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A REVIEW OF ENTITIES CONTRACTED TO MEDICAL SCHEMES FOR AUDITING SERVICES IN SOUTH AFRICA

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*Audit firms are important in ensuring companies' financial statements are reliable and accurate. In South Africa, the Independent Regulatory Board for Auditors (IRBA) regulates the audit profession. The IRBA sets auditing and ethical standards and oversees the registration and monitoring of auditors and audit firms. According to a 2020 report by the IRBA, there are over **4,200 registered auditors** and more than **400 registered audit firms** in South Africa. The Big Four audit firms (PwC, KPMG, Deloitte, and EY) dominate the audit market, with a combined market share of over 80%. However, several mid-tier and smaller audit firms also operate in the country.*



#Research Review

Michael Willie has 11 years of experience in the medical scheme industry, along with banking, insurance, and compensation for occupational injuries and diseases. He is currently pursuing a DBA in marketing management and has a strong interest in this field. He is also passionate about governance in the private health sector.



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Background

The Big Four audit firms (PwC, KPMG, Deloitte, and EY) dominate the audit market, with a combined market share of over 74% globally and 83% in the United Kingdom. The Big Four firms (Deloitte, EY, KPMG, and PwC) audit over 90% of the Top 40 listed companies in South Africa.

Increasing the inclusion of historically underrepresented groups, such as black and female auditors, in the auditing profession has been a major focus of developing auditing services in South Africa in recent years. The Broad-Based Black Economic Empowerment (B-BBEE) program is one of the primary efforts to transform auditing services in South Africa. This policy encourages the participation of Africans in the economy, particularly the auditing industry, to overcome historical imbalances. Despite advancements in auditing services, there is still a lack of adequate tools for evaluating, tracking, and enhancing transformation in this field.

The objective of this research was to evaluate the state of entities that provide auditing services to medical schemes. The study aimed to investigate the number of participants, the degree of and the level of market control in the medical schemes sector.

Auditing services in medical schemes

Among the audit firms that regularly work with medical schemes in South Africa are the “Big Four” accounting firms of Deloitte, PricewaterhouseCoopers (PwC), KPMG, and Ernst & Young (EY). Moreover, medical schemes typically use Grant Thornton, BDO, Mazars, and Nexia SAB&T auditing services amongst others. The medical scheme’s Board of Trustees (BoT) ultimately determines which audit firm to hire. It is their responsibility to select an impartial and capable auditing firm.

According to the CMS Industry Report, medical schemes spent R73 million in fees for external audit services and R1 million for additional services provided. Audit companies that have contracts with medical schemes are listed in **Table 1 below**. The data demonstrates market dominance in the industry and the unbalanced distribution among these businesses revealing that nine out of ten medical scheme beneficiaries were in schemes under contract with either Deloitte and PricewaterhouseCoopers (PwC). PwC Inc. accounted for 49% of schemes and 51% of beneficiaries, while Deloitte & Touche handled 18% and 39% of beneficiaries. The data further depicts an insignificant contribution of other audit firms in the sector.

Table 1: External audit firms contracted to schemes by market share

Audit firm name	Number of schemes	Number of lives	Market share (Lives)
Consolidated	73	8 945 53	
PwC Inc	36	4 529 708	51%
Deloitte & Touche	13	3 530 019	39%
KPMG Inc	7	412 498	5%
Ernst & Young Inc	3	147 453	2%
BDO South Africa Incorporated	5	134 710	2%
Ransome Russouw	2	100 003	1%
Ngubane and Company Incorporated (Jhb)	2	31 360	
Mazars	3	26 999	
STRACHAN & CROUSE	1	21 664	< 1%
HARRIS DOWDEN & FONTAINE	1	10 639	

Generated by the author from the CMS Industry report - Annexure AH

When adjusting by sector, PricewaterhouseCoopers Inc and Deloitte & Touche combined accounted for 95% of open medical scheme membership and 84% of the closed membership (derived from **Table 2** below).

**Table 2: Audit firms contracted to schemes by market share and scheme type-
Number of lives covered**

Audit firm name	Open schemes	Closed schemes	Total
Consolidated	4 835 649	4 109 404	8 945 053
PwC Inc	3 215 860	1 313 848	4 529 708
Deloitte & Touche	1 396 630	2 133 389	3 530 019
KPMG Inc	130 718	281 780	412 498
Ernst & Young Inc		147 453	147 453
BDO South Africa Incorporated	70 777	63 933	134 710
Ransome Russouw		100 003	100 003
Ngubane and Company Incorporated (Jhb)		31 360	31 360
Mazars		26 999	26 999
STRACHAN & CROUSE	21 664		21 664
HARRIS DOWDEN & FONTAINE		10 639	10 639

Source: Generated by the author from the CMS Industry report - Annexure AH

The three major administrators, who administer over 80% of the medical scheme beneficiaries (measured in terms of lives covered), are shown in **Figure 1 below**. Apart from Metropolitan Health Corporation (Pty) Ltd, which had a contract with the Government Employees Medical Scheme (GEMS), the graph demonstrates that PwC Inc. was primarily prevalent across strata. The investigation further reveals that just four (4) of the 18 schemes administered by Discovery Health (Pty) Ltd are under contract with other auditing companies, with the 09 schemes being under contract with PwC Inc. for external auditing services.

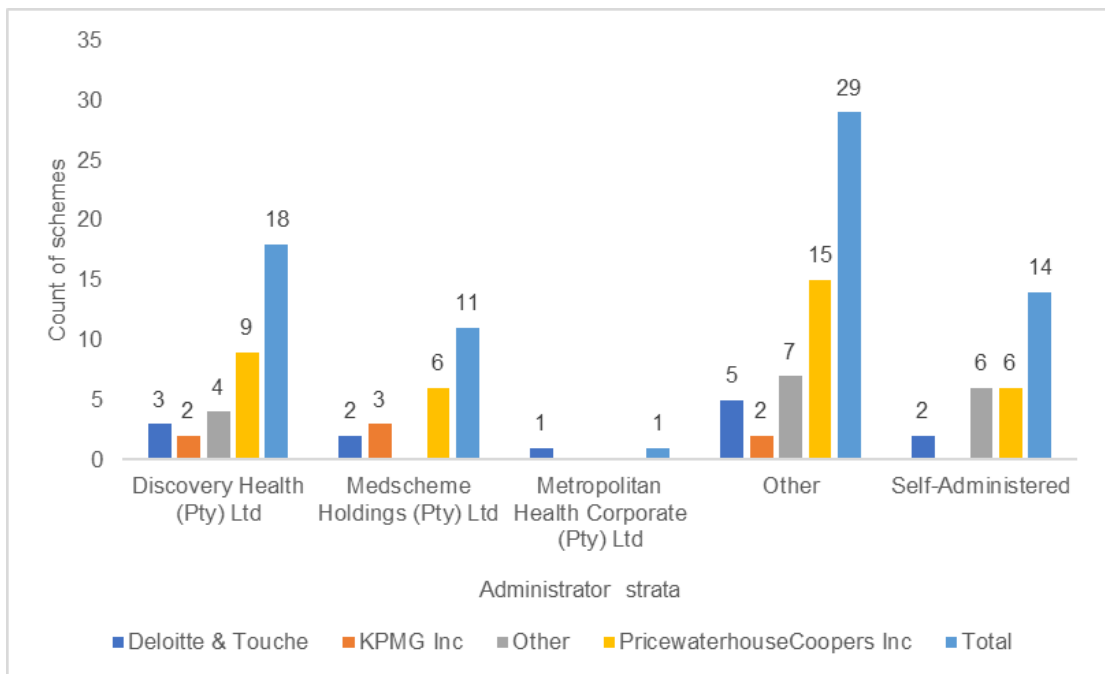


Figure 1: Number of schemes per administrator per audit firm

When adjusted for administrator, auditing firm and the proportion of lives covered, the analysis revealed that 90.1% of lives on schemes administered by Discovery Health (Pty) Ltd were schemes contracted with PricewaterhouseCoopers Inc. Schemes administered by Metropolitan Health Corporate (Pty) Ltd mainly contracted with Deloitte & Touche for auditing services. There was almost an even split on schemes administered by Medscheme Holdings (Pty) Ltd where PricewaterhouseCoopers Inc and Deloitte & Touche accounted for 42.8% and 47.6%, respectively.

Table 3: Proportion of lives covered by auditing firms per administrator

Administrator strata	Deloitte & Touche	KPMG Inc	Other	PricewaterhouseCoopers Inc
Discovery Health (Pty) Ltd	1.4%	7.1%	1.4%	90.1%
Medscheme Holdings (Pty) Ltd	47.6%	9.6%	-	42.8%
Metropolitan Health Corporate (Pty) Ltd	100.0%	-	-	-
Other	37.5%	2.1%	17.2%	43.2%
Self-Administered	38.2%	-	27.1%	34.8%
Conoidated	39.5%	4.6%	5.3%	50.6%

Source: Generated by the author from the CMS Industry report - Annexure AH

Conclusion

A handful of audit firms dominate the market and impact how the medical scheme industry transforms. According to this report, PwC Inc. and Deloitte & Touche accounted for nine out of ten of medical scheme beneficiaries, indicating two dominant players the industry. The analysis also showed that it is likely for medical schemes that are under contract with the same administrator to use the same audit company. Concerning is the absence of market share or the minimal contribution of other auditing firms, exceedingly competent but rising firms, especially from a value-add contracting perspective. According to the study's findings, the BoT can play a significant role in ensuring that other competitors have a chance to compete in the provision of auditing services in the medical scheme's environment. The contracting of auditing firms by BoT, in particular schemes contracted to the same administrator, needs further exploration from a contract management and value-add perspective.

Source data used in this study is in the public domain and published in the CMS Industry report: Annexure AH

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