

# Corporate governance report

The Group provides a wide range of technology-based consultancy and support services. An effective system of corporate governance is fundamental to fulfilling the Group's corporate responsibilities and the achievement of its financial objectives.

The policy of the Board of WS Atkins plc is to manage its affairs in accordance with the Principles of Good Governance and the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance in the UKLA Listing Rules.

Following the publication of the Higgs Report in January 2003 and the proposed integration of these recommendations into the Listing Rules in July 2003 the Board will review its corporate governance framework during the latter half of 2003.

The provisions of the Code applicable to the Group are divided into four parts:

## Board and committee structure

### Board

The Board of WS Atkins plc is the body responsible for corporate governance, for establishing policies and objectives and for the stewardship of the Group's resources. It is the Group's policy that the roles of Chairman and Chief Executive are separate. However, as an interim measure following the resignation of the former Chief Executive, since 1 October 2002, these roles have been temporarily combined until the new Chief Executive is appointed on 1 October 2003. Currently there are two Executive Directors and four Non-Executive Directors. Their profiles are given on page 16.

It is the opinion of the Board that the Non-Executive Directors are independent of management and have no business or other relationship which could interfere materially with the exercise of their judgment.

The Board meets regularly throughout the year and met more than 12 times during 2003. In addition, Directors meet as members of relevant Committees. There is a formal schedule of matters reserved specifically to the Board for decision and delegating specific responsibilities to Committees. Each of the Committees

has formal written Terms of Reference which are reviewed by the Board at regular intervals.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. There is an agreed procedure for Directors to obtain independent professional advice. Board members receive appropriate guidance to strengthen their understanding of the business and their legal obligations.

In accordance with the Group's Articles of Association, one third of the Board is required to retire by rotation each year. In addition, all those appointed during the year will stand for re-election at the next General Meeting, ensuring that each Board Member faces re-election at regular intervals.

### Group Executive

The Group Executive meets regularly throughout the year, at least ten times. It is responsible for the management of the business and is chaired by the Chief Executive. Its members currently comprise the Group Finance Director, the Managing Directors of the Business Units, the Human Resources Director and the Company Secretary.

The respective roles of the Board and Group Executive are discussed further under Internal control on page 21.

### Audit Committee

The Audit Committee comprises Frances Heaton, James Morley and Struan Robertson, all Non-Executive Directors. Frances Heaton is Chairman. Paul Marsh was a member until his resignation. The Committee meets at least three times a year. Its prime tasks are to review the scope of the external audit, to receive reports from the external and internal auditors and to review the half yearly and annual financial statements before they are presented to the Board, focusing in particular on accounting policies and compliance, areas of management judgment and estimates, and the effectiveness of internal control procedures.

The key elements of processes used by the Audit Committee to review the effectiveness of the system of internal control include:

- discussion with Management on risk areas identified by Management and/or the audit process;
- review of internal and external audit plans;
- review of significant issues arising from internal and external audits; and
- review of significant Group risks reported by the Group Risk Committee.

### Auditors

The Audit Committee's Terms of Reference address the provisions in the Combined Code in relation to audit committees and auditors. The Board and the Audit Committee monitor the cost effectiveness of audit and non-audit work performed by the auditors and also consider the potential impact, if any, on the corporate relationship with the auditors before awarding any non-audit work.

The auditors continue to operate procedures to safeguard against the possibility that the auditors' objectivity and independence could be compromised. This includes the use of independent concurring partners, use of a technical review board (where appropriate) and annual independence confirmations by all staff. The auditors report to the Audit Committee on matters including independence and non-audit fees on an annual basis. In addition, the role of the audit partner is rotated on a periodic basis.

### Nomination committee

The Nomination Committee comprises the Chairman and up to four other Directors the majority of whom are Non-Executive Directors. It is responsible for the nomination for Board approval of candidates for Board appointment.

## Remuneration committee

The Remuneration Committee comprises Struan Robertson, Frances Heaton and James Morley, all Non-Executive Directors. Struan Robertson is Chairman. Roger Umney was Chairman until his resignation. Paul Marsh was a member until his resignation. The Committee is also attended by the Chairman, Chief Executive and Human Resources Director, except when their own remuneration is under consideration. The Committee meets at least twice a year. The Committee reviews the Group's policy on the Executive Directors' remuneration and terms of employment and makes recommendations upon this to the Board. It also assists in the formulation of remuneration for other senior Managers. The Remuneration report is shown on pages 25 to 32 and includes information on the Directors' service contracts.

## Directors' remuneration

The Remuneration report on pages 25 to 32 includes details of the remuneration policy and of the remuneration of the Directors.

## Internal control

The Directors are responsible for the Group's system of internal financial and operating controls which are designed to meet the Group's particular needs and aim to safeguard the Group's assets and ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement and loss.

In 2000, the Group commenced a major initiative to replace the core Finance and Human Resources systems for its UK operations and to establish a new Shared Services Facility (SSF) at Worcester. These new core systems and the SSF became operational in January 2002. The Board recognised the risks associated with the changes and prior to implementation put in place further review processes. Additional short-term debt facilities were obtained from the Group's lending banks to allow for the expected increase in working capital.

The introduction of these new systems, in particular the SSF, proved substantially more problematic and disruptive than expected. These problems impacted, in particular, the Group's cash flow. The Board and management recognised the severity of the problems and a team was set-up to address and monitor the various issues arising. The results of this team's work were regularly reported to the Board, and when the underlying nature of some of the issues became clear the Board took immediate action and advised shareholders.

The problems with the new systems that had a material affect upon the financial results have now been identified and addressed. Remedial action is being pursued on the outstanding issues.

Key features of the system of internal control are as follows:

### Group organisation and culture

By its statements and actions the Board emphasises a culture of integrity, competence, fairness and responsibility.

The Board focuses mainly on strategic issues, senior management and financial performance. The Group Executive concentrates on operational performance, operational decision making and the formulation of strategic proposals to the Board. The Managing Directors of the Business Units manage their businesses with the support of senior managers whose appointment requires endorsement by the Group Executive. The Board determines how the Group Executive and the individual businesses operate within a framework of delegated authorities and reserved powers which seeks to ensure that certain transactions, significant in terms of their size or type, are undertaken only after high level review.

## Financial reporting

Annual budgets for individual businesses and the Group are prepared and approved by the Board. The financial performance of individual businesses is reported regularly and compared to annual budgets. The Group reports to shareholders on a half-yearly basis. Forecasts for the Group are prepared and reviewed by the Board regularly. However, the difficulties encountered with the new systems meant that for the first part of the year reliable forecasts for the Group were not available.

## Individual business controls

Individual businesses complete an annual self-certification statement. Responsible managers personally confirm the adequacy of their systems of internal control and their compliance with Group policies. The statement also requires the reporting of any significant control issues that have emerged so that areas of Group concern may be identified, addressed and experience shared. Apart from the issues raised by the implementation of the new systems referred to above, no significant control issues were identified as at 31 March 2003.

## Project and contract control

Procedures seek to ensure that risks are identified through the lifecycle from bidding to completion. Regular review procedures are in place to ensure that issues are appropriately reported to the Board. Commercial procedures have been strengthened during the year by the adoption of a Commercial Risk & Audit Framework which requires peer review to be carried out for all significant bids and opportunities, or where significant investment decisions have to be taken.

## Functional speciality reporting

The Board assesses the risks facing the business on an ongoing basis and has identified a number of key areas which are subject to regular reporting to the Board such as Environment, Health & Safety, Human Resources, Insurance, PFI/PPP investments and Treasury.

# Corporate governance report continued

## Risk management review

The Board assesses risk management throughout the Group, aided by the Group Risk Committee and detailed reviews of internal controls and risk management. A new Group Risk Management Framework has been implemented that requires businesses formally to record all significant risks facing each business unit. A summary of the key risks facing the Group is reviewed regularly by the Board.

## Internal Audit

The Internal Audit function within the Group is required to undertake a programme to address internal control and risk management processes with particular reference to the Turnbull report. Its conclusions are advised to the relevant level of management and the function has a direct reporting responsibility to the Audit Committee acting on behalf of the Board. During the first part of the year, the Internal Audit function was used substantially to support the Group's new financial reporting processes.

The Board confirms that there is a continuing process for identifying, evaluating and managing the risks faced by the Group and that the process has been in place for the year under review and remains current. A full review of the internal control and risk management framework was undertaken during the year and a number of steps taken to re-inforce it, as detailed above.

The Audit Committee has reviewed the operation and effectiveness of the framework, which operated during the period covered by the Directors' report and Financial statements, up to and including the date of approval by the Board.

## Relations with shareholders

Communication with all shareholders is given a high priority. The Annual Report and Interim Reports are sent to all shareholders and all shareholders are invited to the Company's Annual General Meeting, which is attended by the full Board.

The Group also has a website ([www.atkinglobal.com](http://www.atkinglobal.com)) that contains information on its activities, including recordings of the Annual and Interim results presentations to City analysts and institutional investors.

The Board welcomes the views of all shareholders. The Group has an on-going programme of dialogue and meetings between the Directors and its major institutional shareholders, where a wide range of relevant issues including strategy, performance, management and Corporate Governance are discussed.

The Annual Report is designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's statement, Operating review and Financial review on pages 4 to 15 provide an assessment of the Group's affairs and position and will be supported by a presentation to be made at the Annual General Meeting.

## Compliance with the Combined Code

The Company has complied throughout the year with the provisions stated in Section 1 of the Combined Code except from 1 October 2002 when the roles of Chairman and Chief Executive were temporarily combined as an interim measure pending the appointment of the new Chief Executive on 1 October 2003.

Approved by the Board of Directors and signed on its behalf



**Amanda Massie**  
Company Secretary  
26 June 2003