



# Companies Act 2006

## 2006 CHAPTER 46

### PART 16

#### AUDIT

### CHAPTER 6

#### AUDITORS' LIABILITY

##### *Voidness of provisions protecting auditors from liability*

#### **532 Voidness of provisions protecting auditors from liability**

- (1) This section applies to any provision—
  - (a) for exempting an auditor of a company (to any extent) from any liability that would otherwise attach to him in connection with any negligence, default, breach of duty or breach of trust in relation to the company occurring in the course of the audit of accounts, or
  - (b) by which a company directly or indirectly provides an indemnity (to any extent) for an auditor of the company, or of an associated company, against any liability attaching to him in connection with any negligence, default, breach of duty or breach of trust in relation to the company of which he is auditor occurring in the course of the audit of accounts.
- (2) Any such provision is void, except as permitted by—
  - (a) section 533 (indemnity for costs of successfully defending proceedings), or
  - (b) sections 534 to 536 (liability limitation agreements).
- (3) This section applies to any provision, whether contained in a company's articles or in any contract with the company or otherwise.
- (4) For the purposes of this section companies are associated if one is a subsidiary of the other or both are subsidiaries of the same body corporate.

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**Modifications etc. (not altering text)**

- C1** Ss. 484-539 applied (with modifications) (1.10.2009) by [The Unregistered Companies Regulations 2009 \(S.I. 2009/2436\)](#), regs. 3-5, **Sch. 1 para. 11** (with transitional provisions and savings in [regs. 7, 9, Sch. 2](#))

*Indemnity for costs of defending proceedings*

**533 Indemnity for costs of successfully defending proceedings**

Section 532 (general voidness of provisions protecting auditors from liability) does not prevent a company from indemnifying an auditor against any liability incurred by him—

- (a) in defending proceedings (whether civil or criminal) in which judgment is given in his favour or he is acquitted, or
- (b) in connection with an application under section 1157 (power of court to grant relief in case of honest and reasonable conduct) in which relief is granted to him by the court.

**Modifications etc. (not altering text)**

- C2** Ss. 484-539 applied (with modifications) (1.10.2009) by [The Unregistered Companies Regulations 2009 \(S.I. 2009/2436\)](#), regs. 3-5, **Sch. 1 para. 11** (with transitional provisions and savings in [regs. 7, 9, Sch. 2](#))

**Commencement Information**

- II** S. 533 wholly in force at 6.4.2008; s. 533 not in force at Royal Assent see s. 1300; s. 533 in force at 6.4.2008 by [S.I. 2007/3495](#), **art. 3(1)(e)** (with savings in [arts. 7, 12](#) and subject to transitional adaptations in [Sch. 1 para. 11](#) and with savings in [Sch. 4 paras. 9-19](#))

*Liability limitation agreements*

**534 Liability limitation agreements**

- (1) A “liability limitation agreement” is an agreement that purports to limit the amount of a liability owed to a company by its auditor in respect of any negligence, default, breach of duty or breach of trust, occurring in the course of the audit of accounts, of which the auditor may be guilty in relation to the company.
- (2) Section 532 (general voidness of provisions protecting auditors from liability) does not affect the validity of a liability limitation agreement that—
  - (a) complies with section 535 (terms of liability limitation agreement) and of any regulations under that section, and
  - (b) is authorised by the members of the company (see section 536).
- (3) Such an agreement—
  - (a) is effective to the extent provided by section 537, and
  - (b) is not subject—

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- (i) in England and Wales or Northern Ireland, to section 2(2) or 3(2)(a) of the Unfair Contract Terms Act 1977 (c. 50);
- (ii) in Scotland, to section 16(1)(b) or 17(1)(a) of that Act.

**Modifications etc. (not altering text)**

- C3** Ss. 484-539 applied (with modifications) (1.10.2009) by [The Unregistered Companies Regulations 2009 \(S.I. 2009/2436\)](#), regs. 3-5, **Sch. 1 para. 11** (with transitional provisions and savings in [regs. 7, 9, Sch. 2](#))

**535 Terms of liability limitation agreement**

- (1) A liability limitation agreement—
  - (a) must not apply in respect of acts or omissions occurring in the course of the audit of accounts for more than one financial year, and
  - (b) must specify the financial year in relation to which it applies.
- (2) The Secretary of State may by regulations—
  - (a) require liability limitation agreements to contain specified provisions or provisions of a specified description;
  - (b) prohibit liability limitation agreements from containing specified provisions or provisions of a specified description.

“Specified” here means specified in the regulations.

- (3) Without prejudice to the generality of the power conferred by subsection (2), that power may be exercised with a view to preventing adverse effects on competition.
- (4) Subject to the preceding provisions of this section, it is immaterial how a liability limitation agreement is framed.

In particular, the limit on the amount of the auditor's liability need not be a sum of money, or a formula, specified in the agreement.

- (5) Regulations under this section are subject to negative resolution procedure.

**Modifications etc. (not altering text)**

- C4** Ss. 484-539 applied (with modifications) (1.10.2009) by [The Unregistered Companies Regulations 2009 \(S.I. 2009/2436\)](#), regs. 3-5, **Sch. 1 para. 11** (with transitional provisions and savings in [regs. 7, 9, Sch. 2](#))

**Commencement Information**

- I2** S. 535 wholly in force at 6.4.2008; s. 535 not in force at Royal Assent, see s. 1300; s. 535 in force for specified purposes at 20.1.2007 by [S.I. 2006/3428](#), **art. 3(3)** (subject to [art. 5, Sch. 1](#) and with [arts. 6, 8, Sch. 5](#)); s. 535 in force at 6.4.2008 by [S.I. 2007/3495](#), **art. 3(1)(d)** (with [arts. 7, 12, Sch. 4 paras. 9-19](#))

**536 Authorisation of agreement by members of the company**

- (1) A liability limitation agreement is authorised by the members of the company if it has been authorised under this section and that authorisation has not been withdrawn.

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- (2) A liability limitation agreement between a private company and its auditor may be authorised—
- (a) by the company passing a resolution, before it enters into the agreement, waiving the need for approval,
  - (b) by the company passing a resolution, before it enters into the agreement, approving the agreement's principal terms, or
  - (c) by the company passing a resolution, after it enters into the agreement, approving the agreement.
- (3) A liability limitation agreement between a public company and its auditor may be authorised—
- (a) by the company passing a resolution in general meeting, before it enters into the agreement, approving the agreement's principal terms, or
  - (b) by the company passing a resolution in general meeting, after it enters into the agreement, approving the agreement.
- (4) The “principal terms” of an agreement are terms specifying, or relevant to the determination of—
- (a) the kind (or kinds) of acts or omissions covered,
  - (b) the financial year to which the agreement relates, or
  - (c) the limit to which the auditor's liability is subject.
- (5) Authorisation under this section may be withdrawn by the company passing an ordinary resolution to that effect—
- (a) at any time before the company enters into the agreement, or
  - (b) if the company has already entered into the agreement, before the beginning of the financial year to which the agreement relates.

Paragraph (b) has effect notwithstanding anything in the agreement.

**Modifications etc. (not altering text)**

- C5** Ss. 484-539 applied (with modifications) (1.10.2009) by [The Unregistered Companies Regulations 2009 \(S.I. 2009/2436\)](#), regs. 3-5, **Sch. 1 para. 11** (with transitional provisions and savings in [regs. 7, 9, Sch. 2](#))

**537 Effect of liability limitation agreement**

- (1) A liability limitation agreement is not effective to limit the auditor's liability to less than such amount as is fair and reasonable in all the circumstances of the case having regard (in particular) to—
- (a) the auditor's responsibilities under this Part,
  - (b) the nature and purpose of the auditor's contractual obligations to the company, and
  - (c) the professional standards expected of him.
- (2) A liability limitation agreement that purports to limit the auditor's liability to less than the amount mentioned in subsection (1) shall have effect as if it limited his liability to that amount.

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- (3) In determining what is fair and reasonable in all the circumstances of the case no account is to be taken of—
- (a) matters arising after the loss or damage in question has been incurred, or
  - (b) matters (whenever arising) affecting the possibility of recovering compensation from other persons liable in respect of the same loss or damage.

**Modifications etc. (not altering text)**

**C6** Ss. 484-539 applied (with modifications) (1.10.2009) by [The Unregistered Companies Regulations 2009 \(S.I. 2009/2436\)](#), regs. 3-5, **Sch. 1 para. 11** (with transitional provisions and savings in [regs. 7, 9, Sch. 2](#))

**538 Disclosure of agreement by company**

- (1) A company which has entered into a liability limitation agreement must make such disclosure in connection with the agreement as the Secretary of State may require by regulations.
- (2) The regulations may provide, in particular, that any disclosure required by the regulations shall be made—
- (a) in a note to the company's annual accounts (in the case of its individual accounts) or in such manner as is specified in the regulations (in the case of group accounts), or
  - (b) in the directors' report.
- (3) Regulations under this section are subject to negative resolution procedure.

**Modifications etc. (not altering text)**

**C7** Ss. 484-539 applied (with modifications) (1.10.2009) by [The Unregistered Companies Regulations 2009 \(S.I. 2009/2436\)](#), regs. 3-5, **Sch. 1 para. 11** (with transitional provisions and savings in [regs. 7, 9, Sch. 2](#))

**Commencement Information**

**I3** S. 538 wholly in force at 6.4.2008; s. 538 not in force at Royal Assent, see s. 1300; s. 538 in force for specified purposes at 20.1.2007 by [S.I. 2006/3428](#), **art. 3(3)** (subject to [art. 5](#), [Sch. 1](#) and with [arts. 6, 8, Sch. 5](#)); s. 538 in force at 6.4.2008 by [S.I. 2007/3495](#), **art. 3(1)(d)** (with [arts. 7, 12, Sch. 4 paras. 9-19](#))

<sup>F1</sup>  
**538A Meaning of “corporate governance statement” etc**

- (1) In this Part “corporate governance statement” means the statement required by rules 7.2.1 to 7.2.11 in the Disclosure Rules and Transparency Rules sourcebook [<sup>F2</sup> made by the Financial Conduct Authority ] .
- <sup>F3</sup>(2) . . . . .
- (3) A “separate” corporate governance statement means one that is not included in the directors' report.]

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#### Textual Amendments

- F1** S. 538A inserted (27.6.2009) by [The Companies Act 2006 \(Accounts, Reports and Audit\) Regulations 2009 \(S.I. 2009/1581\)](#), [reg. 8](#) (with application as stated in [reg. 1\(3\)](#))
- F2** Words in s. 538A(1) substituted (1.4.2013) by [The Financial Services Act 2012 \(Consequential Amendments\) Order 2013 \(S.I. 2013/636\)](#), art. 1(2), [Sch. para. 9\(5\)\(a\)](#)
- F3** S. 538A(2) omitted (1.4.2013) by virtue of [The Financial Services Act 2012 \(Consequential Amendments\) Order 2013 \(S.I. 2013/636\)](#), art. 1(2), [Sch. para. 9\(5\)\(b\)](#)

#### Modifications etc. (not altering text)

- C8** Ss. 484-539 applied (with modifications) (1.10.2009) by [The Unregistered Companies Regulations 2009 \(S.I. 2009/2436\)](#), [regs. 3-5](#), [Sch. 1 para. 11](#) (with transitional provisions and savings in [regs. 7, 9](#), [Sch. 2](#))

### Changes to legislation:

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### Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

- Act amendment to earlier affecting provision S.I. 1989/638, Sch. 4 by [S.I. 2024/410 Sch. 2 para. 1](#)
- Act amendment to earlier affecting provision S.I. 2008/373 reg. 11(1) by [S.I. 2013/1971 reg. 9\(a\)](#) (This amendment not applied to legislation.gov.uk. Amending Regulations revoked (1.10.2013) without ever being in force by S.I. 2013/2224, reg. 2)
- Act amendment to earlier affecting provision S.I. 2008/373 reg. 3(4) by [S.I. 2013/1971 reg. 4](#) (This amendment not applied to legislation.gov.uk. Amending Regulations revoked (1.10.2013) without ever being in force by S.I. 2013/2224, reg. 2)

### Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 156A-156C inserted by [2015 c. 26 s. 87\(4\)](#)
- s. 156B(5) omitted by [2023 c. 56 Sch. 2 para. 26](#)
- s. 156C(2) words substituted by [2023 c. 56 s. 41\(2\)\(a\)](#)
- s. 156C(2A) inserted by [2023 c. 56 s. 41\(2\)\(b\)](#)
- s. 156C(3) substituted for s. 156C(3)-(5) by [2023 c. 56 Sch. 2 para. 27](#)
- s. 479A(2)(c)(zi) inserted by [S.I. 2019/177 reg. 4\(b\)\(i\)](#) (This amendment not applied to legislation.gov.uk. Reg. 4 substituted by regs. 4, 4A immediately before IP completion day by S.I. 2019/1392, regs. 1(2), 4)
- s. 479B(a)(iii) amendment to earlier affecting provision S.I.2008/1991 reg.34 by [S.R. 2024/78 reg. 31\(4\)](#)
- s. 479B(a)(iii) amendment to earlier affecting provision S.I.2008/1991 reg.34A by [S.R. 2024/78 reg. 31\(5\)](#)
- s. 1047(4)(i)(j) inserted by [2023 c. 56 s. 21\(2\)](#)
- s. 1087(da) substituted by [2023 c. 56 s. 52\(2\)](#)
- s. 1087A-1807C applied by S.I. 2009/2436, Sch. 1 para. 20(1)(ca) (as substituted) by [S.I. 2024/410 Sch. 2 para. 5\(d\)\(ii\)](#)
- s. 1110E-110G applied by S.I. 2009/1804, reg. 60 (as amended) by [S.I. 2024/234 reg. 26](#)
- s. 11989A applied (with modifications) by S.I. 2009/1804, reg. 79A (as inserted) by [S.I. 2024/234 reg. 46](#)
- Sch. 10 para. 6(2D) inserted by [S.I. 2019/177 reg. 28\(e\)](#) (This amendment not applied to legislation.gov.uk. Reg. 28(e) omitted immediately before IP completion day by virtue of S.I. 2020/523, regs. 1(2), 14(e)(iv))
- Sch. 10 para. 7(2A) inserted by [S.I. 2019/177 reg. 29\(b\)](#) (This amendment not applied to legislation.gov.uk. Reg. 29 substituted immediately before IP completion day by S.I. 2020/523, regs. 1(2), 14(f))