



Reference: Annual returns 2014  
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## CIRCULAR 43 OF 2015: GENERAL NOTIFICATION: GENERAL CONCERNS NOTED DURING THE ANALYSIS OF THE 2014 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 2014 Annual Financial Statements (AFS) within the period required by Circular 19 of 2015.

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 people responsible for preparing the statutory returns and scheme management are hereby requested to address these matters in future submissions.

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### 1.3 Statistics

In the beginning of 2014 there were 87 schemes in operation. On 1 January 2014 2 schemes amalgamated with a further 2 schemes amalgamating on 1 May 2014. At the end of 2014 only 83 schemes remained in operation. A total of 85 schemes provided a full submission for 2014.

	2014
Number of scheme submissions	85
Number of schemes unlocked for correction	35
Number of schemes rejected	1

Schemes were only unlocked in the case where a number of corrections were necessary.

## 2. KEY AREAS OF CONCERN

### 2.1. The audited Annual Financial Statements

- 2.1.1. A few instances were noted where schemes disclosed irrelevant accounting policies in the financial statements. In deciding whether a particular accounting policy should be disclosed, schemes should consider whether the disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position or in the comparatives included in the financial statements.
- 2.1.2. The CMS noted a few instances where schemes disclosed insufficient accounting policies in the financial statements. International Accounting Standard (IAS) 1 paragraphs .108 to .115 require that a scheme discloses (in the summary of significant accounting policies) the following:
- the measurement basis (or bases) used in preparing the financial statements; and
  - the other accounting policies used that are relevant to an understanding of the financial statements.
- 2.1.3. Many schemes did not prepare their summarised AFS in accordance with IAS 34 on Interim Financial reporting. In addition to this many schemes who prepare and circulate

summarised AFS (and not a full set) have not provided for this in the scheme rules. Schemes are referred to Circular 6 of 2013 for all the requirements.

- 2.1.4. Schemes who have investments in Collective Investment Schemes (CIS) did not always include the disclosure on Structured Entities as required by IFRS 12. Schemes are referred to Appendix VI of the 2014 SAICA Accounting Guide for the correct disclosure.

## 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. 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.
- 2.2.3. It was noted that in Part 4.20 and Part 7.2 the realised and unrealised movements in investments were not always shown separately in these parts. Schemes are urged to ensure that all unrealised and realised movements in investments are shown separately in the return in the correct lines which have been provided in Part 4.20 and Part 7.2.
- 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).
- Unit trusts which were not purely equity were disclosed as equity unit trusts under Category 4.

In future, please ensure that the investments are classified correctly in order to test compliance. The Guidelines on the categorisation of assets in terms of Regulation 30 of the Medical Schemes Act 131 of 1998 (Act) read in conjunction with Annexure B to the Regulations are published on our website 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. Schemes should note that failing to provide these will result in an incomplete submission and the scheme will be charged penalties in accordance with Section 66(3) of the Act.

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, the CMS has 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.

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



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