



Companies Act 1985

1985 CHAPTER 6

PART VII

ACCOUNTS AND AUDIT

CHAPTER I

PROVISIONS APPLYING TO COMPANIES GENERALLY

[^{F1}[^{F2}Directors' report]]

Textual Amendments

- F1** New ss. 234, 234A inserted (subject to the saving and transitional provisions in [S.I. 1990/355, arts. 6–9, Sch. 2](#), by [Companies Act 1989 \(c. 40, SIF 27\)](#), [ss. 1, 8\(1\), 213\(2\)](#) as part of the text inserted in place of ss. 221–262 (as mentioned in s. 1(a) of the 1989 Act)
- F2** Cross-heading and ss. 234, 234ZZA, 234ZZB substituted for s. 234 and preceding cross-heading (22.3.2005) by [The Companies Act 1985 \(Operating and Financial Review and Directors' Report etc.\) Regulations 2005 \(S.I. 2005/1011\)](#), [reg. 2](#)

[^{F3}234 Duty to prepare directors' report.

- (1) The directors of a company shall for each financial year prepare a report (a “directors' report”) complying with the general requirements of section 234ZZA and containing—
- the business review specified in section 234ZZB, and
 - if section 234ZA applies to the report, the statement as to disclosure of information to auditors required by that section.
- (2) For a financial year in which—
- the company is a parent company, and

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- (b) the directors of the company prepare group accounts, the directors' report must be a consolidated report (a “group directors' report”) relating, to the extent specified in the following provisions of this Part, to the company and its subsidiary undertakings included in the consolidation.
- (3) A group directors' report may, where appropriate, give greater emphasis to the matters that are significant to the company and its subsidiary undertakings included in the consolidation, taken as a whole.
- (4) In the case of a quoted company, a directors' report need not contain any information included in the operating and financial review for that financial year (see section 234AA).
- (5) If a directors' report does not comply with the provisions of this Part relating to the preparation and contents of the report, every director of the company who—
- (a) knew that it did not comply or was reckless as to whether it complied, and
 - (b) failed to take all reasonable steps to secure compliance with the provision in question,
- is guilty of an offence and liable to a fine.]

Textual Amendments

- F3** Cross-heading and ss. 234, 234ZZA, 234ZZB substituted for s. 234 and preceding cross-heading (22.3.2005) by [The Companies Act 1985 \(Operating and Financial Review and Directors' Report etc.\) Regulations 2005 \(S.I. 2005/1011\)](#), [reg. 2](#)

Modifications etc. (not altering text)

- C1** Ss. 226-237 extended (with modifications) (19.12.1993) by [S.I. 1993/3245](#), [reg. 3](#)
- C2** Ss. 231-234 applied (with modifications) (31.12.2004) by [The Insurance Accounts Directive \(Lloyd's Syndicate and Aggregate Account\) Regulations 2004 \(S.I. 2004/3219\)](#), [reg. 3\(4\)\(a\)](#), Sch.

234ZZADirectors' report: general requirements

- (1) The directors' report for a financial year must state—
- (a) the names of the persons who, at any time during the financial year, were directors of the company,
 - (b) the principal activities of the company in the course of the year, and
 - (c) the amount (if any) that the directors recommend should be paid by way of dividend.
- (2) In relation to a group directors' report subsection (1)(b) has effect as if the reference to the company was a reference to the company and its subsidiary undertakings included in the consolidation.
- (3) The report must also comply with Schedule 7 as regards the disclosure of the matters mentioned there.
- (4) In Schedule 7—
- Part 1 relates to matters of a general nature, including changes in asset values, directors' shareholdings and other interests and contributions for political and charitable purposes;

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Part 2 relates to the acquisition by a company of its own shares or a charge on them;

Part 3 relates to the employment, training and advancement of disabled persons;

Part 5 relates to the involvement of employees in the affairs, policy and performance of the company;

Part 6 relates to the company's policy and practice on the payment of creditors.

234ZZB Directors' report: business review

- (1) The directors' report for a financial year must contain—
 - (a) a fair review of the business of the company, and
 - (b) a description of the principal risks and uncertainties facing the company.
- (2) The review required is a balanced and comprehensive analysis of—
 - (a) the development and performance of the business of the company during the financial year, and
 - (b) the position of the company at the end of that year,consistent with the size and complexity of the business.
- (3) The review must, to the extent necessary for an understanding of the development, performance or position of the business of the company, include—
 - (a) analysis using financial key performance indicators, and
 - (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.
- (4) The review must, where appropriate, include references to, and additional explanations of, amounts included in the annual accounts of the company.
- (5) In this section, “key performance indicators” means factors by reference to which the development, performance or position of the business of the company can be measured effectively.
- (6) In relation to a group directors' report this section has effect as if the references to the company were references to the company and its subsidiary undertakings included in the consolidation.

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234ZA Statement as to disclosure of information to auditors

- (1) This section applies to a directors' report unless the directors have taken advantage of the exemption conferred by section 249A(1) or 249AA(1).
- (2) The report must contain a statement to the effect that, in the case of each of the persons who are directors at the time when the report is approved under section 234A, the following applies—
 - (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
 - (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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- (3) In subsection (2) “relevant audit information” means information needed by the company’s auditors in connection with preparing their report.
- (4) For the purposes of subsection (2) a director has taken all the steps that he ought to have taken as a director in order to do the things mentioned in paragraph (b) of that subsection if he has—
- (a) made such enquiries of his fellow directors and of the company’s auditors for that purpose, and
 - (b) taken such other steps (if any) for that purpose,
- as were required by his duty as a director of the company to exercise due care, skill and diligence.
- (5) In determining for the purposes of subsection (2) the extent of that duty in the case of a particular director, the following considerations (in particular) are relevant—
- (a) the knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by the director in relation to the company, and
 - (b) (so far as they exceed what may reasonably be so expected) the knowledge, skill and experience that the director in fact has.
- (6) Where a directors' report containing the statement required by subsection (2) is approved under section 234A but the statement is false, every director of the company who—
- (a) knew that the statement was false, or was reckless as to whether it was false, and
 - (b) failed to take reasonable steps to prevent the report from being approved,
- is guilty of an offence and liable to imprisonment or a fine, or both.

[^{F4}234A Approval and signing of directors’ report.

- (1) The directors’ report shall be approved by the board of directors and signed on behalf of the board by a director or the secretary of the company.
- (2) Every copy of the directors’ report which is laid before the company in general meeting, or which is otherwise circulated, published or issued, shall state the name of the person who signed it on behalf of the board.
- (3) The copy of the directors’ report which is delivered to the registrar shall be signed on behalf of the board by a director or the secretary of the company.
- (4) If a copy of the directors’ report—
 - (a) is laid before the company, or otherwise circulated, published or issued, without the report having been signed as required by this section or without the required statement of the signatory’s name being included, or
 - (b) is delivered to the registrar without being signed as required by this section,
 the company and every officer of it who is in default is guilty of an offence and liable to a fine.]

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Textual Amendments

- F4** New ss. 234, 234A inserted (subject to the saving and transitional provisions in [S.I. 1990/355](#), arts. 6–9, [Sch. 2](#), by [Companies Act 1989](#) (c. 40, SIF 27), [ss. 1](#), 8(1), 213(2) as part of the text inserted in place of ss. 221–262 (as mentioned in s. 1(a) of the 1989 Act)

Modifications etc. (not altering text)

- C3** [S. 234A](#) applied with modifications by [S.I. 1990/2570](#), [reg. 5\(1\)](#)
[S. 234A](#) applied (with modifications) (31.12.2004) by [The Insurance Accounts Directive \(Lloyd's Syndicate and Aggregate Accounts\) Regulations 2004](#) (S.I. 2004/3219), [reg. 3\(4\)\(a\)](#), Sch.
- C4** [S. 234A](#) restricted by [S.I. 1990/2570](#), [reg. 5\(2\)](#)
- C5** [Ss. 226–237](#) extended (with modifications) (19.12.1993) by [S.I. 1993/3245](#), [reg. 3](#)
- C6** [S. 234A](#) applied (1.7.2005) by [The Community Interest Company Regulations 2005](#) (S.I. 2005/1788), [reg. 29\(1\)](#)

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