



**CIRCULAR**

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## **CIRCULAR 22 OF 2012: GENERAL NOTIFICATION: GENERAL CONCERNS NOTED DURING THE ANALYSIS OF THE 2011 ANNUAL FINANCIAL STATEMENTS AND STATUTORY RETURNS (AFS)**

### **1. INTRODUCTION**

#### **1.1 Purpose**

The Office of the Registrar would like to express its appreciation to medical schemes, administrators and auditors for the co-operation provided in submitting the 2011 AFS within the period required by section 37 of the Medical Schemes Act 131 of 1998.

The purpose of this circular is to bring to your attention common problems and issues identified during the analysis of the AFS in order to:

- enhance the quality of data submitted in the AFS,
- achieve standardization and uniformity regarding proper disclosure
- reduce or minimize errors and
- establish good financial reporting for the industry.

## **1.2 Background**

A review of the data collected by the Office has highlighted a number of discrepancies in the information currently being furnished by medical schemes in their statutory returns. The preparers of the statutory returns and scheme management are hereby requested to address these matters in future submissions.

## **2. KEY AREAS OF CONCERN**

### **2.1. The Board of Trustees Report**

**2.1.1.** Differences were noted between the number of trustees disclosed in the Board of Trustees (BoT) Report and those disclosed in the Annual Statutory Return. Schemes should ensure that the information disclosed in the BoT Report and the Annual Statutory Return corresponds.

These differences were mainly due to the following:

- alternate BoT members are not being disclosed in both reports; and/or

In this regard schemes should also note that the names of **all** the BoT members that were in office during the financial year (at any time during the year) need to be disclosed in Part 1.3 of the Annual Statutory Return.

**2.1.2.** Some instances were noted where the solvency as per the Annual Statutory Return did not agree with the solvency as per the BoT Report. Schemes should ensure that the information disclosed in the BoT Report and the Annual Statutory Return corresponds.

### **2.2. The audited Annual Financial Statements**

**2.2.1.** It was noted that some schemes audit reports were not printed on the auditors letterhead as requested in Circular 9 of 2012.

**2.2.2.** We have noted a few instances where schemes accounting policies were not relevant or specific to the scheme and were simply copied from various reference documents. Schemes are urged to ensure that all accounting policies are adjusted for all items specific for each scheme.

- 2.2.3.** It was noted that a number of schemes did not disclose all the required information in respect of IAS 24 (*Related parties*).

Please refer to the 2011 SAICA Medical Schemes Accounting Guide as well as IAS 24. The SAICA Guide contains very relevant information in order to assist schemes in determining whether a party to a transaction meets the definition of a related party, as well as the extent of disclosure with regards to related parties. Restricted schemes are also reminded to consider whether the employer group is a related party.

### **2.3. The Annual Statutory Return**

- 2.3.1.** It was noted that a number of questions were not correctly answered in part 1.4. We urge schemes to pay specific attention to this area in future since it is an indication that care was not taken in the completion of the return. In terms of section 57(6)(b) of the Act, the BoT shall act with due care, diligence, skill and good faith. Schemes should ensure that each question is answered correctly, that the necessary details are provided, and that these pages are signed by the relevant parties. It should further be noted that the disclosure of scheme contracts in Part 1.4 impacts on the rest of the return.
- 2.3.2.** In some instances it was noted that schemes did not accurately complete Part 2.6. Data extraction presented on Part 2.6 should be checked for accuracy as well as comparability with respective year's data. Data checks should be undertaken to ensure that the data is comparable. Inaccuracies are still evident in the following sections within Part 2.6:
- Utilisation data on Private hospitals
  - Maternity data
- 2.3.3.** In some instances it was noted that schemes did not accurately complete Part 2.7. Schemes should ensure that data presented in Part 2.7 is of good quality. Schemes must also ensure that the prevalence rates for the respective years are accurate and comparable. Data checks should be undertaken to ensure comparability.

- 2.3.4.** In Part 3 there were significant increases in certain categories of expenses due to incorrect classification of benefits paid in the following disciplines. This yielded inconsistencies and data not comparable between the respective years:
- Dental Specialists,
  - Supplementary and Allied Health Professionals and
  - Medicines dispensed by Other Health Professionals
- 2.3.5.** It was noted that some schemes used the “Other” lines Parts 2.8, 2.9, 2.10, 3.2, 3.3 and 3.4 when specific lines are allocated for these items. The “Other” lines should not be used when a pre-defined category exists. In cases where this occurs, the Annual Statutory Return will be returned for correction and re-submission.
- 2.3.6.** Similarly schemes used the “other” line in parts 4.3, 4.8, 4.12 and 4.16 even where provision was made for a specific line item. These items should not be disclosed in the “other” line.
- 2.3.7.** A number of schemes have transferred savings owing to resigned members to trade and other payables. Schemes are urged to record all savings account balances in part 4.5.
- 2.3.8.** It was noted that in the Annual Statutory Return and in the Annual Financial Statements certain amounts were omitted and the individual totals per Part 4.26 of the Annual Statutory Return did not always agree with the note in the Annual Financial Statements with regards to related party transactions.
- 2.3.9.** It was noted that Part 9 of the return was not correctly completed. Issues identified include:
- General misclassification
  - Drop downs provided were not always utilised
  - Full disclosure of entity names not provided, and
  - Investments not recorded under the correct column to which they relate
- In future, please ensure that the investments are classified correctly in order to test compliance. Please also refer to our website for the Guidelines on investments for further guidance in this regard.

## **2.4. Non-compliance matters raised in the BoT Report and Annual Financial Statements**

In Circular 11 of 2006, Circular 30 of 2007 and Circular 14 of 2008, we have set out how non-compliance matters should be treated in the BoT Report. We have noted that schemes did not always disclose the nature of the non-compliance matters that were raised, but only the sections from which they deviated or the specific notes in the financial statements which address their non-compliance. Section 37(5) of the Act requires that the BoT Report shall deal with every matter which is material for the appreciation by members. We consider all non-compliant matters to be of such a nature that it should be individually specified in the BoT Report.

Schemes are required to apply for exemption in terms of the Act if they do not comply with any provisions of the Act.

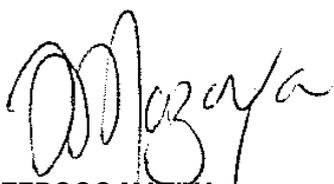
Schemes are required to disclose the following information relating to all non-compliance issues (regardless of whether the scheme has addressed the non-compliance or not):

- a) nature and impact;
- b) causes of the failure; and
- c) corrective course of action (including the timeframe, where applicable).

Corrective courses of action implemented would include exemptions obtained, suspension and termination of benefits in respect of outstanding contributions, and any other actions taken.

All non-compliance matters included in the BoT Report must also be disclosed in a note to the Annual Financial Statements as well as the part 11(b) assurance report required by sections 36, 37 and 39 of the Act.

Your cooperation is highly appreciated.



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