

Group Secretariat

Group Audit Committee Terms of Reference

Approved on:
30 January 2019



RSA Insurance Group plc
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RSA Insurance Group plc (the 'Company')

GROUP AUDIT COMMITTEE (the 'Committee') - TERMS OF REFERENCE

1. Principal Function

- 1.1 The board of directors of the Company (the 'Board') is responsible for directing the affairs of the Company and the RSA Insurance Group plc group of companies (the 'Group') in a manner that meets both shareholder and regulatory requirements and is consistent with current corporate governance best practice standards, and the Company's Articles of Association.
- 1.2 The Board is also ultimately responsible to the Prudential Regulation Authority for ensuring compliance with the Group's financial regulatory obligations.
- 1.3 Where the Board can demonstrate it is acting within its over-arching obligations of good faith and duty of care, it is able to delegate the discharge of certain of its responsibilities.
- 1.4 The delegated purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Company's financial statements, for oversight of the effectiveness of the systems of internal control and financial and regulatory risk management systems, and for monitoring the effectiveness and objectivity of the internal and external auditor.
- 1.5 The Committee should, where appropriate, be mindful of the views and interests of its shareholders and stakeholders when discharging its duties and responsibilities.
- 1.6 The following specific responsibilities have been delegated to the Committee:
 - (A) co-ordination and oversight of the integrity of the financial reporting process;
 - (B) monitoring compliance with relevant regulations, industry codes and legal requirements;
 - (C) oversight of internal audit functions and external auditor;
 - (D) management of the effectiveness of the systems of internal controls; and
 - (E) providing assurance to the Board on the effectiveness of the Group's financial and regulatory risk management arrangements.

2. Membership

- 2.1 The Committee members shall be appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Chair of the Committee and shall comprise at least three members all of whom shall be independent Non-Executive Directors. The Chairman of the Board shall not be a member of the

Committee. Membership shall include at least one member of the Board Risk Committee.

- 2.2 At least one member of the Committee should have recent and relevant financial experience and the Committee as a whole shall have competence relevant to the financial services sector in which the Company operates.
- 2.3 Care shall be taken to minimise the risk of any conflict of interest that could arise.
- 2.4 The Board shall appoint the Committee Chairman on the recommendation of the Nomination Committee and determine the period for which they shall hold office. In the absence of the Committee Chairman, the remaining members present shall elect one of their number to chair the meeting.

3. Attendance

- 3.1 Only Committee members have the right to attend Committee meetings. The Committee may invite any directors, other executives of the Group or external professional advisors to attend all or part of any meetings as and when appropriate. The following are usually invited to attend Committee meetings:
 - (A) the Group Chief Executive;
 - (B) the Group Chief Financial Officer;
 - (C) the Group Chief Auditor;
 - (D) the Group Financial Controller;
 - (E) the Group Chief Risk Officer;
 - (F) the Group and UK Regulatory Compliance Director;
 - (G) a representative of the external auditor; and
 - (H) the Group Chief Legal Officer and Company Secretary.

The Chairman of the Company has a standing invitation to attend the Committee.

- 3.2 If a regular Committee member is unable to attend due to absence, illness or any other cause the Chairman of the Committee may appoint an independent Non-Executive Director to serve as an alternate member, maintaining the quorum set out in paragraph 5.1 below.

4. Secretary

The Group Chief Legal Officer and Company Secretary or his or her duly appointed nominee shall act as Secretary to the Committee.

5. Quorum

- 5.1 The quorum necessary for the transaction of business shall be two members of the Committee.

- 5.2 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise any or all of the authorities, powers and discretions vested in or exercisable by the Committee.
- 5.3 The Committee may meet for the despatch of business, adjourn and otherwise regulate meetings as they think fit. Without prejudice to the foregoing, all members of the Committee may participate in a meeting of the Committee by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to hear each other. A member of the Committee so participating shall be deemed to be present in person at the meeting and shall be entitled to fully participate and be counted in the quorum accordingly.

6. Frequency of meetings

- 6.1 The Committee shall meet at least four times each year at appropriate times in the reporting and audit cycle and at such other times as otherwise required.
- 6.2 Each year, the Committee shall have at least one meeting, or part thereof, with the external auditor the Group and UK Regulatory Compliance Director, the Group Chief Actuary and the Group Chief Auditor without any employed executives who are members of the Board or management being present.

7. Notice of meetings

- 7.1 Meetings of the Committee shall be convened by the Secretary to the Committee at the request of any of its members. Meetings can be requested by management, the external or internal auditors if they consider it necessary.
- 7.2 Unless otherwise agreed, notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee and to other attendees as appropriate prior to the date of the meeting.

8. Minutes of meetings

- 8.1 The Secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance. The Secretary shall also minute the proceedings and resolutions of any meetings, between the Non-Executive Directors, the internal auditors, the external auditors or the Group Chief Actuary where executive management are not present, at the discretion of the Committee Chairman.
- 8.2 The members of the Committee shall, at the beginning of each meeting, declare the existence of any conflicts of interest arising and the Secretary shall minute them accordingly.
- 8.3 Draft minutes of Committee meetings shall be circulated promptly to the Committee Chairman and once agreed to all members of the Committee.
- 8.4 Once approved, minutes of Committee meetings shall be circulated to all members of the Board unless it would be inappropriate to do so.

9. Annual General Meeting

The Chairman of the Committee shall attend the Annual General Meeting and respond to any shareholder questions on the Committee's activities and responsibilities.

10. Responsibilities

The Committee's obligations shall include oversight and challenge of the effectiveness of the financial and regulatory risk and internal controls of the Group's regulated entities. Utilising common memberships the Committee shall work collaboratively with other Group committees including but not limited to the Board Risk and Remuneration Committees to address any overlapping themes arising from time to time. The Committee's responsibilities shall include but shall not be limited to:

10.1 Internal control

The Committee shall:

- (A) keep under review the adequacy and effectiveness of the Company's financial and Solvency II reporting, internal controls and financial and regulatory risk management systems including receiving regular integrated assurance reports; and
- (B) review the Company's annual statement on its systems of internal control and risk management prior to endorsement by the Board. In reviewing the effectiveness of internal controls, consideration shall include:
 - (i) the changes since the last annual assessment in the nature and extent of significant and emerging risks, and the Company's ability to respond to changes in its business and the external environment;
 - (ii) the scope and quality of management's ongoing monitoring of risks and of the system of internal control, and, where applicable, the work of its internal audit function and other providers of assurance;
 - (iii) the extent and frequency of reporting to the Board (or Board committee(s)) which enables the Committee to build up a cumulative assessment of the state of the system of internal control in the Company and the effectiveness with which risk is managed;
 - (iv) the incidence of significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and

10.2 Financial and Regulatory risk management systems

The Committee shall oversee the effectiveness of the Group's financial and regulatory risk control arrangements and in particular:

- (A) consider any matters relevant to the Group's risk management that may be referred to it by the Board or the Board Risk Committee; and
- (B) monitor, co-ordinate and make recommendations to the Board concerning the effectiveness of the Group's compliance with legal and regulatory requirements of each territory in which the Group transacts business, and shall review:
 - (i) reports from the Group and UK Regulatory Compliance Director on compliance and regulatory risk management issues and activities throughout the Group;
 - (ii) the Group Compliance team's annual plan and approve the compliance strategy, annual plan and the role of Regulatory Compliance;
 - (iii) any non-compliance with the required close or prohibited periods for trading in the Group's securities by employees and advisers classified as insiders; and
 - (iv) any other matter relevant to the Group's world-wide legal and compliance obligations, including any matters referred to it by the Board Risk Committee.
- (C) The Group and UK Regulatory Compliance Director shall be offered direct access to the Chairman of the Committee and, where necessary, the Chairman of the Board.

10.3 Whistleblowing

The Committee shall:

- (A) review and consider the means by which the workforce can raise concerns both anonymously and in confidence; and
- (B) ensure such measures are routinely reviewed together with reports arising from such procedures; and
- (C) ensure that arrangements are in place for the proportionate and independent investigation of such matters and for necessary follow-up action to be facilitated; and
- (D) report its findings and make recommendations on the same to the Board on all matters referred to in (A) to (C) above to the Board; and
- (E) receive and review a report on whistleblowing activities annually.

10.4 Fraud

The Committee shall:

- (A) review the Company's procedures for detecting fraud; and

- (B) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

10.5 Financial Crime

The Committee shall:

- (A) receive a report at least annually on the Company's systems and controls for the prevention of financial crime and approve the Financial Crime Assurance Plan annually.

10.6 Data Protection

The Committee shall:

- (A) in line with the General Data Protection Regulation – May 2018, receive a report at least annually on the Company's systems and controls for the protection and management of personal data and approve the Personal Data Protection- Assurance Framework

10.7 Internal audit

The Committee shall provide oversight of the internal audit function, in particular:

- (A) approve the appointment and removal of the Group Chief Auditor;
- (B) consider and approve the mandate of the internal audit function on an annual basis;
- (C) review, assess and approve the annual internal audit programme, ensuring that it is aligned to the key risks of the business, and costs and ensure the internal audit function is independent, adequately resourced and has appropriate standing within the Company;
- (D) receive regular reports from the internal auditor and review findings and recommendations;
- (E) review and monitor management's responsiveness to internal audit reports;
- (F) review and monitor the effectiveness of the internal audit function in the context of the Company's financial and regulatory risk management systems; and
- (G) The Group Chief Auditor shall be offered direct access to the Chairman of the Committee and, where necessary, the Chairman of the Board.

10.8 External audit

The Committee shall:

- (A) consider and make recommendations to the Board for shareholder approval, regarding the appointment, re-appointment or removal of the Company's external auditor;

- (B) conduct a competitive tender process for the selection of the external auditor at least once every ten years;
- (C) approve the terms and scope of the external auditor's engagement and fees in relation to the audit of the Company's and its subsidiaries statutory accounts and approve the engagement letter for each financial year;
- (D) agree the appointment of the Audit Engagement Partner with the external auditor;
- (E) should the external auditor resign, investigate the issues leading up to the resignation and decide whether any action is required;
- (F) oversee the relationship with the external auditor including (but not limited to):
 - (i) at the start of each audit year meet with the external auditor to discuss the nature and scope of the audit plans;
 - (ii) approving the terms of engagement and the remuneration to be paid to the external auditor in respect of the audit services provided;
 - (iii) meeting with the external auditor to discuss the findings of their work, including any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved, key accounting and audit judgments, levels of errors identified during the audit, obtaining explanations from management and the external auditor as to why certain errors might remain unadjusted and the overall effectiveness of the audit. All errors and non-adjusting items are to be made available to the Committee;
 - (iv) reviewing the audit representation letter before consideration by the Board, giving particular consideration to matters that relate to non-standard issues;
 - (v) reviewing and monitoring as appropriate the external auditor's observations on controls and processes, in order to assess whether they are based on a good understanding of the Group's businesses. Management's response shall be considered by the Committee and the Committee shall monitor whether recommendations have been acted upon, and if not, the reasons why;
 - (vi) assessing the qualification, expertise, resources, independence and objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
 - (vii) approving and monitoring compliance with the Procedure for Approval of Non-Audit Services on the engagement of the external auditor to supply non-audit services, and make recommendations to management in respect of any actions or improvements required;

- (viii) monitoring and annually assessing the independence and objectivity of the external auditor taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- (ix) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner at least every five years, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- (x) consideration of the external auditor's own internal quality control and independence procedures;
- (xi) approving and monitoring compliance with the policy on the employment of former employees of the Company's external auditor;
- (xii) discussions with the external auditor concerning such issues as compliance with accounting standards and any proposals which the external auditor have made in relation to the Company's internal auditing standards;
- (xiii) seeking to ensure co-ordination of all aspects of the external audit and system of internal controls, with the activities of the internal audit function; and
- (xiv) reviewing the effectiveness of the external auditor and the audit on an annual basis including consideration of whether the external auditor met the agreed audit plan and why any changes came about, the robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements and in their communications with the Committee and feedback on the conduct of the audit from relevant executive management.

10.9 Financial and Solvency II reporting

The Committee shall have oversight and consider the integrity of the financial reporting process and in particular:

- (A) keep under review the consistency of accounting policies both on a year to year basis and across the Company and the Group;
- (B) report to the Board on the effectiveness of the Group's procedures for reviewing disclosure and presentation;
- (C) review and challenge where necessary the actions and judgments of management in relation to the Company's financial statements, strategic report, half year reports, preliminary announcements, interim management statements and related formal statements, taking into account the recommendations of the Continuous Disclosure Committee before submission to, and approval by, the Board and before clearance by the external auditor;

- (D) where requested by the Board, provide advice on whether the annual report and accounts, taken as whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- (E) where requested by the Board, review any Solvency II reports required to be submitted to the Prudential Regulatory Authority; and
- (F) With respect to (A) to (E) above, review and challenge where necessary:
 - (i) the consistency of and any changes to the Group's critical accounting policies and practices, on a year on year basis;
 - (ii) decisions requiring a major element of judgment, including reserving information;
 - (iii) the extent to which the financial statements are affected by any significant or unusual transactions and how they are disclosed;
 - (iv) the clarity of disclosures and the context in which statements are made, paying particular attention to any matters which are referred to it by the Board or the Continuous Disclosure Committee;
 - (v) significant adjustments resulting from the audit;
 - (vi) use of the going concern assumption and the viability statement;
 - (vii) compliance with accounting standards and whether management have made appropriate estimates and judgements, taking into account the views of the external auditor;
 - (viii) compliance with stock exchange and other legal requirements in relation to financial and Solvency II reporting;
 - (ix) the statement on internal control systems prior to endorsement by the Board; and
 - (x) all material information presented with the financial statements, such as the business review, financial review and corporate governance statement as it relates to the audit and risk management.

11. Reporting Responsibilities

- 11.1 The Chairman of the Committee shall report formally to the Board on its proceedings after each meeting including reporting on the outcome of the statutory audit and how it contributed to the integrity of financial reporting and what the Committee's role was in the process.
- 11.2 Where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Company it shall report its views to the Board in good time before the planned publication.

11.3 The Committee shall:

- (A) at least once a year, review its own performance, constitution and terms of reference to ensure it is operating effectively, and recommend any changes it considers necessary to the Board;
- (B) prepare a report as part of the Company's Annual Report and Accounts describing the Committee's activities key considerations and conclusions during the relevant financial year in compliance with relevant law, regulation and best practice; and
- (C) make available its terms of reference in accordance with the provisions of the recommendations contained within the UK Corporate Governance Code (FRC, prevailing edition).

12. Other matters

The Committee shall:

- (A) oversee the relationships between the risk, compliance, finance, internal audit and external audit functions for alignment and overlap to ensure they are coordinated and operating effectively to avoid duplication;
- (B) have access to sufficient resources in order to carry out its duties, including access to the Group's Secretariat for 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; and
- (D) give due consideration to the requirements of the UK Listing Authority's Listing Rules, Disclosure and Transparency Rules, Prospectus Rules, the provisions of the Code and any other relevant laws or regulations in force from time to time.

13. Authority

The Committee is authorised by the Board to:

- 13.1 investigate any activity within its terms of reference;
- 13.2 seek any information it reasonably requires in order to effectively perform its duties;
- 13.3 obtain, at the Company's expense, independent legal or other professional advice on any matters within its terms of reference;
- 13.4 call any member of staff to be questioned at a meeting of the Committee as and when required; and
- 13.5 delegate any of its duties as is appropriate to such persons or person as it thinks fit whilst retaining responsibility and oversight for any and all actions taken.