

Financial

+5.91 6865.93	+6.90 3657.09	+211.86 17884.85	+21.01 2062.52	-174.12 17504.62	-0.17 110.70	+1.53 5711	-9.25 1259.25	£/€	£/\$
FTSE 100	FTSE All Share	Dow Indl	S&P 500	Nikkei 225	UK 10-year gilt	Oil (\$ per barrel)	Gold (\$ Troy oz)	Rate £ Change +0.0057	Rate £ Change +0.0074

Troubled Tesco faces another inquiry

Adjudicator to investigate its treatment of suppliers
Two investigations into accounts already started

Sean Farrell and Sarah Butler

The grocery industry watchdog is launching an investigation into Tesco's treatment of its suppliers, adding to the multiple problems now facing Britain's biggest retailer.

Christine Tacon, the groceries code adjudicator, said she had a reasonable suspicion that Tesco had breached the code, which governs how the major supermarkets deal with their direct suppliers.

Urging suppliers to come forward if they had evidence of breaches by supermarkets, Tacon said she could widen her inquiry if she had reasonable grounds for suspicion that others had also breached the code. The adjudicator, who can force companies to give evidence, said she would protect the anonymity of anyone providing information.

Tesco is now facing three formal inquiries, all prompted by the company's revelation last September that it had overstated expected profit by £250m.

The financial hole, since revised to £263m, was caused by incorrect accounting for charges on suppliers stretching back at least two years. It is now being investigated by the Serious Fraud Office and the Financial Reporting Council.

Tacon said the possible violations by Tesco, involving many suppliers and large sums of money, included:

- Penalties imposed when Tesco claimed items were missing from deliveries.
- Charging suppliers more than an item cost if a customer returned it to Tesco.
- Delays in refunding suppliers when it incorrectly issued duplicate invoices.
- Charges for in-store promotions that were either incorrect or not agreed.

The adjudicator said there was a need for hard evidence such as witness statements and documents, and said anyone who had something to contribute to her inquiry should do so by 5 April.

Yesterday Tacon appeared before the Scottish parliament's rural affairs, climate change and environment committee, where she gave evidence about problems in the dairy industry alongside representatives from Sainsbury's, Marks & Spencer and Lidl.

As Tacon highlighted some of her leading concerns about the practices at Tesco, MSP Mike Russell said such schemes were new to him. "I had only read about them and seen them in films like *The Godfather*," he said.

Whatever the outcome of her inquiry, Tacon will not be able to fine Tesco over it, as planned powers for financial penalties have yet to be finalised by MPs and she will be unable to impose penalties retrospectively. The government has taken more than a year to put before parliament the measures necessary to empower Tacon to fine supermarkets up to 1% of their annual UK turnover.

The inquiry is likely to take about six months unless it is broadened, in which case it could take about nine months.



Tesco has been criticised over its charging policy towards suppliers and for being slow to refund them Photograph: Bloomberg

'I had only read about such schemes and seen them in films like *The Godfather*'

Tesco, under its new chief executive Dave Lewis, commissioned Deloitte to investigate the supermarket's so-called "commercial income". The accountants found that some of Tesco's behaviour towards its suppliers probably breached the code. Tacon then asked Tesco to examine its practices and report back to her.

Tesco's findings, and complaints from suppliers and trade associations, then convinced Tacon she had enough evidence to open her first inquiry since the adjudicator was established in 2013.

Sanctions available to her include legally enforcing supermarkets to change their practices and requiring them to take out adverts admitting to their offences.

Tesco said: "We have worked closely with the office of the adjudicator since its creation to put in place strong compliance processes."

"Following our announcement last September regarding commercial income, we have worked with her to identify any relevant [grocery code] issues. An internal review we carried out and shared with the GCA identified some areas of concern. We have taken action to strengthen compliance and, as we have announced, we are changing the way we work with suppliers."

"We will continue to cooperate fully with the GCA as she carries out her investigation and welcome the opportunity for our suppliers to provide direct feedback."

Rival's view

Tesco is having heart surgery, says Asda boss

Tesco's new chief executive is performing the equivalent of heart surgery on the supermarket chain as he tries to revive it, according to the boss of rival retailer Asda.

Andy Clarke, now the longest-serving boss of a British supermarket after the exit of all his major rivals in the past year, said Dave Lewis needed to wean Tesco off the short-term boosts gained from handing out discount vouchers, which he likened to the Bank of England's electronic money-printing programme.

Clarke said: "Dave is not tinkering around the edges. He is doing heart surgery to make the business fit again."

Asda has moved away from vouchers in favour of straightforward price cuts. Clarke's comments came as he explained how Asda was revamping stores to try to win market share from Tesco, Morrisons and Sainsbury's and offset the impact of losing shoppers to discounters Aldi and Lidl.

Asda and its big-three rivals all lost market share over Christmas; Asda has earmarked up to £170m to revamp its 170 medium-sized superstores.

Touring a store in his home town of Grantham, Lincolnshire - one of two where Asda is testing new ideas - Clarke said he was giving more space to fresh food, hot food and health and beauty products. He has also taken out a fifth of the space devoted to goods now mostly bought online, such as televisions, DVDs and CDs. Asda has also imported a cheap cafe idea from its Walmart parent, charging £1 for everything on its limited menu.

After the changes, sales at the Grantham store are up nearly 1% year-on-year; this is a better performance than most large supermarkets, which have seen sales decline.

Clarke said the new-look stores would help Asda take on the discounters by offering a wider range of products and services; improving the quality of its goods; and linking more closely to online shopping, where Aldi and Lidl cannot compete.

Asda has already pledged £1bn of price cuts, and Clarke has said he could go further than that amid an intense supermarket price war.

Clarke said Asda had no intention of closing stores or scrapping new developments, as rivals have done. Instead, he said, Asda intended to open more stores, particularly small and medium-sized supermarkets. But Clarke conceded that Asda was considering splitting some of its largest stores and renting parts out to other retailers.

Sarah Butler