



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

NON-COMPLIANCE WITH PAYMENTS OF SUPPLIERS WITHIN 30 DAYS

1ST QUARTER REPORT (APRIL 2020– JUNE 2020)

First Quarter

2020/2021 | NATIONAL TREASURY

Table of Contents

Section A	2
1. Purpose	2
2. Legislative Framework	2
3. Background	3
4. Executive Summary	4
Section B	6
5. Analysis of exceptions reports from National Departments	6
Section C.....	10
6. Analysis of exceptions reports from Provincial Treasuries	10
Section D	14
7. Common reasons provided for the late or non-payment of invoices	14
Section E.....	14
8. Conclusion	14

Section A

1. Purpose

The purpose of this report is to provide an update to relevant stakeholders on the status of compliance by national and provincial departments with the legislative requirement to pay invoices and claims within 30 days for the first quarter of 2020/2021 financial year.

2. Legislative Framework

- 2.1 In terms of section 38(1)(f) of the Public Finance Management Act (PFMA), the accounting officer for a department must settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period.
- 2.2 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”*.
- 2.3 On 31 May 2010, the National Treasury forwarded a communiqué to all PFMA compliant institutions urging the accounting officers and accounting authorities of these institutions to ensure that their creditor obligations are met within 30 days from receipt of an invoice. This communiqué also stressed that non-compliance with the requirement to pay invoices within 30 days can be grounds for financial misconduct.
- 2.4 The National Treasury Instruction Note Number 34 issued in November 2011 requires accounting officers for departments to submit exception reports to the relevant treasuries by the 7th day of each month and Provincial treasuries to submit to the National Treasury by the 15th day of each month with 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 older than 30 days and which have not been paid; and
 - (c) the reasons for the late and/or non-payment of the invoices referred to in (a) and (b) above.
- 2.5 Furthermore, on 26 March 2018, the National Treasury issued a circular on the timeous payment of invoices and claims reminding institutions to pay for services and claims within the required period, and for accounting officers to monitor compliance thereof.

3. Background

- 3.1 The late and/or non-payment of invoices has a serious adverse impact on the financial health of suppliers who are often forced to borrow money in order to stay afloat financially as well as to continue meeting their contractual obligations with state institutions. When these institutions do not pay their suppliers timeously, it often results in these suppliers being liquidated, especially those that are classified as Small, Medium and Micro Enterprises (SMMEs).
- 3.2 The closing down of these SMMEs is due to the non-payment of suppliers invoices by government and is also seen as being counterproductive to the objectives of the National Development Plan (NDP) and the National Growth Path (NGP), which are aimed at improving economic growth and reduce poverty, inequality and unemployment.
- 3.3 On 02 December 2009, Cabinet resolved that departments must implement mechanisms to ensure that payments to creditors are effected within 30 days from the date of receiving an invoice.
- 3.4 FOSAD also resolved that the National Treasury must provide the forum with regular reports on the extent of compliance by departments with the requirement to pay invoices within 30 days. Pursuant to this resolution, since the inception of the National Treasury Instruction Note No.34, the National Treasury has been reporting to FOSAD on non-compliance with the legislative requirement of paying invoices owed by the state.

4. Executive Summary

- 4.1 For the first quarter of the 2020/2021 financial year, the average submission rate for the national departments is 87% and the average timeous submission rate is 62%.
- 4.2 Eight (8) provincial treasuries submitted the exceptions reports to the National Treasury in the first quarter of 2020/2021. The average submission rate for this quarter is 89% and the average timeous submission rate is 38%.
- 4.3 The low rate achieved by both the national departments and provincial treasuries is due to the national lockdown which was announced by the President of South Africa on 23 March 2020 due to the COVID-19 pandemic. The global COVID-19 pandemic has had an impact on the reporting requirements and thus affected the timeous submission of reports by the national and provincial departments to the relevant treasuries.
- 4.4 Table 1 below shows the total number and rand value of legitimate invoices from suppliers that were not paid within 30 days in the first quarter of the 2020/2021 financial year for both national and provincial departments:

Table 1: Number and Rand value of invoices not paid within 30 days by both national and provincial departments				
Quarter 1 2020/21	PAID AFTER 30 DAYS		OLDER THAN 30 DAYS NOT PAID	
	Number of invoices	Rand value of invoices	Number of invoices (as at June 2020)	Rand Value of invoices (as at June 2020)
National Departments	14 591	R912 million	2 427	R70 million
Provincial Departments	62 300	R6,1 billion	25 289	R3,3 billion
Total	76 891	R7,0 billion	27 716	R4,0 billion

- 4.5 Table 1 above shows that as at end of June 2020, the total number of invoices **not paid** within 30 days by national and provincial departments is 104 607 to the value of R11,0 billion. The number of invoices paid after 30 days for both national and provincial departments is 76 891 which amounts to R7,0 billion. As at end of June 2020, the number of invoices older than 30 days and not paid by both national and provincial departments is 27 716 which amounts to R4,0 billion.

- 4.6 Furthermore the table shows that in the first quarter, national departments paid 14 591 invoices late to the value of R912 million and had 2 427 outstanding invoices older than 30 days and not paid to the value of R70 million as at the end of June 2020.
- 4.7 The table also shows that provincial departments paid 62 300 invoices late to the value of R6,1 billion during the first quarter and had 25 289 invoices older than 30 days and not paid to the value of R3,3 billion as at the end of June 2020. The provincial departments contributed the highest towards the late and/or non-payment of invoices in the first quarter of 2020/2021 financial year.
- 4.8 The main contributing departments towards the late and/or non-payment of invoices at national level are the departments of Defence, Police, Correctional Services, Public Works and Infrastructure (including the Property Management Trading Entity (PMTE)) and Cooperative Government.
- 4.9 The Eastern Cape, Gauteng and North West provinces contributed the highest towards the late and/or non-payment of invoices with the Eastern Cape being the majority contributing province. The health sector continues to be the main contributor at the provincial level.
- 4.10 The most common reasons provided by both the national and provincial departments for the late and/or non-payment of invoices are interruptions caused by the national lockdown as a result of COVID-19 pandemic, poor internal controls, internal capacity and budget constraints.

Section B

National Departments

5. Analysis of exceptions reports from National Departments

In the first quarter of 2020/201, an average of 87% of national departments submitted their exceptions reports to National Treasury as required by Instruction Note No. 34. The average rate for the timeous submission of exception reports is 62%. The decline in both the average submission rate and average timeous submission rate was due to the interruption caused by the national lockdown as a result of COVID-19 pandemic.

Table 2 below reflects a list of national departments with outstanding information at the time of finalizing quarter 1 report:

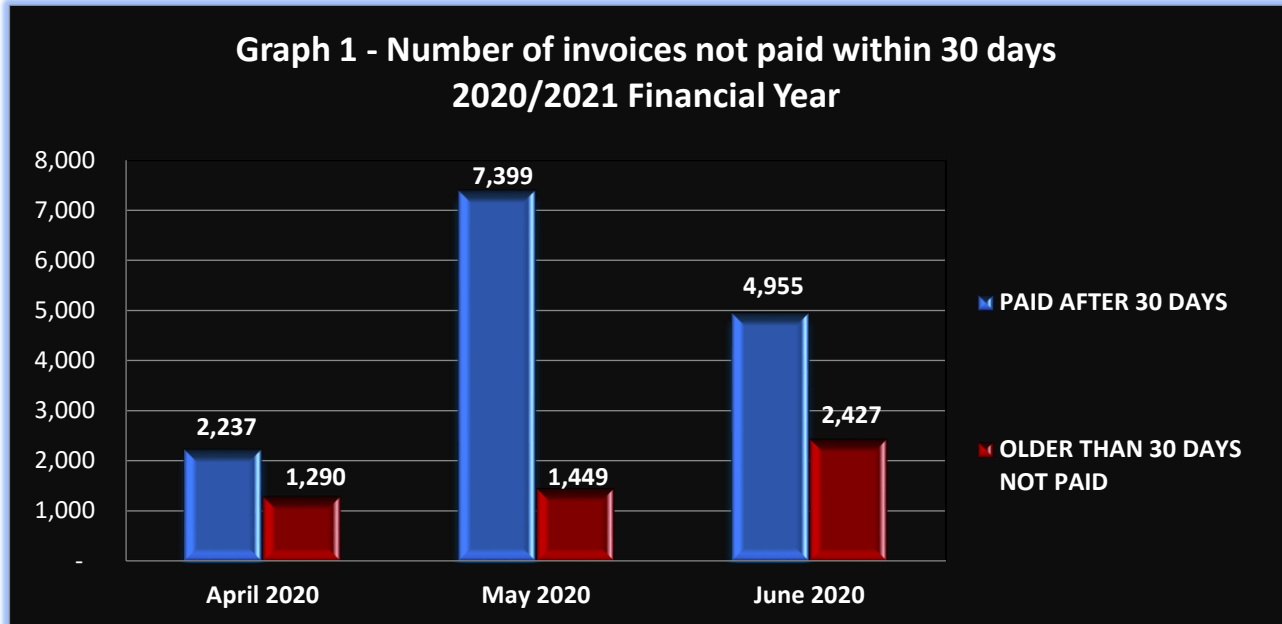
Table 2: National Departments with outstanding reports in the first quarter of the 2020/2021 financial year		
April 2020	May 2020	June 2020
National School of Governance	National School of Governance	-
-	-	Women, Youth and Persons with Disabilities
-	-	Water and Sanitation (main account)
Civilian Secretariat for the Police Service	Civilian Secretariat for the Police Service	Civilian Secretariat for the Police Service
Agriculture, Land Reform and Rural Development	Agriculture, Land Reform and Rural Development	Agriculture, Land Reform and Rural Development
Environment, Forestry and Fisheries	Environment, Forestry and Fisheries	Environment, Forestry and Fisheries
Mineral Resource and Energy	Mineral Resource and Energy	Mineral Resource and Energy

It is worthy to mention that non-submission of reports by some of the national departments listed in table 2 above may be attributed to the merging of departments and clarification of responsibilities in submission of report to the National Treasury.

5.1 Invoices paid within 30 days

Graph 1 below shows the number of invoices not paid within 30 days from the date of receipt for the first quarter of 2020/2021 financial year (April 2020 to June 2020).

Graph 1: National Departments – Number of Invoices not paid within 30 Days

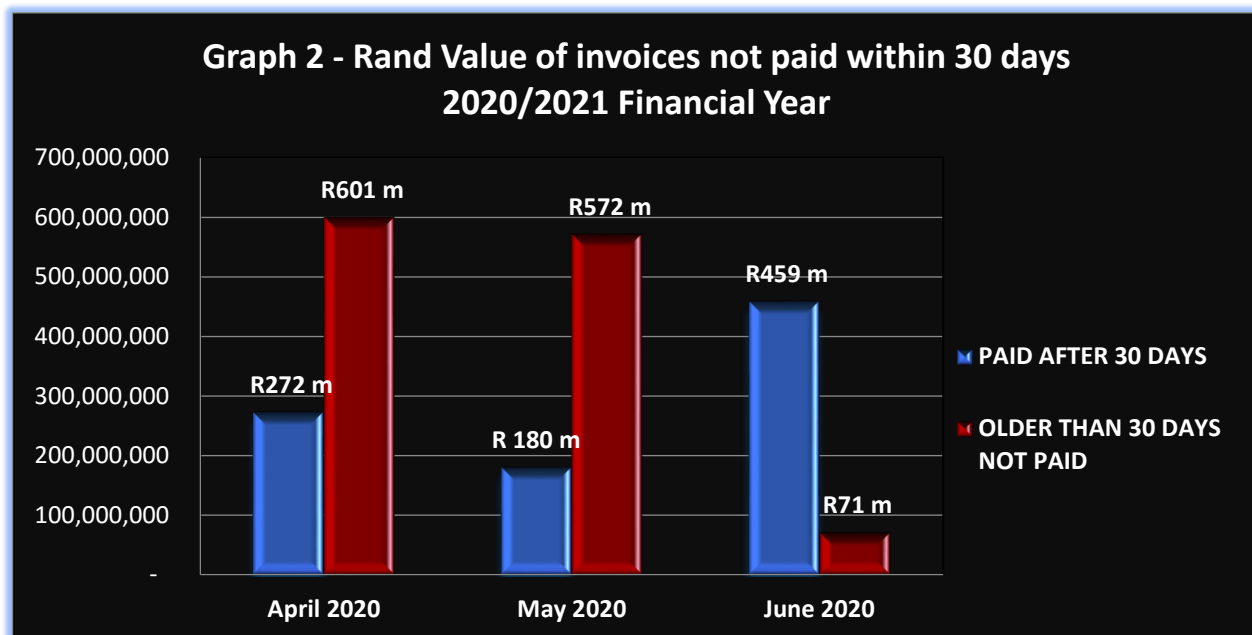


Graph 1 above shows a slide improvement in the number of invoices paid after 30 days and a regression in the number of invoices older than 30 days not paid in the first quarter of 2020/2021. There were 7 399 invoices that were paid after 30 days in May 2020 compared to 2 237 invoices that were paid after 30 days in April 2020. This shows an increase in the number of invoices which represents a regression of 5 162. As at the end of June 2020, the number of invoices paid after 30 days amounted to 4 955. This shows a decrease in the number of invoices which represents an improvement of 2 444 (33%) when comparing the number of invoices paid after 30 days in May 2020 which amounted to 7 399. The spike in the number of invoices paid after 30 days in May 2020 may be attributed to the disruptions caused by the COVID-19 pandemic in April 2020.

There were 1 449 invoices which were older than 30 days and not paid as at the end of May 2020 compared to 1 290 as at the end of April 2020. This shows a slight increase in invoices received and not paid which represents a slight regression of 159 (12%). The graph further shows a regression of 978 (67%) in the number of invoices older than 30 days not paid when comparing outstanding invoices as at the end of May 2020 and the end of June 2020.

Graph 2 below provides the Rand Value of invoices not paid within 30 days from the date of receipt for the first quarter of the financial year (April 2020 to June 2020).

Graph 2: National Departments – Rand Value of Invoices not paid within 30 Days



Graph 2 above shows a regression in the Rand Value of invoices paid after 30 days in the first quarter of 2020/2021. The Rand Value of invoices paid after 30 days amounted to R459 million as at the end of June 2020 compared to R180 million paid after 30 days as at the end of May 2020. This shows an increase in the Rand Value which represents a regression of R279 million.

The graph further shows a noticeable improvement in the Rand Value of invoices older than 30 days not paid as at the end of the first quarter of 2020/2021 financial year. As at the end of June 2020, the Rand Value of invoices received and not paid amounted to R71 million. This shows a decrease which represents an improvement of R501 million in the Rand Value of outstanding invoices when comparing the month of May 2020 to that of June 2020.

Table 3 below indicates national departments that paid all their invoices within 30 days in the first quarter of 2020/2021 financial year:

Table 3: National Departments that paid all their invoices within 30 days in the first quarter of the 2020/2021 financial year	
1. National Treasury	8. Employment and Labour
2. Planning, Monitoring and Evaluation	9. Small Business Development
3. Public Enterprises	10. Sports, Arts and Culture
4. Public Service and Administration	11. Tourism
5. Public Service Commission	12. Science and Innovation
6. Traditional Affairs	13. Trade, Industry and Competition
7. Communications and Digital Technologies	

The departments listed in table 3 above paid all legitimate invoices received within the prescribed period and had no outstanding invoices as at the end of the first quarter of 2020/2021 financial year.

Table 4 below indicates national departments that reported the highest number of unpaid invoices at the end of the first quarter of 2020/2021 financial year:

Table 4: National departments with the highest outstanding invoices as at the end of June 2020		
Department	Number of invoices older than 30 days not paid	Rand Value of invoices older than 30 days not paid
1. Statistics SA	93	R3,4 million
2. Water Trading Account	665	R1,0 million
3. Public Works and Infrastructure (Including PMTE)	1 646	R65,0 million

Table 4 above shows that the departments of Public Works and Infrastructure (including PMTE) and Water and Sanitation Trading Account are the main contributors towards the number invoices older than 30 days and not paid as at the end of the first quarter of 2020/2021 financial year. The department of Public Works and Infrastructure reported the highest in both the number of invoices as well as Rand Value in this regard. These departments represent 2 404 (99%) invoices of the total unpaid invoices at the end of the first quarter.

Section C

Provincial Departments

6. Analysis of exceptions reports from Provincial Treasuries

In the first quarter of 2020/201, an average of 89% of provincial treasuries submitted the consolidated exceptions reports to National Treasury as required by Instruction Note No. 34. It is important to note that some submissions by provincial treasuries did not reflect information for all provincial departments. Some provincial departments failed to submit reports due to interruptions caused by the national lockdown as a result of COVID-19 pandemic.

The average rate for the timeous submission of exception reports is 38%. The drastic decline in average timeous submission rate was due to the interruption caused by the national lockdown. Most provincial departments failed to submit exceptions reports to the relevant provincial treasuries due to the interruption caused by the national lockdown. This resulted in provincial treasuries delaying to submit the consolidated exception reports to the National Treasury.

Table 5 below reflects a list of provincial treasuries with outstanding information at the time of finalizing quarter 1 report:

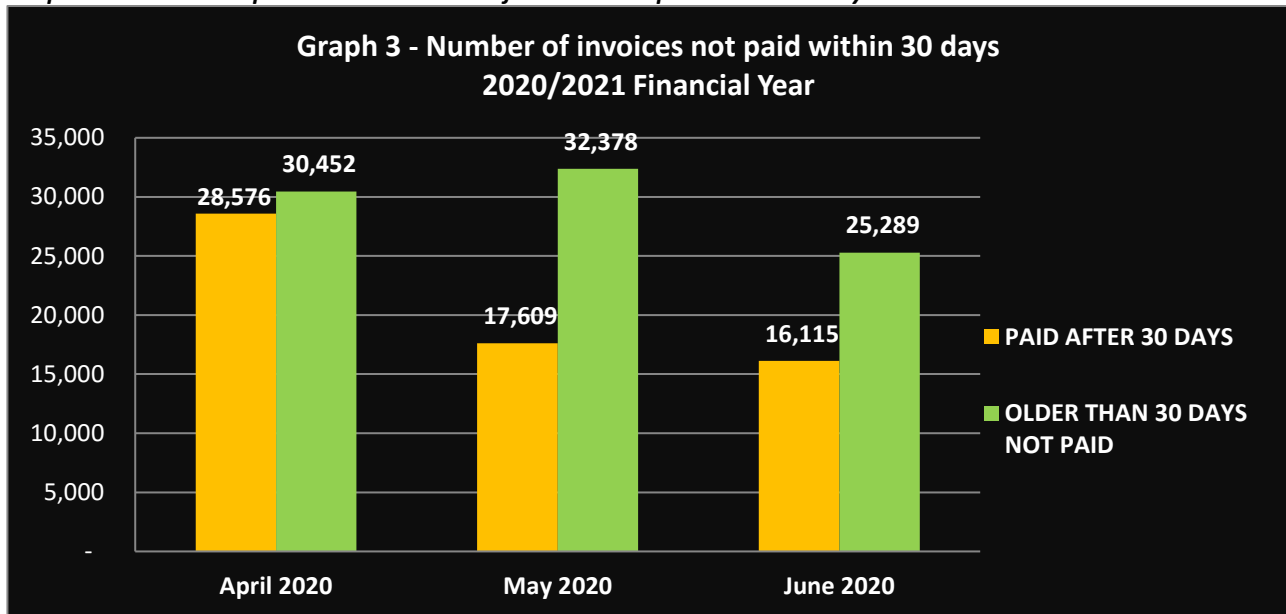
Table 5: Provincial treasuries with outstanding reports in the first quarter of the 2020/2021 financial year		
April 2020	May 2020	June 2020
Mpumalanga	Mpumalanga	Mpumalanga

It is anticipated that the timeous submission rate will improve in the second quarter as most provincial departments would have settled and came up with plans to respond to the interruptions caused by the national lockdown.

6.1 Invoices paid after 30 days

Graph 3 below shows the **number of invoices not paid within 30 days** from the date of receipt for the first quarter of the 2020/2021 financial year (April 2020 to June 2020).

Graph 3: Provincial Departments – Number of Invoices not paid within 30 Days

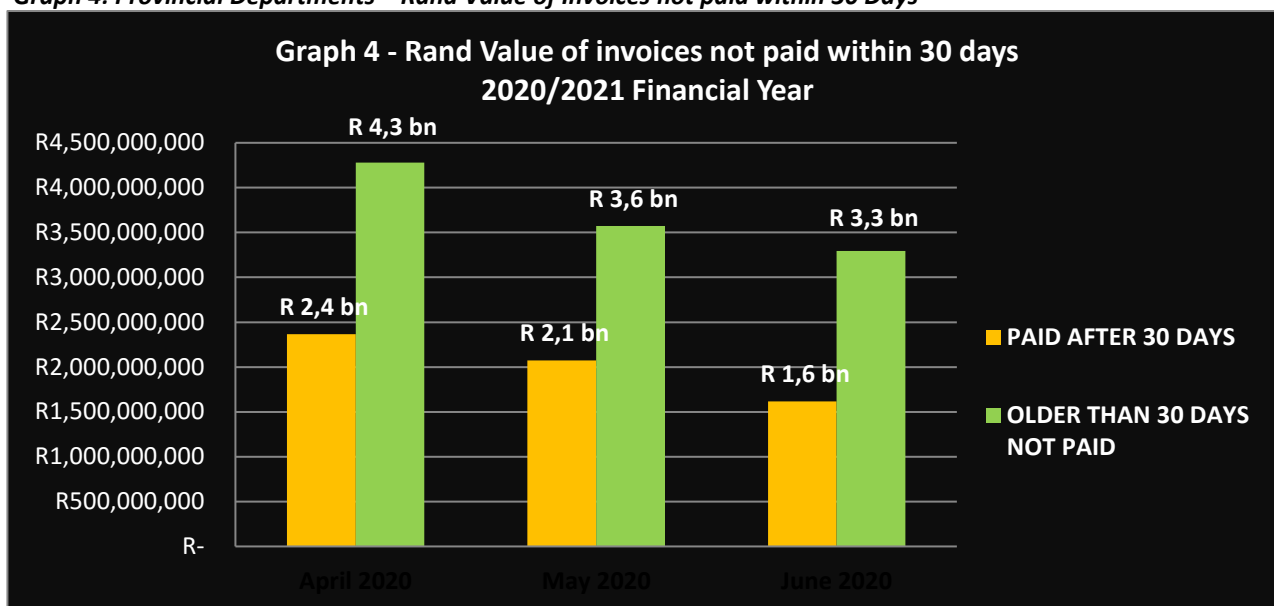


Graph 3 above provides a monthly comparison of the number of invoices not paid within 30 days in the first quarter of 2020/2021 financial year. The graph also shows a slide improvement in both the number of invoices paid after 30 days the number of invoices older than 30 days not paid in the first quarter of 2020/2021. There were 17 609 invoices that were paid after 30 days in May 2020 compared to 28 576 invoices that were paid after 30 days in April 2020. This shows a decrease in the number of invoices which represents an improvement of 10 967 (38%). As at the end of June 2020, the number of invoices paid after 30 days amounted to 16 115. This shows a slide decrease in the number of invoices which represents an improvement of 1 494 (8%) when comparing the number of invoices paid after 30 days in May 2020 which amounted to 17 609.

There were 32 378 invoices which were older than 30 days and not paid as at the end of May 2020 compared to 30 452 as at the end of April 2020. This shows a slight increase in invoices received and not paid which represents a slight regression of 1 926 (6%). The graph further shows an improvement of 7 089 (22%) in the number of invoices older than 30 days not paid when comparing outstanding invoices as at the end of May 2020 to that of end of June 2020.

Graph 4 below provides the **Rand values of invoices not paid within 30 days** from the date of receipt for the first quarter of the 2020/2021 financial year (April 2020 to June 2020).

Graph 4: Provincial Departments – Rand Value of Invoices not paid within 30 Days



Graph 4 above shows an improvement in both the Rand Value of invoices paid after 30 days and Rand Value of invoices older than 30 days not paid in the first quarter of 2020/2021. The Rand Value of invoices paid after 30 days amounted to R1,6 billion as at the end of June 2020 compared to R2,1 billion paid after 30 days as at the end of May 2020. This shows a decrease in the Rand Value which represents an improvement of R500 million (24%).

The Rand Value of invoices received and not paid amounted to R3,3 billion as at the end of June 2020 compared to R3,6 billion as at the end of May 2020. This shows a decrease which represents an improvement of R300 million (8%) in the Rand Value of outstanding invoices when comparing the month of May 2020 to that of June 2020.

Table 6 below indicates the number and Rand Value of invoices paid after 30 days per province for the first quarter of the 2020/2021 financial year:

Number and Rand Value of invoices paid after 30 days per province		
	Number of invoices	Rand Value of invoices
Mpumalanga	-	R -
Limpopo	683	R 49 394 519
Western Cape	1 041	R 141 012 567
Free State	2 227	R 467 681 522
Northern Cape	3 242	R 407 360 207
Kwazulu-Natal	3 313	R 1 138 091 944
North West	9 498	R 762 988 258
Gauteng	13 389	R 1 054 894 028
Eastern Cape	28 907	R 2 034 948 720
Total	62 300	R 6 056 371 765

Table 6 above shows the performance of provinces in terms of the number and Rand Value of invoices paid after 30 days for the first quarter of the 2020/2021 financial year. The table shows that the Eastern Cape

province recorded the highest number and rand value of invoices paid after 30 days in the first quarter. The Eastern Cape province is responsible for 46% of the number of invoices that were paid late and 34% of the rand value thereof.

Table 7 below indicates the number and Rand Value of invoices older than 30 days and not paid per province for the first quarter of the 2020/2021 financial year:

Number and Rand Value of invoices older than 30 days not paid per province		
	Number of invoices	Rand Value of invoices
Mpumalanga	-	R -
Western Cape	2	R 16 186
Northern Cape	19	R 7 852 739
Kwazulu-Natal	71	R 7 734 093
Limpopo	98	R 67 377 151
Free State	1 202	R 168 450 029
Gauteng	4 294	R 500 912 456
North West	5 725	R 462 385 871
Eastern Cape	13 878	R 2 080 982 196
Total	25 289	R 3 295 710 721

Table 7 above shows the performance of provinces on the number and Rand Value of invoices older than 30 days and not paid for the first quarter of the 2020/2021 financial year. The table shows that the Eastern Cape province recorded the highest number and rand value of invoices paid after 30 days in the first quarter. The Eastern Cape province is responsible for 55% of the number of invoices that were paid late and 63% of the rand value thereof.

The Eastern Cape is the major contributing province towards the late and/or non-payment of invoices. It should be noted that information from Mpumalanga province is outstanding.

Section D

7. Common reasons provided for the late or non-payment of invoices

The following reasons are the common reasons provided by national and provincial departments for late and/or non-payment of invoices in the first quarter of 2020/2021 financial year:

- 7.1 Interruption caused by the national lockdown;
- 7.2 Misfiled, misplaced or unrecorded invoices;
- 7.3 Inadequate budget;
- 7.4 Inadequate internal capacity;
- 7.5 Poor internal controls;
- 7.6 Late authorization of invoices; and

Section E

8. Conclusion

Analysis for the first quarter information reveals that provincial departments are responsible for the majority of invoices that are paid after 30 days and invoices older than 30 days and not paid. The main contributing departments towards the late and/or non-payment of invoices at national level are the departments of Defence, Police, Correctional Services, Public Works and Infrastructure (including the Property Management Trading Entity (PMTE)) and Cooperative Government.

Information further shows that the Eastern Cape province reported the highest number and Rand Value of invoices which are not paid within 30 days at a provincial level. The Health sector is the main contributor at the provincial level.

As at the end of the first quarter of 2020/2021 financial year, 27 716 invoices amounting to R4,0 billion were outstanding. The disruption caused by the national lockdown as a result of COVID-19 pandemic is the main reason for the late and non-submission of exceptions reports by national and provincial departments.

It is recommended that FOSAD **NOTE** the following analysis:

- the provinces are responsible for the majority of invoices that are paid late;
- the Health sector is the main contributor towards the late and/or non-payment of invoices;
- late and/or non-payment of invoices within 30 days continues to severely impact the sustainability of the SMMEs ;
- budget constrain and disruption caused by national lockdown is reported to be the top reason for late and/or non-payment of invoices in this current reporting period; and
- most reasons provided for late and/or non-payment of invoices relate to internal control deficiency in departments which appear to be recurring without being addressed.

Compiled by

Ditebogo Magoai

Deputy Director: PFMA Compliance

Office of the Accountant-General

National Treasury

Phone: 012 315 5494

Email: ditebogo.magoai@treasury.gov.za

Reviewed by

Moipone Ramoipone

Acting Chief Director: Governance Monitoring and Compliance

Office of the Accountant-General

National Treasury

Phone: 012 315 5284

Email: moipone.ramoipone@treasury.gov.za