



“Financial conditions in South African municipalities: Analysis of irregular, unauthorized, fruitless, and wasteful expenditure”

AUTHORS

Kgobalale Nebbel Motubatse 
Mukhethwa Londani 

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Kgobalale Nebbel Motubatse, Ph.D.,
Associate Professor, Department
of Auditing, Faculty of Economics
and Finance, Tshwane University
of Technology, South Africa.
(Corresponding author)

Mukhethwa Londani, Master, Statistical
Analyst, Directorate of Research and
Innovation, Tshwane University of
Technology, South Africa.



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Kgobalale Nebbel Motubatse (South Africa), Mukhethwa Londani (South Africa)

FINANCIAL CONDITIONS IN SOUTH AFRICAN MUNICIPALITIES: ANALYSIS OF IRREGULAR, UNAUTHORIZED, FRUITLESS, AND WASTEFUL EXPENDITURE

Abstract

This study analyzes the financial conditions pertaining to South African municipalities that have given rise to disclosures of irregular, unauthorized, fruitless, and wasteful expenditures for the financial periods from 2011/2012 to 2020/2021. The study employed the Poisson regression model to compare annual government expenditure on irregular, unauthorized, fruitless, and wasteful expenditures, based on a content analysis of the National Treasury's expenditure reports for metropolitan municipalities over a ten-year period. The results highlight a p -value < 0.05 for government expenditure in all eight metropolitan municipalities. The financial year 2013/14 (R3.4 billion) had the highest fruitless and wasteful expenditure total, followed by the financial year 2014/15 (R1.9 billion). Irregular expenditures for the financial years 2016/17 and 2018/19 recorded R12.46 billion and R12.54 billion, respectively. The financial year 2019/20 had the highest unauthorized expenditure (R5.3 billion), as compared to other financial years. The municipalities in South Africa continue to pursue irregular, unauthorized, fruitless, and wasteful expenditures each year, without any apparent indications of valid efforts to end or prevent ongoing occurrences. The seriousness of fruitless and wasteful expenditure totals indicates the magnitude of financial benefits foregone by municipalities, and that can be avoided with proper oversight.

Keywords

public expenditure, local government expenditure, public sector accounting, financial reporting standards

JEL Classification

H72, H76, H83, M48

INTRODUCTION

Public sector auditing is valuable (Hay & Cordery, 2018). The philosophy behind auditing public sector entities is to examine/understand public spending (Ferry et al., 2023). In the South African public sector environment, it is generally recognized that the Accounting Standards Board's (ASB) guidelines are to be applied in accounting for specific transactions or events. They ensure that organizations and entities that fall under the jurisdiction of the Municipal Finance Management Act (MFMA) and/or the Public Finance Management Act (PFMA) record financial activities accurately and consistently. The reporting of financial management decisions and financial statement disclosures thus conforms with the standards known as the Generally Recognized Accounting Practice (GRAP). The GRAP is an accounting standard that the ASB issued to ensure that public sector organizations present their financial statements and disclosures in a uniform (and thus comparable) format.

However, the state of financial reporting in both the public sector and local government remains challenging, with significant evidence of poor financial management, deteriorating financial conditions, and

worsening performance with respect to state expenditures. This paper reports on an analysis of the recent financial situations and particularly expenditures prevailing in the eight South African metropolitan municipalities. The paper seeks to analyze the financial conditions arising from the expenditures incurred by the municipalities in South Africa using a decade of data. Although several studies in South Africa have examined the challenges associated with municipalities' generation of fruitless and wasteful expenditure, and irregular and unauthorized expenditure (De Lange, 2013; Mazibuko & Fourie, 2013; Sikhosana, 2021; Van Schalkwyk, 2015), the disclosure requirement in financial statements of municipalities has largely escaped analysis and determination of the magnitude of these expenditures. As such, this study provides additional insights into how these expenditures should be reported: as a note to the annual financial statements upon discovery. Therefore, the paper is meaningful because it analyzes the financial conditions of South African municipalities that have led to disclosures of irregular, unauthorized, and fruitless and wasteful expenditures. This is merely because these expenditures serve as performance indicators for solid public financial management and good governance.

1. LITERATURE REVIEW

The topic of financial expenditures in government is a well-liked area of study in public administration, but the body of published academic research from the perspective of public sector accounting is, in comparison, relatively small. Rørstad and Aksnes (2015) discovered that the volume of publications in specific fields is influenced by the relative popularity of specializations within academia. Thus, the limited availability of reliable and up-to-date research on the three “bogeymen” of government expenditures (fruitless and wasteful expenditure, irregular expenditure, and unauthorized expenditure) is indicative of the relative unpopularity of the topic amongst researchers and highlights our challenge when conducting this literature review.

Rispel et al. (2016) researched the impact of financial expenditure management. Their study examines corruption in the South African healthcare sector, highlighting how a lack of understanding of rules and laws can lead to increased fruitless and wasteful expenditure, irregular expenditure, and unauthorized expenditure. A similar conclusion was arrived at by Tickle (2018), who found that the levels of unauthorized, irregular, fruitless, and wasteful expenditures in the South African public sector are rising, and that this can also be associated with increasing levels of corruption. Within the context of repeated occurrences of these expenditures in the municipalities, Sibanda et al. (2020) investigated the “risk factors that threaten accountability and how they can be mitigated in a typical South African metropolitan municipal-

ity.” Their findings indicated that it is the weak/ineffective attempts at implementation of internal audit recommendations and poor oversight by council committees over the implementation of the requirements of the MFMA that are primarily to blame. On a related topic, Hendriks (2017) explored the “effect of South Africa’s intergovernmental fiscal relations policies on the accountability of provincial governments” and concluded that accountability is compromised when taxpayers are unable to directly connect the government agency that provides the service to the money it receives.

This study also draws strongly on the work of a joint report by International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) (IFAC – CIPFA, 2021) on the “international public sector financial accountability index,” which found that financial reporting based on accrual accounting helps public organizations to mitigate corruption and improves public trust through improved transactional transparency. According to the Centre for Financial Reporting Reform et al. (2022) report, statements using accrual accounting promote a more readily accessible understanding of an organization’s finances. It further makes visible non-cash transactions that could not be tracked under cash accounting processes. Accrual accounting statements thus report on all accounting records in the financial statements in the period to which they relate.

Nogueira and Jorge (2012) examined the “adequacy of local government financial reporting” in the

municipality of Bragança in Portugal. Marsella and Aswar (2019) investigated the “financial statement disclosure” issues in the local governments of Sumatra Island, in Indonesia. These studies emphasized the need for financial reporting transparency; furthermore, they agreed that a correctly prepared financial statement is an indicator of public accountability (Nogueira & Jorge, 2012), and it enables more effective decision-making (Marsella & Aswar, 2019).

National and provincial government agencies, as well as other public entities in South Africa, are required to comply with financial reporting regulations; these obligations apply to “Parliament, provincial legislatures, municipalities, and constitutional institutions.” Substantially more than just a technical accounting presentation, financial disclosure may have organizational repercussions. Hence, in municipal financial reporting, it is a requirement of Section 122(3) of the MFMA (South Africa, 2003) that the annual financial statements be prepared in compliance with the Standards of GRAP, issued by the ASB (Accounting Standards Board, 2019).

The disclosures in and presentation of financial reporting drive accountability in the public sector. Despite the importance of disclosure reporting being uniform and comparable, for national and provincial departments in South Africa, disclosures are reported on a modified cash basis of accounting, while for public entities and municipalities, disclosures are reported on an accrual basis. The IFAC – CIPFA (2021) report points out that with accrual reporting, public expenditures are more transparent, thus making it easier to hold public officials accountable. This resonates with the viewpoint that implementing the accrual basis of accounting in municipalities makes the reports more informative, especially with respect to the effectiveness of service delivery decisions. Indeed, this requirement means municipalities should be disclosing their fruitless and wasteful expenditure, irregular expenditure, and unauthorized expenditure when generated (i.e., when the debts are incurred), and not when they are (eventually) paid for.

Justifying this approach, Nogueira and Jorge (2012) investigated local government financial reporting and found that, regardless of the quality

and adequacy of financial reporting information, it has a significant part to play in decision-making. They concluded that the impact on decision-making had to do with management’s ability to interpret financial reports and to act on that information. The quality of their actions’ outcomes (e.g., the quality-of-service delivery), then, is directly related to the quality of the results upon which they were based. In a more positive light, Marsella and Aswar (2019) reported that improving financial statement disclosures in the local government environment improves the quality of communication and thus public sector governance. Under the accrual basis of accounting, the disclosure notes are provided in the annual financial statements for the year in which the obligation is incurred, together with the appropriate accounting records and the audited financial statements to which they relate. In recognition of this possibility, South African municipalities are required by legislation to report using the accrual basis of accounting, within the GRAP framework.

The quest for transparency as the key to solving the sustainable development challenges in South Africa’s municipalities continues (Ilina & Plisetskiy, 2024); it remains imperative to maintain support for local government efforts to focus on efficiencies and improve responsiveness (Zhang & Eimicke, 2024). Despite financial failures, Atkinson (2024) reckoned that the requirement for the “disclosure of financial statements” from municipalities is not the end of the accountability process but is an essential tool that provides a general view of financial conditions. The significant challenges faced by South Africa’s municipalities in attempting to account for their expenditures should be recognized as warning signs of poor oversight of municipal governance. Whether this failure to exercise oversight is the result of malice, indifference, or incompetence, it is nevertheless indicative of and directly related to fruitless and wasteful, irregular, and unauthorized expenditure.

Expenditure management involves ensuring compliance with all the procedures necessary to ensure that the payments of sums owed by the departments can be made in an efficient, effective, and timely manner (National Treasury, 2023). Schick (2020) indicated that the government cannot effectively manage its expenditure. Money owed by

municipalities is not always (some would say it is seldom) paid within 30 days, despite this being required in terms of section 65(2)(e) of the MFMA. Similarly, many municipalities fail to make use of core financial systems for recording their budgets, transactions, or reports on their expenditure management. Expenditure management is now receiving increased attention. Wanna et al. (2020) are of the opinion that the most effective way to reduce wastage in public sector expenditure management is not simply to implement spending control, but rather to manage funds already in the system. Martí and Kasperskaya (2015) studied the relationships between financial management systems and their countries' governance, finding that more efficient and effective financial management systems correlate with improved transparency in budget implementation.

Mashabela and Ackers (2022) observed that the high levels of unauthorized, irregular, and fruitless and wasteful expenditure in the South African public sector indicate a high level of financial mismanagement. This is because there are few effective, formal procedures in place to monitor compliance with the PFMA and MFMA, amongst other regulations, and this has resulted in high levels of such illegal expenditure (Moloi, 2018). There have been sporadic efforts in the last 25–30 years to establish control over how public expenditure might be accounted for and whether there are sufficient measures in place to manage different government spending patterns in terms of the applicable legislation. However, achieving fiscal responsibility across all spheres of public expenditure is a major challenge, and it takes relentless commitment, discipline, and effort from those entrusted with public sector governance. While the process of managing and controlling public expenditure is not directly measured, it nevertheless means that governance stakeholders must be held accountable for the finances and performance within the rules. Unfortunately, this still remains largely a hope that a solid foundation for service delivery can yet be established. Notwithstanding the ongoing official efforts of governance stakeholders to maintain/regain control over public expenditure, there is slow progress: not everyone is keen to take on the processes required to change attitudes, and to manage and control public funds.

Over the last fifteen to twenty years, the South African public sector has faced increasingly urgent calls to manage its funds and other assets more effectively. This improvement was to be brought about by expenditure management procedures designed to create a better system, and by more strenuous efforts to stick to approved budgets, keep detailed records of all expenditures, and eliminate unnecessary purchases. Yet the records of the majority of municipalities across the country remain case studies of incompetence and disinterest. Over the past two decades, many municipalities' discrepancies in expenditures have deteriorated from a "weak" to a "poor" state of recovery. This is despite the Office of the Auditor General reporting annually that the situation is dire and getting worse. The Auditor General's reports routinely draw attention to the fact that municipalities are incurring a high number of unauthorized and wasteful financial expenditures, are facing challenges and problems caused by poor financial management, and demonstrate a lack of proper governance, poor oversight, and poor leadership. If these core issues are correctly addressed, the municipalities could avoid significant losses of public funds. However, the situation persists because those charged with management and oversight duties are not fulfilling their responsibilities, nor are they held accountable for these failures. There are quite simply no negative consequences for their non-compliance with AGSA directives or legislation.

Consequence management is a significant and necessary tool supporting efforts to instill responsibility and a positive work ethic in the public sector. Poor consequence management practices arise because of a weak control environment. AGSA's (2017) report states that as long as authorities, senior management, and political leadership do not hold themselves accountable, consequence management will not be put into practice for any incidents of irregular, unauthorized, fruitless, and wasteful expenditures within the public institutions. Woods (2002) contends that if financial management responsibilities are not prioritized to the extent that they should be to combat such expenditure, responsible managers should be subjected to disciplinary action in terms of the PFMA for allowing or condoning instances of unacceptable and unsanctioned expenditures. In the pub-

lic sector environment, the MFMA, the PFMA and their respective regulations clearly stipulate that management is required to investigate matters arising from or enabling unauthorized, irregular, and fruitless and wasteful expenditures. Appropriate actions should then be taken based on the outcomes of these investigations. As the Vale Group's Business and Entity Management Policy (2021) notes, when these principles are not adhered to, it is the responsibility of leaders, management, and governance structures to identify those responsible for the errors and subject them to the defined sanctions, thereby discouraging further misconduct.

Unauthorized expenditure is defined as "an expenditure that was in excess of the amount budgeted or allocated by the government to the entity or that was not incurred in accordance with the purpose for which it was intended" (National Treasury, 2023). These expenditures negatively affect the legitimate use of public funds. These unauthorized public expenditures happen because those obligated to enforce governance all too often simply condone mistakes, allowing them to slip past without censure and without making efforts to recover the expenses. The most frequent occurrences of unauthorized expenditure arise when departments overspend their budgets. The shortfall is frequently made up by the redirection of funds already allocated to other projects or purposes, but that have not yet been spent.

Fruitless and wasteful expenditure is described as "an expenditure that was made in vain and could have been avoided had reasonable care been exercised" (National Treasury, 2023). It is an expenditure that was made rashly, usually before reasonable due diligence processes could be completed. Nerantzidis et al. (2022) observed that the potential for fruitless and wasteful expenditure poses risks to effective financial management; despite this, it has not received much attention.

No government can afford to lose money due to inefficiencies, carelessness, or bad decisions, and the level of unnecessary and inefficient spending is therefore a reliable gauge of how the public resources are being handled. It is therefore somewhat embarrassing that the country still records high levels of fruitless and wasteful expenditure

in all spheres of public sector activity, and that this continues to harm the state and its citizens. Fruitless and wasteful expenditure needs urgent attention: solutions include addressing "simple things such as not paying suppliers on time and incurring interest" (AGSA, 2021), which, while not particularly difficult to correct, have remained uncorrected for close on three decades.

Despite popular perceptions, not all irregular expenditures result from failure to abide by supply chain management laws. National Treasury (2023) defines irregular expenditure as "an expenditure incurred without complying with the applicable laws and regulations." Motubatse and Ngwakwe (2020) analyzed the factors associated with the risk of "irregular expenditure in the public sector" using a panel regression analysis. The study found a positive correlation between the incidence of irregular expenditure and the closeness of the relationships between government officials and suppliers, uncompetitive tender processes, and internal control flaws.

Since irregular expenditure is usually the result of individuals breaking laws and failing to comply with regulations in public spending, Hendriks (2017) has recorded that impunity is a significant contributing factor to such irregular expenditure. Meanwhile, De Lange (2013) has observed that irregular expenditure harms the image and reputation of municipalities. Motubatse and Ngwakwe (2020) used three factors in a panel regression and found that "all independent variables (close relationships with government officials, uncompetitive tender processes, and internal control deficiencies) related positively to the irregular expenditure of public funds."

Through the review of literature, it has been determined that the South African municipalities are continuing to experience an ongoing growth of irregular, unauthorized, and fruitless and wasteful expenditures each year, and in some cases, because of poor governance and lack of solid public financial management. Hence, the study analyzes the financial conditions pertaining to South African municipalities that have given rise to disclosures of irregular, unauthorized, and fruitless and wasteful expenditures for the financial periods 2011/2012 to 2020/2021.

2. METHODS

2.1. Design

The method used in this study involved a content analysis of government expenditure relating to “fruitless and wasteful expenditure, irregular expenditure, and unauthorized expenditure.” Although content analysis is more commonly applied in social sciences research (Al-Hazzani & Al-Adeem, 2020; Polzer et al., 2023), it was considered suitable in this situation because of the large amount of written commentary present in the AGSA’s various reports. In addition, this approach allowed us to develop a set of frequently reported indicators by domain and to identify and define financial impacts per sector (Demaria & Rigot, 2021). Accordingly, content analysis was deemed both appropriate and effective for reporting on public expenditures disclosed by each municipality. Similar methodological applications have been observed in a range of accounting studies investigating organizational financial changes.

2.2. Sample and data source

The sample comprised the expenditures incurred by South Africa’s eight metropolitan municipalities over the ten financial years between 2011/12 and 2020/21 (Table 1). The metropolitan municipalities are those recorded in the Local Government: Municipal Structures Act 117 of 1998. The primary data were obtained from official municipal financial reports and the AGSA’s publications, which are publicly accessible through the Municipalities of South Africa website. These reports provide detailed information on municipal financial performance, including disclosures on irregular, unauthorized, and fruitless and wasteful expenditures. The selected South African metropolitan municipalities for which data were collected include Buffalo City (head offices in East London), City of Cape Town (Cape Town), Ekurhuleni (Germiston), City of eThekweni (Durban), City of Johannesburg (Johannesburg), City of Tshwane (Pretoria), Mangaung (Bloemfontein), and Nelson Mandela Bay (Gqeberha).

2.3. Procedure

The data were collected as monetary amounts extracted from official financial statements and

Auditor-General of South Africa (AGSA) reports. Using the disclosure occurrence method, expenditure items were systematically coded based on their presence in these official reports (Joseph & Taplin, 2011). This method, a form of content analysis, made it possible to quantify the extent of disclosures, identify indicators that were consistently reported across financial domains, and classify the financial impacts into categories of irregular, unauthorized, and fruitless and wasteful expenditure (Demaria & Rigot, 2021).

2.4. Data analysis

Poisson regression was used to model differences in irregular, unauthorized, fruitless, and wasteful expenditures for the financial periods 2011/2012 to 2020/2021. The incidence rate ratios (IRR) of government annual expenditure were compared using the previous period as the reference group (Table 2). The 10 periods were compared chronologically. Data were analyzed using STATA version 17 (StataCorp, College Station, TX, USA). The selected metropolitan municipalities are listed in Table 1.

Table 1. Metropolitan municipalities of South Africa

Metropolitan Municipality	Head Office	Province
Buffalo City	East London	Eastern Cape
City of Cape Town	Cape Town	Western Cape
Ekurhuleni	Germiston	Gauteng
City of eThekweni	Durban	KwaZulu-Natal
City of Johannesburg	Johannesburg	Gauteng
City of Tshwane	Pretoria	Gauteng
Mangaung	Bloemfontein	Orange Free State
Nelson Mandela Bay	Gqeberha	Eastern Cape

3. RESULTS

As shown in Table A1, fruitless and wasteful expenditure is one of the key aspects of poor financial management across the eight metropolitan municipalities. In the 2011/12 financial year, Buffalo City’s fruitless and wasteful expenditure (R165 million) was the highest of the eight municipalities; Mangaung (R80 million) and Ekurhuleni (R75 million) occupied second and third places, respectively. In 2012/13, the Ekurhuleni municipality was the highest in the fruitless and wasteful

expenditure category (R40 million). However, this decline was dramatically reversed in the 2013/14 financial year, when the City of Tshwane contributed almost R2 billion to the fruitless and wasteful expenditure total; the City of Johannesburg municipality accounted for R693 million, and Mangaung R655 million. It should be noted that the City of Tshwane also held the dubious honor of top spot as highest perpetrator of fruitless and wasteful expenditure for financial years 2014/15 (R1,1 billion), 2017/18 (R64 million), 2019/20 (R300 million), and 2020/21 (R222 million), in total five of the ten periods analyzed. For the financial years 2015/16 and 2016/17, Nelson Mandela Bay's contribution to fruitless and wasteful expenditure was R57 million and R110 million, respectively. Lastly, in 2018/19, the City of Johannesburg (R117 million) was the worst perpetrator of fruitless and wasteful expenditure; second place was achieved by the City of Tshwane (R103 million).

Table A1 also illustrates irregular expenditure as the biggest contributor to poor financial management in all eight metropolitan municipalities. In the 2011/12 and 2012/13 financial years, eThekweni achieved the highest irregular expenditure (R785 million and R325 million, respectively). Mangaung, on the other hand, showed the highest contribution to irregular expenditure for the financial years 2013/14 (R987 million) and 2014/15 (R722 million). Not to be outdone, Nelson Mandela Bay achieved top spot in irregular expenditure for the following four financial years: 2015/16 (R1.3 billion), 2016/17 (R8.2 billion), 2017/18 (R3 billion), and 2018/19 (R4.2 billion). However, the City of Tshwane took over the top position for the highest contributor to irregular expenditure for the financial years 2019/20 (R2.5 billion) and 2020/21 (R2.7 billion).

Unauthorized expenditure also amounts to a significant total and thus also indicates the prevalence of poor financial management (Table A1). In the 2011/12 financial year, the City of Tshwane (R488 million) was the highest contributor to unauthorized expenditure; this was followed by Mangaung (R375 million). However, in the following (2012/13) financial year, Mangaung (R793 million) achieved the highest contribution to unauthorized expenditure and was followed by the City of Tshwane (R598 million). In the next three financial years (2013/14, 2014/15, and 2015/16), the

City of Tshwane was the leading contributor with more than R1 billion in total for the 3 years. For the 2016/17 financial year, Mangaung achieved the top position/worst performance, with unauthorized expenditure totaling R722 million for the period. For the next four financial years (2017/18–2020/21), the City of Tshwane (R1.1 billion), Mangaung (R1.4 billion), the City of Tshwane (R2.2 billion) and the City of Johannesburg (R1 billion), respectively, were the highest contributors to unauthorized expenditure.

Table 2 shows the overall totals of fruitless and wasteful expenditure, irregular expenditure, and unauthorized expenditure for the financial years between 2011/12 and 2020/21. The financial year 2013/14 (R3.4 billion) shows the highest fruitless and wasteful expenditure total, followed by the financial year 2014/15 (R1.9 billion). Regarding irregular expenditure, the financial years 2016/17 and 2018/19 recorded totals of R12.46 billion and R12.54 billion, the highest amounts for the period under review. Financial year 2019/20 (R5.3 billion) had the highest unauthorized expenditure.

Comparisons of annual expenditure on fruitless and wasteful expenditure, irregular expenditure, and unauthorized expenditure in the eight metropolitan municipalities were made using Poisson regression, presented in Table 3.

Table 3 shows that fruitless and wasteful expenditure decreased by 74% between the 2011/12 and 2012/13 financial years. However, there was an immense increase (3623%) between 2012/13 and 2013/14. Between the financial years 2013/14 and 2014/15, the fruitless and wasteful expenditure decreased by 44%, while between 2014/15 and 2015/16, it decreased by 97%. Moreover, fruitless and wasteful expenditure increased by 165% between 2015/16 and 2016/17 and increased by 106% and 52% in 2018/19 and 2019/20 financial years, respectively. Lastly, fruitless and wasteful expenditure decreased by 36% between 2019/20 and 2020/21. There were no significant differences between the 2016/17 and 2017/18 financial years.

Total irregular expenditure shows a decrease of 51% between 2011/12 and 2012/13 financial years, followed by a 135% increase between 2012/13 and 2013/14, and a decrease of 21% in 2014/15.

Moreover, there was a 20% increase between 2014/15 and 2015/16 and a 337% increase between 2015/16 and 2016/17 financial years. Irregular expenditure decreased by 43% between 2016/17 and 2017/18, but increased again by 75% between 2017/18 and 2018/19. Irregular expenditure decreased by 30% between 2018/19 and 2019/20 and by 15% between 2019/20 and 2020/21 financial years (Table 3).

Regarding unauthorized expenditure, a slight increase (1%) was recorded between 2011/12 and 2012/13 financial years, followed by a 66% increase between 2012/13 and 2013/14, and a 20% increase between 2013/14 and 2014/15. Unauthorized expenditure subsequently decreased by 29% between 2015/16 and 2016/17, but increased by 15% between 2016/17 and 2017/18, and then decreased by 5% between 2017/18 and 2018/19. Between the financial years 2018/19 and 2019/20, unauthorized expenditure increased by 106%; however, it decreased by 44% between 2019/20 and 2020/21. No significant increase or decrease was found between the 2014/15 and 2015/16 financial years (Table 2).

Table 2. Metropolitan municipalities: Overall analysis between 2011/12–2020/21

Financial reporting period	Fruitless and Wasteful Expenditure (R'000'000)	Irregular Expenditure (R'000'000)	Unauthorized Expenditure (R'000'000)
2011/12	R348	R2,608	R1,663
2012/13	R90	R1,279	R1,681
2013/14	R3,351	R3,012	R2,798
2014/15	R1 863	R2,372	R3,351
2015/16	R64	R2,849	R3,351
2016/17	R168	R12,456	R2,372
2017/18	R137	R7,157	R2,716
2018/19	R282	R12,538	R2,582
2019/20	R429	R8,739	R5,307
2020/21	R276	R7,471	R2,986
Total	R7,008	R60,481	R28,807

Table 3. Comparison of yearly government expenditure using Poisson regression

Time period	IRR ^a	95% CI	P value
Fruitless and Wasteful Expenditure			
2011/12 vs. 2012/13	0.26	0.21, 0.33	< 0.001
2012/13 vs. 2013/14	37.23	30.20, 45.90	< 0.001
2013/14 vs. 2014/15	0.56	0.52, 0.59	< 0.001

Time period	IRR ^a	95% CI	P value
Fruitless and Wasteful Expenditure			
2014/15 vs. 2015/16	0.03	0.03, 0.04	< 0.001
2015/16 vs. 2016/17	2.65	1.97, 3.50	< 0.001
2016/17 vs. 2017/18	0.82	0.65, 1.02	0.076
2017/18 vs. 2018/19	2.06	1.68, 2.52	< 0.001
2018/19 vs. 2019/20	1.52	1.31, 1.77	< 0.001
2019/20 vs. 2020/21	0.64	0.55, 0.75	< 0.001

Time period	IRR ^a	95% CI	P value
Irregular Expenditure			
2011/12 vs. 2012/13	0.49	0.46, 0.52	< 0.001
2012/13 vs. 2013/14	2.35	2.21, 2.51	< 0.001
2013/14 vs. 2014/15	0.79	0.75, 0.83	< 0.001
2014/15 vs. 2015/16	1.20	1.14, 1.27	< 0.001
2015/16 vs. 2016/17	4.37	4.20, 4.55	< 0.001
2016/17 vs. 2017/18	0.57	0.55, 0.59	< 0.001
2017/18 vs. 2018/19	1.75	1.70, 1.80	< 0.001
2018/19 vs. 2019/20	0.70	0.68, 0.72	< 0.001
2019/20 vs. 2020/21	0.85	0.83, 0.88	< 0.001

Time period	IRR ^a	95% CI	P value
Unauthorized Expenditure			
2011/12 vs. 2012/13	1.01	0.94, 1.08	< 0.001
2012/13 vs. 2013/14	1.66	1.57, 1.77	< 0.001
2013/14 vs. 2014/15	1.20	1.14, 1.26	< 0.001
2014/15 vs. 2015/16	1.00	0.95, 1.05	1.000
2015/16 vs. 2016/17	0.71	0.67, 0.75	< 0.001
2016/17 vs. 2017/18	1.15	1.08, 1.21	< 0.001
2017/18 vs. 2018/19	0.95	0.90, 1.00	< 0.001
2018/19 vs. 2019/20	2.06	1.96, 2.15	< 0.001
2019/20 vs. 2020/21	0.56	0.54, 0.59	< 0.001

Note: a – Reference group is the prior period, that is, financial reporting period 2012/13 versus 2011/12 (ref); financial reporting period 2013/14 versus 2012/13 (ref); financial reporting period 2014/15 versus 2013/14 (ref); financial reporting period 2015/16 versus 2014/15 (ref); financial reporting period 2016/17 versus 2015/16 (ref); financial reporting period 2017/18 versus 2016/17 (ref); financial reporting period 2018/19 versus 2017/18 (ref); financial reporting period 2019/20 versus 2018/19 (ref); financial reporting period 2020/21 versus 2019/20 (ref). *p*-value <0.05 was highlighted in bold to show significance. CI, confidence interval; IRR, incidence rate ratio.

4. DISCUSSION

The results reveal a persistent pattern of financial mismanagement in South Africa's metropolitan municipalities, particularly regarding irregular and unauthorized expenditures. These findings corroborate annual reports from the Auditor-General of South Africa (AGSA, 2021), which consistently highlight unauthorized, irregular, and fruitless and wasteful expenditure as contributors to poor governance, weak procurement oversight, and disregard for compliance with the Municipal Finance Management Act.

The sharp spike in Tshwane's fruitless and wasteful expenditure in 2013/14 (R2 billion) is alarming, as this reflects systemic weaknesses in project planning and contract management. This aligns with Petersen (2019), who identified weak internal controls as a major contributor to excessive fruitless and wasteful expenditure. Similar patterns are observed in other developing countries. For example, in Nigeria, Igwebueze (2024) reported that local governments often record high fruitless and wasteful expenditure due to abandoned projects, misallocated resources, and inadequate monitoring mechanisms. International comparisons reveal that fruitless and wasteful expenditure is not unique to South Africa. In Colombia, Behar-Villegas (2021) found that public resources were frequently wasted through duplicated projects and cost overruns. However, South Africa's municipal fruitless and wasteful expenditure still appears to be high, suggesting deeper structural issues such as politicization of financial management and lack of accountability frameworks.

It is also interesting to note that there is a call to "evaluate the efficiency of public expenditure in the Portuguese municipalities" by Moraes e Soares (2024). Thus, the highlights corroborate the position of the study that good governance and solid public financial management can reduce irregular, unauthorized, and fruitless and wasteful expenditures in the South African municipalities.

Irregular expenditure accounted for the largest share of unauthorized, irregular, and fruitless and wasteful expenditure, and showed extreme spikes, especially Nelson Mandela Bay's R8.2 billion in 2016/17. This mirrors Munzhedzi and Makwembere (2019), who emphasized that procurement irregularities, collusion with service providers, and deliberate bypassing of tender processes drive irregular expenditure. The persistence of irregular expenditure despite repeated audit warnings underscores a culture of impunity. Mishi et al. (2022) found that South African municipalities with chronic irregular expenditure also perform poorly in service delivery, indicating that financial mismanagement directly undermines developmental mandates.

The results show sustained levels of unauthorized expenditure, especially in Tshwane and Mangaung. This reflects budgeting weaknesses and disregard for expenditure ceilings, consistent with the argument that unauthorized expenditure is symptomatic of poor financial planning and weak fiscal governance (Mashabela & Thusi, 2024). Comparatively, in Ghana, unauthorized expenditure has been linked to limited budget transparency and political interference in municipal budgeting (Ayee et al., 2024). The sharp rise in unauthorized expenditure in 2019/20 (R5.3 billion) coincided with heightened fiscal pressures associated with the COVID-19 pandemic, suggesting that municipalities may have resorted to overspending outside approved frameworks. This aligns with international evidence where emergency spending during crises often bypasses established budgetary controls (Moretti & Leroy, 2020).

The fluctuating but persistently high unauthorized, irregular, and fruitless and wasteful expenditures highlight systemic governance failures. Despite reforms such as the Municipal Finance Management Act and repeated AGSA interventions, municipalities continue to record billions in financial losses. This suggests that technical reforms alone are insufficient. In South African municipalities, like in many developing economies, issues of weak procurement, budget overruns, and political patronage are common. However, the magnitude and persistence of unauthorized, irregular, and fruitless and wasteful expenditures in metropolitan municipalities point to deeper structural governance challenges. Strengthening consequence management, enforcing procurement compliance, and depoliticizing financial administration are essential steps. Without these, municipalities risk continued fiscal instability and erosion of public trust in local government.

In addition to analyzing the financial conditions pertaining to South African municipalities that have given rise to irregular, unauthorized, and fruitless and wasteful expenditures, further research should focus on the role of municipal governance in managing and preventing the rise of these expenditures.

CONCLUSION

The purpose of this study was to analyze the financial conditions of South African municipalities, giving rise to disclosures of irregular, unauthorized, and fruitless and wasteful expenditures for the financial periods 2011/2012 to 2020/2021. The results highlight a significant level of such government expenditure in all eight metropolitan municipalities. Hence, the study concludes that irregular expenditure is one of the key aspects of poor financial management across the eight metropolitan municipalities, followed by unauthorized expenditures, which contribute to poor financial conditions. Lastly, fruitless and wasteful expenditures are becoming more prevalent across municipalities, leading to worse performance.

Based on these findings, the study recommends that the South African government and other key governance role players should attempt to improve controls to resolve the poor state of government expenditures. This study's obvious conclusion is that the "reasonable" steps taken so far should have resulted in significantly strengthened and more effectively implemented measures to prevent (or, more realistically, consistently reduce) unauthorized, irregular, and fruitless and wasteful expenditures. Further prospects of research in public finance and state expenditures should focus on the penalties and interest associated with suppliers' late payments (a very simple issue to settle), which accounted for a sizable portion of unnecessary and inefficient spending. Given that irregular expenditure was identified as being related to non-compliance with regulations and procedures (another relatively easy matter to remedy), further research should consider the significance of this study to investigate and identify the person(s) liable for these expenditures.

AUTHOR CONTRIBUTIONS

Conceptualization: Kgobalale Nebbel Motubatse.

Formal analysis: Kgobalale Nebbel Motubatse, Mukhethwa Londani.

Investigation: Kgobalale Nebbel Motubatse.

Methodology: Kgobalale Nebbel Motubatse, Mukhethwa Londani.

Project administration: Kgobalale Nebbel Motubatse, Mukhethwa Londani.

Software: Mukhethwa Londani.

Validation: Mukhethwa Londani.

Writing – original draft: Kgobalale Nebbel Motubatse, Mukhethwa Londani.

Writing – review & editing: Kgobalale Nebbel Motubatse, Mukhethwa Londani.

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APPENDIX A

Table A1. Metropolitan municipalities: Analysis between 2011/12–2020/21

Financial years	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Fruitless and Wasteful Expenditure										
Buffalo City	R164,781,000	R8,080,000	R21,985,787	R160,458,700	R71,282	R90,904	R489,995	R12,378,750	–	–
City of Cape Town	–	–	–	–	–	R24,000	R309,000	R19,802,000	R28,000	R12,328,000
City of Johannesburg	R8,720,000	R4,147,000	R692,587,000	R304,504,671	R2,248,000	R869,000	R9,064,000	R116,977,000	R25,172,000	R11,380,000
City of Tshwane	R15,794,000	R6,678,000	R1,913,896,392	R1,138,260,974	R407,797	R41,502,534	R64,768,966	R103,373,677	R300,057,443	R221,559,102
Ekurhuleni	R74,638,000	R39,714,000	R67,090,606	–	R2,370,581	R8,340,591	R4,691,208	–	R1,958,267	R641,430
eThekweni	–	–	–	–	–	–	R29,496,000	R4,064,000	R5,107,000	R9,573,000
Mangaung	R79,715,000	R28,325,000	R654,710,007	–	R707,484	R7,546,861	R25,866,875	R9,537,975	R5,329,365	R19,694,896
Nelson Mandela Bay	R4,570,000	R2,619,000	R521,056	R260,174,267	R57,834,889	R110,113,323	R2,714,185	R15,630,389	R90,900,994	R999,816
Irregular Expenditure										
Buffalo City	R934,000	R117,128,000	R245,299,178	R95,876,117	R370,238,742	R583,584,697	R213,320,576	R132,542,939	R302,137,787	R311,222,630
City of Cape Town	R14,915,000	R1,465,000	–	–	R2,000	R47,037,000	R236,019,000	R950,370,000	R669,164,000	R762,186,000
City of Johannesburg	R679,706,000	R216,979,000	R959,322,000	R502,233,000	R155,639,000	R705,941,000	R868,305,733	R816,239,000	R1,045,558,000	R1,118,009,000
City of Tshwane	R260,324,000	R28,848,000	R785,504,172	R620,032,290	R652,820,412	R1,824,627,065	R1,683,866,772	R2,876,710,116	R2,530,139,390	R2,702,803,906
Ekurhuleni	R229,280,000	R123,154,000	–	–	R167,183,169	R591,286,033	R274,582,138	R413,006,296	R146,976,287	R226,029,141
eThekweni	R785,002,000	R325,271,000	–	–	R208,318,000	R513,726,000	R732,563,000	R2,341,357,000	R1,072,027,000	R770,324,000
Mangaung	R403,627,000	R267,705,000	R987,132,533	R722,194,168	R8,325,421	R6,392,454	R95,241,867	R842,457,694	R1,600,359,586	R190,844,856
Nelson Mandela Bay	R233,903,000	R198,164,000	R34,403,001	R431,929,542	R1,286,083,684	R8,183,575,323	R3,053,423,410	R4,165,513,322	R1,372,214,895	R1,389,805,210
Unauthorized Expenditure										
Buffalo City	R163,847,000	R14,478,000	R186,767,984	R21,985,787	R21,985,787	R95,876,117	R160,458,700	R42,977,417	R17,649,513	–
City of Cape Town	–	–	–	–	–	–	–	–	R6,567,000	–
City of Johannesburg	R317,949,000	R3,855,000	–	R692,587,000	R692,587,000	R502,233,000	R304,504,671	R480,628,000	R59,468,000	R1,003,250,000
City of Tshwane	R488,022,000	R598,395,000	R1,193,981,952	R1,913,896,392	R1,913,896,392	R620,032,290	R1,138,260,974	R446,395,778	R2,249,134,140	R566,041,443
Ekurhuleni	–	–	–	–	–	–	–	–	–	–
eThekweni	–	–	–	–	–	–	–	–	R1,778,772,000	–
Mangaung	R374,968,000	R793,309,000	R673,096,965	R654,710,007	R654,710,007	R722,194,168	R852,316,053	R1,363,962,321	R1,165,090,884	R570,024,938
Nelson Mandela Bay	R318,698,000	R270,778,000	R743,928,574	R521,056	R521,056	R431,929,542	R260,174,267	R247,964,322	R30,061,131	R847,087,284