

Wishing you a happy and prosperous New Year

This fact sheet is part of a wide range of technical services provided by Bond Partners LLP.

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Companies Act 2006

1. Introduction

The Companies Bill received Royal Assent on 8th November 2006 and is the largest ever Act. It will largely replace the current Companies legislation when it eventually comes into force. The Act is written in plain English and introduces reforms that will affect:

- Directors and corporate governance
- General meetings, resolutions and shareholders rights
- Capital maintenance and transactions benefiting shareholders
- Accounts and auditors
- Company administration

Whilst most of the changes are quite technical in nature, many represent substantive changes. These main changes are considered in more detail below but the summary should not be relied upon as being complete or exhaustive:

2. When does the Companies Act 2006 come into force?

The vast majority of the changes will come into force by October 2008, although a handful of provisions will come into force sooner.

With the exception of those provisions coming into force by 31 December 2006 and in January 2007, the current legislation will continue to apply until the Act is brought fully into force.

The only parts of the existing Companies Acts that will remain will relate to company investigations, financial markets, community interest companies, Financial Reporting Council and Scottish law provisions.

3. What is coming into force by 31 December 2006?

By this date:

- All companies (including those being wound up) are required to disclose their registered name, registered number, place of registration (e.g. England and Wales) and registered office address on company websites and order forms. Where websites feature numerous group companies it is advisable to include these details for all companies referred to in the site. If orders are placed by e-mail, it is advisable to add these details to e-mail signatures. Also in the case of groups of companies where staff may send e-mails on behalf of different group companies from time to time, it may be advisable to include the relevant details for all companies (provided the signatory always makes clear the identity of the particular company on whose behalf the e-mail is being sent).

- Official list, AIM and Plus Market companies are required to publish the company's total number of voting rights and capital in respect of each class of share admitted to trading.

4. What changes will become effective on 20 January 2007?

These changes to company law are:

Area	Current Law	New Law
Electronic communications with shareholders of all companies	<p>Companies are generally required to communicate information to members in paper form, but may by express request of a member send notices of meetings and copies of annual reports and accounts to them electronically.</p> <p>Shareholders can send proxy instructions to a company only if the company permits it.</p>	<p>Subject to member's consent in general meeting (or a provision in the articles), all companies can use websites as the default means of communication with members.</p> <p>Members have to expressly agree to receive information in this way or be deemed to agree. Agreement will be deemed if a company has asked a member to consent and having been clearly informed of the consequences of failing to respond, the member does not do so within 28 days.</p> <p>The company must either by e-mail or post notify the members that the information is available on the website and how to access it.</p> <p>Members can communicate by e-mail to the company if the company can communicate with them electronically.</p> <p>Similar rules apply to communications made to holders of debt securities and debenture holders.</p>
Disclosures of major shareholdings in public companies.	Shareholders in all public companies must disclose interests in shares at 3% (and at 1% increments) to the company.	<p>Only shareholders in traded companies (i.e. Official List, AIM and Plus Markets) must disclose voting rights at 3% and at 1% increments to the company. There will be no requirements for shareholders in other public companies to disclose major shareholdings.</p> <p>The new disclosure rules will be regulated by the FSA and hence will be found in the FSA's disclosure and transparency rules and not in the Act.</p> <p>There is no material change to the current provisions allowing public companies to investigate who is interested in their shares.</p>
Public company takeovers	Takeover panel has no legal authority.	Takeover panel given statutory powers to make and enforce rules relating to all public companies (and not just traded companies).

Area	Current Law	New Law
Quoted (i.e. Official Market but not AIM or Plus Markets) companies statutory damages regime in respect of periodic reports and preliminary announcements.	No statutory provisions. Aggrieved investors currently only have common law remedies available.	Issuers will be liable to compensate anyone who acquires securities and suffers loss as a result of an untrue or misleading statement in (or omission from) an annual, half yearly or interim management report or a preliminary announcement of annual results. The issuer will only be liable if a director knew (or was reckless as to whether) the statement was untrue or misleading, or in the case of an omission he knew the omission was a dishonest concealment of a material fact. A shareholder can only sue the company (and not a director), but if the claim were to succeed the issuer could seek to recover any such compensation from the directors responsible for the statement or omission.

5. How will the deferred provisions affect private companies?

The provisions that affect private companies are:

(a) Directors and Corporate Governance

Area	Current Law	New Law
Directors Duties	Directors Duties set out in case law	Directors' duties are codified. The codification is broadly in line with existing common law, with slight changes in relation to conflicts of interest. Directors are required to: <ul style="list-style-type: none"> (a) act in accordance with the company's constitution and only exercise powers for the purpose for which they were conferred. (b) promote the company's success taking account of social and environmental concerns as well as maximising returns to shareholders (see Fiduciary duties below). (c) act with due skill and care (i.e. taking account of the skill and experience of the particular director as well as what is expected of directors generally).
Fiduciary Duties	Duty to act in best interest of company	Duty to promote the success of the company for the benefit of its members as a whole, having regard to: <ul style="list-style-type: none"> ▪ the likely consequences of any decision in the long term. ▪ the interests of the company's employees ▪ the need to foster relationships with the

Area	Current Law	New Law
		<p>company's trading partners</p> <ul style="list-style-type: none"> ▪ the impact of the company's operations on the community and the environment ▪ the desirability of maintaining the company's reputation for high standards of business conduct; and ▪ the need to act fairly as between members. <p>This new duty will have an impact on how proposals are put to the Board and how Board decisions are documented. It will not be sufficient to just pay lip service to these matters. There will be a greater need for an audit trail to support decisions made (particularly where there is a conflict between say the interests of the shareholders and those of the employees or the environment), with perhaps greater use needing to be made of independent advisors.</p> <p>Directors will, as now, only be liable to the company (and not its individual members) for breaches in these duties and any damages are payable to the company and not the persons bringing the action. Claims can only be brought with the permission of the Court which should prevent too many speculative claims.</p> <p>However, the rights of members (acting on behalf of the company) to sue the directors have been extended and this could increase the likelihood of directors being sued. Consequently, companies should review their directors' and officers' liability insurance policies to ensure the directors have adequate cover.</p> <p>Plain English, non-statutory guidance will be issued to clarify what directors are expected to do when these sections come into force.</p>
Appointment and Eligibility	No minimum age limit. All legal persons (including companies) can be directors.	Minimum age limit of 16. Corporate directors still permitted, but at least one director will have to be a natural person. This person need not be domiciled in the UK.
Use of Service Address	Directors home address on public record unless permission granted to use a service address on grounds of serious risk of violence or intimidation.	All directors can give a service address for the public record. A residential address will still have to be filed at Companies House but will be kept on a separate restricted access register available only to certain public

Area	Current Law	New Law
		<p>authorities and credit reference agencies. The company itself will also maintain a record of a director's residential address but this is not open to public inspection.</p> <p>Historic home addresses on Companies House records will not be removed unless circumstances demand it.</p>
Transactions with directors	<p>Loans to directors generally prohibited, subject to various exemptions (including £5,000 cap).</p> <p>Property transactions with directors must be approved by shareholders before they take place.</p> <p>Shareholder approval required for compensation for loss of office.</p> <p>Definition of connected person is quite narrow and covers the director's spouse, minor child or step-child, a company, LLP or partnership in which the director is a director, member or partner and a trust whose beneficiaries include the director or one of the above.</p>	<p>Company can provide loans, if after full details have been provided to shareholders, the loan is approved by them.</p> <p>These transactions can take place subject to subsequent shareholder approval being obtained.</p> <p>Requirement extended to cover non-contractual compensation for loss of employment as a director.</p> <p>Definition of connected person extended to catch director's civil partner, common law partner, parents and any infant children or step children of the director's partner who lives with him/her.</p>
Personal liability	<p>Limited common law right to sue directors for wrongs done to the company.</p> <p>Directors are jointly liable with the company under common law for negligent mis-statements.</p>	<p>Where third parties are affected, a director can be personally liable for offences committed by the company which he or she authorised, permitted, participated in, or failed to take reasonable steps to prevent.</p> <p>Directors liable to the company for misleading statements made in bad faith or recklessly.</p>
Approving defective accounts	No statutory penalty	<p>Maximum penalty now an unlimited fine. Maximum prison term for fraudulent trading increased to 10 years (from 7 years).</p>

(b) General Meetings, Resolutions, and Shareholder Rights

Area	Current Law	New Law
Written resolutions (<i>private companies only</i>).	Require unanimity to be passed.	Ordinary written resolutions can be passed by a simple majority of voting rights and special written resolutions by a 75% majority. Written resolutions still cannot be used to remove a director or auditor.

Area	Current Law	New Law
Consent to short notice (private companies only)	95% of voting rights need to agree	Percentage of voting rights needed reduced to 90%.
AGM's (private companies only)	Must be held unless the company specifically elects otherwise	No requirement to hold AGM, although a company may choose to hold one. If held there will be no need to lay accounts or appoint an auditor at the AGM.
Shareholders' Addresses	Publicly available	Shareholders' addresses only available upon request to the company. Person requesting information must tell the company what the information is to be used for and who it will be passed to. Company can get Court permission to refuse to provide the information if the information is not to be used for a 'proper' purpose.
Nominee's & Proxy's Rights	Indirect shareholders (i.e. investors who hold shares through intermediaries such as nominee brokers) have no statutory rights and cannot receive information from the company or vote.	<p>If articles permit, a registered member (such as a nominee broker) can nominate another person (nominated person) to exercise all the registered members' rights except the right to transfer shares.</p> <p>The nominated person can only enforce their rights through the registered member.</p> <p>The Articles will need to be altered to permit this.</p> <p>Also, members of companies will be able to appoint more than one proxy. They will have the same right as the member to ask questions, demand a poll, and vote on a show of hands at a general meeting.</p>
Transfer of Shares	Directors do not have a statutory obligation to provide a transferee of shares with any reason for refusing to register the transfer.	Directors will have to give a reason for refusing to register a share transfer.
Class Rights	<p>No current legislation</p> <p>Articles can contain items that can never be amended ("entrenched" provisions)</p>	<p>New rules allow companies to include provisions in their Articles that can only be changed with the consent of a particular majority.</p> <p>Permanently entrenched provisions not permitted. However, any entrenched provisions can only be overridden by a unanimous resolution of all the company's members.</p>

Area	Current Law	New Law
Political Donations	Companies require shareholder approval at a General Meeting before making any donations to an EU political party or incurring any expenditure on their behalf.	<p>Donations / expenditure can be authorised by a written resolution.</p> <p>Holding companies can seek authorisation for donations / expenditure by themselves and / or their subsidiaries through a single resolution.</p> <p>Donations to a non-political fund of a Trades Union will be exempted from the rules.</p>

(c) Capital Maintenance and Transactions Benefiting Shareholders

Area	Current Law	New Law
Authorised Share Capital	Companies have an authorised share capital and cannot issue shares in excess of this. Provided the articles allow it, it can only be changed with shareholder approval.	Concept of authorised share capital abolished.
Allotment of Share Capital	Directors generally need a separate authority to allot new shares.	<p>Unless its articles provide otherwise a private company's directors will no longer need shareholder approval to allot shares, although approval will be necessary if the company has, or will have as a result of the allotment, more than one class of share.</p> <p>Growing companies may wish to amend their articles to permit this when the Act comes into force.</p>
Re-denomination of shares	Difficult to achieve round share values if a company converts their share capital from one currency to another without having to go to court or buying back shares out of capital and issuing new shares.	<p>The Act contains a simplified procedure to allow companies to convert their share capital from one currency to another.</p> <p>This may be useful to companies who carry out most of their transactions in a foreign currency and want to move to preparing accounts in that currency.</p>
Financial Assistance	Companies generally cannot give financial assistance for the acquisition of their own shares or those of their holding company. Private companies can "whitewash" the financial assistance by means of a director's statutory declaration of solvency supported by an auditors report.	<p>Abolishes financial assistance provisions for private companies.</p> <p>A private company is prohibited from giving financial assistance in respect of the acquisition of shares in a public holding company.</p> <p>A public company can give financial assistance in respect of the acquisition of shares in its private holding company but not in itself.</p>

Area	Current Law	New Law
		<p>A private company subsidiary of a public company can give financial assistance for the acquisition of its shares or the shares of a private intermediate holding company.</p> <p>A public company will be able to re-register as a private company in order to give financial assistance. This may be useful where a takeover bid of a public company is financed by debt and the bank wants security over the target's assets.</p> <p>Directors will still need to consider whether a proposed arrangement is in the best interests of the company and could be personally liable if they act in bad faith. Therefore, it would be inadvisable to provide financial assistance where the present "whitewash" would not be possible.</p>
Reduction of Capital	Share capital can only be reduced by a purchase of shares out of distributable profits or by a Court. Private companies can purchase shares out of capital provided the directors give a statutory declaration of solvency supported by an auditor's report.	<p>Private companies will be able to reduce their share capital by passing a special resolution supported by a directors' solvency statement signed by all the directors. No auditors report is required.</p> <p>The current procedures for purchase of own shares or reducing capital by applying to a court remain.</p> <p>The new procedure is likely to replace purchases of own shares out of capital by private companies</p>
Redeemable shares	Articles have to set out procedures for redemption.	Shareholders can adopt articles that allow the directors to decide the terms on which redeemable shares are to be redeemed, although the terms of redemption must be decided before the shares are actually allotted.
Share premium account	<p>Share premium account can be used to inter-alia:-</p> <ul style="list-style-type: none"> ▪ write off the expenses or the commission paid or discount allowed on any issue of debentures of the company. ▪ provide for the premium payable on the redemption of debentures. 	<p>Use of Share Premium Account restricted. It can no longer be used in relation to debentures and can only be used to:</p> <ul style="list-style-type: none"> ▪ allot fully paid bonus shares to members ▪ write off preliminary expenses ▪ write off the expenses or the commission paid on any issue of shares of the company

(d) Accounts and Auditors

Area	Current Law	New Law
Medium sized companies	Medium-sized companies are exempt from preparing group accounts.	Group accounts exemption will only apply to small companies and hence medium-sized companies will have to prepare group accounts (including comparatives) from when the Act comes into force. The other disclosure exemptions for medium-sized companies remain.
Abbreviated accounts	<p>Small companies can file abbreviated accounts with no profit and loss account and extensive disclosure exemptions.</p> <p>Medium-sized companies can file abbreviated accounts with a profit and loss account beginning with gross profit and limited disclosure exemptions. They do not have to file a cash flow statement.</p>	<p>Small company abbreviated accounts will have to contain some profit and loss account information, although the details are awaited.</p> <p>Similarly, the details of medium-sized company abbreviated accounts are awaited.</p>
Filing deadlines	Private companies must file their accounts at Companies House within 10 months of their year-end. Public companies must file within 7 months.	The deadlines are reduced by 1 month to 9 months for private companies (and 6 months for public companies).
Seriously prejudicial information in business review	No specific statutory exemption from disclosing information that is seriously prejudicial to the company's or individual's interests.	All companies will be exempt from disclosing such information.
Auditor Liability	Unlimited auditor liability in respect of audit	<p>Auditors can limit their liability by agreement with the company (as approved by the shareholders) on an annual basis.</p> <p>The limitation can include a monetary cap but the agreement will not be able to limit the liability to an amount that is less than what a Court considers is fair and reasonable in the circumstances. The Court cannot take account of events arising after the loss or damage occurred.</p> <p>A company must disclose in its annual financial statements that it has entered into a liability limitation agreement.</p> <p>A liability limitation agreement cannot limit auditors' liability for past audits.</p>

Area	Current Law	New Law
Auditors Reports	<p>Common law duty not to issue a misleading, false, or deceptive audit report.</p> <p>Audit report signed in name of firm only.</p>	<p>New criminal offence (maximum penalty an unlimited fine) of knowingly or recklessly including materially misleading information in an audit report.</p> <p>Audit Report will have to be signed by the lead auditor as well as the audit firm. No additional liability will result from this change, other than risk to reputation.</p>
Appointment of Auditors	Auditors have to be reappointed annually although private companies can elect to dispense with this and auditors are deemed to be re-appointed automatically.	Presumption that auditors of private companies are automatically re-appointed each year.
Auditors Terms of Engagement	No requirement to publish	Regulations can be brought in requiring auditors or companies to publish audit engagement letters and / or details of the services provide by the auditors and their associates to the company, and the remuneration received. SME's are likely to be exempt from any requirement.

(e) Company Administration

Area	Current Law	New Law
Company Secretary	All companies must have a Company Secretary	Private companies need not have a Company Secretary, but may choose to have one.
Constitution	<p>Table A sets out default articles for all companies limited by shares.</p> <p>Company's business limited by objects clause in its Memorandum.</p>	<p>Simplified default articles for private companies. Separate default articles for public companies based on current Table A.</p> <p>When new Model Articles are introduced, they will automatically apply to new companies. But, they will not apply to existing companies, although such companies will be able to choose to adopt all or any part of the new Model Articles.</p> <p>All companies to have unlimited objects unless they choose to restrict them.</p>
Private companies offering shares to the public	Private companies cannot offer shares to the public	A private company that is intending to re-register as public will be able to offer shares to the public without waiting for the re-registration to complete. However, they will not be able to issue a prospectus until re-registered as public.

6. How will the deferred provisions affect public companies and quoted companies?

Unless otherwise stated the same areas as private companies (summarised in 5 above) will affect public companies.

In addition, the following provisions will affect only public companies and quoted companies:

(a) Directors and Corporate Governance

Area	Current Law	New Law
Maximum age	A director of a public company or a private company subsidiary of a public company must retire at 70.	No upper age limit on directors.
Corporate Governance of listed companies	Corporate Governance requirements are voluntary, but non-compliance is frowned upon.	FSA has power to make or amend handbook rules to implement any EC Corporate Governance Directives.

(b) General Meetings, Resolutions, and Shareholder Rights

Area	Current Law	New Law
Nominee's and proxy's rights	As for private companies	<p><i>As for private companies plus:-</i></p> <ul style="list-style-type: none"> ▪ nominated persons in quoted companies can receive information directly from the company ▪ Nominated persons in quoted companies can be appointed or can appoint another person to act as a proxy. <p>The enfranchisement of nominated persons will significantly increase the burden on Company Secretaries and Registrars.</p>
Polls in quoted companies	No need to publish results of polls	Quoted companies will have to disclose the results of any poll on their website. Shareholders holding at least 5% of the voting rights or 100 holding in aggregate £10,000 of share capital can require the directors to obtain an independent report on any polled vote.

(c) Capital Maintenance and Transactions Benefiting Shareholders

Area	Current Law	New Law
Minimum Share Capital	Issued share capital of £50,000 which must be at least ¼ paid-up together with the whole of any share premium.	Authorised minimum remains at £50,000 as before, but can be either in Sterling or the Euro equivalent.

(d) Accounts and Auditors

Area	Current Law	New Law
Business Review	No additional disclosures required by quoted companies	<p>Quoted companies must also ensure the expanded business review includes:-</p> <ul style="list-style-type: none"> ▪ main trends and factors likely to affect its future business ▪ information about the environment, the company's employees and social and community issues ▪ Information about persons with whom the company has contractual or other arrangements which are essential to the company's business ("supply chain" provision) unless seriously prejudicial to that person or contrary to the public interest. <p>Directors have a "safe harbour" from civil liability in respect of statements or omissions made in the directors' report, directors remuneration report (and any summary financial statement information derived from those reports) unless such statements are untrue or misleading and are made in bad faith or recklessly, or in the case of an omission, there is dishonest concealment of material facts.</p> <p>The ASB will be amending Reporting Standard 1 to cover the expanded director's review, which effectively reintroduces the OFR requirements that were repealed in 2004.'</p>
Disclosure of accounts on website	No statutory requirement	Quoted companies must publish their annual accounts and reports and any preliminary or interim results on their websites.
Auditors' Resignation Statement	Auditors need only explain their reasons for resignation if there are circumstances that they consider should be brought to the attention of members or creditors	Quoted company auditors must always make a statement about the circumstances of their departure. The statement must be circulated to members unless a court is persuaded that the auditor is "abusing" his rights. A copy must also be sent to Companies House and the

<i>Area</i>	<i>Current Law</i>	<i>New Law</i>
		<p>Financial Reporting Council.</p> <p>Members holding at least 5% of the voting rights or 100 members holding an aggregate £10,000 of share capital will have the right to publish on the company's website a statement of any concerns about the audit or the circumstances in which the auditors have resigned, that they intend to raise at the AGM. The auditors will not be legally obliged to answer any such questions.</p>

(e) Company Administration

<i>Area</i>	<i>Current Law</i>	<i>New Law</i>
Number of members	Public companies must have at least 2 members	Public companies can be single member companies.
AGM's	Companies have to hold an AGM every year, no more than 15 months apart.	Public companies will have to hold their AGM within 6 months of the year-end.
General Meeting Notice	21 days notice for special resolutions and 14 days for ordinary resolutions.	14 days notice for both ordinary and special resolutions.
Takeovers	Governed by Takeover Code.	Implements EU Takeovers Directive and "squeeze out" procedures clarified. These changes take effect from 6 th April 2007.

Extension of Small Company Status to certain FSA Regulated Companies

SI 2006/2782 "The Companies Act 1985 (Small Companies' Accounts and Audit Regulations) 2006" has recently been issued. It applies to accounting periods ending on or after 31 December 2006.

They amend the exclusions preventing small non-ISD Investment Firms regulated by the FSA from being able to take advantage of the accounting and audit exemption provisions of the Companies Act 1985.

As a result, a non-ISD Investment Firm can qualify as a small company provided:

- it satisfies the size criteria for being a small company, and
- it is not itself, or a member of a group containing:
 - a plc
 - a banking or insurance company
 - an e-money issuer

- an ISD investment firm
- a UCITS management company
- a medium-sized non-ISD Investment Firm (An Insurance Intermediary or Mortgage Broker not offering other investment services does not count for this purpose)
- a large-sized non-ISD Investment Firm.

Consequently, if it qualifies as small it can:

- take advantage of the small company disclosure exemptions and the FRSSE in preparing its financial statements. Therefore it will no longer need to prepare inter alia a cashflow statement or include a business review in its Directors' Report or provide details of non-audit remuneration paid to the auditors;
- take advantage of the small company exemption from preparing group accounts;
- file Abbreviated Accounts.

Also, the company is exempt from audit provided it satisfies the other criteria for audit exemption and is not a relevant company for the purposes of loans and transactions with directors.

The above changes also apply to small LLPs, but do not apply to medium-sized companies or LLPs.

LLP Accounts – Members' Report Disclosures

There has been some confusion as to whether the Members' Report for medium and large sized LLPs needs to include a Business Review.

SI 2005 / 1989 "The Limited Liability Partnerships (Amendment) Regulations 2005" removes all the Directors' Report revisions of the Companies Act 1985 from LLP's; Hence:

- The Members' Report does not have to comply with the Business Review regulations unless the Members specifically wish to include this information. Paragraph 29 of the revised SORP sets out the minimum requirements for the contents of the Members Report, although more information can be provided.
 - The Members Report need not be filed at Companies House.
 - The Auditors' Report does not need to include any reference to the consistency of the Members' Report with the financial statements. Notwithstanding this, we should still consider whether it is consistent as part of our work and take the requisite action if we have any issues.
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Amendment to FRS 17 Retirement Benefits

In December 2006 the ASB published an amendment to FRS17. It is effective for financial statements for periods beginning on or after 6th April 2007, although earlier adoption is encouraged.

The amendment aligns the disclosures in FRS17 with those of the equivalent international standard, IAS19. Significant additional disclosures required by the Amendment include:

- Information to enable users of the financial statements to evaluate the nature of the entity's participation in defined benefit schemes, and the financial effects of changes in those schemes;
- Principal actuarial assumptions used as at the balance sheet date;
- Analysis of the opening and closing scheme liabilities and scheme assets;
- Analysis of scheme liabilities into amounts arising from schemes that are wholly unfunded, and amounts arising from schemes that are wholly or partly funded.

The following disclosures, inter alia, will no longer be required:

- the date of the most recent full actuarial valuation, and if the actuary is an employee or officer of the company;
- the effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities;
- financial assumptions at the beginning of the period.

The Amendment also amends how the fair value of quoted securities is determined, requiring the current bid price (rather than the mid-market value) to be taken as the fair value of such securities.

Ethical Standards for Reporting Accountants

In November 2006 the APB issued the Ethical Standard for Reporting Accountants. The Standard provides clarification on what constitutes independence under the APB's Standards for Investment Reporting.

The new Standard is similar to the APB's Ethical Standard for Auditors and is effective for investment circular reporting engagements commencing on or after 1 April 2007.

Charities Act 2006

The Charities Act 2006 received Royal Assent on 8 November 2006. Parts will come into force in early 2007 with the rest coming into force by 2009.

The Act provides inter alia for a statutory definition of what a charity is and what charitable purposes are. As a result of the changes charities will have to show charitable purpose and public interest and there will no longer be a presumption of a charitable purpose for religion, education and relief of poverty. What will constitute public interest has not yet been published. As a result of these changes it may be more difficult to register as a charity than it is currently and there will be much tighter controls over reserves policies.

The Act also provides for a revised regime for charity registration. This will lead to far more very small charities having to register with the Charity Commission than is currently the case.

Charities Act 2006 – Effect on Audits

The Act simplifies the rules about when an audit is required and gives similar thresholds to charities that are charitable trusts and those that are companies.

A charitable trust's accounts will have to be audited if it has:

- gross annual income over £500k; or
- total assets over £2.8 million and gross annual income over £100k

Below this threshold, for charitable trusts, an independent examiner can be used instead of an auditor. An independent examination is not required if the charity's income is below £10,000. If the income is above £250k then the independent examiner must have an appropriate accountancy qualification.

For charitable companies, accounts will have to be professionally audited if the charity has:

- gross annual income over £500k; or
- total assets over £2.8million.

Charitable companies with an income between £90k and £500k and assets of £2.8million or less will not need to have their accounts audited provided there is an accountant's report on them. For a charitable company with income of £90,000 or less and total assets of £2.8million or less, neither an audit nor an accountant's report is required.

These changes are expected to come into force in early 2007.

Audit Reports on Charities and ISA (UK & Ireland)

The ICAEW Audit & Assurance Faculty have developed example audit reports to update Appendix 5 to Practice Note 11 “The audit of charities in the United Kingdom” to take account of recent developments:

The examples cover both charitable trusts and charitable companies and include an example where the accrual basis is not used.

The examples do not include examples of modified reports since the Faculty consider these can be easily drafted based on their examples and the guidance in APB Bulletin 2006/6.

No responsibility for acting upon or refraining to act upon any item included in the factsheet can be accepted by Bond Partners LLP or the contributor of the item.