



House of Commons
Public Administration
and Constitutional Affairs
Committee

**The collapse of Kids
Company: lessons
for charity trustees,
professional firms, the
Charity Commission,
and Whitehall**

Fourth Report of Session 2015–16



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*Report, together with formal minutes
relating to the report*

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The Public Administration and Constitutional Affairs Committee

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Summary

Founded in 1996 by Camila Batmanghelidjh, Keeping Kids Company (commonly known as “Kids Company”) was a registered charity which stated that its aim was to provide practical, emotional and educational support to vulnerable children and young people. It claimed to support “some 36,000 children, young people and vulnerable adults”.¹ Over the course of its existence, successive Governments have provided Kids Company with grants of at least £42m. The charity closed on 5 August 2015, following the launch of a police investigation into allegations of sexual abuse at the charity. The allegations emerged on the same day that £3 million of taxpayers’ money, released by Government ministers and intended to enable an emergency restructure, arrived in Kids Company’s bank account. The Government is currently seeking to reclaim these funds from the Official Receiver.

Primary responsibility for Kids Company’s collapse rests with the charity’s Trustees. Whether these allegations prove true or malicious, if the Trustees had not allowed the charity’s weak financial position to persist for so long, Kids Company would not have been so vulnerable to the impact of the allegations. The Board failed to protect the interests of the charity and its beneficiaries, despite its statutory responsibility to do so. Trustees repeatedly ignored auditors’ clear warnings about Kids Company’s precarious finances. This negligent financial management rendered the charity incapable of surviving any variance in its funding stream; when allegations of sexual misconduct emerged in July 2015 and threatened to impede fundraising, the charity was obliged to close immediately.

The Charity Commission’s guidance requires Trustees to “make decisions solely in the charity’s interests, so they shouldn’t allow their judgement to be swayed by personal prejudices or dominant personalities”.² Kids Company’s Board of Trustees lacked the experience of youth services or psychotherapy necessary to interrogate the decisions of the Founder-Chief Executive. This approach left the Trustees unable to defend the reputation of Kids Company and thus to discharge a prime obligation of the good governance and leadership of any organisation. It is essential that Trustees of all charities ensure that some members of the Board have experience of the area relevant to the charity’s activities, in addition to the necessary skills, and that all Trustees have the appropriate attitude towards responsible governance.

While responsibility for governance rests with a charity’s Trustees, the Charity Commission’s ability to discharge its statutory duties to prevent, detect and tackle abuse and mismanagement in charities is currently undermined by limits in its powers and resources. Government must address these shortcomings to ensure that the Charity Commission can effectively regulate charities and maintain public confidence in the sector. The Charity Commission must work more closely with Government departments which are funding charities, improve its ability to identify problems in high profile charities, and become more responsive to concerns raised and more able to take action. This is particularly important in respect of charities with a responsibility for safeguarding vulnerable people and which are facing difficulties.

1 [Annual Report & Accounts, Year Ending December 2013](#), and Q2, [Camila Batmanghelidjh] [oral evidence 15.10.2015](#)

2 [The essential trustee: what you need to know, what you need to do](#), July 2015

Kids Company enjoyed unique, privileged and significant access to senior Ministers and Prime Ministers throughout successive administrations. This high-profile support provided a context for decision making across Whitehall. Disjointed and limited reviews and assessments, often carried out or commissioned by Kids Company itself, were read selectively by successive Governments to confirm a pre-existing and positive impression of the charity and justify future funding. Despite a lack of sufficient evidence about the effectiveness of Kids Company's interventions, an increasingly controversial reputation and clear signs of financial mismanagement, successive Governments failed to carry out adequate due diligence and the charity was given over £42m of funding from central Government and was released from the competitive processes to which other charities are subject. Between 2013 and 2015, the Government released almost £17m through direct, non-competitive grants. This approach is condemned by the fact of Kids Company's failure and is therefore unjustifiable in future.

When deciding whether to hand over taxpayers' money to charities, Ministers and Government departments must carry out due diligence using proven methods of assessment before exercising objective judgement. Ministers should not override, or risk creating the perception that they are overriding, official advice to hand over funding for charities on the basis of personal prejudice or political considerations. Ministers should not allow charity representatives to exploit their access to Government in a way that may be unethical.

This unconventional relationship and the lack of a proper funding process have left successive Governments vulnerable to misunderstandings - wilful or otherwise - on the part of the charity about the level of Government support that Kids Company could expect to receive in the future. As demonstrated by the charity's collapse, the approach of successive Governments and Ministers towards Kids Company has proved to be an improper way to conduct Government business or handle public money.

Kids Company did provide valuable support to many vulnerable young people, albeit the evidence shows that this was on a considerably smaller scale than it claimed in its publications and annual reports. The failures in governance that led to the collapse of the charity should not detract from the commitment and hard work of many highly dedicated individuals who worked in the organisation. The charity's consistent message, that vulnerable children and young people must be supported with compassion and personalised care, must not be lost with the collapse of Kids Company and criticisms about the appropriateness and effectiveness of some of its methods.

1 Introduction

1. Founded in 1996 by Camila Batmanghelidjh, Keeping Kids Company (commonly known as “Kids Company”) was a registered charity which stated that its aim was to provide practical, emotional and educational support to vulnerable children and young people.³ It grew very quickly and by 2013 the charity claimed to support “some 36,000 children, young people and vulnerable adults.” It operated 12 street-level centres and worked in partnership with 40 schools across Bristol and London, and at a centre in Liverpool.⁴

2. As well as receiving support from high profile individuals, retailers and businesses, Kids Company was in receipt of some £42 million of public money allocated by central Government between 1996 and 2015. Throughout its existence, Kids Company’s fast growth and demand-led operating model meant that it was run financially “on a knife edge”.⁵ In June 2015, on the question of whether to make a further £3 million grant of rescue funding to the charity, Mr Richard Heaton, the then Permanent Secretary to the Cabinet Office, sought a ‘ministerial direction’ on the basis that such a grant would not represent value for money. Despite accepting Mr Heaton’s assessment of the charity’s precarious financial position and the risks associated with awarding such a grant, Cabinet Office Ministers Rt Hon Oliver Letwin, Chancellor of the Duchy of Lancaster, and Rt Hon Matthew Hancock, Minister for the Cabinet Office and Paymaster General, over-rode senior officials’ advice and directed that the grant of £3 million should be paid.⁶

3. Kids Company has stated that the grant arrived into the charity’s bank account on 30 July 2015.⁷ On 31 July, the press reported that the police had opened an investigation into allegations involving sexual abuse at the charity.⁸ Kids Company closed on 5 August 2015. The charity is currently the subject of both the Metropolitan Police investigation and a Charity Commission statutory inquiry.⁹

4. The Public Accounts Committee has also examined Government processes for awarding and monitoring grants to the charity. Its report, [The Government’s Funding of Kids Company](#), published on 13 November 2015, concluded that the Government’s historic funding of Kids Company was a “failed and expensive experiment”.¹⁰ PACAC launched its own inquiry at the earliest opportunity on 8 September 2015. Our prime purpose in this Report is to identify lessons to be learned from the collapse of Kids Company.

5. In the course of this inquiry, we have found people whose enthusiasm for Kids Company is undimmed, and others who have been highly critical for many years. Equally, some witnesses (both staff and clients) have shared accounts of negative experiences of Kids Company, and some have done so in an anonymous capacity only, owing to their fear of reprisals from supporters of Kids Company. Such fears are indicative of what these people felt about the way in which Kids Company operated in its dealings with some staff and former clients. On the other hand, PACAC also received accounts from other former

3 Q2, [Camila Batmanghelidjh] [oral evidence 15.10.2015](#)

4 [Kids Company Annual Report & Accounts, Year Ending December 2013](#)

5 Q484 [Nick Brooks] [oral evidence 17.11.2015](#)

6 [Letter of Direction 29.06.2015](#)

7 [KCI47](#) (Camila Batmanghelidjh)

8 [BBC “Kids Company charity in police probe,”](#) 31 July 2015

9 Press release, The Charity Commission, [New charity investigation: Kids Company](#), 21 August 2015

10 Public Accounts Committee, Eighth Report of Session 2015–16, [The Government’s funding of Kids Company](#), HC 504

employees and associates who describe a positive and supportive staff environment in which all were treated with respect and consideration.¹¹ We thank all of those who gave written and oral evidence to this inquiry, and those investigative journalists whose work has helped to shed light on Kids Company. A full list of witnesses is included at the back of this Report.

6. Significant media attention has focused upon the personalities and motivations of the charity's leaders, most notably the Chief Executive. It is inevitable that some individuals will feel this Report criticises them personally, but its purpose is not to deliver a judgement about any individual's personal conduct or abilities. Instead, PACAC's priority is to identify the lessons to be learned from the collapse of Kids Company by Trustees of all charities, by the Charity Commission and by Government.

7. This Report begins by examining Kids Company, to assess the extent to which inherent weaknesses in the charity's governance and demand-led operating model led to its ultimate collapse. In Chapter three, it explores three reviews carried out by three professional firms and what assurances these provided to donors and the Government. Chapter four examines the interaction between Kids Company and the Charity Commission, to understand whether the regulator could have done more to safeguard the long-term interests of the charity and its beneficiaries. The final Chapter explores the relationship between the Cabinet Office and Kids Company, particularly in the months preceding the charity's closure. At the outset, we recognise the expertise that many charities bring when supplementing statutory services for vulnerable young people. Sue Berelowitz, former Deputy Children's Commissioner and former deputy director in local government children's services, stated:

I am not confident that there is any local authority in the land, including where I had those responsibilities myself, where we could all say that we were discharging all our obligations under section 17 [of the Children Act 1989] because the numbers of children in need in this country are quite substantial.¹²

8. **Kids Company was by no means the only charity serving this client group, and many other varied charities are delivering vital support for young people without the high profile enjoyed by Kids Company.¹³ The failure and public criticisms of Kids Company must not be allowed to taint the whole charitable sector; we have no reason to doubt that the majority of Trustees and charities act responsibly and in accordance with their charitable purposes. Equally, discussions about "gaps" in statutory provision and Kids Company's vocal criticism of statutory provision throughout the inquiry must not overshadow the exceptional work done by many dedicated individuals working within statutory services.¹⁴**

11 Amongst the evidence submitted are: [KCI21\(A10\)](#): "We all knew [sic] that our role and responsibility was first to support our vulnerable clients and secondly to support each other in an environment conducive to positive and adaptive responses"; [KCI20](#), A9: "The level of support I received as a staff member in these roles was fantastic, mostly through weekly therapeutic support in the form of supervision from an independent fully qualified therapist which made sure I was supported emotionally and professionally – able to properly process the experiences I had without succumbing to stress and exhaustion, and able to treat the young people and fellow workers with the respect and consideration they all deserved."

12 Q525 [Sue Berelowitz, former Deputy Children's Commissioner], [oral evidence 17.11.2015](#)

13 The work done by small charities, such as Imara in Nottingham, has been brought to our attention.

14 PACAC has also learned of the Innovations Programme, funded by the Department for Education. The '[Rethinking Support for Adolescents](#)' Programme is running and evaluating a number of projects in local authorities aiming to meet the needs of this age group.

9. Kids Company did provide valuable support to many vulnerable young people, albeit the evidence shows that this was on a considerably smaller scale than it claimed in its publications and annual reports. The failures in governance that led to the collapse of the charity should not detract from the commitment and hard work of many highly dedicated individuals working in the organisation. Submissions from former employees document the range of services that was offered by the charity - from material assistance, to educational provision and parental support - and we have reviewed a large number of evaluations that highlight the charity's vulnerable client base.¹⁵ We note that some of those connected with Kids Company are seeking to continue three of its programmes through a new charity, 1UP, in the hope of continuing some of the projects judged to be amongst Kids Company's most successful.¹⁶ We hope that the Trustees of 1UP will build upon the best of Kids Company's programmes and provide effective and sustainable support to those people Kids Company sought to serve.

10. Kids Company's most positive legacy is the dialogue to which it contributed about the need to improve support for vulnerable children and young people. The message the charity consistently promoted - that children and young people must be valued, trusted and supported with compassion - must not be lost amid the questions about the collapse of the charity and the criticism about the propriety and efficacy of some of its methods.

15 These include: *Children and Parents' Experiences of Food Insecurity in a South London Population* (Harvey, 2014), *Gang Questionnaire Report* (Hillman, 2015), *Kids Company A Diagnosis of the organisation and its Interventions* (Jovchelovitch and Concha, 2013), *Enough is Enough* (Eastman, 2014) *Needs Analysis on a sample of high risk clients* (Hillman and Wainwright, 2012)

16 1-UP will continue the School of Confidence (a mentoring and befriending programme for young people), the Treehouse (a centre in Kilburn which aims to provide integrated support for children and families) and SidebeSide (a therapy service based in schools).

2 Governance of Kids Company

The Kids Company operating model

11. Kids Company ran a demand-led operating model, which enabled young people to refer themselves to the charity. The charity's central premise was that no child should be turned away.¹⁷ In its 2012 Annual Report, Kids Company claimed that self-referrals accounted for 97% of its clients.¹⁸ Camila Batmanghelidjh, the charity's founder and Chief Executive, has acknowledged the "challenges to both the capacity and the finances of the organisation" posed by a self-referral model, as the "structure in this country where children and young people, when they self-refer for help, there is no commissioning agent paying for that".¹⁹ She claimed that this self-referral model meant that "increasingly local authorities and health trusts were unofficially signposting clients to us without paying because they were under pressure" and stated that "in 19 years, we did not receive one pence of local authority funding or mental health funding for the cases that we had in our care".²⁰ The NAO report indicated that the charity has, in fact, received about £2 million local authority funding "to provide specific services".²¹ Ms Batmanghelidjh frequently claimed that the Government should fund this shortfall because of her belief that Kids Company was engaging with a large number of statutory cases.²²

12. In oral evidence, Ms Batmanghelidjh stated that "letters between Prime Ministers and Kids Company...coloured our decision making" and led the charity to believe that the Government would provide statutory funding.²³ The charity's Annual Reports make similar assertions that the Government was committed to finding a funding solution.²⁴ We have no evidence of such a pledge or intention from Government (see paragraph 127). Mr Alan Yentob, Chair of Trustees at the charity, has since acknowledged that the trustees' misplaced confidence in forthcoming Government funding was a mistake.²⁵

13. Kids Company's demand-led operating model - based on the doctrine that no child should be turned away - carried the constant risk that the charity would not be able to ensure that its commitments would be matched by its resources. The charity's Trustees failed to address this risk. Instead, the Chief Executive and Trustees relied upon wishful thinking and false optimism and became inured to the precariousness of the charity's financial situation.

17 "Kids Company helps with the whole problem" (Gaskell, 2008). Dr Carolyn Gaskell praised the self-referral model because "those asking for help are more likely to be receptive to what is on offer. Importantly such an approach is respectful of the sense of agency and responsibility of the individual child or young person."

18 [Kids Company Annual Report & Accounts, year ending December 2012](#)

19 [KCI47](#) (Camila Batmanghelidjh) and [Q189](#), [Oral Evidence 15.10.2015](#)

20 [Q189](#), [Oral Evidence 15.10.2015](#)

21 "Investigation: The Government's funding of Kids Company," (NAO report)

22 [Qq2](#), 172 and 175, [Oral Evidence 15.10.2015](#). As was also noted in the NAO's report, [Investigation: the Government's funding of Kids Company](#), Ms Batmanghelidjh's letters to Ministers often argued that Kids Company was working with a large number of statutory cases and should be funded accordingly.

23 [KCI47](#) (Camila Batmanghelidjh)

24 Kids Company [Annual Reports](#)

25 [Q129](#) [Alan Yentob, Chair of Trustees at Kids Company], [oral evidence 15.10.2015](#)

Level of reserves

14. A key aspect of Kids Company's demand-led model was that it always operated on a very low level of reserves. In her evidence, Ms Batmanghelidjh said that Kids Company recognised that it needed to have reserves, but said its "unpredictable income and overwhelming demand from vulnerable children and families" left the charity with "complex choices." She stated that for Kids Company to be able to build reserves, it would be necessary to "either have proper funding or for the children and families to be taken by statutory agencies".²⁶ Mr Yentob agreed that "the funds were badly needed for the increasing demands of the children and young people in our care," but maintained that "the subject of reserves was always a key agenda item at Trustee meetings...and Trustees were very conscious of the challenge facing the charity in this regard".²⁷ The minutes of Trustee meetings do not indicate a change in approach arising from discussions about a lack of reserves. Both Ms Batmanghelidjh and Mr Yentob stated that Kids Company received clear audits throughout its existence as evidence of proper financial management at the charity.²⁸

15. Mr Nick Brooks, Partner of Kingston Smith, who audited Kids Company from 2011 until the charity's closure in August 2015, told us that Trustees should have calculated the charity's necessary level of reserves "on the basis of a number of months." He suggested that six months spending (about £12 million) would have been an appropriate level of reserves for Kids Company's size and demand-led model.²⁹ However, Kids Company sustained free reserves at a fraction of this level throughout its existence; they were in deficit every year between 2003 and 2006, and again between 2009 and 2011, and peaked at £434,282 in 2013 (given that the charity's expenditure for 2013 was £15.6 million, the charity needed £7.8 million in reserves to meet Mr Brooks' recommendation of 6 months free reserves. The £434,282 it held for 2013 constituted only 6% of this recommended level).³⁰ The charity's 2013 accounts are the last that were made publically available.

16. Although the charity's auditors always signed off Kids Company's accounts as a going concern, each Annual Report warned that future activity would depend almost entirely on the charity's ability to secure continuing grant income. Management letters also issued Trustees with repeated warnings relating to potential insolvency and the sustainability of the charity. These warnings did not lead to any perceptible change of policy on the part of Trustees.

17. The 2013 Annual Report was the last annual report produced by Kids Company before it folded. The 2014 year end accounts were never audited or published. In the 2013 report, the Trustees acknowledged that the principal risk to the charity was financial, including "the need for having sufficient reserves." The charity made little commitment to building these reserves stating only "we aspire to build up our reserves when circumstances allow." Of the charity's ten priorities for 2014, working "with Government to identify sustainable and long term funding for Kids Company" was only ranked at number seven.³¹

26 [KCI47](#) (Camila Batmanghelidjh)

27 [KCI49](#) (Alan Yentob)

28 Q112 [Camila Batmanghelidjh], Q125 (Alan Yentob) oral evidence [15.10.2015](#)

29 Qq479, 480–481, [Nick Brooks, Partner at Kingston Smith] [oral evidence 17.11.2015](#)

30 Keeping Kids Company accounts 2003–2015. The accounts for 2010–2013 are available on the [Charity Commission's website](#).

31 [Kids Company Annual Report & Accounts, Year Ending December 2013](#)

18. Mr Yentob explained that the Trustees had decided that, “because restricted funding was so difficult we would try to find assets in other ways”.³² Following a grant from Morgan Stanley, Kids Company obtained a building worth £1.7 million as a substitute for reserves.³³ However, the purchase of this fixed asset did not improve the charity’s liquidity. On the contrary, Mr Brooks confirmed that acceptance of this grant may actually have increased the charity’s liabilities.³⁴

19. Kids Company was not unique amongst charities in its low level of reserves. William Shawcross, Chair of the Charity Commission, stated that a responsible approach to reserves “is a problem for all charities.” He explained:

We advise charities that they should spend their money, and at the same time they must have adequate reserves, so it is quite a hard act for them to follow.³⁵

20. Mr Brooks of Kingston Smith agreed that donors may question the need to donate to a charity with large reserves.³⁶ However, Ms Michelle Russell, Director of Investigations, Monitoring and Enforcement at the Charity Commission, argued that: “if it is a charity that is providing services or has employees or it is working with vulnerable beneficiaries, the Trustees have a higher duty of care to make sure that their financial planning and their business model is much more robust and the safeguards are there”.³⁷

21. Kids Company had 19 years of statutory audits, but the charity was wrong to take comfort from this. The charity was signed off as a going concern, but the auditors repeated warnings about the precariousness of its finances and the dependency of the charity upon future Government grants. In any case, statutory accounts are audited and published long after the event and do not show the current state of a charity’s finances.

22. The Charity Commission’s guidance warns that Trustees must avoid exposing the charity’s assets, beneficiaries or reputation to undue risk and take care not to over-commit the charity. Kids Company relied on a hand-to-mouth existence and by refusing to prioritise the building of any significant reserves, the Trustees failed to exercise this duty of care towards the charity’s clients, employees and donors.

Cash flow

23. Kids Company experienced significant cash flow issues and struggled to meet its obligations to HM Revenue & Customs (HMRC) on several occasions. As early as 2002, HMRC wrote off tax debts of £590,000.³⁸ In December 2013, the charity requested early payment of a Government grant already allocated.³⁹ As part of this request, Kids Company forwarded to Nick Hurd MP, the then Minister for Civil Society, a letter that the charity

32 Q125, [oral evidence 15.10.2015](#). As outlined by the [Charity Commission](#), restricted funds are funds subject to specific trusts, which may be declared by the donor(s) or with their authority (eg in a public appeal) or created through legal process, but still within the wider objects of the charity. Unrestricted income funds are income or income funds which can be spent at the discretion of the trustees in furtherance of any of the charity’s objects.

33 Q125, [oral evidence 15.10.2015](#)

34 Q461, [oral evidence 17.11.2015](#)

35 Q466, [oral evidence 03.11.2015](#)

36 Q481, [oral evidence 17.11.2015](#)

37 Q466, [oral evidence, 03.11.2015](#)

38 *Investigation: The Government’s funding of Kids Company* ([NAO](#), 2015)

39 Kids Company also requested an early grant payment in December 2014 to help it manage its cash flow (*Investigation: The Government’s funding of Kids Company*, [NAO](#), 2015)

had received from HMRC. This showed the charity was negotiating a Time-to-Pay (TTP) payment plan for £726,721, and referenced “numerous” TTP settlements negotiated over previous years.⁴⁰ HMRC set out in writing that Kids Company’ was “not viable with a business model in its present form. Both the level of your income and its profile clearly does not match the capacity you are operating on.” It also stated that, while “HMRC have provided the Charity with significant support over the last 10 years...it must be stressed that this is the final opportunity we will give to allow you some breathing space to get your tax payments up to date and finances on an even enough footing to ensure that future tax liabilities are paid on time.”

24. Kids Company often relied upon emergency Government funding to help it manage its cash flow. The NAO’s analysis of briefings to Ministers in 2002, 2005, 2007, 2010 and 2015 revealed that “officials accepted Kids Company’s assertions that it would become insolvent without Government grant funding”.⁴¹ Government grant payments were released early in both December 2013 and December 2014, and Mr Heaton attributed the decision to pay the entirety of the £4.265 million grant in April 2015 to the charity’s cash flow issues.⁴² Mr Letwin acknowledged that the charity historically relied upon Government for cash flow, but pointed out that this didn’t necessarily indicate financial mismanagement on the part of Trustees. Instead, he observed that this “may be a sign of quite cunning financial management, just a particular kind, which I don’t happen to think is the right way to do business”.⁴³

25. Several Ministers authorised unorthodox payments (in the form of early Government grants and direct grants) despite knowledge of the charity’s significant cash flow difficulties (see Appendix B for full list of payments made to Kids Company over successive Governments). In one case, funding was given despite the unequivocal assessment by HMRC that the charity’s model was not viable. By continuing to fund the charity’s cash flow crises, successive Governments gave tacit approval to an unsustainable and inadequate business model and eroded any incentive for Kids Company to address its own governance and management failings. This continued Government support at moments of crisis nurtured the expectations of Kids Company that it could continue to rely on Government to prop up its finances.

How many clients did Kids Company really help?

26. In its 2011 Annual Report Kids Company claimed that it “supported some 36,000 clients a year with a range of services,” of which 18,000 were supposedly “receiving intensive programmes of wraparound support”.⁴⁴ However, when the charity closed, only 1,909 files were handed over to the local authorities (1,699 in London and 210 in Bristol).⁴⁵ Ms Batmanghelidjh stated that these referral forms “had on them families. So altogether the safeguarding team and the mental health team...handed over between 3,000 [and] 4,000 clients”.⁴⁶ A former employee also asserted that “the majority of these referral forms

40 [Time To Pay \(TTP\)](#) arrangements allow customers who cannot settle their tax payments to HMRC on the due date to make payments over a period they can afford.

41 *Investigation: The government’s funding of Kids Company* (NAO, 2015)

42 Q87, [oral evidence, 02.11.2015](#)

43 Q688, [oral evidence, 19.11.2015](#)

44 [Annual Report & Accounts, year ending December 2011](#)

45 [KCI44](#) (David Quirke-Thornton)

46 Q60, [oral evidence, 15.10.2015](#)

related to families rather than to single children”.⁴⁷ Mr David Quirke-Thornton, Strategic Director of Children’s Services in Southwark and leader of local government’s response to the charity’s closure, said, however, that he physically received these client files and that the 1,699 cases in London were “individual cases not families”.⁴⁸

27. Kids Company has offered various reasons for this vast discrepancy: that local authorities imposed criteria on the type of cases they would accept (reportedly, only “young people who would be left in need or at risk by Kids Company’s closure”); that Kids Company did not have access to all of its files when completing the referrals; that this data did not include clients the charity worked with through schools, and that its remaining files are currently in secure storage and held by the Official Receiver.⁴⁹

28. Ms Batmanghelidjh claimed that, following the charity’s closure, “the local authorities got together and had this discussion about the boundaries around the types of cases that they would accept from us and we honoured that boundary”.⁵⁰ However, Councillor Peter John, leader of Southwark Council, has stated publically that the local authority “set no thresholds and imposed no criteria.” He explained “we simply wanted the details of all their clients so that could assess their needs and offer support as appropriate”.⁵¹ Mr Quirke-Thornton has also commented that “the only details that Kids Company said they had withheld were clients who were in the UK illegally” but stated that the local authority also requested these details due to concern about “any children, young people or vulnerable adults who may be in need of assistance under the Children’s Act and National Assistance Act”.⁵²

29. The Official Receiver is holding 87 filing cabinets of client data, but the status of these files (for example, if they represent historic cases, or duplicate other data that has already been shared) is unknown.⁵³ Mr John has commented that, “when the Official Receiver stepped in following the charity’s closure, they found no other files to pass on” to local authorities.⁵⁴

30. Southwark Council has also reported that Kids Company failed to co-operate during contingency planning for the charity’s closure in May 2015. Mr Quirke-Thornton said that Kids Company refused three formal requests to share client information to enable planning for closure. Kids Company had cited “data protection” concerns, which the Cabinet Office subsequently advised Kids Company were not valid.⁵⁵ On 2 June 2015, Kids Company did eventually provide a document, which stated that 15,933 “High Clients” were supported in different London boroughs, including clients the charity worked with in schools. No further detail or breakdown of these figures was provided to the local authority, nor to any other party since, and we have not received explanation of whether the description “high” related to high-risk or high-need clients.⁵⁶ When the charity eventually closed on

47 [KCI08 \(A1\)](#)

48 [KCI44](#) (David Quirke-Thornton)

49 [KCI08 \(A1\)](#) and [KCI06](#) (Laurence Guinness)

50 [Q74 oral evidence 15.10.2015](#)

51 [Q74 oral evidence 15.10.2015](#)

52 [KCI44](#) (David Quirke-Thornton)

53 PACAC has seen correspondence between Kids Company and Official Receiver, verifying the existence of 87 boxes in storage.

54 [Q75 oral evidence 15.10.2015](#)

55 [KCI44](#) (David Quirke-Thornton)

56 [KCI44](#) (David Quirke-Thornton). Kids Company has also submitted this list to the Committee: [KCI06](#) (Laurence Guinness)

5 August, the premises were locked up and a former employee stated that around 18,000 files “were no longer accessible to staff. This seriously impacted the referral volunteers’ abilities to complete referrals”.⁵⁷

31. Kids Company has also stated that the files handed over to the local authorities do not reflect the charity’s work in schools, which it claimed served 19,000 children in 48 schools.⁵⁸ According to Mr Quirke-Thornton, however, Kids Company was in fact only “working in 34 schools in 2014–15 and had already ceased work in 3 schools in the 2014–15 academic year.” He explained that “in accounting for their work in schools, Kids Company referred to the benefit to the whole class of them working with an individual child or young person, so they counted the whole class as ‘clients’. I know of no other organisation working with children and young people in schools that accounts for their ‘clients’ in this way due to inferred benefit(s)”.⁵⁹ Dr Genevieve Maitland Hudson, former employee at Kids Company and now Director of consultancy company OSCA, said that the “use of aggregate ‘reach’ numbers as proxies of effectiveness is particularly unhelpful. It encourages inaccurate reporting and gives very little insight into programme capacity”.⁶⁰

32. Dr Maitland Hudson also argued that “it was clear even before the handover of client files that the charity’s claimed numbers were unlikely to be accurate.” She stated that she had analysed the charity’s caseload figures and concluded that “based on a calculation using published staff and client numbers (assuming 400 full time key workers and 18,000 receiving intensive support) Kids Company [staff] had an average caseload of 45. That is almost three times the national average in children’s services, which the charity’s leader had repeatedly described as overstretched and unable to cope.” She concluded that “these kinds of caseloads would not have given the charity the capacity to manage the numbers they claimed with the model they described”.⁶¹

33. Ms Batmanghelidjh has argued that the charity’s clinical supervisors, staff, trainers and volunteers would have to have “pretended to work with vulnerable young children for us to have engineered a deceit.” She called it “unfortunate that the Official Receiver has all our records and we are unable to access these in order to evidence our statement” and added that Kids Company had invited independent auditors to assess the charity’s numbers, but the charity closed before this audit could take place.⁶² The Trustees have also highlighted that Methods Consulting independently verified Kids Company’s data and performance figures and “would have raised concerns if they had found evidence that Kids Company had misreported its client numbers in relation to its Government grant”.⁶³ However, Methods was only required to validate the data reported against the Government grant, and did not audit the charity’s publically reported figures (such as the figures of 36,000 reached, and 18,000 reportedly offered intensive support).⁶⁴

34. A number of visitors to the sites reported seeing very low numbers of children. Sue Berelowitz visited four of Kids Company’s sites in her capacity as Deputy Children’s Commissioner, and reported feeling “disheartened” and “uncomfortable” on visiting the

57 [KCI06](#) (Laurence Guinness)

58 [Q67](#), [Alan Yentob], [Q2](#) [Camila Batmanghelidjh] [oral evidence 15.10.2015](#)

59 [KCI44](#) (David Quirke-Thornton)

60 [KCI31](#) (Dr Genevieve Maitland Hudson)

61 [KCI31](#) (Dr Genevieve Maitland Hudson)

62 [KCI48](#) (Camila Batmanghelidjh)

63 [KCI49](#) (Alan Yentob)

64 Methods was not required to assess the quality of services provided or conclusions drawn from the data.

“beautifully equipped environment where you know it should be crammed to the gills and there is nobody there”.⁶⁵ Tim Loughton MP, Under-Secretary of State for Children and Families from 2010–2012, said that it was “always disappointing” that he did not see many children on either of his two visits (once in opposition in 2008 or 2009, and once in his role as Children’s Minister in 2011) and said that this “gave rise to certain queries as to why these were not in the front line of people that she wanted us to see and have a proper discussion with”.⁶⁶ Joan Woolard, who volunteered at the charity, also stated that children were “conspicuous by their absence”.⁶⁷ The Rt Hon Oliver Letwin has also commented that he “did not believe” the numbers that Kids Company reported in their promotional material.⁶⁸

35. It has proved impossible to reconcile Kids Company’s claims about its caseload with evidence from other sources. The evidence is that the figures were significantly over-inflated. This casts doubt on Kids Company’s claims that overwhelming demand, rather than financial mismanagement, lay at the root of its financial difficulties. In addition, the charity’s practice of calculating ‘reach’, for example in counting a whole class of children as clients if they benefited from work with an individual student, was misleading to donors. Trustees were either ignorant of this exaggeration or simply accepted it, because it helped to promote the charity’s fundraising.

36. If it is correct that Kids Company was unable to refer its vulnerable clients to the local authority once the charity closed, given the locking up of all relevant files, this may be a serious consequence of Kids Company’s failure to co-operate with Southwark Council when planning for a potential closure earlier in the year (see paragraph 155 for recommendation to the Government). Had the charity co-operated earlier in the process, it is likely that full referrals could have been completed and all vulnerable people provided with support. Kids Company’s lack of co-operation thwarted contingency planning and was highly irresponsible. The list of 15,933 “high clients” provided to Southwark Council and the Committee did not assist the local authority, or the Committee, in assessing true need or caseload.

Regulation

37. Kids Company was subject to very few formal inspections or evaluations. Mr Quirke-Thornton warned that Kids Company had “operated in a regulatory blind spot” and described the charity’s activities as “a 19 year journey in isolation from the rest of the sector.” He explained:

Kids Company claimed that they were undertaking statutory work but they did not cooperate with Local Government, the statutory bodies. They provided education in the form of alternative provision but they were not regulated by Ofsted. They provided therapy to children and young people but they were not regulated by the Care Quality Commission.⁶⁹

65 Q545, oral evidence, [17.11.2015](#)

66 Q552, oral evidence, [19.11.2015](#)

67 [KCI33](#) (Joan Woolard)

68 Q634, oral evidence [19.11.2015](#). We return to the Government’s understanding of Kids Company’s reported figures in Chapter 5 of this report.

69 [KCI44](#) (David Quirke-Thornton)

Ms Berelowitz highlighted a further problem with regard to therapeutic services “insofar as anybody can call themselves a therapist and say that they are offering clinical services because it is not a protected profession”.⁷⁰

38. Kids Company has stated that Trustees dictated that “all clinical workers should have qualifications appropriate to their roles and responsibilities, as defined by their professional bodies, i.e. the UKCP and BACP”.⁷¹ Ms Batmanghelidjh held the role of psychotherapist and clinical leader at Kids Company but is herself not a member of the UK Council for Psychotherapy (UKCP). She claimed to have “been speaking to UCKP’s leadership about their facilitating a registration”, however, and holds a “Masters in the Psychology and Philosophy of Psychotherapy and Counselling, with a scholarship for excellence” from Antioch University at Regents College.⁷² She also stated that she “had a team who helped me with some of the most disturbed children and young people that I was personally dealing with.” This team included a clinical key worker, a clinical director and two senior social workers.⁷³ Kids Company has also stated that the charity’s Clinical Director held two MScs, and is a registered consultant psychotherapist with the Association of Child Psychotherapists.⁷⁴

39. Other than Kids Company’s early years provision (The Tree House), which was judged to be “good” by Ofsted in 2010 and 2013, the charity’s education programmes were not subject to statutory inspection.⁷⁵ Ms Batmanghelidjh stated that the charity was, nevertheless, in “continuous dialogue with Ofsted” and claimed that “in Bristol we had our provision reviewed by Ofsted before it got registered” as a provider of education.⁷⁶ She has since stated that “the inspector was pleased with the teaching provision and requested some minor adjustments, which we completed”.⁷⁷ Ofsted has confirmed that it was commissioned by the Department for Education to inspect Kids Company’s Bristol provision on two separate occasions. The first inspection (conducted in 17 July 2014) did not recommend registration as the facility was considered unlikely to meet the “necessary standards”, and the second (conducted on 6 May 2015) “found that the [provision] was still unlikely to meet all the necessary standards when open”.⁷⁸ Ofsted added that it had also been alerted to “concerns that an unregistered school was being operated” at Kids Company’s Arches II, but Kids Company closed before Ofsted organised an inspection.⁷⁹ It has been reported in the media that the Department for Education raised these concerns in February 2015, six months before the charity’s closure.⁸⁰

40. Ms Batmanghelidjh’s account of Ofsted’s inspection of the Bristol facilities differs considerably from the evidence that Ofsted submitted to the inquiry. The Trustees should have been aware of Ofsted’s concerns about the Bristol facilities and taken action in consequence. Either this information was withheld from the Trustees or they simply failed to act on it in the ten months between Ofsted’s two inspections. This indicates a serious breakdown of proper governance.

70 Q536, oral evidence, [17.11.2015](#)

71 [KCI47](#) (Alan Yentob and Camila Batmanghelidjh)

72 [KCI48](#) (Camila Batmanghelidjh)

73 Q111, [oral evidence 15.10.2015](#)

74 [KCI47](#) (Camila Batmanghelidjh and Alan Yentob)

75 [KCI37](#) (Ofsted)

76 Q45, oral evidence [15.10.2015](#)

77 [KCI47](#) (Camila Batmanghelidjh and Alan Yentob)

78 [KCI37](#) (Ofsted)

79 [KCI37](#) (Ofsted)

80 [“Kids Company probe into whether school was unregulated when ministers paid out £3m”](#)(11.08.2015, *The Express*)

41. *There are a number of safeguarding issues which have come to PACAC's attention during the conduct of this inquiry into Kids Company, most of which neither a select committee, nor the Charity Commission, nor a Government department could be expected to resolve. There is therefore a strong case for statutory regulation of charities who have safeguarding responsibilities for children or vulnerable adults and we recommend that the Government considers how such regulators as Ofsted and the Care Quality Commission can assume these responsibilities as quickly as possible (see paragraph 155).*

Quality of services

42. None of the Trustees had a background in youth services.⁸¹ Mr Yentob stated that Trustees were nevertheless confident in the appropriateness of the services being delivered “because there were inspections and evaluations by a large number of organisations and institutions...and there have been clinical and financial audits”.⁸² Mr Yentob referenced reviews by the “Tavistock and Portman Trust, the Anna Freud Centre, the Royal Society of Medicine, the London School of Economics, University of Cambridge Medical School”.⁸³ It has been reported in the media that the University of Cambridge, the Anna Freud Centre and the Royal Society of Medicine have denied carrying out any evaluations of the charity's work.⁸⁴

43. The charity has shared a number of reports that point to its strengths. These include an evaluation by Alessandra Lemma, who undertook interviews with 8 of Kids Company's clients, and found that they “unanimously, and very movingly, indicated that the relationship established with the key worker was felt by them to have been transformative”.⁸⁵ Dr Stephen Briggs undertook a study of 29 young people, and concluded that the “multi-layered approach of Kids Company interventions appears well-suited to the needs of these young people, sustaining them with practical supports and relationship based approaches”.⁸⁶ An evaluation by Dr Carolyn Gaskell in 2008 concluded that Kids Company's model provided “exceptional results”, stating that 89% of clients with a criminal background “reported that Kid Company had effectively supported them to move away from crime”, and “of a sample of 240 young people, 81% were successful in their goal to engage with education, training or employment”.⁸⁷ Additionally, an economic impact analysis suggested that, over a period of up to 10 years, the “total potential cost savings

81 We understand from conversations with those connected with the charity that attempts were underway, however, to recruit a Trustee with an appropriate clinical background to the Board of Trustees. The Trustee had not been recruited, however, by the time of the charity's closure in August 2015.

82 Q41, [oral evidence, 15.10.2015](#)

83 Q12, [oral evidence 15.10.2015](#)

84 ‘Kids Company academic research wrongly portrayed’ say scholars ([Times Higher Education](#), 17.12.2015)

85 Alessandra Lemma (2010): The Power of Relationship: A study of key working as an intervention with traumatised young people, *Journal of Social Work Practice: Psychotherapeutic Approaches in Health, Welfare and the Community*, 24:4, 409–427, p.420. The report also noted : “of course, what people report as helpful is not necessarily what is helpful. To establish the respective impact of the various different types of interventions offered to the young people within this particular project would require a complex quantitative research paradigm. But, at the very least, the voices of the young people ...encourage us to take seriously the multiple benefits of the kind of service offered by Kids Company, and of the evidently important difference that staff without any formal qualification in mental health are able to make to the lives of some of our most troubled young people” (p.425)

86 *QUALITATIVE EVALUATION OF KIDS COMPANY'S 'LEGIT LIVING' PROGRAMME* (Briggs, 2013). Dr Maitland Hudson has warned that “the very small sample size, however, should discourage any further generalisation from this study.” ([KCI31](#))

87 “*Kids Company helps with the whole problem*” (Gaskell, 2008)

and economic benefits generated from Kids Company were...estimated to range from £8.767 million to £9.501 million”.⁸⁸

44. Dr Genevieve Maitland Hudson, former Kids Company employee and now Director at consultancy company OSCA, has described Kids Company’s approach to research as “muddled”, however. She pointed out that “the bulk of Kids Company’s investment in its ‘scientific partnerships’ was concentrated on academic research in areas of interest to the charity but not directly related to delivery.” She added “it had an interest in, and funded, research that could have informed its model, but invested much less in assessing whether that model was working.” This lack of evidence about the charity’s outcomes has also been acknowledged by the Government (see paragraphs 144–146) and by reports from the Public Accounts Committee and the National Audit Office.⁸⁹ Although Kids Company was required to report to the Government on interventions carried out using the Government grant, Chris Wormald, Permanent Secretary of the Department for Education, told the Public Accounts Committee that “most of [the DfE’s] monitoring was about outputs, not outcomes”.⁹⁰ Richard Heaton, Permanent Secretary to the Cabinet Office, judged that “Kids Company was not good at measuring its outcomes and the impact it was having in society”.⁹¹

45. A number of former employees have submitted evidence in support of Kids Company’s methods, and have often drawn upon individual case studies to illustrate the charity’s positive impact. We received much evidence detailing the positive relationships between staff and clients, which enabled staff to take “the help to the children in a way that was receptive and had empathy towards the children”.⁹² Another employee stated that relationships “built between staff and clients throughout these years were powerful and built on genuine care...[and] that level of care and commitment for the young people... made Kids Company unique in its work”.⁹³ Another wrote of a community that was “unique, it was non-judgemental, it was safe, caring, consistent and more importantly provided more than just a tick box scenario”.⁹⁴

46. Many former employees believed that offering an “extended family support system for the children and their families” enabled staff to address the problems of young people in a “genuinely person-focused way...often in much more powerful ways than if staff were constrained, through rigid structures, to offering one-size-fits-all-solutions”.⁹⁵ One former employee stated that she had:

never before been able to in employment focus on a client as a whole person, just aspects of their lives...Most organisations only deal with one of these aspects, and increasingly have high thresholds for acceptance. Traumatised young

88 KIDS COMPANY IMPACT ANALYSIS Economic Impact Analysis for Kids Company’s DfE Grant Response (Buescher, Ferdinand, Trachtenberg, Evans-Lacko, Knapp, 2014)

89 Investigation: *The Government’s funding of Kids Company*, (NAO, 2015), [HC \[2015–16\] 504](#)

90 Q28 [oral evidence to Public Accounts Committee, 02.11.2015](#)

91 Q32, [oral evidence to Public Accounts Committee, 02.11.2015](#)

92 [KCI17 \(A6\)](#)

93 [KCI20 \(A9\)](#)

94 [KCI14 \(A3\)](#)

95 [KCI16 \(A5\)](#) and [KCI15 \(A4\)](#). Similar views amongst staff were also noted in by Lemma, A (2010) in *The Power of Relationship: A study of key working as an intervention with traumatised young people*, *Journal of Social Work Practice: Psychotherapeutic Approaches in Health, Welfare and the Community*, 24:4, 409–427: “All the staff conveyed their belief that by ‘being there’ for the young person through the good and the tough times they were providing a qualitatively different experience and that this, in itself, helped to challenge implicit assumptions about self and others.”(p.418)

people often live chaotic lifestyles, and for them to see individual organisations for all of these things, keep all the appointments and still try and hold down employment, it is incredibly difficult.⁹⁶

47. Kids Company did a lot of valuable work with some very vulnerable clients, and had many extremely dedicated and committed staff. We have had many accounts that employees were inspired and motivated by the quality of support they could deliver to young people, and delivered personalised and effective interventions.⁹⁷ Given this, it is both sad and disappointing that robust evaluation of the outcomes of Kids Company’s work is lacking. Without strong evidence of impact and outcomes on a wider scale than small samples or individual case studies, it is difficult to see on what basis Kids Company’s Trustees satisfied themselves of the appropriateness of support given to clients, and the value for money offered by the charity’s high resource model. That the charity invested so little in highlighting and evaluating the outcomes of its work, despite spending considerable funds on research, gives rise to suspicion in many. This approach left the Trustees unable to defend the reputation of Kids Company, which is a prime obligation of the good governance and leadership of any organisation.

Internal controls

48. PKF Littlejohn and Kids Company’s most recent auditors, Kingston Smith, were satisfied that the charity’s internal procedures were sufficient to account for the financial allowances distributed to clients. A number of employees have stated that they only had access to a small amount of cash for clients, and that “the money was not just handed out; we would make the purchase and always have receipts”.⁹⁸ Ms Batmanghelidjh has stated that “decisions were not made by me alone behind a desk; it was the entire team”.⁹⁹

49. However, some former employees have questioned the effectiveness of the charity’s internal controls. One claimed that “decisions about the level of funding of many clients were made solely by the CEO, with no discussion with relevant professionals,” and another warned that “inappropriate and ungoverned spending, could somehow be made opaque to outside observers and auditors”.¹⁰⁰ It was also claimed that:

large amounts of cash were available weekly, sometimes more often, to... adults. Some were recorded as being employed at the charity; one such turned up weekly, to show his face and collect over £400. Another attended the Urban Academy, registered as a student there, but told me that attendance was weekly “just to collect money for taxi travel and other treats” (despite receiving a full range of state benefits).¹⁰¹

96 [KCI13 \(A2\)](#)

97 The Committee has received a number of reports which indicate the high level of need of many of Kids Company’s clients. These include: *‘Enough is Enough: A report on child protection and mental health services for children and young people’* (Eastman, 2014), *Children and Parents’ Experiences of Food Insecurity in a South London Population* (Harvey, 2014); *“Need analysis on a sample of high-risk clients”* (Hillman and Wainwright, 2012); *KIDS COMPANY A DIAGNOSIS OF THE ORGANISATION AND ITS INTERVENTIONS* (Jovchelovitch and Concha, 2013). Mr Yentob submitted a letter from a group of lawyers. This stated that “over many years, Kids Company has brought hundreds of extremely vulnerable children to our offices and the courts to fight for their basic rights.”

98 [KCI14 \(A3\)](#)

99 Q37, [oral evidence 15.10.2015](#)

100 [KCI26 \(A12\)](#)

101 [KCI26 \(A12\)](#)

Ms Batmanghelidjh does not recognise this narrative.¹⁰²

50. A number of former employees have raised concerns that the practice of offering financial assistance may have risked making young people dependent on the charity, rather than seeking employment or state benefits. One stated that, since the charity closed, “clients have been left high and dry, incapable of maintaining their erstwhile lifestyle” and argued that “so many young people were kept dependent on large sums of money and never guided towards independence and now – overnight – have been thrown back into society without a clue as to how to cope”.¹⁰³ A former employee from Bristol described intervening to stop the practice that “anybody who was sanctioned by the statutory benefits services, would automatically get a replacement allowance from Kids Company” as this was “not helpful to the young person, nor was it sustainable”.¹⁰⁴

51. It has also been claimed that a lack of proper controls enabled young people to spend their allowances on drugs or alcohol. Mr Quirke-Thornton stated that the impact of closure has “largely been financial as many of the clients were in receipt of cash or goods. In some cases I note that this was connected to young people using alcohol or drugs and the associated risks of same”.¹⁰⁵ Ms Batmanghelidjh conceded that:

There may have been occasions when a young person spent the money inappropriately but that could also be the case with respect to local authority payments or state benefits or Educational Maintenance Allowances.¹⁰⁶

52. During their investigation into a number of allegations raised by former employees, PwC highlighted the poor controls around Ms Batmanghelidjh’s weekly cash float. PwC noted that the distribution of money was recorded on “miscellaneous pieces of paper with the value, date and the beneficiary’s name written on it... [which] does not provide reliable evidence that this sum of cash was actually received by the beneficiary.”

53. The Charity Commission expressed concerns “about the prudence of some of the spend and the legitimacy of some of the spend” that was uncovered during PwC’s investigation of the charity.¹⁰⁷ For example, PwC noted that in 2014, one client received £13,493 in allowances, £4,704.26 for clothing, in addition to £19,788.33 for housing costs. It also uncovered other purchases of high-value items: £305 designer shoes, John Lewis “blanket/ throws costing £80 each,” “four items of men’s Outerwear costing £149, £105, £85 and £70, one item of Women’s knitwear costing £60”.

54. Former employees made a series of claims in relation to large amounts of money which were spent “in the form of goods, hotels, holidays, private medical care, stays in various sanctuaries, entertainment, clothes, electrical goods and luxury items” upon a favoured group of clients, some of whom were “in their twenties and thirties,” and were known “throughout the organisation as “Camila’s specials”.¹⁰⁸ Another employee referred to this group as “Camila’s kids” and claimed that “inordinate amounts of money and resources were lavished on them,” including holidays to Ibiza, a spa, and a first class flight

102 Q32, [oral evidence 15.10.2015](#)

103 [KCI19](#) (A8)

104 [KCI45](#) (Esther Pickup-Keller)

105 [KCI44](#) (David Quirke-Thornton)

106 [KCI47](#) (Camila Batmanghelidjh)

107 Q487 [Michelle Russell, Director of Investigations, Monitoring and Enforcement] [oral evidence, 03.11.2015](#)

108 [KCI26](#) (A12)

to New York.¹⁰⁹ Ms Batmanghelidjh has confirmed that a small number of clients were sent to Champneys for therapeutic reasons, but denied being aware of clients being flown being flown first class.¹¹⁰

55. Many of Kids Company’s clients experienced extremely difficult, and in some cases traumatic, circumstances, and the unorthodox spending has been put into this context. However, the significant costs incurred to provide luxury items to particular individuals diverted charitable funds from other projects and programmes that had the potential to provide more long-term and effective support to a wider group of young people. Such lavish spending was inappropriate, unwise and irresponsible, and did not represent a proper use of charitable funds. Given the charity’s known cash flow problems, including its difficulties in meeting its payroll and obligations to HMRC, the authorisation of such payments was in defiance of the reality of Kids Company’s financial position and duties to clients. With a complete lack of experience of youth services amongst Trustees, it was impossible for the Board to assess the appropriateness of significant expenditure that Ms Batmanghelidjh justified on the basis of clinical judgements. It is nevertheless extraordinary that Trustees were content to accept this without more rigorous examination.

Safeguarding

56. Mr Quirke-Thornton said that “operating models in children’s services purposefully seek to achieve a safe distance between vulnerable children and young people and adults” but warned that “boundaries appeared to have become blurred” at Kids Company, as former clients became volunteers or staff at the charity.¹¹¹ A former employee also reported “inappropriate relationships between key workers and clients” due to “untrained key workers [having] no idea about boundaries”.¹¹² Kids Company has said that only a “relatively small group” of the charity’s keyworkers were hired from the community, all of whom were in the process of completing relevant qualifications and had undertaken child protection training. The former employee stated, however, that former clients were employed in other capacities at the charity.¹¹³

57. It has been also been alleged that a blind eye was turned to serious violence, drug taking and sexual abuse.¹¹⁴ A former employee referred to two very serious incidents of unprofessional clinical and safeguarding practice in the past 3 years. Another alleged serious mismanagement of their attempts to raise concerns after witnessing a psychologist employed at the charity take and then share Class A drugs with a client. This second former employee, who wished to be treated as a whistle-blower, alleged that they were initially advised not to share their account with the charity’s management. The employee subsequently took the allegation to Ms Batmanghelidjh but Ms Batmanghelidjh allegedly instructed the employee to confront the psychologist themselves. An ensuing investigation was conducted by someone who had previously undertaken positive evaluations of the

109 [KCI19](#) (A8)

110 ‘Camila Batmanghelidjh calls for new inquiry into Kids Company’s demise’ (12.11.2015, [Buzzfeed](#))

111 [KCI44](#) (David Quirke-Thornton)

112 [KCI19](#) (A8)

113 “In many instances, clients began “working” for KC – being paid cash to empty bins, move goods in and out of the Warehouse, go out in the van collecting donations...They would be paid £50 a day (often whether they attended or not) plus cash for a travel card ...These young men continued to be employed even when the Warehouse closed down (in January 2015).” [KCI19](#) (A8)

114 ‘Kids Company accused of mishandling sexual assault allegations’ (07.08.2015, [BBC](#))

charity, and who the employee did not consider to be objective. The subsequent report allegedly contained information about the employee's personal circumstances that had not been shared by the employee during the interview and were used to judge the employee to be an "unreliable informant." Both employees were suspended during this investigation, but were subsequently permitted to return to work. After the employee complained to Ms Batmanghelidjh and the Human Resources department that the allegation had not been handled in line with whistleblowing procedures, the psychologist in question was re-suspended.¹¹⁵ A Health and Care Professional Council (HCPC) panel, to whom the allegation was ultimately referred, judged that the psychologist had let vulnerable people stay overnight in their flat, tested positive for cocaine whilst at work, taken MDMA (a Class A drug which is the active ingredient in ecstasy) in the presence of two clients, and offered the drug to the clients. The psychologist has been suspended for 18 months. The HCPC will agree the final sanction on 10 February 2015.

58. The Police and Children's services are currently undertaking 36 investigations relating to Kids Company. Investigations by the appropriate authorities are ongoing and no charges have been brought at the time of publication, but a House of Commons select committee is not in a position to draw any conclusions from this material while a police investigation is in process.

59. Kids Company's handling of an allegation about a very serious failure of safeguarding was inadequate and irresponsible. It is not appropriate for a known supporter of Kids Company to conduct a supposedly independent investigation, and that confidential information about an employee's personal circumstances were used to assess their credibility, without transparency about where the information had come from, or permission being given for it to be shared. This represents a serious failure on the part of Trustees to ensure the existence and observance of appropriate processes for handling allegations relating to the safeguarding of vulnerable young people.

Board of Trustees

60. Ms Batmanghelidjh founded Kids Company, and led the organisation as its Chief Executive for 19 years. She has been described as an "emblematic figure" who possessed extraordinary fundraising capabilities.¹¹⁶ Former employees praised Ms Batmanghelidjh for being the "heart of our team," leading the charity "superbly" and working "a 6 day week minimum, typically working 10 hours plus each day".¹¹⁷

61. Kids Company celebrated its "flat management structure", which it claimed allowed employees to raise their opinions and concerns with relevant managers.¹¹⁸ However, a number of former employees have reported that Ms Batmanghelidjh directed them not to share their concerns about the charity with Trustees or senior members of the organisation. One employee stated that, when she raised concerns about the charity's finances, Ms Batmanghelidjh "would brush over them and tell me all was well. She was not impressed that I would have discussions with our interim finance director or HR director and monitored the interactions I had with them".¹¹⁹ Ms Berelowitz stated that,

¹¹⁵ [KCI50](#) (A18)

¹¹⁶ Q114 [oral evidence 15.10.2015](#)

¹¹⁷ [KCI28](#) (A14), [KCI32](#) (Johanna Morrell), [KCI34](#) (David van Eegen)

¹¹⁸ [Annual Report & Accounts, Year Ending December 2013](#)

¹¹⁹ [KCI45](#) (Esther Pickup-Keller)

having visited the charity, she came away with the impression that Ms Batmanghelidjh was “very much in control of what went on. The ethos, the way in which things were run, the general comportment of the organisation”.¹²⁰

62. It is, however, a charity’s Board of Trustees that bears full legal responsibility for maintaining proper standards of governance within the organisation.¹²¹ So-called “founder syndrome” is, as the charity’s auditors acknowledged, “not unusual in charities” but the Charity Commission directs Trustees to “make decisions solely in the charity’s interests, so they shouldn’t allow their judgement to be swayed by personal prejudices or dominant personalities”.¹²²

63. A number of former directors claim to have alerted Trustees to concerns about mismanagement, sustainability and inappropriate spending (which included the decisions and conduct of Ms Batmanghelidjh), but Trustees failed to act on this information and the directors ultimately resigned.¹²³ Mr Yentob denied that he was presented with “allegations” and stated that the “clear whistleblowing process...was not taken” and that only one complaint (relating to the appointment of an unsuitable applicant) came directly to him.¹²⁴ This conflicts with accounts from former employees, who documented several occasions on which concerns were raised with the Trustees and the Chief Executive but no action was taken.

64. Mr Yentob reported that, in general, the Trustees were content that Ms Batmanghelidjh “was continuing to raise the funds and to run the place well”.¹²⁵ However, he noted that over the past two years “the stress and pressure on her was too much,” but it had seemed “very difficult at that time to change the structure because there was also a level of trust between people”.¹²⁶

65. PACAC has had sight of correspondence documenting Ms Batmanghelidjh’s rejection of significant financial assistance in November 2014. The minutes of Trustee meetings reveal that, at this point, the charity was in £4 million deficit, with £55,000 of self-employed invoices outstanding, and was preparing to approach the Government to request a £12 million grant. The donor offered “unlimited” funding and “a large human resource” towards a number of the charity’s projects, and to develop the charity’s infrastructure with a view to increasing its revenue streams and disseminating its research. Ms Batmanghelidjh instead requested that the philanthropist provide a cash donation of £1 million within a week to aid the charity’s immediate funding crisis. The meeting took place on Wednesday, and the donor requested “a day or so” to consider the request, due to the deviation from the usual process for cash donations and an all-day flight on the Friday. On the Saturday, Ms Batmanghelidjh contacted the donor to reject his offer of assistance. She said that the potential donor lacked “emotional authenticity”, was not “in a space where [s/he] can authentically think about what somebody else needs” and was “not ready to be genuinely philanthropic.” She stated that her “intuition” told her not to enter into the partnership, as

120 Q541, [oral evidence, 17.11.2015](#)

121 A list of Kids Company’s trustees at the time of its collapse is included in Annex A of this report.

122 *‘The essential Trustee: What you need to know, what you need to do’* (Charity Commission Guidance)

123 The resignation of the directors was reported in the media at the time (*‘Stars’ children’s charity in crisis after three directors quit over the way it is funded*, [09.03.2015 \(Daily Mail\)](#)). PACAC has also verified these accounts.

124 Q141, [oral evidence 15.10.2015](#)

125 Q116, [oral evidence 15.10.2015](#)

126 Q114, [oral evidence 15.10.2015](#)

it lacked “moral and emotional foundations”, and that “mobilising people’s kindness” was more important than “any grand promise of organisational potency.”

66. There is no evidence that Trustees were involved in the decision to turn down the philanthropist’s offer of significant financial and human resource. At the time the offer was made and rejected, Trustees were attempting to manage a £4 million deficit and secure an additional £12 million grant from the Government. Ms Batmanghelidjh’s citing of mere intuition about an individual’s supposed lack of emotional authenticity as justification for blocking the exploration of a new partnership at a time of extreme financial difficulty underlines how unaccountable and dominant Trustees had allowed her to become, and how far she was able to insist on maintaining personal control.

67. Mr Yentob was Chair of Trustees for 12 years. His actions in the weeks surrounding the charity’s collapse have received significant media attention, with allegations that he displayed a conflict of interest in his role at the BBC. Mr Yentob admitted that he stood behind the glass with the producer during a BBC interview with Ms Batmanghelidjh about the charity’s difficulties, and also made a phone call to another BBC journalist who was due to make a broadcast about the charity.¹²⁷ Mr Yentob said that he was “emotionally upset and engaged” by the coverage, and regrets this action “if it was intimidating”.¹²⁸ He has since resigned from his position as Creative Director at the BBC. Lord Hall of Birkenhead, BBC director general, said that Mr Yentob’s conduct was “improper” but had not affected BBC coverage of Kids Company.¹²⁹

68. A charity of Kids Company’s size and complexity requires a Board of Trustees that will demonstrate leadership, judgement and a willingness to challenge assumptions. There was a lack of relevant Trustee expertise in the field of youth services or psychotherapy, although we understand that attempts, albeit belated, were underway to recruit a Trustee with such experience in the run up to the charity’s collapse. The admiration that Kids Company’s Trustees had for Ms Batmanghelidjh’s apparent vision and fundraising capabilities led to a false confidence about other areas of the organisation. The Charity Commission’s guidance to Trustees warns that Trustees should not allow their judgement to be swayed by personal prejudices or dominant personalities, but this is what occurred in Kids Company. This resulted in Trustees suspending their usual critical faculties – particularly over Ms Batmanghelidjh’s insistence on the demand-led business model, her exercise of substantial discretionary spending powers, the effectiveness of internal controls, and the quality of clinical judgements and safeguarding procedures. The length of the Chief Executive and Chair’s tenures were not conducive to challenging the Chief Executive herself. There was a clear link between the failure to correct serious weaknesses in the organisation, and the failure to refresh its leadership.

69. Mr Yentob denied historic failures in financial management and insisted that there were no questions about the financial resilience of Kids Company until 2014. Given the charity’s historic hand-to-mouth existence, its continual failure to build up reserves, significant periods on the brink of insolvency and its inability to meet its obligations to HMRC, this is an inaccurate and alarming interpretation. The evidence Mr Yentob gave to the Committee suggests a lack of proper attention to his duties

127 Qq135, 142, [oral evidence, 15.10.2015](#)

128 Qq149, 147, [oral evidence 15.10.2015](#)

129 Alan Yentob criticised by BBC director general over behaviour in Kids Company coverage’ ([Guardian, 16.12.2015](#))

as Chair of Trustees and a continuing inability to recognise those failures. With his fellow Trustees he was unwilling or unable to impose sufficient control. Together, they failed to exercise their proper function as Trustees.

70. Mr Yentob acknowledges his poor judgement in respect of his position at the BBC during the summer of 2015. His actions were unwise at best, and deliberately intimidating at worst. He has since resigned his main position at the BBC but he still retains substantial responsibilities within the organisation and oversees substantial budgets. It is not within the remit of this Committee to comment on the governance of the BBC, but the proper governance of conflicts of interest and standards of behaviour – particularly amongst its senior executives – is a very serious matter for any reputable organisation. That a senior figure could act in this way and it could take so long for action to be taken reflects poorly on the BBC's leadership.

3 Role of professional services

71. Between 2013 and 2015, the Cabinet Office used the work of auditors, accountants and consultants to inform its decision making in relation to Kids Company. However, none of these reviews delivered a meaningful assessment of the charity's effectiveness, quality of services, outcomes or value for money. They were therefore inadequate in providing a useful picture of the charity's operations or reassurance to potential donors.

Kingston Smith LLP

72. Kingston Smith audited Kids Company 2011–2013, and signed off the charity's accounts as a going concern each year.¹³⁰ Mr Nick Brooks, the partner responsible for the audit, stressed that “responsibility for signing the accounts is firstly with the Trustees” but explained that Kingston Smith was content to sign off the accounts on the basis of “a letter of representation signed by a Trustee on behalf of the Board”.¹³¹ Mr Brooks also clarified that Kingston Smith checked the assumptions of this letter, examined the charity's budgets and cash flows and “assessed reliability based on history and previous matching to budgets and cash flows,” before confirming that the charity was indeed a going concern.¹³²

73. However, despite an overall agreement that the charity's accounts represented a going concern, the accounts included identical warnings each year: the charity was continuing to grow very fast, had low reserves relative to its size, and activity in the next financial year would “depend almost entirely on its ability to secure continuing grant income”.¹³³

74. The auditors raised these concerns directly with Trustees. Management letters sent to Kids Company between 2009 and 2013 consistently repeated two warnings: about the charity's low levels of reserves, and Kids Company's extensive use of contracted and self-employed workers.¹³⁴ Kingston Smith received a response from Kids Company in 2011 but the charity failed to respond in both 2012 and 2013. Mr Brooks stated that many charities do not “formally respond to auditors”.¹³⁵

75. There is a striking contrast between the language used by Kingston Smith and that used by the previous auditors, MacIntyre Hudson, in management letters to Trustees. MacIntyre Hudson called Kids Company's “history of spending over budget...a very risky strategy,” and warned that the “deficit in free reserves currently puts the charity in a potentially insolvent position.” When Kingston Smith took over as auditors, the charity's free reserves were still in deficit (-£10,125 in 2011, compared with -£32,464 in 2010) but Kingston Smith's management letters warned instead of “an impact on Kids Company sustainability...negative publicity and reputational damage” rather than insolvency. Mr Brooks explained that this was simply a case of “different firm, different language,” and

130 Kingston Smith was only in the very early stages of the 2014 audit when the charity closed.

131 Q492 [oral evidence 17.11.2015](#) and [KCI 24](#) (Kingston Smith)

132 Q492 [oral evidence 17.11.2015](#)

133 Kids Company's Annual Reports. The Annual Reports for 2010–2013 are available on the [Charity Commission's website](#).

134 Kingston Smith, and the previous auditors MacIntyre Hudson, warned that HMRC may judge these to be full time employees and therefore demand PAYE and National Insurance contributions from the charity.

135 Q500, [oral evidence 17.11.2015](#)

stated that Kingston Smith “probably agreed” with MacIntyre Hudson’s assessment that Kids Company’s business model put them at risk of insolvency: “Nothing had changed... it has always been living on a knife edge, which is in my view portrayed quite clearly through the notes to the accounts.”¹³⁶

76. Section 156 of the Charities Act 2011 places a duty on the auditors of both a non-company charity and a company charity to report matters of “material significance” to the Commission.¹³⁷ Amongst matters considered to be of “material significance” are “failure(s) of internal controls, including failure(s) in charity governance, that resulted in a significant loss or misappropriation of charitable funds, or which leads to significant charitable funds being put at major risk”.¹³⁸ However, Kingston Smith did not notify the Charity Commission about the charity’s failure to address its precarious funding situation - which ultimately led to the charity’s folding, the loss of significant charitable funds and the collapse in the support framework of a large number of vulnerable people. Mr Brooks acknowledged that he “had not considered whether that would be an area [of interest to the Charity Commission] and going forward I would think about that”.¹³⁹ We respect Mr Brooks’s honesty in this matter.

77. Kingston Smith has offered no credible explanation for changing the warnings of insolvency from those issued by the preceding auditors. Mr Brooks stated that Kingston Smith’s softer language still indicated that Kids Company was “living on a knife-edge.” It is surprising that Kingston Smith did not consider its duty to alert the Charity Commission to the extremely high risk of failure in this charity, in accordance with its duty as charity auditors under Section 156 of the Charities Act 2011. We note that this is a lesson that Mr Brooks appeared to accept under our examination, but this lesson should be learned by the audit profession as a whole.

Assessment of internal controls

78. The International Standard on Auditing (UK and Ireland) 530 dictates that “the higher the auditor’s assessment of the risk of material misstatement, the larger the sample size needs to be,” and that auditors should assess the risk of material misstatement by considering the “inherent risk and control risk”.¹⁴⁰ Mr Brooks confirmed that Kingston Smith’s judgements about the charity were based on samples selected by a computer as “there were thousands of documents and we can only test a sample,” but stated that Kingston Smith felt that the charity’s internal financial controls “as we checked them were more than adequate for an organisation of that size”.¹⁴¹ This assessment of the charity’s internal controls would have influenced Kingston Smith’s decisions about what constituted an appropriate sample size.

79. Mr Brooks stated that PwC and PKF Littlejohn’s reviews had “much more of an internal audit nature, where you look in much more detail at a lot more invoices”.¹⁴² When asked about the “miscellaneous pieces of paper” that PwC stated Ms Batmanghelidjh used to document distribution of her float, Mr Brooks stated that he was “unaware” of this

136 Qq485, 492 [oral evidence 17.11.2015](#)

137 [Charities Act 2011](#)

138 Charity Commission [Guidance for Auditors and Independent Examiners](#)

139 Q503, [oral evidence 17.11.2015](#)

140 [The International Standard on Auditing \(UK and Ireland\) 530](#)

141 Qq430, 465, [oral evidence 17.11.2015](#)

142 Q430, [oral evidence 17.11.2015](#)

practice and that Kingston Smith “might or might not have chosen one of her expenses from the sample that we undertook”.¹⁴³ He also said that Kingston Smith’s samples did not uncover the examples of excessive spending highlighted by a number of witnesses throughout the inquiry.

80. Mr Brooks clarified that, as the charity’s auditor, Kingston Smith was concerned with checking payments were “properly authorised and correctly treated through the system” and did not assess whether the charity’s spending was in line with charitable objectives, or whether clinical assessments justified the expenditure.¹⁴⁴ Mr Brooks stated that:

if a therapist or one of the case workers felt that money should be spent on that individual, it is very difficult for us as auditors to say, “We don’t believe that is right’... I think that comes down to the overall management of the organisation, the governance and how it is run.”¹⁴⁵

81. Mr Brooks also stated that he would not “be in a position to make [an] assessment” about whether therapists employed by the charity were appropriately qualified.¹⁴⁶

82. It is regrettable that, in over three years of auditing the charity, Kingston Smith’s sampling method failed to uncover any of the issues that have since emerged regarding the charity’s expenditure and internal controls. Kingston Smith appeared to be over-confident in the charity’s internal controls. This in turn may have influenced the sampling process and the level of scrutiny to which the charity was subject. For a charity that the auditors acknowledged was “unorthodox”, particular vigilance in identifying the audit risks and sampling size should have been especially important.¹⁴⁷ In addition, the failure of Kids Company’s Trustees to respond to recommendations repeatedly laid out in management letters suggest that Kingston Smith’s confidence in the charity’s management was misplaced.

83. Kingston Smith did not consider it part of its remit to assure the public of whether Kids Company spent money in line with its charitable objectives. Ultimately, discretion over appropriate spending rests with the charity’s Trustees, not the auditors or the Charity Commission. This inquiry provides a reminder to all who use charity accounts that a set of audited accounts do not provide assurance that charitable funds are being used wisely or that a charity is well run.

84. Ms Batmanghelidjh’s use of the fact that the charity had 19 years of clear audits, while true, is also disingenuous. Each time the charity’s accounts were signed off as a going concern, the auditors issued significant warnings to the charity about the precariousness of its demand-led operating model and the dependency of the charity upon future grants and emergency funding. However opaque the language, the meaning should have been clear enough to the Trustees and CEO. Such repeated warnings should have led to a change to the reserves policy, contingency planning for insolvency and substantial downsizing many years before the final crisis.

¹⁴³ Q448, [oral evidence 17.11.2015](#)

¹⁴⁴ Q415, [oral evidence 17.11.2015](#)

¹⁴⁵ Q416, [oral evidence 17.11.2015](#)

¹⁴⁶ Q437 [oral evidence 17.11.2015](#)

¹⁴⁷ Q411, [oral evidence 17.11.2015](#)

PKF Littlejohn

85. In December 2013, PKF Littlejohn LLP was engaged by the Cabinet Office to review the financial and governance controls of Kids Company because it was “nervous about the charity’s financial controls and governance” and wished to “work out whether the charity was being badly run”.¹⁴⁸ Correspondence between Nick Hurd, the then Minister for Civil Society in the Cabinet Office, and Kids Company shows that the Cabinet Office held £500,000 of an early £1 million grant payment contingent on the outcome of PKF Littlejohn’s review.¹⁴⁹

86. Overall, the report concluded that the charity’s governance system “appears to be appropriate for its size and complexity. Board and Committee responsibilities are well documented and, more importantly, understood. We have no recommendations to make in terms of improvements to the governance systems and risk assessment processes”.¹⁵⁰ The Cabinet Office subsequently released the remaining £500,000 as agreed.¹⁵¹

87. In the tender documents for the contract to complete the review, the ‘Scope of Requirement’ required the successful bidder to use “appropriate methods...to assess the effectiveness of the charity’s governance and controls”.¹⁵² However, in written evidence, PKF Littlejohn stated that “an assessment of the effectiveness of these policies and procedures was outside the scope of our review”.¹⁵³ Instead, it claimed that the review was limited to “establishing the policies and procedures in place and assessing whether these policies and procedures were appropriate for a charity of similar size and complexity to Kids Company”.¹⁵⁴

88. As Alastair Duke, Partner at PKF Littlejohn who oversaw the review of Kids Company, acknowledged: “what must be made clear is that good financial controls and good governance controls will not necessarily result in the correct decisions being made”.¹⁵⁵ When asked to explain why the final report did not deliver the requirements outlined in the tender document, Mr Duke stated that PKF Littlejohn “worked throughout the planning stage with the Cabinet Office explaining the work that we were going to do and agreed the work programme”.¹⁵⁶ Evidence from Mr Letwin, however, has indicated that Cabinet Office did in fact treat the report as if it offered the assurances of the original scope (see paragraph 159). Mr Duke stated that “how the report was used subsequently by the Cabinet Office is not something I can answer”.¹⁵⁷

148 Qq30, 100, [Richard Heaton] [oral evidence to Public Accounts Committee 02.11.2015](#)

149 The review was carried out at Kids Company’s offices 15–24 January 2014, and the report was issued on 3 March 2014.

150 Kids Company Review of Financial and Governance Controls, [PKF Littlejohn report \(March 2014\)](#)

151 Ms Batmanghelidjh claimed that Cabinet Office attempted to “tamper with the independent audit carried out by PKF Littlejohn in order to make it more negative (KCI58).” Mr Duke explained that there were “minor amendments,” following input from both Kids Company and the Cabinet Office, but that “nothing of substance changed from the draft one to the final draft that I signed.” He stated that Cabinet Office asked PKF Littlejohn to move the warning about the charity’s cash flow to the beginning of the report, and confirmed that he “thought it was a good idea, to bring that upfront to the very first page,” because the charity’s cash flow and low reserves represented the biggest risk to the charity.

152 [KCI23](#) (PKF Littlejohn)

153 [KCI23](#) (PKF Littlejohn)

154 [KCI23](#) (PKF Littlejohn)

155 Q316, [oral evidence 17.11.2015](#)

156 Q321, [oral evidence 17.11.2015](#)

157 Q324, [oral evidence 17.11.2015](#)

89. The Cabinet Office's tender for the contract to review Kids Company required the successful bidder to provide the Government with assurances about the effectiveness of Kids Company's governance. PKF Littlejohn now says that the original scope was narrowed, in agreement with Cabinet Office, to establishing whether the policies and procedures in place were appropriate. PKF Littlejohn asserts that Ministers took assurances from the report that were outside the scope of the review. The Cabinet Office should have identified that the PKF Littlejohn remit had altered and communicated this message clearly to future users of the report. This would have minimised the weight Ministers placed upon the very limited assurances the report offered.

90. However, it is not acceptable that a report commissioned to provide a professional assessment of a charity's governance and controls looked only at systems and processes; as Mr Duke acknowledged, good controls can be overridden. PKF Littlejohn's review did not assess the organisation's sustainability in financial and reputational terms and proved to be of little value in assessing the effectiveness of the organisation's governance. Without reviewing, for example, decision-making, attitudes and habits of behaviour, risk-management and strategic objectives in the organisation, a contractor could not assess the effectiveness of the charity's governance and controls and deliver upon the tender's requirements.

PricewaterhouseCoopers

91. On 16 July 2015, the Charity Commission met former employees of Kids Company, who made a number of allegations about financial practices at the charity. These included allegations of possible unlawful trading, non-charitable expenditure and employment irregularities. At the direction of the Charity Commission, Kids Company commissioned PricewaterhouseCoopers (PwC) to investigate the allegations.

92. PwC's investigation began on 23 July, with the agreement that "initial findings" would be shared with Kids Company and the Charity Commission three days later. The preliminary investigation cost Kids Company £26,300 in time costs, and £1,000 for expenses.¹⁵⁸ PwC reported spending 100 hours conducting this stage of the investigation.¹⁵⁹

93. Mr Will Richardson, Partner at PwC who oversaw the investigation, stated that, initially (on 21 July), the charity requested "an answer to the allegations by that Thursday (23 July) evening" but "pragmatically that was not possible".¹⁶⁰ Instead, PwC worked with Kids Company to decide which allegations to investigate in the short period of time available. Of the eight allegations reported to the Charity Commission, five were selected for preliminary investigation on the basis that progress could be made in the few days available.¹⁶¹ Mr Richardson noted that PwC covered as much ground as possible in the time available, but stressed that the investigation had only been under way for three days and that the work was not complete. The preliminary report emphasises "the very limited nature of the work" undertaken by PwC and makes clear that "we have not carried out anything in the nature of an audit."

158 Q274, [oral evidence, 17.11.2015](#)

159 Q250, [oral evidence, 17.11.2015](#)

160 Q251, [oral evidence, 17.11.2015](#)

161 Q499, [Michelle Russell] [oral evidence 03.11.2015](#)

94. The Cabinet Office delayed payment of the £3 million grant until the completion of PwC's preliminary investigation, but Mr Richardson said that he was unaware "that the Cabinet Office was waiting to see our report before any decision was taken" about whether to release funds.¹⁶² He was, however, "aware that the charity was in financial difficulty" and that it "wanted an answer" to serious allegations. He was unsure "how those factors interplayed to create a very short timescale".¹⁶³

95. When asked what assurance a reader should take from PwC's preliminary report, Mr Richardson said that he "would not use the term assurance".¹⁶⁴ He said that he was aware that the Charity Commission wanted to know "whether there was any substance to the allegations," and stated that the preliminary report had "determined that there was no basis for one of the allegations and started to give a sense of direction of travel in relation to the other four." He added, however, that the fact that "there was no direct evidence at that point in time, with the very specific work that we had undertaken in relation to those specific allegations" came with the "big caveat" that the investigation was not complete.¹⁶⁵

96. Phase Two of the investigation, which never took place, would have required PwC to examine "the documentation trail, to see that those beneficiaries had gone through the normal clinical acceptance procedures" as well as to cross-reference the clinically assessed needs of relevant individuals with the payments made in relation to those needs and to corroborate some of the explanations given for the expenditure. Explanations requiring corroboration included those offered by Ms Batmanghelidjh, whose responses to each allegation were published in the report. Mr Richardson explained that PwC "had not had time to corroborate Ms Batmanghelidjh's answers" but nevertheless felt that it was "important to put the fact that we received those explanations into the report".¹⁶⁶

97. PwC's preliminary report was of little value to Kids Company, the Charity Commission or the Cabinet Office. Although investigation into one allegation had been completed, the remaining reports were subject to such heavy caveats in consequence of the very short timeframe that no conclusions could be drawn. Nevertheless, the report was cited by supporters of Kids Company as proof there was no substance to the allegations. Kids Company's rush to complete the investigation resulted in a report that offered no real assurances for the considerable costs incurred.

98. All three professional firms identified matters of concern relating to Kids Company, yet not one of them reported the scale of risk carried by the charity to the Trustees, the Cabinet Office or Charity Commission. This is a salutary warning about the use of professional advisers. They are no substitute for the exercise of judgement. They tend to limit the scope of the terms of their investigation in order to limit their

162 Q254, [oral evidence, 17.11.2015](#)

163 Q253, [oral evidence, 17.11.2015](#)

164 Q261, [oral evidence, 17.11.2015](#)

165 Q305 [oral evidence, 17.11.2015](#)

166 Q285, [oral evidence 17.11.2015](#) Investigation would also begin into the three allegations that had not been covered in Phase One: allegations of trading while insolvent; making payments outside of its objects and; whether there were any implications in relation to a beneficiary on state benefits also receiving benefit payments. Although PwC's letter of engagement was sent to the charity on 4 August, the charity closed down the following day and Phase 2 did not begin. The preliminary report noted a number of expenses incurred buying individual items purchased for beneficiaries. These included £80 blankets from John Lewis; men's outerwear costing £149; designer shoes for £305; and over £4,700 spent on clothing for one client in one year. Mr Richardson confirmed that these payments were "irregular" within a charity but stated that PwC was unable to pass a judgement on whether this was appropriate without "connecting clinical assessed needs and payments made in relation to those needs," which would have formed Phase 2 of the investigation.

own exposure to risk. In this case, they were able to avoid making any examination of the wider issues that threatened the charity's existence. In the partial assurances they offered, the resulting reports may actually have obscured more than they revealed to those who read them.

4 Charity Commission

Monitoring of Kids Company's finances

99. Although Kids Company's finances were precarious for most of its existence and generated controversy and concern, the Charity Commission did not intervene because "the issue of insolvency in itself is not necessarily a regulatory issue".¹⁶⁷ Ms Michelle Russell, Director of Investigations, Monitoring and Enforcement at the Charity Commission, pointed out that the charity had an "unqualified audit report, so it was signed off as a going concern each year, albeit there were comments made about or known about its cash-flow areas".¹⁶⁸

100. The Charity Commission only has the power to intervene in the governance of an individual charity if there are specific concerns relating to mismanagement or misconduct.¹⁶⁹ The Charity Commission stated that it had had no reason to investigate Kids Company before 2014, and received "remarkably few complaints about Kids Company before this summer".¹⁷⁰ It has been reported in the media that the Pilgrim Trust reported concerns about Kids Company to the Charity Commission as early as 2002, but the Charity Commission no longer holds records of its response and has been unable to clarify what action it took.¹⁷¹ William Shawcross, Chair of the Charity Commission, told us that he "wish[ed] we had had a regulatory cause to investigate the charity much earlier".¹⁷²

101. The Charity Commission did discuss Kids Company's finances with the charity at several points in the year leading up to its collapse, in response to contact from the charity's management and negative press coverage. The first meeting took place in March 2015. During this meeting, the Charity Commission "did have the conversation...about the reserves and the financial stability of the organisation" but noted that Kids Company "had a plan in place" to address the funding situation.¹⁷³ The Charity Commission had no regulatory role in overseeing the execution of this plan, as "restructuring and getting a charity back on a footing that is financially stable is not necessarily a regulatory issue".¹⁷⁴ However, it left an "open door" for the Charity Commission, who asked to be kept informed about what was going on, "particularly in relation to the financial stability of the organisation".¹⁷⁵

102. Over the next two months, the Charity Commission received several updates from Ms Batmanghelidjh, but the Trustees also warned the Commission that funding difficulties continued and a restructure or potential closure might occur. Throughout July, the Charity Commission kept in close contact with the Cabinet Office and Kids Company in relation to the allegations under investigation by PwC and the funding situation. On 4 August,

167 Q455, [Michelle Russell], [oral evidence, 03.11.2015](#)

168 Q455, [Michelle Russell], [oral evidence, 03.11.2015](#)

169 [Tackling abuse and mismanagement. Annex 1: the Charity Commission's approach to tackling abuse and mismanagement](#)

170 Q434, [William Shawcross] [oral evidence, 03.11.2015](#)

171 [Kids Company concerns raised as early as 2002'](#) (14.10.2015, BBC). The same article also noted that New Philanthropy Capital raised concerns about Kids Company's governance, a lack of outcome data, and inappropriate use of funding to Trustees in 2006, but did not take these concerns to the Charity Commission.

172 Q459, [oral evidence, 03.11.2015](#)

173 Q469, 455, [Michelle Russell] [oral evidence, 03.11.2015](#)

174 Q455, [Michelle Russell] [oral evidence, 03.11.2015](#)

175 Q444, [oral evidence, 03.11.2015](#)

Kids Company informed the Charity Commission that it would be closing the following day. On 21 August, the Charity Commission announced a statutory inquiry into Kids Company's governance and financial management "in light of the intense public scrutiny and speculation over the charity's activities, and the increasing number of allegations in the public domain about its governance and financial management".¹⁷⁶

103. The Charity Commission's investigation is ongoing, and we await its conclusions. However, Ms Russell acknowledged that there were already several learning points for the Charity Commission from the collapse of Kids Company. First, she noted that even if a charity has an unqualified set of accounts, "there still may be issues about financial stability, and that is a lesson not just for us, but for the sector and the public themselves".¹⁷⁷ Ms Russell indicated that the Charity Commission has limited IT capability to interrogate the 60,000 sets of annual accounts it receives each year but has a "plan in place" to address that capacity issue.¹⁷⁸

104. A second area of learning is in relation to reserves. Ms Russell and Mr Shawcross stated that the Charity Commission must "tread the line carefully about not fettering or interfering with Trustees' discretion" but said the Commission would "clarify and sharpen up our guidance in light of what has happened over the summer".¹⁷⁹

105. It is remarkable that so few people thought it appropriate to complain to the Charity Commission about Kids Company, despite donors and others expressing concerns as far back as 2002, and open adverse comment about Kids Company in the media. This reflects the Charity Commission's failure to make people aware of this possibility. Complaints would have prompted investigation and could have led to improvements in the charity's governance and operations.

106. In the months leading up to Kids Company's collapse, the Charity Commission worked closely with the charity after receiving complaints from a donor and former employees, but substantive discussions about its precarious financial situation only occurred after the charity's finances reached crisis point. Earlier intervention from the Charity Commission to advise changes to the operating model might have helped to safeguard the charity, although this has not historically been the role of the Charity Commission. The Charity Commission must make its own judgement about a charity, rather than simply relying on government engagement with an organisation as evidence of a charity's good governance or effectiveness.

107. We welcome the provisions in the Charities (Protection and Social Investment) Bill to give the Charity Commission new powers to disqualify a person from being a charity Trustee if: at least one of six conditions applies to the individual; if an individual is unfit to be a Trustee; and if making the order is desirable in the public interest in order to protect public trust and confidence in charities (either generally or in relation to the charities or classes of charity specified or described in the order). Amongst the six conditions that may, in conjunction with the tests mentioned above, disqualify a person from being a Trustee is if a the person was a Trustee, charity Trustee, officer, agent or employee of a charity at a time when there was misconduct or mismanagement in the administration of

¹⁷⁶ Press release, The Charity Commission, [New charity investigation: Kids Company](#), 21 August 2015

¹⁷⁷ Q510, [oral evidence](#), 03.11.2015

¹⁷⁸ Q469, [oral evidence](#), 03.11.2015

¹⁷⁹ Q467, [oral evidence](#), 03.11.2015

the charity, and was: responsible for the misconduct or mismanagement; knew of the misconduct or mismanagement and failed to take any reasonable step to oppose it; or the person's conduct contributed to or facilitated the misconduct or mismanagement. The Charity Commission's new powers may be applicable to the case of Kids Company.

108. There are both legal parameters and resourcing issues that currently limit what the Charity Commission can do to improve the effectiveness of a charity's governance. It is the role of Trustees, not the regulator, to ensure that a charity is well run. However, if the Charity Commission is to maintain public faith in charities and deliver on its statutory duty to prevent, detect and tackle mismanagement in charities, it must have the resources and powers to advise and investigate charities at an earlier stage and to support charities through restructures and downsizing.

109. While it is not possible for the Charity Commission to interrogate deeply the 60,000 accounts it reportedly receives each year, high risk charities – for example those with a large number of employees or a vulnerable client base – must be under the greatest scrutiny. We await with interest the outcome of the Charity Commission's technology transformation plan, which should enable the Commission to identify and scrutinise high-risk charities.¹⁸⁰

110. *Trustees must have ultimate responsibility for ensuring that a charity has a responsible approach to reserves but the Charity Commission must do more to help to make Trustees aware of their responsibilities in this area. We look forward to the Charity Commission's reviewed guidance on charity reserves, and expect it will impress upon Trustees of large or complex charities their increased responsibilities in this area.*

111. *The Charity Commission should revise its guidance to auditors, to ensure that expectations about auditors' reporting duties under Section 156 of the Charities Act 2011 are appropriately conveyed. Such guidance must be clearer on the circumstances in which auditors should pass on concerns about an unsustainable operating model, including an inappropriate reserves policy.*

112. *The Charity Commission should consider how it can better impress upon Trustees the need to ensure that the Board includes those with appropriate experience of the areas relevant to the charity's activities. Some Trustees must have this relevant experience, so that they can evaluate the quality of the charity's activities, and a range of skills must be reflected on the Board. All Trustees must have a responsible attitude towards governance.*

Donor complaint

113. Prior to July 2015, the Charity Commission stated that it had received only one donor complaint about Kids Company – from an individual who had sold her house to donate to Kids Company, and was unhappy with how the charity had handled her donation.¹⁸¹ She requested that her donation be returned, and complained to the Charity Commission in

¹⁸⁰ Ms Russell explained that the Charity Commission is seeking to use its £8 million Invest to Save grant to “make improvements and developments...in our risk assessment of the different types of risks for different types of charities...we will look at different formulas for different types of charity, for different types of risk.” Q470 [oral evidence, 03.11.2015](#)

¹⁸¹ Q435, [Michelle Russell] [oral evidence 03.11.2015](#)

October 2014.¹⁸² Ms Batmanghelidjh told PACAC that “the Charity Commission advised us not to return her money”.¹⁸³ The Charity Commission stated, however, “that there is nothing on record showing or suggesting that our advice was sought or given on repaying the donation”.¹⁸⁴ Mr Shawcross also commented that, as the donor “had not placed any limitations on the way in which the money was spent”, it was “rather difficult to insist that the money be repaid,” as Kids Company had not acted illegally.¹⁸⁵

114. In light of the Charity Commission’s evidence, Kids Company subsequently explained that “there is a difference of recollection as to whether advice was given or not.” Mr Richard Handover, Deputy Chair of the Trustees, recalled “a long discussion [with the Charity Commission] about [a donor complaint] where it was acknowledged we had provided full documentary evidence that the money had been spent in line with the donor’s request. After a full discussion there was never any suggestion that Kids Company should repay the money”.¹⁸⁶ Ms Batmanghelidjh, however, stood by her recollection “that the Charity Commission explicitly advised Kids Company not to return the money”.¹⁸⁷

115. Although Ms Batmanghelidjh stated that the Charity Commission had told Kids Company that “there are no issues in relation to the case,” Mr Shawcross said that the case “obviously illustrates a donor who was not looked after properly” and judged that it was “the fault of the charity that she was not treated better”.¹⁸⁸ Ms Russell explained that the Charity Commission concluded that the charity had done nothing illegal, but “there is a moral code and culture that transcends here that goes to good governance and good practice”.¹⁸⁹

116. Ms Russell stated that the breakdown of the relationship between the donor and Kids Company should act as “a timely reminder to all Trustees that they are accountable to their donors”.¹⁹⁰ Mr Shawcross has pledged to “enhance the [Charity Commission’s] advice in terms of...looking after donors properly”.¹⁹¹

117. The conflicting accounts offered by Kids Company and the Charity Commission about whether guidance was given about returning a large donation, and the propriety of Kids Company’s behaviour in this case is cause for concern. The Charity Commission’s resources and existing statutory framework prevent it from intervening in donor issues that do not involve illegality – but the Charity Commission has not presented any evidence which conveys the disapproval that they have voiced subsequently. We are pleased that the Charity Commission will be reviewing their guidance about managing relationships with donors. This guidance must better communicate the duties of charities towards their donors.

118. *In all communications with charities regarding individual donor complaints, the Charity Commission must communicate any advice to a charity in writing, even if there has been no illegal activity on the part of a charity.*

182 [KCI33](#) (Joan Woolard)

183 Q241, [oral evidence, 15.10.2015](#)

184 Email from Charity Commission to Kids Company cited in [KCI47](#) (Camila Batmanghelidjh and Alan Yentob)

185 Q501 [William Shawcross], [oral evidence, 03.11.2015](#)

186 [KCI47](#) (Alan Yentob and Camila Batmanghelidjh)

187 [KCI47](#) (Alan Yentob and Camila Batmanghelidjh)

188 Q242, [oral evidence, 15.10.2015](#). Q501, [oral evidence, 03.11.2015](#)

189 Q502, [oral evidence, 03.11.2015](#)

190 Q502, [oral evidence, 03.11.2015](#)

191 Q506, [oral evidence, 03.11.2015](#)

The role of the Charity Commission

119. Sue Berelowitz, former Deputy Children’s Commissioner, stated that “it is possible that I should have contacted the Charity Commission” in relation to her concerns about the charity, but “there was not a clear avenue for me to go down”.¹⁹² Similarly, Nick Brooks, on behalf of the Kids Company auditors, said he “had not considered” reporting the fears about the charity’s unsustainability to the Charity Commission but would consider this “going forward”.¹⁹³

120. **It is a matter of some concern that a number of witnesses who had grave concerns about the charity did not alert the Charity Commission. As Mr Brooks’s and Ms Berelowitz’s comments indicate, the Charity Commission projects too limited a public profile to provide much reassurance about charities and their regulation, and to attract complaints. If individuals are to understand the role of the Charity Commission, then the Charity Commission needs to be seen to be actively holding charities to account.**

121. *The Charity Commission must do more to make the public aware that they can and should take their concerns about a charity to the Charity Commission. The Commission should investigate adverse media reports about a charity and encourage journalists to make formal complaints to the Charity Commission, rather than relying upon the Charity Commission to chance upon their reports. Its guidance should also urge Trustees to make donors, employees and beneficiaries aware that they should complain to the Charity Commission if they have serious concerns about the governance of a charity.*

122. *The Treasury and Cabinet Office must address the future funding of the Charity Commission so that it can carry out its functions in the way that Government, charities and the public expects.*

123. *In order to underline the constitutional status of the Commission’s Board, the Commission should restore the proper title of its Board members, so they are known as the Charity Commissioners. This would both restore their unique status, and underline that the Chair and his fellow commissioners are jointly and severally liable for the conduct of the Charity Commission in England and Wales, just as a Chair and other Trustees should understand how they are responsible for a charity they govern.*

¹⁹² Q528, [oral evidence, 17.11.2015](#)

¹⁹³ Q503, [oral evidence, 17.11.2015](#)

5 Kids Company's relationship with Whitehall

124. Throughout Kids Company's existence, Ms Batmanghelidjh cultivated her contacts with senior politicians. She appeared on platforms with them on several occasions, such as with Rt Hon David Cameron MP at the Conservative party conference in 2006. Kids Company enjoyed unique, privileged and significant access to senior Ministers and Prime Ministers of successive Governments. Part of our inquiry has focused upon the relationship between Kids Company and the Government since 2010 but the patterns of behaviour pre-date this and some of our comments are equally applicable to previous administrations that dealt with the charity.¹⁹⁴ This final Chapter builds on the detailed examinations of the history of Government funding to Kids Company conducted by the National Audit Office and the Public Accounts Committee, and focuses specifically on the final grants paid to the charity by central Government during 2015.¹⁹⁵

125. Since 2002, central Government has provided at least £42 million in grants to Kids Company.¹⁹⁶ Between 2002 and 2005, the Department for Culture, Media and Sport, the Home Office and HM Treasury were involved in funding decisions, but the majority of central Government funding (over £22 million) came from the Department for Education (DfE) in the form of multi-year grants between 2008 and 2013.¹⁹⁷ In 2013, youth policy, including responsibility for administering associated grants, transferred to the Cabinet Office. The DfE, Department for Work and Pensions, Department for Communities and Local Government, the Department for Health and the Cabinet Office contributed to a number of cross-departmental grants to the charity between 2013 and 2015. A number of cross-departmental grants to the charity between 2013 and 2015 were contributed to by the DfE, the Department for Work and Pensions, Department for Communities and Local Government and the Department for Health, as well as by Cabinet Office.

Correspondence with the Government

126. The NAO outlined the “consistent pattern of behaviour each time Kids Company approached the end of a grant term”: if officials resisted new funding commitments, Kids Company would warn Ministers and media outlets of the impact of service closures, and Ministers would ask officials to review their decisions.¹⁹⁸ Tim Loughton, Parliamentary Under-Secretary for Children and Families in the Department for Education 2010–2012, described the approach as “Danegeld...[Ms Batmanghelidjh] was constantly coming back for “money or else,” and said that correspondence contained “veiled threats,” which “certain people took seriously”.¹⁹⁹ Ms Berelowitz criticised the practice of providing funds “on the basis that people are using emotive and emotional language about their client

194 Although Mr Hancock's and Mr Letwin's Letter of Direction makes their support for Kids Company a matter of public record, Kids Company has received numerous grants from successive administrations (as noted in Appendix B). However, it has proved very challenging to establish definitively which former Ministers approved of historic grants to the charity. This is partially due to record-keeping policies in some departments where submissions annotated by Ministers - amongst other documents - have not been kept.

195 *Investigation: the Government's funding of Kids Company*, (NAO, 2015), [HC \[2015–16\] 504](#)

196 A full list of funding provided by central Government throughout successive governments is included in Annex B.

197 The Department for Education was known as the Department for Education and Skills between 2001 and 2007, and the Department for Children, Schools and Families between 2007 and 2010.

198 *Investigation: the Government's funding of Kids Company*, (NAO, 2015)

199 Q596, [oral evidence, 19.11.2015](#)

group...or saying that the Government will face a very hard time from the media should they not cough up”.²⁰⁰ Mr Letwin also recognised this approach and described it as a “conscious strategy” on the part of Kids Company to secure funding.²⁰¹ While Mr Letwin acknowledged that the Government’s response to such requests was not “the right way for the Government to relate to any outside body,” he also stated that he knew that Kids Company’s warnings of “some massive explosion” were incorrect and denied that such claims influenced his decision-making in awarding grants to the charity.²⁰²

127. In defending the charity’s hand to mouth existence, Ms Batmanghelidjh and Mr Yentob claimed that repeated correspondence with Ministers throughout the charity’s existence suggested that regular statutory funding would be forthcoming (see paragraph 13). We found no evidence of that reassurance in correspondence between Kids Company and Ministers in the DfE, Cabinet Office and No. 10, including the Prime Minister. The Prime Minister praised the charity and expressed a wish to help Kids Company become sustainable, but also warned that future funding from central Government could not be guaranteed.²⁰³

Relationship with No. 10

128. Kids Company’s relationship with No. 10 under successive governments, and the extent to which No. 10’s intervention helped Kids Company to secure funding, has been the subject of much media speculation and interest.²⁰⁴ Mr Loughton stated that “people like Steven Hilton at No. 10 were always copied in” to letters from Ms Batmanghelidjh and various submissions, and that the No. 10 Policy Unit was “holding meetings with Kids Company representatives and other local authorities to which I and officials from the DfE, as far as I am aware, were not privy”.²⁰⁵ Mr Letwin has confirmed that No. 10 officials and special advisors were involved in discussions to secure the cross-departmental 2013–2015 Government grant.²⁰⁶

129. While we found no evidence of direct instruction from No 10, the correspondence makes clear that the climate was one of favour towards Kids Company. Mr Loughton noted that Ms Batmanghelidjh was “was almost the poster girl at the Big Society summit that the Prime Minister held in May 2010 within weeks of the election”.²⁰⁷ In letters to Camila Batmanghelidjh in 2011, 2013 and 2014, the Prime Minister expressed his personal support for the charity and stated that he would attempt to follow decisions made regarding their funding, having suggested meetings with relevant ministers in the DfE and Cabinet Office. Mr Letwin said that he was “well aware, as the whole world is, of [the Prime Minister’s] support for Kids Company” and “certainly discussed” Kids Company with the Prime Minister.²⁰⁸ However, he maintained that the funding he authorised in 2015 was “my responsibility. Nobody told me to do it and that is the end of the matter”.²⁰⁹

200 Q545, [oral evidence, 17.11.2015](#)

201 Q739, [oral evidence, 19.11.2015](#)

202 Qq677, 707, [oral evidence, 19.11.2015](#)

203 Prime Minister letters 08.02.2011, 15.07.2013 and 08.01.2014, Nick Hurd 09.12.2013 (unpublished)

204 E.g. ‘David Cameron mesmerised by Kids Company boss’ ([BBC](#), 05.08.2015), ‘David Cameron “overruled officials” to order Kids Company grant’, ([The Telegraph](#), 04.07.2015), ‘Questions unanswered over No. 10 special treatment for Kids Company’ ([The Spectator](#), 02.11.2015)

205 Q568 [oral evidence, 19.11.2015](#)

206 [KCI46](#) (Oliver Letwin)

207 Q561, [oral evidence, 19.11.2015](#)

208 Q694, [oral evidence, 19.11.2015](#)

209 Q694, [oral evidence, 19.11.2015](#)

130. Mr Loughton, however, suggested that knowledge of the Prime Minister's support may have influenced earlier decisions made in the DfE. He stated that while officials may be "trying to do a dispassionate job and produce evidence for Ministers to make decisions", there was also:

quite a lot of noise going on outside the Department about why certain charities – in this case Kids Company—are something of a special case and there are implications...well beyond the Department if it were to fail.²¹⁰

131. In his testimony Mr Loughton reported feeling that the high-profile support for Kids Company meant that "clearly the pressure is on that this is a charity that needs to be looked at a bit more favourably" and called his decision to approve the awarding of a £8.9 million grant in 2011 a "fait accompli".²¹¹

132. Mr Chris Wormald, the Permanent Secretary of the DfE and Mr Richard Heaton, the then-Permanent Secretary of the Cabinet Office, told the Public Accounts Committee (PAC) that they did not feel under political pressure to approve funding to Kids Company.²¹² PAC rejected this assertion as "barely plausible".²¹³

133. Indeed, the high level of access and favour shown by successive Governments to Kids Company created a potentially difficult atmosphere for any criticism of the charity. Sue Berelowitz, former deputy Children's Commissioner for England, stated that the knowledge of Kids Company's high-level support gave her "great pause for thought" when considering how best to act on her concerns about the charity. She stated that:

it would have been very challenging to have gone to No. 10 and said, "I am concerned" because to take a stand against somebody who was constantly telling you about celebrities or relationships with people in the very highest places is quite intimidating...it would be difficult to make those kinds of representations. Quite frankly, I do not think my voice would have been a good counterweight.²¹⁴

134. She warned that there needed to be "a degree of objectivity" between the Government and the leaders of charities, so that "everybody can see that due process has been followed and indeed that others aren't swayed from talking about any concerns they may have because of the appearance at the very least of a very, very close relationship".²¹⁵

135. In 2013, responsibility for youth policy, including the allocation of associated grants, was transferred from the Department for Education to the Cabinet Office. Tim Loughton expressed doubts that Kids Company had "any great bearing" on the decision to transfer the DfE's responsibilities for youth funding to the Cabinet Office.²¹⁶ Instead, he attributed the transfer to a "hostility to youth services and youth organisations generally" and the fact that "the Secretary of State was not a big fan of having youth services within his department".²¹⁷ A number of other areas for which Mr Loughton had been the

210 Q594, [oral evidence, 19.11.2015](#)

211 Q582, [oral evidence, 19.11.2015](#)

212 Q117, [oral evidence to Public Accounts Committee, 02.11.2015](#)

213 [HC \[2015–16\] 504](#)

214 Q544, [oral evidence, 17.11.2015](#)

215 Q547, [oral evidence, 17.11.2015](#)

216 Q617, [oral evidence, 19.11.2015](#)

217 Qq621, 619, [oral evidence, 19.11.2015](#)

responsible Minister “have now been dissipated to at least half a dozen other Government Departments”.²¹⁸ Mr Letwin agreed that it could not “really be the case” that the transfer of youth policy was due to doubts expressed about Kids Company within the Department for Education, because the “DfE remained an important funder through 2013–14, 2014–15 and 2015–16”.²¹⁹ He has since clarified that this transfer occurred because “the National Citizen Service (NCS) was already managed out of the Cabinet Office and it was felt that it made sense for the two teams to join”, and “the focus of the Department for Education Secretary of State had become more towards education rather than Youth Policy”.²²⁰

136. The privileged access to Ministers, numerous ‘special grants’ and exemption from usual reporting processes appear to have distorted the expectations of the charity’s leadership and undermined the warnings issued by Government that funding might not continue. In allowing an unconventional relationship and funding process to develop, successive governments left themselves vulnerable to misunderstandings – wilful or otherwise – on the part of the charity, about the level of support that Kids Company could expect to receive from Government in the future.

137. Ms Batmanghelidjh and Kids Company appeared to captivate some of the most senior political figures in the land, by the force of the Chief Executive’s personality as much as by the spin and profile she generated for the charity. As a consequence, objective judgements about Kids Company were set aside. The Government’s relationship with Kids Company was forged outside the usual decision-making processes of Whitehall departments and there is little doubt that the high profile support of successive Prime Ministers for Kids Company had an impact upon decision-making across Whitehall. This included the authorisation of multiple grants outside of the normal competitive process. We also question whether it was wise to move youth funding from the Department for Education into the Cabinet Office. Had that not occurred, it is possible that less money would have gone to Kids Company and more to other, perhaps better run, youth charities. Other charities have said that they are angry and cynical about how one or two charities gain unfair advantage, and that the approach of successive Governments towards Kids Company has damaged their confidence in Government.

138. It is also a matter of considerable concern that the knowledge of the high-level political patronage enjoyed by Kids Company may have deterred other individuals from coming forward with concerns about the charity.

139. We concur with the Public Accounts Committee’s recommendation that, at the very least, if the Government decides to use special powers to grant funding, it should provide a transparent case for its decision and report regularly on the use of these powers. Ministers and Government departments must deploy proven methods of assessment and co-ordinate these effectively, and exercise objective judgement when deciding whether to grant taxpayers’ money to charities.

²¹⁸ Q622, [oral evidence, 19.11.2015](#). In a subsequent note to the Committee, Mr Loughton has outlined the other areas that were once within his remit as Minister but now sit with other Government departments. These include: Child Protection (partly transferred to the Home Office); Child Sexual Exploitation (the lead cross-Government Minister is now in Home Office); Youth Justice (now with Ministry of Justice); Troubled Families (now with the Department for Communities and Local Government), Internet Safety and Cyberbullying (now largely with the Department for Culture Media and Sport).

²¹⁹ Q709, [oral evidence, 19.11.2015](#)

²²⁰ [KCI46](#) (Oliver Letwin)

140. *When allocating funding to charities, Ministers should not risk creating the perception that they are overriding official advice on the basis of personal prejudice or political considerations. In circumstances where they disagree with official advice regarding the release of grants to a particular charity, Ministers, including Prime Ministers, should consider whether such disagreement arises from a conflict of interest. If a conflict could be judged to exist, the Minister or Ministers must recuse themselves from decision-making, including from any influence over any other Ministers making those decisions. Ministers should not allow charity representatives to exploit their access to Government in a way that may be unethical. There must be no suggestion that individual Ministers have funds under their personal control or are exercising personal patronage.*

141. *It should be for the relevant departments to control grants to charities, not the Cabinet Office or another department that does not have direct policy responsibility for the sector in question. As the Cabinet Office is the department most closely under the Prime Minister's control, the existing structure leaves the Prime Minister exposed to the kind of pressures which Kids Company thought it could exert.*

142. *Government should re-evaluate the standard process by which grant decisions benefiting charities can be made following input from a number of different departments. This review should consider the creation of an account manager to oversee all funding decisions for each charity. This would enable greater continuity and accountability than seen in the case of Kids Company, which was passed between several departments throughout its existence.*

143. *The Government should consider whether sufficient safeguards are in place to ensure that the Libor Fund is administered in line with these principles of objectivity and transparency.*

Government monitoring

144. Kids Company has not had to compete for a grant since 2013.²²¹ Despite extensive Ministerial support, the Government had little evidence on which to base judgements about the value of Kids Company's work; the Government had been heavily reliant on Kids Company's self-assessments, and monitoring of grants had historically focused more upon outputs than outcomes.²²² Mr Loughton told the Committee that Kids Company "appeared to have a lower threshold of proof in order to get money from public funds" than other charities, and Ms Berelowitz expressed surprise that the funding bodies, particularly the Government, "were not requiring much more detailed audits and satisfying themselves that the money was spent for the purposes for which it was intended," given the large grants awarded to Kids Company.²²³

145. Mr Loughton stated that he was "sure [Kids Company] did some good work for some people, but whether it justified the amount of money, we never had the evidence to back that up".²²⁴ Mr Letwin acknowledged the Government's failure to measure the charity's outcomes, but hoped that the conditions attached to the April 2015 grant would enable the

²²¹ *Investigation: The Government's funding of Kids Company*, (NAO, 2015)

²²² Q28 [Chris Wormald], [oral evidence to Public Accounts Committee, 02.11.2015](#)

²²³ Q599, [oral evidence, 19.11.2015](#). Q535, [oral evidence, 17.11.2015](#)

²²⁴ Q573, [oral evidence, 19.11.2015](#)

Government to find out “a year or two later whether [Kids Company] was actually doing the good work that I believe, underneath all these problems, it was doing”.²²⁵

146. Without robust evidence, the Government had no way of knowing whether Kids Company was delivering more effective or better value interventions than any other charity, despite the fact that it received considerably more funding than other charities - including those operating nationally - in each funding round.²²⁶ Mr Loughton said that “there were very serious concerns about how effective that money was compared with that for other groups,” despite Kids Company receiving “by far the lion’s share” of funding between 2011 and 2014.²²⁷ He stated that:

there were other youth organisations doing some very good work with some equally traumatised and damaged children and young people that were producing all sorts of performance indicators, and more importantly actually producing the children to be able to tell us their story as well.²²⁸

147. Dr Maitland Hudson also believed that “one of the greatest difficulties in assessing Kids Company’s value for money has been the absence of shared indicators that would allow for a reasonable comparison of its work with that of other providers”.²²⁹

148. Mr Letwin, who has been a vocal supporter of the charity since 2002, stated that he “never believed the numbers” Kids Company claimed to be working with, and said that “there was a distinct gap between the claims for the numbers that were going on in public and what was really happening”.²³⁰ Rather than the 19,000 children the charity claimed to be working with in schools, Mr Letwin believed that Kids Company was instead “covering about 10,000 children” in schools, but acknowledged that “covering” children is “very different from looking after individual children”.²³¹ He believes that Ms Batmanghelidjh “conflated a whole series of different figures in order to get the biggest possible figure and to give an impression that went beyond what it looks like when you look at the detail”.²³² Despite these concerns, however, Mr Letwin stated that his “personal and direct experience of talking to the kids involved and seeing what was going on” in 2001–2003 reassured him that the charity was doing valuable work.²³³ This was more than 12 years ago.

149. It is astounding that it was only in 2015, by which point Kids Company had received over £35 million from central Government, that the Government acknowledged the need for a robust examination of the charity’s activities and outcomes. Given that doubts were reportedly raised about Kids Company in the DfE, we also question the quality of co-ordination between Government departments, following the transfer of youth policy.

150. Evidence that former employees have submitted to this inquiry has highlighted the charity’s dependency on selective case studies to evidence its impact. While case-

²²⁵ Q642, [oral evidence, 19.11.2015](#)

²²⁶ In the 2011–2013 Voluntary and Community Sector grant, for example, Kids Company received more than double that of the next highest charity (Barnado’s, which operated nationally). *Investigation: the Government’s Funding of Kids Company*, (NAO, 2015)

²²⁷ Q572, [oral evidence, 19.11.2015](#)

²²⁸ Q572, [oral evidence, 19.11.2015](#)

²²⁹ KCI31, (Genevieve Maitland Hudson)

²³⁰ Q634, [oral evidence, 19.11.2015](#)

²³¹ Q634, [oral evidence, 19.11.2015](#)

²³² Q637, [oral evidence, 19.11.2015](#)

²³³ Q784, [oral evidence, 19.11.2015](#)

studies may have a role to play in illustrating a charity's work, wider evidence of impact is required. This is particularly true for charities in receipt of large amounts of Government money. We struggle to see on what basis successive Governments and other grant-giving bodies, and indeed the charity's Trustees, satisfied themselves of the appropriateness of support given to clients, and the value of the charity's high resource model.

151. It is unacceptable that successive Ministers appear to have released funds on the basis of little more than their relationship with a charismatic leader, small-scale studies and anecdotes, and no more than two visits made by Mr Letwin more than 10 years previously. Releasing Kids Company from the usual competitive grant processes to which other charities are subject, despite a lack of evidence about the efficacy of its model or any evaluation of outcomes, has been proved to be an unjustifiable way to conduct Government business and to handle public money. This approach is condemned by the fact of Kids Company's failure and is therefore unjustifiable in the future.

152. Government doubted that the information that Kids Company was circulating regarding its client number was true, but did nothing to correct the record. Instead, it continued to grant funding despite that knowledge.

153. *We agree with the Public Accounts Committee's (PAC's) recommendation that the Government should undertake a fundamental review of how it makes direct and non-competitive grants to the voluntary sector.²³⁴ In addition to the areas the PAC recommends for consideration, we see the creation of a measurement framework for the social sector as essential to this. The use of standardised measurement tools will enable more accurate assessments of the value of activity, and enable meaningful comparisons to take place during grant bidding and monitoring. Identifying a charity's outcomes, rather than simply its outputs, and benchmarking these in relation to other organisations in the sector should be a core part of any funding decision.*

154. *We also agree with the recommendations made by the PAC that the Government should improve the way it monitors and evaluates the performance of grant-funded organisations.²³⁵*

155. *If the Government is funding an organisation that provides services such as therapy or education, it must satisfy itself that these services are being delivered by people who are sufficiently qualified to be doing so. For example, a number of local authorities, amongst them Southwark Council, no longer commission Alternative Provision Education from providers that are not registered with Ofsted. Central Government should similarly consider making external inspection from the relevant regulatory body (e.g. CQC or Ofsted) a condition of commissioning, so that it can be sure of the quality of services being delivered.*

156. *The Government should insist that charities to which it provides grants provide legally defensible contingency plans. This would help to mitigate the risks of a charity with vulnerable beneficiaries folding unexpectedly.²³⁶*

234 Recommendation (i), [HC \[2015–16\] 504](#)

235 Recommendation 8 (iii), [HC \[2015–16\] 504](#)

236 The NAO has also pointed to the benefit of developing contingency plans to deal with provider failure in 'Principles Paper: Managing Provider Failure' ([NAO](#), 2015)

Government's use of professional services

157. Kingston Smith, PKF Littlejohn and PwC representatives all denied that their reviews of the charity indicate that Kids Company was well run. Nevertheless, these reviews have all been cited by the Cabinet Office as providing a degree of assurance about the effectiveness of the charity's governance or operations.

158. Information about the charity was reported in a piecemeal fashion across various reviews that actually offered little or no assurance about the effectiveness of Kids Company's governance. They were read selectively to gain confirmation of a pre-existing and positive picture of the charity. Government must learn lessons about its use of such reviews, and co-ordinate its activities.

PKF Littlejohn

159. As outlined in paragraph 87, PKF Littlejohn explicitly stated that "an assessment of the effectiveness of [governance] policies and procedures was outside the scope of our review".²³⁷ However Mr Letwin indicated that the Cabinet Office did in fact take assurances about the effectiveness of the charity's governance from this report. He said he was "relying on" the PKF Littlejohn review to highlight problems in the governance of the charity as "what I had before me was the report that is called a review of 'financial and governance controls,' so I read it that way." He stated that the review indicated that Kids Company's governance and controls were "reasonably okay within the limits of a charity" and did not reveal "that actually the charity was grossly financially mismanaged".²³⁸

160. The scope of the PFK Littlejohn review became limited to the point where the final report to the Cabinet Office provided none of the information needed to assess the governance of the charity. It is of particular concern that, when making funding decisions, a Minister took assurances from the report that the report did not offer.

161. The Government should, as a matter of urgency, examine the process by which it commissions reviews to ensure that it receives the information it requires. It is essential to ensure that the commissioning process does not allow drift from the original scope. Consideration should be given to requiring successful contractors to outline explicitly what level of assurance on specific issues the Government will be able to take from their final report.

162. The Government was right to attempt to assess the governance of a charity before awarding funds. However, rather than commissioning a review of a charity's policies and processes from one of the usual outside firms, the Government should develop its own Civil Service capability in order to exercise its own judgement about whether a charity's governance, quality of decision-making, objective setting and culture are effective, and if its internal controls are sufficient. There should be particular caution towards Boards in which Trustees have held their position for more than two terms, and towards Boards where no individuals have experience in the charity's particular area of delivery.

²³⁷ KCI21 (PKF Littlejohn)

²³⁸ Q714, [oral evidence 19.11.2015](#)

Kingston Smith

163. Mr Brooks judged that Kids Company had “always been living on a knife edge, which is in my view portrayed quite clearly through the notes to the accounts”.²³⁹ Mr Letwin, however, stated he “didn’t get from the audit reports...that actually the charity was grossly financially mismanaged” when he examined the accounts in April.²⁴⁰ He acknowledged that the Government would “need to look at the whole question of how audit reports and other reports are used by public agencies”.²⁴¹

164. This inquiry should provide a reminder to all whose use charity accounts that a clear audit report gives no indication that the charity is well-managed or any assurance that charitable funds are being used wisely and in accordance with the stated purposes of the charity. Charity Trustees also have an obligation to be accountable to their donors.

165. *The Government must not rely upon audited accounts being signed off as a going concern as any assurance that a charity is financially well-managed or well-governed. At the very least, Government must request sight of a charity’s management letters, and should seek direct assurance from the charity’s auditors.*

166. *When commissioning external audits or reviews, Government should give priority to contractors with specific experience of the relevant field (e.g. of children’s services) so that meaningful benchmarking can take place.*

PwC

167. Cabinet Office’s written evidence confirms that it was “waiting for the preliminary findings from some allegations made by ex-employees of Kids Company which the Charity Commission were looking into” before authorising a £4.265 million grant on 28 July.²⁴² Oliver Letwin clarified that the funding was not contingent upon PwC’s findings, but on whether the Charity Commission would be opening a statutory inquiry on the basis of the preliminary report; it would not be possible to authorise payment to a body under statutory inquiry.²⁴³

168. The Charity Commission decided not to open a statutory inquiry on the basis of the preliminary findings, but did advise the Cabinet Office that the report “was not a clean bill of health and we still had concerns about the prudence...and the legitimacy of some of the spend”.²⁴⁴ Nevertheless, Mr Letwin stated that “the fact that PwC had brought to light yet more examples of financial mismanagement was...not decisive for my decision” to release the grant as he was already aware that “the charity was being grossly financially mismanaged” and had plans to replace the charity’s management.²⁴⁵

169. *We are concerned that the Cabinet Office was prepared to hand over money, on a Minister’s say so against official advice, to an organisation in which serious allegations had not been fully investigated. We are not convinced by Mr Letwin’s assertion that the*

239 Q484, [oral evidence, 17.11.2015](#)

240 Q714, [oral evidence, 19.11.2015](#)

241 Q782, [oral evidence, 19.11.2015](#)

242 KCI3 (Cabinet Office)

243 Q775, [oral evidence, 19.11.2015](#)

244 Q490, [oral evidence, 03.11.2015](#)

245 Q777, [oral evidence, 19.11.2015](#)

planned changes to the charity’s leadership rendered the allegations under investigation irrelevant. It was an error for the Government to release a second “final” grant to a charity with a history of financial mismanagement, and in which the new Trustees and, as yet unidentified, permanent CEO had not yet proved their competence or commitment to making serious changes to the organisation’s ethos and practices. We recommend that in future no department should hand over money to an organisation in which serious allegations have not been fully investigated.

April 2015 grant

170. In April 2015, the Cabinet Office authorised a one-off payment of £4.265 million to Kids Company. Mr Letwin stated that this grant was paid up front because if Cabinet Office “had not given it that money it would have then become insolvent,” but argued that the attached conditions, such as the end-to-end business review, would get the charity “into a position where it did not come back for more”.²⁴⁶ The grant agreement also stipulated that the April grant would be the final grant paid to the charity in 2015.

171. Mr Letwin stated that, had he known the extent to which the charity was mismanaged, he would not have paid the entirety of the April grant up front. He told the Committee that, although he recognised the precariousness of Kids Company’s financial situation in April, he:

had before me documentary evidence about its so-called financial management in the form of audit reports and the PKF Littlejohn report...I studied those things carefully. I could not see any sign from that that this thing was exceptionally financially mismanaged, so I thought it was worth trying to get it on to a stable footing.²⁴⁷

172. Mr Heaton and Mr Letwin both stated that Cabinet Office worked with the charity’s auditors when deciding whether to pay the entirety of the April £4.265 million grant upfront.²⁴⁸ Mr Brooks initially stated that he could not recall having any such conversations with Cabinet Office regarding the April grant. He has since stated that the conversation “would have taken place” but would “have been very brief as I made no file note so it could not have seemed to me of substance or controversial”.²⁴⁹

173. The Cabinet Office Ministers’ faith in Kids Company’s commitment to move to a sustainable operating model was misplaced. This was demonstrated by the charity returning to request additional funding six weeks later. The decision to pay the full amount of the April grant in one lump sum, rather than waiting for fulfilment of any of the grant conditions, was not conducive to accountability. The April grant was one more example of the Government providing emergency funding to enable the charity to manage its cash flow, outside of any competitive or evidence-driven process. It failed to deliver any of the desired outcomes.

²⁴⁶ Q656, [oral evidence, 19.11.2015](#)

²⁴⁷ Q711, [oral evidence, 19.11.2015](#)

²⁴⁸ Q38, [Richard Heaton], [oral evidence \[to PAC\], 02.11.2015](#). Q712 [Mr Letwin] [oral evidence \[to PACAC\], 19.11.2015](#).

²⁴⁹ Mr Brooks clarified this in a follow-up note to the Committee.

Ministerial Direction 2015

174. Having received the £4.265 million 2015–16 grant in April, Alan Yentob met Rt Hon Iain Duncan Smith, Secretary of State for Work and Pensions, and Oliver Letwin on 22 May to request immediate short term funding and a firm commitment to future significant statutory support. Mr Letwin also personally spoke to Mr Yentob about this issue while “sitting in a car in my constituency on the car phone”.²⁵⁰ When faced with Mr Yentob’s assertion that Kids Company would “go bust almost immediately” without an immediate grant from the Government, Mr Letwin said he “did not find it difficult to make [an] objective assessment” and told Mr Yentob “so be it”.²⁵¹ Mr Letwin stated that the charity could “give no proper account of why they had failed so dismally to raise the private financing that they had expected to raise in the interim” and claimed that this convinced him that the existing management at the charity had “no idea what was actually going on”.²⁵²

175. Despite the Government’s initial refusal to provide a grant, Kids Company Trustees subsequently approached Mr Letwin with a restructuring plan in June, and requested £3 million Government funding to support this. The plan included proposals to reduce operating costs by 40% by Q4 2015 (including reducing workforce by 50%), appoint a new Chief Executive, and appoint four new Trustees. Mr Heaton told the Public Accounts Committee that this “bold restructuring proposal” was something he “could not sign up to, or...advise Ministers to sign up to,” as he did not believe that “Kids Company [would] successfully implement the changes they describe in their new restructuring plans while meeting the stringent conditions set out in the proposed new grant”.²⁵³ Mr Heaton’s assessment of the situation was that:

for it to succeed, it required the chief executive to step to one side; the Trustee board to be replaced; management to have the grip to downsize an organisation, which is hard work and difficult; and no drop-off in philanthropic funding. It would require all those things to come to pass for the restructuring to be successful, and I did not think the probability was high enough to justify public money.²⁵⁴

176. Mr Letwin noted that the money to be raised from private funding would drop from £17 million to £10 million, but called Mr Heaton’s assessment “an absolutely accurate description” otherwise.²⁵⁵

177. By June, Kids Company had not met any of the conditions of the April grant. Rather than producing a contingency plan (due mid-April) for Cabinet Office, Kids Company only submitted a high level summary of savings by department and, “despite repeated requests” from Cabinet Office, did not share its management accounts and forecasts on a monthly basis, as had been agreed. The necessary end-to-end business review due in mid-May was never started, despite the Cabinet Office providing “comprehensive feedback” on Kids Company’s scoping document, and Kids Company did not deliver on the condition

²⁵⁰ Q680, [oral evidence, 19.11.2015](#).

²⁵¹ Q680, [oral evidence, 19.11.2015](#).

²⁵² Q685, 688, [oral evidence, 19.11.2015](#).

²⁵³ Q55, [oral evidence to PAC, 02.11.2015](#). Mr Heaton also laid out his objections to the grant in his request for [Ministerial Direction](#).

²⁵⁴ Q55, [oral evidence to PAC, 02.11.2015](#)

²⁵⁵ Q774, [oral evidence 19.11.2015](#)

to “develop, roll out and implement the measurement of value for money and impact” (although this was to be carried out over the whole grant period).²⁵⁶

178. Nevertheless, Mr Letwin and Mr Hancock’s letter of direction stated that they took “confidence from the changes that Kids Company has undertaken to make in terms of its leadership, management and governance, which we judge do give it a realistic prospect of long-term viability”.²⁵⁷

179. In neither his letter of direction nor his oral evidence has Mr Letwin provided convincing justification for his and Mr Hancock’s decision to ignore the comprehensive advice of senior officials, whose concerns Mr Letwin acknowledged as accurate and valid. This grant should not have been authorised contrary to advice.

180. After the letter of direction was issued, there was a period of around one month before the £3 million grant was paid to Kids Company. The Cabinet Office explained that during this time it was reviewing the evidence of income that Kids Company had included in their revised cash flow, agreeing the details of the grant conditions with Kids Company, and seeking evidence of Kids Company’s commitment to these. The Cabinet Office was also waiting for the preliminary findings from the allegations made by the ex-employees of Kids Company which the Charity Commission were looking into.²⁵⁸

181. Mr Yentob stated that “an hour and a half” after the Government funds arrived in Kids Company’s account, the charity was notified of allegations of sexual abuse.²⁵⁹ By this point, Trustees had authorised payment of salaries using the Government grant, but philanthropists had not yet paid the £3 million that was due to match the Government’s commitment. Mr Yentob said that the allegations received led him to conclude that “it was quite impossible to carry on doing this, nor did I want the philanthropists to put their money into something that was going to be insolvent when they could set up another charity and look after those children”.²⁶⁰ He therefore advised the philanthropists not to put their money into the charity, and the charity’s Trustees declared Kids Company insolvent on 5 August 2015. Mr Letwin commented that, had it not been for these sexual abuse allegations, his decision to make the final grant payment “might well have turned out, in practice, to have been an abundant success”.²⁶¹

182. We questioned Mr Letwin about why the Government did not wait until the philanthropists had paid the agreed £3 million before transferring public money, or insist that both grants were paid into an escrow account. Mr Letwin stated that he did not feel this was necessary because he had “a written undertaking” that the funds would be coming the next day.²⁶² Mr Letwin stated that, as the new financial controller had concluded that the charity would be unable to raise the necessary £10 million a year it required, the use of an escrow account “would not have made any difference to the question of whether the charity went bust when it did. Had they put their £3 million in, there would simply be £6 million sitting there”.²⁶³

256 [KCI3](#) (Cabinet Office)

257 [Letter of Direction](#), 29.06.2015

258 [KCI3](#) (Cabinet Office)

259 Q200, [oral evidence 15.10.2015](#)

260 Q200, [oral evidence 15.10.2015](#)

261 Q751, [oral evidence 19.11.2015](#)

262 Q721, [oral evidence 19.11.2015](#)

263 Q752, [oral evidence 19.11.2015](#)

183. We do not share Mr Letwin's confidence that the restructuring of Kids Company "might well have turned out, in practice, to have been an abundant success" were it not for the allegations of sexual abuse that emerged later. As the new Finance Director had only been in place for a matter of weeks and the new Chief Executive had not been appointed, there was insufficient evidence that the new leadership could transform the organisation's business model and activities. Our understanding of Ms Batmanghelidjh's dominant role in dictating the charity's direction, despite not holding a Trustee position, and her historic refusal to shrink the organisation make us doubtful about whether the new role of 'President' would significantly curtail the influence by which she had hitherto controlled the organisation. Equally, the fact that the Chair of Trustees, who had condoned the excessive spending and unsustainable model over a period of 12 years, was to remain on the Board of Trustees for the foreseeable future makes us question the impact that the changes to the charity's leadership would actually have had.

184. The Government Ministers' willingness to pay £3 million to the charity before receiving the matched funding from philanthropists was unwise and represents a failure in the responsibility Ministers should take for handling taxpayers' money. Had the Cabinet Office insisted that the money from philanthropists was received before Government made payment, or insisted that both sources of funding were held in an escrow, this would have considerably increased the likelihood of public money being returned. As it was, £1 million had already been spent by the charity, and it is still unknown whether the remaining £2 million of public money can be reclaimed.

Conclusions and recommendations

Introduction

1. Kids Company was by no means the only charity serving this client group, and many other varied charities are delivering vital support for young people without the high profile enjoyed by Kids Company. The failure and public criticisms of Kids Company must not be allowed to taint the whole charitable sector; we have no reason to doubt that the majority of Trustees and charities act responsibly and in accordance with their charitable purposes. Equally, discussions about “gaps” in statutory provision and Kids Company’s vocal criticism of statutory provision throughout the inquiry must not overshadow the exceptional work done by many dedicated individuals working within statutory services. (Paragraph 8)
2. Kids Company did provide valuable support to many vulnerable young people, albeit the evidence shows that this was on a considerably smaller scale than it claimed in its publications and annual reports. The failures in governance that led to the collapse of the charity should not detract from the commitment and hard work of many highly dedicated individuals working in the organisation. Submissions from former employees document the range of services that was offered by the charity - from material assistance, to educational provision and parental support - and we have reviewed a large number of evaluations that highlight the charity’s vulnerable client base. We note that some of those connected with Kids Company are seeking to continue three of its programmes through a new charity, IUP, in the hope of continuing some of the projects judged to be amongst Kids Company’s most successful. We hope that the Trustees of IUP will build upon the best of Kids Company’s programmes and provide effective and sustainable support to those people Kids Company sought to serve. (Paragraph 9)
3. Kids Company’s most positive legacy is the dialogue to which it contributed about the need to improve support for vulnerable children and young people. The message the charity consistently promoted - that children and young people must be valued, trusted and supported with compassion - must not be lost amid the questions about the collapse of the charity and the criticism about the propriety and efficacy of some of its methods. (Paragraph 10)

Governance of Kids Company

4. Kids Company’s demand-led operating model - based on the doctrine that no child should be turned away - carried the constant risk that the charity would not be able to ensure that its commitments would be matched by its resources. The charity’s Trustees failed to address this risk. Instead, the Chief Executive and Trustees relied upon wishful thinking and false optimism and became inured to the precariousness of the charity’s financial situation. (Paragraph 13)

5. Kids Company had 19 years of statutory audits, but the charity was wrong to take comfort from this. The charity was signed off as a going concern, but the auditors repeated warnings about the precariousness of its finances and the dependency of the charity upon future Government grants. In any case, statutory accounts are audited and published long after the event and do not show the current state of a charity's finances. (Paragraph 21)
6. The Charity Commission's guidance warns that Trustees must avoid exposing the charity's assets, beneficiaries or reputation to undue risk and take care not to over-commit the charity. Kids Company relied on a hand-to-mouth existence and by refusing to prioritise the building of any significant reserves, the Trustees failed to exercise this duty of care towards the charity's clients, employees and donors. (Paragraph 22)

Cash flow

7. Several Ministers authorised unorthodox payments (in the form of early Government grants and direct grants) despite knowledge of the charity's significant cash flow difficulties (see Appendix B for full list of payments made to Kids Company over successive Governments). In one case, funding was given despite the unequivocal assessment by HMRC that the charity's model was not viable. By continuing to fund the charity's cash flow crises, successive Governments gave tacit approval to an unsustainable and inadequate business model and eroded any incentive for Kids Company to address its own governance and management failings. This continued Government support at moments of crisis nurtured the expectations of Kids Company that it could continue to rely on Government to prop up its finances. (Paragraph 25)

How many clients did Kids Company really help?

8. It has proved impossible to reconcile Kids Company's claims about its caseload with evidence from other sources. The evidence is that the figures were significantly over-inflated. This casts doubt on Kids Company's claims that overwhelming demand, rather than financial mismanagement, lay at the root of its financial difficulties. In addition, the charity's practice of calculating 'reach', for example in counting a whole class of children as clients if they benefited from work with an individual student, was misleading to donors. Trustees were either ignorant of this exaggeration or simply accepted it, because it helped to promote the charity's fundraising. (Paragraph 35)
9. If it is correct that Kids Company was unable to refer its vulnerable clients to the local authority once the charity closed, given the locking up of all relevant files, this may be a serious consequence of Kids Company's failure to co-operate with Southwark Council when planning for a potential closure earlier in the year (see paragraph 155 for recommendation to the Government). Had the charity co-operated earlier in the process, it is likely that full referrals could have been completed and all vulnerable people provided with support. Kids Company's lack of co-operation thwarted contingency planning and was highly irresponsible. The list of 15,933 "high clients" provided to Southwark Council and the Committee did not assist the local authority, or the Committee, in assessing true need or caseload. (Paragraph 36)

Regulation

10. Ms Batmanghelidjh's account of Ofsted's inspection of the Bristol facilities differs considerably from the evidence that Ofsted submitted to the inquiry. The Trustees should have been aware of Ofsted's concerns about the Bristol facilities and taken action in consequence. Either this information was withheld from the Trustees or they simply failed to act on it in the ten months between Ofsted's two inspections. This indicates a serious breakdown of proper governance. (Paragraph 40)
11. *There are a number of safeguarding issues which have come to PACAC's attention during the conduct of this inquiry into Kids Company, most of which neither a select committee, nor the Charity Commission, nor a Government department could be expected to resolve. There is therefore a strong case for statutory regulation of charities who have safeguarding responsibilities for children or vulnerable adults and we recommend that the Government considers how such regulators as Ofsted and the Care Quality Commission can assume these responsibilities as quickly as possible (see paragraph 155).* (Paragraph 41)

Quality of services

12. Kids Company did a lot of valuable work with some very vulnerable clients, and had many extremely dedicated and committed staff. We have had many accounts that employees were inspired and motivated by the quality of support they could deliver to young people, and delivered personalised and effective interventions. Given this, it is both sad and disappointing that robust evaluation of the outcomes of Kids Company's work is lacking. Without strong evidence of impact and outcomes on a wider scale than small samples or individual case studies, it is difficult to see on what basis Kids Company's Trustees satisfied themselves of the appropriateness of support given to clients, and the value for money offered by the charity's high resource model. That the charity invested so little in highlighting and evaluating the outcomes of its work, despite spending considerable funds on research, gives rise to suspicion in many. This approach left the Trustees unable to defend the reputation of Kids Company, which is a prime obligation of the good governance and leadership of any organisation. (Paragraph 47)

Internal controls

13. Many of Kids Company's clients experienced extremely difficult, and in some cases traumatic, circumstances, and the unorthodox spending has been put into this context. However, the significant costs incurred to provide luxury items to particular individuals diverted charitable funds from other projects and programmes that had the potential to provide more long-term and effective support to a wider group of young people. Such lavish spending was inappropriate, unwise and irresponsible, and did not represent a proper use of charitable funds. Given the charity's known cash flow problems, including its difficulties in meeting its payroll and obligations to HMRC, the authorisation of such payments was in defiance of the reality of Kids Company's financial position and duties to clients. With a complete lack of experience of youth services amongst Trustees, it was impossible for the Board to assess the appropriateness of significant expenditure that Ms Batmanghelidjh justified on

the basis of clinical judgements. It is nevertheless extraordinary that Trustees were content to accept this without more rigorous examination. (Paragraph 55)

Safeguarding

14. Kids Company's handling of an allegation about a very serious failure of safeguarding was inadequate and irresponsible. It is not appropriate for a known supporter of Kids Company to conduct a supposedly independent investigation, and that confidential information about an employee's personal circumstances were used to assess her credibility, without transparency about where the information had come from, or permission being given for it to be shared. This represents a serious failure on the part of Trustees to ensure the existence and observance of appropriate processes for handling allegations relating to the safeguarding of vulnerable young people. (Paragraph 59)

Board of Trustees

15. There is no evidence that Trustees were involved in the decision to turn down the philanthropist's offer of significant financial and human resource. At the time the offer was made and rejected, Trustees were attempting to manage a £4 million deficit and secure an additional £12 million grant from the Government. Ms Batmanghelidjh's citing of mere intuition about an individual's supposed lack of emotional authenticity as justification for blocking the exploration of a new partnership at a time of extreme financial difficulty underlines how unaccountable and dominant Trustees had allowed her to become, and how far she was able to insist on maintaining personal control. (Paragraph 66)
16. A charity of Kids Company's size and complexity requires a Board of Trustees that will demonstrate leadership, judgement and a willingness to challenge assumptions. There was a lack of relevant Trustee expertise in the field of youth services or psychotherapy, although we understand that attempts, albeit belated, were underway to recruit a Trustee with such experience in the run up to the charity's collapse. The admiration that Kids Company's Trustees had for Ms Batmanghelidjh's apparent vision and fundraising capabilities led to a false confidence about other areas of the organisation. The Charity Commission's guidance to Trustees warns that Trustees should not allow their judgement to be swayed by personal prejudices or dominant personalities, but this is what occurred in Kids Company. This resulted in Trustees suspending their usual critical faculties – particularly over Ms Batmanghelidjh's insistence on the demand-led business model, her exercise of substantial discretionary spending powers, the effectiveness of internal controls, and the quality of clinical judgements and safeguarding procedures. The length of the Chief Executive and Chair's tenures were not conducive to challenging the Chief Executive herself. There was a clear link between the failure to correct serious weaknesses in the organisation, and the failure to refresh its leadership. (Paragraph 68)
17. Mr Yentob denied historic failures in financial management and insisted that there were no questions about the financial resilience of Kids Company until 2014. Given the charity's historic hand-to-mouth existence, its continual failure to build up reserves, significant periods on the brink of insolvency and its inability to meet

its obligations to HMRC, this is an inaccurate and alarming interpretation. The evidence Mr Yentob gave to the Committee suggests a lack of proper attention to his duties as Chair of Trustees and a continuing inability to recognise those failures. With his fellow Trustees he was unwilling or unable to impose sufficient control. Together, they failed to exercise their proper function as Trustees. (Paragraph 69)

18. Mr Yentob acknowledges his poor judgement in respect of his position at the BBC during the summer of 2015. His actions were unwise at best, and deliberately intimidating at worst. He has since resigned his main position at the BBC but he still retains substantial responsibilities within the organisation and oversees substantial budgets. It is not within the remit of this Committee to comment on the governance of the BBC, but the proper governance of conflicts of interest and standards of behaviour – particularly amongst its senior executives – is a very serious matter for any reputable organisation. That a senior figure could act in this way and it could take so long for action to be taken reflects poorly on the BBC’s leadership. (Paragraph 70)

Kingston Smith LLP

19. Kingston Smith has offered no credible explanation for changing the warnings of insolvency from those issued by the preceding auditors. Mr Brooks stated that Kingston Smith’s softer language still indicated that Kids Company was “living on a knife-edge.” It is surprising that Kingston Smith did not consider its duty to alert the Charity Commission to the extremely high risk of failure in this charity, in accordance with its duty as charity auditors under Section 156 of the Charities Act 2011. We note that this is a lesson that Mr Brooks appeared to accept under our examination, but this lesson should be learned by the audit profession as a whole. (Paragraph 77)
20. It is regrettable that, in over three years of auditing the charity, Kingston Smith’s sampling method failed to uncover any of the issues that have since emerged regarding the charity’s expenditure and internal controls. Kingston Smith appeared to be over-confident in the charity’s internal controls. This in turn may have influenced the sampling process and the level of scrutiny to which the charity was subject. For a charity that the auditors acknowledged was “unorthodox”, particular vigilance in identifying the audit risks and sampling size should have been especially important. In addition, the failure of Kids Company’s Trustees to respond to recommendations repeatedly laid out in management letters suggest that Kingston Smith’s confidence in the charity’s management was misplaced. (Paragraph 82)
21. Kingston Smith did not consider it part of its remit to assure the public of whether Kids Company spent money in line with its charitable objectives. Ultimately, discretion over appropriate spending rests with the charity’s Trustees, not the auditors or the Charity Commission. This inquiry provides a reminder to all who use charity accounts that a set of audited accounts do not provide assurance that charitable funds are being used wisely or that a charity is well run. (Paragraph 83)
22. Ms Batmanghelidjh’s use of the fact that the charity had 19 years of clear audits, while true, is also disingenuous. Each time the charity’s accounts were signed off as a going concern, the auditors issued significant warnings to the charity about

the precariousness of its demand-led operating model and the dependency of the charity upon future grants and emergency funding. However opaque the language, the meaning should have been clear enough to the Trustees and CEO. Such repeated warnings should have led to a change to the reserves policy, contingency planning for insolvency and substantial downsizing many years before the final crisis. (Paragraph 84)

PKF Littlejohn

23. The Cabinet Office's tender for the contract to review Kids Company required the successful bidder to provide the Government with assurances about the effectiveness of Kids Company's governance. PKF Littlejohn now says that the original scope was narrowed, in agreement with Cabinet Office, to establishing whether the policies and procedures in place were appropriate. PKF Littlejohn asserts that Ministers took assurances from the report that were outside the scope of the review. The Cabinet Office should have identified that the PKF Littlejohn remit had altered and communicated this message clearly to future users of the report. This would have minimised the weight Ministers placed upon the very limited assurances the report offered. (Paragraph 89)
24. However, it is not acceptable that a report commissioned to provide a professional assessment of a charity's governance and controls looked only at systems and processes; as Mr Duke acknowledged, good controls can be overridden. PKF Littlejohn's review did not assess the organisation's sustainability in financial and reputational terms and proved to be of little value in assessing the effectiveness of the organisation's governance. Without reviewing, for example, decision-making, attitudes and habits of behaviour, risk-management and strategic objectives in the organisation, a contractor could not assess the effectiveness of the charity's governance and controls and deliver upon the tender's requirements. (Paragraph 90)

PricewaterhouseCoopers

25. PwC's preliminary report was of little value to Kids Company, the Charity Commission or the Cabinet Office. Although investigation into one allegation had been completed, the remaining reports were subject to such heavy caveats in consequence of the very short timeframe that no conclusions could be drawn. Nevertheless, the report was cited by supporters of Kids Company as proof there was no substance to the allegations. Kids Company's rush to complete the investigation resulted in a report that offered no real assurances for the considerable costs incurred. (Paragraph 97)
26. All three professional firms identified matters of concern relating to Kids Company, yet not one of them reported the scale of risk carried by the charity to the Trustees, the Cabinet Office or Charity Commission. This is a salutary warning about the use of professional advisers. They are no substitute for the exercise of judgement. They tend to limit the scope of the terms of their investigation in order to limit their own exposure to risk. In this case, they were able to avoid making any examination of the wider issues that threatened the charity's existence. In the partial assurances they

offered, the resulting reports may actually have obscured more than they revealed to those who read them. (Paragraph 98)

Monitoring of Kids Company's finances

27. It is remarkable that so few people thought it appropriate to complain to the Charity Commission about Kids Company, despite donors and others expressing concerns as far back as 2002, and open adverse comment about Kids Company in the media. This reflects the Charity Commission's failure to make people aware of this possibility. Complaints would have prompted investigation and could have led to improvements in the charity's governance and operations. (Paragraph 105)
28. In the months leading up to Kids Company's collapse, the Charity Commission worked closely with the charity after receiving complaints from a donor and former employees, but substantive discussions about its precarious financial situation only occurred after the charity's finances reached crisis point. Earlier intervention from the Charity Commission to advise changes to the operating model might have helped to safeguard the charity, although this has not historically been the role of the Charity Commission. The Charity Commission must make its own judgement about a charity, rather than simply relying on government engagement with an organisation as evidence of a charity's good governance or effectiveness. (Paragraph 106)
29. We welcome the provisions in the Charities (Protection and Social Investment) Bill to give the Charity Commission new powers to disqualify a person from being a charity Trustee if: at least one of six conditions applies to the individual; if an individual is unfit to be a Trustee; and if making the order is desirable in the public interest in order to protect public trust and confidence in charities (either generally or in relation to the charities or classes of charity specified or described in the order). Amongst the six conditions that may, in conjunction with the tests mentioned above, disqualify a person from being a Trustee is if a the person was a Trustee, charity Trustee, officer, agent or employee of a charity at a time when there was misconduct or mismanagement in the administration of the charity, and was: responsible for the misconduct or mismanagement; knew of the misconduct or mismanagement and failed to take any reasonable step to oppose it; or the person's conduct contributed to or facilitated the misconduct or mismanagement. The Charity Commission's new powers may be applicable to the case of Kids Company. (Paragraph 107)
30. There are both legal parameters and resourcing issues that currently limit what the Charity Commission can do to improve the effectiveness of a charity's governance. It is the role of Trustees, not the regulator, to ensure that a charity is well run. However, if the Charity Commission is to maintain public faith in charities and deliver on its statutory duty to prevent, detect and tackle mismanagement in charities, it must have the resources and powers to advise and investigate charities at an earlier stage and to support charities through restructures and downsizing. (Paragraph 108)
31. While it is not possible for the Charity Commission to interrogate deeply the 60,000 accounts it reportedly receives each year, high risk charities – for example those with a large number of employees or a vulnerable client base – must be under the

greatest scrutiny. We await with interest the outcome of the Charity Commission's technology transformation plan, which should enable the Commission to identify and scrutinise high-risk charities. (Paragraph 109)

32. *Trustees must have ultimate responsibility for ensuring that a charity has a responsible approach to reserves but the Charity Commission must do more to help to make Trustees aware of their responsibilities in this area. We look forward to the Charity Commission's reviewed guidance on charity reserves, and expect it will impress upon Trustees of large or complex charities their increased responsibilities in this area.* (Paragraph 110)
33. *The Charity Commission should revise its guidance to auditors, to ensure that expectations about auditors' reporting duties under Section 156 of the Charities Act 2011 are appropriately conveyed. Such guidance must be clearer on the circumstances in which auditors should pass on concerns about an unsustainable operating model, including an inappropriate reserves policy.* (Paragraph 111)
34. *The Charity Commission should consider how it can better impress upon Trustees the need to ensure that the Board includes those with appropriate experience of the areas relevant to the charity's activities. Some Trustees must have this relevant experience, so that they can evaluate the quality of the charity's activities, and a range of skills must be reflected on the Board. All Trustees must have a responsible attitude towards governance.* (Paragraph 112)

Donor complaint

35. The conflicting accounts offered by Kids Company and the Charity Commission about whether guidance was given about returning a large donation, and the propriety of Kids Company's behaviour in this case is cause for concern. The Charity Commission's resources and existing statutory framework prevent it from intervening in donor issues that do not involve illegality – but the Charity Commission has not presented any evidence which conveys the disapproval that they have voiced subsequently. We are pleased that the Charity Commission will be reviewing their guidance about managing relationships with donors. This guidance must better communicate the duties of charities towards their donors. (Paragraph 117)
36. *In all communications with charities regarding individual donor complaints, the Charity Commission must communicate any advice to a charity in writing, even if there has been no illegal activity on the part of a charity.* (Paragraph 118)

The role of the Charity Commission

37. It is a matter of some concern that a number of witnesses who had grave concerns about the charity did not alert the Charity Commission. As Mr Brooks's and Ms Berelowitz's comments indicate, the Charity Commission projects too limited a public profile to provide much reassurance about charities and their regulation, and to attract complaints. If individuals are to understand the role of the Charity Commission, then the Charity Commission needs to be seen to be actively holding charities to account. (Paragraph 120)

38. *The Charity Commission must do more to make the public aware that they can and should take their concerns about a charity to the Charity Commission. The Commission should investigate adverse media reports about a charity and encourage journalists to make formal complaints to the Charity Commission, rather than relying upon the Charity Commission to chance upon their reports. Its guidance should also urge Trustees to make donors, employees and beneficiaries aware that they should complain to the Charity Commission if they have serious concerns about the governance of a charity. (Paragraph 121)*
39. *The Treasury and Cabinet Office must address the future funding of the Charity Commission so that it can carry out its functions in the way that Government, charities and the public expects. (Paragraph 122)*
40. *In order to underline the constitutional status of the Commission's Board, the Commission should restore the proper title of its Board members, so they are known as the Charity Commissioners. This would both restore their unique status, and underline that the Chair and his fellow commissioners are jointly and severally liable for the conduct of the Charity Commission in England and Wales, just as a Chair and other Trustees should understand how they are responsible for a charity they govern. (Paragraph 123)*

Relationship with No. 10

41. The privileged access to Ministers, numerous 'special grants' and exemption from usual reporting processes appear to have distorted the expectations of the charity's leadership and undermined the warnings issued by Government that funding might not continue. In allowing an unconventional relationship and funding process to develop, successive governments left themselves vulnerable to misunderstandings – wilful or otherwise – on the part of the charity, about the level of support that Kids Company could expect to receive from Government in the future. (Paragraph 136)
42. Ms Batmanghelidjh and Kids Company appeared to captivate some of the most senior political figures in the land, by the force of the Chief Executive's personality as much as by the spin and profile she generated for the charity. As a consequence, objective judgements about Kids Company were set aside. The Government's relationship with Kids Company was forged outside the usual decision-making processes of Whitehall departments and there is little doubt that the high profile support of successive Prime Ministers for Kids Company had an impact upon decision-making across Whitehall. This included the authorisation of multiple grants outside of the normal competitive process. We also question whether it was wise to move youth funding from the Department for Education into the Cabinet Office. Had that not occurred, it is possible that less money would have gone to Kids Company and more to other, perhaps better run, youth charities. Other charities have said that they are angry and cynical about how one or two charities gain unfair advantage, and that the approach of successive Governments towards Kids Company has damaged their confidence in Government. (Paragraph 137)
43. It is also a matter of considerable concern that the knowledge of the high-level political patronage enjoyed by Kids Company may have deterred other individuals from coming forward with concerns about the charity. (Paragraph 138)

44. *We concur with the Public Accounts Committee's recommendation that, at the very least, if the Government decides to use special powers to grant funding, it should provide a transparent case for its decision and report regularly on the use of these powers. Ministers and Government departments must deploy proven methods of assessment and co-ordinate these effectively, and exercise objective judgement when deciding whether to grant taxpayers' money to charities. (Paragraph 139)*
45. *When allocating funding to charities, Ministers should not risk creating the perception that they are overriding official advice on the basis of personal prejudice or political considerations. In circumstances where they disagree with official advice regarding the release of grants to a particular charity, Ministers, including Prime Ministers, should consider whether such disagreement arises from a conflict of interest. If a conflict could be judged to exist, the Minister or Ministers must recuse themselves from decision-making, including from any influence over any other Ministers making those decisions. Ministers should not allow charity representatives to exploit their access to Government in a way that may be unethical. There must be no suggestion that individual Ministers have funds under their personal control or are exercising personal patronage. (Paragraph 140)*
46. *It should be for the relevant departments to control grants to charities, not the Cabinet Office or another department that does not have direct policy responsibility for the sector in question. As the Cabinet Office is the department most closely under the Prime Minister's control, the existing structure leaves the Prime Minister exposed to the kind of pressures which Kids Company thought it could exert. (Paragraph 141)*
47. *Government should re-evaluate the standard process by which grant decisions benefiting charities can be made following input from a number of different departments. This review should consider the creation of an account manager to oversee all funding decisions for each charity. This would enable greater continuity and accountability than seen in the case of Kids Company, which was passed between several departments throughout its existence. (Paragraph 142)*
48. *The Government should consider whether sufficient safeguards are in place to ensure that the Libor Fund is administered in line with these principles of objectivity and transparency. (Paragraph 143)*

Government monitoring

49. *It is astounding that it was only in 2015, by which point Kids Company had received over £35 million from central Government, that the Government acknowledged the need for a robust examination of the charity's activities and outcomes. Given that doubts were reportedly raised about Kids Company in the DfE, we also question the quality of co-ordination between Government departments, following the transfer of youth policy. (Paragraph 149)*
50. *Evidence that former employees have submitted to this inquiry has highlighted the charity's dependency on selective case studies to evidence its impact. While case-studies may have a role to play in illustrating a charity's work, wider evidence of impact is required. This is particularly true for charities in receipt of large amounts of Government money. We struggle to see on what basis successive Governments and*

other grant-giving bodies, and indeed the charity's Trustees, satisfied themselves of the appropriateness of support given to clients, and the value of the charity's high resource model. (Paragraph 150)

51. It is unacceptable that successive Ministers appear to have released funds on the basis of little more than their relationship with a charismatic leader, small-scale studies and anecdotes, and no more than two visits made by Mr Letwin more than 10 years previously. Releasing Kids Company from the usual competitive grant processes to which other charities are subject, despite a lack of evidence about the efficacy of its model or any evaluation of outcomes, has been proved to be an unjustifiable way to conduct Government business and to handle public money. This approach is condemned by the fact of Kids Company's failure and is therefore unjustifiable in the future. (Paragraph 151)
52. Government doubted that the information that Kids Company was circulating regarding its client number was true, but did nothing to correct the record. Instead, it continued to grant funding despite that knowledge. (Paragraph 152)
53. *We agree with the Public Accounts Committee's (PAC's) recommendation that the Government should undertake a fundamental review of how it makes direct and non-competitive grants to the voluntary sector. In addition to the areas the PAC recommends for consideration, we see the creation of a measurement framework for the social sector as essential to this. The use of standardised measurement tools will enable more accurate assessments of the value of activity, and enable meaningful comparisons to take place during grant bidding and monitoring. Identifying a charity's outcomes, rather than simply its outputs, and benchmarking these in relation to other organisations in the sector should be a core part of any funding decision.* (Paragraph 153)
54. *We also agree with the recommendations made by the PAC that the Government should improve the way it monitors and evaluates the performance of grant-funded organisations.* (Paragraph 154)
55. *If the Government is funding an organisation that provides services such as therapy or education, it must satisfy itself that these services are being delivered by people who are sufficiently qualified to be doing so. For example, a number of local authorities, amongst them Southwark Council, no longer commission Alternative Provision Education from providers that are not registered with Ofsted. Central Government should similarly consider making external inspection from the relevant regulatory body (e.g. CQC or Ofsted) a condition of commissioning, so that it can be sure of the quality of services being delivered.* (Paragraph 155)
56. *The Government should insist that charities to which it provides grants provide legally defensible contingency plans. This would help to mitigate the risks of a charity with vulnerable beneficiaries folding unexpectedly.* (Paragraph 156)

Government's use of professional services

57. Information about the charity was reported in a piecemeal fashion across various reviews that actually offered little or no assurance about the effectiveness of Kids

Company's governance. They were read selectively to gain confirmation of a pre-existing and positive picture of the charity. Government must learn lessons about its use of such reviews, and co-ordinate its activities. (Paragraph 158)

58. The scope of the PFK Littlejohn review became limited to the point where the final report to the Cabinet Office provided none of the information needed to assess the governance of the charity. It is of particular concern that, when making funding decisions, a Minister took assurances from the report that the report did not offer. (Paragraph 160)
59. *The Government should, as a matter of urgency, examine the process by which it commissions reviews to ensure that it receives the information it requires. It is essential to ensure that the commissioning process does not allow drift from the original scope. Consideration should be given to requiring successful contractors to outline explicitly what level of assurance on specific issues the Government will be able to take from their final report.* (Paragraph 161)
60. *The Government was right to attempt to assess the governance of a charity before awarding funds. However, rather than commissioning a review of a charity's policies and processes from one of the usual outside firms, the Government should develop its own Civil Service capability in order to exercise its own judgement about whether a charity's governance, quality of decision-making, objective setting and culture are effective, and if its internal controls are sufficient. There should be particular caution towards Boards in which Trustees have held their position for more than two terms, and towards Boards where no individuals have experience in the charity's particular area of delivery.* (Paragraph 162)
61. This inquiry should provide a reminder to all whose use charity accounts that a clear audit report gives no indication that the charity is well-managed or any assurance that charitable funds are being used wisely and in accordance with the stated purposes of the charity. Charity Trustees also have an obligation to be accountable to their donors. (Paragraph 164)
62. *The Government must not rely upon audited accounts being signed off as a going concern as any assurance that a charity is financially well-managed or well-governed. At the very least, Government must request sight of a charity's management letters, and should seek direct assurance from the charity's auditors.* (Paragraph 165)
63. *When commissioning external audits or reviews, Government should give priority to contractors with specific experience of the relevant field (e.g. of children's services) so that meaningful benchmarking can take place.* (Paragraph 166)
64. *We are concerned that the Cabinet Office was prepared to hand over money, on a Minister's say so against official advice, to an organisation in which serious allegations had not been fully investigated. We are not convinced by Mr Letwin's assertion that the planned changes to the charity's leadership rendered the allegations under investigation irrelevant. It was an error for the Government to release a second "final" grant to a charity with a history of financial mismanagement, and in which the new Trustees and, as yet unidentified, permanent CEO had not yet proved their competence or commitment to making serious changes to the organisation's ethos*

and practices. We recommend that in future no department should hand over money to an organisation in which serious allegations have not been fully investigated. (Paragraph 169)

April 2015 grant

65. The Cabinet Office Ministers' faith in Kids Company's commitment to move to a sustainable operating model was misplaced. This was demonstrated by the charity returning to request additional funding six weeks later. The decision to pay the full amount of the April grant in one lump sum, rather than waiting for fulfilment of any of the grant conditions, was not conducive to accountability. The April grant was one more example of the Government providing emergency funding to enable the charity to manage its cash flow, outside of any competitive or evidence-driven process. It failed to deliver any of the desired outcomes. (Paragraph 173)

Ministerial Direction 2015

66. In neither his letter of direction nor his oral evidence has Mr Letwin provided convincing justification for his and Mr Hancock's decision to ignore the comprehensive advice of senior officials, whose concerns Mr Letwin acknowledged as accurate and valid. This grant should not have been authorised contrary to advice. (Paragraph 179)
67. We do not share Mr Letwin's confidence that the restructuring of Kids Company "might well have turned out, in practice, to have been an abundant success" were it not for the allegations of sexual abuse that emerged later. As the new Finance Director had only been in place for a matter of weeks and the new Chief Executive had not been appointed, there was insufficient evidence that the new leadership could transform the organisation's business model and activities. Our understanding of Ms Batmanghelidjh's dominant role in dictating the charity's direction, despite not holding a Trustee position, and her historic refusal to shrink the organisation make us doubtful about whether the new role of 'President' would significantly curtail the influence by which she had hitherto controlled the organisation. Equally, the fact that the Chair of Trustees, who had condoned the excessive spending and unsustainable model over a period of 12 years, was to remain on the Board of Trustees for the foreseeable future makes us question the impact that the changes to the charity's leadership would actually have had. (Paragraph 183)
68. The Government Ministers' willingness to pay £3 million to the charity before receiving the matched funding from philanthropists was unwise and represents a failure in the responsibility Ministers should take for handling taxpayers' money. Had the Cabinet Office insisted that the money from philanthropists was received before Government made payment, or insisted that both sources of funding were held in an escrow, this would have considerably increased the likelihood of public money being returned. As it was, £1 million had already been spent by the charity, and it is still unknown whether the remaining £2 million of public money can be reclaimed. (Paragraph 184)

Annex A

Kids Company's Board of Trustees

Although PACAC took oral evidence only from Mr Yentob, the Chair of Kids Company's Board of Trustees, all trustees are jointly responsible for the charity they govern. As outlined in the Charity Commission's guidance to trustees, "A chair can only make decisions in accordance with any provision in the governing document or delegated authority agreed by the trustees, and should notify the other trustees of any decisions made".²⁶⁴

At the time of Kids Company's collapse in August 2015, the trustee board comprised:

- **Chair** - Alan Yentob, Creative Director BBC
- **Deputy Chair** - Richard Handover, previously Chairman and CEO of WH Smith
- **Francesca Robinson**, Executive Chairman of PSD Group, responsible for strategy and leadership. (Annual turnover £30m and 400 staff.) She led a successful management buyout in 2010
- **Jane Tyler**, senior lawyer and partner in Macfarlane's law firm
- **Erica Bolton**, founding partner/Director, Bolton & Quinn, international PR consultancy
- **Andrew Webster**, formally Vice President with responsibility for human resources at AstraZeneca
- **Sunetra Atkinson**, philanthropist. Spent several days a month working pro bono for Kids Company, organising and funding the warehouse that stored and distributed donated goods for the Poverty Busting Programme

²⁶⁴ [The Essential Trustee: What you need to know, what you need to do](#)

Annex B

Funding provided by central Government throughout successive governments

1996–2007	<p>1996: Camila Batmanghelidjh sets up Kids Company.</p> <p>2000: First record of Kids Company receiving grant from public sector – £50,000 from the New Opportunities Fund.</p> <p>2002: Home Office coordinates cross-government financial rescue package of £300,000 for Kids Company.</p> <p>2003: Kids Company's accounts for 2003 report that HM Revenue and Customs (HMRC) wrote off tax debts of £590,000.</p> <p>2003: Home Office issues a one-off emergency grant of £158,000 to Kids Company.</p> <p>2005: HM Treasury awards grant from Invest to Save budget to Kids Company of £3.4 million over 3 years, the charity's first major, multi-year government grant. The Department for Education (DfE) acted as the sponsor department for the grant).</p>
2008–2012	<p>2008: Kids Company is awarded a pathfinder grant through the DfE's Youth Sector Development Fund programme of £12.7 million over 3 years.</p> <p>2011: DfE awards £8.9 million grant over 2 years to Kids Company from VCS Transitions Grant programme.</p>
2013-14	<p>2013: DfE rejects Kids Company's bid for £9 million from the VCS National Prospectus grants scheme.</p> <p>DfE extends Kids Company's previous grant under the 2011–2013 VCS Transition Grant programme and awards Kids Company £1 million over 3 months.</p> <p>Kids Company receives cross-government grant of £4.5 million.</p> <p>2014: Feb: PKF Littlejohn undertakes review of financial and governance controls at Kids Company.</p> <p>Kids Company receives cross-government grant of £4.5 million.</p> <p>Nov: Kids Company's bid for DfE competitive grant funding for 2015-16 rejected.</p>
2015	<p>Mar: £4.3 million cross-government funding confirmed. Kids Company asks ministers to pay whole sum upfront.</p> <p>Apr: £4.3 million paid to Kids Company.</p> <p>2 Jun: Kids Company requests £3 million emergency funding.</p> <p>29 Jun: Cabinet Office receives ministerial direction to pay £3 million grant.</p> <p>29 Jul: Metropolitan Police contacts Kids Company to request a meeting about allegations of crime, but does not give details of the allegations</p> <p>30 Jul: Kids Company signs grant agreement. Cabinet Office pays £3 million grant. Police announce investigation into alleged physical and sexual abuse at the charity. Cabinet Office told us it learned of the allegations after it paid the grant.</p> <p>5 Aug: Kids Company closes.</p> <p>5–18 Aug: DfE and Cabinet Office arrange to have Kids Company's clients referred to local authority services.</p> <p>12 Aug: Kids Company files for insolvency.</p>

Source: National Audit Office

Formal Minutes

Thursday 21 January 2016

Members present:

Mr Bernard Jenkin, in the Chair

Ronnie Cowan

Kelvin Hopkins

Oliver Dowden

Mr David Jones

Paul Flynn

Gerald Jones

Mrs Cheryl Gillan

Tom Tugendhat

Kate Hoey

Mr Andrew Turner

Draft Report (*The collapse of Kids Company: lessons for charity trustees, professional firms, the Charity Commission, and Whitehall*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 184 read and agreed to.

Summary and Annexes agreed to.

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

Ordered, That the Chair 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.

[Adjourned till Tuesday 26 January at 10.30am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry page](#) of the Committee's website.

Thursday 15 October 2015

Question number

Camila Batmanghelidjh, founder and former Chief Executive, Kids Company, and **Alan Yentob**, former Chairman of Trustees, Kids Company

[Q1-244](#)

Tuesday 17 November 2015

Will Richardson, Partner, PricewaterhouseCoopers,

[Q245-306](#)

Alastair Duke, Partner, PKF Littlejohn,

[Q307-402](#)

Nick Brooks, Partner, Kingston Smith

[Q403-520](#)

Sue Berelowitz, Former Deputy Children's Commissioner

[Q521-548](#)

Thursday 19 November 2015

Tim Loughton MP, former Parliamentary Under Secretary of State for Children and Families, Department for Education

[Q549-628](#)

Rt Hon Oliver Letwin MP, Chancellor of the Duchy of Lancaster

[Q629-797](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry page](#) of the Committee's website.

KCI numbers are generated by the evidence processing system and so may not be complete.

- 1 A 1 ([KCI0007](#))
- 2 A 1 ([KCI0008](#))
- 3 A 2 ([KCI0013](#))
- 4 A 3 ([KCI0014](#))
- 5 A 4 ([KCI0015](#))
- 6 A 5 ([KCI0016](#))
- 7 A 6 ([KCI0017](#))
- 8 A 7 ([KCI0018](#))
- 9 A 8 ([KCI0019](#))
- 10 A 9 ([KCI0020](#))
- 11 A 10 ([KCI0021](#))
- 12 A 11 ([KCI0025](#))
- 13 A 12 ([KCI0026](#))
- 14 A 13 ([KCI0027](#))
- 15 A 14 ([KCI0028](#))
- 16 A 15 ([KCI0036](#))
- 17 A 16 ([KCI0042](#))
- 18 A 17 ([KCI0043](#))
- 19 Alan Yentob ([KCI0049](#))
- 20 Association of Chief Executives of Voluntary Organisations ([KCI0001](#))
- 21 Cabinet Office ([KCI0003](#))
- 22 Cabinet Office ([KCI0004](#))
- 23 Camila Batmanghelidjh ([KCI0048](#))
- 24 Camila Batmanghelidjh and Alan Yentob ([KCI0047](#))
- 25 Charity Commission ([KCI0038](#))
- 26 Danny Parr ([KCI0029](#))
- 27 David Quirke-Thornton ([KCI0044](#))
- 28 David van Eegan ([KCI0034](#))
- 29 Dee Cracknell ([KCI0030](#))
- 30 Esther Pickup Keller (KCI0045)
- 31 Genevieve Maitland ([KCI0031](#))
- 32 Harriet Sergeant ([KCI0009](#))
- 33 Jennifer Watts ([KCI0041](#))

- 34 Joan Woolard ([KCI0033](#))
- 35 Johanna Morrell ([KCI0032](#))
- 36 Kingston Smith ([KCI0039](#))
- 37 Kingston Smith LLP ([KCI0024](#))
- 38 Laurence Guinness ([KCI0006](#))
- 39 Mr Alan Yentob ([KCI0002](#))
- 40 Mr Alan Yentob ([KCI0005](#))
- 41 Ofsted ([KCI0037](#))
- 42 PKF Littlejohn ([KCI0023](#))
- 43 Rt Hon Oliver Letwin MP, Chancellor of the Duchy of Lancaster ([KCI0046](#))
- 44 Sally Easton ([KCI0011](#))
- 45 Sue Berelowitz ([KCI0035](#))
- 46 Susie Cunningham ([KCI0022](#))
- 47 Tim Loughton MP ([KCI0040](#))
- 48 Zievrina Wilson ([KCI0012](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/pacac.

Session 2015–16

First Report	Follow-up to PHSO Report: Dying without dignity	HC 432
Second Report	Appointment of the UK's delegation to the Parliamentary Assembly of the Council of Europe	HC 658
Third Report	The 2015 charity fundraising controversy: lessons for trustees, the Charity Commission, and regulators	HC 431
First Special Report	Developing Civil Service Skills: a unified approach: Government Response to the Public Administration Select Committee's Fourth Report of Session 2014–15	HC 526
Second Special Report	Lessons for Civil Service impartiality for the Scottish independence referendum: Government Response to the Public Administration Select Committee's Fifth Report of Session 2014–15	HC 725

