

# The City of Edinburgh Council

## Internal Audit

**Trams to Newhaven – project assurance report**  
May 2024

**MP2301**

<b>Overall report rating</b>	<b>Reasonable Assurance</b>
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# Trams to Newhaven Agile –project assurance report

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## 1. Executive Summary and Opinion

Between August 2018 and March 2024, Internal Audit (IA) completed provided agile internal audit assurance on the Trams to Newhaven project which considered the design and operating effectiveness of controls established to manage delivery of the project and ensure delivery of key project objectives. IA was involved throughout the project providing real-time assurance and advice as the project progressed through its various phases. IA involvement was in line with an agreed terms of reference and included review of key processes and supporting documentation/governance processes and attendance/observation at key meetings and meetings with key stakeholders throughout the project.

Several IA findings were raised throughout the project, with control gaps identified discussed with the SRO and the project team when they arose to support real-time improvements. Some findings were advisory in nature to support project efficiencies rather than address specific risks. All high and medium rated findings were raised formally and reported to the Trams Project Finance and Risk sub-group, and the Trams Project Board.

Our initial assessment in late 2018 considered development of the business case, and financial model, with joint work undertaken with external audit. During the initial stages of the project IA identified some high and moderate weaknesses in the design and effectiveness of the governance, risk and control frameworks established to support delivery of the project. These actions were dealt with promptly by the project team to ensure governance was strengthened.

A summary of these control assessments in line with the audit scope is set out at section 4, with a summary of findings at section 5. Findings were raised with officers and evidence was provided to IA to demonstrate adequate actions were taken to address the risks identified by IA.

While several findings were raised throughout the project timeline. No control weaknesses persisted, and therefore reasonable assurance was provided to demonstrate that the design and operating effectiveness of project controls was adequate and supported the Council's objectives of delivering the Trams to Newhaven project. One Medium finding related to community benefits is outstanding as at April 2024. This is due for completion by 30 June 2024.

It is also noted there is an ongoing risk throughout the defects and handover process and while the new asset is established for ongoing management. Officers expect this to be mitigated by the establishment of a Major Projects and Commissioning team to provide ongoing oversight of the process.

It is also important to note that project construction was paused between March and June 2020 in line with national Covid-19 guidance, an issue which was outside the Council's influence. IA confirmed that adequate consideration was given to Covid-19 associated risks and prompt action taken to minimise these, where possible.

A number of lessons learned exercises were completed throughout the project for key phases and processes, and a final lessons learned considered the issues and challenges faced throughout the project as well as the key factors of success. IA feedback reflected on the robust governance structure, experienced project team and the specialist advisory input throughout the project. Stakeholder management by the Council's project team was a key strength with an effective balance struck between ensuring robust challenge while working collaboratively with the Managed Delivery Unit, Edinburgh Trams and contractors to deliver the project.

Lord Hardie's Inquiry into delivery of the initial trams project started in July 2014 with the final Inquiry Report published in September 2024, and the Council presented a response to Full Council on 14 December 2023. As this was after the completed line to Newhaven opened for revenue service in June 2023, and therefore had no direct impact on the management of the Trams to Newhaven project, IA did not consider this to be in scope.

## 2. Background

Internal Audit provided agile assurance on the Trams to Newhaven project throughout the project stages from August 2018 to March 2024. This report provides a summary of assurance work and findings raised between August 2018 and March 2024. The initial internal audit scope was agreed in August 2018, with a rebased scope aligned to the final phase of the project agreed in April 2022. Details of the scope are provided at section 3.

### Business Case and budget

In December 2015, the Council approved in principle, the option to extend the Edinburgh Tram lines from York Place to Newhaven. In September 2017, the Council considered the updated Outline Business Case and approved commencement of a range of procurement activities to assess affordability and prepare a Final Business Case (FBC).

The approved budget for the project was £207.3M and a financial model was developed by the Council's Finance team to monitor project costs including borrowing and repayment. Detailed cost management procedures and responsibilities are also set out within the Project Execution Plan (PEP). Arrangements included budget monitoring split by phase and production of cost reports and monthly cost forecasting. The financial model was reviewed throughout the project including a review of assumptions and cost impacts as a result of Covid-19.

As at 1 May 2024 no final settlement had been reached with the contractor and the contractual risk had not been settled.

### Project timeline

The FBC was approved in March 2019 and following procurement contracts were awarded to the preferred bidders in April 2019. Following stage 1 of the project which included an Early Contractor Involvement (ECI) phase from May – October 2019, a Notice to Proceed was approved by the Council in October 2019, with the stage 2 construction phase commencing November 2019.

Completion of works was delayed slightly due to Covid-19, with construction sites closed between March and June 2020 in line with national Covid-19 guidance. Following a testing and commissioning phase, the Newhaven line opened for revenue service on 7 June 2023.

### Project Governance

A comprehensive PEP was in place throughout the project and regularly updated to ensure ongoing oversight, direction and effective decision making, and a clearly defined governance structure was established which included a Project Board and Finance and Risk sub-group (FRG) and working groups as needed.

The role of Senior Responsible Officer (SRO) for the project was undertaken by an appropriately experienced Council officer. The SRO had day to day responsibility for the project. Management of all aspects of the construction of the project undertaken by a contracted Managed Delivery Unit (MDU). A range of external advisors were also engaged by the Council to provide professional services and specialist advice.

## 2. Background continued

### Risk Management

The project adopted a life cycle approach to risk management which included identification, evaluation, treatment and review of risks throughout the project. A Programme level risk register was in place which contained strategic risks associated with overall delivery of the project, as well as an Infrastructure and Systems risk register and a Swept Path risk register which considered specific risks to those project deliverables. The risk management process was supported by a suite of risk management related review meetings including a monthly risk review with all key stakeholders and a quarterly Quantitative Risk Analysis (QRA) which provided an assessment of risk impacts at both a cost and time level. This approach was used to consider risks associated with cost uncertainty, schedule delays and unknown unknowns.

### Supplier and Contract Management

Supplier and contract management was considered throughout the project, this included contract management of the MDU. Community benefits associated with the contracts were also considered and relevant audit recommendations raised to strengthen processes.

### Support for Business

A Support for Business package totalling £2.44M was in place to support a range of measures developed following consultation. This included a voucher scheme to increase footfall for businesses in the local area and a business continuity fund that provided grants (up to £6,000) to help eligible small independent retailers with short term cashflow issues. A robust process was established to review and assess applications with appropriate evidence requirements. An independent process was also in place to consider application appeals.

### Ready for operations

Ready for Operations governance arrangements were approved by the Board in January 2022 to ensure adequate preparation for operations and handover of the asset to the Council / Edinburgh Trams. This included a Ready for Operations sub-group chaired by an independent advisor which provided oversight and reviewed progress of the operational readiness and handover elements of the project, progressed through each of the six Systems and Operations Workstreams.

### Lessons Learned / Lord Hardie Inquiry

Processes were in place to ensure that lessons learned were captured throughout the project and reported at key stages. In addition, an independent inquiry chaired by Lord Hardie was commissioned following the 2014 Tram Project. Submissions were heard in May 2018, and the inquiry findings were published in September 2023. Reports considering the recommendations from the Lord Hardie inquiry were presented to the Council's Transport and Environment Committee and the Governance, Risk and Best Value Committee in November 2023 and Full Council in December 2023. A report detailing project lessons learned was also reported to the Council's Transport and Environment Committee in April 2024.

### 3. Scope and approach

The scope of this review was to assess the design adequacy and ongoing operating effectiveness of the key controls supporting delivery of the Trams to Newhaven project.

**The initial key areas included within scope agreed in August 2018 were:**

- Options appraisal process
- Project business case
- Project governance
- Financial model and budget management
- Procurement process and supplier management
- Initial Lessons learned from Phase 1
- Stakeholder engagement

**The scope of assurance work was extended as the project progressed to include:**

- Review of optimum bias and contingency approach
- Support for Business application controls
- Benefits realisation
- Risk management and change management
- Contractor Insolvency mitigation
- Covid-19
- Readiness for Operations including defects and testing and transfer of assets/responsibilities
- Health and safety including incident reporting
- Lessons learned including Hardie Inquiry

**The following audit approach was applied:**

- An 'agile' audit approach with Internal Audit work completed on an ongoing basis and aligned with the relevant stages of the project plan.
- Initial assessments were completed in conjunction with Azets (External Audit) who reported any findings in their annual audit report to the Council, and the Controller of Audit.
- All control gaps identified were discussed with the SRO and project team, and where relevant raised as findings and reported to the Project Board.
- Bi-monthly updates were provided to the Project Board and Finance and Risk Group and a phase end report summarising findings to date was presented in August 2022.
- Internal Audit had ongoing engagement throughout the project with regular meetings with the SRO and project team and attendance at Project Senior Management Team meetings, Change Management meetings, Programme Risk Reviews; Quantitative Risk Assessments (QRA), the Finance and Risk Sub-group and the the Project Board to support their ongoing assessment of project governance.

## 4. Control assessment summary

Audit area	Overall assessment	Findings / recommendations raised	Finding status
Options appraisal process	Reasonable Assurance	1 finding (High) 1 recommendation	Complete ✓
Project Governance including risk & change management	Reasonable Assurance	1 finding (Medium) 2 recommendations	Complete ✓
Financial Model including contingency	Substantial Assurance	n/a	n/a
Procurement	Reasonable Assurance	1 finding (Medium) 1 recommendations	Complete ✓
Initial Lessons Learned	Substantial Assurance	n/a	n/a
Stakeholder engagement	Substantial Assurance	1 advisory finding	n/a
Support for Business application controls	Substantial Assurance	n/a	n/a

Audit area	Overall assessment	Findings / recommendations raised	Finding status
Benefits Realisation	Reasonable Assurance	1 finding (Medium) 1 recommendation	Open
Risk Management and Change Management	Substantial Assurance	n/a	n/a
Supplier management/ contractor insolvency	Substantial Assurance	n/a	n/a
Covid-19	Substantial Assurance	n/a	n/a
Readiness for Operations including defects	Substantial Assurance	1 advisory finding	n/a
Health and Safety – incident reporting	Substantial Assurance	1 advisory finding	n/a
Final Lessons Learned	Substantial Assurance	n/a	n/a

## 5. Summary of audit findings

**Options appraisal** – initially reliance was placed on the original options appraisal for transport modes which took place in support of the Parliamentary bill. Following a recommendation from external audit, an updated options assessment was completed and formed part of the Final Business Case.

**Project governance** – review of Project Board meetings from 2017 to March 2019 highlighted a number of reporting and record keeping weaknesses including missing minutes and lack of a record of follow-up on agreed actions / information to follow. An action tracker and decision log was introduced with a requirement for an agreed target date for completion of actions which was reviewed at all Board meetings. This included recording completion of actions pending further information. A review process was introduced to ensure all Board papers including previous meeting minutes were reviewed by the SRO prior to issue.

**Change/risk management** – robust change management controls were in place including review and approval of all changes by the Finance and Risk Sub-group. In addition, strong risk management processes were established and maintained throughout which included a full review of risks with key delivery partners and quarterly risk reviews aligned with associated cost impacts.

**Procurement** – improvement areas for the procurement process for the Tram Infrastructure & Systems Contract and Swept Path Contract were identified including ensuring full consideration of procurement associated risks for contract with non-standard or specialist requirements. A lessons learned review was undertaken which resulted in communications being issued to procurement colleagues to alert them to associated risks with complex specialist projects and a prompt within the procurement plan/strategy for record additional actions and checks.

**Stakeholder engagement** – the audit concluded that clear stakeholder and citizen engagement and communication plans were developed with progress/outcomes monitored and reported as required.

**Support for business** – the audit concluded that a clear framework was in place to support the Support for Business workstream, with adequate governance and oversight of budgets and decision making.

**Benefits realisation / community benefits** – improvements in ensuring adequate evidence with progress of community benefits was highlighted, including ensuring the contract design for major projects includes community benefits clauses to ensure that contractors are aware of the requirement to update Council systems with details of progress towards meeting delivery of community benefits as agreed in the terms of the contract. It was also recommended that the Contract Handover Report should detail agreed Community Benefits to ensure that these are recorded, managed and reported as required. Finally, any changes to agreed Community Benefits targets should be approved by the Senior Responsible Officer and reported to an appropriate governance forum. As part of project close and lesson learned, a report should be prepared which details the community benefits set out to be delivered in the full business case and contract, the changes that occurred to delivery targets during the project, the reasons for the changes, and the final position of community benefits delivered a project close.

**Supplier management / insolvency checks** – adequate arrangements were established to confirm the ongoing financial viability and workforce capacity for key contractors and suppliers in the current operating environment.

**Covid-19** – robust arrangements were implemented to respond to and manage the impacts of Covid-19 including a robust review of the project timeline and key milestones, review of project costs and associated impacts, and adherence to social distancing/infection control guidance on site and within project offices.

**Readiness for operations** - appropriate governance arrangements, delivery plans and reporting arrangements were established to prepare the project transition from construction to readiness for operations.

**Lessons learned** – lessons learned were undertaken throughout the project with outcomes reported to the Project Board and shared with other major project teams where relevant. A final lessons learned was completed and reported to relevant committees. The Council response to the Lord Hardie Inquiry was also reported to Full Council in December 2023.



# Appendix 1: Control assessment and assurance definitions

Overall Assurance Ratings	
<b>Substantial Assurance</b>	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.
<b>Reasonable Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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	
<b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
<b>Low Priority</b>	An issue that results in a small impact to the achievement of objectives in the area audited.
<b>Medium Priority</b>	An issue that results in a moderate impact to the achievement of objectives in the area audited.
<b>High Priority</b>	An issue that results in a severe impact to the achievement of objectives in the area audited.
<b>Critical Priority</b>	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.