

# Corporate governance

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# Board of Directors



**Patricia Ryan**  
*LLB (Hons)*  
**Group General Counsel and Company Secretary**

Patricia Ryan is a qualified solicitor. She joined Ricardo's Legal Department in 2002 and was appointed Group General Counsel in 2005 and Company Secretary in November 2008. Patricia holds an honours degree in law from the University of Westminster.

**David Hall**  
*CBE, MA, MSc*  
**Non-Executive Director, Senior Independent Director**

David Hall (not pictured) joined Ricardo plc as non-executive director on 21 February 2006 and resigned on 4 November 2015.

**Ian Gibson**  
*BSc, ACA*  
**Chief Financial Officer**

Ian Gibson was appointed Chief Financial Officer on 1 July 2013. Ian is a Chartered Accountant, previously with Deloitte. He is a highly experienced finance professional with almost thirty years' commercial experience, most recently as Chief Financial Officer of Cable & Wireless Worldwide plc.

**Peter Gilchrist**  
*CB*  
**Non-Executive Director, Senior Independent Director and Chairman of the Remuneration Committee**

Peter Gilchrist was appointed non-executive director on 1 December 2010. He was appointed Chairman of the Remuneration Committee on 14 November 2013 and Senior Independent Director on 1 July 2015. His military career spanned almost four decades in the British Army, his last appointment was at the British Embassy in Washington DC. Previously, he was Master General of the Ordnance on the Army Board and an executive director in the Defence Procurement Agency. Peter is currently Chairman of Push Technology Limited, Enterprise Control Systems Limited and the Board of Trustees, Tank Museum. He is also a director of Synergie Global Limited.

**Malin Persson**  
*MSc*  
**Non-Executive Director**

Malin Persson was appointed a non-executive director on 4 January 2016. Malin was employed by the Volvo Group between 1995 and 2012, where she held roles including Vice President of Corporate Strategy and Business Development, President and CEO of the research and innovation company, Volvo Technology, and Head of Environmental Affairs at Volvo Logistics. Malin is an elected member of the Royal Swedish Academy of Engineering Sciences and is owner and CEO of Accuracy AB, a consultancy and engineering company. Malin has an MSc in Industrial Engineering and Management from the Chalmers University of Technology in Gothenburg.



**Sir Terry Morgan**  
*CBE, FREng*  
**Non-Executive Director and Chairman**

Sir Terry Morgan was appointed non-executive director on 2 January 2014 and Chairman on 29 October 2014. He is currently non-executive chairman of Crossrail Limited, the Manufacturing Technology Centre and the National Skills Academy for Railway Engineering. He was also a previous non-executive director of Boxwood Limited and the Department of Energy and Climate Change.

**Dave Shemmans**  
*BEng*  
**Chief Executive Officer**

Dave Shemmans joined Ricardo in 1999. He was appointed to the Board as Chief Executive Officer Designate in February 2005, and became the Chief Executive Officer of Ricardo plc on 4 November 2005. Prior to joining Ricardo he was operations director of a subsidiary of PowerGen plc. He has also gained consulting experience in both listed and private companies. He is a graduate of the Harvard Business School. Dave was appointed non-executive director of Sutton and East Surrey Water plc on 1 September 2014.

**Mark Garrett**  
*CEng, FIMechE*  
**Chief Operating Officer**

Mark Garrett joined Ricardo in 1998 and was appointed Chief Operating Officer in 2010. Prior to joining Ricardo Mark spent 14 years in various powertrain related roles in Rover Group including BMW Engineering centre in Munich. Mark is a Chartered Engineer and a Fellow of the Institution of Mechanical Engineers.

**Ian Lee**  
*BA, CA, CPA*  
**Non-Executive Director and Chairman of the Audit Committee**

Ian Lee was appointed non-executive director and Chairman of the Audit Committee in 2008. He was a former audit partner of Ernst & Young and a member of their UK Governing Council. He was the Convener of the Institute of Chartered Accountants of Scotland Audit and Assurance Committee. Ian was a non-executive director and chairman of the audit committee of Clyde Process Solutions plc, Vice Chairman of NHS Greater Glasgow and Clyde Board, Chairman of East Renfrewshire Integration Joint Board for the Health and Social Care Partnership and is currently the independent external member of the audit committee of the Student Loans Company and a director and trustee of Erskine Hospital.

**Laurie Bowen**  
*BSc, MBA*  
**Non-Executive Director**

Laurie Bowen was appointed a non-executive director on 1 July 2015. Laurie has over 30 years of international leadership experience at IBM, British Telecom, Tata Group and Cable and Wireless Communications. She now serves as CEO, Americas for Telecom Italia Sparkle and is based in Miami, Florida. Laurie has an MBA, a BSc in Electrical Engineering and a BSc in Computer Science from Washington University in St. Louis, Missouri.

# Corporate governance statement



Sir Terry Morgan – Chairman

### CHAIRMAN'S OVERVIEW

I am pleased to introduce the Corporate Governance Statement for the year ended 30 June 2016. Governance is an important contributor to the success of the Ricardo Group.

The Board is committed to ensuring that appropriate standards of governance are maintained throughout the Group.

This report sets out the way we comply with good

corporate governance principles. It describes how the Board and its committees work, and also our approach to risk management and internal control.

As part of the Board's succession planning, during the year our Nomination Committee conducted a search for additional non-executive directors and I am pleased to advise that Laurie Bowen joined the Board on 1 July 2015 and Malin Persson on 4 January 2016.

**Sir Terry Morgan, CBE**

### UK CORPORATE GOVERNANCE CODE

The Board confirms that the Company has complied with the provisions of the UK Corporate Governance Code published in September 2014 ('the Code') throughout the year ended 30 June 2016.

The Code contains a number of new provisions, including requiring companies to make greater disclosures of their strategic approach to risk and risk management; to make a statement about the long-term viability and prospects of the Company; to ensure that remuneration policies are designed to deliver long-term benefits to the Company and include measures for claw-back on variable pay and, in cases where a significant proportion of shareholders oppose any particular measure, to explain the actions the Company intends to take to understand the reasons for this opposition.

This report describes how the Company has applied the principles and standards set out in the Code during the year and sets out our activities relating to the main sections of the Code:

Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders.

The Code and associated guidance are publicly available on the Corporate Governance page of the Financial Reporting Council's website, [www.frc.org.uk/corporate](http://www.frc.org.uk/corporate).

### LEADERSHIP

#### The role of Ricardo's Board

Our role is to provide entrepreneurial leadership and we recognise that we are collectively responsible for the long-term success of the Group.

We set strategy and oversee its implementation by the executive team. We assess business opportunities and seek to ensure that appropriate controls are in place to assess and manage risk. We are responsible for reviewing the executive team's performance and we oversee senior-level succession planning within the Group.

We agree the Company's values and standards and ensure that the Company's obligations to its shareholders are met.

	Board meetings	Committee meetings		
		Audit	Remuneration	Nomination
Number of scheduled meetings in the year	8	3	5	1
Number attended by each member:				
Dave Shemmans	8	-	-	1
Ian Gibson	8	-	-	-
Mark Garrett	8	-	-	-
Sir Terry Morgan, CBE	8	2	4	1
Peter Gilchrist, CB	8	3	5	1
Ian Lee	8	3	5	1
Laurie Bowen*	8	3	5	1
Malin Persson**	4	1	1	1
David Hall, CBE***	4	2	4	-

\* Laurie Bowen appointed as non-executive director on 1 July 2015

\*\* Malin Persson appointed as non-executive director on 4 January 2016

\*\*\* David Hall retired from the Board on 4 November 2015

We have a formal schedule of matters reserved for our approval which are not delegated to the executive team. These include:

- Strategy;
- Acquisitions and disposals of businesses (over a certain size);
- Annual budgets;
- Capital expenditure;
- Financial results;
- Overseeing systems of internal control, governance and risk management;
- Dividends; and
- Appointment and removal of Directors and Company Secretary.

The full schedule of matters reserved for our decision is available on our website ([www.ricardo.com](http://www.ricardo.com)). We delegate certain responsibilities to our Nomination, Audit and Remuneration Committees. These committees comprise our independent non-executive directors (save for the Nomination Committee, which includes the Chief Executive Officer) and all play a key role in supporting us.

### Board meetings and visits

There are eight scheduled Board meetings a year and otherwise as required. Details of attendance at scheduled Board and Committee meetings are shown in the table above. Board meetings focus on driving Ricardo's strategy, developing strong leadership, succession planning, reviewing financial business performance, monitoring risks and protecting the strength of our relationships with clients, employees and other stakeholders. Our agendas allow time for debate and long-term strategic discussion. Our forward planner gives Board members visibility of what is on future agendas for their consideration. The Board agenda is set by the Chairman in consultation with the Chief Executive Officer and the Company Secretary.

We have spent considerable time focusing on the Group strategies and reviewing progress against respective objectives. We held a strategy meeting in December 2015 at our Prague Technical Centre at which we reviewed progress and improvements on the five year strategy agreed in 2014.

## EFFECTIVENESS

### Board composition and independence

As at 30 June 2016 our Board comprised five non-executive directors and three executive directors as follows:

Dave Shemmans	Chief Executive Officer
Ian Gibson	Chief Financial Officer
Mark Garrett	Chief Operating Officer
Sir Terry Morgan, CBE	Non-Executive Chairman (independent at the time of appointment)
Peter Gilchrist, CB	Independent Non-Executive Director, Chairman of Remuneration Committee and Senior Independent Director
Ian Lee	Independent Non-Executive Director and Chairman of Audit Committee
Laurie Bowen	Independent Non-Executive Director
Malin Persson	Independent Non-Executive Director

David Hall resigned as non-executive director on 4 November 2015.

Malin Persson joined the Board on 4 January 2016.

Biographies of Directors, giving brief details of their experience and other commitments are set out on pages 76 and 77. The wide-ranging experience and backgrounds of the non-executive directors enable them to debate and constructively challenge management in relation to the strategy and performance of the Group.

On 1 July 2015 the Company announced that Laurie Bowen had been appointed as a non-executive director to the Board. Laurie has most recently been Chief Executive Officer of Business Solutions for Cable & Wireless Communications and was previously President of Enterprise Business & Growth Ventures for Tata Communications. Laurie was also a non-executive director of Transcom Worldwide and has an MBA and BScs in Electrical Engineering and Computer Science from Washington University in St Louis. Laurie also currently serves as CEO of Americas for Telecom Italia Sparkle.

On 4 November 2015 the Company announced that Malin Persson had been appointed as non-executive director to the Board, effective 4 January 2016. Malin was employed by the Volvo Group between 1995 and 2012, where she held roles including Vice President of Corporate Strategy and Business Development, President and CEO of the research and innovation company, Volvo Technology and Head of Environmental Affairs at Volvo Logistics. Prior to joining Volvo, Malin was responsible for transport and environmental technology development at the Swedish Office of Science and Technology in Brussels. Malin is an elected member of the Royal Swedish Academy of Engineering Sciences and is owner and CEO of Accuracy AB, a consultancy and engineering company.

The Board has concluded that Sir Terry Morgan CBE, Ian Lee, Peter Gilchrist CB, Laurie Bowen and Malin Persson are independent in character and judgement. They have never been employees of the Company, nor have they participated in any of the Company's share schemes, pension schemes or bonus arrangements. They receive no remuneration from the Company other than the directors' fees disclosed, and travel expenses. Their fees are determined by the Board as a whole on the recommendation of the Chief Executive Officer. No director is involved in deciding their own fees. They all held office throughout the year, with the exception of Malin Persson who joined the Board on 4 January 2016.

The Company has procedures in place to ensure that the Board's power to authorise conflicts of interests are operated effectively and such procedures have been followed during the year under review.

Letters of appointment for the non-executive directors are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

Non-executive directors are appointed for specified terms of three years which can be extended by agreement provided that the individual's performance continues to be effective. In accordance with the Company's Articles of Association and the Code, all directors will retire at the Annual General Meeting in November 2016 and, being eligible, will offer themselves for election and re-election (as appropriate). We believe that each of the directors should be elected and re-elected by the shareholders because each continues to be effective and demonstrates commitment to the role that each of them performs.

During the year the Chairman met the other non-executive directors without the attendance of the executive directors on a number of occasions.

There were several other occasions during the year when discussions between various directors took place on an informal basis.

The Chairman and the non-executive directors have provided assurances to the Board that they remain fully committed to their respective roles and can dedicate the necessary amount of time to attend to the Company's affairs.

Executive directors must obtain the prior consent of the Board before accepting a non-executive directorship in any other company. Executive directors may retain the fees from any such directorship. One executive director, Dave Shemmans, held a non-executive directorship during the year under review.

### Board objectives

The Company is confident that the Board and the wider leadership team have the experience and track record to meet the Company's aims of delivering long-term growth and successfully managing the challenges of an expanding international group. The Board sets its specific future objectives at the end of each year and these reflect the particular focus of the Company in the year ahead. Progress against each objective is tracked by the Company Secretary and reviewed with the Chairman and the Board at the mid-year point.

### Chairman, Chief Executive Officer and Senior Independent Director

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer, which is documented, clearly understood and approved by the Board.

Sir Terry Morgan is primarily responsible for leading the Board and ensuring its effectiveness. Dave Shemmans has direct responsibility for the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Dave Shemmans chairs the Executive Committee, which meets formally at least three times a year. The Executive Committee is primarily responsible for developing and implementing our corporate strategy and policies.

The responsibilities of the Senior Independent Director are also documented and include the provision of an additional channel of communication between our Chairman and the non-executive directors. The Senior Independent Director also provides an additional point of contact for our shareholders should they have concerns that communication through normal channels has failed to resolve or where these contacts are inappropriate.

### Board appointments

We recognise our responsibility for planned and progressive refreshing of the Board. There is a formal and transparent procedure for the appointment of new directors, the primary responsibility for which is delegated to the Nomination Committee. Further details of the work undertaken by the Committee during the year under review are contained on page 82. Our Board has continued to discuss matters relating to succession planning and talent management for leadership succession.

### Diversity

Our Board is committed to promoting equality of opportunity for all employees and job applicants, free from all forms of discrimination. Ricardo is an inclusive employer and values diversity of skills, knowledge, background, industry and international experience and gender in its employees and aims to recruit the best person for the role in all its positions Group-wide.

Our Board appreciates that a diverse range of backgrounds is an important part of succession planning at all levels in the Group. Our Board continually monitors tenure profile and is very conscious of the need to continue to promote diversity at Board level and throughout the Group. Upon engagement of external search consultants our Board requires that full account of all aspects of diversity are considered in preparing candidate lists. Details of the

diversity of our workforce are described in the Strategic Report on pages 32 and 33.

### Induction

There is a written framework for the full, formal and tailored induction of new directors. Laurie Bowen's and Malin Persson's induction has and will include site visits, meetings with senior management and advisors and the provision of corporate documentation to facilitate their understanding of our business, its operations, key markets and risks.

### Support and professional development

Our Chairman is responsible for ensuring the directors receive accurate, timely and clear information, with Board and Committee papers being circulated sufficiently in advance of meetings.

The Board and its committees are kept informed of corporate governance and relevant regulatory developments as they arise through the Company Secretary.

In addition, we keep ourselves informed about the Group's activities through a structured programme of presentations from each of the businesses within the Group and from a number of Group functional leaders. During the year under review we received presentations from the Group HR Director and the Group Risk Manager, together with specific presentations on key projects for the business.

Directors are updated continually on the Group's business with monthly performance packs and by means of additional presentations on matters including insurance, treasury and health, safety and environmental risk management.

The Audit Committee is routinely briefed on accounting and technical matters by senior management and by the external auditors.

The Remuneration Committee receives updates on remuneration trends and market practices as part of its regularly scheduled business, and during the year under review Willis Towers Watson provided updates on the proposals and reporting requirements for executive remuneration.

Training for directors is available as required and is provided mainly by way of external courses. A register of the training that individual directors have undertaken is maintained by the Company Secretary and is reviewed by the Chairman individually with each director as part of the Board evaluation process. The Board considers that it is the primary responsibility of each director to identify the individual training and development needs he or she requires.

All directors have access to the advice and services of the Company Secretary and each director has been informed that, in the furtherance of his or her duties, they are entitled to seek independent professional advice at the expense of the Company. The Company arranges appropriate insurance cover in respect of legal actions against its directors. In addition, the Company has entered into indemnities with its directors as described on page 106.

### Board evaluation

The Board undertakes a formal review of its performance and that of its Committees each year. Following recommendation by the Nomination Committee during the year, the Board commissioned an externally-facilitated review, conducted by Condign Consulting Limited, with no other connection to the Company.

The review consisted of attendance at a Board meeting by Duncan Reed of Condign Consulting and one-to-one meetings with each of the Directors and the Company Secretary.

The review and meetings were conducted towards the latter end of the year under review and a report was prepared which was discussed in detail by the Board in the July 2016 meeting. Areas for focus and improvement were identified and agreed, further details of which will be disclosed in the 2017 Annual Report.

Additionally, Ricardo's auditors and remuneration consultants provide an evaluation on the performance of our Audit and Remuneration Committees respectively.

Overall, the conclusion from the evaluation and appraisal process was positive, with each director actively contributing to the effectiveness of the Board and the Committees of which he or she is a member.

### Board committees

Our Board has Nomination, Audit and Remuneration Committees. Written terms of reference for each committee are reviewed annually and are available on our website, [www.ricardo.com](http://www.ricardo.com) or on request from the Company Secretary.

## REMUNERATION Composition

The Remuneration Committee, which is chaired by Peter Gilchrist, comprises the independent non-executive directors, Ian Lee, Malin Persson (appointed 4 January 2016), Laurie Bowen (appointed 1 July 2015) and Sir Terry Morgan. David Hall was also part of the Remuneration Committee before he retired from the Board on 4 November 2015.

### Responsibilities

During the year, the Committee had five scheduled meetings. The work of the Committee, including the Chairman's Overview, is described in the Directors' Remuneration Report on pages 88 to 105. The Directors' Remuneration Report is the subject of a binding vote by shareholders at the 2016 Annual General Meeting.

## ACCOUNTABILITY

This Report provides shareholders with a clear assessment of the Group's and Company's position and prospects, supplemented, as required, by other periodic financial and trading statements.

The Board's arrangements for the application of risk management and internal control principles are detailed on pages 40 to 42. The Board has delegated oversight of the relationship with the Group's and Company's external auditors to the Audit Committee. Their work is outlined in the Audit Committee report on pages 83 to 87.

## Nomination Committee



### CHAIRMAN'S OVERVIEW

A key focus during the year has been the appointment of two additional non-executive directors. These appointments were managed in conjunction with recruitment consultants, the JCA Group. Further details of this process are included in the Responsibilities section below.

In addition, the Committee conducted a competitive bidding process for the appointment of a consultant to facilitate an external evaluation of the Board. Following this process, the Committee recommended to the Board the appointment of Condign Consulting Limited.

In the forthcoming year we will seek to further refresh the Board and we continue to focus on talent management and succession planning for management below Board level.

### Sir Terry Morgan, CBE

### COMPOSITION

The Nomination Committee, which is chaired by Sir Terry Morgan, comprises the independent non-executive directors Ian Lee, Laurie Bowen, Peter Gilchrist and Malin Persson, as well as the Chief Executive Officer, Dave Shemmans. David Hall was a member of the Committee until he retired in November 2015. The Committee has one scheduled meeting per year, which is supplemented by ad hoc meetings as necessary and informal meetings between the Committee members.

### RESPONSIBILITIES

The Committee:

- evaluates the balance of skills, knowledge and experience of the Board;
- monitors the leadership needs and succession planning of the Company;
- considers the training needs of the executive and non-executive members;
- regularly reviews the structure, size and composition of the Board; and

- makes recommendations to the Board for executive and non-executive appointments.

Before such recommendations are made, descriptions of the roles and skills required in fulfilling these roles are prepared for particular appointments. To attract suitable candidates, appropriate external advice is taken and interviews conducted by at least two members of the Nomination Committee to ensure a balanced view.

The search for our new non-executive directors during the year was managed with the assistance of recruitment consultants the JCA Group, who have signed up to the voluntary Code of Conduct for executive search firms. The JCA Group provided a shortlist of candidates who were interviewed by Sir Terry Morgan, Dave Shemmans, Ian Lee and Peter Gilchrist before it was agreed to offer the roles to Laurie Bowen and Malin Persson. Laurie has undertaken an extensive induction programme to ensure a rounded understanding of the business and our ambitions. Laurie joined the Board as non-executive director on 1 July 2015. Malin Persson's induction has and will follow the same format as Laurie's. The JCA Group have no other connection with the Company.

When an appointment of a non-executive director is made, a formal letter is sent setting out clearly what is expected regarding time commitment, committee membership and involvement outside Board meetings. The chosen candidate is required to disclose to the Board any other significant commitments before the appointment can be ratified.

The Committee recognises the need for diversity, in its broadest sense, when considering the composition of the Board. Diversity in all its aspects, including gender diversity, continues to be important to the Company.

The Board's policy on diversity is set out on page 80, and the details of female representation elsewhere within the Group is set out on pages 32 and 33.

The Chairman of the Committee is the Chairman of the Board, Sir Terry Morgan, except when a new Chairman of the Board is being sought, when it is the Senior Independent Director.

Non-executive directors, including the Chairman, are subject to rigorous review when they continue to serve on the Board for any term beyond six years.

### SUCCESSION PLANNING

Name	Date of Appointment	Tenure
Dave Shemmans	April 2005	11 years
Ian Gibson	July 2013	3 years
Mark Garrett	July 2008	8 years
Sir Terry Morgan, CBE	January 2014	3 years
Peter Gilchrist, CB	December 2010	6 years
Ian Lee	August 2008	8 years
Laurie Bowen	July 2015	1 year
Malin Persson	January 2016	6 months

The Committee has spent time looking at succession planning for the executive director team as well as for the Board over the medium term. We have also discussed talent management and succession planning for the top managers in the business.

## Audit Committee



### CHAIRMAN'S OVERVIEW

The Audit Committee has continued to take an active role in discussing and evaluating risk, as delegated by the Board, to ensure that appropriate challenge and guidance is provided to management.

As in previous years, the Committee has again reported its key considerations in respect of the significant accounting judgements taken by management during the year. The Group has continued to integrate four businesses during the year that had been acquired as of the date of the Committee's last report, the most complicated and notable of which was the acquisition of the Lloyd's Register Rail ('LR Rail') business from the Lloyd's Register Group.

As a result of these activities, the Committee considered the implications on risk, internal audit and associated accounting matters such as the appropriateness of the accounting in respect of those acquisitions.

In addition, the Committee reviewed with executive management the work undertaken in connection with the provision of a viability statement and has recommended the approval of the statement to the Board. The viability statement has become applicable to the Group for this year ended 30 June 2016.

### Ian Lee

## COMPOSITION

The Audit Committee, which is chaired by Ian Lee, comprises the independent non-executive directors, Peter Gilchrist, Laurie Bowen and Malin Persson. David Hall also attended the July and September Committee meetings before he retired from the Board on 4 November 2015.

The Committee's Chairman, Ian Lee, has recent and relevant financial experience and a professional accountancy qualification as considered desirable by the Financial Reporting Council's Guidance on Audit Committees, issued in April 2016. The Chairman, executive directors and the Company's external auditors have standing invitations to attend all Committee meetings. In addition, the Committee meets our external auditors and the Head of Internal Audit without management being present at least once a year. The Committee has three scheduled meetings per year and ad hoc meetings as required.

## RESPONSIBILITIES

The Committee is established by, and is responsible to, the Board. Its main responsibilities are to:

- Monitor and be satisfied with the truth and fairness of the Group's consolidated and Company's standalone financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards, the law and the Listing Rules of the UK Listing Authority;
- Review the Group's risk profile and the effectiveness of the Group's risk management processes, internal controls and systems;
- Review the effectiveness of the internal audit function and to ensure that it is appropriately resourced;
- Make recommendations to the Board in relation to the appointment and re-appointment of the external auditors and their remuneration, before appointment or re-appointment by the shareholders in general meeting;
- Review the scope and planning of the external audit and be satisfied with the auditors' independence, objectivity and effectiveness on an ongoing basis;
- Review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy;
- Oversee the process that executive management used to enable the Board to confirm the operational and financial viability of the Group for a period of three-years from the date of this report;
- Establish and oversee the Company's arrangements for employee disclosure and fraud prevention arrangements within the Company; and
- Implement the policy relating to any non-audit services performed by the external auditors.

The Chairman of the Audit Committee meets regularly with the Head of Internal Audit and executive management on matters of risk, controls, audit and accounting.

The Audit Committee receives reports from management and internal audit on the effectiveness of the system of internal controls

and risk management systems. The Committee also receives from the external auditors a report of matters arising during the course of the audit which the auditors deem to be of significance for the Audit Committee's attention.

The Committee has completed its review of the effectiveness of the Group's systems of internal control during the year and up to the date of the Annual Report, in accordance with the guidance on internal control published by the FRC. The Committee confirms that no significant failings or weaknesses were identified in the review.

The Committee meeting in September 2016 carried out a full review of the year-end consolidated financial statements and of the audit, based upon reports prepared by the Chief Financial Officer and the external auditors, together with taking into account any significant accounting policies, any changes to them and any significant estimates or judgements.

Management are challenged as to the existence of any significant or unusual transactions where the accounting treatment could be open to different interpretations. A similar, but less detailed review is carried out in February when the Interim Report is considered.

The Committee also reviewed the processes to assure the integrity of the Annual Report and Accounts, in particular that the information presented in the report, when taken as a whole, is fair, balanced and understandable and contains the information necessary for shareholders to assess the Group's performance, business model and strategy.

In April 2016 an unscheduled meeting was held to consider management's work to assess the longer-term viability of the Group and consider the statement disclosed within the Annual Report and Accounts, which was subsequently approved at the July meeting (not included in the table on page 79).

The February 2016 meeting considered the Company's approach to risk appetite and the risk profile of the Group, and amongst other agenda items, initially considered the implications of the requirement to disclose a viability statement, as noted above.

The July 2015 meeting focused on the risk management process, the risk profile, terms of reference, the results of internal audits for the year, the plan for the following year, and the systems for internal control. It also reviewed the ethics and whistleblowing processes.

The Audit Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Company and to obtain external legal or other independent professional advice as is deemed necessary by it. The topics covered by the Committee during the year under review included:

- Review of any significant financial reporting issues and judgements in respect of the condensed interim and consolidated year-end financial statements;
- Review of any significant matters raised by the internal auditors;
- Review of risk management processes and impact assessment on the risk profile of the Group as a result of recent acquisitions;
- Review of the assessment performed and confirmation made in connection with the viability statement;
- Consideration of the audit fee and the balance between audit and non-audit fees;
- Annual review of the terms of reference of the Committee;
- Evaluation of auditor independence and effectiveness;

- Recommending the re-appointment of the external auditors; and
- Review of the effectiveness of internal control systems.

### Significant financial reporting issues considered by the Audit Committee

The Committee receives and considers reports from the Chief Financial Officer and senior management in relation to the critical accounting judgements, key sources of estimation uncertainty, proposed disclosure of these in the 2016 Annual Report and Accounts, and on the outcome of the half-year review and annual audit.

The Committee supports PricewaterhouseCoopers LLP in displaying the necessary professional scepticism their role requires. Following discussions with management and the external auditor, the Committee approved the critical accounting judgements and proposed disclosure.

The Committee considered the following significant issues and judgements in approving the 2016 financial statements:

### Contract accounting and performance

The Group derives a significant proportion of its revenue from fixed-price contracts that may extend for a substantial period of time. All contracts are based on detailed proposals issued to clients which are approved in accordance with the Group's authority limits, which may include Board approval where contract values dictate. Revenue and margin performance is measured based on costs incurred to date as a percentage of total expected costs. Management judgement and experience is required to determine the completeness of those forecasts, the recoverability of the costs incurred and the revenue recognised on contracts. Unforeseen future events may adversely impact the accuracy of those forecasts and recoverability judgements.

Project risk is assessed and determined at the proposal stage of a contract and is refreshed throughout the life of a contract on a regular basis. The risk rating of a contract is categorised into five levels, with one being the lowest and five being the highest. The risk category of a contract is determined from the application of quantitative and qualitative criteria. As a contract progresses the project is allocated a 'traffic-light' -based colour rating to categorise its performance against a number of factors, including cost, schedule, customer relationship, availability of resources and technical complexity.

High-risk contracts (Category 4 and 5 contracts) which experience significant challenges are categorised internally as 'Red' contracts, which are monitored and controlled at the senior management level and reported as appropriate to the Board as part of the monthly performance review. Net Group project over- and under-spends are also monitored and reported to the Board on a monthly basis. A summary of these 'Red Cat 4/5' contracts is presented bi-annually by senior management to the Committee at the February and September meetings, whereby the significant judgements taken are reviewed, challenged and evaluated. Following the September review, the Committee satisfied itself with the judgements taken by management with regards to the Red Cat 4/5 contracts. In addition, these contracts were subjected to a more focused level of audit work during the external audit process.

### Acquisition accounting for LR Rail

During the year, the Group completed the acquisition of the Lloyd's Register Rail ('LR Rail') business, operating assets and employees from the Lloyd's Register Group. As part of the LR Rail acquisition, the Group also acquired the interests from all partners in a joint venture operation in China. Total consideration paid for LR Rail was £46.3m, including purchase price adjustments for cash, debt-like items and normal levels of working capital.

Acquisition accounting is complex and involves significant accounting judgements. In accordance with International Financial Reporting Standards, adjustments have been made to the identifiable assets and liabilities on acquisition to reflect their fair value. These adjustments include the recognition of customer-related intangible assets of £13.1m and technology assets of £1.3m, with resulting goodwill of £24.2m. Further details are provided within Note 12, 'Acquisitions', to the financial statements.

Acquisition-related expenditure for LR Rail of £3.4m has been charged to the Consolidated Income Statement for the year ended 30 June 2016. Acquisition-related expenditure includes £1.6m for costs associated with the integration of the LR Rail businesses, dual-running costs incurred during a transitional services period with Lloyd's Register, as well as £1.8m for amortisation of the acquisition-related intangible assets. These costs have been included within specific adjusting items, details of which are presented within Note 4 to the financial statements.

The Committee received reports and analysis from senior management outlining the positions taken and judgements made with regards to the fair value of assets and liabilities, goodwill and specific adjusting items. The reports and analysis were reviewed, critically evaluated and challenged. The Audit Committee was satisfied with the appropriateness of the positions and judgements taken on the acquisition accounting. The acquisition accounting has also been a key focus for the external auditor for the year ended 30 June 2016.

### Capitalisation and carrying value of development costs

Certain directly attributable costs incurred in the development of an intangible asset are capitalised. These costs are recognised as an asset once the Group has determined that it has the intention and the necessary resources to complete the relevant project, and it is probable that the resulting asset will generate economic benefits for the Group and the attributable expenditure can be measured reliably. Determining whether it is probable that the resulting asset will generate economic benefit requires management judgement.

During the year ended 30 June 2016, £3.2m of development costs were capitalised. The net book value of development assets as at 30 June 2016 was £8.4m.

The Committee received reports from senior management detailing their analysis and the assumptions used when assessing whether the costs incurred during the year met the requirements for capitalisation under IFRS. The reports also assessed whether future economic benefits support the recoverability of all development assets. The Committee was satisfied that both the level of capitalisation during the year and the carrying value of the development assets was appropriate. In addition, this matter was a key focus for the external audit.

### Deferred taxation

The Group holds a £10.4m deferred tax asset in relation to accumulated tax losses and credits as outlined in Note 25, 'Deferred tax', to the financial statements. A key management judgement is the extent to which deferred tax should be recognised in respect of these accumulated tax losses and credits and recovered against future profits.

The Committee received reports and detailed analysis from senior management which included the assumptions used when assessing the recoverability of the deferred tax asset. The Committee critically evaluated and challenged the appropriateness of management's business plans and expectations which underpin future taxable profits. The Committee was satisfied that the carrying value of the deferred tax asset was appropriate. In addition, this matter was a key focus of the external audit.

### Internal audit

As set out in the Strategic Report on page 40, internal audit is considered by the Committee to be a key function for effective risk management. Internal audit and risk comprises both the Group risk and internal audit function. Whilst Group risk facilitates and manages the risk process that is ultimately owned by the Board, internal audit is accountable to the Audit Committee.

Internal audit is centrally managed and led by suitably skilled staff from head office or parts of the business independent from the business or function being audited. It is resourced by staff from around the Group with suitable skills, experience and independence from the area they are auditing.

Where relevant, external specialists are used to supplement internal resources when specialist knowledge is required. This approach not only ensures independence in the process but also the relevance of the recommendations and the sharing of best practice around the Group.

The following examples illustrate how internal audit work supports Group risk whilst driving improvements to our control environment and adding value in core business areas.

- Project reviews look at a range of risk and process control areas across projects in divisions: these reviews identify best-practice techniques which can be shared across divisions, and lessons learned have been applied;
- Selected in-depth process reviews evaluate control risks and efficiency, leading to revaluation of risks during the risk review processes; and
- Testing of controls and process awareness in our Fraud and Bribery Risk Assessment.

Management actions from all of our internal audits are tracked to completion and the status of these actions is reported to the Audit Committee to ensure that the risks identified are appropriately addressed.

As part of the annual process the Committee's review includes:

- The internal audit process, the audit plan and resources;
- The internal audit reports and management's response to the findings and recommendations; and

- Meetings with the Head of Internal Audit without management being present; additionally, the Head of Internal Audit is invited to attend audit committees where considered appropriate.

The Audit Committee considers that the internal audit process is an effective tool in the overall context of the Company's risk management system.

### Whistleblowing, ethics and fraud prevention

Internal audit scope includes a review of compliance with Group policies, including on established whistleblowing, ethics (including Bribery Act related matters) and fraud prevention policies.

The whistleblowing policy is designed to deal with concerns, which must be raised without malice, in relation to specific issues which are in the public interest and which fall outside the scope of other Company policies and procedures. The whistleblowing policy is overseen by the Chairman of the Audit Committee, and has been reviewed during the year and is promoted via the staff briefing process and the Company's intranet site.

One matter was reported to the Committee during the year and following investigation by senior management, it was established that there was no case to answer.

### External audit

PricewaterhouseCoopers LLP were appointed as external auditors in 1990 and no formal tender for audit services has been conducted since appointment. One of the Committee's duties under its Terms of Reference is to ensure that at least once every ten years, commencing 1 July 2013, the audit services contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms.

The auditor's quality and effectiveness are assessed on their own merits on an annual basis after the completion of each audit. Subject to continued satisfactory performance in this regard, it is expected that the audit services contract will be put out to tender no later than when the five-year rotation cycle of the incumbent audit partner draws to a conclusion in 2018.

The external auditors are required to give the Committee information about policies and processes for maintaining their independence and compliance with requirements regarding the rotation of audit partners and staff.

The Committee considers all relationships between the external auditors and the Company to ensure that they do not compromise the auditors' judgement or independence, particularly with the provision of non-audit services where a policy relating to these has been agreed by the Board.

Essentially, the external auditors would be excluded from carrying out non-audit services if they are put in the position of auditing their own work, making management decisions for the Company, if a mutual interest between the Company and the auditors is created, or if the auditors take on the role of an advocate for the Company.

Our policy in respect of services provided by the external auditors is as follows:

### Audit-related services

The external auditors are invited to provide services which, in their position as auditors, they must or are best placed to undertake. This includes review of the interim results and any other review of the accounts for regulatory purposes; assurance work related to compliance and corporate governance, including high-level controls; work in connection with listing particulars and prospectuses (if required); regulatory reviews or reviews commissioned by the Audit Committee; and accounting advice and reviews of accounting standards.

### Tax consulting

In cases where they are best suited, we use the external auditors provided that such advice does not conflict with the external auditors' statutory responsibilities and ethical guidance.

### General consulting

There may be occasions when the external auditors are best placed to undertake other accounting, advisory, consultancy and due diligence work on behalf of the Company due to their in-depth knowledge of the Company. However, the following are specifically prohibited:

- Work related to accounting records and financial statements that will ultimately be subject to external audit;
- Management of, or significant involvement in, internal audit services;
- Secondments to management positions that involve any decision-making;
- Any work where a mutuality of interest is created that could compromise the independence of the external auditor; and
- Any other work which is prohibited by UK ethical guidance.

If the external auditors carry out non-audit services and the cost of these services is estimated to exceed £50,000 or in aggregate more than 100 percent of the audit fees, prior approval by the Committee is required.

The split between audit and non-audit fees for the year ended 30 June 2016 and information on the nature of non-audit fees appear in Note 6, 'Auditors' remuneration', to the financial statements.

Both the Board and the external auditors have for many years had safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised.

The Committee carried out a formal effectiveness assessment of the external auditors, including:

- The continuity and objectivity of the audit partner and audit team;
- Effectiveness of audit planning and execution;
- The role of management in ensuring an effective audit;
- Communication with and support of the Audit Committee; and
- The formal reporting of the auditors.

The assessment was completed with input from an internal questionnaire completed by senior and relevant finance staff. The Committee also considered the audit firm's annual transparency report on its own internal quality control procedures.

The Audit Committee confirms that during the year it has maintained formal and transparent arrangements for considering corporate reporting, risk management and internal control and for maintaining an appropriate relationship with the Company's auditors.

The Audit Committee has recommended to the Board that the reappointment of PricewaterhouseCoopers LLP be proposed to shareholders at the 2016 Annual General Meeting.

## RELATIONS WITH SHAREHOLDERS

### Shareholder dialogue

The Chief Executive Officer and the Chief Financial Officer regularly meet with institutional shareholders to foster a mutual understanding of objectives, answer their questions and to keep them updated on our performance and plans.

These meetings range from one-to-one discussions to group presentations and investor conference calls following our results announcements. Any presentations provided in these meetings are uploaded to our website and comments are fed back to us.

Additionally, the Chairman communicates with key shareholders at least once a year and both the Chairman, the Senior Independent Director and the Chairman of the Audit Committee are available for discussions with major shareholders if required. The Chairman also looks to shareholder groups' annual voting guidelines to better understand their policies on governance and voting.

For an independent view, Investec, the capital markets advisory firm, provides us with regular reviews of major investors' views on company management and performance. Surveys of shareholder opinion are normally carried out following announcements of results and are circulated to the Board.

## Ricardo's AGM

The Notice of Meeting sets out the resolutions being proposed at the Annual General Meeting (3 November 2016 at 10.00am). Last year all resolutions were passed with votes ranging from 99% to 100%. Shareholders unable to attend the AGM are encouraged to vote in advance of the meeting.

The Annual General Meeting ('AGM') in October 2015 was attended by all Directors in office at the time of the meeting. The Directors encourage the participation of all shareholders, including private investors, at the AGM and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting and displayed on the Company's website.

Ricardo's website ([www.ricardo.com](http://www.ricardo.com)) contains a wealth of information, including:

- latest Ricardo news, Stock Exchange announcements and press releases; and
- Annual Report and Investor presentations.

The Directors' Corporate Governance Statement was approved by the Board on 14 September 2016 and signed on its behalf by:



**Sir Terry Morgan, CBE**  
Chairman



**Ian Lee**  
Chairman of the Audit Committee