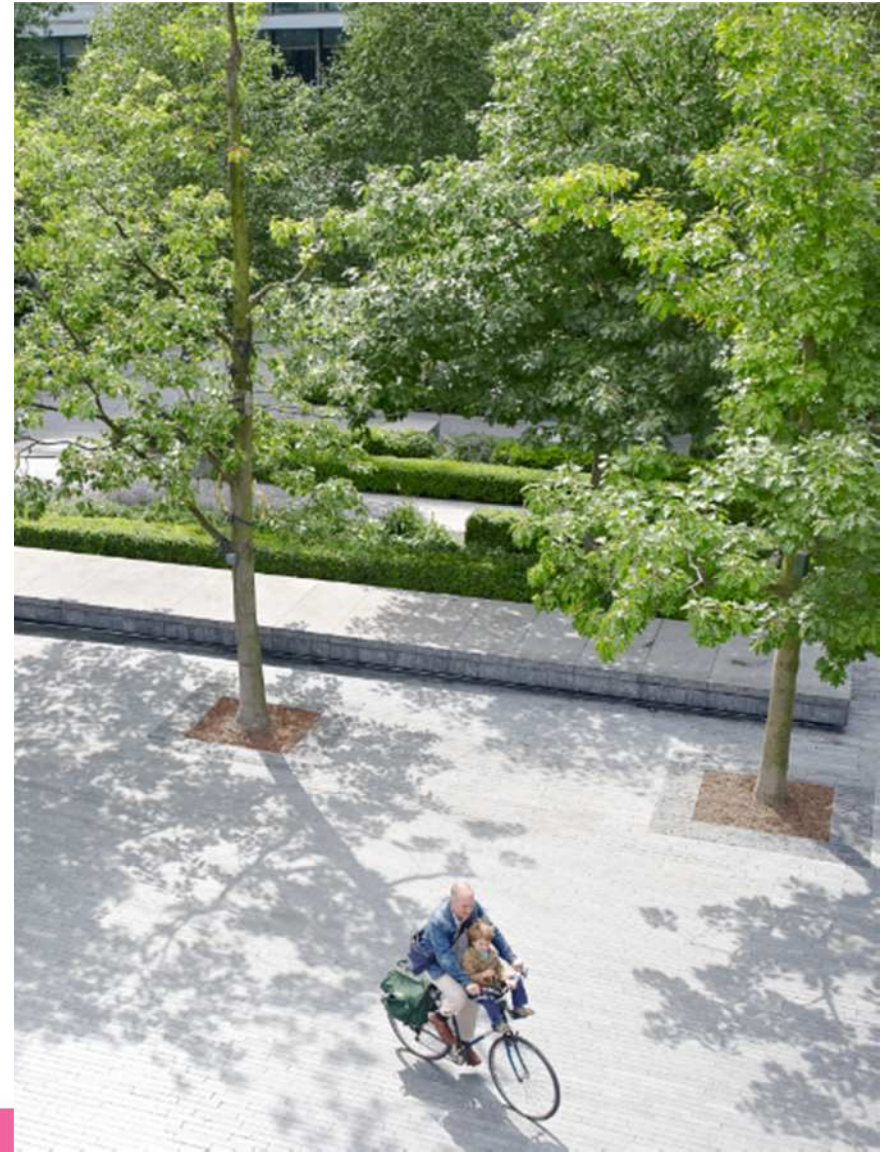


# *Remedi Medical Aid Scheme*

*External audit findings  
for the year ended  
31 December 2013*



*Presented to the Audit Committee on 8 April  
updated for CMS submission.*

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\*                      *Updated engagement letters for the Annual Returns to the Registrar to be added in line with updated guidance as agreed upon between PwC and the CMS*

Our report is primarily designed to highlight those material matters which have come to our attention during the course of our audit, that we believe need to be brought to your attention. This is not a comprehensive record of all the matters arising and in particular we cannot be held responsible for identifying all risks or all internal control weaknesses in the Scheme, which a more comprehensive review may have revealed.

This report is prepared solely for the use of the Board of Trustees and management of Remedi Medical Aid Scheme, to assist you in discharging your fiduciary obligation in respect of the Scheme’s financial reporting and should not be used for any other purpose. No responsibility is assumed by us to other persons.



24 April 2014

Members of the Board of Trustees  
Remedi Medical Aid Scheme

Dear Members

We have completed our audit of the annual financial statements of Remedi Medical Aid Scheme (“the Scheme”) for the year ended 31 December 2013.

We believe that our audit procedures provide a reasonable basis for our audit opinion. The results of our audit work performed were satisfactory and we expect to express an unqualified audit opinion.

In this report we discuss matters which professional guidance recommends should be discussed with those charged with the governance of the Scheme, upon completion of the audit. These include significant matters arising from the audit of the annual financial statements that are relevant to those charged with governance in overseeing the financial reporting and disclosure process.

- International Standards on Auditing do not require the auditor to design procedures for the specific purpose of identifying other matters to be communicated to the Audit Committee; however we will communicate other matters which we are aware of and that in our professional judgement are significant and relevant to the Audit Committee’s responsibilities.

We would like to express our sincere thanks to management and the staff of the Scheme for the assistance afforded to us during our audit and look forward to our meeting.

Should you have any questions or concerns prior to the Board of Trustee meeting, please do not hesitate to contact us in advance.

A handwritten signature in black ink, appearing to read 'Nicolette Jacobs'.

Nicolette Jacobs  
**Director**

A handwritten signature in black ink, appearing to read 'Suraya Gierdien'.

Suraya Gierdien  
**Associate Director**

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Management Committee: H Boegman, T P Blandin de Chalain, B M Deegan, J G Louw, P J Mothibe, N V Mtetwa, T D Shango, S Subramoney, A R Tilakdari, F Tonelli

The Firm’s principal place of business is at 2 Eglin Road, Sunninghill where a list of the partners’ names is available for inspection.

VAT reg.no. 4070182128.

# Executive Summary

## Engagement Objectives

Our aim was to provide a robust audit in the most efficient and effective manner. Our team consisted of assurance and IT specialists in order to ensure that the audit process itself proved effective and efficient and give feedback on the areas within the business that impact our audit.

We have a deep understanding of your business and your systems. We pride ourselves on our investment in you as our client and we will continue to build on our relationships and understanding of your business.

We have endeavoured to share our knowledge with management through our specialists and feel that this has worked well and can only be more beneficial from here onward. We also share some of our observations through this report.

The regular communication with management through the year and early resolution of any noted issues or difficulties from past experience was taken into account to relieve pressure at year end and enabled us to meet the reporting deadlines.

We believe that we have achieved our objectives and will debrief with management to identify areas for improvement for the 2014 audit.

## Scope of the Audit

Our scope included the audit of the annual financial statements of Remedi Medical Aid Scheme as well as the procedures required by the Medical Schemes Act (“the Act”) on the accounting and other regulatory information.

In accordance with International Standards on Auditing (“ISA”) our audit scope and approach are designed primarily to enable us to express an opinion on the fairness of the presentation of the information contained in annual financial statements in terms of International Financial Reporting Standards (“IFRS”).

Our audit incorporated an assessment of the relevant risks and an evaluation of the controls and procedures in place to address these risks.

Our audit has been carried out in accordance with the audit plan presented to the Audit Committee on 14 November 2013.

We were given full access to all information requested and no restrictions were put on the scope of our audit.



# *Executive Summary*

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## ***Audit Approach***

The foundation of our audit approach is our assessment of the risks of material misstatement resulting in a risk based audit approach. We have outlined below a high level summary of the audit approach followed. There was no deviation from the audit plan that was communicated to you.

Our approach was designed to provide us with sufficient audit evidence to issue an audit opinion on the annual financial statements and to issue our separate reports as required by ISA's and the Medical Schemes Act and Regulations thereto on the accounting records and other regulatory information.

A combined audit approach was followed for the Scheme which included an understanding and evaluation of the controls in place for the following business cycles:

- Membership and Contributions;
- Claims Cycle;
- Investments and Cash.

We have gained an understanding of the controls in place over the various business cycles noted above. No major control weaknesses were identified.

Our substantive analytical reviews were limited to reasonability assessments for contributions, member's savings interest, investment income, claims patterns, administration expenses, managed healthcare expenses and risk transfer arrangements.

Substantive testing of classes of transactions and balances, such as obtaining third party confirmations of balances, agreeing transactions to corroborating evidence and review of contract details included:

- Claims cycle;
- Membership and contributions;
- Members savings accounts
- Administration expenses, Managed health care and Risk Transfer Arrangements
- Financial assets, treasury and cash management;
- Trade and other receivables and payables; and
- Incurred But Not Reported ("IBNR") Provision.

# Executive Summary

## Key Areas of Judgment

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most significant estimates and judgements made by the scheme are listed below:

- Provision for Claims Incurred But Not Reported (IBNR);
- Valuation of financial instruments in terms of IAS 39.

## IBNR

The IBNR at 31 December 2013 was estimated as R13.9 million (prior year: R15.6 million) using claims run-off patterns. Management performed their own assessment of the IBNR based on historic claims patterns and actual claim run-offs. We have reviewed the estimate and can conclude the balance does not require adjustment.

	2013 R	2012 R
<b>IBNR Provision</b>	13,900,000	15,600,000
<b>Claims Run-off Best Estimate (2013: up to 31 March 2014)</b>	(13,588,039)	(15,301,655)
<b>Over/(Under) Provision</b>	311,961	298,345

\* The amount in respect of 2012 relates to the actual run-off per the financial statements. The amount for 2013 relates to the best estimate as calculated using the latest claims run data available at the time of this report i.e. end-March 2014.

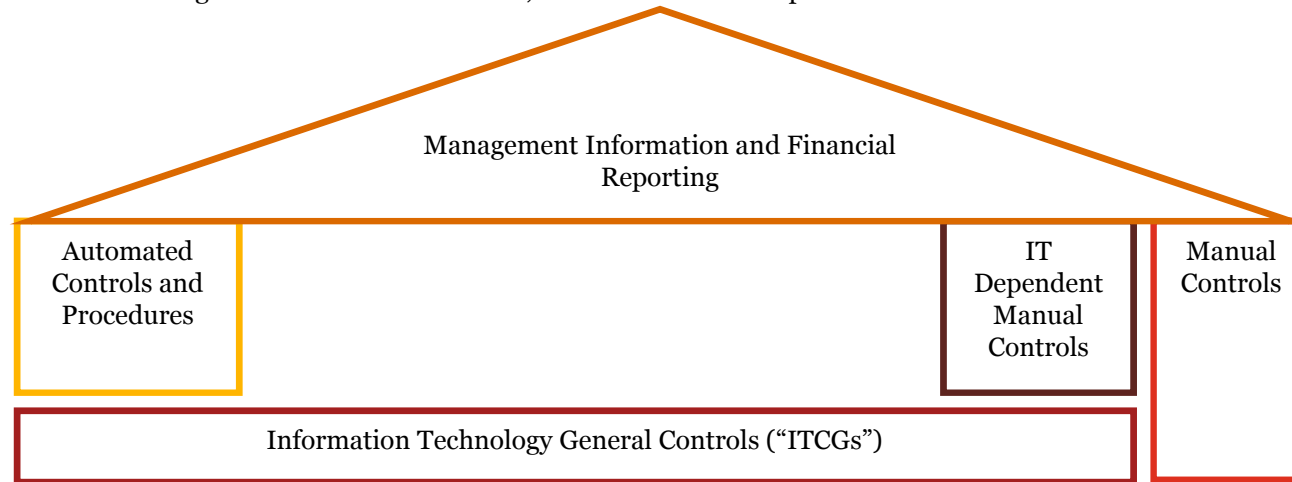
## Valuation of Financial Instruments

	2013 R	2012 R
<b>Available for Sale Investments</b>	129,509,892	118,381,715
<b>Fair Value Gain/(Loss) - Unrealised</b>	5,390,672	4,052,197
<b>Held to Maturity Investments</b>	129,000,000	123,200,000

# Executive Summary

## Remedi Medical Aid Scheme's house?

The tests of controls performed proved that the control environment is sound. We like to compare the control environment to a house that is built on a solid foundation. If the house has a strong foundation and solid walls, the roof will not collapse.



We consider the control environment to be strong for the following reasons:

- Based on the assessment of the ITGC, this environment is considered to be strong;
- The Scheme has numerous automated controls which are functioning effectively in the ITGC environment such as the following:
  - Automated raising of contributions;
  - Automated collection of contributions;
  - Automated claim validation parameters.
- The Scheme's manual controls are strong as a good reconciliation process is in place as well as good controls surrounding the authorisation of transactions within the entity; and
- The controls surrounding the reporting are strong as the financial information is analysed within the different departments. The reporting process is performed by personnel with the required knowledge and experience and also goes through a thorough review process.

# Executive Summary

## Work Performed by Internal Audit and Liaison with External Audit

We have obtained and reviewed the internal audit work performed by the internal audit department of Discovery on behalf of Remedi Medical Aid Scheme. The findings of internal audit relating to the 2013 contribution table year end project were assessed and taken into account in the audit procedures performed by external audit.

## King III

The Audit Committee's responsibilities include a wide array that span aspects of annual financial statements and related matters; sustainability reporting; combined assurance; internal and external assurance providers.

As the King III code is not compulsory for medical schemes, the Audit Committee have chosen not to implement the reporting guidelines set out in the report. However, management have committed to good corporate governance aligned with the King III code.

## Summary of Corrected and Uncorrected Misstatements

We did not note any material matters requiring adjustment to the annual financial statements. There was also no deviation from our predetermined materiality levels or the calculation thereof during the audit.

## Management Representation Letter

Our draft management representation letter in respect of the Scheme is included in Appendix I.

## Accounting Matters

There was no significant accounting matters dealt with during the current year engagement which could possibly have a material effect on the 2013 annual financial statements. Standards and interpretation effective for the first time in the 2013 financial year end have been disclosed in note 1.1 of the annual financial statements.

## Audit Opinion

- Our assessment of the internal control environment did not identify any significant control weaknesses. We have therefore placed reliance on the control procedures performed;
- The trend and ratio analysis we performed, together with the reasonability testing, did not fall outside the expectations from our understanding of the business and provided us with sufficient audit comfort; and
- The detailed testing performed by us provided us with audit assurance as no material misstatements were identified, the areas of judgment were considered and no management bias was noted.

It is our intention to issue an unqualified audit opinion on the annual financial statements of the Scheme for the year ended 31 December 2013



# Audit Findings

The audit findings have been summarised and included in the table below for your consideration.

## Prior year audit findings in relation to the year ended 31 December 2012

	Audit Finding	Nature of Finding	Non-Recurring Matter	Recurring Matter
1	<p><b>Contravention of Section 26(7) of the Medical Schemes Act</b></p> <p>In terms of section 26(7) of the Act, contributions should be received in accordance with the rules of the scheme which indicates that it should be received at the latest three days after it is due. There were instances where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to any such arrangement.</p>	Compliance		✓
2	<p><b>Investment in participating employers and medical administrator</b></p> <p>In terms of Section 35(8) of the Act, a medical scheme is prohibited from investing any of its assets in an employer who participates in that scheme or any medical scheme administrators.</p> <p>At 31 December 2012 the Scheme indirectly held shares in participating employers, Remgro Ltd (R633,433), British American Tobacco PLC (R884,817), Distell Group Limited (R48,982) and MediClinic International (R599,749), through a pooled investment with their investment manager.</p>	Compliance		✓
3	<p><b>Sustainability of Comprehensive Option</b></p> <p>In terms of section 33(2) of the Act, each option shall be self-supporting in terms of membership and financial performance and be financially sound. At 31 December 2012 the Comprehensive Plan incurred deficits as set out in the Statement of Comprehensive Income to the annual financial statements.</p>	Compliance		✓

# Audit Findings

	Audit Finding	Nature of Finding	Non-Recurring Matter	Recurring Matter
4	<p><b>Reconciling items not dealt with by management timeously</b></p> <p>During our testing of the bank reconciliations of the Members Cheque account, we noted that items that appeared as reconciling items on the March reconciliation remained outstanding on the September reconciliation. Those items were only cleared on the year end December reconciliation. This questions the vigour with which prior months reconciliations were performed.</p> <p>The long outstanding reconciling items were isolated to the members cheque account, and the engagement team inspected the corrections posted as at December 2012</p>	Control Weakness	✓	
5	<p><b>Paradigm systems limitation in regards to manual claims adjustment/corrections:</b></p> <p>Per the manual claims adjustment/correction testing performed, as confirmed by Linda Bester, Paradigm could not run a report of all manual adjustments made. The listing of adjustments is however manually maintained, on which we performed detailed testing to ensure the completeness thereof. No exceptions were noted as part of our testing.</p>	IT Systems – Program Limitations	✓	

# Audit Findings

In order to help management focus on the areas of higher risk to the business, we have assigned each observation a ranking based on the potential impact to the system environment, business processes and operations, and the probability of occurrence. The following risk classifications were used:

## High Risk (Critical)

Issue that could present significant control exposure to the entity's business and financial processing/recording, and /or impacts reliance on financial information. The issue should be addressed in the short term through implementation of our recommendation or some other acceptable solution.

## Moderate Risk (Recommended)

Issue represents a valid internal control exposure. It should be addressed to satisfy management accountability concerns and should be addressed in the short term, but after high- risk items.

## Low Risk (Suggested)

The issue does not immediately threaten the security and integrity of the system, but should be implemented to achieve a high standard of control.

The details of the findings as noted below have not been included in this report but have been discussed with management.

## Current year audit findings in relation to the year ended 31 December 2013

No.	Audit Finding	Nature of Finding	Priority
1	<p><b>Contravention of Section 26(7) of the Medical Schemes Act</b></p> <p>In terms of section 26(7) of the Act, contributions should be received in accordance with the rules of the scheme which indicates that it should be received at the latest three days after it is due. There were instances where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to any such arrangement.</p> <p><b>Management Comment (Marius Jacobs)</b></p> <p>The trustees provided the Administrator with a debt mandate, stipulating the different actions to be taken against defaulting members and employer groups.</p> <p>The Scheme suspends members so that no claims are paid until contributions are received, thus mitigating the risks of financial loss to the scheme.</p>	Compliance – Recurring Finding	Low

# Audit Findings

<p><b>2</b></p>	<p><b>Investment in participating employers and medical administrators</b></p> <p>In terms of Section 35(8) of the Act, a medical scheme is prohibited from investing any of its assets in an employer who participates in that scheme or any medical scheme administrators. At 31 December 2013 the Scheme indirectly held shares in participating employers, Remgro Ltd (R300,428), British American Tobacco PLC (R1,772,909), and MediClinic International (R142,154), and holding companies of Medical Scheme Administrators, MMI Holdings (R388,045) and Liberty Group Limited (R57,365) through a pooled investment with their investment manager.</p> <p><b>Management Comment (Marius Jacobs)</b></p> <p>Funds in this specific portfolio are structured at the sole discretion of the asset manager in a manner that maximizes returns. Therefore the Scheme does not make inputs into the structuring of the portfolio. The Scheme has obtained an exemption from this section of the Act.</p>	<p>Compliance – Recurring Finding</p>	<p><b>Low</b></p>
<p><b>3</b></p>	<p><b>Sustainability of Comprehensive Option</b></p> <p>In terms of section 33(2) of the Act, each option shall be self-supporting in terms of membership and financial performance and be financially sound. At 31 December 2013 the Comprehensive Plan and the Standard Plan incurred deficits of R35,567,317 and R3,692,684 respectively.</p> <p>The non-compliance occurred due to a large increase in claims in the period.</p> <p><b>Management Comment (Kobus Du Plessis)</b></p> <p>Over the last couple of years the scheme has introduced some measures to manage the operating deficit in the Comprehensive option. Although the option had an operation deficit in 2013, this deficit was in line with the budget for the year thus the trustees are confident that the situation has now stabilised and in time this trend could be reversed.</p> <p>This matter remains high on the agenda of the Trustees and the Board will consider additional long term initiatives over the next couple years. This situation is also monitored and discussed regularly throughout the benefit year.</p>	<p>Compliance – Recurring Finding</p>	<p><b>Low</b></p>

# Audit Findings

<p>4</p>	<p><b>Investment Solutions Confirmation</b></p> <p>An investment look-through confirmation was received from Investment Solutions where we noted that investments amounting to R7,691,321 matured between August and December 2013, before year-end. This amount was re-invested on the same date in line with the Investment Mandate of the Scheme. Although this amount is correctly accounted for, the confirmations received should be inspected by management and updated accordingly as these confirmations are used for compliance purposes as well.</p> <p><b>Management Comment (Marius Jacobs)</b></p> <p>Through communication with Investment Solutions it was noted that this is a result of the asset managers of the underlying pooled investments reporting their look-through to Investment Solutions on a lagged basis.</p>	<p>Quality of information</p>	<p><b>Medium</b></p>
<p>5</p>	<p><b>Contribution tables circulated before CMS approval is obtained</b></p> <p>Our inspection of the Group Internal Audit's working papers, it was noted that Scheme had communicated its amended contribution rates to its members prior to its registration with the CMS without communicating a disclaimer to those rates. The rates were communicated on 02/11/2012, and approval was obtained on 27/11/2012. This is in contravention with Circular 29 which states that amendments are only valid once they have been registered by the Registrar.</p> <p>There were however no changes to the rates between 02/11/2012 and 27/11/2012.</p> <p><b>Management Comment (Kobus du Plessis)</b></p> <p>As evident by the short timespan between the date the rates were communicated and the date approval was obtained, it is clear that this was an oversight on management's behalf, and thus relates to a housekeeping matter.</p> <p>With the 2014 contribution increase communications to members, it has been noted that the increases are subject to approval from counsel, and will be communicated as such going forward.</p>	<p>Housekeeping</p>	<p><b>Low</b></p>

# Audit Findings

<p><b>6</b></p>	<p><b>IT Audit findings</b></p> <p>The following recurring IT issues were identified during the review of the IT controls in respect of access to the Discovery Health Databases:</p> <ul style="list-style-type: none"> <li>- Access to audit tables which stores changes to the EFT bank account table is not restricted; and</li> <li>- Strong password controls (password complexity, password history) were not enforced.</li> </ul> <p>The following new IT issues were identified during the review of the IT controls in respect of access to the Discovery Health Databases:</p> <ul style="list-style-type: none"> <li>- There is no monitoring of privileged accounts, and Database Administrators share privileged accounts</li> <li>- The data on oracle databases is not encrypted</li> <li>- There are generic accounts on the database</li> </ul> <p>The engagement team however inspected mitigating controls, over which sufficient audit comfort was able to be obtained.</p> <p><b>Management Comment (Terence Arthur)</b></p> <p>The following matters have been resolved subsequent to 1 December 2013:</p> <ul style="list-style-type: none"> <li>- Access to audit tables which stores changes to the EFT bank account table is not restricted; and</li> <li>- Strong password controls (password complexity, password history) were not enforced.</li> </ul> <p>The following matters are in the process of being resolved for the 2014 year:</p> <ul style="list-style-type: none"> <li>- There is no monitoring of privileged accounts, and Database Administrators share privileged accounts</li> <li>- The data on oracle databases is not encrypted</li> <li>- There are generic accounts on the database</li> </ul> <p>The majority of IT controls security is working as intended.</p>	<p>IT Access controls</p>	<p><b>Low</b></p>
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# Communication of audit matters to those charged with governance

Our obligations in terms of ISA 260 'Communication with those charged with governance' and our responses are set out below in respect of those matters not already addressed elsewhere in this report.

## Quality of Earnings

As part of our audit procedures, a review of management's estimates is performed to ensure that a proper estimation process is followed and that the assumptions used by management are considered reasonable in light of the business operations and industry.

One quality of earnings issue was noted during the audit: An "alternative reimbursement model" (ARM) agreement was entered into between the Scheme and Netcare, effective 1 January 2012. At 31 December 2012 the Netcare owed the Scheme an amount of R1.867m, but this receivable was not raised, as the necessary data was not yet available to calculate the receivable, which had led to an overstatement of claims and understatement in receivables in the 2012 Annual Financial Statements. No restatement was deemed necessary, as the amount is not deemed material in the context of the current or prior year numbers, therefore the full amount for 2012 was provided in the 2013 Annual Financial Statements.

Other than the matter noted above, from the audit procedures performed we have not identified any instances where excessive provisions have been raised during the year or where provisions were released to income in order to smooth or improve reported earnings.

The quality of the annual financial statements has also been considered during our audit and includes considerations such as the quality of investments, completeness of liabilities and carrying values of assets and liabilities. Our assessment did not highlight any assets that should be impaired.

## Solvency of Scheme

We have considered the solvency of the scheme and the solvency ratio has been calculated as 76.74%. As in prior years, the scheme's solvency ratio is above the 25% minimum required by Section 29 of the Medical Schemes Act.

Year	2013	2012	2011
Solvency ratio	76.74%	75.35%	66.82%

## Compliance with the Medical Schemes Act and Regulations

We have considered the requirements of the Medical Schemes Act and with the exception of the non-compliance findings in this report; no other instances of non-compliance were noted throughout the audit.

## Prescribed Minimum Benefits

The key issue that the private sector and Council for Medical Schemes (CMS) are yet to reach consensus on, is the meaning and interpretation of the term "at cost" – referring to reimbursement for PMB treatment. Attempts by the Board of Healthcare Funders' (BHF) to drive resolution have proven fruitless. The BHF recently indicated that they are engaging with Government on the need for restructuring the PMB package to focus more on primary and preventative care rather than on hospital and specialist care. The Health Minister has announced the launch of an inquiry into prices in the private healthcare industry that will be driven by the Competition Commission. This is seen as a first step toward legislation that will establish a regulated pricing framework for the industry

## Fraud and Illegal Acts

The responsibility for the prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control systems.

ISA 240 'The auditors responsibility to consider fraud in an audit of annual financial statements' is aimed at establishing standards for, and providing guidance to auditors in connection with our responsibility to consider fraud and error in an audit of annual financial statements. As part of our audit of the annual financial statements, we assessed the appropriateness and operational effectiveness of processes and procedures established by management to prevent and detect instances of fraud or error that may impact the annual financial statements, and we have not

# Communication of audit matters to those charged with governance

identified any risk of material misstatement of the annual financial statements due to fraud.

## Regulatory Reporting Obligations

We are required by the Auditing Profession Act, No. 26 of 2005 (the “APA”) to send a written report to the Independent Regulatory Board for Auditors (“IRBA”) if we are satisfied or have reason to believe that a reportable irregularity (as defined in the APA) has taken place or is taking place.

We have not identified and do not have reason to believe that a reportable irregularity has or is taking place.

We are also required by the Medical Schemes Act, 131 of 1998 to inform the principal officer of any potential matters requiring reporting in terms of Section 36 of this Act.

No such instances have been noted.

## Contingencies and Events after Reporting Date

Management has confirmed that there are no material contingencies and commitments other than those disclosed in the financial statement and that no reporting date events have occurred since 31 December 2013.

We will be performing a formal subsequent events review up to the date of the trustees’ formal approval of the annual financial statements of Remedi Medical Aid Scheme in April 2014.

We will also seek confirmation of any such events of which the trustees may be aware of at the date of the approval of Remedi Medical Aid Scheme’s annual financial statements.

## Material Uncertainties and Going Concern

Our audit procedures did not identify any conditions or events that, either individually, or in aggregate would indicate there could be substantial

doubt about the ability of Remedi Medical Aid Scheme to continue as a going concern.

We have assessed the scheme’s ability to operate on a going concern basis.

Specific considerations included:

- the determination of fair values of financial instruments;
- exposure to credit risk and counterparty risks;
- impairment of financial and non-financial assets; and
- the Scheme’s solvency ratio.

Based on our understanding of the business, discussions with management and the audit procedures performed by us, we are satisfied that the disclosures and the fair value measurements in the annual financial statements are adequate.

Management has confirmed that the Scheme is operating on a going concern basis and will continue to do so for the foreseeable future.

We ask this committee to confirm that they are not aware of any matters that would affect the Scheme’s ability to operate as a going concern.

## Responsibility and Access to Senior Management and Audit Committee

Our responsibility as auditors includes conducting an audit in accordance with International Standards on Auditing, which is designed to obtain reasonable, but not absolute, assurance about the fair presentation of the annual financial statements. Our audit included a review of the internal control structure to determine the nature of our audit procedures necessary for expressing an opinion on the annual financial statements, not to provide assurance on the overall internal control structure as a whole, or specifically on the effectiveness of disclosure controls and procedures.



# Communication of audit matters to those charged with governance

## Other Information in Documents Containing Audited Information

Our responsibility with respect to other information in documents containing audited information is to read such information and consider whether the information, or the manner of its presentation, is materially consistent with information appearing in the annual financial statements. We do not, however, express an opinion on such information.

## Responsibilities

### *Board of Trustees' and Management's Responsibility*

We direct your attention to the fact that the annual financial statements are the responsibility of the board of trustees and management of the Scheme. In this regard, the board of trustees and management have the responsibility for properly recording transactions in the accounting records, for adopting accounting policies that comply with IFRS, for making appropriate accounting estimates, for an effective system of risk management, for safeguarding assets and for the overall accuracy of the annual financial statements.

The board of trustees and management are responsible for establishing and implementing a system of internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error. The board of trustees and management also have the responsibility for selecting accounting policies that present fairly the financial position and operating results of the Scheme, in terms of IFRS, and for establishing the accounting estimates which are reasonable in the circumstances.

### *Audit Committee Responsibility*

The audit committee is responsible for the oversight of the financial reporting by the Scheme. The audit committee also takes responsibility for the governance of the external financial reporting, internal and external audits, and systems of internal control. The responsibilities of the audit committee have expanded significantly in today's environment and we encourage the audit committee to continue to consider the fundamental

issues and questions as recommended by the King Code III and other related text.

### *Auditors' Independence*

ISA 260 requires us to communicate to the audit committee on any matters which may be reasonably thought to bear on our independence, set out the safeguards in place in relation to these matters and confirm that we are independent. Our audit is governed by ISAs issued by the International Federation of Accountants ("IFAC") and is performed in accordance with IFAC's ethical guidelines. Compliance with these standards is independently monitored by IRBA. The IFAC guidelines require that we confirm our independence to the audit committee. The IRBA Code of Ethics deals with the concept of independence in terms of objectivity; our confirmation is to be made in that context.

Accordingly, we hereby confirm that we are objective with respect to the Scheme within the meaning of the Rules of Professional Conduct of the South African Institute of Chartered Accountants and the IFAC guidelines, between 1 January 2013 and the date of this report. Furthermore, we are not aware of any relationships between PwC firm's worldwide affiliates and the Scheme that in our professional judgement may reasonably be thought to impact on our independence between 1 January 2013 and the date of this report other than those previously brought to your attention during the audit, audit committee meetings.

Additional safeguards include regular review of the composition of the audit team including rotation in accordance with the relevant regulations. The signing partner, Nicolette Jacobs, has been approved by the Council for Medical Schemes to be an audit partner for the Scheme. Any significant new engagement undertaken for the Scheme is subject to acceptance procedures, requiring consultation where appropriate.

Having considered the above and other relevant factors, in our professional judgement we are satisfied that PwC is independent within the meaning of regulatory and professional requirements and the objectivity of the audit partners and audit staff is not impaired.

# Communication of audit matters to those charged with governance

It is not permissible for PwC to provide any services falling within prohibited categories or to provide other non-audit services without prior approval of the audit committee. The prohibited categories are consistent with IFAC's provisions. As external auditors we must be, and be seen to be, independent in our dealings with the Scheme. We confirm that we have complied with our policies and procedures in this regard. When considering additional services we may provide to the Scheme we have ensured our audit independence is not compromised.

## Related Parties

In our assessment of the parties who have the ability to control the Scheme or exercise significant influence over the Scheme, the following related parties to the scheme have been identified:

- Principal Officer of the scheme and his close family;
- Board of Trustees of the scheme and their close family;
- Sub-committees of the Scheme and their close family;
- The employer of the Scheme

The administrator of Remedi Medical Aid Scheme, was also deemed to be a related party in terms of the SAICA Accounting Guide, and is disclosed as such in the annual financial statements.

During our current year audit, we have not identified any of the following matters requiring reporting to those charged with governance:

- Non-disclosure by the administrator of the scheme of related parties or significant related party transactions which the Board of Trustees may not have been previously aware of;
- Significant related party transactions that have not been appropriately authorised and approved, which may give rise to suspected fraud;
- Disagreement with management regarding the accounting for and disclosure of significant related party transactions in accordance with our regulatory reporting requirements; and
- Non-compliance with applicable law or regulations prohibiting or restricting specific types of related party transactions.

## Regulatory Developments

The audit has been conducted to ensure compliance with the Medical Schemes Act and its Regulations.

Below are accounting and other developments which medical schemes may face in the future:

- National Health Insurance (NHI);
- Draft Medical Schemes Amendment Bill, 2008;
- Payment of Prescribed Minimum Benefits;
- Governance and King III;
- IFRS 4 Phase II Insurance contracts exposure draft;
- Intervention by the Registrar of Medical Schemes and the Competition Commission in the provider market
- Rising cost of medical schemes cover within the industry;
- Protection of Personal Information Bill; and
- Consumer Protection Act.

Where possible and for items already implemented, these were considered during the current year audit and review of the integrated report.

Refer to Appendix III for current industry developments.

# ***Appendix I – Management Representation Letter***

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[Please place on a Remedi Medical Aid Scheme Letterhead]

PricewaterhouseCoopers Inc.  
No.1 Waterhouse Place  
Century City  
7441

[Insert Date]

Dear Sirs,

This representation letter is provided in connection with your audit of the annual financial statements of Remedi Medical Aid Scheme (“the Scheme”) for the year ended 31 December 2013.

Your audit is conducted for the purpose of expressing an opinion as to whether the annual financial statements are presented fairly, in all material respects, in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Medical Schemes Act of South Africa.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, the following representations:

## **Preparation and fair presentation of annual financial statements**

We acknowledge that the trustees are responsible for the preparation and fair presentation of these annual financial statements in accordance with IFRS and in the manner required by the Medical Schemes Act of South Africa. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error.

The annual financial statements have been approved by the trustees and we believe they are fairly presented in accordance with IFRS and in the manner required by the Medical Schemes Act of South Africa.

## **Accounting policies**

We confirm that we have reviewed the Scheme’s accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies used for the preparation and presentation of the annual financial statements is appropriate in the Scheme’s particular circumstances to give a fair presentation of the Scheme’s financial position, financial performance and cash flows.

# ***Appendix I – Management Representation Letter***

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## **Judgements and key assumptions**

We confirm the appropriateness and completeness of the judgements, apart from those involving estimations, that we have made in the process of applying the Scheme's accounting policies and that have the most significant effect on the amounts recognised in the annual financial statements, disclosed in the notes to the annual financial statements.

We confirm the appropriateness and completeness of the key assumptions concerning the future, and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, disclosed in the notes to the annual financial statements.

## **Disclosure of information**

We have made available to you all:

- financial records, contracts and related data;
- information regarding significant transactions and arrangements that are outside of the normal course of business;
- minutes of the meetings of shareholders, management, trustees and committees of trustees; and
- other information relevant to the audit.

## **Accounting records**

All transactions undertaken and contractual agreements, whether written or verbal, entered into by the Scheme (including side-letters to agreements) have been properly reflected and recorded in the accounting records underlying the annual financial statements.

## **Contractual agreements**

The Scheme has complied with all aspects of contractual agreements that could have a material effect on the annual financial statements in the event of non-compliance.

## **Fraud**

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

We have disclosed to you:

- i) the results of our assessment of the risk that the annual financial statements may be materially misstated as a result of fraud;
- ii) our knowledge of fraud or suspected fraud affecting the Scheme involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the annual financial statements; and
- iii) our knowledge of any allegations of fraud, or suspected fraud, affecting the Scheme's annual financial statements, communicated by employees, former employees, analysts, regulators or others.

# ***Appendix I – Management Representation Letter***

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## **Compliance with laws and regulations**

We have disclosed to you all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing annual financial statements.

There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the annual financial statements in the event of non-compliance, which has not been disclosed in the annual financial statements. All known non-compliance to the Medical Schemes Act and Regulations has been disclosed accordingly in the annual financial statements.

There has been no communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices

We are aware that our responsibility for ensuring compliance with laws and regulations includes compliance with the Financial Intelligence Centre Act, 2001, the Prevention of Organised Crime Act, 1998 and are not aware of any non-compliance.

## **Irregularities**

We are not aware of any irregularities involving management or employees that have significant roles in the accounting or internal control systems or that could have a material effect on the annual financial statements.

## **Accounting estimates and fair value measurements**

Significant assumptions used by us in making accounting estimates, including fair value accounting estimates, are reasonable.

We confirm the following regarding the measurement of fair values for all assets and liabilities, both recorded and disclosed in the annual financial statements:

- the significant assumptions used appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Scheme where relevant to the fair value measurements or disclosures;
- appropriate measurement methods, including related assumptions, were used in determining fair values;
- measurement methods were consistently applied from year to year and for like items;
- complete and appropriate disclosure was made regarding fair values in terms of the requirements of IFRS and in the manner required by the Medical Schemes Act of South Africa; and
- events that occurred between the statement of financial position date and the date of approval of the annual financial statements did not necessitate adjustment to the fair value measurements and disclosures included in the annual financial statements.

# ***Appendix I – Management Representation Letter***

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## **Related parties**

We confirm the completeness of information provided to you regarding the identification of related parties as defined by IFRS, the SAICA Accounting Guide for Medical Schemes, the Medical Schemes Act and information regarding transactions with such parties.

The identity of, and balances and transactions with, related parties have been properly recorded and adequately disclosed in the annual financial statements as required by IFRS and in the manner required by the Medical Schemes Act of South Africa.

## **Going concern**

The annual financial statements disclose all of the matters of which we are aware that are relevant to the Scheme's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Scheme's plans. The Scheme also has the intent and ability to take actions necessary to continue as a going concern. We have made available to you all relevant information on the Scheme's ability to continue as a going concern that could affect the annual financial statements, including the recoverability and classification of recorded assets or the amounts and classification of liabilities. Accordingly, the Scheme's annual financial statements are appropriately prepared on a going concern basis.

We have no plans or intentions, for example to dispose of the business or cease operations that may materially alter the carrying value or classification of assets and liabilities reflected in the annual financial statements.

## **Encumbrances**

The Scheme has satisfactory title to all assets and all liens or encumbrances on the Scheme's assets have been disclosed in the notes to the annual financial statements.

## **Commitments**

At the statement of financial position date, proper disclosure has been made in the annual financial statements, of material commitments under contracts placed for capital expenditure; or amounts of capital expenditure authorised by the trustees which have not been contracted for.

## **Assets and liabilities**

All investments classified as long-term investments represent investments that the Scheme has the ability and intention to hold for a period exceeding twelve months after financial position date.

The Scheme has satisfactory title to all assets and all liens or encumbrances on the Scheme's assets have been disclosed in the notes to the annual financial statements.

We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, in accordance with IFRS and in the manner required by the Medical Schemes Act of South Africa.

# ***Appendix I – Management Representation Letter***

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## **Using the work of experts**

We agree with the findings of experts in evaluating the IBNR and have adequately considered the qualifications of the experts in determining the amounts and disclosures used in the annual financial statements and underlying accounting records. We did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the experts.

## **Litigation and claims**

We are not aware of any pending or threatened litigation, proceedings, hearings or claims negotiations which may result in a material misstatement of the annual financial statements.

## **Revenue recognition**

All transactions recorded as revenue for the year represent revenue which arose up to the date of the financial position and is recorded in accordance with IFRS.

## **Items offset against one another**

Where financial assets and liabilities have been offset and the net amount reported, we confirm that we are satisfied as to the legal right of offset and confirm that we have the intention of either settling on a net basis or of realising the asset and settling the liability simultaneously.

Items of income and expense and non-financial assets and liabilities have been offset only when required or specifically permitted by IFRS or when gains and losses arising from the same or similar transactions and events are not material.

## **Impairment**

We confirm that we have carried out impairment reviews appropriately, including an assessment of impairment indicators where an annual impairment test is not mandatory. We confirm that we have used appropriate assumptions in completing those reviews.

# Appendix I – Management Representation Letter

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## **Employee Benefits**

The Scheme has no obligation with regards to post-employment benefits.

## **Financial instruments**

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the annual financial statements. Where appropriate any open positions in off-financial position financial instruments have also been properly disclosed in the annual financial statements.

We have evaluated all transfers of financial assets and extinguishment of liabilities to determine that control over the transferred assets or liabilities has been surrendered and that all of the conditions for derecognition pursuant to IAS 39(AC 133) *Financial Instruments: Recognition and Measurement* have been met.

We have included in the annual financial statements qualitative disclosures describing our objectives, policies and processes for managing risks arising from financial instruments. Quantitative disclosures included in the annual financial statements provide information about the extent to which the Scheme is exposed to risk, based on information provided internally to the Scheme's key management personnel.

## **Cash and cash equivalents**

The annual financial statements include all cash and bank accounts of the Scheme.

We have recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements. We have no line of credit arrangements.

## **General financial statement disclosure**

The following have been properly recorded and, when appropriate, adequately disclosed in the annual financial statements:

- losses arising from contractual agreements;
- agreements, rights and options to buy back assets previously sold;
- assets pledged as collateral;
- off-financial position activities, including transactions involving special purpose entities, cell structures, and securitisation structures;
- significant common ownership or management control relationships; and
- changes in accounting policies.



# Appendix I – Management Representation Letter

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## **Insurance**

We confirm that the fidelity guarantee and professional indemnity insurance cover taken out by the Administrator is adequate to cover the risk of losses due to fraud, dishonesty and negligence as required by section 57(4)(f) of the Medical Schemes Act.

We confirm that we have considered the requirements of IFRS 4 *Insurance Contracts* in determining whether or not the Scheme issues ‘insurance contracts’, or holds ‘reinsurance contracts’ as defined in this Standard.

We confirm that all agreements and information relating to insurance contracts issued and all reinsurance contracts held by the company, have been made available to you, including details of any side letters, any multi-year reinsurance contracts or any reinsurance contracts with adjustable features.

## **Events after statement financial position date**

We have identified all events that occurred between the statement financial position date and the date of approval of the annual financial statements that may require adjustment of, or disclosure in, the annual financial statements, and have effected such adjustment or disclosure.

## **Misstatements detected during the audit**

We confirm that the annual financial statements are free of material misstatements, including omissions.

We believe the effect of the uncorrected financial statement misstatements aggregated by you and summarised in the accompanying schedule are immaterial, both individually and in aggregate, to the annual financial statements taken as a whole.

Yours faithfully

\_\_\_\_\_  
PRINCIPAL OFFICER

\_\_\_\_\_  
TRUSTEE

# Appendix II – Draft Independent Auditor’s Report

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## Independent Auditor’s Report to the members of Remedi Medical Aid Scheme

We have audited the annual financial statements of Remedi Medical Aid Scheme set out on pages 14 to 44, which comprise the statement of financial position as at 31 December 2013, and the statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### *Trustees’ Responsibility for the Annual financial statements*

The scheme’s trustees are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and in the manner required by the Medical Schemes Act, No. 131 of 1998 as amended, and for such internal control as the trustees determine is necessary to enable the preparation of annual financial statements that are free from material misstatements, whether due to fraud or error.

### *Auditor’s Responsibility*

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Remedi Medical Aid Scheme as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance International Financial Reporting Standards and in the manner required by the Medical Schemes Act, No. 131 of 1998, as amended.

### **PricewaterhouseCoopers Inc.**

Director: NA Jacobs  
Registered Auditor  
Cape Town  
\_\_\_April 2014

# Appendix III – Industry Developments

Development	Key Facts	PwC Comment
<p>Protection of Personal Information Act</p> <p><b>Where are we now?</b></p>	<p>The Protection of Personal Information Act was signed into law by the President on 26 November 2013. It is critical for organisations that process personal information of employees, customers or other juristic persons (companies, trusts and so on) to implement organisation-wide privacy initiatives in order to comply with the conditions of the Act. Compliance will have an impact on the processes, technology and manner in which employees handle and process personal information. The Act provides for a one-year implementation timeframe, but from experience we know it can take a lot longer.</p> <p>Council for Medical Schemes assessed that the Act will have a significant impact on the operations of medical schemes, as schemes process personal information.</p> <p><b>The Act aims to:</b></p> <ul style="list-style-type: none"> <li>• give effect to the constitutional right to privacy of personal information;</li> <li>• require all individuals, entities and particularly businesses, to establish new methods of operating with regard to the collection and/or dissemination of any personal information stored in any manner;</li> <li>• require businesses to review their arrangements with agencies and intermediaries;</li> <li>• necessitate the amendment of all contracts to include consent provisions;</li> <li>• require businesses to implement policies on privacy and information security; and</li> <li>• bring South Africa in line with international laws on data protection.</li> </ul>	<p>Trustees have a duty to ensure that the Act is complied with.</p>

# Appendix III – Industry Developments

Development	Key Facts	PwC Comment
	<p><b>The Act is essentially based on eight principles:</b></p> <ol style="list-style-type: none"><li>1. The onus is on the medical scheme to uphold the rules and principles of the Act;</li><li>2. Information that is processed should be sufficient for the purpose that it is used for, but should not be excessive. In other words, the minimum information should be collected and processed in order to successfully operate the scheme. With some exceptions, the information must be collected directly from the subject and may only be processed with the subject's consent;</li><li>3. Information must be collected only for a specific, lawful purpose and the subject must be fully aware of this purpose. Information may also not be retained for longer than is necessary to fulfil this purpose;</li><li>4. Information may not be processed further than what is required for the original purpose of collecting the information. However, if further processing is compatible with the initial purpose, this would be allowed under the Act.</li><li>5. Information that is processed must be of a high quality and it is the obligation of the party that determines the purpose for which information is collected and processed to ensure the information is complete, accurate, up to date and is not misleading;</li><li>6. There should be openness between the party that determines the purpose, the subject and the regulator. Personal information may only be collected if the subject is aware of the necessity to collect this information and is aware who is collecting it. Furthermore, information may only be collected if the Information Protection Commission has been notified.</li><li>7. Information must be safeguarded against loss, damage, destruction or unlawful use; and</li><li>8. The subject has the right to access the details of his/her personal information held and the information must be changed at the request of the subject. The Act impacts medical schemes, administrators, managed care providers and clinical providers and can have a far-reaching impact on the systems used by these parties as these may not be compatible with the principles above.</li></ol>	

# Appendix III – Industry Developments

Development	Key Facts	PwC Comment
<b>Alternative dispute resolution process</b>	<p>In an effort to address a backlog of cases at the Appeals Committee, the Council for Medical Schemes has pilot ed an alternative dispute resolution process.</p> <p>The pilot phase ran from 25 March 2013 to 31 July 2013. Of the 21 matters presented for conciliation, 15 were resolved between the parties. The Council will now implement the process on a permanent basis.</p> <p>A third party provider has been appointed to facilitate the conciliation and mediation process. Cases heard by the mediators will not prejudice future hearings by the Appeals Committee and is entirely voluntary.</p> <p>The current Appeals Committee will be replaced by an Appeals Board should the Medical Schemes Amendment Bill be passed into law (refer below).</p>	Trustees should consider use of this alternative resolution process in order to minimise costs and expedite the resolution of disputes.
<b>Draft Medical Schemes Amendment Bill 2008</b>	<p>The Medical Schemes Amendment Bill is awaiting approval by the Department of Health. The amended Act will incorporate portions of the current code of conduct on PMB's and the controversial regulation that makes it mandatory for medical schemes to pay PMB's in full will not be amended.</p> <p>The establishment of a risk equalisation fund and mandatory membership for the employed is no longer a feature of the amendment.</p> <p><b>The key proposed amendments to the Act are:</b></p> <ul style="list-style-type: none"> <li>• The creation of a Health Services Provider and Central Beneficiary Registry to improve information management;</li> <li>• PMB's are renamed Mandatory Minimum Benefits (MMBs) and will be updated more regularly;</li> <li>• Complaints procedures are to be streamlined with the aim of ensuring fair treatment of members;</li> <li>• The Appeals Committee will be removed and all appeals are to be heard by the Appeals Board; and</li> <li>• Governance provisions are to be strengthened and expanded. In August 2013, the Registrar of Medical Schemes said that getting the bill enacted would be a “tortuous” process, and it was unlikely to come into effect before the end of 2015.</li> </ul>	Trustees should evaluate the impact of the amendments to their schemes' operations to ensure they are able to implement the new Act without delay.

# Appendix III – Industry Developments

Development	Key Facts	PwC Comment
National Health Insurance	It has been more than two years since the government published its Green Paper on the National Health Insurance (August 2011), which it purports will address inequality within the healthcare industry.	Trustees should assess the implications of the proposed NHI on their Scheme.
<b>What's news?</b>	<p>Deputy Health Minister Gwen Ramokgopa indicated in August 2013 that Health Minister Dr Aaron Motsoaledi would present the White Paper on the National Health Insurance to cabinet soon, but no date was set. The White Paper is the next step in the process before enabling legislation can be drafted.</p> <p>In a hint of what may be expected in the White Paper, Dr Motsoaledi told MPs that primary healthcare will be the cornerstone of the NHI. This is expected, as the government was quick to assuage fears that the NHI would spell the end of private medical care.</p> <p>The primary healthcare platform is being established across the country, comprising the following components:</p> <ul style="list-style-type: none"> <li>• Ward-based primary healthcare agents: Approximately 25% of the 40,000 community health-care workers have been retrained in the new, national approach to community orientated primary health-care;</li> <li>• School health services: The policy focuses on the most disadvantaged schools through mobile clinics with the aim of reducing the health barriers to learning; and</li> <li>• District clinical specialist teams: Every district will have a senior obstetrician and gynaecologist, paediatrician, family physician, midwife, paediatric nurse and primary health-care nurse.</li> </ul> <p>Case studies indicate that the shortest time for any country to implement NHI has been a staggering 40 years, although it is estimated that the NHI in South Africa may only take 25 years to implement.</p> <p>Discussions are also underway between the Department of Health and the Treasury on the date from when individuals will start contributing to the NHI.</p> <p>Meanwhile, pilot projects for the NHI have delivered mixed results. Some provinces, notably the North West, were making progress in preparing for the implementation of the NHI. However, the North West was one of only four out of ten pilot districts in the country that had appointed NHI project managers by the end of the first piloting year in March.</p>	

# Appendix III – Industry Developments

Development	Key Facts	PwC Comment
	<p>National Health Director-General Precious Matsoso has further expressed concern regarding the ability of the NHI to handle ever increasing numbers of patients suffering from non-communicable diseases such as diabetes and heart disease.</p> <p>In her annual report, she also highlighted that only 52% of the allocated R150m grant for the pilot project was spent, mostly as a result of delays in approving business plans, slow procurement of goods and services and delays in appointing key staff.</p>	
<p>Other developments affecting the industry</p> <p><b>What's news?</b></p>	<ul style="list-style-type: none"> <li>• In line with developments in the short- and long-term insurance industries, the Council for Medical Schemes is increasingly focused on measures to ensure members are educated about their medical schemes and are treated fairly. The Council launched a campaign during April 2013 encouraging medical scheme members to become actively involved in the running of their medical schemes.</li> <li>• The past year saw a continuation of the trend of medical schemes merging or applying for approval to merge. Cost pressure and low reserves is often a reason cited for mergers and the Council for Medical Schemes estimates that there will be fewer than 55 registered medical schemes by 2025.</li> <li>• The 2007 Omnihealth ruling, which set the precedent for the treatment of Personal Medical Savings Accounts (PMSAs) was followed by a raft of circulars from the Council for Medical Schemes, elaborating on the judgement. Full implementation of these circulars occurred on 1 January 2013.</li> <li>• The argument over gap cover continues with no clear indication on whether and when regulations will be implemented to regulate this form of health insurance. Government is concerned about the effect of gap cover on cross-subsidisation within schemes, particularly that younger members may leave schemes in favour of taking up such gap cover. The Council for Medical Schemes also appears eager to provide a better distinction between medical aid and health insurance.</li> </ul>	<p>Trustees, together with the Principal Officer (and the Administrator) should assess the implications of these developments on their Scheme and take appropriate action.</p>

# Appendix III – Industry Developments

Development	Key Facts	PwC Comment
	<ul style="list-style-type: none"> <li>• The solvency requirement of 25% for all schemes has been a contentious matter for a number of years, as the method of calculation does not take into account scheme specific risks and has some unintended consequences. For example, rapid membership growth will severely dilute the solvency percentage without necessarily indicating that these schemes are in a weaker financial position. Schemes losing members may actually report increased margins, although the composition of the remaining membership may actually be exposing the scheme to increased risk. The Council for Medical Schemes has taken heed of these concerns and has invited the industry to submit proposals on possible revisions to the current solvency framework. The Council has made it clear that it will only facilitate the process and that any possible revisions will require input from the Department of Health. Although it is unlikely that the new framework will be as complex as the Solvency Assessment and Management (SAM) regime currently being implemented for short- and long-term insurers, it may be a welcome improvement to risk management within the medical schemes environment.</li> <li>• The Health Professions Council of South Africa (HPCSA) recently appointed a healthcare actuary to assist with the process of setting a guideline tariff that can be used to assess overcharging by medical practitioners. The absence of guideline tariffs for medical and dental practitioners has created a problematic vacuum that leaves consumers unable to prove accusations of overcharging by medical and dental practitioners. The Health Professions Act makes provision for the establishment of a mechanism by which the HPCSA can determine whether a medical practitioner overcharged a patient by means of a “price norm”. However, this has yet to materialise. A previous attempt to introduce guideline tariffs was aborted last year after medical associations threatened legal action. The HPCSA stood accused of having set guideline tariffs that were unreasonably low and calculated without scientific basis.</li> <li>• The Competition Commissions’ inquiry into private healthcare pricing was due to commence in November and expected to last 18 to 24 months. Stakeholders have raised concerns that the Commission is underestimating the amount of work required and that a proper investigation would last up to five years. However, the Commission has provided assurances that it will have a targeted scope in order to achieve its stated deadline of 30 November 2015. This inquiry is the first of its kind, after amendments that came into effect on April 1 2013 were made to the Competition Act, granting the commission formal powers to conduct market inquiries. Former Chief Justice Sandile Ngcobo will chair the five-member panel leading the market inquiry into the private healthcare sector in South Africa, the Competition Commission announced on 30 January. A Netcare challenge to the commission’s use of professional services firm KPMG as its technical service provider remains an outstanding issue.</li> </ul>	



We publish a number of publications that demonstrates the strength and depth of our global network and the understanding that we have of the Healthcare industry. Some of those that you may be interested in include:



### **Fit for the future: 17<sup>th</sup> Annual Global CEO Survey – Key findings in the Healthcare industry**

This sector key findings report takes a closer look at responses from healthcare industry CEOs. It is based on 81 interviews conducted in 28 countries around the world.

Technology, demographics and new customer expectations are transforming healthcare. But few are ready.

#### **Changing expectations from patients**

Most healthcare CEOs plan to make changes to address the many ways in which customers' expectations are evolving: 94% plan to alter their customer growth and retention strategies, while 84% plan to alter their channels to market. Few have embarked on these changes, though, let alone completed them.

#### **A transforming sector**

86% of healthcare CEOs believe technological advances will transform their businesses in the next five years. And they're far more conscious than other CEOs of the huge role demographics will play – 84% see it as a transformative trend, compared to just 60% across the sample.

#### **New frontiers in healthcare**

Technology is already having a far-reaching impact on healthcare delivery and CEOs are already planning ways to take advantage of this trend: 89% plan to improve their ability to innovate; 93% plan to change their technology investments; and 95% are exploring better ways of using and managing big data.

But there's a big gap between where healthcare CEOs are now, and where they want to be. Only 25% have already started or completed the changes they're planning to make their companies more innovative. Only 33% have altered their technology investments, and only 36% have made any headway in getting to grips with big data.



### **Designing a healthy future**


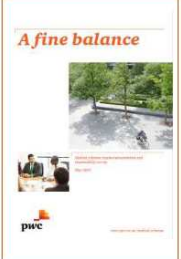

#### **Strategic and emerging issues in the medical scheme industry – First South African edition**

Welcome to the first edition of PwC's survey on Strategic and Emerging Issues in the Medical Scheme Industry.

Our team of industry specialists is proud to present their work and we are convinced that the contents provide a comprehensive overview of the issues and challenges facing the industry today.

The key objectives of this survey are to:

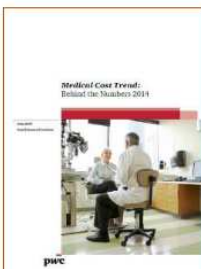
- Raise the awareness of medical schemes to emerging trends and issues in the Southern African medical scheme industry;
- Establish industry trends;

	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the strategic thinking of principal officers in the industry; and</li> <li><input type="checkbox"/> Provide insight into how the medical scheme industry might evolve over the next three years.</li> </ul> <p>Key themes of this survey include:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Scheme performance;</li> <li><input type="checkbox"/> National Health Insurance;</li> <li><input type="checkbox"/> Regulation; and</li> <li><input type="checkbox"/> Solvency and risk management.</li> </ul>
	<p><b><i>Emerging mHealth: Paths for growth</i></b></p> <p>This is a global research study about the opportunities and challenges of mobile health from perspective of patients, payers and providers.</p>
	<p><b><i>A fine balance - Medical schemes trustee remuneration and responsibility survey</i></b></p> <p>PwC's survey on medical scheme trustee remuneration and responsibilities; provides a comprehensive overview of the issues and challenges facing the medical scheme industry today. This is PwC's first survey on medical scheme trustee remuneration and responsibility. The survey specifically focusses on the responsibilities, skills, experience and remuneration of trustees. While the survey aims to provide an industrywide perspective, where meaningful, it also reports on the differences between restricted and open medical schemes as well as differences between self-administered and third-party administered schemes.</p>
	<p><b><i>African Financial Services Journal 2014</i></b></p> <p>The global financial services industry's outlook is improving. The mature economies of Europe and North America are moving towards recovery, while the emerging markets of Asia and Latin America continue to grow.</p> <p>Africa's economies are continuing to expand and the outlook is promising, confirming its resilience to internal and external shocks and its role as a growth continent in the global economy.</p>



### ***Dealing with disruption: How healthcare CEOs are creating resilient organizations***

Healthcare has lagged behind other industries in proactively reaching out to consumers. But the sector is now catching up and making the patient experience its primary focus. New players have emerged on the scene. So have disruptive innovations, like smartphone apps that help patients connect to payers and providers in real-time. That means healthcare companies need to rethink consumer engagement strategies. An overwhelming majority of CEOs are planning to strengthen their engagement with key stakeholders over the next year, with customers at the top of the list. And 44% are investing in initiatives to improve the level of customer service they deliver.



### ***Medical Cost Trend: Behind the Numbers 2014***

This PwC Health Research Institute (HRI) report looks at the projected increase in the cost of medical services for 2014. Medical cost trend is the primary factor in setting health insurance premiums.



### ***Top health industry issues of 2013***

PwC's Health Research Institute (HRI) annual Top Issues report identifies 10 issues to watch for in 2013. According to HRI, the pace of change will only quicken in 2013 with the effects of technology, consumerism, budgetary pressures and the Affordable Care Act converging on the healthcare industry



### ***Scoring healthcare: Navigating customer experience ratings***

The ratings culture in the US has exploded in the last decade with consumers turning to reviews for dining, shopping, vacationing, and even home improvements. Now, as they spend more of their own money on health and wellness, consumers are beginning to search for rating systems to guide their decision making. A single trusted source of reviews and ratings has yet to emerge in the health industry, but these measures are prompting healthcare companies to focus on experience that goes beyond satisfaction.



### ***Social media “likes” healthcare: From marketing to social business***

Social media is changing the nature and speed of health care interaction between consumers and health organizations. This in-depth HRI report dives into what some of the largest health care companies are doing in and with social media. The report's findings are based on a survey of more than 1,000 consumers and 124 health care executives.



### ***Solving the talent equation for health IT***

In the ongoing quest for affordable, accessible, accountable healthcare, information technologies are taking centre stage. Health IT, or HIT, is the critical connector for improving outcomes and constraining cost in the industry. But, companies are scrambling to fill an IT talent void that could impede progress toward meeting government and consumer expectations, delivering on strategic priorities, and capitalizing on new growth prospects. As a result, more than three-quarters of top healthcare executives anticipate changes in their talent strategies over the next year. Providers, health insurers, drug and device companies, and HIT companies have similar needs that could lead to intense competition for the same limited number of skilled workers. HIT workers that can work across the health sector will have a big advantage in the labour market. Companies that successfully build their IT identity and brand will likely be best positioned to acquire, manage, and retain critically important technology workers.



### ***PwC Medical Scheme News – quarterly newsletter***

A PwC email newsletter which includes **Thought leadership** such as PwC publications available and technical IFRS developments, **Events**, **Regulatory news** including a summary of CMS circulars, **Committee feedback** on various industry meetings PwC attend and **Topical articles** relating to Medical Schemes which is distributed to our Medical Scheme client distribution list.