

Audit Committee report

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I am pleased to present the Audit Committee (the Committee) report for the year ended 31 December 2020.

The primary purpose of the Committee is to provide oversight of the process to ensure our half and full year financial statements and quarterly operating updates are suitable for publication. The Committee provides the Board with assurance as to the integrity of the Group's financial reporting and, together with the Risk Committee, monitors the effectiveness of our internal control environment. 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 full in its Terms of Reference.

Committee focus during 2020

During the year the Committee closely monitored the impact of COVID-19 on the Finance and Internal Audit functions, the financial control environment and on the Group financial results.

The Committee also discussed the merits of more regular reporting to update the market on Group performance, and following the agreements of the Board, supported the process to move to quarterly operating updates. The Committee dedicated a substantial amount of time to reviewing the Group's half and full year financial statements, supported by detailed reviews of the judgements applied in preparation of the financial statements, including Life and General Insurance technical provisions given the COVID-19 pandemic. This included the review of technical provision models, particularly in France following the misapplication of regulatory rules.

The Committee also focused on the Group's financial reporting, our system of internal controls over financial reporting and Financial Reporting Control Framework (FRCF), and the performance of the internal and external auditors.

The Committee had commenced a competitive tender process for the external auditor, however as a result of COVID-19 the Committee, following approval by the Financial Reporting Council (FRC), agreed to defer the external audit tender, by two years, until 2022, as the requirement to have an open, transparent process could not be met.

The Committee assessed the potential impact of new International Financial Reporting Standards (IFRS), particularly the new insurance accounting standard (IFRS 17) on the Group's financial operations.

Committee membership

George Culmer retired from the Committee when he became Chair with effect from 27 May 2020. Jim McConville was appointed to the Committee on 1 December 2020 and brings significant experience of financial services. The members of the Committee as at 31 December 2020 are shown in the following table. 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 (Chair)	16/07/2019	1
Patricia Cross	01/12/2013	7
Belén Romana García	05/07/2019	1
Jim McConville	01/12/2020	<1

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). I as Committee Chair, Belén Romana García and Jim McConville, fulfilled both the Code and the DTR requirements for financial expertise and experience. The Committee as a whole has competence relevant to the insurance and broader financial services industry.

Committee purpose

In January 2020 the Committee's Terms of Reference were reviewed and updated to further clarify the delineation of oversight of internal controls with the Risk Committee and the Committee operated under the revised terms of reference throughout 2020. 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 control. The Committee acts independently of management and works closely with the Remuneration and the Risk Committees. The cross-membership between these Committees supports a good understanding of areas of concern and facilitates efficient communication.

Effectiveness reviews

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

Evaluations of the External Auditor and Internal Audit function are also conducted on behalf of the Committee each year.

The 2020 External Audit Effectiveness review was undertaken through completion of a questionnaire by the Committee, subsidiary company audit committees, senior management, and members of the Group's finance teams. The review focused on the effectiveness of the audit team, expertise and resources and interaction with audit committees. Overall feedback was positive and where opportunities for improvement were identified, PwC was asked to take account of that feedback in 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 2021 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 2020.

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. The Committee concluded that for 2020 the function performed well and remained effective.

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 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.

2021 priorities

In 2021, in addition to carrying out its principal function, the Committee will continue to monitor the impact of COVID-19 on key internal functions and any impact on reported financial results. The Committee will also monitor changes in the external audit environment following the Brydon, Kingman and Competition and Market Authority reviews of audit in the UK. The Committee will continue to support the development of the ORCM framework in relation to internal controls over financial reporting and monitor the implementation of the new IFRS 17 standard, ahead of its scheduled introduction from 1 January 2023.

Patrick Flynn

Chair of the Audit Committee
3 March 2021

Activities performed during 2020

Financial statements and accounting policies

- Recommended to the Board for approval the Quarter 1 update, 2020 half year, Quarter 3 update and full year financial statements
- Approved the IFRS and SII technical provisions with the 2020 half and full year financial statements
- Recommended to the Board for approval the SII Solvency and Financial Condition Report
- Reviewed and challenged the technical provisions relating to the Group Life and General Insurance operations particularly in the context of the COVID-19 pandemic
- Reviewed and challenged the correction of mis-applied rules in the French actuarial model and the resulting impact on solvency
- Reviewed the findings from France actuarial model review undertaken by Ernst & Young and group-wide actuarial model assurance performed by PwC
- Reviewed and challenged the treatment and recoverability of goodwill and other intangible assets particularly in the context of the COVID-19 pandemic
- Reviewed the Group Chief Financial Officer's reports which included: IFRS and SII key assumptions and judgements; accounting developments including the new IFRS; and overview of internal control and risk management over financial reporting
- Reviewed and challenged the going concern assumptions for 2020 and the principles underpinning the Longer-Term Viability Statement
- Reviewed the Group Chief Actuary's report on significant issues related to the technical provisions of SII and IFRS
- Assessed that the Annual report was considered fair, balanced and understandable particularly in the context of the transparency of disclosures during the COVID-19 pandemic and the importance to shareholders of understanding the Group's position

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 2020 Audit Plan and progress against plan and reports on the review and audit of the 2020 half and full year results, respectively, including key assumptions used and outcomes of the work performed and 'Agreed upon Procedures' in respect of the Quarter 1 and Quarter 3 operating performance updates.
- Agreed to defer the external audit tender by two years.

Internal audit

- Reviewed reports from the Chief Audit Officer (CAO)
- Reviewed and approved changes to the Internal Audit Charter and Business Standard
- Reviewed and approved the 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 the FRCF 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

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Key matters considered during 2020

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

Matter considered	Context
IFRS and Solvency II Life technical provisions	The Committee reviews IFRS and Solvency II (SII) technical provisions and the impact of those technical provisions on IFRS Shareholders' Net assets and SII surplus used for the quarterly operating updates, and 2020 Half Year and Full Year financial statements. The Committee reviews the underlying assumptions as these involve complex judgements and changes can have a significant impact on reported results.

Committee's response

Technical Provisions. The Committee reviewed and challenged the assumptions used in the calculation of the Best Estimate Liability component of the technical provisions required under SII, and the expense impacts on SII reserves across our life and general insurance businesses.

The Committee reviewed and challenged the longevity, expense and credit default assumptions used for the quarterly operating updates, and 2020 half year and full year financial statements. The process 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 2020, the Committee worked closely with the Audit Committee of the Group's UK Life subsidiary, Aviva Life Holdings UK Ltd, to review the detailed analysis and 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 change reflecting recent experience in the UK market. Following assessment of the proposed assumption changes the Committee considered and noted proposed changes and their expected impact on the financial statements.

Technical Provision Models. The Committee reviewed management's assessment of the Group's Technical Provision models, including details of additional controls that were being implemented to increase the level of confidence in the output of these models. This included a review of the key French life business unit actuarial models and the impact of low or negative interest on the model following an extended period of historical low interest rates. This review included the correction of mis-applied regulatory rules which resulted in a reduction in solvency, together with benefits from better modelling in a negative interest rate environment, and the resulting impacts on solvency.

COVID-19 assumptions. The Committee also reviewed the assumptions proposed for the setting of Technical Provisions in respect of the COVID-19 pandemic. This included the impact of the pandemic on future mortality, credit spreads and property growth as well as the impact on general insurance claims.

Review of controls associated with the SII and IFRS Life reserving process. The Committee reviewed the sign-off procedures and control framework for movements in IFRS reporting and SII results.

Matter considered	Context
IFRS and SII key accounting judgements and disclosures	The Committee reviews and recommends to the Board Quarterly, Half Year and Full Year disclosures and the impact of accounting judgements on those disclosures. The Committee reviews and recommends to the Board the Annual Solvency and Financial Condition Report.

Committee's response

Estimates and judgements for IFRS and SII reporting bases. The Committee challenged and recommended approval of IFRS judgements including those in respect of goodwill and intangible asset impairment reviews, assets classified as held for sale and the valuation assumptions for certain mark to model assets and liabilities.

Impact of exit from the European Union. The Committee reviewed the size and continuation of the allowance in our assumptions for future property prices and rental income in relation to our commercial and equity release mortgages, for the possible adverse impact including but not limited to the ultimate arrangements regarding the UK's exit from the European Union (EU). The Committee reviewed the allowance introduced following the EU referendum in 2016, and subsequent release of the allowance in the context of broader long-term assumption setting.

Alternative Performance Measures (APMs). The Committee reviewed and approved the clarification and treatment of certain items within the Group's Alternative Performance Measures (APMs) to further improve the transparency and consistency of reporting of APMs.

Product Governance provisions. The Committee also assessed two provisions in respect of product governance issues for heritage book customers in the UK Life business. The first was in respect of advice to customers transferring from defined benefit pension to personal pension arrangements. The second related to past communications to a specific sub-set of policyholders that may not have adequately informed them of switch-in options into with-profits funds that were available to them.

Impact of COVID-19. The Committee reviewed the impact of COVID-19 on the Group financial results, and in particular disclosures around the impact of the pandemic on Business Interruption insurance and motor collision frequency in the General Insurance business, and the impact on General Insurance reserves including the operation of reinsurance arrangements. The Committee also reviewed the impact on investment assets valuations. The Committee reviewed the maintenance of allowances for potential future downgrades to corporate bonds introduced in 2020 and the subsequent release of these allowances at 31 December 2020.

Fair, Balanced and Understandable. The Committee reviewed the Quarterly, Half Year and Full Year results to support the Board conclusion that taken as a whole, these reports were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy. This assessment was particularly significant in the context of the transparency of disclosures during the COVID-19 pandemic and the importance to shareholders of understanding the Group's position during this time.

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Matter considered	Context
Internal Controls	The Committee provides oversight of the system of internal control over financial reporting.
Committee's response	

Review of the effectiveness of the Operational Risk and Control Management (ORCM) system. The Committee reviewed a number of reports to allow the evaluation of the effectiveness of controls and any failings or weaknesses. The Committee continued to challenge and drive the ongoing implementation and how this supports a risk aware culture and strong internal control framework.

Review of internal controls. The Committee reviewed reports on the effectiveness of the internal controls over financial reporting to gain assurance that these remained in tolerance with no control weaknesses which could have a material impact on the financial results. The Committee met with individual business unit leaders to reinforce the importance of further improving performance of the internal control environment within the business units and provide challenge where progress was considered to be insufficient.

Impact of COVID-19 on the control environment and finance function. The Committee reviewed the impact of COVID-19 on the internal control environment and finance operations. This included reporting on ORCM to ensure operational risks within the Finance function remained within tolerance, and where necessary, agree the reduction or deferral of work in other areas of activity to ensure core financial operations continued.

Legal and regulatory reports. The Committee received quarterly reports on current and emerging legal and regulatory matters and any potential impact on Aviva's financial statements.

Matter considered	Context
Internal Audit	The Committee has responsibility for overseeing the work, effectiveness and independence of the Internal Audit Function.
Committee's response	

Annual Plan and Budget. The Committee reviewed and approved the 2020 Internal Audit plan and budget and monitored progress against this plan. In May 2020 the Internal Audit Plan was revised to take account of the impact of COVID-19 on the work of the Internal Audit Function and on the operations and business subject to review. Progress against the Internal Audit plan was closely monitored to ensure completion of the plan by year end.

Quarterly Reports. The Committee also received quarterly control reports from the Internal Audit function and challenged management on the actions being taken to improve the effectiveness of the governance and risk and control framework of the organisation. The quarterly Internal Audit reports contain control environment metrics including: the status of Internal Audit opinions that are rated as unsatisfactory or where major improvement is needed; key issues identified, emerging trends and their impacts on the organisation's risk profile; and the status of management actions to resolve issues identified. During 2020 the Committee has met with market CEOs where the status of the control environment and metrics was considered to require focus.

Matter considered	Context
External Audit	The Committee has responsibility for monitoring the External Auditor PricewaterhouseCoopers LLP's (PwC) independence and objectivity and the effectiveness of the external audit process.
Committee's response	

External Audit Plan and Budget. The Committee reviewed and approved the 2020 audit plan presented by PwC and progress against the plan.

Audit related and non-audit services. The Committee monitors the External Auditor Business Standard to ensure no firm, other than PwC undertakes audit and audit-related services other than in exceptional circumstances. The Committee also monitors non-audit services (including audit-related and other assurance services) provided by PwC.

In 2020 the Group paid PwC £21.2 million (2019: £21.2 million) for audit and audit-related assurance services. PwC were paid £3.4 million (2019: £0.8 million) for other services, giving a total fee to PwC of £24.6 million (2019: £22.0 million). This included a fee of £2.4 million to undertake a 'reasonable assurance' review of the Solvency II Partial Internal Model following the correction of the misapplication of regulatory rules in our French actuarial models. In addition to these fees, audit fees payable to PwC in respect of investment funds consolidated in the Group financial statements were £2.7 million (2019: £2.4 million). These fees are borne directly by the unitholders of the funds and are not borne by the Group. Further details are provided in note 13 of the financial statements.

Request for Additional Actuarial Models Assurance. The Committee requested that PwC undertake additional assurance activity in relation to the French life asset and liability management actuarial model following the correction of the misapplication of regulatory rules which resulted in a reduction in solvency. The Committee reviewed and agreed the scope of additional assurance work. The scope of this assurance work included performing an independent baselining review to check the validity of certain models and validate the operating effectiveness of the associated controls.

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. PwC was appointed for the first time for the 31 December 2012 financial year end and therefore a mandatory re-tender was required for the year ending 31 December 2022. The Committee initiated the external audit tender process during 2020, which had anticipated a series of meetings and direct engagement with potential external audit candidates, however COVID-19 restrictions had inhibited this tender process. The Committee agreed to request a two-year extension to PwC's appointment to 2022. The FRC approved the request for the two-year extension.

Audit Partner. The Committee reviewed the process to select Alex Bertolotti to replace Andrew Kail as lead PwC audit partner, including interviewing potential candidates and validated that he was an appropriate replacement.

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Matter considered	Context
Longer Term Viability Statement (the Statement) and Going Concern Assessment	The UK Corporate Governance Code requires the Board to assess the Company's current position and principal risks and state whether it has a reasonable expectation the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment. The Committee supports the Board in making that assessment.

Committee's response

The Committee reviewed the principles underpinning the Statement for 2020 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 recommended to the Board the Statement and going concern statement to the Board. More information on these statements can be found in the Other Statutory Information section of the Directors' and Corporate Governance report. The Committee continues to consider it appropriate that the Statement covers a three-year period. The Committee also considered the additional guidance issued by the FRC in June 2020 on going concern considering the COVID-19 pandemic including the Group's specific circumstances, current and potential cash resource and access to existing and new financial facilities. At half year 2020 the Committee reviewed the outcome of a series of stress testing exercises undertaken though 2020 taking account of the impact of COVID-19 on markets, Group solvency, business unit remittances and central liquidity.

Matter considered	Context
Implementation of IFRS 17	IFRS 17 is a new insurance accounting standard issued by the International Accounting Standards Board (IASB) due to take effect on 1 January 2023. IFRS 17 is expected to have a significant impact on reporting of the Group's financial performance.

Committee's response

The Committee continued to monitor preparedness of the implementation of new IFRS standards, but most significantly in respect of IFRS 17. 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 the financial reporting process, the operation of new internal financial tools to be used for financial forecasting and planning purposes, and the calculation of insurance liabilities under the new standard. The Committee monitored updates on the planning and implementation activities for IFRS 17 including development of a series of 'dry runs' ahead of the effective date of 1 January 2023.

Matter considered	Context
COVID-19 impact	The Committee assessed the potential increase in uncertainty as a result of COVID-19.

Committee's response

The Committee received updates on the impact of the COVID-19 pandemic on Aviva's businesses and the implications on Aviva's reserves and capital requirements. In addition, the Committee reviewed disclosures made for the impact of COVID-19 pandemic on Aviva's financial performance in its publication of quarterly operating updates and half-year and full year financial statements.

The Committee monitored the impact of COVID-19 on the control environment and for the performance of control assurance activity. The Committee continued to engage with the regulator to seek clarification on the balance sheet disclosures, including treating COVID-19 as a "major development" as per SII Directive.