

Management's Report on Internal Control Over Financial Reporting - 2021

The Board of Directors of QLM Life & Medical Insurance Company Q.P.S.C (the Company) are responsible for establishing and maintaining adequate internal control over financial reporting ("ICOFR"). The Company's ICOFR process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with International Financial Reporting Standards ("IFRS"). ICOFR includes our disclosure of controls and procedures designed to prevent misstatements.

We have conducted an evaluation of the design and operating effectiveness of ICOFR as of 31 December 2021, based on the framework and the criteria established in *Internal Control – Integrated Framework* (2013) ("ICIF"), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Risks in Financial Reporting

The main risks in financial reporting are that either the financial statements do not present a true and fair view due to inadvertent or intentional errors (fraud) or the publication of financial statements is not done on a timely basis. A lack of fair presentation arises when one or more financial statement amounts or disclosures contain misstatements (or omissions) that are material. Misstatements are deemed material if they could, individually or collectively, influence economic decisions that users' make on the basis of the financial statements.

To confine those risks of financial reporting, the Company has established ICOFR with the aim of providing reasonable but not absolute assurance against material misstatements and conducted an assessment of the effectiveness of the Company's ICOFR based on ICIF issued by COSO. COSO recommends the establishment of specific objectives to facilitate the design and evaluate adequacy of a control system.

As a result in establishing ICOFR, management has adopted the following financial statement objectives:

- Existence / Occurrence - assets and liabilities exist and transactions have occurred.
- Completeness - all transactions are recorded, account balances are included in the financial statements.
- Valuation / Measurement - assets, liabilities and transactions are recorded in the financial reports at the appropriate amounts.
- Rights and Obligations and ownership - rights and obligations are appropriately recorded as assets and liabilities.
- Presentation and disclosures - classification, disclosure and presentation of financial reporting is appropriate.

However, any internal control system, including ICOFR, no matter how well conceived and operated, can provide only reasonable, but not absolute assurance that the objectives of that control system are met. As such, disclosure of controls and procedures or systems for ICOFR may not prevent all errors and fraud.

Organization of the Internal Control System

Functions Involved in the System of Internal Control over Financial Reporting

Controls within the system of ICOFR are performed by all business functions including reviewing the reliability of the books and records that underlie the financial statements. As a result, the operation of ICOFR involves staff based in various functions across the organization.

Controls to Minimize the Risk of Financial Reporting Misstatement

The system of ICOFR consists of a number of internal controls and procedures aimed at minimizing the risk of misstatement of the financial statements. Such controls are integrated into the operating processes and include those which:

- are ongoing or permanent in nature such as supervision within written policies and procedures or segregation of duties,
- operate on a periodic basis such as those which are performed as part of the annual financial statement preparation process,
- are preventative or detective in nature,
- have a direct or indirect impact on the financial statements themselves. Controls which have an indirect effect on the financial statements include entity level controls and IT general controls such as system access and deployment controls whereas a control with a direct impact could be, for example, a reconciliation which directly supports a financial statement line item,
- feature automated and/or manual components. Automated controls are control functions embedded within system processes such as application enforced segregation of duty controls and interface checks over the completeness and accuracy of inputs. Manual internal controls are those operated by an individual or group of individuals such as authorization of transactions.

Measuring Design Effectiveness of Internal Control

The Company has undertaken a formal evaluation of the adequacy of the design and operating effectiveness of ICOFR. This evaluation incorporates an assessment of the design and operating effectiveness of the control environment as well as individual controls which make up the system of ICOFR taking into account:

- The risk of misstatement of the financial statement line items, considering such factors as materiality and the susceptibility of the particular financial statement item to misstatement.
- The susceptibility of identified controls to failure, considering such factors as the degree of automation, complexity, and risk of management override, competence of personnel and the level of judgment required.

These factors, in aggregate, determine the nature and extent of evidence that management requires in order to be able to assess whether or not the design and operating effectiveness of the ICOFR system is effective. The evidence itself is generated from procedures integrated within the daily responsibilities of staff or from procedures implemented specifically for purposes of the ICOFR evaluation. Information from other sources also form an important component of the evaluation since such evidence may either bring additional control issues to the attention of management or may corroborate findings.

As a result of the evaluation, management has concluded that ICOFR is appropriately designed and operating effectively as of 31 December 2021.



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