databases to social-scientific knowledge management.
- From educational assessment to policy impact evaluation.

In the course of consultations in the ensuing months with HSRC research and support divisions as well as the HSRC Council and other stakeholders, the HSRC's new 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 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.

### 3.2 Restructuring of research and administrative components

To implement the COUPE strategy, the HSRC embarked on an organisational restructuring exercise led by the new CEO. Towards the end of the previous reporting period, in February 2001, the Council adopted a transformation plan, in order to position the HSRC to achieve its new strategic goals. The plan approved the creation of New Priority Areas (NPAs) for research and recognised the need for extensive changes to the administrative structure and modes of operation. It also envisaged a possibly reduced administrative staff complement, since an outcome of previous restructurings was that administrative staff outnumbered those in research by more than two to one, presenting an unsustainable overhead.

From March 2001 detailed consultations with staff union and non-staff union representatives were held, including the preparation of supplementary documents by both sides, concerning the processes of reassigning researchers to the NPAs (described in section 3.3) and reviewing the administrative complement, as well as appropriate procedures.

At an HSRC Council meeting in May 2001 the CEO submitted for consideration and approval the proposal on the restructuring of the administration, and for undertaking associated retrenchments or voluntary severances. The criteria for



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retrenchment were primarily competence for the new positions, followed by representivity, possible lateral redeployment, and affordability. The proposal envisaged an increase in research staff (primarily at senior levels) from 60 to 140 people over the ensuing three years, with an administration of approximately 90.

The implementation of the proposal took place from June to August. It included a new organogram for corporate services being publicised among administrative staff, together with key performance areas for the new posts; preferences being received for specific posts or else voluntary severance; differentiated competency-tests, interviews, and higher-level reviews of staff, and opportunities for appeal; notification of the outcome by managers; and the calculation and payment of packages. A small team of organisational-development experts helped to conduct the sequence. A choice of counselling services was provided, and a number of skills workshops.

A total of 136 administrative staff were considered for placement in the new structure that contained 93 positions, and 72 staff were redeployed. Of the 64 staff who were not retained, 27 had sought voluntary severance, and 37 were retrenched. Retrenchments affected all job levels, and a slightly higher proportion of whites (49%) than blacks (45%).

Recruitment commenced shortly afterwards to positions that became vacant in the process or subsequently. All candidates were tested for appropriate competencies, and selection criteria included representivity. By the end of the reporting period, appointments had been made of a new Executive Director of Corporate Services, Directors of Human Resources and Corporate Communications, and Head of Library. Additional rounds of interviews were necessary for suitable Directors of Information Technology and of Finance. The new managers have in turn been participating in selecting staff for their component. The proportion of black staff in the administration over the year increased from approximately 49% to 58%.

### 3.3 New Priority Areas for research

The strategic consultations among researchers and the Council sought to shape the organisation of research to national development priorities. The HSRC's previous, inward-looking, disciplinary components were replaced by interdisciplinary, problem-oriented "new priority areas" (NPAs), oriented to the needs for applied social science of major public-sector users.

The original conception of eight NPAs was increased to eleven as recruitment proceeded, first for the executive directors of each NPA and then for the research directors or chief research specialists to lead the sections within each NPA. At the same time the 60 existing research staff indicated their preferences, and with some adjustments for a balance of representivity and seniority were assigned accordingly. The structure and leadership of NPAs is shown in Table 1.

Table 1: New Priority Areas

New Priority Area (NPA)	Label	Executive Director
Assessment Technology and Educational Evaluation	ATEE	Dr Anil Kanjee
Child, Youth and Family Development	CYFD	Prof. Linda Richter
Democracy and Governance	D&G	Prof. Roger Southall
Employment and Economic Policy Research	EEPR	Dr Miriam Altman
Educational 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
Surveys, Analyses, Modelling and Mapping	SAMM	Dr Udesh Pillay
Social Cohesion and Integration	SCI	Dr Wilmot James

Dr Meshack Khosa (Executive Director: Democracy and Governance) and Ms Elize van Zyl (Acting Executive Director: Labour Market Analysis and Job Creation) left the employ of the HSRC in the course of 2001/02.



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In addition to the areas shown, researchers in various NPAs are also active in cross-cutting themes such as gender, indigenous knowledge systems, monitoring and evaluation, and methodology.

By the end of the reporting period the number of researchers had increased from 60 to 99. This increase, coupled with the reduction in administrative staff, meant that researchers increased from 31% to 52% of all staff. The new research appointments were mainly at specialist levels, in order that they be able to win new tenders and grants and lead the ensuing projects to fruition. Among the research complement, the proportion of specialists rose from 48% to 67%. Junior researchers were mainly appointed on fixed-term contracts against specific projects. The improvements in the proportions of black and female researchers are dealt with in section 6.

## 3.4 Management, communication and monitoring systems

A cycle of regular meetings has been initiated and adapted during the review period, among research managers and with their counterparts in corporate services, in order to monitor contracting opportunities, constitute the cross-NPA project teams required to tender, and cope with the volume of work and other organisational demands of the increased number of research sections.

Executive directors held fortnightly workshops, with part of each agenda linked to the business of the intervening meetings of the Council or submissions to DACST, its counterpart parliamentary Portfolio Committee, and its National Advisory Council on Innovation. In addition, two large "lekgotlas" were held before year-end, to review major user needs and to plan and prioritise research responses for inclusion in the budget. Each NPA then convened review panels, with outside experts, to scrutinise major projects drawing upon the parliamentary grant.

There were also fortnightly sessions among the top 30 research managers, to share new contacts and review tender opportunities. Well-attended internal seminars were held almost weekly.

A feature of the recruitment was the opening of new offices in Cape Town and Durban in mid-2001, so that new senior research appointees did not necessarily have to relocate to Pretoria. This arrangement undoubtedly helped the HSRC to attract some prominent research leaders. By the end of the review period four of the eleven NPAs were headed out of these offices. Further, smaller offices were opened in Port Elizabeth and Bloemfontein. The locations will also serve for the co-ordination of fieldwork teams for surveys.

These offices are conceived as sites of a single national HSRC presence. In order to be able to sustain the regular meetings without excessive air-travel, as well as convenient interactions among members of project teams from different sites, teleconferencing was introduced. However, the technology was not reliable. So plans for a video-conferencing system with dedicated venues in each site were initiated, and will be implemented in the coming review period; as will a telephone switchboard that spans all the sites.

## 4. Review of research activities

It was noted at the outset of the previous section that the COUPE strategy essentially focuses on assuring the financial sustainability of the HSRC by increasing its successful tenders and grant applications for large-scale applied social research programmes. Some 89 tenders or funding applications were submitted in 2001/02, of which 38 were known successes by May 2002. The success ratio of at least 43% is excellent by international standards. This effort advances its vision of "Social science that makes a difference" by simultaneously enhancing the relevance of the HSRC to its users and enabling it to extend the range and quality of its services.

### 4.1 Earnings from research contracts and grants

Accordingly, a key indicator of progress (among the many measures covered below in section 9) is the level of earnings from research contracts and foundation grants. The growth in this indicator has been dramatic since the inception of the COUPE strategy in mid-2000/01 and the corresponding organisational developments described in the previous section - notably the recruitment or promotion of executive directors and senior colleagues to lead the NPAs, and the increased coverage of user needs which they provide.

# Council's Report

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Research earnings from activities invoiced before the end of the financial year have risen from R6m in 1999/2000, through R16m in 2000/01 - the year in which COUPE was initiated - to the targeted amount of R28m (R23m in respect of research income and a R5m special grant for the National HRD project) in 2001/02. This latter figure represents a 75% increase over the previous year. The trend is illustrated in Figure 1, where external research earnings are compared with the parliamentary grant. Figures for 2002/03 are projected.

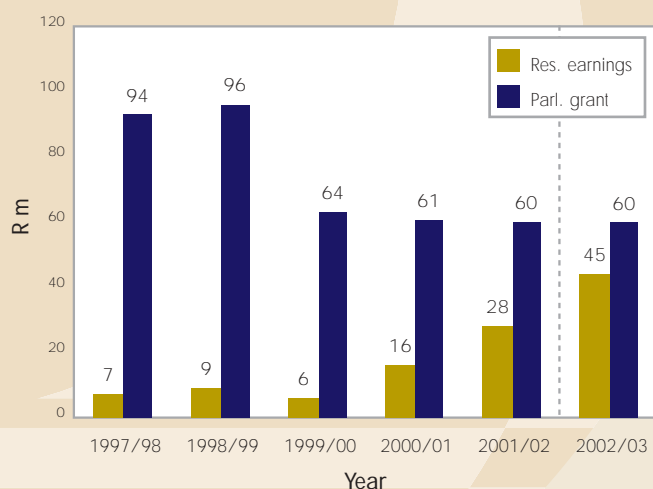


Figure 1: Research earnings vs parliamentary grant (in nominal rands)

More detail on the different kinds of income is shown in Table 2.

One sees that the parliamentary grant (Table 5), assigned in terms of the government's Medium Term Expenditure Framework, was R60,492m in 2001/02, compared to R61,452m in 2000/01 and R64,41m in 1999/00 (not shown).

One may calculate that the share of total revenue from sources other than the parliamentary grant over the past three financial years has risen rapidly from 24,5% through 31,1% to 39,5%.

Even so, parliamentary funding continues to account for the major share of research expenditure.

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, create infrastructure, build external networks and internal capacity, and update skills and technology.

Table 2: HSRC income for 2001/02 and 2000/01

Funding source	2001/02			2000/01	Variance Actual 2000/01 vs. Actual 2001/02
	Budget	Actual	Variance Actual vs Budget	Actual	
	R'000	R'000	%	R'000	%
Parliamentary grant	60 491	56 713	-7%	61 921	-8%
Utilised for research		24 320		34 489	-29%
Utilised for institutional costs		36 172		26 963	34%
Deferred income		(3 779)		469	906%
National HRD project	5 000	5 000	0%	0	
Contract income	23 000	23 158	1%	16 453	41%
Commercial services	3 883	3 620	-7%	5 328	-32%
Rent received	6 984	6 986	0%	3 063	128%
Profit from sales	50	1 674	3 248%	176	851%
Investment income	1 910	2 816	32%	2 282	23%
Other income	1 170	1 236	5%	590	110%
Total income	102 488	101 203	-1%	89 813	13%

Table 5 in section 5 shows an amount of R60,492m as parliamentary grant income, also reflected in the Income Statement for 2001/02. Table 2, above, shows that R3,779m (net) of this amount was transferred to deferred income in lieu of assets bought and written off.

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Sales of tests, computerised programmes and books increased sharply compared to 2000/01. This growth rate is not expected to continue, since the sales of those tests in which the HSRC has no research interest will be relinquished to retail agencies, as part of the organisation's sharper strategic focus.

The value of research contracts signed during 2001/02 across the eleven NPAs actually exceeded R45m in value, the extra R17m over the invoiced amounts being part of longer-term projects that will be undertaken or completed in the ensuing reporting periods. This bodes well for the meeting of future earnings targets. One such multi-year grant was a ring-fenced amount of R5 million per year for three years granted to the HSRC by DACST, to fund a decision-support platform for the national Human Resources Development strategy.

An appreciable proportion of the contract income was from private-sector sources, earmarked for the HSRC to undertake research or evaluation for government departments such as Education or Health.

To handle the volume of work brought in by the extended complement of senior researchers, the organisation has taken increasing advantage of partnerships with universities and technikons, research NGOs, and private sector consultancies. These relationships are described further in section 4.3.

## 4.2 Nature and distribution of research projects

During 2001/02, 94 research projects were running, compared to 117 and 137 in the previous two financial years. Of these, 29 (as against 58 and 57) were completed within the year. In other words, the HSRC was undertaking fewer but more extended, and larger, research projects.

At the same time, as shown by the topmost portions of the bars in Figure 2 below, an increasing proportion of projects were fully funded by external sources. In combination, this approach of a higher proportion of less numerous but more substantial externally funded projects yielded the greatly improved research earnings mentioned at the outset of section 4.1, of R6m, R16m and R28m for the respective three years. These earnings are also depicted in Figure 2 by the line graph, with its values shown in italics and calibrated on the right-hand vertical axis.

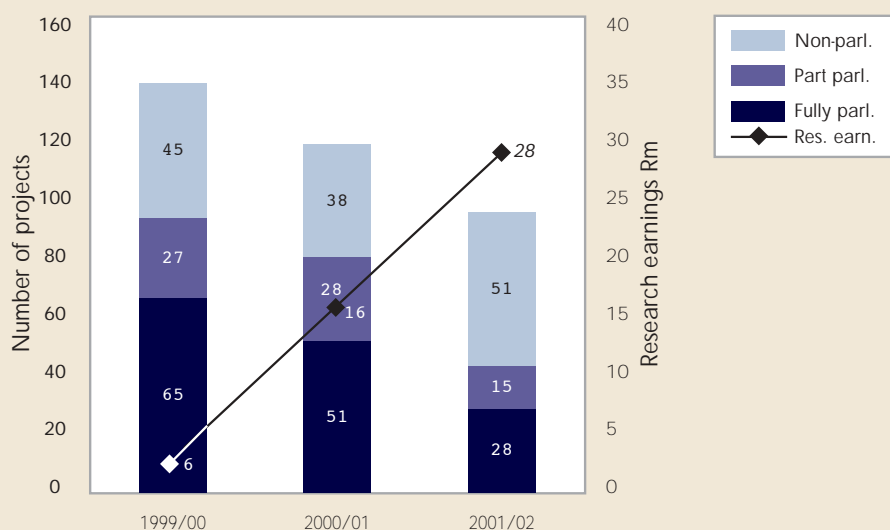


Figure 2: Projects by source of funding, and research earnings

An illustration of this change in the scale and funding of projects is provided in Table 3, which displays the ten largest projects funded entirely or largely by external funds or grants, undertaken by the HSRC during 2001/02. Most extend over two to three years. This is a positive indication for the sustainability of the COUPE strategy.

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

Project	Funder	Rm 2001/02
HRD ring-fenced grant from DACST	Dept of Arts, Culture, Science and Tech.	5.0
DDSP Assessment Modelling	Research Triangle Institute (US)	2.8
Southern African Regional Poverty Network (SARPN)	Dept for International Development (UK)	1.7
SAHARA Networking and HIV Survey	Nelson Mandela Children's Fund	1.7
Domestic Tourism Survey	SA Tourism	1.7
Quality Learning Project	Joint Education Trust	1.5
Impact of HIV/AIDS on Health Sector	Centres for Disease Control (US)	1.1
Post-election Survey and Analysis	Independent Electoral Commission	1.0
Private Higher Education Study	Ford Foundation	0.9
Housing Programme Review	Gauteng Department of Housing	0.8

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 NPA research leaders.

## 4.3 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 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 or NGOs for 10-20% 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 SAFCERT, SAQA, StatsSA, Technikon SA, the Ford Foundation, Kellogg Foundation and the World Health Organisation.
- Government departments, foundations and NGOs receive short- to medium-term support for specific projects from HSRC research experts on secondment to those institutions. During 2001/02, six such secondments were supported by the HSRC.
- 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, decision makers, donor organisations, and the end-users of research.

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 38 tenders or grant applications that were successful in the review period, 71% involved external partners; for the 94 projects in all, the proportion was 61% (compared to 22% the previous year). Many other external persons served as expert advisers or reviewers on project steering committees and advisory bodies.

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. A notable example is the annual workshop convened by the HSRC and the National Research Foundation in South Africa with social scientists from the CNRS in France.

## 4.4 Publications

A publication and dissemination strategy was launched during 2001/02. The new strategy emphasises the dissemination

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of research findings in an accessible and affordable manner. It was agreed that publishing in the HSRC should generally be a non-profit function, providing effective access to digital publications and a print-on-demand service. Selected elements of this function would be outsourced, under the leadership of an in-house publications director.

A weeding process of slow-moving stock in the bookstore was undertaken. The sales of publications were sustained: in 2001/02 books to the value of R0,54 million were sold, compared to the R0,55 million in 2000/01.

The HSRC also maintains a website that allows the broader public access to the organisation's activities, products and services. A new-look website, providing access to an online catalogue and bookshop as well as links to related sites, was launched in January 2002.

The electronic media monitoring service that monitors and evaluates media, radio and television coverage, reported that the HSRC received free coverage to the value of R1,2 million during 2001/02, compared to R6,9 million the previous year. The decrease reflects the interruption in the media liaison function resulting from the restructuring of support staff. But a new Corporate Communications director took office in February 2002. As a result approximately 36% of the free media coverage was accumulated in the last month of the reporting year.

A comprehensive list of HSRC publications is provided elsewhere in the 2001/02 Annual Report. Statistics from the publications list are summarised in Table 4. The decrease in such outputs that was experienced in 2000/01 compared to the year before (because of the researchers retrenched in the previous restructuring) has begun to be reversed. A major gain was in the category "research reports to clients", because of the sharp increase in contract projects in 2001/02. Further gains can be expected in the next year from the appreciable recruitment of specialist researchers.

Table 4: Publications

Category	No. in 2001/02	No. in 2000/01
Books and chapters in HSRC books	43	30
Books and chapters in non-HSRC books	24	15
Journal articles	31	18
<i>Refereed</i>	<i>20</i>	<i>14</i>
<i>Non-refereed</i>	<i>11</i>	<i>4</i>
Research reports to clients/users	50	30
Total	148	93

## 5. Financial results and sustainability

The HSRC's turnover for the 2001/02 financial year was R101,203m (R89,813m in 2000/01). The increase was attributable mainly to the substantial growth in contract earnings shown earlier in Table 2.

The HSRC had an accumulated surplus of R5,946m at 31 March 2002. This accumulated surplus excludes an amount of R0,400 million in an own risk insurance fund. The surplus reflects the gains from the retrenchments and from the earnings increase from the current realignment strategy, described in section 3. The Minister of Arts, Culture, Science and Technology approved the utilisation of surplus funds for various aspects of strengthening of research infrastructure and new research priority areas.

The HSRC Council accepted the Audit Committee recommendation that the owner-used HSRC Building should be valued at R35m on the basis of the 2001 valuation, and that the investment property in Riviera, Pretoria, be valued at the 2002

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valuation of R6,85m. An amount of R4,478m was capitalised to the capital funds in this regard in the 2001/02 financial year. An additional amount of R18m was transferred from income funds to a general reserve to cover the HSRC's working capital base. The HSRC, at 31 March 2002, had total assets of R95,311m (R73,736m). It continues to receive state funding - R60,492m plus the ring-fenced R5m for 2001/02 - and should accordingly remain a going concern.

The CEO has set a number of targets for the organisation. The target of research earnings from contracts and grants of R28m for 2001/02 was met. The corresponding target for 2002/03 is R45m, bearing in mind the increased specialist researcher complement.

State funds for the 2001/02 financial year are broken down as shown in Table 5.

**Table 5: Parliamentary allocation**

	2002 R'000	2001 R'000
Parliamentary grant as per income statement	56, 713	61, 921
Plus (Less): Net adjustment in respect of deferred income	3, 779	(469)
Total	60, 492	61, 452

The total parliamentary grant of R60,492m shown for 2001/02 does not include the R5m ring-fenced amount allocated by DACST for research support systems for the Human Resources Development strategy.

## 6. Human resources

The HSRC's staff complement at the end of the 2001/02 financial year was 192, which is 5 down on the previous year-end total of 197. However, this small difference is the outcome, in the main, of two extensive countervailing changes: the decrease of 64 administrative staff in the course of the restructuring described in section 3.2, and a twofold recruitment process.

One part of the recruitment covered 39 researchers, primarily specialists, to staff the NPAs described in section 3.3; and included 8 new Executive Directors in research in addition to the 3 who were promoted internally, to head the 11 NPAs. Their names are mentioned at Table 1 above. The other part of the recruitment was to fill vacancies arising from the restructuring; and included a new Executive Director of Corporate Services, Ms Roshani Rampersadh, plus new Directors of Human Resources and Corporate Communications, and a Head of Library. Selections for Directors of Finance and of IT/IS were under way at the end of the review period.

Representivity was a supplementary criterion to performance in the retrenchment procedure, and remains an important consideration during the recruitment. As a result, there has been further progress in transforming the demographic profile of the organisation with respect to race and gender.

Over the last three financial years, ending in March 2002, the percentage of black members of staff in the overall complement of the HSRC had increased from 40% through 47% to 52%. By contrast, the HSRC previously had a strong preponderance of women, so that the percentage of women decreased, from 59% to 54%.

Among researchers, over the reporting year the percentage of blacks improved from 40% to 45%, and among administrative staff from 49% to 58%.

The percentage increments were greater at senior levels, with advantage being taken of the vacancies created during the administrative restructuring, and with the emphasis on recruiting mainly seniors in the researcher expansion. Thus, over

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the reporting year, among administrative staff of Assistant Director and above, the percentage of black staff rose from 26% to 38%; and among researchers of Specialist and above, the percentage rose from 29% to 39%.

At senior levels the improvements for women have been more uneven. Thus, women increased their share from 57% to 62% among senior administrative staff. Among senior researchers the increment was greater, from 18% to 33%, but off a lower base. The latter stratum needs specific attention.

The proportions of black staff per employment level are shown in Figure 3, for the current and previous reporting period. The proportion has improved at every level, and by around half in senior levels (5 and above, i.e. Assistant Director or Specialist Researcher and above). Even so, there is room for further improvement at senior levels in future years.

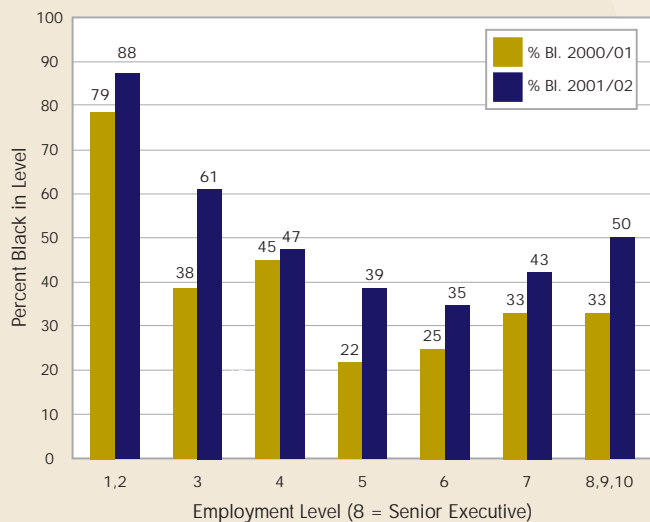


Figure 3: Black employees in employment levels, 2000/01 vs 2001/02

The proportions of female staff per employment level are shown in Figure 4, for the 2000/01 and 2001/02 years. The most noticeable increase is at the upper employment levels, but off a low base, so there is room for further improvement.

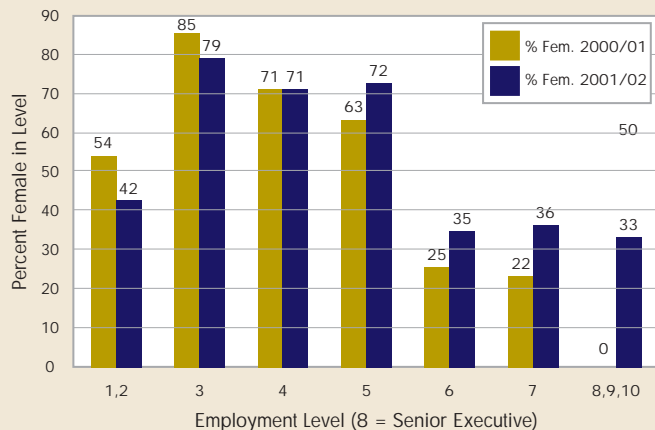


Figure 4: Female employees in employment levels, 2000/01 vs 2001/02

Disabled people comprise 1% of the staff, which is half the target for government departments. The aim is to improve this proportion in recruiting for the remaining vacancies.



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Among researchers, there have been noteworthy improvements in the proportions of blacks with Masters or PhD degrees, and of whites with PhDs, as shown in the upper portions of the bars in Figure 5.

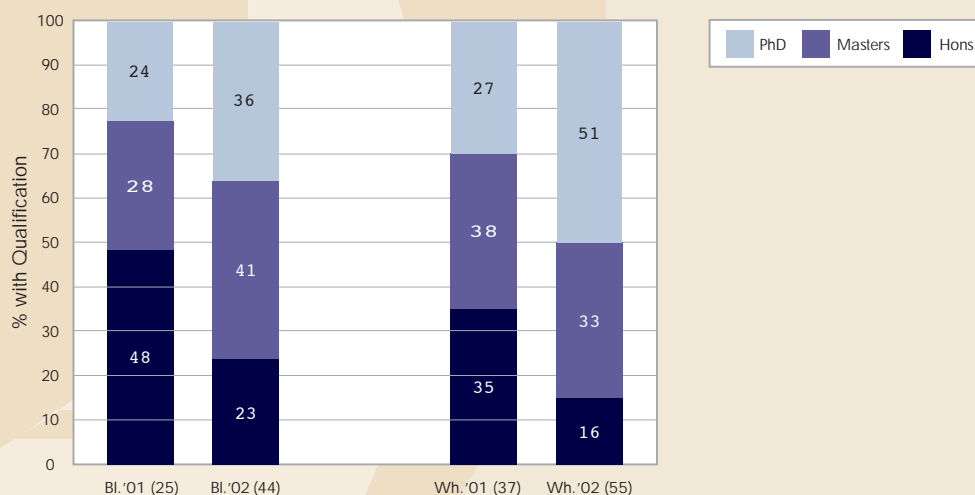


Figure 5: Proportions of researchers with Masters and Doctorates

For all new appointments, a new smoothed salary scale was applied with corresponding ranges for all the ranks of administrative and research staff. Following negotiations with the Staff Union, the entire scale was raised 7% at mid-2001 to adjust for inflation. Prior to midyear, performance appraisals were again conducted. Some 70% 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.

As an interim measure, new staff were placed on terms and conditions defined by the Basic Conditions of Employment Act, pending a review of the terms and conditions. Management drafted a revised set of conditions for discussion, but the review was temporarily suspended while the Staff Union amalgamated with the Public Servants Association, and the latter opened negotiations with management for a recognition agreement to give them collective bargaining rights.

During the retrenchments described in section 3.2 the services of a counsellor and an industrial counselling agency were provided. The latter was retained to provide an Employee Assistance Programme on an ongoing basis, as had been requested by the Staff Union.

## 7. Strategic risk assessment

On the recommendation of its Audit Committee, the HSRC undertook a risk assessment during 2001/02, in collaboration with an external partner. The purpose was to profile the key risk areas within the HSRC's activities during its transformation, that might prevent the HSRC from attaining the desired performance against its strategic objectives.

The outcomes of the risk assessment were presented in two parts: An overall Risk Assessment report, and a Control Culture Profile report. The latter summarised the findings of a workshop with key HSRC functionaries, where perceptions of the "control environment" of the organisation were assessed. The former was based on an analysis of specific processes and functions within the HSRC structure and included in-depth interviews with responsible officials. The report listed and ranked risks for which an effective control needed to be in place. It was pointed out that the identification of a risk did not mean that there was such a problem in the organisation, but rather that there needed to be an effective control in place to avert or to manage such a potential risk.

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Findings and recommendations based on the risk assessment were presented in February 2002 to the Audit Committee, and to a meeting of the HSRC Council where Executive Directors were also present. On this basis, a risk management plan was drawn up, and a three-year Internal Audit Coverage plan outlined.

The initial risk assessment took place at a time when the new HSRC was still transforming. Council approved, on the recommendation of the Audit Committee, that the risk assessment would be updated annually.

## 8. Major events between the year end and the date of this report

- On the research side, a master sample of 1000 enumerator areas drawn from the 2001 census was identified and mapped by aerial photography with the assistance of a contractor. The costs were covered in roughly equal measure by a grant of R2m from the Swiss Development Co-operation and from the surplus mentioned in section 5. The master sample allows up to 10 000 households to be identified for repeat-visit surveys, greatly increasing the capacity available to all NPAs for accurately monitoring the impact of development.
- On the Corporate Services side, planning was initiated for the re-engineering of business processes in Finance, HR and IT, and for the subsequent updating and integrating of the associated computer systems. Similar planning was started for project-management and time-billing systems to assist the management of research projects.
- The appointment process was continued for the remaining two directors in Corporate Services, namely IT/IS and Finance. Several appointments of senior research staff were made in each of the newest research NPAs.
- The HSRC presence in Pretoria, Cape Town, and Durban was complemented with new, smaller offices in Bloemfontein and Port Elizabeth. The five centres are well-placed for researchers in the major metropolitan areas, and also for the nationwide supervision of fieldwork in the master sample. Communication among the centres was established by the installation of video-conferencing facilities.
- An action plan to address recommendations from the risk analysis was envisaged by August, in areas including the organisational culture of monitoring and reporting, the plan for internal audit, and the efficiency of research processes.
- Planning began for the second five-yearly external evaluation of the HSRC, as member of the National System of Innovation. National and international experts will form a panel that will review the HSRC's activities, systems, outputs, impact, and relationships in comparison with the first review in 1997, and make corresponding recommendations.

## 9. Achievement of performance targets

As outlined in previous sections, the year under review saw the HSRC continuing its rapid transformation. Despite the strain placed on human and infrastructural resources, the organisation steadily progressed under the "COUPE" strategy.

For the second consecutive year, the HSRC fulfilled its budgeted external income targets. The 2001/02 target for contract earnings was achieved, representing a 75% increase on the contract income in 2000/01, and almost five times the contract income in 1999/2000. Research earnings per head increased from R83 500 per head in 2000/01 to R147 000 per head in 2001/02.

The CEO of the HSRC committed himself to report regularly, in the Annual Report, on half a dozen quantitative items that would summarise progress and performance on the COUPE strategy. In addition to these measures, the HSRC selected a number of quantitative and qualitative measures to monitor its performance in relation to a "balanced scorecard" of Key Performance Indicators (KPIs) that had been developed by DACST.

Table 6 reflects the quantitative measures included in the HSRC's KPI reporting framework as business goals. The qualitative measures will be added in the requisite 2002 report to DACST.

Targets were set in the 2001 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 the table.

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Table 6: Performance targets

Strategic objective	Key performance indicator	Target 2001/02	Performance 2001/02	Past performance 2000/01
<u>Contracts and earnings</u> <i>Increasing research earnings</i>	("Financial investment perspective")			
1.	Achievement of income target: Total income	R102,5m	R101,2m	R89,8m
2.	Achievement of income target: External research income	R28m	R28,158m	R16,45m
3.	Dependency ratio: External research earnings as a percentage of total research earnings (parliamentary grant plus external research earnings)	31%	31%	21%
4.	Known successful proportion of total competitive tender/funding applications submitted, at May	29%	32%	24%
5.	Variance in budgeted expenditure: Surplus or deficit for year, as % of turnover	10%	9%	23%
<u>Outreach</u> <i>Assertive outreach to universities and NGOs, locally and internationally</i>	("Stakeholder perspective")			
6.	% of research projects with external researcher participation	26%	61%	22%
<u>User needs:</u> <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%	56%
8.	Free media coverage	R7m	R1,2m	R6,9m
<u>Performance - equity:</u>	("HR and transformation perspective")			
9.	% black staff: overall		52%	47%
10.	% black research staff	47%	45%	40%
11.	% female		54%	59%
<u>Performance - efficiency:</u>	("Financial perspective" and "Organisational perspective")			
12.	Share of parliamentary allocation spent on research	66%	40%	56%
13.	Productivity of HSRC investment in its employees: External research earnings per head (permanent staff)	R131 000	R146 656	R83 503
14.	Share of total turnover spent on admin		35%	New measure
15.	Proportion of researchers in total staff	50%	52%	30%
<u>Excellence:</u> <i>Achieving excellence in research</i>	("Organisational perspective" and "Innovation and learning perspective")			
16.	Human capital: Proportion of researchers with M and D degrees	75%	82%	64%
17.	Number of books, journal articles, reports (per researcher head)	2,25	1,85	2,1
18.	Number of refereed journal articles per head		0.1	0.07
19.	Number of refereed journal articles per researcher head	0,4	0,25	0,23
20.	Permanent staff receiving study bursaries, as percentage of all staff		8,3%	New measure

# Balance Sheet

at 31 March 2002

	Notes	2002 R'000	2001 R'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1	39,385	38,629
Investment property	2	6,850	0
		<b>46,235</b>	<b>38,629</b>
<b>Current assets</b>			
Inventories	3	1,172	1,532
Trade and other receivables	4	13,570	8,668
Cash and cash equivalents	5	34,334	24,907
		<b>49,076</b>	<b>35,107</b>
<b>Total assets</b>		<b>95,311</b>	<b>73,736</b>
<b>Funds and liabilities</b>			
<b>Funds</b>			
Income funds		24,346	15,268
Capital funds		42,059	37,581
Deferred income	6	4,826	1,047
		<b>71,231</b>	<b>53,896</b>
<b>Current liabilities</b>			
Trade and other payables		18,891	10,487
Provisions	7	5,189	9,353
		<b>24,080</b>	<b>19,840</b>
<b>Total funds and liabilities</b>		<b>95,311</b>	<b>73,736</b>

# Income Statement

for the year ended 31 March 2002

	Notes	2002 R'000	2001 R'000
<b>Revenue</b>		101,203	89,813
Research and related income		26,778	21,781
Government grant		56,713	61,921
Special government grant		5,000	0
Other operating expenses		12,712	6,111
<b>Less expenses</b>		(92,125)	(69,332)
Employee cost		(37,929)	(42,318)
Depreciation		(2,037)	(1,215)
Other operating expenses		(52,159)	(25,799)
<b>Net surplus for the year</b>	8	9,078	20,481

# Statement of Changes in Equity

for the year ended 31 March 2002

R'000	Income Funds			Capital Funds	Deferred Income	Total
	Surplus Funds	Own Risk Insurance Fund	General Reserve			
Balance at 31 March 2000	(5,613)	400		66,937	1,516	63,240
Allocated to income during the year					(1,235)	(1,235)
Net surplus for the year	20,481					20,481
Revaluation of land and buildings				(29,356)		(29,356)
Portion of parliamentary grant utilised to acquire depreciable fixed assets for the year					766	766
Balance at 31 March 2001	14,868	400	0	37,581	1,047	53,896
Allocated to income during the year					(1,370)	(1,370)
Net surplus for the year	9,078					9,078
Revaluation of land and buildings				4,478		4,478
Portion of parliamentary grant utilised to acquire depreciable fixed assets for the year					5,149	5,149
Allocated from income to reserve for working capital during the year	(18,000)		18,000			
Balance at 31 March 2002	5,946	400	18,000	42,059	4,826	71,231

# Cash Flow Statement

for the year ended 31 March 2002

	Notes	2002 R'000	2001 R'000
<b>Cash flows from operating activities</b>			
Cash receipts from grants		61,713	61,921
Cash receipts from customers		35,493	21,342
Cash paid to suppliers and employees		(85,488)	(67,166)
Cash generated by operating activities	13	11,718	16,097
Interest received		2,816	2,282
<b>Net cash inflow from operating activities</b>		14,534	18,379
<b>Net cash outflows from investing activities</b>		(5,107)	2,601
Additions to equipment		(5,200)	(766)
- motor vehicles		(51)	0
- office furniture		(485)	(5)
- computer and other equipment		(4,627)	(734)
- library books		(37)	(27)
Proceeds from the sale of property, plant and equipment		93	195
Proceeds from withdrawal of investment		0	3,172
<b>Net increase in cash and cash equivalents</b>		9,427	20,980
<b>Cash and cash equivalents at beginning of year</b>	5	24,907	3,927
<b>Cash and cash equivalents at end of year</b>	5	34,334	24,907



# Summary of Accounting Policies

*for the year ended 31 March 2002*

## Basis of presentation

The 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 of work carried out in relation to the total 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

Parliamentary grants in respect of depreciable assets (excluding land and buildings and motor vehicles) 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 off during the year is also allocated to income in the period in which it is disposed off. The balance of the parliamentary grant not recognised in the income statement is disclosed as deferred income. Other funds are utilised in respect of the acquisition of motor vehicles.

### 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.

### Change in accounting estimate

The owner-occupied property will be depreciated at 2% per annum. Previously this property was not depreciated.

### 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 2002 (continued)

## Equipment

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

All other equipment are 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%

## 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 risks 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 is 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 off during the year is allocated to income in the period in which it is disposed off. The balance of parliamentary grants not recognised in the income statement is disclosed as deferred income.

# *Summary of Accounting Policies*

*for the year ended 31 March 2002*

## **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 provides for post-retirement medical aid benefits to eligible employees and pensioners. Past service cost and current service costs are, where appropriate, actuarially calculated every three years and are recognised as a staff expenditure.

## **Capital funds**

A parliamentary grant in respect of non-depreciable assets are allocated to income when they are 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.

## **Provisions**

Provisions are raised when a present legal or constructive obligation exist 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.

# Notes to the Annual Financial Statements

for the year ended 31 March 2002

## 1. Property, plant and equipment

<u>2002</u>	Total	Land and buildings	Artwork	Motor vehicles	Office furniture	Computer and other equipment	Library books and manuscripts
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Opening net carrying amount	38,629	37,372	209	0	37	962	49
Gross carrying amount	58,220	37,372	209	142	2,399	13,416	4,682
Accumulated depreciation	(19,591)	0	0	(142)	(2,362)	(12,454)	(4,633)
Additions	5,200	0	0	51	485	4,627	37
Transferred to investment property	(2,372)	(2,372)	0	0	0	0	0
Disposals and adjustments	(35)	0	0	0	0	(35)	0
Carrying amount	(731)	0	0	0	10	(739)	(2)
Accumulated depreciation	696	0	0	0	(10)	704	2
Depreciation	(2,037)	(700)	0	(2)	(70)	(1,246)	(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>67</b>
Gross carrying amount	60,317	35,000	209	193	2,894	17,304	4,717
Accumulated depreciation	(20,932)	(700)	0	(144)	(2,442)	(12,996)	(4,650)

<u>2001</u>	Total	Land and buildings	Artwork	Motor vehicles	Office furniture	Computer and other equipment	Library books and manuscripts
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Opening net carrying amount	68,454	66,728	209	13	57	1,387	60
Gross carrying amount	87,392	66,728	209	253	2,491	13,056	4,655
Accumulated depreciation	(18,938)	0	0	(240)	(2,434)	(11,669)	(4,595)
Additions	766	0	0	0	5	734	27
Revaluation of buildings	(29,356)	(29,356)	0	0	0	0	0
Disposals and adjustments	(20)	0	0	(9)	0	(11)	0
Carrying amount	(582)	0	0	(111)	(97)	(374)	0
Accumulated depreciation	562	0	0	102	97	363	0
Depreciation	(1,215)	0	0	(4)	(25)	(1,148)	(38)
<b>Closing 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>49</b>
Gross carrying amount	58,220	37,372	209	142	2,399	13,416	4,682
Accumulated depreciation	(19,591)	0	0	(142)	(2,362)	(12,454)	(4,633)

### 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 2002

	2002 R'000	2001 R'000
<b>2. Investment property</b>		
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.		
A valuation was carried out by an independent external valuator, Fenwick Valuations, 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 R6,850 million.		
Transferred from property, plant and equipment	2,372	0
Fair value adjustment gain	4,478	0
Closing balance at fair value	<u>6,850</u>	<u>0</u>
<b>3. Inventories</b>		
Merchandise (Reading Aid, Test Sales, Publications)	1,172	1,487
Consumables	0	45
	<u>1,172</u>	<u>1,532</u>
<b>4. Trade and other receivables</b>		
Trade debtors	11,882	8,668
South African Revenue Service (VAT)	1,688	0
	<u>13,570</u>	<u>8,668</u>
<b>5. Cash and cash equivalents</b>		
Bank balances	8,516	23,519
Notice deposits	25,343	0
Cash on hand and immediately claimable funds	475	1,388
	<u>34,334</u>	<u>24,907</u>
<b>6. Deferred income</b>		
Government grants received, to be recognised in future accounting periods:		
Balance at beginning of the year	1,047	1,516
Portion of grant used for depreciable assets	5,149	766
	<u>6,196</u>	<u>2,282</u>
Less: Allocated to income statement		
Portion of grant used for depreciable assets	(1,370)	(1,235)
	<u>4,826</u>	<u>1,047</u>

# Notes to the Annual Financial Statements

for the year ended 31 March 2002

## 7. Provisions

### Provision - Redundant stock at year end

Balance at the beginning of year

Additional provision during the year

### Provision - Staff leave and bonuses at year end

Balance at the beginning of year

Additional provision during the year

Utilised during the year

### Provision - Severance packages

Balance at the beginning of year

Additional provision during the year

Utilised during the year

### Provision - Legal and retrenchment cost

Balance at the beginning of year

Additional provision during the year

2002

R'000

2001

R'000

	751	0
	0	0
	751	0
	3,033	3,058
	3,058	2,872
	0	186
	(25)	0
	144	6,295
	6,295	9,282
	144	0
	(6,295)	(2,987)
	1,261	0
	0	0
	1,261	0
	5,189	9,353

The provision for redundant stock was created in respect of the restructuring process of the Inventory Department. The restructuring will be completed during the 2002/03 financial year.

## 8. Net surplus for the year

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

### Research and related income

Research income

Commercial services

	23,158	16,453
	3,620	5,328
	<u>26,778</u>	<u>21,781</u>

### Government grants

Parliamentary grant

Special parliamentary grant

	56,712	61,921
	5,000	0
	<u>61,712</u>	<u>61,921</u>

### Other income

Sundry income

Bad debts received

Sundry income

Investment income

Rent received

Profit from sales

Property, plant and equipment

Inventories

	1,236	590
	0	2
	1,236	588
	2,816	2,282
	6,986	3,063
	1,674	176
	58	174
	1,616	2
	<u>12,712</u>	<u>6,111</u>

# Notes to the Annual Financial Statements

for the year ended 31 March 2002

	2002 R'000	2001 R'000
<b>8. Net surplus for the year (continued)</b>		
<b>Audit fees</b>		
Current year provision	336	354
Previous year under/(over) provision	404	(144)
	<u>740</u>	<u>210</u>
<b>Depreciation of property, plant and equipment</b>		
Motor vehicles	2	4
Office furniture	70	25
Computer and other equipment	1,246	1,148
Land and buildings	700	0
Library books and manuscripts	19	38
	<u>2,037</u>	<u>1,215</u>
<b>Employee cost</b>		
Staff cost	33,553	32,179
Retirement benefit cost	3,498	3,678
Defined contribution plan	3,374	3,529
Defined benefit plan	124	149
Post-retirement medical benefit	878	1,291
Severance packages	0	5,170
Overprovision in previous year	(144)	(942)
Previous year provision	(6,294)	(9,382)
Payments on previous year provision	6,150	8,440
AIPF provision	0	612
AIPF payment	0	12
AIPF provision on payment due	0	600
Provision for retrenchments 2002	144	5,500
	<u>37,929</u>	<u>42,318</u>
Council Members and Executive Directors remuneration form part of the employee cost:		
<b>Council Members and Executive Directors Remuneration</b>	<u>2,700</u>	<u>2,572</u>
Council Members	51	20
Executive Directors	2,649	2,552
Basic salary	904	1,437
Bonuses	402	194
Medical aid	119	73
Expense allowances	651	544
Pension fund	573	304
<b>Professional and consultancy fees</b>	<u>652</u>	<u>268</u>

## 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 receivable is currently R41 029 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.



# Notes to the Annual Financial Statements

for the year ended 31 March 2002

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

Future minimum lease payments

Up to 1 year		1 to 5 years	
2002	2001	2002	2001
R	R	R	R
533,376	484,885	686,003	1,219,375

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 R239, 439 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.

Future minimum lease payments

Up to 1 year		1 to 5 years	
2002	2001	2002	2001
R	R	R	R
2,855,535	2,438,733	10,313,449	13,168,983

### 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 1997. The lease payment is currently R152, 770 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. The lease agreement was renewed for another 5 years during the year.

Future minimum lease payments

Up to 1 year		1 to 5 years	
2002	2001	2002	2001
R	R	R	R
1,948,217	672,187	2,016,564	672,187

Investment property

	2002	2001
	R'000	R'000
Rental income	1,948	0
Direct operating expenses	<u>73,000</u>	<u>0</u>

(2001: None - The property was classified as an investment property during the current year)

## 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 is 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 fourth statutory actuarial valuation report of the HSRCPF was completed, effective from 1 October 2001. The Fund anniversary was changed from 1 September each year to 1 October 2001 and the first day of October in each

# Notes to the Annual Financial Statements

for the year ended 31 March 2002

subsequent year. At valuation date compared to the previous year there were 136 members in the HSRCPF, consisting of 128 defined contribution members and 8 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.

For the purpose of the valuation, the assets in respect of the defined contribution members (128 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 R25,895 million.

With regard to the pensioners and the members entitled to defined benefits under the HSRCPF (8 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 valuation date for comparison with the available assets of the HSRCPF. The assumptions used in this valuation differs 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 valuation date amounted to R1,491 million.

The accrued liability of the 5 members with paid-up benefits in the HSRCPF as at valuation date amounted to R0,224 million. The accrued liability of the 2 members receiving current pensions in the HSRCPF as at valuation date amounted to R0,182 million.

The actuary concluded that the current composition of the investments of the HSRC could be considered reasonable for the purpose of matching its liabilities and certified, that in his opinion, the HSRCPF at that point in time was in a financially sound condition. The results of the valuation showed a surplus of approximately R2,855 million which represents a funding level of 112,4% and a shortfall of 6,7% in respect of future service of members entitled to defined benefits. The actuarial valuation was submitted to the Registrar of Pension Funds.

## 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 R22,2 million. 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.

# Notes to the Annual Financial Statements

for the year ended 31 March 2002

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, contributes a monthly 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 2002 was R7 078 585,53. The next actuarial valuation will be performed on 1 September 2003.

## 11. Uncovered foreign currency monetary items

At 31 March 2002 the HSRC had the following foreign exchange currency transaction not covered by forward exchange contracts.

Euro '000	US Dollar '000
98	43

## 12. Contingent liabilities

### Litigations & claims

At 31 March 2002 there were pending labour-related cases between the HSRC and retrenched employees. The most recent estimate indicated that claims amounting to R2,089m have been instituted against the Council by retrenched employees. The Council is of the opinion that no liability will be incurred in this respect.

### Pension fund

The actuarial valuation revealed a shortfall in the defined benefit plan of the HSRC Pension Fund. The amount of the shortfall is currently unknown. (Refer to note 9.)

# Notes to the Annual Financial Statements

for the year ended 31 March 2002

## 13. Reconciliation of net surplus to cash generated from operations

	2002 R'000	2001 R'000
<b>Cash flows from operating activities</b>		
Net surplus	9,078	20,481
Adjustments for provisions	(4,164)	—
Deferred income	3,779	(469)
Depreciation	2,037	1,215
Profit on sale of property, plant and equipment	(58)	(176)
Interest on investment	(2,816)	(2,282)
<b>Operating surplus before operating capital changes</b>	<b>7,856</b>	<b>18,769</b>
<b>Working capital changes</b>	<b>3,862</b>	<b>(2,672)</b>
Decrease / (Increase) in inventories	360	(221)
Increase in trade and other receivables	(4,902)	(3,623)
Increase in trade payables	8,404	1,172
	<b>11,718</b>	<b>16,097</b>

## 14. Change in accounting estimate

During the year the Council of the HSRC decided to depreciate the freehold land and building (owner-occupied property) at 2% over the useful life of the building.

	2002 R'000	2001 R'000
<b>Opening net carrying amount</b>	<b>37,372</b>	<b>66,728</b>
Gross carrying amount	37,372	66,728
Accumulated depreciation	0	0
Revaluation of buildings	0	(29,356)
Transfer to investment property	(2,372)	0
Depreciation	(700)	0
Original	0	0
Change in estimate	(700)	0
<b>Closing net carrying amount</b>	<b>34,300</b>	<b>37,372</b>
<b>Gross carrying amount</b>	<b>35,000</b>	<b>37,372</b>
Accumulated depreciation	(700)	0

# Notes to the Annual Financial Statements

for the year ended 31 March 2002

## 15. 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 3-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.

## 16. Capital expenditure

	2002 R'000	2001 R'000
Approved by management, but not yet contracted:	3,727	0
The capital expenditure is to be financed as follows:		
Internally generated funds	3,727	0

# Report of the Audit Committee

## of the Human Sciences Research Council (HSRC)

This report has been prepared according to the Treasury Regulations for public entities issued in terms of the *Public Finance Management Act, 1999* and promulgated in Gazette 22219 on 9 April 2001. 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 22 November 2001.

The Committee currently consists of Messrs S.A.H. Kajee (specialist member and Chairperson), R.J. Page-Shipp (specialist member), Ms P.N. 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 a Council member on the Committee.

During the year under review (2001/02) the Audit Committee met on 10 May 2001 and 14 February 2002. Persons in attendance at Committee meetings regularly include the Senior Internal Auditor, the Chief Financial Officer and representatives of the Office of the Auditor-General.

The Committee has reviewed the HSRC's annual financial statements for 2001/02 audited by the Office of the Auditor-General and is satisfied that these statements are reasonable and accurate.

The Committee has also reviewed the reports of the Office of the Auditor-General and the Internal Audit department, as well as the risk assessment undertaken by management. In the context of our understanding of the risks facing the entity, the Committee is satisfied that the internal controls managing the major financial risks are effective. In addition, a risk management plan to address identified risks is in the process of being drawn up by management and the issues highlighted in the Auditor-General's Report are being addressed at the date of this report. This committee will continue to monitor progress on these matters.



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

Pretoria  
31 July 2002