

AUDIT REPORT

REPORT OF THE AUDITOR-GENERAL



AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE COUNCIL ON HIGHER EDUCATION

FOR THE YEAR ENDED 31 MARCH 2004

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 80 to 92, for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 18 of the Higher Education Act, 1997 (Act No. 101 of 1997). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

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

An audit includes:

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

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

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

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Council for Higher Education at 31 March 2004 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

4. EMPHASIS OF MATTER

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

4.1 Going concern

In evaluating the entity's ability to continue its operations in the near future, it was established that there is a concern that the Council on Higher Education will be unable to meet its mandate as set out in the Higher Education Act, 1997 and the Education White Paper 3 of 1997, due to the uncertainty of re-currant funding from the DoE. This condition indicates the existence of an uncertainty, which may cast doubt on the Council on Higher Education's ability to continue as a going concern in the long term.

We also draw your attention to the going concern paragraph in the directors' report.

5. APPRECIATION

The assistance rendered by the staff of the Council on Higher Education during the audit is sincerely appreciated.

N Puren

for Auditor-General

Pretoria

24 August 2004

We are pleased to present our report for the financial year ended 31 March 2004.

1. AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The audit committee consists of the members listed hereunder. During the year two meetings were held.

NAME OF MEMBER

Mr A de Wet	- Chairperson (Wits University)
Mr S Isaacs	- Committee Member (SAQA)
Mr I Sehoole	- Committee Member (SA Institute of Chartered Accountants)
Prof. G Lenyai	- Committee Member (Tshwane University of Technology)

2. AUDIT COMMITTEE RESPONSIBILITY

This report has been prepared in accordance with the Treasury Regulations for Public entities issued in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999). The Council on Higher Education is listed as a national public entity in Schedule 3A of the Act. The audit committee reports that it has complied with its responsibilities arising from section 38(1)(a) of the PFMA and Treasury Regulation 3.1.1.13 and 27(1)(10). The Audit Committee also reports that it has adopted formal terms of references as its audit committee charter and has discharged its responsibilities contained therein.

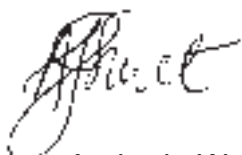
3. THE EFFECTIVENESS OF INTERNAL CONTROL

The committee has noted its satisfaction that management has put in place systems of controls designed to provide cost effective assurance that assets are safeguarded and liabilities and working capital sufficiently managed. The Risk Assessment and Risk Management Plan has been finalised. The Internal Audit Unit of the Department performed the internal audit function for the year under review. It was noted that no significant or material non-compliance with prescribed policies and procedures have been reported. The audit matters raised by the Auditor-General are receiving the attention of management.

4. EVALUATION OF FINANCIAL STATEMENTS

The audit committee has reviewed and discussed with the Auditor-General the audited annual financial statements to be included in the annual report as well as the Auditor-General's management letter and management response.

The Auditor-General issued the Council on Higher Education with an unqualified report for 31 March 2004. There is a concern that the Council on Higher Education will be unable to fulfil its mandate set out in the Higher Education Act and the Education White Paper 3 of 1997 due to the uncertainty of recurrent funding from the Department. The audit committee recommends that a meeting be scheduled with the Department to give clarity on this crucial matter.



Andr de Wet

CHAIRPERSON: AUDIT COMMITTEE



CHE Audit Committee:

Fltr:

Mr SBA Isaacs,
Mr A de Wet and
Mr I Schoole

Absent:

Prof. G Lenyai

AUDITED FINANCIAL STATEMENTS
For the year ended
31 March 2004



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Director's approval of the annual financial statements

The annual financial statements for the year ended 31 March 2004 set out on pages 80 - 92 were approved and are signed by:



Prof. MS Badat
(Chief Executive Officer)

DIRECTOR'S REPORT: For the year ended 31 March 2004

Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa.

INTRODUCTION

The directors present their annual report that forms part of the audited annual financial statements for the year ended 31 March 2004.

The CHE is incorporated as a public company in South Africa in terms of the *Higher Education Act, 1997*, as amended, and is listed as a national public entity in schedule 3A of the *Public Finance Management Act, 1999*, as amended, (PFMA).

The board of directors acts as the accounting authority in terms of the PFMA.

CORPORATE GOVERNANCE STRUCTURE

The CHE has in place effective and transparent financial management and internal control systems, policies and procedures that have been designed to satisfy the requirements of the *Public Finance Management Act*. These systems were established by a financial consultant and are revised and updated on the advice and recommendations of the Auditor General, the internal auditors, the CHE Audit Committee and the Executive Committee of the CHE.

Scrutiny of finances and financial systems occurs through:

- The annual audit of the office of the Auditor General, which is both rigorous and also formative in contributing to the enhancement of systems, policies and procedures
- Internal audits conducted by the DoE, which are important in identifying areas that may require attention
- The CHE Audit Committee, which has been constituted in accordance with regulations
- The CHE Executive Committee
- The CHE Council
- The CHE Chief Executive Officer.

The CHE budget is approved by the CHE Council, which is regularly updated on income and expenditure and provided a variance report. The Executive Committee of the CHE maintains oversight of finances through reporting every two months by the CEO on income and expenditure, including a variance report. A three-person team manages and administers CHE finances: an extremely diligent, skilled and competent full-time Finance Manager; a Finance Administrator who deals specifically with income and expenditure related to private HE providers, and a Finance Secretary. The CEO maintains strong oversight on finances.

The varied and ongoing scrutiny of CHE financial systems has been important in revealing possible areas of risk, which are then addressed. In addition, the CHE commissioned KPMG to conduct an independent and comprehensive assessment of risk and to advise on strategies and mechanisms to reduce and/or eliminate risk. The most important risks have been incorporated into *The Programme (goals, strategy and plan) of the CHE, 2004-2007*, for adoption by the CHE Council at its 19 April 2004 Council meeting. The CHE is confident that it has the necessary financial systems, policies and procedures and, above all, the finance personnel, to prevent or significantly reduce fraud.

Finally, policies and procedures – related to signing powers, declaration of interest, non-acceptance of gifts from providers of HE, etc. exist and are regularly updated to ensure that conflict of interest is either eliminated or minimised. A Code of Conduct for both CHE members and personnel also exists in this regard.

ORGANISATIONAL STRUCTURE

The CHE comprises the Council, an Executive Committee, and a Secretariat headed by the CEO. The *Higher Education Act* assigned to the CHE statutory responsibility for QA and quality promotion in HE, to be carried out through a permanent body, the Higher Education Quality

Committee (HEQC). CHE activities are undertaken through CHE *Standing Committees, Task Teams* and *Projects*.

Standing Committees are devoted to key HE policy areas and issues that require the ongoing attention of the CHE. The Chair and members of Standing Committees are appointed by the CHE. Provision is made for the participation of non-CHE members with the approval of the Council. While Standing Committees are directed and supervised by CHE members, the CHE Secretariat handles their management and administration.

There are four Standing Committees. The *Higher Education Legislation Standing Committee* attends to the preparation, tabling for discussion and eventual adoption, at the full committee meeting of the CHE, of all CHE advice on proposed HE legislation. Such legislation may take the form of new Acts on or related to HE, amendments to the existing *Higher Education Act* and legislation related to HE and all HE regulations. The *Shape and Size Standing Committee* deals with the issues of the overall capacity (size in terms of number of institutions, enrolments and participation rate) of the HE system in relation to the need to develop the high level and varied intellectual and conceptual knowledge, abilities and skills to meet the local, regional, national and international requirements of a developing democracy. This standing committee also deals with the development of intellectual and conceptual knowledge and skills as well as ongoing development of professionals at different levels, for different economic and social sectors, in different fields and disciplines and through different types and kinds of HEIs and educational and pedagogic modes (*shape*).

The CHE *Funding and Financing Standing Committee* deals with all aspects of the funding and financing of HE. The *Higher Education Act* and the *White Paper* allocate specific responsibilities to the CHE in this regard, such as advising on “the policies, principles and criteria that should govern the allocation of public funds among HE providers”, “a mechanism for the allocation of public funds”, “student financial aid”, “policy regarding public and private financing and provision, the level and distribution of public subsidies to HE” and “forms of student financial assistance”. Finally, the *Monitoring and Evaluation Standing Committee* deals with all aspects of building an effective system for monitoring and evaluating the achievement of policy goals and objectives and with monitoring and evaluation of projects and reports.

CHE *Task Teams* are focused on systemic or major HE policy issues on which the Minister has requested the CHE's advice or the CHE wishes to provide advice proactively. They are established according to need. The members of Task Teams, including the Chair, are appointed by the CHE and non-CHE members and may participate with the approval of the Council. CHE members direct and supervise Task Teams with the CHE Secretariat responsible for their management and administration.

Finally, issues that are not related to the immediate policy advice responsibilities of the CHE are, with the approval and guidance of the Council, directed, supervised and managed by the CHE Secretariat as *Projects*. These include: research and investigations that give effect to and/or inform the diverse work of the CHE. The results of these may, following discussion by the Council, lead to advice to the Minister:

- Reporting on the state of South African HE
- The annual Consultative Conference
- CHE conferences and discussion forums
- CHE publications and other media
- The Annual Report on the CHE that is submitted to parliament.

The HEQC has its own Board with two CHE members represented on it (the chairperson of the HEQC and one other). HEQC members are chosen by the CHE on the basis of nominations from interested parties in HE. All HEQC members are appointed in their own right for a three to four year period, although they bring expertise and experience from different stakeholder domains.

The HEQC Board meets about every two months and the HEQC EXCO meets once a month. The work of the HEQC is conducted through the following sub-committees:

- The Policy Development and Review Committee
- The Accreditation Committee (Private Providers)
- The Interim Joint Committee (Public Providers)

Regular reports on the work of the HEQC are tabled at the bi-monthly meeting of the CHE Council.

Each of the units of the CHE – Divisions, Offices, Directorates, Sections – have specified responsibilities and operate within a framework of defined authority and autonomy and accountability and reporting. Regular meetings of the Senior Management of the CHE – CHE CEO, HEQC, ED, Directors – and when necessary Managers, address important strategic and organisational issues and give effect to the goal of the different CHE functional areas and organisational components of the CHE working in a mutually supportive, integrated and co-ordinated manner.

PRINCIPAL ACTIVITIES

The responsibilities allocated to the CHE are extensive and varied. Table 1 below indicates the CHE's responsibilities and its progress and activities over the past year, towards their fulfilment.

Table 1: Progress towards fulfilling the mandate of the CHE

RESPONSIBILITY	PERFORMANCE DURING 2003-2004
<p>1. Advising the Minister on all HE issues on which the CHE's advice is sought</p>	<ul style="list-style-type: none"> • Advice on <ul style="list-style-type: none"> - Conditions and criteria for the use of the designations "University", "Technikon" etc. and for offering/awarding degrees and Postgraduate qualifications - Proposed new funding framework - Distance HE
<p>2. Advising the Minister on its own initiative on HE issues which the CHE regards as important</p>	<ul style="list-style-type: none"> • Advice on <ul style="list-style-type: none"> - Institutional redress policy, strategy and funding - NQF Consultative Document - New Academic Policy process • Undertaking of investigation and preparation of draft advice on GATS and its implications for HE
<p>3. Designing and implementing a system for QA in HE and establishing the HEQC</p>	<ul style="list-style-type: none"> • Research and development <ul style="list-style-type: none"> - Produced a directory of ETQAs and Professional Bodies (August 2003) - Commissioned research on short courses - Commissioned research on recognition of prior learning - Commissioned research on and held workshop on vocational education - Commissioned research on NQF Consultative Document proposals

- **Programme Accreditation and Co-ordination**
 - Undertaken accreditation of 285 new programmes of public HEIs
 - Undertaken accreditation of 255 new programmes of private HEIs
 - Undertaken re-accreditation of 138 existing programmes of private providers
 - Undertaken re-accreditation of all MBA programmes
 - Released discussion document on proposed new accreditation framework
 - Undertaken finalisation of new accreditation policies and framework
 - Preparation of regulations for accreditation
 - Extensive investigation into various aspects of co-ordination of HE QA
 - Publication of a directory of ETQAs and professional bodies arising from investigation into co-ordination of HE QA
 - Various meetings with SAQA and HEIs on issues related to co-ordination of HE QA
 - Extensive and ongoing consultations with all key stakeholders
- **Institutional Audits**
 - Undertook three pilot audits of HEIs
 - Undertaken finalisation of new audit policies and framework
 - Preparation of regulations for institutional audits
 - Extensive and ongoing consultations with all key stakeholders
 - Meetings with institutions selected for institutional audits
- **Quality Promotion and Capacity Development**
 - Held numerous workshops on Teaching and Learning resources
 - Convened HEQC national forum of QA managers at HEIs
 - Organised numerous conferences, seminars and training workshops
 - Support to Namibian and Mozambican Ministries
 - Began preparation of framework document for Quality Promotion and Capacity Development
 - Preparation of regulations for Quality Promotion and Capacity Development
 - Extensive and ongoing consultations with all key stakeholders
- **NQF implementation**
 - Commented and proactively advised on NQF Consultative Document

4. Advising the Minister on the appropriate shape and size of the HE system, including its desired institutional configuration

- Advice to Minister on conditions and criteria for the use of the designations “University”, “Technikon” etc. and for offering /awarding degrees and Postgraduate qualifications

5. Advising the Minister in particular on the new funding arrangements for HE	<ul style="list-style-type: none"> • Advised on institutional redress policy, strategy and funding • Advised on proposed new funding framework
6. Advising the Minister in particular on language policy in HE	<ul style="list-style-type: none"> • Public release of CHE advice to the Minister
7. Developing a means for monitoring and evaluating whether, how, to the extent to which and the consequences of the vision, policy goals and objectives for HE defined in the <i>White Paper</i> on HE are being realised	<ul style="list-style-type: none"> • Establishment of Reference Group to guide development of a conceptual framework and system for Monitoring and Evaluation • Production of numerous drafts of a framework document on Monitoring and Evaluation • Finalisation of a Discussion Document: <i>Towards a Framework for the Monitoring and Evaluation of South African Higher Education</i> • Preparations for release for public comment of the Discussion Document
8. Promoting the access of students to HE	<ul style="list-style-type: none"> • Commissioned research on RPL and short courses • CHE decision to commission work on the barriers to equity of access, opportunity and outcomes in HE
9. Providing advice to the Minister on the proposed new Education Management Information System for HE	<ul style="list-style-type: none"> • Ongoing communication with DoE and SAQA regarding HEMIS and NLRD in relation to CHE databases for monitoring and QA
10. Formulating advice for the Minister on a new academic policy for HE, including a diploma/degree structure which would advance the policy objectives of the <i>White Paper</i>	<ul style="list-style-type: none"> • Ongoing communication with the Ministry regarding NAP and also with SAQA • Awaiting the final document from the DoE for advice
11. Formulating advice for the Minister on stimulating greater institutional responsiveness to societal needs, especially those linked to stimulating South Africa's economy, such as greater HE-industry partnerships	<ul style="list-style-type: none"> • Colloquium on HE responsiveness at local government level • Facilitated process to develop a MoU between HE institutions in Johannesburg and the Johannesburg Metropolitan Council • MoU between HE institutions in Johannesburg and Johannesburg Metropolitan Council signed • Advice and recommendations to the Minister to be finalised in late 2004
12. Appointing an independent assessment panel from which the Minister is able to appoint assessors to conduct investigations into particular issues at public HEIs	<ul style="list-style-type: none"> • Panel supplemented with new members during 2003 • Minister utilised panel member for investigation at the University of Durban-Westville
13. Establishing healthy interactions with HE stakeholders on the CHE's work	<ul style="list-style-type: none"> • Bilateral meetings with various national stakeholders • Extensive engagements with national stakeholders and HEIs around QA issues

14. Producing reports on the state of HE	<ul style="list-style-type: none"> • Future State of HE reports will be facilitated by: <ul style="list-style-type: none"> - CHE Monitoring and Evaluation activities - Protocols with institutions and organisations on data collection and sharing - CHE Triennial Review of the HE project - Effective HEMIS system of the DoE - NLRD of SAQA
15. Convening an annual consultative conference of HE stakeholders	<ul style="list-style-type: none"> • 5th Consultative conference in November 2003
16. Participating in the development of a coherent HRD framework for South Africa in concert with other organisations	<ul style="list-style-type: none"> • Contributions through attendance of workshops • Informal contributions through HRD discussions in context of NQF • Key issue for Responsiveness of HE project and of HE colloquium of 27-28 June 2002
17. Contributing to the development of HE through publications and conferences	<ul style="list-style-type: none"> • Initiated a range of publications: Policy Reports, Research Reports, Occasional Papers, Higher Education Monitor, Newsletters and <i>Kagisano</i> – a HE Discussion Series to stimulate discussion and debate around important issues related to HE. • Initiated a <i>CHE Discussion Forum</i>: <ul style="list-style-type: none"> - <i>Tertiary Education in the New South Africa: A Lover's Complaint</i> (Prof. Bob Wolff) - A Conceptual Critique of the <i>Consultative Document: An Interdependent National Qualifications Framework System</i> (Prof. Michael Young) - Numerous conferences, seminars and workshops convened by the HEQC to promote quality and build institutional and individual capabilities

REVIEW OF OPERATIONS

The amount of revenue increased by 16.12% for the year amounting to R22 420 035 as a result of an increase in the government grant as well as an increase in private accreditation cost recovery income.

REVIEW OF FINANCIAL POSITION

The CHE derived its operating income from three sources:

- R15 571 344 (70%) from the National Treasury (through the DoE)
- R 4 710 852 (21%) from donors
- R545 428 (2%) from sundry income
- R 1 592 411 (7%) from statutorily mandated QA services provided to the providers to private HE on a cost-recovery basis.

With respect to spending, 85% of the 2003-2004 operating income of R22 420 035 was expended in the execution of responsibilities. Of the total expenditure of R19 055 420, expenses incurred on QA activities constituted 50%, while the advisory, monitoring and reporting functions of the CHE and financial and administrative operations constituted 50%.

Personnel costs constituted 60% and the bulk of overall CHE expenditure. This is appropriate since CHE activities are knowledge and information intensive and therefore also personnel intensive. However, since payments to programme accreditation evaluators and consultants on advisory, monitoring and reporting projects are made from donor and project budgets, the actual expenditure

on all personnel was higher. Other major areas of expenditure were programme accreditation and co-ordination (11%) advisory, monitoring and HE development projects (10%), quality promotion and capacity development (6%) and institutional audits (3%). Almost 3% of total expenditure was on the development of an ICT infrastructure, including data management systems and databases for key CHE activities. This figure of 3% will decrease considerably once the ICT infrastructure and data management systems are established.

UNDER/OVER SPENDING

Under-spending in the 2003-2004 financial year has been 15% of the total operating income, resulting in an operating surplus of R 3 364 615.

There are four reasons for under-spending. First, in some instances suitable personnel could not be secured and/or contract staff were appointed against established posts at a lower remuneration. Second, all of the donor projects could not be executed within the established timeframes owing to unavailability of specialist consultants and/or for circumstances outside the control of the CHE. Third, the roll-out of the data management systems and databases has remained a complex exercise that has taken considerably more time to conceptualise and implement than was originally envisaged. Finally, key CHE personnel were involved in an accident during 2003, which resulted in complications in the execution of tasks and projects.

Under-spending in itself has had no significant impact on the effectiveness of the operations of the CHE. However, in successive years the budget formulation process of the CHE has become more comprehensive, the timeframes for projects have become more realistic and the calculation of annual expenditure has become more accurate. Together with the costing of QA investigation that it has commissioned, the CHE is confident that there will be no significant or major departures from budgets and under-spending in coming years.

CAPACITY CONSTRAINTS

The capacity problems of the CHE relate principally to the personpower at its disposal. In this regard, there are three related pressures on the CHE.

First, is the size of the full-time personnel complement that is available to the CHE, both for its advisory and monitoring responsibilities, and especially for its QA mandate. It has become clear that there has been a gross underestimation of the complement that is actually required for the CHE to deliver value-added, effective and efficient services. The CHE has requested that its personnel complement be increased from 36 to 54 persons. However, this expanded complement does not provide for new activities that could be accorded to the CHE following the review of the National Qualifications Framework by a Ministerial study team.

In view of the often vague and generalised references that are made to "capacity constraints", it is necessary to stress that the CHE is not lacking in intellectual, conceptual, strategic and implementation capacities. Indeed, it possesses an excellent senior- and middle-management that is highly qualified, has extensive specialist expertise, competencies and skills and is professional, supported by skilled and dedicated administrative personnel. However, the constraint is in augmenting its current personnel, especially at the senior and middle levels, because of a lack of approved posts and finances.

Second, the CHE is deeply committed to employment equity and pays serious attention to its equity profile. It has not been easy to find highly qualified black and female personnel, especially in QA, which is a relatively new and highly specialised field. On occasions, appointments have had to be put on hold, and secondments and short-term contracts have had to be utilised in order to ensure that the overall profile of the CHE in terms of race and gender is in keeping with the demographics of our country and goals of employment equity and broad-based black economic empowerment.

Third, the CHE faces the continuous challenge of retaining its experienced staff, in whom it has made a considerable investment in terms of training. It experiences strong pressure from other bodies in the education and training sector that have larger budgets and are able to attract CHE staff with offers of larger remuneration packages. Thus, personnel capacity to execute all responsibilities will

be an ongoing challenge, requiring continuous further education and training of personnel, effective mentoring and also succession planning.

In the near future, the capacity constraints could also extend to the finances that are available to the CHE to undertake all its responsibilities.

UTILISATION OF DONOR FUNDS

The CHE has been highly successful in writing project proposals and mobilising donor funding, which have been crucial for supporting the research and development activities, systems development initiatives and capacity building programmes of the CHE. The record of utilisation of donor funds is that in most cases funds have been used effectively within the times specified. In some cases, however, it has not been possible to utilise all the funds within the specified periods because of difficulties or delays in securing specialist expertise and thus lack of capacity to implement initiatives and projects. In these cases a rollover of funds has been requested and always obtained.

GOING CONCERN

In evaluating the CHE's ability to continue its operations in the near future, it was established that there is a concern that the CHE will be unable to meet its mandate, unless the DoE is able to institutionalise QA funding. This issue poses a number of challenges to the CHE and necessitates a revision of the core programmes of the CHE in relation to its mandate. These conditions indicate the existence of an uncertainty, which may cast doubt on the CHE's ability to continue as going concern in the long term.

EVENTS SUBSEQUENT TO BALANCE DATE

The directors are not aware of any matters or circumstances arising since the end of the financial year, not otherwise dealt with in the annual financial statements, which significantly affect the financial position of the group or the results of its operations.

APPROVAL

The annual financial statements set out on pages 80 to 92 have been approved by the Chief Executive Officer and Chief Accounting Officer



Name: Prof. Saleem Badat

Title: Chief Executive Officer (Chief Accounting Officer)

Date: 31 May 2004.

Balance Sheet as at 31 March 2004

	Notes	2004 R	2003 R
ASSETS			
Non-current assets		893,956	762,327
Property, Plant and Equipment	2	893,956	762,327
Current assets		23,021,301	15,059,803
Trade and other receivables	3	1,330,287	483,320
Short-term investments	4.1	20,893,054	14,567,894
Cash and cash equivalents	4.2	797,960	8,589
Total Assets		23,915,257	15,822,130
EQUITY & LIABILITIES			
Capital and reserves		11,275,545	10,816,940
Distributable reserves		6,800,064	6,341,459
Sertec Reserves		4,475,481	4,475,481
Non-current liabilities		12,199,749	4,287,224
Deferred income	5	12,199,749	4,287,224
Current Liabilities		439,963	717,966
Trade and other payables		366,663	643,254
Provision	6	73,300	74,712
Total equity and liabilities		23,915,257	15,822,130

Abridged income statement for the year ended 31 March 2004

	Notes	2004 R	2003 R
Operating income	7	<u>22,420,035</u>	<u>19,307,027</u>
Operating surplus	9	3,364,615	2,795,547
Net finance income	8	1,248,484	1,399,193
Surplus for the year		<u>4,613,099</u>	<u>4,194,740</u>

Statement of changes in equity for the year ended 31 March 2004

	Notes	Sertec Reserves	Distributable Reserves	Total
Balance at 1 April 2002		4,435,661	2,146,719	6,582,380
Net surplus for the period		-	4,194,740	4,194,740
Transfer from SERTEC		39,820	-	39,820
Balance at 1 April 2003		4,475,481	6,341,459	10,816,940
Correction of fundamental error	10	-	(4,154,494)	(4,154,494)
Restated balance at 1 April 2003		4,475,481	2,186,965	6,662,446
Net surplus for the year		-	4,613,099	4,613,099
Balance at 31 March 2004		4,475,481	6,800,064	11,275,545

Cash flow statement for the year ended 31 March 2004

	Notes	2004 R	2003 R
Cash flows from operating activities			
Cash generated from operations	11	6,252,347	1,547,182
Investment income		1,248,484	1,399,193
Net cash inflow from operating activities		<u><u>7,500,831</u></u>	<u><u>2,946,375</u></u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	2	(386,651)	(528,966)
Proceeds on disposal of property, plant and equipment		351	-
Net cash outflow from investing activities		<u><u>(386,300)</u></u>	<u><u>(528,966)</u></u>
Cash flows from financing activities			
Increase of transfer of assets from SERTEC		-	39,820
Net cash inflow from financing activities		<u><u>-</u></u>	<u><u>39,820</u></u>
Net increase in cash and cash equivalents		7,114,531	2,457,229
Cash and cash equivalents at beginning of year		14,576,483	12,119,254
Cash and cash equivalents at end of year		<u><u>21,691,014</u></u>	<u><u>14,576,483</u></u>

Notes to the financial statements for the year ended 31 March 2004

1. Accounting policies

The financial statements have been prepared in accordance with generally accepted accounting practice. The financial statements are prepared in accordance with the historical cost basis, and incorporates the following accounting policies.

1.1 Property, plant and equipment

Tangible assets are stated at historical cost less accumulated depreciation. Subsequent expenditure relating to an item of property and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased.

The cost of tangible assets less the estimated residual value is written off by equal annual instalments over the expected useful lives of the assets as follows:

Furniture and fittings	- 10 years
Computer hardware	- 3 years
Office equipment	- 5 years
Software	- All software will be written off completely in the year of purchase

The cost of tangible assets less than R 2000 are written off in full during the year of acquisition.

1.2 Revenue

Revenue represents state subsidy received from the DoE, donations received and fees charged for accreditation of courses provided by Private Higher Education providers. Charges for accreditation are recognised when work done is billed to providers and excludes Value Added Taxation. Income received from grants, donations and income for specific projects are recorded as deferred income and disclosed on the balance sheet with non-current liabilities. These incomes are brought to the income statement in the financial period, when the CHE is entitled to use these funds.

1.3 Financial Instruments

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Trade and other receivables

Trade and other receivables originated by the council are stated at cost less provision for doubtful debts.

Cash and cash equivalents

Cash and cash equivalents are held with registered banking institutions that are subject to insignificant interest rate risk. The carrying amount of these assets approximates to their fair value.

1.4 Provisions

Provisions are recognised when the CHE has a present legal or constructive obligation when, as a result of past events for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

1.5 Comparative Figures

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

Notes to the financial statements for the year ended 31 March 2004

2. Property, Plant and Equipment

2004	Computer Equipment	Office Equipment	Furniture & Fittings	Total
Carrying amount at beginning of the year	365,525	199,939	196,863	762,327
Cost	580,644	245,597	223,370	1,049,611
Accumulated depreciation	(215,119)	(45,658)	(26,507)	(287,284)
Additions	60,732	15,102	310,817	386,651
Disposals	-	-	-	-
Depreciation for the year	(179,903)	(49,104)	(26,015)	(255,022)
Carrying amount at end of the year	246,354	165,937	481,665	893,956
Cost	641,376	260,699	534,187	1,436,262
Accumulated depreciation	(395,022)	(94,762)	(52,522)	(542,306)
2003	Computer Equipment	Office Equipment	Furniture & Fittings	Total
Carrying amount at beginning of the year	280,439	50,986	102,995	434,420
Cost	344,976	62,103	113,566	520,645
Accumulated depreciation	(64,537)	(11,117)	(10,571)	(86,225)
Additions	235,668	183,494	109,804	528,966
Disposals	-	-	-	-
Depreciation for the year	(150,582)	(34,541)	(15,936)	(201,059)
Carrying amount at end of the year	365,525	199,939	196,863	762,327
Cost	580,644	245,597	223,370	1,049,611
Accumulated depreciation	(215,119)	(45,658)	(26,507)	(287,284)

Notes to the financial statements for the year ended 31 March 2004

	2004	2003
	R	R
3. Trade and other receivables		
Staff loans	64,299	81,570
Accrued income - Donor funding	592,715	320,192
Other receivables	673,273	81,558
	<u>1,330,287</u>	<u>483,320</u>

4.1 Short-term investments

Marketlink: CHE	9,135,278	3,900,794
Marketlink: Ford Foundation	1,635,176	1,233,526
Marketlink: CHE Reserve Account	3,233,688	1,590,228
Marketlink: Rockefeller Foundation	1,022,686	954,352
Marketlink: Carnegie Foundation	948,160	1,779,443
Marketlink: Private Provider Accreditation	1,024,448	1,422,452
32 Day Notice Account: CHE	-	3,687,099
Corporation for Public Deposits	3,893,617	-
	<u>20,893,054</u>	<u>14,567,894</u>

4.2 Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

Cash on hand and balances with banks	797,960	8,589
	<u>797,960</u>	<u>8,589</u>

Notes to the financial statements for the year ended 31 March 2004

	2004	2003
	R	R
5. Deferred income		
Donations/projects roll-over		
CHERI - HE in Transformation	47,003	-
Rockefeller Foundation	743,409	863,597
Ford - UEM	35,638	35 638
Ford - HE Designation	223,473	328,815
Ford - Monitoring	1,803,291	2,291,839
Nuffic/Cenesa	27,435	-
Ford - Quality Promotion	986,066	-
Carnegie - Quality Assurance Capacity Development	1,008,713	428,020
Standard Bank - HE Responsiveness	-	50,000
Private Accreditation cost recovery	204,721	289,315
	<u>5,079,749</u>	<u>4,287,224</u>
Government Grants	7,120,000	-
	<u><u>12,199,749</u></u>	<u><u>4,287,224</u></u>

The balance as at 31 March 2003 was previously reported as R4 361 936. This balance included provisions for bonuses of R74 712. This amount was transferred to Provisions.

6. Provisions

	Staff bonuses	Total
Opening balance	74,712	74,712
Utilisation of provisions during the year	(74,712)	(74,712)
Unused amounts reversed during the year	-	-
Provisions made during the year	73,300	73,300
Closing balance	<u>73,300</u>	<u>73,300</u>

Notes to the financial statements for the year ended 31 March 2004

	2004	2003
	R	R
7. Revenue		
SA Government Grant	15,571,344	10,886,000
Donations received	4,710,852	5,923,828
Profit on disposal of property, plant and equipment	351	-
Sundry Income	545,077	212,432
Private accreditation cost recovery	1,592,411	2,284,767
	<u>22,420,035</u>	<u>19,307,027</u>
8. Net finance income		
Interest received	1,248,484	1,399,193
	<u>1,248,484</u>	<u>1,399,193</u>
9. Operating surplus is stated after taking the following into account:		
Auditor's remuneration	34,501	24,970
Depreciation	255,022	201,059
- computer equipment	179,903	150,582
- office equipment	49,104	34,541
- furniture	26,015	15,936
Operating lease payment	850,558	389,827
- equipment	100,353	25,367
- building	750,205	364,460
Director's emoluments	1,483,318	1,308,748
Director's remuneration (two):		
Basic Salaries	759,879	716,002
Other employee benefits:		
Car allowance	116,000	116,000
Entertainment	2,500	2,500
Pension	120,211	115,711
Non Pension Salary	40,697	40,697
Medical Aid	20,662	17,750
Other	39,430	39,296
Bonusses	66,016	61,016
Performance bonusses and leave commuted:		
Performance bonuses	66,359	93,358
Leave commuted	111,470	-
Remuneration of chair	140,094	106,418

Notes to the financial statements for the year ended 31 March 2004

	2004	2003
	R	R
10. Fundamental error		
Interest received on Carnegie donations was incorrectly stated under Distributable reserves instead of Carnegie donations.	1,376,150	-
Roll-over funds on government grants for 2003 should have been deferred to 2004.	2,778,344	-
	<u>4,154,494</u>	<u>-</u>
11. Cash generated by operating activities		
Surplus for the year	4,613,099	4,194,740
Adjustment for the following:		
Depreciation	255,022	201,059
Investment income	(1,248,484)	(1,399,193)
Profit on sale of property, plant and equipment	(351)	-
Fundamental error	(4,154,494)	-
Operating cash flows before working capital changes	(535,208)	2,996,606
Changes in working capital	6,787,555	(1,449,424)
(Increase) in trade and other receivables	(846,967)	(466,885)
Increase in trade and other payables	7,634,522	(982,539)
	<u>6,252,347</u>	<u>1,547,182</u>

Notes to the financial statements for the year ended 31 March 2004

	2004	2003
	R	R
12. Operating lease arrangements		
12.1 Equipment		
Lease agreement with Kyocera for the leasing of 2 photocopiers. The lease period is from 27 January 2003. Period of the lease is 3 years.		
Minimum lease payments		
Payable: within 1 year	101,429	92,976
1-3 years	84,524	185,953
	<u>185,953</u>	<u>278,929</u>
12.2 Buildings		
Lease agreement with SAASTA (previously known as FEST) for rent. The first lease period is from 1 May 2002 to April 2003. We have entered into a new agreement starting 1 May 2003 to April 2008.		
Minimum lease payments		
Payable: within 1 year	633,696	541,200
1-5 years	2,272,700	3,070,952
	<u>2,906,396</u>	<u>3,612,152</u>

Detailed income statement for the year ended 31 March 2004

	2004	2003
	R	R
Operating income	23,668,519	20,706,220
SA Government grant	15,571,344	10,886,000
Donations received	4,710,852	5,923,828
Profit on disposal of property, plant & equipment	351	-
Sundry income	545,077	212,432
Private accreditation cost recovery	1,592,411	2,284,767
Interest received	1,248,484	1,399,193
Less Operating expenditure	(19,055,420)	(16,511,480)
Accreditation and Co-ordination Programme	2,021,681	1,259,852
Administration fees	231,925	331,785
Advisory Programme	173,517	281,853
Audit fees	34,501	24,970
Bank charges	39,696	42,436
Consultants	3,841,496	4,734,010
Computer expenses	512,403	208,121
Conferences and workshops	369,527	406,497
Depreciation	255,022	201,059
Development of HE	411,621	270,123
General Co-ordination Programme	51,628	423
Governance	153,127	336,258
Institutional Audit Programme	173,922	144,876
Insurance	131,490	22,191
Lease - Photocopiers	100,353	25,357
Legal Fees	103,700	37,053
Media and Communication expenses	201,556	266,250
Monitoring and Evaluation Programme	126,367	155,570
Office Relocation	124,082	85,629
Quality Promotion and Capacity Development	1,141,265	552,029
Recruitment	99,601	31,725
Rent and Services	818,071	364,459
Remuneration of Chair	140,094	106,418
Resource Centre	16,035	8,582
Road accident expenses	748	5,709
Salaries	7,372,561	6,071,400
Staff benefits - computers	16,103	-
Staff benefits and contributions	71,380	50,536
Staff development	114,378	96,607
Staff relocation	5,000	49,960
Write-offs on assets less than R2000	202,570	339,744
Surplus for the year	4,613,099	4,194,740