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# AUDIT COMMITTEE CHARTER

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## PURPOSE OF COMMITTEE

1. The purpose of the Insurance Australia Group Limited Audit Committee (**Committee**) is to assist the boards of IAG Limited and its subsidiaries and related entities (**IAG or the Group**) in fulfilling their statutory and fiduciary responsibilities by monitoring:
  - a. the integrity of IAG's external and internal financial reporting, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting;
  - b. tax and financial risks;
  - c. the provision of high quality financial and audit related non-financial information that can be relied on by the Board to make informed judgements; and
  - d. the safeguarding of the independence of the Auditor, Group General Manager Internal Audit and Global External Peer Review (EPR) Actuary and Chief Actuary.
2. The Committee was established by resolution of the Board and is provided with the powers necessary to enable it to perform its functions.
3. The Committee is also empowered as the Audit Committee of those subsidiaries of IAG which are authorised general insurers regulated by the Australian Prudential Regulation Authority (APRA) as noted in Appendix A, and such other subsidiaries of IAG as the Board may from time to time resolve. References to 'Company', 'Board' or 'Boards' in this Charter also apply to each of those subsidiary companies.
4. The Committee will have free and unfettered access to IAG executives and senior management, the EPR Actuary, Auditor and any other parties (internal or external), as applicable to fulfil its role, and vice versa.
5. The Boards and/or audit committees of companies covered by the Committee will have unfettered access to the Committee.
6. The Committee will ensure the adequacy and independence of both internal and external audit functions.

## COMPOSITION

7. The Committee will comprise a minimum of four members, all of whom shall be independent Non-Executive Directors of IAG, where 'independent' has the meaning attributed to it in Appendix A in the Board Charter. The Committee shall include members with sufficient skill, experience and technical expertise such that overall the Committee will have the understanding of the Group's business, financial, accounting and risk requirements required to perform the Committee's role under this Charter.
8. The Board will appoint the Committee and its Chair.
9. The Chair of IAG shall not be the Chair of the Committee.

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## MEETINGS

10. The Committee will meet as often as required to undertake its role effectively, but not less than four times per calendar year.
11. The Committee extends a standing invitation to the Auditor, the Chief Actuary, the Group Chief Risk Officer (CRO) and the Group General Manager Internal Audit to attend all parts of the Committee meetings relevant to their respective roles and duties.
12. A quorum will be a number equal to:
  - a. where the number of Committee members is an even number, half that number, plus one;
  - b. where the number of Committee members is an odd number, half that number rounded up to the next whole number.
13. Any issues requiring resolution arising at any meeting of the Committee will be decided by a majority of votes. The Chair does not have a casting vote.
14. The Company Secretary, or such other person as the Board may nominate, will act as Secretary to the Committee.
15. The Chair will be required to call a meeting of the Committee if requested to do so by any Committee member, the CEO, CFO, the EPR Actuary, the Chief Actuary or Auditor.
16. The Committee members will hold at least two meetings per calendar year with any or all of the Chief Actuary, the Group General Manager Internal Audit, the Auditor or EPR Actuary without other management personnel being present.

## REPORTING

17. The Committee will be responsible for the conduct of its proceedings and will ensure that its meetings are minuted and reported to the Board.
18. The Committee will immediately escalate any actual or suspected material concerns to the Chair of the Board or to the Chair of the appropriate Board Committee.

## RESPONSIBILITIES

### External Financial Reporting

19. Provide an independent review and recommendation to the Board of the Group's half year and full year statutory reporting, annual APRA regulatory return and financial data related declarations and key aspects of the Group's market presentations.
20. Review the appropriateness of the Company's accounting policies and principles (as amended) and the methods of applying them, to verify compliance with the stated financial reporting standards and guidelines including, where relevant, regulatory statutory reporting frameworks.
21. Review any tax and financial risks and their potential impact on the Group's statutory accounts.
22. Review the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) declarations provided for Australian reporting purposes.
23. Review and provide oversight of audit reports issued by the Auditor on the company's financial reports, APRA prudential supervision engagements and other activities.
24. Assess information from the Auditor, Group General Manager Internal Audit and management concerning the quality of both external and internal financial reports.

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## External Audit and the Auditor

25. Provide prior endorsement to the Board on the appointment, reappointment, removal and remuneration of the Auditor.
26. Review and assess total fees paid to the Auditor for all non-audit services provided by the Auditor.
27. Provide prior approval of all non-audit services proposed to be provided by the Auditor in accordance with the agreed Audit Firm framework contained in Appendix B.
28. Review the audit plan to ensure it covers all material risks and financial reporting requirements, discuss audit results with the Auditor, monitor and critique management's responsiveness to the Auditor's recommendations and consider the implications of the external audit findings for the control environment.
29. Oversee the Auditor's independence in accordance with the requirements of corporations and insurance laws, regulations, standards and Code<sup>1</sup> and, at least annually, review the engagement of the Auditor and assess the Auditor's independence against those laws, regulations, standards and Code.
30. Receive and review the Auditor's annual independence declaration to be provided to the Board.

## Internal Audit

31. Review the adequacy and effectiveness of the Group's internal financial control systems with management, the Group General Manager Internal Audit, EPR Actuary and the Auditor.
32. Evaluate Group processes for assessing and continuously improving internal financial controls, particularly those related to areas of material risk.
33. Review and approve the Internal Audit Charter.
34. Review and monitor the effectiveness of the internal audit function and its organisational structure.
35. Assess the adequacy and approve the internal audit plan, monitor progress against the plan and critique the appropriateness and timeliness of management's response to internal audit recommendations.
36. Regularly receive and consider internal audit reports.
37. Maintain a separate reporting line from the Group General Manager Internal Audit to the Committee.

## Global External Peer Review (EPR) Actuary

38. Review and approve the terms of the appointment, reappointment and remuneration, and oversee the effectiveness and independence of the EPR Actuary.

## Chief Actuary

39. Receive and review insurance liabilities reports from the Chief Actuary.

## Other Responsibilities

40. Provide prior approval to the CEO for:
  - a. the appointment or removal of the CFO, the Chief Actuary or the Group General Manager Internal Audit; and
  - b. any restructuring of the position to which the CFO, the Chief Actuary or the Group General Manager Internal Audit reports, or to the scope of responsibilities of these positions.

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<sup>1</sup> Code refers to the *Code of Ethics for Professional Accountants* issued by the Accounting and Ethical Standards Board.

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41. Review and monitor the effectiveness of the audit governance frameworks used by subsidiary companies through:
    - a. review of those committees' minutes;
    - b. the Chair of the Committee meeting with the Chairs of audit committees of material licensed subsidiary companies at least annually;
    - c. provision of a written report from the audit committees of material licensed subsidiary companies; and
    - d. the Chair of the Committee meeting with the Chair of the Risk Committee and the People and Remuneration Committee at least annually in regard to the types of financial reporting and risk covered by each of these committees.
  42. Review and assess annually the completion of the Committee's responsibilities under the Charter and report such findings to the Board.
  43. Monitor that IAG maintains policies and procedures for employees to submit, confidentially, information about concerns relating to internal control, compliance, audit, and other matters.
  44. The Committee may engage and consult and/or seek advice from such experts as required by the Committee to carry out the responsibilities and delegations outlined in this Charter. The Committee may determine the terms of such engagement/s to ensure that any advice received is independent.
  45. The Committee shall review this Charter at least every three years and recommend any proposed amendments to the Board for approval. In the event that APRA's prudential standards change, the Charter will be reviewed to ensure continued compliance.
  46. The Committee members will be available to meet with APRA and other regulators as required.

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## **APPENDIX A**

### **IAG AUTHORISED GENERAL INSURERS**

The Committee is empowered as the audit committee of the following subsidiaries of IAG which are authorised general insurers regulated by APRA, apart from Insurance Manufacturers of Australia Pty Limited, which has a separate board audit committee:

- CGU Insurance Limited
- CGU-VACC Insurance Limited
- HBF Insurance Pty Limited
- IAG Re Australia Limited
- Insurance Australia Limited
- Mutual Community General Insurance Pty Limited
- Swann Insurance (Aust) Pty Limited
- WFI Insurance Limited

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## APPENDIX B FRAMEWORK FOR DEALING WITH AUDITOR'S FIRM FOR NON-AUDIT SERVICES

The following guiding principles apply as part of the framework for dealing with the Auditor's firm for the provision of other services:

- fees for other services are not to be greater than the audit fees and other related services;
- the Auditor's firm should only be used in reviewing financial information, not in the preparation of it;
- management must not engage the Auditor's firm for any project that would put the firm in the position of auditing its own work or that would otherwise be inappropriate for a firm expected to exercise fully objective and impartial judgement;
- no partner of the Auditor's firm who, at or after 1 July 2004, was a professional member of the audit team, the Auditor or review audit partner for the audit is to be appointed as an officer of IAG, or a subsidiary, within two years of his/her ceasing to be a member of the audit team;
- no partner from the Auditor's firm may be appointed as an officer of IAG or a subsidiary within five years of that person ceasing to be a member of the Auditor's firm if another person, who was formerly a member of the Auditor's firm at the same time that it was the external auditor of IAG, is also an officer of IAG or a subsidiary. Any proposed appointment as an officer of IAG or a subsidiary is subject to the consent of the Board; and
- require audit partner rotation if the person has acted in the capacity of Auditor or review audit partner for five successive financial years or for five years out of a total of seven successive years.

The following non-audit services are allowed to be provided by the Auditor's firm, without prior approval of the Committee, unless the engagement is for a fee in excess of \$250,000:

- due diligence (but not including valuations and legal services) on proposed transactions;
- accounting advice;
- review of processes and internal control environment;
- review of financial information where third party verification is required or deemed necessary (outside the normal audit process);
- taxation advice (but not advice in relation to tax structuring); and
- liquidation of internal legal entities, which does not have an impact on the Group's financial statements.

Based on the guiding principles mentioned above, the following types of services from the Auditor's firm are prohibited:

- financial information systems design and implementation;
- accounting and bookkeeping services;
- appraisal or valuation services that involves the valuation of matters material to the financial reports (for example valuations of proposed acquisitions);
- actuarial opinion (as opposed to review) services;
- operational risk services where Auditor's staff act or appear to act in a capacity equivalent to a reporting member (eg the Group General Manager Enterprise Risk) of IAG;
- management services of a decision-making, supervisory or monitoring nature;
- human resources recruiting services;
- broker-dealer services;
- legal and litigation support services;
- corporate finance services (eg promoting, dealing in or underwriting IAG securities); and
- investment advice.