

# Aviva Internal Audit IIAG



## A strategic review of Internal Audit

**Diane Côté**, Chief Audit Officer, Aviva  
May 21<sup>st</sup> 2010



- 1** **Changing landscape**
- 2** **What has the role of Internal Audit within the industry been so far?**
- 3** **What have we missed?**
- 4** **Evolution or revolution?**
- 5** **Our key challenges – winning people over**
- 6** **Aviva Internal Audit**

# Changing landscape



- Global financial crisis
- A number of high profile company failures
- Threat of a sovereign debt crisis
- Increasing regulatory requirements to improve governance and risk management:
  - Solvency II
  - Basel III
  - Walker (UK) (guidelines only)
  - Further US and European Initiatives – e.g. combined code update, break up of banks
- Increased focus on capital and liquidity and increasing need to ring fence capital at a country level
- Tougher requirements and increased oversight accountability for Non Executive Directors
- Increasing importance of risk functions / 2<sup>nd</sup> line of defence – with Risk much more likely to sit at the Board / Executive level
- Increasing regulatory involvement and pressure

# What has the role of Internal Audit within the industry been so far?



- To provide independent, objective assurance to management and the Board on the effectiveness and adequacy of an organisation's risk management, system of internal controls and governance.
- We've made a lot of progress over the last 10 years.
- In reality, have we done enough? What has been our real focus?
  - Operational controls?
  - Management doing things right?
  - Being independent?
  - Process focused and backwards looking?
- What external drivers have there been around the role of Internal Audit? Have we been too inwardly focused?

# What have we missed?



Let's challenge ourselves as a profession:

- Are we focusing on the right risks?
- Do we have a global view on the risk exposures of our companies?
- Are we a priority on management's agenda?
- Are we focused on cyclical coverage rather than the key risks?
  
- What is our position within organisations?
- Have we tried to influence the governance agenda?

# Evolution or revolution?



- Risk and governance regulation is continuously evolving.
- There seems to be only little focus on Internal Audit and relevant change related to Internal Audit is often incremental in nature.
- Should we be more at the forefront of the development of corporate governance legislation?
- Are we missing opportunities to be involved in shaping the future of risk governance models?
- There is a need for the Internal Audit profession to be more strategic and externally focused
- ***What is the future role of Internal Audit within risk & governance?***
- ***What is the role of Internal Audit in preventing another financial crisis?***

# Our key challenges – winning people over



## **Externally (in the industry)**

- Increase the profession's lobbying power - strategic positioning in the governance arena through forums and Professional Associations
- Ensuring we maintain the right standing and position within organisations.

## **Internally**

- What should the reporting lines of Internal Audit be following changes in governance models?
  - CEO and Chairperson of the Audit Committee?
  - CEO and Chairpersons of the Risk and Audit Committee?
  - CEO and Chair of the Board?
- What should be the level of organisational embeddedness of Internal Audit?
- What should our position be in relation to the Risk Function going forward?

## **About Aviva\***

- One of the worlds largest insurance groups
- Operates a composite model
- Operates in 28 countries, serving 53m customers worldwide
- 46,000 employees
- Total Assets Under Management: £379bn

## **About Aviva Internal Audit**

- Consists of 200+ professionals
- Operating as a global function with teams within all major units and regions
- Organised in a matrix structure of local audit and specialist teams
- Fully risk focused approach, aligned to Aviva's objectives
- Effectiveness Improvement Programme undertaken in 2007 and completed in 2008

\* Figures based from the 2009 Financial Statements

# Aviva Internal Audit

What have we done, how are we facing the challenges ahead?

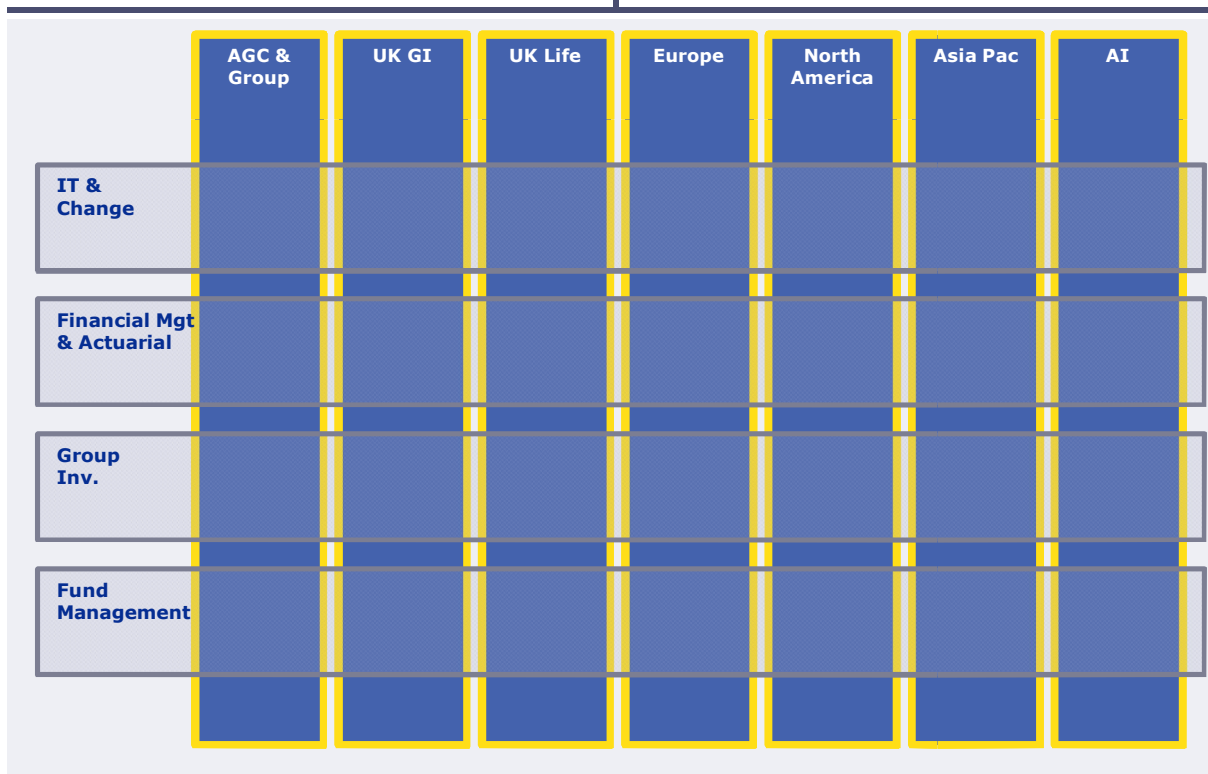
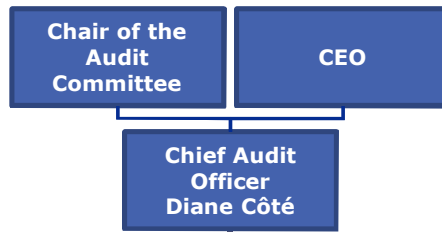


## • A two year Effectiveness Improvement Programme:



# Aviva Internal Audit

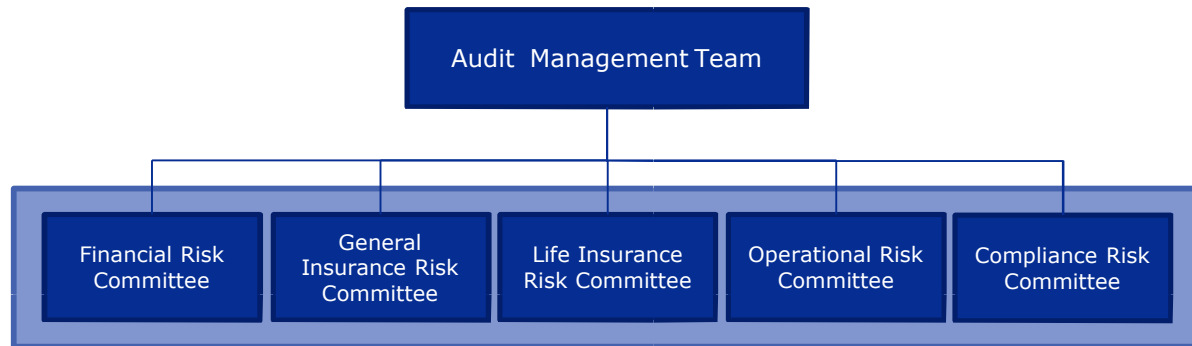
## Our Structure



- Matrix structure with global audit teams mirroring the regional operating model
- Specialist teams providing cross boarder expertise
- Global nature of the team and fluid staffing model assists in providing a combination of:
  - deep local risk expertise;
  - global risk identification and assessment;
  - consistency around risk management activities; and
  - sharing of best practice.

# Aviva Internal Audit

## Governance Structure



- allows for focus on global risks and group wide issues and ensures a strategic debate at senior levels within Internal Audit
- allows for full integration of specialist teams
- leverages off the global team; including all levels of Internal Audit
- is aligned to the Risk structure
- allows for ongoing review and adjustments to our global plan

# Aviva Internal Audit

## Talent Management



- Global flexible pool of resources
- Globally consistent talent management process:
  - Standardised role profiles
  - Consistent appraisal process
  - Performance measured against group-wide peers
- Balance score card used to monitor the talent management process
- Actively monitoring and managing in-flow and out-flow of resources – yearly overview to Group Audit Committee

# Aviva Internal Audit

## Objectives



# Aviva Internal Audit

## How do we Monitor our Effectiveness?



		BSC			Target for 2010			Frequency	Team	Team	Team	Team
Trusted Assurance & Advisory Partner	Stakeholder Feedback Score	< 3.0	≥ 3.0 < 4.0	≥ 4.0	Monthly							
No Surprises	Overdue Issues (Sig +)	>15%	>10% ≤ 15%	≤ 10%	Monthly							
	Overdue Issues	>15%	>10% ≤ 15%	≤ 10%	Monthly							
	Issue Due Dates (Sig +)	>15%	>10% ≤ 15%	≤ 10%	Monthly							
	Control Failures after Review	> 1	> 0 ≤ 1	0	Monthly							
	Risk Coverage	< 75%	≥ 75% < 85%	≥ 85%	Q1 2010 data							
Operational Excellence	Audits Completed against Plan (Draft report Issued)	< 25%	≥ 25% < 30%	≥ 30%	31 May							
		< 60%	≥ 60% < 65%	≥ 65%	30 Sept							
		< 90%	≥ 90% < 95%	≥ 95%	31 Dec							
	Audits Completed against Plan (Final report Issued)	< 10%	≥ 10% < 15%	≥ 15%	31 May							
		< 45%	≥ 45% < 50%	≥ 50%	30 Sept							
		< 75%	≥ 75% < 80%	≥ 80%	31 Dec							
	Variation to Budget	> 5%	> 0% ≤ 5%	≤ 0%	Monthly							
Management Response Time (Working days)	> 20	> 15 ≤ 20	≤ 15	Monthly								
High Performance Culture	Headcount Variance	> 15%	≤ 15% > 5%	≤ 5%	Monthly							
	Staff Turnover	> 25%	≤ 25% > 15%	≤ 15%	Monthly							
	Staff Moving into the Business	< 50%	≥ 50% < 75%	≥ 75%	Monthly							
	Staff Entering from the Business	< 20%	≥ 20% < 30%	≥ 30%	Monthly							

Example for discussion purposes only

### Balance Scorecard

- KPIs aligned to objectives
- Reporting across all teams
- Regular review of KPIs at Audit management meetings
- Reporting of key KPIs to the Group Audit Committee

# Aviva Internal Audit

## Solvency II Project



- Continuous involvement in the programme along the various life cycle stages (global presence steering committees and work streams)
- Global integrated assurance plan aligned to risk and external auditor
- String of reviews; timing aligned to key milestones
- Audit issues integrated in SII issue log from business
- Audit updates as a standing item in quarterly GAC reports
  
- Global virtual team incorporating specialists on data, internal models, risk, etc
- SII Centre of Excellence responsible for training of global IA function



**AVIVA**