



**TO ALL PRINCIPAL OFFICERS, BOARDS
OF TRUSTEES OF ALL MEDICAL
SCHEMES, AND PREPARERS OF
STATUTORY RETURNS**

Ref: Annual Returns 2009
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**GENERAL NOTIFICATION: GENERAL CONCERNS NOTED DURING THE ANALYSIS OF
THE 2009 ANNUAL FINANCIAL STATEMENTS AND STATUTORY RETURNS**

1. INTRODUCTION

1.1 Purpose

The Office of the Registrar would like to express its appreciation to the medical schemes industry with regards to your cooperation in the completion and submission of the 2009 Annual Financial Statements and Statutory Returns.

The purpose of this Circular is to:

- enhance the quality of the data submitted in the Annual Financial Statements and Statutory Returns;
- achieve standardisation and uniformity regarding proper disclosure;
- reduce or minimise errors in the Annual Statutory Returns; and
- establish good financial reporting of the entire medical schemes industry.

1.2 Background

A review of the information collected by the Office has highlighted a few discrepancies in the type of information currently being furnished by medical schemes in their statutory returns. The Office would therefore like to point out important matters noted during the analysis of the Annual Statutory Returns, and the preparers of statutory returns and scheme management are hereby requested to address those matters in future submissions.

A statutory body established in terms of the
Medical Schemes Act, 1998 (Act 131 of 1998)

Chairperson: Prof. W Pick Registrar & CE: Dr M Gantsho



2. KEY AREAS OF CONCERN

Matters concerning the Board of Trustees Report

- 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
- BoT members who resigned during the year were not included in the Annual Statutory Return.

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) Differences were noted between the number of members and/or beneficiaries disclosed in the 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.
- 3) As previously requested in Circular 14 of 2008, schemes should ensure that they disclose the number of beneficiaries and dependants in addition to the number of members in the BoT Report.
- 4) 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.

Matters concerning the audited Annual Financial Statements

- 1) It was noted some schemes have not complied with the full requirements of Circular 18 of 2009 in respect of the *Format of statement of comprehensive income*. Please note that should schemes not have any items of other comprehensive income, the net surplus or deficit should be replaced by 'Total comprehensive income'.
- 2) We have noted a few instances where schemes disclosed irrelevant and/or insufficient accounting policies in their 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.



In deciding whether a particular accounting policy should be disclosed, the scheme 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. Schemes should therefore ensure that they disclose sufficient and relevant accounting policies.

- 3) We have noted a number of instances where schemes disclosed individual receivables with credit balances as receivables, and payables with debit balances as payables. Some instances were also noted where the scheme offset unallocated deposits (amounts which cannot be allocated to relevant debtors due to insufficient information) against receivable balances.

As IAS 1 paragraphs .32 to .35 does not allow for the offsetting of assets and liabilities, all credit balances that are included in receivables as well as unallocated deposits need to be reclassified to current liabilities and debit balances that are included in payables to current assets. Please take note that this paragraph is not applicable to credit amounts that are reflected in the age analysis due to the incorrect allocation of amounts received and/or that relate to debtors with an overall debit balance.

- 4) It was noted that a few schemes did not comply with the disclosure requirements as set out in IFRS 4 paragraphs .38 and .39.

Paragraph 38 states: "An insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent arising from insurance contracts."

The following *inter alia* needs to be disclosed according to paragraph 39 in order to comply with paragraph 38:

- a) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks;
- b) deleted;
- c) information about insurance risk (both before and after risk mitigation by reinsurance), including information about:
 - i) sensitivity to insurance risk (see paragraph 39A);
 - ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristics that identifies each concentration (e.g. type of insured event, geographical area, or currency);
 - iii) actual claims compared with previous estimates (i.e. claims development); and
- d) Information about credit risk, liquidity risk and market risk that paragraphs 31 – 42 of IFRS 7 would require if the insurance contracts were within the scope of IFRS 7.

Paragraph 39A states that an insurer shall disclose either a) or b) as follows:

- a) a sensitivity analysis that shows how profit or loss and equity would have been affected had changes in the relevant risk variable that were reasonably possible at the balance sheet occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used; or
- b) qualitative information about sensitivity and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.



- 5) It was noted that in certain instances schemes did not comply with the disclosure requirements as set out in IFRS 7 paragraph .27 read together with IAS 9 paragraph 48. You are referred to IFRS 7 paragraph .27, IAS 9 paragraph 48 as well as the 2009 SAICA Guide for disclosure requirements in respect of financial instruments.

IFRS 7 paragraph 27 states that an entity shall disclose:

- a) the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.
- b) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71–AG79 of IAS 39).
- c) whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.
- d) if (c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.

IAS 9, Paragraph 48 states that in determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, IAS 32 or IFRS 7, an entity shall apply paragraphs AG69–AG82 of Appendix A.

Paragraph 48A states that the best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (ie without modification or repackaging) or based on any available observable market data.

- 6) 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 2009 SAICA 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. It was furthermore 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.

- 7) It was noted that sufficient details on trustee remuneration were not disclosed as required in terms of Regulation 6A;
- 8) It was noted that a scheme submitted consolidated Annual Financial Statements without separately disclosing scheme results. Schemes are requested to separately disclose scheme results from consolidated results.

Matters concerning the Annual Statutory Return

- 1) It was noted that manual changes were made on Part 1 in respect of the PO, Chairperson and trustee signatories. The scheme should communicate changes to Part 1 to the Office as soon as a change has taken effect. Schemes are also referred to Circular 9 of 2009 in this respect.
- 2) We noted that schemes did not pay particular attention to 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.
- 3) 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.
- 4) In some instances it was noted that schemes did not accurately complete Part 2.7. Schemes should ensure that data presented on Part 2.7 is of good quality. Prevalence of persons diagnosed with chronic conditions is required and should be reported if it exists. Every beneficiary who has any of the 'listed' chronic conditions in the financial year must be counted and reported accurately. Scheme must also ensure that the prevalence rates for the respective years are comparable. Data checks should be undertaken to ensure comparability.
- 5) In some instances it was noted that schemes did not report on Pathology services in Part 2.8 and Pharmacies services in Part 2.9 , this led to incomparability with the previous year's data.
- 6) In Part 3.1, amounts were incorrectly classified in the analysis of benefits paid to the following disciplines, in some cases data was not reported, this yielded inconsistencies and data not comparable between the respective years:
 - Dentists



- Dental Specialists
 - Supplementary and Allied Health Professionals
 - Provincial Hospitals
- 7) It was noted that some schemes used the "Other" lines as a dumping ground in Parts 2.8, 2.9 2.10, 3.2, 3.3 and 3.4. The variable "Other" lines should not be used when a pre-defined category exists. In cases where this occurs, the Annual Statutory Return will be returned to the principle officer for correction and re-submission.
- 8) It was noted that some schemes did not disclose related parties in the correct line in Part 4.3(a) and Part 4.8. Schemes are requested to disclose all related party balances in lines 4.3.12.5 and 4.8.6.5 and not in the other lines.
- 9) It was noted that schemes used the "other" line in parts 4.3, 4.8, 4.12 and 4.16 as a dumping ground. Please ensure that where provision was made for a specific line item, these items should not be disclosed in the "other" line provided.
- 10) It was noted that there were various misallocations within Parts 4.3, 4.8, 4.12 and 4.16 of the Annual Statutory Return.
- 11) It was noted that in Part 4.8 schemes provided details of every creditor outstanding at year end. Schemes are requested only to provide details of large creditors such as leave provisions, audit fees etc. Other small trade creditors can be grouped together under other trade creditors.
- 12) Schemes are requested to disclose all significant risk transfer arrangements in the Annual Statutory Return, regardless of the materiality of the amounts involved.
- 13) A number of schemes indicated that they had managed care healthcare benefits and risk transfer contracts in Part 1.4, but did not complete the transactions and balances in respect of such contracts correctly in Part 4.9, Part 4.11 and Part 4.13. In most instances, the net claims incurred in respect of related risk transfer arrangements were not disclosed separately in Part 4.11 Column C. It should also be noted that managed care healthcare benefits with no transfer of risk should be disclosed in Part 4.11 Column B lines 4.11.1.4 - 4.11.1.6. Please refer to the Helpfile issued by the Office in future to ensure that these parts are completed correctly. Schemes are requested to disclose all significant risk transfer arrangements in both the Annual Financial Statements and the Annual Statutory Return, regardless of the materiality of the amounts involved.
- 14) It was noted that a scheme did not show the outstanding claims provision in respect of risk transfer arrangements separately from the schemes outstanding claims provision in Part 4.11. Schemes are also requested to reflect the risk transfer arrangement asset separately in Part 4.3(b) and not to set it off against other amounts in respect of risk transfer arrangements.
- 15) A number of schemes did not complete the transactions in respect of the provision for impaired losses and amounts written off correctly in Part 4.18. Please refer to the Helpfile issued by the Office in future to ensure that this part is completed correctly.



- 16) It was noted that schemes disclosed realised and/or unrealised gains/losses in respect of investments as part of gross investment income in the audited financial statements. However, please note that these gains/losses must not be included in gross investment income but separately in Part 4.20 for statutory return purposes. This may result in differences between the Statutory Return and the Annual Financial Statements.
- 17) It was noted that a scheme recognised its discontinued options as a discontinued operation in Part 6 of the Annual Statutory Return. Discontinued options do not necessarily meet the criteria of a discontinued operation as per IFRS 5. Schemes are requested to recognise all discontinued options under continuing operations in Part 6 unless they meet the definition of a discontinued operation as per IFRS 5.
- 18) It was noted that there was a general misclassification across the various categories as provided for in Part 9 of the return. In future, please ensure that the investments are classified properly. Please also refer to our website for Guidelines 53 – 59 of 2010 to assist you in this regard.
- 19) It was noted that the underlying assets of portfolios, unit trusts and policies of insurance linked to the performance of the underlying assets, were not always provided by the asset managers. Schemes should ensure that they obtain the data timeously and that they split the portfolio between the relevant categories in Part 9 (i.e. use the look-through principle).
- 20) In some instances it was noted that schemes did not complete Part 10.1 correctly. Schemes should note that the balance of Part 10.1.7 should only represent unrealised gains and losses (recognised through the income statement – not other comprehensive income) on investments held by the scheme at year end. All unrealised gains and losses recognised through the income statement should be recorded in this part and when sold should then be removed.

Matters concerning the auditors

- 1) As previously communicated in Circular 14 of 2008, in instances where no management report was issued by the auditors, the Office will require official confirmation from the auditors that there were no material matters that should be reported to either the scheme or the Council for Medical Schemes. The management report requested should be the final report issued to the scheme by the auditors detailing all internal control weaknesses and housekeeping issues identified during the audit together with management comments.
- 2) We have encountered a few instances where the auditors did not use the latest version of the assurance report (Part 11) as required by sections 36, 37 and 39 of the Act. Schemes should bring this matter to the attention of their auditors and ensure in future that the correct versions of the assurance reports are used.
- 3) It was noted that schemes reported issues noted in 11b by reference to the Annual Financial Statements. Schemes should note that Part 11 is a standalone report and all items of non-compliance should be detailed within this report.



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.

The following non-compliance with the provisions of the Act was noted but generally not reported in both the Annual Financial Statements and 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.

Your cooperation will be highly appreciated.

TEBOGO MAZIYA
HEAD: FINANCIAL SUPERVISION
COUNCIL FOR MEDICAL SCHEMES