

January 2025

1. Introduction

The activities of Internal Audit (IA) in Nationwide Building Society and its subsidiary companies are governed by the Internal Audit Charter, except for the Virgin Money sub-group which operates to its own Internal Audit Charter. The Charter provides the mandate of Nationwide Internal Audit by defining the role, authority and responsibilities of IA and is approved annually by the Audit Committee.

The contents of the document are as follows:

- Purpose and scope
- Authority
- Independence and objectivity
- Responsibilities of IA
- Audit Practice Standards

2. Purpose and scope

As Nationwide's third line, IA provides independent, risk based and objective assurance, advice, insight and foresight to the Board and executive management on the design adequacy and operating effectiveness of governance, risk management and internal controls to monitor, manage and mitigate key risks to achieving Nationwide's objectives and protecting its assets, reputation, sustainability and ability to serve the public interest. IA has adopted a risk-based approach to be better placed to respond to the dynamic risk environment that Nationwide operates in.

IA's scope is unrestricted and covers all the activities of the Society, its subsidiaries and those performed by third parties on behalf of the Society. This includes but is not restricted to:

- the design adequacy and operational effectiveness of Nationwide's governance structures, policies, processes and controls, including achievement of intended outcomes;
- the information presented to the Board and Executive management for strategic and operational decision making;
- the setting of, and adherence to, risk appetite;
- Nationwide's risk and control culture;
- Nationwide's values and culture which underpin our Mutual ethos articulated through the Nationwide Strategy;
- risk of poor customer treatment and/or not meeting our consumer duty obligations, giving rise to conduct or reputational risk;
- capital and liquidity risks;
- compliance with laws, regulations and policies;
- key events, including significant process changes, introduction of new products and services;
- outsourcing decisions and acquisitions / divestments; and
- effectiveness of the risk management framework, including the adequacy and effectiveness of the risk management, compliance and finance functions.

3. Authority

IA derives its authority from the Board through the Audit Committee. This includes prompt and unrestricted access to all systems, data, records, property and personnel, the right of attendance at management committees and executive meetings in an observational capacity, and the right to be informed of material decisions and change. All relevant information and data obtained by IA in the course of audit work is treated with confidentiality. Additionally, the Chief Internal Auditor has direct and unrestricted access to the Chair of the Board and the Chair of the Audit Committee.

4. Independence and Objectivity

IA is independent of the Society's operational management and has no direct operational responsibility or authority over the activities it reviews.

All IA employees report directly or indirectly to the Chief Internal Auditor. They are responsible for being independent, objective, and constructive in the conduct of their work and avoiding conflicts of interest and personal, business or other issues that may impair impartiality.

In order to ensure independence, and objectivity:

- the Chief Internal Auditor reports directly to the Chair of the Audit Committee, with a secondary administrative reporting line to the Chief Executive;
- the Audit Committee Chair is responsible for setting the objectives and reviewing the performance of the Chief Internal Auditor, including making recommendations on remuneration to the Remuneration Committee as appropriate;
- the Audit Committee holds, at least annually, a meeting with the Chief Internal Auditor without management being present, to ensure that the Chief Internal Auditor has an opportunity to raise any issues directly with the Committee;
- the Chief Internal Auditor meets regularly with the Audit Committee Chair in private to ensure that the Chief Internal Auditor has an opportunity to raise any issues directly;
- IA employees have no operational responsibilities for any of the activities reviewed, and policies are in place to ensure that any employees working on projects or organisational wide initiatives, transferring into, or seconded to, IA from other Functions, are not involved in auditing activities for which they have been responsible for 12 months;
- IA does not set risk appetite, implement risk management processes, carry out quality assurance, controls testing or risk oversight on behalf of management, or design and implement risk mitigation activities in response to control weaknesses reported;
- The Audit Committee have approved IA to undertake investigation activity with appropriate safeguards to independence in place;
- on the approval of the Chief Internal Auditor, IA can engage in consultancy work to assist management in activities such as developing effective control frameworks. This will form a limited proportion of IA's work, and individuals' involvement in the work is considered in light of their future audit work to ensure IA's independence and objectivity are not compromised; and
- The Chief Internal Auditor confirms IA's independence to the Audit Committee on an annual basis.

5. Responsibilities of IA

The principal responsibilities of IA in planning, executing and reporting on its work are as follows:

- developing a risk-based Internal Audit Plan on a 6-monthly basis, showing a view for the following 6 months with an indication of audits planned for the subsequent 6 months. The plan is designed to provide assurance over key risks and allow flexibility to respond to business and risk profile changes. It is presented for approval by the Audit Committee.
- completing the audit work set out in the Audit Plan and reporting findings to management;
- providing quarterly reports to the Audit Committee including significant control weaknesses, themes arising from audit work and other interactions with management, emerging risks and issues, significant findings from selected post-incident reviews of major adverse events, and the effectiveness of management in addressing issues raised;
- providing at least annually an assessment of the overall effectiveness of the governance and risk and control framework across Nationwide;
- undertaking risk-based issue validation (as agreed by the Audit Committee) to conclude on whether actions taken by management in response to issues raised are appropriate and implemented effectively;
- taking into consideration the work of first and second line control and oversight functions including evaluating the adequacy and effectiveness of those Functions and assessments on whether to amend the scope or nature of audit activity, and co-ordinating work as appropriate;
- liaising with the Society's external auditors to co-ordinate work and to maximise efficiency;
- maintaining an open relationship with regulators, including in exceptional circumstances communicating significant issues to regulators in the event that management has not done so; and
- reporting and seeking approval of IA's mandate, and operational effectiveness to the Board Audit Committee, including an understanding of the Chief Internal Auditor's qualifications and competencies.

It is the responsibility of the Chief Internal Auditor (CIA) to manage IA effectively. This includes:

- setting the strategy for the Audit Function and driving actions to deliver that strategy;
- ensuring that appropriate skills and resources are maintained and reported regularly to discharge IA's responsibilities effectively, including the use of external specialists through co-source arrangements;
- developing and maintaining quality assurance and improvement practices. This includes maintaining an independent Quality Assurance team, and ensuring that the scope of quality assurance work is appropriate and that results of this activity are reported and are used to drive continual improvement in audit quality;
- using methodology guidance that supports the delivery of effective and efficient audit engagements;
- using a suite of management information to monitor the performance of IA;
- ensuring that operational risks within IA are managed; and
- working with management to facilitate secondments of employees into and out of IA to increase expertise within IA and promote the development of high performing individuals.

Additionally, at least once every five years IA's effectiveness will be evaluated by an external and independent organisation.

6. Audit Practice Standards

IA conforms with the Chartered Institute of Internal Auditors (CIIA) Internal Audit Code of Practice (Effective from January 2025) and operates in accordance with the Global Standards (Effective from January 2025).

The Chief Internal Auditor is responsible for ensuring that IA complies with the Global Internal Audit Standards as well as appropriate guidance, and regulatory requirements. This is confirmed by the Chief Internal Auditor on an annual basis to the Audit Committee informed by the Quality Assurance and Improvement programme of work to evaluate conformance with CIIA Standards and IA policies and procedures. The Quality Assurance team, part of IA Strategy and Operations, is independent of those staff who carry out the audit work. IA must also comply with all relevant policies, procedures and professional body standards of conduct.