

2020/21

**ANNUAL REPORT ON
NON-COMPLIANCE WITH
PAYMENTS OF SUPPLIER'S
INVOICES WITHIN**

30 DAYS



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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1. Executive Summary

The National Treasury has been providing reports to relevant stakeholders on the status of non-compliance with Treasury Regulation 8.2.3 and continues to monitor the level of compliance with the requirement to pay supplier's invoices within the prescribed period in terms of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999).

In monitoring progress on payment of suppliers within the prescribed period the National Treasury issued a Treasury Instruction Note Number 34 which requires departments to submit 30 days exception reports to the relevant treasuries by the 7th day of each month with information in respect of the preceding month, with details of the following information:

- (a) the number and value of invoices paid after 30 days from the date of receiving invoices;
- (b) the number and value of invoices that are older than 30 days, which remained unpaid; and
- (c) the reasons for the late and/or non-payment of the invoices referred to above.

Provincial treasuries are also required to collate information from their respective provincial departments and to submit exception reports to the National Treasury by the 15th day of each month with information of the preceding month.

The Treasury Instruction Note Number 34 also requires departments to implement manual or electronic systems and processes that will enable departments to track invoices from the time they are received at the relevant cost centers to the time that a payment is made.

Whilst it is not currently a legal requirement that public entities must settle their invoices within 30 days in terms of Treasury Regulation 8.2.3 and the National Treasury Instruction Note Number 34, it is advised that public entities listed in Schedules 2 and 3 to the PFMA follow the 30 days payment principle as a best practice. When amendments are effected to the PFMA, Treasury Regulations and Treasury Instruction, public entities will be required to pay their invoices within 30 days from date of receipt of an invoice and further required to submit 30 days exception reports to their relevant Treasuries.

The annual report serves to update the relevant key stakeholders such as the Forum of South African Directors-General (FOSAD), Standing Committee on Public Accounts (SCOPA) and the Standing Committee on Finance (SCoF), Public Service Commission, Department of Planning Monitoring and Evaluation, Department of Small Business and Development and other relevant stakeholders on the status of non-compliance with the requirement to pay suppliers within the required timeframes. The annual report also provides a comparative analysis of the 2020/2021 financial year reported information against the 2019/2020 financial year.

The annual report also provides information on the most common reasons recorded by departments for not being able to meet their creditors' obligations timeously and continuous efforts taken by the National Treasury to help improve compliance in this area. This report also highlights improvements noticed in payment patterns of national and provincial departments during the 2020/2021 financial year. The trend analysis and narratives to graphs represented in this annual report are generated from the monthly exception reports submitted to the National Treasury by national departments and provincial treasuries, as required by the Treasury Instruction Note Number 34.

Legislative requirements on payments of supplier's invoices

Section 38(1)(f) of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) requires the accounting officer for a department to settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period.

Treasury Regulation 8.2.3 states that: "*Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, the date of settlement or court judgement*".

The effects of late and/or non-payment of supplier's invoices

The late and/or non-payment of supplier's invoices impacts negatively amongst others on:

- (a) the socio-economic challenges that our country faces such as high unemployment rate, inequality, poverty and other related challenges;
- (b) the financial health of suppliers who are forced to borrow keep financially afloat; and
- (c) the ability of suppliers to pay salaries and meet their contractual obligations.

Due to the aforementioned consequences of late or non-payment of suppliers and the effects of the Covid 19 Pandemic may often result in these suppliers being liquidated, specifically the Small Micro and Medium-Sized Enterprises (SMMEs). This is seen as being counter-productive to the National Development Plan (NDP) and the National Growth Path (NGP), which both strive to improve economic growth and reduce poverty, inequality and unemployment rate in South Africa.

The impact of the COVID-19 Pandemic on SMMEs

The COVID-19 pandemic has had a negative impact and long-lasting effect on the economy of the country, businesses and many SMMEs and this has resulted in a growing rate of unemployment since some of the SMMEs were forced to close their businesses which have led to many retrenchment of employees. To ensure that supplier's operations continue without strain, government institutions are urged to pay their suppliers on time and not contribute to the dire effects of the Pandemic that is already putting strain on these suppliers to remain sustainable.

Section A

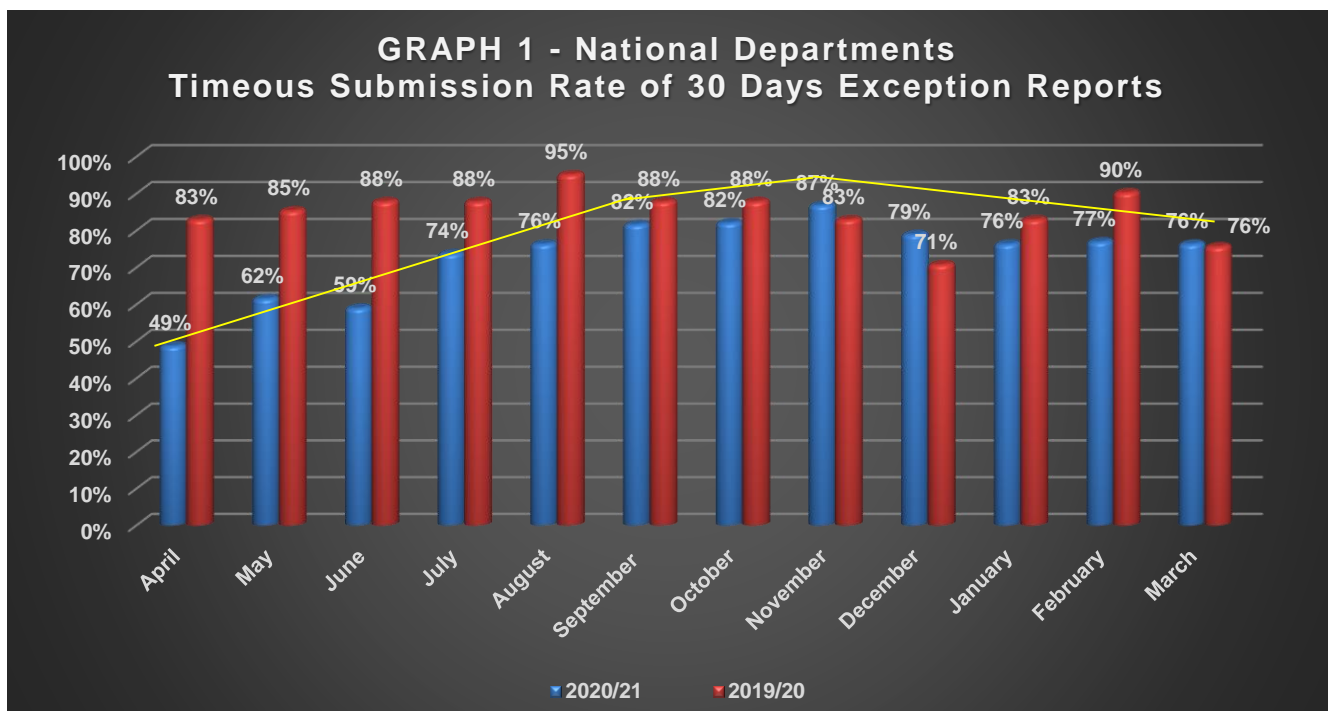
National Departments

2. Submission of 30 days' exception reports by national departments

The Treasury Instruction Note Number 34 requires national departments to submit 30 days' exception reports to the National Treasury by the 7th day of each month with information in respect of the preceding month. This consolidated annual report is developed based on the information provided by national departments on the 30 days exception reports submitted to the National Treasury during the 2020/2021 and 2019/2020 financial years. Forty (40) national departments and forty-one (41) national departments were required to submit 30 days exception reports during the 2020/2021 and 2019/2020 financial years respectively.

In the 2020/2021 financial year, of the forty (40) national departments, thirty-eight (38) managed to submit all 30 days' exception reports. The department of Agriculture, Land Reform and Rural Development submitted exception reports for only five (5) months, whilst the department of Environment, Forestry and Fisheries did not submit exception reports for the 2020/2021 financial year. The annual average submission rate achieved for the 2020/2021 financial year is 96% which is 4% less than the annual average submission rate of 100% achieved in the 2019/2020 financial year.

Graph 1 below provides a month-to-month comparison of the **timeous submission rate of 30 days' exception reports** to the National Treasury for the 2020/2021 financial year and 2019/2020 financial year:



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Graph 1 above indicates that national departments achieved an annual average timeous submission rate of 73% during the 2020/2021 financial year. This represents a regression of 12% when compared to the annual average timeous submission rate of 85% achieved in the 2019/2020 financial year. It should be noted that some departments did not develop and implement electronic systems in place to utilise as a tool to submit these reports.

Table 1 below provides a list of national departments that managed to achieve a 100% compliance rate on submission of 30 days' exception reports during the 2020/2021 financial year.

| Table 1: Departments that fully submitted 30 days Exception Reports in 2020/2021 Financial Year | | | | |
|--|------------------------------------|-----------------|--|-----------------|
| Department | Exception Reports Submitted | | Exception Reports Submitted Timeously | |
| | Number | Annual % | Number | Annual % |
| Home Affairs | 12 | 100% | 12 | 100% |
| National School of Government | 12 | 100% | 12 | 100% |
| Public Service and Administration | 12 | 100% | 12 | 100% |
| Correctional Services | 12 | 100% | 12 | 100% |
| Police | 12 | 100% | 12 | 100% |
| Small Business Development | 12 | 100% | 12 | 100% |
| Tourism | 12 | 100% | 12 | 100% |
| Trade, Industry and Competition | 12 | 100% | 12 | 100% |

Table 1 above indicates that only eight (8) or 20% of national departments fully complied with the requirement of the Treasury Instruction Note Number 34 for the 2020/2021 financial year. This means that the departments submitted all the reports for the period timeously. This compliance rate is extremely low when matched with the number of national departments that must submit these exception reports on time to the National Treasury.

Table 2 below provides a list of national departments that managed to achieve a 100% compliance submission rate but achieved a very low rate of timeous submission.

| Table 2: Departments that managed to submit all 30 days Exception Reports but achieved a low rate of timeous submission in 2020/2021 Financial Year | | | | |
|--|------------------------------------|-----------------|--|-----------------|
| Department | Exception Reports Submitted | | Exception Reports Submitted Timeously | |
| | Number | Annual % | Number | Annual % |
| Health | 12 | 100% | 5 | 42% |
| Women, Youth and Persons with Disabilities | 12 | 100% | 5 | 42% |
| Basic Education | 12 | 100% | 4 | 33% |
| Military Veterans | 12 | 100% | 4 | 33% |

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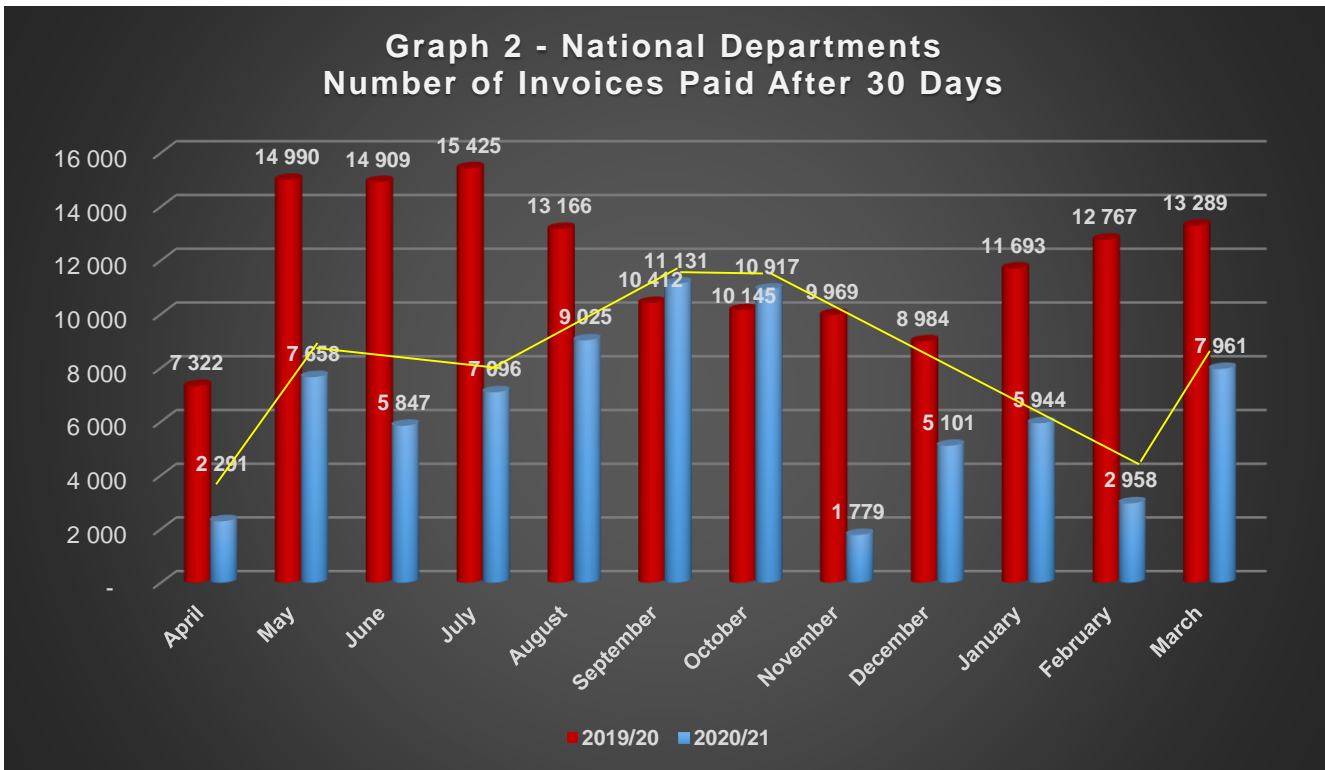
| | | | | |
|--|----|------|---|-----|
| Mineral Resources and Energy | 12 | 100% | 4 | 33% |
| Transport | 12 | 100% | 3 | 25% |
| Civilian Secretariat for the Police Service | 12 | 100% | 2 | 17% |
| Employment and Labour | 12 | 100% | 0 | 0% |

Table 2 above provides a list of national departments that submitted all twelve (12) reports, however out of the twelve (12) reports submitted, less than 50% of these reports were submitted timeously during the 2020/2021 financial year. It is concerning that the department of Employment and Labour failed to submit all their twelve (12) exceptions reports to the National Treasury timeously during the 2020/2021 financial year. The department of Employment and Labour is urged to improve compliance with the requirements of the Treasury Instruction Note Number 34 regarding the submission of reports.

It is of critical importance that departments submit their exception reports timeously to the National Treasury so that reports to internal and external stakeholders provide a comprehensive analysis of the status of non-compliance with the requirement to pay invoices within the prescribed 30 days from receipt of an invoice.

3. National Departments: Analysis of Exception Reports

Graph 2 below provides month-to-month comparative numbers of invoices paid after 30 days by the national department during the 2020/2021 financial year when compared with that of the 2019/2020 financial year.



Graph 2 above indicates a noticeable improvement in the number of invoices paid late by national departments when comparing the 2019/2020 financial year to the 2020/2021 financial year. The total number of invoices paid after 30 days by national departments from April 2020 to March 2021 amounted to 77 708. This represents an improvement of 65 363 or 46% invoices when compared to the number of invoices paid after 30 days for the period from April 2019 to March 2020 for the 2019/2020 financial year which amounted to 143 071.

The number of invoices paid after 30 days in September 2020 amounted to 11 131 which represents the highest number of invoices paid during 2020/2021 financial year. In November 2020, the number of invoices paid after 30 days amounted to 1 779 which represents the lowest number of invoices paid after 30 days during 2020/2021 financial year.

The annual average number of invoices paid after 30 days during the 2020/2021 financial year amounted to 6 476 invoices. This represents an improvement of 5 447 or 46% invoices when compared to the annual average number of invoices paid after 30 days during the 2019/2020 financial year which amounted to 11 923 invoices.

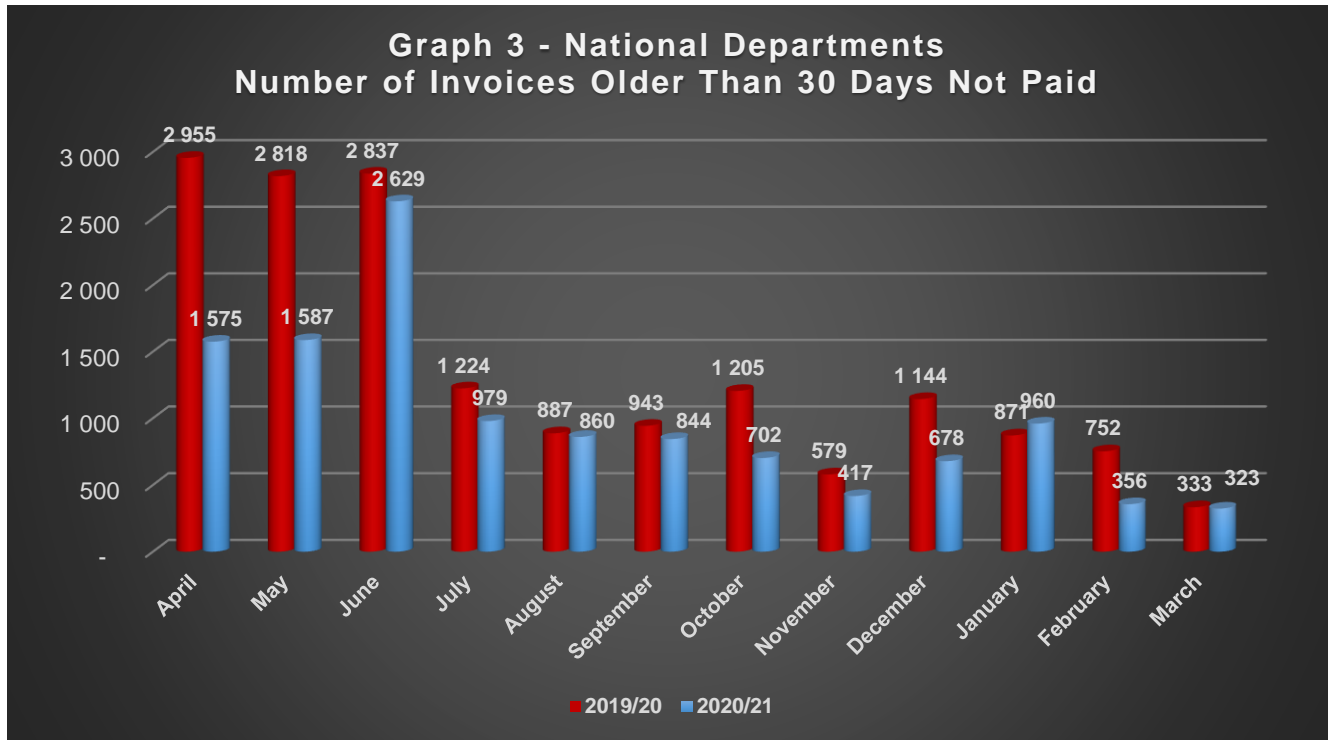
According to the information presented to the National Treasury, the following departments paid all their invoices within 30 days during the 2020/2021 financial year as required by Treasury Regulation 8.2.3

- National School of Government;
- Planning Monitoring and Evaluation;
- Public Service and Administration;
- Traditional Affairs;
- Communications and Digital Technologies;
- Small Business Development;
- Sports, Arts and Culture; and
- Trade, Industry and Competition.

These national departments are applauded for their outstanding performance and efforts to ensure that supplier's invoices are paid timeously and further urged to maintain this performance.

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Graph 3 below provides a month-to-month comparative number of invoices older than 30 days and not paid in the 2020/2021 financial year when compared with that of the 2019/2020 financial year.



Graph 3 above indicates an improvement in the number of invoices that were older than 30 days and which were not paid at the end of the 2020/2021 financial year when comparing the same at the end of the 2019/2020 financial year. The number of invoices older than 30 days and not paid at the end of 2020/2021 financial year amounted to 323 invoices. This represents an improvement of 10 invoices or 3% when compared to invoices older than 30 days and not paid at the end of 2019/2020 financial year which amounted to 333 invoices.

Table 3 below provides details of national departments that have shown the most improvement regarding the number of invoices paid after 30 days in the 2020/2021 financial year when compared to the same in the 2019/2020 financial year.

| Table 3: National Departments Most Improved National Departments on Invoices Paid <u>After</u> 30 Days | | | |
|---|---|---|--|
| Department | Number of invoices 2019/2020 | Number of invoices 2020/2021 | Improvement in the Number of invoices |
| Correctional Services | 3 385 | 2 533 | 852 |
| International Relations and Cooperation | 1 846 | 312 | 1 534 |
| Transport | 2 534 | 178 | 2 356 |
| Agriculture, Land Reform and Rural Development | 4 098 | 1 310 | 2 788 |
| Military Veterans | 4 563 | 939 | 3 624 |

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| | | | |
|------------------------------------|----------------|----------------|---------------|
| Water and Sanitation | 9 117 | 4 745 | 4 372 |
| Public Works including PMTE | 19 537 | 9 512 | 10 025 |
| Defence | 90 608 | 59 172 | 31 436 |
| Total | 135 688 | 78 4701 | 56 987 |

Table 3 above provide details of eight (8) national departments that have achieved the highest improvement in relation to the number of invoices paid after 30 days when comparing the 2020/2021 financial year to the 2019/2020 financial year. These national departments managed to reduce the number of invoices paid late with more than 500 invoices. These departments are urged to maintain this improvement to ensure that all invoices are paid timeously by constantly reviewing and improving their internal controls to ensure compliance with the Treasury Regulation 8.2.3.

Although the aforementioned national departments reflect an improvement, the departments of Defence, Public Works (including PMTE) and Water and Sanitation are urged to prioritise improving their internal controls as they still reflect high numbers of invoices paid late.

Table 4 below provides national departments that have regressed in the number of invoices paid after 30 days when comparing information for the 2020/2021 financial year with that of the 2019/2020 financial year.

| Table 4: National Departments | | | |
|---|---|---|---|
| Departments that recorded a regression on Invoices Paid <u>After</u> 30 Days | | | |
| Name of Department | Number of invoices 2019/2020 | Number of invoices 2020/2021 | Regression in the number of invoices |
| Basic Education | 154 | 173 | 19 |
| Science and Innovation | 2 | 22 | 20 |
| Women, Youth and Persons with Disabilities | 84 | 105 | 21 |
| Social Development | 89 | 117 | 28 |
| Mineral Resource and Energy | 25 | 73 | 48 |
| Higher Education and Training | 60 | 115 | 55 |
| Justice and Constitutional Development | 62 | 143 | 81 |
| Home Affairs | 241 | 351 | 110 |
| Office of Chief Justice and Judicial Administration | 564 | 693 | 129 |
| Statistics South Africa | 19 | 411 | 392 |
| Total | 1 300 | 2 203 | 903 |

Table 4 above provide details of ten (10) national departments that recorded a regression in the number of invoices paid after 30 days from 2019/2020 financial year to 2020/2021 financial year. It is noticeable that the department of Statistics South Africa recorded the highest regression in the number of invoices paid after 30 days which represents a regression of 392 invoices. These national departments are urged to improve their internal controls to meet the requirement of Treasury Regulation 8.2.3

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Table 5 below provides national departments that have recorded the highest number of invoices paid after 30 days during the 2020/2021 financial year.

| Table 5: National Departments Departments that recorded the highest number of Invoices Paid After 30 Days | | |
|--|---|------------|
| Name of Department | 2020/2021 Number of invoices | % |
| Defence | 54 172 | 70% |
| Public Works (including PMTE) | 9 512 | 12% |
| Water and Sanitation (including trading account) | 4 745 | 6% |
| Police | 3 308 | 4% |
| Correctional Services | 2 533 | 3% |
| Total | 74 270 | 95% |

Table 5 above provides details of national departments that recorded the highest numbers of invoices paid after 30 days during the 2020/2021 financial year. The department of Defence contributed the highest in this regard which amounted to 70% of the invoices paid late during 2020/2021. The use of Legacy Accounting System, non-integrated stand-alone logistics and Supply Chain Accounting Systems are provided as the main reasons for the department of Defence not being able to pay its supplier's invoices timeously.

Table 6 below provides national departments that have recorded an improvement in the number of invoices older than 30 days not paid in the 2020/2021 financial year when compared with the 2019/2020 financial year.

| Table 6: National Departments Departments that recorded an improvement on Invoices Older than 30 Days and Not Paid | | | |
|---|---|---|--|
| Name of Department | 2019/20 Number of invoices | 2020/21 Number of invoices | Improvement in the number of invoices |
| Cooperative Government | 9 | 2 | 7 |
| Home Affairs | 4 | 0 | 4 |
| International Relations and Cooperation | 1 | 0 | 1 |
| Public Works including PMTE | 173 | 125 | 48 |
| Women, Youth and Persons with Disabilities | 1 | 0 | 1 |
| Employment and Labour | 1 | 0 | 1 |
| Justice and Constitutional Development | 2 | 0 | 2 |
| Total | 191 | 127 | 64 |

Table 6 above provides details of national departments that recorded an improvement regarding the number of invoices older than 30 days and not paid when comparing the end of 2020/2021 financial year to the end of 2019/2020 financial year. The department of Public Works (including PMTE) recorded the highest improvement in this regard, however, recorded the highest number of invoices still at hand as at the end of 2020/2021 financial year. The department of Public Works is urged to improve its internal controls to ensure compliance with Treasury Regulation 8.2.3

Table 6 below provides national departments that have recorded a regression in the number of invoices older than 30 days not paid in 2020/2021 financial year when compared with 2019/2020 financial year.

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| Table 6: National Departments Departments that recorded a regression on Invoices Older than 30 Days and Not Paid | | | |
|---|---|---|---|
| Name of Department | 2019/20 Number of invoices | 2020/21 Number of invoices | Regression in the number of invoices |
| Mineral Resource and Energy | 1 | 3 | 2 |
| Police | 1 | 12 | 11 |
| Water and Sanitation | 137 | 181 | 44 |
| Total | 139 | 196 | 57 |

Table 6 above provides details of national departments that recorded a regression in the number of invoices older than 30 days and not paid when comparing the end of the 2020/2021 financial year to the end of the 2019/2020 financial year. The department of Water and Sanitation recorded the highest regression in the number of invoices older than 30 days and not paid and also recorded the highest number of invoices at hand as at the end of 2020/2021 financial year. The department of Water and Sanitation is urged to prioritise the improvement in its internal controls to meet the requirements of Treasury Regulation 8.2.3

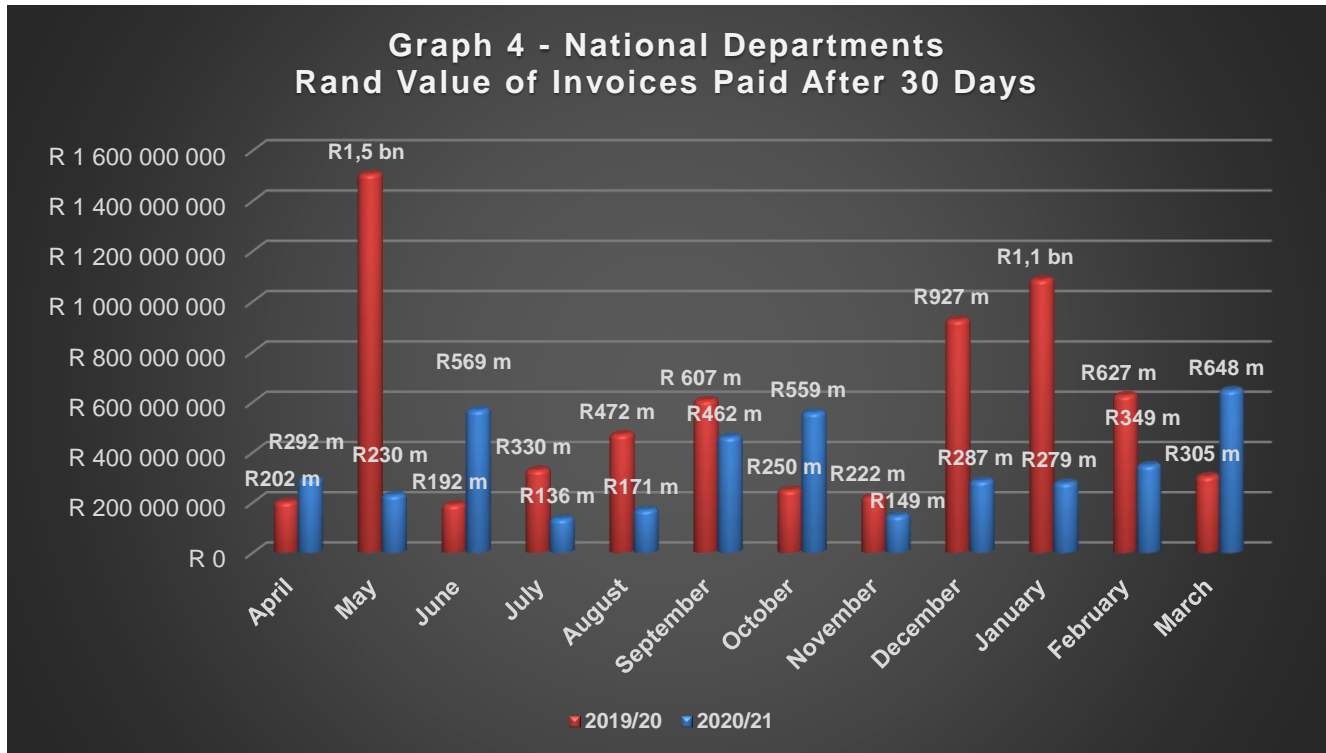
Table 7 below provides national departments that have recorded the highest number of invoices older than 30 days not paid as at the end 2020/2021 financial year.

| Table 7: National Departments Departments that recorded the highest number of Invoices Older than 30 Days and Not Paid | | |
|---|---|------------|
| Name of Department | 2020/2021 Number of invoices | % |
| Water and Sanitation (including trading account) | 181 | 56% |
| Public Works (including PMTE) | 125 | 39% |
| Total | 306 | 95% |

Table 6 above provides details of national departments that contributed the highest towards the number of invoices older than 30 days and not paid as at the end 2020/2021 financial year. The department of Water and Sanitation contributed fifty-six percent (56%) towards the number of outstanding invoices as at the end of 2020/2021 financial year. These departments are urged to improve their internal controls to ensure compliance with Treasury Regulation 8.2.3.

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Graph 4 below provides month-to-month comparative figures of the **Rand value of invoices paid after 30 days** in 2020/2021 financial year and that of 2019/2020 financial year.



Graph 4 above indicates that the total Rand value of invoices paid after 30 days from April 2020 to March 2021 of the 2020/2021 financial year amounted to R 4.1 billion. This represents a noticeable improvement of 39% or R 2.6 billion when compared to the total Rand value of invoices paid after 30 days from April 2019 to March 2020 of the 2019/2020 financial year which amounted to R 6.7 billion.

The annual average Rand Value of invoices paid after 30 days amounted to R 344 million in the 2020/2021 financial year. This represents an improvement of R 216 million or 39% when compared to the R 560 million recorded in 2019/2020 financial year.

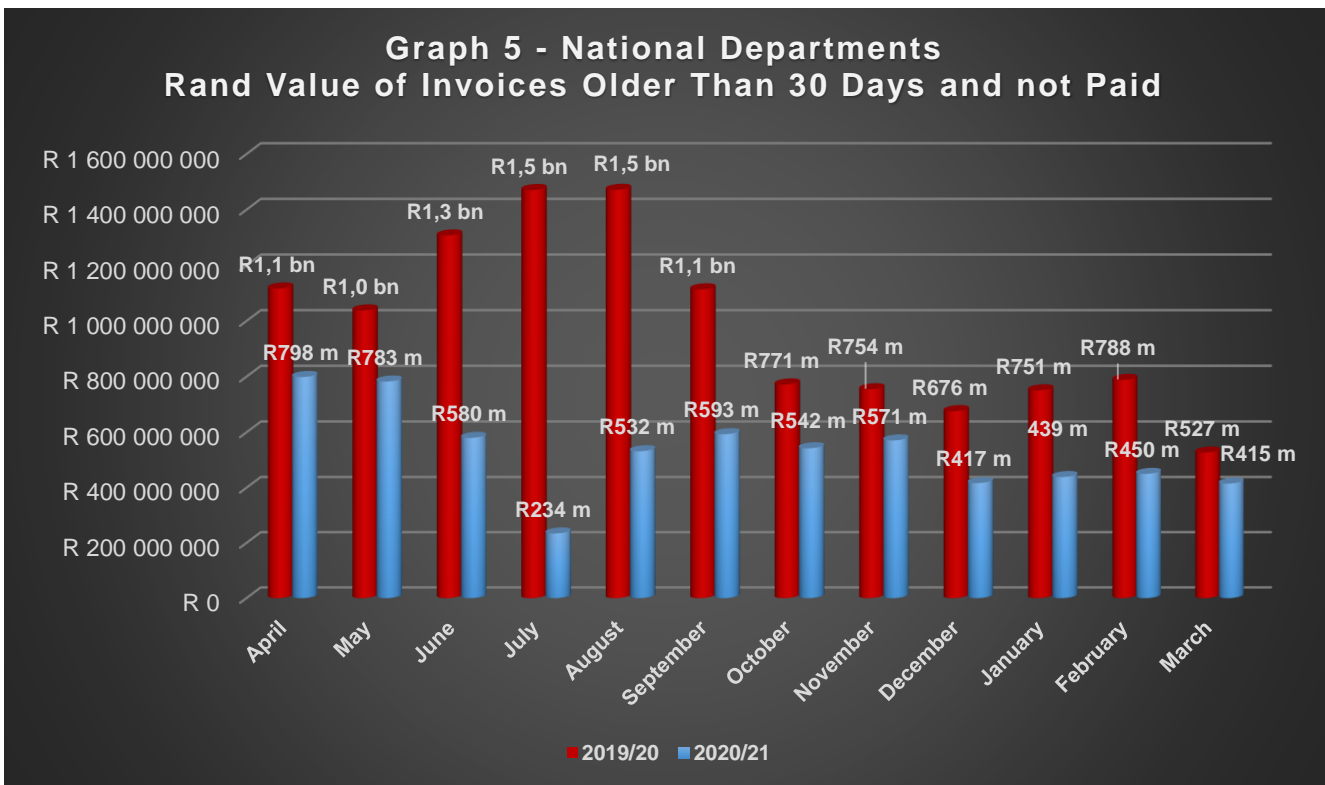
Table 8 below provides national departments that have recorded the highest **Rand Value** of invoices older than 30 days not paid as at the end of the 2020/2021 financial year.

| Table 8: National Departments | | |
|--|---|------------|
| Departments that recorded the highest Rand Value of Invoices paid after 30 Days | | |
| Name of Department | 2020/2021 Rand Value of invoices | % |
| Water and Sanitation (including trading account) | R2,9 bn | 70% |
| Defence | R1,1 bn | 27% |
| Public Works (including PMTE) | R909 m | 2% |
| Total | R4,1 bn | 99% |

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Table 8 above provides details of national departments that contributed the highest towards the **Rand Value** of invoices paid after 30 days during the 2020/2021 financial year. The department of Water and Sanitation (including trading account) contributed seventy percent (70%) towards the Rand Value of invoices paid after 30 days during the 2020/2021 financial year.

Graph 5 below provides month-to-month comparative figures of the **Rand values of invoices older than 30 days and not paid** at the end of the 2020/2021 financial year and that of the 2019/2020 financial year.



The graph above indicates that the Rand value of invoices older than 30 days and not paid by national departments at the end of 2020/2021 financial year amounted to R 415 million. This represents an improvement of 21% or R 112 million when compared to the Rand value of invoices older than 30 days and not paid at the end of 2019/2020 financial year which amounted to R 527 million.

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Table 9 below provides national departments that have recorded the highest **Rand Value** of invoices older than 30 days not paid as at the end of 2020/2021 financial year.

| Table 9: National Departments | | |
|---|---|------------|
| Departments that recorded the highest Rand Value of Invoices Older than 30 Days and Not Paid | | |
| Name of Department | 2020/2021 Number of invoices | % |
| Water and Sanitation (including trading account) | R397 m | 95% |
| Public Works (including PMTE) | R17 m | 4% |
| Total | R415 m | 99% |

Table 9 above provides details of national departments that contributed the highest towards the **Rand Value** of invoices older than 30 days and not paid as at the end 2020/2021 financial year. The department of Water and Sanitation contributed ninety-five (95%) towards the Rand Value of invoices older than 30 days not paid as at the end of 2020/2021 financial year.

The enclosed **Annexure A** provides information on the non-compliance of national departments with the requirement to pay supplier's invoices within 30 days for the 2020/2021 financial year.

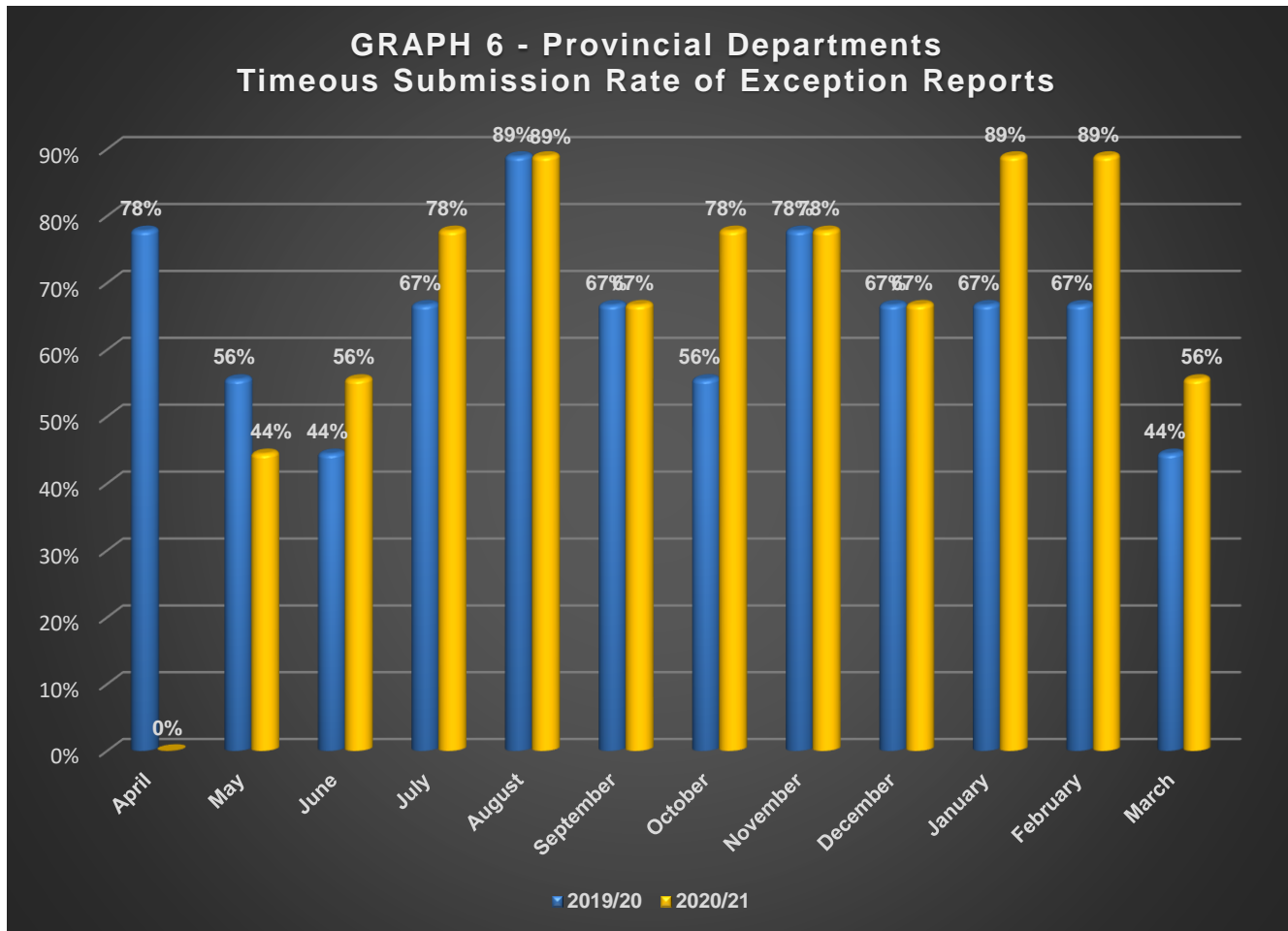
Section B

Provincial Departments

4. Submission of 30 days' exception reports by provincial departments

Provincial treasuries are to submit their consolidated exception reports for their respective provincial departments to the National Treasury by the 15th day of each month with information of the preceding month as required by Treasury Instruction Note Number 34.

Graph 6 below provides a month-to-month comparative analysis of the provincial **timeous submission of exception reports** to the National Treasury for the 2020/2021 and 2019/2020 financial years.



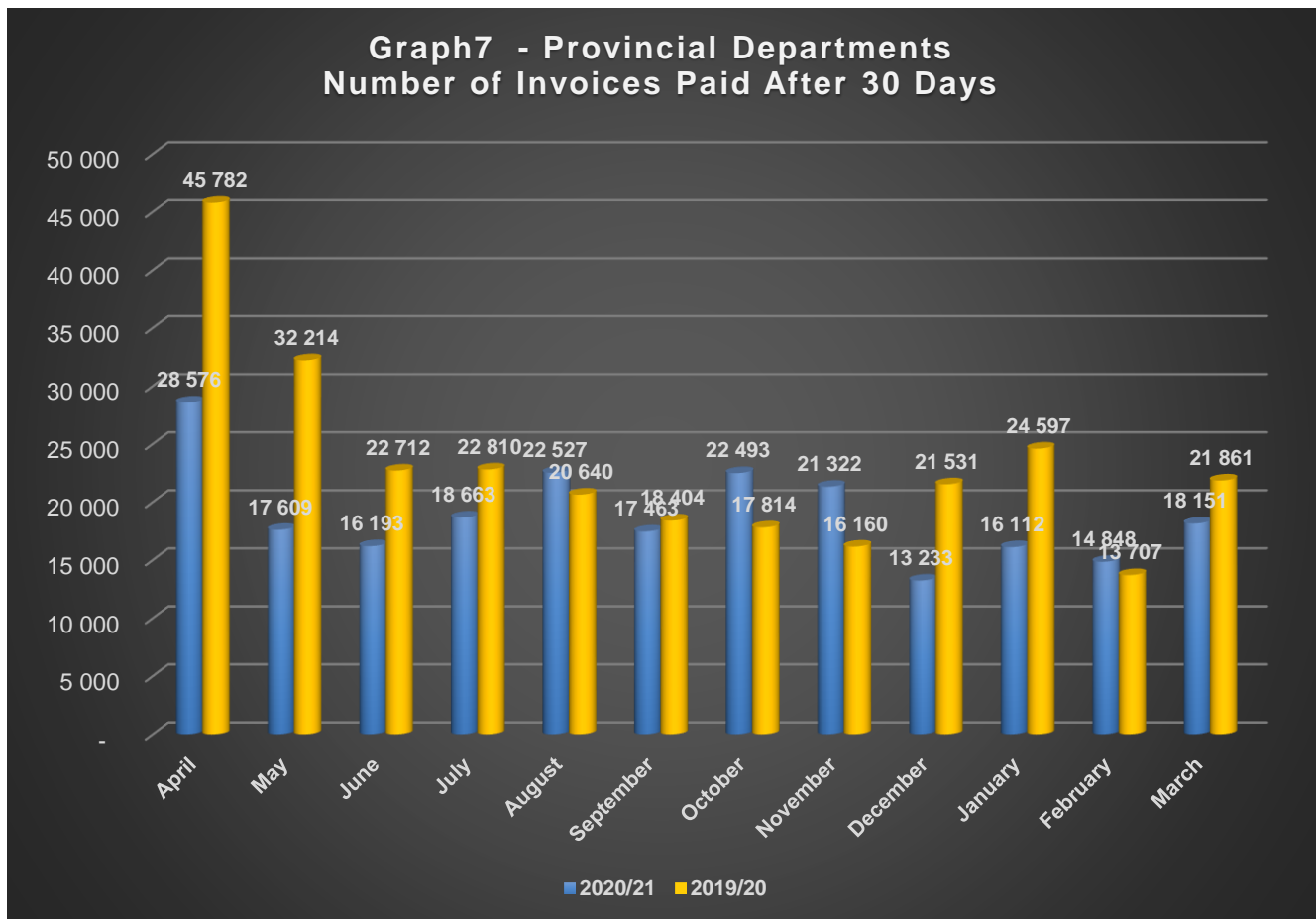
Graph 6 above indicated that the annual average timeous submission rate achieved by provincial treasuries in the 2020/2021 financial year is 66%. This represents an improvement of 1% when compared to 65% of the annual average timeous submission rate achieved in the 2019/2020 financial year.

Provincial treasuries are urged to submit information timeously since the late submission of information adversely affects the completeness of information reported to internal and external oversight structures. One of the common reasons provided by provincial treasuries for the late submission of the exception

reports is the late submission of information by their respective provincial departments due to distractions caused by the Covid-19 pandemic. The late submission by provincial departments delays the provincial treasuries to consolidate information for timeous submission to the National Treasury.

5. Provincial Departments: Analysis of 30 Days' Exceptions Reports

Graph 7 below provides a month-to-month comparative analysis of the **number of invoices paid after 30 days** during the 2020/2021 financial year when compared to the 2019/2020 financial year.



The graph above indicates that the total number of invoices paid after 30 days by provincial departments from April 2020 to March 2021 amounted to 227 190 and this represents an improvement of 51 042 or 18% of the invoices when compared to the number of invoices paid after 30 days for the period from April 2019 to March 2020 for the 2019/2020 financial year which amounted to 278 232 invoices.

The annual average number of invoices paid after 30 days for the period April 2020 to March 2021 (2020/2021 financial year) amounted to 18 933 invoices and this indicates an improvement of 4 253 or 18% when compared to the annual average number of invoices paid after 30 days for the period April 2019 to March 2020 (2019/2020 financial year) which amounted to 23 186 invoices.

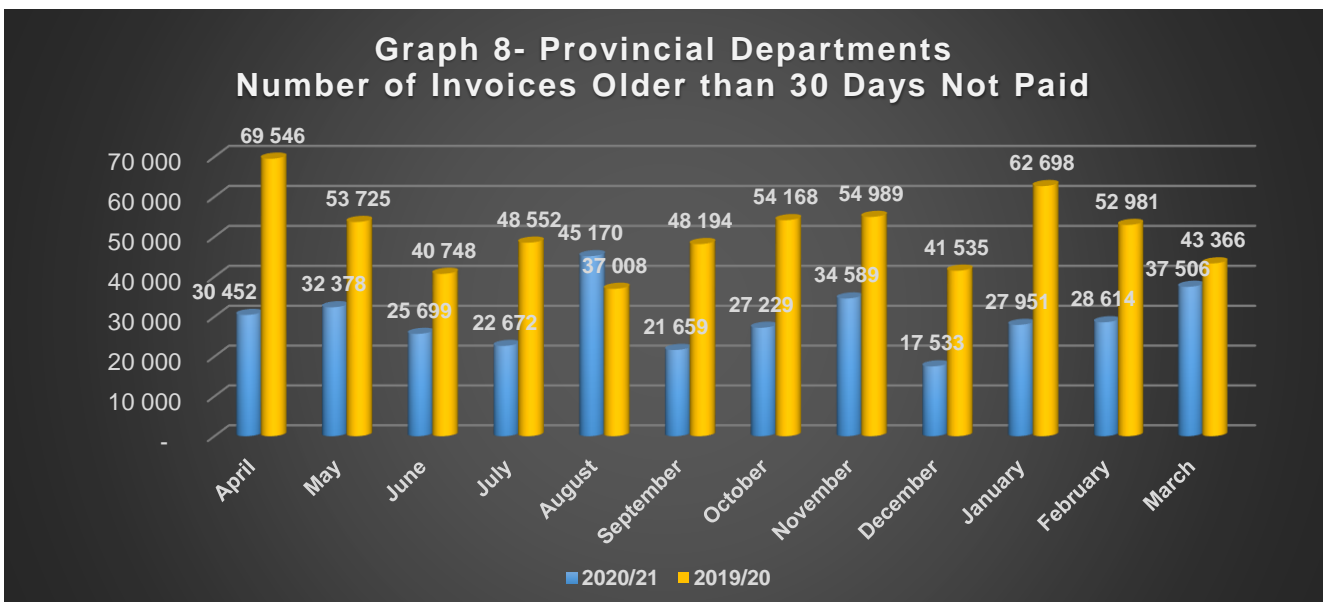
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Table 10 below provides information related to the performance of provinces regarding the number and Rand Value of invoices paid after 30 days during the 2020/2021 financial year.

| Table 10: Performance of provinces regarding the Number and Rand Value of Invoices Paid after 30 Days | | | |
|--|---------------------------|-------------------------------|-------------|
| Province | Number of invoices | Rand Value of invoices | % |
| Mpumalanga | 348 | 35 232 262 | 0% |
| Western Cape | 2 719 | 411 347 555 | 1% |
| Limpopo | 5 829 | 560 032 910 | 3% |
| Northern Cape | 7 094 | 905 373 709 | 3% |
| Free State | 8 854 | 1 241 334 849 | 4% |
| Kwazulu-Natal | 24 502 | 5 427 525 636 | 11% |
| North West | 48 683 | 3 705 755 100 | 21% |
| Gauteng | 63 576 | 7 836 885 671 | 28% |
| Eastern Cape | 65 585 | 5 745 301 211 | 29% |
| Total | 227 190 | 25 868 788 903 | 100% |

Table 10 above provides for the performance of provincial departments regarding invoices paid after 30 days during the 2020/2021 financial year. The Eastern Cape province recorded 65 585 invoices or 29% which is the highest contributor towards the number of invoices paid after 30 days during the 2020/2021 financial year, followed by Gauteng province which contributed 63 576 invoices or 28% towards the late payment of invoices. Although the Eastern Cape province contributed the highest regarding the number of invoices paid after 30 days, the Gauteng Province recorded the highest Rand Value in this regard. The table further indicates that Mpumalanga province recorded the lowest number of invoices paid after 30 days during 2020/2021 financial year.

Graph 8 below provides a month-to-month comparative analysis of the **number of invoices older than 30 days and not paid** in the 2020/2021 financial year when compared with the 2019/2020 financial year.



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Graph 8 above indicates that the number of invoices older than 30 days that remained unpaid by provincial departments at the end of the 2020/2021 financial year amounted to 37 506 invoices. This represents an improvement of 5 860 invoices or 14% when compared to the number of invoices older than 30 days and not paid at the end of 2019/2020 financial year which amounted to 43 366 invoices.

The above graph further depicts a monthly improvement when comparing the period April 2020 to March 2021 to the period April 2019 to March 2020.

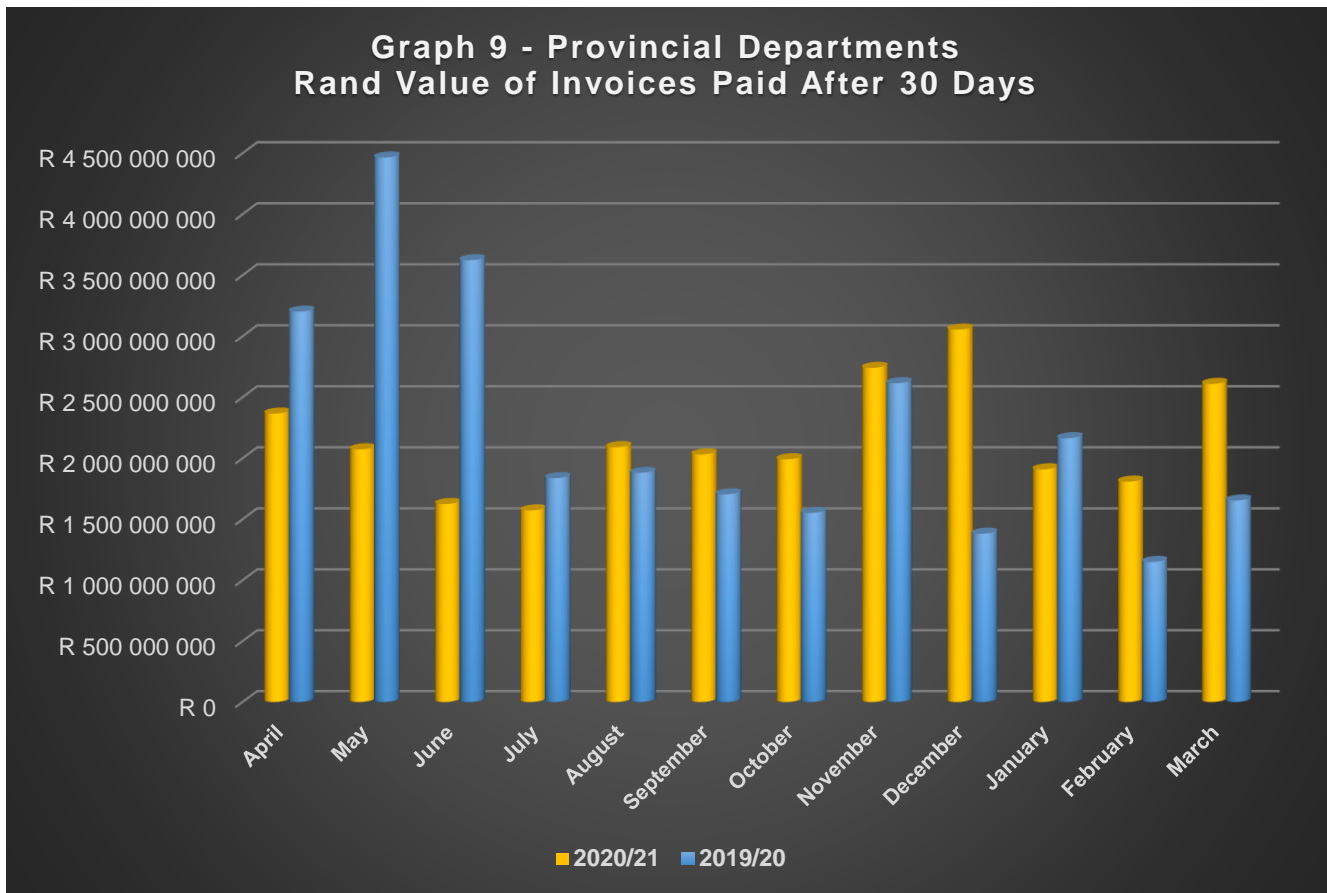
Table 11 below provides information related to the performance of provinces regarding the number and Rand Value of invoices older than 30 days and not paid as at the end of 2020/2021 financial year.

| Table 11: Performance of provinces regarding the Number and Rand Value of invoices older than 30 days not paid | | | |
|---|---------------------------|-------------------------------|-------------|
| Province | Number of invoices | Rand Value of invoices | |
| Western Cape | - | - | 0% |
| Northern Cape | 167 | 43 400 434 | 0% |
| Mpumalanga | 206 | 37 602 064 | 0% |
| Limpopo | 669 | 49 265 206 | 2% |
| Free State | 1 409 | 339 459 234 | 3% |
| Kwazulu-Natal | 1 985 | 88 800 355 | 5% |
| North West | 3 537 | 278 373 218 | 9% |
| Eastern Cape | 12 651 | 1 842 631 996 | 30% |
| Gauteng | 20 911 | 1 413 754 979 | 50% |
| Total | 41 535 | 4 093 287 485 | 100% |

Table 11 above provides for the performance of provincial departments regarding invoices older than 30 days and not paid during the 2020/2021 financial year. The table indicates that the Gauteng province recorded 20 911 invoices or 50% which is the highest contributor towards the number of invoices older than 30 days and not paid as at the end of 2020/2021 financial year. The Gauteng province is followed by the Eastern Cape province which contributed 12 651 invoices or 30% towards the number of outstanding invoices as at the end of the financial year. Although the Gauteng province contributed the highest regarding the number of unpaid invoices, the Eastern Cape Province recorded the highest Rand Value in this regard. The table further indicates that the Western Cape departments did not have outstanding invoices as at the end of the 2020/2021 financial year.

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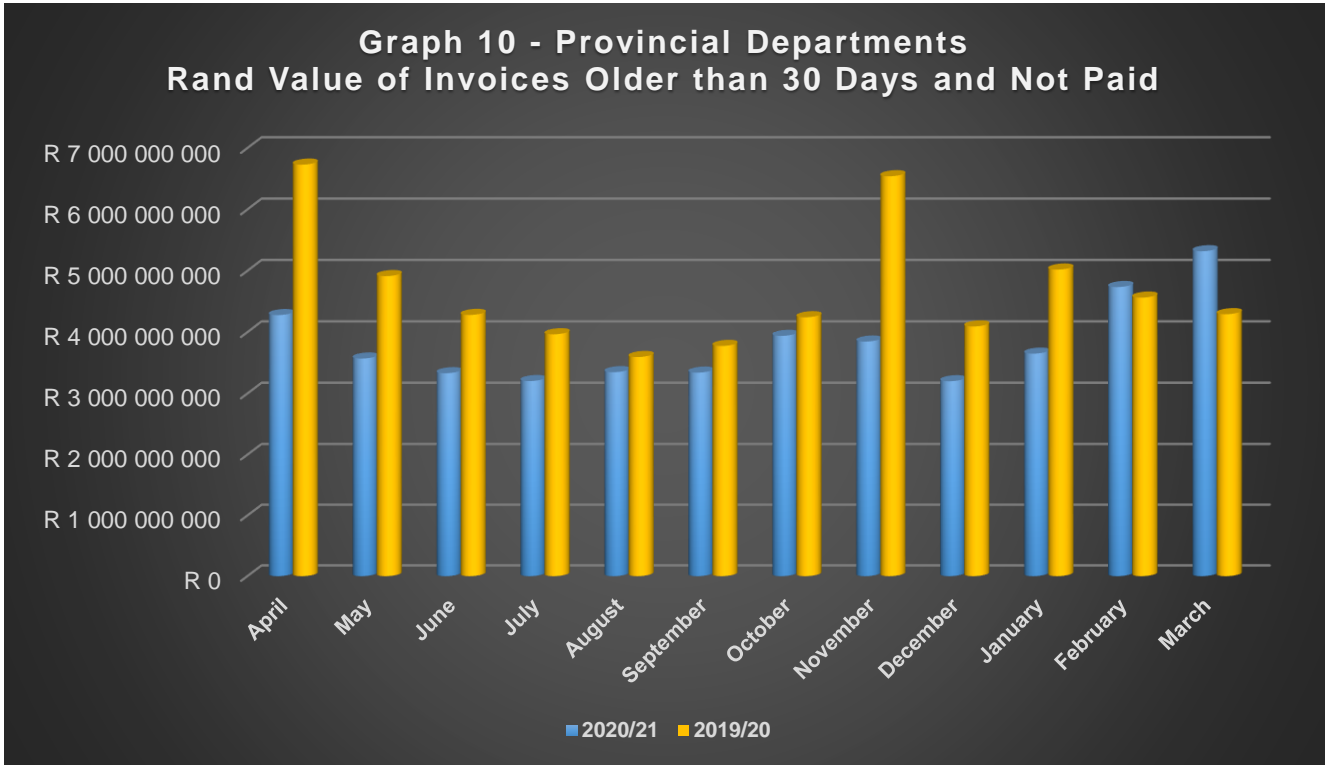
Graph 9 below provides month-to-month comparative figures of the **Rand value of invoices paid after 30 days** during the 2020/2021 financial year when compared with the 2019/2020 financial year.



The graph above indicates that the total Rand value of invoices paid after 30 days by provincial departments during the 2020/2021 financial year amounted to R 25.9 billion. This represents an improvement of R 1.3 billion or 8% when compared to the total Rand value of invoices paid after 30 days in 2019/2020 financial year which amounted to R 27.2 billion.

The annual average Rand value of invoices paid after 30 days by provincial departments in the 2020/2021 financial year amounted to R 2.2 billion. This represents an improvement of R 100 million or 4% when compared to the R 2.3 billion recorded in the 2019/2020 financial year.

Graph 10 below provides month-to-month comparative figures of the **Rand value of invoices older than 30 days and not paid** during the 2020/2021 financial year when compared with the 2019/2020 financial year.



The graph above indicates the Rand value of invoices older than 30 days and not paid at the end of 2020/2021 financial year amounted to R 5.3 billion. This represents a regression of R1.0 billion or 23% when compared to the Rand value older than 30 days and not paid which amounted to R 5.3 billion recorded at the end of 2019/2020 financial year.

The enclosed **Annexure B** provides detailed comparative information on the non-compliance with the requirement to pay supplier's invoices within 30 days per province for the 2020/2021 and 2019/2020 financial years.

Section C

6. Common Reasons Provided for the Late and/or Non-Payment of Invoices

Table 12 below represents common reasons provided by national and provincial departments for the late and/or non-payment of invoices during the 2019/2020 and 2020/2021 financial years.

| TABLE 12: COMMON REASONS FOR THE LATE AND/OR NON-PAYMENT OF INVOICES | | |
|---|--|--|
| REASONS PROVIDED | ROOT CAUSES IDENTIFIED | RECOMMENDATIONS TO REMEDY CAUSES OF LATE AND/OR NON-PAYMENT |
| Misfiled, misplaced or unrecorded invoices. | Lack of internal controls measures to track invoices from a receipt to a payment point. Lack of capturing invoices as they are received | <ul style="list-style-type: none"> • Develop and implement internal controls to track the movement of invoices from the date of receipt to the date of payment. • Ensure that there is sufficient capacity to record all invoices as they are received and track any outstanding payments timeously. • Take disciplinary actions against officials who undermine internal controls and commit fruitless and wasteful expenditure as some of these late payments may be interest-bearing. |
| Inadequate budget and/or cash flow management. | Poor budgeting and lack of alignment between the budget and procurement plans. | <ul style="list-style-type: none"> • Departments should review their budget regularly or monthly to ensure that funds remain within the allocated budget. • Departments should limit their spending to the availability of budgeted funds and annual procurement plans, and no procurement should be processed without confirming the availability of funds. • Departments should avoid committing funds where budgets are not available. |
| Inadequate internal capacity. | Lack of human capacity within the departments. | <ul style="list-style-type: none"> • Departments should fast-track recruitment processes and not leave critical positions vacant for lengthy periods. • Vacancy rates in Finance Divisions should not exceed 5% at any given time. • Skilled and competent staff should be appointed to address the internal control system in this area, such as invoice tracking system, tracking of goods delivered or services rendered against correct orders and ensuring that the quantity and quality of goods and services to be received and received are in line |

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| | | |
|--|---|---|
| | | with ordered goods/services and ensure that payment of supplier's invoices are made timeously. |
| IT system issues (BAS, Logis and SafetyWeb, etc.). | Slow systems, "hanging" and generation of system errors. | <ul style="list-style-type: none"> • Departments should initiate payment processes on time to avoid late payments when there are system errors. • Departments should regularly and timeously report repeated system errors to the Chief Directorate at National Treasury responsible for financial systems. |
| Standard Chart of Account (SCoA) related system problems. | Changes in coding of items used for classification, budgeting, recording of revenue and expenditure within the accounting system in order to facilitate the recording of all transactions affecting assets and liabilities. | <ul style="list-style-type: none"> • System users should attend training sessions provided by National Treasury on SCoA changes and proactively implement the relevant changes to avoid problems with codes when they become effective. • Employees must also refer to the circulars and guidelines provided by National Treasury and/or consult the National Treasury for any clarity on any issued directives. |
| Unresolved invoice discrepancies | Suppliers submitting incorrect and/ or invalid invoices | <ul style="list-style-type: none"> • Invoices should be verified for correctness when received from suppliers before they are accepted, recorded and processed for payment. • Incorrect/ invalid invoices should be returned to suppliers immediately for rectification of any discrepancies. • Suppliers should be made aware that these invoices are regarded as not received until they are rectified and re-submitted. • Disputed or invalid invoices should not be included in the exception reports submitted to the National Treasury as they distort the accuracy of information. |
| Incomplete supporting documents. | Lack of understanding by suppliers of how to complete invoices and what should be attached to the invoice. | <ul style="list-style-type: none"> • Departments should provide checklists to suppliers of what should be attached to a valid invoice to ensure completeness of all the necessary documentation. |

It is worthy to note that the reasons for the late and/or non-payment of invoices as provided by departments during the 2020/2021 financial year are the same reasons as provided during the 2019/2020 financial year. This is mainly due to the fact that the root causes identified in the 2019/2020 financial year were not addressed in the 2020/2021 financial year. Furthermore, recommendations provided in the 2019/2020 financial year were also not considered in the 2020/2021 financial year.

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Departments are urged to address the root causes identified and consider the recommendations provided to ensure improvement in compliance with the requirement to pay supplier's invoices within the prescribed period of 30 days.

Section D

7. Initiatives on late or non-payment supplier's invoices within 30 days

Establishment of 30 days' queries email address to receive non-payment queries from suppliers

In the 2020/2021 financial year, the National Treasury established a 30 days queries portal which is a centralised email that can be accessed by suppliers to address supplier's non-payment queries. The National Treasury assists suppliers by following up with transgressing PFMA institutions on those reported late payments of invoices and provides feedback to the supplier on (i) reasons for the delay and (ii) date payment will be effected. Evidence of payment is also important to ensure that the query is closed.

At the provincial level, such queries are escalated to Provincial Accountants-General to elevate the matter to the respective Chief Financial Officer at the provincial level. The Office of the Accountant-General acts as an intermediary between the organ of state and suppliers.

Furthermore, non-payment queries received related to Municipalities are forwarded to the Chief Directorate responsible for Municipal Finance Management Act (MFMA) implementation for escalation to the relevant Chief Financial Officers at Municipal level.

Section E

8. Conclusion

There is a noticeable improvement in the timeous submission of exceptions reports in the national and provincial levels. At the national level, thirty-eight (38) national departments managed to submit all their reports to the National Treasury during the 2020/2021 financial year. At a provincial level, all nine (9) provincial treasuries managed to submit the exceptions reports to the National Treasury. Although the analysis revealed an improvement in the submission rate, the timeous submission of these reports remains a challenge.

There is an improvement in the number of invoices paid after 30 days and the number of invoices older than 30 days and not paid when comparing the 2020/2021 financial year to the 2019/2020 financial year especially considering that departments improved amid the restrictions posed by the Covid-19 Pandemic but these numbers remain very high at a provincial level.

The analysis in this annual report shows that the departments of Defence, Public Works (including PMTE), Water and Sanitation (including trading account), Police and Correctional Services contributed ninety-five percent (95%) towards the **number of invoices** paid after 30 days during the 2020/2021 financial year. The main contributor towards the number of invoices paid late is the Department of Defence which recorded seventy (70%) of invoices paid after 30 days. The departments of Water and Sanitation (including trading account) and Public Works (including PMTE) contributed ninety-five percent (95%) towards the number of invoices older than 30 days still at hand as at the end of 2020/2021 financial year.

Furthermore, the analysis at the national level provides that the departments of Water and Sanitation (including trading account), Public Works (including PMTE) and Defence contributed the highest towards the **Rand Value of invoices** paid after 30 days with Water and Sanitation (including trading account) recorded as the main contributor during the 2020/2021 financial year. The departments of Water and Sanitation (including trading account) and Public Works (including PMTE) contributed ninety-nine (99%) towards the Rand Value of invoices older than 30 days and not paid.

At the provincial level, the Eastern Cape and Gauteng province are the main contributors towards the number of invoices paid after 30 days and invoices older than 30 days and not paid. The Eastern Cape, Gauteng and North West provinces contributed seventy-eight percent (78%) towards the late payment of invoices. During the 2020/2021 financial year, Eastern Cape province recorded the highest number of invoices paid after 30 days which amounted to 65 858 invoices or 29% and the Gauteng province recorded the highest number of invoices older than 30 days and not paid which amounted to 20 911 invoices or 50% as at the end of the 2020/2021 financial year.

It should be noted that in all provinces, the departments of Health recorded the highest numbers of invoices paid after 30 days and invoices older than 30 days and not paid during the 2020/2021 financial year.

The National Treasury recommends stakeholders to note the following:

- The impact of late or non-payment of invoices has on the sustainability of the SMMEs in contributing to unemployment, job creation and inequality issues;
- Initiative taken by the National Treasury and other relevant key stakeholders to continually increase efforts to improve the level of compliance with the requirements to pay invoices within 30 days by national and provincial departments;
- Improvement recorded in both the number of invoices paid after 30 days and the number of invoices older than 30 days and not paid in the national and provincial levels; and
- Common reasons provided by national and provincial departments on late and non-payment of invoices in the 2020/2021 and 2019/2020 financial years.
- Disregard of recommendations provided by the National Treasury to departments to assist in the improvement of the level of compliance with Treasury Regulation 8.2.3

Resolve that: -

- Payment of invoices within 30 days be included in the performance agreements of accounting officers, chief financial officers and other officials working in this area;
- Disciplinary actions against officials who fail to comply with the requirements to pay invoices within 30 days and who undermine the systems of internal control be taken;
- Accounting officers take steps to ensure that the information to be submitted to the relevant treasury is duly signed off and submitted to the relevant treasury as per the timeframes stipulated in Instruction Note number 34;
- Accounting officers and chief financial officers to address the root causes of the late and/or non-payment of invoices to improve compliance with the requirement of Treasury Regulation 8.2.3;
- National and provincial departments develop systems that will be utilised as a tool to report and monitor on non-payment of supplier's invoices;
- Payment of suppliers within 30 days be a standing agenda item for discussion at every EXCO meeting of Departments; and
- Accounting officers to consider recommendations provided to improve the level of compliance with the requirement to pay supplier's invoices within 30 days.

2020/21

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