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Internal Controls

This document summarises the key internal controls in place to manage the Middle Level Commissioners' financial interests.

Note the Financial Code for the Commissioners is available within the Governance Documents on the website. This document also includes a framework of delegated authority.

- 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 means 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 generally refers to Middle Level Board as well as the Commissioners.

Although the Board has a number of delegated duties there remain some functions that are required under the Middle Level Acts to be approved by the Commissioners.

The delegation of authority of the Commissioners is:

Commissioners:	Appointees	Agricultural land owner/occupier and local authority Appointees.
	Duties	As detailed in the Middle Level Acts.
Board	Appointees	Agricultural members appointed by the Commissioners Local authority appointees.
	Duties	As delegated by the Acts/Commissioners
Executive Committee	Appointees	Committee appointed by the Commissioners
	Duties	As delegated by the Commissioners/Board
Sub-committees	Appointees	Committees appointed by the Commissioners/Board
	Duties	As delegated by the Commissioners/Board

<u>Governance:</u> The Clerk (Chief Executive) is responsible for ensuring the Commissioners, Board and all committees carry out their duties in accordance with their

approved policies, procedures and governance; all decisions taken are in accordance with all relevant regulations and legislation and are lawful, ensuring the authority has proper legal authority to take such decisions.

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Post received	Post is opened and recorded in a post book. Post is distributed to the relevant employee/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 finance officer for processing. For regular charges raised at prescribed intervals the finance officer will raise the invoices 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 invoices” file until payment is made. Credit notes will need to be authorised by the clerk, unless required for the correction of an administration error. When payment is made, the receipt is posted to the customer account in the sales ledger, which also posts the receipt into the cash book module. Any under-payments are followed through back to the source for instruction for further action as may be required. The ledger control accounts 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 outstanding, they are chased monthly. Instructions to pursue debt balances formally with legal action will require instructions 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/allocations. Although standard collection procedures will be made there will need to 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/Commissioners meeting at which the rate was approved, the Commissioners 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 Commissioners 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 Commissioners, and recommendations are put before the Board for recommendation to the Commissioners. The clerk 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 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.

Penalty notices for outstanding drainage rates are applied in accordance with the (Middle Level) Acts. Although agricultural drainage rates are due on demand, the collection process for outstanding balances is started following the issue of penalty notices (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.

Change of occupier/owner:

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.

Determinations of area/value:

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/Commissioners.

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: Departments generally have their own order book and it is recommended and it is policy for an official order to be made for all purchases.

For the majority of purchases, contracts, capital works it would be expected that there would be a Board resolution for approval which could be used for verification.

All orders should be sent as soon as possible after being raised to the finance department.

Delivery notes and invoices should be sent to the finance department when received.

The finance officer matches orders, delivery notes, invoices.

A log is made/kept of invoices received for processing.

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.

Invoices are sent to the relevant department head for confirmation of correctness and approval for processing.

Approved invoices from department heads are then forwarded to the chief engineer/clerk for approval for payment.

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.

When fully approved and entered onto the accounting software invoices are filed for payment.

Payment falls into three categories:

- Paid by direct debit (generally already paid)
- Due for immediate payment
- Payment by normal; terms – payment to be received by the end of the month following invoice date.

Payments can be made by direct debit, cheque or electronic banking.

Payment approval – members:

All payments made are required to be approved by a Board member. It is policy to pay the majority of suppliers in the normal monthly payment run. A list is drawn up of payments due which is required to be approved by a Board member before payment is made.
Note, procedures during the covid pandemic were changed to allow approvals to be made in accordance with Government requirements.
This involves the listing having general details of each payment being made to give a brief description of goods/services and allows the list to be

viewed/approved remotely. The approving member further has the opportunity to contact the relevant officer concerning individual payments.

Payment authorisation is made by signature of the Treasurer or Deputy. 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 Treasurer or Deputy for payment approval. Before digitally signing the payment, the Treasurer or Deputy carries out a general check of the invoice as a final check – ensuring that it has been properly authorised for payment.
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.

Control objective: To check/verify that invoices received are valid and correct before processing.
To ensure that all invoices due for payment are properly authorised before payment is made.
The Commissioners 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 Treasurer and 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.
The process of received invoices and entry into the purchase ledger and the process of payment are carried out by different finance officers to give a degree of segregation of duties. Further, authorisation of payment is carried out by a third officer who will carry out further checks/approvals as considered necessary.

<u>Bank:</u> Cheque books are retained in a secure strong room.

Cheques have to be signed by either the Treasurer or Deputy.
The Treasurer or Deputy is authorised to make payments from the Commissioners electronic banking facility.
The Commissioners electronic banking payment system 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 Treasurer and 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 Commissioners 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 the notification.

Bank accounts are reconciled monthly between the balances on the electronic banking system and the Commissioners accounting 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 process purchase. Sales, rates). However, the risk has been considered as minimal in that this 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 officer monthly which provides a further control check on the transactions through the banking accounts.

<u>Payroll:</u> All employees are paid monthly through two payroll processing modules. These were originally for weekly paid employees and monthly paid employees. "Weekly paid" employees submit weekly time-sheets and monthly paid employees are paid 1/12 monthly of their approved salary.
Registers are kept for all employees showing their approved salary, basic, overtime and additional allowances. This is updated if the Board approve any spine point increases and annually with the annual pay award.

Weekly paid employees:
Time-sheets are submitted weekly as soon as possible following the end of the week. These are collated by the payroll clerk who distributes them to department heads for coding. When received back hours/rates are calculated and the weekly costs are entered into the payroll analysis sheets to give a breakdown of costs for individual jobs. These are entered through the payroll module into the nominal ledger by journal. The payroll analysis sheets have a control check to reconcile gross costs to individual job costs to ensure all costs have been properly accounted for.
Weekly/basic/overtime/additional allowances are updated in the payroll software and payment is processed/calculated monthly.

Salaried staff:
Payroll is processed monthly based on 1/12 of approved annual salary.
These amounts are held within the payroll software and are approved at the start of each financial year by the Treasurer. *(Note – the monthly payroll control account will identify changes to the standard approved amount – if there are differences, checks can be followed up by the Treasurer).*

Travel expenses:
Monthly travel expense claims are collated and checked by a separate finance officer to the payroll clerk. Schedules are drawn up for amounts to be paid and analysed for costing.
Before payment is processed the travel claims are authorised by the clerk and the analysed sheets are checked by the Treasurer.

Deductions:
Statutory deductions (tax and national insurance) are held within the payroll software – these are updated by the software supplier as required following changes approved by Parliament.
Employee and employer pension contribution rates are held within the payroll software.
Payroll reports and summary reports are printed and checked as being correct. When confirmed as correct, wages/salary net pay is paid to the employee – this is (currently) by Barclays pay-flow with telephone coded confirmation required three days in advance of payment due date.
The payment of PAYE/NIC is processed/paid via Reat Time Information.
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 control account schedules.
The wages/salary programmes are updated monthly following successful calculation of the previous periods' payroll.
Payment of monthly salaries is made on (or as close to) the 15th of each month. *(two weeks in arrears, two weeks in advance).*

Control objective: Checks are carried out randomly on different 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.
There is a segregation of duties between processing/calculation and payment along with independent random checks. This together with the Treasurer providing a supervisory role for inputs into the payroll as well as carrying out routine monthly control accounts is considered sufficient for the size of the payroll and staff.

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 control accounts are updated and balanced to the entries in the nominal ledger.
Ledgers reconciled are:
Bank account, 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 control accounts are primarily to check postings into the nominal ledger, from which the Commissioners 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 budgets/
Estimates

A detailed annual budget is produced which is presented to the Board for setting of the annual agricultural drainage rates and special levies.

Budgets are drawn up with consultation with department heads, chief engineer and clerk to identify works programmes (revenue and capital) for the coming year.

Once rates have been set by the Commissioners they are processed and sent - see section – *Agricultural Drainage rates and Special Levies.*

The Commissioners are required to carry out a monitoring exercise to check the progress of actual income/expenditure against budget.
These are produced monthly with an update forecast made at half year, three quarter stages.

June	First quarter monitoring exercise carried out – schedules reviewed by staff department heads and executive committee
July	Monitoring exercise reviewed by staff department heads.
August	Monitoring exercise reviewed by staff department heads
September	Monitoring exercise for income/expenditure to half-year point together with forecast to end of financial year. Reviewed by staff department heads and executive committee. Schedules and report made to the Board.
October	Monitoring exercise reviewed by staff department heads.
November	Monitoring exercise reviewed by staff department heads.
December	Monitoring exercise for income/expenditure to the three-quarter point together with forecast to end of financial year. Reviewed by staff department heads and executive committee.
January	Monitoring exercise reviewed by staff department heads.
February	Monitoring exercise reviewed by staff department heads.
March	Monitoring exercise for income/expenditure to year-end point. Reviewed by staff department heads and executive committee. Schedules and report made to the Board.

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

The Management Accounts and AGAR, reconciliation between accounts and AGAR, bank reconciliation are presented to the Board for approval.

When approved by the Board and Internal Auditor the AGAR and required schedules/supporting documentation is forwarded to the Boards external auditor.

An audit file is completed consisting of the control accounts, financial accounts, nominal ledger, creditor and debtor schedule, payroll information, journals, management accounts, rates reconciliation, reconciliation between statement of accounts and AGAR together with an explanation of variances for presentation to the internal auditors.

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 figure/schedules for interrogation 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 auditor currently supplies a detailed report of the audit on the AGAR and systems which is required as part of the AGAR submission. A further detailed report is then produced, which also includes financial accounts to UK (GAAP) standards – a position the auditor considers appropriate for the Commissioners.
The Internal Audit reports are presented to the Board for approval 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 and comments are presented to the Board at the next earliest opportunity.

Navigation: As is required by the Middle Level Navigation Act 2018, separate accounts recording the transactions concerning Navigation are kept. These are a separate section within the main Middle Level accounts. All transactions within the navigation accounts are subject to the same internal audit requirements as for the main Middle Level accounts. As part of the 2018 Act the navigation accounts are to be subject to audit and it is a requirement of the internal auditor appointment that these statements are subject to audit compliance within the requirements of the Act. The internal auditor reports on the audit of the Navigation account as a separate item within the final audit report.