

Annual Financial Statements for the year ended 31 December 2006

The reports and statements set out below comprise the annual financial statements presented to the management and donors:

- p.ii* Qualified report of the independent auditors
- p.iii* Income and expenditure statement
- p.iv* Balance sheet
- p.v–viii* Notes to the annual financial statements

Approval.

Management is required to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the results of its operations for the period of the financial year, in conformity with applicable South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are based upon appropriate accounting policies supported by reasonable and prudent judgments and estimates.

Management acknowledges that they are ultimately responsible for the system of internal financial control

established by the organisation and place considerable importance on maintaining a strong control environment. To enable management to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The controls are monitored throughout the organisation and all employees are required to maintain the highest ethical standards in ensuring the organisation's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the organisation is on identifying, assessing, managing and monitoring all known forms of risk across the organisation.

While operating risk cannot be fully eliminated, the organisation endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Management is of the opinion, based on the information and explanations given to them, that the system of internal control provides reasonable assurance that the

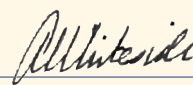
financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Management has reviewed the organisation's cash flow forecast for the year to 31 December 2007 and, in the light of this review and the current financial position, it is satisfied that the organisation has access to adequate resources to continue in operational existence for the foreseeable future.

Although management is primarily responsible for the financial affairs of the organisation, it is supported by the organisation's external auditors.

The external auditors are responsible for independently reviewing and reporting on the organisation's annual financial statements. The annual financial statements have been examined by the organisation's external auditors.

The annual financial statements as set out on pages *iii* to *viii*, which have been prepared on the going concern basis, were approved by management and were signed on its behalf by:



Prof. A. Whiteside
21 April 2008

Qualified report of the independent auditors to the management and donors of the Health Economics and HIV/AIDS Research Division of the University of KwaZulu-Natal

We have audited the annual financial statements of the Health Economics and HIV/AIDS Research Division of the University of KwaZulu-Natal, which comprise the income statement, balance sheet and notes to the financial statements, for the year ended 31 December 2006.

Managements' responsibility for the Annual Financial Statements.

Management is responsible for the preparation and fair presentation of these annual financial statements in accordance with applicable South African Statements of Generally Accepted Accounting Practice. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the annual financial statements to ensure that they are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility.

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The

procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the annual 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 controls. 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 annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Qualification.

Comparative figures for the year ended 31 December 2005 have not been presented in accordance with South African Statements of Generally Accepted Accounting Practice. As an audit was not performed on the opening balances, we do not give an opinion on the accumulated funds figure at the beginning of the year.

Value Added Tax inputs on expenses are claimed by the University of KwaZulu-Natal. We were unable to ensure all legitimate Value Added Tax inputs were being claimed correctly.

Revenue from sources other than grants received could only be verified

to the extent it was received and banked. We were unable to verify the completeness of such income.

We did not verify the accuracy of the allocation of the expenditure to respective donor funds and projects, and thus have relied on managements' workings. However we do not have any indication these allocations are incorrect.

We did not verify the content in Note 9 to the financial statements.

Qualified opinion.

Except for the effect of the matters in the preceding paragraphs, in our opinion, the annual financial statements present fairly, in all material respects, the financial performance of the organisation for the year ended 31 December 2006, in accordance with applicable South African Standards of Generally Accepted Accounting Practice.

Emphasis of matter.

Without further qualifying our opinion above, we report the following: The internal control on expended fixed assets needs to be improved.

The reported income and expenditure pertaining to the JFA project do not agree to the audited financial statements presented for this project. This is due to further transactions having been identified as being part of the JFA project after the completion of the audit.

Neale Whitecross Incorporated

Neale Whitecross Incorporated
Chartered Accountants (S.A.)
Registered Auditors

Johannesburg
21 April 2008

Income and Expenditure statement for the year ended 31 December 2006

	Note	2006
Income.		
Grants received from Joint Financing Agreement partners	2	3,982,536
Grants received from USAID in prior year refundable		-756,059
Other Grants received	3	7,269,158
Income received from training courses held		2,128,924
Other Income	4	1,323,061
Total Income		<u>13,947,620</u>
Expenditure.		
Expenditure incurred by Joint Financing Agreement partners	5	2,363,910
Knowledge		756,059
Research Capacity		0
Leadership and Systems		27,651
Organisational Base		204,589
Administration costs	8	1,375,612
Expenditure incurred by HEARD	5	6,277,185
Knowledge		414,555
Research Capacity		0
Leadership and Systems		1,797,735
Organisational Base		420,391
Administration costs	8	3,644,504
Expenditure incurred on USAID funded projects	6	1,069,097
Expenditure incurred on other projects	7	4,983,686
Total Expenditure		<u>14,693,878</u>
(Deficit).		
(Deficit)		<u>-746,258</u>
Accumulated Funds.		
Beginning of the year		7,102,622
(Deficit) current year		-746,258
End of the year		<u>6,356,364</u>

Balance Sheets

as at 31 December 2006

	Note	2006
Assets.		
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Non-current Assets		
Fixed Assets	10	0
		<hr/>
Current Assets		
Bank and Cash	11	7,638,803
Accounts receivable	12	158,068
		<hr/>
		7,796,871
		<hr/>
Total Assets		7,796,871
		<hr/>
Equity.		
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Capital reserve		6,356,364
		<hr/>
Total Equity		6,356,364
		<hr/>
Liabilities.		
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Current Liabilities		
Accounts payable	13	579,248
Salaries provision fund	14	105,200
USAID	15	756,059
		<hr/>
		1,440,507
		<hr/>
Total Liabilities		1,440,507
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Total Equity and Liabilities		7,796,871
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Notes to the financial statements for the year ended 31 December 2006

1. Basic accounting policies.

The financial statements are prepared on the historical cost basis. Grants are recorded once received. Expenses are recorded when incurred and liabilities are raised for payments not yet made. All fixed assets are expensed on acquisition.

2. Grants received from Joint Financing Agreement partners.

Sida	3,725,836
UNAIDS	256,700
	<u>3,982,536</u>

3. Other grants received.

Department of Health	373,356
DFID	401,541
IDRC	167,772
IFPRI	449,586
MERCK	1,427,406
NIH	1,743,202
OTHER	1,414,780
RBF	652,340
Sida	639,174
	<u>7,269,158</u>

4. Other income.

Interest Received	320,599
Sundry Income	793,782
Presentation Income	18,412
Book Income	52,426
Travel recovery	137,842
	<u>1,323,061</u>

The allocation of the expenditures to respective donor funds and projects (notes 5–7):

5. Expenditure incurred by Joint Financing Agreement partners and HEARD.

	JFA Expenditure	HEARD Expenditure
1. Apply research to improve understanding of the pandemic (KNOWLEDGE)	756,059	414,555
1.1 Increase the pool of available international knowledge	756,059	414,555
1.2 Increase the knowledge base on the socio-economic systemic impacts and responses	0	0
1.3 Research exchange is conceptualised, designed and implemented	0	0
2. Health economics, multidisciplinary research (RESEARCH CAPACITY)	0	0
2.1 Design, manage, monitor and evaluate an African Institutions' Capacity Programme	0	0
2.2 Contribute to higher education learning	0	0
2.3 Host research fellows and post-doctoral fellows	0	0
2.4 Develop a mentoring programme for HEARD staff	0	0

3. Enhance the capacity of leaders in Africa (LEADERSHIP AND SYSTEMS)	27,651	1,797,735
3.1 Conduct oversight and monitoring and evaluation of the MTT	0	0
3.2 Train African leaders and managers in responding to the pandemic	0	0
3.3 Design and develop a toolkit and models to assist agencies, leaders and managers	0	0
3.4 Share research findings and knowledge	27,651	1,797,735
3.5 Develop a strategic assistance service	0	0
3.6 Develop partnerships with key stakeholders	0	0
3.7 Enhance the capacity of a network of African leadership	0	0
4. Develop the organisational capacity of HEARD (ORGANISATIONAL BASE)	204,589	420,391
4.1 Sufficient staff are employed, managed, supported and developed	0	0
4.2 HEARD's work is communicated internally and externally	0	0
4.3 Monitoring and evaluation is implemented for all HEARD's activities	0	0
4.4 HEARD's financial systems meet all users' needs	204,589	420,391
Administration costs (Refer Note 8)	1,375,612	3,644,505
Total	2,363,910	6,277,186

6. Expenditure incurred on USAID funded projects.

	USAID Expenditure
Sundry projects	1,069,097
Total	1,069,097

7. Expenditure incurred on other projects.

	Other Expenditure
Addressing the Balance of Burden in AIDS (ABBA)	79,130
Amajuba Child Health & Well-Being Research Project (ACHWRP)	1,892,668
Relationships between socio-economic status and HIV/AIDS prevalence among adolescents and broader economic consequences (Adolescents)	7,129
Dealing with Vulnerability: Parents' Efforts to Secure the Future of their Children	251,660
Democracy & Governance	353,247
Education Sector Activity (Edusector)	295,772
General research	65,104
International Development Research Centre (IDRC)	148,219
KwaZulu-Natal Department of Health	230,834
The Development of a Spatial Framework for the Management of Support to Orphans and Vulnerable Children (OVC) in the Western Cape and KwaZulu-Natal	60,914
DFID Knowledge project	240,858
Assessment of Research Papers of the SIDA Programme	7,481
Sundry small projects	453,478
SIDA project	667,395
SIPAA project	12,484
Unicef Safety Net	29,541
Workplace Voluntary Counselling and Testing/ Antiretroviral Therapy (VCT/ART Uptake) (WVUP)	187,772
Total	4,983,686

8. Details of Administration costs.

	JFA	HEARD
Accounting & Audit Fees	54,995	35,881
Bank Charges	12,254	
Entertainment	8,105	42,752
Marketing		348
Motor Vehicle Expenses		10,086
Overhead Expenses		66,364
Postage, Printing & Stationery	34,352	107,031
Publications	462	15,959
Repairs & Maintenance	13,224	20,850
Salaries & Wages	395,652	2,218,801
Staff Development	270,132	86,948
Staff Welfare	20,957	770
Subscriptions		14,982
Sundry expenses		441,316
Sundry Equipment	189,768	41,390
Telephone Expenses	52,831	62,008
Travel & Accommodation	223,813	14,203
University Levy	99,066	464,815
Total	1,375,612	3,644,504

9. Unutilised donor funds.

	Opening balance at 1.01.2006	Transfers received	Total expenditure	Closing balance at 31.12.2006
JFA	0	3,982,536	2,845,061	1,137,475
USAID	2,255,792	0	1,441,733	814,059
OTHERS	1,900,684	6,228,443	5,065,527	3,063,600
	4,156,476	10,210,979	9,352,321	5,015,134

Outstanding funds per donor:

	Opening balance at 1.01.2006	Amount agreed	Total received	Closing balance at 31.12.2006
JFA				
DFID	0	0	0	0
RNE	0	3,200,000	0	3,200,000
Sida	0	3,725,836	3,725,836	0
Irish Aid	0	0	0	0
UNAIDS	0	513,400	256,700	256,700
	0	7,439,236	3,982,536	3,456,700

10. Fixed assets.

	2006
Purchase price	1,390,840
Depreciation	-1,390,840
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	0

11. Bank and cash.

	2006
JFA	1,169,155
USAID	812,755
Merck	1,274,886
RBF	666,290
NIH	642,273
IFPRI	244,399
DFID	227,544
UNESCO	8,275
SIDA	5,439
KZN Government	-5,506
HEARD General	2,593,291
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	7,638,803

12. Accounts receivable.

	2006
Loan to O. Qulo	158,068
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	158,068

PricewaterhouseCoopers is currently conducting a VAT review to determine the correct VAT treatment of the various cost centres within HEARD. Any adjustments that need to be made as a result of the outcome of the VAT review may be dealt with as adjustments.

13. Accounts payable.

	2006
Various accruals	467,845
Research codes:	
– A. Whiteside	55,644
– T. Quinlan	13,476
– N. Veenstra	383
– G. George	17,339
– S. Willan	24,332
– S. Dawad	229
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	579,248

14. Salaries provision fund.

	2006
Salaries provision fund	105,200
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	105,200

15. USAID.

HEARD has the liability to repay USAID funding as result of their view that HEARD was non-compliant.