



House of Commons  
Business and Enterprise  
Committee

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**Companies House:  
Government Response  
to the Committee's  
Thirteenth Report of  
Session 2007–08**

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**First Special Report of Session  
2008–09**

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## The Business & Enterprise Committee

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

### Current membership

Peter Luff MP (*Conservative, Mid Worcestershire*) (Chairman)  
Mr Adrian Bailey MP (*Labour, West Bromwich West*)  
Roger Berry MP (*Labour, Kingswood*)  
Mr Brian Binley MP (*Conservative, Northampton South*)  
Mr Michael Clapham MP (*Labour, Barnsley West and Penistone*)  
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### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [http://www.parliament.uk/parliamentary\\_committees/parliamentary\\_committees](http://www.parliament.uk/parliamentary_committees/parliamentary_committees)

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/bec>

### Committee staff

The current staff of the Committee are: Eve Samson (Clerk), Emma Berry (Second Clerk), Louise Whitley (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Eleanor Scarnell (Committee Assistant) and Jim Hudson (Committee Support Assistant).

### Contacts

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# First Special Report

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1. The Business and Enterprise Committee published its Thirteenth Report of Session 2007-08 on 21 November 2008. The Government's Response was received on the 21 January 2009 and is appended to this Report.

## Government response

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1. The Government welcomes the interest that the Business and Enterprise Committee has shown in the work of Companies House and its positive attitude to the way Companies House fulfils its vital role in the national economy. We would also like to thank the organisations and individuals who took the time to respond to the Committee's request for views on Companies House's performance and role.

2. It is noteworthy that the Committee has reported on Companies House at a time of global economic downturn. The report acts as a positive reminder that Companies House performs a role of economic significance by acting as the mechanism for the exchange of information throughout the business community, to provide confidence in decision-making.

3. The Committee is right to point out that Companies House is a conduit for data: it does not verify, guarantee or endorse information. The companies register reflects what companies say about themselves. In this respect, and at times of heightened economic concern it is vital that companies maintain up to date and accurate records about themselves, so that prospective business partners, customers and employees can decide what course of action to take.

4. We share the Committee's concern that Companies House should fulfil its role efficiently and that the Registrar of Companies should make full use of available technology in carrying out his functions. The programme to update Companies House Internal Processing Systems (CHIPS) has made a major contribution to this. As with any major technology programme, CHIPS has been subject to review during its development. We note the Committee's comments on costs of the programme but are grateful for its welcome of the end product. We are confident that Companies House's customers will receive significant benefits. For example, at the end of 2008 Companies House was able to make its electronic services available seven days a week.

5. The Better Regulation agenda reflects Government's intention that transactions with Government as a whole should be made simpler. We include Companies House in this intention and we are particularly keen for benefits to be delivered to small companies, which form such a significant part of the economy. This is the main thrust of the Companies Act 2006. In achieving this goal, it is vital that we get things right, in order to

avoid unnecessary costs to business. We are, therefore, grateful to the Committee for endorsing our decision to postpone full implementation of the Act until October 2009. This will allow Companies House to ensure that its systems can operate fully, that companies have sufficient time to prepare and that there is a smooth change-over from the old to the new legislation. We will ensure that there is full and clear communication with companies so that they understand, and comply with, the requirements of the new Act: in turn, giving search customers access to clear and accurate information.

6. The Government is determined that full use should be made of data from the companies register to combat financial crime. Companies House will pursue fully the work it is already doing with the Metropolitan Police, the City of London Police, the Serious Organised Crime Agency and the National Fraud Strategic Authority to support the National Fraud Strategy and the Treasury's anti-money laundering strategy.

7. The Committee points out areas in which Companies House can do more work to improve the general understanding of its role and of the status of the information it holds. We agree that people using data from Companies House need to be clear about the organisation's purpose and the status of the information it provides and we thank the Committee for its deliberations in this area. Integrity of the companies register is a major concern for Companies House. It already carries out significant work to educate and inform company directors about their responsibilities and to discuss its services with a wide range of stakeholders. The Government will continue to encourage this work, with the aim of delivering an up to date, accurate register and a full understanding of the nature and status of the data it provides.

8. The Companies Act 2006 provides a fully revised legal framework for UK companies, a clearly defined role for the Registrar, with new powers and responsibilities, and the basis for the register to play a key role to support corporate success. Companies House has developed a strategy for implementing this framework and for growing its offering of efficient, electronic services to its customers.

### **The Companies House Information Processing System (CHIPS)**

**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)**

9. The specific problem referred to by the Committee affected the delivery of bulk products to a small group of customers. We can reassure the Committee that all bulk products are now delivered by Companies House between 5 and 7 am each day and Companies House is consistently achieving the agreed service levels for the provision of data to this group. The new system will continue to provide benefits; some data is now

available twenty four hours earlier than with the old system, and Companies House is in a position to improve its services further by providing virtually real time data flows where this is required by customers.

**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)**

10. Since the Committee met, two further phases of implementation of the Companies Act have taken place in April and October 2008. These have gone well. Systems changes have been successful and Companies House has responded actively to support customers through its contact centre and website. Customers are beginning to take advantage of benefits. More than half of new companies no longer appoint a company secretary, following the removal of the requirement for private companies to have a company secretary in April 2008, and since October 2008 private companies have been able to use the new solvency statement route to reduce their share capital without the need to go to court. Work is progressing well on the final implementation in October 2009. The scale of the programme has reinforced the view that it was the right decision to delay implementation. We are in a better position to give customers support and information about forms and new processes well ahead of the date.

#### **Status of Information filed at Companies House**

**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)**

11. When it was introduced, the Companies Bill contained a new express power for the court to direct the removal of material from the register, and was amended during its Parliamentary passage to introduce a new administrative procedure for rectification. Under section 1095 of the Companies Act 2006, the Secretary of State has a power to make regulations under which, following a successful application, the Registrar may be required to remove certain kinds of material from the register. The Government made it clear that it saw this new administrative procedure as complementary to rectification under a court order, and that cases requiring the exercise of judgment should remain a matter for the courts.

**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)**

12. We agree with the Committee's recommendation. Companies House already uses a disclaimer which explains that it does not verify the information filed with it. However, we accept that this needs to be given more prominence and, following the Committee's recommendation, Companies House has taken steps to increase the visibility of this message to customers by making its disclaimer more prominent at points where customers take information from the companies register, for example on the "Our Services" page and Price List on its website and the start-up screen of its DVD-ROM Directory.

### **Disqualified Directors**

**The number of companies that 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)**

13. We agree with the Committee's concern that the register should be complete with respect to people who are disqualified from acting as company directors. Companies House and the Insolvency Service are both agencies of BERR and are in regular contact.

14. Companies House is notified of disqualification orders by the Insolvency Service in about 90% of cases and by the courts for the remainder. It runs the disqualification data against its database of company directors and flags those which have been disqualified. It contacts companies where disqualified people are still appointed as directors, to ensure a resignation is placed on the register.

15. Where new directors are appointed to existing companies, Companies House checks their details against the register of disqualified directors. Although it has no powers to reject the document sent for registration, it contacts the company to secure a resignation. Companies House refuses to incorporate new companies if any of the proposed directors are disqualified.

16. The Insolvency Service operates an enforcement hotline which enables members of the public to report evidence of misconduct on the part of directors and undischarged bankrupts who deliberately disregard the disqualification orders made against them. The hotline is available 24 hours a day and is an important tool in helping the Insolvency Service to enforce court orders and undertakings.

17. The Insolvency Service:

- investigates the complaints about directors and undischarged bankrupts received via the hotline.
- obtains information about disqualified directors acting in the management of companies through Companies Investigation Branch, Official Receivers and from returns received from Insolvency Practitioners.

18. Companies House sends information on directors who appear on the disqualified register but have not resigned to the Insolvency Service, so that proceedings can be considered. The Insolvency Service notifies Companies House of people who are disqualified but have not yet appeared on the register of disqualified directors and who are still appointed.

19. While we understand the Committee's concern that undesirable people may sometimes be appointed as directors of companies registered in Great Britain, the circumstances in which someone can be disqualified are specific and care must be taken in matching personal data to ensure that only people disqualified by the courts appear in the disqualified directors register. We are confident that the system works well within its statutory framework and is adequately funded.

#### **More stringent checks on directors?**

**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)**

20. We welcome the Committee's recognition of Companies House's role as a registry and we agree with its recommendation. Companies House has already started an internal review to look at increasing checks on the data it receives which will include a cost-benefit analysis of checks on director's details.

### Company accounts

**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)**

21. We agree that the accountancy profession is a key group of stakeholders whose views and practices Companies House needs to take into account. Companies House has for the last two years dedicated a specific post to building effective relationships and ensuring meaningful dialogue with the profession. Companies House has also had discussions with the Professional Oversight Board and as part of this work Companies House and BERR will meet representatives of all the accounting bodies on the 10 February. We are confident that this on-going dialogue will continue to be fruitful in improving the standard and the timeliness of data presented to Companies House.

22. In many cases small companies will be exempt from the need to have accounts audited and it is at their discretion whether or not they involve an accountant in the preparation of their statutory accounts. Where they are used, accountants have a responsibility to their clients to meet professional standards in preparing accounts. Under the Companies Act, a company's directors are responsible for producing the accounts, which they must then file on the public record. The Act does not authorise the Registrar directly to require the accountants to submit their details on the accounts that they have completed. However, it does allow small companies that are exempt from audit to use an auditor if they wish to take advantage of the professional validation this brings. Companies House is developing its systems for filing accounts electronically. They will discuss with all interested parties the appropriate way to present the role that accountants and auditors perform and minimise the risk of accountants' details being falsely presented.

### Identity fraud and 'company hijack'

**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)**

**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)**

23. We would like to re-assure the Committee that withdrawal of the Metropolitan Police officer from Companies House offices does not represent a reduction in its contribution towards our aim to encourage maximum use of data from the companies register in the fight against financial crime. The Metropolitan Police officer was placed in Companies House as part of Operation Sterling, which targeted financial crime in London. Companies House saw the potential to fulfil an intelligence role in a national context and, so, took on the work because the Metropolitan Police does not have a remit outside London. This involved the Metropolitan Police training Companies House staff. In the 18 months since Companies House took over this role it has referred a further 904 cases to law enforcement agencies. We agree with the need for regular assessments of the skills and knowledge of staff at Companies House and will organise appropriate training with law enforcement colleagues.

24. Companies House is now reviewing this role in the light of the National Fraud Strategy. It is in contact with the National Fraud Strategic Authority and the City of London Police, which is now the lead police force in combating fraud. Decisions on how this work continues will be made following completion of work by the City of London Police to establish the National Fraud Information Bureau, which we expect Companies House to contribute data to.

**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)**

25. We agree with the Committee's comments that balance is the key to achieving a system where it is easy for people to incorporate limited companies, and where details of ownership and performance are transparent to anyone planning to do business with a company. There was considerable debate on this matter when developing the Companies Act 2006, which led to the introduction of measures to protect directors' home addresses from general access by allowing the use of service addresses. At the same time the Act maintains the requirement for home address details to be filed so that they are still available to law enforcement agencies. This ensures that Companies House can continue its co-operative relationship with law enforcement. This relationship is an evolving one and we agree that it should be continually reviewed by

Companies House, in conjunction with law enforcement colleagues, as application of the national fraud strategy develops.

**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)**

26. We share the Committee's concern about the take-up of e-filing. Although it has not always achieved its targets for growth in electronic filing (e-filing), Companies House has had considerable success in persuading companies to file electronically rather than on paper e.g e-filing of the annual return, one of the two documents filed by all companies has risen from 10% in February 2005 to 86% in November 2008. Throughout that time Companies House ran communications campaigns to drive the increase in e-filing, for example, from July to October 2008 it deployed a multi-channel communications campaign to promote WebFiling, including targeted communications to accountants. It has withdrawn the pre-populated paper annual return and promotes electronic services through e-filing seminars, customer information days and focus groups.

27. WebFiling is very much at the centre of its promotion of its three-point plan to help companies to protect themselves against fraud. The communications Companies House is planning for implementation of the Companies Act 2006 stresses the benefits of WebFiling, rather than customers learning their way round new paper forms.

28. The campaign referred to by the Committee is the one planned to coincide with the launch of electronic sign-up to PROOF. Companies House continually promotes PROOF on its website, at customer events and through mail shots but will embark on a much larger and targeted campaign when the new service is launched in June 2009.

**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)**

29. The Committee is right to highlight the need for balance between transparency and the need to reduce opportunities for crime in the maintenance of the companies register. Companies House has always been mindful to operate within its statutory framework when co-operating with law enforcement agencies. It has co-operated with law enforcement agencies to ensure they have access to information from the companies

register, in line with the Treasury's anti-money laundering strategy and to prevent criminals benefiting from the proceeds of crime.

30. In its assessment of the problem of fraud, Companies House has established that the most vulnerable companies are small to medium in size and have been on the register for two to three years: long enough to build up a good filing record and credit rating. We agree that this work is important for Companies House and that it should keep it under review on a regular basis.

### **Companies House and the market**

**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)**

31. We welcome the Committee's comment that Companies House has got the balance broadly right and we are grateful for the Committee's concern that the dividend Companies House pays should be set at a reasonable level. We can re-assure the Committee that careful thought is given to deciding the amount Companies House should pay and the basis for the dividend is set out in a Treasury Minute dated 12th October 2004:

“The Secretary of State for Trade & Industry, being the responsible Minister, has determined (with Treasury concurrence) that a (further) financial objective desirable of achievement by the Companies House Trading Fund for the 5 year period from 1st April 2004 to 31st March 2009 shall be to achieve a return, averaged over the period as a whole, of at least 3.5% in the form of a surplus on ordinary activities before interest payable and dividends payable expressed as a percentage of average capital employed.”

The dividend payable is therefore included as a valid cost within the Companies House cost structure, and recovered via fees charged which are approved by Parliament in a Fees Order. In this way, Companies House ensures that it does not abuse its monopoly position by overpricing its products. The Annual Report & Accounts gives further transparent evidence of this, disclosing the rate of return actually achieved, as well as disclosing a segmented analysis of the surpluses of the main product types. We can reassure the Committee that payment of the dividend does not impede Companies House work to improve its services and to create benefits for customers.

**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. (Paragraph 56)**

32. We agree that Companies House should make clear to customers the benefits of using its web incorporation service. This service will be developed, in conjunction with Business Link, for launch in 2010/11. We also agree that guidance should identify the advantages and disadvantages of using the service.

**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)**

33. We agree with the Committee's view that Companies House role should not be extended to scrutinise businesses that are incorporating and appreciate the comment about increasing transparency to those looking at the register. However, the money laundering regulations only require due diligence to be carried out when there is an ongoing relationship with a company. A one-off incorporation action does not fall into this category. The result is that some agents will do full procedures, others will not. Because of this Companies House considers that any marker based on whether the incorporation was on paper or through an agent could imply that incorporations made through an agent are in some way better or more reliable than others.