Tesco PLC

# UK audit watchdog drops probe into Tesco

Decision by FRC ensures no individuals will be penalised over 2014 profit overstatement


Tesco says it has 'fundamentally transformed' its business since 2014 © PA

**Patricia Nilsson** JUNE 8 2020

Britain's audit watchdog has dropped a probe into a high-profile accounting scandal at Tesco in which the retailer overstated its 2014 profits by more than £250m.

The Financial Reporting Council on Monday said it would no longer investigate the culpability of internal accountants at the supermarket chain, and regarded the matter closed.

Its announcement draws a line under a lengthy investigation into the scandal and ensures no individuals will be penalised over the issue.

The FRC launched an investigation into the accounting overstatement in December 2014, scrutinising the retailer's former chief financial executive as well as its previous accountant, PwC, which up until the overstatement had audited Tesco since 1983.

The watchdog closed these investigations in 2016 and 2017 respectively but continued with a wider investigation into a number of accountants working within Tesco. This was paused during a 2018 fraud trial brought by the Serious Fraud Office against former senior Tesco executives, who were acquitted.

The SFO was unable to produce evidence that the defendants knew any income was being booked illegally.

The FRC said on Monday: “Following the conclusion of the SFO proceedings, and consideration of relevant material and information subsequently obtained from the SFO, Executive Counsel has decided to discontinue the matters in relation to each of the remaining subjects.”

At the heart of the issue, was the way Tesco had recognised commercial income — payments made for hitting a certain level of sales, or to support promotions.

In September 2014, weeks after chief executive Dave Lewis had taken charge, the retailer revealed it had overinflated its profits by £250m, a hole that later grew to £326m, causing £2bn to be wiped off its market value. Tesco agreed a £129m deferred prosecution agreement (DPA), a type of plea bargain, with the SFO to avoid a possible prosecution.

In Tesco’s 2014 annual report, PwC had highlighted the recognition of commercial income as an area of focus “because of the judgment required in accounting for the commercial income deals and the risk of manipulation of these balances”.

Tesco on Monday said it had “fundamentally transformed” its business since 2014, stressing that the investigations had related to specific individuals rather than the company as a whole.

“Our turnround journey is now complete, and we have fully satisfied the terms of the DPA we entered into with the SFO in 2017,” the company said.