



Reference: Annual returns 2022
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Circular 8 of 2024: General concerns noted during the analysis of the 2022 Annual Financial Statements (AFS) and Annual Statutory returns (ASR)

1. INTRODUCTION

1.1 Purpose

The Council for Medical Schemes (CMS) would like to express its appreciation to medical schemes, administrators and auditors for their cooperation in submitting the 2022 Annual Financial Statements (AFS) and Annual Statutory Returns (ASR) within the prescribed period, as required by [Circular 19 of 2023](#).

The purpose of this circular is to bring to your attention common problems and issues identified during the analysis of the AFS and ASR in order to:

- enhance the quality of data submitted in the AFS and ASR;
- achieve standardisation and uniformity regarding proper disclosure;
- reduce or minimise errors; and
- establish good financial reporting for the industry in line with the requirements of International Financial Reporting Standards (IFRS).

1.2 Background

A review of the data collected by the CMS has highlighted a few discrepancies in the information currently being furnished by medical schemes in their statutory returns. The users responsible for preparing the statutory returns and scheme management are requested to address these matters in future submissions.

1.3 Statistics

In 2022, there were 72 schemes in operation (including Health Squared Medical Scheme). A total of 71 schemes provided a full submission for 2022. No schemes were unlocked for correction or rejected.

1.4 Risk-Based Analysis

A risk-based analysis approach was adopted for the analysis of the Annual Returns and Annual Financial Statements for 2022. Schemes were classified for internal purposes, based on size and demographic profile, into the categories of high, medium, and low-impact schemes. A full analysis was performed on high and medium-impact schemes, whereas a report-level analysis was performed on low-impact schemes.

Of the 71 schemes submitted, the classification of schemes is set out below:

Classification	Number of schemes	Beneficiaries	Beneficiaries as a % of total
High	16	7 967 956	89.0%
Medium	24	546 281	6.1%
Low	31	442 528	4.9%
	71	8 956 765	

2. KEY AREAS OF CONCERN

Annual Statutory Returns (ASR)

- 2.1** Part 1.4 - Report of the Board of Trustees (BoT Report): 7.0% of all schemes did not respond accurately to a number of questions in part 1.4. Schemes and audit committees are urged to pay specific attention to this area since it represents the governance section to the annual statutory return.

Schemes should ensure that each question is answered correctly and that the necessary details are provided. 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. Corrective courses of action implemented should be included in the answers provided, this would include any exemptions granted. It is *not* deemed sufficient to refer to the notes to the AFS.

- 2.2** Part 5 – Statement of Financial Position: One scheme's classification of current and non-current assets in the annual return differed from the classification used in its Annual Financial Statements. Schemes are urged to ensure that the classification between current and non-current assets, and liabilities in the Annual Financial Statements reflects correctly on the Annual Return.

- 2.3** Part 9(a) – Investments: 15.5% of medical schemes completed Part 9(a) of the return incorrectly. Issues identified include:

- General misclassification.
- Drop-downs provided were not always utilised;
- Full disclosure of entity names not provided (only instrument codes were provided);
- Instrument codes not provided (only entity names were provided);
- Only equity unit trusts, pooled equity-managed funds and policies of insurance linked to the performance of underlying equities or equity indices should be included in Category 4 to Annexure B read in conjunction with Regulation 30 of the Medical Schemes Act (131 of 1998) (Annexure B). Kindly refer to the ASISA's list of Collective Investment Schemes as at 31 December 2022 as indicated in [Circular 12 of 2023](#).
- Certain funds not being broken down into the underlying assets as per Explanatory Note 8 of Annexure B; and

- Insufficient documentation supporting reclassification of investments to other categories as required in [Circulars 12](#) and [19 of 2023](#).

In future, please ensure that the investments are classified correctly to assist with compliance monitoring. The Guidelines on the categorisation of assets in terms of Regulation 30 of the Act, read in conjunction with Annexure B to the Regulations, are published on our website for further guidance in this regard.

Annual Financial Statements (AFS)

- 2.4** Part 8 - Statement of Cash Flows: A total of four (4) medical schemes reported their cashflows from investment income under operating activities in the scheme AFS' Statement of Cash Flows. Three of these schemes previously disclosed this income as investing activities. We will engage further with these schemes to ascertain the reasons for the change in classification, which is contrary to the CMS position communicated in [Circular 18 of 2022](#) (implementation postponed).

No direct correlation was noted between the classification of the investment income and the scheme's risk impact classification. However, three of these schemes are administered by the same administrator; three of these schemes were audited by the same audit firm, with two being audited by the same engagement partner.

- 2.5** Annexure B compliance monitoring: It was noted that many schemes are incorrectly using investable assets as denominators in the Annexure B percentage calculation, instead of the assets calculated in terms of Regulation 30(2) and Regulation 30(3A). The denominator should be calculated as follows:
- Where the scheme's solvency exceeds 25%: the fair value of the liabilities plus the Regulation 29 funds; or
 - Where the scheme's solvency is below 25%: the fair value of the liabilities plus the minimum required Regulation 29 funds (25% of the annualised contributions).

- 2.6** Reporting of non-compliance matters (relates to 8.5% of schemes): In [Circular 11 of 2006](#), [Circular 30 of 2007](#) and [Circular 14 of 2008](#), the CMS has directed schemes that all non-compliance matters should be disclosed in both the BoT Report and the scheme's AFS.

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):

- Nature and impact;
- Causes of the failure; and
- 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.

The CMS is looking forward to improved AFS and ASR submissions in future and highly appreciates your cooperation.

Yours sincerely,



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