



**MANULIFE INSURANCE BERHAD**  
(Incorporated in Malaysia)

**TERMS OF REFERENCE OF AUDIT COMMITTEE**

**1. Establishment**

- 1.1 The Board of Directors ('the Board') is required to form a committee of directors to perform the role of the Audit Committee. The Company which is part of a Group shall have its own Audit Committee that is separate from that of the Group.
- 1.2 The Board should establish written terms of reference for the Audit Committee that should provide a clear understanding of the Audit Committee's role. The terms of reference should be made available to Board members, management and internal auditors and should include the matters outlined in the following paragraphs.

**2. Composition of the Audit Committee**

- 2.1 The Audit Committee must
  - (a) have at least three (3) directors;
  - (b) have a majority of independent directors;
  - (c) be chaired by an independent director; and
  - (d) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the board committee.
- 2.2 The members of the Audit Committee should be appointed by the Board of the Company, after taking into consideration the recommendations of the Group Nominating/Remuneration Committee of Manulife Holdings Berhad. In determining the appropriate size and composition of the Audit Committee, the Board should in particular, take into consideration the necessary mix of skills and experience required for the Audit Committee to effectively discharge its responsibilities.

**3. Qualification, Experience, Knowledge and Skills**

- 3.1 Candidates for the Audit Committee should have sound judgment, objectivity, an independent attitude, management experience and adequate knowledge of the industry. They should be committed to the task and demonstrate a keen perception of the internal control environment within the Company and an ability to make probing inquiries.

- 3.2 Collectively, the Audit Committee should have a wide range of necessary skills to undertake its duties and responsibilities. All Audit Committee members should be able to understand the financial reporting process and be financially literate.
- 3.3 In addition, in view of the important role of the Audit Committee in ensuring that there are adequate checks and balances within the operations of the Company, all Audit Committee members, either individually or collectively, are also expected to be familiar with areas included in the scope of internal audits, which covers risk management, underwriting, investment and claims management.

#### **4. Independence of Audit Committee Members**

- 4.1 As best practice, all Audit Committee members shall be independent. Where this cannot be achieved, the majority of the Audit Committee members, including the Chairman of the Audit Committee, should be independent. In the absence of the Chairman of the Audit Committee, the members of the Audit Committee shall elect a Chairman from amongst themselves who shall be an independent non-executive director.
- 4.2 An independent director is independent in character and judgment, and free from associations or circumstances that may impair the exercise of his independent judgment. An individual must not be considered to be an independent director if he or any person linked to him:
- (a) has been an executive in the last two years;
  - (b) is a substantial shareholder of the financial institution or any of its affiliates; or
  - (c) has had a significant business or other contractual relationship with the financial institution or any of its affiliates within the last two years.

#### **5. Authority**

- 5.1 The Audit Committee should have explicit authority to investigate any matter within its terms of reference and full access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the Company.
- 5.2 The Audit Committee should be kept regularly updated on audit matters and be notified immediately of any fraud and significant irregularities or internal control deficiencies discovered by management or the internal audit department. Fraud and irregularities discovered by management should be referred to the internal audit department for investigation.

- 5.3 The Audit Committee should have access to copies of audit reports (including interim financial audits) on a timely basis and should be kept regularly informed of corrective actions arising from internal and external audit findings.
- 5.4 The Audit Committee should have adequate resources to perform its duties and discharge its responsibilities and should be authorised to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
- 5.5 The Audit Committee should have direct communication channels with the external auditors and the internal audit department.
- 5.6 The Audit Committee shall be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of Manulife, whenever deemed necessary.

## **6. Meetings**

- 6.1 The Audit Committee should meet regularly, with due notice of issues to be discussed, and should record its conclusions in discharging its duties and responsibilities.
- 6.2 In addition, the Chairman of the Audit Committee should call a meeting of the Audit Committee if requested to do so by any Audit Committee member, the management or the internal or external auditors.
- 6.3 The quorum for Audit Committee meetings should be at least two thirds of the members with independent directors forming the majority. Seven (7) days' notice of Audit Committee Meetings shall be given to all Audit Committee members unless the Audit Committee waives such requirement.
- 6.4 If at any meeting, the Audit Committee Chairman is not present within 15 minutes after the time for holding the meeting, the members present may choose one (1) of their members to be the Chairman of the meeting.
- 6.5 The Chief Finance Officer, Head of Finance and the Head of Internal Audit should normally attend the Audit Committee meetings. A representative of the external auditors should attend the meetings as and when required. Other Board members may attend meetings upon invitation of the Audit Committee. While the Audit Committee may invite any person to be in attendance to assist it in its deliberations, the Audit Committee should ensure that it meets exclusively when necessary.

- 6.6 The Company Secretary should act as Secretary of the Audit Committee and should be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to the Audit Committee members within a reasonable timeframe prior to each meeting.
- 6.7 The Secretary should also be responsible for keeping the minutes of meetings of the Audit Committee, their timely circulation to Audit Committee members and other members of the Board, and following up on outstanding matters in relation to the meetings.
- 6.8 Questions arising at any meeting of the Audit Committee shall be decided by a majority of votes of the members present, and in the case of equality of votes, the Chairman of the Audit Committee shall have a second or casting vote.
- 6.9 A resolution in writing signed by all members of the Audit Committee for the time being entitled to receive notice of a meeting of the Audit Committee, shall be as valid and effectual as if it had been passed at the meeting of the Audit Committee duly convened and held. Any such resolution may consist of several documents in like form, each signed by one (1) or more members of the Audit Committee.
- 6.10 The Chairman of the Audit Committee should provide written reports to the Board on the deliberations of the Audit Committee on a regular basis. In addition, the Chairman should also present a summary of all significant matters (highlighting the risks and implications) and resolutions made by the Audit Committee at Board meetings.
- 6.11 The Chairman of the Audit Committee should engage on a continuous basis with senior management, such as the Chairman of the Board, the Chief Executive Officer, the Finance Director, the Head of Internal Audit and the external auditors in order to be kept informed of matters affecting the Company.

## **7. Duties and responsibilities**

The Audit Committee's duties and responsibilities in relation to the internal audit and external audit function should include the following:-

### *7.1 Internal audit*

The Audit Committee should:-

- (a) Ensure that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives;
- (b) Ensure the effective organisation of the internal audit function, with due regard to the professionalism, capacity and competence of the internal audit personnel;
- (c) Review and approve the audit plan, audit charter and budget required, under Part B of the Guidelines on Principles for Effective Internal Audit Function (BNM/RH/GL 003-22);
- (d) Ensure that reporting relationships of the internal audit staff do not impede the exercise of independent judgment by the internal auditors. In particular, internal audit reports should not be subject to the clearance of the Chief Executive Officer or any executive director.
- (e) The Audit Committee should also review the internal audit programme, results of the internal audit process and the scope of internal audit procedures, in particular:-
  - i. Any restrictions placed on access by the internal auditors to any of the Company's records, assets, personnel or processes which are relevant to the conduct of audits;
  - ii. Appropriateness of the risk assessment methodology employed pursuant to Part B BNM/RH/GL 003-22 to determine the frequency and scope of audits, having regard to the nature, size and complexity of the Company's operations;
  - iii. Compliance with internal auditing standards; and
  - iv. Coordination between internal and external auditors.
- (f) Audit Committee members should ensure that they are adequately informed of, and understand, the risks and implications of internal audit findings and recommendations. The Audit Committee should pay particular attention to internal audit assessments of:-
  - i. Compliance with Company policies, relevant laws and regulatory requirements;
  - ii. Effectiveness of internal controls in critical areas of operations (e.g. accounting, underwriting, claims, investment, derivatives and information technology management); and
  - iii. Management's responsiveness to, and corrective actions taken in respect of; internal audit findings and recommendations.

- (g) The Audit Committee should ensure that all findings and recommendations are resolved effectively and in a timely manner.
- (h) The Audit Committee should note any significant disagreements between the internal auditor and management irrespective of whether they have been resolved in order to identify any impact that this may have on the audit process or findings.
- (i) Resources and staffing. The Audit Committee should ensure on an ongoing basis the internal audit department has adequate and competent resources, given the size and complexity of the Company's operations. In this respect, the Audit Committee should:-
  - i. Review any appraisal or assessment of the performance of members of the internal audit function;
  - ii. Approve any appointment or termination of senior staff members of the internal audit function; and
  - iii. Take cognisance of resignations of internal audit staff members and provide the resignation staff member an opportunity to submit his reasons for resigning.

The Audit Committee should ensure that internal audit staff receives necessary training to perform audit work. In this respect, there should be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function.

The Head of Internal Audit shall report directly to the Audit Committee and shall have direct access to the Chairman of the Audit Committee.

## 7.2 *External auditor*

- (a) Appointment of external auditor. The Audit Committee is responsible for the appointment, resignation or dismissal of the external auditor, having particular regard to the external auditor's objectivity, performance and independence.
- (b) The Audit Committee should:-
  - i. Review and assess various relationships between the external auditor and the Company or any other entity that may impair or appear to impair the external auditor's judgement or independence in respect of the Company.
  - ii. Review and assess fees paid to the external auditor, considering economic importance of a company (in terms of total fees paid) to the external auditor; fees paid for non-audit services as a

proportion of total fees; and whether an effective, comprehensive and complete audit could be reasonably conducted for the audit fee paid.

- iii. Investigate reasons for any request made by management to dismiss the external auditor, or any resignation by the external auditor.
- iv. Approve the provision of any non-audit services by the external auditor. The Audit Committee's decisions with respect to the provision of non-audit services should be documented in a statement which outlines whether or not it believes the level of provision of non-audit services by the external auditor is compatible with maintaining the external auditor's independence together with supporting reasons.

(c) Audit plan, findings and recommendations. The Audit Committee should review:-

- i. With the external auditor, the audit plan prior to the commencement of the annual audit, the nature and the scope of audit.
- ii. The Quarterly and year ended financial statements.
- iii. Audit reports , including obligatory reports to BNM on mailers covered under Section 82 of the Insurance Act, 1996;
- iv. Any significant disagreements between the external auditor and management irrespective of whether they have been resolved in the absence of management where necessary.
- v. Any other findings, issues or reservations faced by the external auditor arising from interim review and year end audit results.

The Audit Committee should also review and monitor management's responsiveness to and action taken on external audit findings and recommendations. In this regard, the Audit Committee should ensure that all findings and recommendations are resolved effectively and in a timely manner.

In order to allow external auditors to express concerns, problems and reservations arising from financial audits effectively, the Audit Committee should meet at least twice a year with the external auditors in the absence of management/executive Board members.

## 8. Other Responsibilities

The Audit Committee should also:

(a) Review:-

- i. The interim financial reports and preliminary announcements;
  - ii. Corporate governance disclosures made in the Directors' Report pursuant to the requirement in Corporate Governance for Insurers and be satisfied that any departure from the Framework principles and the circumstances justifying such departure are sufficiently explained;
  - iii. All representation letters signed by management, and be satisfied that the information provided is complete and appropriate;
  - iv. External auditor's management letter and management's response; and
  - v. Any related-party transactions and conflicts of interest situations that may arise within the Company including any transaction, procedure or conduct that raises questions of management's integrity.
- (b) Prepare an annual report to the Board that provides a summary of the activities of the Audit Committee for inclusion in the Company's annual report;
- (c) Assist the Board of the Company in the following for publication in the Company's annual report:-
- i. Statement on the Company's application and extent of compliance with the Malaysian Code of Corporate Governance 2012; and
  - iii. Statement of the Board's responsibility for preparing the annual audited accounts.
- (d) Ensure that the Company complies with Section 95 of the Insurance Act, 1996 which requires an insurer to publish its accounts within fourteen (14) days of the laying of its accounts at its annual general meeting;
- (e) Ensure that the Company's accounts are prepared in a timely and accurate manner for regulatory, management and general reporting purposes, with regular reviews carried out on the adequacy of provisions made;
- (f) Ensure that supervisory issues raised by BNM are resolved in a timely manner;
- (g) The Audit Committee shall also be responsible for any other functions as may be determined by the Board and reflected in its terms of reference.

## 9. Reporting to Bank Negara Malaysia

The Audit Committee shall submit to BNM, a summary of material concerns/weaknesses in the internal control environment of the Company noted during the year and the corresponding measures taken to address these weaknesses.



This should be submitted together with the annual report on the Audit Committee and its activities which is submitted to BNM pursuant to principle 18 of JPI/GPI 25.

## **10. Minutes**

- 10.1 The Secretary shall keep the minutes of the Audit Committee meetings at the Company's registered office.
- 10.2 The minutes shall be signed by the Chairman of the Audit Committee Meeting at which the proceedings were held or by the Chairman of the next succeeding meeting.
- 10.3 As a reporting procedure, the minutes shall be circulated to all members of the Board.