



## Charities Alert.

# Strategic reports for charitable companies

### In a nutshell

- The new strategic report is applicable for all charitable companies with year ends on or after 30 September 2013.
- This report replaces and expands the business review and is a separate document from the directors' report.
- Small charitable companies that were exempt from the business review requirements remain exempt from the new requirement to prepare a strategic report.
- The Charity Commission has issued charity *Information Sheet 5 – the Strategic Report* to summarise the requirements for large and medium sized charitable companies.
- The trustees' annual report as required by the SORP is expected to cover all the requirements of the new strategic report and changes should relate to restructuring content only.

### Background

The Companies Act 2006 has been revised and now requires all large and medium-sized companies to prepare a strategic report for periods ending on or after 30 September 2013. The Charity Commission (CC) and the Office of the Scottish Charity Regulator (OSCR) published guidance (IS5<sup>1</sup>) in January to help trustees of charitable companies comply with this new requirement. Information Sheets are advisory only and do not amend the current Statement of Recommended Practice 2005 (SORP).

The new strategic report does not apply to small companies<sup>2</sup> that were previously exempt from the requirement to provide a business review.

### Contents of the strategic report

The requirements of the strategic report and the business review it replaces are to all intents and purposes the same for charitable companies, including the requirements to provide:

- A fair review of the company's business;
- A description of the principal risks and uncertainties;
- A balanced and comprehensive review of the developments and performance of the company during the year and the position at the end of the year;
- Analysis using financial key performance indicators (to the extent necessary for understanding the business);
- Analysis using non-financial key performance indicators (large companies only); and
- Explanation of the amounts in the company's accounts.

*Charity information sheet is available at: <http://www.charitycommission.gov.uk/detailed-guidance/money-and-accounts/charity-reporting-and-accounting-the-essentials-2009-cc15b/sorp-documents/sorp-information-sheet-5-the-strategic-report-and-company-charities/>*

*No significant changes for non-listed corporates*

The strategic report is a report in its own right and must be approved separately by the board of directors (i.e. the trustees) and signed by a director or the Company Secretary.

<sup>1</sup> Information sheet 5 – the Strategic Report published January 2014

<sup>2</sup> As defined by sections 381 and 382 of the Companies Act 2006

### A combined report?

Prior to this legislative change the directors' report required by the Companies Act tended to be subsumed within the Trustees' annual report required by the SORP to avoid duplication. However, as noted above, the strategic report is a distinct report in its own right with separate approval and therefore the information must be clearly segregated. The CC and OSCR advise that, as most of the information required is already required under SORP, to remove unnecessary duplication, the strategic report should be included within the trustees' annual report as a separate, clearly-delineated section. As the strategic report will form part of the trustees' annual report the information need not be repeated in other sections.

*Include the strategic report within the trustees' annual report in a separate delineated section*

### A structured report

The CC and OSCR recommend a report with the following structure:

*No particular reporting structure is required by the SORP*

- Reference and administrative details of the charity, its trustees and advisors;
- Structure, governance and management;
- Objectives and activities;
- Strategic report
  - Achievement and performance
  - Financial review
  - Plans for future periods
  - Principal risks and uncertainties;
- Funds held as custodian trustees on behalf of others.

The SORP does not require the information to be covered in any particular sequence.

In addition, charities that are not incorporated under the Companies Act may still wish to use the above structure even though they are not required under charity law to prepare a strategic report.

### The directors' report

The trustees of charitable companies also have a responsibility under company law to prepare a directors' report. Most charitable companies included these reporting requirements within the trustees' annual report. Some requirements have been removed, such as credit payment information and charitable donations. Below is a reminder of what is still required where it is relevant:

- Political donations and expenditure;
- Financial instruments, including financial risk management policies and details of exposure to price risk, credit risk, liquidity risk and cash flow risk;
- Post balance sheet events;
- Future developments;
- Activities in research and development;
- The existence of branches outside the UK; and
- For charitable companies with more than 250 employees, information regarding the employment of disabled persons and employee involvement.

*Additional directors' report requirements*

### Summary financial statements

The Companies Act does not now deal with summary financial statements as it envisages companies issuing the strategic report with supplementary information instead. The supplementary information is similar to that required for summary financial statements in that they must state that:

- The strategic report is only part of the company's annual accounts and report;
- How a person can obtain a full copy of the company's annual accounts and report;
- Whether the auditor's report on the annual accounts was unqualified or qualified, and if it was qualified, set out the report in full together with any further material needed to understand the qualification; and
- Whether the auditor's statement under section 496 (whether the strategic report and the directors' report is consistent with the accounts) was unqualified or qualified, and if it was qualified, set out the report in full together with any further material needed to understand the qualification.

*Summary financial statements replaced by the strategic report with supplementary information*

There is no requirement to provide any financial information with the strategic report, but equally there is no prohibition on including that information where it is considered necessary to understanding the strategic approach of the charity. The requirements for non-companies are unchanged. Charities may still ask their auditors to issue a separate report on the consistency of the summary financial statements contained within the strategic report with the full financial statements.

### Timing and next steps

These changes apply to all medium-sized and large charitable companies with year ends on or after 30 September 2013. **Charitable companies will need to review and consider the structure of their report and ensure that there is a distinctive element to their reporting entitled the strategic report.** The structure of the report may be fluid to reflect the circumstances and key events of the individual charity.

*Review your report structure and headings*

Further resources and guidance are available at [www.deloitte.co.uk/auditpublications](http://www.deloitte.co.uk/auditpublications) including:

- Governance in brief: The new 'Strategic Report';
- The Strategic Report: A practical guide to the new regulations; and
- The Strategic report: Unlisted Companies.

### Contacts

If you would like further, more detailed information or advice and to discuss how this will affect you, please contact your local Deloitte partner or:

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