



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

NON-COMPLIANCE WITH PAYMENTS OF SUPPLIERS WITHIN 30 DAYS

THIRD QUARTER REPORT (OCTOBER 2020 – DECEMBER 2020)

Third 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 third 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 third quarter of the 2020/2021 financial year is 92% with average timeous submission rate of these report at 84%.
- 4.2 The average submission rate by provincial treasuries during the third quarter of the 2020/2021 financial year is 93% with the timeous submission rate of 78%. The Mpumalanga province is the only province that did not submit the information for the months of November 2020 and December 2020.
- 4.3 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 third 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 3 2020/21	PAID AFTER 30 DAYS		OLDER THAN 30 DAYS NOT PAID	
	Number of invoices	Rand value of invoices	Number of invoices (as at December 2020)	Rand Value of invoices (as at December 2020)
National Departments	13 699	R918 million	678	R417 million
Provincial Departments	57 006	R7,8 billion	17 375	R3,1 billion
Total	70 705	R8,7 billion	18 053	R3,5 billion

- 4.5 Table 1 above indicates that the number of invoices paid after 30 days by national and provincial departments during the third quarter of 2020/21 financial year amounts to 70 705 invoices to the Rand value of R 8.7 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 December 2020 of the 2020/21 financial year amounts to 18 053 to the Rand value of R 3.5 billion.
- 4.7 Furthermore, the table indicate that the number of invoices paid after 30 days by national departments during the third quarter of 2020/21 financial year amounts 13 699 invoices to the Rand value of R 918 million, and the number of invoices older than 30 days and not paid by national departments at the end of December 2020 amounts to 678 invoices to the Rand Value of R 417 million.
- 4.8 The table further indicates that the number of invoices paid after 30 days by provincial departments during the third quarter of 2020/21 financial year amounts 57 006 invoices to the Rand value of R 7.8 billion, and the number of invoices older than 30 days and not paid by provincial departments at the end of December 2020 amounts to 17 375 invoices to the Rand Value of R 3.1 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)) and Water and Sanitation (including Trading Account).
- 4.10 The Eastern Cape, Gauteng and North West and Kwazulu-Natal provinces contributed the highest towards the late and/or non-payment of invoices during the third 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 92% submission rate of exceptions reports to National Treasury as required by Instruction Note No. 34 during the third quarter of 2020/201 financial year with an average timeous submission rate of exception reports 84%.

The above indicates an improvement from the second 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 3 report:

Table 2: National Departments		
Outstanding reports in the third quarter of the 2020/2021 financial year		
October 2020	November 2020	December 2020
Environment, Forestry and Fisheries	Environment, Forestry and Fisheries	Environment, Forestry and Fisheries
	Agriculture, Land Reform and Rural Development	Agriculture, Land Reform and Rural Development
	Environment, Forestry and Fisheries	Environment, Forestry and Fisheries
	Military Veterans	Civilian Secretariat for the Police Service
		Defence

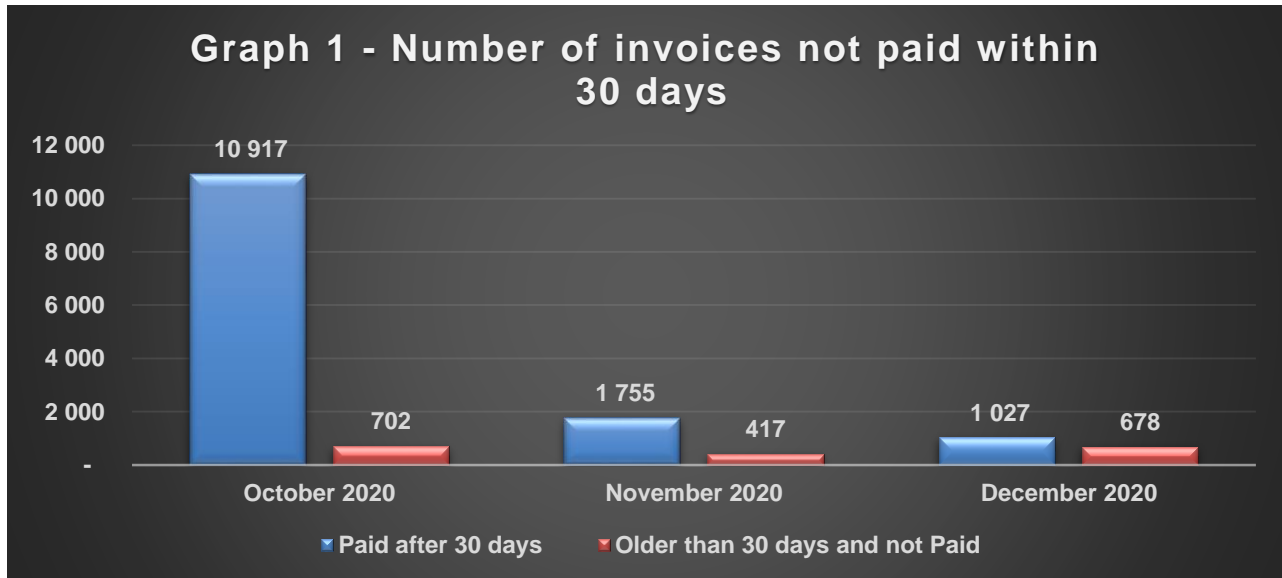
Table 2 above indicates a list of national departments that failed to submit their 30 days exception reports to the National Treasury during the third quarter of 2020/21 financial year as required by Treasury Instruction note No. 34 of 2011.

It is worthy to mention that non-submission of 30 days exception reports by some of 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 third quarter of 2020/2021 financial year.

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



Graph 1 above shows an improvement in the number of invoices paid after 30 days and a slight regression in the number of invoices older than 30 days and not paid in the third quarter of 2020/2021. There were 1 755 invoices that were paid after 30 days in November 2020 compared to 10 917 invoices that were paid after 30 days in October 2020. This shows a decrease in the number of invoices which represents a substantial improvement of 9 162 (84%).

As at the end of December 2020, the total number of invoices paid after 30 days amounted to 1 027. This shows a decrease in the number of invoices which represents an improvement of 728 (41%) when compared to the number of invoices paid after 30 days in November 2020 which amounted to 1 755. The spike in the number of invoices paid after 30 days in October 2020 may be attributed to the disruptions caused by the COVID-19 pandemic.

There were 417 invoices which were older than 30 days and not paid as at the end of November 2020 compared to 702 invoices as at the end of October 2020. This shows a decrease in invoices received and not paid which represents a slight regression of 285 (41%). The graph further shows a regression of 261 (63%) in the number of invoices older than 30 days not paid when comparing outstanding invoices as at the end of November 2020 and the end of December 2020.

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

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



Graph 2 above shows an improvement in the Rand Value of invoices paid after 30 days in the third quarter of 2020/2021. The Rand Value of invoices paid after 30 days amounted to R215 million as at the end of December 2020 compared to R144 million paid after 30 days as at the end of November 2020. This shows a decrease in the Rand Value which represents an improvement of R71 million (49%).

The graph further shows a slight improvement in the Rand Value of invoices older than 30 days not paid as at the end of the third quarter of 2020/2021 financial year. As at the end of December 2020, the Rand Value of invoices received and not paid amounted to R417 million. This shows a decrease which represents an improvement of R154 million (27%) in the Rand Value of outstanding invoices when comparing the month of November 2020 to that of December 2020.

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

Table 3: National Departments	
Departments that paid all their invoices within 30 days in the third quarter of the 2020/2021 financial year	
1. National School of Government	6. Public Service Commission
2. Planning, Monitoring and Evaluation	7. Sports, Arts and Culture
3. National Treasury	8. Science and Innovation
4. Public Service and Administration	9. Trade, Industry and Competition
5. Communications Digital and 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 third 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 third 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 December 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)	480	R 358 million
2. Public Works and Infrastructure (Including PMTE)	116	R 52 million
3. Statistics South Africa	39	R 832k
4. Police	17	R 72k
5. Mineral Resources and Energy	15	R 4 million
6. Home Affairs	8	R 637k

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 third 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 December 2020. This represent 71% of the total invoices older than 30 days and not paid by national departments at the end of December 2020.

Section C

Provincial Departments

6. Analysis of exceptions reports from Provincial Treasuries

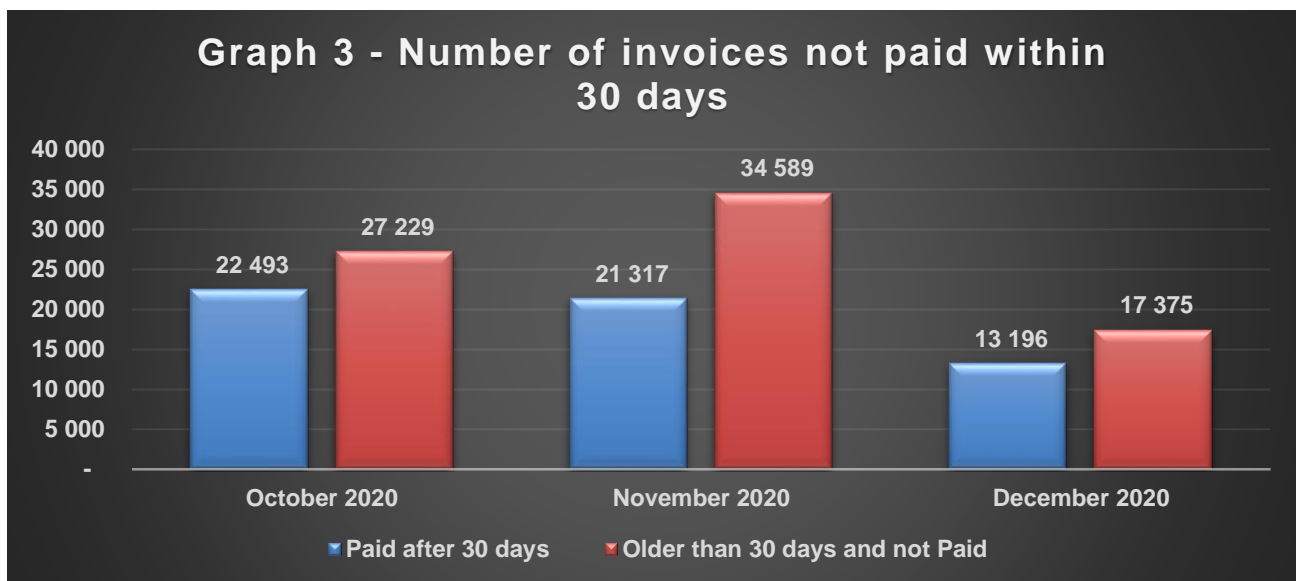
Provincial Treasuries achieved a 93% submission rate and 80% average submission rate of exceptions reports to National Treasury as required by Instruction Note No. 34 during the third quarter of 2020/201 financial year.

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

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 third quarter of the 2020/2021 financial year.

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



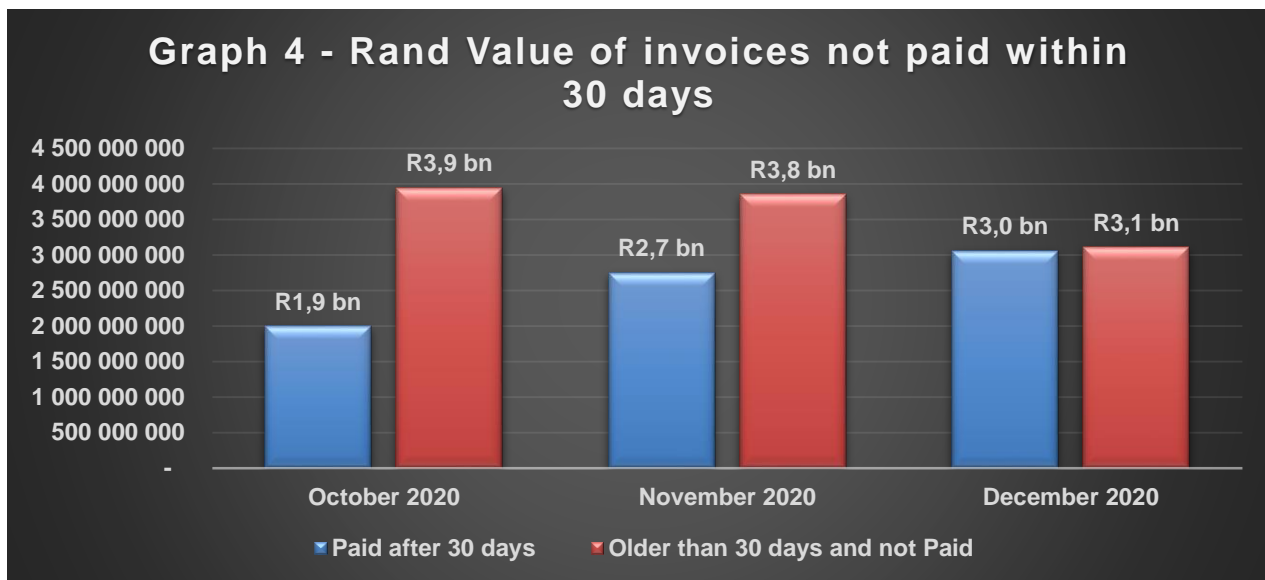
Graph 3 above shows an improvement in both the number of invoices paid after 30 days and the number of invoices older than 30 days and not paid in the third quarter of 2020/2021. There were 21 317 invoices that were paid after 30 days in November 2020 compared to 22 493 invoices that were paid after 30 days in October 2020. This shows a decrease in the number of invoices which represents a slight improvement of 1 176 (5%).

As at the end of December 2020, the total number of invoices paid after 30 days amounted to 13 196. This shows a decrease in the number of invoices which represents an improvement of 8 121 (38%) when compared to the number of invoices paid after 30 days in November 2020 which amounted to 21 317. The spike in the number of invoices paid after 30 days in October 2020 may be attributed to the disruptions caused by the COVID-19 pandemic.

There were 34 589 invoices which were older than 30 days and not paid as at the end of November 2020 compared to 27 229 invoices as at the end of October 2020. This shows an increase in invoices received and not paid which represents a regression of 7 360 (27%). The graph further shows a substantial improvement of 17 214 (50%) in the number of invoices older than 30 days not paid when comparing outstanding invoices as at the end of November 2020 and the end of December 2020.

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

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



Graph 4 above shows a regression in the Rand Value of invoices paid after 30 days in the third quarter of 2020/2021. The Rand Value of invoices paid after 30 days amounted to R3,0 billion as at the end of December 2020 compared to R2,7 billion paid after 30 days as at the end of November 2020. This shows an increase in the Rand Value which represents a regression of R 300 million.

The graph further shows a slight improvement in the Rand Value of invoices older than 30 days not paid as at the end of the third quarter of 2020/2021 financial year. As at the end of December 2020, the Rand Value of invoices received and not paid amounted to R3,1 billion. This shows an increase which represents a regression of R400 million (15%) in the Rand Value of outstanding invoices when comparing the month of November 2020 to that of December 2020.

Table 5 below indicates the number and Rand Value of **invoices paid after 30 days** per province for the third 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	14	R 1 057 988
Western Cape	475	R 75 475 066
Northern Cape	1 127	R 135 694 408
Limpopo	1 375	R 98 708 122
Free State	3 751	R 352 802 760
KwaZulu-Natal	5 483	R 1 310 556 748
Eastern Cape	11 879	R 1 792 088 293
North West	12 606	R 1 219 907 886
Gauteng	20 296	R2 798 893 990
TOTAL	57 006	R7 785 185 261

Table 5 above shows the performance of provinces in terms of the number and Rand Value of invoices paid after 30 days during the third 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 third 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. It is important to note that at the time of finalising this report, information for Mpumalanga province for the months of November 2020 and December 2020 was outstanding.

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 third 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
Mpumalanga	-	R -
Western Cape	4	R 600 546
Northern Cape	7	R 517 636
Limpopo	213	R 28 471 372
Gauteng	1 072	R 389 973 533
KwaZulu-Natal	1 149	R 104 363 510
Free State	1 205	R 112 778 551
North West	3 223	R 351 858 302
Eastern Cape	10 502	R 2 114 327 450
Total	17 375	R3 102 890 901

Non-compliance with payments of suppliers within 30 Days – 3rd Quarter Report (October 2020 to December 2020)

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 third 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 third quarter, and the Eastern Cape province is therefore responsible for 60% of the number of older than 30 days and not paid by provincial departments at the end of the third 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 third quarter of 2020/21 financial year. It is important to note that at the time of finalising this report, information for Mpumalanga province for the months of November 2020 and December 2020 was 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 during the third 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 from national and provincial departments during the third quarter of the 2020/2021 financial year 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 total number of invoices not paid within 30 days by both the national and provincial departments in the third quarter of 2020/2021 amounted to 88 758 invoices to the Rand value R12.2 billion. 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.

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)) and Water and Sanitation.

At a provincial level, the Gauteng province reported the highest number and Rand Value of invoices paid after 30 days in the third quarter of the 2020/2021 financial year. The Eastern Cape province reported the highest number and Rand Value of invoices which are not paid within 30 days. The Health sector still remains the main contributor at the provincial level.

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.