

# Final Internal Audit Report

## Supplier Set up and P2P Compliance

### January 2025

Distribution: Corporate Director, Resources & S151 Officer  
Director of Finance & Deputy S151 Officer  
Director of Commercial Investment  
Head of Strategic Procurement & Governance  
Chief People Officer  
Sourcing Manager  
Procurement Performance and Development Manager

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

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Forvis 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 Croydon Council (Council) depends on suppliers to be able to deliver quality services to residents, and there are several risks that the Council faces when taking on new suppliers. These include the possibility that the supplier will not deliver promised goods/services, or will fail to meet contractual obligations, all of which can impact on the Council's finances and reputation.
- 1.2 In order to reduce risks from new suppliers, the Council must ensure that due diligence checks are undertaken for all new suppliers. A New Supplier Request Form is completed for every proposed new supplier, and the Council undertake various checks to ensure that the new supplier is appropriate and will be able to deliver the services required.
- 1.3 In addition to the risks from new suppliers, there are ongoing risks related to payments made to suppliers, including the possibility of fraudulent or erroneous payments being made.
- 1.4 The Council follows a Purchase to Pay (P2P) process for all supplier payments, which governs the process from the initial purchase order through to payment. It is important that all payments follow this process.
- 1.5 A report issued in April 2024 by Oxygen Finance<sup>1</sup> and shared by the Head of Internal Audit highlighted that there were a total of 1,334 suppliers set up in Croydon's ERP system between 1 January 2023 and 1 January 2024. According to this report, of these, only 480 suppliers received payment from the Council and 160 were deemed duplicate. It is therefore important that the supplier set up process is robust.
- 1.6 This internal audit focused on new supplier set up, from the point that a new supplier request is made, in addition to ongoing compliance with the P2P process for payments to all suppliers. This audit did not examine the tendering process prior to a supplier request being made.
- 1.7 This audit is part of the agreed Internal Audit Plan for 2023/24.

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<sup>1</sup> Oxygen Finance specialise in payments control, the procurement process and public sector market insight.

## 2. Key Issues

2.1 The key issues identified are as below:

### Priority 1 Issues

A summary of findings by Oxygen Finance, which conducted a review of the Council's invoicing process in April 2024, found that of 1,334 suppliers registered between 1<sup>st</sup> Jan 2023 and 1<sup>st</sup> Jan 2024, 160 appeared to be duplicate suppliers and only 480 of these had received payments by the Council. **(Issue 1)**

Examination of the P2P Handbook (2023) and Supplier Checklist established that there were no mandatory checks listed to assess the ability of a supplier to deliver its contracted goods and services. The Senior Procurement Systems Officer advised that no financial checks are undertaken by the Procurement team, although some financial checks are done for new suppliers that are subject to a tender process. **(Issue 3)**

### Priority 2 Issues

Internal Audit selected a sample of ten new suppliers approved on My Resources by the Procurement team from 1 March 2023 to 29 February 2024 and identified some weaknesses in the controls followed such as, a lack of justification included in the New Supplier Request Form and original quotes not being attached to the form.

Additionally, in two instances self-employed suppliers were approved for their services. Whilst the Council's assessment had classed these as out of scope under IR35, the Council's IR35 guidance dictates that *"the Council will not engage sole traders/ self-employed individuals under any circumstances"*. **(Issue 2)**

Examination of the P2P Handbook (2023) and Supplier Checklist established that there was no procedure in place for removing suppliers after a set period of time or for conducting new checks if the supplier is given a new assignment for a different type of service. **(Issue 4)**

Details of the Priority 3 issue is included under item 4 below.

### 3. Actions and Key Findings/Rationale

#### Control Area 2: New Supplier Requests

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1
	<p>Supplier cleansing is currently being undertaken (complete March 2025), firstly deactivating 7,582 suppliers that are dormant suppliers i.e. no payments made, or POs raised against for at least two years. This process will be scheduled for every 18 months going forward along.</p> <p>Additionally, 232 new suppliers held as prospective for six months or more will also be deactivated (complete March 2025). Since August 2024, prospective suppliers will automatically be deactivated after six months.</p> <p>From the remaining active supplier list, we will then deactivate duplicate suppliers by the end of March 2025. These are typically Controcc suppliers that have an</p>	<p><b>Expected Control</b></p> <p>The Council should regularly review the list of suppliers in MyResources to identify duplicate suppliers.</p> <p><b>Finding/Issue</b></p> <p>A summary of findings by Oxygen Finance, who conducted a review of the Council's invoicing process in April 2024, reported that of 1,334 suppliers set up in MyResources from 1<sup>st</sup> January 2023 to 1<sup>st</sup> January 2024, 160 appeared to be duplicate suppliers. Additionally, only 480 (36%) of the 1,334 suppliers had received payment by the Council.</p> <p>Internal Audit has not repeated or verified the testing carried out by Oxygen Finance.</p> <p><b>Risk</b></p> <p>Where duplicate suppliers are not identified and removed, there is a heightened risk that fraudulent or erroneous invoices could be paid, resulting in financial loss for the Council.</p>

<p>enable reporting by March 2025, which can download data to identify duplicate suppliers which will then be used to deliver the cleansing exercise scheduled for every 18 months.</p> <p>We have also in August 2024 introduced a taxonomy approach on the supplier on boarding process where there will be checks for duplicate supplier entries, supplier name matches with the records on Company House.</p>			
Responsible Officer		Deadline	
Procurement Performance and Development Manager		31 March 2025	

## **Control Area 2: New Supplier Requests**

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2
	<p>The justification for using a supplier is not needed for setting up a supplier, but instead is required when raising a requisition.</p> <p>However, there is a requirement for all requisitioners to quote a contract reference and attach the associated contract and gateway approvals, which includes the business case to justify the proposed spend and approvals aligned to the Scheme of Delegation.</p> <p>From March 2025, the contract will be recorded on In-Tend, which will automatically create a CPA (Contract Purchase Agreement) against the term &amp; value of the contract on In-Tend. Requisitioners are required to use this CPA to raise all their requisitions linked to the contract. Any variations to the term and value will be managed in accordance with the current governance and changes to the CPA will only be done once we have governance clearance to do so.</p>	<p><b>Expected Control</b></p> <p>The Supplier Checklist sets out that the requisitioner’s justification for using a supplier. A check of the contract value and duration listed in ‘My Resources’ against the initial supplier are mandatory checks for the Procurement team to complete.</p> <p>The Council’s IR35 Guidance (2021) stated <i>“the Council will not engage sole traders/ self-employed individuals under any circumstances”</i>.</p> <p><b>Finding/Issue</b></p> <p>Internal Audit selected a sample of 10 new suppliers approved on My Resources by the Procurement team from 1 March 2023 to 29 February 2024 and identified:</p> <ul style="list-style-type: none"> <li>• For all sampled, approval from the relevant budget holder was attached; however, there was no justification from the requisitioner listed on My Resources. Examination of the New Supplier Request Form confirmed that it included a justification field for the requisitioner to complete.</li> <li>• For all sampled, the original quote was not attached.</li> <li>• For two of the new suppliers, it was found that whilst these were out of scope of IR35, according to the Council’s checks, these were classed as ‘self-employed’. They were contracted for work which required a one-off payment. In both cases, the set-up of these suppliers was approved as per the process.</li> </ul> <p><b>Risk</b></p>

		<p>Where a justification for a new supplier is not included, there is a risk that the Council will make a financial commitment to a supplier for goods or services that are not reasonable. This in turn could lead to reputational damage and misuse of public money.</p> <p>Where a check between the original supplier quote and the contract value and duration logged in My Resources is not carried out, there is a risk that the Council pays more than the amount agreed when the supplier was approved.</p> <p>If Council engages self-employed individuals as suppliers, there is an increased risk of cessation of services due to supplier failure.</p>
be reviewed annually.		
Responsible Officer		Deadline
Procurement Performance and Development Manager Chief People Officer		31 March 2025 31 December 2024 (IR35 Policy)





Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 4
	2025 and reviewed annually thereafter.	<p><b>Expected Control</b></p> <p>The Council should ensure suppliers are suspended in My Resources after an extended dormant period (i.e. where the supplier has not been used) such that the supplier cannot be used without set-up checks being re-performed. The Council should also undertake new checks when a supplier is used for a significantly different purpose.</p> <p><b>Finding/Issue</b></p> <p>Examination of the P2P Handbook (2023) and Supplier Checklist established that there was no procedure in place for removing/suspending suppliers after a set period of time or for conducting new checks if the supplier is given a new contract for a different type of service. Additionally, the Senior Procurement Systems Officer advised suppliers will only be removed if they have changed their name or ceased to exist. If this is not the case the suppliers will remain on My Resources.</p> <p><b>Risk</b></p> <p>Where suppliers are not removed from the My Resources system after a set period of time there is a risk that the Council will engage with these contractors based on historic checks which do not reflect current circumstances, such as change in financial position, etc.</p>
	Responsible Officer	Deadline
	Procurement Performance and Development Manager	31 March 2025

#### 4. Priority 3 Issue

Agreed action	Findings
<p><b><u>Control Area 1: Regulatory, Organisational and Management Requirements</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>The IR35 Policy and questionnaire were reviewed in December 2024, with the aim for the Policy and questionnaire to be reviewed annually.</p> <p>As there are still several aspects of the P2P process being developed as part of the Procurement Transformation project, the P2P handbook will be updated will necessary revision by end of March 2025 and reviewed annually thereafter with review dates inserted into the version control.</p> <p><b><u>Responsible Officer:</u></b></p> <p>Chief People Officer</p> <p>Procurement Performance and Development Manager</p> <p><b><u>Deadline:</u></b></p> <p>31 December 2024 (IR35 Policy)</p> <p>31 March 2025</p>	<p><b>Expected Control</b></p> <p>Policies and procedures should be reviewed and re-issued on an annual basis, even if no changes are made. Policies should be version controlled and should identify the date of next review to ensure that policies are reviewed on a regular cycle (e.g. annually).</p> <p><b>Issue/Finding</b></p> <p>Internal Audit conducted a review of the Council's IR35 Policy and found that it was dated May 2021, meaning it had not been updated for almost three years. Additionally, the policy was not version controlled, nor did it indicate a date of next review.</p> <p>Internal Audit conducted a review of the P2P Handbook and found that it was dated February 2023. The Handbook was version controlled (indicating that it was version 1.1) but it did not indicate a date of next review.</p> <p><b>Risk</b></p> <p>Where key policies are not reviewed periodically or version controlled, there is a risk that staff and service users may follow outdated guidance or be unsure if the guidance is still relevant.</p>

## **TERMS OF REFERENCE**

### **Supplier Set Up and P2P Compliance**

#### **1 INTRODUCTION**

- 1.1 The Council depends on suppliers to be able to deliver quality services to residents, and there are several risks that the Council faces when taking on new suppliers. These include the possibility that the supplier will not deliver promised goods/services, or will fail to meet contractual obligations, all of which can impact on the Council's finances and reputation.
- 1.2 In order to reduce risks from new suppliers, the Council must ensure that due diligence has been undertaken for all new suppliers. A new supplier request is completed for every proposed new supplier, and the Council undertake various checks to ensure that the new supplier is appropriate and will be able to deliver the services required.
- 1.3 In addition to the risks from new suppliers, there are ongoing risks related to payments made to suppliers, including the possibility of fraudulent or erroneous payments being made. The Council follows a Purchase to Pay (P2P) Process for all supplier payments, which governs the process from the initial purchase order through to payment. It is important that all payments follow this process.
- 1.4 This audit will focus on supplier set up, from the point that a new supplier request is made, in addition to ongoing compliance with the P2P process for payments to suppliers. This audit will not examine the tendering process prior to a supplier request being made.
- 1.5 This audit is part of the agreed Internal Audit Plan for 2023/24.

#### **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 will examine the Council's arrangements in relation to Supplier Set Up and P2P Compliance, and will include the following areas:
  - Regulatory, Organisational and Management Requirements;
  - New Supplier Requests;
  - Supplier Checks and Due Diligence;

- Compliance with P2P Process for Supplier Payments; and
- Management Reporting.

## 4 TIMING

4.1 The audit is planned to commence on 11 March 2024 and meetings will be arranged shortly. The lead auditor will be Benedict Ward. At this stage it is expected that the final report will be distributed as follows:

- Head of Strategic Procurement & Governance
- Sourcing Manager
- Director of Commercial Investment
- Corporate Director Resources and S151 Officer
- Director of Finance and Deputy S151 Officer

## 5 KEY CONTACTS FOR AUDIT





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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	1
New Supplier Requests	1	1	0
Supplier Checks and Due Diligence	1	1	0
Compliance with P2P Process for Supplier Payments	0	0	0
Management reporting	0	0	0
<b>Total</b>	<b>2</b>	<b>2</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	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>	
<b>Priority 3 (Low)</b>	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.

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