

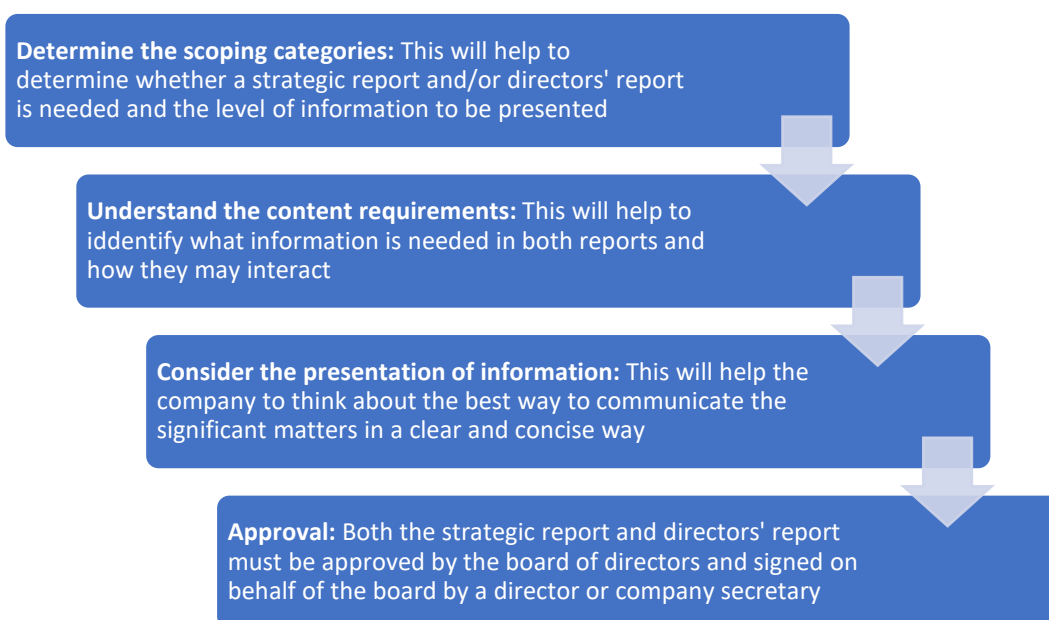
1 Strategic reports and directors' reports (Lecture A797 – 15.50 minutes)

On 16 June 2022, the Financial Reporting Council (FRC) issued an *Update to the FRC's Guidance on the Strategic Report*. This update was primarily issued to incorporate the new climate-related financial disclosures following changes to company law earlier this year. In addition, several other amendments were made to the guidance to maintain alignment with legislation.

ICAEW have published a [helpsheet](#) on the strategic report and directors' report which will assist firms in preparing these reports in accordance with legislative requirements.

1.1 Steps for preparing a strategic report and directors' report

Over time, the reporting requirements for the strategic report and directors' report have become more complex. In larger companies gathering the required information can be a difficult task but the following diagram illustrates how this may be achieved:



1.2 Directors' report

All companies (except for micro-entities) must prepare a directors' report for each financial year.

For small companies the directors' report will be very brief but medium-sized and large companies (and groups) will have to prepare a more detailed directors' report. Small companies are subject to the requirements of The Small Companies and Groups (Accounts and Directors' Report) Regulations (SI 2008/409); whereas non-small entities are subject to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

It is important to emphasise that company law categorises companies not only on their size, but also on their nature so different disclosures will be needed for different categories of company.

Page seven of the ICAEW's helpsheet provides a table outlining the content requirements for the directors' report.

1.3 Presentation of information

Depending on the size of the business, a directors' report is likely to include a wide range of information on various matters. If any matters are of strategic importance to the company or group, they may be included in the strategic report. Where this is done, the directors' report must state this fact and outline the information that has been included in the strategic report, with appropriate cross references.

1.4 Materiality

Most of the required disclosures for the directors' report must be made regardless of materiality. However, some disclosures are 'automatically' restricted to ensure that neither too little nor too much information is included. For example, an entity is only required to include *principal* risks and uncertainties and *key* performance indicators.

1.5 Content of the directors' report

The table below provides the content of the directors' report by category of company:

Type of company	Disclosure requirement
All companies	<ul style="list-style-type: none"> The names of the persons who, at any time during the financial year, were directors of the company Qualifying third party indemnity provisions in force for the benefit of one or more directors of the company A statement in respect of disclosures provided to the auditors
Company which is not a wholly owned subsidiary of a UK company	<ul style="list-style-type: none"> Information on political donations and expenditure including contributions to non-UK political parties
Any company not entitled to apply the small companies' regime	<ul style="list-style-type: none"> Certain information relating to the risks associated with the company's use of financial instruments Details of any important events affecting the company which have occurred since the balance sheet date An indication of likely future developments in the business of the company An indication of the activities (if any) of the company in research and development
Company not entitled to the small companies' exemption	<ul style="list-style-type: none"> A statement as to the amount (if any) that the directors recommend by way of a dividend An indication as to the existence of branches

	of the company outside of the UK (not applicable for unlimited companies or similar)
Limited company not entitled to the small companies' regime	<ul style="list-style-type: none"> • An indication as to the existence of branches of the company outside of the UK
Publicly traded company with securities that carry voting rights (voting rights mean rights to vote at general meetings of the company, including rights that arise only in certain circumstances)	<ul style="list-style-type: none"> • Information on share capital and securities including, among other things, details of how the company's capital is structured and details of people with significant direct or indirect holdings of securities in the company
Public company	<ul style="list-style-type: none"> • Details of the acquisition of own shares including, among other things, the number and nominal value of the shares so purchased, the aggregate amount of the consideration paid by the company for such shares and the reasons for their purchase
Company with more than 250 employees in the year	<ul style="list-style-type: none"> • Information on the employment of disabled persons including, among other things, the company's policy for ensuring that disabled persons are given full and fair consideration when applying for employment by the company
Company with more than 250 employees on a two-year rolling basis	<ul style="list-style-type: none"> • Employee engagement statement that describes the action taken during the financial year to introduce, maintain or develop arrangements aimed at: <ul style="list-style-type: none"> ○ providing employees systematically with information on matters of concern to them as employees; ○ consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in arriving at decisions which are likely to affect their interests; ○ encouraging the involvement of employees in the company's performance through an employees' share scheme or by some other means; ○ achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company; and ○ summarising how directors have engaged with employees and had regard to employee interests, and the effect of that regard, including

	on the principal decisions taken by the company during the financial year
Large company based on size thresholds only	<ul style="list-style-type: none"> • A statement of engagement with suppliers, customers and others
Very large company (a company which in the year meets either or both of the following on a two-year rolling basis: <ul style="list-style-type: none"> • More than 2,000 employees • Turnover of more than £200m and a balance sheet total of more than £2bn Companies exempt from this category are: <ul style="list-style-type: none"> • Companies required to provide a corporate governance statement • Community interest companies • Charitable companies) 	<ul style="list-style-type: none"> • A statement of corporate governance arrangements
Unquoted large company based on size thresholds and more than 40,000 kWh energy use	<ul style="list-style-type: none"> • Streamlined Energy & Carbon Reporting – Greenhouse gas emissions, energy consumption and energy efficiency
Quoted company and more than 40,000 kWh energy use	<ul style="list-style-type: none"> • Streamlined Energy & Carbon Reporting – Greenhouse gas emissions, energy consumption and energy efficiency

1.6 Strategic report

The purpose of the strategic report is to inform shareholders and help them to assess how the directors have performed their duty under s172 Companies Act 2006 to promote the success of the company.

All companies must prepare a strategic report for each financial year, except:

- Companies eligible to prepare financial statements for the year in accordance with the small companies' regime; and
- Companies that would be so eligible save for being, or having been at any time within the financial year to which the accounts relate, a member of an ineligible group.

Information provided in the strategic report will vary depending on the size or nature of the company or group.

The ICAEW guide provides a useful overview of different categories of company which is relevant for the strategic report as follows:

Table 2: Overview of different categories of company relevant for the strategic report – see section 7 for further detail

	A	B	C	D	E
	All companies ¹⁰	Large company	Quoted company	Public interest entities (PIEs) with > 500 employees ¹¹	PIEs, AIM companies and high turnover companies ¹² with > 500 employees
Fair review of the business including principal risks and uncertainties	✓				
Key performance indicators – financial	✓				
Reference to and explanations of amounts included in the annual accounts	✓				
Key performance indicators – non-financial		✓			
Section 172(1) statement		✓			
Information on trends, company strategy and business model.			✓		
Gender split			✓		
Information on environmental matters, the company's employees, and social, community and human rights issues			✓		
Non-financial information statement – information on environmental matters, the company's employees, social matters, respect for human rights and anti-corruption & anti-bribery matters				✓	
Non-financial and sustainability information statement – all of the information required by the non-financial information statement plus additional climate-related disclosures ¹³					✓

Practical tip: overlapping content

Some of the disclosures required by categories C, D and E overlap with each other. Companies should be careful to ensure that they are fully complying with the requirements that are applicable to them.

Section 6 of the FRC guidance provides a set of communication principles which are intended to assist companies when preparing their strategic report.

These are as follows:

- The strategic report should be fair, balanced and understandable.
- The strategic report should be clear and concise, yet comprehensive.
- Where appropriate, information in the strategic report should have a forward-looking orientation.
- The strategic report should provide information which is company specific.
- The strategic report should highlight and explain linkages between pieces of information presented within the strategic report and in the annual report more broadly.
- The structure, presentation and content of the strategic report should be reviewed annually to ensure that it continues to meet its purpose and only contains information that is relevant.

1.7 Materiality

The strategic report contains information which is material to the shareholders of the company. The FRC's guidance on the strategic report provides practical help on the concept of materiality and the strategic report. It explains how materiality is entity-specific and is a wholly judgemental issue. The guidance also recommends that materiality is reviewed annually to ensure that the information included in the strategic report continues to be material over time considering changes in facts and circumstances affecting the business.

1.8 Content of the strategic report

This table provides a summary of the content of the strategic report by company category:

Type of company	Disclosure requirement
All companies	<ul style="list-style-type: none">• Fair review of the business including principal risks and uncertainties• Financial key performance indicators• References to, and explanations of, amounts included in the annual accounts
Large company	<ul style="list-style-type: none">• Non-financial key performance indicators• Section 172(1) statement
Quoted company	<ul style="list-style-type: none">• Information on trends, company strategy and business model• Gender split• Information on environmental matters, the company's employees and social, community and human rights issues
Public interest entities (PIEs) with more than 500 employees	<ul style="list-style-type: none">• Non-financial information statement• Overlapping requirements
PIEs, AIM companies and high turnover companies and groups with more than 500 employees ('high turnover' is more than £500m in the financial year)	<ul style="list-style-type: none">• Non-financial and sustainability information statement