ALLIANCE-MIDMED MEDICAL SCHEME

Registration number 1465

Annual Board of Trustees Report and Audited Annual Financial Statements

for the year ended 31 December 2019

ALLIANCE-MIDMED MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019

The reports and statements set out below comprise the annual financial statements presented to members:

ALLIANCE-MIDMED MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Trustees are responsible for the preparation, integrity, and fair presentation of the annual financial statements of Alliance-Midmed Medical Scheme ("the Scheme"). The annual financial statements presented on pages 10 to 27 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Medical Schemes Act 131 of 1998, as amended ("the Act") and include amounts based on judgements and estimates.

The Trustees are satisfied that the information contained in the annual financial statements fairly presents the results of operations and cash flows for the year and the financial position of the Scheme at year-end. The Trustees also prepared the additional information included in the Board of Trustees annual report and are responsible for both its accuracy and its consistency with the annual financial statements.

The Scheme operates in a well-established control environment, which is documented and regularly reviewed. The reviews incorporate risk management and internal control procedures, which are designed to provide reasonably, but not absolute, assurance that assets are safeguarded and the risks facing the Scheme are being controlled. No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. The Council for Medical Schemes announced in 2017 that it intends to consolidate smaller schemes into bigger risk pools, apparently to align with the longer-term funding objectives of the National Health Insurance Scheme. This initiative is, however, likely to face many challenges before it becomes a reality, and there is no indication that the Scheme will cease to exist in the short to medium term. Accordingly, the Trustees have no reason to believe that the Scheme will not be a going concern for the foreseeable future based on these annual financial statements, forecasts and available cash resources.

A major event developing after the year-end is the devastating impact of the Coronavirus pandemic on almost every economy on earth. It appears to also have a major impact on health services. Using the WHO projections, we estimate an impact on the Scheme, ranging between R941k and R1.95M per month, for a period of three to four months, depending upon the COVID-19 infection projections, and between four and six members succumbing to the disease. Pandemic projections vary greatly, but this will in all likelihood have a major impact on Scheme reserves. We do not foresee, however, that it will place the Scheme's going-concern status at risk, any more than other medical schemes.

The Board has set strategic objectives and review the progress against the objectives annually. Part of this process is to review its risk policy and matrix and the Board met during October 2019 in this regard. The Board also review sections of the risk matrix at Board meetings to ensure that the risk management process remains valid and current. The risk policy and matrix form the basis for the Board's responses to risks and exposures. The Board, at its annual strategy meeting, also considers compliance and whether the framework as explicitly set out in the Audit, Risk and Compliance Committee mandate is valid and effective.

During the period under review, the Board has not taken and is not aware of any undue risks that fall outside its tolerance levels or that could lead to unexpected material loss.

The Scheme has not, during the period under review, been penalised, sanctioned or fined for regulatory contraventions or non-compliances.

During 2019 an independent Audit, Risk and Compliance Committee (previous Audit Committee) was appointed in the manner as prescribed in the Scheme's registered rules and constituted in accordance with the provisions of the Act. The Scheme re-appointed BDO as its external auditor.

BDO was appointed as external auditor for the peiod under review. The appointment was approved by the Registrar for Medical Schemes and the incumbent auditor did not vacate his/her office prior to the expiration of the period for which he/she was appointed.

The Scheme is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Scheme subscribes to the highest standards of governance, following relevant frameworks such as King IV wherever applicable. The Scheme's external auditors have audited the financial statements in terms of International Standards on Auditing and their report is presented on pages 7 - 9.

There were no requests for Scheme information under the Promotion of Access to Information Act.

The Board's philosophy is also, in as far as it is practically and financially possible, to adhere to non-binding rules, codes and standards.

The Board meet regularly and monitor the performance of the Scheme and its service providers. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

Member Representative Trustees are elected every three years and comprise 50% of the Board. During 2018, elections were held, and new Board members appointed. Board members receive extensive training and all Trustees have access to the advice and services of the Principal Officer and, in compliance with Scheme policies, may seek independent, professional advice at the expense of the Scheme.

The Board adheres to a gifts policy and manages potential conflicts of interest through voluntary disclosures and periodic legal checks. Board members are also members of the Scheme. Their contributions and claims are reported and managed at arms-length as for members.

The Board holds an Annual General Meeting, fully compliant with the notification, agenda, content and disclosure requirements, in terms of its Rules and as specified by the Regulator.

The Board embarked on a compliance project to be substantially compliant with the good governance requirements contained in the King III Report, and then the King IV report, by 2021 to 2023.

The annual financial statements were approved by the Board of Trustees on 14 May 2020 and are signed on its behalf by:

SD Muller
Chairperson

C Kritzinger
Trustee

JH Hartzenberg
Principal Officer

ALLIANCE-MIDMED MEDICAL SCHEME

Registration number: 1465

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2019

1. DESCRIPTION OF THE MEDICAL SCHEME

1.1 Terms of registration

Alliance-Midmed Medical Scheme ("the Scheme") is a non-profit restricted membership medical scheme registered in terms of the Medical Schemes Act 131 of 1998, as amended ("the Act"). Its membership is restricted to employees who work for Columbus Stainless (Pty) Ltd and associate companies.

1.2 Benefit options within Alliance-Midmed Medical Scheme

The Scheme offers one benefit option.

1.3 Personal Medical Savings Account (PMSA)

The Scheme offers a 5% (2018: 8%) member savings account and pays for the majority of benefits through the Major Risk Pool.

The PMSA forms part of the scheme assets, but unexpended savings amounts are accumulated for the benefit of the member. No interest accrues to positive savings balances.

In terms of the Regulations of the Act and the Rules of the Scheme, the Personal Medical Savings Account is underwritten by the Scheme.

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review and at the date of this report:

SD Muller	Trustee (Chairperson)	Member Elected Trustee
M Janse van Rensburg	Trustee (appointed 1 February 2019)	Employer Representative Trustee
C Kritzinger	Trustee	Member Elected Trustee
FJ Mabhena	Trustee	Employer Representative Trustee
R van Coller	Trustee	Employer Representative Trustee
D Martin	Trustee	Member Elected Trustee

The trustees took office in July 2018. Three trustees are appointed and three trustees are elected. Three co-opted observers are invited to attend the Board of Trustee meetings in order to provide continuity should trustees become unavailable to perform their duties or resign.

Board elections are performed according to the Scheme policy, with the objective to have a knowledgeable and representative Board that acts in the best interest of the Scheme and all its beneficiaries. First there is a call for nominations,followed by a process to obtain the nominee's acceptance, checks are performed to confirm that the nominees meet the legal requirements. An open election and formal appointment follows, where after the appointed Trustees are provided with extensive training and tools to perform the task at hand.

As the Scheme is a restricted scheme, Board members are members of the Scheme and therefore have a vested interest in its continued success. Trustees perform a regular self assessment, which is used for training needs.

The Trustees are not remunerated for their services.

2.2 Principal Officer

JH Hartzenberg
Postnet Suite MW60
Private Bag X1838
Middelburg
1050

2.3 Registered office address and postal address

Private Health Administrators (Pty) Limited.
3rd Floor
Pharos House
70 Buckingham Terrace
Westville
3629

P.O. Box 343
Westville
3630

2. MANAGEMENT (continued)

2.4 Scheme Administrator

The Scheme was administered by Private Health Administrators (Pty) Limited ("PHA").

2.5 Consultants

Dr R Odes performed the duties of Scheme Medical Advisor.

2.6 Bankers

First National Bank

2.7 Independent Auditors

BDO South Africa Incorporated
Wanderers Office Park
52 Corlett Drive
Illovo
2196

Private Bag X60500
Houghton
2041

2.8 Investment managers during the year

Old Mutual Wealth
No1 Mutual Place
107 Rivonia Road
Sandton
2196
Financial Service Provider Number 588

Prudential Portfolio Managers (SA) (Pty) Ltd
P.O. Box 23167
Claremont
7735
Financial Service Provider Number 615

Stanlib Collective Investments
17 Melrose Boulevard
Cnr Campground & Main Roads
Melrose Arch
2196

Allan Gray
1 Silo Square
V & A Waterfront
Cape Town
8001

3. INVESTMENT POLICY OF THE SCHEME

The Scheme's long term investment objective is to maximize the return on its investments while exercising prudence. The investment strategy takes into consideration constraints imposed by the Act.

4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

4.1 Operational statistics

Refer to page 6 of this report for a comparative analysis of the operational statistics of the Scheme.

4.2 Results of operations

The results of the Scheme are set out in the annual financial statements, and the Board of Trustees believe that no further clarification is required.

The continued focus of the Board was to implement a robust governance model and further enhance the Scheme's health, legal and financial risk management. As set out in the annual financial statements (AFS), the Scheme has generated a net surplus for the year of R2 199 191 (2018: R3 120 794 net deficit). The Scheme's solvency ratio of 37.3% remains well above the solvency level as required by the Act. When considering the reserves held by the Scheme, it is important to consider the Rand amount (see table on page 4) as well as the percentage change in reserves from one year to the next. (Note that the average accumulated funds (excluding savings) per member at end 2019 of R28 719 was up from the R25 804 at the end of 2018). The Scheme is not experiencing cash flow problems.

4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES (continued)

4.3 Accumulated funds

	2019 R	2018 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	48 104 220	45 905 029
Less: Cumulative net gains on remeasurement to fair value of investments	(9 852 424)	(8 525 881)
Accumulated funds per Regulation 29 of the Act	38 251 796	37 379 148
Gross contributions (Note 8)	102 568 482	98 639 318
Accumulated funds ratio = Accumulated funds/Gross annual contribution income x 100%	37.29%	37.89%

4.4 Members' funds

Movements in the reserves are set out in the Statement of Changes in Funds and Reserves. There have been no unusual movements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

4.5 Outstanding claims

Movements in the outstanding claims provision are set out in Note 7 to the annual financial statements. There have been no unusual movements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

5. INVESTMENTS IN AND LOANS TO EMPLOYERS OF MEMBERS OF THE SCHEME AND OTHER RELATED PARTIES

The Scheme holds no investments in participating employers or related parties of Scheme members.

6. SUBSEQUENT EVENTS

From 1 January 2020 the Scheme reverted to self-administration, and we appointed Rx Health as managed care provider and Health Portfolio Managers to provide systems, infra-structure and financial services support. The change is a result of the previous administrator, having been sold to Afrocentric and the focus on Alliance-Midmed as a small scheme changing away from the boutique contract. We remain concerned that the bigger schemes are unable to provide the personal and cost-effective service that our members have grown accustomed to, and which have contributed significanltly to our cost-advantage.

We retained the integrated system that enabled us to become a highly efficient and cost-effective administrator and contracted the services of a specialist client service manager and managed care organisation.

The Scheme is also anticipating an impact ranging between R941k and R1.95M per month, for a period of three to four months, depending upon the COVID-19 infection projections, and between four and six members succumbing to the disease. Pandemic projections vary greatly, but this will in all likelihood have a major impact on Scheme reserves.

A potential contingent liability arose through a directive that CMS issued for the Scheme to refund about R37.2 million to members because of the alleged payment of PMB claims from savings where the claims should have been paid from the Risk Pool. We are in the process of disputing the directive and the basis thereof as explained in Note 24.

7. AUDIT, RISK AND COMPLIANCE COMMITTEE

An Audit, Risk and Compliance Committee was established in accordance with provisions of the Act. The Audit, Risk and Compliance Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Audit, Risk and Compliance Committee consists of five members of which two are members of the Board of Trustees. The chairperson and two other members are independent as they are not officers of the Scheme or its service providers. The Audit, Risk and Compliance Committee met on four occasions during the course of the year as follows:

21 February 2019
14 May 2019
27 August 2019
26 November 2019

The Chairman of the Scheme, the Principal Officer, the financial manager of the administrator, the internal auditor and the external auditor are invited to attend Audit, Risk and Compliance Committee meetings and have unrestricted access to the Chairman of the Audit, Risk and Compliance Committee.

In accordance with the provisions of the Act, the primary responsibility of the Audit, Risk and Compliance Committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The independent external and internal auditor formally reports to the Audit, Risk and Compliance Committee on critical findings arising from their audit activities. The Audit, Risk and Compliance Committee also ensures that significant matters are identified and appropriately dealt with.

The Audit, Risk and Compliance Committee comprises: trustee members C Kritzinger and M Janse van Rensburg (appointed 1 February 2019), and non-trustee members K Bizana and D Van Der Merwe, under the chairmanship of non-trustee member JP Van Der Walt.

8. COMPLIANCE MATTERS

DEVIATIONS:

The Board of Trustees are of the opinion that there are no material deviations from the Act and list the following three matters that are practical challenges and not wilful non-compliances.

Not all contributions that are billed are received within 3 days as required by the Act. There are however sufficient credit control policies to minimise the risk of non-recoverability. This risk is further reduced by the fact that the Scheme is a restricted scheme with the majority of members having a direct link to the employer pay points.

Claims are generally paid within 30 days of receipt but due to certain procedures such as clinical auditing, there are exceptions where claims are only paid after 30 days of receipt. On average 99.7% of claims are paid within 30 days.

Section 35(8) (c) of the Act states that a medical scheme shall not invest any of its assets in any administrator. The Scheme's investment funds are managed by independent third party asset managers. They have a discretionary mandate to achieve their target. Given this approach, the Scheme may be exposed to shares in an administrator from time to time. As a precaution the Scheme made application and was granted exemption from complying with this requirement by the Council for Medical Schemes. Our application was submitted on 11 April 2018 for which exemption was granted until 30 April 2019. The Scheme made a renewal application on 06 May 2019 and was granted exemption from 1 December 2019 through 30 November 2022. At the time when the exemption was granted, the Scheme held investments in MMI Holdings Limited (Allan Gray and Stanlib), Discovery Group Limited (Allan Gray and Stanlib) and Liberty Holdings Limited (Stanlib). At no point did the Scheme invest in it's own administrator.

9. KEY MATTERS

The Board of Trustees have identified the following as key matters:

Solvency:

The solvency of the Scheme remains well above the regulated minimum, and within the range agreed by the Board.

Management Of Claims:

High claims costs continue to be a Scheme and industry concern. However claims incurred during the year remained within manageable levels and were less than budget. Active health, legal and financial risk management resulted in robust containment of the financial impact. The application of these initiatives will continue to present an affordable option to members in the medium to longer term.

Profile Of Members:

The member profile has a significant impact on future claims. As can be seen in note 11 of the Board of Trustee's Report, membership decreased during 2019 with membership at 31 December 2019 of 1 680 being 3,9% down (2018: 6.1% on the membership at 31 December 2018 of 1 748. It is relevant to note that the average age of beneficiaries at 31 December 2019 is 33,5; 0,74 years older than the average age of beneficiaries at 31 December 2018 which was 32,76. This indicated younger beneficiaries have left the Scheme. This was due to union activity and does not present a sustainability risk. Nevertheless, claims are closely monitored to contain risks.

Governance:

The Board is committed to strong governance structures to ensure appropriate and professional management. The Board embarked on the implementation of a robust governance model. The governance model has already strengthened a number of management practices and we expect this project to be completed in 2023, because it includes compliance to relevant aspects of King III and King IV. Underpinning the governance model and structures are stringent internal and external control processes.

Risk Management:

A robust risk management approach is applied operationally at clinical, financial and investment management levels. The Board is constantly seeking ways to enhance risk identification and management.

Impact on the environment:

The Board is continuously looking for ways to further improve its impact on the environment. The Scheme has effective and efficient systems and processes to minimise its negative impact on the environment (e.g. high automation levels, email communications and a member app to communicate and submit accounts in real-time, electronically). We are working on reducing negative impacts where these are discovered (e.g. a campaign to register providers on the administrator electronic platform for account management and reconciliation).

10. TRUSTEES AND AUDIT, RISK AND COMPLIANCE COMMITTEE MEMBERS MEETING ATTENDANCE

	Board of Trustees meetings		Audit, Risk and Compliance Committee meetings		Annual general meetings	
	A	**B**	**A**	**B**	**A**	**B**
Trustees						
SD Muller (Chairperson)	4	4	4	4	1	1
M Janse van Rensburg #	4	4	4	4	1	0
FJ Mabhena	4	4			1	1
C Kritzinger #	4	4	4	3	1	1
R van Coller	4	3			1	1
D Martin	4	4			1	1
JM Fourie (Co-Opted Trustee)	4	4			1	1
N Harris (Co-Opted Trustee)	4	4			1	1
J Tharakan (Co-Opted Trustee)	4	3			1	1
Audit, Risk and Compliance Committee members						
J Van Der Walt (Chairman)			4	4	1	1
D Van Der Merwe			4	4	1	0
K Bizana			4	4	1	0
Principal Officer						
J Hartzenberg	4	4	4	4	1	1

- Trustees serving on the Audit, Risk and Compliance Committee
4 Board Meetings (1 Strategy Session and Budget Meeting not counted)
A = maximum possible attendance
B = actual attendance

11. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

Operational statistics

	2019	**2018**
Number of members at the end of the year	1 680	1 748
Number of beneficiaries at the end of the year	3 928	4 150
Average number of members for the year	1 675	1 779
Average number of beneficiaries for the year	3 900	4 206
Beneficiaries per member at the end of the year	2.34	2.37
Average age of beneficiaries for the year	33.50	32.76
Pensioner ratio (beneficiaries > 65 years)	7.59%	7.08%
Dependants per member at the end of the accounting period	1.34	1.37
Average net contributions per beneficiary per month	R2 082	R1 799
Average relevant healthcare expenditure incurred per beneficiary per month	R2 028	R1 811
Total relevant healthcare expenditure as a percentage of gross contributions	92.55%	92.66%
Average non-healthcare expenditure per beneficiary per month	R118	R110
Non-healthcare expenses as a percentage of gross contributions	5.38%	5.65%
Average accumulated funds(excl savings) per member at the end of the year	R28 719	R25 804
Return on investments as a percentage of closing investments	6.83%	3.77%

Breakdown of total amount paid to the Administrator:	**R**	**R**
Administration fees	R 3 999 701	R 4 015 255
Managed care: management services	R 965 046	R 937 678
Total	R 4 964 747	R 4 952 933
Average amount paid to the Administrator per member per month	R 247	R 232

Tel: +27 011 488 1700
Fax: +27 010 060 7000
www.bdo.co.za

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

Private Bag X60500
Houghton, 2041
South Africa

Independent Auditor's Report

To the members of

Alliance-Midmed Medical Scheme

Report on the Financial Statements

Opinion

We have audited the financial statements of Alliance-Midmed Medical Scheme (the Scheme), set out on pages 11 to 29, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in members' funds and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Alliance-Midmed Medical Scheme as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Scheme in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Provision for outstanding claims Key audit matter	How our audit addressed the key audit matter
Refer also to Note 7 (page 19) The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date but have not been reported to the Scheme by that date. The provision is determined based on a number of assumptions. In accordance with the scheme rules, members have 4 months from the service date to submit claims before they are considered stale and rejected. At the time of approval of the financial statements, 3 months of the 4 months are known and historically the majority of the claims are received in the first 2 months after year end.	The following audit procedures were performed, amongst others: • We obtained an understanding of the process and the methodology used and the related key controls. • We assessed the appropriateness and timely recognition of costs and provisions in accordance with *IAS 37: Provisions, Contingent Liabilities and Contingent Assets* and *IFRS 4: Insurance Contracts*. • We assessed the claims received subsequent to year-end for claims incurred relating to the 2019 financial year. • We scrutinised the hospital pre-authorisation lists and the confirmation from the hospitals of claims incurred to the end of December 2019. • We critically assessed management's assumptions

The method used to estimate outstanding claims uses historical claims development information and assumes that the historical claims development pattern will occur again in the future. There is no certainty whether similar patterns will be followed which could result in a material misstatement in the outstanding claims provision.

The outstanding claims provision is considered to be significant to our audit and therefore is considered to be a key audit matter as the balance is material to the financial statements as a whole and is subject to a degree of estimation uncertainty and judgement from management.

compared to our own institutional knowledge.

- We performed a retrospective review of the provision historically raised by inspecting the utilisation of the provision for the 2019 financial year.
- We performed a recalculation of the provision based on the claims data for the first 3 months of the 2020 financial year.
- We assessed the calculation of run-off triangles for reasonability compared to the current and historical claims development patterns over the last 3 years.
- We assessed and recomputed the sensitivity analyses of the provision for accuracy.
- We evaluated the presentation and disclosure of the outstanding claims provision in terms of IFRS and the applicable industry guides.

2. Automated and complex information technology system

Key Audit Matter	How our audit addressed the key audit matter
The Scheme's Information Technology system – HIP is considered to be complex as it performs a high degree of automated processing with many application controls and contains many electronic transactions generated from service providers with very little observable external audit trail. Should an error occur there could potentially be a significant impact on the financial data that is provided to the Scheme or alternatively if the automated controls were to fail it could potentially result in significant financial loss to the Scheme. Management relies on the Administrator's internal audit department to perform relevant procedures over the system and to provide written reports on findings identified to the various schemes that utilise the system. There is therefore a significant risk of material misstatement and as a result the reliability and functioning of the automated controls in the system are considered to be a key audit matter.	The following audit procedures were performed, amongst others: • We assessed the Administrator's Internal Audit department for suitability, competence and independence. • We had discussions with the internal auditors on the nature and scope of the work they performed to assess its relevance to our audit strategy and audit plan, their quality control procedures and any relevant risks requiring further attention. • We read the reports of the internal audit function to obtain an understanding of the nature and extent of the audit procedures it performed and the related findings. • Our internal IT Specialists performed a review of the general IT control environment of the administrator and also performed a quality control review of the internal audit. • We performed exception testing on the transactional database by identifying anomalies in the transactional data and confirming the validity thereof. • For weaknesses identified in the relevant reviews performed by our internal IT Specialists, as well as scrutinising the findings raised by the internal auditors in their reports, we adjusted our audit approach and performed additional substantive procedures.

Emphasis of matter - Subsequent event: The impact of the uncertainty of COVID-19
We draw attention to Note 25 in the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of COVID-19 on Alliance-Midmed Medical Scheme's future prospects, performance and cashflows. Management have also described how they plan to deal with these events and circumstances. Our opinion is not modified in respect of this matter.

Other Information
The Scheme's trustees are responsible for the other information. The other information comprises the Report of the Chairman and Principal Officer and the Board of Trustees Report as required by the Medical Schemes Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Scheme's Trustees for the Financial Statements
The Scheme's trustees are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa, and for such internal control as the Scheme's trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Scheme's trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Scheme's trustees either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's trustees.
- Conclude on the appropriateness of the Scheme's trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Scheme's trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Scheme's trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Non-Compliance with the Medical Schemes Act
As required by the Council for Medical Schemes, we report that we did not identify material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa.

Audit tenure
As required by the Council for Medical Schemes' Circular 38 of 2018: *Audit Tenure*, we report that BDO South Africa Incorporated has been the auditor of Alliance-Midmed Medical Scheme for two years.

The engagement partner, Mr D.F. Botha, has been responsible for Alliance-Midmed Medical Scheme's audit for two years.

BDO South Africa Inc.

BDO South Africa Incorporated
Registered Auditors

D.F. Botha
Director
Registered Auditor

14 May 2020

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

ALLIANCE-MIDMED MEDICAL SCHEME

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019 R	2018 R
ASSETS			
Current assets		82 312 738	84 303 621
Trade and other receivables	2	690 231	1 063 643
Cash and cash equivalents	3	9 629 197	22 921 556
Investments held at fair value through profit and loss	4	71 993 310	60 318 422
Total assets		82 312 738	84 303 621
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		48 104 220	45 905 029
Current liabilities		34 208 518	38 398 592
Personal Medical Savings Account liability (PMSA)	5	29 532 308	32 185 155
Trade and other payables	6	2 525 213	3 579 001
Outstanding claims provision	7	2 150 997	2 634 436
Total funds and liabilities		82 312 738	84 303 621

ALLIANCE-MIDMED MEDICAL SCHEME

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	2019 R	2018 R
Net contribution income	8	97 425 545	90 821 465
Relevant healthcare expenditure		(94 922 277)	(91 398 443)
Net claims incurred	9	(93 189 829)	(89 685 654)
Claims incurred		(93 189 829)	(89 886 801)
Third party claim recoveries		-	201 147
Accredited managed healthcare services (no transfer of risk)	10	(1 732 448)	(1 712 789)
Gross healthcare result		2 503 268	(576 978)
Administration expenses	11	(5 412 975)	(5 496 660)
Net impairment losses on healthcare receivables	12	(107 268)	(74 973)
Net healthcare result		(3 016 975)	(6 148 611)
Other income		5 703 345	3 418 310
Investment income	13	5 576 768	3 136 442
Sundry income		126 577	281 868
Other expenditure		(487 179)	(390 493)
Asset management fees		(487 179)	(390 493)
Net surplus / (deficit) for the year		2 199 191	(3 120 794)
Total comprehensive income / (loss) for the year		2 199 191	(3 120 794)

ALLIANCE-MIDMED MEDICAL SCHEME

STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2019

	2019 R	2018 R
Balance as at 1 January	45 905 029	49 025 823
Total comprehensive income / (loss) for the year	2 199 191	(3 120 794)
Balance as at 31 December	48 104 220	45 905 029

ALLIANCE-MIDMED MEDICAL SCHEME

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 R	2018 R
Cash flows from operating activities			
Cash flows utilised in operations before working capital changes	15	(2 729 742)	(3 937 854)
Working capital changes			
- Decerease / (increase) in trade and other receivables		267 506	(366 057)
- (Decrease) / increase in trade and other payables		(1 053 788)	1 228 112
- (Decrease) / increase in personal medical savings account liability		(2 652 847)	860 249
- (Decrease) / increase in outstanding claims provision		(483 439)	627 985
Cash utilised in operations		**(6 652 310)**	**(1 587 565)**
Cash flow from investing activities		**(6 640 049)**	**(19 602 418)**
Acquisition of investments		(13 293 595)	(40 863 429)
Proceeds on disposal of investments		2 945 250	17 832 134
Interest income		3 830 108	3 444 056
Dividend income		365 367	375 314
Asset management fees		(487 179)	(390 493)
Net decrease in cash and cash equivalents		**(13 292 359)**	**(21 189 983)**
Cash and cash equivalents at the beginning of the year		22 921 556	44 111 539
Cash and cash equivalents at the end of the year	3	**9 629 197**	**22 921 556**

1. PRINCIPAL ACCOUNTING POLICIES

These annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the disclosures as required by the Medical Schemes Act 131 of 1998, as amended ("the Act"). The following are the principal accounting policies used by the Scheme, which are consistent with those of the previous year.

1.1 Basis of preparation

The annual financial statements are prepared in accordance with IFRS on the historical cost basis except for short-term investments and investments classified as held at fair value through profit and loss, which are carried at fair value.

1.2 Financial instruments

Financial assets and liabilities are recognised on the Scheme's statement of financial position when it becomes a party to the contractual provisions of the instrument.

Measurement

Financial instruments are initially measured at cost. Subsequent to initial recognition, these instruments are measured as set out below.

The carrying value of short-term financial assets and liabilities approximates fair value.

Trade and other receivables

Trade and other receivables originated by the Scheme are stated at cost less an appropriate allowance for estimated irrecoverable amounts. This is recognised through the statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value and comprise the current bank accounts, deposits held on call with banks, and other short-term liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value, and held in terms of Annexure B of the Act.

Investments held at fair value through profit and loss

All purchases and sales of investments are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset. The cost of purchases includes transaction costs. Investments held at fair value through the statement of comprehensive income are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the investments are included in the statement of comprehensive income in the year in which they arise. The fair value of financial instruments is determined by reference to published indices on the Bond Exchange of South Africa and the Johannesburg Stock Exchange ("JSE") Limited, and held in terms of Annexure B of the Act.

On disposal of an investment, the difference between the net disposal proceeds and carrying amount is recognised in the surplus or deficit for the year.

Financial liabilities

Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations.

Impairment

Impairments of financial instruments are recognised through the statement of profit or loss and other comprehensive income in the year in which the impairment arose.

1.3 Impairment

The carrying amount of the Scheme's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an allowance account to record impairment losses is created.

An impairment loss is recognised whenever the carrying amount of an asset or it's cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

The recoverable amount of assets held at amortised cost is calculated as the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition of the financial asset. Receivables due within the same operating cycle are not discounted.

1.4 **Personal Medical Savings Account liability**

The Personal Medical Savings Account assists members to manage cash flows for costs in excess of the Scheme's approved benefits and self funding member co-payments for provider services rendered.

Personal Medical Savings Account contributions are advanced annually. Unexpended savings at the year-end are carried forward to meet future expenses in excess of Scheme benefits. Balances standing to the credit of members are refundable in terms of regulation 10 of the Act.

The Scheme bears the risk associated with the non-recovery of balances which have been advanced to members and who have subsequently left the Scheme without settling those outstanding balances.

In accordance with the Scheme Rules, no interest accrues to member accounts.

In accordance with the Scheme Rules, the Personal Medical Savings Account is underwritten by the Scheme.

1.5 **Provision for outstanding claims (IBNR)**

Provisions are recognised when the Scheme has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date, but have not been reported to the Scheme by that date. This provision is determined according to, amongst others, previous claims experience, claims settlement patterns, membership changes, claims frequency changes, claims processing cycles and variations in the nature of, and average claims costs. The outstanding claims provision is reduced by the estimated recoveries from members for co-payments, and Personal Medical Savings Accounts.

1.6 **Investment income**

Interest is recognised on a time proportion basis, taking account of the principal balance outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Dividends are recognised when the Scheme's right to receive payment is established.

1.7 **Contribution income**

Net contributions are received monthly in arrears. Net contributions represent gross contributions after deduction of Personal Medical Savings Account contributions. The earned portion of net contributions received is recognised as revenue on the accrual basis. Net contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis.

1.8 **Claims**

Gross claims incurred comprise the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether or not reported by the end of year.

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments and Personal Medical Savings Accounts;
- claims for services rendered during the previous year not included in the outstanding claims provision for that year, net of recoveries from members for co-payments, and Personal Medical Savings Accounts and
- movement in the provision for outstanding claims.

1.9 **Medical insurance contracts and liability adequacy test**

Contracts under which the Scheme accepts membership and medical insurance risk for the member and his or her dependants, by agreeing to defray expenses in accordance with the Scheme Rules, are classified as medical insurance contracts.

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficiency in income for the year.

1.10 **Standards and interpretations effective in the current year**

With the exception of IFRS 9, the Scheme adopted all applicable new and revised accounting standards and interpretations that became effective for annual periods beginning on or after 1 January 2019 relevant to the Scheme, as indicated below:

- IFRS 16 - Leases

The Scheme does not have any operating lease expenses and therefore IFRS 16 did not have an effect on the annual financial statements of the Scheme.

IFRS 9 Scheme Impact Analysis

IFRS 4 allows for a temporary exemption to defer the adoption until 1 January 2022. This exemption may be applied if:
- the Scheme has not previously applied any version of IFRS 9; and
- its activities are predominantly connected with insurance.

A scheme's activities are predominantly connected with insurance if, and only if:
- the carrying amount of its liabilities arising from members' contracts, which includes any deposit components (i.e. the medical savings account liability), is significant compared to the total carrying amount of all its liabilities; and
- the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is:
  - greater than 90 per cent; or
  - less than or equal to 90 per cent but greater than 80 per cent, and the scheme does not engage in a significant activity unconnected with insurance.

	31 Dec 2015	**31 Dec 2019**
Savings plan liability	25 336 636	29 532 308
Credit balances due to members & suppliers	1 209 955	2 028 080
Provision for outstanding claims	1 221 965	2 150 997
	27 768 556	33 711 385
Total liabilities	29 111 395	34 208 518
IFRS 4 %	95%	99%

The Trustees are satisfied that the Scheme meets the requirements and have therefore elected to defer the adoption of IFRS 9 and will review the decision annually.

IFRS 9 introduces a single "expected credit loss" model for impairment, a new hedge accounting model and a new approach to classification of financial assets.

Investments are measured at fair value through profit or loss, and would be continued to be held at fair value through profit or loss, under IFRS 9. For the remainder of the financial assets the carrying value approximates fair value. Receivables will be elected to the expected loss impairment model and not he incurred loss impairment model currently applied. Given the short term nature of the receivables, it is unlikely to result in a material financial provision.

1.11 **IFRS standards and interpretations not yet effective**

Standards and interpretations not yet effective

The following new and revised accounting standards and interpretations, which are relevant to medical schemes are in issue, but not yet effective. None of the applicable standards below have been early adopted by the Scheme.

Standard	**Effective date***
Amendments to IFRS 17 - Insurance contracts	01-Jan-23

* Annual periods commencing on or after

These standards will be adopted on their effective dates, and its potential impact is being assessed.

	2019 R	2018 R
2. TRADE AND OTHER RECEIVABLES		
Net contributions outstanding	637 019	996 300
Amounts owing by members	22 186	45 745
Amounts owing by suppliers	175 442	62 738
Personal Medical Savings Account advances (note 5)	38 372	46 518
	873 019	1 151 301
Less: Provision for impairment of trade and other receivables	(204 569)	(107 420)
	668 450	1 043 881
Prepaid expenses	3 745	16 140
Sundry receivable	14 254	-
Accrued interest	3 782	3 622
	690 231	1 063 643

The movement in the allowance for impairment during the year was as follows:

2019	Contribution debt R	Member and supplier debt R	Savings Account advances R	Total R
Balance as at 1 January	-	(82 570)	(24 850)	(107 420)
Amounts written off during the year	-	818	7 939	8 757
Amount recognised in the statement of comprehensive income for the year (note 12)	-	(99 722)	(6 184)	(105 906)
Unused amounts reversed during the year	-	-	-	-
Amounts utilised during the year	-	(99 722)	(6 184)	(105 906)
Balance as at 31 December	**-**	**(181 474)**	**(23 095)**	**(204 569)**
2018				
Balance as at 1 January	-	(14 213)	(23 347)	(37 560)
Amounts written off during the year	-	-	5 114	5 114
Amount recognised in the statement of comprehensive income for the year (note 12)	-	(68 356)	(6 617)	(74 973)
Unused amounts reversed during the year	-	-	-	-
Amounts utilised during the year	-	(68 356)	(6 617)	(74 973)
Balance as at 31 December	**-**	**(82 570)**	**(24 850)**	**(107 420)**

3. CASH AND CASH EQUIVALENTS		
Current accounts	512 680	400 788
Deposits on call	9 116 517	11 847 778
Fixed Term Deposits	-	10 672 990
	9 629 197	22 921 556

The overall weighted average effective interest rate on cash resources at year end was 6.85% (2018: 6.81%).

4. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS		
Fair value at the beginning of the year	60 318 422	39 823 971
Additions and income capitalised	13 293 595	40 863 429
Disposals	(2 945 250)	(17 832 134)
Net unrealised gain / (loss) on revaluation recognised through the statement of comprehensive income	1 326 543	(2 536 844)
Fair value at the end of the year	71 993 310	60 318 422
The investments included above represent:		
Cash and equivalents	12 743 019	9 362 330
Bonds	35 284 598	30 748 583
Equities	18 364 679	14 958 902
Property unit trusts	5 297 219	5 248 607
Other	303 795	-
Fair value at the end of the year	71 993 310	60 318 422

	2019 R	2018 R
5. PERSONAL MEDICAL SAVINGS ACCOUNT		
Balance on Personal Medical Savings Account at beginning of the year	32 185 155	31 324 906
Less: Prior year advances on Personal Medical Savings Account	(46 518)	(45 394)
Net balance on Personal Medical Savings Account at the beginning of the year	32 138 637	31 279 512
Personal Medical Savings Account contributions received	5 189 455	7 863 247
- for the current year (note 8)	5 142 937	7 817 853
- allocated to settle prior year advances	46 518	45 394
Less:		
Transfers to other Schemes and repayments on death or resignation	(4 513 576)	(3 292 213)
Claims paid on behalf of members (note 9)	(3 320 580)	(3 711 909)
Net balance on Personal Medical Savings Account liability at the end of the year	29 493 936	32 138 637
Add: Advances on Personal Medical Savings Account included in trade and other receivables (note 2)	38 372	46 518
Amounts due to members on Personal Medical Savings Account at the end of the year	29 532 308	32 185 155

The Personal Medical Savings Account liability contains a demand feature in terms of regulation 10 of the Act that any credit on a member's Personal Medical Savings Account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option and then enrols in another benefit option or medical scheme without a Personal Medical Savings Account or does not enrol in another medical scheme.

It is estimated that claims to be paid out of members' Personal Medical Savings Accounts in respect of claims incurred in 2019 but not recorded amount to R236 566 (2018: R91 098).

Advances on Personal Medical Savings Accounts are funded by the Scheme and are included in trade and other receivables. The Scheme does not charge interest on advances on Personal Medical Savings Accounts.

6. TRADE AND OTHER PAYABLES		
Accounts payable to providers and members	2 028 080	2 417 563
Sundry accounts payable	364 383	471 146
Contributions received in advance and unallocated receipts	132 750	690 292
	2 525 213	3 579 001
7. OUTSTANDING CLAIMS PROVISION		
Analysis of movements in outstanding claims		
Balance at beginning of year	2 634 436	2 006 451
Payments in respect of prior year	(2 273 584)	(1 482 527)
Over provision in prior year	360 852	523 924
Raised in the current year	1 790 145	2 110 512
Balance at end of year	2 150 997	2 634 436
Analysis of outstanding claims provision		
Estimated gross claims	2 387 563	2 725 534
Less: Estimated recoveries from Personal Medical Savings Accounts	(236 566)	(91 098)
Balance at end of year	2 150 997	2 634 436

7. OUTSTANDING CLAIMS PROVISION (continued)

Basis for determination of the outstanding claims provision

The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date but have not been reported to the Scheme by that date. The provision is determined based on a number of assumptions which are outlined below.

Process used to determine the assumptions

The process used to determine the assumptions is intended to result in a realistic estimate of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies of historical claiming patterns to establish a claims run-off period per discipline. More emphasis is placed on recent information, particularly where current claims do not appear to follow prior year trends. Where, in prior years, there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

To the extent that historical claims development is used to determine the claim run-off period, it is assumed that this pattern will occur again in future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons, inter alia, include:

- changes in processes that affect the development or recording of claims paid and incurred (such as changes in claims submission mechanisms);
- changes in membership profile of the Scheme;
- random fluctuations; and
- legislative changes (for example, expansion of the definition of a Prescribed Minimum Benefit (PMB)/Chronic Disease Listing (CDL) condition).

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the claims "run-off periods" for the most recent benefit years (split by discipline). The run-off factor relates to the emergence and settlement patterns of claims and is expressed as the percentage of claims settled in respect of total claims expected to emerge in a specific service month. This factor is then used to project the remainder of the outstanding claims relating to the specified service month. A "seasonality factor" is further incorporated into the calculation, also based on past claims experience. These assumptions have been used for assessing the outstanding claims provisions for the 2018 and 2019 benefit years.

Calculation of the outstanding claims provision at year end

Since claims data is available for three months after year-end for services provided up until the reporting date, considering that members have a four month period to submit their claims to the Scheme, the unknown portion of the outstanding claims provision is expected to be relatively small.

	2019 R	2018 R
Outstanding claims provision (not covered by risk transfer arrangements)	2 150 997	2 634 436
Portion of outstanding claims paid in first three / two months of 2020/2019	2 066 390	2 251 339
Residual estimate of claims incurred but not paid	84 607	383 097
Percentage of claims paid of total outstanding claims	96.1%	85.5%

Changes in assumptions

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables. Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the estimation process. The Trustees believe that the liability for claims reported in the statement of financial position is adequate. However, they recognise that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. The sensitivity of the liability is limited as it comprises 96.1 % (2018: 85.5%) of actual payments made in January, February and March 2020 which relate to 2019 claims. Therefore, the remaining balance has variables considered to be immaterial and no impact has been assessed for insignificant changes to these variables. Consequently, if for example the estimates of the unreceived portion of claims costs for the year was 5% inaccurate, the impact on the net surplus of the Scheme would be as follows:

Impact on reported profits due to changes in key variables of the claims provision

	Change in variable	Change in liability 2019 R	Change in liability 2018 R
Hospital (Major medical benefit)	**5%**	2 362	9 959
Chronic	**5%**	57	2 193
Day-to-day	**5%**	1 812	7 003

This analysis has been prepared for a change in a specified variable with other assumptions remaining constant. Inflation is not a factor as retrospective inflation is known.

	2019 R	2018 R
8. NET CONTRIBUTION INCOME		
Gross contributions	102 568 482	98 639 318
Less: Savings contributions (note 5)	(5 142 937)	(7 817 853)
	97 425 545	90 821 465
9. NET CLAIMS INCURRED		
Current year claims (note 18)	94 720 264	91 287 050
Movement in outstanding claims provision	1 790 145	2 110 512
- Over provision in prior year (note 7)	(360 852)	(523 924)
- Current year provision	2 150 997	2 634 436
Less:		
- Claims paid from Personal Medical Savings Account (note 5)	(3 320 580)	(3 711 909)
	93 189 829	89 685 654
10. ACCREDITED MANAGED HEALTHCARE SERVICES (no transfer of risk)		
Private Health Administrators (Pty) Ltd	965 046	937 678
Mediscor PBM (Pty) Ltd	525 631	527 990
Dental Information Systems (Pty) Ltd	241 771	247 121
	1 732 448	1 712 789

Private Health Administrators (Pty) Ltd ("PHA")- Administrators contracted to the Scheme to provide managed care services.

Mediscor PBM (Pty) Ltd ("Mediscor") - service provider contracted to provide a pharmacy benefit management programme and chronic benefit programme to the Scheme.

Dental Information Systems (Pty) Ltd ("Denis") - service provider contracted to provide a dental benefit management programme to the Scheme.

	2019 R	2018 R
11. ADMINISTRATION EXPENSES		
Reimbursement of Trustee expenditure (refer table below)	12 709	-
Administrator's fees	3 999 701	4 015 255
Audit fees	250 192	189 491
Consultants fees	519 613	375 447
Fidelity guarantee and professional indemnity insurance premium	16 140	16 000
Registrar's levies	74 305	76 206
PO Remuneration	-	10 893
- Paid by Scheme	397 050	392 384
- Employer group funding of remuneration	(397 050)	(381 491)
Staff remuneration	43 000	-
Travel expenses	107 804	35 729
Member Communication	3 422	5 877
Europ Assistance	83 526	88 675
Other expenses	302 563	683 087
	5 412 975	5 496 660

REIMBURSEMENT OF TRUSTEE EXPENDITURE	Accommodation and travel R	Total R
31 December 2019		
SD Muller (Chairperson)	12 709	12 709
	12 709	12 709
31 December 2018		
Nil	-	-

	2019 R	2018 R
12. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES		
Impaired losses recognised directly through comprehensive income	1 362	-
Increase in provision for impairment on receivables	105 906	74 973
	107 268	74 973
13. INVESTMENT INCOME		
Interest income earned on cash and cash equivalents	600 681	2 449 705
Investments held at fair value through profit and loss		
-Interest income	3 229 427	994 351
-Dividend income	365 367	375 314
-Net gain / (loss) on investments held at fair value through profit and loss	1 381 293	(682 928)
	5 576 768	3 136 442
13.1 NET FAIR VALUE GAINS / (LOSSES)		
Net fair value gains / (losses) on investments held at fair value through profit and loss		
-Net realised gain on disposals	54 750	1 853 917
-Net unrealised gains / (losses) on revaluation	1 326 543	(2 536 844)
	1 381 293	(682 927)
14. CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES		
Reconciliation of net surplus for the year to cash flows utilised in operations before working capital changes		
Net surplus / (deficit) for the year	2 199 191	(3 120 794)
Adjustments for:		
- Net impairment losses	105 906	74 973
- Interest income	(3 830 108)	(3 444 056)
- Dividend income	(365 367)	(375 314)
- Net unrealised (gains) / losses on revaluation of investments held at fair value through profit and loss	(1 326 543)	2 536 844
- Asset management fees	487 179	390 493
	(2 729 742)	(3 937 854)

15. FIDELITY COVER

The Scheme has arranged cover in its own name of R10 million through ITOO underwritten by Hollard.

16. RELATED PARTY TRANSACTIONS

The Scheme's administrator, PHA has significant influence over the Scheme since PHA participates in and influences the financial and operating policy decisions of the Scheme but does not control the Scheme. PHA received from the Scheme market-related fees for administration and managed care management services provided amounting to R4 964 747 (2018: R4 952 933). At 31 December 2019, no amounts were outstanding. In 2018 an amount of R194 271 was reimbursed to the Administrator for a registered nurse based in Middelburg.

Alliance-Midmed is a closed scheme where members are employees of Columbus Stainless (Pty) Ltd and associated companies. The composition of the Board of Trustees includes employer appointed and employee elected trustees.

The participating employers' payroll system is primarily utilised in collecting both the member's and the employer's proportionate share of the contributions.

The Trustees are considered to be key management personnel since they have authority and responsibility for planning, directing and controlling the activities of the Scheme. Contributions of R 486 648 (2018: R356 858) were received and claims of R 201 429 (2018: R207 297) were paid in respect of the Trustees who are members of the Scheme. All contributions were at the same terms as applicable to third parties. All claims were paid in accordance with the Rules of the Scheme. Payments made with respect to Trustees are reflected under note 11.

The Principal Officer received remuneration of R 397 050 to attend to the duties as the Principal Officer in 2019 (2018: R392 384). This is fully recovered from Columbus Stainless (Pty) Ltd, upon request from members of the Scheme.

At 31 December 2019, the Trustees had positive savings balances of R 167 716 (2018: R173 449). The amounts are all current and are payable on demand should an appropriate claim be issued, or the member exits the Scheme.

17. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Scheme's accounting policies, the following judgements have the most significant effect on the amounts recognised in the annual financial statements:

Outstanding claims provision

Details of assumptions and judgements used in determining the outstanding claims provision are outlined under Note 7.

There are no other key areas of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

18. MEDICAL INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating medical insurance risk

The primary insurance activity carried out by the Scheme assumes the risk of financial loss from members and their dependants that are directly subject to the risk. These risks relate to the cost of their health. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, contracting with providers, service provider profiling, centralised management of risk transfer arrangements as well as the close monitoring of emerging health risk management issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

The following table summarises the concentration of insurance risk on a beneficiary level, with reference to the net carrying amount of 2019 medical insurance claims paid in the 2019 financial year, by age group and in relation to the type of risk covered or benefits provided. Where appropriate prescribed minimum benefits (PMB) and non-PMB claims have been split.

18. MEDICAL INSURANCE RISK MANAGEMENT (Continued)

Risk management objectives and policies for mitigating medical insurance risk (continued)

		Hospital (major medical)		Chronic		Day-to-day	Total
		PMB	Non-PMB	PMB	Non-PMB		
2019		R	R	R	R	R	R
Age grouping (in years)							
< 26	-Gross	5 899 477	2 391 250	25 530	8 429	8 089 174	16 413 860
	-Net	5 946 833	2 359 107	25 185	8 514	7 136 374	15 476 013
26 - 35	-Gross	2 451 961	804 801	21 662	10 656	4 070 768	7 359 849
	-Net	2 461 888	803 516	21 880	10 763	3 650 378	6 948 426
36 - 50	-Gross	5 526 679	3 150 195	133 781	87 351	10 478 274	19 376 280
	-Net	5 558 081	3 147 910	134 423	88 230	9 568 639	18 497 282
51 - 65	-Gross	7 237 049	6 087 665	292 032	187 139	11 301 145	25 105 030
	-Net	7 293 474	6 048 462	294 970	189 021	10 476 739	24 302 667
> 65	-Gross	11 495 359	3 647 853	247 810	146 272	6 990 236	22 527 530
	-Net	11 576 815	3 639 200	250 303	147 743	6 623 520	22 237 581
Total	**-Gross**	32 610 525	16 081 765	720 816	439 847	40 929 597	90 782 549
	-Net	32 837 091	15 998 196	726 760	444 272	37 455 649	87 461 969

		Hospital (major medical)		Chronic		Day-to-day	Total
		PMB	Non-PMB	PMB	Non-PMB		
2018		R	R	R	R	R	R
Age grouping (in years)							
< 26	-Gross	4 180 588	1 984 038	22 948	9 668	7 736 785	13 934 027
	-Net	4 206 640	1 949 047	23 122	9 742	6 789 010	12 977 561
26 - 35	-Gross	2 831 241	1 441 735	21 399	8 981	4 501 983	8 805 339
	-Net	2 849 839	1 438 396	21 562	9 049	3 960 559	8 279 405
36 - 50	-Gross	4 903 431	3 328 086	130 579	99 440	10 904 173	19 365 709
	-Net	4 906 540	3 292 111	131 217	100 197	9 764 999	18 195 064
51 - 65	-Gross	9 015 504	4 522 524	250 561	173 068	10 832 410	24 794 067
	-Net	9 056 194	4 488 713	253 274	174 385	10 045 407	24 017 973
> 65	-Gross	9 984 281	3 234 463	207 108	136 807	6 609 052	20 171 711
	-Net	10 032 139	3 218 839	208 422	137 848	6 291 692	19 888 941
Total	**-Gross**	30 915 045	14 510 847	632 595	427 963	40 584 404	87 070 853
	-Net	31 051 353	14 387 106	637 597	431 221	36 851 667	83 358 944

Reconciliation of net claims to current year claims paid:

	2019	2018
	R	R
Total net claims as above	87 461 969	83 358 944
Road Accident Fund claim recoveries and claim adjustments	(669)	(189 148)
Claims paid via Dental Information Systems	3 506 671	4 061 256
Claims paid via Europ Assist	431 713	344 090
Claims paid from Personal Medical Savings Accounts	3 320 580	3 711 909
Current year claims paid (note 9)	94 720 264	91 287 051

Hospital (major medical) benefits cover costs incurred by members whilst they are in hospital receiving preauthorised and emergency treatment for certain medical conditions.

Chronic benefits cover the cost of certain prescribed medicines consumed by members for chronic conditions/diseases, such as high blood pressure, cholesterol and asthma.

Day-to-day benefits (which are paid from the major medical pool) cover the cost of out of hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

Contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract under certain conditions. Management information including contribution income and claims ratios, target market and demographic split, is reviewed monthly. There is also a review program that regularly reviews contractual premium and benefit data.

19. FINANCIAL RISK MANAGEMENT

Several activities expose the Scheme to a variety of financial risks, including changes in bond and equity market prices and interest rates. The Scheme's overall risk management programme focuses on the unpredictability of investment returns and seeks to minimise potentially adverse effects on the financial performance of the investments, which the Scheme holds. The Scheme's investment managers operate in terms of mandates which are approved by the Board of Trustees.

Financial risk factors

Currency risk

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand. The Scheme's direct exposure to currency risk is considered immaterial.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market place.

Equities and bonds are reflected at market values, which are susceptible to fluctuations. The Scheme manages its market risk by employing the following procedures:

- mandating a specialist fund manager to invest in equities and bonds, where there is an active market and where access is gained to a broad spectrum of financial information relating to the institutions invested in;
- diversifying across a large pool of securities to reduce risk. Investments are according to prescription of the Act; and
- considering the risk-reward profile of holding equities and bonds and bearing the risk in order to improve returns on assets.

Should the South African bond and equities move by 2%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on investment returns and accumulated funds of the Scheme would be as follows:

	Market value as a percentage of scheme assets		Impact	
	2019	2018	2019	2018
	%	%	R	R
Bonds	42.87%	36.47%	607 723	584 178
Equities including property unit trusts	28.75%	23.97%	415 878	449 266
Total change in accumulated funds			1 023 601	1 033 444

Interest Rate Risk

Interest rate risk is the exposure to movements in interest rates. The Scheme's exposure to interest rate risk is reduced by the fact that the Scheme holds no interest bearing debt.

The Scheme places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate placings within market expectations and determined mandates. The table below summarises the Scheme's exposure to interest rate risks in terms of the contractual maturity dates of the underlying investments. Included in the table are the Scheme's investments in interest bearing instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month R	2 - 3 months R	4 - 12 months R	1 - 5 years R	Over 5 years R	Total R
As at 31 December 2019						
Cash and cash equivalents	9 629 197	-	-	-	-	9 629 197
Investments held at fair value through profit an loss	20 405 265	32 919 571	-	-	-	53 324 836
Total	30 034 462	32 919 571	-	-	-	62 954 033
As at 31 December 2018						
Cash and cash equivalents	12 248 566	8 560 184	2 112 806	-	-	22 921 556
Investments held at fair value through profit an loss	20 589 768	24 769 752				45 359 521
Total	32 838 334	33 329 936	2 112 806	-	-	68 281 077

If interest rates changed by 2%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on return on investment and the resulting impact on the net results of the Scheme is as follows:

	2019 R	2018 R
Change in investment income	462 311	582 317

19. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

Credit risk is the risk of loss arising from the inability of a third party to service their debt obligations.

The Scheme's principal financial assets are cash and cash equivalents and trade and other receivables. The Scheme's credit risk is attributable primarily to its trade and other receivables. The amounts presented in the statement of financial position are net of allowances for impaired receivables. An allowance for impairment is made where there is an identified event which, based on previous experience is evidence of a reduction in the recoverability of the cash flows. Cash transactions are limited to high credit quality financial institutions. The Scheme has no significant concentration of credit risk, with exposure spread over a number of counterparties and members.

	2019 R	2018 R
Trade and other receivables		
Fully performing	690 231	1 063 643
Past due and impaired	204 569	107 420
	894 800	1 171 063
Provision for impairment of trade and other receivables	(204 569)	(107 420)
Trade and other receivables (note 2)	690 231	1 063 643

In order to mitigate this risk, there is a formal policy in place for the treatment of any debt that becomes past due.

A subset of credit risk is counterparty risk which is the risk that a counterparty is unable to meet its financial and or contractual obligations during the period of a transaction. The financial exposure has been addressed above. Contractual exposure exists with regards to managed care agreements, administration agreements and investment mandates. Each of these risk exposures is managed in the ordinary course of business. Where appropriate, contractual rights, service level agreements and performance management interventions are in place. It is also relevant to note that the counterparty risk is limited.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. By monitoring the availability of funding through liquid holding cash positions with various financial institutions, management ensures that the Scheme has the ability to fund its day-to-day operations. Liquidity is further managed by monitoring forecast cash flows and ensuring adequate liquid resources to meet its short term commitments.

19. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The table below analyses the assets and liabilities of the Scheme into relevant maturity groupings based on the remaining period at statement of financial position date to the contractual maturity date:

	Up to 1 month R	2 - 3 months R	4 - 12 months R	1 - 5 years R	Over 5 years R	Total R
As at 31 December 2019						
Current assets	82 297 326	8 965	6 447	-	-	82 312 738
Trade and other receivables	674 819	8 965	6 447	-	-	690 231
Cash and cash equivalents	9 629 197	-	-	-	-	9 629 197
Investments held at fair value	71 993 310	-	-	-	-	71 993 310
Current liabilities	33 681 893	442 018	84 607	-	-	34 208 518
Savings account liability	29 532 308	-	-		-	29 532 308
Trade and other payables	2 525 213	-	-	-	-	2 525 213
Outstanding claims provision	1 624 372	442 018	84 607	-	-	2 150 997
Net positive / (negative) liquidity	48 615 433	(433 053)	(78 160)	-	-	48 104 220
As at 31 December 2018						
Current assets	73 613 439	8 577 376	2 112 806	-	-	84 303 621
Trade and other receivables	1 046 451	17 192	-	-	-	1 063 643
Cash and cash equivalents	12 248 566	8 560 184	2 112 806	-	-	22 921 556
Investments held at fair value	60 318 422	-	-	-	-	60 318 422
Current liabilities	36 933 017	1 082 478	383 097	-	-	38 398 592
Savings account liability	32 185 155	-	-		-	32 185 155
Trade and other payables	3 579 001	-	-	-	-	3 579 001
Outstanding claims provision	1 168 861	1 082 478	383 097	-	-	2 634 436
Net positive liquidity	36 680 422	7 494 898	1 729 709	-	-	45 905 029

Fair value estimation

The fair value of publicly traded financial instruments is based on quoted market prices at the reporting date.

	2019		2018	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	R	R	R	R
Cash and cash equivalents	9 629 197	9 629 197	22 921 556	22 921 556
Personal medical savings assets	-	-	-	-
Trade and other receivables	690 231	690 231	1 063 643	1 063 643
Investments held at fair value	71 993 310	71 993 310	60 318 422	60 318 422
Savings account liability	(29 532 308)	(29 532 308)	(32 185 155)	(32 185 155)
Trade and other payables	(2 525 213)	(2 525 213)	(3 579 001)	(3 579 001)

All financial assets are classified as level 2 (level 2 is unitised holdings and level 1 is direct equity holdings). Level 2 financial assets are financial assets whose fair value is determined by directly observable market inputs other than Level 1 inputs, these being reference to published price quotations in an active market for the underlying assets.

Breakdown of investments

The investments managed by the Scheme's investment manager are split between investments held at fair value through the profit and loss and cash and cash equivalents categories in the annual financial statements.

Investments held at fair value through profit and loss consist of the following:	2019 R	2018 R
Prudential Inflation Plus 5% Fund	27 368 807	21 903 482
Stanlib Income Fund	20 405 265	20 589 768
Allan Gray Medical Schemes Portfolio	24 219 238	17 825 172
Total	71 993 310	60 318 423

Market risk

These investments are included in available for sale assets in the statement of financial position.

	Net asset value of investee fund	Fair value of Scheme's assets of investment*	% of net assets attributable to Scheme**
Prudential Inflation Plus 5% Fund	1 588 553 530	27 368 807	1.72%
Stanlib Income Fund	405 384 797	20 405 265	5.03%
Allan Gray Medical Schemes Portfolio	2 538 885 967	24 219 238	0.95%

* The fair value of financial assets is included in investments held at fair value through the statement of profit and loss.
** This represents the Scheme's percentage interest in the total net assets of the funds.

The Scheme's maximum exposure to loss from its interests in the funds is equal to the fair value of its investments in the funds. Once the Scheme has disposed of its units in a fund, it ceases to be exposed to any risk from that fund.

20. CAPITAL ADEQUACY RISK MANAGEMENT

The Scheme defines its capital as accumulated funds detailed in the statement of changes in funds and reserves. The Scheme manages its capital to ensure that it will be able to continue as a going concern as well as meet the solvency ratio of 25%, as regulated in the Act.

The Schemes' solvency at the end of 2019: 34.82% (2018: 37.89%).

The Scheme manages its funds by utilising the expertise of investment managers to maximise return on investments and maintain an acceptable level of risk. Investment managers are guided by mandates issued by the Board of Trustees. In addition, careful consideration is given to the impact on accumulated funds when preparing future year benefit options.

21. COMMITMENTS

There were no capital commitments as at 31 December 2019 (2018: nil).

22. GUARANTEES

No guarantees either from or to third parties existed at 31 December 2019 (2018: nil).

23. CONTINGENT ASSETS

The Scheme has approximately R3.2m (2018: R3.4m) in recoveries outstanding from the Road Accident Fund (RAF) for claims paid on behalf of members. The likelihood of recovery of these amounts is not certain, and the Trustees have elected not to recognise a receivable on the statement of financial position as any future recoveries are highly contingent on multiple factors. The Trustees consider, based on past experience, that the receivable, were it to be recognised would be substantially impaired.

24. CONTINGENT LIABILITIES

During September 2019, the Council for Medical Schemes (CMS) requested information, alleging that during the 2016, 2017 and 2018 benefit years the Scheme may have paid approximately R1.0 million from member's Personal Medical Savings Accounts (savings) for Prescribed Minimum Benefit (PMB) claims. PMB claims must legally be paid from the Major Risk Pool. We viewed this as a routine request and forwarded the information. In May 2020 we received a Regulation 10(6) Non-Compliance Directive to refund the amount of R37.28 million to members for allegedly paying PMB claims from savings.

We immediately queried the amounts and we queried the Directive. Our reasons include that CMS may have included elements like consumables, amounts that providers have written off and codes that was used for non-PMB claims, but that could be used for either PMB and non-PMB claims as well as co-payments for services provided by non-DSP's. In addition, CMS performed an accreditation audit on the Administrator in 2015/16, including a check on the savings payments and we were not informed that there were any findings in this regard. We also queried the amounts because:

- Alliance-Midmed reconciles PMB claims after payment runs, and we would have been aware of the differences.

- CMS directed that the Scheme refund the amount of R32.84 million to members, that they say the Scheme paid from savings for PMB claims. In this year we had an 8% savings benefit, total contribution income for the year was R80.40 million, the savings opening balance was R25.21 million and year-end savings amounted to R28.07 million. It is therefore, given the movement in the savings liability, an impossibility to have paid claims to this value from the savings accounts.

Alliance-Midmed have requested the data and methodology from CMS to check and verify the claims. We have also requested the data that the administrator originally submitted, from them, to reconcile the actual data submission with what CMS used. We are engaging a clinical auditor to work through the data and we have also engaged with Bowmans Law to provide legal advice on the matter. One of the items on the legal check is to ensure that we can submit a claim against the administrator's indemnity insurer, should there be a liability.

There could have been a potential liability of around R1.0 million as per the original letter that arose over the three years in question - noting that we processed around R200.0 million worth of claims. This is due to the nature of the PMB's including the requirement for interpretation and judgement. This is especially challenging in the medical environment. However due to our internal processes, we would have disputed these amounts as well.

25. SUBSEQUENT EVENTS

Subsequent to the year-end, and as was advised by the Board, the Scheme reverted to self-administration with effect 1 January 2020.

A major event developing after the year-end is the devastating impact of the Coronavirus pandemic on almost every economy on earth. It appears to also have a major impact on health services. Using the WHO projections, we estimate an impact on the Scheme, ranging between R941k and R1.95M per month, for a period of three to four months, depending upon the COVID-19 infection projections, and between four and six members succumbing to the disease. Pandemic projections vary greatly, but this will in all likelihood have a major impact on Scheme reserves. We do not foresee, however, that it will place the Scheme's going-concern status at risk, any more than other medical schemes.

26. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT

The Trustees are of the opinion that there are no material deviations from the Act.

Not all premiums are received within three days as required by the Act. There are sufficient credit control policies to minimise the risk of non-recoverability. This risk is further reduced by the fact that the Scheme is a restricted scheme with the majority of the members having a direct link to the employer pay point.

Claims are generally paid within 30 days of receipt but due to certain procedures such as clinical auditing, certain claims may be paid after 30 days of receipt.

Section 35(8) (c) of the Act states that a medical scheme shall not invest any of its assets in any administrator. The Scheme's investment funds are managed by independent third party asset managers. They have a discretionary mandate to achieve their target. Given this approach, the Scheme may be exposed to shares in an administrator from time to time. As a precaution the Scheme made application and was granted exemption from complying with this requirement by the Council for Medical Schemes. Our application was submitted on 11 April 2018 for which exemption was granted until 30 April 2019. The Scheme made a renewal application on 06 May 2019 and was granted exemption until 30 November 2022. At the time of being awarded the exmption, the Scheme held investments in MMI Holdings Limited (Allan Gray and Stanlib), Discovery Group Limited (Allan Gray and Stanlib) and Liberty Holdings Limited (Stanlib) at year-end. At no point did the Scheme invest in it's own administrator.

27. GOING CONCERN

The Council for Medical Schemes announced in 2017 that it intends to consolidate smaller schemes into bigger risk pools in order to align with the longer-term funding objectives of the National Health Insurance Scheme. This is, however, likely to face many challenges before it becomes reality and there is no indication that this will occur in the short to medium term. The Scheme is financially sound.

The Scheme is also affected by the Covid-19 pandemic, sweeping across the world. We have estimated an addiitonal outflow around R5M over the next five month, should WHO projections materialise. The current actual experience shows a much lower cost impact, and several financial models are too unreliable to use as a realistic assessment.

Despite the challenges, these annual financial statements, available cash resources and forecasts support the viability of the Scheme as a going concern. We will approach CMS for an exemption, should the reserves drop below 25% as a result of the pandemic, and review the position again at the end of June and September 2020.