

## Prudential plc

### 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 system 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 Business Unit audit committees, as part of the overall governance guidelines for subsidiaries agreed with the Nomination & Governance Committee.
- c. Where there is a perceived overlap of responsibilities between the Group Audit Committee and the Group Risk Committee, the respective committee chairs 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 Chair will liaise with the Group Risk Committee Chair to determine the most appropriate way to update the Group Risk Committee.

#### 2. Membership

- a. The Committee shall comprise at least three members, all of whom shall be independent Non-executive Directors. One member should be a member of the Group Risk Committee. The Chair of the Board should not be a member.
- b. Appointments to the Committee are made by the Board on the recommendation of the Nomination & Governance Committee and in consultation with the Group Audit Committee Chair.
- c. The Board shall appoint the Group Audit Committee Chair who shall be an independent Non-executive Director.
- d. The Committee as a whole should have competence relevant to the life insurance and asset management sector. 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;
  - 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. Secretary**

The Company Secretary or their nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the business of the meeting.

### **4. Meetings**

- a. The Committee will meet at least four times a year and otherwise as required.
- b. Meetings of the Committee shall be called by the secretary of the Committee at the request of the Group Audit Committee Chair or any of its members, or at the request of the external auditor or the Group Chief Internal Auditor if they consider it necessary.
- c. In the absence of the Group Audit Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- d. Only members of the Committee have the right to attend Committee meetings. However, a standing invitation will be issued to all Non-executive Directors to attend with the consent of the Committee Chair, and the following individuals would be expected to attend meetings on a regular basis:
  - the Chair of the Board;
  - the Group Chief Executive;
  - the Group Chief Financial Officer & Chief Operating Officer;
  - the Group Chief Risk and Compliance Officer;
  - the Group Chief Internal Auditor; and
  - the external auditor.

Other individuals may be invited by the Group Audit Committee Chair to attend for all or part of any meeting, as and when appropriate.

- e. The Committee will meet privately with the external auditor at least twice a year and with the Group Chief Internal Auditor and the Group Resilience Director at least once a year without the presence of the Executives.
- f. A quorum is two members of the Committee.
- g. Unless otherwise agreed, reasonable notice of each meeting together with an agenda of items to be discussed and supporting papers shall be provided to each member of the Committee and any other attendee as required.

## **5. Minutes**

- a. The secretary or their nominee shall minute the proceedings and decisions of all Committee meetings and retain copies of the papers.
- b. Minutes of Committee meetings shall be circulated to Committee members, the Board and, where appropriate, other meeting attendees.

## **6. Engagement with shareholders**

- a. The Group Audit Committee Chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility. In particular, they shall attend the annual general meeting to answer shareholder questions on the Committee's activities.

## **7. Duties**

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 and any changes to them, decisions taken regarding major areas of judgement, significant adjustments resulting from the audit, the going concern assumption, the long term viability statement and compliance with accounting standards, listing rules, legal, regulatory and other reporting requirements, taking into account the external auditor's views. The Committee will review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.
- b. Reviewing and challenging where necessary:
  - i. The methods used to account for significant or unusual transactions where different approaches are possible;
  - ii. The clarity and completeness of disclosures in the financial statements and the context in which the statements are made; and
  - iii. All material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.
- c. Carrying out an initial review of any other statements, including regulatory reporting, which require board approval and which contain financial information, where an initial review would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook.
- d. Monitoring the financial reporting process and submitting recommendations or proposals to the Board to ensure its integrity.
- e. 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.

- f. 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.
- g. 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.
- h. Reviewing the litigation report and the proposed litigation statement for inclusion in any financial reporting.
- i. Reviewing and endorsing the disclosures made on the activities of the Committee in the Annual Report.

## **ii) Narrative Reporting**

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,

- a. is fair, balanced and understandable; and
- b. provides the information necessary for shareholders to assess the Company's performance, business model and strategy and whether such information supports the Board's statement on these matters in the Group's Annual Report and Accounts required under the Corporate Governance Code;

recognising that certain parts of this assessment 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 system**

- 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 system of internal control, which includes financial reporting, risk management, the adequacy of resources, qualifications and experience of accounting, internal audit, 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 and making recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the external auditor.
- b. Developing and overseeing the selection process for the appointment of the audit firm, ensuring that applicable rules on audit tender and auditor rotation are observed and that all tendering firms have access to all necessary information and individuals during the tendering process.
- c. If an external auditor resigns, the Committee should investigate the issues leading to this and decide whether any action is required.
- d. Overseeing the relationship with the external auditor. In this context, the Committee shall:
  - i. Develop and implement policy on engaging the external auditor for non-audit services, and set clear hiring policies for employees and former employees of the external auditor.
  - ii. Approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
  - iii. Approve their remuneration, including approving in advance the fees for both audit and non-audit services.
- e. Annually assessing the performance, qualifications, expertise and resources 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.
- f. Monitoring the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including guidance on the rotation of audit partner and staff.
- g. Monitoring the level of fees paid by the Group to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of the relevant legal, professional and regulatory requirements, guidance and the Ethical Standard.
- h. 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.
- i. Reviewing management representation letters in relation to financial reporting requested by the external auditor prior to signature by the Executives.
- j. Monitoring the effectiveness of the relationship between the external and internal auditors.

- k. Resolving disagreements between management and the external auditor regarding financial reporting.

#### **v) Internal audit**

- a. Reviewing and approving the role and mandate of internal audit, monitoring and 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' (such review to include an objective independent assessment at least every five years) and other regulatory requirements. The effectiveness review should be conducted in the overall context of the Company's risk management system and the work of the risk and compliance function, the finance function and the external auditor.
- b. Reviewing and approving the annual internal audit plan of coverage and resource plan, to ensure it is aligned to the key risks of the Group, and receive regular reports on work carried out, monitoring the significant internal audit findings, including management's response to them, and requesting that internal audit undertake specific work where appropriate.
- c. Approving the internal audit budget, ensuring that the internal audit function is adequately resourced, and free from constraint, and that it has access to information to enable it to fulfil its mandate and has the appropriate standing within the Group.
- d. Overseeing the relationships between the risk, compliance, finance, internal audit and external audit functions, paying particular attention to the areas in which the work of these functions may be aligned or overlapping, to ensure they are coordinated.
- e. Ensuring that there is open communication between the risk, compliance and finance functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan;
- f. Monitoring the access that the Group Chief Internal Auditor has to the Chair of the Board and the Group Audit Committee Chair, and that they have a functional reporting line to the Group Audit Committee Chair.
- g. Authorising the Group Audit Committee Chair to consider on behalf of the Committee the appointment, termination, performance, independence and overall remuneration of the Group Chief Internal Auditor, except where the tenure of the Group Chief Internal Auditor exceeds seven years, in which case the Committee will review independence and objectivity annually.

#### **vi) Whistleblowing ("Speak Out")**

- a. Reviewing the adequacy and security of the Group's arrangements for employees, contractors, vendors and agents to raise concerns anonymously and in confidence about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that such arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. The Committee's review shall include:

- i. Annual report on Speak Out;
- ii. the procedures to ensure fair treatment in handling any such concerns raised;
- iii. whether proportionate and independent investigation of matters raised, and appropriate follow-up action, has occurred; and
- iv. on request, the log of all complaints within the ambit of applicable law requiring the establishment of such procedures.

#### **vii) 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 Manual policies.

#### **viii) Subsidiary audit committees**

- a. Approving the standard terms of reference for material subsidiary audit committees.
- b. Receiving regular reports from material subsidiary audit committees.

### **8. Reporting responsibilities**

- a. The Committee Chair shall report to the Board after each meeting on the nature and content of the discussion, recommendations and actions to be taken.
- b. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- c. The Committee shall provide a description of its work in the annual report in line with requirements of relevant Corporate Governance guidelines.
- d. The Committee shall ensure that other relevant laws and regulations and provisions regarding disclosure of information under applicable Corporate Governance Codes are fulfilled.

### **9. Other matters**

The Committee will:

- a. Give due consideration to all relevant laws and regulations, the provisions of applicable Corporate Governance Codes and published guidelines or recommendations, and the requirements of applicable listing or other rules, as appropriate.
- b. Have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for advice and assistance as required.
- 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.
- d. Ensure that a periodic evaluation of the Committee's own performance is carried out.

- e. At least annually, review its terms of reference and recommend any changes it considers necessary to the Board for approval.

#### **10. Authority**

- a. The Committee is authorised 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, at the Company's expense and through the Company Secretary's office where applicable.
- b. The Committee is authorised to investigate any matter within its remit, seek any information from any of the Group's Directors and/or employees which is necessary to enable it to satisfactorily discharge its duties and make recommendations to the Board where action or improvement is needed, and commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company.