



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

NON-COMPLIANCE WITH PAYMENTS OF SUPPLIERS WITHIN 30 DAYS

FIRST QUARTER REPORT (APRIL 2021 – JUNE 2021)

NATIONAL TREASURY
FIRST QUARTER | 2021/2022

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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 requirements to pay supplier's invoices within 30 days during the first quarter of the 2021/2022 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 have a serious adverse impact on the financial health of suppliers who are often forced to borrow money 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 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 the 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, and 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 All national departments submitted their 30 days exception reports to the National Treasury as required by Instruction Note No. 34 during the first quarter of the 2021/2022 financial year with an average timeous submission rate of exception reports of 82%.
- 4.2 All provincial treasuries submitted their exceptions reports to the National Treasury during the first quarter of the 2021/2022 financial year and with an average timeous submission rate of 98% during the same period;
- 4.3 The low timeous submission rate achieved by both the national departments and provincial treasuries is due to the national lockdown and the global COVID-19 pandemic which is impacting the reporting requirements and the timeous submission of reports by the national and provincial departments to the relevant treasuries.
- 4.4 Table 1 below indicates the total number and rand value of legitimate invoices that were not paid within 30 days by national and provincial departments during the first quarter of the 2021/2022 financial year:

Table 1: Summary – National and Provincial Departments

National and Provincial Departments				
Number and Rand value of invoices not paid within 30 days				
Quarter 1 2021/22 Financial Year	PAID AFTER 30 DAYS		OLDER THAN 30 DAYS NOT PAID	
	Number of invoices	Rand value of invoices	Number of invoices (as at June 2021)	Rand Value of invoices (as at June 2021)
National Departments	23 062	R 934 million	513	R 510 million
Provincial Departments	84 019	R9.0 billion	19 769	R3.9 billion
Total	107 081	R 9.9 billion	20 292	R 4.4 billion

- 4.5 Table 1 above indicates that the number of invoices paid after 30 days by national and provincial departments during the first quarter of 2021/22 financial year amounts to 107 081 invoices to the Rand value of R 9.9 billion.
- 4.6 Table 1 further indicates that the number of invoices older than 30 days and not paid by the national and provincial department at end of June 2021 of the 2021/22 financial year amounts to 20 292 to the Rand value of R 4.4 billion.

- 4.7 Furthermore, the table indicates that the number of invoices paid after 30 days by national departments during the first quarter of 2021/22 financial year amounts 23 062 invoices to the Rand value of R 934 million, and the number of invoices older than 30 days and not paid by national departments at the end of June 2021 amounts to 513 invoices to the Rand Value of R 510 million.
- 4.8 The table further indicates that the number of invoices paid after 30 days by provincial departments during the first quarter of 2021/22 financial year amounts 84 019 invoices to the Rand value of R 9.0 billion, and the number of invoices older than 30 days and not paid by provincial departments at the end of June 2021 amounts to 19 769 invoices to the Rand value of R 3.9 billion.
- 4.9 The main contributing departments towards the late and/or non-payment of invoices at the national level are the departments of Defence, Public Works and Infrastructure (including the Property Management Trading Entity (PMTE)), Correctional Services, Police, Water and Sanitation (including Trading Account) International Relation and Cooperation, Health and Agriculture, Land Reform and Rural Development.
- 4.10 The main contributing departments towards the late and/or non-payment of invoices at the national level are the Eastern Cape provincial government, Gauteng provincial government, KwaZulu-Natal provincial government and the North West provincial government.
- 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 the COVID-19 pandemic, poor internal controls, internal capacity and budget constraints.

Section B

National Departments

5. Analysis of exceptions reports from National Departments

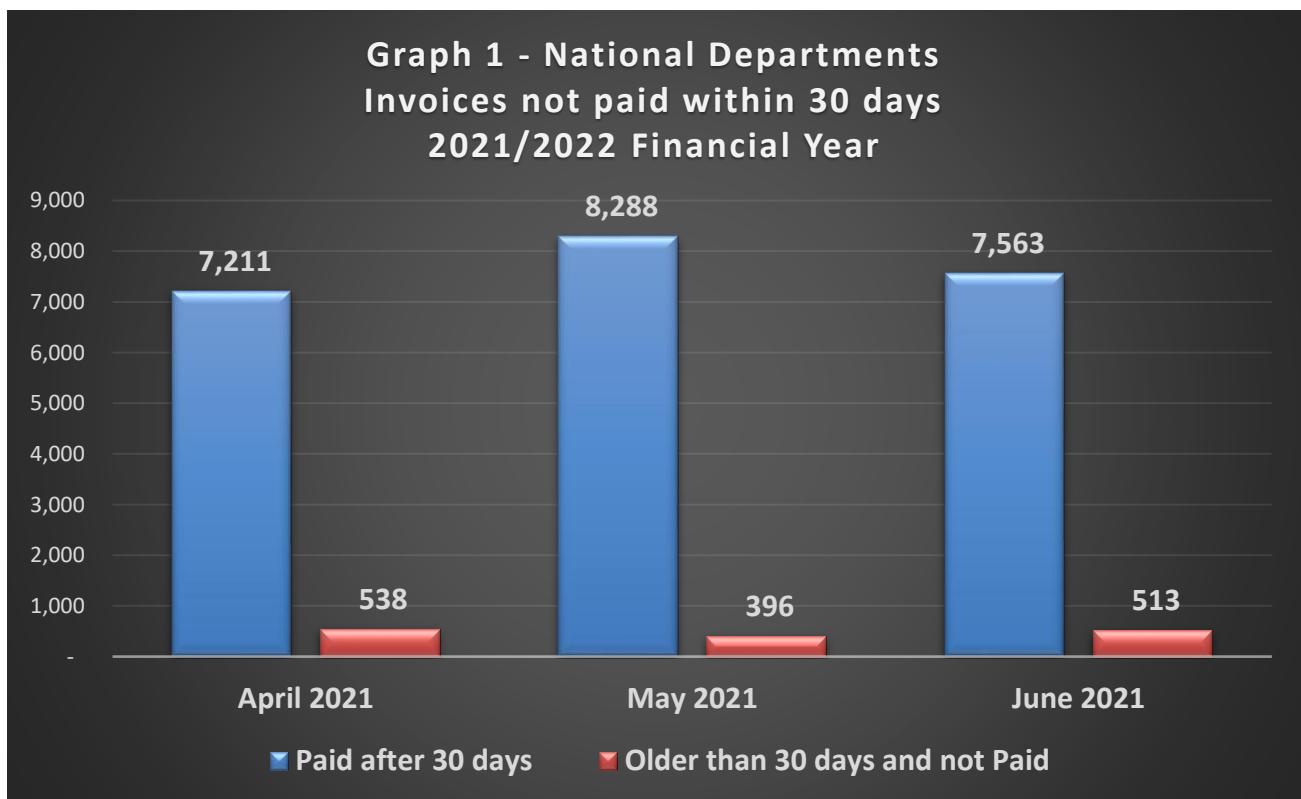
All national departments submitted their 30 days exception reports to the National Treasury as required by Instruction Note No. 34 during the first quarter of the 2021/2022 financial year with an average timeous submission rate of exception reports of 82%.

The above indicates an improvement when compared with the first quarter of the 2020/2021 financial year in both the average submission rate and average timeous submission rate as the government operations get to their normality during the COVID-19 pandemic.

5.1 Invoices not paid within 30 days

Graph 1 below illustrate the **number of invoices not paid within 30 days** by national departments during the first quarter of the 2021/2022 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 first quarter of the 2021/2022 financial year. The number of invoices paid after 30 days during the first quarter of 2021/2022 financial year amounted to 23 063 invoices, and this indicates a regression of 46% or 7 266 invoices when compared to the

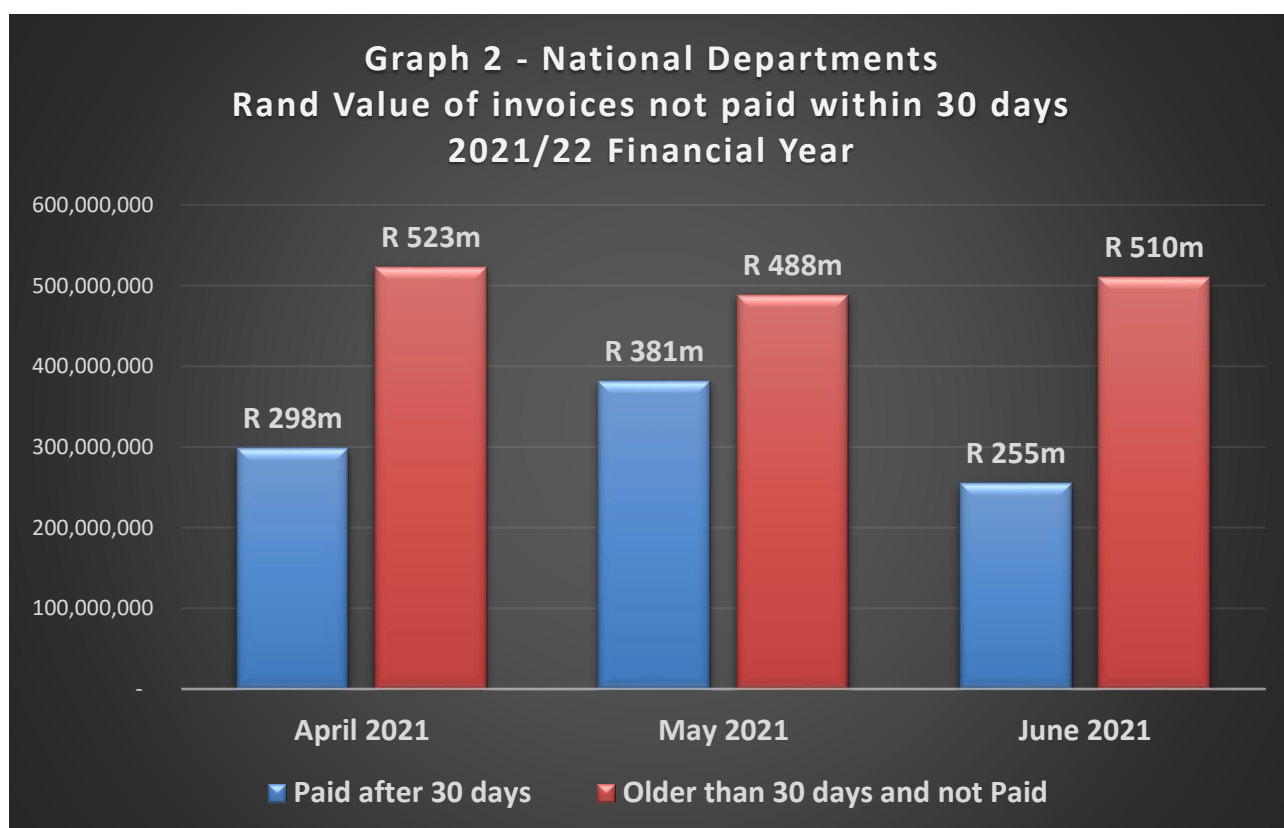
number of invoices paid after 30 days during the first quarter of 2020/2021 financial year which amounted to 15 796 invoices.

The graph further indicates that the number of invoices older than 30 days and not paid by national departments at the end of June 2021 amounted to 513 invoices and this indicates an improvement of 80% or 2 116 invoices when compared to the number of invoices older than 30 days and not paid at the end of June 2020 which amounted to 2 629 invoices.

The national departments that reported invoices older than 30 days and not paid at the end of June 2021 include Public Works and Infrastructure including PMTE, Water and Sanitation, Mineral resources and energy, Home Affairs and Statistics South Africa.

Graph 2 below illustrate the **Rand Value of invoices not paid within 30 days** by national departments during the first quarter of the 2021/2022 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 first quarter of the 2021/2022 financial year. The Rand value of invoices paid after 30 days in the first quarter of 2021/2022 financial year amounted to R 934 million and this indicates an improvement of 7% when compared to the Rand value of invoices paid after 30 days in the first quarter of 2020/2021 financial year which amounted to R 1.0 billion.

Furthermore, the graph indicates the Rand value of invoices older than 30 days and not paid by national departments at the end of June 2021 which amounted to R 510 million and this indicates an improvement of 12% 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 580 million.

The national departments that reported Rand value of invoices older than 30 days and not paid at the end of June 2021 are Public Works and Infrastructure including PMTE, Water and Sanitation, Mineral resources and energy, Home Affairs and Statistics South Africa.

Table 2 below indicates national departments that paid all their invoices within 30 days during the first quarter of 2021/2022 financial year:

Table 2: National Departments that paid invoices within 30 days

National Departments	
Departments that paid invoices within 30 days in the first quarter of the 2020/2021 financial year	
1. National School of Government	8. Communications and Digital Technologies
2. National Treasury	9. Human Settlements
3. Planning, Monitoring and Evaluation	10. Science and Innovation
4. Public Service and Administration	11. Small Business Development
5. Public Service Commission	12. Sports, Arts and Culture
6. Traditional Affairs	13. Trade, Industry and Competition
7. Civilian Secretariat for the Police Service	

Table 2 above illustrate national departments that paid all legitimate invoices within 30 days as required by the PFMA and its related prescripts and these departments had no outstanding or unpaid invoices at the end of the first quarter of the 2020/2021 financial year.

Furthermore, these national departments are encouraged to maintain this performance and pay all legitimate invoices from suppliers timeously or within 30 days as required by the PFMA and its related prescripts.

Table 3 below indicates national departments that reported unpaid invoices at the end of the first quarter of the 2021/2022 financial year.

Table 3: National Departments that reported unpaid invoices

National departments		
Departments with the most invoices older than 30 days and not paid at the end of June 2021		
Department	Unpaid Invoices	Rand Value of Unpaid invoices
1. Public Works and Infrastructure (Including PMTE)	284	R 57 million
2. Water and Sanitation (Including Trading Account)	146	R 408 million
3. Mineral Resources and Energy	39	R 25 million
4. Agriculture, Land Reform and Rural Development	32	R 18 million
5. Home Affairs	11	R 677k
6. Statistics South Africa	1	R 4k

Table 4 above indicates national departments that reported the number and Rand value of invoices older than 30 days and not paid at the end of the first quarter of the 2021/2022 financial year, the department of Public Works and Infrastructure (Including PMTE) reported 284 invoices to the Rand Value of R 57 million, followed by the department of Water and Sanitation (including Trading account) which reported 146 invoices to the Rand Value of R 408 million, department of Mineral Resource and Energy report 39 invoices to the Rand value of R 25 million, department of Agriculture, Land Reform and Rural Development reported 32 invoices to Rand Value of R18 million, department of Home Affairs reported 11 invoices to the Rand value of R 677k and Statistics South Africa reported the least number of invoices older than 30 days and not paid which amounted to one invoice to the Rand value of R 4k

Section C

Provincial Departments

5 Analysis of exceptions reports from Provincial Treasuries

All provincial treasuries submitted their exceptions reports to the National Treasury during the first quarter of 2021/2022, achieving a 100% submission rate to National Treasury as required by Instruction Note No. 34 during the first quarter of 2021/2022 financial year.

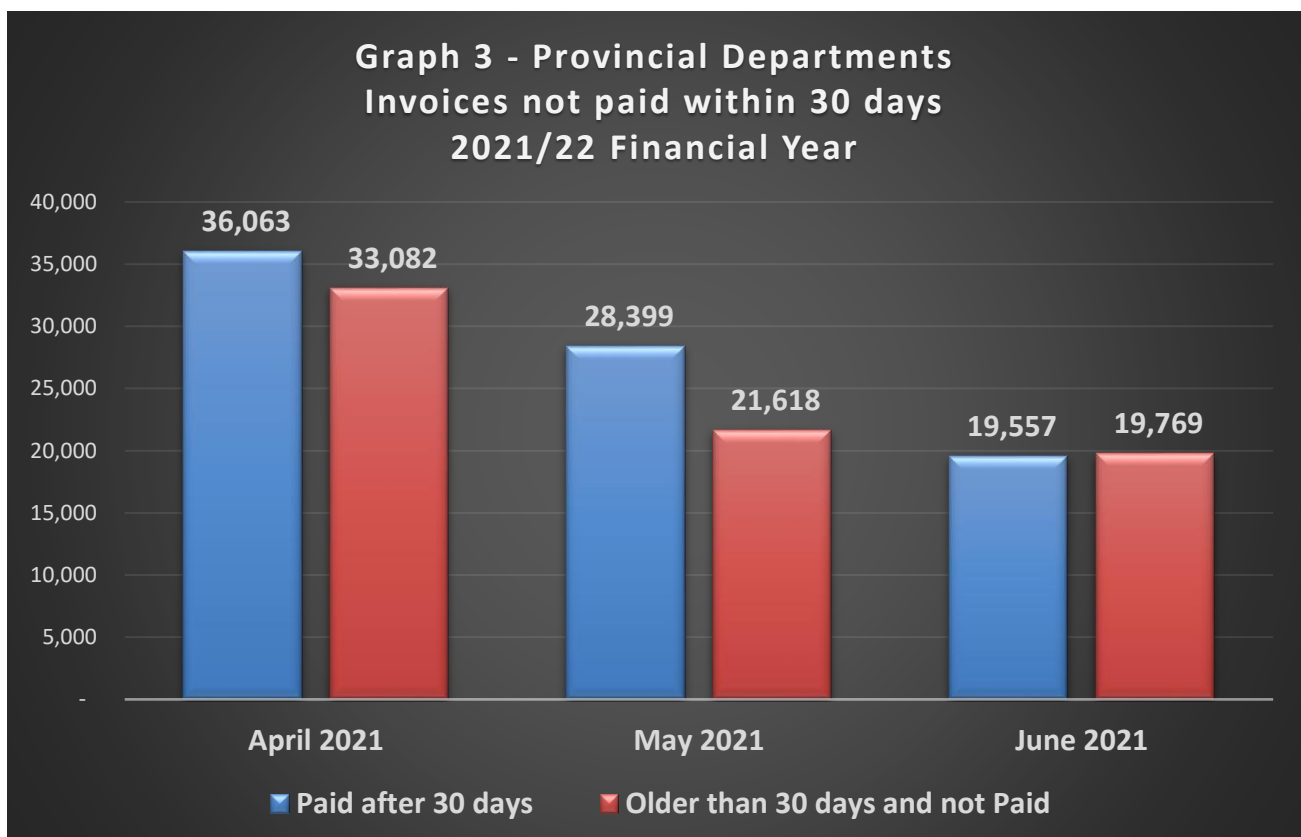
It is important to note that some submissions by provincial treasuries did not reflect information for all provincial departments as some provincial departments are still struggling to submit reports due to interruptions caused by the national lockdown as a result of the COVID-19 pandemic.

Provincial Treasuries achieved an average timeous submission rate of exception reports of 89% during the first quarter of the 2021/2022 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 illustrate the number of invoices not paid within 30 days by provincial departments during the first quarter of the 2021/2022 financial year.

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



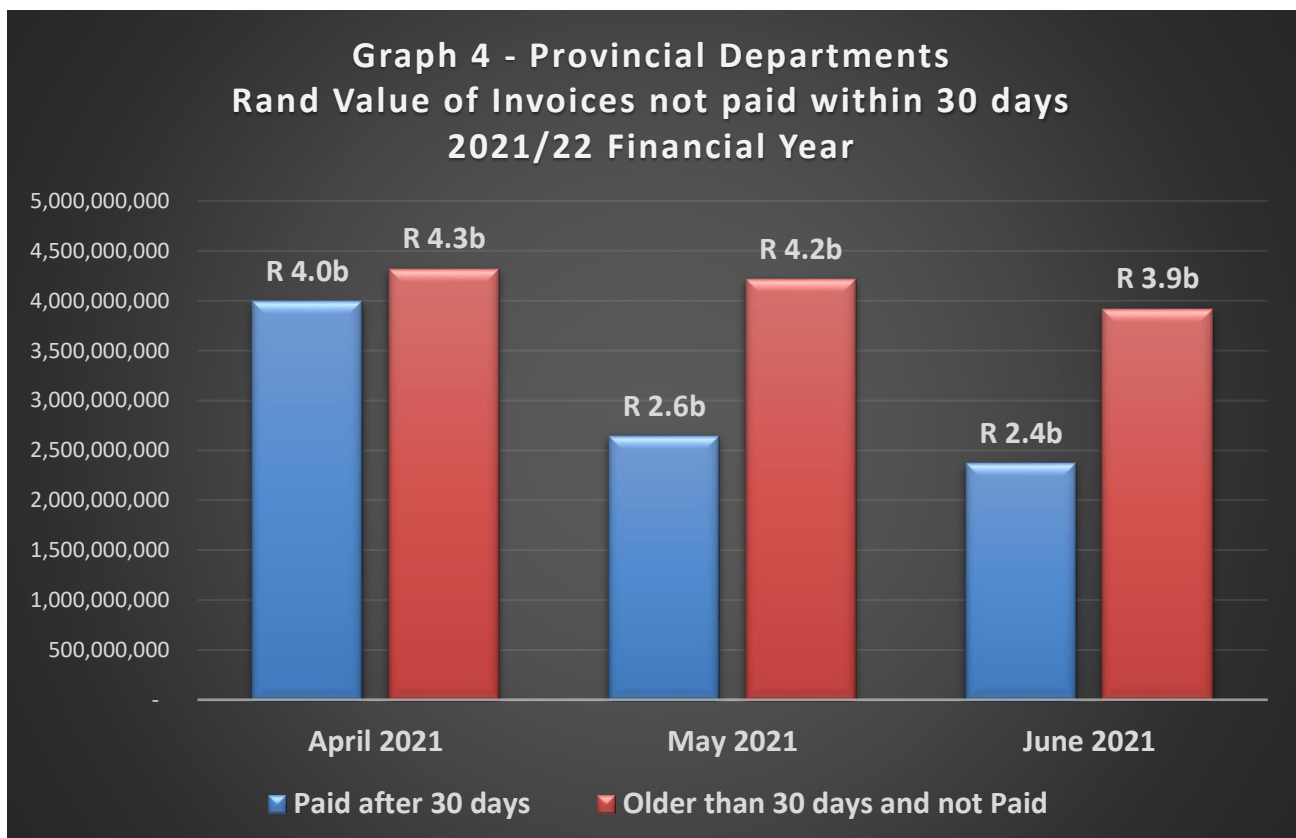
Graph 3 above illustrate a monthly comparison of the number of invoices not paid within 30 days by provincial departments during the first quarter of the 2021/2022 financial year. The number of invoices paid after 30 days during the first quarter of 2021/2022 financial year amounted to 84 019 invoices, and this indicates a regression of 35% or 21 641 invoices when compared to the number of invoices paid after 30 days during the first quarter of 2020/2021 financial year which amounted to 62 378 invoices.

The graph further illustrates that the number of invoices older than 30 days and not paid by provincial departments at the end of June 2021 amounted to 19 769 invoices and this indicates an improvement of 23% or 5 930 invoices when compared to the number of invoices older than 30 days and not paid at the end of June 2020 which amounted to 25 699 invoices.

The provincial governments that reported the highest number of invoices not paid within 30 days during the first quarter of 2021/22 financial year include the Eastern Cape, Gauteng, North West, and KwaZulu-Natal provincial government, and this will be illustrated further in table 5 and table 6 below.

Graph 4 below illustrate the **Rand values of invoices not paid within 30 days** by provincial departments during the first quarter of the 2021/2022 financial year.

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



Graph 4 above provides a monthly comparison of the Rand value of invoices not paid within 30 days by provincial departments during the first quarter of the 2021/2022 financial year. The Rand value of invoices paid after 30 days in the first quarter of 2021/2022 financial year amounted to R 9.0 billion and this indicates a regression of 48% when compared to the Rand value of invoices paid after 30 days in the first quarter of 202/2021 financial year which amounted to R 6.1 billion.

Furthermore, the graph indicates the Rand value of invoices older than 30 days and not paid by provincial departments at the end of June 2021 which amounted to R 3.9 billion and this indicates a regression of 18% 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.

The provincial governments that reported the highest Rand value of invoices not paid within 30 days during the first quarter of the 2021/2022 financial year include Eastern Cape, Gauteng, and KwaZulu-Natal provincial government, and this will be illustrated further in table 5 and table 6.

Table 5 below indicates the number and Rand Value of **invoices paid after 30 days** per province for the first quarter of the 2021/2022 financial year:

Table 5: Provincial Departments – Number and Rand value of invoices paid after 30 days

Provincial Departments		
Number and Rand Value of invoices paid after 30 days per province		
	Number of invoices	Rand Value of invoices
Mpumalanga	389	R 34,116,688
Western Cape	787	R 81,729,660
Limpopo	1,104	R 153,084,676
Northern Cape	2,011	R 196,311,061
Free State	2,348	R 602,936,422
Kwazulu-Natal	9,262	R 2,067,781,039
North West	13,870	R 847,446,365
Gauteng	27,026	R 2,773,525,284
Eastern Cape	27,222	R 2,244,812,798
Total	84, 019	R 9,001,743,993

Table 5 above illustrate the performance of provincial governments in terms of the number and Rand Value of invoices paid after 30 days during the first quarter of the 2021/2022 financial year. The table further indicated that the Eastern Cape provincial government recorded the highest number of invoices paid after 30 days in the first quarter of the 2021/22 financial year, and Gauteng provincial government recorded the highest Rand value of invoices paid after 30 days during the same period. Mpumalanga recorded the least number and Rand value of invoices paid after 30 days 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 first quarter of the 2021/2022 financial year:

Table 5: Provincial Departments – Number and Rand value of unpaid invoices

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	4,060
Kwazulu-Natal	117	4,557,791
Limpopo	374	44,874,856
Free State	1,033	152,641,587
Mpumalanga	1,203	45,998,709
Gauteng	1,677	790,771,938
Northern Cape	1,780	195,109,935
North West	5,527	456,024,865
Eastern Cape	8,057	2,228,122,449
Total	19,769	3,918,106,191

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 first quarter of the 2021/2022 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 June 2021, and the Eastern Cape province is, therefore, responsible for 41% of the number of invoices older than 30 days and not paid by provincial departments at the end of the first quarter of the 2021/22 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 first quarter of the 2021/22 financial year.

Section D

6 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 first quarter of the 2021/2022 financial year:

- a) The interruption caused by the national lockdown;
- b) Misfiled, misplaced or unrecorded invoices;
- c) Inadequate budget;
- d) Inadequate internal capacity;
- e) Poor internal controls;
- f) Late authorization of invoices; and

Section E

7 Conclusion

Based on the analysis of the information received during the first quarter of the 2021/2022 financial year from national and provincial departments indicated that provincial departments are responsible for 78% of invoices paid after 30 days by national and provincial departments, and provincial departments are also responsible for 97% of invoices older than 30 days and not paid during the first quarter of 2021/2022 financial year.

The main contributing departments towards the late and/or non-payment of invoices at the national level are the departments of Defence, Public Works and Infrastructure (including the Property Management Trading Entity (PMTE)), Correctional Services, Police, Water and Sanitation (including Trading Account) International Relation and Cooperation, Health and Agriculture, Land Reform and Rural Development.

The 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.

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

- a) the provinces are responsible for the majority of invoices that are paid late;
- b) the Health sector is the main contributor towards the late and/or non-payment of invoices;
- c) late and/or non-payment of invoices within 30 days continues to severely impact the sustainability of the SMMEs;
- d) budget constraints 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
- e) most reasons provided for late and/or non-payment of invoices relate to internal control deficiency in departments that appear to be recurring without being addressed.