Lessons from Kids Company and how to move forward

Lessons learned from the collapse of Kids Company were the subject of debate at our recent, jam-packed Honorary Treasurers Forum meeting at Cass Business School on 9th February.

Several speakers shared their perspectives on why mistakes were made and how organisations can avoid them.

Thinking about impact

The lack of data and evidence on the impact of Kids Company's work was a key failing according to guest speaker, Genevieve Maitland Hudson.

Genevieve worked for Kids Company in 2008 and is now Director and Lead Researcher at Osca, the Social Impact Labs. She has written extensively about her 'difficult' 18 months spent at the charity.

She highlighted that whilst Kids Company funded illustrious research about its social programmes with highly credible partners, the research said nothing about the impact of Kids Company's work and was 'severely lacking' in information about how the charity operated.

She said there is no excuse for charities not having proper monitoring, research and evidence about the effectiveness of their social programmes and any research undertaken must be able to withstand external scrutiny.

In terms of looking at impact, Genevieve raised a number of important questions for Treasurers:

- Is there sufficient spend on effectiveness reporting at their charity?
- Is the evidence of need getting in the way of evaluating the effectiveness of programmes?
- Is the charity seeking feedback on its social programmes in a systematic way?
- What does good evidence look like and is it useful?
- How are you connecting evidence about effectiveness with how people feel about the organisation?

- Can you benchmark research and evidence with others in the sector or are you operating in a 'bubble' like Kids Company?
- Are trustees able to hold the CEO accountable?
- Is there someone accountable for evidence at your charity? If not, there probably should be.

She suggested that in the future, formal impact audits could sit alongside Financial Audits. In terms of what best practice should look like, they might contain a mix of quantitative and qualitative data and research, but currently there was no precedent for this. Lastly, Genevieve stressed that any evidence gathering from charities must be for 'useful' purposes and not just compliance reasons.

Examining the Accounts

Next up was Andrew Hind, the Visiting Professor of Charity Governance and Finance at Cass Business School, who was the first chief executive of the Charity Commission from 2004 and September 2010 and is now chair of the Fundraising Standards Board.

Presenting us with the Kids Company's last report and accounts or as he termed it, its 'last will and testament' from 31 December 2013, Andrew highlighted major 'red light' warning signals about the charity's finances, culture and behaviour.

"You don't have to be Sherlock Holmes to spend 15 minutes or so looking at the accounts and realise that this was an accident waiting to happen," he said.

According to Hind the warning signs were:

- The accounts showed that the charity had free reserves of £434,282, while cash at bank and in hand was £90,054 – Hind said these were equivalent to about one week's and one day's expenditure respectively. This was in spite of the trustees having set a reserves policy in 2003 that required the charity to build up 6 months of reserves.
- The charity had included the same images of the children it has helped in the previous report and accounts.
- It also included the same research about staff job satisfaction levels it had used in several former annual reports. Andrew said it was not only obvious that it was 'a cut and paste job', this suggested that external reporting and accountability wasn't being taken seriously.

- The report and accounts were consistently filed at the eleventh hour
- They contained very little information about the senior team – the fundraising director, the HR director or the Child services Director? Was this because these roles didn't exist; suggesting an over-dominant role for the CEO?
- There was very little data on outcomes and the work the charity was doing. Whilst it had data about 750 children, it had nothing on the other 34,000 the charity was reportedly helping.

He said having financial policies that read really well wasn't good enough, that charities must operate in line with them. If they don't, the Treasurers must get them back on track. This didn't happen with Kids Company.

Treasurers also need to ask the right questions about finances, even if it makes them unpopular. Generally, it will involve persisting with several questions until they get the answers they need.

The biggest mistake the Kids Company made according to Hind was spending according to need, with no constraints imposed by a prudent financial strategy – something sensible trustees should never have let happen.

Interestingly, he raised the question whether Camilla was in fact a victim because the trustees didn't ensure there was a proper governance structure and team around her. He suggested too that if the Trustees could have acted independently, they could have potentially made a difference. He added however, because trustees had all been in post for considerable periods of time, there was little fresh perspective being brought to the charity's governance, and that anyone who challenged Camilla would have had a difficult time.

Advice for Honorary Treasurers

Finally, we heard from James Cross**,** a Partner of Kingston Smith LLP, and our new sponsors. James has worked primarily with charities for over twenty years, particularly membership organisations, religious charities, schools and academies.

James gave us ten pieces of sound advice for avoiding the mistakes of the Kids Company and mitigating financial risks.

1. Maintain a sensible reserves policy and create an action plan that enables you to achieve a level of reserves that is in line with the policy. This mustn't be aspirational

and include information such as ‘we would like to’ – it has to be positive and factual and designed to achieve the optimum level of reserves.

2. The Charity Commission has published its revised guidance on reserves entitled ‘Building Resilience’ which he described as a ‘sea change’ and urged us to download it.
3. Beware of over reliance on a single major source of funding. Diversity of funding is essential to mitigate risks.
4. Have contingency plans in place that cover any sudden loss of funding or unexpected increase in demand for services, and which enable you to build reserves back up again
5. Ensure appropriate financial information is available for trustees about budgets and cash flow forecasts.
6. Ensure the financial processes and procedures are up to date and understood by everyone.
7. Consider an internal audit – external audits have their limitations and an internal audit is a more wide ranging exercise that delves more deeply into the operations
8. Ensure some form of governance/operational review and independent checking of what is going on financially
9. Ensure reporting between the management and trustees is effective
10. Undertake regular trustee skills audits. Look at the balance of skills on the board and periodic rotation of trustees.