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Business and Enterprise
Committee

Companies House

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Report, together with formal minutes, oral and written evidence

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The Business and Enterprise Committee

The Business and Enterprise Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Enterprise & Regulatory Reform.

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Summary

Companies House has two main functions: the incorporation, dissolution and restoration of limited companies; and the maintenance of a register of company details, annual reports and accounts which it makes available for public inspection. It funds its work by charging fees and pays a small dividend to the Treasury each year.

In the main Companies House appears to be successful. It meets its customer satisfaction targets and covers its running costs. Although the difficulty of forecasting income levels accurately meant it built up reserves, these have been put toward the implementation of the Companies Act.

Companies House handles a vast amount of data. It is now doing much more of this electronically. This move has not been entirely smooth; money has had to be written off on the Companies House Information Processing System (CHIPS) and the commencement of some sections of the Companies Act 2006 has been put back a year to ensure there were no problems with the new computer system. Although this is regrettable, on balance, we think it was right for Companies House and BERR to delay the commencement rather than expose businesses to the risk of a computer system which might not have worked properly.

Companies House has targets to move towards greater electronic filing, which will reduce costs, and could bring security benefits. We regret that these targets have not yet been met and recommend that Companies House press forward on achieving more electronic filing.

The organisation now makes much of its information available on-line (which is also made easier by e-filing). However, as information becomes easier to access, so opportunities for fraud and misuse grow. In our view, the greatest difficulties facing Companies House, and those who use its services, arise from matters which are not directly controlled by Companies House itself—namely the way in which the internet has enabled faster and easier access to information. We make a number of recommendations about assessing particular risks and trying to reduce them. For example, it should be possible for the documentation available online to show whether a particular accountant has been involved in preparing company accounts. Accountants should take responsibility for the accuracy of the figures they file. There is public interest in providing an accessible, efficient, open register of company details, at reasonable cost, which the current system achieves. However, the number of recommendations we make for reviewing the balance between the relative simplicity of the current arrangements and the need to prevent crime suggests the time may have come for a comprehensive review of the system, to identify the extent to which there are cost-effective interventions which could reduce the risk of fraud and misuse.

An underlying theme of this Report is the need for Companies House to do more to explain the limitations of the information it holds. Many users may not realise that Companies House's role is simply to publish information provided by companies themselves and may have unrealistically high expectations of the reliability of information available through a government website. We believe that Companies House could and should do much more to make clear that its role is to receive and publish data and that its

power to verify this information is extremely limited. It is understandable—but wrong—that some users of its services assume that, because Companies House is an agency of government, its data can be relied upon to be authoritative—it cannot.

1 Introduction

1. As one of the Committee's core tasks is monitoring the work of the executive agencies and associated public bodies of the Department for Business, Enterprise and Regulatory Reform (BERR) we consider at least one such body each year. This year we chose Companies House. Our interest was roused by the announcement that the commencement of part of the Companies Act 2006 would be delayed due to a large number of changes needed to systems and processes at Companies House. We were also concerned that the implementation of the Companies House Information Processing System (CHIPS) had been delayed from April 2005 to February 2008 and that £12.1 million of expenditure on the project had been written off.¹

2. We decided to hold an oral evidence session with Companies House and in preparation we invited interested parties to submit written evidence to us on:

- how Companies House performs its statutory functions;
- satisfaction with the services provided by Companies House among its users; and
- the causes, consequences and cost of delays to the Companies House Information Processing System.

We are grateful to those who took the time to respond and to Mr Gareth Jones, Chief Executive and Registrar of Companies for England and Wales, and Mr Geoff Dart, Director of Corporate Law and Governance at BERR, for giving oral evidence and responding to our further inquiries.

The role of Companies House

3. Companies House was established under the Companies Act 1844. Before this companies could only be established by Royal Charter. Without the protection of company status, investors were deterred from business because of their full liability for any debt. The Act gave company directors limited liability in return for a requirement to register their company's details, reports and accounts at Companies House for public scrutiny.

4. Companies House defines its two main functions as:

- the incorporation, dissolution and restoration of limited companies; and
- the maintenance of a register of information filed by companies under the Companies Acts and related legislation, which it makes available for public inspection.²

5. Companies are removed from the register when they are dissolved either compulsorily or voluntarily. If it appears to the Registrar that a company is no longer operating or if a company applies to be dissolved then a notice is placed in the London or Edinburgh Gazette giving three months notice and inviting objections. If there are objections

1 Companies House Annual Report and Accounts 2006/07, *Evolving for our future*

2 Ev 25 (Companies House)

dissolution can be put on hold. The aim of this process is to create a balance between the right of a company to dissolve and the right of an objector to resolve outstanding issues, such as unsettled payments.³ Given that it is for the courts and not Companies House to adjudicate between disputing parties, we believe that this stance is reasonable.

Data handled

6. All limited companies in England, Wales and Scotland are registered at Companies House, more than 2.5 million in total. Companies House holds a huge amount of data: its database contains 315 million pages of company information. In 2005/06, 120 new companies were formed every working hour and 42 documents were processed every minute. In addition one company document was bought every 4 seconds.⁴ (See table 1)

Table 1: Companies House activity levels

	2005/06	2006/07	2007/08
Registration activity			
Active Register (annual average, '000)	2048	2213	2390
Active Register (year end, '000)	2118	2339	2430
Incorporations ('000)	370	449	371
Removals from the Register (net of restorations, '000)	199	240	230
Statutory documents filed ('000)	7447	7795	7916
Company searches			
Images ('000)—Company equivalent	3393	3655	4000
Image ('000)—Individual images	4676	5111	5595
Fiche based ('000)	19	15	9
Percentage of electronic searches	99%	100%	100%

Key Statistics: Companies House Annual Report and Accounts 2007/08

7. The information filed at Companies House is used by a variety of people and organisations for a mixture of purposes. For example, it can be used by a member of the public to check a company's details before buying its goods or services; and it can be used by businesses to find out about potential customers or suppliers and to monitor competition. Credit reference agencies, banks and law enforcement agencies also use the data.

3 Ev 35 (Companies House)

4 Ev 25 (Companies House)

Finances

8. Companies House has trading fund status, which effectively allows the organisation to manage its own finances. It is expected to cover its costs, rather than to make a profit, although it pays a dividend of 3.5% each year to the Treasury. It does this by charging for most of its services, although it provides some information without charge.⁵ For example, it costs £20 to incorporate a company electronically and £1 to see a company's report.⁶

9. In 2007/08 Companies House made a surplus of £4.1 million from these services: £2 million from registration activities, £1.6 million from dissemination and £500,000 from other services;⁷ in 2006/07 its surplus was £1.3 million.⁸ We asked how this fitted with Mr Jones's assertion that "year on year the requirements of cost recovery are met."⁹ In response, Mr Jones explained that forecasting Companies House income to meet the required 3.5% rate of return was a difficult task: for example a 1% change in take-up for electronic annual return would result in a reduction in fee income of £300,000 as it costs less for companies to file electronically than by paper. He considered that:

maintaining sufficient cash to do what is required, but balancing that with the constraint of not cross-subsidising activity, nor making excessive surpluses taking one year with another, remain the major challenges to forecasting activity in Companies House.¹⁰

We also asked Companies House to explain why its Business Plan suggested that it had secured a £10 million loan from BERR to cover the implementation of the Companies Act 2006.¹¹ We were told that the loan had now been finalised at £4.5 million and the £5.4 million surplus in "reserves" gained in previous years was indeed being used for those costs.¹² Given the difficulties in accurately forecasting income, using surpluses in this way seems a sensible mechanism to meet the requirement for full cost recovery.

Performance against targets

10. Companies House met eight out of ten of its key ministerial targets in 2007/08 exceeding both of its customer service targets. (see Table 2)

5 For example: basic company information, filing history, insolvency details Ev 25 (Companies House)

6 Companies House website: <http://www.companieshouse.gov.uk/toolsToHelp/ourPrices.shtml>

7 Companies House Annual Report and Accounts 2007/08, *All geared up*

8 Companies House Annual Report and Accounts 2006/07, *Evolving for our future*

9 Q 14

10 Ev 36 (Companies House)

11 Companies House Business Plan 2008/09, *Building on Success*

12 Ev 35 (Companies House)

Table 2: Companies House performance against targets

Key ministerial targets	Targets out-turns & achievements 2006/07		Targets out-turns & achievements 2007/08	
	Targets	Out-turn	Targets	Out-turn
Efficiency and reliability Take-up for electronic submission of documents	40%	37%	55%	47.9%
Image quality – legibility completeness	99.5%	99.1%	99.5%	99.7%
Compliance rate accounts	95.5%	95.4%	95.3%	95.3%
Unit cost reduction. Three year target reduction on the 2004/5 range of transactions by 2007/8 The target for 2006/7 was to limit the unit cost increase to 1% of the 2004/5 (base year) cost The target for 2007/8 is to reduce the unit cost to 90% of the 2004/5 (base year) cost	Targets index 101	Out-turn index 95	Targets index 90	Out-turn index 89
Readily and freely accessible information WebFiling, WebCheck and CH Direct availability (Mon -Sat, 7.00am -12.00pm)	Targets 99%	Out-turn 99.3%	Targets 99%	Out-turn 98.5%
Customer service Respond to complaints within 5 days	Targets 97%	Out-turn 98.6%	Targets 97%	Out-turn 98.4%
Customer satisfaction	Targets >85%	Out-turn 87.5%	Targets >86%	Out-turn 86.6%
Central government targets Reply to Chief Executive's Targets Cases within 10 days 100%	Targets 100%	Out-turn 100%	Targets 100%	Out-turn 100%
Payment of Bills	Targets 100%	Out-turn 99.7%	Targets 100%	Out-turn 100%
Rate of return as a % of the average capital employed	Targets 3.5%	Out-turn 5.8%	Targets 3.5%	Out-turn 10.6%

Key Statistics: Companies House Annual Report and Accounts 2007/08

In addition the submissions we received for the inquiry were generally positive about the work of Companies House; in particular its communication with users and its responsiveness to customers were praised.¹³ An incorporation and dissemination agent, 7side, told us “in our view Companies House generally perform extremely well, within

their remit and meet the majority of their targets”.¹⁴ We are also pleased to note that Companies House was awarded Government Agency of the Year 2008 at the CBI Financial Director’s Excellence Awards; and the Business Britain Award for Business Services Provider of the Year.

Electronic delivery of services

11. As already noted, the development of technology has been a cause for concern. It has not only been the new IT system (CHIPS) which has created problems for Companies House but also the consequences of moving from an entirely paper based register to an electronic one.

12. The number of documents which can now be accepted electronically by Companies House has risen from 67% in 2004/05, to 80% in 2007/08. In addition more companies are using the service so that in 2004/05 0.6 million documents were filed electronically but in 2007/08 this figure reached 3.1 million.¹⁵ However 51% of documents are still filed on paper¹⁶ and Companies House currently receives over three-quarters of a tonne of post every day.¹⁷ Companies House’s 2006/07 Annual Report said:

we have not lost sight of our need to provide services to all our customers [...] we still have customers who wish to continue sending us paper documents. We are very pleased that we have been able to maintain high levels of performance across all our services.¹⁸

Companies House has informed us that the “cost differential between electronic and paper services will continue to grow”¹⁹ and that “the last Fees Regulations in 2004 took account of the difference in cost in processing electronic and paper documents. This was reflected for example in the fee of £15 for an electronic incorporation instead of £20 for one filed on paper, and in the fee of £15 when filing an annual return, as opposed to £30 when filed on paper”.²⁰

13. Papers filed electronically and the other files scanned into the system can be downloaded and viewed through the Companies House website; users can log on to the Companies Register from their personal computers as opposed to travelling to Companies House to access information. The electronic services currently receive more than 40 million hits per month.²¹ As the register has become more widely accessible there is a risk that many users do not realise the unauthenticated status of the information; there are demands on Companies House to validate the data. Just as the information is more accessible to

14 Ev 42 (Companies House)

15 Companies House Annual Report and Accounts 2007/08, *All geared up*

16 Ev 33 (Companies House)

17 Q 11

18 Companies House Annual Report and Accounts 2006/07, *Evolving for our future*

19 Companies House Annual Report and Accounts 2006/07, *Evolving for our future*

20 Ev 33 (Companies House)

21 Companies House Annual Report and Accounts 2007/08, *All geared up*

bona fide users of the website it is also more accessible to fraudsters—as the Information Commissioner said:

The abuse of personal information is not in itself a product of the computer and internet age. Paper records have historically provided an effective means for abuse [...] The difference lies in the scale, speed of access and sharing, and search efficiency which modern technology brings. Unless they are governed well, misuses of computerised datasets can threaten or cause harm to greater numbers of people in ever shorter periods of time, whether by accident or design.²²

We discuss these subjects in more detail later in the report but first we examine the new Companies House computer system and the effects of its delay on the implementation of the Companies Act 2006.

2 The Companies House Information Processing System (CHIPS)

14. The Companies House Information Processing System (CHIPS) replaces Companies House's 20 year old electronic processing system (STEM); its aims are to: provide greater flexibility to develop electronic services; simplify the process for customers; extend the hours of service availability; deliver efficiencies to reduce costs for the customer; and provide a base for the implementation of the Companies Act 2006.²³

15. The programme started in April 2001 and was due to be completed in April 2005 but it was only finally implemented in February 2008. The project was originally outsourced to a private sector company but in 2004 it was brought back in-house. Companies House said that this was because it was concerned with "increasing cost and changing requirements".²⁴ Mr Jones told us that the discussions on the scale and scope between the third party supplier and Companies House "led to a breakdown in that working relationship" and it was this which caused the work to be brought back in-house.²⁵ Moreover he explained that the Companies Act 2006 was not responsible for changes to scope or the scale of the project and that it was "completely irrelevant" to the discussions between Companies House and the supplier as the CHIPS system was "simply to replace the existing STEM system".²⁶

16. Bringing the project in-house meant that £12.1 million of expenditure was written off, representing the entire value of the contracted work before February 2005. Mr Jones told us that, although "that work was not wasted" as "it was preparatory work leading up to what was then the development of the system in-house", very little of it had added value to the system as it works now and so "should not be forming part of the carrying value of the new system".²⁷

17. Although the submissions from 7side and the Association of Company Registration Agents Limited recognised that delays to CHIPS had been far from ideal, they were sympathetic to Companies House's position. The Association of Company Registration Agents Limited said that:

it would have been much more regrettable if the new systems had been introduced before they were properly ready. The costs to the commercial world of a Companies House that fails to function properly, or which has not fully thought through the

23 Ev 28 (Companies House) para 29

24 Ev 28 (Companies House) para 26

25 Q 45

26 Q 46

27 Q 49

complexities of what it is trying to do, enormously outweigh the additional costs of getting the new systems right.²⁸

18. The main concern expressed about CHIPS came from dissemination agents. Dissemination agents buy data in bulk from Companies House, add detail to it and then sell it on. Bisnode, a Europe-wide group of business information companies, complained that the dissemination agents had not been consulted on the project:

Companies House did not focus on DAs [dissemination agents] and re-users when planning the implementation [of CHIPS], and thereby only provided a smooth service to Companies House' direct users.²⁹

They were particularly concerned about the timing of bulk data file deliveries. Before CHIPS was implemented bulk data files were delivered between 12 a.m. and 2 a.m.; since the system has been in place the files are being delivered between 5 a.m. and 7 a.m. Bisnode said that “the impact of this will be that our clients will receive the data later.”³⁰ Companies House told us:

Some of the bulk data products are currently being delivered a few hours later than was previously the case. We are looking at our options for tuning the new system to improve this.³¹

Companies House also informed us that other bulk image files were being delivered nearly 24 hours earlier than was previously the case.³² A further concern for Bisnode was that, as of 20 March, users had not received the “mortgage” product³³ that Companies House offered to dissemination agents, since the system went live on 25 February. Companies House said that:

We have experienced a number of short-term difficulties with the bulk data products following the implementation of CHIPS. Most of these were resolved within two weeks of CHIPS going live, although some issues with the bulk supply of mortgage data persisted until the month of April. We work closely with our bulk customers on an ongoing basis on a range of issues. This included keeping them up to date on the action that we were taking to resolve these problems.³⁴

19. We are concerned that there were initial teething problems with Companies House Information Processing System (CHIPS) which resulted in a deterioration of some services to dissemination agents. We trust that all services are now of a similar or higher standard to that offered before the rollout. IT systems should result in an

28 Ev 17 (Association of Company Registration Agents)

29 Ev 20 (Bisnode)

30 Ev 18 (Bisnode)

31 Ev 31 (Companies House)

32 Ev 31 (Companies House)

33 Companies registered in England and Wales sometimes create a mortgage or charge that must be registered. If so, they must deliver details of it, together with any document creating or giving evidence of it, to the Registrar of Companies.

34 Ev 33 (Companies House)

improvement of service to *all* customers: we would be concerned if that were not the case.

Companies Act 2006

20. The Companies Act 2006, which is intended to give companies greater flexibility in the way they operate, received Royal Assent on 8 November 2006. In order to implement it there have had to be substantial changes to Companies House's systems and processes. Companies House told us that although by October/November 2007 considerable progress had been made in ensuring that it was ready for the new Act, it was not confident that it would be ready by the target implementation date of October 2008. Mr Jones said that there was:

detailed analysis of the work which had to be done and the steps which had to be put in place before we could do that work, and they were largely around getting CHIPS in.³⁵

Companies House advised the then Minister for Competitiveness, Stephen Timms, of the risks that were evident from the analysis and he made an announcement to the House by Written Statement on 7 November 2007 that the commencement date of part of the Act would be delayed until 1 October 2009. BERR hoped that by announcing the delay to implementation early, costs to business would be minimised.³⁶ Mr Dart made clear that these delays, caused by delays to CHIPS, would only affect a small part of the Companies Act:

most of the key de-regulatory benefits, the benefits which show up in the bottom line for companies, that save them money in their administrative costs, have already been delivered or will be delivered by October 2008.³⁷

21. 7side, the only organisation to comment on the delay in their submission, told us:

we fully understand the complexities and issues they [Companies House] are faced with and in our view it is better to delay the implementation rather than bring in legislation that will clearly cause issues and disruption all round.³⁸

22. The delay to the Companies House Information Processing System (CHIPS) has resulted in delays in bringing parts of the Companies Act 2006 into force. This is disappointing and the large amount of public money wasted on the original contract is deplorable. Nonetheless we believe Companies House and BERR were right to postpone commencement of these sections of the Act, rather than to press ahead and risk disrupting thousands of businesses if implementation proved impossible.

35 Q 53

36 Ev 34 (Companies House)

37 Q 56

38 Ev 42 (7side)

3 Status of Information filed at Companies House

23. Mr Jones told us that Companies House accepts the information sent to it “in good faith”³⁹ and that:

The reality is that with the sorts of volumes of information we get into Companies House, in excess of eight million documents sent in to us every year, it would be nigh on impossible to have a robust and complete system of checking that information.⁴⁰

Companies House checks that the papers contain the information required by the Companies Act: for example, the accounts are signed by the director and the company name is correct.⁴¹ Approximately 48% of documents that come in to Companies House now do so electronically and these are checked via a verification process in the computer system.⁴² If there is something wrong or missing from the data, documents are forwarded to a member of staff to assess and if necessary the forms are sent back to the applicant for re-submission. If the system detects no errors, the information will be put straight on the register: as Mr Jones said, they do not even “touch the sides”.⁴³ The documents that arrive at Companies House in paper format are input into the computer system by a member of staff and then scanned onto the register.⁴⁴

24. Mr Jones told us that further checks are only carried out if somebody contacts Companies House about information on the register and this happens with approximately 50 of the 600,000 documents it receives every month.⁴⁵ But he told us that, even if he had been informed that information on the register was wrong, he did not have the powers to change it:

I cannot get into the business of determining between two members of the public, or indeed two directors in a company, which is often, I am afraid the case, as to whether or not one or the other is telling the truth. So we put the information on the register that we are told to put on the register, within the limits of our powers, and it gets to the point after that whereby even if we believe the information is incorrect at the moment I do not have the powers to take that information off the register.⁴⁶

39 Q 7

40 Q7

41 Q 9

42 Q 10

43 Q 11

44 Qq11 and 12

45 Q 8

46 Q 3

At present only the courts have the power to correct the register, which, as Mr Jones said, is a “cumbersome procedure,”⁴⁷ although the new Companies Act 2006 will provide some rectification power. This will allow the registrar to remove information that:

- Derives from anything invalid or ineffective or that was done without the authority of the company, or
- Is factually inaccurate, or is derived from something that is factually inaccurate or forged.⁴⁸

Under this power the only information that can be removed from the register is: a change of address of registered office; a change to directors; and a change in company secretaries.⁴⁹

We believe that the Companies Act 2006 could have given greater rectification powers to the Registrar of Companies to remove incorrect information from the register without having to resort to the courts.

25. It is important for users to be aware that Companies House is a receiver and publisher of information, a public records office: the checks it makes are extremely limited. We believe that Companies House could do more to make this clear. For example its website notes “Companies House Direct is our premier search tool for accessing and downloading company information directly from your own PC”; it contains few caveats. We believe that public perception of the reliability of this information, available through a government website, should be better managed. Mr Jones acknowledged that there is more that Companies House could do,⁵⁰ but he believed that:

the completeness or accuracy of a set of information on the register says a lot about a company [...] So the fact that information is either missing or not up to date, or not filed on time, or in some cases inaccurate is, I would suggest, just as useful information to someone who is considering doing business with that company as a pristine set of accounts.⁵¹

26. We recommend that Companies House takes every opportunity to make clear that its primary function is to publish the information it receives, and that it cannot guarantee the accuracy of the information. It needs to amend its website and other published material to reflect this reality as a matter of urgency.

27. Those who submitted memoranda to our inquiry were particularly concerned about two areas of information on the Companies House register: the registration of directors and the filing of company accounts.

47 Q 14

48 Ev 31 (Companies House)

49 Ev 31 (Companies House)

50 Q 41

51 Q16

Register of Company Directors

Disqualified directors

28. A recent report by World-Check and Datanomic of the Companies House register of company directors and secretaries claimed that 3,994 high risk individuals were listed. They suggested that there were: over 1,500 disqualified directors running current UK companies, many operating from prison; 154 individuals involved in finance crime; 13 wanted by Interpol for terrorism or associated with terrorist groups; nearly 1,000 domestic and foreign politically exposed persons⁵² and 37 narcotics traffickers.⁵³

29. When we questioned Mr Jones about the World-Check report and the subject of company directors, he explained that “being wanted by Interpol does not necessarily disqualify you as a director of a UK company”.⁵⁴ However, he said that “if we have got disqualified directors on the register clearly I want to know about it because our responsibility is to make sure that we keep a register of disqualified directors”.⁵⁵ It is an offence for someone subject to a disqualification order to be appointed as a director of a company. Companies House check all newly appointed directors against its register of those who have been disqualified. However, a slight change or addition to any of a disqualified director's details could result in a registration being accepted.⁵⁶ If Companies House does detect that a newly appointed director was subject to a disqualification order it has no powers simply to remove them (see paragraph 24). Companies House writes to the director in question asking them to resign and if the director does not resign, the case is referred to the enforcement unit within the Insolvency Service. This can lead to a prosecution under the Company Directors Disqualification Act 1986.⁵⁷

30. We were concerned by the Insolvency Practices Council's Annual Report 2007 which highlighted the potential effects of the reduction in the Insolvency Service's 2006/07 enforcement budget:

The deterrent effect of the Company Directors Disqualification Act depends on directors believing that any misconduct will be investigated and, where appropriate, penalised [...] The effectiveness of the system could easily deteriorate if the perception develops [...] that reports will not be followed up.⁵⁸

31. Given the role of the Insolvency Service in investigating disqualified directors re-registering at Companies House, we wrote to them asking about this. In reply, the Insolvency Service informed us that in 2006/07 its enforcement budget was reduced by

52 The Financial Action Task Force define Politically Exposed Persons (PEPs) as individuals who are or have been entrusted with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations and important political party officials. There is a risk that PEPs involved with business could be corrupt politicians who are money laundering and/or financing terrorism.

53 “World-Check exposes terrorists, financial criminals and disqualified”, World-Check Press release, 21 February 2008

54 Q 62

55 Q 61

56 Ev 33 (Companies House)

57 Ev 33 (Companies House)

58 Insolvency Practices Council Annual Report 2007

£3 million which resulted in it carrying out 500 fewer investigations.⁵⁹ It is hard to produce consistent figures for the Service funding because of the transfer of the Companies Investigation Branch (CIB) finances to it from the then Department of Trade and Industry in 2006 but the Insolvency Service have told us that this reduction was a 6% cut in its budget. However, it reassured us that, by employing strict prioritisation criteria to focus on cases where there was a reasonable prospect of a successful disqualification outcome, the overall number of disqualifications remained at previous levels: 1,200 directors were disqualified in 2006/07 compared with 1,173 in 2005/06 and 1,240 disqualifications in 2004/05.⁶⁰ The Service also told us that the budget was restored in 2007/08 and has been carried forward into the allocation for 2008/09.⁶¹ The Insolvency Service's enforcement activities have recently been the subject of a review. The findings published in July 2008 recommended options for restructuring, further development of the vetting process and a clearer enforcement criteria.⁶²

32. The number of companies that Companies House incorporates, at 120 every working hour, may mean that it cannot thoroughly scrutinise every name that appears on the register. Where it appears that a mistake has been made, the onus must be on concerned individuals and organisations to report disqualified directors to Companies House for further investigation by the Insolvency Service; the Insolvency Service needs the resources to do its part. Any information available to the relevant authorities relating to disqualified directors that is not acted upon in a timely fashion will bring the whole register into disrepute, especially if the information concerns serious offences or malpractice.

More stringent checks on directors?

33. As noted above, Companies House does not verify the details sent to it. The Finance and Leasing Association wanted a more thorough vetting process for the registration of company directors:

The verification of the identity and background of company directors is essential when a finance company decides whether to provide a lending facility. It also forms part of the prudent risk assessment which underpins responsible lending decisions. But Companies House's failure to vet the details of company directors listed on their website means that the Directors Register is currently unreliable.⁶³

The British Bankers Association suggested that directors names should be verified by Companies House against "voter roles, mortality files, VAT records" to prevent "front companies" being set up. They are concerned that false names, corruption of names and unwitting or collusive distant family members are held up as directors of so called "front companies" which are used to hide assets from creditors.⁶⁴ **We understand why it would**

59 Ev 37 (Insolvency Service)

60 Ev 37 (Insolvency Service)

61 Ev 37 (Insolvency Service)

62 Grant Thornton, *Review of Investigations and Enforcement: The Insolvency Service*, July 2008

63 Ev 36 (Finance and Leasing Association)

64 Ev 24 (British Bankers Association)

be desirable to have more thorough vetting of directors and we note the British Bankers' Association's suggestion that directors' details should be checked by Companies House against other government held data. However, the principles of data protection need to be abided by and the practicalities of such scrutiny considered. Moreover, we recognise that Companies House's primary function is to maintain its register and make it available to the public and this would be a move away from its statutory role. Given the volume of information handled such vetting could have considerable costs. There is also a danger if only partial checks were made, users of the data could be given false confidence in its reliability, rather than knowing, as now, that Companies House simply acted as publisher. Nonetheless, we recommend that a cost-benefit analysis is conducted of available ways to increase the level of checks on directors and, in particular, to make it harder for disqualified directors to evade detection by small changes in their details.

Company accounts

34. Through Companies House it is possible to see from paper files if an account was prepared by a qualified accountant and the name of that accountant; this is not possible with electronic files. The Professional Oversight Board, which oversees the regulation of accountants and actuaries by their respective professional bodies, suggested that this should be introduced for electronic filing. Accountants could then check electronically that their names were not associated with accounts they had not prepared.⁶⁵ The Professional Oversight Board was also concerned about the variable quality of accounts filed and argued that electronically filed accounts which indicate the accountant responsible for preparing them, would increase transparency and therefore indirectly improve quality.⁶⁶

35. When we asked Companies House why electronic accounts did not include the reference to the accountant, we were told the process was kept as simple as possible to encourage initial take up of on-line filing. However, Companies House also said that it was:

being actively encouraged by BERR to work towards providing companies and their advisors with opportunities to include [...] as wide a range of options as possible for additional disclosures, in addition to the statutory minimum information.⁶⁷

36. Professional accountancy bodies have been working with Companies House to develop these arrangements but, according to the Professional Oversight Board, "progress to date has been rather limited."⁶⁸

37. We understand why Companies House did not include information on the preparation of accounts when it first arranged to publish them online. However there would be real benefits in giving this information in the future. We cannot believe that there is any significant technical barrier or extra costs to indicating the involvement of a professional accountant on electronically filed accounts. We also support the

65 Ev 41 (Professional Oversight Board)

66 Ev 41 (Professional Oversight Board)

67 Ev 31 (Companies House)

68 Ev 41 (Professional Oversight Board)

Professional Oversight Board's suggestion that accountants should be notified of the filings, in which they are named, to prevent them being falsely associated. We urge Companies House and the Professional Oversight Body to resolve these issues as soon as possible. The accountant identified as responsible for filing the accounts should then take full responsibility for the accuracy of the information contained in them. Notwithstanding our recommendation in paragraph 26, this would enable users of Companies House data to have much greater confidence in its reliability without placing any additional burden on the companies whose information is recorded there, or on Companies House itself.

4 Identity fraud and ‘company hijack’

38. The All Party Parliamentary Group (APPG) on Identity Fraud and the British Bankers Association (BBA) warned that information registered at Companies House could be used for criminal activities:

- it gives fraudsters information to commit identity fraud—a criminal could take a director’s personal details and use them to apply for credit; and
- fraudsters can “hijack” companies by changing details on the Companies Register—a fraudster could change the registered office address of a company by writing to Companies House, using a signature copied from the register, and then orders goods to be delivered to that address. Suppliers checking the Register of Companies will find that a company of that name exists and appears to be trading at that address. The fraudsters then sell on the goods and leave the company with the bills.⁶⁹

The Metropolitan Police estimate that each successful crime of this type via Companies House can net over £100,000⁷⁰ and costs the economy in excess of £50 million per year.⁷¹

39. Companies House told us that:

Business and government want a system where it is easy to establish companies and to conduct business relatively free from the burdens of regulation. The challenge is to balance this need for a low regulatory burden with the need to prevent the companies register being used to facilitate fraud and financial crime.⁷²

It has been working with the Metropolitan and City of London Police to try to combat fraud. In May 2005 they jointly launched ‘Operation Sterling’ to identify and prevent attempts to take over companies’ identities for criminal use. A Metropolitan Police Officer was stationed in Companies House for 18 months disrupting 490 attempts of fraud.⁷³ We were concerned to learn that this posting was now over. When we questioned Companies House we were told that the objectives of “building robust and efficient mechanisms for co-operation between Companies House and the different police forces” had been achieved; and that it was not necessary for an officer to continue to be physically stationed at Companies House because the secondment had been used “wisely to transfer skills and knowledge of networks” to Companies House staff.⁷⁴ We hope this is indeed the case. **We understand the rationale for the withdrawal of the permanent police presence at Companies House, but are nervous about this apparent reduction in the overall anti-fraud effort. We recommend that Companies House and both the Metropolitan and City of London Police forces conduct regular assessments of the skills and knowledge of the staff at Companies House in relation to the opportunities for fraud. We also expect**

69 Ev 31 (Companies House)

70 Ev 15 (All Party Parliamentary Group on Identity Fraud)

71 Ev 22 (British Bankers’ Association)

72 Ev 27 (Companies House)

73 Ev 26 (Companies House)

74 Ev 31 (Companies House)

the possibility of reinstating the permanent police presence to be kept under continuous review.

40. We note that the Fraud Advisory Panel has recently emphasised that fraud should be a mainstream policing issue and called for local Police and Community Fraud Liaison Groups to feed intelligence and concerns to local police forces.⁷⁵ The former arrangements between the Metropolitan Police and Companies House seemed an excellent example of close working. However, **we are pleased that Companies House is continuing to work with the police in developing its intelligence role and is contributing to data sharing among the UK's law enforcement agencies. The effectiveness of these working arrangements must be reviewed regularly.**

What information should be publicly available?

41. The BBA considered that the removal of directors' personal addresses, dates of birth, signatures and dates of appointment from the register would reduce its usefulness to fraudsters. However it warned that this would need to be measured against anti-money laundering requirements as certain details reported to Companies House are used to identify potential launderers.⁷⁶

42. A solution could be having different levels of access to the data; the APPG and BBA both suggest restricting the amount of public access to personal details.⁷⁷ The Companies Act 2006 provides for a secure register for directors' residential addresses which will only be available to certain authorities and credit reference agencies. This both prevents misuse of the information by activists and should make it harder for the Companies Register to be used in identity fraud. Whilst this solves the fraud problem the BBA were concerned that by restricting access to just some authorities and credit references and not to banks their members would find it harder to meet consumer due diligence requirements because:

- banks will not be able to link Directors by the addresses used—it is often the case in fraud syndicates that the link is the addresses used;
- banks will not be able to protect ourselves at front end should these Directors make personal applications for finance.;
- banks will not be able to have any access to addresses of the companies shareholders so will not know who is behind the companies they are dealing with or in fact where they live (Sanctioned Countries);
- banks will not be able to obtain any documents from Companies House to confirm when and how someone was added as a Director nor compare signatures;
- if someone is a Personal Guarantee on an agreement and they have moved since the date the agreement was taken out the bank will not be able to locate them to enforce the Personal Guarantee;

75 Fraud Advisory Panel, *Tenth Annual Review, 2007–08*

76 Ev 23 (British Bankers Association)

77 All Party Parliamentary Group Report into Identity Fraud, October 2007

- access to limited information will negatively impact Risk and Underwriting decisions;
- banks' investigations into individuals who are added to companies as Directors will be frustrated as they will not be able to contact them to confirm that they are directors of the companies concerned and if their involvement is genuine and if not protect them and advise them to have their details removed; and
- banks will not be able to contact the genuine directors of companies that have been cloned.⁷⁸

43. The issue raised by the BBA goes wider than the remit of Companies House. However, **there is clearly a balance to be struck between making the register useful to those who are attempting to prevent crimes such as money laundering, while preventing it being useful to those attempting to commit other crimes such as fraud. This balance should be frequently reviewed and legislation amended as necessary.**

Protecting information

44. Companies House has also introduced ways to help companies protect themselves when using the register. There are three methods which they refer to as their 'three-point plan':

- E-filing—electronic filings are protected by authentication codes;
- PROTECTED On-line Filing (PROOF)—companies agree to file only electronically and Companies House queries any data submitted on paper; and
- Monitor—copies of any document filed for a particular company are sent to Monitor users, alerting them to the filing,⁷⁹ at a cost of 50p per company per year.⁸⁰

45. Mr Jones told us that although Companies House was encouraging people to take part in the three-point plan, only about 160,000 companies out of 2.6 million had signed up to PROOF even though it was free.⁸¹ BBA suggested that part of the problem was the lack of awareness amongst businesses of PROOF and Monitor. They recommend that there should be a publicity campaign to highlight the anti fraud benefits of the tools.⁸² Companies House's 2007/08 Annual Report highlighted that it had run marketing campaigns to encourage take up of electronic filing and the three-point plan⁸³ however it would seem that they have not been far reaching enough as the Companies House has consistently missed its targets on take up of electronic filing although these targets have risen sharply (see Table 3).

78 Ev 24 (British Bankers Association)

79 Ev 31 (Companies House)

80 Companies House website: <http://www.companieshouse.gov.uk/toolsToHelp/chdDirectInfo.shtml>

81 Q 57

82 Ev 22 (British Bankers Association)

83 Companies House Annual Report and Accounts 2007/08 *All geared up*

Table 3: Electronic filing targets and out-turn

Year	Target	Out-turn
2004/05	15%	12%
2005/06	35%	28%
2006/07	40%	37%
2007/08	55%	47.9%

Source: Companies House Annual Report and Accounts 2007/08

In justification Companies House said that the previous target of 55% of all submissions being electronic was too “ambitious;”⁸⁴ as a consequence the target has been changed to a 26% increase in electronic filing by volume for 2008/09. We note that this is a target to achieve less than that which was achieved last year, when 3.1 million documents were filed electronically, a 30% increase on the year before. We therefore question whether this new target is adequately challenging.

Compulsory electronic filing?

46. The potential for abuse is increased through the dual use of paper and electronic filing at Companies House. Although electronic filing can be protected, paper filing cannot, other than through the use of signatures. A member of the Institute of Chartered Secretaries and Administrators said that:

I am not surprised when fraudulent acts take place as it seems to me that it would be very easy to “hijack” a company. It would be easy to obtain a sample of a current directors signature from already filed documents, and then to file new forms to replace existing directors.⁸⁵

Although PROOF goes some way towards mitigating this risk, only 6% of companies have signed up for it.⁸⁶ The APPG suggested that PROOF should be made compulsory. Mr Jones told the Committee that “the key to making PROOF compulsory is to make e-filing compulsory for these documents. PROOF is a scheme that requires the agreement of the company and therefore making it mandatory is not a practical aim. A better approach is to broaden the use of PROOF as a first step and ultimately mandate electronic filing of company information”.⁸⁷

47. We were told that:

- in January 2009 Companies House will be consulting with their customers on a strategy for electronic filing;

84 Companies House Annual Report and Accounts 2007/08, *All geared up*

85 Ev 38 (Institute of Chartered Secretaries and Administrators)

86 Q 57

87 Ev 36 (Companies House)

- in June 2009 a revised electronic PROOF service will be launched accompanied by a marketing campaign warning of the dangers of not signing up; and
- depending on the outcome of consultation, Companies House will make further progress towards 100% electronic filing of basic form types (i.e. PROOF-related documents) and, subsequently, all filings—detailed timings to be considered post consultation, but 2011 would be feasible for the first stage.⁸⁸

This action is encouraging, and we do not wish to disrupt it. However, **we would have liked to have seen more urgency in increasing take-up of electronic filing, considering the targets have never been met. We are disappointed that there is no new campaign to encourage electronic filing until June 2009.**

48. As this chapter shows, **there are difficulties in balancing the need to provide an accessible, efficient, open register of companies details at a reasonable cost and the need to have systems to reduce the opportunities for crime. The evidence presented suggests that there could be merit in a review to assess whether Companies House could do more to prevent crime without compromising its core functions. Such a review could include a risk assessment to identify whether particular types or sizes of companies are more vulnerable to fraud, or more commonly used as vehicles for fraud, than others and if so whether there are cost effective targeted interventions which could reduce the risks such as by asking for annual verification of information submitted.**

5 Companies House and the market

49. In 2002 the Office of Fair Trading (OFT) reported on the fees charged by Companies House. It had been alleged that Companies House was subsidising prices for its dissemination activities through revenue earned from the registration of companies. Moreover its subscription based services were seen as competing with the work of dissemination agents. The OFT concluded that it had:

found no evidence that CH had: engaged in predatory pricing by setting prices for the competing commercial side of its operations that failed to recover its costs; overcharged for basic information sold to competitors in order to subsidise the price of its competing commercial products, which would have anti-competitively squeezed the margin on the products of its competitors.⁸⁹

50. The Committee has received submissions from organisations which are still worried about Companies House's perceived "monopoly" position. 7side said that there was a "fine line between providing an effective service and providing an unfair competition".⁹⁰ Bisnode considered that the "Companies House internal decision to deliver information via its own website quicker" added competitive pressure onto the dissemination agents (see paragraph 18) and commented that "Companies House seems to be oblivious to the fact that a monopoly supplier ought not to behave like this".⁹¹ Bisnode was also concerned that Companies House had imitated the way dissemination agents arrange and display documents on their websites. They feared that Companies House would imitate other data products, from dissemination agents, and charge lower prices for their service.⁹² Bisnode highlighted the example of the Companies House monitoring service "Monitor" (see paragraph 44), which the website says allows you to "keep an eye on any company on the public register, including your own company and 'monitor' what information has been sent to Companies House".⁹³ They believed this was "a commercial product, designed to compete with products also offered by dissemination agents" and that it should therefore be a non-statutory service charged for at a market rate.⁹⁴

51. Companies House denied that it was competing with the dissemination agents. Mr Jones told us "I do not want us to get into the business of competing for a market share." In response to claims about the website, Mr Jones said:

There is a question about whether or not providing that raw information in unusable formats is acceptable or not, and I would argue that my responsibility is to move with the times in terms of how we provide that information to people. So, for example, our website is constantly improved and modernised so that we are providing information in a very readable format. [...] I would still argue that that is raw

89 Competition Act 1998, Decision of the Director General of Fair Trading, Companies House, the Registrar of Companies for England and Wales, Press release, 10 October 2002

90 Ev 42 (7side)

91 Ev 18 (Bisnode)

92 Ev 19 (Bisnode)

93 Companies House website: <http://www.companieshouse.gov.uk/toolsToHelp/findCompanyInfo.shtml>

94 Ev 27 (Companies House)

information that we are providing. We are simply providing it in a more digestible form.⁹⁵

52. Mr Jones told the Committee that the only non-statutory work Companies House was involved in was helping customers understand the services, how they will change in the future and encouraging customers to use electronic filing. This involved information days, exhibitions, focus groups and web filing seminars.⁹⁶

53. We understand that the border between providing core services to the public and unfairly competing with the private sector is not crystal clear. However, we do not believe this means a public organisation should never seek to improve its services or that it should be deterred from introducing facilities to reduce fraud. We believe that Companies House has currently got the balance broadly right, but it must be exceptionally careful, as it strives to make its payments to the Treasury, that it does not abuse its position. The Treasury, it follows, must not make unreasonable financial demands of Companies House.

Incorporation

54. 7Side and the Association of Company Registration Agents were concerned about a proposed ‘citizen’s company registration service’. Currently an organisation can be incorporated:

- through an incorporation agent by paper or electronically; or
- directly with Companies House by paper.

Incorporation agents are the only people who can access the electronic incorporation service offered by Companies House as to do so requires specific software: 90% of companies incorporate this way.

55. A citizen’s company registration service would allow electronic incorporation of a company directly with Companies House instead of going through an incorporation agent. The Association of Company Registration Agents said:

The public could be seduced by a [Companies House] service of providing new companies at a price no private service provider could match, imagining that because it is government-backed they will receive the company they need. But that may well not be the case.⁹⁷

Mr Jones said that he has told the incorporation agents that Companies House will not compete with them “in terms of ongoing relationships with companies”⁹⁸ by, for example, advising a company on how it might be structured and operate. However, he also said “I

95 Q 21

96 Q 23

97 Ev 17 (Association of Company Registration Agents)

98 Q 38

am not in business to provide a living for incorporation agents, I am there to provide a service to companies in the UK.”⁹⁹

56. Companies House facilitates “do-it-yourself” incorporation if paper is used: it is logical for it to offer this service electronically as well. Here, again, the issue is transparency for those who use the services of Companies House. The advantages and disadvantages of using the service offered by Companies House should be made clear.

57. The other issue highlighted by 7side is that the Money Laundering Regulations 2007 oblige incorporation agents to carry out “due diligence” when forming companies. Companies House is not covered by this and 7side believe that money launderers can therefore “go direct to source to form their fraudulent company with no questions asked”.¹⁰⁰ It also noted that the Money Laundering Regulations do not extend to foreign company formation agents and, unless Companies House precludes such organisations from registering companies, this would also create a clear path for any potential money launderer to abuse the system.¹⁰¹

58. The Committee understands the frustrations for incorporation agents of having to carry out “due diligence” when incorporating when Companies House does not. Nonetheless we do not believe that Companies House’s role should be extended to scrutinise the businesses they are incorporating. However the register should show where an incorporation agent had been used as opposed to an “off-the-shelf” incorporation and also indicate the different levels of assurance that this provides.

6 Conclusion

59. Companies House appears to be fulfilling its core functions reasonably well; it handles and provides millions of documents a year; its charges are modest; it is using any surpluses for further investment, and it has met most of its ministerial targets. The issues that have arisen during this inquiry have been about matters that are not entirely within its control. The first is where the balance between publication of information and verification of that information should lie. It would be inaccurate to say Companies House was currently simply a receiver and disseminator of information; its role in checking for disqualified directors goes further. However, beyond that, it offers no assurance. We do not necessarily think this is unreasonable, but recommend there should be a review to consider the balance. The other significant issue is the extent to which companies should be encouraged or even forced to use electronic services, which reduce the risk of fraud. We are disappointed that Companies House has missed its targets for electronic take up of these services, and although we welcome the initiative to increase this, we are disappointed it will not begin until 2009. We understand the difficulty in enforcing electronic filing when current take-up levels are only 49%, but we believe that to reduce fraud, this should be the Government’s ultimate aim.

99 Q 38

100 Ev 42 (7side)

101 Ev 42 (7side)

Conclusions and recommendations

CHIPS

1. We are concerned that there were initial teething problems with Companies House Information Processing System (CHIPS) which resulted in a deterioration of some services to dissemination agents. We trust that all services are now of a similar or higher standard to that offered before the rollout. IT systems should result in an improvement of service to all customers: we would be concerned if that were not the case. (Paragraph 19)

Companies Act 2006

2. The delay to the Companies House Information Processing System (CHIPS) has resulted in delays in bringing parts of the Companies Act 2006 into force. This is disappointing and the large amount of public money wasted on the original contract is deplorable. Nonetheless we believe Companies House and BERR were right to postpone commencement of these sections of the Act, rather than to press ahead and risk disrupting thousands of businesses if implementation proved impossible. (Paragraph 22)

Status of Information filed at Companies House

3. We believe that the Companies Act 2006 could have given greater rectification powers to the Registrar of Companies to remove incorrect information from the register without having to resort to the courts. (Paragraph 24)
4. We recommend that Companies House takes every opportunity to make clear that its primary function is to publish the information it receives, and that it cannot guarantee the accuracy of the information. It needs to amend its website and other published material to reflect this reality as a matter of urgency. (Paragraph 26)

Disqualified directors

5. The number of companies Companies House incorporates, 120 every working hour, may mean that it cannot thoroughly scrutinise every name that appears on the register. Where it appears that a mistake has been made, the onus must be on concerned individuals and organisations to report disqualified directors to Companies House for further investigation by the Insolvency Service; the Insolvency Service needs the resources to do its part. Any information available to the relevant authorities relating to disqualified directors that is not acted upon in a timely fashion will bring the whole register into disrepute, especially if the information concerns serious offences or malpractice. (Paragraph 32)

More stringent checks on directors?

6. We understand why it would be desirable to have more thorough vetting of directors and we note the British Bankers' Association's suggestion that directors' details

should be checked by Companies House against other government held data. However, the principles of data protection need to be abided by and the practicalities of such scrutiny considered. Moreover, we recognise that Companies House's primary function is to maintain its register and make it available to the public and this would be a move away from its statutory role. Given the volume of information handled, such vetting could have considerable costs. There is also a danger if only partial checks were made, users of the data could be given false confidence in its reliability, rather than knowing, as now, that Companies House simply acted as publisher. Nonetheless, we recommend that a cost-benefit analysis is conducted of available ways to increase the level of checks on directors and, in particular, to make it harder for disqualified directors to evade detection by small changes in their details. (Paragraph 33)

Company accounts

7. We understand why Companies House did not include information on the preparation of accounts when it first arranged to publish them online. However there would be real benefits in giving this information in the future. We cannot believe that there is any significant technical barrier or extra costs to indicating the involvement of a professional accountant on electronically filed accounts. We also support the Professional Oversight Board's suggestion that accountants should be notified of the filings, in which they are named, to prevent them being falsely associated. We urge Companies House and the Professional Oversight Body to resolve these issues as soon as possible. The accountant identified as responsible for filing the accounts should then take full responsibility for the accuracy of the information contained in them. Notwithstanding our recommendation in paragraph 26, this would enable users of Companies House data to have much greater confidence in its reliability without placing any additional burden on the companies whose information is recorded there, or on Companies House itself. (Paragraph 37)

Identity fraud and 'company hijack'

8. We understand the rationale for the withdrawal of the permanent police presence at Companies House, but are nervous about this apparent reduction in the overall anti-fraud effort. We recommend that Companies House and both the Metropolitan and City of London Police forces conduct regular assessments of the skills and knowledge of the staff at Companies House in relation to the opportunities for fraud. We also expect the possibility of reinstating the permanent police presence to be kept under continuous review. (Paragraph 39)
9. We are pleased that Companies House is continuing to work with the police in developing its intelligence role and is contributing to data sharing among the UK's law enforcement agencies. The effectiveness of these working arrangements must be reviewed regularly. (Paragraph 40)
10. There is clearly a balance to be struck between making the register useful to those who are attempting to prevent crimes such as money laundering, while preventing it being useful to those attempting to commit other crimes such as fraud. This balance should be frequently reviewed and legislation amended as necessary. (Paragraph 43)

11. We would have liked to have seen more urgency in increasing take-up of electronic filing considering the targets have never been met. We are disappointed that there is no new campaign to encourage electronic filing until June 2009. (Paragraph 47)
12. There are difficulties in balancing the need to provide an accessible, efficient, open register of companies details at a reasonable cost and the need to have systems to reduce the opportunities for crime. The evidence presented suggests that there could be merit in a review to assess whether Companies House could do more to prevent crime without compromising its core functions. Such a review could include a risk assessment to identify whether particular types or sizes of companies are more vulnerable to fraud, or more commonly used as vehicles for fraud than others and if so whether there are cost effective targeted interventions which could reduce the risks such as by asking for annual verification of information submitted. (Paragraph 48)

Companies House and the market

13. We understand that the border between providing core services to the public and unfairly competing with the private sector is not crystal clear. However, we do not believe this means a public organisation should never seek to improve its services or that it should be deterred from introducing facilities to reduce fraud. We believe that Companies House has currently got the balance broadly right, but it must be exceptionally careful, as it strives to make its payments to the Treasury, that it does not abuse its position. The Treasury, it follows, must not make unreasonable financial demands of Companies House. (Paragraph 53)
14. Companies House facilitates “do-it-yourself” incorporation if paper is used: it is logical for it to offer this service electronically as well. Here, again, the issue is transparency for those who use the services of Companies House. The advantages and disadvantage of using the service offered by Companies House should be made clear. (Paragraph 56)
15. The Committee understands the frustrations for incorporation agents of having to carry out “due diligence” when incorporating when Companies House does not. Nonetheless we do not believe that Companies House’s role should be extended to scrutinise the businesses they are incorporating. However the register should show where an incorporation agent had been used as opposed to an “off-the-shelf” incorporation and also indicate the different levels of assurance that this provides. (Paragraph 58)

Formal Minutes

Tuesday 11 November 2008

Members present:

Mr Peter Luff, in the Chair

Mr Adrian Bailey
Roger Berry
Mr Brian Binley

Mr Lindsay Hoyle
Mr Mike Weir
Mr Anthony Wright

Draft Report (Companies House), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 59 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Thirteenth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 18 November at 10.00 am

Witnesses

Wednesday 26 March 2008

Page

Gareth Jones, Chief Executive and Registrar of Companies for England and Wales, Companies House, and **Geoff Dart**, Director of Corporate Law and Governance, Department for Business, Enterprise and Regulatory Reform

Ev 1

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3	Bisnode	Ev 17, 20
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Fifth Report	Waking up to India: Developments in UK-India economic relations	HC 209
Sixth Report	After the Network Change Programme: the future of the post office network	HC 577
Seventh Report	Keeping the door wide open: Turkey and EU accession	HC 367
Eighth Report (First Joint Report of Committee's on Arms Export Controls)	Scrutiny of Arms Export Controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254
Ninth Report	Construction matters	HC 127
Tenth Report	Post Office finance: matters arising from evidence taken on 10 June 2008	HC 662
Eleventh Report	Energy prices, fuel poverty and Ofgem	HC 293
Twelfth Report	Post Office Card Account: successor arrangements	HC 1052

Oral evidence

Taken before the Business Enterprise and Regulatory Reform Committee

on Wednesday 26 March 2008

Members present

Peter Luff, in the Chair

Mr Brian Binley
Mr Michael Clapham

Mr Mike Weir
Mr Anthony Wright

Witnesses: **Mr Gareth Jones**, Chief Executive and Registrar of Companies for England & Wales, Companies House, and **Mr Geoff Dart**, Director of Corporate Law and Governance, Department for Business, Enterprise & Regulatory Reform, gave evidence.

Q1 Chairman: Gentlemen, I am sorry to keep you waiting a little. We were just discussing some of the issues this session would bring up. We are very grateful to you for coming. I am sorry it is such a large room and you are so far away from us as well, but at least the acoustics are quite good so we should be able to hear each other. Can I begin as I always do, by asking you to introduce yourselves for the record?

Mr Jones: Yes, Chairman. Thank you. My name is Gareth Jones. I am Chief Executive of Companies House and Registrar of Companies for England and Wales.

Mr Dart: Good afternoon, Chairman. Thank you also. My name is Geoff Dart. I am the Director of Corporate Law and Governance at the Department for Business, Enterprise & Regulatory Reform, which means I have responsibility for company law and therefore a lot to do with Companies House.

Q2 Chairman: Thank you very much indeed and, Mr Jones, thank you very much indeed for the written evidence you provided the Committee with as well. This may seem a strange question to ask to begin with, but can you explain to us what you are for?

Mr Jones: Yes. The functions of Companies House and its predecessors go back a long way. Even back as far as the mid-nineteenth century there was no company registration system. Prior to that, companies had to take their status and their constitution from the Royal Charter, so a system of company incorporation was set up to make it easier for companies to incorporate and therefore make it easier for companies to operate in the UK. Shortly after that, the whole concept of limited liability raised its head because investors had traditionally been reluctant to invest in companies because of their full liability for any debt that might be incurred. So there began the one half of the bargain that Government still has to this day with companies in the UK, that in return for easy and relatively cheap incorporation and in return for limited liability status for its directors, directors of companies have to provide certain information to me, as Registrar of Companies, which I then make available for the public. The purpose of making that information available is really the nub of what

Companies House is there to do. In order to allow businesses access to easy and readily accessible information, and in order to allow people to assess the performance of companies and assess the track record of directors in companies, in return for that limited liability status that information is provided. That enables people, of course, to make informed decisions about who they want to do business with, who they want to work with as their clients, who they want to work with as their suppliers, and who indeed they believe have good credit, for example.

Q3 Chairman: Who typically uses the services of Companies House? Apart from the people who file their reports and accounts, who else uses those services?

Mr Jones: Oh, a vast range of people use the services of Companies House. Typically, it is companies who are determining whether or not another company is a good one to do business with. Credit reference agencies use the information in Companies House to assess the track record of directors. Competent authorities and law enforcement agencies use our information a good deal and we put a great deal of effort into working with them, and indeed ordinary citizens who are interested in whether or not, for example, to buy goods and services from particular companies may well access that information, typically on our website, to see whether or not the company is one they would wish to do business with.

Q4 Chairman: I want to set this evidence session in the context of the overall flavour of the evidence we have received from witnesses, from oral and written evidence beforehand. For example, one bit of paper I have got says, "In our view, Companies House generally perform extremely well within their remit and meet the majority of their targets, as their own figures show". So generally "extremely well within their remit". I think perhaps there are some issues in understanding what that remit actually is and that may be one of the problems. The Professional Oversight Board, part of the Financial Reporting Council, Sir John Bourn, wrote to us and said this, and I would like to know what you say in answer to this point: "Our research found that a sizeable minority of annual accounts filed at Companies

House appeared in 2005–06 to include significant technical issues, material computational errors or other evidence of a lack of care and preparation that, taken together, could undermine the usefulness of the accounts”.

Mr Jones: Yes. We worked with the Oversight Board and have done for several years. I think he also said in his letter that he accepted that that was not actually an issue for Companies House but was in fact an issue for the institutes and others who regulated those bodies rather than our remit, which is effectively one of registration of information that is sent to us.

Q5 Chairman: So really you are a repository of data and that is really it, is it not? The quality of the data is a matter for those who submit the data to you?

Mr Jones: We are a provider of information, I would say, Chairman, and as a prerequisite to be able to provide that information to individuals we have to ensure that companies comply with sending us the necessary information, as they are supposed to do, either as a result of events in the company life or as a regular feed of information into Companies House, which is normally on an annual basis.

Q6 Chairman: There may be very good reasons for this—and I know one of my colleagues wants to come in on some issues we are discussing at present—but you are obliged to put a very high premium indeed on timely filing of accounts with quite significant and increasing penalties for failure to file in a timely fashion. Some of the smaller charitable organisations, local bodies that actually have to file accounts with you, I have had the experience of them saying, “We said to Companies House, ‘If you give us a couple of weeks we’ll give you accurate accounts,’ and Companies House said, ‘No, no, no, give us inaccurate accounts now rather than accurate accounts in two or three weeks’ time.” Timeliness seems to take precedence over accuracy?

Mr Jones: I would be very disappointed if that was the reaction of Companies House. It is true to say that we expect people to file their accounts on time. Private companies, after all, have ten months after the completion of their accounts to file them with Companies House, so I would argue that they have certainly sufficient time to get that work done and to file their accounts with us. If, however, companies are running up to the deadline and have very good reasons why they are not able to file their accounts on time—and I can give a number of examples of instances where we have considered, very favourably, reasons why people have suggested they cannot file their accounts on time—we do occasionally, and exceptionally, give an extension. But people have to demonstrate that there are good reasons, rather than just, “Well, we simply haven’t managed to do it yet”.

Q7 Mr Weir: One thing I wanted to ask was, you made it very clear that Companies House is just the repository of documents which are put there by the companies, basically for public inspection, but do those who come to you for information or who are

searching for company directors or data on the companies, do you think they fully understand that position or are they looking for something a bit more than that, some sort of guarantee of the probity of the company because of the information at Companies House? Is it looked on as perhaps the Land Register is, or is it fully appreciated that it is merely a public register for inspection with no guarantee of accuracy as to what is there?

Mr Jones: We certainly try and make it clear that that is what we are there for and that we accept information sent to us, as it were, in good faith. However, I think you are right in your implication that people who are searching for information on what is, after all, an important Government database of information probably do assume that there are more checks done on that information. The reality is that with the sorts of volumes of information we get into Companies House, in excess of eight million documents sent in to us every year, it would be nigh on impossible to have a robust and complete system of checking that information. We make rudimentary checks on the information and also, if somebody gets in touch with us and says they do not believe or accept, or that they are sceptical about the information on the register, we will always follow that up and look to see whether or not something is amiss, but that is effectively the only way in which we can follow up compliance in terms of the content of the information that is on the register.

Mr Weir: Could you tell me what sort of percentage of returns are actually checked in that manner?

Q8 Chairman: This is the sort of inquiry of a member of the public expressing concern about a return.

Mr Jones: I can tell you that out of the approximately 600,000 documents that we get in every month in Companies House about 50 are brought to our attention as potentially connected with some sort of fraud or corporate ID issue. I do not have the figures to hand as to how many people draw attention to, as it were, anomalies or inaccuracies, or incorrect information on there.

Q9 Mr Weir: I think Brian will come on to some of these issues later, but if I set up a company and I send you the documents, what does your checking procedure in a normal situation briefly consist of? Is it just checking that all the boxes are ticked and filled up properly? Is there anything behind that as to checking the veracity of anything I send to you?

Mr Jones: We simply check that all of the necessary information that is required by the Companies Act is present. So, for example, if you are sending in a set of accounts we check that it is signed by a director, we check that the company name is correct, we check very, very simple levels of information. The difficulty we have as a registry of information is that it is almost impossible for me to assess the truthfulness of the information that is being sent in, even if, for example, somebody else writes in and says, “Well, we don’t believe the information that is sent in to you on this annual return,” or, “on that set of accounts,” I am not in a position to judge one way or another

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whether that complaint is a legitimate one or perhaps one based on an argument or mischievousness within the company or associated with that company.

Q10 Mr Weir: But do you have any procedure, say of spot checking a given percentage of them in more detail?

Mr Jones: No. About 40% of the documents that come in to us come in electronically and those documents are assessed via a verification process in the computer system, and that system will submit information to the register, all forms, all pieces of information that appear to it to pass those verification processes.

Q11 Mr Weir: So it is a completely electronic procedure?

Mr Jones: As I describe it, Chairman, it is a process which for a large number of cases means that those forms do not touch the sides when they come in to Companies House. They simply come in, go via the verification process and are put on the register. For those forms that fail the verification process, they are sent to a member of staff, to a query handler, who then has to assess whether or not the information is correct or not. There may be mismatches of information compared with the information we already have on the register, or there may be pieces of information missing, in which case the form would be sent back to the applicant for re-submission. For paper documentation—and that amounts to a very significant amount of documentation, we receive something like three-quarters of a tonne of mail every day—

Q12 Chairman: That is more than the average MP gets!

Mr Jones: But less interesting, Chairman, I am sure! All of those pieces of paper are brought into the office, are taken to a member of staff, who then inputs the information into the system before every single document is scanned onto the register. So the register is made up of a database of information with data and separately in excess of 300 million pages of scanned image.

Q13 Mr Binley: As a supplementary, I would like to come on to the whole issue of fraud and how you deal with it. Is it true to say that whilst that law states some very bare bones responsibilities that you need to carry out, the way you have developed your business has created a different perception in the business community and that they see you as a provider of information and they believe that information needs to be credible? Is there not a real stress between what the law says you have to do as a registration office and the business you have consciously moved into, which is quite profitable to you in terms of information provision, and does not that stress mean that you have a greater responsibility in truth than the way you have explained it to us at this very moment?

Mr Jones: The first thing I would say about that, Chairman, is that we do not make a profit. We simply cover the costs that we incur, and indeed on a year on year basis we are not allowed to make a profit, we simply—

Q14 Mr Binley: You had a surplus of £1.3 million of income over expenditure? That sounds like a profit to me.

Mr Jones: We did last year, but we will make a loss next year, which is why year on year the requirements of cost recovery are met. In the context of your question about information provision, well, we operate within the powers that we are given and we do not go beyond those in terms of our ability to test or legitimise the veracity of the information that is there. Indeed, it is very easy sometimes for one to think, when one gets a letter from a member of the public to say that this piece of information or that piece of information on the database, on the register, is clearly wrong, that that person must be right. But actually I cannot get into the business of determining between two members of the public, or indeed two directors in a company, which is often, I am afraid the case, as to whether or not one or the other is telling the truth. So we put the information on the register that we are told to put on the register, within the limits of our powers, and it gets to the point after that whereby even if we believe the information is incorrect at the moment I do not have the powers to take that information off the register. Those powers can only be provided by a direction from the courts. The new Companies Act, Chairman, does give me more powers in terms of rectification, in terms of expunging information, in terms of annotating the register where we believe something is incorrect, but as of now within the provisions of the 1985 Companies Act I do not have the powers to be able to change the register, to take information off the register, or take off information I believe is wrong. That can only be provided by an instruction from the courts. Just to say, Chairman, we do often offer help to individuals, however. If we believe the information is wrong, we often help as to how to take that procedure through the courts, though it is a cumbersome procedure.

Q15 Mr Clapham: Mr Jones, in terms of the documentation you record in reference to each company, would that include such things as, for example, employers' liability insurance, and if so have you an historical list of employers' liability insurance in relation to companies?

Mr Jones: I do not know the answer to that, Chairman, as to whether or not employers' liability insurance is included. I suspect it is not a statutory piece of information which is required, though as part of the accounts that are provided to us on an annual basis (depending on how big the company is) they may well get into the realms of provisions for that. If they are making provisions for that sort of liability, then they would be in the accounts. The vast majority of accounts that come to us, of course—and we receive something like two million sets of accounts a year—are either small,

abbreviated, un-audited accounts or accounts which relate to dormant companies, so they certainly would not include information to that level. In terms of your question about history, we do maintain a history of all the documents which are sent in to us from a company for 20 years, so anybody who wants to look back through the history and the track record of a company, or indeed the track record of its directors, can get that information from us at a very reasonable price.

Q16 Chairman: I do not want to labour the point, but it seems to me that documents filed at Companies House are about as reliable as a newspaper report. They draw attention to the fact that a story exists, but the wise reader of the accounts (the article) should check the facts in more detail before acting upon them?

Mr Jones: I think it is true to say, Chairman, that the completeness or accuracy of a set of information on the register says a lot about a company and readers of that information who are making informed choices about whether or not to do business with that company should take their decisions on the basis of just such information. So the fact that information is either missing or not up to date, or not filed on time, or in some cases inaccurate is, I would suggest, just as useful information to someone who is considering doing business with that company as a pristine set of accounts.

Q17 Chairman: I see that, but I am trying to work out what weight I should attach to Sir John Bourn's comment that the usefulness of the accounts could be undermined by the inadequacy, the errors contained within filed accounts, that people would not be aware of, that even professional accountants probably would not be aware of. It seems to me that the *caveat emptor* rule must apply very strongly to those who use the information which you store?

Mr Jones: I would agree, and I think the point about working with the accountants, the institutes, for example, and getting them to take their responsibilities in terms of their members in a slightly more robust way is almost the point John Bourn was making in his letter.

Q18 Chairman: Yes, he was certainly implying that, I thought as well. Let us move on from this, and we will return to fraud towards the end of the session in some detail because that is a matter which does concern this Committee quite considerably. I just want to get this question of whether you make a profit or not sorted out. According to your report and accounts, the Companies House Trading Fund paid a dividend for the last financial year of £2 million to the Treasury, so that seems like a profit for the Treasury to me, if not to Companies House?

Mr Jones: Well, if you count the dividend, Chairman, then we do make a profit, yes.

Q19 Chairman: I think counting dividends is quite an important part of the assessment of your profitability!

Mr Jones: We are required to pay a 3.5% dividend to the Treasury. If one puts that into our costs base, then our aim is to cover our costs by setting fees appropriately, and that is what we do.

Q20 Chairman: And to make a modest but useful contribution to Her Majesty's Treasury. That is an important point, on top of the surplus you declare, so actually last year it was £3.3 million, the combination of the dividend and the surplus. I know you stand to make a loss this year, so I understand that.

Mr Jones: No, we are not going to make a loss this year, we are going to make a loss next year, I expect, Chairman.

Q21 Chairman: Okay. That is forward looking. The point Mr Binley was exploring with you a little was this point about competition with the private sector. We have had a number of complaints in writing from witnesses saying that you do not restrict yourself to providing statutory services and that you compete with the private sector. Do you agree with that analysis?

Mr Jones: No, I do not. We believe we provide raw data, either to those who are searching for the information via the website or to a number of bulk customers, and we have about 26 or 27 major bulk customers who take basically huge amounts of data from us either on a daily or weekly basis, and we do not want to get into the business, I do not want us to get into the business of competing for a market share. There is a number of bulk producers who take information from us, add value to it and then sell it on to their customers and do a very good job indeed, and form a very useful part of the underlying economic infrastructure. So I think if one looks at, for example, the OFT report which came out last year in which they said they believed we were both charging appropriately for our services and providing appropriate services, that is testament to the fact that actually what we are doing is providing raw information. There is a question about whether or not providing that raw information in unusable formats is acceptable or not, and I would argue that my responsibility is to move with the times in terms of how we provide that information to people. So, for example, our website is constantly improved and modernised so that we are providing information in a very readable format. We have considered other ways of providing information and I am aware that there are registries around the world which are, for example, providing information via SMS texting. I would still argue that that is raw information that we are providing. We are simply providing it in a more digestible form.

Q22 Chairman: Do you think there are any products you offer which are not statutory products, any products at all?

Mr Jones: There are no products that we are offering which do not have a statutory basis.

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Q23 Chairman: Because the suggestion has been made to us that actually what you do is you think of a new product you quite like and then put it on a statutory footing, so it actually was not a statutory and that you add it to the statutory list and, hey presto, it is statutory suddenly.

Mr Jones: I would argue that we are certainly trying to do what we can to serve our customers as best we can but within the limits of the statutory framework that we operate within. The things we do which are not statutory are largely in terms of helping customers understand our services, helping customers understand how our services are going to change in the future, trying to encourage the behaviour of customers in different directions so that they, for example, file their information electronically with us rather than on paper because there are key efficiencies there for us and therefore key costs savings that we can pass on to our customers. So we do engage in a large number of information days, exhibitions, focus groups, web filing seminars, all of which are intended to try and help our customers both understand us and work with us in a way which is more cost-efficient for the long-term.

Q24 Chairman: I know that your data can be used in a whole stack of different ways by us and organisations that want it, but are there any services related to the use of your data which you think Companies House should not offer in principle?

Mr Jones: As I have said already, I do not think we should be getting into the business of adding value to the information which is on our register. I think our responsibility is to register that information and make it available in as accessible a form as we can to as many people as want it, and to charge for those services sufficient to cover the costs of providing them.

Q25 Mr Binley: Have you read your website lately, Mr Jones?

Mr Jones: Yes.

Q26 Mr Binley: And you recognise that as a marketing tool, do you? Let me quote you three lines from it, because I think this really highlights the problem you have, both hiding behind the thing about being a registration only organisation whilst really being out there and selling. Let me just highlight three phrases. “You can use WebCheck to purchase companies’ latest accounts and annual returns as well as a selection of company reports all online”. “Companies House Direct is your premier research tool for assessing and downloading company information directly to your own pc”. “You can keep an eye on your competitors or even your own company and monitor which documents are being filed”. Now, the whole thrust of that—and I am a marketing man—is that you really provide vital information to deal with your business and deal with your competitors. That is the feel of it, the ambience you are creating, and I understand why, because you have got a very valuable tool indeed. I want to come on to that later, but do you understand

why people see that there is a real tension between your arguing that you are simply a registration organisation and your marketing activity, which is about the business side of information and list creation, and so forth?

Mr Jones: I was quite heartened to hear the way in which you read those out from the website, I have to say. It seems to me that what we are doing on the website is encouraging people to use the information.

Q27 Mr Binley: You are selling.

Mr Jones: We are selling inasmuch as we have to cover our costs, but we are encouraging people to use that information. Let me, just as an aside, I think demonstrate that the proof of the pudding is in the eating. You talked about the website. We are one of the biggest website providers in government in the UK. In January this year we had over 50 million hits on our website. So people do see it as a very important source of information, and it is a very important source of information, and the way in which I think we were encouraging people to use the services of WebCheck and Companies House Direct, and indeed Monitor services, which was the other one you referred to, I think is absolutely right because Monitor is a very important tool in the fight against fraud, and perhaps we will come on to that later. WebCheck and CHD (Companies House Direct) are very clear and easy to use access points into the information we have got. I can see where your line of questioning is going and where it is going is, “Well, if you are going to encourage people to use that information so much, shouldn’t you make sure it’s more accurate?”

Q28 Mr Binley: My very next question! You are absolutely right.

Mr Jones: My difficulty in that is two-fold: (a) I do not have the powers to assess the accuracy of the information, and (b) I think I have demonstrated that the volumes of information that we get into Companies House would mitigate very strongly against our being able to check in any more than just superficial detail the quality of the data that we get.

Q29 Chairman: Before I hand over to Michael Clapham to take this argument slightly further, just one last little detail point on late filing. We have had very little evidence from users of your service, individual users, but one small organisation wrote and said—and I have some sympathy with this point. I know you said they have ten months to file and I understand that context. “They seem very sharp to catch late filing and charge the £100 penalty. One of my returns was delayed in the post but the fine still stood and we were charged because of another government department’s inadequacies”, is the exact quote. Now, is evidence of posting, proof of posting, sufficient defence?

Mr Jones: No. I would say two or three things to that, Chairman. The first thing I would say is that we encourage people to file their information

electronically anyway, so if people would file their information electronically they would not have problems with postal strikes.

Q30 Chairman: Can I just deal with that point? He does not have web access. It is a small charitable organisation.

Mr Jones: The second point I would make is that postal strikes are advertised pretty well in advance.

Q31 Chairman: This is lost in the post. This is not a strike, it is a delay in the post.

Mr Jones: If the individual thinks that he has had stuff lost in the post, the first thing I would say is that they should first of all send us information which enables us to get back to them as and when we have received it. The second thing I would say is that if they have an issue with the Royal Mail then they would need to take it up with them.

Q32 Chairman: So the advice would be, if you are filing late or towards the deadline use a proof of postage, special delivery, recorded delivery, something like that to make sure?

Mr Jones: Absolutely, Chairman. Actually, my advice would be to file on-line.

Chairman: If you possibly can. Thank you very much.

Q33 Mr Clapham: Mr Jones, you have said that you are a repository of UK company information and an important repository, as you have explained. Given that information is there, you are bound to attract, of course, the information companies, dissemination agents, et cetera. Do you see that really as being a main function that you provide? Is it something you would give priority to? Do you see it as being a priority service?

Mr Jones: Do you mean marketing companies and the like?

Q34 Mr Clapham: Yes, I mean the companies that seek that information in order to be able to, as you say, add to that, enhance it, and then pass it on.

Mr Jones: Yes, I would see our role as providing raw information to a number of companies that do add good value to it and sell it on to their customers. In the context of, for example, a company that is buying the information off us to use it as a mailing list to directors to sell their services, for example, I would not see us necessarily as fulfilling that role. Indeed, the new Companies Act will prevent that happening because directors' residential addresses will not appear on the public register. Service addresses will appear, but individual directors' residential addresses will be protected. I think there is a number of companies that buy our services and information that have very laudable aims and a good customer base and are doing a good service.

Q35 Mr Clapham: Given, as you say, it does become a priority and you employ just above 1100 people, providing that kind of service down the line to

information companies, et cetera, must take quite a lot of servicing and quite a lot of the input of your staff, does it not?

Mr Jones: Not a huge amount. The bulk outputs that we produce are largely produced automatically from our IT systems. We do have a very good customer liaison centre. We have good relations with our bulk purchasers and also good relations with our other customers, but there are not large numbers of staff beavering away to aggregate the information we have got. By and large, what happens is that bulk producers buy from us the changes to the register that day and then apply it to the total of information they have already got. So they effectively keep a mirror image of the register and then they manipulate it in the way they wish.

Q36 Mr Clapham: Is it a service that does sort of generate a revenue and helps to keep Companies House operating?

Mr Jones: Yes. We cover our costs by charging bulk customers the amount that their service costs us. We actually halved the cost to bulk purchasers in our last major fees order, which was in 2005.

Q37 Mr Clapham: Just coming back to the question before the last that I asked in relation to the amount of staff who are actually engaged in providing the service, one of the reasons I asked that is because according to some of the information we have got bulk data files are now delivered to dissemination agents later than they were when they were operating the old system and I just wonder why that was.

Mr Jones: It is true to say that we implemented our new computer system on 25 February and it is true to say that in the first couple of weeks of operation we had a few teething problems. In particular, we had a few teething problems producing some of our bulk outputs. As of yesterday, my customer liaison staff tell me that in their discussions with the bulk output takers they are now content with the information they have got and that they are getting it accurately and timeously, and things seem to be back on track. So I would accept that in the first couple of weeks there were some issues with some outputs, yes.

Chairman: One of the frustrations about this inquiry, I should tell you—and this is one of our routine investigations for MDPB, so we are not here for a particular reason. Nothing actually has happened to bring you before us now. We do this and it is your turn in the spotlight, as it has been ACAS and the MDA and others in the past, but awareness of the inquiry has been growing latterly and we had calls yesterday which disagreed with your analysis in the office, so this is a matter to which I think we may have to return. We shall see.

Q38 Mr Weir: One of our witnesses raised the concern that you are planning to offer what they call a citizen's company registration service. Can you tell us if this is the case, and if so what does it mean?

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Mr Jones: Yes, I can. At the moment, anybody can incorporate or register a company with us. Last year we had something like 440,000 companies incorporated on the register in Great Britain. There is a number of good and a number of not so good incorporation agents out there who will do that job for you. If you want to incorporate a company, you can go to an agent and they will effectively fill the forms in for you and often provide an ongoing secretarial service subsequently. We provide an electronic incorporation service, but the only people who can currently access that electronic incorporation service are incorporation agents because there is specific software that is required to do it. Something like 90% plus of companies are currently incorporated electronically via incorporation agents. I have had a number of discussions with the incorporation agents and their umbrella body, ACRA, about our plans to offer a direct incorporation service to companies who want to incorporate with us electronically not via incorporation agents. I have made it clear to them that it is my strategic objective to provide that service because I am not in business to provide a living for incorporation agents, I am there to provide a service to companies in the UK, but what I have also said is that we will not seek to compete with incorporation agents in terms of an ongoing business relationship with companies. So they have a lot to offer to companies in terms of advising on the constitution of the company, advising on how the company might run its meetings, advising on how the company might be structured, advising on future secretarial services as well as doing the basic electronic incorporation with Companies House. I am never going to get involved in competition in that broad range of services, but I have made it clear that our stated aim is that we will provide a direct electronic service to individuals, and I have also said that that is unlikely to be before 2010.

Q39 Mr Weir: Have I picked up correctly that individuals can presently incorporate companies without going through incorporation agents?

Mr Jones: On paper.

Q40 Mr Weir: So what you are proposing to do is to basically put this on-line, presumably through your website, so they can do it that way as well as the paper route. Would this service offer a standard form of—I do not know what they are called now but they used to be Private(?) Articles of Association, things like that—that go in to the company, or is that going to have to be drawn up by the person who is submitting it?

Mr Jones: No. You have hit the nail on the head really. We will offer a very basic incorporation service electronically, similar to the one which is currently offered on paper. If companies or individuals want advice on their company constitution, the old Memorandum and Articles of Association, then they will need to go to a private adviser to get that information.

Q41 Mr Weir: But on the on-line one will there be a standard form of company constitution that they can simply adopt to meet the legal guidelines? Many years ago when I used to be involved in this sort of thing you bought an off-the-shelf company, filled in the blanks and sent it off and that is all you really had to do. Is that the sort of service that is going to be offered electronically for someone who wants to perhaps set up a single person or husband and wife type company? Is that the idea behind this?

Mr Jones: There is already a default format for a simple form of Memorandum and Articles. We have not taken any decisions on precisely how we are going to offer this service. I really do not want us to get into the business of competing with incorporation agents who actually are doing a very good job. So I will continue to talk to the incorporation agents about that. I have regular meetings with them already and we will decide appropriately.

Q42 Mr Weir: But if you have a company that comes in, formed through an incorporation agent, which presumably deals with all the constitution, all the paperwork, and you have somebody going on-line and doing it themselves in the standard form, is there any difference in the way that you check these forms coming in, check their veracity, their accuracy? I know you said earlier you did not check their veracity as such, but will they be treated any differently when they come in, given that someone anywhere in the world presumably can go on your website and form a company and register it in Companies House?

Mr Jones: No, they will not be treated any differently at all. Our interest is, as it always has been, in making the process of incorporation as simple (within the bounds of the requirements of the Act) and as cheap as we can make it.

Q43 Mr Weir: Without again treading on the fraud issue too much, is there not a security danger here that on the Internet anywhere in the world anyone can come on to find how to form a company in the UK, put in information, file it off to you electronically, your electronic system checks it, the parameters are met, in it goes and it is registered, and no one ever checks that they are real people, that they are real names and addresses or anything, and it will come up on your register as a company? Do you not see there is a danger there?

Mr Jones: There will be checks that the addresses—

Q44 Mr Weir: But what are the checks? That is what I am trying to get at.

Mr Jones: There are checks that the address we have been given is a real address, so we have access to the address information.

Mr Weir: But I could set up a company using Brian's address and that would come up as a real address. It does not mean to say that Brian knows anything about it.

Chairman: I think we are getting on to the fraud issues here and we can come back to this in detail, that section, again.

Q45 Mr Wright: Turning now to the Companies Act and CHIPS, the Companies House Information Processing System, work on CHIPS began in 2001. Companies House brought developments in-house in 2004 because of “increasing costs and changing requirements”. What were the changes in requirements and who instigated those changes, and how much of the change was due to the requirements of the Companies Act?

Mr Jones: I think it is fair to say my understanding is that the work that was originally done by a third party supplier on developing the early stages of the CHIPS system started to creep in terms of the scale and scope, started to overrun in terms of costs and that as a result of that there was a breakdown in the good working relationship between Companies House staff at the time and the third party supplier. To answer your question precisely, I think the differences in scope were perhaps partly a misunderstanding between Companies House and the third party supplier at the outset, so one party was saying, “Well, this isn’t a change in scope or scale”, the other was saying, “Yes, it is”, and that that was leading to additional costs, and all of those discussions led to a breakdown in that working relationship, which led to the work being brought in-house.

Q46 Mr Wright: So would you say it was certainly unexpected as far as the change in requirements at that time, and if so were there discussions between yourselves and what was then the Department of Trade & Industry?

Mr Jones: I do not think there were changes in scope or scale that were brought about by anything of a legislative nature. It seemed to me that at the time the CHIPS system was, quite rightly, being used simply to replace the existing STEM system, which was the old system which had been there for 20 years. So the provisions of, for example, the new Companies Act, which was imminent, were in a sense completely irrelevant to that discussion which happened between Companies House and the supplier. It was more a disagreement between the two parties as to whether or not the original specification was being adhered to, on the one hand, and whether or not the supplier was allowing the scope of the project to escalate for other reasons.

Q47 Mr Wright: Do you have any information about the cost of private sector IT schemes of similar scope, and how would they compare with you?

Mr Jones: I do not have estimates of private sector IT schemes. I have worked on a number of public sector IT schemes. I have been responsible for putting in major IT systems in other government organisations. It is very difficult to compare two IT systems developments because the complexity of systems is something which is very difficult to quantify. It is easy to believe that the costs associated with any particular piece of work seem high, but until you understand the complexity associated with the design, with the development, with the testing and with the implementation of that system it is very difficult to benchmark one system against another.

Q48 Mr Wright: But you say you would compare favourably?

Mr Jones: As I say, it is very difficult to compare at all because other IT systems I have been responsible for in government have been bigger but less complex, have had certainly fewer customers, so therefore fewer data refreshers within the system. It is just impossible, I think, to compare one with another.

Q49 Mr Wright: Okay. Thank you. According to your last annual report, a total of £12.1 million expenditure on CHIPS has been written off since the work was taken in-house, representing the entire value of the contracted work prior to February 2005. Was all this work wasted, and why did this expenditure generate “little appreciable benefit”?

Mr Jones: At the time it would have appeared, I am sure, to staff who were managing and running the system that that work was not wasted and that it was preparatory work leading up to what was then the development of the system in-house. We took a view last year, my board and I, that with hindsight, if one is able to look back now at how much of the work that was done prior to February 2005 is now adding value to the system as we see it successfully running today, then the answer is very little, if any, of it. As a result of that, I was very firmly of the view that we should write that off because it should not be forming part of the carrying value of the new system.

Q50 Mr Wright: Are you now confident then that the work being carried out in-house will result in better value for money?

Mr Jones: We have now completed the implementation of CHIPS. With the caveat relating to a number of teething problems which I alluded to earlier, it is working well. The web services at the registration process were working on day one, which in my experience is unique in the context of a public sector IT programme of this size and nature. What we therefore have, I believe, is a very firm basis on which we can both run our operation for the future and, crucially, implement the imminent changes to the Companies Act that we have on our agenda for the next few years.

Q51 Mr Wright: With regard to the Companies Act, last November the Department delayed aspects of the implementation of that Act. Who instigated that? Did you go to them and say, “Look, we’re not going to be ready in time, so can you just delay this piece coming in?”

Mr Jones: The programme to implement the Companies Act is very much a joint project between BERR, Geoff’s staff and Companies House, so we have worked together on the implementation of Companies Act changes throughout the early stages of understanding what the legislation meant, interpreting what the legislation would mean for our systems, designing changes to the systems to meet those requirements. So throughout the whole process of implementing the Act we have worked together. It was a joint decision between ourselves and BERR that risks were escalating, and I would

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not put it any stronger than that. Risks were escalating to the point where—I think you have the statement in front of you—I could not be absolutely confident that I would be able to implement all of the changes by October 2008. That is not to say that the plans did not suggest we were going to hit 2008, because they did, but I have had a good deal of experience of implementing these projects. We had a CHIPS system that still was not in at that point and we needed it in before we could start development of the Companies Act, so we took the joint view between ourselves that we should discuss with ministers the possibility of a delay, and that is precisely what we did. We went to the ministers, we talked to them about it, and we told them about the risks. I have to say that I think while it is regrettable that we had to delay certain elements of the Act, the process of assessing the risks throughout the project and then taking some tough decisions in terms of advice—and it was a tough decision to have to go to the Minister and tell him that we were not going to be able to, or that there was a risk that we were not going to be able to implement this flagship piece of legislation on time—going through that process, for my money, has been an example of good practice in terms of how to manage risks in a project.

Q52 Mr Wright: So really at the end of the day it was a joint decision based on your fears of the high risk that you would not be ready to implement it?

Mr Jones: Absolutely right.

Q53 Mr Wright: There was no debate or trying to put pressure on you to come to the conclusion that this October should be the date for implementation?

Mr Jones: No. I think the robustness of our argument was based on a very clear assessment of risks and a very clear detailed analysis of the work which had to be done and the steps which had to be put in place before we could do that work, and they were largely around getting CHIPS in. So ministers readily accepted that that was a robust analysis and came to a pretty quick decision, based on the fact that autumn 2007 was the right time to take the decision to delay, if we were going to take it, so that we did not put companies to any unnecessary work and so that we did not put companies to any unnecessary expenditure.

Q54 Mr Wright: CHIPS is live. Are you now confident that there will be no further delays to the implementation of the Companies Act?

Mr Jones: It would be a very foolish man who would give a 100% guarantee that anything to do with an IT project was going to work, but my experience tells me that we now have sufficient contingency time in the programme to enable us to implement all of the remaining provisions of the Act on time. Indeed, we will be implementing certain provisions next week and I am confident that they will be in in time. We will be implementing certain other provisions in October 2008 and the work on that is planned and well-advanced, and for the work which has to be implemented in 2009 we expect to finish the development stages towards the end of 2008. So I

think you can see that we have built now a good deal of contingency into the programme, contingency that will be used to improve companies' understanding of what the Companies Act means for them. So our communications effort will be ramped up very significantly during 2008–09, so that companies (I have to say not all of whom still understand what the 2006 Act is all about) will have time to prepare themselves.

Q55 Mr Wright: So what percentage would you put on the risk element? Obviously you were talking about a high risk before and having to go to the Minister. Do you see it as a low risk of, what, 10%, 15 or 20%?

Mr Jones: I would rather put it in terms of the RAG status that we use, and at the moment the programme is on green.

Q56 Chairman: Mr Jones, I want to give you a few minutes off because you have taken our questions for an hour and Mr Dart wants to get through this session without answering any questions at all, I think, but just while we have got the Director of Corporate Law and Governance in front of us I would just like an update on implementation of the Companies Act. Not in detail, because I think it is a life's work, companies law and understanding it, but a general picture of where you are on implementation because on 13 December we had the statement about a number of issues which were coming up for implementation. So in general terms, where are we on the implementation of the Act?

Mr Dart: Thank you, Chairman, for the opportunity to cover this area because I think it is very important, as I am sure Members of your Committee fully understand, that in talking about the delays to the final implementation of the Companies Act we are only talking actually about a part of the Companies Act. We are talking about the part of the Companies Act which introduces changes which mean that there will need to be changes in the systems and processes at Companies House. Much of the rest of the Act is in fact about the way companies run themselves or freedoms of operation, some bits of that are implemented, particularly EU directives. So quite large amounts of the Companies Act have not been delayed because of the delay to CHIPS, which delays the final implementation. They delay an important part of the Act and that is clearly a matter of regret, but quite a lot of the Act has already been implemented and I think it is worth noting, for example, that most of the key de-regulatory benefits, the benefits which show up in the bottom line for companies, that save them money in their administrative costs, have already been delivered or will be delivered by October 2008. We estimate that companies will save about £300 million per annum as a result of changes to regulatory requirements in the Companies Act—these figures are, of course estimates and approximates—and around £250 million of the £300 million total benefits will be delivered by October 2008. So we have always been very conscious of the need to bring in, where we can, things which benefit companies.

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The very first part of the Act to be implemented, for instance, in January 2007, was the single biggest saving for companies, which was to enable e-communications with shareholders. That did not really involve Companies House, so it was possible to do that. So the answer to your question is that we are fully on track to implement the phases of the Companies Act which do not depend on CHIPS and Companies House, so the phases as set out in various parliamentary statements, which you have clearly got before you, are all on track, and indeed a number of not only parts of the Act are brought into effect but also a number of regulations under the Act have already been made, for instance revisions to the accounting and audit regulations, updating those. That is something which has been recently approved. So I would say that a very good proportion of the Act has already been implemented.

Chairman: I think that is a helpful context in which to set the issues of Companies House and I appreciate the answers to that very much indeed. Now we will turn to the subject which has been dancing around quite a lot in our earlier questions, fraud.

Q57 Mr Binley: I am getting the distinct impression that you see your data in two different ways. When you are in your registration mode you see it as raw data. When you are in your marketing mode you see it as valuable information, and I think that highlights in another way the stress that you are under, quite frankly, the tensions you are under in providing the level of service that you are providing. I am privileged to be a member of the All Party Group on Identity Fraud and you will know that we produced a report only recently. We met with the Minister, I think about eight weeks ago, and the Minister accepted it is a valuable contribution. The truth of the matter is that that report highlighted a number of areas where the register can be misused and false information provided under the guise of valuable information, and of course it was just the opposite. You will have read about bogus filing, information filed by an incorrect source as one of the causes, the filing of false information, companies or directors filing false information about themselves, et cetera, and the wrongful use of information held on the register. All of those contributed sizeably to identity fraud. It is difficult to quantify, but certainly of a quantifiable amount, which is of import to the nation. Yet I hear there is real concern that you have about inability to check information and there seems to be a real clash of interest there, not only for the general public but for you in your job, quite frankly. Could you comment on how you might improve that position, thinking a bit outside the box?

Mr Jones: Just to say at the outset that I see what we have on the register as raw data which is valuable information, rather than one or the other. The basic premise of the register is that business and Government want a system that is easy to establish companies and to conduct business relatively free from the burdens of regulation, so there is always going to be a balance here to be struck. So we want

to get information in and on the register quickly so that it is quickly available for people to search. Nevertheless, fraud is very much on our minds and, as you will imagine, I get quite a few letters across my desk every month which relate to cases where there have been examples of identity theft or a company hijack or where people have attempted to falsely file certain information about directors. There is a number of things that we are doing already and a number of things we will be able to do in the future which I think will help. To put the whole thing in perspective, and without sounding complacent because I am most certainly not, I think this is an incredibly important issue, particularly for those who have been subject to fraudulent activity, as I said earlier, we get about 50 notifications every month out of the 600,000 documents we receive that may relate to some sort of fraudulent activity and we work very closely with the Metropolitan Police, have worked very closely with the Metropolitan Police, and indeed we had a Metropolitan Police Officer situated in our offices up until last year who helped us form liaisons and points of contact with the police forces around the country. We have also worked very closely with the City of London Police, who now of course (as of next week) will be the lead force for combating fraud, and we have held meetings with them and with the National Fraud Strategic Authority to ensure that the information we have got is being used by the law enforcement agencies (as well as, unfortunately, by the fraudsters) to try and assess situations which may potentially lead to fraudulent activity. Quite separately, we have been encouraging people to take part in what we call our three point plan, which is that if they file their documents electronically with the use of an authentication code they sign up for what we call PROTECTED Online Filing (PROOF) that means that any piece of paper which is sent to us purporting to relate to updating information on that company we will not accept it, because we will only accept information electronically and with the authentication code. If they also sign up to Monitor, which is the system you described earlier whereby they can keep an eye not just on their competitors or their suppliers but they can keep an eye on their own company, so if somebody attempts to file a form or a change of details for their own company they are notified immediately. We are doing what we can to get people to sign up to this three point plan. Regrettably, only about 160,000 companies out of the 2.6 million have hitherto signed up to PROOF. PROOF is free. We do not ask for any money to sign up to it. We are providing a service here which we believe will improve the integrity of the register and will protect our customers to a much greater degree, but sadly until somebody is the subject of an attempted fraud I fear that they often do not take it seriously enough or believe that it will actually happen to them. So we are spending a little bit of money trying to encourage people to sign up to our three point plan and we will in the next year be developing an electronic PROOF system whereby people can sign up to PROOF electronically. Currently, they have to do it on paper and with the signatures of all the directors of the company.

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Q58 Mr Binley: So you are reassuring me that you are moving more into the world of checking information? That is what you are telling me?

Mr Jones: It is really a self-check system.

Q59 Mr Binley: I understand that, but it is moving into the world of checking information?

Mr Jones: Yes, absolutely, and in fact the whole concept of checking and amending one's own information on the register is something I would like to move into. You talked about thinking outside the box. At the moment, our system is based very much on people sending forms to us with their information on it and our putting that information on the register. I would very much like to move in the longer term to a system whereby you, as a director of a company, look after your own data on the register. So you check it regularly, you amend it if you want to amend it and you keep it up to date, and we then simply require of you certain statutory returns such as on-line accounts and an annual return.

Q60 Mr Binley: Can I pursue this point a little further, though, because you will know of World-Check's and Datanomic's checks against high-risk people on the directors list and you know that they found 4,000 on a relatively cursory search actually. That must disturb you enormously, high-risk people whose names are being sent out as being bona fide directors of bona fide companies. Bearing that in mind, have you been to places like Barclaycard to check the way they interpret in an intelligent fashion their data? Have you seen that?

Mr Jones: I have not seen the Barclaycard experience. I will just say a word though, if I may, Chairman, about World-Check. I should say at the outset that I welcome the opportunity of working with World-Check, or indeed any other information provider, any other source of information which would enable us to improve the quality and robustness of the information on the register. We have been working with World-Check. Without sounding too dismissive, because I do not want to sound like that, there are, I believe, problems with some of the information that World-Check produced. We have seen a sample of the cases they have brought up and they include things like company secretaries rather than directors, who of course are not caught by the legislation. They include a number of directors of companies which are insolvent or in liquidation and therefore not actually still—

Q61 Mr Binley: Sure, but there is enough of a figure there to be concerning?

Mr Jones: Oh, absolutely, and what I have said to World-Check and what I would say to any information provider is that if they can provide me with information that I can cross-match against the register to determine whether or not we have got robust information on there, if we have got disqualified directors on the register clearly I want to know about it because our responsibility is to make

sure that we keep a register of disqualified directors but not that it seems to the public as if they are still running companies.

Mr Binley: I understand that.

Q62 Chairman: I just want to push this a little harder, because the claims made by World-Check, if they are well-founded—I do not know the status of these claims and you have raised some questions about some of them—are really remarkably serious, disqualified directors operating companies from prison. We are talking about money-launderers, fraudsters, terrorists, sanctioned entities in 12 other high-risk categories, narcotics traffickers. These are quite serious people and the figures, 154 individuals involved in financial crime on your list, 13 individuals wanted by Interpol, and this is a month ago this claim was made. I would have thought it would have been panic stations at Companies House to see whether it is right or not?

Mr Jones: It was not panic stations, but we certainly have taken their work very seriously and have had discussions with them about how it can be used. I think we need to remember, Chairman, that my responsibility goes as far as making sure that disqualified directors are not on the register. As far as I am aware, being wanted by Interpol does not necessarily disqualify you as a director of a UK company, or indeed being a terrorist.

Q63 Chairman: That is interesting. A convicted fraudster would be. They say a convicted fraudster had served a five year jail sentence for selling false insurance and is listed as a director of two companies.

Mr Jones: Provided that person had been disqualified as a director by the courts and I had been notified about it, then I would be disturbed if that person was still on the register. I would say that there are some question marks in my mind about the size of the issue, but I do not want to belittle it. The point is made and we most certainly do want to work with any information provider who will give us valuable information like this.

Mr Binley: That is fine, because that takes me on to my final question really, and it is recognising that you do have very valuable information, recognising that it is already a saleable item in the marketplace, recognising you have got an asset you can do much more with from a business perspective, and you saw this question coming ages ago. Recognising that you have got the data clean and you have put some investment into checking it properly—and I do suggest you go to Barclaycard and look at what they are doing in terms of intelligent interpretation of data—

Chairman: You are very fond of Barclaycard!

Mr Binley: Yes, I am. Given all that, would you like to be freer to exploit what is a massively valuable asset and turn it into an asset of much greater use to the business sector generally which they can rely on with much more credibility? Would you like to be denationalised?

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Q64 Chairman: We have just come back from Turkey, where of course company registration is done compulsorily by the Chambers of Commerce, so it is effectively denationalised.

Mr Jones: Yes. There are lots of different models around the world.

Q65 Mr Binley: Would you like it yourself? Do you see that as exciting?

Mr Jones: I think the job that I have currently got is exciting, Chairman!

Q66 Mr Binley: I think you should liven it up, because you could really go out there and make a mark!

Mr Jones: It could hardly get more lively! Just on the broader point, we have got an exciting agenda in front of us in terms of implementing the Companies Act so that businesses benefit, in terms of improving our electronic take-up of services, so that ultimately our costs reduce and businesses benefit and I have got a first-class team of staff there who are a joy to manage, so I think it would be difficult for it to get more lively even if we were denationalised.

Q67 Mr Binley: Can I just say, you are sitting on a gold mine and it is not being appreciated, but if you would like me to come with you to see Barclaycard, I would be more than pleased to arrange it.

Mr Jones: Chairman, I undertake to go and see Barclaycard!

Mr Binley: Let us do that.

Q68 Chairman: With a visit to Northampton. Can we just go with this question of company hijack and how big the scale of fraud is? You said you had a police officer from the Met working with you for a year. The evidence I think we got from the All Party Group on Identity Fraud suggested that he had disrupted some 490 attempts to undertake fraud on the register. At an estimated average cost of around about £100,000, there was about £50 million worth of fraud disrupted in a year. Do you have any idea of the scale of fraud in the use of the register? Is it a small problem, a medium sized problem, a growing problem?

Mr Jones: The answer is that downstream I do not have any idea because our responsibility, as far as I understand it and as far as I have allowed staff to take it, is that we identify (usually notified by someone) potential instances of fraud and then we pass that information on to the law enforcement agencies, be it police forces, SOCA or the City of London Police, and they take it from there. They are, of course, given complete access to the information on the register but I do not have any information as to how fruitful their work is further down the line in terms of combating fraud.

Q69 Chairman: What surprised me is that there was a certain reluctance to admit to being the subject of fraud, of course. It is slightly embarrassing and it carries a reputational risk as well, but some big name companies have come forward and said, "We have had it happen to us". Atkins have said that. A recent

example involved the director of a subsidiary of W.S. Atkins plc, whose identity was stolen and used fraudulently. "We firmly believe the fraudster obtained the director's details, including a copy of the signature, from Companies House".

Mr Jones: Yes. I would say two things about that. The first thing I would say is, for Heaven's sake sign up to PROOF and you will be covered, and secondly—

Q70 Chairman: Why not make PROOF compulsory? Why should it be a requirement of registration?

Mr Jones: Because I do not have the powers, Chairman.

Q71 Chairman: You would like to?

Mr Jones: I would very much like to make PROOF compulsory, but I do not have the powers at the moment.

Q72 Chairman: That is a very helpful answer.

Mr Jones: The second thing I would say, Chairman, is that of course the new Companies Act does provide more protection for directors' residential addresses, and of course a lot of the problems that we see are in people hijacking individual directors' identities and therefore using that as the route to hijacking individual companies.

Q73 Chairman: It is true that AXA have said in public as well that they were the victim of a fraud and their whole subsidiaries' registered office address was changed at Companies House and they said, "Drawing on the credibility of the AXA brand, this allowed a fraudster to rent property and obtain goods, none of which were ever paid for. Tracing allowed the creditors to identify our offices as a previous registered address and alert all parties . . ." They say that the cost was relatively small but the opportunity cost for management and its brand reputation was very considerable. So that was a whole company that was hijacked.

Mr Jones: It is, sadly, not untypical of that sort of issue that we see.

Q74 Chairman: Is there anything you can do? Making PROOF compulsory—and I feel a Committee recommendation coming on here, Mr Dart—is clearly one thing to be done, but we have had some very useful evidence from the Institute of Chartered Secretaries and Administrators, and this is a quote from one of its members: "I am not surprised when fraudulent acts take place. It seems to me it would be very easy to hijack a company. It would be easy to obtain a sample of the current director's signature from already filed documents and then to file new forms replacing existing directors. I wonder if signatures are checked by Companies House". Are signatures checked?

Mr Jones: No. It would be simply impossible to check signatures given the number of documents that we get in. We check that things are signed and that they purport to be signed by a director, but for me it demonstrates how vulnerable people are if they

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continue to file information on paper. However, those who file information electronically with authentication codes, which they would keep secret in the way that we keep our bank code PINs secret from other people, if they would only sign up to that and to protected on-line filing they would be covered.

Q75 Chairman: There is never a magic bullet, a solution to all the world's problems, but compulsory membership of PROOF would very significantly reduce the risk of identity fraud?

Mr Jones: Oh, yes.

Q76 Chairman: Thank you very much. Just two last issues then from me. This may be more for Mr Dart than Mr Jones, I am not sure. It is about European private companies, the proposals from the Commission for a new registration system. I have to say I am sceptical about this myself, very sceptical. I am not quite sure at all what benefits this brings. The European Commission claims this would allow significant cost savings by enabling the use of the same legal form in several Member States. We would have to have a parallel registration system, though, would, we not, and a full European registration system alongside the national one?

Mr Dart: Chairman, I think it is quite difficult to make a very soundly based assessment of pros and cons of the European private company because we have not actually got a detailed proposal in front of us, so we have not, as it were, got something to evaluate. The Commissioner announced in October that that was a priority for the Commission and I think it is very likely that we will hear more during the French presidency. It is slightly topical, perhaps, with the visit today. There is a case in principle for a European private company. I am not sure whether it really would rest on cost so much as making it easier for small companies to operate across boundaries. It is a relatively complicated thing to do, the rules on setting up subsidiaries and branches, and so on, so the idea is that a common standard format which would be recognised across boundaries in Europe might make things simpler for small companies. Whether that is or is not the case and whether it is accepted by people who have to do business with such entities really does depend on the detail, which we have not got yet. So I think it is one of those things where the proof of the pudding will be in the eating.

Q77 Chairman: So it is a theoretical possibility? In the abstract it might make sense, but the practical consequences are not yet apparent to the Department and you cannot really comment in detail on the proposal?

Mr Dart: This is an idea which will be very complicated to make work. This is a proposal which has been around for many years. You are, I am sure, familiar with the European large public company, the Societas Europaea. Negotiating that took, I think, nearly 30 years. You referred earlier to company law being a job for life. Luckily, that was not entirely my job for life, just 30 years. I would

hope that since the intention of the private company statute would be to help small companies, that it would be a simpler process, but until we actually see the proposal it is very difficult to say how it would work and there are quite complicated issues about the interplay between something which is a European vehicle and national laws, given that we have not got harmonised company law in Europe.

Q78 Chairman: Consultation has ended now, has it not, for the Commission?

Mr Dart: I am not sure I would quite call it a consultation. The Commission asked whether such a vehicle would be useful and a relatively high proportion of the people from business who replied to that consultation on the point of principle said that yes, it could be interesting and they might want to take advantage of it, but that is not, of course, the same as a consultation on an actual proposal.

Q79 Chairman: You talked about a 30 year timescale for the public company. Where do you think we might be in terms of timescale? What is the next milestone in this idea?

Mr Dart: I am expecting that there will be a proposal put forward by the Commission during the French presidency. I think it would take several years to negotiate the detail.

Q80 Chairman: Thank you. I think we will come back to that at a later date. Just a few wrap up questions from me to Mr Jones. I said that we had begun to get evidence coming in rather latterly in this inquiry. It strikes me that although you are very excited by the challenge of running your organisation, quite a lot of work done by the staff is extremely mundane. I do not want to belittle the work, it is important work, but very mundane, the bureaucratic work of transferring documents to an electronic system. Is it a very boring job? Do you find staff retention a challenge, or do they enjoy their work?

Mr Jones: I would agree with you that some of the tasks might seem a little mundane. Actually, staff turnover rates are extremely low in Companies House. We recently recruited a number of staff to help us over the early stages of CHIPS implementation, where clearly unfamiliarity with the system will lead to a slight drop in productivity, and we had no difficulty at all in recruiting very junior staff to come in and do some of the tasks that you describe. I suppose I put it down to the working environment and the management there, Chairman!

Q81 Chairman: I thought you might. I felt that one coming! Excellent. Well, pat yourself on the back, Mr Jones! Just a few detailed points. ICSA said, "Companies House does not seem to read the covering letters sent to them. Why is this? Are the forms sent to the document examination branch and the letter automatically binned?"

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Mr Jones: No.

Q82 Chairman: You do read covering letters? We are reassured on that point. They said, “How good is the training provided for the call centre staff? They did not seem to be very good and often gave conflicting advice if you spoke to more than one person”.

Mr Jones: I am very surprised to hear that. We use a company called Vertex as our providers of a contact centre. The satisfaction rates with their services are always extremely high, well up into the 90%, but obviously if there are individual instances of people not being dealt with properly then I would want to hear about it.

Q83 Chairman: I have encountered this problem with the banking community recently myself on my mortgage: “Their point blank refusal to correct mistakes that are blatantly their own. I find it really annoying that you are required to submit a form to correct their mistake”.

Mr Jones: I do not recognise that particular case. I did explain earlier, though, that if somebody sends in a form with incorrect information on it and it is registered, I do not have the powers then to take that information off the register.

Q84 Chairman: Which is an interesting point, which I think we have noted very carefully. I just leave you really with the thought—unless there is anything else you want to say, Mr Jones? If there is anything we have not covered or you want to say?

Mr Jones: No, just to say that I have really welcomed the opportunity to tell the Committee something about what we are doing. It is an extremely exciting

customer-focused, customer-orientated bit of government, most certainly the most customer-focused bit of government I have ever worked in over the last 30 years and I always welcome the opportunity to talk about it.

Q85 Chairman: It is important and I think the issues have certainly been helpful in clarifying my thinking. The Finance and Leasing Association sent us a very good submission in which they said, “Companies House’s failure to vet the details of company directors listed on their website means that the directors register is currently unreliable. We stress the potential for the misuse of company information and director details. Sadly, our members report that such misuse is now common”. I understand the constraints you are labouring under. It seems it is really important that the phrase I used earlier, *caveat emptor*, is in everyone’s mind when they access the data on your site?

Mr Jones: Yes, and we do make it clear to people that the information which is registered is information which has been sent to us by the people submitting the information, but I think it is a fair point that we need to keep making sure that that message gets across.

Chairman: Unless my colleagues have any further questions? Gentlemen, thank you very much indeed for coming to give evidence to us. I do not think you promised us anything substantial in a further follow-up in writing, but if there is anything which comes to mind after this session then please feel free to get in touch with us and communicate in any way you want any further thoughts. Thank you very much indeed for coming all the way from Cardiff.

Written evidence

Memorandum submitted by All Party Parliamentary Group on Identity Fraud

As you are aware, the All Party Group met with representatives of Companies House in January 2007 to discuss their work to protect the information of those companies who register with them.

The meeting followed concerns expressed by both the police and private businesses, that processes within Companies House were not conducive to protecting directors' and companies' information against the threat of identity fraud. In particular, the Metropolitan Police expressed concerns that it was too simple for fraudsters to register a bogus company, or change the details of an existing organisation in order to gain credit and purchase supplies on the reputation of an established business.

Our understanding is that the broad role of Companies House is to receive and make information available on British Companies and their Directors. The organisation holds a vast quantity of information, including (at the beginning of 2007) the details of over 2.3 million limited companies and 5 million directors.

According to Companies House, over 6.5 million documents are received and over 4.5 million searches made each year. Companies House also informed the Group that the service is intended to be fast, low cost and flexible, making it easier to register and form a company in the UK than in most other countries.

However, Companies House did concede to the Group that this structure does give rise to a number of issues. In a statement to the Group Companies House set out that:

“We receive the information in good faith and carry out basic checks to ensure that it has been correctly filed but we do not have the statutory powers to validate or verify the information we receive”.

In particular, during the course of our investigation, the Group heard of three primary ways in which the Register can be abused:

- Bogus filing, and information filed by an incorrect source—for example false registered office changes, false appointments.
- Filing of false information—companies or directors filing false information about themselves, for example, false auditor details, false addresses.
- Wrongful use of information held on the register—for example use of directors details as part of account takeover fraud and identity fraud.

During a meeting with the Metropolitan Police, officers from Operation Sterling explained how such activities facilitate the illegal acquisition of goods and services:

“Criminal networks would add a fictitious director to the Companies House register and then change the company's registered address to a false 'front' address. They would then order high-value easily disposable goods, such as computers, phones and even top of the range motor vehicles on credit using the targeted company's good name and credit rating. Once the goods were delivered they would make off, leaving the supplier without payment and the targeted company with its 'reputation' to repair”.

Further to this, the Group heard of specific cases of fraud through Companies House, including the following testimonial from AXA:

“AXA has been a victim of a fraud perpetrated by changing a subsidiary's registered office address at Companies House. Drawing on the credibility of the AXA brand, this allowed a fraudster to rent property and obtain goods, none of which were ever paid for. Tracing allowed the creditors to identify our offices as a previous registered address and alert all parties to the fraud. iii. Whilst the impact of this fraud on AXA is relatively limited, this type of event has the potential to damage our brand, and there is an opportunity cost in that it requires management time to resolve”.

According to Companies House, each month the organisation passes around fifty instances of fraud to the police for investigation. While this may only be a small percentage of 550,000 monthly filings, the impact on companies and their officers can be significant. The Metropolitan Police informed the Group that each successful attack via Companies House can net well over £100,000.

Companies House has adopted a series of activities, directed at preventing the first of the above types of fraud. These include:

1. Electronic filing of information—using a secure password and company authentication code.
2. PROOF—PROtected Online Filing—a company elects to file certain information only in electronic format and agrees that any paper filings will be rejected.
3. A Monitor service—which alerts a company to any changes to their company record.

An email alert system has also been created notifying companies when information is changed on their records, such as appointments of new directors, or apparent change of headquarters.

The Group believes that these systems are effective tools to help prevent and flag up suspicious activity relating to company information. However, we have some serious reservations about the current effectiveness of these measures.

Despite many companies electing to file information electronically, the Group was informed by Companies House in January 2007 that only 2% of organisations had signed up to PROOF, only 10% to the text alert service, and that all but 50,000 of the 2,000,000 companies registered at Companies House have yet to switch to filing only electronically.

Companies House also informed the Group of a number of additional mechanisms being prepared to help prevent fraud. These included:

- working with companies and business organisations to raise awareness, promote the three-point plan and increase the take up of PROOF;
- an automatic sign-up to PROOF;
- analysing cases of fraud to identify trends and high risk groups;
- the creation of a new offence within the Company Law Reform Bill of false filing; and
- a move to data rather than form based filing, which would allow for further checking and validation options to be explored.

During their communications with the Group, AXA suggested a system of electronic alerts, to be sent to firms when changes to Companies House details are requested, using hyperlink based verification mechanisms to confirm any changes. This system would operate in a similar way to that used by webmasters to verify user registrations or password changes, and would have the added advantage of providing an extra level of identity verification through the use of validated email addresses.

The Metropolitan Police also proposed that data supplied during new company formations should be verified to ensure the validity of the data supplied, thereby preventing false filings.

The Group believes that Companies House has made some progress to address the risks currently facing the organisations it holds information on. However, we believe that a stronger approach is necessary in order to prevent fraudsters taking advantage of the information held on its databases.

In particular, the Group would like to see the compulsory membership of the PROOF and monitoring alerts initiatives introduced. There should also be an assessment of the benefits which would be provided by statutory legislation enabling Companies House to demand verification of all information at the point of submission.

We believe there is also a case for restricting the amount of information publicly available through the Companies House database. During a meeting with the Office of the Information Commissioner it was suggested that access to personal details should be restricted to members of the register. This would automatically restrict access and ensure that attempts to view data could be effectively monitored.

During 2006 a police officer was permanently stationed at Companies House to provide first hand assistance as part of “Operation STERLING”. During this year, the officer disrupted over 490 impending attacks on UK business, by disseminating data on “false changes” promptly to the credit reference agencies who, in turn, issued alerts on those engaged in supplying goods on credit. While there remains a close working relationship between the Metropolitan Police and Companies House, an officer is no longer stationed in Cardiff.

The Group has commended the Metropolitan Police Force for its efforts in cooperating with Companies House, and believes that the potential for future collaborations should be examined.

Finally, Companies House must work with the private sector, and police to raise awareness of the types of frauds outlined in this paper, and the steps which can be taken to defend against them.

I hope that this paper outlines the key areas of concern which we have around the current processes within Companies House. While we understand that the organisation provides a vital service, in the current data security environment it is vital that organisations which handle large amounts of data ensure that they set in place the utmost protections.

March 2008

Memorandum submitted by the Association of Company Registration Agents

SUMMARY

1. In ACRA's view:

- The quality of service from Companies House is good.
- It is a responsive organisation.
- It is better that its new information processing system is delayed until it is ready than that there is any risk of it being introduced and failing.
- It needs to continue to stay alert to straying beyond its statutory duties and into unfair competition.

SUBMISSION

2. The Association of Company Registration Agents (ACRA) represents the UK's foremost company formation agents and corporate service providers. It has had a close relationship with Companies House (CH) for over 30 years.

3. ACRA members act as a conduit between their own customers (often but by no means exclusively in the professions) and Companies House. As such, the formation agent and corporate service provider eases Companies House's task:

- by the proper preparation of documentation, whether on paper or filed electronically;
- by delivering its documentation and requiring searches in sufficient volume to facilitate the use of electronic services, contributing to CH's own efficiency and effectiveness;
- by providing for Companies House a group of identifiable and informed customers with which it can discuss possible new developments to its services;
- and by helping Companies House to communicate with the wider commercial world.

4. Our view of the quality of Companies House's services covers almost all the work of CH, in volume. We are perhaps uniquely placed to provide commentary on how well the services are delivered. Our view is that CH does well. As their own figures show, they meet most of their targets. The times when there are errors in the material that CH provides (whether certificates or searches) are rare. They are also to be congratulated for being communicative. There are regular meetings between ACRA and CH; CH provides open and full information on its website and elsewhere on its requirements and on new developments; and ACRA members do feel that in general they get a helpful response from CH on those occasions when they do need to contact the agency.

5. ACRA members have noticed the delays to the Companies House Information Processing System (CHIPS). It is of course regrettable that this has been delayed and gone over budget. However, in ACRA's view it would have been much more regrettable if the new systems had been introduced before they were properly ready. The costs to the commercial world of a CH that fails to function properly, or which has not fully thought through the complexities of what it is trying to do, enormously outweigh the additional costs of getting the new systems right. CH has become such a fundamental part of the commercial fabric that the economy at large cannot afford errors or downtime. So tough though it has been, and whether there is any blame to be ascribed or not, ACRA welcomes CHIPS not being introduced until it is fully ready (though at the time of writing this memorandum, it has not yet gone live).

6. One of our continuing concerns with CH concerns its monopoly position and that it should not be abused. It is a small step between providing its services efficiently and providing unfair competition with the private sector. Areas such as the possible future provision of a "citizen's company" do give ACRA cause for concern. The public could be seduced by a CH service of providing new companies at a price no private service provider could match, imagining that because it is government-backed they will receive the company they need. But that may well not be the case. The constitution of the company may not suit the circumstances of the owners, who should be taking independent advice before taking a step of such importance. We hope that the Committee will feel it appropriate to warn CH against exceeding, or interpreting too liberally, what it regards as its statutory functions.

February 2008

Memorandum submitted by Bisnode

As a dissemination agent for Companies House data, we feel our input could be very useful to you. We have assessed Companies House legal position, which is important for our own operation, and found several problems with the grey area Companies House is operating in. Especially, the installation of the new IT system has proven to put users of Companies House information who receive data via a dissemination agent into difficulty.

Bisnode is a Europe-wide group of business information companies with a turnover of £300 million, that provides business information to nine of the Top 10 Accountancy firms (based on the Accountancy Age Top 50 accountancy firms 2006) in the UK, and 16 of the Top 30 Law Firms in the UK. We also provide information to the leading investment and retail banks and insurers in the UK. We acquired considerable knowledge about re-use of public sector information in Europe, and appreciate the unique situation UK Government bodies are in. However, our concern is that the customers that receive information via re-users and dissemination agent do not appear on the focus of Companies House as much as the customers supplied directly. This is a re-use of PSI issue, but it is mainly an issue of creating a two-class society that harms the effective and innovative dissemination of Companies House information.

 THE IT SYSTEM—DEFICITS IN THE PROJECT MANAGEMENT

Companies House has been extremely focused on providing information directly via its own dissemination channels, such as Web Check and Companies House Direct. Thereby, Companies House has lost its focus on the other users of the information, which are mainly the bigger players within UK PLC. These customers prefer using innovative services of Dissemination Agents (DAs) who are able to provide a better service, structure the information better and add additional information not usually available with Companies House. However, Companies House regards DAs as competitors, and withholds valuable information. Also, in development projects Companies House appears to focus strongly onto its own dissemination operation.

Because of insufficient communication with DAs, who are experienced in handling and disseminating data the following problems have occurred:

- (a) DAs have not yet been given technical specifications.
- (b) There was no visible project management—we did not see any Project Plans, Status Reports etc.
- (c) There was very limited communication and consultation—we had only one Bulk Users meeting in 2007.

This resulted in the following problems:

- (a) There was insufficient time given to complete User Acceptance Testing on the bulk data files produced from CHIPS.
- (b) The testing was limited to a only one or two files per bulk output.
- (c) Again, there was no visible project management, or user sign-off confirmation that tests completed satisfactorily.
- (d) The User Acceptance Testing schedules for data delivery provided by CH have been repeatedly missed.

Also, the final product will be considerably worse than the product delivered under the old infrastructure. Especially, the data will be delivered considerably later to the DAs than previously. While Companies House Direct receives access to the information virtually immediately, DAs have not been offered any solution—and did not have a say in developing a solution—that could help the DAs customers to receive current reliable information, or at least be informed when more current information is available.

- Before the new CHIPS system was implemented, bulk data files delivered between 12.00 am and 02.00 am.
- After the system comes into place, bulk data files are being delivered between 05.00 am and 07.00 am.

The impact of this will be that our clients will receive the data later.

DAs take a huge amount of responsibility from Companies House. Usually, the contracts are directly with the agent who promises a certain degree of currency and accuracy of the data. Companies House' decision to delay delivery and the lack in communication with regards to improvement methods make it harder for the DA to fulfil such long-term promises to the customers. Companies House internal decision to deliver information via its own website quicker adds competitive pressure onto the DA. Companies House seems to be oblivious to the fact that a monopoly supplier ought not to behave like this.

DAs could have helped Companies House with the management of the project—to the advantage of all parties. Regular friendly meetings could have helped both sides to learn from each others experiences and to build a system that is advantageous for all customers—even those who buy via the DAs. Most dissemination agents have great experience with projects like this, and could have helped Companies House to avoid the biggest mistakes.

Also, the commercial knowledge dissemination agents gave could have helped improving the database structure and the processes. The lack in communication results now in an overprized system that basically offers less than it used to. Although Companies House promises that the new database is more flexible, there is little prove of that. Dissemination agents would like to have a better understanding of the system with the view to communicate about speeding up delivery to the dissemination agents, and possibly working with Companies House on improving the format and delivery mechanism. For example, it might be possible to add additional metadata to the information given to DAs.

Overall, there needs to be communication with DAs in the planning and execution of IT projects. Dissemination agents are not average customers, but are supporting Companies House with in its dissemination activities. Thereby, DAs relieve burden off Companies House, by providing help lines, helping customers to integrate the information into the customer's database and providing training in how to use the information.

GENERAL PROBLEM WITH DEVELOPMENT OF NEW PRODUCTS

Companies House believes that no products outside the statutory duty are being produced. Yet, Companies House has a sizable Policy and Planning Department—according to the last known figure from 2005 this Department employs around 40 people.

However, in reality, there are considerable non-statutory products: For example, the monitoring service has been marketed and is offered as a commercial service: Customers can monitor filing of a huge number of companies. The justification given for this service is fraud prevention, but the fact that so many companies can be monitored, and the marketing spin show clearly that the product is a commercial product, designed to compete with products also offered by DAs as added value.

If Companies House accepted that some products offered are non-statutory, the organisation would have to charge market rate for the services. That would put the organisation at the same competitive footing as any competitor, and the quality of the service would determine the uptake, as well as earning additional money to reduce the costs for filings. However, Companies House is keen to reduce the prices for dissemination of all sorts further to increase market share. Therefore, Companies House is keen to end the legal limbo in which many of the products exist, and add the products to the fees order, which is being passed by parliament as a statutory instrument—thereby declaring the products officially as statutory. Although Companies House is required to have a “Framework Document” by law, no such document exists. There is a draft Framework Document. However, parliament is neither supplied with the accounting information (although members have asked for it) nor information about the public interest case for adding another product to the list of statutory products. The committee has to make the decision virtually blindfolded, and decide on a price that might not have any bearing into real costs. At this time, Companies House maintains that the decision on which products are to be included in this list has not yet been made. Also, there is no communication with dissemination agents on which products are going to be supplied at which price—information that is utterly important for a commercial supplier.

COMPANIES HOUSE IS NOT ACCOUNTABLE ENOUGH

Following on, the accounts of Companies House do not separate the non-statutory products out. The price for non-statutory products is—in contravention to treasury guidelines—far below market value, and the service is not—in contravention to the accounting principles for public bodies—separated out in the accounts. In fact, Companies House maintains there is not a single non-statutory product. Not even parliament is allowed a closer look into Companies House accounts: The document explaining the accounting method for Companies House has been withheld from members of parliament before.

There is no way of guessing for DAs which product will be added to the list of products. DAs have been surprised by the sudden adding of the monitoring service to the product list. Similarly, Companies House imitated the way DAs arrange documents, and the way they are being displayed on Companies House website. There is a fear that Companies House will imitate other data products, and offer more customised—but underpriced—solutions onto the market.

Since the majority of the database costs are currently being borne by UK economy that files information with Companies House, there is a fear that the development of such products is not being charged correctly—at the output side of the database. Similarly, the costs for the new CHIPS system, which are supposed to benefit the output side, are probably not being attributed to that side but shared among the entire costs of Companies House and divided according to headcount and space used. But: Since the output side is automatic by nature, that will be very low.

However, the public cannot be sure about this—the accounts only allow for interpretation.

UNFAIR COMPETITION WITH THE PRIVATE MARKET

Besides the questions regarding statutory duty, accounting irregularities and the lack of accountability, Companies House is very successful with entering a competitive market. Companies House maintains that there are no market share targets, but there is a clearly defined intention to distribute more information to the users—directly, and not via DAs. The purpose of this strategy is unclear, because the services the Dissemination Agents are providing to the economy are well respected and generally very good. Companies House has I never been able to provide as specialised services to the market as dissemination agents. It is understandable that Companies House is concerned that the information reaches the right recipient—that is the purpose of the organisation.

But there is increased focus on Companies House to provide the service themselves without recognising the work done by dissemination agents, by reducing the price for the information in a completely unaccountable environment. Re-users and DAs make the information useful to many users. Companies House’ drive to increase market share harms this effective supply of information to the right sources by only considering their own distribution side for developments, imitating commercial services offered by DAs and by decreasing the price for non-statutory services (eg monitoring—despite this being called “statutory”) below the level a commercial service could offer the service. Companies House thereby finances the

expensive database with income from filings (which has a high headcount within Companies House operations) and attributes minimal costs to the output side. This pushes the costs for dissemination far below the level any commercial operation could sell a service for.

Although Companies House has a different legal background, we therefore would be happy if Companies House follows the recommendation parliament has given to the Ordnance Survey:

- Clearly define the statutory duty. Charge market rate for non-statutory products.
- Be open and accessible about the accounts and the charging mechanism. Allocate costs where they belong, not where they would cause less political harm.
- And first of all: Communicate with DAs, involve them in project planning and open up the specifications of developments and database infrastructure to DAs and re-users.

20 March 2008

Supplementary memorandum submitted by Bisnode

In addition to the information supplied to you by letter, I would like to inform you about the current status of the implementation of the new Companies House computer system. As you might be aware, the implementation of the system with regards to Companies House's own website distribution was relatively floorless—considering Companies House history with IT projects.

However, for users of Companies House information via Dissemination Agents (DAs) the implementation has been very bad. In summary, re-users have not received a “mortgage” (charges registered at Companies House) file since CHIPS went live 25/02/2008 and errors are still being still reported on the Directors and Directory files.

Attached you find a status report. DAs have required Companies House to produce such a report. As you can see, the vast majority of deliveries has problems. Especially, there are timing problems and our customers are receiving the data considerably later than they are used to.

Below, I have added an apology about the mortgage product, explaining what went wrong. As indicated in the letter from 20 March, the problems were predictable: Companies House did not focus on DAs and re-users when planning the implementation, and thereby only provided a smooth service to Companies House' direct users.

Please accept this as evidence in addition to the letter from 20 March 2008.

March 2008

Letter from the Director of Customer Delivery

Dear Customers,

I must apologise for the continued problems with the bulk mortgage product. The bottom line is that we have not yet managed to solve the issues that you identified when we first sent out files during the last week in February. Our technical experts are currently working on analysing the scale of the issues to provide assurance that we understand the full extent of the problem. I hope that this work will give us a clear prognosis as to how we can solve the various issues, and by when.

We will provide a further update at noon tomorrow.

Bulk Outputs Status Reports (14/03/08)

<i>Bulk Product</i>	<i>Description</i>	<i>Progress Report</i>	<i>Status</i>
100	Daily Directory	File going out automatically. 1 call logged about address format— 245093	Amber
191	Time Critical file	Automatic delivery. No issues raised to date	Green
192	Disqualified Directors	File delivered 10/03/08 2 calls logged internally 243897, 243306. 1 customer call 244362 With AMC	Amber
195	LLP Snapshot	2 calls logged from customers about the content—incorrect counts and a missing company—Assyst calls –244938 and 244408—with AMC	Amber
197	Daily Liquidation	Call logged by a customer—Ian has investigated and it needs to go to a DBA to see the data on the database. Call ref 244871. With DBA-DEV	Green
198	Daily Directors	Radical fix still needs to be tested and implemented to cope with weekend/multiple days work. Until then, will hold back Tuesday's product but deliver the rest automatically. 2 calls logged by a customer. A field is not being populated to say where the update came from (288 or 363etc). It is the on-line code that is wrong not prod 198. Workaround implemented last night and no offending records in today's file. Assyst calls 244218 and 244365	Amber
201	Daily Mortgage	Not going out currently. File from the startof CHIPS have been produced. They seem OK. We have separated off the dodgy 4052s. Problem with the file produced on the Monday after the weekend working.(9500). File is too big and contains far too much data. Call logged ICC have successfully loaded 9495. We have sent 9496-9499 out to customers. Lots of calls logged as a result of sending out 9495-9499. Possible date issue for satisfaction, duplicate records (but we think that is as per spec). Investigation ongoing as we need to bottom this out. All sent out on Friday. Gaz trans have appeared in prod 100. No further issues reported on the Bulk output product. Today's gazette file has been run and delivered to customers.	Red
203/204	Gazettes		Amber

Memorandum submitted by the British Bankers' Association

The BBA is grateful for the opportunity to offer comments from a financial crime perspective to help to inform the Committee's inquiry into Companies House.

The BBA is the leading UK banking and financial services trade association and acts on behalf of its members on domestic and international issues. Our 228 banking members and 35 associate members are from 60 different countries and collectively provide the full range of banking and financial services. They operate some 130 million accounts, contribute £50 billion to the economy and together make up the world's largest international banking centre.

GENERAL

There have been a number of incidences of Companies House records being altered by corporate identity fraudsters with attempts made fraudulently to open lines of credit or to obtain other goods and services. Typically, a company would have its Registered Office relocated to a different location without its knowledge, in effect having its identity and credit rating stolen. Estimates produced by the Metropolitan Police Service Operation Sterling put the cost of this fraud in excess of £50 million per annum.

There are two main types of fraud using Companies House data:

1. Third Party Fraud—where a fraudster seeks to imitate the account holder using information publicly available at Companies House. Some examples of *modus operandi* below include:

- Fraudsters take advantage of the “one-stop-shop” identity data held at Companies House (signature, date of birth and address of Director along with bank account details and address of Company) to facilitate fraud in conjunction with false/stolen supporting documentation:
 - One BBA member investigated this type of fraud where total losses were found to be in the region of £200,000 against 23 customers.
 - The fraudster was arrested in the process of committing the fraud at a branch.
 - When searched by police prints of open source Companies House documentation were found on his person.
- Directors' signatures found at Companies House can be cross referred to stolen business account cheque books.
- Counterfeit documents have been created based on Companies House data—A professional counterfeiter arrested earlier this year had opened 29 accounts with false passports, council tax bills etc.
- A fraudster uses false signature gleaned from Companies House to give written instruction to bank to pay away funds, sell assets or change an address to which a statement is sent.
- Companies House data used in support of a telephone or internet banking fraud attempt.
- Companies House data not directly used to commit fraud, but rather to obtain further identity documentation.

2. First Party Fraud—where company assets are hidden from creditors through front companies and non-existent Directors:

- False names, corruptions of names used, unwitting or collusive distant family members held up as Directors.
- Property and assets sold on under value to “front” companies.

Such corporate identity fraud occurs because the process for updating the records of a company is “loose”. The protective measures to mitigate against details being fraudulently modified appear weak. Any individual can download the appropriate forms and make changes unchallenged. The extent of the disclaimer published by Companies House does not go beyond validating that the form has been completed properly and that it contains a signature (genuine or otherwise).

Companies House was set up as a repository of information and, it would argue, it has a duty to act upon whatever information it is provided. The continuing problems really stem from the misconception that Companies House “checks” the authenticity of all submissions rather than simply “recording” the information contained in the submission—the latter being its actual role as a Public Records body. It is highly improbable that the Government would wish to fund additional resources for the purposes of simply authenticating submitted data.

Following increased instances of companies having their identities stolen, Companies House (in consultation with the Operation Sterling initiative) did bring in additional controls/safeguards including the introduction of the electronic filing of data under password control and the facility for companies to be alerted by email to any attempts to change their records by the paper rather than electronic route. Notwithstanding this there remains a gap in the system as the paper process could still successfully change a company's details.

Company formation agents are registered against the introduced company and could also present a risk in that they have the ability to register and modify company details.

Whilst it is public domain information access/modifications to details should be better regulated, specifically:

- remove Director Date of Birth—this would significantly deter id-theft or application fraud;
- remove Director Date of Appointment; and
- where possible, encourage business address rather than personal address for Directors.

(NOTE: the benefits of these three specific fraud reduction proposals would have to be measured against the new anti-money laundering requirement to identify and take risk based measures to verify beneficial owners or controllers of firms and partnerships, holding more than 25% of share ownership or control. Currently beneficial owners are readily identified by reference to Companies' House data, and date of birth and residential addresses are valuable data elements for those purposes. Clearly there is a conflict of interest here which could be overcome by a more secure access to data for statutory purposes such as anti-money laundering compliance).

- the general public should be restricted to viewing company's details;
- the electronic method should be strengthened and promoted as the only and most secure method of effecting changes—mandatory implementation;
- remove the paper process;
- organisations who can demonstrate a business need to support increased permissions eg download key data should be given broader permissions in a controlled environment;
- the disclaimer should permit Companies House to challenge any proposed changes into the company formation; and
- controls need to be established around company formation agents but the licensing of Company Formation Agents would not, in our opinion prove to be of any significant benefit as it is our perception that most fraud of this type is perpetrated once a company has "established" itself and earned it's respectability in the marketplace.

Companies House tools, "Proof" and "Monitor" both have the potential for assisting in the prevention of financial crime.

Proof is the online filing service (PROtected Online Filing) introduced by Companies House in early 2005. Essentially businesses that sign up for the service commit to only ever filing certain submissions to Companies House online, via a password protected account and thereafter Companies House will not action paper based submissions for that business. The obvious prevention benefit is that this makes it much harder for the criminal to hijack that businesses identity via false paper based submissions.

Monitor is a service that allows businesses to be automatically advised of changes made to any businesses records. This service is marketed by Companies House as a competitive edge tool inviting businesses to keep an eye on their competitors, apparently ignoring the potential fraud prevention benefits. This could be utilised by both customers and banks for early identification of hijack attempts etc eg Corporate Relationship Manager is notified of a sudden change of Directors for which his/her business customer had not provided prior notice.

However, there appears to be limited awareness of these tools in the wider business community and much less the potential fraud prevention benefits. One BBA member reports that during a number of presentations to small, medium and large business customers, when asked only a very small percentage demonstrated any knowledge of the Companies House tools. We consider Government should implement a high profile awareness campaign that encourages all company dealings to be handled electronically through designated company representatives supported by "strong" password controls.

In conclusion, the BBA would urge Government to give thought to changing the status of Companies House, from a pure repository of information about companies to include an information authentication and validation role. In the meantime, the view of BBA members is not to rely upon Companies House information in isolation but to place it in context with details obtained through other independent sources.

10 March 2008

Supplementary memorandum submitted by BBA

Thanks for giving me a little time to consult with my members. I can now provide some further details of the authentication and validation checks we believe it would be helpful for Companies House to undertake: These are:

- Lock down Companies House records—Records should be protected so they can only be changed by the authorised person. The Metropolitan Police Service’s Operation Sterling resolved this issue from an online perspective (now requiring a password) but this is still unresolved through other channels. There needs to be further changes to standardise the process and ensure any change to data held at Companies house is adequately controlled.
- Limit publicly available information—There is currently too much information publicly available at Companies House. Any information that can be used in identity fraud should not be publicly available and access to this data should be limited. Amendments were being made to allow business addresses to be registered as an alternative to a home address. Other details such as Signature and Date of Birth which currently remain publicly available are prime sources of data for identity fraud. Access to data such as this should be restricted. The conflict of interest posed by removing access to detailed address information etc needs to be managed carefully so that this anti money laundering tool is not removed in the desire to remove opportunity for fraud.
- Cross reference of Identification and Verification data—There is currently no cross referencing of data to that used in past fraud activity. This allows the same details to be used in multiple frauds making it easier for fraudsters to use companies to commit fraud eg MTIC fraud. This allows fraudulent new accounts to be opened. There should be a warning list of director names and addresses that have previously been used in a fraudulent way available to cross reference against.

At the simplest level, the information that could be verified would be name and home address of those people notified as Directors, these could be verified against voters roles, mortality files, VAT records etc. This would have to be done on first creation of a record as well as when any changes are made. In addition a call back/ write back system could be introduced to validate changes for those companies who don’t use the online system for updating/ changing their information where letters are issued to previous named individuals at previously registered address. If this was combined with the promotion of the current tools available to do this then the number of call back/ write backs are likely to be a reducing number as it becomes more convenient to make changes on line. From our point of view it is very important that we retain the ability to access home addresses of directors for the know your customer process.

On a related matter I mentioned that we have identified significant issues and impacts on the way organisations undertake their financial crime prevention work as a result of changes to the Companies Act 2006—Directors and Shareholders Addresses.

Basically, this legislation prevents credit reference agencies or Companies House passing on details of Company Directors, Shareholders and Company Secretary. The reason for the change in the law came about following the Directors of certain companies, linked to the pharmaceutical sector, being at risk from people such as animal rights activists.

From what I understand, the new Companies Act allows for:

- Company Director to provide a service address and country of residence, rather than the usual residential address.
- A Director may give the company’s registered office as the service address.
- The Director’s residential address will not be on the public record but is considered “protected information” for the purposes of the Act, as is any statement that his residential address is the same as his service address.
- The provisions relating to the register of Directors, including the introduction of service addresses for Directors, are expected to come into force on 1 October 2009.
- Private companies no longer need to have a secretary. Public companies must still have a secretary. The company is required to keep a register of secretaries which shall include a service address for an individual, which may be the company’s registered office.
- The Registrar must not permit disclosure of protected information ie a director’s residential address, unless it is permitted to do so under section 243(permitted use or disclosure by Registrar) or section 244 (disclosure under a court order) or the 2006 Act.
- Section 243 provides that the Registrar may disclose protected information to a:
 - Public authority (as specified).
 - A Credit Reference Agency (CRA)—however the CRA can not disclose to the bank/lenders.

It seems that only the main CRA agencies will meet the conditions set in place for them to receive the information but again they will not be able to share the information with us the lenders, they will not even be able to tell the banks if our information is the same as theirs.

This exposes BBA members to significant risk and will threaten how banks will meet their Customer Due Diligence requirements for the following reasons:

- Banks will not be able to link Directors by the addresses used—it is often the case in fraud syndicates that the link is the addresses used.
- Banks will not be able to protect ourselves at front end should these Directors make personal applications for finance.
- Banks will not be able to have any access to addresses of the companies shareholders so will not know who is behind the companies they are dealing with or in fact where they live (Sanctioned Countries).
- Banks will not be able to obtain any documents from Companies House to confirm when and how someone was added as a Director nor compare signatures.
- If someone is a Personal Guarantee on an agreement and they have moved since the date the agreement was taken out the bank will not be able to locate them to enforce the Personal Guarantee.
- Access to limited information will negatively impact Risk and Underwriting decisions.
- Banks' investigations into individuals who are added to companies as Directors will be frustrated as they will not be able to contact them to confirm that they are directors of the companies concerned and if their involvement is genuine and if not protect them and advise them to have their details removed.
- Banks will not be able to contact the genuine directors of companies that have been cloned.

22 October 2008

Memorandum submitted by Companies House

1. This memorandum includes details of Companies House achievements over the past year and its priorities for the coming year. From the customer perspective it deals with levels of satisfaction with our services, our development of e-services and our work to protect companies against fraud. It also deals with implementation of the Companies Act 2006 and the changes in our internal processing systems which provide a solid base for implementation of the Act.

2. The memorandum also includes an outline of Companies House's role in working with other business registries and with colleagues in Government to influence European policy.

INTRODUCTION

3. Companies House is an Executive Agency of the Department for Business, Enterprise and Regulatory Reform (BERR). It became a Trading Fund in 1991. It is responsible to Parliament through ministers and produces an Annual Report and Accounts, which is available at www.companieshouse.gov.uk. Companies House has two main functions:

- the incorporation, dissolution and restoration of limited companies; and
- the maintenance of a register of information filed by companies under the Companies Acts and related legislation, which it makes available for public inspection.

4. Some key statistics:

- 120 new companies formed every working hour;
- 2,640,000 companies on the register;
- 42 documents processed every minute;
- 42,100,000 hits per month on Companies House electronic services;
- 80% electronic document filing capability by volume;
- 315,000,000 pages of company information on the database; and
- one company documents bought every four seconds.

5. In 2007–08 we delivered:

Customers

- record levels of customer satisfaction;
- record search volumes;
- record documents registered;
- record register size; and
- record levels of electronic transactions.

People

- new values framework.

Processes

- new Companies House Internal Processing System (CHIPS).

Financial

- reduced operating cost per company; and
- our return on investment (ROI) target.

6. Our ambition is to be a customer centred organisation, developing and delivering services which offer real value for money and benefits to our customers. Our priorities for 2008–09 are:

Customers

- deliver consistently high levels of customer satisfaction;
- develop our customer insight;
- deliver the benefits of e-transactions to more customers; and
- implement some elements of the Companies Act 2006.

People

- make our new values live throughout Companies House; and
- develop our skills.

Processes

- embed CHIPS and deliver post-implementation efficiencies; and
- develop the systems for full implementation of the Companies Act 2006.

Financial

- deliver our ROI;
- operate within our agreed financial framework; and
- prepare a fees order for October 2009.

CUSTOMER SERVICES

Customer satisfaction

7. During 2007 Companies House achieved satisfaction rates in excess of 85% in each quarter. This consistently high rating reflects a strong track record of customer focus and constant attention to providing high quality customer service. Companies House encourages frank and honest feedback from customers because this helps us to improve our service delivery.

8. Companies House monitors customer satisfaction through:

- customer satisfaction surveys;
- 21 regional focus groups each year;
- 15 information days each year;
- feedback from customer emails and phone calls; and
- regular meetings held by a team of customer care managers.

9. Customer contact transaction figures per month are approximately:

- 100,000 telephone calls for Companies House;
- 140,000 telephone calls for the Contact centre;
- 20,000 emails for the Contact centre; and
- 2,000 faxes and related correspondence for the Contact centre.

10. We have comprehensive complaints and appeals procedures, including access to an independent adjudicator.

Companies House website

11. Companies House's website is the fourth most commonly visited website in Government.

The total website hits averages over 40 million per month with January 2008 having over 50 million hits, 30 million of which were searches on our WebCheck service.

E-Filing

12. Companies House is working towards providing a fully e-enabled service for all its customers and has made significant progress over the last four years. (Annex 1, fig 1)

13. We have increased the types of document we can accept electronically. At the end of 2004–05, 67% of documents were e-enabled, by 2007–08, this had grown to 80%. This included incorporations and annual returns, which have high percentages of e-take-up. We have attached a graph showing take-up of online services at Companies House and how they compare with other Government organisations. (Annex 1, fig 2).

Compliance and late filing penalties

14. Ministers set Companies House a target to achieve high rates of compliance, in order to ensure a transparent and up to date register. We help companies to comply by reminding them before the filing dates that accounts and annual returns are due. When companies go into default we contact them with the objective of securing compliance.

15. Continued non-compliance can lead to the prosecution of directors or the company being struck off the register. As an incentive to ensure timely compliance, Parliament imposes Late Filing Penalties (LFP) on companies which file their accounts late.

16. Parliament has recently approved changes to the LFP regime which will affect all companies filing late. There will be increased penalties and faster progression through penalty bands for late filing of accounts. (Annex 2) Furthermore, penalties will be doubled for repeated failure to file on time. The new penalties will come into effect on 1 February 2009.

Fees

17. Companies House reviews its fees annually to ensure we are charging customers the correct amounts, in line with the principle of cost-recovery. Changes brought in by the Companies Act 2006 mean that Companies House will need to implement a new fees order in October 2009.

18. Companies House provides certain information free, for example, company indexes, basic company information, filing history, insolvency details etc. Customers can use this to identify more easily the information and images they wish to purchase.

FRAUD

19. The UK operates an open register of companies, with easy access to data. This allows business to incorporate companies easily and gives law enforcement agencies easy access to data to help combat crime.

20. Business and government want a system where it is easy to establish companies and to conduct business relatively free from the burdens of regulation. The challenge is to balance this need for a low regulatory burden with the need to prevent the companies register being used to facilitate fraud and financial crime.

21. Getting companies to understand the need for self-help is a major challenge. We have put a great deal of effort into communicating the opportunities we have created for companies to protect themselves. We have developed a three-point plan:

- E-filing. Electronic filings are protected by authentication codes.
- PROTECTED On-line Filing (PROOF). Companies agree to file only electronically and Companies House queries any data submitted on paper.
- Monitor. Copies of any document filed for a particular company are sent to customers, alerting them to the filing.

22. In collaboration with the Metropolitan Police we launched Operation Sterling in May 2005, targeting financial crime in London. We have opened ourselves up much more to contact with other organisations and have expanded work from Operation Sterling to provide data to law enforcement agencies nationally:

- We contributed evidence to the Financial Action Task Force audit of the UK's effectiveness in dealing with money laundering and the finance of terrorism
- We are continuing to work with the Metropolitan Police developing our intelligence role under their guidance.
- We are working with the Serious Organised Crime Agency to contribute to data sharing among the UK's law enforcement agencies.
- We have joined the Financial Services Authority's Financial Information Network. Gaining access to expertise and sharing experience on specific types of crime, such as investor take-over fraud.
- We have joined the Home Office's Identity Fraud Forum.

- We are in dialogue with private sector organisations such as Credit Industry Fraud Avoidance System, British Banking Association and local fraud forums
- We notify credit reference agencies of all changes in the companies register, so that they can alert their customers to check out changes in registered office addresses or directors' details.

23. The National Fraud Strategy called for law enforcement agencies to make use of the data in the companies register to combat financial crime and it established the City of London Police (CLP) as the lead force for combating fraud. We have met CLP to ensure that use of data from Companies House is included in their resource planning.

INTERNAL PROCESSING—CHIPS

24. Companies House has recently implemented its Companies House Information Processing Systems (CHIPS) programme, which has replaced its 20 year old electronic internal processing system (STEM).

25. The initial requirements phase for this programme took place in April 2001. Development was outsourced to a private sector partner through a formal tendering procedure, with a planned completion date of April 2005.

26. During 2003, Companies House was concerned at increasing cost and changing requirements. The structure of the programme was reviewed at the end of 2003 and Companies House decided in January 2004 to bring management of the programme in-house.

27. There were further revisions to the programme plan in February 2005 and January 2007. The programme was successfully implemented in February 2008. Although we experienced the inevitable teething problems in the early stages of implementing any new system, performance of the new system is good:

- Performance at database level matches that of the previous system.
- Data migration to the new system has been successful.
- Service incidences on day two of implementation were at pre-CHIPS levels.
- Buy-in from staff has been excellent.
- The internal IT team has responded exceptionally well to any problems encountered by staff operating a new system.

28. Revisions to the plan also meant a re-assessment of costs which over the life of the programme increased from the original estimate. (Annex 3).

29. CHIPS will:

- Provide much greater flexibility to develop electronic services which will help to simplify the ways in which customers do business with Companies House.
- Provide a solid base for implementation of the Companies Act 2006, which maximises the act's potential to make regulation easier for small business.
- Allow Companies House to deliver efficiencies which result in cost benefits to customers.
- Allow Companies House to extend the hours of service availability to seven days a week (by December 2008).

COMPANIES ACT 2006

30. The Companies Act 2006, which received Royal Assent on 8 November 2006, introduces sweeping changes to simplify and improve company law. Company law has been substantially rewritten to make it easier to understand and more flexible—especially for small businesses.

31. The Act introduces a range of deregulatory measures which have been widely welcomed by business. It will bring particular benefit for private companies eg it removes the requirement for private companies to have a company secretary or to hold an annual general meeting unless they positively opt to. The Act is expected to deliver benefits to business of around £250 million a year.

32. The Act introduces a statutory statement of directors' general duties, which will provide greater clarity on what is expected of directors. It also encourages disclosure of strategic, forward-looking information to shareholders through the enhanced business review.

Implementation of the Act

33. The implementation of the Act is highly complex, and requires both the making of more than 40 Statutory Instruments (managed by BERR) and a large number of changes to Companies House systems and processes. Due to this interdependence, the decision was taken for the implementation programme to be jointly managed between BERR and Companies House and a close working relationship has been maintained.

34. The Government has had extensive discussion with business and other stakeholders about the timetable for commencement of the Act. There are a number of important considerations which we have taken into account.

- We want to introduce benefits for business as quickly as possible. It is important, for example, that private companies can benefit as quickly as possible from the deregulatory measures introduced by the Act (such as those on resolutions and meetings).
- We want to minimise the commencement dates in line with the Government's commitment to small and medium sized businesses to hold to common commencement dates.
- We recognise that companies and their legal advisers will need to familiarise themselves with the Act's provisions and make proper preparation for full implementation. In particular, where substantive secondary legislation is needed, this needs to be in place in good time before the relevant provisions are commenced.
- We need to ensure that we implement EU company law requirements falling due during the implementation period alongside our implementation of the Act in a way which minimises the number of changes for business.
- We also need to ensure that we have sufficient time to implement important changes to Companies House systems and processes in relation to areas such as company formation, and give appropriate notice to users of the new forms.

Decision to Delay Final Implementation

35. By October/November 2007 we had made considerable progress in making the necessary changes to our systems and processes. However, there remained a great deal of work to be done and we advised BERR at that time that we could not be absolutely confident that the necessary changes could be completed on time.

36. In the light of this advice, the Minister for Competitiveness, Stephen Timms, announced by Written Statement on 7 November that the commencement date for most of the provisions due to be commenced on 1 October 2008 should be put back to 1 October 2009. This decision was taken in a timely manner in order to provide business with the certainty it needs about the implementation timetable, and to ensure that companies do not incur unnecessary costs.

37. Final details of the commencement timetable were announced by Written Statement on 13 December 2007. The provisions which will still be commenced in October 2008 include the new procedure for private companies to make capital reductions supported by solvency statement.

The Cost to Business of the Delay

38. BERR believes that, by announcing the change in the implementation timetable early, the cost to business was minimised. In particular, the Department did not want companies to make changes to their articles of association next year which wrongly made reference to October 2008 because of the risk that there would have had to be subsequent changes, putting companies to unnecessary expense.

EUROPE AND BEYOND

39. Companies House contributes to the European agenda on companies by informing central departments in their discussion of policy and through the network of European and other companies registries.

How we are contributing to the development of EU Wide Policy

40. We helped draft the UK response to the EU consultation on the Corporate Law Action Plan.

41. We have used our experience of implementing the European Regulation introducing the Societas Europaea (SE), which is equivalent to a public limited company, to help other government departments implementing similar legislation (such as the European Co-operative) to ensure consistency in approach.

42. We have been working with BERR on the Services Directive which will introduce a point of single contact for customers based in one member state wishing to offer services in another member state. The point of single contact will provide information to potential service providers, such as regulations governing provision of services and the types of corporate vehicles available.

43. We have been working with Treasury on the UK's response to a cost-benefit analysis of European anti-money laundering models.

44. We have developed systems for implementation of the Cross-border Mergers Directive, which allows companies within the European Community to merge with companies in other member states.

45. We are working with BERR on the development of policy on the European Private Company (EPC). Proposals for a EPC have been around for a number of years. Last year the European Parliament requested that a proposal be brought forward during 2008. We expect a proposal in late spring or early summer. France and Germany are keen to move forward with this work and we expect that France will have the EPC as a high priority throughout its presidency during the second half of 2008.

What we are achieving with other registries

46. We are one of the biggest registries in the EU and an active member of the European Commerce Registries Forum (ECRF). As a member we contribute to and learn about best practice and ideas from other registries.

47. We are members of the British & Irish Working Forum, a working group of registries from across the British Isles and Ireland who share a common legal foundation.

48. We are members of the Company Registers Forum, which is an association of registries, chiefly from Asia and the Pacific, concentrating on sharing best practice. The advantage of the forum is that most of the registries have very similar legal frameworks to our own.

49. We worked with the Irish Registry on a Branches Pilot to produce software that automatically sends electronic notification to a branch registry of the change of status of the underlying company. This addresses the potential fraud of companies dissolving but not informing their branch registry of the dissolution, thus leaving the branch active.

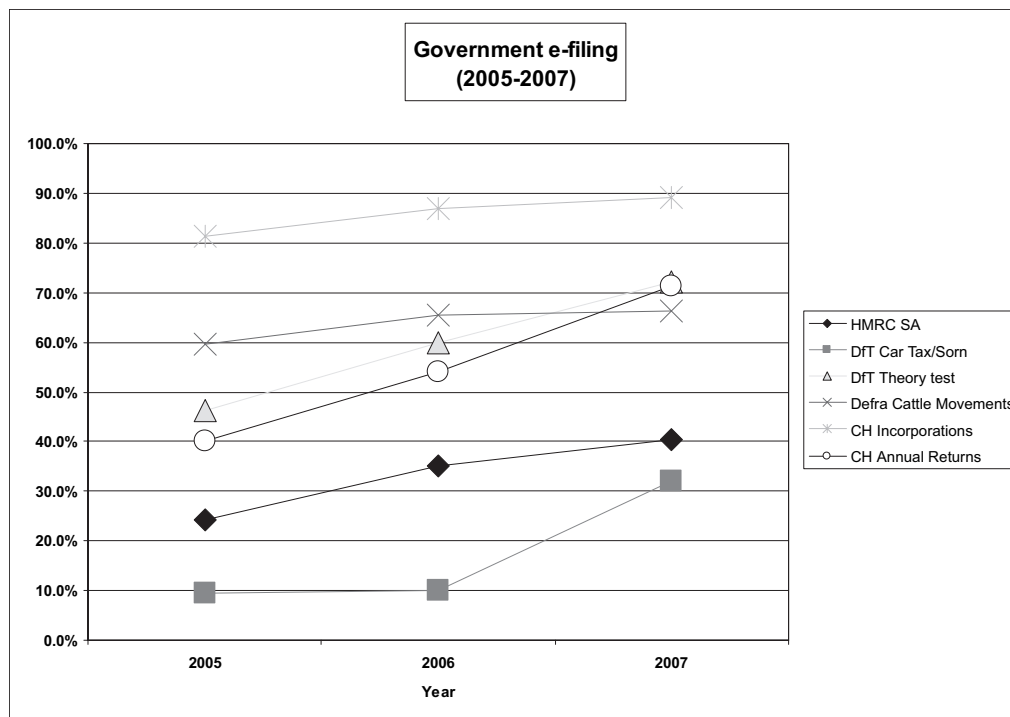
50. We have joined the European Business Register (EBR), an online service where information on companies registered across Europe can be found in one place, in a standard format and language.

51. EBR has set up the Business Registers Inter-operability Throughout Europe (BRITE) project. Companies House is not a full member of BRITE but has been a member of the project's concertation board and has offered to contribute expertise to its second phase.

Our role in Transformational Work

52. As one of the largest and most important registries in Europe, Companies House needs to be to be actively involved, to help maximise the UK's influence. In the short term we will achieve this through EBR and BRITE, and by continuing to work with BERR on the development of policy in Europe.

Annex 1



Annex 2

New penalties under the Companies Act 2006

<i>Lateness of delivery</i>	<i>Company</i>	<i>Company</i>
Not more than 1 month late	£150	£750
More than 1 month but not more than 3 months late	£375	£1,500
More than 3 months but not more than 6 months late	£750	£3,000
More than 6 months late	£1,500	£7,500

This compares to the current table of penalties as set out in the existing regime as follows:

Current penalties under the Companies Act 1985:

<i>Lateness of delivery</i>	<i>Private Company</i>	<i>Public Company</i>
Not more than 3 months late	£100	£500
More than 3 months but not more than 6 months late	£250	£1,000
More than 6 months but not more than 12 months late	£500	£2,000
More than 12 months late	£1,000	£5,000

Annex 3

<i>CHIPS Project</i>	<i>Start Date</i>	<i>Original Planned Completion Date</i>	<i>Current Expected Completion Date</i>	<i>Original Planned Cost</i>	<i>Current Estimated Cost</i>
Project Contract	April 2001	April 2005		£29m	
Project brought in house	January 2004	August 2006		£30m	
Plan Revision	February 2005	November 2006		£41m	
Plan Revision	January 2007	October 2007	February 2008	\$48m	£51m

Supplementary memorandum submitted by Companies House

Q14. Powers to rectify the register under the new Companies Act

Section 1095 of the Companies Act 2006 provides a power for the Secretary of State to make regulations requiring the registrar to rectify the register on receipt of an application. The regulations are on the BERR website at www.berr.gov.uk/files/file45088.doc

The rectification power allows the registrar to remove information that:

- Derives from anything invalid or ineffective or that was done without the authority of the company, or
- Is factually inaccurate, or is derived from something that is factually inaccurate or forged.

Fraudulent filings occur most often when criminals change the officers and registered office address of a company for some fraudulent purpose. This is normally to order goods to be delivered to the bogus address, which the criminals then sell and pocket the profits for themselves. Currently in such circumstances, the true directors have to seek a court order that the fraudulently filed documents were in fact a “nullity” before they can approach the registrar to remove them from the company’s record. This is both a costly and time consuming process, which adds to the difficulties of the company which has been “hi-jacked”. Indeed it is these circumstances that led to the initial policy behind the drafting of the rectification powers.

Restrictions

I may only remove the following documents from the register under this power:

- Change of address of registered office;
- Changes to directors;
- Changes to secretaries;

and specified other documents.

The process

Regulations made under the section set out who may make an application for rectification of the register. They are:

- The person who delivered the information;
- The company to which the information relates;
- Any individual to whom the information relates

The application must give specified information about the person making the application, and indicate the reason for the application. If I am satisfied that the application meets the requirements for me to action it, I must give notice to the persons mentioned above. The notice must state that I have received an application to remove certain information from the company record and that I am minded to remove it unless any of the persons mentioned above raises an objection to my doing so within 28 days of the notice. The letter will state the date by which any person wishing to object must do so. If I receive no objection to my intention to remove the information within the stated period, I will remove the information and notify the applicant. Where the original receipt of the information I have removed was published in the Gazette, I must publish notice in the Gazette of its removal. If any person wishes to object, they must do so in writing within 28 days of my notice. On receipt of an objection I must acknowledge its receipt and notify the applicant and:

- The person who delivered the information;
- The company to which the information relates;
- Any individual to whom the information relates

(but not the person who made the objection) that an objection has been made.

Where we receive an objection it will not be possible for me to rectify the register, as the receipt of an objection will indicate that there is some dispute as to the facts of the case. I have no power to judge the competing facts of the case, and the applicant will have to consider whether to take the matter to court under the provisions of section 1096. That section allows the court to consider applications for rectification of the register and make an order for information to be removed from the register. I hope this is clear; it is a complex issue and often one in which our experience tells us that disputes are not uncommon.

Q 35–37. *Information available to dissemination agents*

Companies House provides information from the register to a range of different intermediaries. This includes the daily supply of bulk data and image files to the major company information providers. The content and format of these products has not changed as a result of the implementation of CHIPS. There have been changes in the timing of the delivery of some products because of the different ways in which the old and new systems work. We deliver bulk image files nearly 24 hours earlier than was previously the case. Some of the bulk data products are currently being delivered a few hours later than was previously the case. We are looking at our options for tuning the new system to improve this.

Other intermediary customers access the register via Extranet or an XML Gateway. These customers are now able to access changes to the register in real time under CHIPS (the previous system updated the register overnight as a batch run).

We have experienced a number of short-term difficulties with the bulk data products following the implementation of CHIPS. Most of these were resolved within two weeks of CHIPS going live, although some issues with the bulk supply of mortgage data persisted until the month of April. We work closely with our bulk customers on an ongoing basis on a range of issues. This included keeping them up to date on the action that we were taking to resolve these problems.

Q4. *Professional Accountants*

Companies House is party to a liaison group which embraces those professional accounting bodies involved with the preparation of the majority of statutory accounts for limited companies in the UK (ICAEW, ACCA, ICAS, CIMA and ACAI) and POB. We will, as part of the agenda for this group, be looking at ways in which we can work together to improve generally the quality of accounts on the register.

The overriding priorities of CHIPS and the implementation of the Companies Act 2006 have prevented us from defining with POB the scope of their specific proposals and indeed, consulting business and the accountancy bodies on them. We are confident we can find a range of mutually beneficial ways of working with professional accountants in practice. We are building a closer relationship with the accountancy professional bodies with a view to furthering this theme. Indeed we are planning to host in the autumn, a joint working event with senior representatives of these bodies where we want to explore how we can enhance the register in the interest of improving the quality of information on it. We will ask for feedback on the specific suggestions from POB as part of this. As we progress to 100% electronic registration over the coming years we will include a customer focused range of improvements including consideration of those

proposed by POB. At this stage it is not possible to provide cost estimates but we are able to provide an assurance that such proposals would form part of our ongoing investment programme within our Trading Fund finances.

Our web filing of accounts service was based on the requirements of Schedule 8a (format 1) of the Companies Act 1985 which specifies the minimum disclosures required in the abbreviated accounts for small companies submitted to the Registrar of Companies. As a first stage offering, we made the decision to design the template strictly in accordance with this requirement in order to keep it as simple as possible in the interest of encouraging initial take up. Our electronic filing of small company abbreviated accounts service was the World's first application of electronic filing of accounts via XBRL and so far, our take up also leads the world. Since launching the service in late 2006, over 200,000 sets of accounts have been filed electronically.

We did not therefore offer the submission of optional information such as the disclosure of the company's accountants at the initial stage. However we are not precluded from expanding the template in future to include optional disclosure; indeed we are being actively encouraged by BERR to work towards providing companies and their advisors with opportunities to include, in their accounts filed on the public record, as wide a range of options as possible for additional disclosures, in addition to the statutory minimum information.

Q 57. Metropolitan Police within Companies House

The posting of a dedicated officer from the Metropolitan Police into Companies House was one of the strands of co-operation between the two organisations which was taken forward following the launch of Operation Sterling in 2005. This posting, which lasted for 18 months, achieved its objective in building robust and efficient mechanisms for co-operation between Companies House and the different police forces in handling individual cases of fraud linked to the company register. These mechanisms continue to work well. In addition, Companies House has now established contacts with the City of London Police and with other law enforcement agencies on broader issues relating to fraud. As things stand I do not see a need for a police officer to be located physically in Companies House, as we have used the secondment wisely to transfer skills and knowledge of networks to our own staff.

Q60/63. Company Directors appearing on the register of disqualified electors

It is an offence for a person subject to a disqualification order to be appointed as a director of a company or a member of a Limited Liability Partnership. Companies House systems perform automatic checks on newly-appointed directors and, where it appears that a newly-appointed director may be subject to a disqualification order, we pursue the matter with the director in question. In some cases this can lead to prosecution.

Q75. Power to make electronic filing compulsory

Section 1069 of the Companies Act 2006 enables the Secretary of State to make regulations requiring documents that are authorised or required to be delivered to the registrar to be delivered by electronic means. The regulations are subject to the affirmative procedure, and so would need approval from both Houses.

May 2008

Further supplementary memorandum submitted by Companies House

Are statistics kept on the number of disqualified directors removed from the Companies Register having re-registered following disqualification?

We do not keep statistics on the number of disqualified directors removed from the Register who may have registered as a company director whilst being disqualified. To explain, when a company director is disqualified, or if they register following disqualification, we write to them asking them to resign by completing the necessary forms. We have no powers simply to remove them. If they do not resign we refer the case to the enforcement unit within the Insolvency Service. It may appear strange that we might accept a registration following disqualification. Our systems do check to try to prevent this happening but a slight change or addition to any of the disqualified director's details could result in the registration being accepted.

What percentage of documents were filed by paper in 2007–08?

The percentage of documents filed by paper at the end of the financial year 2007–08 was 52%. This was a decrease from the previous year's figure of 67% as the trend for electronic filing continues to increase.

Has there been any analysis of the difference in cost for Companies House of a company filing by paper as opposed to electronically?

Yes : the last Fees Regulations in 2004 took account of the difference in cost in processing electronic and paper documents. This was reflected for example in the fee of £15 for an electronic incorporation instead of £20 for one filed on paper, and in the fee of £15 when filing an annual return, as opposed to £30 when filed on paper.

Further supplementary memorandum submitted by Companies House

DISSOLUTION OF COMPANIES

The Legal Framework

The Registrar of Companies operates two processes for the dissolution of a company—compulsory and voluntary.

The Companies Act 1985 sets out a process under which the Registrar may dissolve a company. It provides that the Registrar may initiate the dissolution process if it appears to him that the company is “no longer in business or operation”. It then provides for a number of procedural steps to follow in terms of letters to be sent to the company registered office and to directors, followed by the publication of the company name in the London (or Edinburgh) Gazette. The company is dissolved three months after its name is published in the Gazette, unless the Registrar sees “cause to the contrary”.

In addition, the Deregulation and Contracting Out Act 1994 inserted into the Companies Act a process whereby a company can apply to be dissolved. The new provisions placed a duty on the directors of a company that had applied to be dissolved to notify a range of interested parties (employees, members, creditors, pension fund trustees or managers). As in the case of a compulsory dissolution, the Registrar publishes the company name in the Gazette, giving notice of his intention to dissolve it and inviting objections.

The Registrar's approach to applying the law

Compulsory Dissolution: company “not in business or operation”

In most cases, the Registrar concludes that a company is “not in business or operation” if it fails to meet a statutory filing deadline and subsequently fails to respond to a communication which warns the company that strike-off action will be initiated in the event of no response.

The Registrar may also take this view if the company resigns all serving officers and does not appoint new officers, or if it comes to his attention that the Registered Office address is ineffective.

Reasons for halting dissolution: signs of life

It is fundamental to the operation of the law that only companies which are genuinely defunct should be struck off. Dissolution is not a sanction for failure to meet one or more obligations under the Companies Acts, and cannot be used as such. It follows that the Registrar will not strike off a company which shows a sign of life. Signs of life might include the filing of a set of accounts or an annual return.

Reasons for halting dissolution: objections

The Registrar will also conclude that there is “cause to the contrary” when notified by any person that they have an outstanding claim against the company. Such a person might be a creditor, or a person with an outstanding legal claim. In many cases, HM Revenue and Customs objects to the dissolution of a company pending outstanding tax issues to be resolved.

In the case of a compulsory dissolution, the Registrar places dissolution on hold for six months on receipt of an objection.

In the case of a voluntary dissolution, the Registrar will (assuming that the objector has prima facie a good reason for objecting) place dissolution on hold for 12 weeks. The objector is informed that their objection will lapse at the end of this period unless in the meantime they take concrete steps to pursue their claim against the company. In many cases this will involve the actual initiation of legal proceedings, although each case is treated on its merits.

Scope for alternative approaches

The Government's view is that the basic framework and philosophy of the law in company dissolution is sound. The Companies Act 2006, which comes into force in full in October 2009, reproduces the dissolution provisions of the Companies Act 1985. Parliament considered and rejected an amendment which would have employed dissolution as a sanction for failure to file statutory documents.

Companies House will shortly be introducing a new enforcement process which is aimed at identifying at an earlier stage—ie when a company first misses a filing deadline—which companies have become defunct.

With regard to the handling of objections, the Government's view is that the current process strikes the right balance between the right of a company to be dissolved if it is no longer needed and the right of an objector to resolve any outstanding issues before the company is dissolved. It is already the case that some companies are wrongly dissolved and subsequently restored by a court because potential objectors are unaware of the impending dissolution and do not act in time. If the Registrar were to be more aggressive in requiring objectors to advance and prove their case more quickly, the risk is that there would be a significant increase in wrongful dissolutions.

18 September 2008

Further supplementary memorandum submitted by Companies House

Thank you for your letter of 8 October and for the further opportunity to respond to questions from the Select Committee. My answers to the queries are as follows:

I note that your first paragraph referred to the potential for Companies House to make a loss in 2007–08. I think there may have been some misunderstanding about the period to which I was referring. In the hearing I said that Companies House would make a loss “next year”. By this I was referring to the next financial year (due to begin on 1 April 2008). It was never our expectation that we would make a loss in 2007–08. As you can imagine, by the date of the committee in March 26, the position for 2007–08 was fairly certain.

The second paragraph of your letter asked why the surplus from the last two financial years could not have paid towards implementation costs of the Companies Act 2006. A loan of £10 million was requested from BERR to enable Companies House to meet future large one-off items arising over the period of CSR07. However, tight management of our costs, together with the delay in the implementation date of CA2006, has meant that as yet that loan has not been drawn down from BERR. In fact, the loan arrangement was first reduced to £8 million in April 2008, and draw down is now being finalised for only £4.5 million in the first quarter of 2009, effectively utilising the £5.4 million surplus in “reserves” for implementation of the programme to date.

Your third query related to my prediction that a loss of £5 million would be balanced over a four year period. Our forecasts showed that costs would rise, peaking in 2008–09 due to the impact of additional one-off costs associated with implementation of the Companies Act 2006. Thereafter, annual costs would reduce over the subsequent two years due to increases in efficiency, to yield surpluses in those years, thus balancing the operating account surplus over the four year period.

You asked whether there is a chance that a surplus could also be made. This links to your query about the challenges in forecasting which face us in meeting our required rate of return of 3.5%. The sensitivity to changes in the variables under which Companies House operates is high, and tension must be maintained between making a small positive return, without any cross-subsidy, and ensuring that cash reserves are not exhausted. These variables include:

- The number of incorporations, dissolutions and mortgages.
- The rate of electronic take-up of documents filed.
- The speed at which efficiencies can be realised.
- Uncertainty over the impact of the new Companies Act functions on the operational capacity of Companies House.
- Demand for Company Searches.

In turn these are at least partly influenced by:

- The current uncertain economic climate.
- Any changes in tax regimes for companies.

For example, a 1% change in take-up for our electronic annual return (lower price than for a paper filed return) results in a reduction in fee income of £300,000, and over the past three years we have moved from 10% to today's 86% electronic take-up. Forecasting that change is difficult over a longer period, and so costs and priorities have to be constantly reviewed to ensure that overall business plans can be delivered.

A further example shows the difficulty in forecasting income streams. In April 2008, we became aware of 50,000 companies incorporated between January and March 2007 which would be dissolving during 2008. This resulted in a £750,000 reduction in our income budget for the current year, for which we have attempted to mitigate the effect by reducing our expenditure.

Therefore, maintaining sufficient cash to do what is required, but balancing that with the constraint of not cross-subsidising activity, nor making excessive surpluses taking one year with another, remain the major challenges to forecasting activity in Companies House.

Turning to the query on PROOF, it is true that not all company changes can be filed electronically. At present 83% of documentation can be filed electronically and current levels of take up are at 49%. You are right in saying that the key to making PROOF compulsory is to make e-filing compulsory for these documents. PROOF is a scheme that requires the agreement of the company and therefore making it mandatory is not a practical aim. A better approach is to broaden the use of PROOF as a first step and ultimately mandate electronic filing of company information. The Companies Act 2006 gives me the power to seek approval from Parliament to mandate the electronic filing of documents. Although we have not yet put a detailed timescale together we envisage that approximate timings might be:

- Consult with customers on our strategy for electronic filing (which will include the potential for mandation)—January 2009.
- Launch a revised electronic PROOF service which will make it much easier for customers to sign up—June 2009.
- Link with that launch a marketing campaign which warns companies of the dangers of not signing up to PROOF.
- Depending on the outcome of consultation, make further progress towards 100% electronic filing of basic form types (ie PROOF-related documents) and, subsequently, all filings—detailed timings to be considered post consultation, but 2011 would be feasible for the first stage in my view.

20 October 2008

Memorandum submitted by the Finance and Leasing Association

The Finance & Leasing Association (FLA) is the main representative body for the motor finance, consumer credit and asset finance industries. In 2007, FLA members did £93 billion of new business. £28 billion was provided to the business sector and UK public services, representing almost 30% of all fixed capital investment in the UK. The remaining £65 billion was provided to the consumer sector, representing almost 30% of all UK unsecured lending.

The FLA's members—who provide asset finance and leasing facilities to a very large number of UK companies—have concerns about some aspects of current Companies House policy. I am writing to set these out in advance of Companies House's oral evidence to the Committee on Wednesday 26 March.

Recent media coverage has highlighted the current absence of any kind of vetting procedure when company directors are registered by Companies House. This is a serious concern for the FLA's members. The verification of the identity and background of company directors is essential when a finance company decides whether to provide a lending facility. It also forms part of the prudent risk assessment which underpins responsible lending decisions. But Companies House's failure to vet the details of company directors listed on their website means that the Directors Register is currently unreliable.

The FLA outlined these concerns in our response to the (then) DTI's consultation on the implementation of the Companies Act 2006. We stressed the potential for the misuse of company information and Director details. Sadly, our members report that such misuse is now common. We need the active cooperation of Companies House to minimise the risks of fraud and identity theft and would be happy to discuss with them, and with BERR, practical ways of doing so.

March 2008

Memorandum submitted by the Insolvency Service

Thank you for your letter of 15 May 2008.

You refer to the Insolvency Practices Council's (IPC) Annual Report for 2007 and the reference in that report to our investigations into corporate failures with a view to deciding whether disqualification proceedings were justified in the public interest.

The IPC's concerns arose from the reduction in our enforcement budget that happened in 2006–07. Because of pressures leading to reductions in a number of budgets across BERR, the enforcement budget that was initially allocated to us in 2006–07 was reduced by £3 million. This did have the consequence of not providing sufficient resources for us to carry out investigations into all of the non-compulsory corporate insolvencies that we would ordinarily have done. As a result of this, The Service was unable to investigate some 500 cases that it would otherwise have been able to pursue. However, we were able to mitigate the impact of this by employing strict prioritisation criteria which ensured that our remaining resource was focused on those cases where experience showed the public interest was greatest and that there was a reasonable prospect of a successful disqualification outcome.

In particular, overall numbers of disqualifications remained at previous levels. At the end of 2006–07 we successfully disqualified 1,200 directors, which compares favourably with the 1,173 we achieved in 2005–06 and the 1,240 achieved in 2004–05. Provisional figures for 2007–08, when the budget cuts were restored, show that 1,145 directors were disqualified showing that output remains at a consistent level and this is against a background of flat or falling numbers of corporate insolvencies over the last few years.

The reduction in the budget was restored in 2007–08 (and has been carried forward into the allocation for 2008–09) and since 1 April 2007 we have been able to investigate all of the cases that warrant such investigation in the public interest.

I do not understand the reference to “self reported” in your 3rd paragraph. It seems most likely that the figure of 77% you quote is in fact the percentage of directors who decide, once we have launched proceedings, to give us a disqualification undertaking rather than disputing our case. If they do dispute our case then the matter is taken to court and (if we win) disqualification orders are secured rather than undertakings. The 77% figure is thus analogous to the percentage of directors who “plead guilty” and “settle out of court”.

You also refer to the review of our investigation and enforcement activity currently being conducted by Grant Thornton. This review is not linked to the issues that I have dealt with above but was a separate review I commissioned to see if there are improvements to structures and processes that would assist in our enforcement activity. As you may know our enforcement activity is not confined to investigating possible director misconduct in corporate failures but also consists of significant activity devoted to investigating the conduct of bankrupts and the work of our Companies Investigation Branch who investigate “live” companies, using Companies Act powers.

The report is not yet finalised but the initial indications are that a number of fairly detailed recommendations will emerge covering the whole range of our enforcement activity which should, when implemented, improve our efficiency and enable us to further increase the protection we are able to afford to the public. My intention is to publish the report on our website when it is complete and when I and my Board have decided on our response to it. I will be happy to supply you with a copy of the report once it is finalised—which I expect to be in the next two weeks—and ahead of publication, subject to it being treated in strict confidence until publication.

June 2008

Memorandum submitted by Business Law Committee of The Institute of Chartered Accountants of Scotland

The Business Law Committee is the Institute's committee which monitors developments in the rules and regulations affecting businesses generally and considers legislative and other proposals deriving from bodies such as the BERR, the FRC, the FSA and the European Commission. The Committee is broadly based, with members representing different sizes of accountancy practice, industry, the investment community, and the legal profession.

The following memorandum has been prepared by the Institute's Business Law Committee in relation to the enquiry into Companies House.

GENERAL POINTS

In general the Institute receives little feedback from its members regarding the functions and processes provided by Companies House and, therefore, we assume that the majority of our members are relatively content with the services provided.

Members have expressed concerns, however, about the staggered implementation of the Companies Act 2006. Virtually all company law has been rewritten and, although there are not many fundamental changes, there is considerable revision of the detail. As Companies House has found out, it is expensive and time

consuming to become fully functional with the detailed changes. Each practitioner also needs to undertake the appropriate training but costs are considerably increased when implementation is staggered over a number of years. Exposure to mistakes is also increased when dual systems operate and the change-over is done piecemeal.

The Institute participates in a Users' Group that is hosted by Companies House and we find this a useful forum in which to discuss any issues that emerge, to discuss ongoing developments, and to receive information from Companies House. We are also members of a consultative team for the e-accounts project.

SPECIFIC AREAS OF ENQUIRY

How Companies House performs its statutory functions

The main point of liaison between our members and Companies House is with the filing of accounts and the accessing of accounts, and the feedback from our members would suggest that this statutory function appears to operate effectively. We are currently working with both Companies House and the Professional Oversight Board of the Financial Reporting Council to assist with the development of e-filing of accounts.

Satisfaction with the services provided by Companies House

The administrative process is not always as helpful as one might hope and this is particularly so with billing procedures. Some bills consist of itemised, tiny amounts which is inefficient for both parties: customer and Companies House. We recommend that the billing system should be reconsidered with the possibility of rebalancing the charges between filing and accessing of information.

The causes, consequences and cost of delays to the Companies House Information Processing System

Whilst we have concerns about the delay in implementation of the Companies Act 2006 we believe it is preferable to recognise the processing difficulties that may arise and allow sufficient time to properly develop the new processes, rather than continuing with a timetable that is too tight.

March 2008

Memorandum submitted by The Institute of Chartered Secretaries and Administrators

The Institute of Chartered Secretaries and Administrators (ICSA) is an international professional body with some 44,000 members and 28,000 students in over 70 countries worldwide fulfilling a variety of roles in a wide range of different types and sizes of organisations.

ICSA and its members would appreciate it if the issue of Companies House performance as a whole became a subject of a formal consultation with a three month response time allowing for proper consultation of members to be undertaken. A very quick straw poll on fraud and any issues in general has been undertaken on this occasion and a surprising response, and is indicative that there are probably more members with valid comments if they could be canvassed properly.

Please find below our responses to the questions raised in your request:

1. Experiences and examples of such fraud

There had been few examples of fraud amongst members with the only fraud of this type being a change of registered office. Several members quoted that there had been issues of identity fraud, one respondent stated "we have had some instances of identity fraud where information on forms 288 filed at Companies House has been used by fraudsters to get loans, credit cards etc."

Although not an example of fraud, a weakness was highlighted whereby "a newly appointed director signed his own appointment form we had sent him (rather than just the consent box as we had meant) and returned it direct to Cos House. Cos House then accepted this 'self-appointment'".

One respondent also detailed their experience with Companies House when a fraudulent document was filed. “It was not what you could call well focused attack as the client was only at most guilty by association—It was alleged they were into animal testing which they were not—had never been but were sometime ago hived off an entity that had been involved in the past in such activities—we had to get a court order to remove the doc. It came to light on a Friday afternoon (flexi-time)—it took us until Wednesday to straighten it out—get the Court order—Initially Companies House were not responsive but by Monday Afternoon they were.”

2. Views as to how high this risk is

Most of the respondents felt the risk was fairly low of a company being hijacked. However some perceived weaknesses of the system were revealed.

“I consider it to be a very real risk. Companies House have no mechanism of checking that the signatures are those of the individuals they purport to be. With advances in technology perhaps this should now be possible

I am not surprised when fraudulent acts take place as it seems to me that it would be very easy to ‘hijack’ a company. It would be easy to obtain a sample of a current directors signature from already filed documents, and then to file new forms to replace existing directors. I wonder if signatures are checked by Companies House.”

“We have not (yet) experienced any cases of fraud against us as a company, however we do use the monitoring service provided by Companies House and I feel that this at least lets us know if any documents have been filed by someone other than our company.”

3. Whether electronic filing and the filing alert system which companies can register for has reduced this risk to a manageable level

E-filing has been positively received and there general consensus was that it has reduced the risk of fraud. However, the inability to file certain documents is a hindrance.

“(i) Electronic filing seems to reduce the risk.

(ii) The down side is that there is no formal process in place for directors to consent to documents being filed electronically—whilst a pin has been set up for each director, the information used to create the pin can effectively be made up. As a company we have a process in place to gain a directors confirmation but this still does not stop the potential fraud.

(iii) The alert system helps as a company can immediately confirm the forms filed.

(iv) It is the companies that have to pay to monitor the filing of forms on their company.

(v) The number and type of forms that can be filed electronically is still very limited and even some annual returns cannot be filed in this way eg where there is a share class authorised but no shares of that class have been issued.

(vi) I believe the rules are changing but even if a company finds that something has been incorrectly filed there is no easy way of rectifying it except at great cost to the company”

“I suspect the problem was fairly small to begin with so any reduction in risk also likely to be very small.”

“Whilst I believe electronic filing and the alerts from Companies House help I understand that it is still relatively easy for someone to file bogus forms since no checks are made as to signatures nor the providence of the person making the filing. It would also help if the cost of the alerts was reduced. I also note that registrars now often send an anti fraud letter to the old address and new address where a shareholder changes their details—is this feasible for Companies House? If not could there be put in place a flag system at Companies House when the registered office is changed and new directors appointed within a time period (day/week/month)? In addition could a notification go to the company when a charge is registered?”

“I think this probably has reduced the risk to an acceptable level”.

4. *Any other comments regarding companies house*

“Companies House does not seem to read the covering letters sent to them—why is this? Are the forms sent to the Doc examination branch and the letter automatically binned?”

It was disappointing that their systems would not be ready for 2008 implementation of the Companies Act but it was hardly as surprise despite this being in gestation for years. Have they confirmed that they will be ready for 2009—have BERR been updated as to progress? Are we in danger of it slipping to 2010?

How good is the training provided to the call centre staff—they didn’t used to be very good and often gave conflicting advice if you spoke to more than one person.

On a positive note, I have found that the London satellite office is efficient, particularly where documents are needed the same day.”

“(i) Whilst one appreciates the volume that Companies House deal with, it is still disappointing the number of errors made in processing. It always seems to be down to companies themselves to constantly check.

(ii) Sending more than one item in an envelope still causes problems, I have experienced AGM resolutions which include Article changes being separated from the amended Articles so that one or both are rejected by different departments.

(iii) We had cause to change the electronic filing codes for certain of our companies as we demerged from another company and wanted to ensure that the former parent could not file after completion. In itself this was a simple task but the letters issued by Companies House confirming the new numbers did not in fact detail the new numbers (they were blank). This poor administration is frustrating and time consuming.”

“(i) Inconsistency. One can be completing a form in what you think is the correct way for years and suddenly (usually when it’s a crucial transaction) Companies House will reject it with no warning because a member of staff has decided it should be done a different way; and

(ii) Their point-blank refusal to correct mistakes that are blatantly their own. I find it really annoying that you are required to submit a form to correct their mistake!”

“Companies House provides a generally very good service. The online systems are incredibly helpful. Also, the Customer Care Manager programme is excellent and our contact, Louise Fudge, has been extremely helpful to us over recent years.

However, two points:

(i) The scramble to shoe-horn people into e-filing has caused some bemusement and some of the sneaky techniques employed such as quietly withdrawing the downloadable paper Form 363s have not been well received. The risk of paper-based fraud has been overplayed and almost seems designed to scare people into e-filing. Companies House has been set very high e-commerce targets to hit by the gov’t and everyone knows this.

(ii) The Contact Centre’s staff clear new brief to prevent you speaking to a senior person on more involved issues is extremely frustrating. This means that we probably end up bothering Louise Fudge and her colleagues more than we otherwise might.”

“Generally I find it very good. The one thing that frustrates me is that companies with a large number of present and past directors are barred from submitting their annual returns online. I recognise that our corporate structure is unusual but it is frustrating to have to use the paper forms. Particularly since we are charged more for the paper form even though it is Companies House that forces us to file this way against our wishes”.

“I would therefore suggest that where there is the same signature on any appointment form for both the authority to appoint and the consent that Cos House should institute a procedure in that specific case of writing to the registered office to confirm the appointment and saying that the co should contact them immediately if it is not correct”.

March 2008

Memorandum submitted by Petra Software Ltd

The papers report that you are enquiring into Companies House.

I have three issues which concern me.

1. They charge £35 for a paper return of Directors—cheaper if the web is used. One of my companies is a charity and we do not have web access. £35 is very high.
2. They seem very sharp to catch “late filing” and charge the £100 penalty. One of my returns was delayed in the post but the fine still stood—we were charged because of other Government department inadequacies.

3. I enclose an envelope from them—no one else uses the OHMS title (and in full) on their paper. Are they fiercely patriotic, or want to frighten the recipients, or have they merely 40 years of stock to use up?

February 2008

Memorandum submitted by Professional Oversight Board

I note that the Business, Enterprise and Regulatory Reform Committee is to hold a one-off evidence session on the performance of Companies House. In 2006 this Board published a report dealing with how accountants support the needs of small and medium-sized companies and their stakeholders. I believe some of our findings from that report may be of relevance to the Committee.

The Professional Oversight Board provides independent oversight of the regulation of accountants and actuaries by their respective professional bodies. We provide statutory oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies, and, through the Audit Inspection Unit, we monitor the quality of the auditing function in relation to economically significant entities.

I am pleased to enclose a copy of our report for your information and I highlight below the key relevant findings.

Our research found that a sizeable minority of annual accounts filed at Companies House appeared, in 2005–06, to include significant technical issues, material computational errors or other evidence of a lack of care in preparation that, taken together, could undermine the usefulness of the accounts.

I should emphasise that we would not expect Companies House to carry out anything other than rudimentary checks on sets of accounts before they are accepted. Rather we would hope that where sets of accounts show the involvement of a qualified auditor or other professional accountant, users would be aware of the accountants' duties under the profession's code of ethics. These include the requirement not to be associated with reports where the accountant believes the information to contain a materially false or misleading statement or information that had been furnished recklessly, and the requirement to act diligently in accordance with applicable technical and professional standards when providing professional services. However various factors currently limit the extent to which this can occur:

- (i) Users of accounts currently have a limited understanding of the role of professional accountants and their professional obligations (page 39). This has recently been accentuated by the introduction of electronic filing as the involvement of a professional accountant cannot be included in sets of accounts filed electronically.
- (ii) There were, unfortunately, quality issues in the work of too many professional accountants. The professional bodies are working to remedy this situation (pages 25–26).
- (iii) It is possible for accounts to show the involvement of a professional accountant dishonestly, although it would be very difficult to assess how often this happens and we did not attempt to do so (page 38).

We made recommendations to the professional accountancy bodies to help address each of these issues. In particular, we recommended that the bodies develop a report that could be attached to non-audited accounts to show their members' involvement, and that the bodies work with Companies House to allow these reports to be filed electronically. There could then be a facility by which the involvement of a firm of accountants could be verified.

There would still remain the issue of what should happen when it is identified that accounts for smaller unaudited companies have been filed with errors or omissions, given the costs of investigating such cases.

6 March 2008

Supplementary memorandum submitted by the Professional Oversight Board

Further to Sir John Bourn's letter of 6 March 2008 I am pleased to set out suggestions for steps that could contribute to increased transparency over the quality of accounting information filed at Companies House and, indirectly, improvements in that quality. These are based on our review of how accountants support the needs of small and medium-sized companies and their stakeholders which we published in March 2006.

In 2006, we found that around 75% of accounts filed at Companies House showed the name of a professional accountant who had been involved in their preparation. Small and medium companies are themselves a significant user group for other companies' accounts and we were told that directors of small companies looked for the involvement of an independent professional accountant when reviewing a set of accounts of another business.

Accountants who are members of bodies affiliated with the International Federation of Accountants are expected to comply with certain ethical requirements. These include not being associated with reports where they believe the information to contain materially false or misleading statements or statements or information furnished recklessly. They must also act diligently in accordance with applicable technical and professional standards when providing professional services. We believe that these commitments are of public interest and have been encouraging the professional bodies to promote these more positively through a cross-profession report that could be attached to sets of unaudited accounts prepared with the involvement of their members.

Since 2006 electronic filing of accounts has been introduced and it is not currently possible to show the name of a professional accountant in a set of accounts filed using the Companies House web-filing arrangements. We understand that the intention was to keep the web-filing as simple as possible by limiting the information to that required by law. Whilst recognising the legitimacy of this intention, we note that most unaudited companies choose entirely voluntarily to show the name of their accountants when filing on paper, and doing so is seen to be helpful to users of the accounts.

Suggestion 1: Consideration should be given to allowing companies using Companies House web-filing arrangements to show the name of their professional accountant, should they wish to do so in order to help give users more confidence in the quality of the accounts.

As we noted in our 2006 report, users also need to be confident that where a set of accounts appears to show the involvement of a professional accountant, that this is the reality of the situation. Accountants periodically express the concern that it is possible for the name of a professional accountant to be used in a fraudulent manner.

As a supporting measure, therefore, there is a need for improved clarity and security over reporting the involvement of professional accountants when accounts are filed at Companies House. Users should have confidence that where the involvement of a professional accountant is shown this is genuine. With the introduction of electronic filing of accounts, the accountant's identity might be recorded using a list of accountants registered with professional bodies. Firms of accountants could then electronically check for filings made in their name. The accounts might also be able to show the nature of the professional accountant's involvement in non-audited accounts using the cross-profession report referred to above.

The professional accountancy bodies have been working with Companies House to develop these arrangements, but progress to date has been rather limited in part because of the inherent difficulty of planning such changes alongside the staged introduction of electronic filing.

Suggestion 2: Liaison between Companies House and the professional accountancy bodies should continue to help achieve improved clarity and security over reporting the involvement of professional accountants when accounts are filed electronically.

April 2008

Memorandum submitted by 7side

7side has been established for 28 years and during this time it has developed a close relationship with Companies House. We are the world's foremost supplier of the Companies House Direct extranet service. Over 50% of the top 100 listed law firms use the 7side portal to access the official Companies House Direct site.

7side also register limited companies and other documents with Companies House on behalf of clients. The professional service we deliver in providing such activities results in easing the task Companies House are faced with:

- by 7side being pioneers in the creation of electronic company registration software which has facilitated electronic company registration for our own use and the use of many other formation agents and other having a regular requirement to register companies;
- by filing documentation electronically and on paper in a proper manner which minimises rejections;
- and by helping Companies House through consultation to understand and communicate with the commercial world.

Being such a large user of Companies House services we are perhaps uniquely placed to provide commentary on their overall performance and delivery. In our view Companies House generally perform extremely well, within their remit and meet the majority of their targets as their own figures show. When errors occur in the services Companies House provide they are very responsive in putting matters right and proactive in guarding against future issues. We find the Companies House "Customer Services Department" particularly helpful in dealing with and assisting with queries and issues as they arise.

One of the major improvements we have experienced with Companies House is the continual enhancement of their communication with customers which has resulted in a greater understanding of how the wider commercial world operates and what steps need to be taken to provide an effective solution. As well as individual consultations, Companies House also hold regular user group and project group meetings which are well organised and very informative.

The delays to the Companies House Information Processing Systems are regrettable but we would like to express a certain amount of empathy with Companies House relating to any blame regarding their part in the delay in implementation of the main parts of the new Companies Act 2006. As we have taken part in the meetings to discuss implementation with Companies House we fully understand the complexities and issues they are faced with and in our view it is better to delay the implementation rather than bring in legislation that will clearly cause issues and disruption all round. The costs to “uk plc” if Companies House fails to function effectively far outweigh the additional costs of getting the new system right and ensuring a smooth transition of the main parts of the new Companies Act.

We are however extremely concerned with Companies House monopoly position which draws a fine line between providing an effective service and providing an unfair competition to the companies such as ours. The first issue we have in this respect is that as a commercial company we are obliged to charge vat for our services whereas Companies House do not. This clearly creates unfair competition and has a detrimental effect on the choice of available sources available to the customer. The second issue is Companies House future plans to provide an online “citizens company registration service”. The public will then have the option to form a company from a seemingly good source as it will be provided by Companies House at a price which could not be matched by the private sector. The reality is that the public come to companies such as 7side who provide an informed company registration service which Companies House would not be able replicate and also totally outside their remit. The third issue is regarding our obligations under the recent Money Laundering Regulations 2007 which includes company formation agents under the heading “trust and service providers”. We are obliged under this legislation to carry out due diligence in certain circumstances when forming companies and providing other services whereas Companies House do not come under the legislation. This clearly creates a way for any potential money launderer to go direct to source to form their fraudulent company with no questions asked. The fourth area of concern is that the Money Laundering Regulations 2007 do not extend to foreign company formation agents and therefore unless Companies House preclude such companies from registering companies this would also create a clear path for any potential money launderer to abuse the system.

March 2008
