



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

NON-COMPLIANCE WITH PAYMENTS OF SUPPLIERS WITHIN 30 DAYS

SECOND QUARTER REPORT (JULY 2020 – SEPTEMBER 2020)

Second Quarter

2020/2021 | NATIONAL TREASURY

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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 during the second 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 supplier's 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 The average submission rate by national departments during the second quarter of the 2020/2021 financial year is 90% with average timeous submission rate of these report at 81%.
- 4.2 All provincial treasuries submitted their exceptions reports to the National Treasury during the second quarter of 2020/2021 with the average timeous submission rate at 78%.
- 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 that were not paid within 30 days during the second quarter of the 2020/2021 financial year by national and provincial departments:

Table 1: Summary – National and Provincial Departments				
Number and Rand value of invoices not paid within 30 days by 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 September 2020)	Rand Value of invoices (as at September 2020)
National Departments	27 221	R 767 million	277	R 551 million
Provincial Departments	58 653	R7.4 billion	21 659	R3.3 billion
Total	85 874	R8.1 billion	21 936	R3.8 billion

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- 4.5 Table 1 above indicates that the number of invoices paid after 30 days by national and provincial departments during the second quarter of 2020/21 financial year amounts to 85 874 invoices to the Rand value of R 8.1 billion.
- 4.6 Table 1 further indicates that the number of invoices older than 30 days and not paid by national and provincial department at end of September 2020 of the 2020/21 financial year amounts to 21 936 to the Rand value of R 3.8 billion.
- 4.7 Furthermore, the table indicate that the number of invoices paid after 30 days by national departments during the second quarter of 2020/21 financial year amounts 58 653 invoices to the Rand value of R 767 million, and the number of invoices older than 30 days and not paid by national departments at the end of September 2020 amounts to 277 invoices to the Rand Value of R 551 million.
- 4.8 The table further indicates that the number of invoices paid after 30 days by provincial departments during the second quarter of 2020/21 financial year amounts 27 221 invoices to the Rand value of R 7.4 billion, and the number of invoices older than 30 days and not paid by provincial departments at the end of September 2020 amounts to 21 659 invoices to the Rand Value of R 3.3 billion.
- 4.9 The main contributing departments towards the late and/or non-payment of invoices at national level are the departments of Defence, Police, Public Works and Infrastructure (including the Property Management Trading Entity (PMTE)), Water and Sanitation (including Trading Account) and Cooperative Government.
- 4.10 The Eastern Cape, Gauteng and North West provinces contributed the highest towards the late and/or non-payment of invoices during the second quarter of 2020/21 financial year and the health sector continues to be the main contributor at the provincial level.
- 4.11 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

National departments achieved an average of 90% submission rate of exceptions reports to National Treasury as required by Instruction Note No. 34 during the second quarter of 2020/201 financial year with an average timeous submission rate of exception reports 81%.

The above indicates an improvement from the first quarter of 2020/21 in both the average submission rate and average timeous submission rate as the government operation gets to its normality during COVID-19 pandemic.

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

Table 2: National Departments		
Outstanding reports in the second quarter of the 2020/2021 financial year		
July 2020	August 2020	September 2020
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

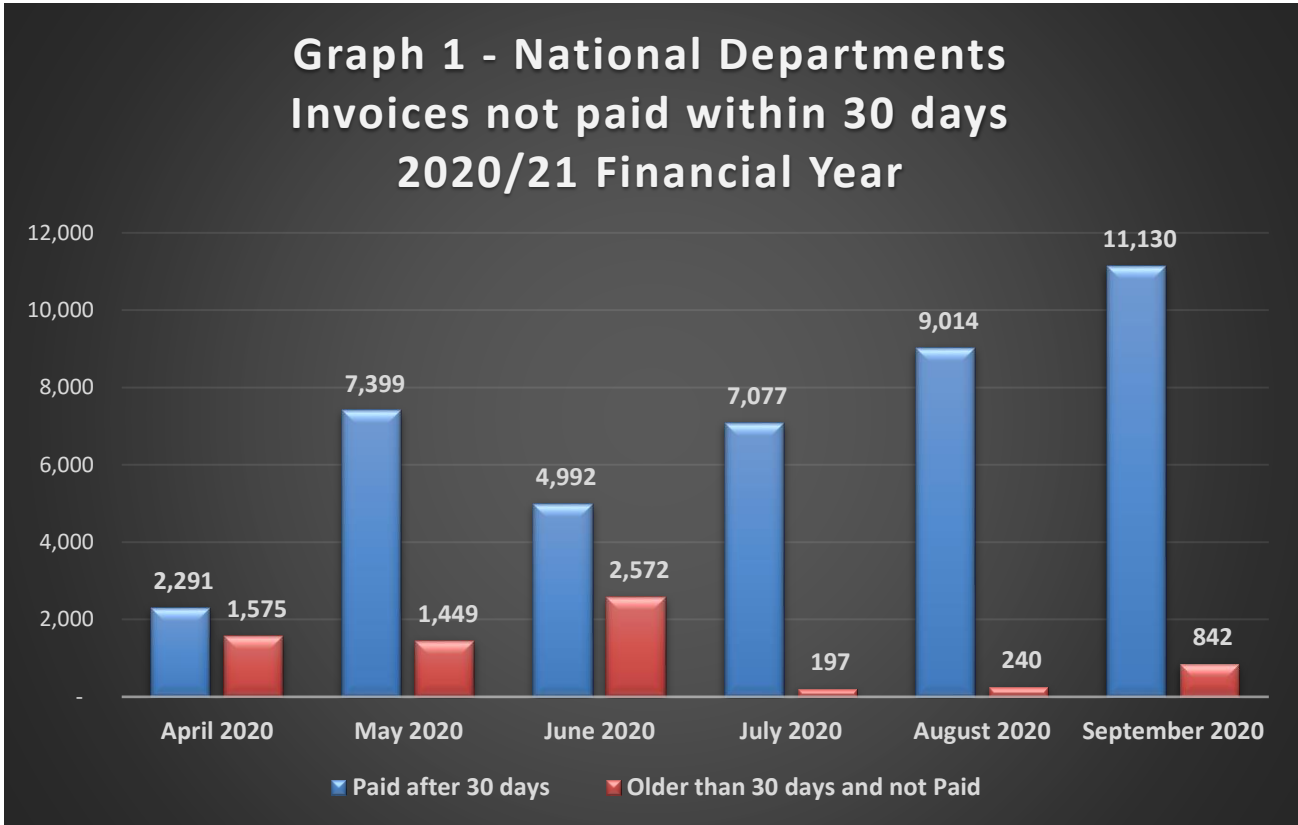
Table 2 above indicates a list of national departments that failed to submit their 30 days exception reports to the National Treasury during the second quarter of 2020/21 financial year as required by Treasury Instruction note No. 34 of 2011.

It is worthy to mention that non-submission of 30 days exception reports by these 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 by national departments during the second quarter of 2020/2021 financial year.

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



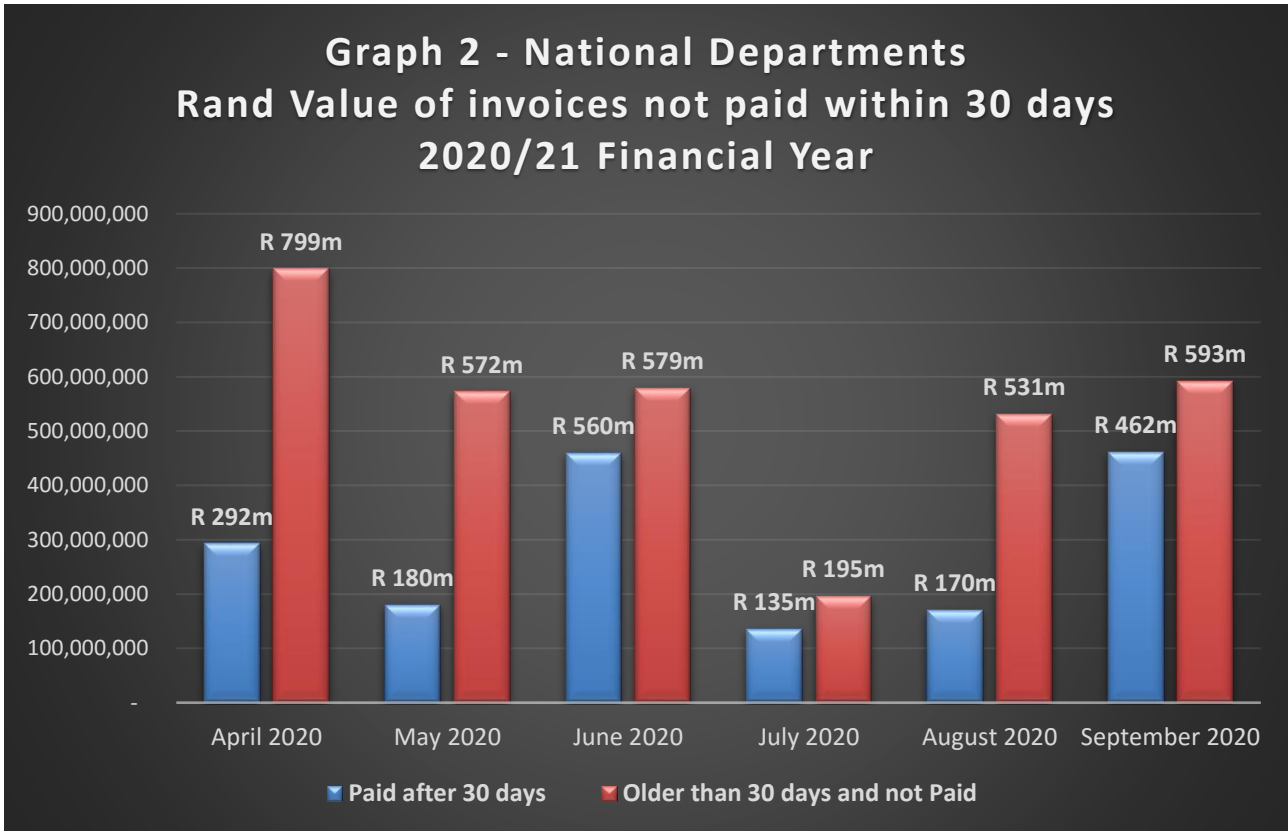
Graph 1 above provides a monthly comparison of the number of invoices not paid within 30 days by national departments during the 2020/2021 financial year. The number of invoices paid after 30 days during the second quarter of 2020/21 financial year which amounted to 27 221 invoices, and this indicates a regression of 85% or 12 539 invoices in when compared to the number of invoices paid after 30 days during the first quarter which amounted to 14 682 invoices.

The graph also indicate that the number of invoices paid after 30 days during the month of July 2020 amounts to 7 077 invoices and this indicates a regression of 27% or 1 937 invoices when compared to the number of invoices paid after 30 days during the month of August 2020 which amounted to 9 014 invoices. The number of invoices paid after 30 days during the month of September 2020 amounted to 11 130 invoices and this indicates a regression of 23% or 2 116 invoices when compared to the number of invoices paid after 30 days during the month of August 2020 which amounted to 9 014 invoices.

The graph further indicates that the number of invoices older than 30 days and not paid by national departments at the end of September 2020 amounted to 842 invoices and this indicates an improvement of 67% or 1 730 invoices when compared to the number of invoices older than 30 days and not paid at the end of June 2020 which amounted to 2 572 invoices.

Graph 2 below provides the **Rand Value of invoices not paid within 30 days** by national departments during the second quarter of the 2020/21 financial year.

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



Graph 2 above provides a monthly comparison of the Rand value of invoices not paid within 30 days by national departments during the second quarter of 2020/2021 financial year. The Rand value of invoices paid after 30 days in the second quarter amounted to R 767 million and this indicates an improvement of 18% when compared to the Rand value of invoices paid after 30 days in the first quarter which amounted to R 933 million.

The graph also indicate that the Rand value of invoices paid after 30 days during the month of July 2020 amounts to R 135 million and this indicates a regression of 27% when compared to the Rand value of invoices paid after 30 days during the month of August 2020 which amounted to R 170 million. The Rand value of invoices paid after 30 days during the month of September 2020 amounted to R 462 million and this indicates a regression of 172% when compared to the Rand value of invoices paid after 30 days during the month of August 2020 which amounted to R 170 million.

The graph further indicates that the Rand value of invoices older than 30 days and not paid by national departments at the end of September 2020 amounted to R 593 million and this indicates a regression of 2% when compared to the Rand value of invoices older than 30 days and not paid at the end of June 2020 which amounted to R 579 million.

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

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

Table 3 above indicates national departments that paid all legitimate invoices within the prescribed period and had no outstanding invoices as at the end of the second 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 second quarter of 2020/2021 financial year:

Table 4: National departments		
Departments with the most invoices older than 30 days and not paid at the end of September 2020		
Department	Number of invoices older than 30 days not paid	Rand Value of invoices older than 30 days not paid
1. Water and Sanitation (Including Trading Account)	641	R 545 million
2. Public Works and Infrastructure (Including PMTE)	128	R 40 million
3. Cooperative Governance	44	R 190k
4. Human Settlements	10	R 541k
5. Home Affairs	8	R 91k
6. Social Development	8	R 2 million

Table 4 above indicates national departments that are the main contributors towards the number invoices older than 30 days and not paid at the end of the second quarter of 2020/2021 financial year. The department of Water and Sanitation (including Trading account) reported the highest number and Rand value of invoices older than 30 days and not paid at the end of September 2020, and this represent 76% of the total invoices older than 30 days and not paid by national departments at the end of September 2020.

Section C

Provincial Departments

6. Analysis of exceptions reports from Provincial Treasuries

All provincial treasuries submitted their exceptions reports to the National Treasury during the second quarter of 2020/2021, achieving 100% submission rate of exceptions reports to National Treasury as required by Instruction Note No. 34 during the second quarter of 2020/201 financial year.

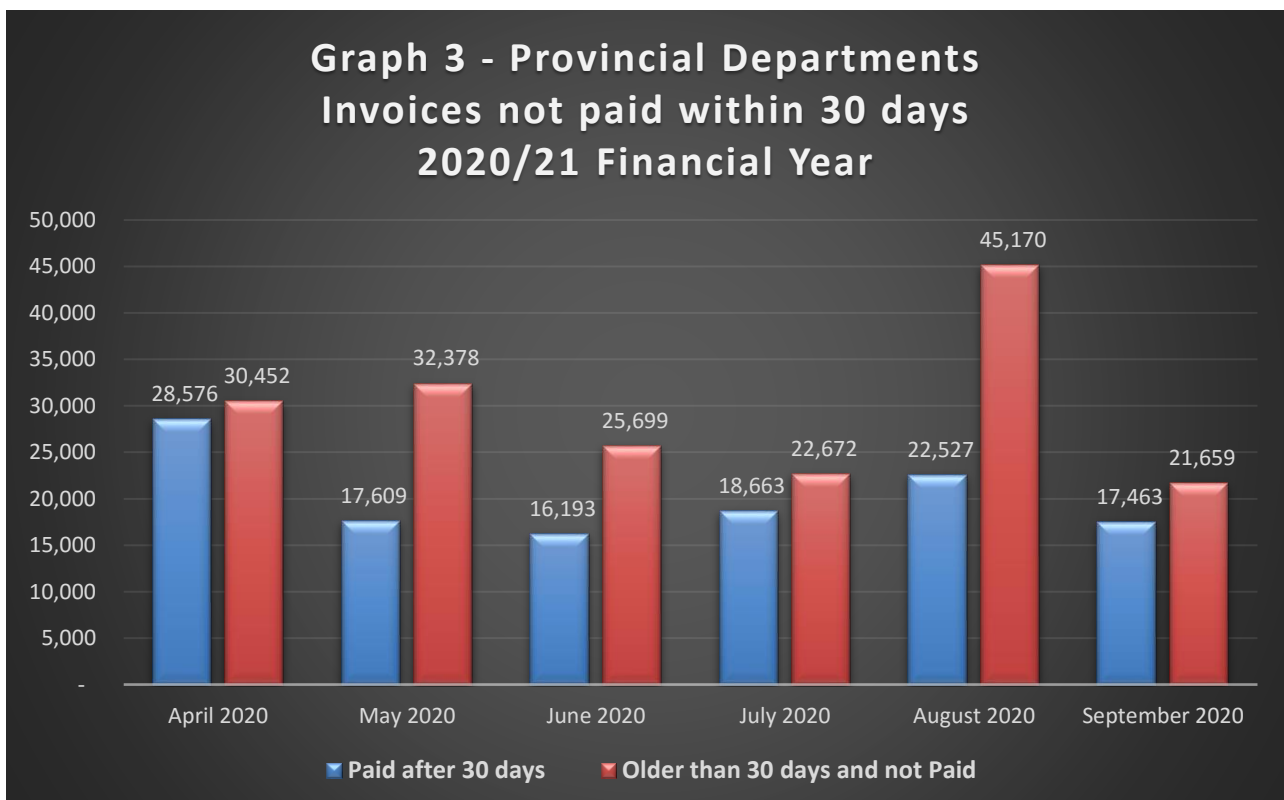
It is important to note that some submissions by provincial treasuries did not reflect information for all provincial departments as some provincial departments are still struggling to submit reports due to interruptions caused by the national lockdown as a result of COVID-19 pandemic.

Provincial Treasuries achieved an average timeous submission rate of exception reports of 78% during the second quarter of 2020/21 financial year. Most provincial departments are still struggling to submit exceptions reports to the relevant provincial treasuries timeously due to the interruption 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** by provincial departments during the second quarter of the 2020/2021 financial year.

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



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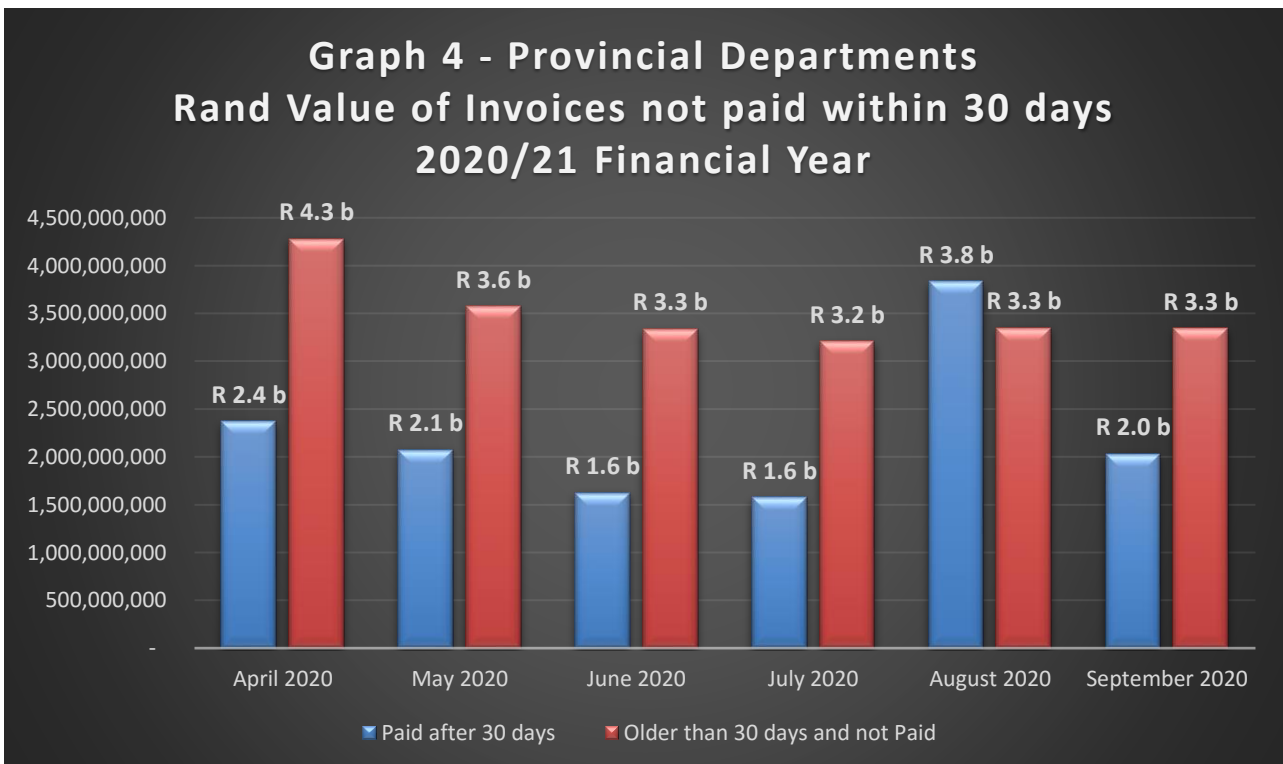
Graph 3 above provides a monthly comparison of the number of invoices not paid within 30 days during the second quarter of 2020/2021 financial year. The graph also indicates an improvement of 6% or 3 725 invoices in the number of invoices paid after 30 days in the second quarter of 2020/21 financial year which amounted to 58 653 invoices when compared to the number of invoices paid after 30 days in the first quarter which amounted to 62 378 invoices.

The graph also indicate that the number of invoices paid after 30 days during the month of July 2020 amounts to 18 663 invoices and this indicates a regression of 21% or 3 864 invoices when compared to the number of invoices paid after 30 days during the month of August 2020 which amounted to 22 527 invoices. The number of invoices paid after 30 days during the month of September 2020 amounted to 17 463 invoices and this indicates an improvement of 22% or 5 064 invoices when compared to the number of invoices paid after 30 days during the month of August 2020 which amounted to 17 463 invoices.

The graph further indicates that the number of invoices older than 30 days and not paid by provincial departments at the end of September 2020 amounted to 21 659 invoices and this indicates an improvement of 16% or 4 010 invoices when compared to the number of invoices older than 30 days and not paid at the end of June 2020 which amounted to 25 669 invoices.

Graph 4 below provides the **Rand values of invoices not paid within 30 days** by provincial departments during the quarter of the 2020/2021 financial year.

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



Non-compliance with payments of suppliers within 30 Days – Second Quarter Report (July 2020 to September 2020)

Graph 4 above provides a monthly comparison of the Rand value of invoices not paid within 30 days during the second quarter of 2020/2021 financial year. The Rand value of invoices paid after 30 days in the second quarter amounted to R 7.4 billion and this indicates a regression of 21% when compared to the Rand value of invoices paid after 30 days in the first quarter which amounted to R 6.1 billion.

The graph also indicate that the Rand value of invoices paid after 30 days during the month of July 2020 amounts to R 1.6 billion and this indicates a regression of R 2.2 billion when compared to the Rand value of invoices paid after 30 days during the month of August 2020 which amounted to R 3.8 billion. The Rand value of invoices paid after 30 days during the month of September 2020 amounted to R 2.0 billion and this indicates an improvement of 47% when compared to the Rand value of invoices paid after 30 days during the month of August 2020 which amounted to R 3.8 billion.

The graph further indicates that the Rand value of invoices older than 30 days and not paid by provincial departments at the end of September 2020 amounted to R 3.3 billion and this indicates stagnate when compared to the Rand value of invoices older than 30 days and not paid at the end of June 2020 which amounted to R 3.3 billion.

Table 5 below indicates the number and Rand Value of **invoices paid after 30 days** per province for the second quarter of the 2020/2021 financial year:

Table 5 – Provincial Departments		
Number and Rand Value of invoices paid after 30 days per province		
	Number of invoices	Rand Value of invoices
Mpumalanga	124	R 4,548,662
Western Cape	578	R 118,495,433
Free State	1,066	R 237,380,125
Limpopo	1,189	R 222,683,504
Northern Cape	1,546	R 194,390,699
Kwa-Zulu Natal	4,888	R 947,155,438
North West	13,277	R 738,175,250
Eastern Cape	16,545	R 1,168,085,297
Gauteng	19,440	R 3,804,441,186
Total	58,653	R 7,435,355,595

Table 5 above shows the performance of provinces in terms of the number and Rand Value of invoices paid after 30 days during the second quarter of the 2020/2021 financial year. The table shows that the Gauteng province recorded the highest number and rand value of invoices paid after 30 days in the second quarter of 2020/21 financial year. Mpumalanga recorded the least number and Rand value of invoices older than 30 days and not paid during the same period.

Table 6 below indicates the number and Rand Value of invoices older than 30 days and not paid per province at the end of the second quarter of the 2020/2021 financial year:

Table 6 – Provincial Departments		
Number and Rand Value of invoices older than 30 days not paid per province		
	Number of invoices	Rand Value of invoices
Western Cape	1	R 5,865
Limpopo	157	R 22,509,961
Mpumalanga	384	R 43,955,653
Gauteng	518	R 516,788,117
Kwa-Zulu Natal	968	R 60,300,840
Free State	1,142	R 98,651,875
North West	2,283	R 254,228,609
Northern Cape	5,022	R 271,893,304
Eastern Cape	11,184	R 2,072,962,044
Total	21,659	R 3,341,296,269

Table 6 above indicates the performance of provinces with regards to the number and Rand Value of invoices older than 30 days and not paid by provincial departments at the end of the second quarter of the 2020/2021 financial year.

The table further indicates that the Eastern Cape province recorded the highest number and rand value of invoices older than 30 days and not paid at the end of the second quarter, and the Eastern Cape province is therefore responsible for 52% of the number of older than 30 days and not paid by provincial departments at the end of the second quarter of 2020/21 financial year.

The Western Cape province reported the least number and Rand value of invoices older than 30 days and not paid at the end of the second quarter of 2020/21 financial year.

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 during the second 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

Based on the analysis of the information received during the second quarter from national and provincial departments 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)), Water and Sanitation and Cooperative Government.

Information further indicated 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 during the second quarter, and the Health sector is still the main contributor at the provincial level.

Invoices older than 30 days and not paid the end of the second quarter of 2020/2021 financial year by national and provincial departments amounted to 21 936 invoices to the Rand value R 3.8 billion, and 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.