



CIRCULAR

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CIRCULAR 30 OF 2014: GENERAL NOTIFICATION: GENERAL CONCERNS NOTED DURING THE ANALYSIS OF THE 2013 ANNUAL FINANCIAL STATEMENTS AND STATUTORY RETURNS (AFS)

1. INTRODUCTION

1.1 Purpose

The Council for Medical Schemes (CMS) would like to express its appreciation to medical schemes, administrators and auditors for the co-operation provided in submitting the 2013 Annual Financial Statements (AFS) within the period required by Circular 19 of 2014.

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 standardisation and uniformity regarding proper disclosure;
- reduce or minimise errors; and
- establish good financial reporting for the industry.

1.2 Background

A review of the data collected by the CMS 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 audited Annual Financial Statements

- 2.1.1. Certain schemes with own facilities did not disclose them correctly in the AFS. The note in the AFS and part 4.20 in the Annual Statutory Return should reflect the net surplus/deficit on own facilities relating only to services provided to third parties. Benefits relating to services rendered by the own facility for the scheme's members are reflected as part of claims incurred. Schemes are referred to Appendix II of the 2013 SAICA Accounting Guide for the correct disclosure.
- 2.1.2. A number of schemes did not disclose all their related parties in their AFS. Schemes are referred to the SAICA Accounting guide for guidance on whether an entity is a related party. Each medical scheme needs to assess individually who its related parties are, taking into account their individual circumstances.

2.2. The Annual Statutory Return

- 2.2.1. 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.
- 2.2.2. A large number of medical schemes submitted data with significant errors for parts 2 and 3 of the Annual Statutory Return:
- The observed differences between 2012 and 2013 are not informed by known changes in scheme size, demographic or utilisation patterns of schemes.
 - Utilisation increase greater than 5% must be supported by significant changes in the scheme risk profile.

- The interaction between CMS and schemes revealed that the problem was mostly with the 2012 data. Schemes were not requested to correct 2012 data but were however allowed to correct the 2013 data capturing errors.
- For new sections of the return relating to utilisation, there is sufficient evidence to suggest that some schemes deliberately captured incorrect data for 2012, perhaps to circumvent the data validation rules. In some cases, schemes captured a number as low as 1 (one) in 2012 and then proceed to capture a figure as high as 6 million for 2013 relating to the same field. Validation rules will be strengthened to prevent identified data errors from re-occurring in future.
- Simple checks such as percentage differences between the current and previous years can be computed to check data reliability and consistency.
- Some of the problems may be systems related. Therefore schemes on the same administration platform are likely to have the same problems.
- Principal Officers must ensure that data is signed off only after thorough checks to ensure data is accurate, reliable and consistent.
- CMS will continue to work on improving indicator definitions to ensure consistent reporting of data in the annual return for parts 2 and 3.

2.2.3. Part 4.16.2 in respect of Advertising and Marketing expenditure was not completed correctly by many schemes. 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. Although part 1.4 refers to marketing or advertising agreements, a formal agreement needs not be in place to necessitate disclosure.

2.2.4. It was noted that many schemes did not disclose all related parties in part 4.26 of the Annual Statutory Return. Schemes should ensure that the Related Party note in the Annual Financial Statements agrees with part 4.26 of the Annual Statutory Return. Schemes should also ensure that all related party receivables and payables are correctly disclosed in parts 4.3 and 4.8 of the Annual Statutory Return.

2.2.5. Part 9(a) of the return relating to Investments was not correctly completed. Issues identified include:

- General misclassification;
- Drop downs provided were not always utilised;
- Full disclosure of entity names not provided (only instrument codes were provided);
- Investments not recorded under the correct column to which they relate; and
- Certain funds not being broken down into the underlying assets as per Explanatory Note 8 of Annexure B, read in conjunction with Regulation 30 of the Medical Schemes Act 131 of 1998 (the Act).

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.

2.2.6. 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. In Circular 19 of 2014 schemes were required to provide detailed investment schedules which should reconcile back to third party investment statements, copies of which should be included in the submission.

2.2.7. It was noted that the part 9 Self Declaration was not always signed by the Principal Officer, Chairperson and Trustee signatory. Schemes are urged to ensure that all parts are signed as submission of unsigned parts amounts to a non-submission.

2.3. Non-compliance matters raised in the Board of Trustees Report (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. CMS considers 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 also 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.

CMS is looking forward to improved Annual Financial Statements in future and highly appreciates your cooperation.



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