

TRUSTEE TRAINING

- SUBJECTS TO BE COVERED:
 - GOVERNANCE STANDARDS
 - RISK MANAGEMENT
 - FINANCIAL STATEMENT INTERPRETATION
 - QUESTIONS AND DISCUSSION



GOVERNANCE STANDARDS

- CMS DISCUSSION DOCUMENT ON GOVERNANCE OCTOBER 2008
- KING III DISCUSSION DOCUMENT
– (DUE FOR PUBLICATION 1 SEPTEMBER)



CMS DOCUMENT

- 57E(1) The Board of Trustees and principal officer of a medical scheme shall establish and maintain an adequate and effective process of corporate governance, which will be consistent with the nature, complexity and risks inherent in the activities and the business of the medical scheme concerned.



CMS DOCUMENT

- Focuses primarily on the manner by which medical schemes are directed and managed
- Encompasses activities such as strategic development, risk management and performance evaluation.



CMS DOCUMENT

- Principles
- Discipline
- Transparency
- Independence
- Accountability



CMS DOCUMENT

- The BOT must at all times in their dealing with medical scheme issues act in the interests of beneficiaries.



CMS DOCUMENT

- 57 BoT delegates to standing sub-committees
 - Executive committee
 - Investment committee
 - Risk management committee
 - Remuneration committee
 - Clinical governance committee
 - Audit committee
 - Disputes committee



CMS DOCUMENT

- 60 The delegation of function does not relieve the BoT from its fiduciary responsibilities, and the BoT remains accountable for the decisions of its committees.



CMS DOCUMENT

- 63 There should be a formal procedure for the delegation process which includes Terms of Reference or Charter
 - For the BoT, and
 - For each of the Board sub-committees



CMS DOCUMENT

- Appointment of trustees:
- Fit and Proper:
 - Financially sound
 - Honest, reputable and reliable
 - Competent to perform
- Panel
 - Receive nominations
 - Determine whether “fit and proper”
 - Confirm or reject eligibility to stand



CMS DOCUMENT

- Conflict of interest policy
- Refers to a situation where a trustee or PO has competing professional, personal or financial obligations or interests that would make it difficult to fulfill his or her duties fairly.



CMS DOCUMENT

- Self evaluation of BoT performance
- Evaluation of individual members as well as the BoT as a whole
- Whether the BoT has the necessary framework, policies and procedures in place within which to make decisions
- Whether it is acting in accordance with strategies, policies and procedures.



KING III

- Expected to apply to all companies, PFMA institutions, financial institutions and by implication to Medical Schemes.



KING III

- Not a legislation that imposes rules.
- BoT accountable on an “apply or explain” basis.
 - Act in good faith
 - Act in the best interests of members
 - Must explain the practice applied and the reasons for applying it. (or for not applying best practices)



KING III

- Corporate governance mainly involves the establishment of structures and processes, with appropriate checks and balances that enable Trustees to discharge their legal responsibilities.



KING III

- In assessing the standard of appropriate conduct, a court will take into account all relevant circumstances, including what is regarded as the normal or usual practice in the particular situation.



KING III

- Consequently, any failure to meet a recognised standard of governance, albeit not legislated, may render a board or individual trustee liable at law.



KING III

- Criteria of good governance, governance codes and guidelines will be relevant in the determination of what is regarded as an appropriate standard of conduct.



KING III

- Good governance is essentially about effective leadership:
- Define strategy
- Provide direction
- Establish the ethics and values that will influence and guide practices and behaviour.
- Measure performance



KING III

- Increased focus on sustainability, sustainability performance and sustainability reporting.
- Involves social, environmental and economic issues.
- To enable stakeholders to better assess the value of a company.



KING III

- Emerging governance trends also covered are:
- Alternative dispute resolution
- Risk based internal audit
- IT governance



CMS on Risk

- Risk management committee should
 - Recommend a suitable risk management policy
 - Oversee the implementation of risk management principles and practice
 - Objective of eliminating, reducing, controlling risks



CMS ON RISK

- Sample Risk Management Committee Charter
 - Objective
 - Purpose
 - Membership
 - Role and responsibilities



RISK

- Risks are uncertain future events that could influence the achievement of a “schemes” objectives.



RISK

- A “scheme” should mitigate its exposure to losses by responsible risk taking and well defined risk strategies.
- A considered and systematic approach to risk underpins the success of the “scheme”
- The BoT is expected to exercise duties of care, skill and diligence in identifying, assessing and monitoring risks.



RISK MANAGEMENT

- Risk management is the practice of identifying and analysing the risks and taking adequate steps to manage these risks.
- The development of the process of risk management and monitoring should be the responsibility of the BoT.



RISK MANAGEMENT

- Risk management should be intrusive and should not be viewed only as a reporting process to satisfy governance expectations.
- The performance of the “scheme” against its risk management plan is reviewed by the management (BoT) at least annually.



RISK ACCOUNTABILITY

- The BoT's ultimate responsibility for the process of risk management should be expressed in its BoT charter and supported by training and induction processes.
- The BoT has an obligation to demonstrate that it has dealt comprehensively with the issues of risk management.



PROCESS FOR RISK

- Approve a risk philosophy
 - BoT
- Risk assessment
 - BoT and management
- Risk management plan
 - Management and approved by BoT
- Risk committee of the BoT
- Annual risk assessment
 - BoT



PROCESS FOR RISK

- Prepare risk philosophy/policy
- Assess and evaluate risks using a recognised methodology which includes risk ratings.



RISK RATING

- First step
 - Impact
 - Likelihood
 - Risk rating
- Controls in place for consideration
- Second step taking controls into account
 - Impact
 - Likelihood
 - Risk rating
- Targets and actions to mitigate risk



PROCESS FOR RISK

- Prepare a risk management plan
- Incorporate administrator related risks including any monitoring steps to be taken by scheme management



ADMINISTRATOR AND RISK

- Administrator risks – apply to the scheme
- Determine whether administrator has a risk management plan
- Obtain scheme related risks identified by administrator including mitigation and control processes.
- Incorporate in scheme risk management plan



ISSUES FOR RISK

- Probability and likelihood
- Significant
- Quantify
- Calculate resilience to risk and loss
- Risk response
 - Avoiding
 - Treating, reducing or mitigating
 - Transferring
 - Accepting



ISSUES FOR RISK

- Reputational
- Sustainability
- IT Systems and internal control
- Legislation and State Health Policy changes
- Capital adequacy
- Solvency and liquidity
- Going concern
- Continuity and disaster recovery
- Uncertainty



RISK MANAGEMENT

- Risk committee
- Audit Committee oversight
- Risk management plan
- Internal audit risk based audit processes provide independent assurance
- External audit consult risk management plan
- Risk management culture
- Reports on risk management plan monitoring to all BoT, Exco & Audit Committee meetings



RISK REPORTING

- Report to members in the annual report to the AGM that the BoT applies best risk management processes in either the Trustee report, the Responsibility report or the Governance report



AUDIT COMMITTEE

- Included in the Medical Schemes Act
- SAICA guideline
- Covered extensively in King III
 - An independent audit committee is a critical component in ensuring
 - the integrity of integrated reporting and financial controls,
 - the proper identification and management of financial risks and
 - the integrity of reporting practices.



AUDIT COMMITTEE

- An integral component of the risk management process
- Oversee the governance processes
- Oversight of the internal audit function
 - Risk based audit.
 - Administrator internal audit.
 - Internal audit of scheme activities.
- Oversight of the external audit function



FINANCIAL STATEMENTS

- Changes arise from IFRS7 and IAS1
- Little impact on medical schemes
- Guideline has a number of changes to improve disclosure.
- SAICA workshops 14, 15 & 16 October
- Guideline will be published on SAICA website before workshops
- Trustees encouraged to attend.



FINANCIAL STATEMENTS

- IAS1 calls for change in presentation
- Statement of Financial Position (formerly Balance Sheet)
- Comprehensive Income Statement (formerly Income Statement)
- Changes in Equity
- Cash Flow



CMS Comments on 2008 AFS

- Appendix 1 to the guide and circular 11
 - Non compliance with circular 39;
 - Accounting policies irrelevant
 - IAS1 will require statements for 3 years when reclassification or retrospective restatement of items.
 - Offsetting seems to be a problem
 - Incorrect classification of debtors and creditors



CMS Comments on 2008 AFS

- Outstanding cheques not written back into guide
- Accounting for movement in collective investments and policies of insurance
- Related party transactions IAS 24
- Risk transfer arrangements – significant contracts – insurance risk not value
- Sensitivity analyses not comprehensive
- Non compliance with disclosure requirements of IFRS7



CMS Comments on 2008 AFS

- Insufficient detail on trustee remuneration
- Finance lease and IAS 17 not adhered to
- Intangible assets IAS 38 not adhered to
- Defined benefit plans IAS19 not adhered to
- Non-compliance with the MS Act issues. List of areas to be considered by the BoT.
- Non compliance disclosure
 - Nature and impact
 - Causes of the failure
 - Corrective course of action including timeframe



CMS circular 18

- Replaces circular 39 of 2007 regarding income statement format
- New format arising from change in accounting standard.
- No longer an income statement
- Now: Statement of Comprehensive Income



CMS CIRCULAR 18

- Net contribution income
- Relevant healthcare expenditure
- Gross healthcare result
- Net healthcare result
- Net surplus for year
- Other comprehensive income
- Total comprehensive income for the year



CMS CIRCULAR 18

- Following extracted from investment income and reflected as other comprehensive income
 - Fair value adjustment on available for sale investments
 - Reclassification adjustment
 - Land and buildings revaluation



AFS vs MANAGEMENT REPORTS

- AFS for stakeholder information
- Management reports for BoT
- BoT takes decisions based on management reports.
- Stakeholders evaluate the performance of the scheme and BoT based on AFS and Trustees' annual report.



AFS vs MANAGEMENT REPORTS

- Basis for management decisions are therefore included in the AFS notes.
- For example
 - Critical estimates and judgments
 - Investment policies
 - Sensitivity analyses
 - Risk analyses and mitigation controls
 - Qualitative and quantitative details
 - Credit, Liquidity and Market risks



AFS vs MANAGEMENT REPORTS

- Effecting
 - Risk transfer arrangements
 - Provision for outstanding claims
 - Investments
 - Cash and cash related items
 - Receivables
 - Liabilities



AFS vs MANAGEMENT REPORTS

- Question
- Do the disclosures in the AFS reflect the decision making processes adopted by the BoT in the operation of the scheme?
- Is the actuary involved in supporting the AFS disclosures?



RISK TRANSFER ARRANGEMENTS

- IFRS4 defines a medical scheme business as insurance business
- Therefore every contract with a member is an insurance policy
- Likewise contracts with provider groups are re-insurance business if the risk is transferred to the provider
- Known as risk transfer arrangements.



RISK TRANSFER ARRANGEMENTS

- Re-insurance
 - Premium is cost
 - Claims are income – known amounts
- Risk transfer arrangements
 - Premium is cost – capitation Rc pbpm
 - Recovery is unknown – not in Rc
 - Required to place a value on recovery
 - Provider reports on volumes per ICD-10
 - Scheme evaluates at scheme rates or NRPL



RISK TRANSFER ARRANGEMENTS

- Income Statement
 - Capitation fee is cost
 - Reported volumes times scheme or NRPL rates equals recovery
 - Difference equals performance of RTA
 - Calculated recovery is included in claims incurred
- Notes give
 - Performance details by contract



RISK TRANSFER ARRANGEMENTS

- Problem encountered
- Provider needs to be contracted to:
 - Provide required volumes per ICD-10 and chronic disease category at least monthly for both management reporting and REF returns purposes.
 - Provide access to the scheme auditors to carry out verification procedures



INVESTMENTS

- Financial Assets have to be classified at acquisition as:
 - Held to maturity
 - Available for sale financial assets
 - Financial assets at fair value through the profit and loss
 - Loans and receivables
- Cannot be reclassified other than under “rare” circumstances



INVESTMENTS

- Valued at year end for AFS and monthly for management reports at “fair value”
- Differences between fair values are treated as follows:
 - Financial assets at fair value through the profit and loss - in the income statement
 - Available for sale financial assets and held to maturity – in the comprehensive income
 - Amortisation –in the income statement



INVESTMENTS

- Pooled investments
- Ownership confirmation
- Policies of insurance – show income



IBNR

- Provision for outstanding claims
- Measured on a monthly basis
- AFS requires a reconciliation between last year's provision and actual claims incurred during the prior year
- Monthly reports tend to reflect this figure relative to prior year only.
- What about during the year?



IBNR

- Notes to the AFS
- Process used to determine the assumptions
- Assumptions
- Changes in assumptions and sensitivities to reasonable possible changes in key variables



CMS CIRCULAR 21

- From accreditation unit
- Dealt with
 - Administration issues
 - Audit issues
 - Non-compliance issues



QUESTIONS

- Questions and discussion

