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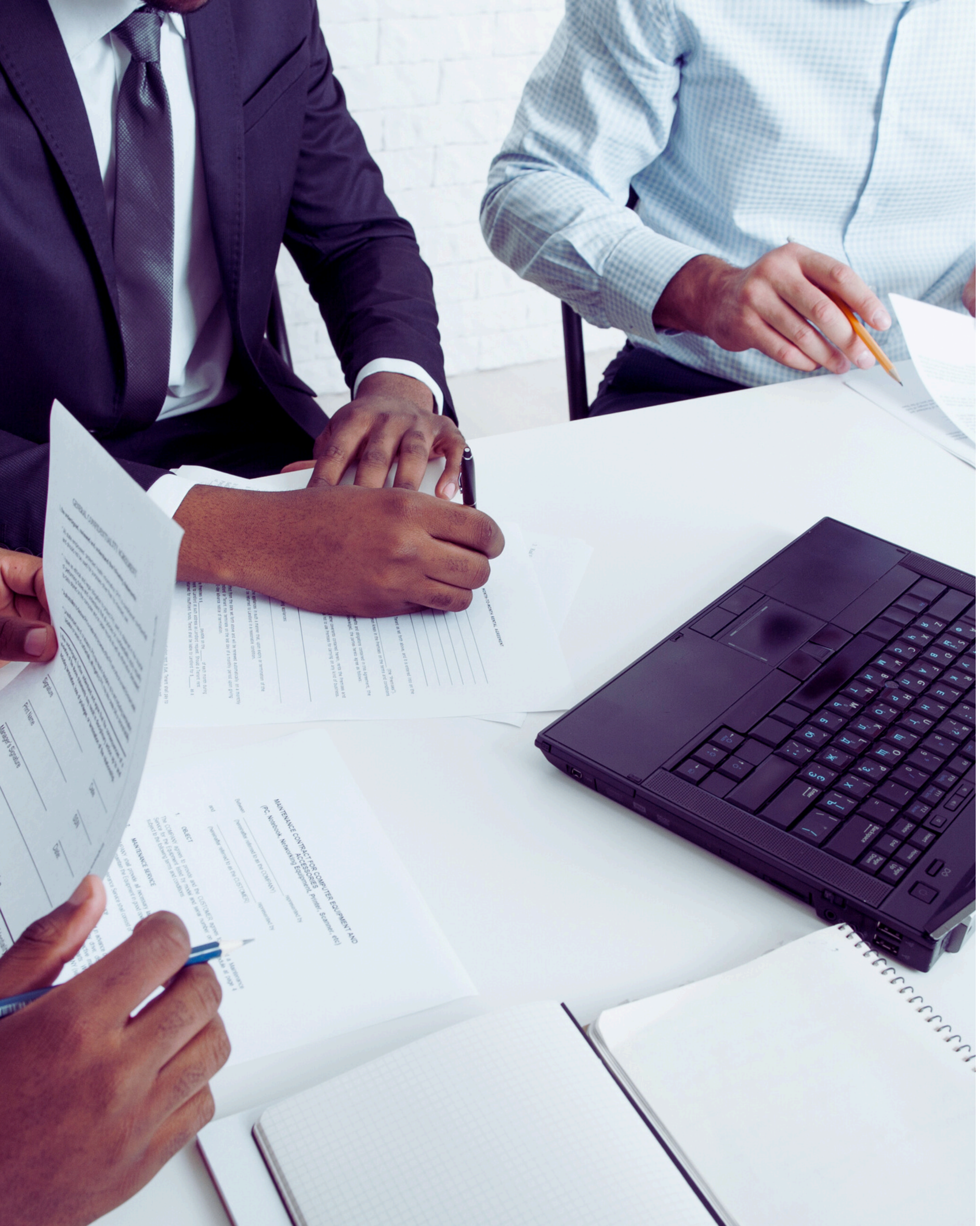
CHARTERED ACCOUNTANTS

Guidance for Strategic Reports

Per the Companies Act



Guidance for Strategic Reports

Per the Companies Act

Section 414A Companies Act 2006 requires the directors of a company to prepare a strategic report for each financial year of the company. However, subsection 1 states that this requirement does not apply if the company is entitled to the small companies exemption.

The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).

The strategic report should reflect the board's view of the company and provide context for the related financial statements.

The guidance recommends that information that is material to shareholders should be included in the strategic report. Immaterial information should be excluded as it can obscure the key messages and impair understandability. The communication principles suggest that strategic reports should be fair, balanced and understandable; be concise; have forward-looking orientation; include entity specific information.

For a financial year in which the company is a parent company, and the directors of the company prepare group accounts, the strategic report must be a consolidated report (ie a 'group strategic report') relating to the undertakings included in the consolidation taken as a whole.

In the case of failure to comply with the requirement to prepare a strategic report, an offence is committed by every person who was a director of the company immediately before the end of the period for filing accounts and reports for the financial year in question and failed to take all reasonable steps for securing compliance with that requirement.

A person guilty of an offence under this section is liable to a fine.

The strategic report must be approved by the board of directors and signed on behalf of the board by a director or the secretary of the company.

'A person guilty of an offence under this section is liable to a fine!'

'The strategic report must be approved by the board of directors'

Sections of the Strategic Report

Index	Medium (unquoted)	Large (unquoted and non-PIE)
A fair review of the company’s/group’s business: • A clear description of the company’s/group’s business operations - consistent with its size and complexity • Including summary of year under review, historical background etc	✓	✓
A balanced, comprehensive analysis of position, performance and development • This should complement the financial statements, but not contradict them • This analysis is the directors’ opportunity to tell the ‘story’ behind the numbers, how the company’s/group’s position/performance has developed over time and how it is likely to do so in the future • It should be free from bias and balanced - meaning negative aspects should not be glossed over • The analysis should be free from jargon. It may help the layperson to understand the company’s/group’s position better than the financial statements can, which necessarily use accounting language	✓	✓
Principal risks and uncertainties • A description of the principal risk and uncertainties facing the company/group, together with an explanation of how they are managed/mitigated • Risks and uncertainties can be internal or external, financial or non-financial. For example, credit risk, employee risk, interest rate risk, forex risk, competition risk etc • These are likely to be the issues that directors spend most time discussing; simply put what ‘keeps the up at night’	✓	✓

Sections of the Strategic Report continued

Index continued	Medium (unquoted)	Large (unquoted and non-PIE)
An analysis using the financial key performance indicators • An analysis of the financial position and performance of the company/group using financial key performance indicators • Together with the analysis of position and performance as above, this should be used to interpret and explain the raw data • If possible, shareholders should not have significant unanswered questions in their minds having read the analysis	✓	✓
An analysis using non-financial key performance indicators • An analysis of the company/group using other key performance indicators (other than financial) - for example environmental and employee matters	⊘	✓
Other information of strategic importance • The strategic report may also contain such of the matters otherwise required to be disclosed in the directors' report as the directors consider are of strategic importance to the company/group (if relevant/applicable)	✓	✓

Sections of the Strategic Report continued

Index continued	Medium (unquoted)	Large (unquoted and non-PIE)
Section 172 Statement • The issues, factors and stakeholders considered relevant in complying with s172 (1)(a-f) and how an opinion was formed • The methods used to engage with stakeholders and understand the issues to which they must have regard • The effect of that regard on the company's/group's decisions and strategies during the year	⃠	✓

(Except those that qualify for the small companies strategic report exemption, meaning those that would be small other than for the fact that they are members of an ineligible group)

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