The Cost of Poor Governance – When Nobody Challenges the Numbers



Procurement and Supply Chain Management Made Simple.

Foreword – Unchallenged Numbers

Financial failure rarely begins with a single catastrophic decision. More often, it grows from a succession of unquestioned assumptions, optimistic forecasts, thin approvals and financial reports that nobody examines closely enough. Figures are presented, explanations accepted and expenditure authorised, creating the appearance of effective management. Beneath those familiar routines, serious commercial weaknesses can accumulate unnoticed, particularly when organisational confidence replaces evidence and responsibility drifts across departments, committees and management structures.

Across the United Kingdom (UK), public and private organisations have paid heavily when decisions, reporting and oversight proved inadequate. Birmingham City Council's Oracle finance system, initially estimated at £19 million plus a £1 million contingency, was forecast in January 2026 to cost £144.4 million by 2027/28. Its external auditor, Grant Thornton, later described a culture in which bad news was either unwelcome or uncomfortable to deliver, allowing optimistic reporting to shape critical decisions.

The distinction between administrative compliance and genuine accountability is fundamental. A £5 million investment may collect every required signature and sit within approved thresholds without ever facing meaningful commercial challenge. Equally, projected savings of £500,000 may be celebrated despite no evidence that expenditure has actually fallen. Procedures can prove that a decision was authorised, but they cannot establish whether the assumptions were credible, the risks understood or the promised benefits achievable.

Regulators increasingly look for effective oversight rather than the mere existence of controls. The Financial Reporting Council (FRC) now asks boards within the scope of its UK Corporate Governance Code to declare whether their material internal controls are working. Yet no code, policy or system can compensate for managers who will not ask difficult questions. Financial accountability is not established when somebody signs the numbers, but when somebody understands, tests and, where necessary, challenges them.

Governance – More Than Procedure

Commercial governance is the framework through which organisations make financially responsible decisions, control contractual commitments and protect their resources. It extends well beyond written procedures, delegated authorities and approval forms. Effective governance requires managers to understand the commercial consequences of their choices, question financial assumptions and demonstrate that expenditure delivers appropriate value. Without meaningful scrutiny, even comprehensive governance arrangements become administrative rituals that create an illusion of accountability while risk quietly accumulates.

An expenditure request may pass every prescribed approval stage and satisfy every documentation requirement without showing that the decision is commercially justified. Financial accountability demands evidence that costs are reasonable, alternatives have been considered and risks are genuinely understood. A completed approval form establishes procedural compliance; it does not establish affordability, necessity or value for money. The difference matters most when budgets are tight, because weak decisions then consume resources that cannot be recovered.

In company law, the Companies Act 2006 sets out general duties for directors, including the duty under section 172 to promote the success of the company and the duty under section 174 to exercise reasonable care, skill and diligence. Neither duty is discharged merely by having procedures in place. Directors must exercise judgement appropriate to the circumstances, so governance concerns how decisions are reached, challenged and monitored, not simply whether administrative requirements have been completed.

Birmingham City Council shows how large unrecognised obligations can become. In June 2023, it reported a potential equal pay liability of between £650 million and £760 million as at 31 March 2023, after paying around £1.1 billion in settlements over the previous decade. A section 114 report followed that September. Equal pay is legally complex, but the case illustrates why material obligations must be identified, quantified and reported before they overwhelm an organisation's finances.

Public bodies, spending around £385 billion a year through procurement, face similar expectations. His Majesty's Treasury (HM Treasury) guidance, Managing Public Money, requires accounting officers to secure regularity, propriety, value for money and feasibility. Since 24 February 2025, section 12 of the Procurement Act 2023 has required contracting authorities to have regard to value for money, public benefit, information sharing and integrity. These duties presuppose that somebody is examining the numbers behind each commercial decision.

Statutory Safeguards

When internal challenge fails, statute provides a last defence. Under section 114 of the Local Government Finance Act 1988, a council's chief finance officer must issue a report in specified circumstances, including where the authority's expenditure is likely to exceed available resources. Section 115 requires the authority to consider the report within 21 days and restricts new commitments involving expenditure during the prohibition period, subject to statutory exceptions. These safeguards provide an important response when serious financial difficulties arise.

The National Audit Office (NAO) reported in February 2025 that, since 2018, seven English authorities had issued 10 section 114 reports. Forty-two authorities had received exceptional financial support worth more than £5 billion since 2020-21, with 30 receiving support to balance their 2025-26 budgets. Such support usually allows councils to borrow or sell assets to meet day-to-day costs, postponing pressure rather than removing it, so the underlying governance questions remain unresolved.

External auditors hold further powers under the Local Audit and Accountability Act 2014, including public interest reports and statutory recommendations that councils must consider

in public. Where governance fails more fundamentally, section 15 of the Local Government Act 1999 allows the Secretary of State to appoint commissioners, as happened at Birmingham, Thurrock and Woking. These safeguards are valuable, but each arrives after the damage has occurred, which is why ordinary management challenge matters far more.

Unquestioned Financial Reporting

Financial reporting becomes dangerous when organisational culture discourages challenge. Senior managers may receive reassuring performance summaries, favourable forecasts and explanations suggesting that difficulties are temporary or manageable. Repeated reassurance gradually replaces independent scrutiny, especially when the people supplying the information hold influential positions. Reports then confirm expectations rather than test performance, allowing inaccuracies, unrealistic assumptions and emerging weaknesses to survive until the consequences become far harder and more expensive to address.

Hierarchical organisations are particularly vulnerable when questioning figures is interpreted as challenging authority or doubting colleagues. Finance professionals may hesitate to dispute forecasts from operational directors, while procurement managers may avoid questioning assumptions endorsed by senior executives. Such behaviour is rarely dishonest. It usually develops through professional deference, organisational pressure and misplaced trust. Nevertheless, a collective reluctance to question apparently credible information steadily undermines the financial governance that organisations believe they have in place.

The FRC's action against PricewaterhouseCoopers (PwC) shows why professional scepticism matters. On 16 July 2026, it imposed a sanction of £3,248,437, reduced from £5.5 million, over audits of Babcock International Group's 2019 and 2020 financial statements. Breaches included long-term contracts, goodwill impairment, and cash pooling, and the auditors failed to adequately challenge management's accounting. The findings concerned PwC's conduct and engagement partner John Waters, not misconduct by Babcock's management.

The wider lesson is that favourable narratives can survive despite contradictory evidence. Deteriorating margins may be explained as seasonal, contract losses as isolated and rising costs as unavoidable investment. Without independent testing, a succession of individually plausible reassurances can produce a picture of performance that bears little resemblance to reality. Organisations that treat questioning as a professional responsibility, and reward constructive challenge, identify weaknesses earlier and correct unrealistic expectations before they harden into losses.

Everybody's and Nobody's Responsibility

Financial accountability weakens when responsibilities are spread across departments without clear ownership of outcomes. Procurement negotiates prices, finance authorises expenditure, operations confirms requirements, and senior management approves investment. Each function completes its designated task, yet nobody necessarily accepts responsibility for the overall commercial result. When expenditure then exceeds expectations, every party can offer a legitimate partial explanation, while the fundamental question of who should have identified and controlled the developing risk remains unanswered.

Nottingham City Council's energy venture shows the consequences. Robin Hood Energy, established in 2015, recorded losses of more than £34 million, and Grant Thornton's August 2020 public interest report criticised inadequate governance and "institutional blindness" to the risks of entering a competitive energy market. It closed later that year, with around 112,000 customers transferred to British Gas and roughly 230 jobs lost. The council issued a section 114 report in November 2023.

Clear accountability requires more than naming the person authorised to approve expenditure. Organisations must establish who develops the financial assumptions, verifies supporting information, monitors contractual commitments, reports emerging problems and decides when corrective action is needed. Responsibility should remain visible throughout the commercial

lifecycle. Where several functions contribute to a decision, their obligations must complement rather than dilute one another, ensuring that shared participation never becomes an excuse for absent ownership.

Weak Approvals – Signatures Without Scrutiny

Approval procedures exist to prevent inappropriate expenditure, unauthorised commitments and commercially unsound decisions, yet their value depends entirely on the scrutiny undertaken before authorisation. A signature confirms that someone approved a transaction; it says nothing about whether they examined its financial implications. When managers routinely sign without questioning supporting evidence, approval becomes a ceremonial control, generating extensive administrative records while allowing potentially damaging commitments to proceed with little genuine examination.

Weak delegated authority arrangements multiply that exposure. Financial thresholds may be poorly defined, outdated or inconsistent between departments, allowing commitments to proceed without appropriate oversight. Some allow recurring expenditure to be approved in instalments, despite substantial cumulative liabilities. Others fail to distinguish between authorising a purchase, executing a contract and approving variations. The result is uncertainty about who holds authority, what has genuinely been approved and which obligations require escalation to senior management.

The problem is sharpest when large purchases are divided into smaller transactions. In an illustrative case, five separate commitments of £40,000 total £200,000, yet each remains below a £50,000 management threshold. Such arrangements are not automatically improper, but deliberately separating expenditure to avoid authority limits undermines financial control. Effective procedures examine related commitments, contract duration, recurring obligations and total anticipated expenditure, rather than treating each approval as an isolated decision taken without wider context.

Accelerated purchasing during the pandemic illustrates the risks at scale. The NAO reported in March 2022 that the Department of Health and Social Care (DHSC) was managing 176 personal protective equipment (PPE) contracts on which it believed it might not achieve full value, with around £2.7 billion at risk. Those decisions were taken under exceptional pressure, but they show why expedited approval must still include proportionate commercial challenge and robust assurance once the emergency subsides.

A stronger approval process requires decision-makers to understand precisely what they are authorising, including total cost, financial risk, contractual obligations and realistic alternatives. Approval limits should reflect the organisation's risk appetite and separate routine expenditure from exceptional commitments. Supporting papers should identify assumptions, dependencies and foreseeable liabilities. Above all, managers need both the competence and the willingness to challenge proposals, backed by clear escalation routes whenever the commercial justification remains uncertain.

Decisions Built on Weak Data

Management information should give a reliable view of financial performance, operational effectiveness and emerging commercial risk. In practice, many organisations rely on reports assembled from disconnected systems, inconsistent records and data that has never been properly reconciled. Information can appear comprehensive while concealing serious gaps in accuracy or completeness. When managers cannot tell whether reported figures reflect actual transactions, commitments and liabilities, their capacity to exercise sound commercial judgement is fundamentally compromised.

Birmingham's Oracle implementation demonstrates how quickly weak data becomes a governance failure. The system went live on 11 April 2022, although testing could not be completed. Grant Thornton's February 2025 public interest report found that cash management was nevertheless reported as "Green" to the steering committee and concluded

that, with better testing information, approval to go live was unlikely. The council then endured a breakdown in financial control spanning several accounting years.

Private businesses face comparable risks, often on a smaller but still damaging scale. In an illustrative case, a manufacturer reporting £12 million of annual purchasing expenditure could materially misstate its position by omitting outstanding purchase commitments, supplier credits or inventory adjustments. A discrepancy of only 2% would represent £240,000. Apparently modest reporting inaccuracies therefore become significant when applied across substantial expenditure, multiple operating sites or several consecutive reporting periods without correction.

Reliable management information depends on consistent definitions, clear data ownership, regular reconciliation and timely reporting. Finance, procurement and operational systems should produce figures that can be traced to underlying transactions and contractual records. Managers must also distinguish between confirmed expenditure, accrued liabilities, forecasts and uncommitted budgets. Where uncertainty exists, reports should explain its nature and potential financial significance rather than presenting unsupported estimates as established facts on which major decisions can safely rest.

When Variances Become Acceptable

Budgetary control is a fundamental safeguard against uncontrolled spending, yet its effectiveness depends on active management rather than routine comparison of planned and actual figures. Reports may identify variances without establishing their causes, implications or likelihood of recurrence. When overspending becomes familiar, managers begin treating adverse results as normal operating conditions. Repeated acceptance of unexplained differences gradually erodes financial discipline and weakens the expectation that every pound of expenditure must remain justified.

Consider an illustrative department with a £5 million annual budget that reports expenditure £40,000 above plan in its first month. If subsequent reviews record similar adverse variances without corrective action, a recurring £40,000 monthly overspend amounts to £480,000 over twelve months, or 9.6% of the original budget. No single monthly report looks alarming, which is precisely the danger: people dismiss recurring variances individually while their cumulative effect steadily undermines financial sustainability.

Local government demonstrates how accounting arrangements can defer the recognition of financial pressures. A statutory override allows English councils to keep accumulated deficits on high-needs special educational provision separate from their general reserves. In February 2025, the NAO warned that 43% of authorities could face section 114 reports if the override ended in March 2026. The government subsequently extended the arrangement until March 2028, providing additional time without eliminating the underlying financial pressures.

Budget variances require explanation, not automatic acceptance. Managers should distinguish between timing differences, unexpected demand, inflationary pressure, operational inefficiency and failures to follow approved controls. A temporary increase in expenditure may be commercially justified where additional investment delivers measurable benefits. However, that justification must rest on evidence, credible forecasts and an understanding of longer-term consequences. Variance analysis should therefore prompt the decisions that are needed, not merely record financial deviations.

Effective organisations also ask whether the original budget remains realistic. An approved allocation does not guarantee its underlying assumptions were correct, particularly when market conditions, service requirements, or contractual obligations change substantially. Maintaining an unrealistic budget can be as damaging as tolerating uncontrolled expenditure. Management must periodically reassess affordability, identify emerging commitments and implement corrective measures, ensuring that financial control reflects genuine commercial conditions rather than historical expectations.

Forecasting Failure – Optimistic Numbers

Forecasting allows organisations to anticipate income, expenditure, cash requirements and future commitments. Forecasts become unreliable, however, when assumptions consistently favour desirable outcomes over reasonable expectations. Optimistic revenue projections, understated supplier costs and unrealistic implementation schedules can create an apparently healthy position while concealing growing exposure. When forecasts are repeatedly adjusted simply to maintain confidence, management loses the opportunity to recognise problems early and to take proportionate corrective action.

Thames Water shows why profit, investment and liquidity must be assessed together. For the year to 31 March 2026, it reported underlying operating profit of £1.282 billion and record capital investment of £2.68 billion, yet a net cash outflow before funding of £1.13 billion. Statutory net debt reached £18.516 billion, with gearing of 86%. In May 2025, the Water Services Regulation Authority (Ofwat) had imposed penalties totalling £122.7 million over wastewater failures and dividend payments.

Forecasting weaknesses frequently arise from assumptions that are never properly tested. Sales growth may depend on contracts not yet secured, anticipated savings may require operational changes that remain incomplete, and future expenditure may exclude foreseeable maintenance or compliance costs. Managers should examine the probability of each assumption materialising. Forecasts relying on several favourable developments occurring simultaneously deserve particular caution, especially where the failure of a single assumption would materially change the overall financial position.

Cash-flow forecasting deserves particular attention because accounting profit does not guarantee liquidity. In an illustrative case, a business reporting £750,000 of annual operating profit may still struggle if customers pay late or inventory must be financed in advance. Delayed receipts, supplier obligations and unexpected contractual liabilities can create immediate funding needs. Effective forecasts therefore examine payment timing, working capital, borrowing covenants and realistic downside scenarios rather than relying solely on projected income statements.

Optimistic Business Cases

Business cases should demonstrate whether proposed investments, contracts, or operational changes justify their costs and risks. Too often, they become exercises in securing approval rather than objectively comparing alternatives. Benefits are exaggerated, implementation costs understated, and delivery schedules built on hopeful assumptions. Where management is already committed, psychologically or politically, to a preferred outcome, supporting analysis may be constructed to reinforce that choice rather than to test its commercial credibility.

The High Speed Two (HS2) railway is the most prominent example. In May 2026, the government estimated the cost of completing the scheme at £87.7 billion to £102.7 billion, on a mixed price basis combining cash already spent with future costs at third-quarter 2025 prices. A provisional nominal estimate, including projected inflation, reached £94.3 billion to £112.4 billion. Services between Old Oak Common and Birmingham are now expected between May 2036 and October 2039.

In 2019 prices, the revised range of £70.9 billion to £82.2 billion compares with the previous range of £35 billion to £45 billion. The government attributed around two-thirds of the increase to missed works, underestimation and inefficient delivery, and around one-third to inflation. By March 2026, £46.8 billion had been spent, including £2.6 billion on the cancelled northern phase, and the NAO noted internal reviews describing HS2 Limited as poorly structured for its revised scope.

Scotland's ferry programme offers a smaller but equally instructive case. The original 2015 contract for two vessels at Ferguson Marine was valued at around £97 million. In May 2024, after the yard had passed into public ownership, Ferguson Marine reported expected costs of

up to £149.1 million to complete Glen Sannox and no more than £150 million for Glen Rosa, a combined £299.1 million. Those figures exclude earlier contractual expenditure, so direct comparison requires care.

Weak business cases often omit sensitivity analysis showing how outcomes depend on uncertain assumptions. In an illustrative case, a £2 million investment expected to generate annual benefits of £500,000 offers a simple payback of four years before financing costs. If benefits reach only £300,000, payback extends to approximately 6.7 years. HM Treasury's Green Book already requires public bodies to adjust estimates for optimism bias, recognising that appraisers systematically overstate benefits and understate costs and timescales.

Commercially credible appraisal should consider alternative options, realistic delivery costs, benefits measurement, affordability and the financial consequences of failure. Discounted cash-flow analysis, net present value calculations and proportionate risk assessment all support sound decisions where relevant. Importantly, the assumptions underlying financial projections should be independently challenged before expenditure is authorised. A persuasive business case should withstand reasonable scepticism rather than depend on favourable interpretation, selective information or management enthusiasm.

HS2 cost estimates and spending

Measure	Price basis	Amount
Previous estimate	2019 prices	£35bn – £45bn
May 2026 revised estimate	2019 prices	£70.9bn – £82.2bn
May 2026 revised estimate	Mixed: cash spent plus future costs at 2025 prices	£87.7bn – £102.7bn
May 2026 provisional estimate	Nominal, including projected inflation	£94.3bn – £112.4bn
Spent to end of March 2026	Nominal, including £2.6bn on the cancelled northern phase	£46.8bn

Sources: Department for Transport, HS2 six-monthly report to Parliament (May 2026); NAO, HS2 reset (June 2026). Price bases differ and are not directly comparable.

Figure 1: HS2 cost estimates by price basis and spending to March 2026

Unchallenged Procurement Decisions

Procurement decisions create significant financial exposure when evaluation focuses narrowly on purchase price rather than overall value. The lowest quotation is not necessarily the most economical once operating costs, maintenance, service reliability and contractual risk are considered. Weak supplier evaluation can also overlook financial stability, delivery capability and the consequences of supplier failure. Effective procurement governance therefore requires a balanced assessment of cost, quality, risk and whole-life expenditure across the full contract term.

The DHSC pandemic purchasing experience shows the cost of insufficient commercial safeguards. In June 2022, the House of Commons Committee of Public Accounts (PAC) reported that the department had written down £8.7 billion of the £12 billion of PPE bought in 2020-21. Around £4 billion would not be used in the National Health Service (NHS), comprising £673 million of defective items, £2.6 billion not of the preferred standard and £750 million of excess stock.

Commercial governance also requires transparency about how suppliers are recommended and approved. Evaluation criteria should be documented and applied consistently, with assumptions supported by credible evidence. For contracting authorities, the Procurement Act 2023 adds specific duties, including the requirements in sections 81 to 83 to identify and

mitigate conflicts of interest and to prepare conflict assessments. Compliance with those duties demonstrates fair process, but it cannot by itself prove that the commercial outcome represents value.

Whole-life cost comparison over five years (illustrative)

Cost element	Supplier A	Supplier B
Initial purchase price	£150,000	£180,000
Annual maintenance	£25,000	£10,000
Maintenance over five years	£125,000	£50,000
Total five-year cost	**£275,000**	**£230,000**

Illustrative example. Supplier B costs £45,000 less over five years despite a £30,000 higher purchase price. Excludes financing, inflation and residual value.

Figure 2: Five-year whole-life cost comparison of two suppliers (illustrative)

Financial challenge must extend beyond comparing quotations. Procurement professionals should examine contract duration, escalation provisions, delivery assumptions, supplier dependencies and anticipated expenditure throughout the agreement. As Figure 2 illustrates, Supplier A's equipment at £150,000 appears cheaper than Supplier B's at £180,000, but annual maintenance of £25,000 rather than £10,000 produces five-year costs of £275,000 and £230,000, respectively. Supplier B is therefore £45,000 cheaper overall, despite its higher purchase price.

Procurement scrutiny should therefore test the commercial logic behind every significant purchasing decision, not merely its procedural compliance. Questions about whole-life cost, supplier resilience, demand assumptions and exit arrangements belong at the beginning of the process, when they can still influence the specification. The central objective is to ensure that purchasing decisions withstand independent examination and that financial commitments remain justified throughout the procurement process and the contract that follows.

Unnoticed Contract Exposure

Contract management is often treated as an operational task once agreements are signed and delivery begins. Yet contractual expenditure rarely remains static over extended relationships. Price adjustments, service variations, additional requirements and unforeseen events can materially change the original commitment. Without continuous scrutiny, modest changes accumulate into substantial liabilities, leaving organisations paying considerably more than anticipated without corresponding improvements in value, and often without anyone recognising how far the commercial position has moved.

The Ministry of Defence (MoD) Ajax armoured vehicle programme shows why organisations must monitor delivery and contractual exposure together. The programme rests on a £5.5 billion fixed-price contract with General Dynamics for 589 vehicles across six variants. Noise and vibration problems led the MoD to pause payments from December 2020 until March 2023, and the PAC concluded in 2022 that the department's management of the programme had been flawed from the outset.

Variations present particular risks where change control is weak. In an illustrative case, a £3 million services agreement attracting additional requirements worth 7% of its initial value creates £210,000 of further commitments. If management approves each change individually, it may never recognise how substantially the position has shifted. Proper variation control should examine necessity, pricing justification, available budgets and the effect on existing obligations, alongside indexation clauses, automatic renewals and minimum purchase

commitments.

Public contracts carry specific statutory requirements. Under the Procurement Act 2023, contracting authorities must generally establish at least three key performance indicators (KPIs) for public contracts exceeding £5 million, subject to specified exemptions. Section 71 requires periodic assessment and publication of relevant performance information, while section 75 generally requires contract change notices before qualifying modifications take effect. These requirements strengthen transparency but cannot replace continuous financial scrutiny, contractual monitoring and management accountability.

Savings, Avoidance and Illusion

Reported procurement savings can create an impressive picture of commercial performance without demonstrating any improvement in the financial position. Cost savings represent measurable reductions against an agreed baseline, whereas cost avoidance concerns expenditure that would otherwise reasonably have been incurred. Both demonstrate value, but they are not financially equivalent. Negotiating a proposed £120,000 annual price increase down to £40,000 avoids £80,000, yet it frees no existing budget and reduces nothing against last year's spending.

Double-counting presents another serious risk. In an illustrative case, procurement claims £150,000 from a successful renegotiation, finance recognises the same reduction within departmental budgets, and operations reports it again as an efficiency improvement. Combined without reconciliation, the figures suggest £450,000 of benefit from a single £150,000 reduction. Such distortions exaggerate performance, mislead investment decisions and ultimately weaken confidence in every commercial achievement the organisation subsequently reports to its board or regulators.

Cost avoidance and double-counting (illustrative)

Scenario	Reported benefit	Actual budget effect
Proposed £120,000 price increase cut to £40,000	£80,000 cost avoidance	Nil budget released
Procurement claims renegotiation saving	£150,000	£150,000
Finance records the same reduction	£150,000	Already counted
Operations reports it as an efficiency gain	£150,000	Already counted
Combined without reconciliation	**£450,000**	**£150,000**

Illustrative example showing why savings registers must record baselines, methods and owners, and be validated by finance.

Figure 3: Cost avoidance and the effect of double-counting (illustrative)

The NAO has repeatedly stressed that government efficiency claims must be supported by credible financial evidence of delivery, and the principle applies equally to private businesses. Savings registers should record calculation methods, agreed baselines, implementation dates and accountable owners. Finance should independently validate material claims, ensuring that reported improvements correspond to demonstrable reductions in expenditure or other properly evidenced benefits, and that projected savings are never presented as realised results.

Capital Investment Outrunning Scrutiny

Capital investment commits organisations to substantial expenditure over several years, often bringing financing, maintenance and operational obligations well beyond the initial purchase. Weak appraisal may concentrate on expected benefits while overlooking construction risk,

implementation costs and future liabilities. Once significant expenditure has begun, management can become reluctant to revisit its original assumptions, particularly where cancellation would mean acknowledging earlier mistakes or writing off a substantial sum already invested in the project.

The Edinburgh tram project remains one of the clearest UK examples. The scheme was budgeted at £545 million for a substantially longer route than the line eventually built. The shortened Edinburgh Airport to York Place service opened in May 2014, around three years later than planned, with a reported completion cost of £776 million. Comparing expenditure alone therefore understates the deterioration in value, because considerably less infrastructure was delivered for considerably more money.

Lord Hardie's Edinburgh Tram Inquiry, published in September 2023 after nine years and at a cost exceeding £13 million, estimated the project's final cost at £835.7 million, with interest on borrowing taking the overall burden beyond £1 billion. The inquiry identified serious failings in project management, contractual arrangements, reporting and oversight, and made 24 recommendations intended to prevent similar failures on future public infrastructure projects across Scotland.

Private investments face comparable risks. In an illustrative case, a distribution business considering £4 million of warehouse automation anticipates annual net benefits of £800,000, suggesting a simple five-year payback. If implementation costs rise to £5 million and realised benefits reach only £500,000, payback stretches to ten years. The calculation ignores financing, taxation and the time value of money, yet Figure 4 shows how quickly attractive cases deteriorate once assumptions are tested.

Simple payback sensitivity (illustrative)

Investment case	Capital cost	Annual benefit	Simple payback
Investment as approved	£2,000,000	£500,000	4.0 years
Benefits fall short	£2,000,000	£300,000	6.7 years
Warehouse automation as approved	£4,000,000	£800,000	5.0 years
Cost overrun and weaker benefits	£5,000,000	£500,000	10.0 years

Illustrative examples. Simple payback excludes financing, taxation and the time value of money; discounted measures would lengthen these periods.

Figure 4: Sensitivity of simple payback to cost and benefit assumptions (illustrative)

Effective investment governance requires credible financial models, appropriate contingency allowances, independent appraisal and clearly defined decision points at which a project can be paused or stopped. Net present value, internal rate of return and discounted cash-flow assessment support decisions when applied properly. Equally important is post-investment evaluation comparing approved expectations with actual cost, delivery and realised benefits. Without it, organisations repeat the same appraisal weaknesses because they never examine their previous investment outcomes.

Hidden Governance Costs

The financial consequences of poor commercial governance rarely sit within a single accounting category. Excessive supplier costs appear as operating expenditure, disputes as legal fees and failed investments as impairments or write-offs. Additional borrowing costs, management disruption and lost opportunities are scattered throughout the financial statements. Consequently, organisations routinely underestimate the overall cost of governance weaknesses, because individual losses are dispersed across different functions,

budget holders and reporting periods.

Woking Borough Council shows how long-term commercial exposure can overwhelm an organisation. In May 2026, the Ministry of Housing, Communities and Local Government (MHCLG) stated that the council had accumulated more than £2 billion of debt, almost 100 times its annual budget, following failed investment plans. Woking issued a section 114 report in June 2023, and its debt position has since required extensive government intervention, commissioners and continuing support from central government.

The scale of public financial exposure is considerable. The NAO estimated that fraud and error across government expenditure amounted to between £55 billion and £81 billion in 2023–24, although these losses cannot be attributed solely to weak commercial governance. In July 2026, the National Infrastructure and Service Transformation Authority (NISTA) reported 189 projects within the Government Major Projects Portfolio (GMPP), representing £924.2 billion in whole-life costs, with 34 receiving red delivery confidence ratings. These figures highlight the importance of proportionate financial control and independent oversight.

Selected UK governance cases and figures

Organisation or programme	Key figure	Source and date
Birmingham City Council – Oracle system	£19m estimate; £144.4m forecast	Council forecast, January 2026
Birmingham City Council – equal pay	£650m – £760m potential liability	Council statement, June 2023
Woking Borough Council	More than £2bn of debt	Government statement, May 2026
Thurrock Council	Around £1.5bn of debt	Government statement, May 2026
Robin Hood Energy (Nottingham)	Losses of more than £34m	Public interest report, August 2020
Edinburgh trams	£545m budget; £835.7m final cost	Tram Inquiry, September 2023
Pandemic protective equipment	£8.7bn written down of £12bn	PAC report, June 2022
Thames Water	£18.516bn statutory net debt	Annual results, July 2026
Babcock audits (PwC)	£3,248,437	FRC sanction, July 2026
Patisserie Holdings audits (Grant Thornton)	£2.34m	FRC sanction, September 2021
Interserve audits (Grant Thornton)	£718,250	FRC sanction, November 2021

Figures measure different things (estimates, debt, liabilities, write-downs and regulatory sanctions) and should not be aggregated or treated as proven losses.

Figure 5: Selected UK cases and the financial measures they involve

Financial leakage also arises through everyday activity. In an illustrative case, a business purchasing £20 million of goods and services annually would lose £200,000 if weak controls allowed avoidable costs equal to just 1% of spend. Unrecovered supplier credits, unjustified price increases and duplicate payments may each appear trivial. Collectively, they erode margins, increase working-capital requirements, absorb management time and discourage employees from raising concerns that previous managers chose to ignore.

Reports Received, Not Questioned

Management meetings often involve extensive financial reporting, yet detailed presentations alone do not ensure effective oversight. Dashboards may display expenditure, margins, forecasts and performance indicators without requiring anyone to explain significant movements or underlying assumptions. When meetings focus on receiving information rather

than testing its reliability, weaknesses go undetected. A completed agenda and approved minutes provide evidence that discussion occurred, but cannot demonstrate that meaningful commercial scrutiny actually took place.

The collapse of Patisserie Holdings, owner of Patisserie Valerie, illustrates the danger of unreliable information. After accounting irregularities emerged in October 2018, the group entered administration in January 2019. In September 2021, the FRC sanctioned its auditor, Grant Thornton, imposing a financial penalty of £4 million reduced to £2.34 million. Failings covered revenue, cash, journals and fixed asset additions, with missed red flags and insufficient challenge of information supplied by management.

The engagement partner, David Newstead, received a reduced penalty of £87,750 and a three-year ban from statutory audit work. Separately, the Serious Fraud Office (SFO) charged four individuals in September 2023, including the former finance director. All four pleaded not guilty, and in February 2026 the trial was relisted for January 2028. The allegations remain unproven, and the FRC's findings concern audit quality rather than establishing wrongdoing by any individual manager.

Although external audit responsibilities differ from management's, the governance lesson is directly transferable. Financial information should not gain credibility simply because it is presented confidently, appears consistent with earlier reports or comes from an experienced colleague. Managers should understand the evidence supporting significant balances, unusual transactions and optimistic forecasts. Questions about cash, liabilities and reconciliations deserve substantive answers rather than reassurance unsupported by any form of independent verification.

Oversight becomes particularly ineffective when management accepts explanations without defined next steps. In an illustrative case, a report showing £300,000 of unexplained overspending should not simply produce an instruction to monitor expenditure more closely. Management must establish the causes, assess whether the variance is recurring and decide what corrective action is required. Accountability then demands named individuals, realistic deadlines and follow-up verification, so that financial concerns move from discussion to resolution.

Directors Cannot Delegate Accountability

Directors depend on managers, financial specialists and advisers for the information that underpins their decisions, but delegation does not remove responsibility. Section 173 of the Companies Act 2006 requires directors to exercise independent judgement. Section 174 applies a dual test: the care, skill and diligence expected of a reasonably diligent person with the knowledge and experience reasonably expected of someone in that role, and the care, skill and diligence the director actually possesses.

The UK Corporate Governance Code 2024 reinforces these expectations for companies within its scope. Provision 29, applying to financial years beginning on or after 1 January 2026, requires boards to describe how they have monitored and reviewed the effectiveness of the risk management and internal control framework, and to declare whether material controls have operated effectively. The Code works on a comply-or-explain basis rather than imposing identical statutory obligations on every UK business.

Statute has also sharpened the consequences of weak control. Since 1 September 2025, section 199 of the Economic Crime and Corporate Transparency Act 2023 has made large organisations criminally liable where an associated person commits a specified fraud intending to benefit them, subject to a statutory defence where reasonable fraud prevention procedures were in place, or where it was not reasonable in the circumstances to expect such procedures. The offence applies to organisations meeting two of three thresholds: more than 250 employees, turnover above £36 million or assets above £18 million.

Poor financial outcomes do not, however, automatically establish unlawful behaviour or

personal liability. Commercial decisions involve uncertainty, and reasonable judgements can produce disappointing results. The key question is whether directors exercised appropriate care, considered relevant information and responded responsibly to identifiable risks. A board receiving forecasts that consistently underestimate costs should investigate the forecasting method itself, rather than repeatedly accepting revised projections that each prove as unreliable as the last.

Procurement Without Authority

Procurement functions exist throughout the public sector to support lawful purchasing, financial accountability and value for money. Their effectiveness is seriously undermined, however, when senior management regards procurement as an administrative requirement rather than a strategic commercial discipline. Teams may have qualified professionals and established procedures yet lack sufficient standing to challenge expenditure, influence investment proposals or intervene when operational managers pursue commercially questionable arrangements with preferred suppliers.

Capability gaps compound the problem. In June 2026, the NAO reported that internal reviews found HS2 Limited lacking key delivery and contract management skills, even as it oversaw tens of billions of pounds of contracts. The finding reminds us that establishing a commercial function does not automatically provide the expertise, seniority, or influence required to secure effective commercial outcomes on complex, high-value programmes.

Organisational positioning matters greatly. Where procurement reports through several management layers without meaningful access to senior decision-makers, its ability to challenge influential budget holders becomes severely restricted. Procurement professionals may identify inadequate competition, unrealistic financial assumptions or questionable supplier arrangements, only to see their recommendations disregarded. When senior management fails to support legitimate commercial challenge, the organisation weakens one of its principal safeguards against unnecessary expenditure and poor contractual decisions.

The consequences become most serious when procurement is involved only after operational managers have chosen preferred suppliers, agreed specifications or informally committed expenditure. At that stage, procurement is expected to legitimise decisions rather than shape their commercial justification. Such arrangements restrict competition, undermine value for money and expose organisations to avoidable contractual risk. These weaknesses rest not simply with procurement teams, but with leadership arrangements that limit their effectiveness from the outset.

Effective commercial governance gives procurement appropriate standing within the management structure, early involvement in significant decisions and direct access to senior leadership when material concerns arise. Managers must be prepared to support professionals who challenge questionable expenditure, even when doing so causes operational inconvenience or disagreement. A procurement function cannot reasonably be held accountable for commercial performance while being denied the organisational influence needed to protect the financial interests it is expected to safeguard.

Clarity about roles matters equally. Procurement provides market insight, commercial advice, independent challenge and assurance that the correct process has been followed, but it does not own the underlying spending decision. Accountable budget holders and executive management retain responsibility for the commitments they authorise, including the decision to proceed despite procurement concerns. Recording those concerns, and the reasons for overriding them, ensures that accountability remains visible when the commercial consequences finally emerge.

Failing to Challenge Across Functions

Commercial governance often deteriorates when finance, procurement and operations work independently, even though they contribute to the same decisions. Finance may focus on

budget compliance, procurement on supplier selection and operations on service delivery. Each department can meet its own objectives while the organisation's overall commercial performance declines. Without coordinated scrutiny, important assumptions, contractual liabilities, and emerging risks can fall between departmental responsibilities, unnoticed until they become expensive.

In an illustrative case, a manufacturer buying £8 million of raw materials annually negotiates a 4% price reduction, an apparent saving of £320,000. However, the cheaper material increases wastage, and revised delivery arrangements require holding more inventory. If those developments add £410,000 of annual cost, the organisation is £90,000 worse off, even though procurement reports a successful negotiation and every individual department believes it has performed well.

The Edinburgh tram inquiry showed the same weakness across organisations. Lord Hardie concluded that Transport Initiatives Edinburgh (TIE), the council's arm's-length delivery company, was the principal cause of the failure to deliver on time and within budget, while the City of Edinburgh Council shared principal responsibility. The Scottish Government was also criticised. Fragmented oversight allowed problems with contracts, information and risk to persist unchallenged.

Effective cross-functional governance requires finance professionals to understand operational consequences, procurement teams to recognise financial exposure and operational managers to appreciate contractual obligations. Shared performance indicators help align these responsibilities, provided they measure organisational results rather than departmental activity. Total cost of ownership, supplier performance, working-capital requirements and realised financial benefits should be considered together, with management deciding explicitly which outcomes deliver sustainable commercial value when priorities compete.

Cross-functional challenge also depends on clear escalation routes. A procurement manager who identifies questionable supplier pricing should be able to raise concerns with finance and operational leadership without meeting unnecessary organisational barriers. Equally, finance should be able to challenge unrealistic demand forecasts before approving contractual commitments. Joint reviews, documented decision ownership and transparent financial reporting reduce the likelihood that responsibility fragments across functions without anyone establishing meaningful accountability for the final result.

The Limits of Assurance

Internal audit provides independent assurance and advice on governance, risk management and control. Its findings, however, have limited value when management fails to act on them. An organisation may maintain detailed risk registers, receive regular audit reports and operate formal improvement programmes while significant commercial vulnerabilities persist. Assurance activity should never be mistaken for evidence that corrective action has been completed, nor for proof that the control environment is working as intended.

Local government audit in England shows why published accounts and verified accounts are different things. Public Sector Audit Appointments (PSAA) reported that, of 457 opinions due for 2024/25 at the 27 February 2026 backstop, 188 were disclaimed and 43 qualified because of the backstop, with only 183 unmodified. A disclaimer means the auditor could not obtain sufficient evidence to form an opinion; it does not, by itself, establish that the accounts contain material errors.

Risk registers create similar false confidence when organisations record threats without testing whether mitigating controls actually work. A contract risk assessed as moderate may become serious if anticipated supplier assurances never arrive or corrective actions stall. Management should examine residual exposure, control ownership and the evidence supporting reported improvements. Risks should never be downgraded simply because an action plan exists or someone has acknowledged the concern in a meeting.

The FRC's November 2021 sanctions against Grant Thornton over Interserve's 2015 to 2017 audits illustrate the importance of sufficient evidence. The FRC reduced a £1.3 million sanction to £718,250, citing failings over a loss provision on an energy-from-waste contract and, later, going concern and goodwill work. The FRC did not assert that the breaches caused material misstatement, so assurance deficiencies must not automatically be blamed for wider organisational failure.

Local government audit opinions for 2024/25 at the February 2026 backstop

Opinion	Number	Share
Unmodified	183	40.0%
Disclaimed because of the backstop	188	41.1%
Disclaimed for other reasons	2	0.4%
Qualified because of the backstop	43	9.4%
Qualified for other reasons	5	1.1%
Outstanding	36	7.9%
Total opinions due	**457**	**100%**

Source: PSAA, audit opinion data at the 27 February 2026 backstop (excluding pension fund audits). Shares are rounded.

Figure 6: 2024/25 local government audit opinions at the February 2026 backstop

When Warning Signs Are Ignored

Financial difficulties rarely emerge without warning. Deteriorating margins, persistent budget variances, rising borrowing, and delayed supplier payments can all signal weakening commercial performance. Organisations, however, often explain each development individually rather than recognising their collective significance. Management optimism, reluctance to acknowledge past mistakes and confidence in future recovery delay intervention, allowing manageable problems to become embedded in budgets, contractual commitments and the forecasts on which decisions depend.

Thurrock Council demonstrates how concentrated investment risk escalates. In May 2026, the government stated that the council had accumulated around £1.5 billion of debt by borrowing to finance unsuccessful investments. Thurrock issued a section 114 report in December 2022, after the returns that had supported its budgets failed to materialise. The case shows why investment concentration, financing obligations and early performance concerns require continuing independent scrutiny rather than periodic reassurance from those promoting the strategy.

The London Borough of Croydon received similar warnings. In October 2020, Grant Thornton's public interest report criticised "corporate blindness" to the council's deteriorating finances, and a section 114 report followed in November 2020. Croydon had lent more than £70 million to its development company, Brick by Brick, to fund the Fairfield Halls redevelopment alone, and a second public interest report subsequently examined that project's governance and escalating costs.

In private businesses, warning signs may appear less dramatic. In an illustrative case, a distribution company generating £30 million of annual revenue sees its operating margin fall from 6% to 3%. With revenue unchanged, operating profit halves from £1.8 million to £900,000. Management should establish whether the decline reflects rising transport costs, inefficient operations, customer pricing pressure or contractual commitments that have quietly

become commercially unsustainable over successive periods.

Delayed intervention creates compounding consequences. A supplier dispute worth £75,000 can expand through legal costs, service disruption and replacement procurement, while unresolved inventory inaccuracies conceal obsolete stock and unnecessary purchasing. Repeated assurances that margins will recover or savings will materialise should be tested against evidence and agreed milestones. Organisations need escalation thresholds, independent review and realistic recovery plans, intervening while management still retains meaningful and commercially acceptable choices.

Stronger Approval Controls

Effective approval arrangements specify who may authorise expenditure, what evidence is required and when additional scrutiny becomes necessary. Delegated authority should reflect financial materiality, contractual risk and the cumulative value of related commitments. A relatively modest transaction may still require senior approval where it introduces unusual liabilities or significant reputational exposure. Strong governance therefore combines proportionate thresholds with enough flexibility to recognise risks that transaction value alone cannot reveal.

Controls should distinguish between approving expenditure, entering contractual obligations and authorising later changes. In an illustrative case, a manager permitted to approve purchases up to £100,000 should not automatically have authority to sign a long-term contract creating £500,000 of cumulative commitments. Organisations must also prevent artificial transaction splitting. Approval matrices should define the relevant financial measures, required authorisations and responsibility for verifying compliance before any commitment becomes legally binding.

Independent financial challenge provides further protection where proposals involve material uncertainty or substantial exposure. Finance specialists should examine affordability, assumptions, projected cash flows and the consequences of adverse outcomes. Procurement should review commercial terms, market evidence and supplier risk, while operational managers confirm that requirements are genuinely needed. For major decisions, approval records should capture the alternatives considered, any material disagreements and the reasoning that supported the final judgement.

Decision records should enable later reviewers to understand not merely who approved expenditure, but why the decision was considered appropriate at the time. Supporting evidence may include forecasts, supplier comparisons, sensitivity analysis and documented risk assessments. Post-approval monitoring should then confirm that expenditure remains within agreed parameters. Authorisation is therefore an ongoing governance responsibility, linking the original decision with contractual performance, financial outcomes and individual management accountability over the full life of the commitment.

Reliable Management Information

Reliable management information begins with clearly defined financial data and consistent reporting responsibilities. Organisations must establish which systems provide authoritative information on expenditure, income, liabilities and contractual commitments. Data ownership should be assigned to individuals responsible for accuracy and for resolving discrepancies. Where reports combine information from several systems, reconciliation must confirm that figures are complete and comparable; otherwise, dashboards appear precise while concealing considerable underlying uncertainty.

Reconciliation matters most where procurement, accounting and operational systems record different stages of the same transaction. Purchase orders identify commitments, goods receipts confirm delivery and supplier invoices create recorded liabilities. If these records are not properly matched, management may understate outstanding expenditure or approve inappropriate payments. Effective three-way matching, supported by proportionate exception

controls, helps identify discrepancies between authorised purchases, recorded receipts and invoiced amounts before any payment leaves the organisation.

The Whole of Government Accounts (WGA) show the challenge at national scale. They consolidate more than 10,000 public bodies, and on 18 June 2026 the NAO disclaimed its opinion on the 2024-25 accounts for a third consecutive year, because 280 English local authority submissions were unaudited or carried disclaimed opinions. The disclaimer reflects missing assurance rather than proven error, yet it demonstrates how consolidated reporting depends on every contributing organisation.

Management reports should clearly separate historical performance, current commitments and future expectations. Actual expenditure should not be blended with forecasts without explanation, and projected savings should remain identifiable until they are realised. Useful measures may include operating margin, cash conversion, budget variance, contract compliance and supplier payment performance. However, indicators should be chosen according to organisational objectives, avoiding excessive reporting that obscures the financial issues most deserving management attention.

Accurate information becomes valuable only when it prompts challenging questions. A report showing supplier expenditure rising by 12% should explain whether the movement reflects price inflation, higher demand, changed purchasing behaviour or previously unidentified commitments. Management should investigate unusual trends, compare results with credible benchmarks and seek supporting evidence wherever explanations remain uncertain. The aim is to make financial reporting a reliable foundation for commercial decisions, not a periodic administrative obligation.

A Culture of Challenge

Commercial governance depends on a culture in which people can question financial information without being regarded as obstructive or disloyal. Constructive challenge should be recognised as an essential management responsibility, particularly where substantial expenditure, uncertain forecasts or material contractual risks are involved. Employees must feel able to identify inaccuracies, request supporting evidence and escalate unresolved concerns. Without that confidence, formal procedures continue to operate while questionable decisions proceed without meaningful examination.

Professional scepticism should be proportionate and evidence-based. Managers should not treat every forecast as deliberately misleading or every supplier proposal as unreasonable. Instead, they should distinguish between established facts, reasonable estimates and unsupported assumptions. Constructive questioning might involve requesting sensitivity analysis, investigating inconsistent expenditure patterns or seeking independent validation of claimed savings. Such behaviour improves decision quality while preserving effective working relationships and avoiding unnecessary administrative complexity.

The law protects those who raise serious concerns. The Public Interest Disclosure Act 1998 inserted provisions into the Employment Rights Act 1996 protecting workers who make qualifying disclosures, including information tending to show a criminal offence or a failure to comply with a legal obligation, from detriment and unfair dismissal. Organisations that rely on whistleblowing as their main source of challenge, however, have already allowed ordinary management scrutiny to fail.

Senior leadership plays a decisive role in setting expectations. Directors who welcome difficult questions, acknowledge uncertainty and respond constructively to adverse information encourage similar behaviour throughout the organisation. Leaders who dismiss concerns or reward consistently optimistic reporting create incentives to conceal problems. Effective governance does not require a culture of suspicion. It requires professional curiosity, transparent evidence and confidence that legitimate commercial concerns will receive serious and timely consideration from those empowered to act.

Summary – Accountability in Practice

Poor commercial governance seldom results from the complete absence of policies, reporting systems or approval procedures. More often, it develops when established controls operate without meaningful financial challenge. Managers approve expenditure, directors receive reports and departments complete prescribed processes, yet critical assumptions remain untested. The resulting weaknesses accumulate gradually, becoming apparent only when budgets deteriorate, contractual commitments escalate or anticipated benefits fail to materialise as promised.

The cases examined span councils, government departments, infrastructure programmes, regulated utilities and listed companies. Woking, Thurrock, Croydon and Birmingham, Edinburgh trams, HS2, pandemic purchasing and the audit deficiencies involving Patisserie Holdings, Interserve and Babcock arose in different circumstances and should not be treated as identical failings. Nevertheless, they illustrate the importance of reliable financial information, independent scrutiny and clearly defined responsibilities in preventing avoidable financial exposure and strengthening commercial accountability.

Effective governance begins with identifiable responsibility. Every significant financial commitment should have an accountable decision-maker, credible supporting evidence and a proportionate authorisation process. Finance, procurement and operations must collaborate to establish the complete commercial position, including costs, risks and expected benefits. Management information should be timely, reconciled and detailed enough to support challenge, and emerging problems should trigger corrective action rather than repeated assurances that circumstances will soon improve.

Directors and senior managers must recognise that accountability extends beyond approving proposals and receiving reports. They must exercise informed judgement, challenge material assumptions and ensure that identified weaknesses receive attention. Internal audit, external assurance and risk management strengthen oversight but cannot replace management ownership, while statutory safeguards such as section 114 reports and government intervention operate only once damage has already been done to the organisation and those it serves.

Ultimately, strong commercial governance is measured not by the number of procedures completed, but by the quality of decisions made and the financial outcomes achieved. Organisations that question doubtful figures, investigate unexplained variances and hold decision-makers to account are far better placed to protect resources and sustain performance. Financial accountability begins to disappear precisely when reassuring reports replace genuine understanding and nobody considers it necessary to challenge the numbers.

Additional articles can be found at Procurement and Supply Chain Management Made Simple. This site looks at procurement and supply chain management issues to assist organisations and people in increasing the quality, efficiency, and effectiveness of their product and service supply to the customers' delight. © Procurement and Supply Chain Management Made Simple. All rights reserved.

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