

Group Secretariat

Group Audit Committee Terms of Reference

Approved on:

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RSA Insurance Group plc
20 Fenchurch Street
London EC3M 3AU

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

1. Principal Function

- 1.1 The delegated purpose of the Committee is to assist the Board of RSA Insurance Group plc (**the Board**) in discharging its responsibilities for RSA Insurance Group plc (**RSAIG**) and Royal & Sun Alliance Insurance plc (**RSAI**) (**the Companies**):
- the integrity of the financial statements for the Companies;
 - oversight of the effectiveness of the systems of internal control for RSAIG and its subsidiaries (the Group); and
 - monitoring the effectiveness and objectivity of the internal and external auditor.
- 1.2 The Committee should, where appropriate, be mindful of the views and interests of its shareholders and stakeholders, including customers, when discharging its duties and responsibilities.
- 1.3 The following specific responsibilities have been delegated to the Committee:
- co-ordination and oversight of the integrity of the financial reporting process;
 - oversight of the internal audit functions and the external auditor;
 - oversight and challenge of the effectiveness of the Group's internal control including financial reporting and financial controls; and
 - providing assurance to the Board on the effectiveness of the Group's internal control 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 (in accounting or audit or both) and the Committee as a whole shall have competence relevant to the financial services sector in which the Companies operate.
- 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.
- 3.2 The Group Chief Financial Officer, Group Financial Controller, Group Chief Auditor, Group Chief Legal Officer and Company Secretary, Group Chief Risk Officer or their representatives and representative(s) of the external auditor shall be expected to attend Committee meetings. For the avoidance of doubt, they are not members of the Committee.
- 3.3 The Chairman of the Board has a standing invitation to attend the Committee.
- 3.4 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

- 4.1 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. Attendance by an alternate shall count towards the quorum.
- 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 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 the Chair of the Committee or 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, on request and 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

- 9.1 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 should carry out the duties below for RSAIG plc and RSAI plc (unless otherwise indicated) and the Group as a whole, as appropriate. The Committee's responsibilities shall include but shall not be limited to:

10.1 Internal control

The Committee shall:

- keep under review the adequacy and effectiveness of the Group's financial and other internal controls including reserving, financial crime, fraud and whistleblowing and receive regular assurance reports on these controls;
- monitor and review the incidence of significant control failings or weaknesses that have been identified 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 effectiveness of the internal control environment and the implementation by management of appropriate actions;

- review at least annually, and report to the Board on, the effectiveness of internal controls including consideration of:
 - (i) all material controls, including financial, operational and compliance controls and the procedures for monitoring effectiveness;
 - (ii) the changes in the nature and extent of significant and emerging risks since the last annual assessment;
 - (iii) 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; and
 - (iv) 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 Group and the effectiveness with which risk is managed.
- review the Company's annual statement on its systems of internal control in the Annual Report and Accounts prior to endorsement by the Board.

10.2 Compliance

In relation to **Whistleblowing**, the Committee shall:

- receive and review a report on whistleblowing activities annually;
- review and consider the means by which the workforce can raise concerns both anonymously and in confidence and ensure that arrangements are in place for the proportionate and independent investigation of such concerns and appropriate follow-up action;
- ensure the whistleblowing arrangements are routinely reviewed together with reports arising from such procedures; and
- report its review and make recommendations on matters referred to above to the Board, as appropriate.

In relation to **Fraud**, the Committee shall:

- review the Group's procedures for detecting fraud; and
- review the Group's systems and controls for the prevention of bribery and receive reports on any non-compliance.

In relation to **Financial Crime**, the Committee shall:

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

10.6 Internal audit

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

- receive regular reports from the Group Chief Auditor and review and discuss internal audit's findings, management's response and actions;
- review and approve the purpose, mandate, scope of activities, and responsibilities of the internal audit function (i.e. the Charter) on an annual basis;
- review annually and monitor the quality and effectiveness of the internal audit function;
- consider whether an independent, third party review of processes is appropriate;
- review and approve the budget and ensure the internal audit function has a low risk to independence and objectivity, and is adequately resourced;
- review, approve and monitor the six monthly internal audit plan and coverage, ensuring that it is aligned to the key risks of the business, including emerging and systemic risks;
- approve the appointment and removal of the Group Chief Auditor;
- on behalf of the Committee, the Chairman of the Committee shall approve the objectives of the Group Chief Auditor and appraise their performance at least annually, taking into account the views of the Chief Executive;
- where the tenure of the Group Chief Auditor exceeds seven years, the Committee should explicitly discuss the Committee Chairman's assessment of the Group Chief Auditor's independence and objectivity, and thereafter the Committee should consider this matter annually;
- on behalf of the Committee, the Chairman of the Committee shall review and consider the recommendation of the remuneration of the Group Chief Auditor; and
- ensure that the Group Chief Auditor shall have direct access to the Chairman of the Committee.

10.7 External audit

The Committee shall:

- consider and make recommendations to the Board for shareholder approval regarding the appointment, re-appointment or removal of the Group's external auditor;
- develop and oversee a competitive tender process for the selection of the external auditor as required;
- should the external auditor resign, investigate the issues leading up to the resignation and decide whether any action is required;
- oversee the relationship with the external auditor including (but not limited to):
 - (i) agreeing the appointment of the Audit Engagement Partner with the external auditor;
 - (ii) approving the remuneration of the external auditors and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
 - (iii) approving the terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iv) reviewing the external audit plan and ensuring that it is consistent with the scope of the audit engagement;
 - (v) meeting with the external auditor to discuss the findings of their work, including, but not limited to:
 - (a) any major issues that arose during the course of the audit;
 - (b) the auditor's explanation of how the risks to audit quality were addressed;
 - (c) key accounting and audit judgments;
 - (d) the auditor's view of their interactions with senior management;
 - (e) the level of errors identified during the audit; and
 - (f) compliance with accounting standards and any proposals which the external auditor have made in relation to the Group's internal auditing standards.
 - (vi) reviewing the representations made in the audit representation letter for the Group and RSAI before consideration by the board of RSAIG and RSAI;
 - (vii) reviewing and monitoring the external auditor's observations report on controls and processes and management's response for RSAIG and RSAI;

- (viii) monitoring and assessing annually the independence and objectivity of the external auditor, taking into consideration relevant professional and ethical standards, the Group's relationship with the auditor as a whole, and regulatory requirements including the rotation of the audit partner and the provision of non-audit services;
- (ix) consideration of the external auditor's own internal quality control and independence procedures;
- (x) 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;
- (xi) approving and monitoring compliance with the policy on the employment of former employees of the Group's external auditor;
- (xii) seeking to ensure co-ordination of the external audit with the activities of the internal audit function; and
- (xiii) annually reviewing, and reporting to the Board on, the qualifications, expertise and resources of the external auditor and the effectiveness and adequacy of the audit process including feedback on the conduct of the audit from relevant executive management, and taking into consideration relevant professional and ethical standards, and regulatory requirements.

10.8 Financial and Regulatory Financial Reporting

The Committee is responsible for monitoring the integrity of the financial statements of the Companies and the financial information/disclosures in any formal announcements relating to the financial performance of RSAIG, including preliminary financial results, half year results and trading updates, and reviewing significant financial reporting issues and judgements contained within them.

In particular, the Committee shall review, and challenge where necessary:

- the consistency of, and any changes to, the accounting policies both on a year to year basis and across the Group;
- the actions and judgments of management in relation to the financial statements of the Companies, including as appropriate reserving information, strategic report, half year reports, preliminary announcements, trading updates and related formal statements, taking into account the recommendations of the Continuous Disclosure Committee before submission to, and approval by, the board of RSAIG and RSAI respectively, and before clearance by the external auditor;
- the methods used to account for significant or unusual transactions where different approaches are possible and how they are disclosed;
- significant adjustments resulting from the external audit;

- 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;
- compliance with accounting standards and whether management have made appropriate estimates and judgements, taking into account the views of the external auditor;
- the assumptions or qualifications in support of the going concern statement and the viability statement and make appropriate recommendations to the board of RSAIG and RSAI;
- all material information presented with the financial statements, such as the strategic report and corporate governance statements relating to audit and internal control, as appropriate, prior to endorsement by the board of RSAIG and RSAI;
- where requested by the Board, the annual report and accounts and make appropriate recommendations to the Board on whether, taken as whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Groups performance, business model and strategy;
- where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Companies it shall report its views to the respective board as soon as possible before the planned publication;
- where requested by the boards of the Companies, review any regulatory financial returns including Solvency II reports required to be submitted to the Prudential Regulatory Authority or any other relevant regulatory body;
- the effectiveness of the Group's procedures for reviewing disclosure and presentation; and
- compliance with statutory, regulatory financial reporting and other legal requirements including the reporting requirements of the UK Corporate Governance Code.

11. Reporting Responsibilities

11.1 The Chairman of the Committee shall report formally to the Board and the board of RSAI on its proceedings after each meeting, including:

- reporting on the outcome of the statutory audit; and
- the significant issues that it considered in relation to the financial statements and how it contributed to the integrity of financial reporting.

11.2 The Committee shall:

- 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;

- 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
- 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:

- utilise common memberships and 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;
- consider any other matters relevant to the Committee referred to it by the Board Risk Committee;
- 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;
- have access to sufficient resources in order to carry out its duties, including access to the Group's Secretariat for assistance as required;
- 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
- 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 of RSAIG and RSAI to:

- investigate any activity within its terms of reference;
- seek any information it reasonably requires in order to effectively perform its duties;
- obtain, at the Group's expense, independent legal or other professional advice on any matters within its terms of reference;
- call any member of staff to attend a meeting of the Committee as and when required; and

- 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.