

# Final Internal Audit Report

## New Supplier Set Up

### October 2021

Distribution: Interim Corporate Director of Resources (Section 151) Deputy  
Chief Executive  
Director of Commissioning & Procurement  
Head of Commissioning and Procurement Corporate

Assurance Level	Issues Identified	
Limited Assurance	Priority 1	1
	Priority 2	4
	Priority 3	1

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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**Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.**

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## 1. Introduction

- 1.1 The choice of a supplier has significant impact on the cost and quality of services provided by Croydon Council (Council). Supplier risk can involve a supplier over promising and under delivering, violating the contract/agreement etc.
- 1.2 The supplier selection process begins with defining the need for goods or services for the Council and ends with selecting and contracting the chosen supplier. It is governed by a set of rules that are agreed and communicated to staff. These include 'P2P Guidance Document', the 'Tendering and Contract Regulations' and the 'Procurement Governance Handbook', as well as legislative requirements, such as IR35, Money Laundering and Modern Slavery.
- 1.3 All new supplier registration requests need to be processed through the My Resources system by a requisitioner (using the Iprocurement module).
- 1.4 This audit focused on the process, from the supplier request form being completed and setting up each supplier. This did not cover procurement and supplier selection processes.
- 1.5 The fieldwork for this review was completed during the government measures put in place in response to Covid-19. While our review and testing was performed remotely, we have been able to obtain all relevant documents required to complete the review.
- 1.6 This audit was conducted as part of the agreed Internal Audit Plan for 2020-21.

## 2. Key Issues

### Priority 1 Issues

Instances were identified where iProcurement access had been granted without both the relevant Director authorisation and the Buying Team's approval. **(Issue 1)**

### Priority 2 Issues

31 out of 59 users with iProcurement access had not completed the requisitioner training e-learning module. **(Issue 2)**

49 supplier registrations in year 2020 were still pending approval to be set up in the system. **(Issue 3)**

Testing of a sample of seven new supplier registrations for individuals identified one instance where the supplier was set up without evidence of the IR35 panel's approval. **(Issue 4)**

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Examination of the records held for new suppliers was unable to determine what checks had been conducted for each of these new suppliers. **(Issue 5)**

The Priority 3 issue is detailed in area 4 below.

**3. Actions and Key Findings/Rationale**

**Audit Area: New Supplier Request**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
1	<p>1) Where we are missing a form from your list we have/will emailed the officer requiring this to be returned to us within two weeks and stating if it's not returned then access will be removed.</p> <p>2) We will be comparing the full list of requisitioners with those we have forms for to see and take the same action for these requisitioners</p> <p>3) My Resources Support Team are amending their process going forwards to ensure that this issue does not happen in the future: their proposed process is as follows:</p> <p>An employee can only get access to relevant roles in My Resources once their line manager has completed and signed My Resources user request form and raises a FreshDesk ticket.</p> <p>If the access form contains a request for Procurement role or if</p>	<p>A requisitioner is an employee with a procurement role that can request a new supplier registration and create requisitions for purchases. The current pool of requisitioners was agreed with the Council's Director Leadership Team (DLT) to help control the number of users with access to iProcurement. The 'My Resources: Frequently Asked Questions' guidance document explains that iProcurement access is requested through a 'iProcurement User Access Form' evidencing Director's authorisation being submitted to the Buying Team for final review and approval.</p> <p>Testing of the set up and approval of a sample of ten new requisitioners (set up since 1 January 2020) identified:</p> <ul style="list-style-type: none"> <li>• three instances (MyR User Account 7000905, 2002623 and 2001128) where access had been obtained by completing a standard 'My Resources (Oracle) User Access Request Form' to My Resources Support with only line manager approval. In each of these cases the setup of each user's access had been completed by mirroring an existing user, where the existing user used had iProcurement access.</li> <li>• One instance where the user request form could not be found (MyR User Account 7000889). The My Resource Support officer subsequently confirmed that the iProcurement access was applicable to the user's role as an accountant.</li> </ul> <p>Where iProcurement access is not reviewed by the Buying Team, there is a risk that inappropriate access is granted which is not aligned with the employees' roles and duties.</p>

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the line manager has requested an employee's profile to be mirrored or copied from an existing employee, the Support team would grant access to all relevant roles except Procurement access, for which the line manager has to contact the Buying team directly, which is documented in the user request form and the Croydon's intranet page.

Buying team will review the request and if approved by them, would create a Freshdesk ticket requesting access of iProcurement role to the specific user.

The other scenario when a user would automatically be assigned a procurement role is when that user who has an existing Procurement role, moves from being a Contingent (/Agency) worker to a Permanent member of staff where the old user account would be disabled and a new user account is setup.

We have identified that there are possibilities of human error while replicating the access to a new employee and missing to check if one of the roles are Procurement

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related. To avoid this, the Support Team have agreed to review an existing report monthly, which lists the users and the roles assigned, and check if the Procurement role assigned in that month to the users, has been requested / approved by the Buying team.		
Responsible Officer	Deadline	
Strategic Procurement Manager / Oracle Application Support Manager	Point 1 – 31/10/21	
	Point 2 – 31/10/21	
	Point 3 – 31/10/21	

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Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2				
2	<p>It is believed that the issues were caused by the issues in Issue 1 and implementation the actions in Issue 1 would solve the issue.</p> <p>However, the following is proposed for surety:</p> <p>Refresher training for Central Buying Team on new requisitioner approval process to include check for evidence of completed training.</p>	<p>The e-learning module 'Procurement Requisition and Receipting' has been developed to provide knowledge of the requisition process. This training is mandatory for new requisitioners and is required to be recorded on the 'iProcurement User Access Form'.</p> <p>Examination of a list of users which were assigned the iProcurement role between 1 January 2020 and 31 January 2021 established that 31 (out of 59) requisitioners had not completed the e-learning module.</p> <p>Testing of a sample ten new requisitioners found four instances (MyR User Account 098290, 7000905, 2002623 and 2001128) where the required e-learning had not been completed. All four of these cases were where iProcurement access had been inappropriately granted through My Resources Support (refer issue 1).</p> <p>If requisitioners do not complete the e-learning module 'Procurement Requisition and Receipting', there is a risk that they may not understand and comply with the procurement policies, processes and practices.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Strategic Procurement Manager</td> <td>31/10/2021</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Strategic Procurement Manager	31/10/2021	
Responsible Officer	Deadline					
Strategic Procurement Manager	31/10/2021					



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Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3												
<p><b>2</b></p>	<p>Due to staff absences in the team, since 1<sup>st</sup> September a new process has been implemented where no request for more information (RMIs) will be allowed, instead incomplete submissions will be rejected and successful ones approved. My Resources Support team are investigating to identify a way to delete the existing RMIs after the 30 September.</p> <p>It is acknowledged that rejecting a request rather than RMI does not in itself mitigate the risk of late payment of invoices. However, it will help in giving clarity to requisitioners as it will be clear a new request is required. Ultimately the service area concerned is responsible for managing suppliers and ensuring they are paid on time this is beyond remit of Procurement Team.</p>	<p>Examination of the ‘Pending Approval Supplier’ listing as at 25 January 2021 found 49 suppliers with ‘prospective’ status, which means that the supplier registration for these had not been completed. This was analysed as follows:</p> <table border="1" data-bbox="1088 504 1547 874"> <thead> <tr> <th>Month</th> <th>Number pending</th> </tr> </thead> <tbody> <tr> <td>Jan-Mar 2020</td> <td>16</td> </tr> <tr> <td>Apr-Jun 2020</td> <td>5</td> </tr> <tr> <td>Jul-Sep 2020</td> <td>15</td> </tr> <tr> <td>Oct-Dec 2020</td> <td>13</td> </tr> <tr> <td><b>Total</b></td> <td><b>49</b></td> </tr> </tbody> </table> <p>Most of these requests had been reverted back to the respective requisitioners to request more information, but this information had still not been provided to the Buying Team. Discussion with the Strategic Procurement Management Manager established that in a number of these cases may have been raised by staff who had either left the Council or changed roles and that the Procurement team would need to contact each requisitioner individually.</p> <p>Review of the ‘Pending Approval Supplier’ listing by the Governance Officer identified that at least one of the suppliers had outstanding invoices not yet paid due to the supplier not yet being set up, (namely BizSpace engaged by Children’s Services).</p> <p>When new suppliers are not being set up in a timely manner, there could be a risk of disruption in the procurement process leading to outstanding invoices not being paid on time. This may result in suppliers discontinuing their services and the Council being levied interest under the Late Payment of Commercial Debts (Interest) Act 1998.</p>	Month	Number pending	Jan-Mar 2020	16	Apr-Jun 2020	5	Jul-Sep 2020	15	Oct-Dec 2020	13	<b>Total</b>	<b>49</b>
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Oracle Application Support Manager (removal of old RMIs)	31/12/2021 (subject to a practical solution being found).
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Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 4				
2	<p>It is acknowledged that a mistake was made by the officer when supplier 124124 was set up. However, this was the only 1 identified, albeit with a very small sample size, as this is a rare occurrence. Given the resource for carrying out this activity is going to be moving to a different team the most proportionate course of action is to ensure IR35 is adequately covered in training to both the temporary team it moves to (1) (already completed) and covered when training of the new officers occur once in post (2).</p>	<p>If a new supplier potentially falls within the scope of the IR35 rules, the Council's IR35 panel (in conjunction with the Service) will undertake additional checks using the Check Employment Status for Tax (CEST) tool to determine the supplier's employment status. If setting an individual up as a supplier, the requisitioner must attach the IR35 panel's approval email to the submitted supplier registration request. In the absence of this approval, the supplier registration request will be rejected by the Procurement Officer processing the supplier registration request.</p> <p>Testing of a sample of seven new supplier registrations for individuals (set up on MyResources since January 2020) identified one instance where the supplier was set up without evidence of the IR35 panel's approval (Supplier number 124124).</p> <p>When IR35 rules are incorrectly applied, there is risk that fines and other financial penalties may be levied by HMRC.</p>				
<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Strategic Procurement Manager</td> <td>Completed</td> </tr> </tbody> </table>		Responsible Officer	Deadline	Strategic Procurement Manager	Completed	
Responsible Officer	Deadline					
Strategic Procurement Manager	Completed					

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	Approx. 31/01/2022 (dependant on when new team is in post)	
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**Audit Area: Supplier Selection and Checks**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 5				
2	<p>There is a difficult balance for this task, it is acknowledged that there are benefits both in audit terms and as a checklist for officers to evidence that a check has been carried out. This has to be balanced against the additional time taken to record details of the checks that have been carried out. In addition this task is typically carried out in one go from start to finish, so officers are unlikely to come back to the task at a later date. Given the resource restraints in the team, this is not something we intend to action now, however we will action this by producing a simple check list for officers to complete for each supplier set up, once the team is up to capacity following on from the C&amp;P restructure and recruitment to fill the vacancies</p>	<p>All new suppliers must go through the supplier set up process prior to the Council committing for the supplier to provide their goods or services. This involves the Procurement Governance officer undertaking a series of checks through the Companies House service and each supplier company website, including obtaining evidence of incorporation, business registration, company name and address.</p> <p>Examination of the records held for some new suppliers was unable to determine what checks had been conducted for each of these new suppliers.</p> <p>Where new supplier checks are not properly documented, there is a risk that these checks may not have been conducted and of the onboarding of unscrupulous or fictitious suppliers. Furthermore, in the event of a query with the supplier setup, there is no record of who performed what checks, if any.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Strategic Procurement Manager</td> <td>When C&amp;P team is back up to capacity following restructure</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Strategic Procurement Manager	When C&P team is back up to capacity following restructure	
Responsible Officer	Deadline					
Strategic Procurement Manager	When C&P team is back up to capacity following restructure					

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	estimated to be by 31/03/22	
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**3. Priority 3 Issue**

Action Proposed by Management	Findings
<p><b>Audit Area: Supplier Selection and Check</b></p> <p>Agreed this would help following steps proposed:</p> <ol style="list-style-type: none"> <li>1) Full outstanding list send to IR35 panel. (one off)</li> <li>2) Where there is a supplier set up rejected due to lack of IR35 panel approval, send regular email to IR35 panel so they are aware.</li> </ol>	<p>Off-payroll working (IR35) tax legislation applies where the supplier is an individual or a single person (director) company. When engaging these suppliers the Council is responsible for assessing their employment status to determine if off-payroll (IR35) working rules apply.</p> <p>Examination of the ‘Pending Approval Supplier’ listing as at 25 January 2021 found that there were significant number of suppliers (who were individuals) where IR35 may apply. Discussion with Risk &amp; Corporate Programme Office Officer who is on the Council’s IR35 panel established that, in most cases, the panel was sometimes only getting notified of potential IR35 cases several months after the services had already been delivered, usually because the supplier was complaining that they had not been paid.</p> <p>The Risk &amp; Corporate Programme Office Officer felt that communication of the ‘Pending Approval Supplier’ list would be useful for IR35 panel to enable the panel to foresee and proactively deal with any potential IR35 cases.</p> <p>Where the IR35 panel is not aware of and therefore not able to deal with IR35 cases proactively, there is a risk that suppliers are inappropriately engaged and paid resulting in the Council being in breach of IR35 rules.</p>
<p>Responsible Officer</p> <ol style="list-style-type: none"> <li>1) Strategic Procurement Manager</li> <li>2) Strategic Procurement Manager (process start) then ongoing by Procurement Governance or replacement team).</li> </ol>	<p>Deadline</p> <p>30/10/2021</p> <p>30/10/2021</p>

## AUDIT TERMS OF REFERENCE

### New Supplier Set Up

#### **1. INTRODUCTION**

- 1.1 The choice of a supplier has significant impact on the cost and quality of services provided by the Council. Supplier risk can involve a supplier over promising and under delivering, violating the contract/agreement etc.
- 1.2 The supplier selection process begins with defining the need for goods or services for the Council and ends with selecting and contracting the chosen supplier. It is governed by a set of rules that are agreed and understood by the staff. All new supplier registration requests need to be processed through My Resources.
- 1.3 The sourcing of new suppliers must adhere to the internal 'P2P Guidance Document', the 'Tendering and Contract Regulations' and the 'Procurement Governance Handbook', as well as legislative requirements, such as IR35 Money Laundering and Modern Slavery.
- 1.4 This audit will focus on the process, from the supplier request form being completed, of setting up each supplier and not on the procurement and supplier selection processes.
- 1.5 This audit is being conducted as part of the agreed Internal Audit Plan for 2020-21

#### **2. OBJECTIVES AND METHOD**

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
  - Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls, and
  - Report on these accordingly.

#### **3. SCOPE**

- 3.1 This audit included the following areas (and issues raised):

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Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements	0	0	0
New Supplier Requests	1	3	0
Supplier Selection and Checks	0	1	1
On-boarding new suppliers	0	0	0
Management Reporting	0	0	0
<b>Total</b>	<b>1</b>	<b>4</b>	<b>1</b>



## Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

**Statement of Responsibility**

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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