



DIRECTOR'S DUTIES - **What do you need to know and why?**

Directors' duties are a fundamental aspect of corporate governance, and it is essential that directors understand their legal obligations and responsibilities. Directors who fail to do so risk reputational damage to both themselves and their organisation, as well as legal and financial consequences. In this section, we'll explore why directors should take their duties seriously and provide some examples of common pitfalls to avoid.

First and foremost, understanding directors' duties is essential for effective corporate governance. For a company incorporated under the Act 2006 outlines the statutory duties and obligations that directors must adhere to, including acting in the best interests of the company, promoting its success, and avoiding conflicts of interest. These duties are designed to ensure that directors act responsibly, ethically, and with its stakeholders in mind. For other organisations, duties are linked to fiduciary duties under Common Law, and are in many ways very similar to the statutory duties under the Act.

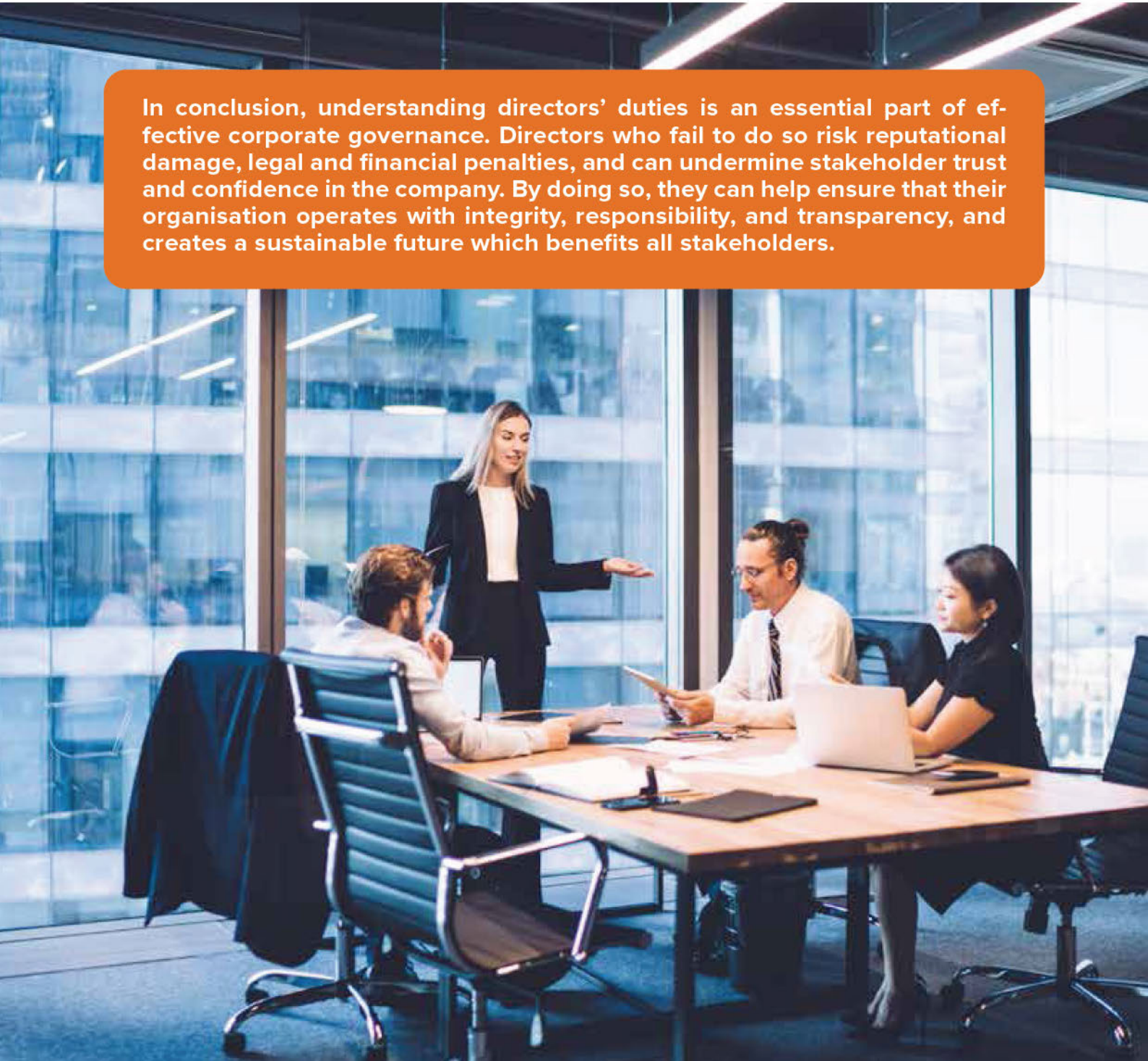
Other common pitfalls include failing to disclose conflicts of interest, failing to monitor and manage risks effectively, and failing to comply with legal and regulatory requirements. These issues can lead to reputational damage, legal and financial penalties, and can undermine stakeholder trust and confidence in the company.

Directors who fail to understand their duties cannot use ignorance as an excuse. They have a legal and ethical obligation to act in accordance with these duties, and failing to do so can have serious consequences. However, it is not enough to simply understand these duties; directors must also take active steps to fulfil them. This involves adopting a proactive approach to risk management, ensuring that conflicts of interest are disclosed and managed appropriately, and engaging with stakeholders in a meaningful way. The importance of directors' duties has never been more important. In a rapidly changing business landscape, where companies face increasing scrutiny from stakeholders and regulators, it is essential that directors act with integrity, responsibility, and transparency. Understanding and fulfilling their duties is a critical part of this process.

There have been several high-profile cases in the UK where companies have collapsed due to breaches of directors' duties. One such example is the collapse of BHS in 2016, which resulted in the loss of over 11,000 jobs. An investigation into the company found that its former directors had failed to act in the best interests of the company and its stakeholders, and had breached their duties to avoid conflicts of interest and exercise due care and skill.

Another example is the collapse of Carillion in 2018, which had a significant impact on the UK's infrastructure and public services. An inquiry into the company's collapse found that its directors had failed to adequately manage risks, monitor the company's financial performance, and act in the best interests of its stakeholders. Both cases highlight the serious consequences that can result from breaches of directors' duties, and the importance of effective corporate governance and accountability.

In conclusion, understanding directors' duties is an essential part of effective corporate governance. Directors who fail to do so risk reputational damage, legal and financial penalties, and can undermine stakeholder trust and confidence in the company. By doing so, they can help ensure that their organisation operates with integrity, responsibility, and transparency, and creates a sustainable future which benefits all stakeholders.





QUICK REFERENCE GUIDE FOR DIRECTORS

Companies Act 2006 - UK Directors duties

Directors play a critical role in ensuring that their organisations operate with integrity, responsibility, and transparency, and understanding their legal obligations is essential for effective corporate governance.

The guide summarises the key duties and obligations that directors must adhere to. By fulfilling these duties, directors can help ensure that their organisations operate in the best interests of their stakeholders and create value for all.

Directors Duties:

(Section numbers are from Companies Act 2006 as applicable to companies incorporated in England & Wales)

S171

Duty to act within powers:

Directors must act in accordance with the company's constitution (the Articles of Association and Memorandum) and exercise their powers for a proper purpose.

S173

Duty to exercise independent judgment:

Directors must exercise independent judgment and avoid conflicts of interest.

S174

Duty to exercise reasonable care, skill and diligence:

Directors must exercise reasonable care, skill and diligence in carrying out their duties.

S172

Duty to promote the success of the company:

Directors must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole.

S175

Duty to avoid conflicts of interest:

Directors must avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company.



S176

Duty not to accept benefits from third parties:

Directors must not accept benefits from third parties that are offered because of their position as directors.

S444

Duty to file accounts and reports with Companies House:

Directors must file accounts and reports with Companies House within prescribed time limits.

S177

Duty to declare interests in proposed transactions or arrangements:

Directors must declare any personal interests in proposed transactions or arrangements.

S386

Duty to keep accounting records:

Directors must keep adequate accounting records and ensure that they are accurate.

S394

Duty to prepare annual accounts:

Directors must prepare annual accounts that give a true and fair view of the company's financial position.

It's important to note that these are general duties and may vary depending on the type of company and industry you are in. Directors should familiarise themselves with the specific duties that apply to their organisation and seek professional advice if they are unsure about their obligations. By fulfilling their duties, directors can help ensure that their organisations operate with integrity, responsibility, and transparency, and create value for all stakeholders.