

Duties of a Company Director

Business Information Factsheet

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Introduction

All types of limited company must have at least one director, including companies limited by shares or guarantee and community interest companies. Directors are responsible for the day-to-day management of the company and have the power to make business decisions and enter into contracts on the company's behalf.

Directors are subject to various restrictions and controls imposed by legislation and the company's articles of association. These include general and administrative duties set out in Part 10 of the Companies Act 2006.

This factsheet looks at the role of a company director in private limited companies and considers their function, general duties, responsibilities and potential liabilities.

The factsheet is a starting point only. Company directors should seek professional advice where necessary to ensure that they comply with all aspects of the law.

Functions of a company director

The main functions of a director are to manage the company's business and exercise all the powers of the company.

Directors are directly responsible to the members of the company (ie the shareholders or, in a company limited by guarantee, the guarantors).

Specific powers and rules for company directors are set out in the company's memorandum and articles of association. Directors may make any decisions necessary to run the company, provided that they do not infringe the memorandum and articles of association or the Companies Act.

The appointment of directors is normally formalised in a service contract and the company is also required to notify Companies House within 14 days.

Who can be a director?

The Companies Act stipulates that all companies must have at least one director who is a 'natural person' (ie an individual), not just another company acting as a director.

Anyone aged 16 years or over can be a company director, unless they are:

- An undischarged bankrupt.
- Disqualified from acting as a director.
- An auditor of the company's accounts.

Although it is common to appoint one or more shareholders to act as directors, there is no requirement for a director to be a shareholder of the company.

General duties under the Companies Act

Under the Companies Act, directors have a duty to:

- Promote the success of the company.
- Act within their powers.
- Exercise independent judgement.
- Exercise reasonable skill, care and diligence.
- Avoid conflicts of interest.
- Not accept benefits from third parties.
- Declare any interest in a proposed transaction or arrangement.

Reporting responsibilities of a director

Company directors are legally responsible for ensuring that the company meets all its legal reporting obligations.

Companies' reporting obligations include:

- Preparing financial statements.
- Maintaining statutory books and registers.
- Updating registers every time any circumstances change and informing Companies House of the changes.
- Filing an annual confirmation statement with Companies House.
- Keeping accounting records.

Directors are held personally responsible for the submission of accounts, with late filing resulting in a fine. They are also responsible for ensuring that the correct amount of tax, National Insurance and VAT is paid, and that it is paid on time.

Directors may also be held responsible if the company does not comply with business regulations relating to matters such as employment, health and safety, the environment and discrimination.

Enforcement

Company directors who breach their duties may face enforcement action brought by Companies House or the Insolvency Service. Penalties include disqualification as a director (for up to 15 years) and, in serious cases, criminal prosecution leading to a fine or imprisonment.

In addition, directors can be held personally liable for company losses which result from a failure to act in accordance with their duties, and may face claims for compensation brought by the company or its shareholders.

Useful resources

'Being a Company Director'

Companies House

www.gov.uk/guidance/being-a-company-director

'Director Information Hub'

The Insolvency Service

www.gov.uk/guidance/director-information-hub

'Directors' Duties and Responsibilities'

Institute of Directors (IoD)

www.iod.com/resources/company-structure/directors-duties-and-responsibilities

Related factsheets

BIF023 Appointing a Company Secretary

BIF069 Submitting Company Accounts to Companies House

BIF167 Forming a Private Company Limited by Shares

BIF322 Appointing a Non-executive Director

BIF459 Companies Act 2006

BIF529 Registering People with Significant Control

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