national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Payments to suppliers within 30 days

Compliance Progress Report for the period May 2014 to June 2014

August 2014

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1. Executive Summary

This bi-monthly report serves to update Forum for South African Director-General (FOSAD) on the status of compliance with the requirements of section 38(1)(f) of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999), Treasury Regulations 8.2.3 and Instruction Note 34 for the period May 2014 and June 2014.

This Report illustrates the trend analysis of payments due to suppliers for periods between May 2014 and June 2014 in a form of a graph. The graph trend analysis and narratives for this report are generated from the exception reports submitted by national departments and provincial treasuries to the National Treasury on a monthly basis as required by Instruction Note 34.

In terms of section 38(1)(f) of the PFMA, accounting officers of departments are required to settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period. Furthermore, Treasury Regulations 8.2.3 prescribes the period for settlement of contractual obligation and other payments as thirty (30) days from receipt of an invoice or in the case of civil claims, the date of settlement or court judgement. Pursuant to reports of the Auditor-General, the Forum of South African Directors-General (FOSAD) requested the National Treasury to provide the Forum with regular information on the compliance status of departments with this requirement. On 30 November 2011, the National Treasury issued Instruction Note 34 which requires departments to forward monthly information relating to their compliance with the '*thirty day rule*' and this Instruction Note also appeals to accounting officers to improve their department's compliance with this requirement.

Recognising that the late and/or non-payment of suppliers is badly impacting on the sustainability of Small Medium and Micro Enterprises (SMME's), the Forum of South African Directors-General (FOSAD) resolved at its meeting during November 2011 that the National Treasury must provide the forum with regular reports on the extent of departmental compliance with Treasury Regulation 8.2.3. Since February 2012, the National Treasury has been submitting bi-monthly progress reports to FOSAD on the departmental compliance with the requirement to pay suppliers within thirty (30) days. Information received from national departments and provincial treasuries in terms of Instruction Note 34 forms the basis for preparation of these progress reports.

National departments obtained an average compliance submission rate of 99% for the period May 2014 and June 2014. This represents an improvement in the submission of exception reports to the National Treasury as compared to the same period last year where 94% compliance submission rate was obtained. Furthermore, an average timeous submission rate of 66% was obtained for the period May 2014 and June 2014. This represents a slight improvement in the timeous submission of exception reports as compared to the same period last year, where an average timeous submission rate of 65% was obtained and also represents an improvement when compared to the period March 2014 and April 2014 where an average timeous submission rate of 53% was obtained. National departments are encouraged to improve their submission compliance rate, as late and/or non-submission of exception reports adversely affects the accuracy and completeness of the reports submitted to FOSAD. It should be highlighted that although the analysis reveals an improvement in the compliance submission rate of exception report, this might be insignificant as the departments still have a challenge to obtain a 100% timeous submission rate of exception reports.

Provincial Treasuries have maintained 100% average compliance submission rate of exception reports to the National Treasury when comparing the period May 2014 and June 2014 to the same period last year. Although the analysis reveals a 100% average compliance submission rate by the provincial treasuries, the average timeous submission rate remains a challenge and has regressed to 56% when compared to the same period last year where an average of 72% was obtained. Furthermore, a great emphasis needs to be placed on the timeous submission of exception reports by the provincial treasuries, as the late submission of exception reports affects the accuracy and completeness of reports submitted to FOSAD. Therefore the cut off period for the submission of such reports plays a significant role as it impacts on the accuracy and completeness of the analysis of reports submitted to FOSAD.

There is an improvement in the number of invoices paid after 30 days for the period May 2014 and June 2014 when compared to the same period last year in the national departments. The analysis for the national departments also reveals that the Rand value of number of invoices paid after 30 days slightly improved and the Rand value of invoices older than 30 days not paid regressed when comparing May 2013 and May 2014. Furthermore, when comparing June 2013 and June 2014, both the Rand value of number of invoices paid after 30 days and the Rand value of number of invoices older than 30 days not paid have regressed.

There is a regression in both the number of invoices paid after 30 days and the number of invoices older than 30 days not paid for when comparing May 2013 and May 2014 in the provincial departments. Although there is a slight improvement in the number of invoices paid after 30 days, a regression is also noted in the number of invoices older than 30 days not paid when comparing June 2013 and June 2014 in the provincial departments.

2. Legislative requirements regarding payments within 30 (thirty) days

Section 38(1)(f) of the PFMA requires accounting officers of departments to settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period.

The prescribed period referred to above is thirty (30) days receipt of an invoice, as specified in Treasury Regulation 8.2.3 which 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."*

In his 2007/2008 General Report on Audit Outcomes of national and provincial institutions, the Auditor-General reported significant non-compliance with Treasury Regulations 8.2.3, which prompted the Minister of Performance Monitoring and Evaluation to correspond with all Executive Authorities (during June 2009) urging them to ensure that their respective Accounting officers to comply with the Treasury Regulation provision that requires payments of suppliers to be settled within thirty (30) days from receipt of an invoice.

3. Cabinet Resolutions

Cabinet resolved at its meeting of 2 December 2009 that departments must implement mechanisms to ensure that payments to creditors are effected within thirty (30) days from receipt of an invoice.

On 31 May 2010, the National Treasury forwarded a communique to institutions urging for better compliance with Treasury Regulations 8.2.3 and reminding accounting officers that non-compliance with a provision contained in the PFMA and/or Treasury Regulations can be grounds for financial misconduct. Furthermore, at its meeting held on 22 November 2010, Cabinet re-iterated its previous decision of 2 December 2009 with regard to non-payment of suppliers within the prescribed period of thirty (30) days from receipt of an invoice.

4. FOSAD Resolutions

Recognising that the late and/or non-payment of suppliers is seriously impacting on the sustainability of Small Medium and Micro Enterprises (SMMEs), FOSAD resolved that the National Treasury provide the Forum with regular reports on the extent of departmental compliance with Treasury Regulations 8.2.3. Therefore based on the above Cabinet Resolutions, the National Treasury submits bi-monthly progress reports to FOSAD on the compliance status of departments with the requirement to pay suppliers within thirty (30) days. Information received from national departments and provincial treasuries in terms of Instruction Note 34 forms the basis for preparation of these progress reports.

5. Instruction Note 34 dated 30 November 2011

In heeding the calls of the Auditor-General, Cabinet and FOSAD to improve compliance with the *'thirty day rule'*, the National Treasury issued Instruction Note 34 on 30 November 2011 (hereafter referred to as the

Instruction Note). The purpose of this Instruction Note is to enforce compliance with section 38(1)(f) of the PFMA and Treasury Regulations 8.2.3 by requiring departments to submit accurate and complete information on the late and non-payment of creditors within thirty (30) days from receipt of an invoice and the reasons thereof.

The Instruction Note further requires departments to develop and implement systems (manual or electronic processes or procedures) that will enable an invoice to be tracked from the date it is received at a cost centre to the date of actual payment. In essence, the Instruction Note requires all departments to submit exception reports to their relevant treasuries by the 7th day of each month with accurate and complete details of the following information:

(a) Number of invoices paid after 30 days and the Rand value thereof;

(b) Number of invoices older than 30 days that have not been paid and the Rand value thereof; and

(c) Reasons for the late or non-payment of such invoices

Provincial Treasuries are required to collate the information from their respective provincial departments for submission to the National Treasury by the 15th day of each month.

6. Status of compliance with Instruction Note 34 – National Departments

Table 1 (below) indicates the number and percentage of exception reports submitted to the National Treasury since January 2014 up to July 2014. The table also shows the number and percentage of national departments that submitted their exception reports timeously to the National Treasury.

Table 1: Reports submitted by national departments (January 2014 – June 2014)

Reporting Month	Submission Due Date	Total Reports received	%	Submission on or before due date	%
January 2014	**7-Feb-14**	37*	100%	22	59%
February 2014	**7-Mar-14**	37*	100%	23	62%
March 2014	**7-Apr-14**	37*	100%	21	57%
April 2014	**7-May-14**	36*	97%	18	50%
May 2014	**9-Jun-14◆**	37	100%	26	70%
June 2014	**7-Jul-14**	36	97%	22	61%

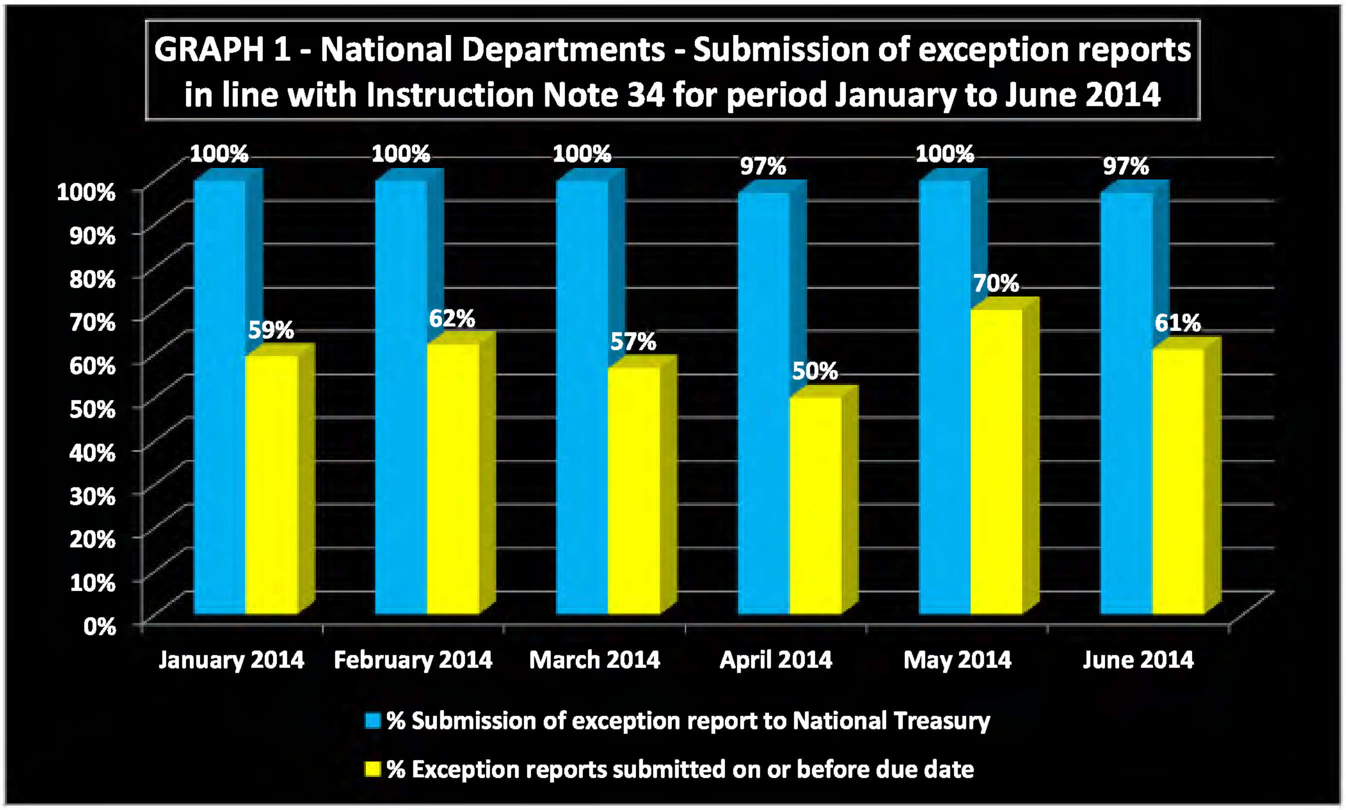
*Updated with report received late
◆ 07 June 2014 was a Saturday, exception reports due on the next working day

The table above represents a slight improvement in the level of timely submission when comparing the period March 2014 and April 2014 with the period May 2014 and June 2014. The average rate timely submission by departments is 61% departments submitting their exception reports timeously. Although the table indicates an improvement in the level of compliance submission, timeous submission remains a challenge. It is hoped that the level of timely submission will be improved significantly as the year progresses.

The information for the Department of Rural Development and Land Reform for the months of April 2014 and June 2014 is not included in this report as the exception reports were not submitted to the National Treasury.

It is worthy of mention that the improvement in the submission of required exception reports by departments shows a pleasing trend and departments are urged to maintain the constant performance in future.

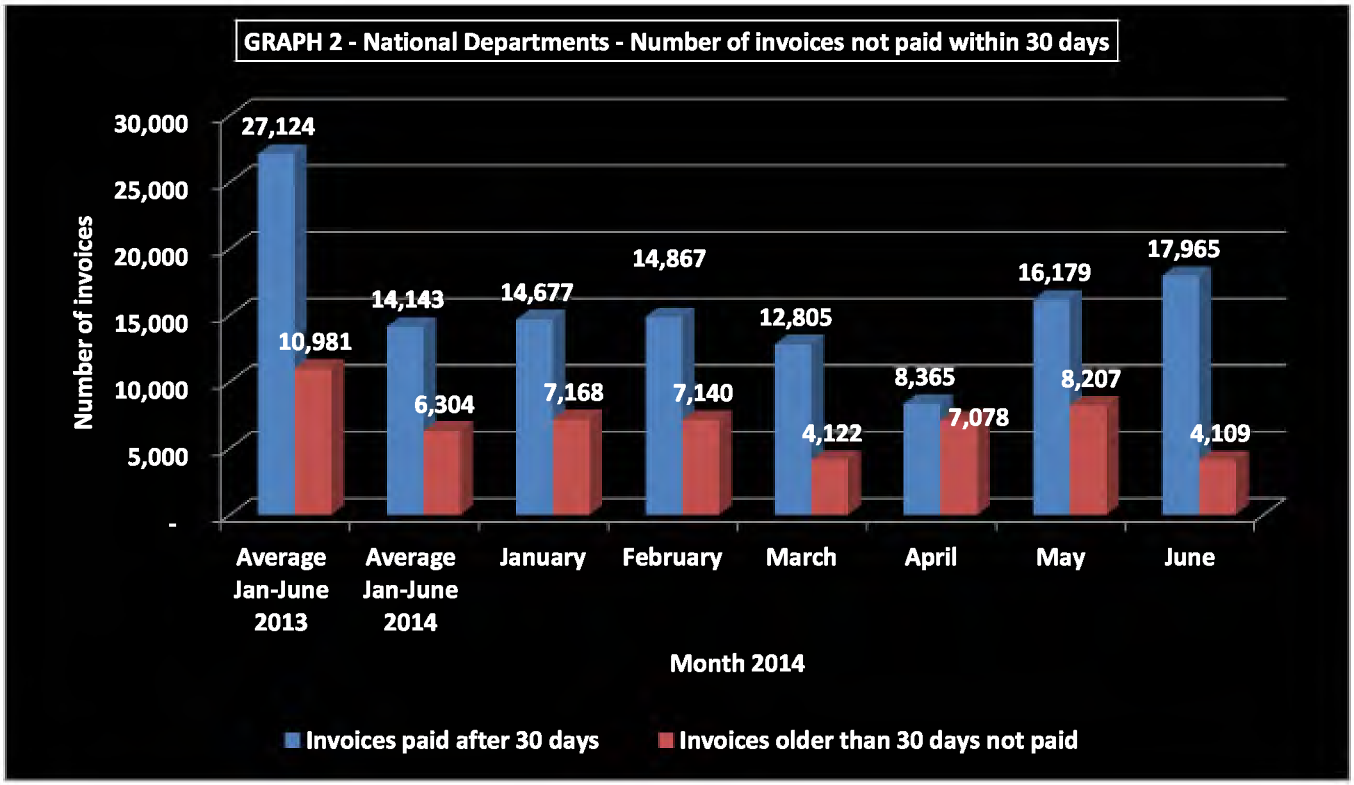
Graph 1 (below) provides information on the percentage of exception reports submitted to the National Treasury by national departments. The graph also provides information on the percentage of exception reports submitted timeously. The aforementioned provides information for the period January 2014 to June 2014.



The above graph reflects an improvement in both the submission compliance rate and the timely submission rate of exception reports for the period May 2014 and June 2014 as compared to the same period last year, where national departments achieved 94% average submission compliance rate and 65% average timely submission rate. The graph also reflects an improvement in the timely submission rate when comparing the previous reporting period of March 2014 and April 2014 with the current reporting period of May 2014 and June 2014. There is however a room to achieve 100% timeous submission rate if enforcement to the requirements of the Instruction Note is exercised.

7. Analysis of exception reports – National Departments

Graph 2 (below) provides information on the number of invoices that were not paid within thirty (30) days from receipt of an invoice. The graph also provides information on invoices that are older than thirty (30) days and which remain unpaid. The aforementioned information is provided for the period January 2014 to June 2014 and also includes the average figures for the 2013 calendar year and average figures for the 2014 year to date for comparison purposes.

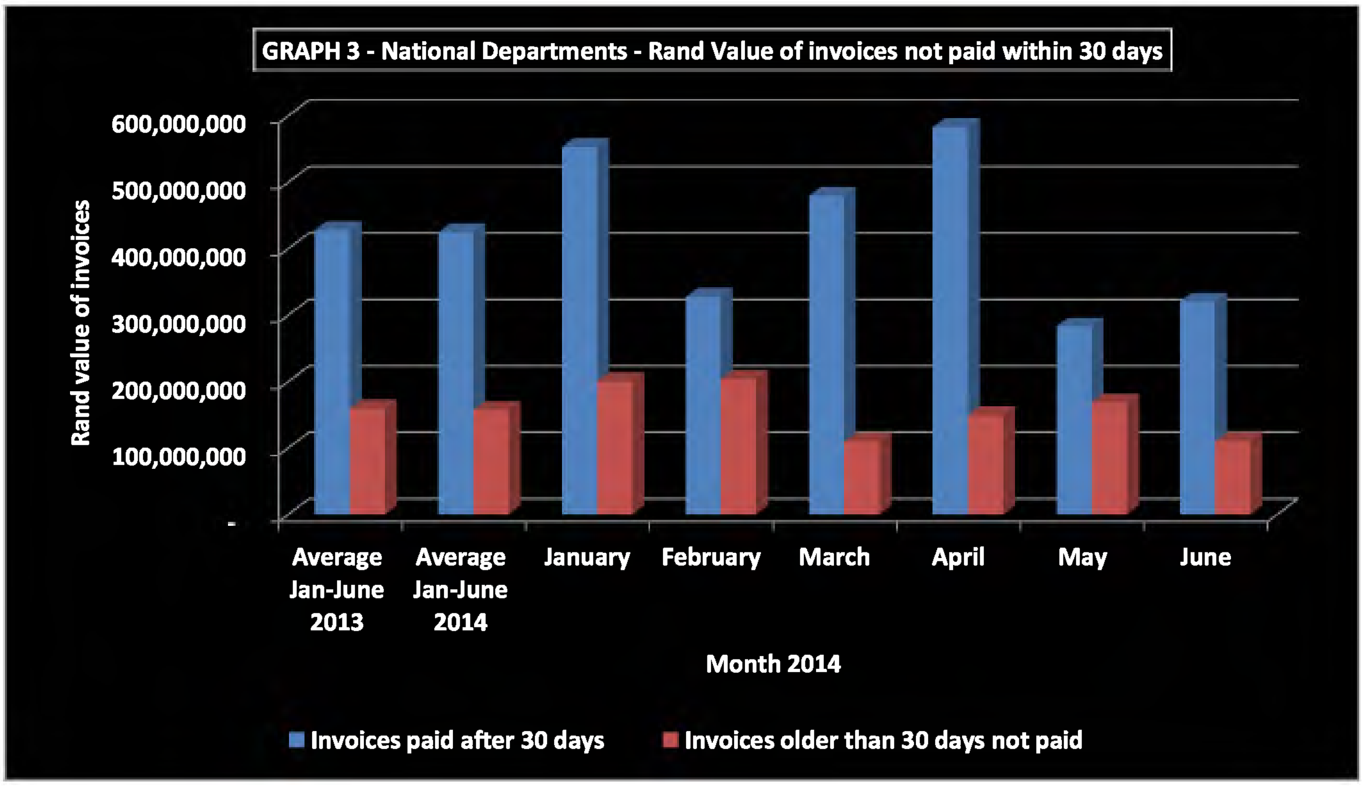


The above graph (Graph 2) indicates a regression in the number of invoices paid after 30 days when comparing the last reporting period of March 2014 and April 2014 with the current reporting period of May 2014 and June 2014. There is however a marginal decrease indicating an improvement in the number of invoices older than 30 days not paid when comparing the last reporting period and the current reporting period.

Information on hand also suggests that there was a regression of 11% in the number of invoices paid after 30 days and an improvement of 50% in the number of invoices older than 30 days not paid for the period of May 2014 and June 2014.

In summary, there is a significant improvement when comparing the average number of invoices paid after 30 days from receipt of an invoice and the average number of invoices older than 30 days which were not paid to the same period last year.

Graph 3 (below) indicates a regression in both the average Rand value of invoices paid after 30 days and invoice older than 30 days which remained unpaid. Although the graph reflects a regression in the average Rand value of invoices, there is an improvement in the Rand value of invoices paid after 30 days and a regression in the Rand value of invoices older than 30 days not paid when comparing the last reporting period (March 2014 and April 2014) with the current reporting period (May 2014 and June 2014). Furthermore, invoices paid after 30 days in May 2014 amounted to R283 million and R321 million in June 2014. This represents a regression of 13% in the Rand value of invoices paid after 30 days.



In conclusion, Graph 3 (above) still largely represents a very high level of non-compliance with Treasury Regulation 8.3.2 in relation to payment of suppliers within 30 days. Accounting officers need to pay more attention to this area by ensuring that their invoices are paid timeously. There is a regression in both the Rand value of invoices paid after thirty (30) days and older than thirty (30) days which were not paid, when comparing the data for the same period for 2013 and 2014.

Please refer to the enclosed Annexure A for detailed information per national department.

8. Status of compliance with the Instruction Note 34–Provincial Departments

Table 2 (below) indicates the number and percentage of exception reports received from provincial treasuries as well as the number and percentage of exception reports submitted to the National Treasury for the period January 2014 to June 2014.

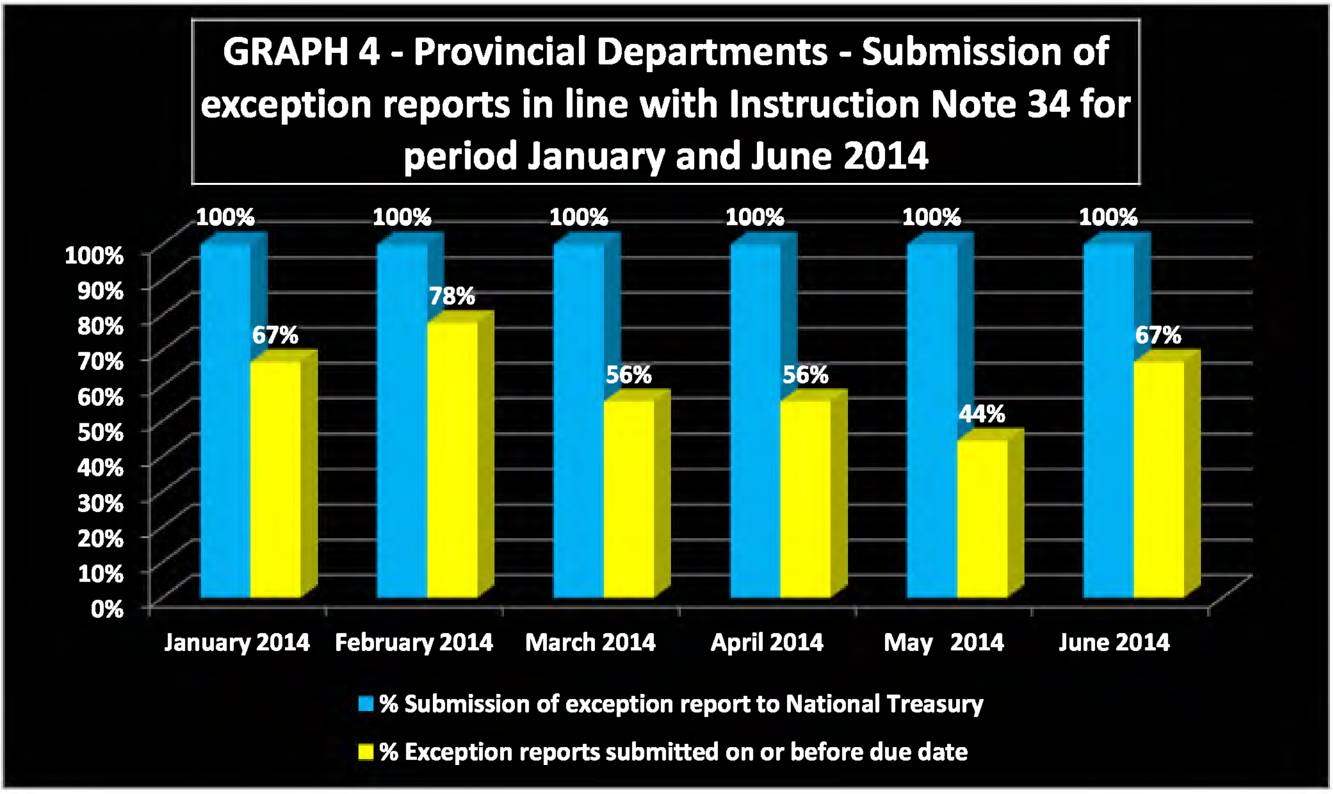
Table 2: Reports submitted by provincial treasuries (Jan 2014 –June 2014)

Reporting Month	Submission Due Date	Total Reports received	%	Submission on or before due date	%
January 2014	17-Feb-14*	9	100%	6	67%
February 2014	17-Mar-14*	9	100%	7	78%
March 2014	15-Apr-14	9	100%	5	56%
April 2014	15-May-13	9	100%	5	56%
May 2014	17-Jun-14*	9	100%	4	44%
June 2014	15-Jul-14	9	100%	6	67%

*15th was a Saturday/Sunday, exception reports due on the next working day

The table above represents 100% compliance in respect of exception reports submitted to the National Treasury, but however reflects a regression with regards to the timeous submission of exception reports. The average of 56% is also a significant regression when compared to same period last year, where an average of 72% was reached. It is of concern that some provincial treasuries still appear to struggle to submit these reports on time and thus provincial treasuries are urged to step up their efforts in ensuring the timely submission of collated exception reports.

Graph 4 (below) provides information on the percentage of exception reports submitted to the National Treasury by provincial treasuries. The graph also provides information on the percentage of exception reports submitted timeously. The aforementioned information is provided for the period January 2014 and June 2014.



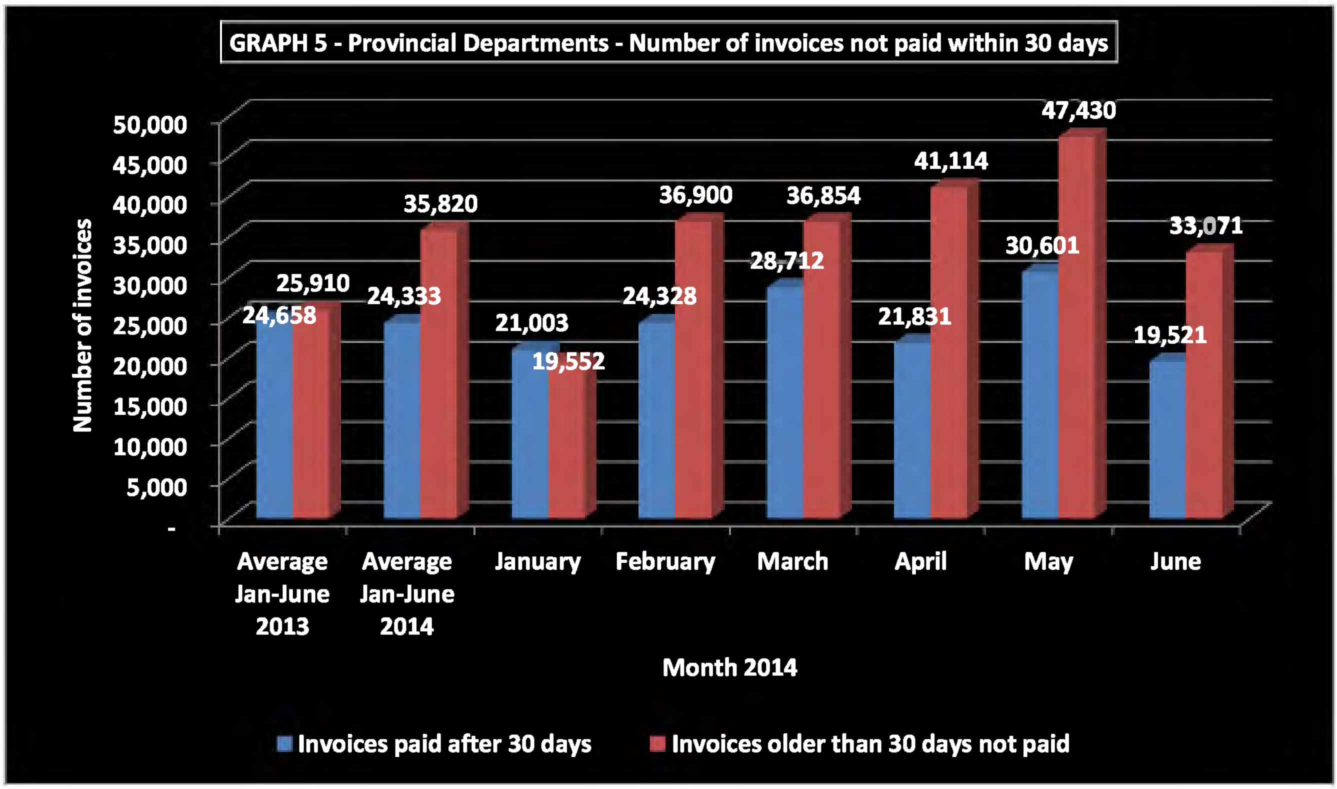
Whilst the above graph reflects a 100 % compliance submission rate for exception reports submitted by the provincial treasuries from January 2014 to June 2014, there is however still a challenge with the timely submission of these exceptions reports. There has been a regression in the timeous submission of exception reports when compared to the same period last year.

Provincial departments are urged to submit the exception reports to the Provincial Treasuries on time.

Please refer to the enclosed Annexure B for detailed submission information per province.

9. Analysis of exception reports – Provincial Departments

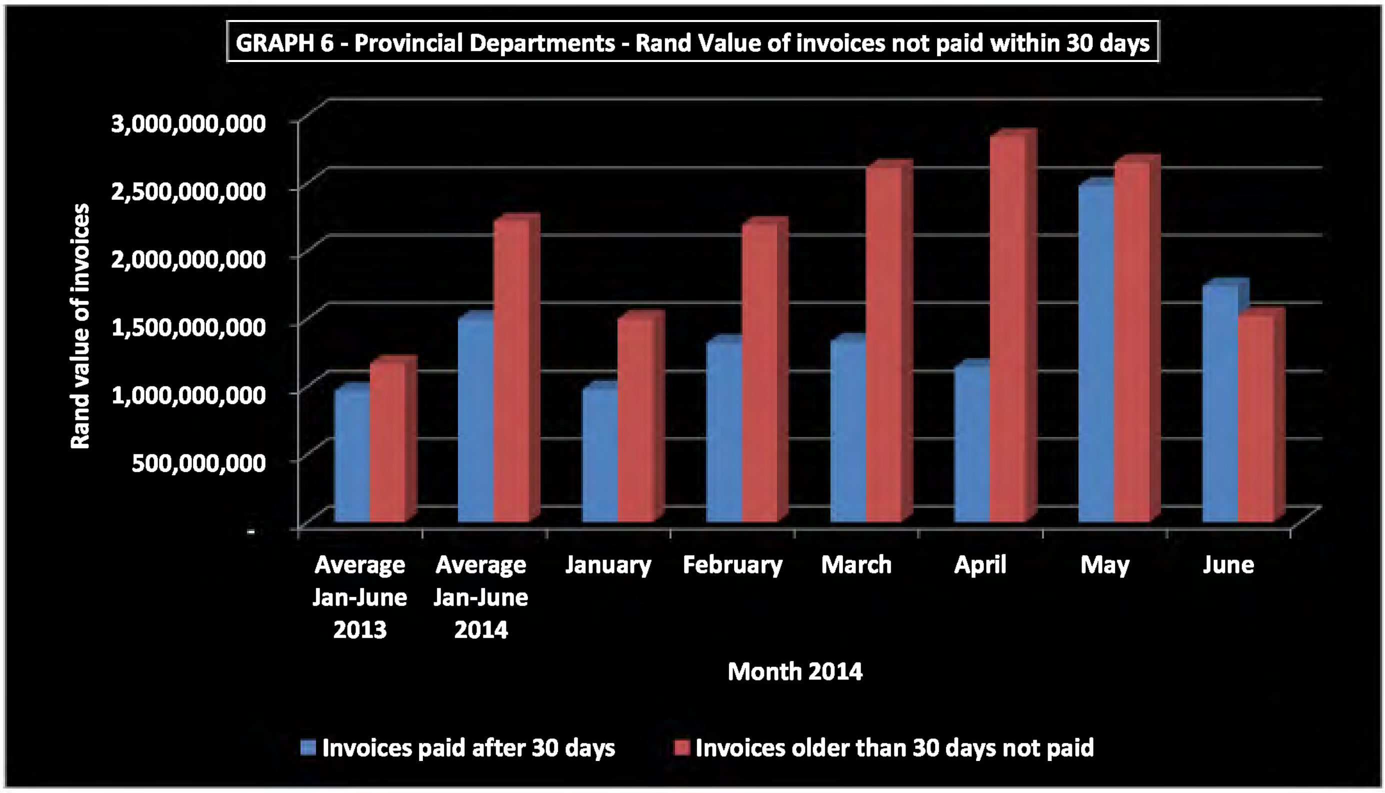
Graph 5 (below) provides information on the number of invoices that were not paid within 30 days from receipt of an invoice. The graph also provides information on invoices that are older than 30 days and which were not paid. The aforementioned information is provided for the period January 2014 to June 2014, including the average figures for calendar year 2013 and average figures for calendar year 2014 to date for comparison purposes.



The graph above indicates that the number of invoices paid after 30 days improved with 36% and the number of invoices older than 30 days not paid improved with 30% from May 2014 to June 2014. Although there is an improvement in the number of invoices that were paid late and the number of invoices older than 30 days not paid when comparing the May 2014 and June 2014 periods, these remains insignificant as the numbers still remains staggeringly high.

In conclusion, when comparing the average number of invoices paid after 30 days for 2013 (24 658) and 2014 (24 333) the number of invoices has slightly improved. Furthermore, when comparing the number of invoices older than 30 days not paid for 2013 (25 910) and 2014 (35 820) the number of invoices had regressed with 38%. The graph still largely represents a very high level of non-compliance with Treasury Regulations 8.2.3 in relation to payment of suppliers within 30 days.

Graph 6 (below) provides information on the Rand value of invoices that were paid after 30 days from the receipt of invoices. The graph also provides information on invoices that were older than 30 days and which had not been paid. The aforementioned information is reflected for the period January 2014 to June 2014, including average figures for the calendar year 2013 and average figures for 2014 year to date for comparison purposes.



The above graph indicates that the Rand value of invoices paid after 30 days has improved with 30% from May 2014 to June 2014. Furthermore, the Rand value of invoices older than 30 days which remained unpaid also improved with 43% from May 2014 to June 2014.

When comparing the average figures for invoice paid after 30 days for 2013 (R964 million) and 2014 (R 1.5 billion) the Rand value of invoices has regressed. The average Rand value of invoices older than 30 days which were unpaid has regressed from 2013 (R1.2 billion) to 2014 (R2.2 billion).

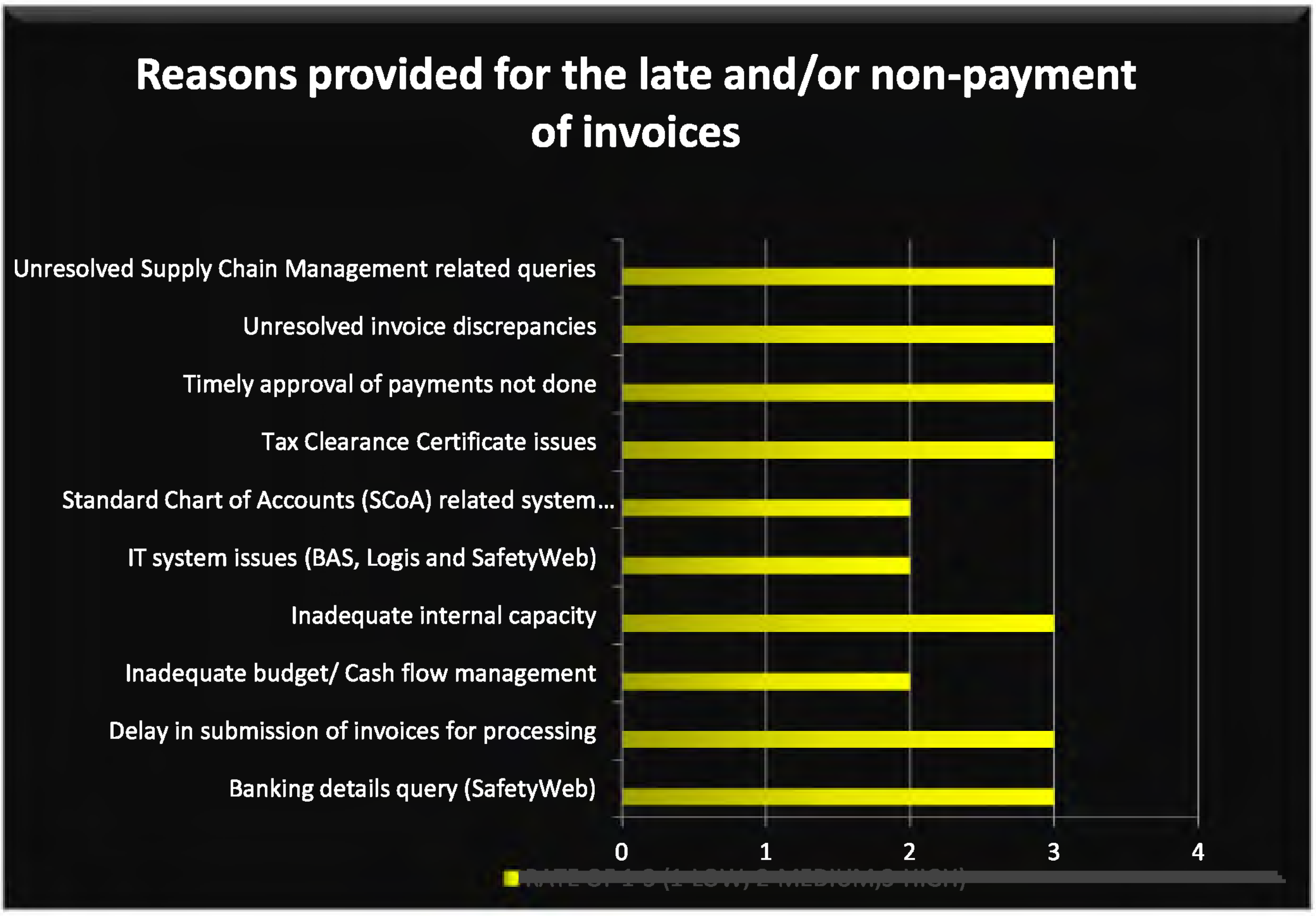
These statistics are of serious concern as they indicate challenges with the internal control systems relating to the tracking of invoices. Much more needs to be done in the provinces, both by departments and provincial treasuries, to correct this trend and to focus on paying suppliers who have submitted valid invoices within 30 days of receipt of such invoices.

In conclusion, Graph 6 (above) reflects very high Rand values of both invoices paid after 30 days and invoices older than 30 days which were not paid. This indicates no improvement made since the Rand values are still extremely high.

Please refer to the enclosed Annexure B for detailed information per province.

10.Top Ten (10) reasons provided for the late and/or non-payment of invoices

Graph 7 (below) provides top ten (10) transversal reasons for late and/or non-payment of invoices based on an analysis of exception reports submitted by national and provincial departments for the current reporting period.



The above graph reflects reasons reported as being the root causes of departments not paying suppliers timeously. It is worthy to note that many of the above reasons provided appear to be repeated by departments with each monthly submission. Furthermore, it is of concern that since most of the reasons are internal to departments and known for longer than a year, it is not clear as to why these issues are not adequately address as yet.

11.The effects of non-compliance with TR 8.2.3 to pay creditors within 30 days

Based on the above analysis, it is evident that departments are still struggling to comply with the 30 day payment rule to the extent that is now of serious concern. The neglect by accounting officers and/or officials to improve internal processes and turnaround times to pay invoices is considered as blatant disregard for rules and a total disrespect for legislation that has been passed by Parliament (the PFMA).

The departments are knowledgeable on the legislative prescripts that require payments to be made within thirty (30) days from receipt of an invoice. Despite this, the number of invoices that are not paid timeously is still unacceptably high.

However, despite persuasive efforts by various stakeholders, including Cabinet, to ensure compliance with the requirement to pay suppliers within thirty (30) days from receipt of an invoice, some departments still appear to give scant regard to this requirement, thereby providing the impression that despite serious attempts by Government to improve payment patterns, such will not be achievable given that accounting officers and chief financial officers are not serious in implementing Treasury Regulation 8.2.3, both in letter and in spirit.

It is reiterated that Government is committed to growing the economy and creating jobs but the practice of its very own institutions consistently breaking the law by not meeting their credit obligations timeously can at best be described as counter-productive, especially since Government is dependent on these very enterprises to serve as creators of employment and as contributors towards the country's revenue streams through taxation.

The late and/or non-payment of suppliers by government departments is having a serious negative impact on the sustainability of small business enterprises, many of whom play a critical role in creating and providing decent jobs. It is often found that enterprises doing business with government often experience serious cash flow difficulties, which are mainly due to the late and/or non-payment of their invoices. In order to keep their operations afloat, many enterprises resort to measures that include the retrenchment of personnel whilst a significant number often close down their operations as they are unable to sustain them.

Accounting officers are reminded that non-compliance with the requirement to effect payments within thirty (30) days from receipt of an invoice as required may be grounds for financial misconduct due to transgressions of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3

12.Conclusion

It is rather disturbing to note that the trend of government departments not settling their debts timeously impacts on the perception that the general public has of the public sector and its officials to the extent that some individuals advise SMMEs not to go into business with the State as "it never pays on time"

Taking the above into account, it is therefore recommended that FOSAD:

- **Notes** the number and value of invoices that are older than 30 days but which have not been paid is still exceptionally high and that government departments should aim to pay all outstanding debts prior to the expiry of the thirty (30) days' time period;
- **Urges** departments to aim to pay all outstanding debts prior to the expiry of the maximum allowable period of thirty (30) days from the date of receipt of an invoice**;**
- **Notes** that most of the reasons provided for the late and/or non- payment of invoices relate to factors internal to departments, which have been known to departments for long periods but have not been addressed adequately;
- **Notes** that some departments have been providing the same reasons for late and/or non-payment of invoices since the requirement to report thereon commenced and it would appear that little or no progress has been made to address the root causes of not being able to comply with TR 8.2.3;
- **Notes** that late and/or non-payment of invoices within 30 days is severely impacting on the sustainability of South African businesses and hampering job creation;
- **Resolves** that there should be greater cooperation between government departments and suppliers to reduce turnaround times for payments due to suppliers;
- **Resolves** that accounting officers must take steps to ensure that information, as required in terms of Instruction Note, is duly signed off and submitted to the relevant treasury in accordance with the timeframes stipulated in the Instruction Note;
- **Resolves** that accounting officers must take disciplinary steps against official(s) who fail to honour his or her department's contractual obligations timeously.

Compiled by:

Jayce M. Nair

Chief Director: Governance Monitoring and Compliance

Office of the Accountant-General

National Treasury

012 315 5482 (work)

082 809 7210 (mobile)