middle level commissioners

administered IDBs

IDB Internal Controls

Note the Financial Code for each Board is shown within the Board's Governance Documents available on its webpage via https://middlelevel.gov.uk/about/internal-drainage-boards/

- Duties are delegated between staff.
- The segregation of duties for operations is to, as best as possible, ensure that no one person has control of a single operation from start to finish.

  However, operating with a small number of staff there are circumstances where compromise is needed and the allocation of duties is made after assessing risk and mitigation.

For the purposes of this schedule the term Board refers to both Internal Drainage Board and Commissioners.

Post received:	Post is opened and recorded in a post book. Post is distributed to the relevant department when received.
Control objective	To ensure there is a record of all post received and its distribution, in the first Instance to the intended recipient.
Sales:	Instructions for the raising of sales invoices are given to the relevant finance officer for processing. For regular charges raised at prescribed intervals the finance officer will raise the invoice at the appropriate time – however, there will be an instruction/resolution from the board in place for these charges. Sales invoices are raised and posted through the computerised accounting software. Sales/nominal coding is approved by a senior finance officer. Invoices are checked for accuracy and sent to the customer. Copies are filed in an outstanding invoice file. Credit notes will need to be authorised from the IDB, unless required for correction of an administration error. When payment is made, the receipt is posted to the customer account in the sales ledger with a corresponding posting to the bank account in the accountancy software to clear the balance. Any under-payments are followed through back to the source instruction on further action that may be required.

The ledger control accounts are updated with the charges and receipts.

Any cash or cheques received are banked in person at a branch of the Boards bankers.

Where sales invoices remain out-standing they are chased monthly.

Instructions to pursue debt balances formally with legal action will require instruction from Board level.

Control objective: To give a clear distinction between authorisation for invoices to be raised and the finance officer raising the invoice and also then to the credit control function in receipt/allocation of payments.

Although standard collection procedures will be made there will be a formal instruction to proceed with legal action for the collection of old balances as this is likely to incur additional costs to the Board.

Agricultural drainage rates, special levies:

Immediately following the Board meeting at which the rate was approved, the Boards RFO (Responsible Financial Officer) or deputy will complete the instruction sheet for the raising of agricultural drainage rates and special levies. This will detail the penny rate as is required for the demands. This will be handed to the finance officer responsible for the raising of drainage rates and special levies.

The finance officer will prepare the rate sheets, special levy notices, notices for display and accompanying letters and return to the RFO. The RFO will check the detail and when agreed seal the rate sheets with the Boards seal and record the record in the sealing book, handing the signed and sealed documents to the finance officer for processing through the bespoke rating software.

Write-offs:

Write-offs for agricultural drainage rates are required to be approved by the Board, and recommendations are put before the Board at meetings. The clerk for the meeting is responsible for instructing the finance officer of any approvals for write-offs for drainage rates.

Having received the relevant information/instruction the finance officer processes this through the bespoke rating software to raise the agricultural drainage rates for the year. The notices for special levy are sent out by post at this time. A record of when the rates and special levies/notices were sent is kept.

Agricultural drainage rates for Boards outside the Middle Level will be sent at the time of being raised.

Agricultural drainage rates for boards inside the Middle Level will generally be sent shortly after the last administered board has met and set its rate. This is to ensure that where a ratepayer has land in multiple boards, as well as the Middle Level, rate demands for all authorities are sent together.

Information concerning the financial transactions within the bespoke rating software is either transferred into the accounting software or entries are made manually. Special levy transactions are entered manually into the accounting software to the individual authority accounts within the sales ledger module.

If applicable to individual Boards, penalty notices for outstanding drainage rates are applied at the applicable time (note penalty dates for Boards differ.) Although agricultural drainage rates are due on demand, the collection process for outstanding balances is started following the issue of penalty notices or aligned with the collection process of the Middle Level (following the Middle Level penalty date - 31st October).

Penalty notices on unpaid rates are sent as soon as practicable following the penalty date.

Reminders are sent out in November, December, January.

Payment of drainage rates can be made by cash, cheque, bank giro, electronic banking, credit/debit card, direct debit. Allocations for receipts are made by the finance officer into the bespoke software and also into the accounting software. Regular reconciliations are made between the two programmes.

The ledger control accounts are updated with the charges and receipts.

<u>Change of occupier/owner:</u>

The finance officer is responsible for changing rate assessments following receipt of details concerning change of owner/occupier. Details in writing are required before assessments are changed/updated.

<u>Determinations of area/value:</u>

Following instructions for the change of use of land, increases/decreases in area/value, the rating officer will prepare a schedule for the next meeting of the board. Following the meeting the finance officer will process the determinations through the bespoke rating software.

All determinations are required to be approved by the board. The clerk for the board meeting is responsible for instructing the finance officer of any approvals for write-offs for drainage rates.

Where drainage rates remain unpaid the ratepayer is sent three reminders over a period, being a debt letter, notice of court summons and court summons.

If payment remains outstanding the debt is taken to the Magistrates Court for issue of a liability order.

Bailiffs are instructed to enforce liability orders issued by the Magistrates.

Control objectives: To ensure the correct instruction for charging of drainage rates is processed and that the correct notices are displayed within the prescribed time frame.

To ensure that any rate write-offs have been properly approved by the board.

Due to the complexity of administering the bespoke rating software, the majority of the processes are carried out by a single finance officer, although there are others trained to do so, and assist with operations through the year.

Rates are raised for the whole district through the software, not individually.

The rates, special levies are checked as being correct through control accounts and budget monitoring and write-offs require Board approval and are checked through budget monitoring and as part of the independent internal audit process. It is therefore considered that through internal controls/checks and additional trained staff any potential risk in having the majority of functions carried out by one officer have been mitigated and the system provides the best efficiency and value for money.

Purchases:

Boards with their own employees generally have their own order books and it is recommended that official orders are made out for all purchases.
For major purchases, contracts, capital works it would be expected that there would be a Board resolution for approval which could be used for verification.
Board employees/members should send in orders/delivery notes on a routine basis to the office.
Upon receipt of an invoice this should be matched up against order and delivery note.
Invoice for works/schemes being organised by/through the Middle Level offices should be sent to the relevant department for checking/approval before being returned to the finance department.
Standard checks are carried out on the invoice to make sure it is addressed correctly, VAT is correctly entered to allow it to be reclaimed, the invoice is arithmetically correct and is for expenditure properly incurred by the Board.
The invoice is now entered onto the accounting software. Coding for standard expenditure is done by the finance officer, coding for new/major works is authorised by the RFO or deputy.
Before sending the invoice is entered on a control log detailing all invoices sent out for approval.

The invoice is generally sent to the chairman for approval for payment. In instances where the chairman has an interest in the invoice/payment the invoice is sent to the vice-chairman or another Board member for approval.

Generally, invoices are paid by electronic banking but in instances where payment is to be made by cheque a cheque is made out and sent with the invoice for signature.

When received back it is marked as received on the control log.

Payment of the invoice is generally made by electronic banking. The finance officer enters the payment on the internet banking and passes it to the RFO or deputy for payment approval. Before digitally signing the payment the RFO or deputy carries out a general check on the invoice for final confirmation – ensuring that it has been properly authorised by a Board member. Normally only payments that have been authorised by a Board member should be paid but in exceptional circumstances the RFO or deputy should make all necessary

checks to make sure the invoice is correct and look to get a minimum of email confirmation from the chairman or Board member.
Where payment is made by cheque the cheque is counter-signed by either the RFO or deputy.
The payment is posted to the supplier purchase ledger account/bank in the accounting software.
The finance officer will send a remittance advice out as considered necessary.
Once paid the invoice is marked with a payment reference and filed.

Payment details are entered into the control account schedules.

Control objective: To check/verify that invoices are valid and correct before processing.

To ensure all invoices due for payment are authorised by a Board member before payment is made.

The Board's electronic banking is a two-part process. The first part is entry onto the system and the second part is authorisation for payment. These have to be carried out as separate processes by separate individuals. Only the RFO or deputy are approved to authorise payment and they cannot enter for payment and authorise, it being a two-part process. This is a major control to ensure no one person has authority to make a payment on their own.

<u>Bank:</u> Cheque books are retained in a secure strong room.
Cheques have to be signed by two individuals, usually chairman or vice-chairman, together with the RFO or deputy.
The RFO and deputy are authorised to make payments from the Boards electronic banking facility.
The Board electronic banking is a two-part process. The first part is entry onto the system and the second part is authorisation for payment. These have to be carried out as separate processes by separate individuals. Only the RFO or deputy are approved to authorise payment and they cannot enter for payment and authorise, it being a two-part process. This is a major control to ensure no one person has authority to make a payment on their own.

Beneficiaries are set up on the Boards electronic banking facility.
Putting a new beneficiary on the system or changing an existing beneficiary is a two-part process, the same as payment authorisation and one person cannot enter and authorise a beneficiary.
Separate verification of new supplier/change of bank details is made prior to entry into the electronic banking system. The minimum requirement is telephone confirmation with the supplier telephone number being verified independently of details provided with notification.

Bank accounts are reconciled monthly between balances on the electronic banking and the Boards electronic software.

All automatic receipts and payments shown on the bank statement are entered into control account schedules when received.

Control objective. With a small number of staff, it is not possible to have a further member of staff to process the bank reconciliation (staff processing purchase, sale, rates).

However, the risk has been considered as minimal in that the process is reconciling transactions already authorised and the control objectives already in place are considered sufficient. As part of the internal control process the bank reconciliation/balances are reconciled by a senior finance officer monthly which provide a further control check on transactions through the banking accounts.

Payroll: Timesheets are received and checked.

If not already seen by the chairman, a copy is forwarded for approval.

Hours, payments and deductions are added from the timesheet and totals input into the accountancy software programme.

The wages/salaries programmes are updated weekly/monthly following successful calculation of the previous periods' payroll – tax NIC and deduction tables are updated by the software provider as required with statutory changes.

Payroll reports and summary reports are printed and checked as being correct. When confirmed as being correct, wages/salary net pay is paid to the employee – this is by Barclays payflow with telephone coded confirmation required three days in advance of payment due date.

The payment of PAYE/NIC is processed/paid via Real Time Information (RTI).

Employee/employer pension contributions are submitted to the relevant pension provider and paid in accordance with scheme requirements. – either direct debit or payment through internet banking.

Payroll details are entered into the control accounts schedules.

Control objective.

Checks are carried out randomly on different boards/employees against gross pay, deductions and net pay to confirm correct payment of wages/salary and deductions.
Checks and payments are made independently of processing.
Routine monthly control account checks confirm wages/salary payments are as authorised by the board and that deductions are paid to relevant bodies in a timely manner.

Control accounts: At each month-end a bank reconciliation is made which balances the entries in the accountancy software to the bank statement.

At each month-end ledger controls are updated and balanced to the entries in the nominal ledger.

Ledgers reconciled are:

Bank accounts, sales ledger, rates ledger, purchase ledger, VAT ledger. Totals from bank statements are checked and input to control accounts – the bank statement is initialled as checked and confirmed.

Control objective Although the controls are primarily to check postings into the nominal ledger, from which the boards financial statements are produced, they also give a further routine check of correct processing and that payments/receipts are being made/received in a timely manner.

Annual rating estimates:

A annual budget proposal is produced which is presented to the Board for setting of the annual agricultural drainage rates and special levies. Depending on the requirements of individual boards these are either drawn up by the boards responsible financial officer or in conjunction with chairman/vice-chairman/finance committee.

Once rates have been set by the Board they are processed and sent - see section-A*gricultural Drainage Rates and Special Levies.*

The Board are required to carry out a monitoring exercise to check the progress of actual income/expenditure against budget. For Boards that hold a second winter meeting this exercise is presented to the Board for approval. For all other Boards the monitoring schedule is initially sent to the chairman for comment and then put on the members section of the web-site. The exercise is completed at the end of December with a forecast to the end of the financial year.

Control objective To provide a control of actual income/expenditure against the budget from which rates were raised, giving the opportunity for the Board to make adjustments to works programmes should the exercise indicate income/expenditure varying significantly from the budget.

Financial accounts: Using the accountancy software nominal ledger, control accounts, budget estimates, details/reconciliations of debtors and creditors the boards annual management accounts are produced. Revenue income/expenditure is reconciled against the update for budget monitoring which is updated through the financial year.

A statement of accounts is prepared from the management accounts in the format to complete the financial sections in the Annual Governance and Accountability Return (AGAR).

A reconciliation between the management accounts and the AGAR is completed. A schedule comparing the AGAR figures to the previous financial year figures is prepared, together with an explanation of variances.

A list of payments is made with details of what the expenditure was for.

The management accounts, AGAR, reconciliation between accounts and AGAR, list of payments, bank reconciliation are presented to the board for approval.

When approved by the internal auditor and board the AGAR and required schedules/supporting documentation is forwarded to the board's external auditor.

An audit file is compiled consisting of the control accounts, financial accounts, nominal ledger, asset/depreciation schedules, creditor and debtor schedules, payroll information, journals, management accounts, rates reconciliation, reconciliation between statement of accounts and AGAR together with explanation of variances for presentation to the internal auditor.

Control objective

Regular checks through the year of processing, monitoring, controls give a high degree of confidence in the nominal ledger from which the boards financial statements are produced. This allows the year-end process to be completed efficiently.
Board members are presented with figures/schedules for review and approval.

Internal audit:

An internal audit of the accounting systems is undertaken by an appointed Internal Auditor. The auditor carries out regular work throughout the financial year and is required to sign off the AGAR. The Internal Auditor normally reports through the clerk but if required direct to the board through the chairman. The report is normally in the form of an annual management letter which will detail any concerns raised together with any recommendations for the board to consider.

The Internal Auditors report is presented to the board at the next earliest opportunity.

External audit:

Following completion and approval of the management accounts and AGAR, these are sent, together with supporting documents to the appointed external auditor.

The external auditor reports to the board by completion of the relevant section on the AGAR through the clerk.

The external auditor’s completion statement and comments are presented to the board at the next earliest opportunity.