

Audit Committee report

Committee focus during 2019

I am pleased to present the Audit Committee's (the Committee) report for the year ended 31 December 2019.

During 2019, the Audit Committee dedicated substantial time to reviewing the Aviva Group financial statements at both half and full year. In both cases, the financial statements were supported by detailed reports with judgements applied in preparation of the financial statements, including Life and GI technical provisions and reserves. The Committee also spent time considering the merits of more frequent financial reporting.

The Committee also focused on the Company's financial reporting, our system of internal controls over financial reporting, and the performance of the internal and external auditors. The potential impact of new International Financial Reporting Standards (IFRSs), particularly the new insurance accounting standard (IFRS 17) on the Company's financial operations and financial reporting remained under close review by the Committee and the Committee also commenced a project for the tender of the external audit.

Committee membership

I became Chair of the Audit Committee on 4 November 2019 and succeeded Glyn Barker, who had chaired the Committee on an interim basis following the retirement of Keith Williams on 23 May 2019, and pending receipt of my regulatory approval for the role. I would like to thank Glyn for his support to the Committee during this interim phase and prior to his retirement from the Board on 31 December 2019. Michael Hawker also retired from the Committee on 31 March 2019. The members of the Committee as at 31 December 2019 are shown in the table below. Details of their experience, qualifications and attendance at Committee meetings, together with the number of Committee meetings held, during the year are shown in the 'Our Board of Directors' section and the Directors' and Corporate Governance report.

Name	Member since	Years on the Committee
Patrick Flynn ¹	16/07/2019	<1
Glyn Barker ²	08/08/2012	7
Patricia Cross	01/12/2013	6
Belén Romana García	05/07/2019	<1
George Culmer	25/09/2019	<1

¹ Chair

² Glyn Barker retired from the Committee on 31 December 2019.

Committee member requirements

The Committee annually reviews how its members meet the experience and expertise criteria set out in the 2018 UK Corporate Governance Code (the Code) and the FCA Disclosure Guidance and Transparency Rules (DTRs). Following the review undertaken for 2019, a recommendation was made to the Board that I as Committee Chair, – Belén Romana García and George Culmer, fulfilled the Code requirements for recent and relevant financial experience and the DTR requirements for competence in accounting and auditing and Patricia Cross confirmed that she also met the Code requirement for recent and relevant financial experience. The Committee as a whole has competence relevant to both the insurance and financial services industry.

Committee purpose

The primary purpose of the Committee is to make sure we follow a robust process to ensure our half and full year financial statements are suitable for publication. The Committee supports the Board in carrying out its responsibilities in relation to accounting policies, and internal controls and the financial reporting framework. The Committee monitors the adequacy and effectiveness of our system of control over financial reporting and the effectiveness, performance, objectivity and independence of our internal and external auditors. The Committee also monitors our whistleblowing arrangements. The Audit Committee responsibilities are set out in its Terms of Reference.

During the year the remit of the Committee was reviewed and clarified in certain areas. The Committee is responsible for overseeing internal controls over financial reporting while the Risk Committee is responsible for the oversight of other areas of internal controls. The Committee's Terms of Reference were updated accordingly. The Committee acts independently of management and works closely with the Governance, Remuneration and Risk Committees. The cross-membership between these Committees supports good understanding of current issues and efficient communication.

Significant issues

The significant issues that the Committee considered during the year are set out in the table below.

Areas of focus	Actions taken by the Committee
IFRS and Solvency II Life technical provisions and reserves	Challenged the assumptions used in the calculation of the Best Estimate Liability component of the technical provisions and the reserves required under Solvency II (SII), and the expense impacts on SII reserves. Reviewed and challenged the longevity, expense and credit default assumptions used for the 2019 half and full year financial statements. The challenge around the setting of longevity assumptions was a particularly significant area for review as those judgements could continue to have a material impact on Aviva's SII and IFRS results. During 2019, a detailed analysis was conducted, and reviewed by the Committee, to validate changes observed in recent mortality experience and the resulting impact on the existing longevity assumptions. In particular, the Committee reviewed the rate of annuitant mortality improvement reflecting recent experience in the UK market. The Committee met with the Chair of the UK Life Audit Committee, which had conducted its own review of longevity assumptions, together with the UK Life Chief Financial Officer. This provided an additional opportunity to examine the assumptions in greater detail. Following assessment of the proposed assumption changes the Committee considered the associated release of margins and the timing of the recognition of changes in longevity experience in the financial statements. During the year the Committee considered, reviewed and approved the adoption of the relevant industry tables for the Bulk Purchase Annuity business in the UK. The Committee also reviewed proposals for the adoption of updated Continuous Mortality Investigations (CMI) models for mortality improvement including the selection of parameters within the CMI model. The Committee reviewed the continued implementation of a new modelling tool to measure actuarial liabilities in place of an externally hosted product. The implementation of the new model was ongoing and would continue to be applied to further actuarial models on a phased basis. The Committee also approved the maintenance expenses used in the measurement of life insurance contract liabilities in UK Life.
IFRS and SII GI reserving issues and judgements	Reviewed and challenged the principal assumptions in the calculation of the GI reserves, in particular the 'Ogden rate' for bodily injury claims including the impact of the July 2019 announcement by the Lord Chancellor of the -0.25% Ogden discount rate. This resulted in a £45 million reduction in IFRS profit. The Committee continues to monitor how the Ogden rate might change and subsequent reviews (at least every five years) including the potential for a dual rate, and the impact of future mortality and economic scenarios. The Committee considered the key points of the PRA's 'Dear Chief Actuary' letter and the actions taken across the Group to ensure our reserving remains at best practice level. It also tracked actual weather claims against expectations throughout the year.
IFRS and SII key issues and judgements and disclosures	Challenged estimates and judgements for IFRS and SII reporting bases. IFRS judgements included goodwill and intangible asset impairment reviews, assets classified as held for sale, (including the continued held for sale of Friends Provident International Limited) and the valuation assumptions for certain mark to model assets and liabilities. With the repeated change of date for the UK exit from the European Union and reflecting the continuing uncertainty and risk of a 'no deal' exit from the EU, the Committee continued to review the size and continuation of the allowance in relation to the UK exit from the EU and agreed the allowance should continue to be retained and that further disclosure of the purpose of retaining the allowance be provided in the financial statements. The Committee also reviewed two provisions created in respect of product governance issues for heritage book customers in the UK Life business. The first related to advice given on the transfer from defined benefit pensions to personal pension arrangements and resulted in a £229 million provision (2018: £250 million). The second related to past communications to a specific sub-set of policyholders that may not have adequately informed them of switching options into with-profits funds that were available to them and resulted in a provision of £175 million. In addition, the Committee reviewed an issue relating to the incorrect consolidation of investment funds, the resulting restatement of financial statements at Half Year 2019 following the reclassification of those Investment funds, and the further strengthening of the internal controls for the classification of investment funds going forward. The Committee monitored the additional disclosures required at Full Year 2019 following the restatement at Half Year 2019 and continues to assess the revisions to the control environment.
Internal controls	The Committee continued to challenge and drive the ongoing implementation of the Operational Risk and Control Management framework (ORCM) to ensure ORCM is embedded across the Group and to support a risk aware culture. From 1 January 2020 the Committee's Terms of Reference were updated to clarify that the Committee will oversee internal controls over financial reporting. The Risk Committee Terms of Reference were updated at the same time to clarify that the other internal controls are overseen by the Risk Committee. The Committee reviewed the internal controls over financial management to gain assurance that these remained in tolerance with no control weaknesses which could have a material impact on the full year 2019 financial results.

IFRS 16 and IFRS 17	Prepared for the implementation of new IFRSs, but most significantly IFRS 16 (the new leasing standard adopted on 1 January 2019) and IFRS 17, the new insurance accounting standard issued by the International Accounting Standards Board (IASB) due to take effect on 1 January 2022. In particular, the Committee reviewed the transition approach to be taken by the Group on the adoption of IFRS 16. Implementation of the standard has resulted in an additional c.£0.5 billion of assets and liabilities relating to the Group's owner-occupied property portfolio being recognised on the statement of financial position for the first time. In respect of IFRS17, the Committee considered the impact of the proposed requirement to calculate a 'Contractual Service Margin' (CSM), whereby the profits earned from a policy will be spread over its full life, and a new CSM liability to be held on the balance sheet representing 'unearned profits'. While the impact of adopting IFRS 17 has yet to be fully assessed, particularly as the standard has not yet been finalised, it is expected that IFRS 17 will have a significant impact on the measurement and disclosure of insurance contracts. The Committee continues to regularly assess the impact on financial reporting, the operation of new internal financial tools to be used for financial forecasting and planning purposes, and the cost of implementing the new IFRS 17 standard.
Longer term viability statement (the Statement)	Reviewed and challenged the principles underpinning the Statement for 2019 and concluded that the Company and its subsidiaries will be able to continue in operation and meet their liabilities as they become due. The Committee continues to consider it appropriate that the Statement covers a three-year period.
Financial transformation	The Committee reviewed and challenged management's plans for the simplification of the Group's internal finance functions. The primary objective of this activity is to simplify and consolidate finance systems and operations to a unified model and underlying IT systems, driving simplicity and lower cost.
Tender of external audit	Under Competition and Markets Authority regulations, Aviva is required to tender for the provision of the external audit every 10 years. PricewaterhouseCoopers LLP (PwC) was appointed for the first time for the 31 December 2012 financial year end and therefore a mandatory re-tender is required for the year ending 31 December 2022. The Committee initiated and is leading the external audit tender process which is expected to be completed during 2020. The timing of the tender of the external audit will align the appointment, or re-appointment of the external auditor, with the introduction of IFRS 17.
External quality assessment (EQA) of the Internal Audit Function	The Internal Audit function is required by professional standards to engage an independent EQA review at least every 5 years. The EQA covers all aspects of the governance and operation of the function including compliance with relevant professional standards. The Committee reviewed the report of the EQA and will continue to monitor the associated action plan for the Internal Audit function following the EQA report.
Performance measures	At the Capital Markets Day on 20 November 2019 new financial metrics were announced which align with our strategic priorities. The Committee has reviewed those economic value metrics based on SII which will be used to manage the business and measure future performance.

External auditor

PwC was appointed as the Group's External Auditor (Auditor) in 2012 following a formal tender process. The external audit contract must be put out to tender at least every ten years in conformance with Competition and Markets Authority (CMA) rules on mandatory audit tendering. The Committee has agreed that a competitive tender process will be completed during 2020, for the 2022-year end.

While there is no requirement to rotate audit firms until the current auditor has served a maximum of 20 years, in determining the proposed timing of the tender process, the Committee is mindful that it is necessary to allow the selected auditor appropriate time to become independent should the Committee propose that an auditor other than PwC be selected. The Committee will continue to monitor the effectiveness and independence of PwC, as well as considering whether this proposed timing remains appropriate in light of business developments.

The Committee is leading the tender and has defined audit quality as the primary criteria for selecting the external auditor. The Committee expressly requested that audit firms outside the 'big four' be invited to participate in the tender process and we were pleased that several firms outside the 'big four' discussed the audit tender with us.

The external audit is currently led by the audit partner, Andrew Kail, who replaced Marcus Hine by rotation following the approval of the 2018 annual report in March 2019. Andrew completed a detailed transition exercise with Marcus during the completion of the 2018-year end audit process.

The Auditor attends every Committee meeting and submits a formal report for discussion. This report updates the Committee on the progress of audit activity, a review of the reasonableness of managements' approach to key issues, judgements and accounting matters and the impact on the financial statements and assurance around auditor independence. The Auditor also provides the Committee with external benchmarking data around key areas of interest such as annuitant mortality assumptions, pensions and internal controls.

An annual review of the Auditor was undertaken through completion of a questionnaire by the Committee, subsidiary company audit committees, senior management, and members of the Group's finance team. The review focused on the effectiveness of the audit team, expertise and resources and interaction with audit committees. Feedback on interaction with the Auditor from audit committees across the Group was positive. Where opportunities for improvement were identified, the finance function engaged with the Auditor to include that feedback into the planning for future audit activity. The Committee concluded that the Auditor continued to perform effectively and is recommended to shareholders for reappointment at the 2020 AGM.

The Company has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2019.

The Company has an External Auditor Business Standard (Standard) in place which is aimed at safeguarding and supporting the independence and objectivity of the Auditor. The Standard is compliant with all UK and International Federation of Accountants rules and takes into account the FRC's Revised Ethical Standard 2016 and the EU Audit Directive (2014/56/EU).

Non-audit fees

In 2019 the Group paid PwC £21.2 million (2018: £20.4 million) for audit and audit-related assurance services, with the overall increase primarily due to additional fees relating to the prior year audit of Group subsidiaries. In addition, PwC were paid £0.8 million (2018: £1.9 million) for other services, including £0.7 million (2018: £0.9 million) for other assurance services, giving a total fee to PwC of £22.0 million (2018: £22.3 million).

In line with the Standard, the Committee satisfied itself that for all non-audit engagements, robust controls were in place through a quarterly review process for audit related and non-audit services provided, to ensure that PwC's objectivity and independence was safeguarded, and concluded that it was in the interests of the Company to purchase these services from PwC due to their specific expertise. Further details are provided in note 13 of the financial statements.

Internal control

The Committee is responsible for supporting the Board in ensuring a robust system of internal control and risk management in the Group. The Committee receives regular reports on the status of the control environment and updates on the management of operational risks and controls under the Operational Risk and Control Management (ORCM) framework. More information about our system of internal control and risk management can be found in the Directors' and Corporate Governance report. The Committee has clarified its role to provide oversight on internal controls over financial reporting with other areas of internal control overseen by the Risk Committee.

The Committee also receives quarterly control reports from the Internal Audit function and reviews and challenges management on the actions being taken to improve the quality of the overall control environment and the risk control culture across the Group. The quarterly reports include an assessment of control environment metrics including: any risks that are reported to be outside of tolerance; the plans to return these to tolerance; the status of internal audit opinions that are rated as unsatisfactory or where major improvement is needed; key issues identified and emerging trends and themes for the Committee to focus on in the future.

The Committee reviews and approves the Internal Audit Plan and budget and satisfied itself that the Internal Audit function had the appropriate resources to discharge its remit. The Committee also conducts an annual review of the Internal Audit Function to assess its effectiveness and to satisfy itself that the quality, experience and expertise of the Internal Audit function is appropriate for the business. This is carried out by reviewing reports issued by Internal Audit and the output of an annual stakeholder effectiveness survey. This formal process is supplemented by regular private discussions with executive management, the Internal Auditor, and the Auditor. In 2019, the Internal Audit function also undertook an EQA review, and the Committee assessed the outcome of this review. The EQA results highlighted the strength of the Internal Audit function, and action plans were developed to address areas of improvement identified, with progress against that plan reported to the Committee. The Committee concluded that for 2019 the function performed well and remained effective.

For the financial year under review, the Company met the relevant provisions of the Code relating to internal controls, and the FRC's 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

Directors' and Corporate Governance report > [Continued](#)

The Committee is also supported in its work by the audit committees that operate in the Group's subsidiary entities. The subsidiary audit committees review the operation of internal controls in these subsidiaries, and actively challenge judgement made by management, strengthening the overall governance and control framework for the Group. The Committee Chair will meet with subsidiary entity audit chairs during the year to discuss their oversight responsibilities.

Whistleblowing

The Committee Chair is the whistleblowers' champion for the Group and has responsibility to oversee the integrity, independence and effectiveness of the Group's policies in relation to whistleblowing. The Committee as a whole is responsible for establishing and overseeing the effectiveness of controls put in place in accordance with regulatory requirements in respect of whistleblowing. The Audit Committee and Board receives updates from the Committee Chair as the whistleblowers' champion. Aviva's whistleblowing programme 'Speak Up' is available to employees across the Group. The Committee receives reports on the number of cases reported to the Speak Up service, the proportion of reports that are designated as instances of whistleblowing, the number of substantiated cases and summaries of the action taken. The Committee continues to look for opportunities to further enhance the Speak Up service.

Committee effectiveness review

The Committee undertakes a rigorous review of its effectiveness annually. More information can be found in the 'Our Board of Directors' and Corporate Governance report'.

2020 priorities

In 2020, in addition to carrying out its principal function, the Committee will continue to monitor the implementation of the new IFRS 17 standard, ahead of its scheduled introduction from 1 January 2022. The Committee also intends to complete the external audit tender process while also considering changes in the external audit environment following the Brydon, Kingman and Competition and Market Authority reviews of the audit market. The Committee will consider the changes in segmental reporting following the announcements made at the Capital Markets Day on the revised structure of the Aviva Group and will continue to support the development of the ORCM framework in relation to internal controls over financial reporting.

Patrick Flynn

Chair of the Audit Committee
4 March 2020

Committee activities during 2019

Financial statements and accounting policies

- Recommended to the Board for approval the 2019 half and full year financial statements
- Approved the IFRS and SII technical provisions with the 2019 half and full year financial statements
- Recommended to the Board for approval the SII Solvency and Financial Condition Report
- Reviewed and challenged the reserve positions relating to the Group Life and GI operations
- Reviewed and challenged the treatment and recoverability of goodwill and other intangible assets
- Reviewed the Group Chief Financial Officer's reports which included: IFRS and SII key issues and judgements; accounting developments including the new IFRSs; and overview of internal control and risk management over financial reporting
- Reviewed and challenged the going concern assumptions for 2019 and the principles underpinning the Longer-Term Viability Statement
- Reviewed the Group Risk Actuary's report on significant issues related to the technical provisions of SII and IFRS
- Reviewed an issue relating to the incorrect consolidation of investment funds, the resulting restatement of financial statements at half year 2019 following the reclassification of those investment funds, and updates to relevant internal controls
- Assessed that the Annual report was considered fair, balanced and understandable

External audit, auditor engagement and policy

- Reviewed the effectiveness of the Auditor and was satisfied that the services it provided remained effective, objective and fit for purpose
- Reviewed the Auditor's compliance with the independence criteria set out in the Code
- Monitored compliance with our External Auditor Business Standard on a quarterly basis
- Refreshed the External Auditor Business Standard
- Held private meetings with the Auditor without management present to provide an appropriate forum for issues to be raised
- Reviewed reports from the Auditor regarding: the 2019 Audit Plan and progress against plan and reports on the audit of the 2019 half and full year results including key assumptions used and outcomes of the audit
- Commenced the process for a tender of the external audit

Internal audit

- Reviewed reports from the Chief Audit Officer (CAO)
- Recommended to the Board the appointment of a new CAO during the year
- Reviewed and approved changes to our Internal Audit Charter and Business Standard
- Reviewed and approved our Internal Audit Plan
- Assessed the independence of the CAO
- Assessed the effectiveness of the Internal Audit function
- Held private meetings with the CAO without management present
- Reviewed the objectives of the CAO

Internal controls, including financial reporting control framework and financial reporting developments

- Received quarterly updates on the effectiveness of our ORCM FRCF framework and rectification of controls
- Reviewed management's assessment of the effectiveness of the risk management and control environment
- Reviewed the Internal Audit function report to ensure adequacy of the systems of internal control and risk management
- Received updates from the Speak Up and whistleblowers' champion