

Supervisory Committee Annual Report: April 2019 – March 2020

Purpose

The Supervisory Committee is an independent Committee designed to monitor the operation of Kent Savers CU to ensure that agreed policies and procedures are followed. The Committee provides the Board with a continuous appraisal of the Credit Union's systems of internal control, governance and risk management.

We work on behalf of the Members to provide objective challenge and to assess the effectiveness of the controls operating throughout the Credit Union. Principally this is achieved through delivery of internal audit checks; which include the review of documentation, systems and processes, and through attendance of Board meetings to observe the decision making and governance arrangements in practice.

The purpose of this report is to provide Members with a summary our activity for the year and to evidence that we have discharged our duties and responsibilities in accordance with our Terms of Reference (**appendix A**)

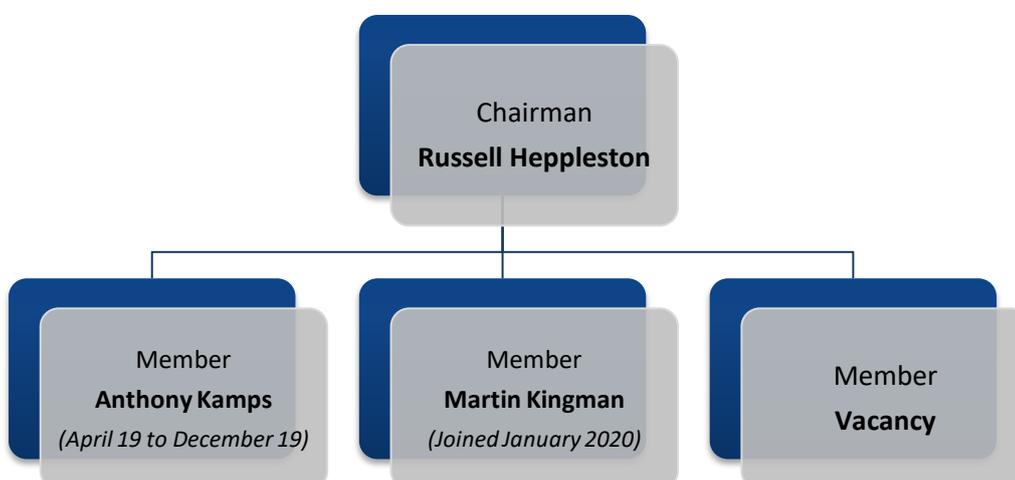
Composition

For much of the year the Committee has comprised 2 voluntary Members. Russell Heppleston, who was elected to the Supervisory Committee in 2016, and became Chairman of the Committee in January 2018, has continued to Chair the Committee over the course of year.

Anthony Kamps was elected to the Committee at the AGM in May 2018 and has continued to support the committee until stepping down earlier in the year (December 2019). We would like to take this opportunity to thank Anthony for his contributions and support over the last couple of years.

In January 2020, Martin Kingman joined the Committee. His experience and history with the Credit Union (having previously been Chairman of the Board) will be invaluable. **Members are asked to formally support his appointment to the Committee as part of the AGM.**

We continue to seek additional expertise and have a vacancy. If you have specific finance, audit or governance related skills and expertise, and would like to learn more about what the Committee does, then please contact the Credit Union.



Attendance at Board Meetings

The Terms of Reference for the Supervisory Committee sets a commitment for us to have regular attendance at Kent Savers board meetings. These are generally held monthly. Our role at these meetings is as follows:

- ***Maintain a regular presence at monthly Board meetings to provide challenge, oversight and ensure that the Credit Union is being governed in accordance with the regulations and the agreed Policy and Procedures Manual***

Our attendance record is set out below:

Board Meeting	Supervisory Committee Member Present?
30 April 2019	✓
26 May 2019	✓
02 July 2019	✗
30 July 2019	✓
27 August 2019	✓
24 September 2019	✓
29 October 2019	✓
26 November 2019	✓
12 December 2019	✗
28 January 2020 <i>(re-scheduled 03 February 2020)</i>	✓
25 February 2020	✓
31 March 2020	n/a

The Board meet monthly and met 12 times in in the year. The Board also had a Board away day in January 2020. The Supervisory Committee, either as a group or individually, have attended most meetings. For those that were not attended, the papers were made available. During meetings the Committee has provided oversight and challenge where it was felt necessary.

In addition, for 2019/20 the Committee has met twice independently. The purpose of these meetings is to discuss and agree our work programme (**appendix B**) for the year and consider how to further develop and enhance the Committee. For instance, to discuss the audit plan and to develop templates and approaches for conducting audit work. The Committee has also tried to reach out to other Supervisory Committees to establish sharing of approaches and knowledge. This is something that will continue to be developed over the coming year.

External audit provision

In accordance with our Terms of Reference the supervisory Committee will:

- ***Undertake the procurement and appointment of suitable External Audit for KSCU, and provide oversight and support where necessary***

A full procurement exercise was conducted 2016/17 and Alexander Sloan were appointed as auditors in April 2017. The agreement covers 3 years of audit services, plus an additional year dependent on Board approval. Board agreed (in March 2020) and approved to continue with Alexander Sloan for an additional year. As such, a procurement exercise will be scheduled for **Summer 2020**.

Overall Observations

The Board has continued to act with due diligence over the course of the year and taken decisions in accordance with the agreed Policies and Procedures. Following the appointment of new Board members over the last 2 years, there has been a notable increase in focus, pace and drive to move forward of key workstreams. Most importantly, this has enabled the Board to improve governance, business development, strategy and financial resilience. The Board has had a full understanding of their obligations, and decisions have been suitably ratified and challenged.

Our internal audit work, and oversight over the year did not identify any significant areas of non-compliance. The Board continue to embrace the Supervisory Committee and engage with the audit process fully, and transparently.

Duties & Responsibilities

The remainder of this report sets out how we have discharged our duties and responsibilities, in accordance with our Terms of Reference:

Key Responsibilities	How did we do?
<i>Perform the Internal Audit for KSCU to assess the effectiveness of the internal control, governance and risk management processes as set out in an annual internal audit plan</i>	Over the course of the year we re-designed the audit plan and introduced quarterly compliance checks. The plan commenced in quarter 3 of the year and will continue on a rolling basis.
<i>Report the findings and conclusions of any Internal Audit review to the Board and follow-up on the implementation of recommendations</i>	The following documents have been reported to the Board over the last year: <ul style="list-style-type: none"> • Supervisory Committee work stream and monthly updates • Audit plan & quarterly checks • Audit report: new member applications
<i>Undertake the procurement and appointment of suitable External Audit for the Credit Union, and provide oversight and support where necessary</i>	A full procurement exercise was conducted 2016/17 and auditors were appointed April 2017. The next exercise will be due in Summer 2020 .
<i>Provide a written report to the Annual General Meeting (AGM) setting out how the Committee has discharged its duties over the course of the year</i>	The annual report will be presented at the AGM in 31 March 2020.
<i>Deal with any complaints related to the Complaints Officer, or complaints referred by the Board. The Committee shall provide oversight of complaint investigations of Board Members</i>	We have had no complaints referred for investigation in 2019/20.
<i>Consider relevant matters referred to them by the Board</i>	We have had no matters referred to us from the Board 2019/20.
<i>Maintain a regular presence at monthly Board meetings to provide challenge, oversight and ensure that the Credit Union is being governed in accordance with the regulations and the agreed Policy and Procedures Manual</i>	We have maintained a good presence across the year, with Committee attendance at nearly every Board meeting.
<i>Keep under consideration the Policies and Procedures specific to the operation of the Supervisory Committee, and provide updates where necessary for Board approval</i>	The revised Terms of Reference for the Supervisory Committee were agreed by the Board in April 2018. Following review, we have proposed no changes during the year.

Report on specific other regulatory items

We are required by the Prudential Regulatory Authority ("PRA") to report on the following items:

Key Requirement
<i>Kent Saver's compliance, or otherwise, with PRA rules concerning Depositor Protection: Rules 11, 12, 14, 15 Protection 49 to 51, as applicable</i>
<i>Whether Kent Savers has always maintained a policy of insurance complying with PRA rule 2.10</i>
<i>Any additional activities as described in PRA rules 3.3, 3.5, Chapter 4, 6.4 or Chapter 7 that Kent Savers is carrying out and whether these are in compliance with any requirement of the PRA rules applicable to those additional activities</i>

Conclusion

Based on the work undertaken during the year, it is our conclusion that we have progressed and demonstrated work in accordance with our Terms of Reference. The development of a refreshed workstream has enabled us to design a quarterly programme of checks and audits of key credit union processes. The first of these reports, new member applications, was audited and reported in November 2019 and concluded that the processes were fully compliant. As we move into 20/21, we will continue to work through these checks and report our findings to the Board.

Russell Heppleston

Chairman of the Supervisory Committee

Kent Savers Credit Union

Appendix A

Kent Savers Credit Union

Supervisory Committee: Terms of Reference

Purpose of the Committee

The Supervisory Committee is an independent Committee designed to monitor the operation of Kent Savers Credit Union (KSCU) to ensure that agreed policies and procedures are followed. The Committee provides the Board with a continuous appraisal of the Credit Unions systems of internal control, governance and risk management arrangements. In addition to helping to ensure that the Credit Union operates in accordance with relevant rules and legislation.

For KSCU the Supervisory Committee also fulfils the role of the internal audit function, and will conduct a series of reviews each year into how the Credit Union operates, and report the findings to the Board. These reviews are set out in the Internal Audit Plan which is agreed by the Board annually.

Composition

The Supervisory Committee is comprised of between 2 and 3 voluntary Members of KSCU, usually elected as part of the Annual General Meeting (AMG). A Member may be co-opted during the year, upon agreement by the Committee, and that appointment is then ratified at the next AGM. While not essential, the Committee may elect a Chairman to provide direction and ensure that the duties of the Committee are fulfilled.

Members shall generally hold office for 3 years at which point they shall retire at the Annual General Meeting, but are eligible for immediate re-election.

Restrictions

In order to safeguard the independence of the Supervisory Committee, Members must not be:

- A member of the Board of Directors
- A member of any other permanent committee of the Credit Union
- An employee of the Credit Union
- An undischarged bankrupt

Regulations

Credit unions are regulated by the Financial Conduct Authority. The credit union sourcebook (CRED) [section 8](#) deals specifically with supervision, and gives authority for the Supervisory Committee. Further guidance is set out in the Financial Services handbook supervision chapter known as [SUP](#). The Committee's duties, responsibilities and activities are all undertaken with full regard to these regulations.

Authority

Members of the Supervisory Committee can attend any meeting of KSCU and have the right to be heard at these meetings. However, they shall not have any decision making or voting rights at these meetings.

In accordance with the credit union policies and procedures, Members of the Supervisory Committee have the right to access the office, staff and all systems and documents of the credit unions for the purposes of fulfilling the duties

and responsibilities of the Committee. Staff and Board Members will also cooperate with requests made by the Supervisory Committee associated with fulfilment of its role and responsibilities.

Duties & Responsibilities

The Supervisory Committee shall:

- Perform the Internal Audit for KSCU to assess the effectiveness of the internal control, governance and risk management processes as set out in an annual internal audit plan
- Report the findings and conclusions of any Internal Audit review to the Board and follow-up on the implementation of recommendations
- Undertake the procurement and appointment of suitable External Audit for KSCU, and provide oversight and support where necessary
- Provide a written report to the Annual General Meeting (AGM) setting out how the Committee has discharged its duties over the course of the year
- Deal with any complaints related to the Complaints Officer, or complaints referred by the Board. The Committee shall provide oversight of complaint investigations of Board Members
- Consider relevant matters referred to them by the Board
- Maintain a regular presence at monthly Board meetings to provide challenge, oversight and ensure that the Credit Union is being governed in accordance with the regulations and the agreed Policy and Procedures Manual
- Keep under consideration the Policies and Procedures specific to the operation of the Supervisory Committee, and provide updates where necessary for Board approval

Procedure

The Supervisory Committee will meet a minimum 4 times during the year, and the outcomes of these meetings will be documented and circulated to the Board. Actions arising for the Supervisory Committee will be tracked and followed-up by Members of the Committee and reported to the Board.

The Supervisory Committee will undertake their duties in accordance with the Policies and Procedures KSCU.

Review

These Terms of Reference will be kept under review and any proposals to formally update will be reported to the Board prior to the AGM each year.

Appendix B – Supervisory Committee work programme and audit plan 2019/20

Supervisory & Audit Committee



In addition to those items set out in current TOR, in Annex 3 of P&P Manual V6:

Priority	Task	Responsible	Progress (February 2020)	RAG
3	Identify and contact other CU Supervisory Committee's to network, build / shared expertise, and to understand level of audit / oversight	RH & MK	RH & MK arranging SC meeting in Feb / March RH and MK are Members of the ABCUL website and will start through the forums to make contact	In progress
1	Update and refresh the audit plan to align with the work streams and key policy and procedure work for 2019 onwards	RH	SC workstream currently constituting as the audit plan for 2019/20 – feedback from EA was positive	Complete for 19/20
2	Develop a compliance checklist aligned with minimum CREDS requirements to check on a periodic basis and report results	RH	Compliance checks and audit mapping agreed and in progress. First audit report issued in November 2019	Complete for 19/20
1	Develop an advert and actively seek to fill vacancy on the Committee with supporting skills, expertise, knowledge and enthusiasm	RH & SS	MK joined the Sup. Committee in January 2020. Discussions are ongoing with potential new member RH and SS to discuss possible outreach & adverts.	Ongoing
2	Develop a suite of templates and audit working papers to standardise and approach to delivery individual audit projects	RH	First report issued – feedback from Board requested before adopting as a template	Ongoing
3	Conduct a sample of audit reviews from the audit plan and report outcomes to the Board	RH	Rota agreed by the Board and in progress	DONE

Supervisory Committee – Quarterly Audit Checks



Key Process	Scope of checks
<p>New Member Applications (processed for the quarter) August: Walkthrough & mapping September: Testing November: Report issued to Board</p>	<p>Independent walkthrough of 15% of applications (or 15, whichever is the lower) picked at random, mixing paper vs online, KS loans vs housing fund etc and ensuring a proportionally adequate sample size for each origination source</p>
<p>Loan applications (approved for the quarter) December: Walkthrough & mapping February: Testing February: Report issued to Board</p>	<p>Walkthrough of 15% of loan applications (or 15, whichever is the lower)</p>
<p>Loan applications (declined for the quarter) March: Walkthrough & Mapping April: Testing & report issued to the Board</p>	<p>Independent review of 5% of declined applications (or 5 whichever is the lower), including reason for decline</p>
<p>Credit Control (compliance for the quarter) May: Walkthrough & Mapping Jun: Testing July: Report to the Board</p>	<p>Review of 5% of accounts (or 5 whichever is the lower) in arrears to check compliance with procedures (aged less than 8 weeks)</p>
<p>Bad Debt (not written off) August: Walkthrough & mapping September: Testing November: Report issued to Board</p>	<p>Review of 10% of accounts (or 10, whichever is the lower) in arrears to check compliance with procedures (aged over 26 weeks – for provisioning)</p>

Supervisory Committee – Thematic Audit Checks



Key Process	Scope of checks
CAIS records (by Credit Risk &/or BDD lead director) - annually	Spot check no less than annually the correlation between actual arrears status and CAIS records
Records Management (GDPR compliance) - annually	Report on accuracy and completeness of records for the above checks (criteria to be defined)
Segregation of duties - annually	Review of administration and processing responsibilities to ensure appropriate separation of duties
Written Off Accounts - annually	Audit that written off accounts have been approved by FinComm, sampling lower of 15%/15 accounts
Engage Accounts - annually	Audit that Engage accounts have been set up and managed in line with procedure, sampling lower of 15%/15 accounts