

## TESCO PLC BOARD AUDIT COMMITTEE

### TERMS OF REFERENCE

*The Audit Committee (the **Committee**) is a committee of the Board of Directors of Tesco PLC (the **Board**), from which it derives its authority and to which it regularly reports.*

*The principal purpose of the Committee is to:*

- Review the internal control systems of the Group, including the process for managing risk;*
- Review the Group's financial statements;*
- Review the Group's internal audit programme; and*
- Consider the appointment of the external auditors and their independence.*

### 1. CONSTITUTION AND PROCESS

#### 1.1 Membership

Membership will comprise at least three independent Non-executive Directors of Tesco PLC ("the Company"), to be nominated by the Board from time to time, at least one of whom shall have recent and relevant financial experience. The Chairman of the Company may not be a member of the Committee.

#### 1.2 Quorum

The quorum of the Committee will be two members. In the event of difficulty in relation to achievement of a quorum, independent Non-executive Directors who are not members of the Committee may be co-opted as members for individual meetings. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

#### 1.3 Chairman

An independent Non-executive Director appointed by the Board will chair the Committee. In the absence of the Chairman of the Committee, or an appointed deputy, the remaining members present will elect one of themselves to chair the meeting.

#### 1.4 Secretary

The Company Secretary and/or an Assistant Secretary will attend all meetings of the Committee and will provide all necessary support to the Committee. The Company Secretary and/or an Assistant Secretary should ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration of issues.

#### 1.5 Attendees

The Chairman of the Board, the Group Chief Executive Officer, the Chief Financial Officer and his representatives, the Group Legal Counsel, the Head of Internal Audit and representatives of the external auditors would normally be invited to attend meetings, withdrawing if required to do so by the Chairman of the Committee. Others may attend from time to time at the invitation of the Chairman of the Committee.

## **1.6 Meetings**

The Committee will normally meet five times a year. Two of those meetings will coincide with the Group's half-year and full-year results. Ad hoc meetings may also be held.

The Chairman or any member of the Committee or the Company Secretary may convene a meeting of the Committee at any time on reasonable notice to consider any matter falling within these Terms of Reference.

At least once a year the Committee will meet privately with (i) the external auditors; and (ii) the Head of Internal Audit.

## **1.7 Minutes and Reporting**

The minutes of each meeting will be distributed to all directors and attendees as appropriate, taking into account any conflicts of interest which may exist. Reports will be made to the Board following each meeting of the Committee by the Chairman of that meeting in accordance with paragraph 4 below.

## **1.8 Disclosure**

The membership of the Committee and a description of its duties and activities during the year will be disclosed in the Annual Report of the Company. The Chairman of the Committee, or a deputy chosen from its membership, will be available at the Annual General Meeting of the Company to answer questions which relate to the work of the Committee.

## **1.9 Training**

The Committee will make a suitable induction process available to new members of the Committee via the Company Secretary and, for existing members, will make available ongoing training where appropriate and as discussed with the Committee.

## **1.10 Committee self-assessment**

The Committee will conduct an annual self-assessment of its performance and effectiveness, including its Terms of Reference, and report conclusions and recommendations to the Board.

## **2. SCOPE OF AUTHORITY**

The Committee is a committee of the Board to which it will report on a regular basis. The Committee is concerned with the business of the entire Group and its authority extends to all relevant matters relating to Tesco PLC and its business units and subsidiaries.

The Committee has authority to investigate any matters within its responsibilities and to obtain such information as it may require from any director, officer or employee of the Group and may call any director, officer or employee of the Group to attend any meeting of the Committee as and when required.

The Committee has authority to obtain outside legal or other independent professional advice at the Company's expense and to secure the attendance of outsiders with relevant experience and expertise as necessary. The Committee will have the right to commission studies and any other relevant market data, at reasonable cost to the Company, which it considers necessary in the performance of its duties.

### **3. RESPONSIBILITIES OF THE COMMITTEE**

In carrying out their responsibilities, Committee members must act in accordance with the statement of Directors' Duties set out in Sections 171-177 of the Companies Act 2006 and the UK Corporate Governance Code.

The responsibilities of the Committee will be:

- 3.1 to consider the appointment of the external auditor, and assess independence of the external auditor, ensuring that key partners are rotated at appropriate intervals;
- 3.2 to recommend the audit fee to the Board and pre-approve any fees in respect of non-audit services provided by the external auditors, subject to permitted levels established by the Committee and to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity;
- 3.3 to discuss with the external auditors before the audit commences, the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
- 3.4 to oversee the process for selecting the external auditor and make appropriate recommendations through the Board to the shareholders to consider at the AGM;
- 3.5 to review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:-
  - (i) critical accounting policies and practices, and any changes in them;
  - (ii) decisions requiring a major element of judgement;
  - (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - (iv) the clarity of disclosures;
  - (v) significant adjustments resulting from the audit;
  - (vi) the Going Concern assumption;
  - (vii) compliance with accounting standards;
  - (viii) compliance with Stock Exchange and other legal requirements;
  - (ix) reviewing the company statement's on internal control systems and risk management prior to endorsement by the Board;
- 3.6 to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the external auditors;
- 3.7 to provide advice to the Board, where requested, on whether the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy;
- 3.8 to discuss problems and reservations arising from the interim and final audits and any matters the auditors may wish to discuss (in the absence of management, where necessary);
- 3.9 to review the external auditor's management letter and management response;
- 3.10 to review the internal control systems of the Group, including the process for managing risk;
- 3.11 to review formally the effectiveness of the external and internal audit processes;

- 3.12 to review the internal audit programme and ensure that the Internal Audit function is adequately resourced and has appropriate standing within the Company;
- 3.13 to review reports addressed to the Committee from the Internal Audit function and to consider management's response to any major external or internal audit recommendations;
- 3.14 to approve the appointment or dismissal of the head of Internal Audit;
- 3.15 to review the company's procedures for handling allegations from whistleblowers;
- 3.16 to review the company's processes for preparing co-ordinated plans for business continuity;
- 3.17 to review the company's processes for the prevention and detection of fraud, bribery and corruption;
- 3.18 to review the directors' statement on corporate governance; and
- 3.19 to consider other topics, as defined by the Board, or considered appropriate by the Committee in the context of the above responsibilities.

#### **4. REPORTING RESPONSIBILITIES**

The Chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on a regular basis on how it has discharged its responsibilities. This report shall include:

- 4.1 the significant issues that it considered in relation to the financial statements (required under paragraph 3.6) and how these were addressed;
- 4.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
- 4.3 any other issues on which the Board has requested the Committee's opinion.

The Committee shall compile a report on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the UK Corporate Governance Code.

#### **5. OTHER MATTERS**

The Committee will give due consideration to the provisions of the UK Corporate Governance Code and all applicable laws and regulations, including the Companies Act 2006 and the requirements of the UKLA's Listing, Prospectus and Disclosure and Transparency Rules.

15 April 2014