

## **AUDIT & RISK COMMITTEE TERMS OF REFERENCE**

### **Membership**

The Audit & Risk Committee (“the Committee”) of Marks and Spencer Group plc (“the Company”) shall comprise at least 3 independent non-executive directors. At least one member should have recent and relevant financial experience with competence in accounting and/or auditing, and the Committee as a whole should have competence relevant to the sector in which the Company operates. The quorum is the Committee Chair and at least one other member, or any 3 members.

Members of the Committee shall be appointed by the Board of the Company, on the recommendation of the nomination committee in consultation with the Chair of the Committee.

### **Meetings**

The Committee meets at least 5 times per year. Only members of the Committee have the right to attend Committee meetings, although the external auditors, Head of Internal Audit and Risk, CEO and/or Co-CEO, CFO and senior management will normally be invited to attend. Other directors may be invited to attend Committee meetings as necessary for particular topics on the agenda.

Outside of the formal meeting programme, the Committee Chair, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the Company’s governance, including the Board Chairman, the CEO, the CFO, the external audit lead partner and the Head of Internal Audit and Risk.

The Company Secretary acts as secretary to the Committee or appoints a Committee Secretary in consultation with the Committee Chair. An inspection copy of the minutes should be maintained and made available to all directors. The Committee Secretary should ensure the Committee receives information and papers in a timely manner to enable full and proper consideration of all issues.

The Committee reports to the Board, identifying any matters which it considers require action or improvement, and making recommendations as to the steps to be taken. The Board is to be provided with an overview of the key matters discussed at the previous Audit Committee meeting. If required, minutes can be issued to the Board.

The annual report contains a separate section describing the work of the Committee in discharging its responsibilities. The Committee Chair attends the Company’s Annual General Meeting prepared to respond to any shareholder questions on the Committee’s activities. In addition, the Committee Chair should seek engagement with shareholders on significant matters related to the Committee’s areas of responsibility.

### **Role**

The Committee assists the Board in fulfilling its oversight responsibilities. Its primary functions are:

- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company’s financial performance, reviewing significant financial reporting judgements contained in them.
- to maintain an appropriate relationship with the Company’s auditors and to review the independence, objectivity, and effectiveness of the audit process, taking account of the relevant professional and regulatory requirements.
- to consider and advise the Board on the Company’s overall risk management activities, including principal and emerging risks and the risk appetite statements.
- to review the Company’s systems of internal control.
- to monitor compliance with legal and regulatory responsibilities.
- to monitor activities designed to support corporate integrity.

To perform their roles effectively, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Company’s business, operations and risk. The Committee shall, in its decision making, give due regard to any relevant legal or regulatory requirements, as well as best practice guidance. The Committee can obtain its own independent professional advice as necessary, at the expense of the company.

## **Terms of Reference**

### **Engagement with key stakeholders**

- 1 To provide an open avenue of communication between the external auditors, the internal auditors, and the Board.
- 2 To meet separately with both the internal and external auditors as required, providing the opportunity to do so at each Committee meeting.
- 3 The Audit Committee Chair should report periodically to the Board on significant matters as required following each Committee meeting.

### **External Auditors**

- 4 To recommend to the Board, for annual shareholder approval, the appointment, re-appointment and removal of the external auditors, and to lead the process of putting the external audit contract out to tender at least every 10 years, with a change of external auditor at least every 20 years. Annually approve the terms of engagement and the remuneration to be paid to the external auditors in respect of audit services provided.
- 5 To assess the external auditors' qualifications, expertise, resources, effectiveness, independence and objectivity and to review the quality control procedures and steps taken by the auditors to respond to changes in regulatory or other requirements, taking into consideration relevant UK professional and regulatory requirements.
- 6 To review any representation letter(s) requested by the external auditor, before recommending to the Board they are signed by management.
- 7 To review the management letter and management's response to the auditor's findings and recommendations.
- 8 To develop and implement a policy on the engagement of the external auditor to supply non-audit services, consistent with current corporate governance regulations and FRC guidance.
- 9 To confirm that the Committee approval process for non-audit fees has operated for the period under review.
- 10 To report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- 11 To review with the CFO and external auditor the scope and results of the external audit and any significant findings reported to the Committee in the management letter, receiving updates from management on action taken. This should include a discussion of any major issues which arose during the audit, the auditor's explanation of how the risks to audit were addressed, key accounting and audit judgements, the auditor's view of their interactions with senior management, and levels of errors identified during the audit.
- 12 To review the cost effectiveness of external audit.

### **Internal Auditors**

- 13 To approve the appointment or termination of appointment of the Head of Internal Audit and Risk, and ensure the internal auditor has direct access to the Board Chairman and Committee Chair, providing independence from the executive and accountability to the Committee.
- 14 To ensure that the Internal Audit function is adequately resourced and continues to have appropriate standing within the Company, has unrestricted scope and access to information to enable it to fulfil its mandate, and to keep under review its members' independence and objectivity.
- 15 To review with the Head of Internal Audit and Risk, the internal audit programme and any significant findings, including fraud, illegal acts, deficiencies in internal control or similar issues and review management's responsiveness to the auditor's findings and recommendations.

- 16 To review the completion of actions that management has committed to in order to address Internal Audit findings.
- 17 To monitor and review the effectiveness of the Internal Audit function at least annually, including meeting with the Head of Internal Audit and Risk without the presence of management to discuss the effectiveness of the function.

#### **Internal Control**

- 18 To review the Company's system of internal control across the Group, including financial, operational, compliance controls and risk management (including the effectiveness thereof), prior to endorsement by the Board.
- 19 To review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statements.
- 20 To review the effectiveness of arrangements by which employees may, in confidence, raise concerns about possible improprieties relating to financial or other matters, ensuring that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

#### **Fraud**

- 21 To review and approve the Company fraud risk management framework including the fraud risk register annually.
- 22 To receive updates from the Fraud and Loss Committee Chair, including activities required to improve controls to prevent and detect fraud.
- 23 To receive reports on significant or material fraud related matters.

#### **Risk Management**

- 24 To review, update and approve the Risk Management Policy annually.
- 25 To review compliance with the Company's Risk Management Policy.
- 26 To review and approve for recommendation to the Board, the principal risks and uncertainties of the Company, including prioritisation of risks for external disclosure in the Interim Statement and Annual Report and Accounts.
- 27 To receive updates from Business Unit heads on risk management activities, details on key risks and the associated mitigating actions.
- 28 To review Group risk appetite statements annually, to be recommended to the Board for approval.
- 29 To consider significant risk issues or changes arising from the internal or external environment and understand the business response to mitigate these risks, including significant strategic M&A activities.
- 30 To monitor and review the effectiveness of the Risk function at least annually, including meeting with the Head of Internal Audit and Risk without the presence of management to discuss the effectiveness of the function.

#### **Annual Report and Accounts**

- 31 To monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them.
- 32 To review and approve changes in accounting policy and financial disclosure, to determine the appropriateness, acceptability, and the degree of aggressiveness or conservatism.
- 33 To provide advice on whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance,

business model and strategy and to review the assessment of the Company's longer-term viability, prior to board approval of the viability statement for inclusion in the Annual Report.

- 34 To review areas involving significant judgement, unusual transactions, estimation or uncertainty in the Group's financial results and challenge where necessary.

**Legal and Regulatory Compliance**

- 35 To receive updates on significant legal and regulatory matters including Bribery Act compliance, GSCOP and the Modern Slavery statement.

**Business integrity**

- 36 To review the Company's systems and controls for areas covered by the Code of Conduct, including bribery and corruption and conflicts of interest.
- 37 To review and approve the relevant Group policies as and when required, including the Treasury policy, Tax policy and Gifts & Hospitality policy.

**General**

- 38 To investigate any matter brought to its attention, within the scope of its duties, with the power to obtain independent professional advice.
- 39 To review and update its terms of reference annually, recommending any changes to the Board, and to ensure Committee performance is evaluated and reported to the Board in accordance with current corporate governance regulations.