CIRCULAR

Reference: Prescribed Statement of Cash Flows
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Circular 52 of 2021: Statement of Cash Flows

International Accounting Standard (IAS) 7 states that the Statement of Cash Flows provides useful information to the users of financial statements which enables said users to evaluate changes in the net assets of the entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.

This is especially important for medical schemes given both the short-term nature of its liabilities (i.e. member and provider claims), and that schemes are required in terms of Explanatory Note 2 of Annexure B to Regulation 30 of the Medical Schemes Act 1(31 of 1998), as amended, to hold a minimum of 20.0% of scheme assets in category 1 assets, which is essentially cash and cash equivalents.

IAS 7 continues to state that the Statement of Cash Flows also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events. IAS 1 paragraph 9 also states that financial statements show the results of the management's stewardship of the resources entrusted to it.

Paragraph 19 of IAS 7 encourages entities to report cash flows from operating activities using the direct method. The Council for Medical Schemes (CMS) introduced the direct method in its 2011 annual statutory returns as it was deemed to provide the most useful information to members. Unfortunately, schemes did not follow suit, and continued to report on their cash flows using the previous indirect method.

CMS requires schemes in terms of section 37(2) to report cash flows from operating activities using the direct method in their Statement of Cash Flows in their financial statements of the year ended 31 December 2021 onwards.

IAS 7 paragraph 33 states that there is no consensus on the classification of interest paid and interest and dividends received for entities other than financial institutions. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

In the annual statutory return medical schemes are required to disclose all investment income received under cash flows from investing activities. This is due to section 33(2)(b) that requires each benefit option to be self-supporting in terms of financial performance. Whilst it is acknowledged that medical schemes do take investment income into account in their pricing of benefits to cushion members against big contribution increases, schemes are cautioned against the continuous under pricing of benefits.

CMS requires schemes in terms of section 37(2) to report on investment income received on scheme investments as investing cash flows, and not as operating cash flows, in their Statement of Cash Flows in their financial statements of the year ended 31 December 2021 onwards.

Yours truly,

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