



INTERNAL CONTROL FRAMEWORK

Value Care Health Systems, Inc.

Creation Date: August 2020

Last Updated: August 2020

Version: 0

Introduction

Internal control is a process designated and effected by ValuCare board of directors, top management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations and the organization's policies and procedures.

ValuCare have put in place adequate and effective internal control framework for the conduct of its business operations. This framework embodies the management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities.

Management oversight and control culture.

The board of directors and top management is responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

- a. The board of directors is ultimately responsible for ensuring that top management establishes and maintains an adequate, effective and efficient internal control framework commensurate with the risk profile and complexity of operations of ValuCare. The board of directors also ensures that the Board Audit and Compliance Committee (BACC) and the internal audit function has an appropriate stature and authority within the company and is provided with adequate resources to enable it to effectively carry out its assignments with objectivity.

Further, the board of directors on a periodic basis:

- (1) conduct discussions with management on the effectiveness of the internal control system;

- (2) review evaluations made by the BACC on the assessment of effectiveness of internal control made by management, internal auditors and external auditors; and
- (3) ensure that management has promptly followed up on recommendations and concerns expressed by auditors (Internal and external) on internal control weaknesses;
- b. The BACC is responsible for overseeing top management in establishing and maintaining an adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, related party transactions, efficiency and effectiveness of operations, and safeguarding of assets.

The BACC also oversees the internal audit function and will be responsible for:

- (1) monitoring and reviewing the effectiveness of the internal audit function;
- (2) approving the internal audit plan, scope and budget;
- (3) reviewing the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of the internal audit function and reporting significant matters to the board of directors;
- (4) ensuring that the internal audit function maintains an open communication with top management, the BACC and external auditors;
- (5) reviewing discoveries of fraud and violations of laws and regulations as raised by the internal audit function;
- (6) selecting and overseeing the performance of the internal audit service provider, if any.

In particular, the BACC shall be responsible for:

- (1) ensuring independence of the internal audit function;
- (2) reporting to the board of directors the significant findings noted during the conduct of the internal audit;

- (3) ensuring that the audit plan is aligned with the overall plan strategy and is based on risk assessment; and
 - (4) ensuring that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.
- c. Top management is responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness of internal controls on a periodic basis. Management shall develop a process that identifies, measures, monitors and controls risks that are inherent to the operations of ValuCare; maintain an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensure that delegated responsibilities are effectively carried out; implement internal control policies and ensure that activities are conducted by qualified personnel with the necessary experience and competence. Management shall ensure that ValuCare personnel undertake continuing professional development and that there is an appropriate balance in the skills and resources of the front office, back office, and control functions. Moreover, management shall promptly inform the internal audit function of the significant changes in the company's risk management systems, policies and processes.
- d. All personnel of ValuCare need to understand their roles and responsibilities in the internal control process. They should be fully accountable in carrying out their responsibilities effectively and they should communicate to the appropriate level of management any problem in operations, action or behavior that is inconsistent with documented internal control processes and employee manual.

Risk recognition and assessment. ValuCare shall identify, evaluate and continually assess all material risks that could affect the achievement of ValuCare's performance, information and compliance objectives. The potential for fraud shall be considered in assessing the risks to the achievement of said objectives. Further, the risk assessment shall cover all risks facing the company, which include, among others, credit; market; liquidity; operational; compliance; legal; and reputational risks.

ValuCare risk assessment identifies and considers both internal (e.g., complexity of the organization's structure, activities and personnel profile) and external (e.g., economic conditions, technological developments and changes in the HMO industry) factors that could affect the internal control framework. The risk assessment shall be conducted at the transactional, departmental, portfolio levels and across all business activities. Internal controls shall be revised to address any new or previously uncontrolled or unidentified risks.

Control activities. Control activities will form part of the daily activities of ValuCare and all levels of personnel. Control activities are designed and implemented to address the risks identified in

the risk assessment process. These involve the establishment of control policies and procedures, and verification that these are being complied with.

ValuCare have put in place control activities defined at transaction level, which include a system that provides functional level reviews; checking compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorizations, which shall include among others the approval process for new business and health care services.

Control activities complement existing policies, procedures and other control systems in place such as, among others, having clearly defined organizational structure and reporting lines, and arrangements for delegating authority; adequate accounting policies, records and processes; physical controls for tangible assets and access controls to information assets; and appropriate segregation of conflicting functions.

- a. *Clear arrangements for delegating authority.* The functions and scope of authority and responsibility of each personnel are adequately defined, documented and clearly communicated. The extent to which authorities may be delegated and the corresponding accountabilities of the personnel involved shall be approved by the appropriate level of management or the board of directors.
- b. *Adequate accounting policies, records and processes.* ValuCare maintains adequate financial policies, records and processes. These records shall be kept up-to-date and contain sufficient detail to establish an audit trail. ValuCare also put in place an information system that covers all of its significant activities which allow the board of directors and management access to data and information relevant to decision making such as, among others, financial and operational information. Moreover, these systems are secured and monitored by the Information and Communication Technology Group.
- c. *Physical and environmental controls to tangible assets and access controls to information assets.*

ValuCare adopt policies and practices to safeguard its tangible and information assets. These shall include, but shall not be limited to:

- (1) identifying officers with authorities to sign for and on behalf of the company. Signing authorities shall be approved by the board of directors and the extent of authority at each level shall be clearly defined;

- (2) performing dual control wherein the work of one (1) person is to be reviewed and verified by a second person to ensure that the transaction is properly authorized and recorded;
- (3) incorporating sequence number control in the accounting system which will be used in processing financial transactions. Management also put in place appropriate controls to monitor the usage, safekeeping and recording of accountable forms;
- (4) restricting access to information assets and data center by identifying information owners or personnel with authority to access particular data based on job responsibilities and the necessity to fulfill one's duties; and
- (5) implementing access controls prior to granting access to information such as, among others, implementing password rules.

d. *Segregation of duties*

Appropriate segregation of functions shall be observed by ensuring that the recording, custodianship, approval and implementation process is delegated to separate individuals to avoid potential breakdown of internal control.

Information and communication. An effective internal control system requires that there are adequate and comprehensive financial, operational and compliance data, as well as external information about events and conditions that are relevant to decision making. Information shall be reliable, timely and accessible. ValuCare have put in place a reliable management information system that covers significant activities of the company and has the capability to generate relevant information to support the functioning of internal control.

ValuCare also established a channels of communication to ensure that all personnel fully understand and adhere to policies and procedures and control measures relevant to their duties and responsibilities.

Monitoring activities. The overall effectiveness of the internal controls shall be monitored on an ongoing basis. Monitoring functions and activities is delegated to departmental head and timely reports will be given to the top management and board of directors.

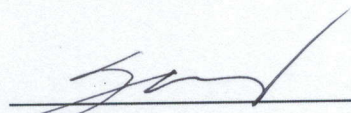
Evaluations of the effectiveness of the internal control system and the corresponding monitoring activities may be done by personnel from the same operational area in the form of self-assessment or from other areas such as internal audit: *Provided, That, self-assessment done by business units shall be subject to independent validation.*



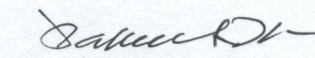
Evaluations done shall be adequately documented and internal control deficiencies and weaknesses identified shall be reported on a timely basis to the appropriate level of management or the Board Audit and Compliance Committee (BACC) or the board of directors, where necessary, and addressed promptly.

This ValuCare Internal Control Framework was duly approved by the Chairman of the Board and the Board Audit and Compliance Committee (BACC) on August 2020.

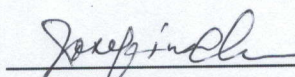
Approved by:



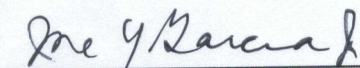
Dr. Samuel D. Ang
Chairman of the Board



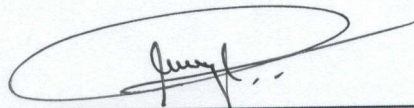
Dra. Patricia L. Tan
President and CEO, BACC Member



Dra. Josefina C. Chua
Treasurer and BACC Member



Dr. Jose Y. Garcia, Jr.
Board of Director and BACC Member



Mr. Owen Y. Lee
Independent Director and BACC Member