

The role of corporate governance in financial reporting and transparency

Tesco plc.

The Abstract

This dissertation establishes how corporate governance influences financial reporting and disclosure concerning Tesco plc. Thus, the research focuses on the impact of governance structures on financial realism and disclosure of information after Yukos' accounting fraud in 2014. The investigation explores governance concepts such as board independence, audit committees, and internal control systems based on secondary research and thematic analysis employing open and closed coding of secondary data sources, including company documents and existing literature. The results show that factors such as weak governance structures, insufficient oversight, and internal control shortcomings caused that scandal. This is because efforts made after the scandal for increased audit committee independence, risk management, and other measures have the right touch to improve reporting quality, albeit constant efforts are necessary in the long run. Data sources include secondary data, and the study is limited to the case of one organisation, which may reduce the number of externally valid conclusions. Recommendations address the fact that board training should be ongoing, and risks should be actively managed.

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Introduction

This dissertation focuses on the relationship between corporate governance and financial reporting transparency concerning Tesco Plc to evaluate how factors like the independence of the board, effectiveness of the audit committee and existence and enforcement of internal control affect the transparency of financial reports. After the scandal in 2014, Tesco made many changes to fix the problems with its governance and to reconquer the investors' trust. The paper adopts a qualitative research strategy to analyse secondary data, the purpose of which is to investigate the associated link between governance practices and financial integrity, which will have larger implications for improving corporate governance standards within large public firms.

1. Topic Area Definition, Research Aim, and Objectives

Background information

Corporation behaviour also has a very significant role in ensuring that companies produce good financial reports, one of the essentials that assist in investors' confidence and the sustainability of economic systems. The board oversight, the audit committees, and the internal controls help minimize risks of financial manipulation by improving accountability and transparency in the financial reports. The problem of governance has emerged as significant, especially in today's corporate world scenarios where there have been some severe corporate scandals associated with failures of governance, leading to flaws in financial reporting and serious losses for investors. An example of such a failure is Tesco Company's scandals in accounting in 2014, during which the company faced many problems regarding its governance structure.

Tesco, one of the largest retailers in the United Kingdom: 'inflated' profits by £263m. Governance practices provide inadequate oversight, board and internal controls. This scandal highlighted the necessity of well-developed governance structures to facilitate proper company reporting. After the scandal, Tesco made several changes to improve its governance structures such as; · board and audit committee independence · Internal controls and · Risk management programmes (Lopez, 2023).

Aims and Objectives

This research aims to assess the relationship between corporate governance mechanisms and the quality of financial reporting in large public companies; in this case, it is focused on Tesco plc. The research objectives include:

- Find out the nature of the relationship between board composition and the quality of financial disclosures in Tesco, where the board consists of both executive and non-executive directors.
- Evaluate what you need to know about the audit committee in relation to financial reporting and interacting with external auditors.
- Discuss how internal control systems assist in the early identification or prevention of error or fraud in financial reporting.
- To identify the key factors contributing to the 2014 accounting scandal and the subsequent governance reforms, Analyze the types of governance failures that contributed to the scandal and the adequacy of the remedial steps that Tesco took after the scandal.
- Propose recommendations regarding the paper's observation to avoid future governance failures in similar firms.

Identification of the Problem

The first research question discussed in this study is the nature of financial misreporting caused by corporate governance shortcomings in large public firms. Earning management, therefore, goes beyond damaging investors' confidence; it also distorts the actual financial position of organizations, thus affecting the decision-making process of stakeholders. An example is the accounting scandal at Tesco in 2014. The major sources of the worst governance deficiencies were a lack of board independence, an ineffective audit committee, and weak internal control. Although Tesco was able to transform much of its governance practices, the scandal's impact points to the fact that there is more to be understood regarding governance practices and their link to the quality of financial reports (Akman, Acar and Kızıl, 2020).

The *research problem* can thus be formulated as follows: How do the senior bodies of the firms, board independence, audit committee efficiency, and internal control influence the quality of the IFRS disclosures and financial statement information for large public enterprises, with special reference to Tesco plc?

Definition of Terms

Corporate Governance: Stands for how companies are managed or steered, including practices and remits concerning the practices and checks and balances that relate a firm to its stakeholders.

Financial Reporting Transparency: The degree to which information about a company's financial position is comprehensive, reliable, timely and easily available for users.

Audit Committee: A standing committee of the board of directors normally supervises the financial reporting process, internal control structure, and external auditors.

Board Independence: It has an independent non-executive director with no financial conflict of gravity within the organization to make an independent decision.

Internal Controls: Risk control, preservation transparency, accountability and combating fraud in the company's financial/ accounting information.

General Methodology

Data Collection: This paper uses secondary data by collecting information from the Tesco's official annual reports, official documents on corporate governance, and books and journals on corporate governance and financial reporting. Other sources are industrial reports, newspaper articles and journals, and publications from stock exchange authorities.

Data Analysis: The method used to analyse data is thematic analysis, which aims to identify major themes regarding Tesco's governance challenges regarding the board of directors, the audit committee, and internal control systems. The Processes of the thematic analysis are as follows: The analysis also involves comparing the Tesco practices established in the reforms with the best governance standards.

Comparative Analysis: These results are discussed considering the relevant theoretical corporate governance literature to draw conclusions on Tesco's state of corporate governance and its effects on its financial reporting.

This paper finds that the case study approach is particularly well suited to this research because it enables a rich analysis of governance within real-life organizations. As a result, the study is useful in illustrating some of the issues and strategies tied to corporate governance and financial reporting for organizations like Tesco.

Significance of the Study

This research is important because it highlights the role of strong CG mechanisms in promoting accountability and disclosing accountabilities in large corporations. It not only provides an academic view of the currently expressed governance practices but also provides much-needed suggestions to policymakers, regulators, and company boards aspiring to elevate their governance practices to the next level. The implications could provide further input to current debates on corporate governance reforms, particularly for industries whose financial openness is the key to preserving public confidence.

The research seeks to establish how corporate governance structures impact the accuracy of financial reporting concerning Tesco plc. This paper provides evidence to support the assertion that the board, audit committee, and internal control are still important in the existing financial reporting context. Hence, the research questions are as follows: What led to Tesco's accounting fraud in 2014, and how effective are the governance structures? (Roznizam, 2020). The ideas that stem from the research study will be useful in enlarging the literature on corporate governance, especially with reference to large public institutions and making recommendations concerning the uplift of truthfulness and accountability.

2. Discussion and summation of the research findings

The dissertation focuses on analysing the connection between corporate governance mechanisms and the reporting of financial information regarding Tesco plc and matters concerning transparency. The study focuses on the relationship of governance structures such as the board of directors' independence, audit committee, and internal control in enhancing transparency and

combating the vice of financial misreporting. This section presents an integration of the review of the literature, analysis of data and the post-2014 reforms of Tesco. Moving from the thematic findings, the analysis brave out the underlying causes of different governance failures, changes that occurred after the accounting scandal, and further problems (Roznizam, 2020).

The Role of Board Independence in Financial Reporting

There is a significant focus on how independent boards contribute to bringing about financial transparency. The literature review showed that there is a need for an independent board of directors to ensure that they meet the interests of the shareholders and prevent the board from providing wrong information through financial statements. Nonetheless, the breakdown showed that Tesco failed on board independence as observed before the year 2014 scandal (Roznizam, 2020). However, the company followed the UK Corporate Governance Code provisions by having a mix of executive and non-executive directors, but the board failed to possess efficient oversight of senior management (Kaawaase et al., 2021).

Such a shortfall was explained by several reasons. While looking at the independent directors present on Tesco's board, they did not all have the financial experience to challenge financial statements rigorously. The lack of sufficient business judgment by the board arose from the failure to give proper scrutinization of representations made by the senior management, especially in commercial income recognition that resulted in profit overstatements. One fairly common management culture was the focus on achieving short-term financial goals where long-term governance was not a priority. This culture handicapped the board in its planning process since it did not encourage good governance practices at the expense of profits. The analysis also supported the proposition that board independence in and by itself cannot guarantee transparency. Another limiting factor of an independent board is the competence level of the board members, their training, and financial primacy culture. The latter corresponds to what has been previously found in the literature that board effectiveness is a result of both structural independence and financial literacy (Kaawaase et al., 2021).

To address this problem, after the scandal, Tesco began to enhance board independence by hiring directors with financial training and conducting continued governance education. While the

above reforms sought to improve the board's capacity to oversee financial reporting, the findings of the present study imply that the board needs to develop new competence regularly to meet emerging financial risks.

Audit Committee Effectiveness in Ensuring Financial Reporting Quality

The audit committee is an inalienable part of corporate governance that also bears a major responsibility to oversee financial reporting and communicate with external auditors. The study revealed a glaring governance weakness for Tesco, in that its audit committee did not identify the absence of profit overstatements prior to the 2014 scandal.

Pre-scandal audit committee lacked proper formation because the members did not have adequate financial background, and the meetings were not very frequent. This setup also limited the opportunity of the committee to critically assess aspects of financial reporting and identify specific and systematic irregularities in the recognition of revenues from commercial activities. Furthermore, there was an exaggeration of trust in the management and a failure to sufficiently scrutinize the accounting policies used.

After the scandal? Tesco had significant decisions to make regarding the Audit Committee; it was stuffed with members who have accounting backgrounds, meetings were held more frequently, and the Audit Committee had more influence over risk management. These measures have enhanced the capacity of the committee to monitor and coordinate reporting of the financial affairs and minimise the possibility of future distortions (Roznizam, 2020).

Nonetheless, the study reveals that for the audit committee, more changes are still required to produce audit reports that meet the increasing changes in accounting standards and emerging risks. Nevertheless, this and any other such committee remains effective only when it is trained routinely and annually or semiannually evaluated for efficiency in the discharge of its oversight duty on financial issues. The following recommendation is also well grounded in the literature, which asserts that audit committees need to keep abreast of emerging risks or changes in regulations to maintain compliance with the financial reporting processes (Alzeban, 2019).

Internal Controls and Risk Management: Pre- and Post-Scandal Analysis

The study established internal controls and risk management as some of the factors that are most related to the quality of financial reports. In the 2014 scandal, it was determined that Tesco had a range of major and fundamental weaknesses concerning the internal control of revenue recognition and commercial income streams. The corporate risk management framework was inadequate to address the particular exposures connected with devising a high-profit goal, and precise pressures that led to a unified variety of financial restatements.

The thematic analysis thus identified weaknesses in stylistic internal controls, especially in relation to revenues recognized and commercial income monitoring. The worst of all is that there was poor documentation and verification of financial transactions thus making it possible to discover discrepancies. Information related to risk management within the company was identified to be of a reactionary nature, which means that the company relied more on handling the risks that had occurred as opposed to the proactive kind of risk management where the emphasis is given to avoiding such risks (Rosnizam, 2020).

However, following the scandal, Tesco was able to strengthen most areas of internal control. The company stepped up its financial management systems with the help of automated economical reporting tools and risk evaluation. Also, the company put into practice measures such as the protection of whistleblowers and employee training programs to report ethical concerns. These reforms have helped improve financial realism, alongside eradicating financial restatement unpredictability.

Based on the company's post-scandal transformation, this paper has shown that Tesco's internal controls have enhanced its governance, but the results point out that it is crucial to assess and update such policies periodically. This ongoing assessment is however important since financial risk remains dynamic and what may pass for adequate controls today may be inadequate when confronted with new threats.

Ethical Leadership and Corporate Governance Culture

The ethical consideration of corporate governance was also examined before the two since they form the core of corporate operational conduct and reporting. It was previously a corporate culture full of aggressive financial targets which led to unethical practices and financial report manipulation. The incidence of criticisms associated with governance failures and ethical failures is evident in the literature that enhances the notion that an ethical climate strongly influences a company's governance effectiveness.

Specifically, for its executive compensation policies that linked bonuses tightly to profit objectives, the study showed that these caused a culture that omitted ethical values. They immorally incentivized the senior management to manage the financial books to achieve monetary targets leading to the misreporting of its financial books.

New measures were put in place in Tesco after the scandal that sought to enhance ethical corporate governance. This required reforms such as the change in the structure of the executive remuneration system to include long-term performance measures, put in place measures on ethical practices for executives and an increase in the number of companies providing financial information to the public. The company also put measures to apply clawback measures for bonuses paid based on fabricated financial statements. Some of these changes have proved immensely beneficial to Tesco's corporate governance structure, although the results suggest that the promotion of ethical principles and standards throughout the business is a never-ending process that can only be sustained by exceptionally vigorous and determined leadership.

Thus, the results point out that ethical leadership is not an isolated event but needs to remain an active process that should be supported by periodic ethical education, leadership mentoring, and compliance and governance policy reminders. The business should persist in establishing a governance culture of ethical and corporate responsibility.

Comparative Analysis with Best Practices

Moreover, the comparison of Tesco's governance practices against some of the best practices reflects strengths being made in some areas while weaknesses in others. For Tesco, which has

endeavoured to bolster the independence of its board members after the obfuscation scandal, engagement and, especially, financial literacy remain important areas of potential U.S. improvement. It is not only recommended that there should be more independence of directors, but it is also important that the directors should be provided with recurrent training to help them maintain effectiveness in their supervisory duties.

The UK Corporate Governance Code also of particular note regarding audit committees is the requirement that they consist solely of independent directors with financial experience. Overall Tesco has abided by most of these guidelines after the scandal, but further efforts to keep the audit committee informed of modern financial risks remain essential to make this committee relevant again.

The dissertation findings imply that Tesco has enhanced its internal controls but, best practice recommends that retailer should adopt data analytics and artificial intelligence to boost their risk management. Internal controls at Tesco may be enriched by using similar technologies for identifying shift occurrences in real time or for risk responses.

When it comes to guidelines of good corporate governance, the issue of ethical tone at the top is very relevant. While Tesco has embarked on the process of reformation of its governance culture, the annual efforts towards changing the organisational culture in terms of ethical values are key. This also consists of constant checks on ethical training courses for the employees and making sure that the company's remuneration policies will not allow for short-term fraud for financial gains (Roznizam, 2020).

Implications for Corporate Governance in Large Public Companies

These conclusions have important implications for the evaluation of corporate governance in large public businesses and especially in complex sectors such as retail. The Tesco case therefore shows that good governance practices which are more than a set of checks on legal compliance practices are essential.

It is clear that efficient corporate governance involves a board of directors that is independent, engaged experienced in fiscal matters. Board training and development sessions need to be

conducted from time to time so as to make the board prepared to deal with such elaborate issues in financial reporting.

The audit committee should be constantly assessing financial risks with the aid of scheduled meetings to discuss financial statements, and the ability to update itself on new rules governing accounting standards. Herein, a proactive approach can facilitate the possible resolution of financial misreporting and the timely detection of governance problems (Honkanen, 2022)

This means that risk control must be done in a prospective fashion because every day new risks are realized within companies. It may also involve the employment of higher technologies that help to observe the financial activities and look for violations in the initial phase.

However, an organization's desired governance culture fosters integrity and accountability at all levels of the organization. Policies undertaken to continue regarding the imposition of ethical values, high transparency, and appropriate remuneration policies may contribute to preventing future failures in business governance.

Improving Corporate Governance Practices

Based on the research findings, several recommendations are proposed to enhance corporate governance practices at Tesco and similar companies:

- The culture should be subjected to effectiveness checks from time to time to discover any emerging lapses in governance practice compliance and improve on them.
- Ensure board members undergo recurrent training for enhancement of their financial knowledge and governance practices.
- Establish clear policies for the audit committee to be involved in risk management activities more proactively as well as to be timely informed on changes to financial reporting requirements.
- Subscribed internal controls for better efficiency by integrating data analytics, artificial intelligence, and others.
- Pursue the more robust use of ethical training; also continue to align executive compensation with long-term performance.

Future Outlook and Implications for Corporate Governance

The principles of corporate governance are dynamic as new rules and regulations. Corporate governance is dynamic and is determined by the changing nature of rules formulated by different regulatory bodies, expectations of the shareholders as well as the dynamic business environment in the global market. In the recent past, environmental conservation, ethical management, and CSR have come to the foreground with a connection to financial governance. To companies such as Tesco, the goal of high corporate governance is directly correlated with a company's social and environmental responsibilities. Governance reforms must hence go beyond the general changes which include financial control mechanisms and independent boards and include what can be referred to as new age values such as ethical leadership, sustainability and value creation. Incorporation of new guidelines by the globalization of corporate governance codes for example through amending the UK Corporate Governance Code notifies that the company need to anticipate the change in regulation and compliance and implement the best practices according to the current standard. Thus, Tesco's experience proves the fact that governance must be responsive to alternative challenges. For instance, new realities such as cybersecurity threats, data security questions, and the application of IT in the preparation of financial statements are issues that require responses from governance structures (Honkanen, 2022)

The continuously growing role of IT and informational technologies in corporate governance changes the internal setting of organizational business solutions. From the ongoing adoption of digital solutions, futuristic technologies like artificial intelligence (AI), blockchain, and machine learning are gradually taking centre stage in risk management and financial reporting. For Tesco, optimization of these technologies may help improve internal controls and also increase the efficiency of its financial reporting practices. Technology-enabled solution implementation helps in gaining timely and accurate financial performance analysis and any irregularities or risks can be easily identified. For instance, the use of AI can be made in the analysis of daily money transactions to look for any suspicious behaviour which may include cases of fraud or even figures which cannot be explained. Through the use of technology, it will be possible to provide more secure and transparent records of financial business transactions, thus minimising the occurrence of manipulation. As Tesco moves up in elevating its corporate governance standards, the implementation of such solutions might provide the grocery behemoth needed leverage in

risk management and maintaining a transparent record of its financial performance (Davis et al., 2022).

The Tesco case can be therefore used to highlight how the Corporate culture is central to governance. Addressing some of the organisational structures like the board or audit committee may require radical changes, but dealing with the organisational culture, which makes actions ethical or not in an organization also requires more attention. Key components of governance culture include things like transparency, integrity and sustainable business practices as well. In Tesco's and similar companies' attempts at levelling from governance failures, building such a culture entails more than dancing to the tunes of regulatory norms and standards; this requires buy-in from the executive headquarters. Recommendations Companies should integrate governance training and ethical behavioural development into their annual training and development calendar as a way of creating a good governance culture in the firm. LD can also assist in creating corporate ethical values relevant to leaders and this assists in maintaining the governance culture over time (Davis et al., 2022).

3. Reflection and recommendation

Reflection on the Dissertation Process

The dissertation sought to establish the effects of corporate governance on financial reporting transparency with the case of Tesco plc. At the same time, it was possible to obtain various valuable pieces of information concerning the efficacy of various mechanisms of governance, problems of financial manipulation, or peculiarities of organizational cultures and ethical standards. This paper is a result of the research process and therefore the author has an opportunity to assess the research process, and the kind of strengths and weaknesses, which need to be improved.

Strengths of the Dissertation Process

To restrict access to the most pertinent and current examples of governance failures, I chose to base my work on Tesco plc and the accounting scandal it has entailing the company in 2014. This case study provided an explicit means of referring to various aspects of the governance

mechanisms like board of directors independence, audit committee effectiveness and its relation with financial reporting transparency. Such background made the conclusions more tangible and easily comparable to conflicts occurring in other companies that may be useful to address similar problems.

The works reviewed in the course of the study focused on various aspects of CG such as the board of directors, audit committees, internal controls and ethical leadership. This helped in attaining the objectives of the work by providing an overall framework for the study while keeping in mind the existing literature. Through a comparison of Tesco's practices together with the effective corporate governance as prescribed in the literature, the study was thus in a position to accrue constructive conclusions about the extent of Tesco's corporate governance effectiveness.

Through thematic analysis, the data collected from secondary sources such as company annual reports and secondary literature like journals, and other publications was analysed in a structured manner. Using this approach made it possible to find out themes that concern the aspect of governance as it delimited to the scandal incidence for instance deficiencies of internal controls before the scandal and on the other end, effectiveness of the internal reforms after the incidence of the scandal. The coding and categorization of the data should facilitate a better understanding of the patterns identified. Due to the application of a structured coding framework the data analyzed was more systematic and easy to understand and classify.

Limitations and Challenges Faced

The foremost constraint of this dissertation was that it only incorporated secondary data, for example, organisational records and literature. Even though these sources offered some insights, they could have been biased especially since some of the corporate documents were prepared as a PR stunt. The main source of secondary data includes company house filings and press releases; using such data may have posed limitations in studying Tesco's corporate governance in depth; it was difficult to obtain first-hand information about the company and its stakeholders through direct interviews or personal observations.

The research was conducted on Tesco only, which limits the general applicability of the results of the research to other companies or the industry. Although the case study approach used in the analysis permits a firm focus, it does not allow a cross-sectional comparison of a range of organizations. Therefore, the conclusion drawn in the study could be relevant to Tesco's plight only, and not to firms which are in the soup regarding governance crises.

The work was done in a rather limited time only, which limited the range of the study in the dissertation. To a certain extent, there were time constraints when reviewing other literature, examining other similar cases, or providing further analysis of Tesco's governance changes. Such restrictions also limited the possibility of using a mixed approach, which would have given more qualitative and quantitative results.

Recommendations on How to Approach the Dissertation Differently

For the depth and credibility of the research in the future, the participants from the primary data collection tools that include the board of directors, audit committee members with financial analysts that often focus on Tesco should be considered. This would allow observing the companies functioning on the inside and get more details about the impact of the specific provisions of governance structures on the financial reporting process. It also could be useful to survey or interview a range of stakeholders, active in governance, including regulators and auditors, to learn how they are intensifying practices in governance.

Nevertheless, the Tesco case study offered important learning tools; arguably, the same results could be provided by the successful integration of the comparison with other organisations in the retail industry or, at least, in other business fields. A multiple-case study strategy would enable cross-sectional testing of the type of governance in plaintiffs' companies, based on the difficulty and the regulatory system in which the companies operate. This would help in identifying some generalizable governance problems/errors as well as wonder best practices that could be done (Davis et al., 2022).

Qualitative analysis can be complemented by quantitative data analysis as a part of mixed-methods research that focuses on the governance problems of Tesco by using statistical data on the company's performance or survey data. Qualitative research can be supported with quantity

data by analyzing patterns of governance of practices and financial results. For instance, the level at which different governance reforms affect numerical measures such as the quality of earnings or stability in share price can be evaluated through statistics.

If there were an opportunity to organize more time to complete the dissertation, there would be a better assessment of governance issues. It could mean a search for more studies, a more detailed coding and analysis of the topics of interest, and the use of further forms of data. Making the timeline longer might also allow using more highly technical research methods, including longitudinal research on changes in the practices of governance over time.

Since technology will continue to play an increasing part in corporate governance, future research could investigate how technologies such as AI, analytics, and blockchain could be best implemented into corporate governance to improve the accuracy and transparency of financial reports. Exploring the implementation of technology in governance might shed light on more recent and preferable practices and might also reveal the techniques for solving governance issues (Davis et al., 2022).

Conclusion

The paper shows that sound corporate governance is instrumental in achieving proper reporting and eliminating issues with the manipulation of balance sheets. This paper thus concludes that Tesco's case highlights the need to strengthen boards' management, engage an audit committee, and establish accurate internal controls to maintain accurate financial books. Measures taken by Tesco after the scandal have led to improvements to its governance environment that signal continuous improvement is required concerning risks. The study emphasises the ongoing need to improve the governance throughout the firm from ethical leadership construct, technology, and dynamic risk management practice to maintain transparency and stakeholders' confidence in large firms.

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Appendix

Chapter 2: Literature Review

Corporate governance is key in ensuring that there is provision of accurate and transparent financial information which is vital in the sustenance of the integrity of financial markets to investors. This chapter provides an account of selected prior literature on corporate governance and financial reporting and transparency, with a focus on critical factors including board of directors, audit committees, internal controls, and ethical factors. This theoretical review will also compare and contrast the application of these principles in a real-life scenario among organizations; specifically, it will consider the corporate governance mechanisms in play at Tesco plc.

Corporate Governance and Financial Reporting

Literature on the association between corporate governance structures and financial reporting has received significant attention, where research has made a central focus on the necessity of governance elements in putting forward reliable financial reports. Current literature argues that proper structures such as independent boards of directors as well as effective audit committees coincide with increased financial transparency and overall, lower tendencies of financial manipulations (Pandey, Andres and Kumar, 2022). The efficiency of such governance structures is characterized mainly by their capacity to supervise financial reporting operations, control and regulate the conflict of interests, and correspond to legislation.

In their research, Hsu and Yang (2022) explain that the board of directors is instrumental in managing and overseeing financial reporting. From this line of reasoning, one can deduce that the oversight of financial disclosures by a board with a higher proportion of independent directors would likely be more vigilant, which presumably means that the incidence of financial restatement would be less. This is affirmed by existing literature showing that emerging markets have embarked on governance reforms to enhance board independence, and the move has boosted the quality of financial reports.

However, the literature also reveals that having independent directors is not a guarantee of transparency. Other aspects that can influence the functioning of the board are related to the

financial literacy of directors, the degree of board diversity, and internal controls of the company (Sarhan, Ntim, and Al-Najjar, 2018). These findings suggest that it is necessary to have both structural and procedural change in the systems to have good corporate governance systems that will facilitate the reporting system to be more transparent.

The Role of the Audit Committee

The audit committee therefore has a very important mandate in the governance structure that is primarily responsible for the oversight of the process of financial reporting, the implementation of internal control measures, and the management of the relationship between the organization and the external auditors. In enhanced research currently, audit committee independence and knowledge are regarded as important in presenting reliable financial data (Dwekat et al., 2022). For instance, a study conducted to estimate the relationship between Audit Committees and earning management found that firms with Audit Committees comprising members with accounting education are less likely to engage in earnings or other forms of financial fraud (Khemakhem and Fontaine, 2019).

In their study on audit committee effectiveness, Kurniasih and Sari (2024) found that audit committees composed of at least one financial expert help reduce the risk of material misstatements in financial reports. This study also established that the number of meetings with the audit committee has a positive relationship with the quality of financial reports, thereby suggesting that there is a need to engage the audit committee in regular monitoring for increased transparency.

In addition, the literature reveals that the audit committee plays a role in the monitoring of the relationship that exists between the company and outside auditors. The functions of a sound audit committee entail approving the financial statements and contributing to the minimization of the possibility of both auditor overconfidence and cooperation hence enhancing the credibility of the financial statements to some extent (Toumeh, Yahya, and Amran, 2020). This is especially the case in large MNCs including Tesco plc. where complex structures and activities enhance the likelihood of financial manipulation.

Internal Controls and Financial Reporting

Corporate internal controls are crucial in the protection of assets, accuracy of company records, and handling of fraud. Internal controls are a very crucial aspect of corporate governance since they offer guidance on how to deal with the risk of financial reporting. Current literature highlights internal control mechanisms as enhanced ways of displaying financial credibility and accountability (Chalmers, Hay and Khelif, 2019).

A recent analysis by Dewi, Azam and Yusoff (2019) shows that internal control systems in organizations are useful since they reduce the frequency of restatement of financial statements or sanctions from the relevant authorities. The authors view internal controls as the first barrier against financial misreporting since they help prevent or correct errors before they are included in the financial statements. This is especially important when discussing Tesco plc. where the internal control shortcomings were investigated after the 2014 accounting fraud (Sharma, Jain and Pajni, 2022).

Another argument supported by the literature indicates that the strength of internal controls depends on the governance structure of the company. For instance, Chalmers, Hay and Khelif (2019) established that effective internal control is attained in firms with effective corporate governance frameworks. They also argue that the board of directors has responsibility for monitoring the internal control process and that board participation is essential for accountability of these controls.

Ethical Considerations in Financial Reporting

Ethical behavior is also one of the most important principles of good corporate governance and is a prerequisite for the accuracy of the reported financial data. Research shows that corporations that follow ethics management standards are less likely to manipulate their reports and more inclined to promote ethical practices in reportage (Roszkowska, 2020). This is particularly important in the context of corporate scandals, an understanding of which can hardly be complete without emphasizing the ethical dimension of the given problem.

Turzo et al. (2022) conducted a review of corporate governance and the ethicality of dealing with financial reports. According to the authors, the most effective leadership involves ethical leadership at the board level in an organization. In another way, it could be concluded that firms

with ethical boards provide enhanced external monitoring and enforcement of strong governance mechanisms, including the accurate and material monitoring procedure of financial reporting and disclosure.

Finally, the literature reveals that ethical education and ethical sensitivity programs and seminars are effective ways how to inculcate ethical practices in the preparation of financial reports. Organizations that take their time to train their staff ethically, avoid experiencing problems of financial misreporting. The study also reveals the need to foster ethical culture consciousness to cover all people in the organization to avoid cases of financial mismanagement and other vices.

Corporate Governance at Tesco Plc.

The case of Tesco plc. is an important example of managing corporate governance to ensure appropriate reporting of the financial statements. This area has been problematic for the company especially after it posted a \$248 million accounting fraud in 2014, which was followed by regulatory probes and a widespread erosion of investor trust. The scandal raised issues concerning Tesco's corporate governance system, especially the board of directors' monitoring of financial reporting and the efficiency of internal controls (Catalão, 2022).

As a result of this scandal, the company adopted several corporate governance measures designed to increase the group's accountability and thus regain the user's trust. Some of these reforms entailed the increasing independence of the board of directors and the reform of the audit committee as well as boosting the internal control system of the firm (Sharma, Jain and Pajni, 2022). An assessment of these reforms is useful in where it stands on the problems and prospects of enhancing corporate governance in large firms.

During the recent studies conducted on Tesco Papers, it has been found that the company has greatly succeeded in its endeavors to enhance corporate governance financial statements' transparency. Tesco Company has since implemented reform measures to enhance post-scandal governance that enhanced the quality of the Company's financial reports. The study also brings out the need to conduct regular assessments of the governance practices to check the efficiency when operating in dynamic business contexts.

Comparative Analysis of Corporate Governance Practices Across Industries

It is also important to note that the practice of corporate governance also differs from one industry to another because of the differences in the legal systems within different countries, competition, and expectations of shareholders. Literature analysis shows that even though there is a global understanding of basic corporate governance concepts like transparency, accountability, ethics, and leadership, the concept's implementation and efficiency may vary by industry.

For example, firms operating in the financial sector and others require significant transparency as well as risk management he shown to present higher levels of governance. Such, Nicolaides and Trafford (2019) explain that the banking sector focuses on the risks and controls to reduce the possibility of being involved in financial fraud. In banks, audit committees are usually more operational and are relatively more independent than in other areas of the economy. This increased concern with governance can be attributed to the necessity to keep shareholders satisfied and meet more sets of demanding regulations after the financial crisis of 2008.

The Role of Ethical Leadership in Corporate Governance

Ethical leadership of organizations is central in determining corporate governance practices with a focus on the integrity of financial reporting. Ethical leaders have a role in modeling the behavior of the organization by shaping and setting the standards on what the organization deems right or wrong. According to Moore et al. (2019), organizations run by ethical managers create good internal controls and follow the true reporting standards, thereby minimizing the opportunities for fraud.

Ethical leadership also builds stakeholder confidence, which is critical for sustainable organizational performance. Bhatti et al. (2021) established that OAL firms have an advantage in terms of resilience during crises since ethical leaders sustain stakeholder trust. This is well applicable to sectors that give rise to ethical challenges that exhibit conflicts of interest for instance the pharmaceutical or the extractive sector.

However, it is notable that the effect of ethical leadership on corporate governance is not the same in all circumstances. Al Halbusi et al. (2020) noted that specifically in some EMs where the institutions are not fully developed, the impact of ethical leadership, for example, may be limited

by certain factors, for instance, corruption and political interference. In such contexts, even otherwise superior leaders will find it challenging to effectively adopt sound governance practices, and it re-emphasizes the relevance of conducive institutional arrangements.

Corporate Governance and Financial Reporting Quality: A Global Perspective

This issue of corporate governance and the quality of financial reports has become a topical issue with relative emphasis depending on the zone. The developed countries of the world such as Canada the USA and the European nations have well-framed/established government frameworks that support and encourage the disclosure of information concerning the business. There has been an enhancement in the comparability and quality of reported financial information in these regions through changes in regulation and adoption of the International GCSS.

According to Almagtome, Khaghaany, & Önce (2020), an enhancement in the quality of the financial information reported in South Korea was observed after the enforcement of the improved corporate governance systems in 2021. Auditing takes further cognizance of the fact that legal demand for audit committees and enhanced rules for disclosure provide the reliability of such financial statements, and thereby enhance investor confidence.

On the other hand, the EM itself experiences some difficulties in maintaining sound CG measures as its legal environment is comparatively less stringent and the compliance with legislation is even lower. Almagtome, Khaghaany, and Önce (2020) conclude that although the authors understand that corporate governance has developed in China, there are challenges like insider trading and disclosure issues. This suggests that there is a need to put in place more reforms and enhance the enforcement procedures to enhance the quality of financial reports in these markets.

Hypothesis

Good corporate governance features such as the board of directors, independent audit committee, and internal controls enhance the quality of financial reporting and reduce questionable practices among large public listed firms including Tesco Plc.

Chapter 3: Methods of Analysis

In order to fulfill the objectives of the study, a qualitative research approach shall be adopted, with an emphasis on a case study of Tesco plc's corporate governance in reporting and transparency. The case study approach will facilitate the evaluation of the particular actions required to be taken by the Tesco's panel of managements and the audit committee, and the processes adopted for preparing an accurate and reliable financial report. This chapter will indicate the research strategy, the method of data collection, the sampling procedure proposed for the study, the approach that will be used to examine the data, and the ethical issues of the study.

Research Approach – reference and Qualitative data report

This research will be carried out using quantitative analysis of secondary data collected from Tesco plc to analyze its corporate governance practices. Actual reports and journals involving Tesco PLC and other academic articles will classify the progress of Tesco's corporate governance structure over the years (Priya, 2021). The application of official documents leads to data reliability and validity and is one of the economical approaches. Internal documents and external publications will help make more comparisons and increase the study's validity (Urbinati et al., 2018).

Data Collection

In the context of data collection, the interest will be on Tesco's corporate governance in terms of management, audit board, internal control, restatement of financials, and ethical breaches. The following specific types of secondary data will be utilized:

Primary Corporate Documents: The Tesco's financial performance and governance structures will be analyzed based on Tesco's Annual Report 2022, including its financial statements (Tesco, 2023). Tesco Corporate Governance Code 2022 will give information about vision, prospect, performance, culture, remuneration, directors, audit, supply chain, and risk management alongside guidance about the executive remuneration report, board independence, and how effectively the audit committee would work (Tesco PLC, 2021).

Academic Literature: To determine theoretical models that can assess Tesco's governance system, research articles in scholarly and peer-reviewed journals in commerce, particularly corporate governance and financial reporting books, shall be consulted. This literature will also enable the comparison of the findings against those of other companies in the UK retail sector.

Industry Reports and News Sources: Industry analysts, their publications, financial newspapers and magazines, and investigative journalism articles will be used to gather external information about Tesco's governance. These sources will assist in citing any issues or appreciation of Tesco's corporate governance and financial reporting.

Sampling

Tesco has been chosen for analysis because it is one of the largest retailers in the United Kingdom, and its corporate governance failures were made public when it engaged in an accounting scandal in 2014. It uncovered severe issues in the grocery chain's financial reporting systems. An analysis of Tesco integrates information on the corporate governance issues affecting large retailers, creating awareness of the effect of governance on reporting credibility and reliability.

This study will rely on secondary data as primary data collection is not feasible for this research question; the data includes annual reports, corporate governance documents, and literature relevant to Tesco's corporate evolution as they provide essential information in the analysis of the company's corporate governance evolution. This way of working also benefits from focusing on a specific organization, so this approach is perfect for learning about Tesco's governance structures, internal controls, and the impact of previous scandals. Thus, the conclusions made from this case study might generate more general conclusions and recommendations, which can be useful for a more extensive range of other UK retailers and enhance current discussions regarding corporate governance issues in the sphere of retail.

Tesco's Corporate Governance Report presents information concerning the company's corporate governance system, including the role of the board and its committees and aspects of legislation compliance. It infuses new principles of transparency and accountability and promises to act with ethical standards in every business affairs.

Data Analysis

Data analysis will use thematic analysis designed to study corporate governance at Tesco plc. Thematic analysis of qualitative data means breaking down the collected data into themes for detailed discussion. This approach is the most relevant to this case study since it helps analyze the complex components of corporate governance in Tesco.

The analysis will be structured as follows:

Familiarization with Data: As part of the study, a review of all the documents gathered by the researcher will be undertaken, including Tesco's annual reports, corporate governance reports, and audit committee documents. The specific areas that concern financial reporting, the Company's governance structure, and ethical compliance will be highlighted and exceptionally documented down to the finest detail. During this phase, the process will involve:

- Underlining the key points.
- Note-taking on observations made.
- Marking first impressions that may seek to respond to the research questions.

Coding is a crucial step in our process. The identified studies are meticulously coded according to themes that emerge from the initial analysis and the literature review. Generalized codes are defined for different areas of activity, such as 'Audit Committee Oversight' and 'Board Composition'. For instance, a document describing the audit committee's role in financial disclosure is classified based on its importance in achieving governance objectives.

Theme Development: After coding, the researcher will regroup these codes into overarching themes, addressing pertinent concerns about CG at Tesco. Such themes will be well articulated and elaborated; for instance, the theme will be 'Audit Committee Effectiveness,' which may include subcodes like the independence of the committee, frequency of the committing meeting, and the nature of debating done in the meeting, among others. Another analysis theme could be "Board Independence," which encompasses the board makeup, non-executive directors, and their position in increasing transparency (Campbell et al., 2021).

Data Interpretation: All the selected themes will be elaborated in the context of the research questions and the theoretical framework adopted from the literature review stage. For instance, in the paper “Audit Committee Effectiveness,” it will be necessary to consider how the identified audit committee meets or fails to meet the corporate governance benchmarks. The interpretation will also evaluate the effect of these practices in the financial reporting and Tesco’s financial statement.

Comparison with literature: Following the thematic analysis, the outcomes are compared with existing literature in corporate governance and financial reporting. This comparative analysis provides a context for understanding the research results and drawing inferences about the efficacy of Tesco’s governance practices. For example, if the literature suggests that auditor independence enhances the quality of financial reports, our analysis will compare how Tesco’s audit committee aligns with this information (Braun & Clarke, 2020).

Thus, by adopting the systematic approach to understanding the data, the study shall establish a wealth of detailed how and why of corporate governance measures at Tesco, be they results-oriented or not, thus furthering the research of how these practices affect financial reporting and disclosure in one of the largest British retailers.

Ethical Considerations

The ethics of this study is low because it uses secondary data. They are citations of all the sources used to acknowledge authors; this is done to ensure that the document is objective under acknowledging bias inherent in corporate documents, use of multiple source information to practice data triangulation, and lastly, the issue of confidential information is handled in such a way that this document only addresses the practices of the organization and not personal matters as done by Busetto et al., (2020). Although the information is public, the research will observe ethical considerations in presenting the report to Tesco and the participant’s identities (Hameed, 2020).

Chapter 4: Analysis and Findings

Corporate Governance in Financial Reporting and Transparency

The board of directors occupies a special place in Tesco's governance model, as it is the critical decision maker and supervisor of the company's strategy, risk management, and financial results. The board has executive and non-executive directors, so they have the right mix of experience and independence. Tesco Company's board is still in compliance with the "comply or explain" provision of the United Kingdom's Corporate Governance Code, underneath which there is a necessity to include a proportionate number of independent non-executive directors and executive directors in the board to have the desired independent and supervisory checking (Sharma, Jain and Pajni, 2022). Tesco has an independent chairman, and analyzing its annual reports reveals that the chairman and the CEO have different responsibilities. This separation of powers is unadulterated in the UK Corporate Governance Code's recommendation that there should be independent leadership. Nonetheless, there has been criticism as to the ability of this board to provide oversight when it is most needed, say, before the 2014 accounting scandal (Rosnizam, 2020).

The committee's responsibilities include monitoring the company's financial reporting, internal control, and risk management at Tesco. This perspective comprises referenced non-executive directors, as the UK Corporate Governance Code recommends, to provide the committee with an optimally independent view of the company's financial mechanisms. Specifically, introducing the audit committee, the authors underline its interaction with the external auditors to guarantee that Tesco's financial statements contain a fair view of its economic performance. The audit committee's oversight efficiency was disputed before the 2014 accounting scandal. It also emerged that the committee might not have rigorously examined Tesco's financial reporting process to permit the distortion of the economic figures, which was later exposed after overstating profits by £263m. Subsequently, the scandal led to specific changes in the constitution of Tesco's audit committee and the strengthening of further control over the faking of the reported figures (Sharma, Jain and Pajni, 2022).

The remuneration committee is supposed to determine the pay structure for Tesco managers and link it to performance. According to the UK Corporate Governance Code, the Remuneration

Committees should comprise independent non-executive directors to help them eliminate proximity bias and conflict of interest. In the past, employee compensation and rewards have been linked to performance and shareholder value creation at Tesco. The issue that occurred in 2014 affected the company's policies related to remuneration. Management, especially the Chief Executive officer at that time, was accused of comprising huge bonuses, yet the company was underperforming and compounding corporate governance transgression. After the scandal, the company adjusted its remuneration policy to ensure increased use of performance measures. It introduced clawback provisions so that a firm can take money back whether the executive engaged in impropriety or if the firm underestimated its earnings (Rosnizam, 2020).

The 2014 Accounting Scandal: Governance Failures and Lessons Learned

The scandal showed that Tesco lacked adequate internal controls, such as internal controls and a financial reporting system. The company's audit committee, which was supposed to ensure that the business promoted integrity in its financial reporting, was accused of negligence in assessing Tesco's accounting policies. External auditors were also under pressure for not finding the overstatement while auditing the company's financial statements.

The board of directors pays the least attention to financial reporting activities while heavily relying on representations made by senior management. Thus, the audit committee never questioned the assumptions made while preparing and presenting figures for Tesco, especially regarding the recognition of commercial income. Analysts found severe pressure on top managers to show good financial performances; a possibility existed of managing earnings to provide rosy pictures to shareholders.

To reverse the effects of the scandal, which greatly affected investors, Tesco had to carry out several measures of governance to avoid repetition. Tesco used better and more effective internal control measures that show its actual and true financial position. It also stepped up the risk management approach to look for possible breakdowns within the company's financial risk profile. Some of the board members and senior executives also stepped down; a number of independent directors were later recruited to enhance monitoring. The audit committee was adjusted to include an increased proportion of personnel familiar with issues related to finance. Tesco introduced new measures into executives' remuneration framework, such as measuring the

executives' performance more rigorously and addressing the Recession in executive pay. This ensures that bonuses can be recovered in the event it is later found that they were given based on perceived dishonest bookkeeping (Akman, Acar and Kızıl, 2020).

Thematic Analysis of Corporate Governance Issues at Tesco

In this study, the hypothesis was that Tesco's corporate governance failures, notably the 2014 accounting scandal, were due to board inefficiencies, audit committees, and unsuitable executives' pay structures. This hypothesis is supported by the analysis presented in the paper and definitive governance deficiencies during the scandal, namely inadequate internal controls and financial reporting. Measures adopted after the scandal, including the enhancement of the audit committee and changes in policies on executive remuneration, while refuting other commentators who deny these governance factors caused the crisis. As a result, the findings support the hypothesis to the extent that governance failures were identified to have directly impaired Tesco's integrity and reputation.

Thus, the board of directors independence concept is essential to any good corporate governance model since it allows it to minimize decrees' dependency on the management's decisions. Appointments to Tesco's board are by the provisions of the UK Corporate Governance Code, which requires a proper mix of independent non-executive directors. However, many people have raised an eyebrow over the functionality of this board, more so as it relates to the supervisory duties of the board to ensure proper financial reports. In the run-up to October 2014, regulators criticized Tesco's board for not providing enough scrutiny of the executive management's decisions. There was evidence that the firm had adopted a culture that focused more on the numbers game than sound corporate governance.

A significant function of the audit committee is to help ensure fair presentation of financial statements and adequate long-term controls. For example, at Tesco, after the 2014 scandal, the adequacy of the audit committee was questionable. The committee was unable to identify the overstatement of profit, and there arose concerns about the committee's capability to assess the financial reporting processes. During the scandal, it was noted that the audit committee needed strengthening, so Tesco stepped up efforts to that end. This involved increasing oversight of the financial controllers and dusting up the external committee that oversees the internal controls. In

recent years, audit committees have enhanced their efficiency, contributing to restating the credibility of the company's financial reports (Jones et al., 2024).

Corporation governance and particularly remuneration policies primarily influence the actions of the top executives in organizations. For many years, TESCO's remuneration policy has been congruent with financial performance; most bonuses and incentives offered are founded on profit. However, the 2014 scandal clarified that this compensation method might be faulty and encouraged short-term financial distortion. Owing to these reforms, many of which have been done after the Tesco scandal, a new approach to directors' remuneration has been adopted in order to prove that pay policies are directly relevant to the sustainable growth of the business and the creation of sustainable shareholder value. The clawback provision also guarantees that bonuses can be recovered in cases of corporate malpractice or if financial statements have been cooked to provide tainted figures.

Comparison with Corporate Governance Best Practices

Tesco's corporate governance can now be compared with standards in the UK Corporate Governance Code and other countries. The UK Corporate Governance Code also focuses on issues of directors' independence, audit committees, and clear statements of companies' responsibilities. However, even today, many lessons can be learned from Tesco's failures in governance, which emerged in the wake of the above-mentioned scandal. The company has since made improvements in the above areas after the 2014 scandal, but there is still room for improvement.

Board Independence: According to many recommendations, most boards should include independent non-executive directors. Tesco's board of directors complies with this recommendation; however, the efficiency of independent directors in monitoring management has been questioned. Subsequently, to maintain the standards of the code, Tesco needs to guarantee that independent directors have the authority to resist management and provide impartiality.

Audit Committee Oversight: The specific recommendation of the UK Corporate Governance Code is that audit committees only be made of independent directors who have some accounting background. Tesco's audit committee has come a long way in this regard, especially after the

2014 scandals. However, to maintain the audit committee's effectiveness, the organization must regularly assess the level of commitment to monitoring financial reporting processes. Training and updating the committee with new risks in accounting and governance require effective execution to retain consistency in overseeing the organizations (Meng, 2024).

Risk Management and IC Conventions: What also appears in most benchmark models of corporate governance are issues related to the sound management of risks and internal controls. The failure of the government that happened to Tesco in 2014 was due to a lack of internal control principles, especially in commercial income. In return, Tesco has made vast strides in developing a better risk management mechanism whereby financial risks are detected and managed quickly. Monthly assessments of internal controls in combination with annual outside audits help ensure the continuing accuracy of Tesco's future financial statements.

Transparency as well as Accountability: Business forums have recognized the importance of Accountability and accurate financial information in reporting results to shareholders. The business scandal that began in September 2012 and escalated to 2014 destroyed Tesco's reputation for Transparency by giving investors wrong profit figures. Since then, it has had to regain customers' trust by employing proper disclosure practices on its financial statements and ensuring Accountability from its top officials. This emanates from transparent reporting of figures, additional disclosure of performance indicators, and compliance with sound ethics regarding the financial governance of the firm.

Findings and Implications

Tesco has a structured board of directors without purely executive directors, but this board lacked the efficiency to provide an authoritative overseer in the period leading to the scandal in 2014. The board's inability to question management spending decisions presents the need for independent leadership and sound governance.

Auditors and the audit committee in this picture failed to identify and prevent such weapons when they did not observe that profits in 2014 were overstated. Tesco's changes after the scandal are relatively positive for the audit committee; however, a constant examination of governance issues should be conducted.

The EPS and sales-based incentive scheme may be another reason behind Tesco's malpractice of earning manipulation. Measures for new and modified compensation policies, such as a clawback and increased focus on performance-based metrics, are steps towards righting the compensation misalignment of executives with shareholders.

Another reason Tesco expired in 2014 was the lack of internal controls at the time. The ongoing attempts to build up the local risk management system and improve controls are essential for accurate financial reporting and the company's avoidance of future governance problems (Roslizam, 2020).

This company has been associated with transparency, so the 2014 accounting scandal caused it much embarrassment. The company's further actions to enhance the quality of its financial statements and regain investors' confidence are crucial for its reopening.

Conclusion

The case study of Tesco plc's corporate governance issues offers an understanding of the circumstances of large public limited companies with ineffective controls. The 2014 accounting scandal brought to light many internal control and reporting deficiencies at Tesco and board responsibility lapses, all of which have tilted shareholders' and stakeholders' trust and brand image. To this end, Tesco has made some governance changes, including overhauling the board, the audit committee, and the corporate remuneration policy.

However, to avoid such failures in the future, the company needs to sustain and strengthen its actions regarding the upgrades of Tesco's governance structure, including the enhancement of the board effectiveness, the increase in the role of the audit committee, and efficient risk management. This paper explains several lessons organizations can learn from Tesco's experience, mainly when an organization such as Tesco is experiencing tremendous growth, how to avoid overtrading, and the need for good corporate governance, especially in live, regulated businesses.