Internal Audit Report

Financial Management and Governance of Granton Waterfront Regeneration Programme

7 May 2025

MP2402

Overall Assessment	Substantial Assurance

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Executive Summary

Overall Assessment	Substantial Assurance

Engagement conclusion and summary of findings

There is a sound system of governance, risk management and control in place over the design and operating effectiveness of the key controls established to ensure there is adequate and effective financial management and governance of the Granton Waterfront Regeneration Programme.

Some scope for improvement was highlighted which may put at risk the achievement of objectives. The following areas for improvement which aim to strengthen the control environment were identified:

- the Terms of Reference for the Granton Waterfront Board should be updated to reflect current arrangements and membership, and reviewed annually thereafter, or more frequently in line with any changes

- board meetings should be rescheduled if they do not take place as planned and, if they are cancelled progress reports should still be circulated to board members to ensure there is a clear record and understanding of progress and to allow any issues to be raised prior to the next Board meeting, if required

- risk registers should be updated regularly, and mitigating actions should be identified for all risks with assigned action owners, which should include clear consideration of fraud and serious organised crime related risks

- risks, assumptions, issues and dependencies (RAID) logs should be considered to ensure there is a clear understanding and effective management of assumptions, issues and dependencies across the programme and its associated projects.

The programme spans across 2022-2036 with an estimated £1.3bn total cost. It is therefore essential to ensure that robust governance and financial monitoring controls remain in place throughout the programme. Further internal audit work will be completed as the programme progresses as part of future internal audit annual plans.

Areas of effective practice

- a detailed outline business case (OBC) was in place for all projects within the Granton Waterfront Programme. The OBCs were in line with the HM Treasury Greenbook, and contained detailed stakeholder engagement and communication plans

- the Senior Responsible Officer (SRO) and Granton Programme Management team are appropriately skilled with relevant project delivery experience

- project plans are in place which detail timeframes, ownership, and progress for all key project deliverables

- actions from project governance forums are tracked through to completion using action trackers and meeting agenda items

- project costs and benefits were quantified and validated, included within the Granton Waterfront OBC, and are actively monitored through progress meetings with key suppliers

- project expenditure is captured against dedicated cost codes, and wider project expenditure is analysed and reviewed monthly, with accurate cost reporting and forecasting undertaken

- progress meetings take place monthly with all key suppliers and detailed progress reports are presented at monthly progress meetings with minutes taken

- the financial viability of key suppliers is reviewed every six months

- adequate assurance from contractors on health and safety incidents is obtained by the Council. For all relevant suppliers, this is a standing agenda item at monthly progress meetings.

Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Project Governance	🟢	🟠	Finding 1 – Programme Governance and Oversight	Medium Priority
2. Project Skills and Experience	🟢	🟢	No issues identified	N/A
3. Financial Management	🟢	🟢	No Issues Identified	N/A
4. Contract and Supplier Management	🟢	🟢	No Issues Identified	N/A
5. Risk Management	🟠	🟠	Finding 2 – Risk Management including RAID logs	Medium Priority

See Appendix 1 for Control Assessment and Assurance Definitions

Background and Scope

Effective programme and project management is essential to ensure that the City of Edinburgh Council (the Council) can deliver on its pledges and strategic objectives whilst maintaining and improving the services it delivers at a lower cost and with fewer resources.

For each project/programme of change across the Council, it is expected that sound project management and governance practices are carried out and in line with the principles of the Council's project management guidance and toolkit, available on the Orb (the Council's intranet). The guidance aims to support Project Managers and Senior Responsible Officers (SROs) to successfully deliver projects in the Council.

The Council's project toolkit sets out project guidance, such as key roles and responsibilities, and what is required during the four project stages:

- Initiation – project justifications (such as strategic and financial), and includes documentation such as outline and full business cases
- Planning – including key milestones, objectives, and financial arrangements, and template documentation such as a project initiation document (PID) and a Risks, Assumptions, Issues and Dependencies (RAID) log
- Delivery – including monitoring and oversight arrangements, and template documents including a benefit tracker and exception report
- Closure – including a review to determine if objectives were achieved, benefits realised and performing a lessons-learned exercise.
- The toolkit also provides information on best practice methodologies such as PRINCE2, Agile, Managing Successful Programmes and LEAN Six Sigma.

In addition, there is guidance from the Scottish Government in the Scottish Public Finance Manual and the HM Treasury Green Book provides guidance on how to appraise policies, programmes and projects.

Granton Waterfront Regeneration Programme

The Granton Waterfront Regeneration Programme proposes to home around 8,000 people, deliver around 3,500 net-zero carbon homes (of which at least 35% will be affordable), a primary school, a health centre, commercial and cultural space, a low-carbon heating network, and a new coastal park. The overall development aims make a significant contribution to Edinburgh's target to become a net-zero city by 2030.

The programme consists of four key phases with the proposed phasing for the whole project stretches between 2022 and 2036. The development phases are as follows:

- Phase 0: Early Action Projects (2022-2026)
- Phase 1: Heart of Granton (2025-2031)
- Phase 2: Harbour Road (2027-2033)
- Phase 3: West Shore Road (2028-2034)
- Phase 4: Upper Granton (2031-2036).

The total cost of the programme is estimated to be £1.3bn. The Granton Waterfront Programme Board meets every six weeks, and the team meet with elected members on a quarterly basis. An outline business case was approved in 2021, and as at March 2025, the project is in the pre-development stage of Phase 1.

Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls established for the monitoring and oversight arrangements to ensure there is adequate and effective financial management and governance of the Granton Waterfront Programme.

Alignment to risk and business plan outcomes

The review also considered assurance in relation to the following Corporate Leadership Team (CLT) risk categories:

- Strategic Delivery
- Financial and Budget Management
- Programme and Project Delivery
- Supplier, Contracts and Partnership Management
- Governance and Decision Making
- Reputational
- Fraud and Serious Organised Crime.

Business Plan Outcomes:

The Council has the capacity, skills, and resources to deliver our priorities efficiently, effectively and at lower cost.

Limitations of scope

The following areas were specifically excluded from the scope of our review:

- project management arrangements for the Granton Gasholder and the Levelling Up Fund Grant – covered by a previous audit in May 2023.

Reporting Date

Testing was undertaken between 22 January 2025 and 8 April 2025 and covered the period 2021 to 2025.

Audit work concluded on 8 April 2025, and the findings and opinion are based on the conclusion of work as at that date.

Findings and Management Action Plan

Finding 1 – Programme Governance and Oversight

Finding Rating	Medium Priority

Granton Waterfront Board Terms of Reference

Best practice project management and governance frameworks, such as PRINCE2, recommend that project boards regularly review their terms of reference (ToR) to ensure continued alignment with the project objectives, stakeholder expectations, and current membership.

The Granton Waterfront Board was established in July 2020 with a ToR approved at the first board meeting. The ToR includes both the roles and responsibilities of its members, and the board membership as at establishment, however, there is no version control or review schedule. Granton Programme Management confirmed that the ToR had not been reviewed since it was created in 2020. Consequently, the list of board members stated in the ToR is inaccurate, as it included members no longer on the Board such as the former Executive Director of Place and does not include some current regular attendees: for such as the Programme Manager for Edinburgh Waterfront.

During the audit, the Board's ToR was reviewed by management, and an action note was raised for management to update the ToR for the March 2025 Board meeting.

Board meetings and progress updates

Effective project governance requires that key stakeholders receive timely and structured updates on project progress, risks, and issues. The project management guidance on the Orb emphasises the importance of formal meetings or structured reporting mechanisms. Where meetings do not go ahead, progress reports should still be circulated to stakeholders to ensure visibility of project progress and developments.

The Granton Waterfront Board has a six-weekly meeting schedule, however no Board meetings occurred in December 2023 and July 2024. Management advised these board meetings were cancelled due to member annual leave. The May 2024 Board minutes state that the July 2024 meeting would not go ahead, and the next meeting would be September 2024. However, progress reports were not circulated to board members in lieu of these meetings.

Granton Programme Management advised that Board progress reports would only be circulated to stakeholders if there were major updates to be provided and stated that for both months there were no material updates to provide. They advised that Board meetings would only be rearranged if key decisions needed to be made.

Risks

- **Governance and Decision Making –** members of the Granton Waterfront Board may be unaware of their roles and responsibilities and the remit of the Board

- **Programme and Project Delivery –** failure to adhere to board meeting timetables and provision of progress reporting may result in inadequate oversight of the project and a potential lack of accountability, project overspend and missed deadlines/delays.

Recommendations and Management Action Plan: Programme Governance and Oversight

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
1.1	The Granton Waterfront Board Terms of Reference (ToR) should be reviewed on an annual basis, and more frequently if there are substantive changes to the Board or project such as a change in members. The ToR should also include a clear version control table including the date of previous review, date of approval and date of next scheduled reviewed.	The ToR was reviewed and agreed at the Board that took place on 24th February. A control table will be produced and evidenced that sets out the date of this review, date of approval, the date of next scheduled review and the criteria for considering a review out with this. Evidence will be in the form of a table and board slides and minute.	Chief Executive	Programme Director – Edinburgh Waterfront	31/03/2026
1.2	If Board meetings do not go ahead as timetabled, alternative dates should be suggested to maintain good governance. Progress reports should still be circulated to Board members so there is a timely record of project progress and opportunity for Board members to raise any issues or concerns relating to the project between meetings.	A protocol will be agreed at a future Board meeting setting out that 1) an alternative date will be sought in the first instance and 2) if this is not possible, a set of progress slides will be circulated for members to scrutinise before the next meeting. Evidence will be in the form of board slides and minute.	Chief Executive	Programme Director – Edinburgh Waterfront	30/08/2025

Finding 2 – Risk Management including RAID Logs

Finding Rating	Medium Priority

Risk Management

Major infrastructure projects are known to be particularly vulnerable to the threat of fraud and corruption. Cost inflation and associated impacts such as increased costs and lower profit margins may lead to an increased risk of fraud and serious organised crime including inadequate or unsafe working practices and use of substandard materials to realise savings. The Council's risk management framework guidance on the Orb includes a 'risk card' which provides specific guidance on serious organised crime.

Each project within the Granton Waterfront Programme has a risk register in place. However, fraud risks and the risk of serious organised associated with the delivery of projects is not considered on any of the risk registers.

The Western Villages' risk register has no clear date of last review, and only records that it was generated in March 2020. Although key project risks are discussed at monthly supplier progress meetings, there is no review of the risk register itself. Granton Programme Management advised that the risk register is not subject to formal periodic review. Missing date was also noted on the Western Villages risk register. For the 48 risks listed:

- 28 (58%) had key controls or mitigating actions stated
- 41 (85%) had an action owner.

RAID Logs

The Council's project toolkit and guidance includes reference to, and a template for, a Risks, Assumptions, Issues, and Dependencies (RAID) log. RAID logs are a fundamental component of effective project management, as they help ensure that risks and issues are documented, monitored, and actively managed throughout the lifecycle of projects. The absence of a RAID log reduces transparency, weakens risk management, and can lead to unmanaged project issues.

Granton Programme Management advised that RAID logs are not used and maintained for any of the projects within the Granton Waterfront Programme, and that, instead, they use project risk registers. However, this means only risks are measured and not assumptions, issues, or dependencies. Management advised that issues, assumptions and dependencies were recorded at the supplier contract award phase of each project, but they have not continued to track them in a log since this stage.

Risks

- **Governance and Decision Making –** insufficient consideration of risks, assumptions, issues and dependencies may lead to un-informed decision making

- **Strategic Delivery –** risks could be managed ineffectively or outwith the Council's risk appetite leading to a failure to achieve strategic objectives

- **Programme and Project Delivery -** key assumptions, issues and dependencies may be unknown, exposing the project to unmanaged risks. Emerging risks may not be identified, and existing risks may not be effectively monitored or mitigated

- **Fraud and serious organised crime** – potential fraud risks and risks associated with serious organised crime may not be identified, assessed, recorded and managed.

Recommendations and Management Action Plan: Risk Management including RAID Logs

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
2.1	Project risk registers should be reviewed at a regular frequency. The review should be included within project work programmes and a standing agenda item. The review should include a check to ensure that all risk registers are fully complete. All risks should have corresponding mitigating actions, risk owners, and expected completion or review dates. Progress with actions should be tracked and remedial action taken as required. Any risks out with the Council's risk appetite should be escalated to the CE Office divisional risk committee and the Corporate Leadership Team risk committee.	A review of all risk registers will be added to the work programme and will be added as a standing agenda item to the respective project team meetings. Each risk register will be checked and actioned for completeness. Actions will be tracked by exception on an ongoing basis at project team meetings with escalation if required. Evidence will be in the form of updated risk registers and project meeting agendas.	Chief Executive	Programme Director – Edinburgh Waterfront	31/03/2026
2.2	Project risk registers should include consideration and identification of all risks associated with fraud and serious organised crime which may impact the project. All potential risks should be recorded, assessed and mitigating actions recorded and regularly review. The effectiveness of mitigating controls should also be reviewed regularly.	Mitigating corporate controls deemed effective exist in this regard through various policies and procedures such as Staff Code of Conduct, Anti-Bribery Policy, Fraud Prevention Policy, Conflict of Interest Statements, Gifts and Hospitality Registers, etc. As such, we deem this low risk. However, we will adhere to this recommendation and update project risk registers accordingly and monitor this low risk on an ongoing basis. Evidence will be in the form of updated risk registers.	Chief Executive	Programme Director – Edinburgh Waterfront	30/09/2025
2.3	Management should consider the use of a RAID log template to ensure that assumptions, issues and dependencies are adequately considered alongside risks and periodically reviewed at relevant governance forums for each project within the Granton Waterfront programme.	RAID logs will be produced for each of the projects in the programme and considered at the relevant governance forum for that project.	Chief Executive	Programme Director – Edinburgh Waterfront	30/08/2025

	If a decision is taken not to use the RAID log, then a clear control should be established to ensure that assumptions, issues and dependencies are identified, recorded and managed throughout the programme and across the key projects.	Evidence will be in the form of RAID log and slides / minutes.		

Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed	🟢	Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory	🟢	Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity	🟠	Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity	🔴	Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	**N/A**	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Appendix 2 – Areas of Audit Focus and Control Objectives

Audit Areas	Control Objectives
Project Governance	• an appropriate project governance structure and forums (for example, a project board and workstream governance meetings) have been established with clearly defined remits which detail key members, and their roles and responsibilities • business cases have been prepared for the projects and approved by the relevant project board, Strategic Programme Board (where required) and Council Executive Committee (where required) • the business cases are updated to reflect any significant project changes and are re-distributed to all relevant governance forums for approval • clear project plans which detail timeframes, ownership, dependencies, and progress for all key project deliverables have been developed and are regularly updated throughout the projects • up-to-date risks, issues and dependencies (RAID) logs are in place with evidence that all existing and new and emerging risks, issues, and dependencies are appropriately owned and effectively managed. This includes consideration of fraud and serious organised crime related risks • complete and up-to-date highlight/progress reports (including an appropriate RAG status including benefits tracking, and risks, issues and dependencies reporting) are provided to relevant governance forums • actions from governance meetings are documented, appropriately delegated, and tracked through to completion • clear stakeholder engagement and communication plans have been developed and approved by the relevant governance forums with regular updates provided on progress and any issues • post-implementation reviews are scheduled / have been held to reflect on lessons learned and confirm that all anticipated benefits have been realised.
Project Skills and Experience	• projects are overseen by Senior Responsible Officers and delivered by Project Managers who are appropriately skilled with relevant project delivery experience • project teams are adequately resourced with appropriately skilled and experienced officers who have sufficient capacity to support delivery of projects alongside service delivery (where applicable) • the projects follow the Council's project management methodology, and relevant guidance from the Scottish Government and HM Treasury, and use the project management tool kit to ensure effective management and delivery • where required, project management training has been delivered to ensure consistent application of project management methodology and project tools.
Financial Management	• project costs and benefits have been quantified and validated (where possible) and are reflected in the project business case and are monitored throughout the life of the project through to post-implementation

	- financial management processes operate effectively including ongoing and accurate updates to the project financial model and associated assumptions - expenditure is captured accurately against cost codes, including costs for supplementary projects and additional works being delivered alongside the project and is subject to regular analysis and review - accurate cost reporting and forecasting is provided to the SRO and governance forums.
Contract and Supplier Management	- effective supplier management arrangements (including sub-contractor) are in place to monitor delivery progress against project timelines, terms and costs in line with contract terms and conditions, including delivery of community benefits - appropriate arrangements have been established to confirm the ongoing financial viability and workforce capacity for key contractors and suppliers in the current operating environment - the Council receives adequate assurance from contractors on health and safety incidents.
Risk Management	risks related to financial management and governance of the Granton Waterfront and Community Transport projects are identified, recorded and managed within a service risk register, and regularly reviewed to ensure appropriate mitigating actions are in place and remain effective, with escalation to divisional and directorate level risk committees where required.