

Audit Committee report



Patrick Flynn
Chair, Audit Committee

“The Committee approved a number of policies relating to the implementation of IFRS 17, reviewed developments in financial and non-financial reporting systems and oversaw enhancements in the control environment.”

Committee at a glance

Committee membership and meeting attendance

Name	Appointed	Meeting attendance
Andrea Blance	21-02-22	6/6
Patrick Flynn (Chair)	16-07-19	6/6
Shonaid Jemmett-Page	20-12-21	6/6
Jim McConville	01-12-20	6/6
Martin Strobel	22-10-21	6/6

I am pleased to present the Audit Committee (the Committee) report for the year ended 31 December 2022.

Committee purpose

The Committee assists the Board in its oversight of financial reporting to ensure that the full year, half-year and quarterly financial statements are suitable for publication. The Committee also provides assurance over the integrity of the Group's financial and non-financial reporting (NFR) including climate-related disclosures. Together with the Risk Committee, it monitors the effectiveness of the internal control environment over financial and non-financial reporting.

The Committee monitors the effectiveness, performance, objectivity and independence of our internal and external auditors. The Committee also monitors our whistleblowing arrangements.

Key committee activities during 2022:

- Reviewed and recommended for approval the quarterly reporting, half-year and full year financial statements.
- Reviewed developments in climate-related and non-financial reporting.
- Reviewed and approved IFRS 17 accounting policies and monitored the development and implementation of systems and processes to support IFRS 17 reporting.
- Assessed the effectiveness of the work of the external auditors and the internal audit function including the outcomes of associated external reviews.
- Monitored the effectiveness of the systems of internal control over financial and non-financial reporting that support the integrity of Aviva's financial and non-financial disclosures.

2023 priorities

- Monitor the implementation and financial reporting under IFRS 17.
- Monitor the process for the transition of the external auditor from PwC to EY.
- Further enhance the quality and assurance procedures for climate-related and non-financial reporting.
- Assess the potential impact of BEIS proposals on corporate reporting, internal controls and audit committees.

Committee membership

Andrea Blance was appointed to the Committee on 21 February 2022. Andrea is an experienced Board member with extensive experience of the financial services industry. Patricia Cross and Belén Romana García retired from the Committee at the Annual General Meeting on 9 May 2022. The members of the Committee as at 31 December 2022 and their attendance are shown in the opposite table. Details of their experience and qualifications are shown in the 'Our Board of Directors' and 'Governance at a glance' sections of the Governance report.

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Committee member requirements

In my role as Committee Chair I annually review how members meet the experience and expertise criteria set out in the 2018 UK Corporate Governance Code and the FCA Disclosure Guidance and Transparency Rules (DTRs). I, as Committee Chair, Andrea Blance, Shonaid Jemmett-Page and Jim McConville fulfilled both this 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.

External and internal audit effectiveness

The Committee regularly receives reports from the external auditor on the progress of its audit activities. The Committee reviews the contents of these reports and the level of professional scepticism and challenge of management assumptions demonstrated by the external auditor, and where appropriate, requests that management respond to that challenge and tracks management response to ensure a satisfactory outcome to the challenges raised.

The 2022 External Audit Effectiveness review was undertaken to assist the Committee in assessing the quality of audit services provided to the Group 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 committee meetings. 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 was provided with the FRC Audit Quality Review (AQR) report on the PwC audit of the 2021 Annual Report and Accounts and discussed the findings with PwC. No specific actions were required as a result of the AQR. The AQR provided further external evidence to the Committee of the robustness and quality of the external audit.

The Committee concluded that the external auditor continued to perform effectively and is recommended to shareholders for reappointment at the 2023 AGM. PwC have been Aviva's external auditor since 2012, and subject to continued satisfactory performance, it is anticipated that PwC will continue in its role until completion of the Full Year 2023 audit, when in line with the outcomes of last year's competitive tender process, EY will be appointed as the external auditor. 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 2022.

The Committee also conducts an annual review of the internal audit function to assess its independence, 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 external auditor. During the year, an External Quality Assessment (EQA) of the internal audit function was completed by Deloitte. The outcome of the EQA was built into an action plan to further enhance the effectiveness of the internal audit function. The Committee concluded that for 2022 the function performed well and remained effective.

Committee effectiveness review

The Committee undertakes a review of its effectiveness annually as part of the Board Evaluation. More information can be found in the 'Governance in action' section of the Governance report.

Whistleblowing

The Committee Chair is the whistleblowers' champion for the Group and is responsible for overseeing 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 support the Speak Up team and review opportunities to further enhance the Speak Up Service. The outcome of the Voice of Aviva survey is used to assess staff comfort and confidence in the whistleblowing processes.

2023 Priorities

The Committee will continue to monitor the programme to implement IFRS 17, including the design of reporting systems and calculation of new measures. The Committee will also seek assurance over the design and implementation of the system of controls over financial reporting relating to disclosures under IFRS 17. Working in conjunction with the Customer and Sustainability Committee there will be further enhancement to our climate and non-financial reporting and assurance processes.

The Committee also continues to monitor the latest Government proposals for the Department for Business, Energy and Industrial Strategy (BEIS) consultation on audit and corporate governance reform. Proposals, including the development of an Audit and Assurance Policy (AAP), are being closely monitored. While new regulation is not expected during 2023, the Committee is overseeing development of an AAP and changes in external disclosures in readiness for the new regulations when they do take effect.

The Committee will also provide oversight of the work to transition the role of the external auditor from PwC to EY, who, subject to approval at the 2024 AGM, will be appointed for the financial year ended 31 December 2024.

Patrick Flynn
Chair of the Audit Committee
8 March 2023

Audit Committee report continued

Key matters considered during 2022

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

Matter considered	Context	Committee's response
IFRS and Solvency II (SII) technical provisions	The Committee reviews IFRS and 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 2022 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.	<p>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.</p> <p>The Committee reviewed and challenged the longevity, persistency, expense and residential and commercial property growth assumptions used for the quarterly operating updates, and 2022 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 have a material impact on Aviva's SII and IFRS results. During 2022, the Committee worked closely with the Audit Committee of the Group's UK Life subsidiary, Aviva Life & Pensions 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. The Committee reviewed the impact of the period of higher inflation and the rising interest rate environment during 2022. This included residential property assumptions, the impact on the general insurance business of current and future claims inflation, and impacts on the Aviva Staff Pension Scheme.</p> <p>COVID-19 assumptions on business interruption. The Committee reviewed the judgements made in relation to COVID-19 Business Interruption losses in the UK and Canada businesses and agreed the changes in provisions required. Following assessment of the proposed assumption changes the Committee considered and noted the expected impact on the financial statements.</p> <p>The Committee reviewed and provided comment on the output of a deep-dive conducted on the key issues and judgements relating to COVID-19 claims for Business Interruption and the expected period of uncertainty while potential claims were resolved.</p> <p>Reserving process. Reviewed the controls associated with the SII and IFRS reserving process. The Committee reviewed the sign-off procedures and control framework for movements in IFRS reporting and SII results.</p>
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.	<p>Estimates and judgements for IFRS and SII reporting bases. The Committee reviewed, challenged and recommended approval of IFRS and SII judgements, including the impact of acquisitions on the Group balance sheet and the outcome of goodwill and intangible asset impairment reviews. The Committee reviewed the Group's exposure to contingent liabilities and other risk factors, including amounts allowed for and disclosures. The Committee also considered the financial impact and disclosures stemming from the war in Ukraine. Where appropriate, the Committee monitored and tracked management's response to the challenges it raised to ensure a satisfactory outcome.</p> <p>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.</p> <p>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, performance, business model and strategy.</p>

Audit Committee report continued

Matter considered	Context	Committee's response
Implementation of IFRS 17	IFRS 17 is a new insurance accounting standard issued by the International Accounting Standards Board (IASB) effective from 1 January 2023. IFRS 17 is expected to have a significant impact on reporting of the Group's financial performance.	<p>The Committee continued to monitor preparedness for the implementation of new IFRS standards, but most significantly in respect of IFRS 17. IFRS 17 will have a significant impact on the measurement and presentation of insurance contracts and the Committee has spent significant time considering the new accounting policies and judgements. The Committee continued 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, and reviewed and approved tranches of accounting methodologies during 2022 in support of a series of 'dry runs' ahead of the effective date of 1 January 2023. The Committee initially commenced the review and agreement of IFRS 17 accounting policies and judgements during 2021. This continued into 2022 as the Committee reviewed, challenged and approved the material accounting judgements required to implement IFRS 17. The Committee also assessed the effectiveness of the systems of controls over the new IFRS 17 reporting systems.</p> <p>The Committee has overseen the implementation of the approved policies in determining the impact of IFRS 17 on Aviva plc's Statement of Financial Position as at 1 January 2022. Further information on these policies is provided in Note 62.</p>
Non-financial and Sustainability Reporting	The Committee provides oversight of the integrity of climate-related and non-financial reporting.	<p>The Committee reviewed and challenged the application of critical climate-related and non-financial metrics related policies, practices, methods and judgements to calculate the metrics. This included the monitoring of the systems of controls over these disclosures. The Committee reviewed the findings of the assurance with the external auditor and shared with the Customer and Sustainability Committee the outcome of the review, and how it contributed to the integrity of climate and non-financial metrics reporting in the Annual Report and Sustainability Report. The Committee, working with the Customer and Sustainability Committee, recommended the climate-related disclosures to the Board for approval.</p>
Internal Controls	The Committee provides oversight of the system of internal control over financial reporting.	<p>Review of the effectiveness of the Operational Risk and Control Management (ORCM) system. The Committee regularly 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 support developments to the risk aware culture of our people and strong internal control framework.</p> <p>Review of internal controls. The Committee reviewed reports on the effectiveness of the internal controls over financial and non-financial reporting to gain assurance that these remained in tolerance with no control weaknesses which could have a material impact on the financial results and non-financial metrics. As referenced in 'How we are governed' section, the Committee received reports on the assessment of financial reporting controls deficiencies and the detailed findings of the testing undertaken for the remediation. The Committee also reviewed an assessment of the overall effectiveness of the governance, and risk and control framework of the organisation. The review concluded that Aviva's risk appetite framework was being adhered to and was effectively being tracked and monitored.</p> <p>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.</p>

Audit Committee report continued

Matter considered	Context	Committee's response
Internal Audit	The Committee has responsibility for overseeing the work, effectiveness and independence of the internal audit function.	<p>Annual plan, budget and reports. The Committee reviewed and approved the internal audit plan and budget and monitored progress against this plan to ensure completion of the plan by year end. The Committee received an annual report where internal audit provided an assessment of the control environment of the areas on which work had not been undertaken. The Committee reviewed the output of the external quality assessment and actions to further enhance the effectiveness of the internal audit function.</p> <p>Internal Audit Charter. Reviewed and approved the Internal Audit Charter.</p> <p>Quarterly reports. The Committee also received quarterly control reports from the internal audit function, including monitoring the quantum and trend in internal report findings, 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.</p>
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.	<p>External auditor independence. The Committee reviewed the auditors compliance with the independence criteria in the UK Corporate Governance Code and monitored compliance with our external auditor Business standard. The Committee meets with external auditor without management present to provide a forum for any issues to be raised.</p> <p>External audit plan and budget. The Committee reviewed and approved the 2022 audit plan presented by PwC and progress against the plan.</p> <p>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. The Committee has put in place a structure to review and approve the provision of audit and audit-related services by PwC and receives bi-annual reports on these services provided by PwC and the fees charged for those services. The Committee also gains assurance that the fees remain well below the 70% non-audit services fee cap. There were no material non-audit services provided by PwC during 2022.</p> <p>In 2022 the Group paid PwC £30.4 million (2021: £17.5 million) for audit and audit-related assurance services. PwC were paid £1.7 million (2021: £1.3 million) for other assurance services, giving a total fee to PwC of £32.1 million (2021: £18.8 million). Further information on auditors' remuneration is set out in note 11.</p> <p>Implementation of IFRS 17. The Committee reviewed reports from PwC on Aviva's progress in implementing IFRS 17. PwC reviewed and provided commentary to the Committee on key accounting policies and judgements which supported the Committee's oversight and approval of IFRS 17 accounting policies and judgements. PwC worked with the FRCF team to perform process walkthroughs, identify key controls and understand the testing of key controls.</p> <p>The Committee did not request any specific areas of review from the external auditor beyond the normal cycle of audit activity.</p>

Audit Committee report continued

Matter considered	Context	Committee's response
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.	The Committee reviewed the principles underpinning the Statement for 2022 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 assessment to the Board. More information on these statements can be found in the Directors' report. The Committee continues to consider it appropriate that the Statement covers a three-year period.