

INTERNAL AUDIT CHARTER

Introduction

This document contains the Internal Audit Charter for Marks & Spencer plc (M&S) and defines the purpose, authority, responsibilities and position of the Internal Audit function.

Role

Internal Audit provides an independent assurance function which supports the Audit Committee in the discharge of its responsibility to ensure that there is:

- An adequate and effective system of internal controls and risk management;
- Timely follow up of control deficiencies; and
- Appropriate safeguarding of assets, activities and interests of the Group.

Internal Audit works with the business to help improve the overall control environment and to assist in identifying emerging risks requiring mitigation. The remit of the function incorporates all activities of the Group and considers all types of risk, including operational, financial, fraud, compliance, strategic, governance and brand risk.

Professionalism

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. In performing their duties, internal auditors must always exercise due professional care.

The Internal Audit function will adhere to the standards set by the Institute of Internal Auditors (including the Definition of Internal Audit, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing) and to the Group's relevant policies and procedures, including the Code of Ethics and Behaviours.

Functional standards and ways of working, are set out in the M&S Internal Audit Methodology & Guidance manual (which is subject to periodic review and update).

Authority

Internal Audit derives its authority from the Board through the Audit Committee. Internal Audit is authorised full, free and unrestricted access to all the Group's records, physical properties, and personnel pertinent to carrying out any engagement. Authority for access is vested in the Head of Internal Audit & Risk ('HIAR') who is responsible for making sure this authority is exercised responsibly.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free and unrestricted access to the Board. In return, Internal Audit will operate with strict accountability for confidentiality and safeguarding records and information.

In addition, the HIAR:

- Should be informed promptly by management of any significant potential or actual control failures, including those identified by external third parties;
- Should be invited to attend any committee meeting relevant to the function's responsibilities; and
- Should be informed promptly by management of any major corporate activity that may have a material impact on the risk and control environment of the Group.

Independence and Objectivity

The independence of Internal Audit from day to day line management responsibility is fundamental to its ability to deliver objective coverage of all parts of the Group. Internal Audit must have an impartial, unbiased attitude and avoid any conflict of interest.

Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude; if necessary, the HIAR must disclose any such interference and its related implications to the Audit Committee.

Internal Audit team members will have no direct operational responsibility or authority over any of the activities audited and will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment or compromise their independence.

While the HIAR has responsibility for overseeing the facilitation of risk management and reporting processes across the Group, the individual is not responsible for setting risk appetite, identifying and prioritising risks, or taking decisions on risk mitigation, acceptance or management.

The HIAR will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

The remuneration of the HIAR and the internal Audit team will be subject to periodic review by the Audit Committee Chair and the Remuneration Committee.

Reporting lines

To maintain organisational independence, the HIAR will report functionally to the Audit Committee and administratively (i.e. day to day operations) to the Chief Financial Officer. The HIAR will have unrestricted access to the Audit Committee Chair. The Audit Committee will approve all decisions regarding the appointment or removal of the HIAR.

Responsibility

The HIAR is responsible for:

- Maintaining the M&S Internal Audit Methodology & Guidance manual;
- Setting and delivering a functional strategy to support continuous functional improvement;
- Developing a risk based, flexible and commercially focused annual audit plan, considering the input of senior management, for review and approval by the Audit Committee and notification to the Group Board. The plan will incorporate both existing business processes and systems and those under development (programme assurance);
- Executing the audit plan utilising a risk based audit methodology and reporting findings to the Audit Committee, CEO, CFO and other relevant senior management;
- Developing data analytics to help identify potential control weaknesses and anomalies through the analysis of data from across the business on a periodic basis;
- Establishing an effective quality assurance and improvement programme to ensure Internal Audit's judgements and observations are adequately supported and evidenced;
- Ensuring the tracking and follow up of management actions to address identified control gaps and bringing to management's attention instances where risks are not sufficiently mitigated through the effective and timely completion of agreed actions;
- Working closely with the CFO, and maintaining effective relationships across the business, to promote good governance, risk management and controls across the business;
- Providing an effective channel for the investigation of whistleblower claims or instances of potential fraud, as required and coordinating reports to the Audit Committee on whistleblower claims, theft and fraud investigated by all channels within the Group;
- Providing proactive advice to the business on risk management and controls, within the

boundaries of the function's independence, to support the continuous improvement of the control environment;

- Maintaining a professional audit staff that, together with external resources utilised, has sufficient knowledge, skills and experience to carry out the audit plan;
- Maintaining effective relationships with other control and assurance functions (including control and compliance functions within the Group and the external auditors) to minimise duplication of effort and share learnings and best practice;
- Liaising with the Audit Committee, internal audit and control functions of Joint Ventures to obtain assurance that risks are sufficiently mitigated (where possible); and
- Overseeing the facilitation of risk management and reporting processes across the Group.

Reporting and Monitoring

The HIAR will report periodically to the Audit Committee on:

- The annual Internal Audit budget and resource plan;
- The results of audit reviews;
- The status of management action plans to address identified control gaps;
- The status of the overall control environment within the Group based on the findings of work completed;
- Progress against the audit plan including proposed variations and additions for Audit Committee approval; and
- The sufficiency of internal audit resources, in terms of both capacity and skill set.

In addition, the objectives of the HIAR and the Internal Audit team will be reviewed and approved by the Audit Committee Chair.

Periodic Assessment

Internal Audit will be subject to a formal functional effectiveness review, supported by an external third party, at least every five years, with results reported to the Audit Committee. In addition, the Audit Committee will formally consider functional performance on a periodic basis and at least once every three years.

Approval

The Internal Audit Charter will be reviewed and approved by the Audit Committee.