



CIRCULAR

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Reference : Annual financial information provided to members
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Circular 6 of 2013: Annual financial information provided to members

Section 37 of the Medical Schemes Act 131 of 1998, as amended, (Act) requires Boards of Trustees to prepare Annual Financial Statements (AFS) in respect of every financial year. In accordance with Section 37(5) of the Act, the Board of Trustees' Report is to deal with every matter that is material for the appreciation by members of the medical scheme of the state of affairs and the business of the medical scheme and its results, and is to contain relevant information indicating whether or not the resources of the medical scheme have been applied economically, efficiently, and effectively. This Report is issued along with the AFS.

Trustees are furthermore obliged in terms of Section 57(4)(d) of the Act, to ensure that adequate and appropriate information is communicated to the members regarding their rights, benefits, contributions and duties in terms of the rules of the medical scheme.

In terms of Section 41(1) of the Act, a medical scheme shall deliver to a beneficiary on demand by such beneficiary, and on payment of such fee as may be determined by the rules of the medical scheme, a copy of the latest AFS prepared under Section 37(1). Section 41(2) further states that a beneficiary shall be entitled to inspect such AFS, without charge, at the registered office of a medical scheme of which he or she is a member. The Act is, however,

silent on how and in what format the annual financial statements are to be provided to members for approval at the Annual General Meeting (AGM) and other forums where it is discussed.

Circular 23 of 2008 clarifies that the manner in which the AFS are distributed to members is dealt with in the scheme's rules. Scheme rules further prescribe the format of the AFS to be distributed. The format of the AFS distributed to members generally takes three forms:

- Full set of AFS;
- Summarised set of AFS; or
- Highlights document.

Full set of Annual Financial Statements

As per Section 37(4) the full set of AFS needs to be prepared in accordance with International Financial Reporting Standards (IFRS); and in the manner required by the Act. The AFS needs to be audited in terms of Section 37(3).

Summarised set of Annual Financial Statements

Circular 38 of 2007 provided guidance to medical schemes with regard to summarised financial statements for distribution to their members in terms of the minimum content required, and emphasised the audit requirements relating to summarised financial statements.

Circular 38 of 2007 is hereby withdrawn.

Schemes whose rules require them to distribute summarised annual financial statements to their members should ensure that such financial statements:

- Are prepared in accordance with the recognition and measurement requirements of IFRS;
- Are prepared in the manner required by the Act;
- As a minimum adhere to the presentation and disclosure requirements of International Accounting Standard (IAS) 34 *Interim financial reporting*; and
- Provide information on where a member can obtain a full set of AFS.

These summarised annual financial statements would then be subject to an audit conducted in terms of International Standard of Auditing 810 *Engagements to report on summary financial statements*.

Prescribed content of a Highlights document

The Council for Medical Schemes requires the following minimum information to be included in the Highlights document that is distributed to members:

- By means of figures and a descriptive report, set out and explain any matter or information that is material to the affairs of the medical scheme (Sections 37(4)(c) and 37(5)(a))*;
- Contain relevant information indicating whether or not the resources of the medical scheme have been applied economically, efficiently and effectively (Section 37(5)(b))*;
- Contain relevant information on how the scheme managed personal medical savings account trust monies on behalf of its members;
- Contain a statement that the financial information in the Highlights document have been extracted from and are in agreement with the audited AFS;

- In the event that the auditor has expressed a modified opinion on the AFS or has included an Emphasis of Matter in the audit report, details of such modified opinion or Emphasis of Matter should be reported to the members;
- A statement of financial position as at the end of the period;
- A statement of profit or loss and other comprehensive income for the period (the format of which is prescribed by Circular 41 of 2012);
- A statement of changes in equity for the period (in the event that material movements occurred);
- The following figures should be provided on both a scheme and per benefit option level:
 - Number of members;
 - Number of beneficiaries;
 - Average age;
 - Pensioner ratio;
 - Risk contribution income on either a per average member per month (pampm) or a per average beneficiary per month (pabpm) basis;
 - Relevant healthcare expenditure (claims) pampm or pabpm;
 - Relevant healthcare expenditure (risk claims) ratio;
 - Non-healthcare expenditure pampm or pabpm;
 - Non-healthcare expenditure as a percentage of risk contribution income; and
 - Net healthcare result.
- A summary of the main categories of investments held at year-end (i.e. equity, bonds, etc.), together with the disclosure of the average return on investments held;
- Regulation 29 solvency calculation and ratio;
- Reserves per beneficiary;
- All non-compliance matters; and
- Provide information on where a member can obtain a full set of AFS.

**The narratives provided in the Highlights document should be in plain language as required by Section 22(1) of the Consumer Protection Act 68 of 2008. In terms of Section 22(2) such Highlights document will be deemed to be in plain language if it is reasonable to conclude that an ordinary member of the medical scheme, with average literacy skills and minimal experience as a member of any scheme, could be expected to understand the content, significance and import of such document without undue effort, having regard to:*

- *The context, comprehensiveness and consistency of the Highlights document;*
- *The organisation, form and style of such document;*
- *The vocabulary, usage and sentence structure of the such document; and*
- *The use of any illustrations, examples, headings or other aids to reading and understanding.*

The above prescribed content is applicable for financial year-ends from 31 December 2012 onwards.



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Head: Financial Supervision
Council for Medical Schemes