Corporate governance report

The first version of the UK Corporate Governance Code was produced in 1992 by the Cadbury Committee. Its paragraph 2.5 is still the classic definition of the context of the Code:

Corporate governance is the system by which companies are directed and controlled. Boards of Directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting.

As an AIM listed company, IDS is not obliged to comply with the UK Corporate Governance Code published in September 2012 ("Code") but instead uses its provisions as a guide, only as considered appropriate to the circumstances of the Company. The Code defines corporate governance as "what the board of a company does and how it sets the values of the company, and is to be distinguished from the day-to-day operational management of the company by full-time executives".

The Board believes that good corporate governance, actively applied, promotes, inter alia, accountability, integrity, clear communication, a performance-based culture and a clear understanding of roles and responsibilities. These features of the Company's culture underpin the execution of the Company's strategy and therefore the long-term success of the Company. The Board is committed to achieving and maintaining high standards of corporate governance and therefore fully supports the principles of the Code. In adopting the principles of good governance, the Directors have taken into consideration the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 (the "QCA Code"). The QCA Code adopts key elements of the Code, current policy initiatives and other relevant guidance and then applies these to the needs and particular circumstances of small- and mid-size quoted companies on a public market. The QCA Code identifies 12 principles that will enable companies to deliver growth in long-term shareholder value by maintaining a flexible, efficient and effective management framework within an entrepreneurial environment. Our compliance with these 12 principles is set out below.

Setting out the vision and strategy
The Company strategy is initiated and developed by the Chief Executive Officer and Executive Team. The Board has recently refined its strategy and long-term vision for the Company and this is set out in the Chairman's statement and Operating review of this Annual Report. The Executive Team, led by the Chief Executive Officer, is responsible for implementing this strategy and for generally managing and developing the business. Changes in strategy require approval from the Board.

Managing and communicating risk and implementing internal control
Ultimate responsibility for the process by which risk in the business is managed rests with the Board, although the annual review will be conducted by the Audit Committee. The principal risks and uncertainties facing the Group, as well as mitigating actions, are set out on pages 26 to 29 of this Annual Report.

The Executive Team prepares and reviews a detailed risk register on a quarterly basis, by function. This risk register details specific risks to the Group, the quantification of those risks in terms of probability and impact, and mitigating actions required to manage these risks. The risk register assigns responsibility for each risk and mitigation plan to one or more members of the Executive Team. The risk register is then reported to the Audit Committee at least biannually, which will report its findings to the Board.

Articulating strategy through corporate communication and investor relations
The Board recognises the importance of maintaining good communications with its shareholders. The Group engages a firm of financial PR consultants to provide another channel of communication to shareholders, potential investors and analysts. Throughout the year, the Board maintains a regular dialogue with institutional investors and brokers' analysts, providing them with such information on the Company's progress as is permitted within the guidelines of the AIM rules and requirements of the relevant legislation. In particular, twice a year, at the time of announcing the Group's half and full year results, they are invited to briefings given by the Chief Executive Officer and Group Finance Director. The Board believes that the Annual Report and financial statements play an important part in presenting all shareholders with an assessment of the Group's position and prospects.

The Annual Report contains the Chairman's statement, Operational review and Financial review and provides a detailed consideration of the Group's position, prospects and strategy. The Interim report gives an update at the half year. All reports and press releases are published on the Group's website (www.idsplc.com).

Meeting the needs and objectives of your shareholders
The Board is committed to maintaining an open dialogue with shareholders. Communication with shareholders is co-ordinated by the Chief Executive Officer and Group Finance Director in conjunction with the Group's broker.

The Annual General Meeting ("AGM") is the principal opportunity for private shareholders to meet and discuss the Group's business with the Directors. There is an open question and answer session during which shareholders may ask questions both about the resolutions being proposed and the business in general. The Directors are also available after the meeting for an informal discussion with shareholders.

Following the twice-yearly results announcements, detailed feedback is prepared by the Company's financial PR consultants, outlining the views and reactions of investors and analysts.

Meeting stakeholder and social responsibilities
The Board recognises its prime responsibility under UK corporate law is to its shareholders. The Board also understands it has a responsibility towards, inter alia, employees, partners, customers, suppliers and the patients who ultimately benefit from its diagnostic tests. Our corporate social responsibility approach continues to meet these expectations. The Board also understands it has a responsibility to take into account, where practicable, the social, environmental and economic impact of its approach.

Using cost-effective and value added arrangements
The Board has designed the Group's systems of internal control in order to provide the Directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or will be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against misstatement or loss.

The Board has overall responsibility for the Group's systems of internal control and for reviewing its effectiveness. The Group's systems of internal control include regular meetings of management to discuss operational, strategic and risk issues, designed to ensure that the possibility of misstatement is kept to a minimum.

The system in place for financial reporting ensures that the Board receives management accounts, forecast variance analysis and other ad hoc reports on a timely basis.

The Group has not implemented an internal audit function because the Directors believe that in the past the controls in place have been appropriate for the size and complexity of the Group's activities. Going forward, however, consideration will be made as regards to an internal audit function as part of an overall risk management review.

Developing structures and processes
The Executive and Non-executive Directors are collectively responsible for promoting the success of the Company. However, their respective roles are strictly delineated. The Executive Directors have direct responsibility for the business operations of the Company and the Non-executive Directors are responsible for bringing independent and objective judgement to Board decisions, with the Chairman primarily responsible for the effective running of the Board. It is the responsibility of the Chairman to ensure that the Directors receive all of the information necessary for the effective performance of their duties. In the furtherance of their duties, the Directors have access to the advice and service of the Company Secretary and are permitted to take independent professional advice, where necessary, and to undertake any training considered appropriate, both at the Company's expense.

Corporate governance report

The Board has a number of matters specifically reserved for its decision or approval. These include the approval of the interim and annual financial statements, setting strategic direction, budgets and long-term plans. Other areas are detailed below:

- Agreement of Company strategy, which is initiated and developed by the Chief Executive Officer and Executive Team
- Approval of the acquisition or disposal of any subsidiary
- Ultimate responsibility for the process by which risk in the business is managed, although the annual review will be conducted by the Audit Committee, which will report its findings to the Board
- Approval of the Company's share dealing code
- Approval of major capital expenditure
- The introduction of any new share incentive plans or significant changes to existing plans
- Approval of the dividend policy and the declaration of the interim dividend and recommendation of the final dividend
- Any changes relating to the Company's capital structure, including reduction of capital, share issues (except under employee share plans) and share buy backs

IDS's compliance structure is summarised based upon the following three principles:

Prevent	Detect	Respond
Board oversight		
Management responsibility		
Examples of prevention: Risk management Policies and procedures Training and communication Advice and support	**Examples of detection:** Whistle-blowing policy Compliance controls Compliance audits Compliance investigations	**Examples of responding:** Senior level involvement Consequences of misconduct

There is no Compliance Department within IDS and therefore compliance is dealt with at both a Group and functional level, depending on the area. Ultimately, the Board is responsible for all compliance matters.

The Board and the Executive Team is supported on compliance matters by both internal and external resources. Externally, the Group utilises legal counsel, regulatory consultants and other experts where it is deemed appropriate.

Being responsible and accountable

The Board is responsible for determining the strategy of the Company. The Chief Executive Officer and his Executive Team implement that strategy. While all Directors share collective responsibility for the activities of the Board, some roles have been defined in greater detail. In particular, the roles and responsibilities of the Chairman and Chief Executive Officer are clearly defined. The Chairman's primary role is to lead the Board, and to ensure that it is independent, effective and complementary. The Chief Executive Officer's primary role is to provide the overall management and leadership of the Company. It is the responsibility of both the Chairman and the Chief Executive Officer to uphold and promote the highest standards of integrity and probity within the Company.

In addition, there are a number of matters reserved for the main Board. Some of the Board's detailed work is delegated to each of the Nomination, Audit and Remuneration Committees. Each of these Committees has their own terms of reference, which may be found on the Group's website at www.idsplc.com.

Having balance on the Board

As at the Group's year end 31 March 2014, the Board comprised of two Executive Directors, a Non-executive Chairman and two other Non-executive Directors. Details of the current Directors are set out on page 32. The composition of the Board is designed to provide an appropriate balance of executive and non-executive experience and skills and will be reviewed regularly. The Board look to meet in a formal manner on a bi-monthly basis at the head office in Boldon, Tyne and Wear and elsewhere, with additional meetings held as required.

A Summary of Board and Committee meetings attended in the 12 months to 31 March 2014 is set out below:

Six Board meetings were held in the year to 31 March 2014.

	Remuneration Committee meetings		Audit Committee meetings		Board meetings	
Director	Attended	Eligible	Attended	Eligible	Attended	Eligible
Dr A F Martin	2	2	2	2	6	6
Dr P O Dahlen	0	0	0	0	6	6
Mr C H F Yates	0	0	0	0	6	6
Dr M L Garrity[1]	0	0	0	0	2	2
Mr A Rousseau[2]	0	0	0	0	2	2
Dr E D Blair	2	2	0	0	6	6
Dr B Wittek[3]	2	2	2	2	6	6
Mr R Sackers	0	0	2	2	5	6

1 Dr M L Garrity resigned as a Director on 20 June 2013
2 Mr A Rousseau resigned as a Director on 20 June 2013
3 Dr B Wittek resigned as a Director on 6 March 2014
4 The Nomination Committee only meets as matters arise

The Chairman is considered by the Board to be independent and is responsible for the running of the Board. The Board also considers Dr E D Blair and Mr R Sackers to be independent. The Executive Directors are Dr P O Dahlen and Mr C H F Yates. The offices of Chairman and Chief Executive are separate.

Before appointment, Non-executive Directors are required to assure the Board that they can give the time commitment necessary to properly fulfil their duties, both in terms of availability to attend meetings and to discuss matters on the telephone.

Under section 175 of the Companies Act 2006 Directors must avoid situations in which they have, or can have, a direct or indirect interest that conflicts with, or may conflict with, the Company's interests unless the matter has been authorised by the other Directors.

Therefore, Directors are required to declare to the other Directors the nature and extent of any direct or indirect interest in a proposed transaction or arrangement with the Company (section 177 of CA 2006) and in any existing transactions or arrangements with the Company (section 182 of CA 2006). The Board has a power to authorise any conflicting interests or potential conflicting interests that are disclosed by a Director.

At every Board meeting Directors are asked to review and make any amendments to existing declarations of any situations that may give rise to Directors' conflicts of interest. Any such notifications are kept in a conflicts register maintained by the Company Secretary and any potential conflicts are reviewed by the Board to determine whether any actual or potential conflict arises and are authorised if appropriate.

Corporate governance report

Having appropriate skills and capabilities on the Board
The Board regularly reviews the composition of the Board to ensure it has the necessary skills to support the development of the business.

There are general requirements of each of the Committees of the Board as follows:

- Audit Committee: All of the members of the Committee should be independent Non-executive Directors and at least one member should have recent and relevant financial experience
- Remuneration Committee: All of the members of the Committee should be independent Non-executive Directors
- Nomination Committee: The majority of the members of the Committee should be independent Non-executive Directors

Board Committees
The Board has established the following Committees, under specific terms of reference:

Audit Committee
The Audit Committee comprises Mr R Sackers, (a qualified accountant and Chairman of the Committee) and Dr A F Martin. The Board feels that this Committee is independent, as members are independent Non-executive Directors. The Audit Committee is responsible for the relationship with the Group's external auditor, the review of the Group's financial reporting and the Group's internal controls.

The Committee will normally meet at least three times a year and is responsible for monitoring the quality of internal control, ensuring that the financial performance of the Company is properly measured and reported on, meeting with the auditor and reviewing reports from the auditor. It meets with the auditor at least twice a year.

The Audit Committee has undertaken an assessment of the auditor's independence, including:

- a review of non-audit services provided to the Group and related fees
- discussion with the auditor of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence
- a review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including regular rotation of the audit partner, and
- obtaining written confirmation from the auditor that, in their professional judgement, they are independent.

An analysis of fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in Note 4 to the financial statements.

The Board is satisfied that the external auditor is independent in the discharge of their audit responsibilities.

Remuneration Committee
The Remuneration Committee comprises Dr E D Blair (Chairman) and Dr A F Martin. It reviews the performance of the Executive Directors, sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of shareholders and the policy set by the Board (on the recommendation of the Committee). The Board itself determines the remuneration of the Non-executive Directors.

The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees. No Director is permitted to participate in discussions or decisions concerning his or her own remuneration. The details of Directors' remuneration and share options are contained within the Directors' remuneration report.

Nomination Committee
The Nomination Committee comprises Dr A F Martin (Chairman) and Dr E D Blair. The Nomination Committee is responsible for reviewing the size, structure and composition of the Board, establishing appropriate succession plans for the Executive Directors and other senior executives in the Group and for the nomination of candidates to fill Board vacancies, where required. The Committee will meet on an occasional basis as matters arise.

Evaluating Board performance and development
In 2014, we intend to conduct a formal annual review into the effectiveness of the Board. The review will initially consist of a questionnaire prepared and subsequently received by the Company Secretary.

During the course of the year, the Board received updates and training from the Company Secretary and various external advisors on a number of corporate governance matters.

Providing information and support
The Chairman ensures that all Directors are properly briefed to enable them to discharge their duties. In particular, detailed management accounts are prepared and copies sent to all Board members every month. In advance of each Board meeting, appropriate documentation on all items to be discussed is circulated to all Directors. There is a rolling agenda incorporating Board presentations from all the functional leaders on a periodic basis, including Assay R&D, Instrument R&D, Operations, HR and Sales & Marketing.

The Chairman, in conjunction with the Company Secretary, ensures that the Directors' knowledge is refreshed through ongoing training and access to publications and information.

It is recognised that situations may arise when a Director may legitimately wish to seek personal advice as to his/her duties and responsibilities. It will normally be appropriate for that advice to be provided by or through the Company Secretary.

Where, for whatever reason, the normal arrangements are inappropriate, any Director may take separate external advice at the Company's expense provided that he/she shall first have agreed the need for this with the Chairman (or in the case of the Chairman, with a Non-executive Director or the Chief Executive Officer) as well as agreeing the identity of the advisor to be approached and a budget for the cost of the advice.

Going concern
The Board has considered the applicability of the going concern basis in the preparation of these financial statements. This included the review of internal budgets and financial results. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason they have adopted the going concern basis in the preparation of the financial statements.

By order of the Board

Andrew Davison LLB
Company Secretary

23 June 2014