

Assessment of Professional Competence November 2015

Information on the day of the assessment

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ATTACHMENT F
EMAIL FROM CRACKERJACK & CO. TO MALCOLM

From: Stephen Ramphele	Sent: Fri 13 November 2015 9:30am
To: Brendan Malcolm	
Subject: ERP systems	

Dear Brendan

It was a pleasure meeting you at the Food & Wine Show at Summer Place on Wednesday evening. I thought it best not to discuss too much business whilst out at such a fantastic occasion.

As mentioned on Wednesday, I am a partner at Crackerjack & Co., a management consultancy firm focusing on assisting clients who are considering ERP systems and helping them with the implementation thereof. We are not aligned with any ERP providers but instead remain objective in providing advice. Crackerjack has assisted over 100 clients in South Africa with ERP implementations over the past five years.

In our opinion, the following are the key issues in selecting and implementing an ERP system:

- Allocate the necessary time and resources to the project – without a dedicated internal team to drive the project, your chances of success are minimal!
- Get management buy-in – your key executives need to recognise the ERP implementation is critical to your business, and oversee the process.
- Choose an ERP system that is suited to your industry – ERP systems are difficult to customise to your requirements, so best go with a system that is inherently tailored to your industry dynamics.
- Appoint external consultants to assist you in preparing for the system changeover and in project planning the implementation – rather use objective third parties with deep experience in ERP systems than be blindly led by ERP vendors.
- Be patient – implementing a new ERP system takes longer than most think.
- Ensure that the ERP system is accessible to mobile users – most users want to be able to connect via smartphones and tablets, so make sure this is feasible in terms of the ERP system and that security is paramount.

I would be delighted to meet you to discuss how Crackerjack & Co. can assist you in realising maximum benefit from the changeover to an ERP system. Let me know when you are available for a meeting.

Yours sincerely
Stephen

ATTACHMENT G
EMAIL FROM NEEDHAM TO MALCOLM

From: Joanne Needham	Sent: Mon 16 November 2015 10:30am
To: Brendan Malcolm	
Subject: Legal opinion	

Hi Brendan

As you requested, I engaged Mr David Scarbenga to give us his opinion on the legal letter received from Brown, Naidoo & Oosthuizen dated 12 November. I must admit to being surprised by Scarbenga's views – see attached for a copy of his letter. It is just ridiculous that we spend heaps of money and get this type of advice! Anyway, let's chat later when you have a chance.

Regards
Jo

EMAIL ATTACHMENT

Ms Needham
The Chief Financial Officer
Arubah Healthcare (Pty) Ltd
Private Bag X101
Pretoria, 0182

16 November 2015

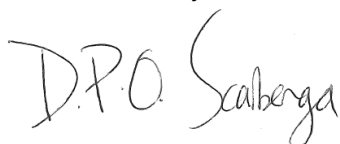
Dear Madam

OPINION ON LEGAL LETTER RECEIVED RE THE DEATH OF MR TN MOKOENA

- 1 I have been requested by you to provide my views on the letter received from Brown, Naidoo and Oosthuizen Attorneys dated 12 November 2015 regarding the abovementioned matter.
- 2 The letter specifically refers to negligence by the hospital and thus represents a civil claim under common law.
- 3 The question of whether the hospital can be held accountable for the loss of life of Prof. Mokoena's son depends on a variety of factors. It would seem that the possible claim arises as a result of two different alleged circumstances, being:
 - 3.1 The hospital's alleged failure to ensure a continuous supply of electricity during the theatre procedure; and
 - 3.2 The hospital's allocation of a specific surgeon who is alleged to have a history of alcohol abuse to perform the surgery.
- 4 Regarding point 3.1 it is my view that the electricity supplier (Eskom) can likely not be held accountable as power outages are a common phenomenon that could occur at any time and the courts are likely to find that the hospital could have planned for an alternative electricity supply when needed.
- 5 I inspected the lease contract between the hospital and the landlord and can confirm that the hospital is responsible for maintenance; however, it is unclear whether the refuelling of generators forms part of such maintenance as the contract is not specific.
- 6 It could, however, be difficult to prove that the generator was indeed low on fuel at the specific time of the theatre procedure or whether there could have been other reasons for the generator not working immediately.
- 7 Moreover, the alleged failure to service the back-up generator is at this stage based only on Prof. Mokoena's account of what was said by the receptionist during a telephonic conversation. This is unlikely to stand up in court.
- 8 I did inspect the patient's file and confirmed that the patient signed the standard hospital disclaimer for theatre procedures, but in my view the hospital's responsibility to ensure an electricity supply falls outside the scope of the disclaimer.

- 9 Regarding point 3.2, I confirmed that there are police records of the surgeon's arrest for driving under the influence of alcohol on 27 April 2015. However, it appears that Prof. Mokoena's claim that the surgeon's breath smelt of alcohol on the day of surgery can only be substantiated by his wife, who may not be viewed as a credible witness due to her relationship with the claimant.
- 10 As should be clear from the above, the nature of the claim is multi-faceted and complex and without the benefit of more specific contractual provisions or legislation governing the circumstances, it cannot at this stage be concluded with certainty whether the hospital can be held accountable. In my view there are sufficient grounds for legal proceedings to be instituted against the hospital. The outcome will however depend on more specific eyewitness and other evidence and, in the event that the hospital is found guilty, the courts will determine an appropriate amount of compensation for Prof. Mokoena taking into account all relevant circumstances. Based on my experience with other cases, awards to the amount of Prof. Mokoena's claim are not often given and it would likely be a smaller amount, although this will depend on the circumstances.
- 11 Please do not hesitate to contact me should you require further information or clarification.

Yours faithfully

A handwritten signature in black ink that reads "D.P.O. Scarbenga". The signature is written in a cursive, slightly slanted style.

DPO Scarbenga
Attorney

ATTACHMENT H
EMAIL FROM NEEDHAM TO FINANCIAL ACCOUNTANT

From: Joanne Needham	Sent: Mon 16 November 2015 3:10pm
To: Financial Accountant	
Subject: Risk of material misstatements in financial statements	

Hi

Last week I attended a planning meeting with the auditors, and they indicated that they have identified a number of risks of material misstatement in Arubah's 2015 financial statements. When I pressed them to attempt to gain a better understanding of what material misstatements they thought existed, they specifically indicated that they consider the risk of material misstatement in respect of the completeness and cut-off of revenue to be high.

As I am required to attach my name to the financial statements and as I must ensure that the financial statements prepared by the company are not false, misleading or incomplete in any material respect, the auditors' views are of concern to me. Surely we have controls to respond to the revenue-related risks?

I have a follow-up meeting with the auditors scheduled for 25 November 2015. Given that you have had more recent experience of auditing, I would like you to assess the risk of material misstatement in respect of the completeness and cut-off of theatre revenue (we can address other aspects of revenue later). Please prepare a brief internal report that I can use to prepare for the meeting with the auditors, which covers –

- inherent risk factors;
- the relevant controls already implemented to minimise the risk;
- any procedures that could be performed by you and me to further mitigate the inherent risks; and
- your conclusions on the risk assessment.

The auditors are particularly concerned about the risk of the understatement of theatre revenue. Hopefully our meaningful interaction with them on the matter will also enable Arubah to save on the audit fees.

Regards
Joanne

ATTACHMENT I
EMAIL FROM KENNEDY TO NEEDHAM

From: Michael Kennedy	Sent: Tues 17 November 2015 3:30am
To: Joanne Needham	
Subject: Breakeven	

Hi Jo

Sorry about the early email but I have been struggling to sleep recently with this legal claim against us, the ramifications of the Competition Commission inquiry into our industry and the planned new day clinic. I think the day clinic opportunity comes at just the right time for us – I am sure that if we move quickly and rapidly expand into this sector, we could be onto a winner.

I would not worry about breakeven revenue at the new day clinic or when it is set to make profits. The overhead costs and upfront investment there are so low that we will make money before the end of 2017.

I overheard a conversation at an industry function last night where a hospital manager was saying that the breakeven occupancy at their hospital was 61%!!! That's frightening! I am now much more concerned about breakeven at our existing hospitals. Could you please have a look at our budget for 2016 and let me know what you think our breakeven occupancy is for the year – obviously excluding the day clinic. Your calculations don't have to be perfect for now (we can refine these calculations at a later stage), but I need you to respond as a matter of urgency. Thanks.

Regards
Michael

ATTACHMENT J
EMAIL FROM NEEDHAM TO FINANCIAL ACCOUNTANT

From: Joanne Needham	Sent: Tues 17 November 2015 7:30am
To: Financial Accountant	
Subject: Revenue accounting	

Hi there

Hope you had a restful evening! I have some more information for you to take into account in your consideration of the matters relating to revenue as discussed earlier:

Following the email that I sent you yesterday, I realised that the revenue system description I sent you on 5 November is a bit light on the charges for theatre time, equipment usage and consumables. We should have updated the system description in 2012. Some information for you regarding how things work re billing for this stuff:

- Theatre time is charged per minute. When the surgeon gives the signal, a theatre nurse writes the starting time in the theatre register. Once the procedure is over, the nurse also writes the end time in the register. From this the number of minutes is calculated and written on the theatre time charge sheet used for billing purposes. At the end of each day the head theatre nurse reconciles the theatre bookings with the entries in the theatre register, and investigates any omissions in the latter in consultation with the relevant staff and surgeon – and, if necessary, corrects the register.
- Quantities of gases (e.g. oxygen) used during theatre procedures are measured with specialised technical equipment. The volumes of gases used are recorded by this equipment and this information is written on the charge sheets by the nurses directly after the procedure. Gases form part of consumables.
- The billing of equipment usage depends on whether the equipment is used in the theatre or during pre- and post-operative care in the wards:
 - For theatre, the nurse writes information regarding all the equipment used during the procedure on the charge sheet. Patients are charged a fixed rate per minute spent in theatre for every item of equipment used.
 - For ward equipment it is too complicated to keep track of which equipment is used on which patient during which times. We charge all patients a fixed percentage of the daily accommodation rate, which varies between wards depending on the equipment they have there.

Also, I'm attaching the current revenue accounting policy. This is the same as it appears in the latest audited annual financial statements, but I thought it might be useful if you have this electronically as well. Please adjust or redraft the policy to make it non-boilerplate, and while you're at it you can please also incorporate the effect of a new special contract we recently managed to secure with one of the larger medical aids. It is basically a 'fixed fee for service' arrangement, but there is a limit on the number of days, theatre time and stock used for the fixed fee to be charged. If a patient stays for longer or more stock is used on him/her, an additional amount per day/minute/unit is charged.

Would appreciate your inputs.

Regards
Joanne

EMAIL ATTACHMENT: REVENUE ACCOUNTING POLICY

Revenue

Recognition of fee for service contracts

Revenue from the sale of goods is recognised when the following conditions have all been satisfied:

- The entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of transactions involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions have been satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Recognition of fixed fee for service contracts

As one price is charged for a package of closely-related goods and services, the full fixed price is recognised as revenue upon discharge of the patient.

Measurement

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts, volume rebates and value-added tax.

Other revenue

Interest is recognised, in profit or loss, using the effective interest rate method.

Royalties are recognised on the accrual basis in accordance with the substance of the relevant agreements.

Dividends are recognised, in profit or loss, when the entity's right to receive payment has been established.

ATTACHMENT K
EMAIL FROM NEEDHAM TO FINANCIAL ACCOUNTANT

From: Joanne Needham	Sent: Tues 17 November 2015 4:08pm
To: Financial Accountant	
Subject: Day clinic	

Hi there

Thank you for your work so far on reviewing the Pretoria day clinic draft capital budget. Our chairman and Brendan have discussed the property angle and have decided (subject to board approval) that instead of Arubah purchasing the property, a subsidiary of the Kennedy Family Trust (Arubah Properties) will purchase the property and build the day clinic and rent it to us. The following rental deal is proposed:

- No upfront rental deposit required;
- Five-year rental agreement renewable for a further five years at our option in Year 6 (you can assume we will renew the lease if the day clinic is profitable);
- Arubah Properties will pay R2 million towards the planned improvements of the property – the additional budgeted amount of R500 000 will be for our account and will be an obligation that will be incorporated in the leasehold agreement;
- Monthly rental of R55 000, payable monthly in advance. Rent will escalate by 8% per annum from Year 2;
- Arubah Properties will pay the rates and taxes (instead of us). This is estimated to be R36 000 per annum in Year 1 and will escalate by 7% per annum; and
- Arubah Properties will have the right to erect a billboard on site and we will share in 25% of any advertising revenue from the billboard. (I expect that our share of advertising revenue will be ±R90 000 per annum for five years – no increase given the pressure on outdoor advertising margins.)

Could you please make the necessary amendments to the capital budget and let me know what the resultant IRR and NPV are? You should assume that the medical equipment will be purchased and paid for in Year 0 and our R500 000 contribution will also be made prior to Year 1 in my draft workings. The board has decided to set up a separate company to own the day clinic given the potential risk of patients suing us – never an issue until the Mokoena debacle!

I also think we should use a hurdle rate of 15% (long-term return on the JSE) instead of 12% – what do you think?

Have a good evening.

Regards
Joanne

ATTACHMENT L
EXTRACT FROM THE DRAFT MINUTES OF THE BOARD MEETING HELD ON
17 NOVEMBER 2015

Request that D Artz & Co. renders certain taxation services

It was noted that the firm of A&T Tax Consultants was previously contracted to perform a number of tax-related services for the company and its directors. However, the quality of service has been unsatisfactory, and hence the board resolved that Mr Malcolm approach D Artz & Co. to perform the following tax services:

- 1 Compute the income tax liability of Arubah for purposes of preparing the 2015 financial statements;
- 2 Complete and submit the company's income tax return for this period; and
- 3 Complete and submit the income tax returns for each of the directors for the 28 February 2015 year of assessment once the audit has been completed, using information provided by the directors.

Compliance issues

Two incidents of non-compliance with applicable laws and regulations had been detected since the previous board meeting:

- 1 It was discovered that a senior nurse at the Kempton Park hospital had withheld medication from patients and instead took this for her personal use.
- 2 Unusual receipts were identified in the pharmacy of the Kempton Park hospital. A number of receipts of R7 500 each were detected in the pharmacy which could not be allocated to patient scripts or over-the-counter sales. It transpired that pharmaceutical sales agents were paying amounts to the pharmacy by credit card without purchasing any goods or services in order to induce the dispensing pharmacist to purchase more of their products. The Kempton Park pharmacy used this bogus revenue to boost operating performance and it resulted in higher bonuses being paid at year end.

The board noted that the above incidents reinforced the need to move to an ERP system as soon as possible.

Legal claim against Arubah: patient Mokoena

Mr Malcolm presented to the board the legal opinion from Mr David Scarbenga and expressed disappointment that the opinion does not offer a clearer indication of Arubah's chances for a positive outcome. Dr Kennedy suggested that a second opinion be obtained, which was supported by Dr Sexwale. Drs Connelly and Coben believe that claims such as the one by Prof. Mokoena are difficult to prove but it is difficult to predict the outcome of lengthy litigation. Dr Finder expressed concern that Arubah might be under-insured or that the insurance claim might be rejected on the basis that proper procedures were not followed, or on other grounds. Dr Coben advised that Arubah's projected profits look positive and that the company should take the opportunity to make a full provision for the claim. Dr Sexwale and Dr Connelly supported this view. The board discussed the matter at length, but could not reach agreement on the way forward and instructed Ms Needham to investigate the financial reporting and other consequences and report back to the board as a matter of urgency so that a decision can be made.