

David Law

Chair of the Audit Committee



Committee members

David Law (Chair)

Jeremy Anderson
Howard Davies (until 14 May 2020)
Philip Remnant
Alice Schroeder
Amy Yip (from 3 March 2021)

Regular attendees

- Chair of the Board
- Group Chief Executive
- Group Chief Financial Officer and Chief Operating Officer
- Group Chief Risk and Compliance Officer
- Director of Group Finance
- Director of Group Financial Accounting and Reporting
- Company Secretary
- Group Chief Internal Auditor
- External Audit Partner

Number of meetings in 2020:

11

M O Audit Committee report

Dear shareholder

As Chair of the Audit Committee, I am pleased to present this report on the Committee's activities during 2020. In what has been a challenging year, I have observed many examples of how the Group has responded to the global pandemic while at the same time continuing to press ahead with strategic change. Throughout, the Committee has continued to provide the Board with assurance as to the integrity of the Group's financial reporting and, together with the Risk Committee, monitor the effectiveness of the second and third lines of defence, which are an even more integral part of our internal control environment at this difficult time.

Good communication has never been more important than in the current circumstances and, as a result, we have added additional meetings to deal with particular issues, such as the accounting implications of the proposed separation and divestment of Jackson, including the accounting of the associated transaction with Athene in June, and the external audit tender. Potential conflicts of interest have been monitored, as they were for the separation of M&G.

Coordination with the Risk Committee has also been important and, while we were disappointed to lose the experience of Sir Howard Davies after his many years of valuable contribution, we were delighted to welcome Jeremy Anderson to the Committee. During the year, Howard, Jeremy and I have agreed the most appropriate Committee to address particular matters, as well as holding a joint Risk and Audit Committee session, as last year, to focus on cyber and information security, to which all Non-executive Directors were invited.

Not surprisingly, throughout 2020 a key focus of the Committee has been the impact of Covid-19 on controls and financial reporting, including key judgements and disclosures. I am pleased to say the Group has responded well to the social-distancing and working-from-home measures implemented across all our markets and has carefully considered their effects on key controls and processes. No significant deterioration in the control environment has been observed. The Committee also reflected on any wider control and accounting implications of the change to the Jackson hedge modelling that impacted their statutory capital.

The introduction of accounting standard IFRS 17, now expected to come into effect in 2023, has also continued to be a significant challenge, given the scope of changes it entails. The Committee received updates during 2020 on external developments and lobbying as the standard was being developed and on the Group's progress towards its implementation.

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We have paid particular attention to our whistleblowing procedures and monitored these for any indicators of issues. I regularly meet privately with the Group Resilience Director to discuss whistleblowing cases and their resolution. These are also discussed in private sessions with the Committee or the relevant local audit committee. During the year, we conducted an external review of the processes and enhanced the governance arrangements.

External auditor and audit tender

An important part of the Committee's work consists of overseeing the relationship with the Group's current audit firm KPMG LLP (KPMG), including safeguarding independence, approving non-audit fees and satisfying ourselves that it is in the best interests of shareholders for the Committee to recommend the annual reappointment of KPMG. During the year, the Financial Reporting Council (FRC) conducted a review of KPMG's audit of Prudential's financial statement for the year ended 31 December 2019. The Committee was pleased with the outcome, as no significant recommendations for improvement were noted. The KPMG team continues to look at ways it can enhance its audit and challenge of management, something also encouraged by the Committee in its own effectiveness review of KPMG in 2020.

The Committee discussed with KPMG the impact of Covid-19 on its own business to ensure it had the resources and technology necessary to complete its audit work satisfactorily. We also meet privately with KPMG and I have held a number of meetings with the lead partner team throughout the year. I have also had a review meeting with KPMG's UK Senior Partner.

During the year, the Committee oversaw a formal competitive tender process to select an audit firm to succeed KPMG, in accordance with regulatory requirements and FRC guidance.

Following regular discussion by the Committee in 2020 and formal evaluation of potential candidates, a shortlist of eligible audit firms were invited to tender and the process concluded with presentations to Committee members in September 2020. Given my former position at PwC, I voluntarily recused myself from the decision-making and asked the Group Chief Internal Auditor to support the audit tender process. Alice Schroeder chaired the final Committee meetings and the presentations by shortlisted candidate firms.

The Committee was impressed by the quality of each candidate's presentations and team, but, on balance, the Committee determined that, given the Group's future strategic direction, Ernst & Young LLP (EY) was the best fit as the Group's audit firm. The Committee recommended to the Board two firms with a preference that EY be engaged as the Group's audit firm for the year 2023 onwards. The Board approved this recommendation at its meeting in December 2020, subject to future shareholder approval. Further details on the audit tender process are set out in the Audit Tender section at the end of this report.

Internal audit

Throughout 2020, the Committee continued to receive regular briefings from the Group Chief Internal Auditor. Group-wide Internal Audit (GwIA) undertook a programme of risk-based audits covering matters across the business units in addition to assurance work. The work undertaken by GwIA during the year was important in supporting the proposed separation and divestment of Jackson and the control environment of the Group under the revised working conditions.

We assessed the effectiveness of GwIA and I have met regularly with the Group Chief Internal Auditor and the Group-wide Quality Assurance Director to discuss internal audit work and matters arising. Where particular issues have been raised, management have been invited to Committee meetings to respond. We have monitored resource levels and delivery of and amendments to the audit plan, which by necessity has had to be more flexible than in prior years. Internal Audit have responded well.

Regulatory developments

Following the Hong Kong IA replacing the Prudential Regulation Authority as the Group's regulator, a key focus for the Committee during 2020 has been the Group's programme to demonstrate readiness for compliance with the Hong Kong IA's new group-wide supervision framework, effective from the first half of 2021. The Committee has held a number of discussions on the requirements and received proposals for the assurance work that will be needed to demonstrate compliance. I also met privately with the Hong Kong IA during the year.

Committee governance

Following the demerger of M&G plc in October 2019, the Committee was focused on overseeing the development and embedding of new governance arrangements across the Group's Asian business, building direct communication and escalation links with the existing local audit committees of the significant businesses. Regular direct communication with each of the local chairs remains a key component of our governance framework, and I have worked closely with the respective chairs of our significant business unit audit committees during the year. At each meeting, I update the Committee on important points raised at local level, and after the meeting I report to the Board on the main matters discussed.

In order to foster a close and collegiate working relationship between the Committee and the local audit committees, Jeremy Anderson and I chaired a session attended by all of the non-executive directors at the four major Prudential Corporation Asia businesses.

In May 2020, we held a private session without the Executives to discuss the results of our 2019 effectiveness evaluation and set the key focus areas for 2020. These included consideration of the impact of Covid-19 on financial matters, the implications of the proposed separation and divestment of Jackson, and the audit tender.

Finally I would like to thank the Committee members for their diligence and contribution throughout the year and management for their responsiveness to challenge and quality of papers.



David Law

Chair of the Audit Committee

How the Committee spent its time during 2020	Feb	Mar ¹	May	Jul	Aug ¹	Sep	Dec ²
Financial reporting and external auditor							
Periodic financial reporting including: — Full and half-yearly report and accounts — Key accounting judgements and disclosures, including tax — Associated audit reports	●	●	●	●	●	●	●
Audit planning, fees, independence, effectiveness and reappointment	●	○	●	●	○	●	●
Environmental, social and governance reporting	●	○	○	○	○	○	○
Internal control framework							
Internal control framework including effectiveness	●	○	●	●	○	○	●
Internal audit							
Status updates and effectiveness	●	○	○	●	○	○	●
Internal audit plan	○	○	○	●	○	○	●
Financial crime and Speak Out							
Financial crime prevention and Speak Out – regular updates	●	○	●	●	○	●	●
Governance and reporting							
Updates from significant business audit committees	●	●	●	●	●	●	●
Internal governance framework including effectiveness	●	○	○	●	○	●	●
Business unit audit committee effectiveness and terms of reference	●	○	●	○	○	○	●
Committee terms of reference and effectiveness	●	○	●	○	○	○	●

Notes

1 Two meetings were held in March and two in August to discuss full year and half year financial reports.

2 An additional meeting to the scheduled meetings was held in December to discuss the proposed separation and divestment of Jackson.

In addition:

– A meeting was held in June to discuss the disclosures in connection with the equity investment by Athene in Prudential's US business.

– Two joint meetings were held with the Risk Committee: in May to discuss cyber security and governance matters (all Non-executive Directors were invited); and September to discuss Form S-1 Registration Statement and recommend it to the Board.

The Committee also held two informal meetings, also in September, to progress the audit tender.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
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Financial reporting

Overview

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One of the Committee's key responsibilities is to monitor the integrity of the financial statements and any other periodic financial reporting. This has primarily focused on the Annual Report and Accounts but also covers the Group's Environmental, Social and Governance (ESG) Report, which is now largely replicated in the Annual Report, and 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, which in some cases were provided at the explicit request of the Committee.

When considering financial reporting matters, the Committee assesses compliance with relevant accounting standards, regulations and governance codes. No material changes to accounting policies were made during 2020. The Committee continued to receive updates on the Group's plans to implement IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts', which are not expected to be effective before 2023. The approach to adopting these standards is further discussed in note A3.2.

Throughout its review of financial reporting matters and disclosure, the Committee considered the impact of the Covid-19 pandemic and the short-term uncertainties that it has created. Further explanation on the financial impact Covid-19 has had on the business is set out in the Group Chief Financial Officer and Chief Operating Officer's report.

The following sections set out the key assumptions, judgements and other matters considered as part of their review of the 2020 Annual Report and Accounts.

Key assumptions and judgements

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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 deferred acquisition costs 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.

Assumption setting

The measurement of insurance liabilities are 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. Peer benchmarking was considered where available alongside current experience. The Committee noted that Covid-19 had not significantly increased the morbidity and mortality claims incurred by the business. The key assumptions reviewed were:

- Persistency, mortality, morbidity (including expectations of future medical costs inflation and any related premium rises) and expense assumptions within the Asia life businesses;
- Policyholder behaviour (eg guaranteed benefit utilisation and persistency) and mortality assumptions affecting the measurement of Jackson guaranteed liabilities (see note C3.3 of the IFRS financial statements); and
- Economic assumptions, including investment return and associated risk discount rates, given the current low interest rate environment.

The Committee was satisfied that the assumptions adopted by management were appropriate. Further information on the effects of material changes to insurance assets and liabilities is included in note C3 to the IFRS financial statements and in the EEV basis results.

Valuation of investments

The Committee received information on the carrying value of investments in the Group's balance sheet including information on how those values were calculated for those investments which require more judgement (for example the impairment process for debt securities and commercial loans in the US). 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 including deferred acquisition costs (DAC)

The Committee received information to enable it to review the more material intangible asset balances. This included the assumptions that supported the amortisation profile of the DAC balance in the US, as described in note A3.1 'Other items requiring application of critical estimates or judgements' and whether there had been any indication of impairment of the Group's distribution rights assets or goodwill in light of lower sales and increased economic volatility following the Covid-19 pandemic. The Committee was satisfied that there was no impairment of the Group's intangibles at 31 December 2020. Further information is contained in note C4 of the IFRS financial statements.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
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Other financial reporting matters

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Proposed separation of Jackson and associated transactions

In June 2020, the Group reinsured substantially all of its in-force portfolio of US fixed and fixed index annuities (see note D1.1). It also announced a \$500 million equity investment into Jackson by Athene (see note D1.2). The Committee reviewed the accounting for these transactions and the planned market announcement, taking advice from the Group's external advisors. The Committee also reviewed the draft public documents prepared by Jackson and the Group in connection with the proposed separation of Jackson, alongside input provided by the Group's external advisers and auditor.

US Statutory reporting and changes to hedge modelling as announced to the market on 28 January 2021

The Committee considered in detail the changes to Jackson's hedge modelling for its US statutory results given the impact on the Group's capital management plans for the proposed separation of Jackson. As part of this process, the Committee received the views and recommendations of the Jackson Audit Committee and management and the reports and conclusions of the external advisers who had reviewed the model and tested the revised output. They also considered any implications on the Group financial reporting, noting that there was no direct impact on IFRS reporting and that a consequential refinement of the method to project future hedge costs for EEV was planned for the FY20 results, as discussed in note 2 (iv) (b) of the EEV financial statements.

Going concern and viability statements

The Committee considered various analyses from management regarding the Group's and the parent company's capital and liquidity position taking into account the Group's principal risks. This included scenarios assessing the impact on the Group's plan of different new business levels depending on the length of time Covid-19 restrictions remain in place, as well as stress scenarios which assume a deterioration in the macroeconomic environment. It also considered scenarios which both included and excluded the proposed separation of Jackson. Following this review, it recommended to the Board that it could conclude that the financial statements should continue to be prepared on the going-concern basis and that the disclosures on the Group's longer-term viability were both reasonable and appropriate.

Fair, balanced and understandable requirement

The Committee carried out a formal review of whether the Annual Report and Accounts were 'fair, balanced and understandable' as required by the UK Corporate Governance Code. In particular, they considered whether the report gave a full picture of the Group's business model, strategy and performance in the year, with important messages appropriately highlighted. They 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 and Accounts were 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 B4 and C7 of the IFRS financial statements.

Parent company financial statements

The Committee reviewed the parent company profit and loss account and balance sheet, which includes 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 and that those subsidiaries have historically been profit-making.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
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External audit

Review of effectiveness, non-audit services and auditor reappointment

External audit effectiveness



The Group's external auditor is KPMG LLP (KPMG) and oversight of the relationship with them is one of the Committee's key responsibilities. The Committee reviewed the effectiveness of the audit throughout the year taking into account:

- The detailed audit strategy for the year, approach to risk assessment and coverage of the audit response to highlighted significant risks;
- Group materiality and how that is applied to the individual business units;
- Insight around the key accounting judgements, including benchmarking, and the way KPMG applied constructive challenge and professional scepticism in dealing with management;
- The outcome of management's internal evaluation of the auditor as discussed below; and
- Other external evaluations of KPMG, with a focus on the FRC's annual quality review.

There is an open dialogue on emerging risks and issues between the Group Lead Partner and Committee members via a regular schedule of meetings aligned to key reporting milestones. The Committee formally met with the Group Lead Partner without management present.

Internal evaluation of KPMG was conducted using a questionnaire survey that was circulated to the Committee members, independent members of the business unit audit committees, the Group Chief Financial Officer and Chief Operating Officer and the Group's senior financial leadership for completion. A key component of the evaluation was the degree of challenge and robustness of approach to the audit. The survey asked 29 questions over four categories (audit quality and execution, team performance, process and communication) in relation to the 2019 audit.

KPMG were given the opportunity to respond to the findings in the reports and where necessary, proposed enhancements to the audit process and team.

FRC's Audit Quality Review (AQR)

The FRC's AQR team carried out a review of KPMG's audit of Prudential's financial statements for the year ended 31 December 2019. This included discussions with the Chair of the Committee. Following completion of the AQR, the Committee was provided with a Review Report from the FRC's AQR team. The Committee was pleased to note that no significant recommendations were made by the FRC for further improvement and a number of areas of good practice were highlighted.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Auditor independence and objectivity	<p data-bbox="323 394 355 427">(M)</p> <p data-bbox="323 439 1447 539">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 updated annually and approved 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:</p> <ul data-bbox="323 562 871 674" style="list-style-type: none"> — 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. <p data-bbox="323 696 1447 987">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 5 per cent of the Group audit fee in the proposed year and capped at \$65,000 individually. Effective from 2020, 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 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).</p> <p data-bbox="323 1010 1415 1200">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. This work has by necessity been significant as a result of the demerger of M&G in the prior year and the proposed separation of Jackson. It is not however considered to detract from the objectivity and independence of KPMG due to the nature of the work and the involvement of separate teams.</p> <p data-bbox="323 1223 1423 1301">In keeping with professional ethical standards, KPMG also confirmed its independence to the Committee and set out the supporting evidence for their conclusion in a report that was considered by the Committee prior to publication of the financial results.</p> <p data-bbox="323 1323 1391 1379">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.</p>
Fees paid to the auditor	<p data-bbox="323 1402 355 1435">(M)</p> <p data-bbox="323 1447 1447 1547">The fees paid to KPMG for the year ended 31 December 2020 amounted to \$16.0 million (2019: \$30.4 million) of which \$1.0 million (2019: \$13.2 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 to the IFRS financial statements.</p> <p data-bbox="323 1570 1447 1738">In 2019, \$7.3 million of the \$13.2 million spent on non-audit services, excluding those required by law and regulation was for one-off services associated with the demerger of M&G plc. Excluding these one-off fees in 2019, total non-audit service fees that are subject to non-audit fee cap were \$5.9 million compared with \$3.8 million in 2020. The decrease in 2020 primarily reflects a reduction in the level of elective regulatory disclosure work no longer being required. The ratio of non-audit fees for the Group in 2020 over the average of audit fees for the past three years is 28 per cent for the Group, 42 per cent below the 70 per cent cap set by the FRC.</p> <p data-bbox="323 1760 1431 1805">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.</p> <p data-bbox="323 1827 1351 1850">All non-audit services were pre-approved by the Committee and were in line with the Policy discussed above.</p>
Reappointment	<p data-bbox="323 1872 1447 1980">Based on the outcome of the effectiveness evaluation and all other considerations, the Committee concluded that there was nothing in the performance of the auditor which would require a change. The Committee therefore recommended that KPMG be reappointed as the auditor. A resolution to this effect will be proposed to shareholders at the 2021 Annual General Meeting.</p>

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Audit tender	<p>The Committee acknowledges the provisions contained in the UK Code in respect of audit tendering, along with European rules on mandatory audit rotation and audit tendering. In conformance with these requirements and as we committed in our Annual Report 2018, the Company has conducted a competitive tender to change audit firm for the 2023 financial year end. The external audit was last put out to competitive retender in 1999 when the present auditor, KPMG, was appointed. Since 2005, the Committee has annually considered the need to retender the external audit service.</p> <p>The tender process has been led by the Audit Committee with the support of the Group Chief Internal Auditor. The overall objective of the audit tender has been to select an audit firm that would provide a high quality and effective audit. The planning for this tender process commenced in 2019 with the Committee Chair meeting with a number of firms, including firms outside of the 'Big Four', to assess interest and ability to tender for the audit, with focus on capability and resource to service the key Asian business units. This was supplemented by a formal request for information to those firms who indicated they would be interested in tendering. A formal invitation to tender was issued in June 2020 to those firms that confirmed they are able to undertake the audit. The formal assessment of candidate firms took place from July to September and was based on the candidate firms' written responses and a series of formal presentations to business units prior to the final presentation given to the Committee. The Committee recommended two firms to the Board with a preference for one and this was approved by the Board in December 2020. A description of the tender process is set out at the end of this report.</p> <p>The auditor tender timeline takes into account the complexity of the Group and the expected timing of the introduction of IFRS 17 and allows the appointee time to ensure they meet the auditor independence requirements to which the Group is subject. The timing remains subject to the Committee's normal annual review of auditor performance and recommendation to shareholders.</p> <p>Throughout the 2020 financial year, the Company has 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.</p> <p>In line with the Financial Reporting Council's Ethical Standard, the rules and regulations of the SEC and the standards of the PCAOB, a new Group Lead Partner, Philip Smart, was appointed in respect of the 2017 financial year. Mr Smart is expected to be in place for a five-year term until the completion of the 2021 reporting cycle. A new Group Lead Partner will currently be required for the 2022 audit and an appropriate transition plan is being developed.</p>

Second line oversight Whistleblowing

Whistleblowing

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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. The Committee may, and has, requested further reviews of particular areas of interest.

The Committee reviews the Group's Speak Out programme annually, satisfying itself that it continues to comply with regulatory and governance requirements. The Committee also considered the consistency of approach adopted across subsidiary audit committees. The Speak Out programme has been further strengthened during the year by the establishment of new management level committees. Where relevant, the Committee requested information on the sharing of lessons learnt.

The Chair and Committee spent time privately with the Group Resilience Director to understand outcomes of investigations, 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.

A review of the Speak Out programme and its oversight was undertaken in 2020.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
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**Third line oversight
Internal audit**

**Third line oversight
Internal audit
Regular reporting**

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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 2020, the areas reviewed included: change management and transformation (in particular relating to the proposed separation of Jackson Financial Inc), financial controls, outsourcing and third-party supply, customer outcomes, cyber risk, compliance and regulatory, and the second line of defence. In addition, GwIA performed more business monitoring during 2020 to obtain a broader view of the business and enable more regular assessments of emerging risks and changes in the control environment. This has been achieved through a variety of methods including stakeholder discussions and an increasing use of data analytics.

The Group Chief Internal Auditor reports functionally to the Committee Chair and for management purposes to the Group Chief Executive, and also has direct access to the Chair of the Board. 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.

**Annual internal
audit plan and
focus for 2021**

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GwIA now operates a rolling six-month approach to audit planning. The Committee approved the plan for the second half of 2020. It also considered and approved the Internal Audit Plan, resource and budget for the first half of 2021.

The 2021 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 2021 include: strategic change initiatives, customer outcomes, cyber security, financial risk and financial controls, culture, outsourcing and digitisation.

GwIA will also continue to consider how to address the needs of the audit committees of the material subsidiaries in Asia and the GWS standards being introduced by the Hong Kong IA.

**Effectiveness of
Internal Audit**

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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 reviews, required every five years, and an annual internal effectiveness review.

A 2020 Internal Effectiveness review, performed by the GwIA Quality Assurance Director, was conducted in accordance with the professional practice standards of the Chartered Institute of Internal Auditors (CIIA) and assessed continued conformance with the CIIA guidance for Effective Internal Audit in the Financial Services (the CIIA Code). The review concluded that GwIA continued to comply with the requirements of internal audit policies, procedures and practices, and standards in all material respects relating to audit planning and execution, and continued to be aligned with its mandated objectives and maintained general conformance with the CIIA Code.

During 2020, GwIA also continued to develop its practices with enhancements to methodology, approaches to audits and the use of data analytics. Latterly in 2020 and in preparation for the proposed separation of Jackson Financial Inc, the function initiated work to create two appropriately skilled and sized, independent internal audit functions, where previously there had been a single function.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Internal control	
Internal control and risk management systems	<p>CO</p> <p>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.</p> <p>The Committee considered the outcome of the annual review of the systems of risk management and internal control. The review identified specific areas for improvement and the necessary actions that have been, or are being, taken. The Committee considered in particular the changes made to US statutory reporting as announced on 28 January and the actions taken, including an independent review by external advisers of the revised model. They also took the opportunity to consider with management the existing reviews and controls around model changes more widely, including in Asia. Alongside the review carried out by management, the Committee considered that enhanced governance over the more material Asian subsidiaries as previously discussed was providing them with deeper insight, as were the projects to prepare for GWS and IFRS 17.</p> <p>The Committee noted the comparatively low rating for audit and risk governance within the Governance QualityScore issued by Institutional Shareholder Services and satisfied itself that this reflected historic matters that were the subject of the FCA's fine of The Prudential Assurance Company Limited in September 2019, pre the demerger, rather than any broader concerns about the Company's governance arrangements.</p>
Governance	
Group Governance Manual	<p>E</p> <p>The Group Governance Manual sets out the policies and procedures by which the Group operates within its framework of internal governance, taking into account relevant statutory and regulatory matters.</p> <p>Incorporating our Group Code of Business Conduct, the Group Governance Manual sets out the general principles by which we conduct our business and ourselves. Each business attests annually to compliance with:</p> <ul style="list-style-type: none"> — Mandatory requirements set out in Group-wide policies, including the Group Code of Business; and — Matters requiring prior approval from those parties with delegated authority. <p>The Committee reviewed the results of the Group Governance Manual annual content review and the results of the year end compliance attestation for the year ended 31 December 2020.</p>
Competence and experience	<p>In relation to the provisions of the UK Code and HK Listing Rules, the Board is satisfied that David Law has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the business operates.</p> <p>Full biographies of the Committee members including experience and professional qualifications, are set out on pages 122 to 126.</p> <p>The Board has determined that David Law qualifies as the designated Audit Committee Financial Expert under the SEC rules consistent with Section 407 of the Sarbanes-Oxley Act.</p>

Audit tender in 2020

1. Introduction

The Prudential Group's Annual Report 2018 noted the Group's intention to commence a tender process to appoint a new auditor in line with the UK Code in respect of audit tendering and European rules on mandatory audit rotation. The external audit tender resulted in the proposal, subject to shareholder approval at the 2023 AGM, to appoint EY as the Prudential external auditor for the financial year 2023.

The process ran from November 2019 to December 2020, was led by the Committee and was in compliance with statutory requirements and guidance issued by the FRC.

2. Governance

The objective of the audit tender was to select the best audit firm to provide a high quality, effective and efficient audit in succession to KPMG, recognising the business lines and geographical spread of the organisation. To ensure a transparent and robust selection and evaluation process, the Committee assumed responsibility for leading the tender process and recommending the preferred firm to the Board.

Prior to commencing the audit tender, two potential conflicts of interest were specifically recognised. These related to the Chair of the Committee's former positions and pension from PwC and the Group Chief Financial Officer and Chief Operating Officer's former position and pension from Deloitte. To mitigate the risk the Group Chief Internal Auditor was asked to support the audit tender process. In addition, with the Committee's agreement, the Chair recused himself from the final decision and asked Alice Schroeder to chair those meetings at which decisions regarding the tender were made.

3. Participants

Five firms were approached (three from the 'Big Four' and two 'challenger' firms). The two challenger firms chose not to take part in the process due to resources and strategic focus. Request for Information (RFI) letters were issued to the remaining candidate firms in November 2019. EY and PwC responded positively, confirming their intention to commit to the tender process and that they could meet the independence requirements. Deloitte noted potential independence concerns and subsequently withdrew from the process as they did not believe these could be resolved.

4. Scope of tender

The audit tender was designed to select the Prudential Group's external auditor, as well as the auditor for the business units across the group. The audit tender acknowledged that certain local companies within the Group had separate auditor rotation requirements.

5. Independence

Firms were asked to confirm that they would be able to demonstrate how independence would be achieved by no later than 31 December 2021, in accordance with the FRC Revised Ethical Standard 2019 and PCAOB auditing and related professional practice standards. In response, the firms confirmed their ability to assert their independence by 31 December 2021 and set out how this would be achieved in respect of:

- Current engagements (non-audit services) with Prudential;
- Prudential's management of the firm's investments and investments Prudential may hold in the firm;
- Internal procedures for dealing with the personal independence of the firm's partners, former partners and staff (in respect of direct investments, pensions of former partners and pensions held); and
- Other current business relationships with Prudential.

Prudential is satisfied that the required independence of the audit firm can be achieved.

6. Selection criteria

In order to codify what was required of the firms, a transparent set of selection criteria was devised and incorporated in scorecards used to evaluate the firms' proposals and presentations:

- *Core requirements* – the standards candidate firms were required to demonstrate to enable them to fulfil the audit of all in-scope business units within the Group; and
- *Further differentiators* – criteria designed to assist in distinguishing between the candidate firms should there be no clear difference based on the core requirements.

The selection criteria also took account of local qualification requirements to ensure that these were able to be satisfied.

7. Access to information

In order to ensure a level playing field (ie a fair, open and transparent tender process), between June and September 2020 both firms were given access to management and key stakeholders across the Group in order to help them understand the business and better tailor their proposals. These meetings included the Head Office locations and the principal business units. The information received by the candidate firms from these visits was supplemented with the provision of additional information made available through a virtual data room to ensure both firms had the same information.

8. Evaluation activities

The following activities were conducted to assess the firms and inform evaluation against each of the evaluation criteria:

- *Written proposals* – Prepared for the Group and principal business units.
- *Formal assessed presentations* – To the Audit Committee in Jackson National Life Insurance Company and Jackson National Asset Management, to Group Finance and a presentation to a panel in Prudential Corporation Asia which included the audit committee chairs of the Hong Kong and Singapore life businesses.
- *Meetings with chief finance officers of local business units in Asia and Africa* – To assess the firm's capability in local markets and their ability to perform the role of local statutory auditor.
- *Technical case studies* – Both firms participated in an exercise to help assess how they would work with Prudential on a technical matter.
- *Technology demonstration* – These events gave both firms the opportunity to set out their technology and innovation strategy and how this could enhance the quality of the audit; and
- *Formal Presentations to the Committee* – A summary of the assessments from the above process was presented to the Committee in advance of final formal presentations.

9. Evaluation

The Committee recommended both EY and PwC to the Board and considered both able to conduct a high quality audit of the Group. The Committee identified a first and second choice, and at its meeting on 3 December 2020 the Board resolved that it intends to recommend EY for appointment for the year ending 31 December 2023, subject to shareholders' approval at the AGM in 2023. In making this decision, the Board noted that EY had particularly differentiated themselves with the Asian experience of their team.

10. Transition

KPMG will remain the Group's auditor until 2023. Over the intervening period EY and the Group will start the transition process, including independence in respect of non-audit services and other business relationships globally and preparation for the introduction of revised accounting procedures IFRS 17 and IFRS 9.