

Marks and Spencer Group plc

Auditor Engagement Policy

June 2009

Introduction

Over the years PricewaterhouseCoopers LLP has been contracted to carry out or support a number of projects for Marks and Spencer Group plc (the 'Group'). It is important that the independent role of external auditors in reporting to shareholders is not compromised but equally the Group should not be deprived of expertise where it is needed.

The Group's policy on audit independence is disclosed in the annual report as follows:

"The Committee keeps under review the independence and objectivity of the external auditors and the effectiveness of the audit process. It has reviewed and updated the Auditor Engagement Policy which requires prior Committee approval for certain engagements. On occasions, the nature of non-audit advice may make it more timely and cost-effective to select PwC, who already have a good understanding of the Group. PwC may also be appointed for consultancy work, but only after rigorous checks, including competitive tender, to confirm they are the best provider. PwC is also subject to professional standards which safeguard the integrity of the auditing role performed on behalf of shareholders".

The Institute of Chartered Accountants in England and Wales sets out threats to the independence of auditors as:

- self interest, where an interest in the outcome of their work, or in a depth of relationship with the Group, might conflict with the auditors' objectivity;
- self audit, where the auditors may be checking their own colleagues' work and might feel constrained from identifying risks or shortcomings;
- advocacy, which is present in many engagements but becomes a threat if the auditor becomes an advocate for an extreme position in adversarial proceedings;
- familiarity or trust.

This policy discusses the impact on auditor independence of the use of external auditors for non-audit assignments. It also recommends the type of work that can be performed by external auditors and procedures for assigning such work.

Types of non-audit work and procedure for approval

The Audit Committee is responsible for approving non audit work. The proposed categories of non audit work along with the related approval level are set out overleaf. More detail on each type of work is set out in the Appendix.

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(a) Statutory and audit related

There are certain projects where the external auditors are best placed to perform the work as it is clearly audit related (eg regulatory work and acting as reporting accountants to share and bond issues). It is proposed that such assignments do not require Audit Committee approval. However, recognising that the level of non-audit fees may also be a threat to independence, Audit Committee approval is required for engagements of **£200k and above**.

(b) Audit and assurance related

There are a significant number of projects and engagements where the external auditors are best placed to perform the work due to their network within and knowledge of the business (eg taxation advice including compliance, due diligence and advice on accounting). Audit Committee approval is required for engagements of **£100k and above**.

(c) Non audit advisory services

There may also be other assignments not included in the categories above, where the external auditors are in a position to provide the best service to the Group due to their previous experience or market leadership in a particular area (eg certain advisory projects such as the implementation of software for project management). Audit Committee approval is required for engagements of **£50k and above**. With all such work management should fully understand and adopt the advice they receive to provide an additional safeguard.

(d) Not permitted

There are some projects that are not to be performed by the external auditors. These projects represent a real threat to the independence of the audit team, for example as it could lead to the external auditors being in a position of auditing their own work, such as systems implementations.

To seek approval from the Audit Committee, the project sponsor should obtain a proposed scope and fee estimate from the auditors before work commences - this may involve a competitive tender process. If the fee estimate exceeds the relevant limit set out in this policy, details of the scope and fee proposal should be submitted (via e-mail) to the Audit Committee Chairman and Group Finance and Operations Director (copied to the Audit Committee Secretary).

From a practical perspective, it may not be possible to convene an Audit Committee meeting each time a project involving the external auditors requires approval. Accordingly, the Audit Committee Chairman and Group Finance and Operations Director should use their own discretion as to the level of consultation required with the rest of the Audit Committee and the Group Board.

Once approved, the project should be logged by the Audit Committee Secretary to be raised at the next Audit Committee meeting and the Group Financial Controller informed in order to track fees. If the fees for the project significantly exceed the original estimates further approval should be sought in the manner noted above.

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Appendix 1 - Examples of engagements that may or may not be awarded to the auditors

	Statutory and audit related	Audit and assurance related	Non audit advisory services	Not permitted
Category of work	Engagements requiring audit committee approval subject to £200k limit	Engagements requiring audit committee approval subject to £100k limit	Engagements requiring audit committee approval subject to £50k limit	Engagements that are not permitted to be performed by the auditors
Characterised by	<ul style="list-style-type: none"> Advice on areas core to the financial statements and audit 	<ul style="list-style-type: none"> Engagements requiring an independent, objective assessment of information or procedures Staff secondments 	<ul style="list-style-type: none"> Other advisory services 	<ul style="list-style-type: none"> Participation in management, joint ventures or other financial arrangements
External reports	<ul style="list-style-type: none"> Reporting accountants' reports and comfort letters in connection with shareholder circulars, listing particulars or bond issues 			
Acquisitions	<ul style="list-style-type: none"> Accountants' reports Reporting on financial assistance 	<ul style="list-style-type: none"> Due diligence and related advice Audit of completion accounts Agreement of price adjustments arising from completion accounts 	<ul style="list-style-type: none"> Lead broker/dealer services Advice on post deal integration Preparation of forecasts or investment proposals 	
Disposals	<ul style="list-style-type: none"> Audit of carve-out financial statements 	<ul style="list-style-type: none"> Vendor due diligence 	<ul style="list-style-type: none"> Advice on negotiations and sale memorandum Preparation of sale memorandum Lead broker/dealer services 	

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Taxation		<ul style="list-style-type: none"> • Preparation of draft tax returns • Regular advice on tax matters and recent developments • Ex-patriate tax work • Transfer pricing studies, preparation of comparables data and documentation 	<ul style="list-style-type: none"> • Advice on complex or high risk tax matters • Submission of returns and correspondence with tax authorities • Valuations which are solely for tax purposes • Appearing for M&S in material judicial proceedings 	<ul style="list-style-type: none"> • Preparation of accounting entries for tax • Handling M&S tax payments
General accounting		<ul style="list-style-type: none"> • Advice on preparation of M&S financial information and application of GAAP • Training support for accounting and risk management projects • Preparation of local statutory accounts which do not form the basis for Group reporting 	<ul style="list-style-type: none"> • Advice on bookkeeping services • Advice on processing payrolls 	<ul style="list-style-type: none"> • Preparation of accounting entries • Preparation of financial information
Support to Internal Audit		<ul style="list-style-type: none"> • Provision of specialist skills • Training support 	<ul style="list-style-type: none"> • Advice on methodology and systems • Co-sourcing 	<ul style="list-style-type: none"> • Full outsourcing
Risk management services		<ul style="list-style-type: none"> • IT and other controls reviews 	<ul style="list-style-type: none"> • Advice on design and implementation of policies, controls and security arrangements 	<ul style="list-style-type: none"> • Systems implementation