

Audit Committee report

This report provides details of the role of the Audit Committee and the work it has undertaken during the year. The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Company's financial statements, the assessment of the effectiveness of the systems of internal financial controls and monitoring the effectiveness and objectivity of the internal and external auditors. The full terms of reference for the Committee can be found on the Company's website, www.aviva.com, and are also available from the Group Company Secretary.

The following independent non-executive directors, served on the Committee during the year:

Member	Period	
	From	To
Russell Walls (Chairman)	1 July 2004	To date
Mary Francis	1 January 2007	To date
Richard Karl Goeltz	1 July 2004	To date
Euleen Goh	1 January 2009	To date
Carole Piwnica	24 September 2003	31 December 2008

The Committee met on seven occasions in 2008 and the members' attendance record is set out in the Corporate Governance report on page 91. In addition, the Committee held separate meetings with members of senior management for the purpose of induction and training. The Group Company Secretary acts as the secretary to the Committee. Russell Walls, a Fellow Chartered Certified Accountant, is a former Group Finance Director of BAA plc, Wellcome plc and Coats Viyella plc. Richard Karl Goeltz is a former Chief Financial Officer of American Express Company and NatWest Group plc. Euleen Goh, a Chartered Accountant and member of the Chartered Institute of Taxation, is a former Financial Controller of Pontiac Land and Chief Executive of Standard Chartered Bank, Singapore. The Board is satisfied that these directors have recent and relevant financial experience.

The Group Chief Executive, Chief Financial Officer, Chief Audit Officer, Group Chief Accountant, Chief Risk Officer and the external auditor normally attend, by invitation, all meetings of the Committee. Other members of senior management are also invited to attend as appropriate to present reports. It is the Committee's practice at each meeting to meet separately with the Chief Audit Officer and the external auditor without any members of management being present. In performing its duties, the Committee has access to the services of the Chief Audit Officer, the Group Company Secretary and external professional advisers.

The Committee follows an agreed annual work plan. It reviews, with members of management and the internal and external auditors, the Company's financial announcements including the annual report and accounts to shareholders and associated documentation. It places particular emphasis on their fair presentation and the reasonableness of the judgemental factors and appropriateness of significant accounting policies used in their preparation. At each meeting, the Committee receives a report from the Chief Audit Officer concerning the Company's systems of internal financial control, including any significant new issues and actions taken on previously reported issues. Twice each year, the Committee receives reports on the adequacy of the Group's life assurance and general insurance reserves. The Committee also reviews the annual work plan for the Group's internal audit function. The Committee reports to the Board regarding the effectiveness of the Group's overall systems of internal financial control including the risk management systems in relation to the financial reporting process. The Committee works closely with the Risk and Regulatory Committee, which reviews the Company's overall internal controls and risk management systems.

During the year the Committee and the Risk and Regulatory Committee held a joint meeting in Paris with the chairman of the Aviva France audit committee. This meeting allowed the Committee to gain a deeper understanding of the relevant local issues and assess the effectiveness of the systems of internal financial controls and the effectiveness and objectivity of the internal and external auditors in that business.

Each of the Group's major business units has an audit committee that provides an oversight role for its business. The Chief Audit Officer reviews the papers and minutes from these committees and brings all significant matters to the Committee's attention.

In addition during 2008 the members of the Committee attended several local audit committee meetings including those in Aviva USA, Norwich Union Life, Norwich Union Insurance, Aviva Canada, Aviva France, Hibernian and Aviva Italy. This programme of attendance at local audit committee meetings will continue during 2009.

The Committee receives reports from the external auditor and regularly holds discussions with both the internal and external auditors in the absence of management. The chairman of the Committee reports to the subsequent meeting of the Board on the Committee's work and the Board receives a copy of the minutes of each meeting of the Committee.

Internal audit

The Group's internal audit function reports to management on the effectiveness of the Company's systems of internal controls, the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. The internal audit function is fully centralised and each country/region head has a full reporting line to the Chief Audit Officer (with the exception of Delta Lloyd). Through the Chief Audit Officer, the internal audit function provides objective assurance on risks and controls to the Committee. The plans, the level of resources and the budget of the internal audit function are reviewed at least annually by the Committee, which also undertakes an annual review of the effectiveness of the Group's internal audit function against guidance criteria provided by the Institute of Chartered Accountants in England and Wales and by the Institute of Internal Auditors (IIA). This year the review has been undertaken by PricewaterhouseCoopers to meet the IIA standards requiring that an independent review of internal audit effectiveness be undertaken at least every five years. The results of the review confirmed that Group Internal Audit generally conformed with the International Standards for the Professional Practice of Internal Auditing. In addition, the Group Audit Committee is consulted in determining the objectives and remuneration of the Chief Audit Officer.

The deteriorating economic and market environment required even greater attention to internal financial controls in 2008. During 2008 the Group internal audit function carried out an assurance review of the Group's management of the economic crisis conditions and the management actions put in place to maintain business as usual activities.

External auditor

Ernst & Young LLP (Ernst & Young) was appointed auditor of the Company in 2001 having previously been the auditor of Norwich Union plc. Following the annual external audit effectiveness review the Committee concluded that the audit was fit for purpose and recommended that a re-tender process should not be undertaken in 2008 but that the relationship and the effectiveness of the auditor be kept under review. The audit signing partner changed as part of a rotation process in 2007. Ernst & Young audits all significant subsidiaries of the Group.

The Company introduced a revised external auditor policy on 1 January 2008 aimed at safeguarding and supporting the independence and objectivity of the external auditors. The policy was updated to reflect current global best practice on auditor independence, and is in full compliance with all UK, US and International Federation of Accountants (IFAC) rules. The revised policy aims to be simpler to interpret, providing greater clarity on what services may and may not be provided by the Group's external auditors.

The policy regulates the appointment of former audit employees to senior finance positions in the Group and sets out the approach to be taken by the Group when using the services of the external auditor, including requiring that all services provided by the external auditor are pre-approved by the Aviva plc Audit Committee. It distinguishes between those services where an independent view is required and that should be performed by the external auditor (such as statutory and non-statutory audit and assurance work), prohibited services where the independence of the external auditor could be threatened and they must not be used, and other non-audit services where the external auditor may be used. Non-audit services where the external auditor may be used include: non-recurring internal controls and risk management reviews (i.e. excluding outsourcing of internal audit work), advice on financial reporting and regulatory matters, due diligence on acquisitions and disposals, project assurance and advice, tax compliance services, and employee tax services.

Annually, the Committee reviews a formal letter provided by the external auditor confirming its independence and objectivity within the context of applicable regulatory requirements and professional standards.

The Group paid £12.1 million to Ernst & Young for audit services in 2008, relating to the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries and associates pursuant to legislation (2007: £10.2 million). The fees for other services which included advice on accounting and regulatory matters, reporting on internal controls, corporate governance matters, and due diligence work were £12.9 million giving a total fee to Ernst & Young of £25.0 million (2007: £19.1 million). Further details are provided in note 12 to the accounts. In addition, the Group engaged the Corporate Citizenship in relation to certain assurance work including verification of its Corporate Social Responsibility report.

During the year, the Committee performed its annual review of the independence, effectiveness and objectivity of the external auditor; assessing the audit firm, the audit partner and audit teams. The process was conducted by means of a questionnaire, completed Group-wide by members of senior management and members of the Group's finance community. The questionnaire sought opinions on the importance of certain criteria and the performance of the external auditor against those criteria. Based on this review, the Committee concluded that the audit service of Ernst & Young was fit for purpose and provided a robust overall examination of the Group's business and the risks involved.

In line with the Combined Code requirement the Board undertook a review of the effectiveness of all its committees during the year, including the Audit Committee. In addition, the Committee also carried out a self-evaluation of its effectiveness.

This report was reviewed and approved by the Board on 4 March 2009.

Russell Walls
Chairman, Audit Committee