

Governance at Tesco

The company has complied with all the provisions of the Cadbury Committee's Code of Best Practice ("the Code"). The Board is committed to proper standards of corporate governance and will continue to keep procedures under review should the Code develop.

Board and Board committees



The Board of Tesco PLC comprises five independent non-executive directors and eight executive directors. The full Board, which meets every month, manages overall control of the group's affairs by the schedule of matters reserved for its decision. These include the approval of financial statements, major acquisitions and disposals, authority levels for expenditure, treasury policies, risk management policies and succession plans for senior executives.

The Board delegates day-to-day and business management control to the Executive Committee which comprises the executive directors. This meets formally every week and its decisions are communicated throughout the group on a regular basis. They are responsible for implementing group policy, the monitoring and performance of the business and reporting to the full Board thereon.

The company has an Audit Committee, which meets a minimum of three times a year, whose terms of reference cover the points recommended by the Code. Its duties include monitoring internal control throughout the group, approving the group's accounting policies and reviewing the interim and annual financial statements before submission to the Board. The Committee is chaired by John Gardiner and consists entirely of non-executive directors. The Remuneration Committee, also composed entirely of non-executive directors, is chaired by Baroness O'Cathain, and meets a minimum of three times a year. The report of the Remuneration Committee is given below.

The Nominations Committee, chaired by Lord MacLaurin, is responsible for selecting and appointing the company's executive and non-executive directors and meets as required.

Internal financial control

The Board of directors has overall responsibility for the systems of internal financial control. Implementation and maintenance of the internal financial control system is the responsibility of executive management. The Board, through the Audit Committee, has reviewed the effectiveness of the systems of internal financial control for the accounting year and the period to the date of approval of the financial statements although it should be understood

that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss.

The company has an established framework of internal financial controls, the key features of which are as follows:

Organisational structure The responsibilities of the Board set out above are designed to ensure effective control over strategic, financial and compliance issues.

Financial framework The company operates a comprehensive system of financial reporting to the Board and senior management, based upon an annual budget and regular forecasts. Weekly and periodic reports of actual results together with key performance indicators are produced.

Policies and procedures The group employs 153,000 people including over 1,200 senior managers. Management control is formalised at all levels and is regulated by cascading limits of authority. Formal policies and procedures also exist for areas which are identified, by their nature, as being significant risk areas. Policies and procedures are regularly subject to compliance audits.

Quality and integrity of personnel The company attaches high importance to the values of trust, honesty and integrity of personnel in responsible positions and operates a policy of recruiting and promoting suitably experienced personnel with clearly defined accountabilities.

Investment appraisal The capital investment programme is subject to formalised review procedures with key criteria requiring to be met. All major initiatives require business cases to be prepared, normally covering a minimum period of five years. Post investment appraisals are also carried out.

Control monitoring The group maintains an internal audit function whose work is focused on areas of perceived highest risk, as identified by risk analysis and who regularly provide reports to the Audit Committee. Our external auditors, Price Waterhouse, also contribute an independent perspective on certain aspects of the internal financial control system arising from their audit work and annually report their findings to the Audit Committee. Price Waterhouse have confirmed that, in their opinion, the group are complying with the Companies Act 1985 requirement to keep proper books and records.