

**Terms of Reference: Group Audit Committee****1. Constitution and Purpose**

- a. The Committee is constituted by the Board of Directors with the purpose of assisting 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 systems and for monitoring the effectiveness and objectivity of internal and external auditors;
- b. The remit of the Committee concerns the whole of the Group's businesses and it has oversight responsibility for financial reporting, internal control and audit processes across the Group and for monitoring the activities of the Business Unit audit committees<sup>1</sup>;
- c. Where there is a perceived overlap of responsibilities between the Group Audit Committee and the Group Risk Committee, the respective committee chairmen will have the discretion to agree the most appropriate committee to fulfil any obligation;
- d. Where the Committee requests any reviews to be carried out which have an impact on the Group Risk Committee, the Group Audit Committee Chairman will liaise with the Group Risk Committee Chairman to determine the most appropriate way to update the Group Risk Committee.

**2. Membership**

- a. The membership of the Committee is restricted to the independent Non-executive Directors with a minimum of three members, one of whom should be a member of the Group Risk Committee. The Chairman of the Board may not be a member;
- b. The Committee as a whole should have competence relevant to the life insurance and asset management sector and at least one member shall meet the requirements of having competence in accounting and/or auditing as set out in the Disclosure and Transparency Rules and be determined by the Board to have recent and relevant financial experience as specified in the UK Corporate Governance Code, have appropriate professional qualifications or accounting or related financial management expertise as required by the Hong Kong Listing Rules and meet the requirements of the audit committee financial expert as defined in the Sarbanes Oxley Act 2002.

**3. Meetings**

- a. The Committee will meet at least four times a year;
- b. A quorum is two members of the Committee;

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<sup>1</sup> These committees comprise the PCA Audit Committee, the M&G Audit and Compliance Committee, the PAC Audit Committee, the Jackson Audit Committee, the PruCap Audit and Compliance Committee and the PPMG Audit and Compliance Committee.

- c. The Chairman of the Committee is responsible for reporting to the Board on the Committee's activities;
- d. The Committee may invite any individual, whether internal or external, to attend all or part of any meeting in whatever capacity as the Chairman of the Committee deems appropriate in order to assist the Committee in its duties;
- e. The Chief Financial Officer and the internal and external auditors will be invited to attend meetings of the Committee on a regular basis;
- f. The Committee will meet privately with the external auditor at least twice a year and the heads of internal audit and security at least once a year without the presence of the Executives;
- g. The Chairman or Committee members, the external auditor and the head of internal audit may convene additional meetings at any time to deal with matters within the remit of the Committee;
- h. The Group Company Secretary, or his nominee, is the Secretary of the Committee and will minute the proceedings.

#### **4. Duties**

The Committee is authorised to investigate any matter within its remit, seek any information from the Group's Directors and/or employees which is necessary to satisfactorily discharge its duties and make recommendations to the Board where action or improvement is needed.

The Committee is responsible for:

##### **i) Financial reporting**

- a. monitoring the integrity of the Group's Annual Report and Accounts and any other periodic financial reporting, as well as the Company's financial statements, reviewing the accounting policies adopted, decisions taken regarding major areas of judgement, significant adjustments resulting from the audit, the going concern assumption, long term viability statement and compliance with accounting standards, listing rules, legal, regulatory and other reporting requirements;
- b. monitoring the financial reporting process and submitting recommendations or proposals to the Board to ensure its integrity;
- c. monitoring the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the Financial Reporting Council;
- d. informing the Board of the outcome of the statutory audit, explaining how the audit contributed to the integrity of financial reporting and the role of the Committee in the process;

- e. reviewing confirmation from the Disclosure Committee before the publication of any financial statements, other financial reporting and associated announcements, that it has completed its reviews and that it recommends their submission to the Board;
- f. reviewing the litigation report and the proposed litigation statement for inclusion in any financial reporting;
- g. reviewing and endorsing the disclosures made on the activities of the Committee in the Annual Report;

## ii) Narrative Reporting

- a. reviewing and providing advice to the Board as to whether, to the best of the Committee's belief, the Group's Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, recognising that certain parts of this are reserved to the Board and providing such additional assurance as the Board may reasonably require regarding the reliability of financial information submitted to it;

## iii) Internal control and risk management

- a. considering any findings of major investigations of internal control over financial reporting matters and management's response to these;
- b. keeping under review the framework and effectiveness of the Group's systems of internal control, including the adequacy of resources, qualifications and experience of accounting, internal audit, compliance and financial reporting staff and their training programmes;
- c. seeking assurance from management that they have performed their duty in ensuring an effective system of internal control is in place and reviewing any approvals for deviations from the Group-wide minimum requirements of the framework;
- d. reviewing and approving the statements to be included in any financial reporting concerning the effectiveness of internal controls and risk management;

## iv) External audit

- a. considering the appointment, re-appointment or removal of the external auditor and to oversee the selection process for a new auditor where required, ensuring that the rules on audit tender and auditor rotation are observed, and making appropriate recommendations, through the Board, to shareholders to be considered at the Annual General Meeting;
- b. establishing and maintaining an Auditor Independence Policy and setting clear hiring policies for employees and former employees of the external auditor;
- c. annually assessing the performance, independence and objectivity of the external auditor, monitoring the effectiveness of the audit process and reviewing their quality control procedures and steps taken to respond to regulatory, professional and other

changes, taking into account any findings and conclusions by the Financial Reporting Council and other relevant bodies;



- d. approving the terms of engagement in respect of the statutory audit for the Group and the Company, developing and implementing policy on engaging the external auditor for non-audit services and approving in advance the fees for both audit and non-audit services;
- e. approving the nature and scope of the audit with the external auditor before the audit commences and reviewing the findings of the audit, as well as management's response on completion;
- f. reviewing management representation letters in relation to financial reporting requested by the external auditor prior to signature by the Executives;
- g. monitoring the effectiveness of the relationship between the external and internal auditors;
- h. resolving disagreements between management and the external auditor regarding financial reporting;

v) Internal audit

- a. approving the internal audit programme, requesting where appropriate, that internal audit undertake specific work, and monitoring the significant findings from major investigations, including management's response to them;
- b. reviewing the effectiveness and performance of the service provided by the internal audit function, including conformance with the Chartered Institute of Internal Auditors Code for 'Effective Internal Audit in the Financial Services Sector', approving the internal audit budget, ensuring that it is adequately resourced and free from constraint, and has the appropriate standing within the Group;
- c. authorising the Committee Chairman to consider on behalf of the Committee the appointment, resignation, performance and overall remuneration of the head of internal audit;
- d. reviewing the head of internal audit has access to the Chairman of the Board and the Chairman of the Committee, and has a functional reporting line to the Chairman of the Committee;

vi) Compliance

- a. approving the annual compliance plan for the Group, monitoring progress and key control findings from Compliance reviews, and requesting that the function undertake specific work where appropriate;
- b. considering the effectiveness of compliance arrangements, including resourcing;

vii) Financial crime and whistleblowing ("Speak out")

- a. reviewing the arrangements for employees, contractors, vendors and agents to raise concerns anonymously and in confidence, the procedures to ensure fair treatment in handling any such concerns raised, reviewing whether proportionate and independent investigation of such matters has occurred and, on request, reviewing the log of all complaints within the ambit of applicable law requiring the establishment of such procedures;
- b. reviewing procedures to combat financial crime, money-laundering activities, fraud, sanctions and bribery;

viii) Group Governance Framework

- a. reviewing the effectiveness of the Group Governance Framework as set out in the Group Governance Manual;
- b. reviewing any material approvals for deviation(s) from the Group governance policies;

ix) Business Unit Audit Committees

- a. approving the standard terms of reference for Business Unit audit committees and authorising the Committee Chairman to approve the membership of Business Unit audit committees; and
- b. annually reviewing the effectiveness of the Business Unit audit committees.

## **5. Governance**

The Committee will:

- a. ensure that the Chairman of the Committee is available to answer shareholder questions at general meetings; and
- b. arrange for periodic reviews of its own performance and review its terms of reference, recommending any changes it considers necessary to the Board for approval.

## **6. Support**

The Committee will:

- a. have access to sufficient resources in order to carry out its duties;
- b. at the Company's expense and through the Group Company Secretary's office where applicable, be able to select, appoint and agree the terms of appointment of any advisers deemed appropriate by the Committee to provide advice to the Committee, including those used by management provided no conflict of interest arises, and invite such advisers to attend meetings to assist the Committee; and

- c. be provided with appropriate and timely training both in the form of an induction programme for new members and on an ongoing basis for all members.

