



The greatest wealth is health.

- Publius Vergilius Maro

ANNUAL FINANCIAL STATEMENTS

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE SOUTH AFRICAN MEDICAL RESEARCH COUNCIL FOR THE YEAR ENDED 31 MARCH 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the South African Medical Research Council which comprise the statement of financial position as at 31 March 2009 and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 123 -155.

The 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 basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 14(2) of the Medical Research Council Act, 1991 (Act No. 51 of 1991), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of*

2008, issued in *Government Gazette No. 31057 of 15 May 2008*. 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.

Basis for qualified opinion

Property, plant and equipment

7. The entity has written off a significant number of assets without the approval of the executive authority that is required in terms of section 54(2)(d) of the PFMA. Approximately 6 600 assets with a cost price of R16 107 116 and accumulated depreciation of R15 112 325 were written off during the year under review as a result of assets that could not be located during the annual asset count.

Qualified Opinion

8. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the South African Medical Research Council as at 31 March 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements, and in the manner required by the PFMA.

Emphasis of matters

9. I draw attention to the following matters on which I do not express a qualified opinion:

Basis of accounting

10. The South African Medical Research Council's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements.

Restatement of corresponding figures

11. As disclosed in note 26 to the financial statements, the corresponding figures for 31 March 2008 have been restated as a result of errors discovered during 2009 in the financial statements of the South African Medical Research Council at, and for the year ended, 31 March 2008.

Other matters

12. I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Public Finance Management Act

13. The entity submitted its financial statements for auditing on 4 June 2009 and not on 31 May 2009, as required by Section 55(1)(c)(i) of the PFMA.

Treasury Regulations

14. Quarterly reports had not been submitted to the executive authority and the non-compliance has not been reported, together with the reasons therefore, as required by Treasury Regulation 26.1.2.

Governance framework

15. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

16. Section 51(1)(a)(i) of the PFMA states that the accounting authority must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
7.	Property plant and equipment				1	

17. Pertinent information relating to property, plant and equipment was not identified and captured in time frame that supports the achievement of financial reporting objectives.

LEGEND	
CE = CONTROL ENVIRONMENT	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = RISK ASSESSMENT	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = CONTROL ACTIVITIES	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = INFORMATION AND COMMUNICATION	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = MONITORING	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

18. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	MATTER	Y	N
CLEAR TRAIL OF SUPPORTING DOCUMENTATION THAT IS EASILY AVAILABLE AND PROVIDED IN A TIMELY MANNER			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
QUALITY OF FINANCIAL STATEMENTS AND RELATED MANAGEMENT INFORMATION			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
TIMELINESS OF FINANCIAL STATEMENTS AND MANAGEMENT INFORMATION			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines [section 55 of the PFMA].		✓
AVAILABILITY OF KEY OFFICIALS DURING AUDIT			
5.	Key officials were available throughout the audit process.		✓
DEVELOPMENT AND COMPLIANCE WITH RISK MANAGEMENT, EFFECTIVE INTERNAL CONTROL AND GOVERNANCE PRACTICES			
6.	Audit committee		
	The public entity had an audit committee in operation throughout the financial year.	✓	
	The audit committee operates in accordance with approved, written terms of reference.	✓	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	✓	
7.	Internal audit		
	The public entity had an internal audit function in operation throughout the financial year.	✓	
	The internal audit function operates in terms of an approved internal audit plan.	✓	
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2.	✓	
12.	Powers and duties have been assigned, as set out in 56 of the PFMA.	✓	
FOLLOW-UP OF AUDIT FINDINGS			
13.	The prior year audit findings have been substantially addressed.	✓	
ISSUES RELATING TO THE REPORTING OF PERFORMANCE INFORMATION			
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the [entity name] against its mandate, predetermined objectives, outputs, indicators and targets [Treasury Regulation 30.1].	✓	
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

19. The shortcomings in respect of certain key governance responsibilities highlighted in the table above require attention. The main issue driving these findings includes deficiencies in information and communication where:
- pertinent information was not identified and captured in time frame that supports the achievement of financial reporting objectives.
 - communication in the entity does not enable and support the understanding and execution of internal control processes in order for employees to understand their control responsibilities.
20. Over and above the observations on the key governance responsibilities, the internal control deficiencies mentioned above also resulted in other important audit findings, as highlighted in the final management report of the entity that should receive the attention of those charged with governance, as well.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

21. I have reviewed the performance information as set out on pages 99-113.

The accounting authority's responsibility for the performance information

22. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

The Auditor-General's responsibility

23. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.
24. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
25. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

Findings on performance information

Usefulness of reported performance information

26. Variances between the planned and the actual performance of reported performance information were not supported by explanations for the variances in the annual report submitted during the audit. Variance explanations were included subsequently and were therefore not subject to audit.

APPRECIATION

27. The assistance rendered by the staff of the South African Medical Research Council during the audit is sincerely appreciated.

Auditor-General

Cape Town

7 September 2009



AUDITOR-GENERAL

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2009.

Audit Committee Members and Attendance:

The audit committee consists of the members listed hereunder and should meet four times per annum as per its approved terms of reference. During the current year, four meetings were held.

Name of Member	Number of Meetings Attended
Mr A Dlamini (Chairperson)	2 (resigned in September 2008)
Mr S Govindsamy	4
Ms S Hari	4
Adv D Block	4
Prof S Rataemane (Acting Chairperson)	4

Audit Committee Responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of Section 51(1) (a) of the PFMA and Treasury Regulation 27.1. We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

A significant amount of assets have been written off, many of which relate to previous years. Controls in respect of write offs have not been effective. The asset count has also identified areas of weakness in respect of procurement and disposal of assets, and custodianship over assets.

From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom, except in the area of assets. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective except in asset management.

The quality of in-year management and monthly/quarterly reports submitted in terms of the PFMA and the Division of Revenue Act.

We are satisfied with the content and quality of the quarterly reports prepared and issued by the Accounting Officer of the Public Entity during the year under review. We have indicated to the management that our analysis of the finances will be more constructive when management implements a system which allows for detailed reporting at line and research unit/division level.

Evaluation of 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 and the Accounting Officer;
- Reviewed the Auditor-General of South Africa's management report and management's response thereto;
- Reviewed changes in accounting policies and practices;
- Reviewed the public entity's compliance with legal and regulatory provisions; and
- Reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General of South Africa's report on 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.

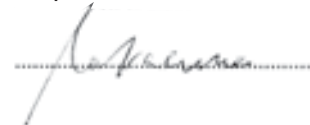
Internal audit

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

Auditor-General South Africa

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

Chairperson of the Audit Committee



Date: 08/09/2009

REPORT OF THE ACCOUNTING AUTHORITY (BOARD) OF THE MRC ON THE KEY PERFORMANCE AREAS AND ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

NATURE OF THE OPERATIONS

The South African Medical Research Council is a Section 3A public entity in terms of the PFMA, an independent statutory body set up by government, to co-ordinate health and medical research activities throughout South Africa. Research takes place at Head Office (Cape Town) and at the two satellites, Durban and Pretoria.

CORPORATE GOVERNANCE AND CONTROL FRAMEWORK

Board's responsibility for financial statements

The Board is responsible for preparing the annual financial statements and other information presented in the annual report in a manner that fairly presents the financial position and the results of the operations of the entity. The Board is also responsible for preparing the KPI report.

The external auditors are responsible for carrying out an independent examination of the annual financial statements in accordance with Statements of South African Auditing Standards, and for reporting their findings thereon. The external auditors also audit the KPI, but they are currently not required by law to express an opinion thereon.

The annual financial statements set out on pages 123 to 155 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are based on appropriate accounting policies which have been consistently applied in all material respects, and are supported by reasonable and prudent estimates where appropriate. Adequate accounting records have been maintained throughout the period under review.

FINANCIAL OPERATIONS

This year saw a 6% increase in baseline, and the contracts remained constant. The MRC has recorded a surplus of R38m during the year. Increase in interest is partly a reflection of increase in deferred income. Not all funders require that interest be invested in the projects. We are anticipating decreases in interest income, as the interest rate had started declining.

Income from restricted projects

Some of the foreign funding is done with what are considered restricted funds. The MRC did not recognize the cost of the researchers' time because of the nature of these funds. The research has been done, and that time has now been recognized. From an accounting point of view, time worked should have been recognized as research was done, even though the funds were said to be restricted. The total adjustment came to R29 million, and it is spread over a number of past years.

Fixed assets

For some time, the MRC was doing limited asset counts. This year it did a comprehensive count, which indicated that a number of assets needed to be written off. Clearly there were management lapses, as some assets should have been written off years back.

Pension Fund liability

An actuarial valuation done as at 31 March 2009, indicated a loss of R10 million. MRC has fully provided for this loss, and it intends paying over an amount equivalent to this loss, even though it understands that this is merely a short term valuation. Salary increases as at 1 April 2009 are approximately 11.5%, and with a significant number of MRC employees being on a defined benefit pension fund scheme, it can be expected that the loss could widen.

The MRC Board has in principle given the management the go-ahead to investigate ways of reducing the leave liability. This exercise will be done in conjunction with looking at all other conditions of employment at the MRC.

GOING CONCERN

Based on the MRC's reserves, on the fact that the cash inflows have been positive for a few years, and also on the fact that research work has been increasing over the past few years, the MRC is confident that in the foreseeable future, it will continue to function.

Substantial investment will soon be required in terms of re-capitalisation, and the reserves generated so far will be used for this purpose.

KPIs

The key performance issue is the number of publications that were submitted. The MRC scientists published 706 papers, three papers less than what was targeted.

INTERNAL AUDIT

The Internal audit is outsourced to Gobodo Risk Management, and they do their audit according to an audit plan approved by the Audit Committee. On a number of occasions, they have been asked to do special audits in order to manage some of the risks that keep on arising.

Remuneration of Board Members and Senior management

The fees paid to members of the Board, and the remuneration of the senior management have been detailed under notes 22 and 23, in the notes to annual financial statements.

SUBSIDIARY AND ASSOCIATE COMPANIES

The MRC has a 100% shareholding at MEDRES Investments (Pty) Ltd. The subsidiary remains dormant, without any material assets or liabilities. Medres Investments (Pty) Ltd has a 24.9% investment in Jirehsa (Pty) Ltd. Jirehsa has not started trading yet, and as at 31 March 2009, it had accumulated losses of R32 000.

FINANCIAL STATEMENTS

MRC financial statements are prepared in accordance with GAAP and GRAP.

POST BALANCE SHEET EVENTS

By the time of writing this report, no significant post balance sheet event had occurred.

SA MEDICAL RESEARCH COUNCIL
STATEMENT OF FINANCIAL POSITION
at 31 March 2009

	Notes	2009 R	2008 R
ASSETS			
Non-current assets			
Property, Plant and Equipment	3	100,569,554	94,989,230
Intangible assets	4	1,165,064	574,111
Biological assets	5	456,140	1,180,410
Investments	6	100,001	100,001
		<u>102,290,759</u>	<u>96,843,752</u>
Current Assets			
Investments	6	28,279,726	2,570,750
Inventory	7	302,557	362,011
Trade and other receivables	8	37,606,966	42,095,752
Cash and Cash Equivalents	9	407,381,075	333,668,437
		<u>473,570,324</u>	<u>378,696,950</u>
Total assets		<u><u>575,861,083</u></u>	<u><u>475,540,702</u></u>
NET ASSETS AND LIABILITIES			
Net Assets			
Accumulated Surplus		159,341,292	121,225,088
Mark to Market Reserves		755,363	1,416,911
		<u>160,096,655</u>	<u>122,641,999</u>
Non-current liabilities			
Deferred income contracts and grants	10	100,569,554	94,989,230
Earmarked Funds	9	1,108,534	1,035,377
Long Term Loans		-	-
Post Retirement Benefits	11	2,817,894	3,931,000
Pension Liability	11	10,377,000	-
		<u>114,872,982</u>	<u>99,955,607</u>
Current liabilities			
Deferred income	10	250,365,999	170,560,020
Provisions	12	3,391,766	4,283,926
Trade and other payables	13	47,133,681	78,099,150
Current portion of long term loans		-	-
		<u>300,891,446</u>	<u>252,943,096</u>
Net assets and liabilities		<u><u>575,861,083</u></u>	<u><u>475,540,702</u></u>

SA MEDICAL RESEARCH COUNCIL
 STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 31 March 2009

	2009 R	2008 R
Revenue	495,975,562	470,636,887
Operating Expenditure	<u>(250,155,541)</u>	<u>(228,037,355)</u>
Operating Surplus for the year	245,820,021	242,599,532
Interest Received	35,829,865	23,410,639
Staff Costs	(232,862,613)	(213,509,702)
Depreciation	(11,175,904)	(8,815,482)
Change in estimate/Amortisation	590,953	(750,173)
Finance costs	(86,118)	(89,413)
Surplus for the year	<u>38,116,204</u>	<u>42,845,401</u>

SA MEDICAL RESEARCH COUNCIL
STATEMENT OF CHANGES IN NET ASSETS
for the year ended 31 March 2009

		Accumulated Surplus R	Mark to Market Reserves R	Total R
	Notes			
Balance at 1 April 2007 as previously stated		62,347,304	1,449,169	63,796,473
Decrease in depreciation	26	4,678,700	-	4,678,700
Increase in transfer to deferred income grants and contracts	26	(4,678,700)	-	(4,678,700)
Increase in income from contracts, grants and services rendered	26	16,032,383	-	16,032,383
Balance at 1 April 2007 as restated		78,379,687	1,449,169	79,828,856
Surplus for the year		42,845,401	(32,258)	42,813,143
Surplus for the year previously stated		28,517,878	-	28,517,878
Movement on fair value of investments		-	(32,258)	(32,258)
Decrease in depreciation	26	2,419,470	-	2,419,470
Increase in transfer to deferred income grants and contracts	26	(2,419,470)	-	(2,419,470)
Increase in income from contracts, grants and services rendered	26	14,327,523	-	14,327,523
Balance at 31 March 2008		121,225,088	1,416,911	122,641,999
Balance at 1 April 2008		121,225,088	1,416,911	122,641,999
Surplus for the year		38,116,204	-	38,116,204
Movement on fair value of investments		-	(661,548)	(661,548)
Balance at 31 March 2009		159,341,292	755,363	160,096,655

SA MEDICAL RESEARCH COUNCIL
CASH FLOW STATEMENT
for the year ended 31 March 2009

	2009	2008
	R	R
	Notes	
Cash flows from operating activities		
Cash receipts from grants and contracts	498,288,679	360,693,515
Cash paid to suppliers and employees	(426,011,891)	(322,492,615)
Cash generated from operations	19 <u>72,276,788</u>	<u>38,200,900</u>
Interest received	35,829,865	23,410,639
Finance costs	(86,118)	(89,413)
Dividend received	99,880	49,757
Net cash inflow from operating activities	<u>108,120,415</u>	<u>61,571,883</u>
Cash flows from investing activities		
Property, plant and equipment acquired	(18,302,893)	(11,456,990)
Proceeds on disposal of plant and equipment	267,041	105,143
Investments acquired	(25,708,976)	(29,847)
Net cash outflow from investing activities	<u>(43,744,828)</u>	<u>(11,381,694)</u>
Cash flows from financing activities		
Increase/(Decrease) in Post Retirement Benefit Obligation	9,263,894	(18,415,580)
Increase / in Trust Funds	73,157	157,547
Loans repaid	-	(11,141)
Net cash inflow from financing activities	<u>9,337,051</u>	<u>(18,269,174)</u>
Net increase in cash and cash equivalents	73,712,638	31,921,015
Cash and cash equivalents at beginning of year	333,668,437	301,747,422
Cash and cash equivalents at end of year	<u>407,381,075</u>	<u>333,668,437</u>

SA MEDICAL RESEARCH COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

GENERAL INFORMATION

The South African Medical Research Council (MRC) was established in terms of the South African Medical Research Council Act of 1991. It is a Section 3A public entity in terms of the Public Finance Management Act (PFMA).

The Head Office is in Cape Town and it has offices in KwaZulu-Natal and Gauteng.

The objects of the MRC are, through research, development and technology transfer, to promote the improvement of the health and the quality of life of the population of South Africa and to perform such other functions as may be assigned to the MRC by or under the Act.

BASIS OF PREPARATION

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

STANDARD OF GRAP	REPLACED STATEMENT OF GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

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

1. TERMINOLOGY DIFFERENCES:

STANDARD OF GRAP	REPLACEMENT STATEMENT OF GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance Sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/Deficit for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

2. The cash flow statement can only be prepared in accordance with the direct method.

3. Specific information has been presented separately on the statement of financial position such as:

- a) Receivables from non-exchange transactions, including taxes and transfers;
- b) Taxes and transfers payable;
- c) Trade and other payables from non exchange transactions.

4. Amount and nature of any restrictions on cash balances are required.

The following GRAP statements are effective from 1 April 2009. Although MRC has not done a detailed assessment, our view is that these GRAP statements are closely related to the AC Statements.

STANDARD OF GRAP	REPLACEMENT STATEMENT OF GAAP
GRAP 4: The Effects of Changes in Foreign Exchange Rates	AC113: The Effects of Changes in Foreign Exchange Rates
GRAP 5: Borrowing Costs	AC114: Borrowing Costs
GRAP 6: Consolidated and Separate Financial Statements	AC132: Consolidated and Separate Financial Statements
GRAP 7: Investments in Associates	AC110: Investments in Associates
GRAP 8: Investments in Joint Ventures	AC119: Investment in Joint Ventures
GRAP 9: Revenue from Exchange Transactions	FS20: Revenue from Exchange Transactions
GRAP 10: Financial Reporting in Hyperinflationary Economies	AC114: Financial Reporting in Hyperinflationary Economies
GRAP 11: Construction Contracts	AC109: Construction Contracts
GRAP 12: Inventories	AC108: Inventories
GRAP 13: Leases	AC105: Leases
GRAP 14: Events After the Reporting Date	AC107: Events After the Reporting Date
GRAP 16: Investment Property	AC135: Investment Property
GRAP 17: Property, Plant and Equipment	AC123: Property, Plant and Equipment
GRAP 19: Provisions, Contingent Liabilities and Contingent Assets	AC130: Provisions, Contingent Liabilities and Contingent Assets
GRAP 100: Non-current Assets Held for Sale and Discontinued Operations	AC 142: Non-current Assets Held for Sale and Discontinued Operations
GRAP 101: Agriculture	AC137: Agriculture
GRAP 102: Intangible Assets	AC 142: Intangible Assets

The preparation of financial statements in conformity with GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. There were no areas requiring higher degree of judgement or complexity, or areas where assumptions and estimates are significant.

Standard effective at 25 July 2008

IFRS7 introduces disclosures relating to financial instruments and does not have any impact on the classification and valuation of the MRC's financial instruments.

Revenue Recognition

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

2.1.1 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. Grants used to obtain long term assets are recognised as deferred income and recognised as revenue over the estimated useful lives of the related assets.

2.1.2 Research revenue

Revenue is recognised only to the extent of research costs incurred and 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.

2.1.3 Interest and rental income

Interest income is accrued on a time proportion basis. Rental income is derived from fixed property and is recognised on an accrual basis in accordance with the substance of the relevant agreements.

Investments in associates

An associate is an entity in which the Council has significant influence, through participation in the financial and operating policy decisions of the investee, but not having control over those policies. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of the individual investments.

2.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical costs less depreciation and adjustment for any impairments. Costs include costs incurred initially.

Property, plant and equipment is written off on the straight-line basis to residual value, over the useful life of the assets.

The depreciation rates applicable to each category of property, plant and equipment are as follows:

Buildings	2%
Usufruct Buildings	over life of usufruct
Prefabricated Buildings	5%
Laboratory Equipment	5%
Vehicles and containers	20% with a 15% salvage value
Furniture and office equipment	10%
Computer Equipment	20%
Airconditioners	10%

The depreciation charge is based on the componentisation approach where appropriate. Items of property, plant and equipment are not componentised when the replacement policy of the Medical Research Council is to replace the item as a whole rather than its component parts. The effect is that every component in the item of property, plant and equipment has the same assessment of useful life, and the effect of componentising of no effect.

The useful lives and residual values of items of property, plant and equipment are reviewed on an annual basis. If there are changes in expectations, the difference is accounted for as a change in accounting basis. If there are changes in expectations, the difference is accounted for as a change in accounting basis.

2.4 Impairment of non-financial assets

Assets, other than inventories and receivables which are separately assessed and provided against where necessary, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication of impairment, its recoverable amount is estimated. The recoverable amount is the higher of its net selling prices and its value in use. Impairment losses are recognised in the income statement.

2.5 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 balance sheet 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 balance sheet as a finance lease obligation.

Operating leases - lessor

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

Operating leases -lessee

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

2.6 Intangible assets

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

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The amortisation rate is:

Computer software 10%

2.7 Provisions

Provisions are recognised when the Council has a present obligation (legal or constructive) as a result of a past event, it is probable that the Council will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Council has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

2.8 Biological assets

The Council recognises biological assets when:

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

Biological assets are measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably.

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.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and deposits held on call with banks. Cash equivalents comprise of highly liquid investments that are convertible to cash with insignificant risk of changes in value and with original maturities of less than three months.

2.10 Inventory

Inventory is stated at the lower of cost and net-realizable 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.

2.11 Employee benefits

Short term employee benefits

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

Long-term employee benefit

Leave

The liability for employee's entitlements to long service leave represents the present value of the estimated future cash outflows resulting from employee's services provided to the reporting date. In determining the liability for employee benefits, consideration has been given to future increases in wage and salary rates.

Pension Plan

Contributions to a pension plan, in respect of service in a particular period, are included in the employee's total cost of employment and are charged to the income statement in the year in which they relate as part of the cost of employment.

The amount recognised in profit or loss 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 actuarial gains and losses and unrecognised past service costs.

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

Post-retirement medical care benefits

The MRC provides post-retirement medical care benefits to its employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on the employee remaining in service up to retirement age. The expected cost 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 it occurs.

2.12 Financial Instruments

Financial assets

Financial assets are recognised when the MRC has rights or other access to economic benefits. Such assets consist of cash and cash equivalents, trade and other receivables, and investments.

Financial assets carried on the balance sheet include cash and cash equivalents, trade and other receivables, and trade and other payables, and investments.

Investments

Investments 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 and other receivables are initially recognised at fair value and are subsequently recognised at their amortised cost less provision for impairment. An estimate of doubtful debt is made on a review of all outstanding amounts at reporting dates.

Cash and cash equivalents

Cash and cash equivalents comprise of cash 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.

Financial liabilities

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset. Financial liabilities carried on the balance sheet include trade and other payables.

2.13 Foreign currencies

Transactions in foreign currencies are accounted for at the rates of exchange on the date of the transactions.

Gains and losses arising from the settlement of such transactions are recognised in the income statement.

At year end foreign currency transactions not yet settled are restated at the closing rate.

2.14 Irregular or fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of the PFMA. Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. All irregular, fruitless and wasteful expenditure is charged against income in the period it was incurred.

2.15 Change in estimate

The MRC has decided not to discount accounts receivable and accounts payable with effect from the current financial year, because of complexities associated with estimating interest receivable and interest paid.

The comparative figures have not been changed. Based on our calculations, the effect of not discounting on the current years surplus, will not be material.

SA MEDICAL RESEARCH COUNCIL
 NOTES TO THE FINANCIAL STATEMENTS
 for the year ended 31 March 2009

3. PROPERTY, PLANT AND EQUIPMENT

2009	Land and Buildings R	Laboratory Equipment R	Vehicles & Containers R	Furniture & Office Equipment R	Total R
Carrying value at beginning of year	47,924,242	28,058,143	11,251,144	7,755,701	94,989,230
Cost	64,769,576	78,386,927	19,611,917	19,173,116	181,941,536
Accumulated Depreciation	(16,845,334)	(50,328,784)	(8,360,773)	(11,417,415)	(86,952,306)
Additions	2,094,651	13,373,311	1,678,141	1,156,790	18,302,893
Disposals	-	(14,340,690)	(1,039,599)	(3,025,166)	(18,405,455)
Depreciation on disposals	-	13,365,325	928,245	2,565,220	16,858,790
Depreciation	(4,160,768)	(2,979,018)	(2,446,238)	(1,589,880)	(11,175,904)
Carrying value at end of the year	45,858,125	37,477,071	10,371,693	6,862,665	100,569,554
Cost	66,864,227	77,419,548	20,250,459	17,304,740	181,838,974
Accumulated Depreciation	(21,006,102)	(39,942,477)	(9,878,766)	(10,442,075)	(81,269,420)

2008	Land and Buildings R	Laboratory Equipment R	Vehicles & Containers R	Furniture & Office Equipment R	Total R
Carrying value at beginning of year	48,398,498	26,236,035	11,324,771	6,601,627	92,560,931
Cost	63,281,728	72,207,740	18,470,467	18,191,093	172,151,028
Accumulated Depreciation	(14,883,230)	(45,971,705)	(7,145,696)	(11,589,466)	(79,590,097)
Additions	1,487,848	7,261,014	1,542,679	1,165,449	11,456,990
Disposals	-	(1,081,827)	(401,229)	(183,426)	(1,666,482)
Depreciation on disposals	-	1,033,071	261,455	158,747	1,453,273
Depreciation	(1,962,104)	(5,390,150)	(1,476,532)	13,304	(8,815,482)
Carrying value at end of the year	47,924,242	28,058,143	11,251,144	7,755,701	94,989,230
Cost	64,769,576	78,386,927	19,611,917	19,173,116	181,941,536
Accumulated Depreciation	(16,845,334)	(50,328,784)	(8,360,773)	(11,417,415)	(86,952,306)

An amount of R16 million was written off during the year after a comprehensive asset count was conducted. A large number of assets were purchased more than 20 years ago.

4. INTANGIBLE ASSETS

2009	Computer Software R	Total R
Carrying value at beginning of year	574,111	574,111
Cost	1,500,346	1,500,346
Accumulated Amortisation	(926,235)	(926,235)
Additions	-	-
Change in estimate of the useful life	(590,953)	(590,953)
Carrying value at end of the year	1,165,064	1,165,064
Cost	1,500,346	1,500,346
Accumulated Amortisation	(335,282)	(335,282)

2008	Computer Software R	Total R
Carrying value at beginning of year	1,324,285	1,324,285
Cost	1,500,346	1,500,346
Accumulated Amortisation	(176,061)	(176,061)
Additions	-	-
Amortisation	(750,173)	(750,173)
Carrying value at end of the year	574,111	574,111
Cost	1,500,346	1,500,346
Accumulated Amortisation	(926,235)	(926,235)

	2009 R	2008 R
5. BIOLOGICAL ASSETS		
Bearer mature biological assets at beginning of year	1,180,410	710,850
Gains and losses from changes in fair value less estimated point of sale costs	(664,270)	469,560
Increases due to purchases	3,000	-
Decreases attributable to sales	(63,000)	-
Bearer mature biological assets at end of year	<u>456,140</u>	<u>1,180,410</u>
<p>The MRC holds certain monkeys, baboons and horses for research purposes. All research activities are monitored and controlled to ensure humane treatment of animals.</p>		
6. INVESTMENTS		
6.1 Short-term investments		
<i>Listed investments</i>	28,279,726	2,570,750
Sanlam demutualisation shares (No. of shares 14128) (2006 - No. of shares: 14 128)	237,916	269,845
Sanlam Unit Trust	1,775,867	2,226,514
ABSA 12 month fixed deposit	26,236,473	-
Old Mutual demutualisation shares (No. of shares: 4210) (2006 - No. of shares: 4 210)	29,470	74,391
<i>Non-listed investment</i>		
	1	1
Investment in subsidiary		
<p>Investment in Medres (Pty) Ltd is stated at cost less amounts written off. Medres Investment (Pty) Ltd is a wholly owned subsidiary of the MRC. The financial statements of Medres are not consolidated with that of the MRC, because the company was dormant and has no assets and liabilities.</p>		
Investment in Jirehsa Medical	100,000	100,000
<i>Investments in various portfolios- to fund post retirement benefits</i>		
Advanced Balanced portfolio	-	-
Investments in various instruments - to fund post retirement benefits	-	-
	<u>100,001</u>	<u>100,001</u>

	2009 R	2008 R
7. INVENTORY		
Consumable stores	302,557	362,011
8. TRADE AND OTHER RECEIVABLES		
Trade Receivables	35,837,684	41,658,166
Provisions	(2,181,477)	(1,873,422)
Staff Advances	33,933	70,918
Prepaid Expenses	1,412,947	1,319,440
Travel & Subsistence	1,225,169	850,179
Vat Refundable	1,278,710	-
Other Receivables	-	70,471
	<u>37,606,966</u>	<u>42,095,752</u>
9. CASH AND CASH EQUIVALENTS		
Bank balances		
ABSA and Standard Bank	1,814,341	44,988,611
ABSA - funders accounts	99,783,578	93,006,878
Petty cash	17,559	13,644
First National Bank	2,136,328	5,453,765
Cash at the Reserve Bank	303,629,269	190,205,539
Total Cash and Cash Equivalents	<u>407,381,075</u>	<u>333,668,437</u>
Additional disclosure on cash and cash equivalents		
<i>Rationalisation fund</i>		
The fund was instituted in terms of the regulations regarding the framework autonomy and provides for the expenditure associated with institutional restructuring or rationalisation.		
Balance at beginning of year	6,592,760	7,637,218
Rationalisation payments	(4,693,236)	(1,044,458)
Balance at end of the year	<u>1,899,524</u>	<u>6,592,760</u>

	2009 R	2008 R
<i>Motor vehicle self-insurance reserve</i>		
This reserve was established to provide for the self-insurance of motor vehicles with a low market value.		
Balance at beginning of year	1,794,700	1,500,740
Allocation for the year	345,746	302,154
Expenditure	(559,518)	(8,194)
Balance at end of the year	1,580,928	1,794,700
<i>Earmarked Funds</i>		
Botha Trust	261,636	261,636
Bruhns Trust	746,898	673,741
Melville Douglas Trust	100,000	100,000
	1,108,534	1,035,377

10. DEFERRED INCOME

Deferred Income monies received upfront in respect of research grants awarded to the MRC for specific research projects.	250,365,999	170,560,020
Deferred Income contracts and grants	100,569,554	94,989,230

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

Deferred Income for research grants is recognised as revenue as the related research expenditures are incurred.

Deferred Income contracts and grants is recognised as revenue as the related items of property, plant and equipment are depreciated.

	2009 R	2008 R
11. POST RETIREMENT OBLIGATIONS		
11.1 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 as at 1 April 2008 and it was found that the fund had a surplus of R10 million.		
(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.		
Details of the funded defined benefit plans are as follows:		
Defined benefit obligation - Wholly funded		
Present value of obligation	61,065,000	58,338,000
Fair value of plan assets	50,688,000	63,528,000
	<u>10,377,000</u>	<u>(5,190,000)</u>
Unrecognised actuarial gains and losses	-	-
Unrecognised past service cost	-	-
Net asset prior to limitation	10,377,000	(5,190,000)
Unfunded liability provided	(10,377,000)	-
Limitation of asset	-	5,190,000
Net asset recognised on the Balance Sheet	<u>-</u>	<u>-</u>
Reconciliation of defined benefit obligation		
Opening defined benefit obligation	58,338,000	55,204,000
Charges recognised in the income statement	14,698,000	8,982,000
Benefits paid	<u>(11,971,000)</u>	<u>(5,848,000)</u>
Closed defined benefit obligation	61,065,000	58,338,000

	2009 R	2008 R
Reconciliation of Plan assets		
Opening fair value of plan assets after limitation	58,338,000	55,204,000
(Income)/Charges recognised in the income statement	(600,000)	(547,000)
Contributions	4,921,000	9,529,000
Benefits paid	(11,971,000)	(5,848,000)
Closing fair value of plan assets	50,688,000	58,338,000
Staff Costs includes the following in respect of the defined benefit pension plan:		
Current service cost	4,397,000	4,381,000
Interest cost	5,081,000	4,195,000
Expected return on plan assets	(6,490,000)	(5,200,000)
Net actuarial (gains)/losses recognised in current year	17,500,000	(1,738,000)
Asset limitation	(5,190,000)	7,891,000
	15,298,000	9,529,000
The basis used to determine the overall expected rate of return on plan assets was the R186 Government bond without adjustment for the effect of tax.		
The actual return on plan assets amounted to:	(5,790,000)	3,868,000
The principal actuarial assumptions used in determining the pension plan were:		
General inflation rate	5.9% p.a	6.8% p.a
Discount rate	8.9% p.a	9.3% p.a
Expected investment return	9.9% p.a	10.8% p.a
Salary inflation	6.9% p.a	7.8% p.a
	plus merit bonuses	plus merit bonuses

2009
R2008
R

11.2 MEDICAL FUNDS

During the year, 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 benefit 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.

Details of the defined benefit plans are as follows:

Defined benefit wholly funded

Present value of obligation	18,007,000	17,632,000
Fair value of plan assets	17,897,000	17,650,000
	<u>110,000</u>	<u>18,000</u>
Unrecognised actuarial gains and losses	-	-
Unrecognised past service cost	-	-
Net asset prior to limitation	-	(18,000)
Limitation of asset	-	18,000
	<u>-</u>	<u>-</u>
Reconciliation of defined benefit obligation		
Opening defined benefit obligation	17,632,000	16,195,000
Charges recognised in the income statement	1,519,000	2,498,000
Benefits paid	(1,144,000)	(1,061,000)
Closed defined benefit obligation	<u>18,007,000</u>	<u>17,632,000</u>
Reconciliation of Plan assets		
Opening fair value of plan assets after limitation	17,632,000	-
Charges recognised in the income statement	1,326,000	2,498,000
Contributions	-	16,195,000
Benefits paid	(1,061,000)	(1,061,000)
Closing fair value of plan assets	<u>17,897,000</u>	<u>17,632,000</u>

	2009 R	2008 R
Details of the unfunded defined benefit plans are as follows:		
Defined benefit obligation - Unfunded		
Present value of obligation	4,542,000	3,931,000
Fair value of plan assets	-	-
Net liability	4,542,000	3,931,000
Reconciliation of defined benefit obligation		
Opening defined benefit obligation	3,931,000	22,346,580
Charges recognised in the income statement	(251,053)	1,150,676
Benefits paid	(862,053)	(3,371,256)
Transferred to insurance policy	-	(16,195,000)
Closed defined benefit obligation	2,817,894	3,931,000
Staff Costs includes the following in respect of the defined benefit medical plan		
Current service cost	207,000	331,000
Interest cost	393,000	518,000
Net settlement and actuarial gains recognised in current year	(851,053)	301,676
	(251,053)	1,150,676
The main principal actuarial assumptions used in determining the medical plan were:		
	assumptions	assumptions
Discount rate	8.80%	10.00%
General increases to medical aid subsidy	7.90%	8.50%
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
Proportion continuing membership at retirement	100%	100%
Proportion of retiring members who are married	80%	80%
Sensitivity analysis		
	Impact on liability RM	% Increase/Decrease
The effects of an increase or decrease of one percentage point on principal actuarial assumptions is as follows on the liability at 31 March 2009:		
Assumptions as above	22,549	
Discount rate - increases by 1% p.a	20,305	-10.00%
Discount rate - decreases by 1% p.a	25,240	12.00%
Medical inflation - increases by 1% p.a	25,105	12.00%
Medical inflation - decreases by 1% p.a	20,392	-10.00%
Retirement age - 60 for all ages	4,324	10.00%

	2009 R	2008 R
Sensitivity analysis	Impact on liability RM	% Increase/ Decrease
The effects of an increase or decrease of one percentage point on principal actuarial assumptions is as follows on the liability at 31 March 2008:		
Assumptions as above	21,563	
Discount rate - increases by 1% p.a	19,356	-11.00%
Discount rate - decreases by 1% p.a	24,239	13.00%
Medical inflation - increases by 1% p.a	24,102	13.00%
Medical inflation - decreases by 1% p.a	19,447	-10.00%
Retirement age - 60 for all ages	25,922	16.00%

12. PROVISIONS

Short Term

Provision for collaborative research costs

Balance at beginning of year	4,283,926	-
Additions through income statement	3,391,766	4,283,926
Movement through income statement	-	-
Utilised	(4,283,926)	-
Balance at end of the year	<u>3,391,766</u>	<u>4,283,926</u>

13. TRADE AND OTHER PAYABLES

Accounts payable include outstanding cheques amounting to:

Trade creditors	17,701,916	12,940,485
Accruals	5,842,791	36,137,106
VAT	-	8,179,036
Outstanding Cheques	6,476	10,593
Interest due to funders	8,760,715	7,339,359
Personnel Provision Fund	14,821,783	13,492,571
	<u>47,133,681</u>	<u>78,099,150</u>

	2009 R	2008 R
Personnel Provision Fund		
This fund was instituted to provide for the payments of personnel benefits, mainly leave gratuities, death and disability benefits, on the retirement or death of personnel.		
Balance at beginning of year	13,492,571	12,180,529
Leave payouts	(1,700,932)	(697,614)
Movement through income statement	3,030,144	2,009,656
Balance at end of the year	14,821,783	13,492,571

14 COMMITMENTS

14.1 Capital commitment

At year-end, a capital commitment of R3 365 960 excluding vat, existed in respect of the generator upgrade and other property, plant and equipment orders. This will be funded from existing cash resources.

14.2 Outstanding orders

At year, a commitment of R1,490,816 existed in respect of goods and services that have been ordered but not delivered at 31 March 2009.

14.2 Operating lease commitments

MRC leases certain of its property, plant and equipment in terms of 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.

Future minimum lease payments for (non-cancellable) operating leases

Payable within one year		
Premises	1,452,104	2,610,358
Furniture and office equipment	99,840	-
Vehicles	232,670	284,492
	1,784,614	2,894,850
Payable 1 to 5 years		
Premises	1,147,974	3,057,618
Furniture and office equipment	407,680	-
Vehicles	116,350	87,993
	1,672,004	3,145,611

	2009 R	2008 R
14.3 Finance lease commitments		
There are no finance lease commitments.		
15. NET SURPLUS FOR THE YEAR		
The net (deficit)/ surplus for the year, includes, amongst others, the following:		
INCOME		
Rent Received	2,667,082	2,444,563
Interest Received	35,829,865	23,410,639
EXPENDITURE		
Auditor's remuneration	942,110	549,102
- Audit fees	942,110	549,102
- Underprovision in previous year	-	-
Depreciation of assets	11,175,904	8,815,482
- Buildings	4,160,768	1,962,104
- Laboratory equipment	2,979,018	5,390,150
- Vehicles and containers	2,446,238	1,476,532
- Furniture and fittings	1,589,880	(13,304)
Loss on disposal of plant and equipment	1,279,624	108,067
Amortisation	(590,953)	750,173
Board members emoluments	459,707	304,429
Executive directors' and managers' remuneration	10,326,185	11,031,578
Finance cost	86,118	89,413
Operating lease payments	3,385,150	3,191,339
Collaborative research	111,770,471	114,562,598
Staff costs	232,862,613	213,509,702

	2009 R	2008 R
16. INTEREST RECEIVED		
Bank accounts	6,459,925	3,048,258
Sanlam Unit Trusts and Bruhns Trust Corporation for Public Deposits	123,373	61,231
Interest earned / (reversed) on Debtors accounts	29,209,467	20,251,224
Interest due to discounting receivables	37,100	49,926
	-	-
	35,829,865	23,410,639
17. COLLABORATIVE RESEARCH		
Consulting costs and honorarium payments	41,169,726	57,146,530
Payments made to external institutions	70,600,745	57,416,068
Reduction due to discounting payables		-
	111,770,471	114,562,598
18. STAFF COSTS		
Wages and salaries	200,458,895	187,227,937
Basic salaries	176,413,562	161,030,556
Performance awards	11,633,040	12,443,312
Other non-pensionable allowance	1,143,123	366,347
Temporary staff	9,218,583	11,777,783
Leave payments	1,702,932	972,133
Overtime pay	347,655	637,806
Defined Pension contribution plan expense	9,014,922	8,499,688
Social contributions (Employer's contributions)	9,360,917	8,133,900
Medical	5,256,280	5,051,081
UIF	1,018,551	1,000,310
Other salary related costs	3,086,086	2,082,509
Defined Pension benefit plan expense	3,901,932	8,497,500
- current service cost	2,978,416	2,821,671
- past service cost	923,516	5,675,829
deferred compensation		
Adjustments from the application of AC 116	10,125,947	1,150,677
	232,862,613	213,509,702

	2009 R	2008 R
19. NOTES TO THE CASH FLOW STATEMENT		
Cash generated from operations		
Surplus for the period	38,116,204	42,845,401
Adjustment for non-cash items:	11,203,029	25,673,847
Depreciation of property, plant and equipment	11,175,904	8,815,482
Change in estimate/Amortisation of intangible assets	(590,953)	750,173
Unrealised market to market reserve adjustment	(661,546)	(32,258)
Loss on disposal of property, plant and equipment	1,279,624	108,067
Prior year adjustment	-	16,032,383
Adjustments for items disclosed separately:	(35,843,627)	(23,370,983)
Interest received	(35,829,865)	(23,410,639)
Dividend received	(99,880)	(49,757)
Finance costs	86,118	89,413
Adjustment for changes in working capital	53,220,858	(9,375,664)
(Increase) in inventory and agricultural assets	783,724	(441,710)
Decrease/(Increase) in receivables	4,488,786	7,435,128
(Decrease)/Increase in payables and current deferred income	48,840,508	(21,965,050)
Increase in provisions	(892,160)	5,595,968
Adjustment for increase in non current deferred income	5,580,324	2,428,299
Cash generated from operations	<u>72,276,788</u>	<u>38,200,900</u>

20. TOTAL GOVERNMENT GRANTS

Allocation for the year	230,436,003	221,290,000
Transfer to deferred income	-	(4,014,036)
Less: Vat	<u>(28,299,158)</u>	<u>(27,175,965)</u>
	<u>202,136,845</u>	<u>190,099,999</u>

21. CONTINGENT LIABILITY**Remuneration**

There is a legal process in place regarding the special payment made by EMC to staff, in respect of the difference between the salary increases at MRC, and the increases in the public sector. The Board is disputing the payment on the basis that no approval was given.

22. BOARD MEMBERS' EMOLUMENTS

Fees for the board and board sub-committee meetings for the period 1 April 2008 to 31 March 2009 were as follows:

	Honorarium R	Vehicle and parking R	Consulting fees & cellphone Allowance R	Total R
Advocate Block	57,064	2,881	15,370	75,315
Professor D Du Toit	70,904	2,628	-	73,532
Doctor JK Hartzell	9,004	424	-	9,428
Professor DL Mkize	30,594	1,967	-	32,561
Doctor K Mlisana	28,998	800	-	29,798
Professor Moodley	28,998	1,482	-	30,480
Professor JM Pettifor	44,210	2,610	4,524	51,344
Colonel DC Qolohle	23,220	1,682	-	24,902
Professor S Rataemane	56,971	3,423	-	60,394
Professor K Voyi	32,594	-	1,767	34,361
Doctor C Walsh	33,068	-	4,524	37,592
	415,625	17,897	26,185	459,707

Reimbursive column represents payments in lieu of travel costs.

23. EXECUTIVE DIRECTORS'/MANAGERS'/TEAM MEMBERS EMOLUMENTS

	Salary R	Travel & Cellphone Allowances R	Leave/ Lump sum Payouts R	Package Total R	Bonus R	S&T R	Company Contributions R	2009 Total R	2008 Total R
*N Bhagwandin	651,564	6,798	58,573	716,935	14,427	15,315	69,781	816,458	766,666
*SH Bok	641,832	6,798	-	648,630	14,427	2,255	79,175	744,487	739,182
**PA Charls	540,900	6,798	-	547,698	61,322	4,294	84,761	698,075	632,413
**MA Damons	474,312	5,715	-	480,027	51,364	8,999	52,104	592,494	539,504
MA Dhansay	886,860	50,308	20,231	957,399	20,644	14,924	106,323	1,099,290	811,032
*E Madela-Mntla	672,804	53,370	-	726,174	15,733	15,262	67,243	824,412	807,416
BJ Mahlangu	887,616	6,798	-	894,414	19,404	967	82,589	997,374	981,179
* ND Mbananga	-	-	-	-	-	-	-	-	1,268,920
AD Mbewu	1,463,343	12,640	212,884	1,688,867	-	21,641	104,960	1,815,468	1,575,369
**MC Mdhuli	561,372	6,798	-	568,170	67,454	3,120	64,109	702,853	594,959
*C Nxomani	-	-	-	-	-	-	-	-	182,451
AP Terblance	815,868	92,517	-	908,385	19,559	23,417	82,110	1,033,471	1,151,372
Z Vokwana	904,680	6,798	-	911,478	19,404	55	70,866	1,001,803	981,115
	8,501,151	255,338	291,688	9,048,177	303,738	110,249	864,021	10,326,185	11,031,578

Executive Directors'/Managers'/Team members resignation; contract end dates and appointment dates

C Nxomani	Resignation	30/06/07
MA Dhansay	Appointed	01/09/07
ND Mabananga	Resignation	31/10/07
MA Damons	Effective	July 2007
MC Mdhuli	Effective	October 2007

* Executive Manager

** Executive Team members

24. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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.

24.1 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Management has a debtors 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 big banks.

Contract works constitutes the biggest portion of MRC's income, and the major exposure is delays in finalising contracts, and disputes in terms of whether or not 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.

24.2 Liquidity risk

This is the risk that MRC will not be able to meet its financial obligations as they fall due. 86% of MRC's trade accounts receivable are current, i.e. less than 30 days.

The MRC monitors its cashflow requirements and optimising its cash return on investments.

24.3 Currency risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The MRC receives substantial funding from the USA and Europe, as a result its balance sheet can be affected by movements in the US\$ and Euros.

Due to uncertainties in respect of when cash will be received from overseas, MRC avoids taking forward cover.

Approximately 84% of MRC's debtors (R32m) are exposed to currency changes, compared to 66% last year (R27 million).

The MRC's project office does a scenario calculation, looking at how much would be lost if there was an unfavourable currency change. On the basis of this outcome, it will be decided whether or not to proceed with particular project.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate.

	Increase/decrease in US dollar rate	Effect on revenue R
2009		
Overseas debtors	10%	
Overseas debtors	-10%	
2008		
Overseas debtors	10%	2,945,771
Overseas debtors	-10%	(2,945,771)

Using the debtors balance as a starting point is not always giving a true reflection of the potential loss, as it could be some time from the period when the contract is concluded and when invoicing starts. There have been cases where the loss was more than 20%.

24.4 INTEREST RISK

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

2009	Average effective interest rate	Total	6 months or less	1-2 years	2-5 years
Variable rate instruments		R	R	R	R
Cash and cash equivalents	8.00%	407,381,075	407,381,075		
Trade and other receivables	8.00%	37,606,966	37,606,966		
Trade and other payables	8.00%	47,133,681	32,311,898	14,821,783	

2008	Average effective interest rate	Total	6 months or less	1-2 years	2-5 years
Variable rate instruments		R	R	R	R
Cash and cash equivalents	9%	333,668,437	333,668,437		
Trade and other receivables	9.77%	42,095,752	42,095,752		
Trade and other payables	9.77%	78,099,150	64,606,579	13,492,571	

24.5 FAIR VALUES

At March 2008 and March 2009, the carrying amounts of cash, accounts receivable, accounts payable approximated their fair values due to the short-term maturities of these assets and liabilities.

25. RELATED PARTIES

The MRC has the following Related Parties:

Investments

The MRC has a wholly owned subsidiary, Medres (Pty) Ltd and Medres (Pty) Ltd has a 24,9% shareholding in Jiresha (Pty) Ltd. During the year, the MRC incurred audit fees of R5700 in respect of Medres. Medres (Pty) Ltd has a loan received from MRC for R55 702; this loan is not considered to be recoverable.

Services bought or sold

Department of Health (DOH): DOH determines the health priorities, and on the basis of this, MRC presents its business plan. The budget is approved after the business plan has been reviewed by DOH. DOH also funds contract work. National Health Laboratory Services (NHLS) is a public entity of DOH.

Department of Science Technology (DST): DST co-ordinates and fund the Science system. National Research Foundation (NRF), SAASTA and the Council for Scientific Industrial Research (CSIR) are public entities reporting to DST.

Revenue in respect of work done for related parties in respect of services rendered:

	2009 R	2008 R
DOH baseline (excluding vat)	202,136,845	194,114,035
DOH	20,034,757	25,029,239
DST	17,582,548	19,522,781
NRF	6,361,833	5,714,405
CSIR	95,998	183,933
NHLS	162,500	-
HSRC	102,218	13,398
SAASTA	157,837	433,266
ARC	249,430	-
Expenses paid or accrued in respect of services rendered to the MRC:		
NHLS	3,734,270	4,242,620
CSIR	2,054,687	1,683,988
HSRC	-	60,000
Repayment of grants		
NRF	-	471,146
Accounts receivable balances at year end:		
DOH	4,418,105	1,445,900
DST	46,771	604,949
NHLS	855,390	846,798
CSIR	-	139,789
NRF	66,008	870,873
SAASTA	-	93,110
HSRC	175,627	-
Accounts payable/Prepaid income balances at year end:		
NHLS	6,939,280	3,205,010
HSRC	-	22,800
CSIR	795,574	-

Key Management Personnel

The remuneration of the Key Management Personnel has been included under remuneration note 23.

	2009 R	2008 R
Remuneration	10,326,185	11,031,578

Their leave balances were as follows:

Prof A Mbewu	7,838	287,518
Prof P Terblanche	4,889	(27,942)
Dr A Dhansay	275,603	223,568
Mr. Z Vokwana	66,944	81,372
Mr. B Mahlangu	178,518	143,072
Ms S Bok	92,332	66,483
Mr. P Charles	149,012	132,817
Ms M Jacobs	32,872	-
Dr N Madela-Mntla	104,621	73,950

26. PRIOR YEAR ADJUSTMENTS

Net effect of
restatement
R

26.1 DEFERRED INCOME

Deferred income was overstated

The impact of the adjustment on the 2008 financial statements is as follows:

Increase in accumulated surplus at 1 April 2007

Increase in surplus resulting from:

Increase in income from contracts, grants and services rendered	15,721,626
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Decrease in deferred income	(15,721,626)
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MRC erroneously did not recognise time spent related to some foreign contracts, and the funds were regarded as restricted.

	2009 R	2008 R
26.2 Property, plant and equipment		
The property, plant and equipment have been restated to reflect net book values, given appropriate useful lives. The impact of the adjustment on the 2008 financial statements is as follows:		
Increase in accumulated surplus at 1 April 2007		
Increase in surplus resulting from:		
Decrease in depreciation	(4,678,700)	
Increase in property plant and equipment	4,678,700	
Increase in accumulated surplus at 31 March 2008		
Increase in surplus resulting from:		
Decrease in depreciation	(2,419,470)	
Increase in property plant and equipment	2,419,470	
	RESTATED 2008	PREVIOUSLY DISCLOSED 2008
	R	R
Amount of Property Plant and Equipment disclosed	94,989,230	87,891,060

	2009 R	2008 R
26.3 Government grants and contracts related to assets		
		Net effect of restatement R
<p>The deferred income is recognised as an increase to surplus over the estimated useful lives of the related property, plant and equipment. The adjustment to depreciation as at 1 April 2007 resulted in an excess on deferred income. The excess of the deferred income above property, plant and equipment were released to accumulated surplus immediately to match them to the assets already consumed. The impact of the adjustment on the 2008 financial statements is as follows:</p>		
Decrease in deferred income at 31 March 2008	(2,419,470)	
Increase in Surplus 2008, resulting from:	2,419,470	
Increase in grant revenue 2008	2,419,470	
	RESTATED 2008	PREVIOUSLY DISCLOSED 2008
	R	R
Deferred income contracts and grants	92,560,931	87,882,231
Increase in trade and other receivables at 31 March 2008		(310,757)
Increase in accumulated surplus at 1 April 2008, resulting from:		310,757
Increase in income from contracts, grants and services rendered		310,757
	RESTATED 2008	PREVIOUSLY DISCLOSED 2008
	R	R
Trade and other receivables	42,095,752	41,151,029
Deferred income	170,560,020	199,975,203

	2009 R	2008 R
26.4 Summary of effect of adjustments on net assets		
Increase in income from contracts, grants and services rendered	16,032,383	
Increase in accumulated surplus 1 April 2007	16,032,383	
Increase in surplus 2008	14,327,523	
Decrease in deferred income	(29,415,183)	
Increase in trade and other receivables	(944,723)	
	RESTATED 2008	PREVIOUSLY DISCLOSED 2008
	R	R
26.6 Accumulated surplus	121,225,088	90,865,182

27. RECLASSIFICATION OF PRIOR YEAR FIGURES

- 27.1** Motor vehicle self-insurance reserve note reflected the incorrect expenditure amount in note 9.
- 27.2** Trade and other payables include the personnel provision fund which was previously disclosed as a long term provision.

28. DETAILED STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2009 R	2008 R
Revenue		531,805,427	494,047,526
Government Grants		208,487,468	187,671,700
Total Government grants	20	202,136,845	190,099,999
Vat Assessment		11,930,947	-
Add/(Less): Transfer to deferred income grants and contracts		(5,580,324)	(2,428,299)
Income from Contracts, grants and Services Rendered		281,875,151	278,605,692
Gross Income		281,875,151	278,605,692
Add/(Less): Transfer to deferred income grants and contracts		-	-
Other Income		41,442,808	27,770,134
Interest Received	16	35,829,865	23,410,639
Rent received	15	2,667,082	2,444,563
Bad debts recovered		15,550	46,669
Sundry income		2,830,431	1,818,506
Dividend income		99,880	49,757
Expenditure		493,689,223	451,202,125
Laboratory Operating Cost		42,240,866	27,920,766
External Research Support, consulting and internal audit		5,491,221	9,241,819
Collaborative Research	17	111,770,471	114,562,598
Audit Fees	15	942,110	549,102
Bad Reversed/ Bad Debts		(155,357)	287,142
Computer Related Expenditure		8,937,516	7,291,982
Depreciation of assets	15	11,175,904	8,815,482
(Change in estimate)/Amortisation of intangible assets	15	(590,953)	750,173
Lease Rentals	15	3,385,150	3,191,339
Loss on disposal of plant and equipment	15	1,279,624	108,067
Infra-structural, communication and statutory costs		20,525,933	18,618,144
Sundry Expenditure		4,412,561	3,871,493
Repairs and maintenance		6,358,353	4,921,837
Staff Cost	18	232,862,613	213,509,702
Retrenchment/ early retirement costs		4,693,236	1,044,458
Travel, Subsistence and Conference Attendance		36,649,327	33,093,495
Finance cost		86,118	89,413
Printing and Stationery		3,624,530	3,335,113
SURPLUS for the year		38,116,204	42,845,401