



CIRCULAR

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Contact : E Figueiredo
Telephone : 012 431 0525
Facsimile : 012 431 0625
E-mail : e.figueiredo@medicalschemes.com
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CIRCULAR 28 OF 2013: GENERAL NOTIFICATION: GENERAL CONCERNS NOTED DURING THE ANALYSIS OF THE 2012 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 2012 AFS within the period required by Circular 17 of 2013.

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.

2.2. The audited Annual Financial Statements

2.2.1. It was noted that some schemes failed to disclose the personal medical savings account trust investments (which represents monies belonging to members, managed on their behalf by the scheme) separately from the scheme's assets on the face of the statement of financial position. Kindly note this requirement for future submissions as this is required to give effect to not only the requirements of Regulation 10, but also to ensure that effect is given to the requirement emphasised by the Omnihealth judgement that various components of a medical scheme contract be emphasised; namely to clearly draw a distinction between scheme assets and those trust monies belonging to and managed on behalf of its individual members.

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. 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 also be noted that the scheme in answering the questions should provide full details and not refer to the financial

statements. Non compliance should be fully disclosed in this part even if the scheme has received an exemption. Corrective courses of action implemented should be included in the answers provided.

- 2.3.2. Part 2.4 collects data on member movement in medical schemes; this is the critical information for monitoring the impact of the MSA and also for informing policy options. With reference to Section 29A (1) of the MSA, data on Part 2.5 on waiting periods is equally important. Schemes are requested to accurately report as the Office will interrogate this data more in the next submissions.
- 2.3.3. It was noted that a number of schemes reported contrasting demographic change data in Part 2.3 and Part 2.13. Schemes are urged to ensure that these two parts correspond to each other.
- 2.3.4. 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 and public hospital services
 - Diagnostic technology measures
- 2.3.5. 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.
- 2.3.6. In Part 3.1 to Part 3.5 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:
- Private hospital services,
 - Supplementary and Allied Health Professionals and
 - Managed care arrangements (in hospital)
- 2.3.7. It was noted that some schemes used the "Other" lines Parts 2.8, 2.9, 2.10, 3.1, 3.2, 3.3, 3.4 and 3.5 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.
- 2.3.8. In Part 3.6 data in some scheme was not of good quality. Schemes are advised to interrogate their PMB data and make sure that they are able to correctly identify claims

in order to complete this part accurately. Conduct to accurately identify PMB conditions is also outlined in the PMB code of conduct. The code of conduct also outlines administration requirements with regards to pre-registration, pre-authorisation and application of PMB benefits.

- 2.3.9. 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 4.5.1 until the amounts have been paid over to the member or the Guardians Fund
- 2.3.10. It was noted that many schemes did not correctly complete Part 4.16.2 Advertising and Marketing expenditure. Schemes are urged to ensure that they provide a full breakdown of all such expenditure and indicate the nature of the services provided per provider.
- 2.3.11. 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
 - Certain funds not being broken down into the underlying assets

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.

- 2.3.12. Many schemes only provided an investment schedule compiled by the scheme as part of its submission. Please note that all schemes are required to provide the third party investment schedules as received from the investment managers in support of investments disclosed in Part 9.

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. 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.



TEBOGO MAZIYA
HEAD: FINANCIAL SUPERVISION
COUNCIL FOR MEDICAL SCHEMES