



Item: 4

Monitoring and Audit Committee: 2 April 2026.

Internal Audit – Quanterness Windfarm Project – Phase 1.

Report by Chief Internal Auditor.

1. Overview

- 1.1. This report presents the internal audit report on Quanterness Windfarm Project – Phase 1, for scrutiny.
- 1.2. The internal audit plan 2025/26 includes a review of Phase 1 of the Quanterness Windfarm Project. This audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.3. The Quanterness Windfarm project is part of the Orkney Community Windfarms Project (OCWF), which was initially begun as the Scale Wind Farm Project in 2016, with the purpose of securing a new interconnector for Orkney, generating significant income for the Council and harnessing Orkney’s natural resources.
- 1.4. The objective of this audit is to provide assurance that there are adequate processes and controls operating within the Quanterness Windfarm project and that the objectives and targets within Phase 1 of the plan have been achieved and that any changes to the objectives of the plan have been carried out in a controlled manner, documented and made within delegated authority.
- 1.5. The audit provides Adequate assurance that processes and controls relating to Phase 1 of the Quanterness Windfarm Project are well controlled and managed.
- 1.6. The internal audit report, attached as Appendix 1 to this report, includes four medium priority recommendations regarding adhering to the capital project appraisal process, procurement thresholds, financial modelling and following Treasury guidance. There are also two low priority recommendations regarding the responsibility matrix and a project quality plan. There are no high priority recommendations resulting from this audit.

2. Recommendations

2.1. It is recommended that members of the Committee:

- i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the processes and controls relating to Phase 1 of the Quanterness Windfarm Project, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

Andrew Paterson, Chief Internal Auditor, Extension 2107, email

andrew.paterson@orkney.gov.uk.

Implications of Report

1. **Financial:** None directly related to the recommendations in this report.
2. **Legal:** None directly related to the recommendations in this report.
3. **Corporate Governance:** In terms of the Scheme of Administration, the consideration of Internal Audit findings and recommendations and the review of actions taken on recommendations made, are referred functions of the Monitoring and Audit Committee.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** An Equality Impact Assessment is not required in respect of Internal Audit reporting.
6. **Island Communities Impact:** An Island Communities Impact Assessment is not required in respect of Internal Audit reporting.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our Economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
 - Improving Population Health.

9. **Environmental and Climate Risk:** None directly related to the recommendations in this report.
10. **Risk:** Internal Audit evaluates the effectiveness and contributes to the improvement of the risk management processes.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Internal Audit Plan 2025/26.

Appendix

Appendix 1: Internal Audit Report – Quanterness Windfarm Phase 1 Completion.



Internal Audit

Audit Report

Strategic Projects – Quanterness Windfarm – Phase I Completion

Draft issue date: 10 February 2026

Final issue date: 6 March 2026

Distribution list:	Strategic Projects Director Head of Enterprise and Economic Growth Head of Finance Director of Enterprise and Resources Head of Corporate Governance Service Manager (Procurement)
---------------------------	---

Contents

Audit Opinion	1
Executive Summary	1
Introduction	3
Audit Scope.....	3
Audit Findings	5
Action Plan.....	14
Key to Opinion and Priorities.....	16

Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Adequate

Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

An audit has been undertaken of the initial phase of the Quanterness project, a component of the Orkney Community Windfarms (OCWF) Programme.

This audit found that arrangements are generally sound and suitably structured for a complex infrastructure project. The following areas have been identified as areas of good practice:

- There is a clear link between the project, the Orkney Sustainable Energy Strategy and Orkney Islands Council (the Council) objectives.
- There are clearly defined roles, stable resourcing and access to external technical and financial expertise.
- Planning and environmental requirements have been addressed.
- Comprehensive technical due diligence has been undertaken.
- The communications / engagement plan and public website support transparency.
- Regular meetings, decision logs and robust financial recording and reconciliations provide a clear audit trail.

There are opportunities to enhance processes and controls in the following areas:

- The application of the Capital Project Appraisal (CPA) framework.
- The RACI (Responsible, Approved, Consulted and Informed) matrix.
- Documentation around quality activities and oversight.
- Procurement sign off processes.
- Financial modelling assumptions

The report includes 6 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via the Ideagen Risk Management system.

Total	High	Medium	Low
6	0	4	2

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Quanterness Windfarm project is part of the Orkney Community Windfarms Project (OCWF), which was initially begun as the Scale Wind Farm Project in 2016, with the purpose of securing a new interconnector for Orkney, generating significant income for Orkney Islands Council (the Council) and harnessing Orkney's natural resources.

Of three sites identified in 2018 for the placing of large-scale wind farms, the Quanterness site is the only project which has been recommended for investment to date. This recommendation was made at the meeting of the Policy and Resource Committee on 20 February 2025. A resolution to approve this recommendation was subsequently passed at the General Meeting of the Council held on 4 March 2025.

The project is based on a site of approximately 172.27 hectares of pasture farmland to the North of the A965 at Quanterness, approximately 2.9 km North-West of Kirkwall. It comprises 6 wind turbines with a capacity of 28.8MW.

The key objectives of this phase were as follows:

- To negotiate the Needs Case for the new interconnector.
- To obtain the necessary planning permissions.
- To produce feasibility and business case reports.
- To undertake public consultation in respect of the project.
- To produce due diligence reports necessary to allow a fully informed investment decision to be made.

This review was conducted in conformance with the Global Internal Audit Standards in the UK Public Sector.

Audit Scope

The scope of this audit included the following:

- Whether pre-project governance processes were followed, including adequate appraisal processes, establishment of a project management team, project board and project sponsor, a business case made and a comprehensive Project Initiation Document prepared and approved.
- Whether project development costs have been adequately budgeted, correctly incurred and covered by appropriate governance.
- Whether there has been regulatory compliance – licensing, environmental impact assessments, and relevant authority approvals.
- Whether there have been suitable technical assessments – wind speed analysis, soil testing and engineering feasibility studies.
- Whether risk management has been embedded into the project.
- Whether there is a detailed and comprehensive Phase 1 project plan.
- Whether the project stages have been conducted following good project principles.
- Financial analysis of project phases – budget planning, funding allocations and expenditure tracking.
- Site selection and land agreements.

- Stakeholder engagement.
- Procurement processes.
- Whether project issues are regularly assessed.
- Whether there is an adequately documented procedure in place for change control and whether these procedures are followed.

Audit Findings

1.0 Project Structure and Governance

- 1.1 As noted in the introduction, the OCWF project has its roots in the Scale Wind Project which began a decade ago. We found that there were clear links between the OCWF project and the Council's key strategic priorities. The project supports the aims set out in the Orkney Sustainable Energy Strategy (2017 – 2025), and the investment objectives are to generate a new income stream which will be used to reduce the annual funding gap.
- 1.2 In 2018 the Scale Wind Project also prompted the formation of the Strategic Projects Project Board (SPPB) which provides oversight for all Council strategic projects and ensures Council Senior Management and Member involvement.
- 1.3 The Project Team have responsibility for the day-to-day decisions around operational activity. Decisions around major stages in the plan or whether to procure various contracts for services are referred in the first instance to the Project Orkney Board, a cross-functional team of Council officers from Legal, Procurement, Engineering, Finance, Planning and Regulatory services. This team meets monthly. If a decision requires escalation, the next stage is the SPPB, which meets quarterly or more regularly if required. If further input is required, there is clear escalation to the Policy and Resources Committee (P&R), and General Meeting of the Council, as necessary.
- 1.4 The project sponsor is the Head of Enterprise and Economic Growth, and the role of project management is handled for the Council by the Strategic Projects Director. Project assurance in technical, legal and financial areas has been supplied by industry specialist external advisors at key points in the process to date. In addition, a renewable energy specialist company has been appointed as a technical advisor, and functions as 'critical friend' to the project. In this role, they combine supportive collaboration with honest and informed critique to ensure high standards are maintained.
- 1.5 To date, there has been good staff continuity in respect of the project. This combined with the use of external advisors and a project management model which is broadly based on PRINCE2 methodology which requires comprehensive documentation, helps to reduce the risk of the project's progress being impacted in the event of a change of staff.

No recommendation made

2.0 Capital Project Appraisal Processes

- 2.1 Capital projects within the Council are subject to the Capital Project Appraisal (CPA) process as set out in the 2024 updated policy document. This sets out various stages in the process of considering a capital project, starting with CPA Stage 0, the strategic case, and moving to CPA Stage 1, the outline business case. The Final Investment Decision (FID) is made following the CPA Stage 2, the production of the Full Business Case (FBC).
- 2.2 The OCWF Quanterness project, and the remaining OCWF projects have not formally followed the full stages of the CPA pathway from the outset. By the time the Capital Programme Team was engaged, the Quanterness project was nearing FBC, CPA Stage 2, due to significant development work and Members' involvement in decisions on development funding and direction over a number of years. This position also applies to

the remaining OCWF projects. Accordingly, the focus of the Project Team is now on delivering compliant FBCs through the proper governance route.

- 2.3 Currently quarterly highlight reports are made to the Capital Project Team (CPT), together with risk reports and or issue reports as appropriate. Capital monitoring reports are submitted quarterly to the Capital Programme Board by the CPT. Any capital slippage would be reported to the P&R Committee.
- 2.4 We recommend that future projects should follow the CPA framework from inception, ensuring that early strategic and outline business cases are documented.

Recommendation 1

3.0 Project Initiation and Documentation

- 3.1 Under a strict PRINCE2 project management model, which is recognised to have demanding documentation requirements, there are a substantial number of separate documents to be created before the project commences, including a project brief, a project plan, and a project initiation document. For the Quanterness windfarm project, many elements of these documents are combined within the Full Business Case (FBC) document and project workbook document, for example: the project's objectives and desired outcomes, constraints and assumptions, the business case, and the team structure and role descriptions.
- 3.2 The FBC document consists of a summary report together with a detailed business case document supported by a series of due diligence reports covering technical, legal, commercial, treasury advice, and market reports. The supporting reports include sensitivity analysis estimating projected financial outcomes for a number of scenarios.
- 3.3 The Final Investment Decision reporting paper, containing the FBC, was presented to the General Meeting of the Council in March 2025 following an explanatory seminar for Members in January 2025.
- 3.4 A key part of project documentation is a responsibility matrix, also known as a RACI matrix. This document identifies who needs to:
- be **R**esponsible for
 - give **A**pproval for
 - be **C**onsulted with and
 - be kept **I**nformed of
- the particular stage of the project.
- 3.5 This tool promotes clear ownership and accountability, can make decision making quicker, and helps to reduce risk and errors. A responsibility matrix exists for construction and installation activities, but does not yet include finance, budgeting, community engagement, or operation of and maintenance of the wind farm. In addition, approval or accountability roles are not fully explicit.

- 3.6 We recommend that the responsibility matrix is expanded to cover both wider project stages such as those listed in paragraph 3.5 above and explicitly identify approval roles to support clarity of ownership and accountability.

Recommendation 2

4.0 Regulatory Compliance

- 4.1 Audit review of planning and related documentation indicates compliance with key regulations and policies for onshore wind farms.
- 4.2 Consultation feedback within the Environmental Impact Assessment (EIA) indicated no additional licensing requirements in respect of protected species, waste management or controlled activities in respect of areas close to water.

No recommendation made

5.0 Site selection and technical assessments

- 5.1 Due to the land earmarked for housing developments and designated areas for wildlife, there were a limited number of site options available in Orkney, and some of the feasible sites were already in the process of being developed by private companies. A request was made for Expressions of Interest (EOI) for siting windfarms in Orkney in 2017, initially in respect of a Private Wire Network.
- 5.2 The review of 12 potential sites put forward in response to the EOI request was undertaken focussing on the following criteria:
- Total overall area of land available for development.
 - Proximity of land to residential buildings.
 - Potential restrictions related to aviation concerns.
 - Potential restrictions related to telecommunication corridors.
 - Potential restrictions related to landscape and visual concerns.
 - Proximity to locally, nationally and internationally designated areas.
 - Proximity to historic scheduled buildings and monuments.
 - Issues related to transport infrastructure.
 - Issues related to grid connection.
 - Issues related to wind resource and potential turbine layout.
- 5.3 Quanterness was identified as the most suitable site as it had practical logistical advantages and was the least ecologically sensitive. The selection of the Quanterness site for further investigation was approved by Members.
- 5.4 A Technical Due Diligence of the proposed Quanterness site was undertaken at the time of the Final Investment Decision. This highlights the findings from the desk-study of ground conditions undertaken as part of the EIA submission for planning consent, together with details of the full on-site ground investigation completed in October 2023. In addition, it also noted that the final foundation design will not be available until the completion of the procurement process for the Balance of Plant (BoP) contract, and identified a risk of increased costs resulting from this.

5.5 Controls around site selection and technical assessments are operating satisfactorily.

No recommendation made

6.0 Stakeholder Engagement

6.1 Stakeholders are identified as part of the Full Business Case Documentation. Consultation and engagement with the community, statutory and non-statutory consultees were instrumental in the development of the project, including launch events in 2018-2019, Pre-Application Consultations as part of the Planning Approval process, consultation on 'location-specific' Community Benefit Funds, and Community Drop-In sessions.

6.2 A comprehensive communications and engagement plan, building on the prior consultations, was developed in 2024. This defines key messages, audiences, deliverables across phases, barriers to engagement, and monitoring and evaluation.

6.3 The OCWF website sets out accessible information, including an updated timeline, news and key documents like the Environmental Impact Assessment, and the planning application documents. The website also articulates the intended benefits:

- generation of community funds, both general and location-specific,
- how the project was crucial in the case for arguing for a new interconnector, which will open opportunities for wave and tidal technologies,
- supporting the Council in meeting carbon reduction targets and meeting our legal obligations.

No recommendation made

7.0 Project Planning

7.1 As noted above, there is no single project plan document. However, the Project Workbook, Project Programme, Business Case and associated scopes of work cover the required areas.

7.2 Within these documents there is a detailed Gantt chart, and high-level timeline which together provide a structured plan with tasks, interdependencies, milestones, procurement activities, and planning condition discharges up to the end of 2029. Accordingly, these documents provide a satisfactory substitute for a project plan.

No recommendation made

8.0 Issues, Change Management and Quality

8.1 There are weekly project team meetings between the Council Project Team, the Owners Engineer (OE) and the advising consultants, and any resulting issues are recorded in the action log. The Project Manager updates the Head of Service on a weekly basis to raise issues, seek decisions and identify items to be escalated.

- 8.2 Reporting of issues, and authorisation for proposed solutions follow the governance structure as set out at paragraph 1.3 above, i.e. initially to the monthly meetings of the Project Orkney Board, and, if required, to the quarterly meetings of the SPPB and Capital Projects Appraisal Board, or Chief Executive and Elected Members.
- 8.3 Notifications of changes follow the reporting structure at paragraph 8.1 above. In addition, any changes are also flagged at the meetings of the Corporate Leadership Team and the Strategic Officers Oversight Team. Urgent changes or issues are escalated to senior management with decisions captured in a Decision Log.
- 8.4 Under the PRINCE2 model a Quality Plan and a Quality Log are standard. A Quality Plan is usually completed by the developer, and sets out the objectives of the quality management programme, the expected standards and responsibilities around quality. The Council is the developer here, but does not currently have a formal Project Quality Plan.
- 8.5 The OE provides quality assurance for design and construction contracts and serves as Principal Designer for the purposes of the Construction (Design and Management) Regulations 2015. The contract appointing the OE sets out the quality assurance role, but does not specify a requirement for a Quality Log recording issues, audits and resolutions.
- 8.6 We recommend that a formal Project Quality Plan be introduced, and confirmation obtained of a project team workflow of oversight and monitoring of the OE's quality reviews and inspection activity.

Recommendation 3

9.0 Risk Management

- 9.1 An OCWF programme-level risk register (originating in 2017) is updated regularly. The OE maintains a project-specific register which was included as part of the FBC document pack. This document is updated at least quarterly during the development phase and is intended to be updated more regularly throughout the construction phase.
- 9.2 The OE register is structured across procurement, design, construction and operation. The programme register also includes business risks, scheduling risks, financial risks, resource risks and management risks.
- 9.3 Both registers set out risk, the impact and probability, residual classification, management or mitigation strategies, and ownership. The registers are comprehensive, but at the time of the review, additional risks were identified within the technical and financial due diligence reports. These risks have now been incorporated into the OCWF Programme register and accordingly no recommendation is made here.

No recommendation made

10.0 Procurement

- 10.1 The Turbine Supply Agreement (TSA) moved from an initial preferred bidder to the second placed bidder during negotiation, affecting timeline dependencies for the Balance of Plant (BoP) contract.
- 10.2 In addition, review of procurement timelines identified some shorter slippages of individual stages within the procurement process. Regardless of this and the TSA issue identified above, currently there is no anticipated delay in the commencement of generating operations in 2028.
- 10.3 Testing was undertaken on a sample of 5 contracts in respect of services procured for the project (19% coverage), which found most procurement documentation was complete and appropriately authorised. In one instance, the approval level reflected the core cost, rather than the total potential cost including contingency.
- 10.4 Whilst the particular contract in question was ultimately awarded at a fixed cost within the relevant approval level, and costs to date have not exceeded the contract cost, this highlights a wider issue. Contingencies are found in many construction type contracts, and for many contracts, there is a risk that total costs for a piece of work exceed the initial contract cost estimate. Accordingly, internal authorisation under the procurement process should reflect anticipated total costs where possible. If this is not done, there is a risk that authorisation thresholds could be bypassed where contingencies are applied.
- 10.5 We recommend that consideration should be given to applying authorisation thresholds to the total potential exposure (core contract costs plus contingency) when determining procurement approval requirements.

Recommendation 4

11.0 Budgeting and Forecasting

- 11.1 An externally developed financial model underpins the FBC. The assumptions made within the model were reviewed by external parties, including a due diligence review commissioned by the capital lender. No concerns were raised by these reviews in respect of the assumptions underlying the financial model.
- 11.2 Contingences, typically between 5 and 25% have been applied to a number of categories. Audit review work has been done in a number of specific areas in respect of these contingencies.
- 11.3 Foreign exchange exposure on the Euro-denominated TSA has been addressed through scenario modelling and an increased contingency for these costs of approximately 16%. Given this increase and the modelled outcomes of plus or minus 10% around a base of 0.887 EUR / GBP, which falls outside the range of actual historic exchange rate for the past 5 years, the Council's decision not to hedge this exposure is considered reasonable.
- 11.4 Estimated grid connection costs provided by Scottish Hydro Electric Power Distribution (SHEPD) form approximately 15% of the overall capital expenditure. Figure 1 below shows the increase in estimated grid connection costs from October 2020 to December 2025.

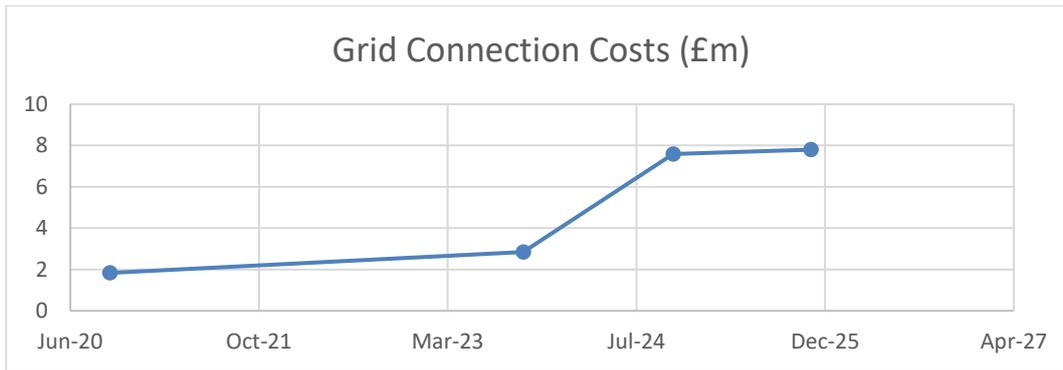


Figure 1: Estimated SHEPD Grid Connection Costs

- 11.5 The increase from 2023 to 2024 was largely due to the re-routing the cable to the Finstown Substation by Scottish and Southern Electricity Networks Transmission (SSEN) with the result that longer cabling and additional infrastructure was required for Quanterness. In addition, there was an increase in costs of core materials, general inflation and rises in prices for these works driven by a huge demand. The Project Team and advisors have raised concerns with SHEPD, and more widely, about the increase in grid connection costs to date, however the nature of all such SHEPD contracts is that the total exposure to increased costs falls to the customer requesting the connection.
- 11.6 The financial model has continued to include a 5% contingency in respect of the grid connection cost component, despite the increased costs experienced. At the time of the FID, in February 2025, the financial model had estimated grid connection costs of approximately £7.634m. The contingency figure within the model was therefore increased to £386k. The most recent increase in estimated costs to approximately £7.865m has reduced the 'available' contingency to £150k.
- 11.7 As a result, there is a risk that future cost increases could exceed the remaining contingency. The project's approach is to absorb shortfalls within wider contingency. If this is not possible, additional approvals for increased expenditure may be required.
- 11.8 However, in January 2025, the project team held a workshop with advisors to consider contingencies in advance of the FID. At this point, the possibility of synergies and cost savings in combining the design and construction works for the Quanterness cable and a cable to a new substation at Hatston was raised, which in turn raised the possibility of a reduction in anticipated grid connection costs for the project. As a result, the decision was taken to retain a contingency level of 5%. A revised estimate of grid connection costs will be received in the first quarter of the 2026 calendar year, with final costs due to be received in the last quarter of 2026.
- 11.9 The point at which OIC begins to draw down funds from the lender is currently anticipated to be no earlier than July 2026. At this time, the costs of the Turbine Supply Agreement, BoP contract and grid connection costs or an updated estimate will be known, and the financial model will be revised to reflect these costs. These costs form over 95% of the total project costs, and as a result the risk exposure to further unexpected cost rises will be substantially reduced at this time.

- 11.10 The financial model drawn up in February 2025 retained the application of a UK CPI based inflation rate of 2% in line with the Bank of England's target rate of inflation. We note that the CPI annual rate has been predominantly above this target since May 2021.
- 11.11 A general CPI has been used as the inflation index for this business case because it is argued that most of the project's long-term costs and revenues are expected to track general economic inflation rather than construction-specific cost movements. However, current industry indices suggest substantially higher inflation rates for costs within large infrastructure projects.
- 11.12 We recommend that when the financial model is revised, there is a further review of contingency and inflation assumptions in light of historic data and prevailing indices.

Recommendation 5

- 11.13 A broader audit review was undertaken of contingencies in respect of the capital expenditure costs. The financial model appears to treat uncertainty primarily through aggregated contingences. This is not in line with the UK Treasury's Green Book.
- 11.14 The Treasury's Green Book is Government guidance on how to appraise policies, projects and programmes. There is a companion document 'Supplementary Green Book Guidance: Optimism Bias', which recognises that "*Project appraisers have the tendency to be over optimistic. Explicit adjustments should therefore be made to the estimates of a project's costs, benefits and duration*". These adjustments are known as Optimism Bias Adjustments.
- 11.15 The guidance distinguishes between contingency (for known - unknowns) and optimism bias (systemic underestimate of risk), and is explicit that contingencies and optimism bias adjustments serve different purposes and must not be treated as substitutes. Higher optimism bias adjustments are applied early in the appraisal process and reduced as certainty increases.
- 11.16 Although following the Green Book is not a legal requirement for local authorities, it is the standard method for public value appraisal, designed to ensure that public funds are allocated and managed effectively. Following Green Book guidance is mandated for a local authority if a project is to be funded by UK Government capital funding streams or governed by central government guidance. Accordingly, following Green Book guidance is considered best practice.
- 11.17 Although the final investment approval has been granted, the treatment of optimism bias remains material because it affects:
- Forecast outturn cost and funding adequacy.
 - Value for money assessment underpinning the investment decision.
 - Credibility of delivery milestones and construction schedules.
 - Future gateway reviews and funding drawdowns.
 - Lessons learned and precedent for subsequent energy and infrastructure investments.
- 11.18 Treasury experience demonstrates that inadequate application of optimism bias is strongly correlated with cost overruns and schedule slippage, particularly in complex energy supply chain dependent projects such as wind farms.

- 11.19 The Project Management view is that optimism bias adjustments are applicable to the initial stages of the project review only, e.g. at CPA stages 0 and 1. In addition, at the FID, 50% of the capital expenditure had been effectively fixed by the Turbine Supply Agreement, with the result that the degree of uncertainty in respect of capital expenditure had been considerably reduced.
- 11.20 We recommend that for future projects, financial modelling is done in accordance with Green Book guidance, including optimism bias adjustments, and that this requirement is specified within the scope of external financial modelling or due diligence support.

Recommendation 6

12.0 Financial Analysis of Project Phases

- 12.1 All costs are recorded within the Integra financial system, with project-specific coding from September 2019. The Project Workbook maintains a cash flow tracker enabling monthly budget vs. actual comparisons by cost category.
- 12.2 Supplier-level annual expenditure trackers and regular financial reconciliations provided by the Treasury Team provide robust financial monitoring. Accordingly, controls around monitoring and recording of project expenditure are satisfactory.

No Recommendation

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 Apply the Capital Project appraisal framework from inception for future projects.	Medium	Agreed.	Strategic Projects Director	With immediate effect.
2 Extend the RACI to include finance, community engagement, operations and maintenance, and explicitly record approval roles.	Low	Agreed.	Strategic Projects Director	June 2026
3 Establish a formal Project Quality Plan and confirm oversight workflow for the Owner's Engineer's quality assurance and inspections (including a Quality Log).	Low	Agreed.	Strategic Projects Director	June 2026
4 Consideration should be given to determining procurement authorisation thresholds using total potential exposure (core contract costs plus contingency).	Medium	Procurement Plan to be reviewed to incorporate an explanatory note to ensure core contract costs plus contingency are noted for internal authorisation as appropriate.	Service Manager (Procurement)	June 2026

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
5 Revision of financial models should incorporate a review of contingency and inflation assumptions in light of historic data and prevailing indices.	Medium	At each model update, a thorough review of inputs, contingencies, inflation assumptions and forecasts is, and always will be, undertaken with the support of expert external advisors. This ensures the model is aligned with the latest financial outlook. Agree to continue on this basis.	Strategic Projects Director	With immediate effect.
6 For future projects, follow Treasury Green Book Guidance in respect of modelling, including optimism bias adjustments, and specify this as a requirement in external modelling / due diligence.	Medium	Agreed.	Strategic Projects Director	With immediate effect.

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.