

# Internal Audit Charter

Aviva plc

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## References

### References to supporting material

- Group Audit Committee Terms of Reference
- Subsidiary Board Audit Committee Terms of Reference
- Internal Audit strategic plan
- Internal Audit business standard
- Internal Audit governance framework
- Internal Audit methodology
- Group Investigations & Forensic Audit (GIFA) methodology
- International Professional Practices Framework, of The Institute of Internal Auditors (IIA)

### Contact details

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## 1. Introduction

The effective operation of Internal Audit (IA) is a key part of the control environment required for Aviva to achieve its objectives and to meet its obligations. This charter sets out the purpose, activities, scope and responsibilities of the IA function within the Aviva group and the arrangements for the management of the function, including ensuring its independence from 1<sup>st</sup> and 2<sup>nd</sup> line management of the Group. The charter should be read in conjunction with the Group Audit Committee (GAC) Terms of Reference, which sets out the responsibilities of the GAC in providing general direction as to the scope of work and the activities to be audited and the IA business standard which sets out the controls and control objectives for senior management Aviva-wide to implement in order to support IA in achieving its objectives and obligations.

Adherence to the requirements within the charter is mandatory for all IA staff, irrespective of which legal entity is their employer.

This charter is owned by the Chief Audit Officer (CAO) and is co-sponsored on behalf of the Board of Aviva plc by the chairman of the GAC and the Group Chief Executive Officer (CEO). The role of IA has been articulated in this charter and made publically available on the Aviva.com site.

## 2. Internal Audit's purpose, activities and scope

### 2.1 The purpose of Internal Audit

In the context of Aviva's purpose, "Defy uncertainty", IA's purpose is to help the Board and Executive Management to protect the assets, reputation and sustainability of Aviva by challenging the effectiveness of the framework of controls which enable risk to be assessed and managed.

### 2.2 Internal Audit's activities

IA undertakes, objectively and independent from management, four principal activities:

- Assessing and reporting (to group and business unit audit, risk and governance committees and to management as appropriate) on the effectiveness of the design and operation of the framework of controls which enable risk to be assessed and managed.
- Assessing and reporting (to group and business unit audit, risk and governance committees and executive management as appropriate) on the effectiveness of management actions to address deficiencies in the framework of controls and risks that are out of tolerance.
- Investigating and reporting on cases of suspected financial crime and employee fraud and malpractice.
- Undertaking designated advisory projects for management, provided that they do not threaten IA's actual or perceived independence from management.

IA is responsible for performing these activities efficiently and effectively but it is not responsible for setting Aviva's risk appetite or for the effectiveness of the framework of controls.

### 2.3 Scope of activities and rights of access

IA is authorised to review all areas of the Aviva Group and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete their work.

The scope of IA's activities extends to all legal entities, joint-ventures (JVs) and other business partnerships, outsourcing and reinsurance arrangements, other than as noted below.

IA is responsible for providing internal audit services to all JVs except where the audit capabilities of the JV counterparty are deemed to be sufficient by the CAO, in which case the JV's internal audit services may be provided by the JV partner.

In the case of some joint ventures, contractual agreements may limit the scope of IA's activities, and any such limitations should be reported to the GAC annually.

The CAO will attend all meetings of the GAC and, at each such meeting, meet in private with the members of that committee. In addition the CAO will attend all meetings of the Group Risk Committee (GRC) and Group Governance Committee (GGC).

The CAO has the right to attend and observe all or part of Executive Committee meetings and other key management decision fora.

## 3. Internal Audit's Responsibilities

IA's principal responsibilities are as set out below.

### 3.1 Prioritisation

- Agreeing with the GAC a programme of reviews aimed at assessing the effectiveness of the management of key business risks. The programme of reviews will be determined on the basis of IA's assessment of these risks.
- Promptly reviewing and giving appropriate consideration to loss reporting data provided by the business units.
- Management can request IA to perform particular audit reviews, subject to these requests not affecting IA's independence and objectivity.

### 3.2 Execution

- Implementing the audit plan on a timely basis.
- Undertaking investigations on timely basis.
- Management of the relationship with Aviva's independent malpractice reporting service, Right Call.
- Undertaking specific reviews when requested by regulators.
- Ensuring that issues of which IA becomes aware that could impact the achievement of Aviva group's objectives are brought to the attention of the group and business unit management and audit, risk and governance committees, as appropriate, and that timely follow-up on management actions occurs.
- Reporting its findings, conclusions, recommendations and updates on previously reported issues to the audited parties, group and business unit management and to group and business unit audit, risk and governance committees, as appropriate.

- Discussing with senior management where it believes that management has accepted a level of residual risk that may be unacceptable to the Aviva group, or to the business unit. If the decision regarding residual risk is not resolved, the CAO will report the matter to the GAC, GRC or GGC for resolution.

### 3.3 Out of Tolerance Improvement

- Reporting to group and business unit audit committees where IA believes that there has been an undue delay in obtaining a considered response from management to control issues or risks being outside tolerance, whether raised by IA or arising from other sources.
- Reporting on failure by management to take appropriate and timely action to address control issues or risks that are out of tolerance. Where appropriate requesting management to present revised detailed action plans and provide reasons for the delay.

### 3.4 Working with other parties

- Reporting to the GAC instances of non-compliance with the IA Business Standard of which Internal Audit has become aware.
- Liaising with the Aviva group's external auditors to ensure there is effective co-ordination of work in order to improve efficiency and minimise costs.
- Taking into consideration the work of Aviva's first line of defence and of key control functions in the Aviva group's first and second line of defence and coordinating its work as appropriate.
- Aiming to rely on the audit functions of joint ventures, where provided by a JV partner (see 2.3 above), and third party providers, subject to performing appropriate due diligence and receiving periodic assurance on the effectiveness of these audit functions. IA reserves the right (subject to limitations in contractual agreements) to perform its own procedures if insufficient reliance can be placed on the work of IA teams of the Aviva group's joint ventures and third party service providers.

### 3.5 Communicating with regulators

- Primary responsibility for timely communication of significant developments affecting Aviva's business to regulators (other than matters relating to developments in the Internal Audit function) rests with the relevant members of the Aviva Group Board/senior management team.
- In normal circumstances, the only matters in respect of which the CAO/direct reports (DRs) would initiate communication to regulators are matters relating to developments in the Internal Audit function. In addition IA will provide information specifically requested by regulators.
- In exceptional circumstances, the CAO (only) may come to a view that a significant matter affecting Aviva's business has not been communicated to the regulator on a complete, accurate and timely basis. In these circumstances the CAO will discuss this view with the Group CEO, Group Compliance Officer and Chair of the GAC with a view to agreeing a reasonable timeframe within which the matter will be communicated to the regulator in an appropriate manner. If the matter has not been communicated to the regulator in an appropriate manner within the agreed timeframe then the CAO may initiate or authorise communication of the matter to the regulator.

- Only the CAO, his DRs, particularly those who are subject to the Senior Insurance Managers Regime, or country heads of audit, will generally communicate with regulators.

## 4. Management of the Internal Audit function

The principal arrangements for the effective management and maintenance of the good reputation of the of the IA function are as set out below.

### 4.1 Planning

- The CAO will prepare a three year business plan for the IA function on a basis consistent with the group's planning arrangements.
- The CAO will propose a budget which ensures that IA has sufficient skills and resources to discharge its responsibilities. The CAO may make use of outsourcing where appropriate or obtain competent external advice and assistance in areas where IA staff lack the knowledge, skills or other competencies required to deliver the assurance plan.
- IA will work with group and business unit management to plan the rotation of suitable staff into and out of IA in order to promote the development of high performing staff.

### 4.2 Professional standards

- IA management and staff will conform with the IIA's Code of Ethics and demonstrate the Aviva group values.
- IA will –conform with the International Professional Practices Framework of The Institute of Internal Auditors and the Guidance for Effective Internal Auditing in the Financial Services Sector from the Chartered Institute of Internal Auditors, to the extent that they are compatible with legal and regulatory requirements and Aviva's policies and business standards.
- IA will undertake its work in accordance with the IA Risk Management and Governance framework and approved audit methodology (including the GIFA methodology) to ensure effective audit work is carried out in all businesses by all audit teams.

### 4.3 Quality assurance

- Regular reviews of IA's effectiveness will be conducted and the results reported to the GAC at least annually.

### 4.4 Reporting

- The CAO will report to the GAC on a quarterly basis on any material developments in relation to the management of the IA function.

## 5. Independence of the Internal Audit function

IA will be independent from management at all times in order to be effective in performing its activities. The arrangements to protect the independence of IA are set out below.

### 5.1 Appointments and reporting lines

- The CAO has a dual reporting line into the chair of the GAC and to the CEO. The CAO has direct and unlimited access to the group board chair, the chairperson of the GAC, the chairperson of the GRC, the chairperson of the GGC and the chairs of the local audit committees.
- All audit directors working either in the UK or in the international operations (except IA teams where internal audit services are provided by the JV partners – see 2.3 above) report directly to the CAO and form part of IA.
- In addition, relevant audit directors and ‘heads of’ have a dotted reporting line to the local audit committee chairperson.
- The Chair of GAC is responsible for recommending the appointment and removal of the CAO to the Board. The subsidiary Board audit committees have a duty to recommend the appointment or dismissal of the Company CAO to the subsidiary board and to participate, jointly with the CAO or designee, in the determination of the objectives of the Company CAO and the evaluation of his levels of achievement, including consultation with the Company’s CEO

### 5.2 Staff

- IA staff will have no direct responsibility or authority over any operational activities reviewed and should not relieve others of such responsibilities.
- IA will maintain a formal policy of rotating staff to ensure that independence is maintained.
- Internal auditors previously working in Aviva group, but outside IA, will not perform or manage reviews in the business area for which they were previously responsible for a period of at least one year after the end of their role within the business. This excludes performing or managing reviews in similar business areas in other legal entities or operating units for which they were not previously responsible. Internal auditors on rotation from a business unit will not perform or manage reviews in the business area for which they were previously responsible.
- IA will provide to the group and business unit audit committees an annual confirmation of its independence, supported by an independence declaration form signed by all members of IA staff.