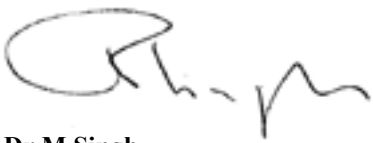


## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

<b>Contents</b>	<b>Page</b>
Accounting Authority report	73
Statement of Financial Position	76
Statement of Financial Performance	77
Statement of Changes in Net Assets	78
Cash Flow Statement	79
Notes to the Statement of Financial Position	80
Detailed Statement of Financial Performance	95
Schedule of Donor-funded roll-over	96

### **Director's approval of the annual financial statements**

The annual financial statements for the year ended 31 March 2006 set out on pages 73-96 were approved and are signed by –



**Dr M Singh**  
*Acting Chief Executive Officer*  
7 August 2006

# ACCOUNTING AUTHORITY REPORT

For the year ended 31 March 2006

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

### 1. INTRODUCTION

The CHE members present their annual report that forms part of the audited annual financial statements for the year ended 31 March 2006.

The Council on Higher Education is listed as a national public entity in schedule 3A of the Public Finance Management Act, 1999, as amended, (PFMA).

The CHE members act as the accounting authority in terms of the PFMA.

### 2. MEMBERS AND SECRETARY OF THE ENTITY

#### *Executive member*

S Badat (Chief Executive Officer)

#### *Non-executive members*

HP Africa  
R Singh  
N Badsha  
A Canca  
SF Coetzee  
B Figaji  
JA Glennie  
SBA Isaacs  
A Kaniki  
MC Koorts  
S Macozoma (Chairperson)  
J Mamabolo  
AM Perez  
MF Ramashala  
SJ Saunders

The secretary of the group is Prof. S Badat and his business and postal addresses are as follows:

#### **Business address:**

210 Didacta Building  
211 Skinner Street  
Pretoria

#### **Postal address:**

P O Box 3554  
The Tramshed  
Pretoria

### 3. ORGANISATIONAL STRUCTURE

The CHE comprises of the Council, an Executive Committee, and a Secretariat headed by the CEO. The Higher Education Act (Act 101 of 1997) assigned to the CHE statutory responsibility for accrediting of programmes, quality assurance and quality promotion in higher education, 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*.

## ACCOUNTING AUTHORITY REPORT

### 4. PRINCIPAL RESPONSIBILITIES

The *Higher Education Act* and the *Education White Paper 3* of 1997 establish the **responsibilities** of the CHE. These include

- Advising the Minister on all HE issues on which the CHE's advice is sought;
- Advising the Minister on its own initiative on HE issues which the CHE regards as important;
- Designing and implementing a system for quality assurance in HE and establishing the HEQC;
- Advising the Minister on the appropriate shape and size of the HE system, including its desired institutional configuration;
- Advising the Minister in particular on the new funding arrangements for HE and on language policy in HE;
- Developing a means for monitoring and evaluating whether, how, to what extent and with what consequences the vision, policy goals and objectives for HE defined in the White Paper on HE are being realised;
- Promoting the access of students to HE;
- Providing advice to the Minister on the proposed new Education Management Information System for HE;
- 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 White Paper;
- 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;
- Appointing an independent assessment panel from which the Minister is able to appoint assessors to conduct investigations into particular issues at public HE institutions;
- Establishing healthy interactions with HE stakeholders on the CHE's work
- Producing an Annual Report on the state of HE for submission to parliament;
- Convening an annual consultative conference of HE stakeholders;
- Participating in the development of a coherent human resource development framework for South Africa in concert with other organisations;
- Contributing to the development of HE through publications and conferences.

### 5. REVIEW OF OPERATIONS

The amount of revenue increased by 46% for the year amounting to R33 344 324 as a result of an increase in the government grant.

### 6. REVIEW OF FINANCIAL POSITION

The CHE derived its operating income from four sources:

- R 26 615 539 (80%) from the National Treasury (through the Department of Education)
- R 5 181 291 (16%) from donors
- R 777 536 (2%) from sundry income
- R 769 958 (2%) from statutorily mandated quality assurance services provided to the providers of private higher education on a partially cost-recovery basis.

With respect to spending, 83% of the 2005-2006 operating income of R33 344 324 was expended in the execution of responsibilities. Of the total expenditure of R27 672 000, expenses incurred on quality assurance activities constituted 65%. The advisory, monitoring and reporting functions of the CHE and financial and administrative operations constituted 35%.

Personnel and consultancy costs constituted 58% which is the bulk of overall CHE expenditure. This is appropriate since CHE activities are knowledge and information intensive and therefore also personnel intensive.

## ACCOUNTING AUTHORITY REPORT

Other major areas of expenditure were programme accreditation and co-ordination (8%), advisory, monitoring and higher education development projects (17%), quality promotion and capacity development (12%) and institutional audits (3%). Almost 3% of total expenditure was on the development of an information and communication technology infrastructure, including data management systems and databases for key CHE activities.

### Going Concern

The CHE will be able to meet its mandate due to the recent institutionalization of quality assurance funding.

### Events Subsequent to Balance Date

The accounting authority 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.

### 7. ADDRESSES

The entity's business, postal and registered addresses are as follows:

<b>Business address:</b>	<b>Postal address:</b>	<b>Registered address:</b>
Didacta Building 211 Skinner Street Pretoria 0001	P O Box 3554 The Tramshed Pretoria 0126	Didacta Building 211 Skinner Street Pretoria 0001

### 8. APPROVAL

The annual financial statements set out on pages 73 to 94 have been approved by the Accounting Authority.



**Mr Saki Macozoma**  
*Chairperson of the CHE Council*  
31 May 2006

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2006**

	Notes	2006	Restated 2005
		R	R
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>2,470,121</b>	<b>2,304,248</b>
Property, plant and equipment	2	2,470,121	2,304,248
<b>Current assets</b>		<b>22,415,071</b>	<b>15,681,235</b>
Trade and other receivables	3	803,118	188,135
Prepayments	4	97,154	75,749
Cash and cash equivalents	5	21,514,799	15,417,351
<b>Total Assets</b>		<b>24,885,192</b>	<b>17,985,483</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>5,574,188</b>	5,111,768
Trade and other payables	6	4,967,208	4,533,819
Provisions	7	486,980	470,340
Finance lease obligations	8	120,000	107,609
<b>Non-current liabilities</b>		<b>5,459,806</b>	6,002,801
Finance lease obligations	8	177,552	69,112
Deferred income	9	5,282,254	5,933,689
<b>Total liabilities</b>		<b>11,033,994</b>	<b>11,114,569</b>
<b>Net assets</b>		<b>13,851,198</b>	<b>6,870,914</b>
<b>NET ASSETS</b>			
Accumulated surplus		13,851,198	6,870,914
<b>Total net assets</b>		<b>13,851,198</b>	<b>6,870,914</b>

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 31 MARCH 2006**

	Notes	2006	Restated 2005
		R	R
<b>Revenue</b>	10	<u>33,344,324</u>	<u>22,832,853</u>
<b>Less: Expenses</b>		<u>(27,672,000)</u>	<u>(23,267,575)</u>
<b>Operating surplus</b>	11	5,672,324	(434,722)
<b>Net finance income</b>	12	1,307,960	1,082,241
<b>Surplus for the year</b>		<u>6,980,284</u>	<u>647,519</u>

## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2006

	Notes	Accumulated Surplus R	Total R
<b>Balance at 1 April 2004 as previously stated</b>		11,275,548	11,275,548
Correction of prior year error	13	(5,052,153)	(5,052,153)
<b>Balance at 1 April 2004 restated</b>		6,223,395	6,223,395
Surplus for the year		647,519	647,519
As previously stated		2,257,929	2,257,929
Correction of prior year error	13	(1,610,410)	(1,610,410)
<b>Restated balance at 1 April 2005</b>		6,870,914	6,870,914
Surplus for the year		6,980,284	6,980,284
<b>Balance as at 31 March 2006</b>		<b>13,851,198</b>	<b>13,851,198</b>

## CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2006

	Notes	2006 R	Restated 2005 R
<b>Cash flows From Operating Activities</b>			
Cash receipts from customers		32,707,936	22,464,219
Cash paid to suppliers and employees		(27,326,032)	(29,132,902)
Cash generated by operating activities	14	5,381,904	(6,668,683)
Finance costs		(24,268)	(17,714)
Finance income		1,307,960	1,082,241
<b>Net cash flows from operating activities</b>		<b>6,665,596</b>	<b>(5,604,156)</b>
<b>Cash Flows From Investing Activities</b>			
Purchase of plant and equipment	15	(688,979)	(846,228)
<b>Net cash flows from investing activities</b>		<b>(688,979)</b>	<b>(846,228)</b>
<b>Cash Flows From Financing Activities</b>			
Increase in finance lease liabilities		120,831	176,721
<b>Net cash flows from financing activities</b>		<b>120,831</b>	<b>176,721</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6,097,448</b>	<b>(6,273,663)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>15,417,351</b>	<b>21,691,014</b>
<b>Cash and cash equivalents at end of period</b>	5	<b>21,514,799</b>	<b>15,417,351</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

### 1. ACCOUNTING POLICIES

#### 1.1 Basis of preparation

The financial statements 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 prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards as follows:

<b>Standard of GRAP</b>	<b>Replaced Statement of GAAP</b>
GRAP 1: Presentations 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

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 significant changes in the presentation of the financial statements:

Terminology differences:

<b>Standard of GRAP</b>	<b>Replaced Statement of GAAP</b>
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 to owners	Dividends
Reporting date	Balance sheet date

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

#### 1.3 Specific information 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 must be presented separately on the statement of financial position

#### 1.4 The amount and nature of any restrictions on cash balances is required to be disclosed.

Paragraph 11 – 15 of GRAP has not been implemented as the budget reporting standard is in the process of being developed by the international and local standards setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

### 2. CURRENCY

The financial statements are presented in South African Rands since that is the currency in which majority of the entity transactions are denominated.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

### 3. HISTORICAL COST

The financial statements have been prepared on a historical cost basis and the accounting policies have been applied consistently throughout the period.

### 4. REVENUE

Revenue represents government grant received from the Department of Education (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.

### 5. IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

Irregular and fruitless and wasteful expenditure is charged against income in the period in which they are incurred.

### 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Where necessary property, plant and equipment is broken into significant component parts, and each component is depreciated separately over its estimated useful life.

Those items of property, plant and equipment which are of such a nature that they are replaced as a whole and not in terms of components parts, are not broken into significant components as the useful lives of the components are expected to approximate the useful lives of the items taken as a whole.

The estimated useful lives and residual values of property, plant and equipment are reviewed on an annual basis. Where estimates differ from those previously assessed the change is recognised as a change in accounting estimate.

Depreciation is provided on all property, plant and equipment to write down their cost over their estimated useful lives to their estimated residual values.

The depreciation rates are:

Furniture and fittings	-	10 years
Computer equipment and software	-	7 years
Office equipment	-	15 years

### 7. FINANCE LEASING

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the final balance outstanding.

The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant period rate of interest on the remaining balance of the liability for each period.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

### 8. FINANCIAL INSTRUMENTS

#### Measurement

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

The entity's principal financial assets are trade receivables and cash and cash equivalents.

#### 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.

#### Financial liabilities

Financial liabilities are recognised at amortised cost namely original debt less principal payments and amortizations that are subsequent measured at fair value.

#### Trade and other payables

Trade and other payables originated by the council are stated at cost.

#### Interest rate risk

The entity's income and operating cash flows are dependent of changes in market interest rates. A substantial part of the short term investment are held with the Corporation for Public Deposits as per Treasury Regulation 31.3.3.

#### Credit risk

Concentration of credit risk with respect to trade and other receivables are limited. Credit risk limited to staff loans made to employees. The entity has policies in place that limit the amount of credit exposure.

### 9. PROVISIONS

Provisions are recognised when the Council on Higher Education has a present legal of 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.

### 10. COMPARATIVE FIGURES

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

### 2. Property, plant and equipment

Owned	R	R	R	R	R
	Computer Software	Computer equipment	Office equipment	Furniture and fittings	Total
<b>2006</b>					
Carrying amount at beginning of the year	213,267	694,550	264,357	951,279	2,123,453
Cost	291,914	991,445	319,903	1,130,165	2,733,427
Accumulated depreciation	(78,647)	(296,895)	(55,546)	(178,886)	(609,974)
Additions	<b>88,453</b>	<b>195,272</b>	<b>19,356</b>	<b>86,927</b>	<b>390,008</b>
Disposals at cost		<b>(27,967)</b>			<b>(27,967)</b>
Disposals accumulated depreciation		<b>4,269</b>			<b>4,269</b>
Depreciation for the year	<b>(45,768)</b>	<b>(150,149)</b>	<b>(21,884)</b>	<b>(116,048)</b>	<b>(333,849)</b>
Carrying amount at end of the year	<b>255,952</b>	<b>715,975</b>	<b>261,829</b>	<b>922,158</b>	<b>2,155,914</b>
Cost	380,367	1,158,750	339,259	1,217,092	3,095,468
Accumulated depreciation	(124,415)	(442,775)	(77,430)	(294,934)	(939,554)
<b>Restated 2005</b>					
Carrying amount at the beginning of the year	156,472	479,469	244,802	770,079	1,650,822
Cost	195,664	658,469	280,900	843,994	1,979,027
Accumulated depreciation	(39,192)	(179,000)	(36,098)	(73,915)	(328,205)
Additions	96,250	332,976	39,003	286,171	754,400
Depreciation for the year	(39,455)	(117,895)	(19,448)	(104,971)	(281,769)
Carrying amount at end of the year	213,267	694,550	264,357	951,279	2,123,453
Cost	291,914	991,445	319,903	1,130,165	2,733,427
Accumulated depreciation	(78,647)	(296,895)	(55,546)	(178,886)	(609,974)

**NOTES TO THE STATEMENT OF FINANCIAL  
POSITION AS AT 31 MARCH 2006**

<b>Capitalised Leased Assets</b>	<b>R</b>	<b>R</b>
	<b>Capitalised Office Equipment</b>	<b>Total</b>
<b>2006</b>		
Carrying amount at beginning of the year	180,795	180,795
Cost	365,923	365,923
Accumulated depreciation	(185,128)	(185,128)
Additions	<b>298,971</b>	<b>298,971</b>
Impairment Loss	<b>(1)</b>	<b>(1)</b>
Depreciation for the year	<u><b>(165,558)</b></u>	<u><b>(165,558)</b></u>
Carrying amount at end of the year	<b>314,207</b>	<b>314,207</b>
Cost	664,894	664,894
Accumulated depreciation and impairment losses	(350,687)	(350,687)
<b>Restated 2005</b>		
Carrying amount at the beginning of the year	179,678	179,678
Cost	274,095	274,095
Accumulated depreciation	(94,417)	(94,417)
Additions	91,828	91,828
Depreciation for the year	<u>(90,711)</u>	<u>(90,711)</u>
Carrying amount at end of the year	180,795	180,795
Cost	365,923	365,923
Accumulated depreciation	(185,128)	(185,128)

The Kyocera Mita has reached the end of its 36 month lease term and has subsequently been impaired.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

	<b>2006</b>	<b>Restated 2005</b>
	<b>R</b>	<b>R</b>
<b>3. Trade and other receivables</b>		
Staff loans	54,383	74,756
Accrued income	712,974	113,379
Other receivables	35,761	
	<b>803,118</b>	188,135

### 4. Prepayments

Prepayments	<b>97,154</b>	75,749
-------------	---------------	--------

The entity has two insurance policies with SA Eagle Insurance Limited and Accident & Miscellaneous Acceptance of which the premiums are paid annually in November of each year. The policies are respectively for asset insurance and stated benefits (group insurance). The annual payment for the asset insurance is R105 326,63 of which R61 440,53 was prepaid. The annual payment for the stated benefits is R54 170 of which R31 599,17 was prepaid.

The entity has an agreement with the Tertiary Education Network with the providing of HE - Internetworking services. The payments of R4 114,15 is payable in advance.

### 5. 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	3,276	1,545,690
Marketlink: CHE	2,540,824	410,914
Marketlink: Ford Foundation	2,160,035	1,772,234
Marketlink: CHE Reserve Account	-	514,325
Marketlink: Rockefeller Foundation	834,283	575,129
Marketlink: Carnegie Foundation	170,142	704,613
Marketlink: Private Provider Accreditation	-	1,084,604
Corporation for Public Deposits: CHE	14,599,832	8,809,842
Corporation for Public Deposits: CHE Accreditation	1,206,407	-
	<b>21,514,799</b>	15,417,351

**NOTES TO THE STATEMENT OF FINANCIAL  
POSITION AS AT 31 MARCH 2006**

	<b>R</b>	<b>Restated R</b>
<b>6. Trade and other payables</b>		
VAT	3,664,861	3,664,861
Trade Creditors	922,110	437,856
Accruals	380,237	431,102
	<b>4,967,208</b>	<b>4,533,819</b>

	<b>Bonus Provision R'000</b>	<b>Leave pay provision R'000</b>	<b>Total R'000</b>
<b>7. Provisions</b>			
Opening balance	86,250	384,090	470,340
Utilisation of provision during the year	(86,250)	(208,346)	(294,596)
Provisions made during the year	81,318	229,918	311,236
Closing balance	<b>81,318</b>	<b>405,662</b>	<b>486,980</b>

The leave pay provision relates to vesting leave pay to which employees may become entitled upon leaving the employment of the CHE.

The provision is utilised when employees become entitled to and are paid for the accumulated leave pay or utilise compensated leave due to them.

The bonus payable is determined by applying a specific formula based on the structure of the employees salary.

**8. Finance Lease Obligation**

Total liability in terms of finance lease	297,552	176,721
Short term portion transferred to current liabilities	(177,552)	(69,112)
	<b>120,000</b>	<b>107,609</b>

The liability is unsecured. The effective interest rate is approximately 11% per annum. The liability consists of 2 agreements with Toshiba Copiers. The one finance lease is repayable in 36 monthly instalments of R9 633 each as from 22 July 2005 and the other finance lease is repayable in 36 monthly instalments of R3 396.06 each as from 26 November 2004.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

	R	<b>Restated</b> R
<b>Present Value of minimum lease payments</b>		
Future Minimum Lease Payments		
Not later than 1 year	133,523	118,856
Later than 1 year and not later than 5 years	191,122	75,227
	324,645	194,083
Future finance charges on lease payments	(27,093)	(17,362)
	297,552	176,721
The present value of the finance lease liability is as follows:		
Not later than 1 year	120,000	107,609
Later than 1 year and not later than 5 year	177,552	69,112
	297,552	176,721
 <b>9. Deferred income</b>		
 9.1 Donations/projects roll-over		
CHERI - HE in Transformation	47,004	47,003
Rockefeller Foundation	737,964	635,062
Ford - UEM	-	24,339
Ford - HE Designation	22,960	22,960
Ford - Monitoring	949,650	1,413,515
Ford - Regulation Autonomy Freedom	485,446	317,064
NRF	250,000	-
Ford - Quality Promotion	287,619	350,720
Carnegie - Quality Assurance Capacity Development	293,632	952,786
AusAid	39,599	-
Finnish Co-operation	12,466	
Private Accreditation cost recovery	-	46,787
	<b>3,126,340</b>	3,810,236
 9.2 Deferred income arising to grants related to assets	<b>2,155,914</b>	2,123,453
 <b>Total Deferred income</b>	<b>5,282,254</b>	5,933,689

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

	<b>2006</b>	<b>Restated 2005</b>
	<b>R</b>	<b>R</b>
<b>10. Revenue</b>		
SA Government grant	26,615,539	16,191,229
Donations received	5,181,291	4,459,974
Sundry income	777,536	532,754
Private accreditation cost recovery	769,958	1,648,896
	<b>33,344,324</b>	<b>22,832,853</b>
<b>11. Operating surplus is stated after taking the following into account:</b>		
<b>Auditor's remuneration</b>	<b>104,624</b>	79,610
<b>Depreciation</b>	<b>499,407</b>	372,480
- computer equipment	150,149	117,895
- office equipment	21,884	19,448
- software	45,768	39,455
- capitalised leased assets	165,558	90,711
- furniture	116,048	104,971
<b>Operating lease payment</b>	<b>1,096,048</b>	1,096,048
- Building	1,096,048	1,096,048
<b>Senior management remuneration (Note 18)</b>	<b>1,552,940</b>	1,496,519
Executive Directors	1,459,457	1,337,355
Remuneration of chairperson	93,483	159,164
<b>Impairment on capitalised office equipment</b>	<b>1</b>	-
<b>12. Finance income</b>		
Interest Received CHE	307,588	291,551
Interest Received Ford Foundation	122,302	-
Interest Received Rockefeller Foundation	44,369	-
Interest Received: Private Provider	41,277	60,156
Interest Received: Corporation for Public Deposits	730,460	619,934
Interest Received: Corporation for Public Deposits: Private Accreditation	33,983	-
Interest Received: Reserve Account	27,981	110,600
	<b>1,307,960</b>	<b>1,082,241</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

	<b>2006</b>	<b>Restated</b>
	<b>R</b>	<b>2005</b>
		<b>R</b>

### 13. Correction of prior year error

The following prior year errors were identified and corrected:

#### 13.1 Lease classification

Certain leases were incorrectly classified as operating leases instead of finance leases. The error was corrected by recognizing the lease asset and lease liability, together with any related depreciation and finance charges, as well as the reversal of the original operating lease expense. The correction was applied retrospectively and prior year financial statements have therefore been restated. The impact on the correction on prior year financial statements is as follows:

Increase in Accumulated surplus at 1 April 2004		(21,148)
Increase in Property, plant and equipment		180,795
At cost		365,923
Accumulated depreciation		(185,128)
		-
Increase in finance lease liabilities		(176,721)
Decrease in payables		9,638
Increase in Surplus for 2005, as a result of:		7,436
Decrease in operating expenses		7,436
		-
Net effect on prior year financial statements		-

#### 13.2 Overstatement of revenue

Revenue from state grants was overstated in 2003 and 2004. The related output VAT liability was incorrectly debited in the provisions accounts whereas the state grant should have been debited. The impact of the retrospective restatement on prior year financial statements is as follows:

Decrease in Accumulated surplus at 1 April 2004		3,782,333
Decrease in Surplus for 2005, as a result of:		1,336,140
Decrease in revenue		1,336,140
Increase in VAT liability		(5,118,473)
		-
Net effect on prior year financial statements		-

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

	<b>2006</b>	<b>Restated 2005</b>
	<b>R</b>	<b>R</b>
<b>13.3 Property, plant and equipment</b>		
<p>Property, plant and equipment was understated in prior years because the expected useful lives were not reviewed regularly. As a result, the assets were depreciated over inappropriate useful lives. In addition, assets with a cost price of less than R2000 were written off immediately against the total cost price of assets. The total effect of the error was an understatement of the cost of assets, and an overstatement of the accumulated depreciation of assets. Prior year financial statements have been restated retrospectively to correct the error. The impact of the retrospective adjustment on prior year financial statements is as follows:</p>		
Increase in property, plant and equipment, as a result of		996,756
Increase in cost of property, plant and equipment		550,879
Decrease in accumulated depreciation of property, plant and equipment		445,877
Increase in Accumulated surplus at 1 April 2004		(756,865)
Increase in Surplus for 2005, as a result of:		(239,891)
Decrease in operating expenses		(239,891)
Net effect on prior year financial statements		-

### 13.4 Grants related to assets

The property, plant and equipment of CHE are purchased from government grants. All the government grants have been recognised as part of revenue in the year in which they are received. However, grants used to acquire assets are grants related to assets and these grants should have been accounted for as deferred income and released to the statement of financial performance over the useful lives of the property, plant and equipment. The prior year financial statements have been adjusted retrospectively. The effect of the retrospective adjustment on prior year financial statements is as follows:

Increase in deferred income		(2,123,455)
Decrease in Accumulated surplus at 1 April 2004		1,650,823
Decrease in Surplus for 2005, as a result of:		472,632
Decrease in revenue		472,632
Net effect on prior year financial statements		-

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

	<b>2006</b>	<b>Restated 2005</b>
	<b>R</b>	<b>R</b>
<b>13.5 Operating leases</b>		
<p>Operating leases of buildings and parking have been expensed as they occur. However they should be expensed on a straight line basis over the lease term. The prior year financial statements have been adjusted retrospectively. The effect of the restatement on the prior year financial statements is as follows:</p>		
Increase in accruals		(431,103)
Decrease in Accumulated surplus at 1 April 2004		397,010
Decrease in Surplus for 2005, as a result of:		34,093
Increase in operating expenses		34,093
Net effect on prior year financial statements		-
<b>13.6 Summary of effect on net assets</b>		
Decrease in Accumulated surplus at 1 April 2004		5,052,153
Decrease in Surplus for 2005		1,610,410
<b>14 Cash generated by operating activities</b>		
<b>Surplus/(deficit) for the period</b>	6,980,284	647,519
<b>Adjustments for:</b>	(760,586)	982,651
Depreciation	499,407	372,480
Investment income	(1,307,960)	(1,082,241)
Finance cost	24,268	17,714
Loss on disposal of assets	23,698	-
Other non cash items	1	1,674,698

**NOTES TO THE STATEMENT OF FINANCIAL  
POSITION AS AT 31 MARCH 2006**

	<b>2006</b>	<b>Restated 2005</b>
	<b>R</b>	<b>R</b>
<b>Operating profit/(loss) before changes in working capital</b>	6,219,698	1,630,170
<b>Movements in working capital</b>	(837,794)	(8,298,853)
(Increase) in trade and other receivables	(636,388)	(368,635)
Increase in trade and other payables	450,029	459,296
(Decrease)/Increase in deferred income	(651,435)	(8,389,514)
<b>Cash generated by operating activities</b>	5,381,904	(6,668,683)

**15 Property, plant and equipment**

During the period, the economic entity acquired property plant and equipment with an aggregate cost of R390 008, of which R390 008 was acquired by means of capital grants by the national government. Cash payments of R 390 008 were made to purchase property, plant and equipment.

**16. Operating lease arrangements**

At the balance sheet date the Council on Higher Education had outstanding commitments under non-cancellable operating leases, which fall due as follows:

**Buildings**

Minimum lease payments

Payable: within 1 year	1,238,665	1,075,676
1-5 years	1,425,004	4,142,349
	<b>2,663,669</b>	<b>5,218,025</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2006

	<b>2006</b>	<b>Restated 2005</b>
	<b>R</b>	<b>R</b>

The Council on Higher Education leases part of a building from SAASTA for a period of 5 years, effective from 1 May 2003 to April 2008. The lease payment is calculated at the following rate: 2075 square meters @ R44.3232 and the rental for 30 parking bays @ R139.97 per bay. Escalation is calculated at 8 % per annum with effect from 1 May 2004 for 4 years. The escalation will decrease to 6 % from 1 May 2007 as per lease agreement. The CHE has an option to renew the lease for a further 3 years at an escalation rate of 8% per annum, or as per mutual agreement of the parties. Three months notice is required for options to be exercised.

### 17. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure of R31,000 was incurred during the year ended 31 March 2006 as a result of an employee being paid twice. A settlement was reached in terms the CCMA case that the dismissed employee lodged against the entity. The employee was paid the settlement amount of R31 000 after normal PAYE deductions. The payment was duplicated in error with the processing of the entity's monthly staff salaries. The entity's attorneys were instructed to retrieve the money from the former employee after attempts to recover the money failed. A summons was issued against the person. Correspondent attorneys have applied for default judgement against her because of her failure to respond. Default judgement has been granted by the Magistrate Court. Our attorneys proceeded with a writ of execution to attach her movable assets. This matter is still outstanding as we await an update from our attorneys. Verbal warning was given.

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**31,000**

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**NOTES TO THE STATEMENT OF FINANCIAL  
POSITION AS AT 31 MARCH 2006**

	<b>2006</b>	<b>Restated 2005</b>
	<b>R</b>	<b>R</b>
<b>18. Senior management remuneration</b>		
<b>Chief Executive Officer</b>	<b>739,900</b>	616,247
- Salary	474,610	352,491
- Bonuses and performance rewards	54,807	46,690
- Expense allowance	2,499	2,500
- Pension contributions	56,400	52,800
- Other benefits	151,584	161,766
<b>Executive Director</b>	<b>719,557</b>	721,107
- Salary	509,847	432,189
- Bonuses and performance rewards	86,016	136,106
- Pension contributions	84,006	71,311
- Other benefits	39,688	81,501
<b>Remuneration of chairpersons</b>	<b>93,483</b>	159,164
- Fees for services	31,824	62,880
- Remuneration of Chairperson - CHE	61,659	96,284
- Remuneration of Chairperson - HEQC		

**19. Irregular Expenditure**

Irregular expenditure was incurred as a result of a finance lease relating to office equipment being incorrectly accounted for as a operating lease.

The expenditure incurred is therefore in contravention of the Treasury Regulation 32.2.5(b). The entity will seek through the Minister of Finance as per Treasury Regulation 32.2.5(b) the permission to enter into finance lease agreements.

Application was made to the Minister of Finance.

	<b>297,552</b>	176,721
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## DETAILED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 R	Restated 2005 R
<b>Revenue</b>	10	<u>33,344,324</u>	<u>22,832,853</u>
<b>Less: Expenses</b>		<b>(27,672,000)</b>	<b>(23,267,575)</b>
Administration expense		460,989	338,298
Auditing fees		104,624	79,610
Bank charges		32,677	32,163
Consultants		4,897,433	3,339,857
Depreciation		499,407	372,480
Loss on disposal of assets		23,698	-
Electricity and utilities		211,066	164,959
Finance Costs		24,268	17,714
Impairment Loss		1	-
Information Technology		833,201	715,524
Insurance fees		100,863	154,570
Legal fees		90,194	259,748
Media and communications expense		265,517	318,640
Membership, subscription and licence fees		72,640	21,311
Operating lease		1,096,048	1,096,048
Personnel costs		10,939,911	10,125,635
Project expenditure		1,047,602	1,603,901
Recruitment		146,330	91,263
Remuneration of Chairperson		93,483	159,164
Staff benefits		385,378	248,145
Staff development		114,551	120,314
Travel and subsistence		4,805,990	3,139,858
Venue and catering - workshops, meetings		1,426,129	868,373
<b>Operating surplus</b>	11	5,672,324	-434,722
<b>Net finance income</b>	12	1,307,960	1,082,241
<b>Surplus for the year</b>		<u><b>6,980,284</b></u>	<u><b>647,519</b></u>

## SCHEDULE OF DONOR-FUNDED PROJECT ROLL-OVER AS AT 31 MARCH 2006

PROJECT	FUNDER	Balance as at 31 March 2005	Interest received	Current year income received	Current year expenses incurred	Balance as at 31 March 2006
		R	R	R	R	R
Quality Assurance Capacity Development	1	952,785	34,703	476,840	(1,170,696)	293,632
HE in Transformation of Societies		47,004				47,004
HE Designation		22,960				22,960
Monitoring Goals & Objectives		1,413,515			(463,865)	949,650
Quality Promotion		350,720			(63,101)	287,619
UEM Project - South African Networking		24,339			(24,339)	-
Regulation Autonomy Freedom		317,064		647,942	(479,560)	485,447
HE Triennial Review		635,062		377,837	(274,936)	737,964
Private Accreditation		46,787		723,171	(769,958)	-
Australian Funded Projects		-		269,938	(230,339)	39,599
Quality Systems Restructuring				851,921	(839,454)	12,466
Post Graduate Education				400,000	(150,000)	250,000
	<b>TOTAL</b>	<b>3,810,236</b>	<b>34,703</b>	<b>3,747,649</b>	<b>(4,466,248)</b>	<b>3,126,340</b>

### Notes

### NOTES

1. The grant condition of Carnegie stipulates that interest accrued to the grant should be applied to the project.