



**PRUDENTIAL**

**Prudential plc**

英國保誠有限公司\*

*(Incorporated and registered in England and Wales under the number 01397169)*

**(Stock code: 2378)**

## **Prudential plc Group Audit Committee – Terms of Reference**

### **1. Constitution**

- 1.1 The Board of Directors hereby resolves to establish a Committee of the Board to be known as the Group Audit Committee, with Terms of Reference as set out below.
- 1.2 The Board will regularly review the Terms of Reference and may amend them from time to time.

### **2. Purpose**

- 2.1 The Committee shall be accountable to the Board and shall assist the Board in meeting its responsibilities for the integrity of the Company's financial reporting, including its obligations under stock exchange listing rules and under applicable laws and regulations, for the effectiveness of the Company's internal control and risk management systems and for monitoring the effectiveness and objectivity of the internal and external auditors.
- 2.2 The Committee is concerned with the whole of the Group's business, and has oversight responsibilities over financial reporting, internal control and audit processes Group-wide, and monitors the activities of business unit audit committees (comprising the Prudential Corporation Asia Audit Committee, the M&G Audit & Compliance Committee, the Prudential UK/Europe Audit Committee, the Prudential plc North American Audit Committee and the Prudential Capital plc Audit and Compliance Committee).

### **3. Authority**

The Board authorises the Group Audit Committee to:

- 3.1 establish an Auditor Independence Policy;
- 3.2 investigate any activity within its terms of reference, and make any recommendations to the Board which it deems appropriate on any area within its remit where action or improvement is needed;
- 3.3 seek any information that it requires from any director or employee of the Group, with access to all books, records and facilities of the Group, and from the board or committee of any subsidiary company, and the Board directs that directors of all Group companies and all employees co-operate with any request made by the Committee; and
- 3.4 obtain at the Group's expense appropriate external professional advice, through the Company Secretary, and if necessary invite external advisers with relevant experience to attend meetings of the Committee.

#### **4. Membership**

- 4.1 All members of the Committee and its Chairman shall be appointed by the Board. The Committee shall be selected from the independent Non-Executive Directors, and in any event shall comprise no fewer than three independent Non-Executive Directors. Independence shall be determined by the Board with reference to relevant legislation/regulation. The Chairman of the Board shall not be a member of the Committee.
- 4.2 The Board may nominate one or more of the Committee's members as a designated "audit committee financial expert", and at least one of the members shall be determined by the Board to have recent and relevant financial experience.
- 4.3 A quorum shall comprise two members of the Committee.
- 4.4 In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board shall not be the Chairman of the Committee.
- 4.5 The Committee may invite any director, executive, external auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the fulfilment of its duties.
- 4.6 The external auditor will be invited to attend meetings of the committee on a regular basis.
- 4.7 The Company Secretary or his nominee shall act as the Secretary of the Committee.

#### **5. Meetings**

- 5.1 The Committee shall meet at least quarterly, or more often if required, and where appropriate those meetings shall coincide with key dates in the Group's financial reporting cycle.
- 5.2 The Chairman of the Committee may call additional meetings to examine and consider such other matters related to its responsibilities as the Committee may consider desirable. External or internal auditors or any member of the Committee may request a meeting if they consider it necessary.
- 5.3 The Committee shall meet with the external auditor in private at least twice a year without the presence of the executives, to ensure that there are no unresolved issues of concern.
- 5.4 The Committee shall meet with the heads of internal audit and security in private at least once a year, without the presence of the executives, to ensure that there are no unresolved issues of concern.
- 5.5 The Chairman of the Committee shall be responsible for reporting to the Board. The secretary shall minute the proceedings and decisions of all meetings of the Committee and copies of minutes of all meetings and resolutions of the Committee shall be circulated to the members of the Committee and to the Board. The Secretary will retain copies of the minutes and papers.

#### **6. Duties**

The Committee, in carrying out its duties under these Terms of Reference, shall:

- 6.1 have regard to the UK Corporate Governance Code, the Corporate Governance Code under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd ("Hong Kong Corporate Governance Code") and statutory and regulatory obligations applicable to the Company, and any other relevant corporate governance codes.

## External Audit

- 6.2 at the beginning of each audit cycle, monitor that appropriate plans are in place for the audit and that the scope of the audit plans reflects the terms of the engagement letter;
- 6.3 discuss with the external auditor, before the audit commences, the nature and scope of the audit and review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements, and ensure the auditor's approach to the audit is sufficiently challenging;
- 6.4 following the audit, discuss and review the findings of its work with the external auditor, which shall include obtaining from the auditor a timely report relating to the audited financial statements confirming whether or not the auditor concurs with the critical accounting policies and their presentation adopted by management, and confirming whether there are any significant disagreements between the external auditor and management;
- 6.5 make recommendations, through the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment or removal of the external auditor;
- 6.6 oversee the selection process for new auditors and if an auditor resigns, investigate the issues leading to the resignation, deciding whether any action is required;
- 6.7 approve the terms of engagement in respect of statutory audit work for Prudential plc, including letters of engagement;
- 6.8 develop and implement an auditor independence policy on the engagement of the external auditor to supply non-audit services, taking into account relevant regulation and ethical guidance, and monitor that the nature and amount of non-audit work does not impair the auditor's independence and objectivity;
- 6.9 approve the external auditor's fees for audit and non-audit services, including pre-approval of any fees and authorisations with respect to permissible non-audit services provided by the external auditor in compliance with the auditor independence policy, so that the provision of permissible non-audit services does not impair the external auditor's independence or objectivity;
- 6.10 assess the performance and review and monitor the independence and objectivity of the external auditor and the effectiveness of the audit process, taking appropriate action to satisfy itself of such independence and objectivity;
- 6.11 monitor compliance by the external auditor with relevant ethical and professional guidance on rotation of audit partners, level of fees paid by the company compared to overall fee income of the firm, office and partner and other related requirements;
- 6.12 review on an annual basis the effectiveness of the external audit process, in compliance with the auditor independence policy;
- 6.13 monitor and review the effectiveness of the relationship between the external and internal auditors;
- 6.14 review any major external audit recommendations and consider management's response to them; ensuring management provide a timely response to issues raised in the external auditor's management letter;
- 6.15 resolve disagreements between management and the external auditor regarding financial reporting; and
- 6.16 set clear hiring policies for employees or former employees of the external auditor.

## Internal Audit

- 6.17 review the effectiveness and service provided by the Group's internal audit function;
- 6.18 review and assess the internal audit programme, and where appropriate request that internal audit undertakes specific work;
- 6.19 monitor that the internal audit function has appropriate standing within the Group and is free from constraint by management or other restrictions,
- 6.20 consider the remit of the internal audit function and ensure it is adequately resourced to perform its function effectively and in accordance with the relevant professional standards;
- 6.21 review and monitor significant findings from major investigations and management's response to such matters; and
- 6.22 approve the appointment or dismissal of the Group-wide Internal Audit Director.

## Compliance

- 6.23 consider the effectiveness of compliance arrangements and controls based on reports and advice from the Group Compliance Function;
- 6.24 review and assess the annual compliance plans for the Group; and
- 6.25 request that Group Compliance undertakes specific work where appropriate.

## Financial Crime and whistleblowing

- 6.26 review the procedures for handling allegations from whistleblowers (including arrangements for employees to raise concerns about financial reporting improprieties) and, upon request, review a log of all complaints within the ambit of applicable law requiring the Committee to establish such procedures;
- 6.27 review the procedures to combat financial crime, including money-laundering activities, fraud, sanctions and bribery; and
- 6.28 review whether proportionate and independent investigation of such matters has occurred.

## Internal control and risk management

- 6.29 keep under review the framework and effectiveness of the Group's systems of internal control, and in relation to controls over financial reporting, review whether management has discharged its duty to maintain the effectiveness of such systems, processes and controls (including the adequacy of resources, qualifications and experience of accounting and financial reporting staff and their training programmes and budget) and review any approvals for deviation(s) from the Group-wide minimum requirements of the framework; and
- 6.30 review and approve the statements to be included in the annual report concerning the effectiveness of internal controls and risk management.

## Financial reporting

- 6.31 monitor the integrity of financial reporting by the Company, and review and discuss with management the following documents prior to recommending them to the Board for approval:
  - 6.31.1 half-yearly and annual financial reporting, together with the related results announcements where applicable; and

- 6.31.2 other financial statements and material financial information, such as that required for quarterly interim management statements, US reporting or associated with a major corporate transaction, together with the related press releases where appropriate.
- 6.32 review the accounting policies adopted, their appropriateness, their presentation and the impact of any proposed changes;
- 6.33 review the extent of compliance with appropriate legislation, with Accounting Standards and other guidance, and the reasons for any deviations therefrom, and keep any developments affecting financial reporting under review;
- 6.34 receive and review the following reports from the Disclosure Committee:
  - 6.34.1 minutes of the meetings of the Disclosure Committee; and
  - 6.34.2 confirmation before the publication of any financial statements that the Disclosure Committee has completed its reviews of the financial statements and the related press releases and that it recommends their submission to the Board.
- 6.35 receive and review representations from the Group Chief Executive and Chief Financial Officer before the publication of any financial statements to the effect that they have disclosed to the Committee and to the external auditor:
  - 6.35.1 all significant deficiencies and material weaknesses in internal controls over financial reporting which could adversely affect the Company's ability to record, process, summarise and report financial information; and
  - 6.35.2 any fraud (whether or not material) that involves management or other employees who have a significant role in the Group's internal controls over financial reporting.
- 6.36 review, and challenge where necessary, the actions and judgements of management, in relation to the half-year and annual financial statements before submission to the Board, paying particular attention to:
  - 6.36.1 critical accounting policies and practices, and any changes in them;
  - 6.36.2 decisions requiring a major element of judgement;
  - 6.36.3 the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - 6.36.4 the clarity of disclosures;
  - 6.36.5 significant adjustments resulting from the audit;
  - 6.36.6 the going concern assumption;
  - 6.36.7 compliance with accounting standards;
  - 6.36.8 compliance with provisions of the UK Corporate Governance Code, the Hong Kong Corporate Governance Code, the UK Listing Authority's rules, and obligations under other applicable laws and regulations;
  - 6.36.9 management's and the external and internal auditors' reports on the effectiveness of systems for internal control, financial reporting and risk management;
  - 6.36.10 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to audit and the effectiveness of risk management);

- 6.36.11 any management representation letters requested by the auditor before they are signed by management; and
- 6.36.12 any comment letters from the Financial Reporting Review Panel, the Securities Exchange Commission, or any other relevant regulator.
- 6.37 review the litigation report and the proposed litigation statement for inclusion in the statutory accounts; and
- 6.38 provide to the Board such additional assurance as it may reasonably require regarding the reliability of financial information submitted to it.

#### Group Governance Framework

- 6.39 review the effectiveness of the Group Governance Framework, and any approvals for deviation(s) from Group policies as defined by the Group Governance Framework.

#### Other

- 6.40 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;
- 6.41 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;
- 6.42 consider any other matters, as requested by the Board from time to time; and
- 6.43 compile a report to shareholders on its activities to be included in the Company's annual report and its US annual report on Form 20-F.

Approved by the Prudential plc Board on 12 December 2012.

*\* For identification purposes*