



Audit Committee report

“
In 2022, the Committee has continued to support the Group through the transition to being a purely Asia and Africa focused business, gaining a greater understanding of the issues facing our subsidiary businesses while overseeing the challenges of the new IFRS 17 standard and auditor transition activities.
 ”

David Law
 Chair of the Audit Committee

Committee's purpose

The Committee's purpose is to assist the Board in meeting its responsibilities for the integrity of the Group's financial reporting, including the effectiveness of the internal control and risk management system and for monitoring the effectiveness and objectivity of internal and external auditors.

More information about the Audit Committee can be found in its terms of reference, which are available at www.prudentialplc.com

Membership and 2022 meeting attendance

Committee members	2022 meetings ¹
David Law, Chair	8/8
Jeremy Anderson	8/8
Arijit Basu ²	2/2
Chua Sock Koong ³	3/3
Philip Remnant	7/8
Alice Schroeder ⁴	4/4
Jeanette Wong	8/8
Amy Yip	8/8

Regular attendees

- > Chair of the Board
- > Chief Executive Officer
- > Group Chief Financial Officer
- > Group Chief Risk and Compliance Officer
- > Senior members of the Finance function
- > Company Secretary
- > Group Chief Internal Auditor
- > External Audit Partner
- > Chief Security Officer

Notes

- 1 The Committee held four joint meetings with the Risk Committee, in addition to the eight Audit Committee meetings. All members attended the joint meetings.
- 2 Arijit Basu joined the Audit Committee on 1 September 2022. Prior to joining, he attended one Audit Committee meeting and one joint Audit and Risk Committee meeting as an observer.
- 3 Chua Sock Koong stepped down from the Audit Committee on 1 May 2022. After stepping down, Chua Sock Koong attended one additional joint Audit and Risk Committee meeting.
- 4 Alice Schroeder stepped down from the Audit Committee on 26 May 2022.

Dear shareholders

2022 has been another busy year for the Audit Committee as the Group became a purely Asia and Africa focused business.

At the start of the year, the Committee considered that the following should be the key areas of focus in addition to its regular ongoing responsibilities.

1. Monitoring the Group's preparedness for reporting under IFRS 17 and understanding the implications of the transition;
2. Deepening the Committee's understanding of the accounting judgements and issues in the Group's major subsidiary businesses;
3. Overseeing transitional activities relating to the change of external auditor in 2023; and
4. Ensuring the Group's financial controls remain robust during a period of transition for the business.

I am pleased that at the end of the year the review of the Committee's effectiveness concluded that we had delivered against these objectives.

IFRS 17 became effective on 1 January 2023, alongside the adoption of IFRS 9. This is a significant undertaking for the Group's finance teams and the Committee has been kept informed of progress on a regular basis. During the year, systems implementation was completed and the transition balance sheet on 1 January 2022 produced. In addition to time spent in meetings overseeing implementation and discussing areas of judgment, the Committee has spent time getting to understand the new regime and how it is expected to impact the Group. I suspect there will be significant challenges ahead in bedding down this complex project and also helping stakeholders understand its impact across the industry. More information on the project and expected impact on our transition is contained in note A3.2 of the IFRS financial statements. Completion of the audited comparatives will be a significant focus for the Committee in the first half of 2023.

In order to increase its focus on the Group's Asia entities, the Committee set out to strengthen its relationships in 2022 with the finance teams and audit committees in our most material subsidiaries. To that end, in addition to the usual written updates on the activities of the local audit committees, I meet regularly with the chairs of our Material Subsidiary audit committee chairs and provide an update to the Committee on important points raised at local level. In addition to its ongoing consideration of matters regarding the Material Subsidiaries, the Committee has also received presentations from local audit committee chairs and finance teams from the Material Subsidiaries. This helped to deepen the Committee's understanding and facilitate discussion of key accounting assumptions and judgements, control matters, key products and the drivers of profitability in those businesses. In order to continue to foster closer working relationships with the audit and risk committees, in September Jeremy Anderson and I chaired a conference attended by the non-executive directors of the Group's Material Subsidiaries.

We have continued to pay particular attention to our whistleblowing procedures and monitored these for any indicators of issues. I have met privately with the Group Chief Risk and Compliance Officer and/or Chief Security Officer to discuss significant cases and how they are investigated and resolved. These are also discussed in private sessions with the Committee, the Board or the relevant local audit committee as appropriate.

Committee membership and compliance with regulatory and governance requirements

In September, Arijit Basu joined the Committee. Arijit has extensive executive experience in the banking and insurance industries in India. His full biography and experiences are set out on page 183. In May, the Committee said goodbye to Alice Schroeder who stepped down from the Committee and from the Board, while Chua Sock Koong also stepped down from the Committee as part of a refresh in the membership of several of the Board Committees as announced on 26 April. I thank them both for their contributions.

At the conclusion of the 2023 AGM, the Committee will also bid farewell to Philip Remnant who will step down from the Committee and the Board. He has served on both since January 2013. Philip has seen through many significant events in these years and we will miss his wise counsel. I am extremely grateful for his support and contribution throughout my period as Chair.

Further, for the purposes of the UK and Hong Kong Corporate Governance Codes, each member of the Committee has recent and relevant financial experience. Detailed information on the experience, qualifications and skillsets of all Committee members can be found on pages 181 to 187.

The effectiveness of the Committee was reviewed as part of the annual Board evaluation, which confirmed that the Committee continued to operate effectively during the year, with actions agreed where appropriate. Further details on the Board evaluation are set out on pages 200 to 201.

External auditor

An important part of the Committee's work consists of overseeing the relationship with the Group's external auditor, including safeguarding independence and approving non-audit fees. The Committee continued its practice of meeting privately with KPMG and I have held a number of meetings with the lead partner throughout the year.

The audit of the 2022 year-end results will be the final one by the Group's current auditor, KPMG LLP (KPMG), and I would like to thank them for their support and hard work over their years of service.

As reported in the 2020 Annual Report, following a rigorous tendering process the Board resolved that it intends to recommend EY for appointment as the Group's auditor for the financial year ending 31 December 2023 onwards, subject to shareholder approval at the AGM in 2023. The Committee is therefore also overseeing the Group's relationship with EY, their independence from Prudential and the transition plan. EY have been undertaking assurance work on the Group's IFRS 17 comparatives in advance of the publication of its first IFRS 17 results at Half Year 2023. We have also met regularly with them to discuss progress. Their work has assisted with the transition and I also met with their lead partners regularly.

Internal audit

The Committee receives regular updates from the Group Chief Internal Auditor and key members of his team and I meet regularly with him and the Group-wide Quality Assurance Director to discuss internal audit work and matters arising. Having a strong function with appropriate resource focused on our key risks has been a priority of the Committee throughout the year.

Finally, I would like to thank our management colleagues for their huge efforts this past year in difficult circumstances, their responsiveness to challenge and the quality of papers; and my fellow Committee members for their diligence and contribution throughout the year.



David Law
Chair of the Audit Committee

Principal activities and significant issues considered by the Audit Committee during 2022

Accounting judgements and estimates supporting the Group's results

One of the Committee's key responsibilities is to monitor the integrity of the financial statements and any other periodic financial reporting. This includes, the half-year financial statements, the Annual Report (including compliance with the GWS public reporting requirements), associated results announcements and Form 20-F disclosures, as well as the annual update of the Group's published Tax Strategy.

In reviewing these and other items, the Committee received reports from management and, as appropriate, reports from internal and external assurance providers.

When considering financial reporting matters, the Committee assesses compliance with relevant accounting standards, regulations and governance codes focusing on key areas of judgement and complexity. No material changes to accounting policies were made during 2022. The Committee continued to receive updates on the Group's implementation of IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts', which became effective on 1 January 2023. The approach to and the impact of adopting these standards is further discussed in note A3.2 of the IFRS financial statements.

The Committee reviewed the key assumptions and judgements supporting the Group's IFRS results, including those made in valuing the Group's investments, insurance liabilities and intangible assets under IFRS, together with reports on the operation of internal controls to derive these amounts. The Committee also reviewed the assumptions underpinning the Group's European Embedded Value (EEV) metrics.

Assumptions setting

The measurement of insurance liabilities is based on estimates of future cash flows, including those to and from policyholders, over a long period of time. These estimates can, depending on the type of business, be highly judgemental. The Committee considered changes to assumptions and other estimates used to derive IFRS insurance liabilities and for EEV reporting. The key assumptions reviewed were:

- > Within the insurance businesses, persistency, mortality, morbidity (including expectations of future medical costs inflation and related premium rises) and expense assumptions (including consideration of future expense levels anticipated in the business plan). When assessing assumptions the Committee considered recent experience, including the impact of any short-term Covid-related disruption.
- > Economic assumptions, including investment return and associated risk discount rates, which generally increased as interest rates rose in the year, leading to adverse impacts on the Group's EEV.

The Committee was satisfied that the assumptions adopted by management were appropriate.

In addition to the above the Committee received and considered information on the impact on the Group's metrics of the adoption of the Risk-Based Capital regime in Hong Kong. This included in particular the refinements needed to the methodology used to calculate Hong Kong's IFRS policyholder liabilities and the impact of that change as further described in note C3.2 in the IFRS financial statements. The impact on the Group's EEV is set out in the basis of preparation and note 8 of the EEV financial statements.

Valuation of investments

The Committee received information on the carrying value of investments in the Group's balance sheet acknowledging that the vast majority of the Group's investments are based on quoted prices in an active market (circa 80 per cent being included in level 1 as at 31 December 2022). Further information on the valuation of assets is contained in note C2 of the IFRS financial statements. The Committee satisfied itself that overall investments were valued appropriately.

Intangible assets

The Committee received information to enable it to review the more material intangible asset balances, for example, whether there had been any indication of impairment of the Group's distribution rights asset or goodwill in light of the current macroeconomic environment. The Committee was satisfied that there was no impairment of these intangible assets at 31 December 2022. Further information is contained in note C4 of the IFRS financial statements.

Other financial reporting matters

Going concern and viability statements

The Committee considered various analyses from management regarding the capital and liquidity positions at Group and parent company level, taking into account the Group's principal risks. This included an assessment of the impact that different stress scenarios may have on the Group's plan and its resilience to those threats. Following this review, the Committee recommended to the Board that it could conclude that the financial statements should continue to be prepared on a going concern basis and that the disclosures in the 2022 Annual Report on the Group's longer-term viability were both reasonable and appropriate.

Principal activities and significant issues considered by the Audit Committee during 2022

Other financial reporting matters *continued***Fair, balanced and understandable requirement**

The Committee carried out a formal review of whether the 2022 Annual Report were 'fair, balanced and understandable' as required by the UK Corporate Governance Code. In particular, it considered whether the report gave a full picture of the Group's business model, strategy, financial position and performance in the year, with important messages appropriately highlighted. It also considered the level of consistency between financial statements and narrative sections, whether performance measures were clearly explained and the prominence of alternative performance measures.

After completion of its detailed review, the Committee was satisfied that, taken as a whole, the Group's Annual Report is fair, balanced and understandable.

Taxation

The Committee regularly received updates on the Group's tax matters and provisions for certain open tax items, including tax matters in litigation. The Committee was satisfied that the level of provisioning adopted by management was appropriate. See notes B3 and C7 of the IFRS financial statements. In 2022, the Committee was also updated on the OECD proposals to reform international tax including the introduction of a global minimum tax rate of 15 per cent likely to be effective from 2024.

The Committee received updates in November 2022 and February 2023 about the anticipated change in tax residency of Prudential plc from the UK to Hong Kong, which became effective from 3 March 2023, as a consequence of the strategic shift to being an Asia and Africa focused business.

Parent company financial statements

The Committee reviewed the parent company profit and loss account and balance sheet, which included the recoverability of the parent company's investment in subsidiaries by assessing and confirming that the net assets of the relevant subsidiaries (being an approximation of their minimum recoverable amount) were in excess of their carrying value at the balance sheet date.

FRC's thematic reviews on TCFD and climate disclosures

The FRC's Corporate Reporting Review (CRR) team carried out a limited scope review of the Group's TCFD disclosures and disclosures of climate in the 2021 Annual Report. The review is based solely on the Annual Report and does not benefit from detailed knowledge of Prudential's business or an understanding of the underlying transactions entered into. Following completion of the review, the Committee was provided with a letter from the FRC's CRR team and was pleased to note that no questions or queries were raised by the FRC. In preparing its 2022 Annual Report, the Group has taken account of a number of improvements applicable to all companies following the thematic review alongside suggestions made to the Group by the FRC following its review.

External audit**External audit effectiveness**

The Group's current external auditor is KPMG and oversight of the relationship with KPMG is one of the Committee's key responsibilities. Matters considered by the Committee in the year included:

- > The detailed audit strategy for the year, approach to risk assessment and coverage of the audit response to highlighted significant risks;
- > Their approach to Group materiality setting and their proposal on how that is applied to the individual business units;
- > Insight around the key accounting judgements and the way KPMG applied constructive challenge and professional scepticism in dealing with management; and
- > The outcome of management's internal evaluation of the auditor, which was based on a questionnaire survey circulated to the Committee members, independent members of the audit committees of Material Subsidiaries, the Group Chief Financial Officer and the Group's senior financial leadership for completion. The survey covered audit quality and execution, team performance, process and communication in relation to the 2021 audit. In addition, the Committee discussed the results of the latest FRC review with KPMG, including any implications for the Prudential audit and any actions being taken by KPMG to address these.

The Committee maintains an open dialogue on emerging risks and issues with the Group Lead Partner via a regular schedule of meetings aligned to key reporting milestones. In 2022 the Committee formally met with the Group Lead Partner without management present on two separate occasions.

The 2022 audit is expected to be the last one completed by KPMG. Following a tender process undertaken in 2020, the Board will recommend to shareholders that it appoints EY as the Group's new auditors in 2023. This is discussed further below.

Principal activities and significant issues considered by the Audit Committee during 2022

External Audit *continued*

Auditor independence and objectivity

The Committee has responsibility for monitoring auditor independence and objectivity and is supported in doing so by the Group's Auditor Independence Policy (the Policy). The Policy is approved annually by the Committee. It sets out the circumstances in which the external auditor may be permitted to undertake non-audit services and is based on four key principles which specify that the auditor should not:

- > Have a mutual or conflicting interest with the Group;
- > Audit its own firm's work;
- > Act as management or employees for the Group; or
- > Be put in a position of being an advocate for the Group.

The Policy has two permissible service types: those that require specific approval by the Committee on an engagement basis and those that are pre-approved by the Committee with an annual monetary limit capped at no more than five per cent of the Group audit fee in the proposed year and capped at \$65,000 individually. The Policy also provides that the total fees payable to KPMG for non-audit services, other than those required by law or regulation, shall be limited to no more than 70 per cent of the average audit fees paid in the past three consecutive financial years. In accordance with the Policy, the Committee approved these permissible services, classified as either audit or non-audit services, and monitored the usage of the annual limits on a quarterly basis. Non-audit services undertaken by KPMG were agreed prior to the commencement of work, except as noted below, and were confirmed as permissible for the external auditor to undertake in accordance with the Policy which complies with the rules and regulations of the FRC's Revised Ethical Standard (2019), the US Securities and Exchange Commission (SEC) and the standards of the Public Company Accounting Oversight Board (PCAOB).

The Committee monitored the nature and extent of non-audit services on a regular basis to ensure the provision of non-audit services complied with the Group's Policy and did not impair the auditor's objectivity or independence. The Committee noted that KPMG typically only performed non-audit services where they complemented its role as external auditor, for example the review of half year and EEV financial statements or additional assurance to support capital market requirements.

In keeping with professional ethical standards, KPMG confirmed its independence to the Committee and set out the supporting evidence for its conclusion in a report that was considered by the Committee prior to publication of the financial results. Included in this review, KPMG advised the Committee that, as covered in their audit report, two KPMG member firms have provided services in connection with the preparation of local statutory accounts and their translation into a different language. These services were provided to three of the Group's subsidiaries for either no or a nominal additional fee. The entities concerned were not individually significant to the Group's audit, the services did not involve management decisions and were provided after the Group audit opinion was signed in the years concerned. The Committee agreed with KPMG's assessment that this has not impaired their integrity or objectivity. The Committee asked management to ensure suitable reminders were shared with local teams and that they engaged with the incoming auditor to ensure procedures were sufficiently robust to identify such services before they took place.

In line with the FRC's Ethical Standard, the rules and regulations of the SEC and the standards of the PCAOB, a new KPMG Group Lead Partner, Stuart Crisp, was appointed for the 2022 audit following completion of a five year term by the prior lead partner at the end of the 2021 reporting cycle.

The Committee will continue to monitor developments to ensure the Group's policies and processes around audit effectiveness and independence evolve in line with market practice. During 2022 it also approved fees payable to EY under the same policy, where applicable, to ensure the firm is independent prior to being recommended for appointment as the Group's auditor at the 2023 AGM.

Fees paid to the external auditor

The fees paid to KPMG for the year ended 31 December 2022 amounted to \$10.9 million (2021: \$15.5 million) of which \$3.3 million (2021: \$6.5 million) was total amounts payable in respect of non-audit services, except those required by law and regulation, as defined by the FRC's Revised Ethical Standard (2019). A breakdown of the fees payable to KPMG can be found in note B2.4 of the IFRS financial statements. The ratio of non audit fees for the Group in 2022 over the average of audit fees for the past three years is 31 per cent (2021: 51 per cent) for the Group, 39 per cent (2021: 19 per cent) below the 70 per cent cap set by the FRC.

Total non-audit service fees that are subject to non-audit fee cap in 2022 were \$3.3 million (2021: \$4.4 million excluding one-off amounts related to the demerger of Jackson and the public offering of equity shares in Hong Kong). The 2022 services associated with this amount included the review of the Group's half year financial statements and EEV disclosures and assurance work performed by KPMG in connection with Prudential's debt programme and other internal assurance work.

In all these cases, the audit firm was considered the most appropriate to carry out the work, given its knowledge of the Group and the synergies that arise from running these engagements alongside its main audit.

All non-audit services were pre-approved by the Committee and were in line with the Policy discussed above.

Principal activities and significant issues considered by the Audit Committee during 2022

External Audit *continued*

Appointment of the external auditor

KPMG was appointed in 1999 and since 2005, the Committee has annually considered the need to retender the external audit service. Following the competitive tender process in 2020, the Board resolved that it intends to recommend EY for appointment for the year ending 31 December 2023 onwards, subject to shareholders' approval at the 2023 AGM. Full details of the tender process were included in the 2020 Annual Report, including the two firms recommended by the Committee and how the firms were evaluated.

Transition to the new auditor has commenced. EY has been providing assurance work in connection with the Group's IFRS 17 project and through this work regularly attends Committee meetings and meets with senior members of the financial leadership. EY has confirmed its independence to the Committee and the Committee has reaffirmed its view that the Board should recommend EY be appointed as the Group Auditor at the 2023 AGM.

Throughout the 2022 financial year, the Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 issued by the UK Competition and Markets Authority.

Whistleblowing

Speak Out

The Group continues to operate a Group-wide whistleblowing programme ('Speak Out'), hosted by an independent third party (Navex). The Speak Out programme received ad hoc reports from a wide variety of channels, including a web portal, hotline, email and letters. Reports are captured, confidentially recorded by Navex, and triaged by Group Security Investigations prior to investigation by the appropriate teams.

The Committee is responsible for oversight of the effectiveness of the Group's whistleblowing arrangements. The Committee received regular reports on the most serious cases and other significant matters raised through the programme and the actions taken to address them. The Committee was also briefed on emerging Speak Out trends and themes, causal factors and post-investigation remediation. The Committee may, and has, requested further reviews of particular areas of interest.

Through an Annual Speak Out Report and quarterly updates, the Committee reviews the Group's Speak Out programme, satisfying itself that it continues to comply with legal, regulatory and governance requirements. The Committee also considered the consistency of approach adopted across subsidiary audit committees, where locally recorded Speak Out events, themes and trends are also briefed and considered. The Speak Out programme has been further strengthened during the year by the management level committees. Where relevant, the Committee requested information on the sharing of lessons learned.

The Committee Chair and Committee spend time privately, with the Group Chief Risk and Compliance Officer and Group Chief Security Officer, to ensure that investigations were adequately resourced and appropriately managed, that there had been no retaliation against anyone making a report and that investigations were not improperly influenced and to understand outcomes of investigations.

An annual assessment of Speak Out arrangements is undertaken by an independent UK based Whistleblowing Charity ('Protect') and benchmarked against peers. The assessment confirmed that the Group's programme continued to perform well and in accordance with best practice.

Internal audit

Regular reporting

The Committee received regular updates from Group-wide Internal Audit (GwIA) on audits conducted and management's progress in addressing audit findings within agreed timelines. Any delays in implementing remediation actions were escalated to the Committee and given particular scrutiny.

The independent assurance provided by GwIA formed a key part of the Committee's deliberations on the Group's overall control environment. During 2022, the areas reviewed included: transformation and change management; financial controls; outsourcing and third-party supply; customer outcomes; cyber security and IT risk; compliance and regulatory; and the second line.

The Group Chief Internal Auditor reports functionally to the Committee Chair and has direct access to the Chair of the Board and to the Chief Executive Officer. For administrative purposes (excluding strictly all audit related matters), the Group Chief Internal Auditor has a reporting line to the Group Chief Risk and Compliance Officer. In addition to formal Committee meetings, the Committee meets with the Group Chief Internal Auditor in private to discuss matters relating to, for example, the effectiveness of the internal audit function, significant audit findings and the risk and control culture of the organisation.

The Committee Chair also meets with GwIA's Quality Assurance Director to discuss the outcome of the quality reviews of GwIA's work and actions arising.

Principal activities and significant issues considered by the Audit Committee during 2022

Internal audit *continued*

Annual internal audit plan and focus for 2023

GwIA operates a rolling six-month approach to audit planning. The Committee approved the plan for the second half (H2) of 2022. It also considered and approved the Internal Audit Plan, resource and budget for the first half (H1) of 2023.

The H1 2023 Internal Audit Plan was formulated based on a bottom-up risk assessment of audit needs mapped against various metrics combined with top-down challenge. The plan was then mapped against a series of risk and control parameters, including the top risks identified by the Risk Committee, to verify that it is appropriately balanced between financial, business change, regulatory and operational risk drivers and provides appropriate coverage of key risk areas and audit themes within a risk-based cycle of coverage. Key areas of focus for H1 2023 include: strategic change initiatives; customer outcomes; cyber security; financial risk and financial controls; culture; outsourcing and regulatory compliance.

Effectiveness of internal audit

The Committee is responsible for approval of the GwIA charter, audit plan, resources, and for monitoring the effectiveness of the function.

The Committee also assesses the effectiveness of GwIA through a combination of External Quality Assessment (EQA) reviews, required every five years, and an annual internal effectiveness review.

In Q4 2021, Deloitte performed an EQA of GwIA, which assessed GwIA as a mature function that 'Generally Conforms' (the highest rating under the framework) with the Institute of Internal Audit International Professional Practices Framework and Internal Audit Financial Services Code of Practice (the Standards), and with the approach to meeting the requirements and expectations of the Hong Kong IA including the GWS framework. The assessment also considered GwIA's purpose, position, processes and reporting in the context of the Group's wider systems of governance.

Having considered the findings of the EQA, which was reported to the Committee in February 2022, and the 2022 Internal Effectiveness review, performed by the GwIA Quality Assurance Director, the Committee concluded that GwIA had continued to operate independently of management and in compliance with the requirements of GwIA delegated authorities, procedures and practice standards in all material respects and had remained aligned to mandated objectives during 2022.

Internal control and risk management

Internal control and risk management systems

The Committee is responsible for reporting and making recommendations to the Board on the effectiveness of the Group's system of risk management and internal control.

The Committee considered the outcome of the annual review of the system of risk management and internal control. The review identified specific areas for improvement and the necessary actions that have been, or are being, taken.

Group Governance Manual

The Group Governance Manual (the Manual) sets out the general principles by which we conduct our business and ourselves and defines our Group-wide approach to Governance, Risk Management and Internal Control.

Incorporating our Group Code of Business Conduct, the Manual sets out the general principles by which we conduct our business and ourselves. Each business attests annually to compliance with:

- > Mandatory requirements set out in Group-wide policies, including the Group Code of Business Conduct; and
- > Matters requiring prior approval from those parties with delegated authority.

The Committee reviewed the results of the annual content review of the Manual and the results of the year-end compliance attestation for the year ended 31 December 2022.