



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

NON-COMPLIANCE WITH PAYMENTS OF SUPPLIERS WITHIN 30 DAYS

SECOND QUARTER REPORT (JULY 2021 – SEPTEMBER 2021)

NATIONAL TREASURY
SECOND 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 second 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 second quarter of the 2021/2022 financial year with an average timeous submission rate of 83%. This represents an improvement of 1% when compared with the average timeous submission rate of 82% achieved in the first quarter of the 2021/2022 financial year.
- 4.2 All provincial treasuries submitted their exceptions reports to the National Treasury during the second quarter of the 2021/2022 financial year with an average timeous submission rate of 85%. This represents a regression of 4% when compared with the average timeous submission rate of 89% achieved in the first quarter of the 2021/2022 financial year.
- 4.3 There is a noticeable improvement in the timeous submission rate achieved by both the national departments and provincial treasuries when comparing the first half of the 2021/2022 financial year to that of the 2020/2021 financial year. The low timeous submission rate achieved in 2020/2021 was due to the hard national lockdown imposed by the global COVID-19 pandemic which impacted 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 second quarter of the 2021/2022 financial year:

Table 1: Summary – National and Provincial Departments

Table 1: National and Provincial Departments Number and Rand value of invoices not paid within 30 days				
Quarter 2 2021/2022 financial year	Invoices Paid After 30 Days		Invoices older than 30 days not paid	
	Number of Invoices	Rand Value of Invoices	Number of Invoices (as at September 2021)	Rand Value of Invoices (as at September 2021)
National Departments	35 348	R983 million	361	R380 million
Provincial Departments	55 766	R5,7 billion	15 898	R3,8 billion
Total	91 114	R6,7 billion	16 259	R4,2 billion

- 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 2021/22 financial year amounts to 91 114 invoices to the Rand value of R 6,7 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 September 2021 of the 2021/22 financial year amounts to 16 259 to the rand value of R 4,2 billion.
- 4.7 The table further indicates that the provincial departments contribute the highest towards the number and rand value of invoices paid after 30 days during the second quarter of 2021/22 financial year.
- 4.8 In the second quarter, 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)), Police, Water and Sanitation (including Trading Account) and International Relation and Cooperation.
- 4.9 The main contributing provinces towards the late and/or non-payment of invoices at the provincial level are the Gauteng provincial government, Eastern Cape provincial government, and the North West provincial government.
- 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 the COVID-19 pandemic, poor internal controls, internal capacity and budget constraints.

Section B

National Departments

5. Analysis of exceptions reports from National Departments

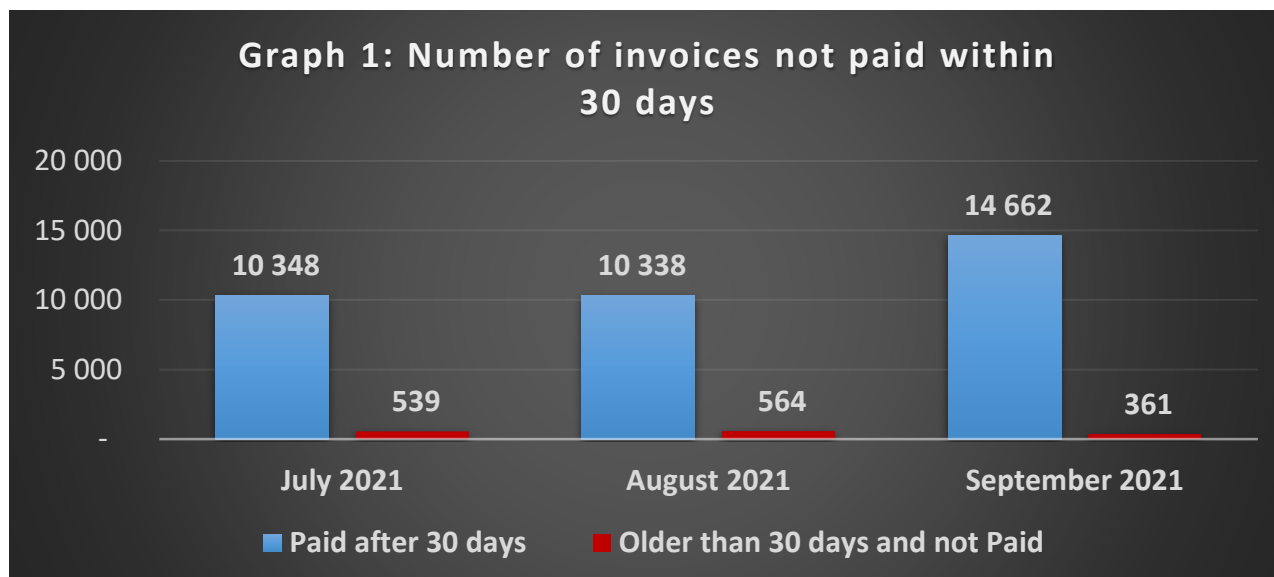
All national departments submitted their 30 days exception reports to the National Treasury as required by Instruction Note No. 34 during the second quarter of the 2021/2022 financial year. This represents a 100% compliance submission rate in the second quarter of the 2021/2022 financial year with an average timeous submission rate of 83%. There is an improvement of 1% in the average timeous submission rate when compared to that of 82% achieved in the first quarter of the 2021/2022 financial year.

The analysis also reveals an improvement of 8% when comparing the average timeous submission rate of 83% achieved in the second quarter of the 2021/2022 financial year with the average timeous submission rate of 75% achieved in the second quarter of the 2020/2021 financial year.

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 second 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 second quarter of the 2021/2022 financial year. The total number of invoices paid after 30 days in the second quarter of the 2021/2022 financial year amounted to 35 348 invoices.

During July 2021, 10 348 invoices were paid after 30 days from the date of receipt. The number of invoices paid after 30 days in August 2021 amounted to 10 338, which represents a marginal improvement of 10 invoices.

The number of invoices paid after 30 days in September 2021 amounted to 14 662. This represents a regression of 42% or 4 324 when compared with the number of invoices paid after 30 days in August 2021 which amounted to 10 338.

The analysis reveals that national departments that reported the highest number of invoices paid after 30 days in the second quarter of the 2021/2022 financial year are Defence, Police, International Relations and Cooperation, Public Works and Infrastructure (including PMTE) and Water and Sanitation (including trading account).

The graph further indicates that as at the end of July 2021, the number of invoices older than 30 days and which were not paid amounted to 539 whilst the number of invoices not paid as at the end of August 2021 amounted to 564, thereby representing a marginal regression of 5% or 25 invoices.

At the end of September 2021, the number of invoices older than 30 days and not paid amounted to 361. This represents an improvement of 36% or 203 invoices when compared to 564 invoices which were outstanding at the end of August 2021.

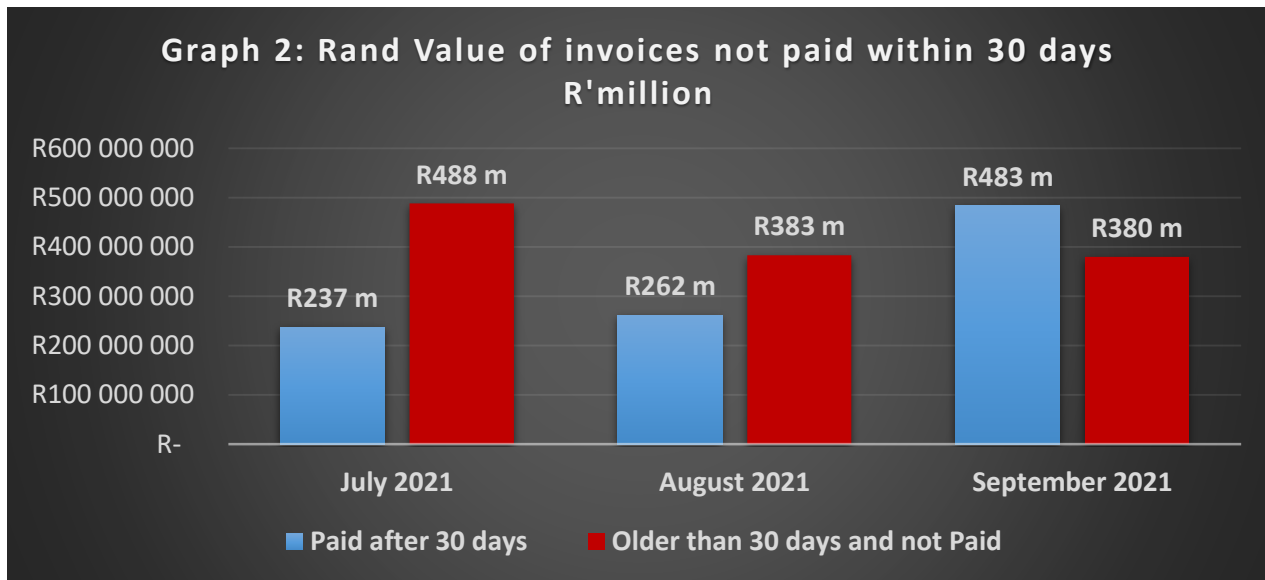
The national departments that reported the highest number of invoices older than 30 days and not paid at the end of September 2021 are Public Works and Infrastructure (including PMTE) and Water and Sanitation (including trading account).

The following departments reflect an improvement in the number of invoices older than 30 days and not paid when comparing Q1 to Q2:

- Home Affairs;
- Public Works and Infrastructure including PMTE;
- Police; and
- Mineral Resources and Energy.

Graph 2 below illustrate the **Rand Value of invoices not paid within 30 days** by national departments during the second 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 second quarter of the 2021/2022 financial year. The Rand value of invoices paid after 30 days in the second quarter of 2021/2022 financial year amounted to R1,2 billion and this indicates an improvement of 20% when compared to the Rand value of invoices paid after 30 days in the first quarter of 2021/2022 financial year which amounted to R 1,5 billion.

During July 2021, the rand value of invoices that were paid after 30 days amounted to R237 million. The rand value of invoices paid after 30 days in August 2021 amounted to R262 million. This represents a marginal regression of 11% or R25 million.

The rand value of invoices paid after 30 days in September 2021 amounted to R483 million. This represents a regression of 84% or R221 million when compared with the rand value of invoices paid after 30 days in August 2021 which amounted to R262 million.

The graph further indicates that at the end of September 2021, the rand value of invoices older than 30 days and not paid amounted to R380 million. This represents an improvement of 25% or R130 million when compared to R510 million that was outstanding at the end of June 2021.

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

Table 2: National Departments that paid all their invoices within 30 days

Table 2: Departments that paid all their invoices within 30 days during the second quarter
National School of Government
Planning, Monitoring and Evaluation
Public Service and Administration
Traditional Affairs
Communications and Digital Technology
Science and Technology
Small Business Development
Sports, Arts and Culture
Trade, Industry and Competition
Women, Youth and Persons with Disabilities

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 second quarter of the 2021/2022 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

Table 3: National departments		
Departments that he most invoices older than 30 days and not paid at the end of June 2021		
Department	Unpaid Invoices	Rand Value of Unpaid invoices
1. Water and Sanitation (Including Trading Account)	951	R 1,1 billion
2. Public Works and Infrastructure (Including PMTE)	308	R 65 million
3. Agriculture, Land Reform and Rural Development	119	R 16 million
4. Home Affairs	36	R 115 k
5. Mineral Resources and Energy	29	R35 million
6. Statistics South Africa	8	R 731 k
7. Social Development	6	R270 k
8. Cooperative Government	5	R 864 k
9. International Relations and Cooperation	2	R3 million

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 second quarter of the 2021/2022 financial year. The main contributors towards the number of invoices older than 30 days and not paid are the departments of Water and Sanitation (including Trading account) and Public Works and Infrastructure (including PMTE). The department of Water and Sanitation reported 951 invoices to the rand value of R 1,1 billion, followed by the department of Public Works and Infrastructure which reported 308 invoices to the Rand Value of R 65 million.

Section C

Provincial Departments

5 Analysis of exceptions reports from Provincial Treasuries

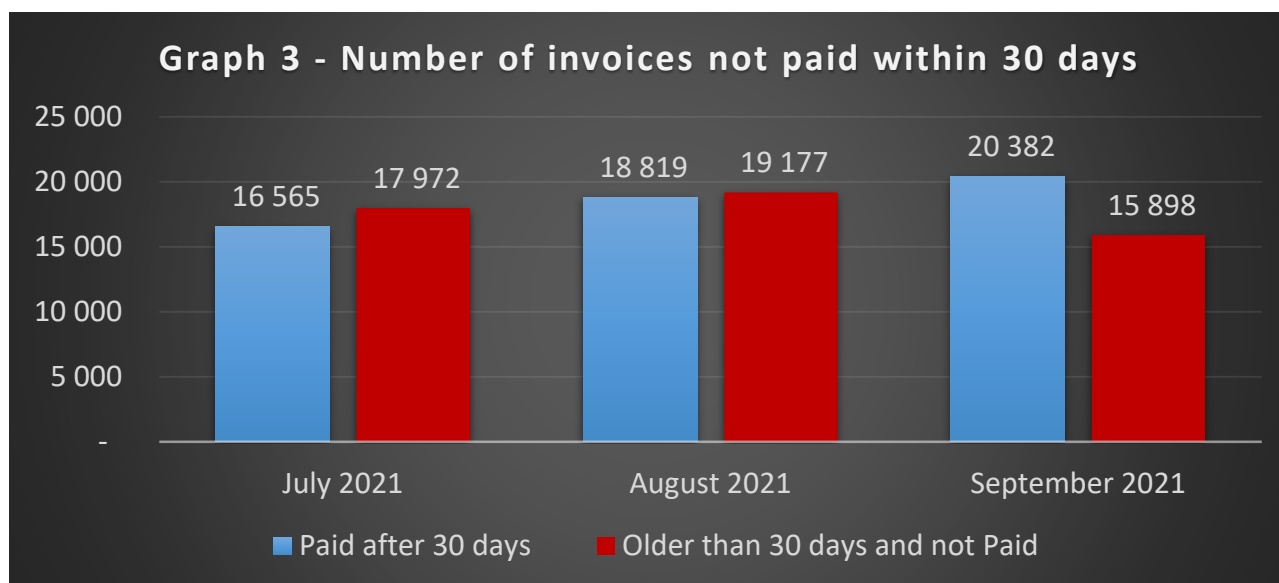
All provincial treasuries submitted their exceptions reports to the National Treasury during the second quarter of 2021/2022, achieving a 100% submission rate to National Treasury as required by Instruction Note No. 34 during the second quarter of 2021/2022 financial year.

The provincial analysis also reveals an improvement of 7% when comparing the average timeous submission rate of 85% achieved in the second quarter of the 2021/2022 financial year with the average timeous submission rate of 78% achieved in the second quarter of the 2020/2021 financial year.

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 second quarter of the 2021/2022 financial year.

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 by provincial departments during the second quarter of the 2021/2022 financial year. The total number of invoices paid after 30 days by provincial departments in the second quarter of the 2021/2022 financial year amounted to 55 766 invoices.

During July 2021, 16 565 invoices were paid after 30 days from the date of receipt. The number of invoices paid after 30 days in August 2021 amounted to 18 819, which represents a regression of 14% or 2 254 invoices.

**Second quarter report on non-compliance with payments of suppliers' invoices within 30 days
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The number of invoices paid after 30 days in September 2021 amounted to 20 382. This represents a regression of 8% or 1 563 when compared with the number of invoices paid after 30 days in August 2021 which amounted to 18 819.

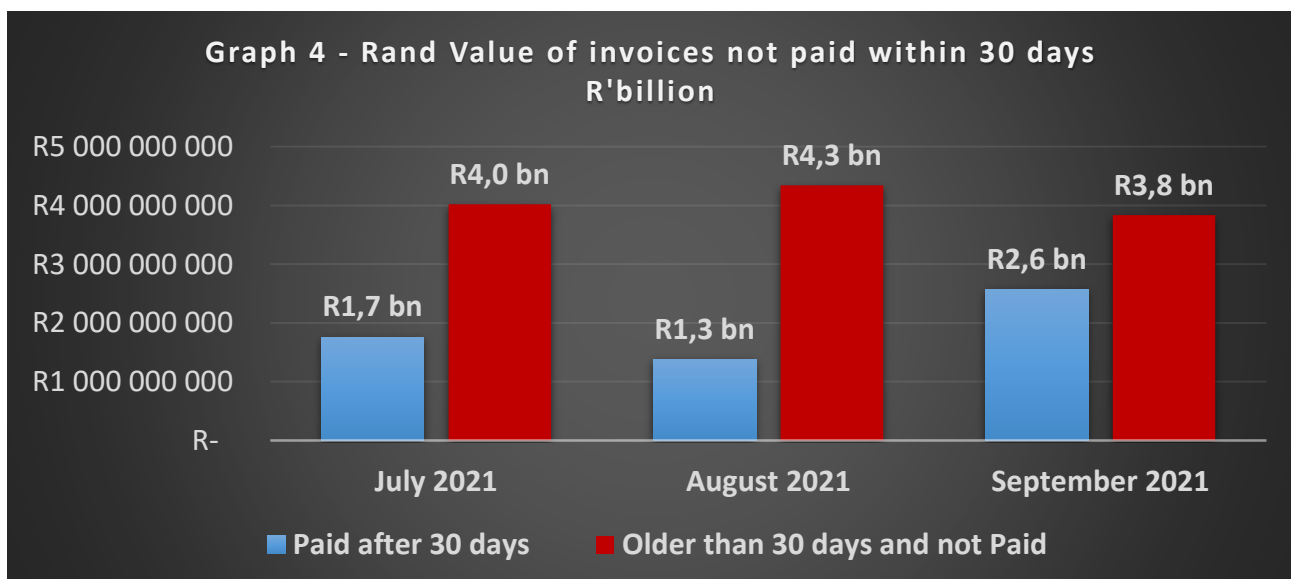
The graph further indicates that as at the end of July 2021, the number of invoices older than 30 days and which were not paid by provincial departments amounted to 17 972 whilst the number of invoices not paid at the end of August 2021 amounted to 19 177, thereby representing a regression of 7% or 1 205 invoices.

At the end of September 2021, the number of invoices older than 30 days and not paid amounted to 15 898. This represents an improvement of 17% or 3 279 invoices when compared to 19 177 invoices which were outstanding at the end of August 2021

The provincial governments that reported the highest number of invoices paid after 30 days in the second quarter of 2021/22 financial year are Gauteng, North West, Eastern Cape and Kwazulu-Natal.

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

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



**Second quarter report on non-compliance with payments of suppliers' invoices within 30 days
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Graph 4 above provides a monthly comparison of the rand value of invoices not paid within 30 days by provincial departments during the second quarter of the 2021/2022 financial year. The total rand value of invoices paid after 30 days in the second quarter of 2021/2022 financial year amounted to R5,7 billion and this indicates an improvement of R3,3 billion or 37% when compared to the rand value of invoices paid after 30 days in the first quarter of 2021/2022 financial year which amounted to R9,0 billion.

During July 2021, the rand value of invoices that were paid after 30 days amounted to R1,7 billion. The rand value of invoices paid after 30 days in August 2021 amounted to R1,3 billion. This represents an improvement of 24% or R400 million.

The rand value of invoices paid after 30 days in September 2021 amounted to R2,6 billion. This represents a regression of 100% or R1,3 billion when compared with the rand value of invoices paid after 30 days in August 2021 which amounted to R1,3 billion.

The graph further indicates that at the end of September 2021, the rand value of invoices older than 30 days and not paid amounted to R3,8 billion. This represents an improvement of 3% or R100 million when compared to R3,9 billion that was outstanding at the end of June 2021.

The provincial governments that reported the highest number of invoices older than 30 days and not paid in the second quarter of 2021/22 financial year are Gauteng, North West and Eastern Cape.

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

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

Table 5: Number and Rand Value of invoices paid after 30 days			
	Number of invoices	Rand Value of invoices	%
Mpumalanga	96	R 12 635 599	0%
Western Cape	350	R 72 533 505	1%
Free State	998	R 205 985 808	2%
Limpopo	1 697	R 267 343 525	3%
Northern Cape	1 796	R 157 464 980	3%
Kwazulu-Natal	7 448	R 1 616 421 579	13%
Eastern Cape	8 385	R 296 644 869	15%
North West	15 919	R 1 079 243 793	29%
Gauteng	19 077	R 2 010 059 850	34%
Total	55 766	R 5 718 333 508	100%

Table 5 above illustrates the performance of provincial governments in terms of the number and rand value of invoices paid after 30 days during the second quarter of the 2021/2022 financial year. The table further indicated that the Gauteng provincial government recorded the highest number

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and rand value of invoices paid after 30 days in the second quarter of the 2021/2022 financial year. 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 6: Provincial Departments – Number and Rand value of unpaid invoices

Number and Rand Value of invoices older than 30 days not paid			
	Number of invoices	Rand Value of invoices	
Western Cape	-	R	-
Northern Cape	12	R	19 104 814
Limpopo	135	R	13 522 425
Mpumalanga	318	R	38 673 788
Kwazulu-Natal	781	R	104 851 524
Free State	809	R	67 229 490
North West	4 340	R	266 912 565
Eastern Cape	4 648	R	2 280 024 142
Gauteng	4 855	R	1 044 398 803
Total	15 898	R	3 834 717 551
			100%

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 2021/2022 financial year.

The table further indicates that the Gauteng provincial government recorded the highest number and rand value of invoices older than 30 days and not paid at the end of September 2021, and the Eastern Cape provincial government recorded the highest rand value of invoices older than 30 days and not paid.

The Western Cape provincial government did not record any number 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 second 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

Analysis of the information received during the second quarter of the 2021/2022 financial year from national and provincial departments indicates that provincial departments are responsible for 61% of invoices paid after 30 days and also responsible for 98% of invoices older than 30 days and not paid during the second 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, Police, International Relations and Cooperation, Public Works and Infrastructure (including the Property Management Trading Entity (PMTE)) and Water and Sanitation (including trading account).

The information further indicates that the Gauteng province reported the highest number of invoices not paid within 30 days in the second quarter of the 2021/2022 financial year. At the provincial level, the Health sector remains the main contributor of invoices not paid within 30 days.

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

- a) improvement in the timeous submission rate of exception reports for both the national departments and provincial treasuries;
- b) the provinces are responsible for the majority of invoices not paid within 30 days;
- c) the Health sector at the provincial level is the main contributor towards the late and/or non-payment of invoices;
- d) late and/or non-payment of invoices within 30 days continues to severely impact the sustainability of the SMMEs;
- e) 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
- f) 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.