

What are my key legal duties and responsibilities as a company director?

Where you take on the role as director of your limited company, it is important to remember that a company director is responsible for complying with the rules and regulations set out under the Companies Act 2006.

Most duties and responsibilities can be complied with on both occasions through a combination of acting in a professional and 'common sense' way, but it is useful to be aware of what the key issues are.

A director can also be a shareholder in a limited at the same time, however in broad terms the directors manage the day to day operations and take all necessary decisions, whereas a shareholder owns the business, but only periodically confirms confidence in the directors actions and/or confirms certain specific (key) actions of the company.

Duties and responsibilities of a company director:

Duty to act within powers

A director should comply with the company's rules of behavior and activity in their decision-making and activities with shareholders. Directors are also required to exercise their powers only for the reasons for which they were given those powers.

Duty to promote the success of the company

All decisions made by the director, should be made with the long-term interests of the company, the shareholders, the employees, the suppliers, the general community and creditors in mind.

Continued on the next page

Duty to exercise reasonable skill, care and diligence

A director must be diligent, careful and well-informed about the company's affairs in order to carry-out the functions of that office and to know / understand what is going on within the company.

Duty to avoid conflicts of interest between the Director and the Company

A company director must avoid a situation in which they have, or could have, an interest that conflicts, with the interests of the company.

Duty not to accept benefits from third parties

Directors must not accept any 'gifts' from third-parties, including money (bribes), corporate hospitality (tickets for trips, shows or events) or any other items of value which have been offered, because of the fact that you are a director, or in return for a business 'favour'.

Duty to declare interest in proposed transaction or arrangement

A director must disclose their interest in a deal or project to the Board of Directors before the transaction has occurred, so that the deal or project in question, can be approved or not, by the other directors.

Duty to ensure that the company's legal responsibilities are complied with

As a company generally acts through it's board of directors, the directors are responsible for ensuring that the company itself complies with all other aspects of company legislation e.g. maintain full and accurate accounting records, make relevant filings at Companies House (changes in registered address, shareholders etc.).

Breaches of directors duties

Where a director breaches any of the duties above, it is the company and shareholders that are usually the ones to take action against them. In certain circumstances, the consequences can be very serious, with the company, its creditors, or shareholders having the right to pursue them on a personal level for any loss.

If the result is a company director being pursued through the courts, this could lead to material damages or compensation for financial losses and/or criminal fines.