



Supervisory Committee

**Annual Report:
April 2020 – March 2021**

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

We aim to have **three** members of the Supervisory Committee to ensure a good mix of skills, experience, and resilience to undertake our role. For much of 2019/20 the Committee has comprised 2 voluntary Members, as such, a key objective this year was for us to recruit additional members. We ran active recruitment through the Autumn in collaboration with the Board of Directors and we are pleased to report that we were successful to recruit into the vacant posts.

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. In accordance with the Terms of Reference for the Committee, and common practice, this will be his last year as Chairman. Active rotation of Members is useful, especially in a compliance / oversight role, as it allows objectivity to be reset and for new and fresh ideas to be brought to the work programme.

In January 2021, **Muhitur Rahman** joined the Committee. A short statement of his skills and experience is set out below:

Muhitur is a seasoned Risk Manager with substantial experience in Credit Risk Portfolio Management for Wholesale and Retail banking, multiple asset classes and globally diverse portfolios. He was born and raised in the Medway Towns, and is where he continues to live. Muhitur is ethically minded with a keen interest in philanthropy and impact investing to address social and environmental issues.

In March 2021, **Nigel Clibbens** joined the Committee. A short statement of his skills and experience is set out below:

Nigel has over 35 years of leadership experience in the financial services industry, particularly in the disciplines of finance, risk, operations, and auditing. He has worked in both large and small regulated lending organisations at Board level. More recently Nigel has used his vast experience to advise business across a range of industries on strategic issues. Nigel is champion of financial inclusion and treating customers fairly. Nigel has lived in Kent for 20 years

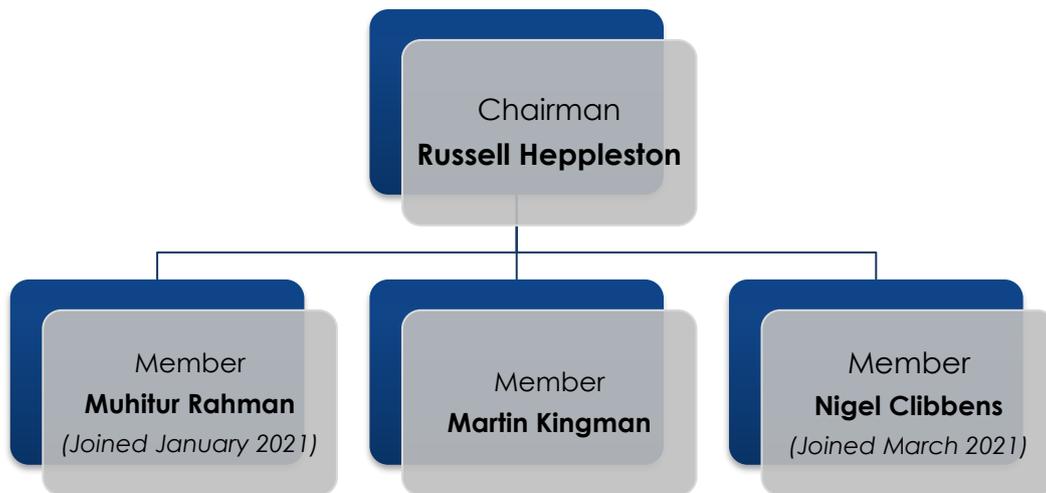
Recommendation 1:

Members are asked to formally support both appointments to the Supervisory Committee as part of the Annual General Meeting

2021 & beyond

Regarding membership, our focus for the year ahead will be on succession. During the year the process will commence to handover Chairmanship of the Committee in time for the 2021 Annual General Meeting.

The structure for the Supervisory Committee as it stands in March 2021 is:



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

In February 2017 we conducted a competitive tender and procurement exercise which resulted in the appointment of Alexander Sloan. This appointment was ratified by the Board and Members during the Annual General Meeting on the 25 April 2017. The contract was for 2 years with an option to extend for an additional year if both parties agreed. (Y1: 2018, Y2: 2019, Y3: 2020)

The option to extend for the third year was agreed by the Board and applied to the most recent set of accounts. As this was the third and final year, invitations to tender were published in January 2021 and submissions were collated for evaluation in late February early March.

We received 5 responses which were independently evaluated and assessed against the scope of required works and scored based on the following criteria:

- 60 marks were made available for **price**
- 40 marks were made available for **quality**

The outcome of this exercise forms the following recommendation to Members:

Recommendation 2:

Alexander Sloan be re-appointed as external auditors for Kent Savers Credit Union for the accounts from 30 September 2021 and 30 September 2022.

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?	Attended By:
28 April 2020	✗	Covid-19 response
26 May 2020	✗	Covid-19 response
30 June 2020	✓	RH & MK
July meeting held on 04 August 2020	✓	RH
25 August 2020	✗	
29 September 2020	✓	MK (part)
27 October 2020	✓	MK & RH
24 November 2020	✓	MK
December meeting held on 05 January 2021	✓	RH
26 January 2021	✓	RH & MR
23 February 2021	✓	RH & MR
31 March 2021	Annual General Meeting	

The Board meet monthly and met 12 times in in the year. The Supervisory Committee, either as a group or individually, have been present at the majority 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.

The Supervisory Committee has met independently three times. The purpose of these meetings was to discuss and agree our work plan (**appendix b**) for the year and consider how to further develop and enhance the Committee. Our plan was presented to the Board for comments in October 2020 and sets out our priorities, duties, and key projects for delivery over the next 12 months.

In July 2020 Committee members attended a virtual briefing and training session focussed on compliance and oversight, areas of which were incorporated into the work plan. In addition, the Committee attended sessions at the ABCUL Annual Conference in March 2021.

Our current work includes the annual PRA audit review (for 2019 and 2020) and revised process mapping in advance of re-commencing regular compliance checks. This work was halted in the year due to Covid-19 and to enable us to align with the implementation of the Incuto project.

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 Supervisory Committee work plan and will be revising the quarterly checks to align with the new Incuto processes
<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 plan and priorities Follow-up of new members audit findings
<i>Undertake the procurement and appointment of suitable External Audit for the Credit Union, and provide oversight and support where necessary</i>	Open procurement exercise in progress in preparation for September 2021 accounts
<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 on 31 March 2021
<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 2020/21
<i>Consider relevant matters referred to them by the Board</i>	We have had no matters referred to us from the Board 2020/21
<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>	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 work plan has enabled us to re-prioritise our areas of focus for the Committee including our own development. Successful recruitment during the year has increased the skills, experience and knowledge within the Committee and will strengthen our succession for the future.

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.

SUPERVISORY COMMITTEE WORK PLAN



Chairman of the Committee
Russell Heppleston



Members of the Committee
Martin Kingman
Muhitur Rahman



Supervisory Committee Membership

Continuous

To grow the skills, expertise and knowledge of the Committee so that it can operate effectively to provide robust oversight, challenge, insight and added value.



Regulatory Compliance

TBC

To be developed in 21/22

To ensure that the Committee is best placed to support the delivery of the regulatory compliance regime and is able to provide foresight on changes to requirements



Board Oversight

Monthly

To maintain a regular presence at Board meetings to provide robust oversight, challenge and stimulate debate.



Quarterly Audits

Quarterly

To deliver a programme of quarterly internal audit checks over key systems and processes. Reporting outcomes to the Board, including any actions for control improvements



Planned / Reactive Audits

Quarterly

To undertake a programme of planned audit projects aligned to the policy framework for the CU & reactive audits of specific risk issues. Reporting outcomes to the Board, including any areas of non-compliance.



Profile & Networking

Continuous

To connect with other Supervisory / Compliance functions to share and develop good practice and raise the profile of the Committee within the Sector

THINGS WE NEED TO DO...



Supervisory Committee Membership

Lead: Russell Heppleston

Continuous

Key tasks to do:

Attend relevant training sessions and webinars to support development of Committee Members

Undertake an annual evaluation of skills, competencies and knowledge (in line with current skills evaluation template)

Devise a training and development plan for the Committee

Develop a succession plan for the Committee to cover the next 3 years including rotation of Chairmanship and recruitment of new members

What are the benefits:

- Increased resilience will ensure that the Committee remain active and contributes to the effective running of the CU
- Rotation of Chairmanship reinvigorates the Committee and bring new ideas and approaches
- Greater skills, knowledge and expertise of the Committee will create greater value insights and value

How will we measure success?

Training log and hours recorded to support professional development

Publication of annual report to Board and Members

Successful recruitment and induction of new Member to the Committee



Regulatory Compliance

Lead: [vacant]

To be developed

Key tasks to do:

To be developed in 21/22

What are the benefits:

- To be developed in 21/22

How will we measure success?

To be developed in 21/22

THINGS WE NEED TO DO...

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Board Oversight

All Committee Members

Monthly

Key tasks to do:

Attend monthly Board meetings

Fully prepare for each meeting, including reading the Board pack/reports

Present progress against delivery of Supervisory Committee work plan

Participate and contribute to Board meeting – providing challenge and debate over key decisions

Record possible implications for Supervisory Committee and note actions

Fulfil regulatory obligations (P&P, CREDS/SYSC) with regards to Directors conduct and activities (i.e. related parties, complaints, disciplinary)

What are the benefits:

- Independent challenge to the Board helps to maintain effectiveness and due diligence
- Demonstrates compliance with Committee ToR and good governance principles
- Creates forum for discussion over improvements to the CU control environment and compliance regime

How will we measure success?

% of Board meetings attended annually (reported through the Committee annual report)

% actions allocated to, and completed by the Committee

Board minutes and associated notes

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Quarterly Audits

Lead: Russell Happleston

Quarterly

Key tasks to do:

Undertake following audits on a **rolling quarterly** basis:

- New Member Applications (processed for the quarter)
- Loan Applications (approved for the quarter)
- Loan Applications (declined for the quarter)
- Credit Control (compliance with process)
- Bad Debt Management (Not write offs)

Identify key risks, internal controls and test effectiveness

Following agreed audit procedure, plan, conduct and report outcomes to the Board

Track audit actions and test implementation – report outcomes to the Board

What are the benefits:

- Independent assurance to the Board on the effectiveness of the control environment
- Strengthening of control measures to manage risks and support achievement of objectives
- Regulatory compliance and principles of good governance
- Recommendations for improvement (economy, efficiency and effectiveness)

How will we measure success?

Publication of internal audit reports each quarter

% of audit actions agreed and implemented

Monitoring and reporting of measurable outcomes from audit recommendations

THINGS WE NEED TO DO...

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Planned / Reactive Audits

Lead: Martin Kingman

Quarterly

Key tasks to do:

Minimum areas for audit coverage set out in **CREDS 2.2.45**

Undertake periodic audits of key policies, procedures and risk issues (including, but not limited to):

- AML, Data Protection, Declaration of Interest,
- Write Offs and Credit Control
- Approved deposits
- Governance (as per the Code of Governance and Good Practice for Credit Unions)
- Risk Management

Audits will review effective of controls, highlighting any areas weakness and reporting outcomes to the Board

Reactive audits of key risk issues will likely be one-off reviews and the scope and parameters presented to the Board

Track audit actions and test implementation – report outcomes to the Board

What are the benefits:

- Independent assurance to the Board and Management the policy is being complied with
- Identification of areas for improvement
- Recommendations for policy updates and implementation of recognised good practice

How will we measure success?

Publication of compliance reports to the Board

% of audit actions agreed and implemented

Monitoring and reporting of measurable outcomes from audit recommendations

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Profile & Networking

Lead: Muhitur Rahman

Continuous

Key tasks to do:

Join ABCUL and actively network with other Supervisory Committee Members

Read, research and participate in Supervisory Committee discussions and threads

Attend training events and networking events to raise profile and expertise of the Committee

Publish outcomes of Supervisory Committee reports to the Board and Annually to Members

What are the benefits:

- Sharing of good practice and learning from other Committee's will enhance the contribution of the Committee
- Raised profile will enhance reputation and may lead to greater influence within the Sector
- Increased knowledge sharing of the Committee will support succession and increase likelihood of successful recruitment

How will we measure success?

Reporting of outcomes and learning to the Committee and up to the Board

Publication of annual report

Extract from CREDS 2.2.45 setting out minimum audit coverage

System of Internal Control

The system of internal control is the process for assuring achievement of the credit union's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.

Assurance over the system of internal control is provided mainly through completion of the internal audit plan, which takes into account the key risks in each area of the credit union's business. The objective of each audit review is to determine the adequacy and effectiveness of the controls in place to address those risks.

Minimum Areas for Internal Audit

Areas that should be covered CREDS 2.2.45

- Verification of cash (counting and reconciliation) without prior notification
- Bank reconciliation (checking records against bank statements)
- Verification of passbooks or account statements
- Checking compliance with policies and procedures
- Checking compliance with relevant Acts, secondary legislation and rules
- Checking minutes and reports of the Board for compliance, and assessing regularity and completeness
- Checking loan applications
- Verification of the credit unions assets and investments

Areas that should be covered (risk based)

- Physical Cash and Negotiable item count;
- Review of Investments;
- Bank Account reconciliation;
- Random Sample and review of outstanding loans and loans granted in past 6 months;
- Review of loans on the delinquent loan list;
- Compliance with policies and procedures;
- Determination that general ledger account balances with their subsidiary ledgers;
- Verification of opened and closed accounts;
- Review of employee and directors savings, shares and loan accounts; and
- Review of internal control reports.