



THE SOUTH AFRICAN
MEDICAL RESEARCH COUNCIL
Annual financial statements
FOR THE YEAR ENDED 31 MARCH 2011

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the South African Medical Research Council (public entity), which comprise the statement of financial position as at 31 March 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 132 to 175.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the South African Medical Research Council Act, 1991 (Act No. 58 of 1991), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), section 14(2) of the South African Medical Research Council Act, 1991 (Act No. 58 of 1991) and section 40(2) of the PFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the South African Medical Research Council as at 31 March 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Additional matter

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

Unaudited supplementary schedules

9. The public entity provided supplementary information in the financial statements on whether resources were obtained and used according to the legally adopted budget, in accordance with GRAP 1, *Presentation of financial statements*. The supplementary budget information as set out on page 174 does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 117 to 123 and material non-compliance with laws and regulations applicable to the public entity.

Predetermined objectives

Usefulness of information

11. The following criteria were used to assess usefulness:
- Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time-bound.
 - Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets.
 - Consistency: Objectives, indicators and targets are consistent between planning and reporting documents.
12. The following audit findings relate to the above criteria:
- For the selected objectives, 44% of the planned and reported targets are not specific in clearly identifying the nature and the required level of performance.
 - For the selected objectives, 86% of the planned and reported targets were not time-bound in clearly identifying the time period or deadline for delivery.
 - The indicator/measure and targets as per the annual performance plan did not relate directly in 100% of instances to the institution's strategic goals and objectives as per the three-year strategic plan.

Compliance with laws and regulations

Strategic planning and performance management

13. The following audit findings relate to non compliance with strategic planning and performance management:
- The accounting authority did not submit the proposed strategic plan to the executive authority for approval at least six months before the start of the financial year of the designated department, as required by Treasury Regulation 30.1.1.
 - The accounting authority did not finalise and submit a strategic plan to the relevant executive authority on or before 1 April, as required by Treasury Regulations 30.1.1 and 30.1.2.
 - The executive authority of the public entity did not approve the strategic plan submitted late by the accounting authority, as required by Treasury Regulation 30.1.1.
 - The accounting authority prepared a strategic plan that did not include the key performance measures and indicators for assessing the public entity's performance in delivering the desired outcomes and objectives as required by Treasury Regulation 30.1.3(d).
 - The accounting authority did not report for two quarters of the year on the progress made in achieving measurable objectives and targets, as required by Treasury Regulation 30.2.1. Furthermore, the other quarterly reports were not submitted in time as required by regulation.
 - The accounting authority did not establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action, as required by Treasury Regulation 30.2.1.

Annual financial statements, performance and annual report

14. The accounting authority submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally recognised accounting practice as required by section 55(1)(b) of the PFMA. The material misstatements identified by the AGSA with regards to irregular expenditure and disclosure of related parties, post retirement benefits, prior period errors, trade and other receivables and reclassifications of comparative figures were subsequently corrected.
15. The annual report was not prepared with the strategic plan as its basis as per the requirements of Treasury Regulation 30.1.3(g).

Procurement and contract management

16. The following audit findings relate to non compliance with procurement and contract management:
 - Goods and services with a transaction value of over R500 000 were not procured by means of a competitive bidding process as per the requirements of Treasury Notes 16A6.1, Treasury Notes 16A6.4 and National Treasury Practice Notes 6 and 8 of 2007–08.
 - The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000).
 - Awards were made to suppliers who failed to provide written proof from the South African Revenue Service that their tax matters are in order as per the requirements of Preferential Procurement Regulation 16 and Treasury Regulation 16A9.1(d).
 - A list of prospective suppliers was not in place for procuring goods and services through quotations as required of National Treasury Practice Note 8 of 2007-08.
 - The prospective suppliers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing and prospective suppliers were not invited to apply for such listing at least once a year as per the requirements of National Treasury Practice Note 8 of 2007-08.

Expenditure management

17. The accounting authority did not take effective and appropriate steps to prevent irregular expenditure, as per the requirements of section 51(1)(b) of the PFMA.
18. The accounting authority did not take effective and appropriate steps to prevent fruitless and wasteful expenditure as per the requirements of section 51(1)(b) of the PFMA.

INTERNAL CONTROL

19. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Predetermined objectives

Leadership

20. The leadership did not exercise sufficient oversight responsibility regarding performance reporting and related internal controls. Performance objectives, indicators and targets were not approved by the relevant executive authority.

Performance management

21. Management did not implement proper record keeping ensuring that complete, relevant and accurate information is accessible and available to support reporting against predetermined objectives thus resulting in performance not being valid, accurate and complete. The entity also did not have adequate procedures for collecting and collating data.

22. Management did not regularly review interim, quarterly and/or monthly reporting, as required by the PFMA.
23. Furthermore, management did not implement processes to monitor compliance with the National Treasury Framework for Managing Programme Performance Information.

Non-compliance with laws and regulations

Leadership

24. The leadership did not exercise sufficient oversight responsibility regarding compliance with the relevant laws and regulations, as well as related internal controls over supply chain management regulations. Furthermore, leadership did not develop an action plan in a timely manner to address internal control deficiencies and did not adequately monitor the implementation thereof. The requirement for compliance with laws and regulations, in particular supply chain management regulations, was also not communicated to those responsible for implementation.
25. The accounting authority did not exercise sufficient oversight to ensure that findings raised in prior years with regards to supply chain management shortcomings were adequately addressed in the management action plan, as the ending of the term of the previous board in October 2010 caused instability in the leadership structure. The implementation of actions to address internal control deficiencies could, therefore, not be monitored and, as a result, many of the prior years' audit findings regarding supply chain management recurred.

Financial management

26. Management did not adequately review and monitor compliance with all supply chain management regulations and treasury regulations. The existing officials lacked training and guidance in the area of managing compliance with laws and regulations.
27. Management did not design or implement controls to ensure that the procurement policy is in compliance with all SCM regulations and practice notes, due mainly to delays in the establishment of a separate SCM unit within the entity to effectively address all the shortcomings in the SCM processes. Management further did not transfer the current SCM function from the operations division to the finance division as required by Treasury Regulation 16A4.1 as they viewed this requirement as a recommendation and not a National Treasury prescript.

OTHER REPORTS

Investigation

28. An investigation was conducted by a funder on request of the administrators of the funds. The investigation was initiated based on the allegation of possible misappropriation of funds by certain employees. The investigation resulted in criminal proceedings being instituted against the affected employees.

Auditor - General

Cape Town
22 July 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

South African Medical Research Council

Annual financial statements for the year ended 31 March 2011

ACCOUNTING AUTHORITY'S RESPONSIBILITIES AND APPROVAL

The Accounting Authority is required by the Public Finance Management Act (Act No. 1 of 1999) to maintain adequate accounting records, and it is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Authority to ensure that the annual financial statements fairly represent the state of affairs of the entity as at the end of the financial year, and the results of its operations and cash flows for the period then ended. The external auditors were engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board. The annual financial statements are based upon appropriate accounting policies consistently applied, and supported by reasonable and prudent judgements and estimates.

New members of the Accounting Authority were appointed on 1 November 2011. The Accounting Authority has identified certain weaknesses, and is committed to ensuring good governance and compliance with all relevant legislation and regulations applicable to the South African Medical Research Council. The Accounting Authority acknowledges that it is ultimately responsible for the system of internal financial control established by the entity, and places considerable importance on maintaining a strong control environment. To enable the Accounting Authority to meet these responsibilities, the Accounting Authority sets standards for internal control aimed at reducing the risk of error or deficit in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances, is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Authority is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or deficit. The Accounting Authority has reviewed the entity's cash flow forecast for the year to 31 March 2011 and, in the light of this review and the current financial position, is satisfied that the entity has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and expressing an opinion on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on the following page.

The annual financial statements, which have been prepared on the going concern basis, were approved by the Accounting Authority on 22 July 2011 and were signed on its behalf by:



Prof. Mazwai
Chairperson of the Board
22 July 2011

Audit Committee report

We are pleased to present our report for the financial year ended 31 March 2011.

Audit Committee members and attendance: The Audit Committee consists of the members listed hereunder and it should meet four times per annum as per its approved terms of reference. A new audit committee was appointed in January 2011 by the newly appointed Board. The audit committee of the previous board had three meetings and the audit committee of the new board had one meeting.

Old Board (1 November 2007 to 31 October 2010)	Number of meeting attended
Dr Setai (Chairperson)	3
Prof. S Rataemane	3
Mr M Govindsamy	3
Mr B Nkosi	3
Ms S Hari	3
Adv. D Block	3

New Board (1 November 2010 to 31 October 2013)	Number of meeting attended
Dr P Hanekom (Chairperson)	1
Dr N Lidhovo	1
Prof. M Sathekge	1
Prof. K Moodley	1

The effectiveness of internal control: The audit committee appointed by the new Board met for the first time on 10 February 2011. The audit committee identified weaknesses, and is committed to ensuring good governance and full compliance with relevant legislation and regulations as well as improvement in internal controls and the quality of reporting. Notwithstanding this, the system of internal controls applied by the entity over financial and risk management is effective, efficient and transparent. In line with the PFMA and the King II Report on Corporate Governance requirements, internal audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the internal auditors, the Audit Report on the annual financial statements, and the management letter of the Auditor-General of South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective except for the significant matter highlighted in the audit and management report.

The quality of year-end management and quarterly reports submitted in terms of the PFMA: We are satisfied with the content and quality of quarterly reports prepared and issued by the management of the entity of the entity during the year under review.

Evaluation of annual financial statements: We have:

- reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General of South Africa
- reviewed the Auditor-General of South Africa's management letter and management's response thereto
- reviewed changes in accounting policies and practices
- reviewed the entities compliance with legal and regulatory provisions
- reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General of South Africa's report of the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit: We are satisfied that the internal audit function is operating effectively and that it has addressed the risks that are pertinent to the entity and its audits.

Auditor-General of South Africa: We have met with the Auditor-General of South Africa to ensure that there are no unresolved issues.



Chairperson of the Audit Committee

Dr Hanekom

17 August 2011

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

	Note(s)	2011 R	Restated 2010 R
ASSETS			
Current assets			
Inventories	8	124 557	307 700
Other financial assets	6	32 887 621	57 094 108
Trade and other receivables from exchange transactions	9	28 455 805	45 452 474
Cash and cash equivalents	10	410 336 417	370 371 851
		471 804 400	473 226 133
Non-current assets			
Biological assets	2	975 000	1 985 000
Property, plant and equipment	3	118 416 046	109 340 805
Intangible assets	4	4 330 777	1 100 685
Investments in controlled entities	5	2	2
Other financial assets	6	952 918	505 276
		124 674 743	112 931 768
		596 479 143	586 157 901
TOTAL ASSETS			
Liabilities			
Current liabilities			
Finance lease obligation	13	112 431	96 467
Trade and other payables from exchange transactions	16	53 518 694	40 655 098
VAT payable	17	1 121 745	520 595
Provisions	14	6 732 087	3 713 613
Deferred income	15	228 970 264	236 389 465
		290 455 221	281 375 238
Non-current liabilities			
Finance lease obligation	13	135 644	248 075
Retirement benefit obligation	7	1 080 000	1 345 000
Earmarked funds	10	999 344	1 004 875
		2 214 988	2 597 950
Total liabilities		292 670 209	283 973 188
Net assets		303 808 934	302 184 713
Net assets			
Reserves			
Fair value adjustment assets-available-for-sale reserve	11	1 858 370	1 550 309
Accumulated surplus	12	301 950 564	300 634 404
Total net assets		303 808 934	302 184 713

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2011 R	Restated 2010 R
Revenue		527 691 809	507 612 992
Other income		5 551 089	5 036 554
Operating expenses		(552 799 405)	(499 961 329)
Operating (deficit)/surplus	20	(19 556 507)	12 688 217
Investment revenue	23	20 973 749	28 285 770
Finance costs		(101 083)	(250 429)
Surplus for the year		1 316 159	40 723 558

STATEMENT OF CHANGES IN NET ASSETS

	Fair value adjustment assets-available-for- sale reserve R	Accumulated surplus R	Total net assets R
Balance at 01 April 2009	755 363	259 910 846	260 666 209
Changes in net assets			
Movement of fair value of investments	794 946	-	794 946
Net income recognised directly in net assets	794 946	-	794 946
Surplus for the year	-	40 723 558	40 723 558
Total recognised income and expenses for the year	794 946	40 723 558	41 518 504
Total changes	794 946	40 723 558	41 518 504
Opening balance as previously reported	1 550 309	300 986 390	302 536 699
Adjustments			
Prior year adjustments	-	(351 985)	(351 985)
Balance at 01 April 2010 as restated	1 550 309	300 634 405	302 184 714
Changes in net assets			
Movement of fair value of investments	308 061	-	308 061
Net income recognised directly in net assets	308 061	-	308 061
Surplus for the year	-	1 316 159	1 316 159
Total recognised income and expenses for the year	308 061	1 316 159	1 624 220
Total changes	308 061	1 316 159	1 624 220
Balance at 31 March 2011	1 858 370	301 950 564	303 808 934
Note(s)	11	12	

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

CASH FLOW STATEMENT

	Note(s)	2011 R	Restated 2010 R
Cash flows from operating activities			
Receipts			
Interest income		20 929 556	28 245 452
Dividends received		44 193	40 318
Other receipts		543 128 427	491 098 323
		<u>564 102 176</u>	<u>519 384 093</u>
Payments			
Suppliers		(522 500 008)	(494 237 413)
Finance costs		(101 083)	(250 429)
Post-retirement benefit obligation		(265 000)	(11 849 894)
		<u>(522 866 091)</u>	<u>(506 337 736)</u>
Net cash flows from operating activities	25	<u>41 236 085</u>	<u>13 046 357</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(21 877 763)	(21 304 800)
Proceeds from sale of property, plant and equipment	3	438 429	397 345
Purchase of other intangible assets	4	(3 571 070)	(86 375)
Movement in financial assets		23 758 845	(29 319 658)
Purchase of biological assets	2	(54 009)	(25 000)
Proceeds from sale of biological assets	2	136 047	42 024
Net cash flows from investing activities		<u>(1 169 521)</u>	<u>(50 296 464)</u>
Cash flows from financing activities			
Movement in earmarked funds		(5 531)	(103 659)
Finance lease payments		(96 467)	344 542
Net cash flows from financing activities		<u>(101 998)</u>	<u>240 883</u>
Net increase/(decrease) in cash and cash equivalents		39 964 566	(37 009 224)
Cash and cash equivalents at the beginning of the year		370 371 851	407 381 075
Cash and cash equivalents at the end of the year	10	<u>410 336 417</u>	<u>370 371 851</u>

ACCOUNTING POLICIES

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

Terminology changes have been made between the prior year financial statements and the current year financial statements. Listed below are the terminology changes.

2011 comparative	2010 financial statements
Other financial assets	Investments – current assets
Investments in controlled entity	Investments – non-current assets
Other financial assets	Loans and receivables
Finance lease obligation	Current portion of long term loans
Trade and other payables from exchange obligations	Trade and other payables
Finance lease obligation	Long-term loans
Retirement benefit obligation	Post-retirement benefits
Fair value adjustments assets-available-for-sale reserve	Market to market reserve

1.1 Property, plant and equipment

Property, plant and equipment are tangible, non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Subsequent costs of replacing part of an item of property, plant and equipment is recognised in the carrying amount if it is probable that the future economic benefits embodied within the part will flow to the Council and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of financial performance.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is depreciated on the straight-line basis over its expected useful life to its estimated residual value. The useful life of items of property, plant and equipment has been assessed as follows:

Item	Average useful life
Buildings	40–50 years
Vehicles and containers	5–10 years
Furniture and office equipment	3–15 years
Computer equipment	5–10 years
Air conditioners	10–15 years
Irrigation equipment	10–15 years
Signage	10–15 years
Usufruct buildings	Over life of usufruct
Prefabricated buildings	20–30 years
Laboratory equipment	10–30 years

The residual value, and the useful life and depreciation method of each asset are reviewed by management at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The useful lives of assets are based on management's estimation. The actual useful lives of the assets and residual values are assessed annually, and may vary depending on a number of factors. In re-assessing asset useful lives, factors, such as technology innovation product life cycles and maintenance programmes, are taken into account. The estimation of residual values of assets determines whether they will be sold or used to the end of their useful lives and what their condition will be like at that time. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Each part of an item of property, plant and equipment, with a cost that is significant in relation to the total cost of the item, is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset. Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is de-recognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets that the entity holds for rentals to others and subsequently routinely sells as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available for sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.2 Biological assets

Biological assets or agricultural produce are recognised when, and only when:

- the entity controls the asset as a result of past events
- it is probable that future economic benefits or service potential associated with the asset will flow to the entity
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value, less point-of-sale costs. Agricultural produce harvested from an entity's biological assets shall be measured at its fair value, less estimated point-of-sale costs at the point of harvest.

A gain or loss arising on initial recognition of biological assets at fair value, less estimated point-of-sale costs and from a change in fair value, less estimated point-of-sale costs of a biological asset is included in surplus or deficit for the period in which it arises.

Where fair value cannot be measured reliably, biological assets are measured at cost accumulated impairment losses.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity, and sold, transferred, licensed, rented or exchanged, either individually or together, with a related contract, assets or liability
- arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separate from the entity, or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets, amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Any change will be accounted for as a change in estimate.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Computer software	5–10 years

1.4 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

1.5 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit – designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, and which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments that are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses. Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, and which are measured at cost, less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period, the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

Amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments, are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit – is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset, at the date that the impairment is reversed, shall not exceed what the carrying amount would have been had the impairment not been recognised. If in a subsequent period, the amount of the impairment loss for financial assets decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognised in the statement of financial performance, to the extent that the carrying value does not exceed its amortised cost at the reversal date.

Financial instruments designated as available for sale

Investments in controlled entities accounted for as available-for-sale financial assets are stated at fair value. Changes in the fair value of investments are recognised directly in equity in the mark-to-market reserve. When the investments are disposed of, the related realised profit is released from equity to the income statement. Investments in associate companies are initially recognised at cost, and subsequent to that, at fair value.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less a provision for impairment. Where the effect of discounting is not material, trade and other receivables are measured at the original invoice amount. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue), are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash, and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit – held for trading.

Held to maturity

These financial assets are initially measured at fair value, plus direct transaction costs.

At subsequent reporting dates, these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and it is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the entity has the positive intention and ability to hold to maturity are classified as held to maturity.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

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

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1.7 Inventories

Inventory is stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis, and it includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

1.8 Employee benefits

Short-term employee benefits

The cost of short term employee benefits is recognised during the period in which the employee renders the related service. The provisions for employee entitlements to salary and annual leave represent the amount that the MRC has a present obligation to pay as a result of the employee's service provided to the reporting date.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans, the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

The amount recognised in the statement of financial position represents the movement in present value of the defined benefit obligation and the fair value of plan assets, after adjusting for contributions paid to the fund, as well as any unrecognised actuarial gains and losses and unrecognised past service costs.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Actuarial gains and losses are recognised in income in the period in which they arise.

Post-retirement medical aid obligations

The MRC provides post-retirement medical care benefits to some of its employees and their legitimate spouses. The entitlement to post-retirement benefits is based on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using the project unit credit method. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income in the period in which they occur.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The MRC recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

Long-term employee benefits

Contributions to a pension plan, in respect of service in a particular period, are included in the total cost of employment and are charged to the statement of financial performance in the year in which they relate as part of the cost of employment. The amount recognised in the surplus or deficit for the period under defined benefit plans represents the movement in the present value of the defined benefit obligation and the fair value of plan assets, after adjusting for contributions paid to the fund, as well as any unrecognised past service costs. Actuarial gains or losses are recognised in income in the period in which they occur.

1.9 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation as a result of a past event.
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be made to settle the obligation using the effective interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to a passage of time is recognised as finance charges.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement

is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition, contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision.
- the amount initially recognised, less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 27.

1.10 Revenue recognition

Revenue represents the parliamentary grant from the government as well as the external income.

Parliamentary grant

Government grants are recognised when it is probable that the future economic benefit will flow to the public entity and these benefits can be measured reliably. The grant is recognised to the extent that there are no further obligations arising from the receipt of the grant. Government grants are assistance by government in the form of transfer of resources in return for compliance with conditions related to operating activities. Grants that compensate the MRC for expenses incurred are recognised in the statement of financial performance in the same periods in which the expenses are recognised.

Revenue other than grants, donations and project revenue

Revenue is recognised on the accrual basis. Revenue is recognised when the significant risks and rewards of the ownership have been transferred.

Research revenue

Research revenue is revenue recognised only to the extent of research costs incurred and it is probable that they will be recoverable. Advance income received in respect of which no work has been done, is treated as deferred until such time the expenditure is incurred or the conditions of the grant/contract are met.

Rental income

Rental income from tenants is recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Investment income

Investment income is recognised as interest accrues in profit or loss, using the effective interest method.

Deferred revenue

Deferred income is recognised to the extent that expenses are incurred and that conditions of the grant are met.

1.11 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded, i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.12 Translation of foreign currencies

Foreign currency transactions

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such translations and from translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance.

1.13 VAT

The MRC accounts for VAT on the invoice basis.

1.14 Comparative figures

Where necessary, comparative figures have been reclassified in order to conform to changes in presentation in the current year.

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation, including:

- this Act
- the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act
- any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note No. 4 of 2008/2009, which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

- Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year-end and/or before finalisation of the financial statements will be disclosed in the notes to the financial statements.
- Irregular expenditure that was incurred and identified during the current financial year and which is waiting to be condoned at year-end will be disclosed in the notes to the financial statements.
- Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the disclosure note to the financial statements will be updated with the amount condoned.
- Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be disclosed in the notes to the financial statements. If liability for the irregular expenditure can be attributed to a person, a debt account will be created if such a person is liable in law. Immediate steps will be taken to recover the amount from the person concerned. If recovery is not possible, the accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements.

1.17 Earmarked funds

These funds represent monies that have been received for clearly defined purposes. The monies received have been allocated to a separate account. The monies are held separately from the cash balances of the entity.

1.18 Fair value adjustment assets-available-for-sale reserve

Investments are re-valued at year end, and unrealised gains/losses are allocated to the fair value adjustment assets-available-for-sale reserve and the investment. At the sale of the investment, the gain or loss is realised and is transferred to the statement of financial performance.

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated 2010
	R	R

2. BIOLOGICAL ASSETS

	2011			2010		
	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Bearer mature biological assets	975 000	-	975 000	1 985 000	-	1 985 000

Reconciliation of biological assets – 2011

	Opening balance	Increase due to purchases	Decreases attributable due to sales	Gains or losses arising from changes in fair value	Total
Bearer mature biological assets	1 985 000	54 009	(136 047)	(927 962)	975 000

Reconciliation of biological assets – 2010

	Opening balance	Increases due to purchases	Decreases attributable to sales	Gains or losses arising from changes in fair value	Total
Bearer mature biological assets	456 140	25 000	(42 024)	1 545 884	1 985 000

Methods and assumptions used in determining fair value

The MRC holds certain monkeys, baboons and horses for research purposes. All research activities are monitored and controlled to ensure humane treatment of animals.

Fair value, less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest	975 000	1 985 000
--	---------	-----------

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2011	Restated 2010
R	R

3. PROPERTY, PLANT AND EQUIPMENT

	2011			2010		
	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	69 540 194	(20 017 075)	49 523 119	67 373 382	(18 418 690)	48 954 692
Motor vehicles	21 667 502	(13 693 867)	7 973 635	21 488 331	(12 737 556)	8 750 775
Office equipment	24 899 684	(12 707 286)	12 192 398	22 826 886	(11 095 664)	11 731 222
IT equipment	45 508 558	(28 558 960)	16 949 598	38 781 118	(28 404 711)	10 376 407
Laboratory equipment	45 342 974	(13 565 678)	31 777 296	41 343 536	(11 815 827)	29 527 709
Total	206 958 912	(88 542 866)	118 416 046	191 813 253	(82 472 448)	109 340 805

Reconciliation of property, plant and equipment – 2011

	Opening balance	Additions	Disposals	Adjustment	Depreciation	Total
Buildings	48 954 692	2 166 813	-	-	(1 598 386)	49 523 119
Motor vehicles	8 750 775	1 564 736	(257 465)	-	(2 084 411)	7 973 635
Office equipment	11 731 222	2 574 501	(79 049)	-	(2 034 276)	12 192 398
IT equipment	10 376 407	11 116 479	(83 212)	-	(4 460 076)	16 949 598
Laboratory equipment	29 527 709	4 455 234	(160 389)	(6)	(2 045 252)	31 777 296
	109 340 805	21 877 763	(580 115)	(6)	(12 222 401)	118 416 046

Reconciliation of property, plant and equipment – 2010

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	45 858 125	1 554 276	(1 336)	1 543 627	48 954 692
Motor vehicles	10 371 693	4 267 619	(770 291)	(5 118 246)	8 750 775
Office equipment	6 862 665	5 872 560	(362 018)	(641 985)	11 731 222
IT equipment	10 500 748	3 929 403	(183 651)	(3 870 093)	10 376 407
Laboratory equipment	26 976 323	5 680 942	(566 426)	(2 563 130)	29 527 709
	100 569 554	21 304 800	(1 883 722)	(10 649 827)	109 340 805

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2011	Restated 2010
R	R

4. INTANGIBLE ASSETS

	2011			2010		
	Cost/ Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost/Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	5 157 791	(827 014)	4 330 777	1 586 721	(486 036)	1 100 685

Reconciliation of intangible assets – 2011

	Opening balance	Additions	Amortisation	Total
Computer software	1 100 685	3 571 070	(340 978)	4 330 777

Reconciliation of intangible assets – 2010

	Opening balance	Additions	Amortisation	Total
Computer software	1 165 064	86 375	(150 754)	1 100 685

5. INVESTMENTS IN CONTROLLED ENTITIES

Name of company	Held by	% holding 2011	% holding 2010	Carrying amount 2011	Carrying amount 2010
Medres (Pty) Ltd		100,00	100,00	1	1
Jirehsa Medical (Pty) Ltd	Medres (Pty) Ltd	25,00	25,00	1	1
				<u>2</u>	<u>2</u>

The carrying amounts of controlled entities are shown net of impairment losses.

The financial statements of Medres (Pty) Ltd and Jirehsa Medical (Pty) Ltd have not been consolidated with those of the MRC, because the companies are dormant and amounts are not material.

Controlled entities with less than 50% voting powers held

Although the entity holds less than 50% of the voting powers in Jirehsa (Pty) Limited, the investment is considered a controlled entity because MRC staff manage the entity.

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
6. OTHER FINANCIAL ASSETS		
Available-for-sale		
Listed shares	413 958	408 451
Sanlam demutualised shares – No. of shares 12 715 (2010: 12 715) and Old Mutual demutualised shares – No. of shares 4 210 (2009: 4 210)		
Sanlam unit trusts	2 827 259	2 479 150
SIM General Equity Fund – 14 220,73 units (2010: 14 006,67 units) and SIM Balanced Fund – 22 930,97 units (2010: 22 429,27 units)		
	3 241 217	2 887 601
Held to maturity		
Nedbank 12-month fixed deposit	-	27 072 603
The fixed deposit matured on 9 April 2010		
Absa 36-month fixed deposit	29 646 404	27 133 904
The fixed deposit will mature on 25 May 2012		
	29 646 404	54 206 507
Loans and receivables		
Tertiary Education and Research Network of SA (TENET)	952 918	505 276
The loan is unsecured and interest free. The loan is repaid in monthly instalments by debiting the CIR Bid account amounts due by the MRC to TENET, in respect of the INT-SEA service.		
Non-current assets		
Loans and receivables	952 918	505 276
Current assets		
Available-for-sale	3 241 217	2 887 601
Held to maturity	29 646 404	54 206 507
	32 887 621	57 094 108
	33 840 539	57 599 384

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2011	Restated 2010
R	R

6. OTHER FINANCIAL ASSETS (CONTINUED)

Fair value information

Financial assets at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts. The following classes of financial assets at fair value through surplus or deficit are measured to fair value using quoted market prices:

- Class 1: Listed shares
- Class 2: Unit trusts

Fair value information

Available-for-sale financial assets are recognised at fair value, unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost. Fair value information is not provided for these financial assets.

Fair value hierarchy of available-for-sale financial assets

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy, which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets that are measured using unadjusted quoted prices for identical assets.

Level 1

Class 1: Listed shares	413 958	408 451
Class 2: Unit trusts	2 827 259	2 479 150
	3 241 217	2 887 601

Fair value of held-to-maturity investments

Fixed deposits	29 646 404	54 206 507
----------------	------------	------------

The entity has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost, or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2011 and 2010, as all the financial assets were disposed of at their redemption date.

Fair values of loans and receivables

Loans and receivables	952 918	505 276
-----------------------	---------	---------

Loans and receivables are measured at cost.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2011

R

Restated

2010

R

7. EMPLOYEE BENEFIT OBLIGATIONS

Post-retirement benefits

Post-retirement medical aid plan

A few years, the MRC took a compulsory insurance policy in order to fund post-retirement medical obligations of its ex-employees. Given the nature of the policy, it is appropriate to treat this as a planned asset. Certain assets have been allocated specifically for the purpose of covering post-retirement medical aid defined benefit liability. The defined medical liability has been recognised and accounted for under the requirements of IAS 19 – Employee Benefits. The assets have been accounted for in terms of the requirements of the accounting standards to which they relate and not in terms of AC116, because the plan is not registered. The relevant assets are included in investments and cash balances.

Pension funds

MRC personnel are members of the following pension funds:

- Pension fund of associated institutions (Act No. 51 of 1963)
- Pension fund for temporary employees (Act no. 75 of 1979)
- MRC Pension fund (since January 1994)

(a) The first two funds were established by law and are regulated by the respective Acts.

(b) The last-named fund is regulated by the Pension Fund Act and is managed by an independent Board of Trustees. The fund was actuarially valued at 1 April 2008 and it was found that the fund had a surplus of R10 million. The next valuation for the fund is 1 April 2011.

(c) The first two funds offer defined benefits to staff. With regard to the MRC Pension Fund, however, some members are on a defined benefit scheme, while the remainder are on a defined contribution scheme.

Post-retirement medical aid plan

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation – wholly unfunded	(1 080 000)	(1 345 000)
Present value of the defined benefit obligation – partially or wholly funded	(18 277 000)	(16 623 000)
Fair value of planned assets	17,450,000	17,693,000
Limitation of liability/(asset)	827,000	(1,070,000)
Net liability	(1 080 000)	(1 345 000)

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
7. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)		
The fair value of planned assets includes:		
Changes in the present value of the defined benefit obligation are as follows:		
Opening liability	17 968 000	20 824 894
Benefits paid	(1 913 120)	(3 613 932)
Actuarial gain (loss)	3 030 000	(176 000)
Net expense recognised in the statement of financial performance	272 120	933 038
Closing balance	19 357 000	17 968 000
Net expense recognised in the statement of financial performance		
Current service cost	57 000	162 000
Interest cost	126 000	269 000
Actuarial loss	89 120	502 038
Total included in employee related costs	272 120	933 038

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,20%	9,00%
General increases to medical aid subsidy	7,30%	6,50%
Proportion continuing membership at retirement	100,00%	100,00%
Proportion of retiring members who are married	80,00%	80,00%
Retirement age for staff who joined prior to 1 May 1998	65	65
Retirement age for staff who joined after 1 May 1998	60	60

The basis used to determine the overall expected rate of return on assets, including the effect of the major categories of planned assets, is as follows.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	Restated 2010 R
7. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)		
Other assumptions		
Assumed health-care cost trend rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed health-care cost trends rates would have the following effects:		
	Impact on liability RM	% increase/ decrease
2011		
Assumptions as above	19 357	-
Discount rate – increases by 1% p.a.	17 703	(9)
Discount rate – decreases by 1% p.a.	21 306	10
Medical inflation – increases by 1% p.a.	21 208	10
Medical inflation – decreases by 1% p.a.	17 769	(8)
	20 428	6
2010		
Assumptions as above	21 235	
Discount rate – increases by 1% p.a.	19 343	(9)
Discount rate – decreases by 1% p.a.	23 468	11
Medical inflation – increases by 1% p.a.	23 371	10
Medical inflation – decreases by 1% p.a.	19 407	(9)
Retirement age – 60 for all ages	23 141	9
Pension funds:		
Defined benefit obligation – wholly funded		
Present value of obligation	(85 080 000)	(70 928 000)
Fair value of planned assets	99 324 000	85 981 000
Net asset	<u>(14 244 000)</u>	<u>(15 053 000)</u>
Net asset prior to limitation	(14 244 000)	(15 053 000)
Limitation of asset	<u>14 244 000</u>	<u>15 053 000</u>
	<u>-</u>	<u>-</u>
Reconciliation of defined benefit obligation		
Opening defined benefit obligation	70 928 000	61 065 000
Charges recognised in the income statement	17 371 000	13 635 000
Benefits paid	<u>(3 219 000)</u>	<u>(3 772 000)</u>
Closed defined benefit obligation	<u>85 080 000</u>	<u>70 928 000</u>

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
7. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)		
Reconciliation of planned assets		
Opening fair value of planned assets after limitation	85 981 000	50 688 000
Income recognised in the income statement	12 204 000	20 958 000
Contributions	4 358 000	18 107 000
Benefits paid	(3 219 000)	(3 772 000)
Closing fair value of planned assets	99 324 000	85 981 000
Staff costs include the following in respect of the defined benefit pension plan:		
Current service cost	5 015 000	4 486 000
Interest cost	6 606 000	5 466 000
Expected return on planned assets	(8 394 000)	(5 711 000)
Net actuarial loss/(gain) recognised in current year	1 940 000	(11 564 000)
Previous asset limitation	(5 167 000)	7 323 000
	-	-
The basis used to determine the overall expected rate of return on plan assets was the R186 Government Bond without adjustment for tax.		
The actual return on planned assets amounted to:	12 204 000	20 958 000
The principal actuarial assumptions used in determining the pension plan per annum were:		
General inflation rate	6,30%	5,70%
Discount rate	9,20%	9,20%
Expected investment return	10,30%	9,70 %
Salary inflation – percentage, plus merit increase	7,30%	6,70%
8. INVENTORIES		
Consumable stores	124 557	307 700
9. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Employee costs in advance	173 613	269 034
Prepaid expenses	1 421 917	1 253 495
Trade debtors	25 888 140	42 004 094
Travel and subsistence	972 135	1 925 851
	28 455 805	45 452 474

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2011	Restated 2010
R	R

9. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (CONTINUED)

The Executive Committee considers the carrying value of the trade and other receivables in order to approximate their fair values.

Trade and other receivables impaired

The amount of the provision was R2 809 000 as of 31 March 2011 (2010: R3 342 531).

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	19 282	12 678
Bank balances	410 317 135	370 359 173
	410 336 417	370 371 851

Guarantees to the value of R784 984 is covered by funds held at ABSA Bank (R35 000) and First National Bank (R749 984).

Analysis of bank balances

ABSA and Standard Bank	1 319 713	2 220 857
ABSA funders accounts	119 486 536	110 798 343
First National Bank	3 541 929	7 359 281
Cash at the Reserve Bank	285 968 957	249 980 692
	410 317 135	370 359 173

The cash at the Reserve Bank includes funds for the Botha Trust, Bruhns Trust, Melville Douglas Trust, rationalisation fund and motor vehicle reserve fund.

Rationalisation fund

Balance at beginning of year	200 946	1 899 524
Transfer to rationalisation fund	-	500 000
Rationalisation payments	(102 085)	(2 198 578)
	98 861	200 946

The fund was instituted in terms of the regulations regarding the framework autonomy and provides for the expenditure associated with the institutional restructuring or rationalisation.

The motor vehicle reserve fund was established to provide self-insurance of motor vehicles with a low market value.

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
10. CASH AND CASH EQUIVALENTS (CONTINUED)		
Motor vehicle reserve fund		
Balance at beginning of year	1 705 006	1 580 928
Allocation for the year	338 896	330 326
Expenditure	(401 778)	(206 248)
	<u>1 642 124</u>	<u>1 705 006</u>
Earmarked funds		
Botha trust	151 636	196 636
Bruhns trust	834 383	794 914
Melville Douglas trust	13 325	13 325
	<u>999 344</u>	<u>1 004 875</u>

The Executive Committee considers the carrying value of cash and cash equivalents in order to approximate their fair values.

11. FAIR VALUE ADJUSTMENT ASSETS-AVAILABLE-FOR-SALE RESERVE

The fair value adjustment assets-available-for-sale reserve comprises all fair value adjustments on available-for-sale financial instruments. When an asset or liability is derecognised, the fair value adjustments relating to that asset or liability are transferred to surplus or deficit.

Available-for-sale financial instruments – opening balance	1 550 309	755 363
Movement of fair value of investments for the year	308 061	794 946
	<u>1 858 370</u>	<u>1 550 309</u>

12. ACCUMULATED SURPLUS

Included in accumulated surplus is:

Deferred income contracts and grants, which refers to the portion of government grants and contract income that was applied to acquire property, plant and equipment, and which has not yet been released to the statement of financial performance.

Deferred income contracts and grants		
Balance at beginning of year	109 340 805	100 569 554
Increase on transfer to deferred income grants and contracts	9 075 241	8 771 251
	<u>118 416 046</u>	<u>109 340 805</u>

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
13. FINANCE LEASE OBLIGATION		
Minimum lease payments due		
Within one year	143 640	143 640
In second to fifth year inclusive	148 210	291 950
	<u>291 850</u>	<u>435 590</u>
Less: future finance charges	(43 775)	(91 048)
Present value of minimum lease payments	<u>248 075</u>	<u>344 542</u>
Non-current liabilities	135 644	248 075
Current liabilities	112 431	96 467
	<u>248 075</u>	<u>344 542</u>

The loans are in respect of finance leases.

Fintech – unsecured, repayable in monthly instalments of R8 320 at 18% interest per annum

Scientific group – unsecured, repayable in fixed monthly instalments of R3 650 at 0% interest per annum

The Executive Management Committee considers the long-term loans to approximate their fair values.

14. PROVISIONS

Reconciliation of provisions – 2011

	Opening balance	Additions	Total
Provision for collaborative research	3 713 613	3 018 474	6 732 087

Reconciliation of provisions – 2010

	Opening balance	Additions	Utilised during the year	Total
Provision for collaborative research	3 391 766	2 792 479	(2 470 632)	3 713 613

The provision relates to collaborative research costs that will be settled in the next 12 months.

15. DEFERRED INCOME

Deferred income is monies received upfront in respect of research grants awarded and other income received in advance.

Deferred income	<u>228 970 264</u>	<u>236 389 465</u>
-----------------	--------------------	--------------------

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
16. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade payables	16 987 950	14 098 804
Personnel provision fund	13 136 192	8 965 331
Outstanding cheques	808	5 456
Accruals	17 326 760	11 712 315
Interest due to funders	6 047 590	5 873 192
Credit cards	19 394	-
	<u>53 518 694</u>	<u>40 655 098</u>
Fair value of trade and other payables		
Trade payables	<u>53 518 694</u>	<u>40 655 098</u>
Personnel provision fund		
This fund was instituted to provide for the payments of personnel benefits, mainly leave gratuities, and death and disability benefits, on the retirement or death of personnel.		
Personnel provision fund		
Balance at the beginning of the year	8 965 331	14 821 783
Leave payouts	(615 168)	(10 437 104)
Movement through statement of financial performance	4 786 029	4 580 652
	<u>13 136 192</u>	<u>8 965 331</u>
17. VAT PAYABLE		
Tax refunds payable	<u>1 121 745</u>	<u>520 595</u>
18. GOVERNMENT GRANTS		
Baseline grant	<u>237 288 593</u>	<u>222 663 155</u>
Total government grants		
Allocation for the year	270 508 996	251 139 000
Less: VAT	(33 220 403)	(30 841 632)
Additional funds received for 2008/2009 (excluding VAT)	-	2 365 787
	<u>237 288 593</u>	<u>222 663 155</u>

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
19. GENERAL EXPENSES		
Advertising	457 029	212 482
Auditors remuneration	1 639 680	1 339 001
Bank charges	275 460	264 936
Collaborative research	112 881 350	106 806 434
Computer expenses	8 961 006	10 261 715
Consulting and professional fees	9 485 750	10 510 128
Debt collection	-	28 000
Insurance	2 495 620	2 402 226
Laboratory operating cost	35 501 920	34 398 264
Lease rentals on operating lease	5 460 902	4 153 058
Magazines, books and periodicals	1 207 001	831 413
Other expenses	4 577 067	4 062 475
Postage and courier	1 916 903	1 415 700
Printing and stationery	3 958 012	3 097 805
Retrenchment/early retirement costs	102 085	2 198 579
Security	3 477 915	2 792 384
Subscriptions and membership fees	324 394	275 214
Telephone and fax	3 985 433	4 057 873
Training	2 099 611	3 033 463
Travel, subsistence and conference attendance	38 740 228	34 956 075
Utilities	8 070 012	6 213 407
	245 617 378	233 310 632
Travel, subsistence and conference attendance		
Local travel	8 079 818	6 712 306
Overseas travel	5 299 161	7 952 544
Accommodation – local and overseas	7 690 296	6 044 792
Subsistence and travel expenditure	12 900 640	8 175 899
Conference expenditure	4 770 313	6 070 534
	38 740 228	34 956 075

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
19. GENERAL EXPENSES (CONTINUED)		
Collaborative research		
Consulting costs and honorarium payments	57 166 419	50 547 518
Payments made to external institutions	55 714 931	56 258 916
	<u>112 881 350</u>	<u>106 806 434</u>
Other expenses		
Canteen costs	830 085	676 288
Personnel teas	525 773	507 355
Royalty distribution	31 952	43 240
Hire of premises and equipment	1 967 073	1 678 679
Licences	26 456	75 525
Staff recruitment costs	1 195 728	1 081 388
	<u>4 577 067</u>	<u>4 062 475</u>
20. OPERATING (DEFICIT) SURPLUS		
Operating (deficit)/surplus for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Contractual amounts	5 460 902	4 153 058
Loss on sale of property, plant and equipment	(141 686)	(1 486 377)
Impairment on businesses (or controlled entities, joint ventures and associates)	-	99 999
Amortisation of intangible assets	340 978	150 754
Depreciation on property, plant and equipment	12 222 402	10 649 827
Employee costs	287 752 354	243 296 288

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	Restated 2010 R
21. EMPLOYEE RELATED COSTS		
Basic	149 104 986	128 760 414
Bonus	16 513 011	12 588 000
Other non-pensionable allowances	65 492 302	53 795 288
Temporary staff	27 586 196	8 242 771
Leave payments	2 632 074	12 671 534
Medical aid – company contributions	6 919 280	6 021 411
Adjustments from the application of AC 116	272 120	3 933 038
Other salary related costs	1 059 977	1 160 068
Defined pension benefit plan expense – current service cost	3 213 410	3 016 395
Defined pension benefit plan expense – past service cost	-	623 322
Overtime payments	356 574	390 390
Defined pension contribution plan expense	11 928 444	9 840 483
SDL	1 316 120	1 120 093
UIF	1 357 860	1 133 081
	287 752 354	243 296 288
22. DEBT IMPAIRMENT		
Debt impairment	589 705	154 711
Contributions to debt impairment provision	(794 745)	2 431 491
	(205 040)	2 586 202

Contributions to debt impairment provision reflected above include the current year provision for bad debts of R2 809 000 (2010 provision for bad debts of R3 342 531).

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
23. INVESTMENT REVENUE		
Dividend revenue		
Listed financial assets – local	44 193	40 318
Interest revenue		
Unit trusts	14 765	74 475
Bank accounts	1 519 310	3 181 187
Interest charged on trade and other receivables	33 258	13 664
Corporation for public deposits	16 764 553	22 006 093
Interest received – investments held to maturity	2 597 670	2 970 033
	20 929 556	28 245 452
	20 973 749	28 285 770
24. IMPAIRMENT OF ASSETS		
Impairments		
Investments in controlled entities	-	99 999
The investment in Jirehsa Medical (Pty) Ltd has been impaired due to no income being generated.		
25. CASH GENERATED FROM OPERATIONS		
Surplus	1 316 159	40 723 558
Adjustments for:		
Depreciation and amortisation	12 563 380	10 800 581
Gain on sale of assets and liabilities	141 686	1 486 377
(Gain)/loss on foreign exchange	(528 204)	524 127
Impairment deficit	-	99 999
Debt impairment	(205,040)	2,586,202
Movements in retirement benefit assets and liabilities	(265 000)	(11 849 894)
Movements in provisions	3 018 474	321 847
Unrealised fair value adjustment on available for sale assets	308 061	794 946
Fair value adjustment on biological assets	927 961	(1 545 884)

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011	Restated
	R	2010
		R
25. CASH GENERATED FROM OPERATIONS (CONTINUED)		
Changes in working capital:		
Inventories	183 143	(5 143)
Trade and other receivables from exchange transactions	17 729 913	(10 955 837)
Trade and other payables from exchange transactions	12 863 603	(6 478 583)
VAT	601 150	520 595
Deferred income	(7 419 201)	(13 976 534)
	41 236 085	13 046 357
26. COMMITMENTS		
Authorised capital expenditure		
Already contracted for but not provided for:		
Property, plant and equipment	11 038 981	1 015 289
Goods and services	9 277 129	3 053 115
Research grants	382 470	160 000
	20 698 580	4 228 404
Operating leases – as lessee (expense)		
Minimum lease payments due		
Within one year	4 621 890	4 728 288
In second to fifth year inclusive	4 728 288	1 909 705
	9 350 178	6 637 993

The MRC leases certain property, plant and equipment as operating leases. The MRC does not have an option to acquire the assets at the termination of the lease. There are no restrictions imposed by leases.

27. CONTINGENCIES

Estimated fraud of R779 862 was committed at a site in Mozambique (Libombo Spatial Development related project). No formal communication has been received from the funder, but the contract conditions indicate that the MRC will be held responsible. A forensic audit is currently being conducted by the funder.

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2011	Restated 2010
R	R

28. RELATED PARTIES

Executive authority	Dept. of Health (DOH)
Controlled entities	Medres (Pty) Ltd Refer to note 5
Associates	Jiresha Medical (Pty) Ltd Refer to note 5
Members of key management	Prof. MA Dhansay (Acting President) Mr B Mahlangu (Chief Finance Officer) Mr Z Vokwana (Executive Director Operations) Prof. P Terblanche (resigned 15 August 2010 – Executive Director: Technology & Innovation) Ms S Bok (Executive Manager: Corporate and Public Affairs) Dr N Bhagwandin (Executive Manager: Strategic Research Initiatives) Dr E Madela-Mantla (resigned 31 December 2010 – Executive Manager: Human Capital Management and Development)
Ethics committee member – LBG Mphahlwa Mthatha	Health Resource Centre (MRC supplier)
Old Board Member – JM Pettifor	Wits Health Consortium (extramural Unit Director and MRC supplier)
Executive Director: Z Vokwana	Protea Coin Group (Pty) Ltd (MRC supplier)
Employee: S Goge	Ekswisit (MRC supplier)

Related party balances

Loan accounts – owing by related parties

Medres (Pty) Ltd (The loan is not considered to be recoverable.)	67 444	60 702
--	--------	--------

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	Restated 2010 R
28. RELATED PARTIES (CONTINUED)		
Amounts included in trade receivable/(trade payable) regarding related parties		
National Health Laboratory Services (NHLS)	-	(4 550 000)
Department of Health (DOH)	-	8 389 665
Department of Science and Technology (DST)	-	58 102
National Health Laboratory Services (NHLS)	166 214	242 086
Council for Scientific Industrial Research (CSIR)	274 708	11 400
Council for Scientific Industrial Research (CSIR)	(121 495)	-
National Research Foundation (NRF)	608 640	1 409 572
South African Agency for Science and Technology Advancement (SAASTA)	-	2 113
Human Sciences Research Council (HSRC)	217 457	15 390
Agricultural Research Council (ARC)	49 497	48 542
Department of Social Development (Western Cape)	1 552 193	1 270 104
Department of Social Development (Western Cape) – provision for doubtful debt	(1 552 193)	(1 270 104)
Deferred income		
Department of Health (DOH)	15 654 912	13 003 496
Department of Science and Technology (DST)	3 488 398	5 083 612
Department of Social Development (Western Cape)	1 964 296	784 940
Agricultural Research Council (ARC)	20 731	504 364
Council for Scientific Industrial Research (CSIR)	47 754	223 201
National Research Foundation (NRF)	3 452 268	3 880 533
Revenue		
Department of Health (DOH)	237 288 593	222 663 155
Department of Health (DOH) contracts	13 376 063	2 957 482
Department of Science and Technology (DST)	2 363 623	5 310 936
National Research Foundation (NRF)	4 136 282	7 636 488
Council for Scientific Industrial Research (CSIR)	327 341	84 376
Human Sciences Research Council (HSRC)	217 457	75 291
South African Agency for Science and Technology Advancement (SAASTA)	5 392	99 856
Agricultural Research Council (ARC)	1 063 522	129 035

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28. RELATED PARTIES (CONTINUED)

Department of Social Development (Western Cape)	540 397	1 401 000
	259 318 670	240 357 619

Expenditure incurred with related party suppliers

National Health Laboratory Services (NHLS)	3 567 945	2 940 309
Mthatha Health Resource Centre	-	4 353
Wits Health Consortium	1 299 603	1 714 403
Protea Coin Group (Pty) Ltd	48 171	52 989
Ekswisit	47 775	-
	4 963 494	4 712 054

Executive authority information

Minister: Dr A Motsoaledi

No subsistence, travel and other related re-imburement costs have been paid.

Director General: Ms Precious Matsoso (from June 2010)

No subsistence, travel and other related re-imburement costs have been paid.

Executive Directors/Managers leave balances

Prof. P Terblanche (resigned 15 August 2010)	-	16 422
Dr MA Dhansay	196 249	150 498
Mr Z Vokwana	177 669	80 682
Mr B Mahlangu	122 218	41 913
Ms S Bok	41 134	22 217
Dr N Madela-Mntla	-	63 166
Dr N Bhagwandin	43 900	-
	581 170	374 898

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

29. BOARD MEMBERS AND EXECUTIVE DIRECTORS/MANAGERS EMOLUMENTS

Board member's emoluments

Fees for the board and board sub-committee members

2011	Honorarium	Vehicle & parking & cell phone allowance	Reimbursements	Consulting fees & mileage post term	Total
	R	R	R	R	R
Advocate D Block	114 481	4 538	-	1 810	120 829
Prof. D Du Toit	78 983	1 562	-	41 120	121 665
Prof. DL Mkize	15 894	905	-	-	16 799
Dr K Mlisana	15 894	631	-	-	16 525
Prof. I Moodley	100 798	5 830	-	2 061	108 689
Prof. S Rataemane	61 810	3 524	22 189	-	87 523
Prof. K Voyi	40 726	140	-	2 945	43 811
*Prof. ZL Dlamini	24 724	-	-	-	24 724
*Prof. C Feldman	19 426	678	-	-	20 104
*Dr SC Gumbi	28 153	894	-	-	29 047
*Dr P Hanekom	35 217	944	-	-	36 161
*Pro. U Lalloo	19 426	575	-	-	20 001
*Dr NM Lidovho	30 022	17 040	-	-	47 062
*Prof. EL Mazwai	66 387	9 762	-	-	76 149
*Dr KE Mokwena	22 855	-	-	-	22 855
*Prof. K Moodley	24 724	-	-	-	24 724
*Prof. L Morris	19 426	-	-	-	19 426
*Prof. MM Sathekge	30 022	1 874	-	-	31 896
	748 968	48 897	22 189	47 936	867 990

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

29. BOARD MEMBERS AND EXECUTIVE DIRECTORS/MANAGERS EMOLUMENTS (CONTINUED)

2010	Honorarium	Vehicle and parking	Reimbursements	Consulting fees & cell phone allowances	Total
	R	R	R	R	R
Adv. D Block	81 254	2 839	-	-	84 093
Prof. D Du Toit	107 435	2 920	-	-	110 355
Prof. DL Mkize	29 988	1 473	-	-	31 461
Dr K Mlisana	31 654	759	-	-	32 413
Prof. I Moodley	49 695	2 034	-	-	51 729
Prof. JM Pettifor	19 992	920	-	-	20 912
Col. DC Qolohle	34 986	2 456	-	-	37 442
Prof. Rataemane	73 689	5 280	377	-	79 346
Prof. K Voyi	40 096	-	-	7 068	47 164
Dr C Walsh	57 930	-	-	-	57 930
	526 719	18 681	377	7 068	552 845

*New board

Reimbursements column represents payment in lieu of travel costs.

Meeting attendance for the period 1 April 2010 to 31 March 2011

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

29. BOARD MEMBERS AND EXECUTIVE DIRECTORS/MANAGERS EMOLUMENTS (CONTINUED)

2011 New Board	6 December 2010	27 January 2011	19 February 2011	24 March 2011	Total
Prof. EL Mazwai	1	1	1	1	4
Prof. Z Dlamini	1	1	1	1	4
Prof. C Feldman	1	1	-	-	2
Dr S Gumbi	1	1	1	1	4
Dr P Hanekom	1	1	1	1	4
Prof. U Lalloo	1	1	1	-	3
Dr M Lidovho	1	1	1	1	4
Dr K Mokwena	1	1	-	1	3
Prof. K Moodley	1	1	1	1	4
Prof. L Morris	-	1	1	-	2
*Dr G Ramokgopa	1	-	-	-	1
Prof. M Sathekge	1	1	1	1	4
Ms G Spelman	1	-	-	1	2
Prof. E Vries	1	1	-	1	3
*Ms M Mushwana	-	1	-	-	1

2011 Old Board	18 June 2010	17 September 2010	Total
Adv. D Block	1	1	2
Prof. D Du Toit	1	1	2
Prof. DL Mkize	1	1	2
Dr K Mlisana	1	1	2
Prof. I Moodley	1	1	2
Prof. JM Pettifor	-	1	1
Col. DC Qolohle	1	1	2
Prof. S Rataemane	1	1	2
Prof. K Voyi	1	1	2
Dr C Walsh	-	1	1
*Ms P Netshidzivhani	1	-	1
**Dr B Setai	-	1	1

*(Department of Health representatives)

**Dr B Setai invited to two meetings in capacity as Chair of Audit & Finance Committee.

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

29. BOARD MEMBERS AND EXECUTIVE DIRECTORS/MANAGERS EMOLUMENTS (CONTINUED)

EXECUTIVE DIRECTORS/MANAGERS EMOLUMENTS

2011	Package total	Bonus	S & T	Company contributions	Total
	R	R	R	R	R
*N Bhagwandin	882 393	91 384	-	81 844	1 055 621
*SH Bok	795 365	70 319	-	91 931	957 615
MA Dhansay	1 155 271	-	-	119 556	1 274 827
*E Madela-Mntla	733 711	91 429	2 228	57 428	884 796
BJ Mahlangu	1 045 555	64 286	-	93 164	1 203 005
AP Terblanche	427 512	-	747	635	428 894
Z Vokwana	1 058 651	64 286	-	80 065	1 203 002
	6 098 458	191 704	2 975	524 623	7 007 760

*Executive Manager

AP Terblanche Executive Director resigned July 2010

E Madela-Mntla Executive Manager; Contract ended 31 December 2010

2010	Package total	Bonus	S & T	Company contributions	Total
	R	R	R	R	R
*N Bhagwandin	726 432	131 901	-	74 898	933 231
*SH Bok	716 036	104 682	-	85 387	906 105
MA Dhansay	1 283 522	92 900	704	112 672	1 489 798
*E Madela-Mntla	800 728	125 681	5 265	71 627	1 003 301
BJ Mahlangu	1 164 971	67 915	-	93 672	1 326 558
AD Mbewu	1 206 945	-	-	84 730	1 291 675
AP Terblanche	752 068	200 484	7 218	42 380	1 002 150
Z Vokwana	978 526	67 915	-	76 368	1 122 809
	7 629 228	791 478	13 187	641 734	9 075 627

*Executive Manager

MA Dhansay – Acting President since January 2010

AP Terblanche – Executive Director; Contract ended 14 October 2009 and new contract commenced 1 February 2010

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL
Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

30. PRIOR PERIOD ERRORS

An error was identified with the valuation of the post-retirement medical plans.

Events subsequent to year end confirmed the fact that the market was active as at 31 March 2010 and therefore the biological assets should have been disclosed at a fair value of R1 985 000 instead of R593 116, giving rise to an adjustment of R1 391 884.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Retirement benefit obligations	1 345 000	993 015
Accumulated surplus	299 242 520	299 594 505
Biological assets	1 985 000	593 116

Statement of financial performance

Employee related costs	243 296 288	242 944 303
Laboratory operating costs	34 398 264	35 790 148

Cash flow statement

Cash flow from operating activities

Suppliers	493 399 428	493 868 404
Post-retirement benefit obligation	11 849 894	12 201 879

31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

In the cash flow statement for 2010, employment benefit obligation was previously reflected under cash flows from financing activities. It is now reflected under cash flows from operating activities. The amount for 2010 was previously disclosed as R12 201 879 and restated at R11 849 894.

In the notes to the annual financial statements, IT equipment and laboratory equipment was previously consolidated. It is now classified as two separate components. The cost for IT equipment is disclosed as R38 781 118 and cost of the laboratory equipment is disclosed as R41 343 536. The accumulated depreciation of the IT equipment is disclosed as (R28 404 711) and the accumulated depreciation of the laboratory equipment is disclosed as (R11 815 827).

The statement of financial performance and the detailed statement of financial performance have different groupings from the prior year.

In the statement of financial position, VAT payable was previously included as part of trade and other payables from exchange transactions for an amount of R520 595 in the 2010 financial period. In the current years' statement of financial position, the VAT payable is disclosed separately.

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31. COMPARATIVE FIGURES (CONTINUED)

In the previously disclosed cash flow statement, the purchase of biological assets and the proceeds from sale of biological assets was not disclosed separately. The increase in inventory and biological assets was disclosed. The restated amounts on the cash flow statement for purchase of biological assets is (R25 000) and proceeds from sale of biological assets is R42 024. The cash generated from operations (note 25) movement in inventory is reflected separately at (R5 143) and the fair value adjustment on biological assets is reflected at (R1 545 884). The increase in inventory and biological assets was previously disclosed at (R142 119).

The effect on the cash flow statement after reclassifying the post-retirement benefit obligation: the purchase of biological assets and proceeds from sale of biological is the restated supplier amount of R494 237 413 (supplier amount was previously stated at R493 868 404).

Irregular expenditure for the 2010 comparative, relating to finance lease was previously disclosed as R344 542, which related to the total liability including the future minimum lease payments. This figure has now been restated to R152 262 to reflect only the lease payments made during the 2010 financial period.

32. RISK MANAGEMENT

Financial risk management

The MRC's financial liabilities are trade and other payables, and financial assets are cash and cash equivalents, and trade and other receivables. The main risks arising from the MRC's financial instruments are currency, credit and interest risks.

Liquidity risk

The MRC's risk to liquidity is a result of the funds available to cover future commitments. 85% of the MRC's trade accounts receivables are current, i.e. less than 30 days. The MRC monitors its cash flow requirements and optimises its cash return on investments.

Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the table below indicates their average effective interest rates at the reporting date and the periods in which they mature.

Cash flow interest rate risk

Financial instrument	Average effective interest rate	Due in less than one year	Due in one to two years	Due in two and more years	2011	2010
Trade and other receivables – normal credit terms	7,00%	28 455 805	-	-	28 455 805	45 452 474
Cash in current banking institutions	7,00%	410 336 417	-	-	410 336 417	370 371 851
36-month fixed deposits	10,05%	29 646 404	-	-	29 646 404	54 206 507
Trade and other payables – extended credit terms	7,00%	53 518 694	-	-	53 518 694	40 655 098

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

32. RISK MANAGEMENT (CONTINUED)

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on financial instruments' exposure to interest rates at reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. The basis points increases or decreases, as detailed in the table below, were determined by management and represent the management's assessment of the reasonably possible change in the interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows the reasonable expected change in the interest rate: either an increase or decrease in the interest rate percentage. The equal but opposite per cent adjustment to the interest rate would result in an equal but opposite effect on surplus and therefore has not been separately disclosed below.

As the entity does not have any instruments that affect net assets directly, the disclosure only indicates the effect of the change in interest rates on surplus.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis from one year to the next.

Increase in interest rates

The estimated increase in basis points – minimum	50	50
Effect on surplus	2 051 682	1 851 859
The estimated increase in basis points – maximum	200	200
Effect on surplus	8 206 728	7 407 437

Credit risk

This is the risk of one party to a financial instrument causing a financial loss for the other party by failing to discharge an obligation. Management has a debtor's policy in place, and this makes provision for credit evaluation for all customers requiring credit above R1 million. The CEO signs every contract and he can also do his own assessment of credit worthiness. Investments are allowed only in liquid securities, and only with the SARB and the four major banks with high credit standing.

Contract work constitutes the biggest portion of the MRC's income, and the major exposure is delays in finalising contracts, and disputes in terms of whether the outputs have been produced. A certain number of contracts are started and paid on a reimbursive basis, and this poses a risk if the funder is not happy with the outputs.

Foreign exchange risk

The MRC operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the euro. The MRC receives substantial funding from the USA and Europe, and as a result its statement of financial position can be affected by movements in the US dollar and euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

Due to uncertainties in respect of when cash will be received from overseas, the MRC does not hedge foreign exchange fluctuations.

Approximately 20,92% of the MRC's debtors (R7 595 315) are exposed to currency, compared to 42% last year (R19 million).

The MRC's project office does a scenario calculation looking at how much would be lost if there was an unfavourable currency change. It is decided on the basis of this outcome whether to proceed with a particular project.

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

32. RISK MANAGEMENT (CONTINUED)

FAIR VALUES

At March 2011 and March 2010, the carrying amounts of cash, accounts receivable, accounts payable approximated their values due to the short-term maturities of these assets and liabilities.

33. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations, and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

34. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	90 060	-
Fruitless and wasteful expenditure current year	20 906	90 060
	110 966	90 060

Interest was incurred on supplier accounts and no disciplinary steps were taken to recover the funds.

35. IRREGULAR EXPENDITURE

Opening balance	247 670 430	212 558 639
Add: irregular expenditure – current year	38 273 291	35 111 791
	285 943 721	247 670 430

Analysis of expenditure awaiting to be condoned per age classification

Current year	38 273 291	35 111 791
Prior years	247 670 430	212 558 639
	285 943 721	247 670 430

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

35. IRREGULAR EXPENDITURE (CONTINUED)

Details of irregular expenditure – current year

Non compliance with Supply Chain Management Practices	<ul style="list-style-type: none">• National Treasury; TR 16A6.1, TR 16A6.1, TR 16A6.4 and paragraph 3.2 of SCM Practice Note 8 of 2007/08	973 735	2 017 688
	<ul style="list-style-type: none">• National Treasury; TR 16A6.1, TR 16A6.4 and paragraph 3.3 of SCM Practice note 8 of 2007/08	2 305 907	2 785 879
	<ul style="list-style-type: none">• National Treasury; TR 16A6.1, TR 16A6.4 and paragraph 3.4 of SCM Practice Note 8 of 2007/08	16 011 886	6 156 784
Expenditure incurred without complying to - Preferential Procurement Regulations		18 831 514	23 999 178
Expenditure relating to finance leases that have not been approved by National Treasury		150 249	152 262
		<u>38 273 291</u>	<u>35 111 791</u>

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

36. RECONCILIATION BETWEEN BUDGET AND STATEMENT OF FINANCIAL PERFORMANCE

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	1 316 159	40 723 558
Adjusted for:		
Impairments recognised/reversed	-	99 999
Deficit on sale of assets	141 686	1 026 654
Depreciation	12 222 401	7 449 827
Amortisation of intangible assets	340 979	150 754
Audit fees	639 680	439 001
Bad debts	(721 698)	2 565 252
Finance costs	101 083	250 338
Lease rentals	514 322	269 608
Laboratory expenses	1 571 460	(1 485 990)
Computer related expenditure	(548 053)	(1 173 046)
Infrastructural, communication and statutory costs	3 575 959	177 371
Other expenses	(853 592)	1 674 641
Repairs and maintenance	(704 073)	1 235 904
Staff costs	11 127 865	17 415 796
Travel, subsistence and conference costs	126 056	(385 323)
External research support, consulting and internal audit	2 006 086	1 795 351
Collaborative research	(12 303 736)	(24 179 093)
Printing and stationery	1 284 543	234 521
Investment income	1 366 399	(9 969 120)
Total government grants	-	(813 155)
Rent received	(146 036)	(306 013)
Sundry income	(344 948)	(173 356)
Dividend income	(44 193)	(40 318)
Overheads recovered	(3 145 880)	(1 085 782)
Contract funds surplus on contract funds	(12 101 756)	(22 377 478)
Income from contracts, grants and services rendered	(5 420 713)	(13 519 901)
Net surplus per approved budget	-	-

37. WORLD CUP EXPENDITURE

The Council incurred no expenditure relating to the World Cup. No tickets or World Cup clothes were purchased.

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual Financial Statements for the year ended 31 March 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

38. PUBLIC FINANCE MANAGEMENT ACT (PFMA)

Section 55 (2)

No material losses through criminal conduct were incurred during the year ended 31 March 2011. Irregular and fruitless and wasteful expenditure incurred has been disclosed in notes 34 and 35.

Section 53 (3)

The Council may not accumulate surpluses unless written approval of the National Treasury has been obtained. Approval for the retention of the accumulated surplus as at 31 March 2011, was obtained.

Section 54 (2)

In terms of the PFMA and Treasury Regulation 28.1.5, the Council has developed and agreed to a framework of acceptable levels of materiality and significance.

SOUTH AFRICAN MEDICAL RESEARCH COUNCIL

Annual financial statements for the year ended 31 March 2011

DETAILED STATEMENT OF FINANCIAL PERFORMANCE

		2011 R	Restated 2010 R
Revenue			
Income from contracts, grants and services rendered		290 403 216	284 949 837
Government grants	18	237 288 593	222 663 155
Rental income		2 763 796	2 626 888
Other income		2 259 089	2 409 666
Interest received – investment	23	18 331 886	25 275 419
Interest received – investments held to maturity	23	2 597 670	2 970 033
Dividends received	23	44 193	40 318
Total revenue		553 688 443	540 935 316
Expenditure			
Personnel	21	(287 752 354)	(243 296 288)
Depreciation and amortisation		(12 563 380)	(10 800 581)
Impairment loss/reversal of impairments	24	-	(99 999)
Finance costs		(101 083)	(250 429)
Debt impairment	22	205 040	(2 586 202)
Repairs and maintenance		(6 929 647)	(7 857 123)
General expenses	19	(245 617 378)	(233 310 632)
Total expenditure		(552 758 802)	(498 201 254)
Loss on disposal of assets and liabilities		(141 686)	(1 486 377)
Loss on foreign exchange		528 204	(524 127)
Surplus for the year		1 316 159	40 723 558