



## Enhancing Competition and Diversity in the Selection of Audit Firms within the Medical Scheme Industry

### Research Profile



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#### Abstract

**Purpose:** This study analyses the prevalence of audit firm dominance within the South African medical scheme industry.

**Design/methodology/approach:** A comprehensive approach was employed utilising expenditure data sourced from industry reports and insights gained from industry professionals.

**Findings/results:** The study revealed a significant dominance of two audit firms, with particular emphasis on Deloitte and PricewaterhouseCoopers (PwC), within the market. Dominance underscores a notable concentration of power and influence within the auditing landscape of the South African medical scheme industry.

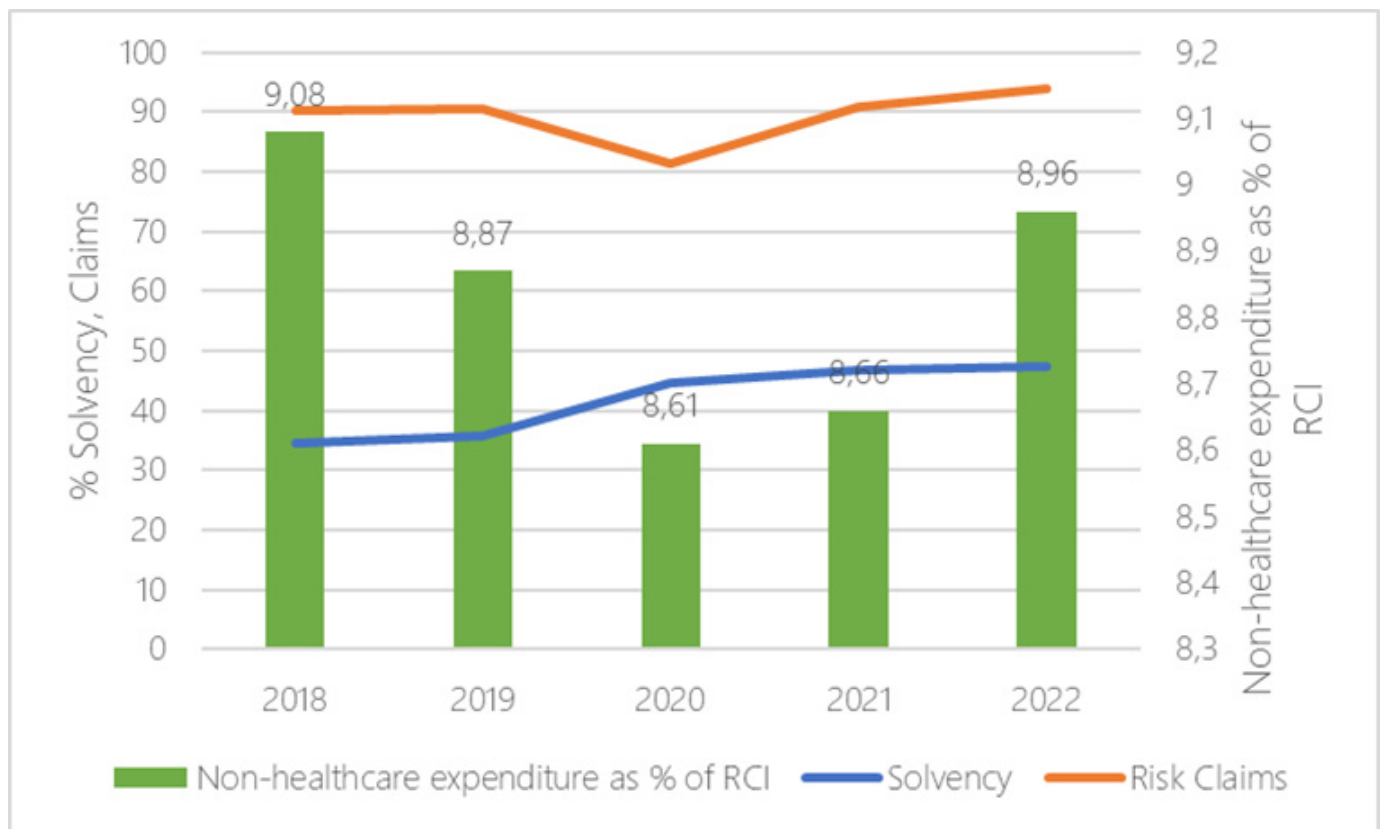
**Practical implications:** Overall, the study's findings underscore the critical importance of fostering increased competition, transparency, and diversity in the selection of audit firms within the South African medical scheme industry. Promoting a more diverse array of audit firms has the potential to enhance accountability, mitigate conflicts of interest, and improve overall audit quality.

**Originality/value:** Of importance is that the study contributes to the existing body of knowledge by highlighting the urgent need for a thorough review of contract management practices within the South African medical scheme industry. Such a review is imperative to ensure equitable opportunities for all audit firms, thereby fostering a more inclusive and robust auditing environment.

**Keywords:** *Audit firm dominance, South African medical scheme industry, Expenditure data, Industry insights, Market concentration, competition.*

## 1. Introduction

With over 9 million individuals covered and a gross revenue exceeding R230 billion, regulated by the Council for Medical Schemes (CMS) to ensure financial liquidity, the industry demonstrates robust economic health, as evidenced by nearly half of its gross income allocated to reserves, amounting to R109.76 billion out of R232.49 billion [1]. This financial stability is further affirmed by the industry's solvency of 47%. However, despite these strengths, there is an observable upward trend in non-healthcare expenditure, highlighting the necessity for monitoring and management to sustain financial resilience and optimise resource allocation within the sector, which includes contracting for third parties such as administration service, marketing, managed care, services of auditing firms among others (**Figure 1** below).



**Figure 1: Claims, Solvency and Non-health care expenditure, %.**  
Source CMS [1]

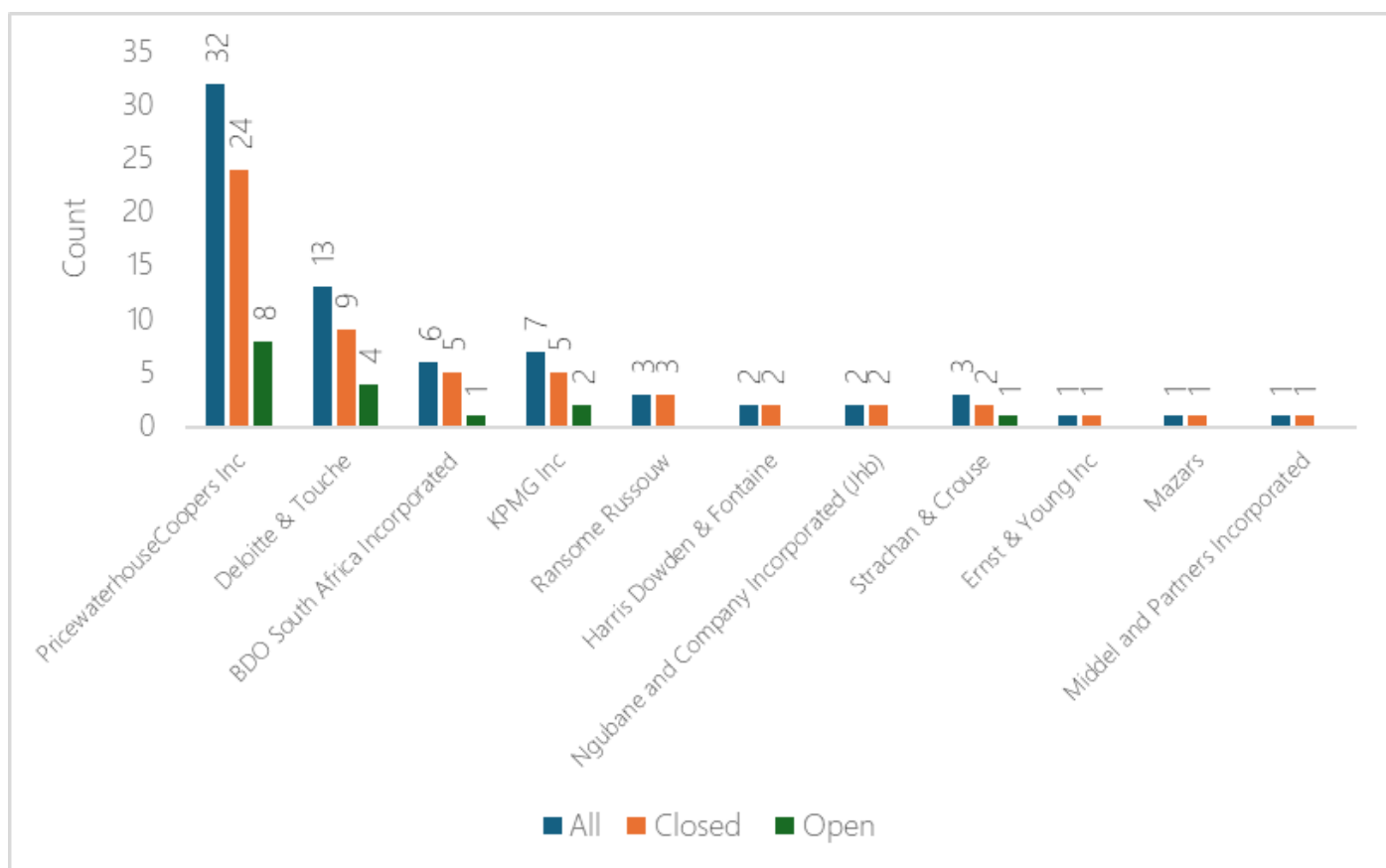
## 2. External auditing services in South Africa

Audit firms are regulated by the Independent Regulatory Board for Auditors (IRBA) and play a pivotal role in ensuring the accuracy and reliability of companies' financial statements. Despite a substantial number of registered auditors and audit firms, the Big Four—

PricewaterhouseCoopers (PwC), KPMG International (KPMG), Deloitte Touche Tohmatsu Limited (Deloitte), and Ernst & Young Global Limited (EY) —hold significant market dominance, auditing over 90% of the Top 40 listed companies in South Africa [2-4].

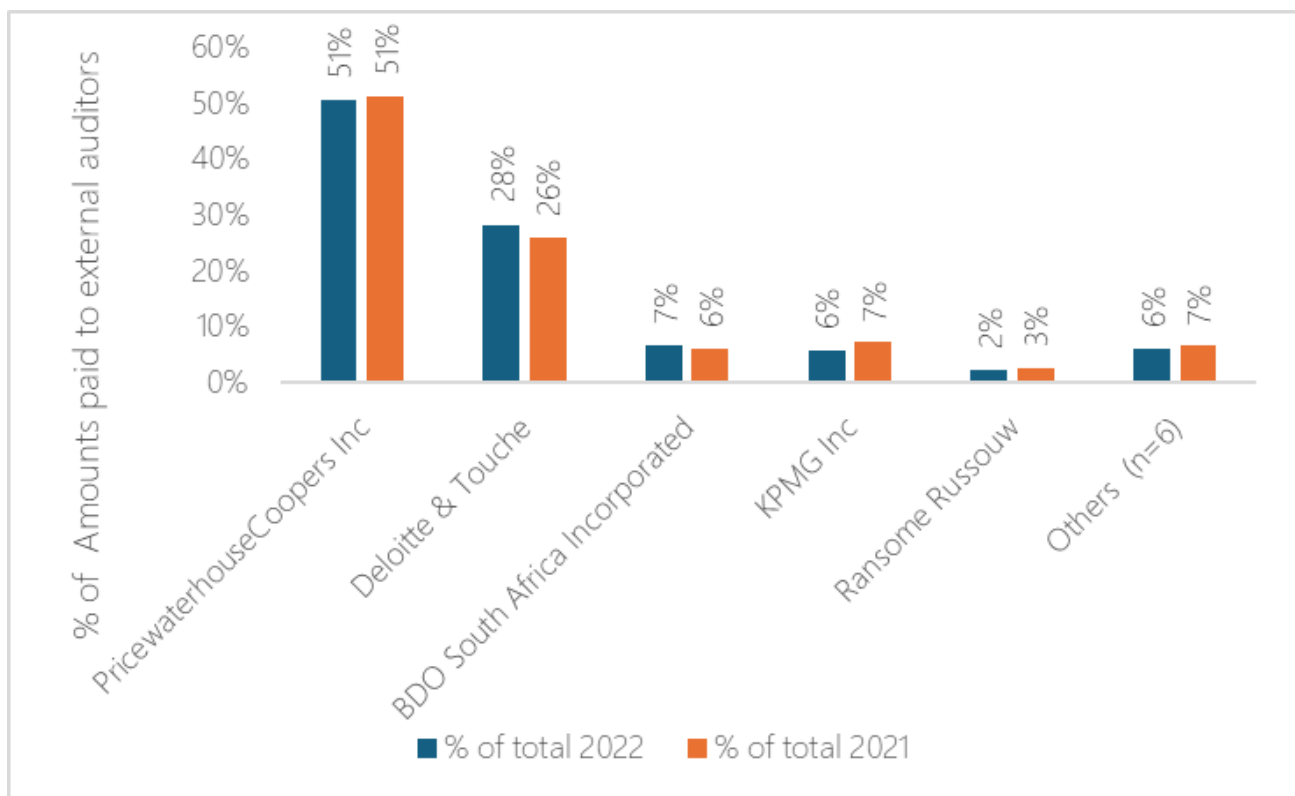
## 3. External audit firms contracted to medical schemes.

In the context of auditing services in the medical scheme industry, the dominance of two audit firms, Deloitte and PwC, is evident in **Figure 2** and **Figure 3** below. Despite other audit firms such as KPMG, EY, BDO South Africa Incorporated, KPMG Inc, Ransome Russouw, Ngubane and Company Incorporated (JHB), Harris Dowden & Fontaine, Strachan & Crouse, Mazars and Middel and Partners Incorporated, the market is heavily skewed towards the two audit firms. **Figure 1** shows the number of medical schemes contracted per external audit firm. PwC accounted for 45% of medical schemes (n=32) in 2022, while Deloitte Touche Tohmatsu Limited (Deloitte) accounted for 18% (n=13). PricewaterhouseCoopers Inc, Deloitte & Touche and BDO South Africa Incorporated accounted for 81% of open schemes.



**Figure 2: Number of medical schemes per external auditor firm. Source: CMS [1]**

In 2022, PwC and Deloitte accounted for 51% and 28% of R82 million expenditures on external audit services by medical schemes, respectively. This was also similar to spending for 2021, as depicted in **Figure 3** [1], which was 51% and 26%. The market share for the two audit firms increased from 77% to 79% over the review period.



**Figure 3: % of Amounts paid to external auditors. Source: CMS [1]**

#### 4. Market concentration

The Herfindahl-Hirschman Index (HHI) was computed in the context of external audit firms within medical schemes to assess potentially oligopolistic or monopolistic market structures [5-6]. **The Herfindahl-Hirschman Index (HHI)** measures market concentration to determine market competitiveness.

$$HHI = \sum_{i=1}^n s_i^2$$

Where:

- $s_i$  represents the market share of firm  $i$ ,
- $n$  is the total number of firms in the market.

This study calculated the Herfindahl-Hirschman Index (HHI)=3464 > 2500, yielding a high market concentration level value [5-6]. Such a concentration suggests the presence of either an oligopoly or a monopoly within the market. These findings have significant implications that warrant attention from regulatory bodies such as the Competition Commission.

## **5. Conclusion**

While the Board of Trustees (BoT) plays a significant role in this process, there is a call for further exploration of a new review of contract management practices to ensure equal opportunities for all audit firms, including mid-tier and emerging ones. Addressing these challenges is not just essential but urgent for fostering a more inclusive and competitive auditing environment, ultimately enhancing governance and accountability within the medical scheme industry.

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### **Conflict of interest**

The authors affirm that they were not affected by any interests that could have been considered relevant while writing and completing this evaluation.

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### **Data Availability Statement**

The data supporting this study's findings are available upon request from the corresponding author.

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