



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Payments to suppliers within 30 days

Compliance Progress Report for the period July 2014 to August 2014

October 2014

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1. Executive Summary

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.

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.

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 for the period July 2014 and August 2014.

The Auditor-General reported significant non-compliance with Treasury Regulations 8.2.3 in its general report, 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.

This Report illustrates the trend analysis of payments due to suppliers from January 2014 to August 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.

National departments obtained an average compliance submission rate of 99% and an average timeous submission rate of 63% of the exception reports to the National Treasury for the period July 2014 and August 2014. This represents a slight regression in both the compliance submission rate and the timeous submission

On 30 November 2011, the National Treasury issued Instruction Note 34 (hereafter referred to as the Instruction Note) to as 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. 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)

rate of exception reports to the National Treasury as compared to the same period last year where a 100% compliance submission rate and 66% timeous submission rate were obtained. However, when comparing the last reporting period of May 2014 and June 2014 to the period of July 2014 and August 2014, the compliance submission rate is maintained at 99% and there is a 3% regression in the timeous submission rate of exception reports. The analysis reveals that national departments still have a challenge to obtain a 100% timeous submission compliance rate of exception reports and are encouraged to improve in this regard as late submission of exception reports adversely affects the accuracy and completeness of the reports submitted to FOSAD.

The analysis for the national departments also reveals an improvement in the number of invoices paid after 30 days and the Rand value of number of invoices paid after 30 days for the period July 2014 and August 2014 when compared to the same period last year. Furthermore, there is a slight improvement in the number of invoices older than 30 days and not paid and a regression in the Rand value of invoices older than 30 days not paid when comparing the period of July 2014 and August 2014 to the same period last year. In summary the Rand value of both the number of invoices paid after 30 days and the number of invoices older than 30 days not paid regressed when comparing the last reporting period of May 2014 and June 2014 to the period of July 2014 and August 2014.

Provincial Treasuries obtained an average compliance submission rate of 100% and an average timeous submission rate of 67% of exception reports to the National Treasury for the period July 2014 and August 2014. Although the analysis reveals a 100% average compliance submission rate by the provincial treasuries from January 2014 to August 2014, the average timeous submission rate remains a challenge and has regressed to 67% 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 departments to the provincial treasuries, as late submission of exception reports affects the timeous submission rate of the reports to the National Treasury by the provincial treasuries. 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 average 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 the period July 2014 and August 2014 to the same period last year for the provincial departments. The analysis for the provincial departments also reveals a slight improvement in the Rand value of the number of invoices paid after 30 days and regression in the Rand value of the number of invoices older than 30 days and not paid when comparing with the same period last year. In summary there is an improvement in invoices paid within 30 days and the Rand value of invoices paid

within 30 days when comparing the last reporting period of May 2014 and June 2014 to the period of July 2014 and August 2014.

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.”*

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 in order to improve compliance with the *‘thirty day rule’*, the National Treasury issued Instruction Note 34 on 30 November 2011. 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.

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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 submission with Instruction Note 34 – National Departments

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

Table 1: Exception reports submitted by national departments (January 2014 – August 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%
July 2014	7-Aug-14	37	100%	18	49%
August 2014	8-Sep-14*	36	97%	28	78%

*15th was a Saturday/Sunday, exception reports due on the next working day
The differences in the number of reports received are due to the report received late

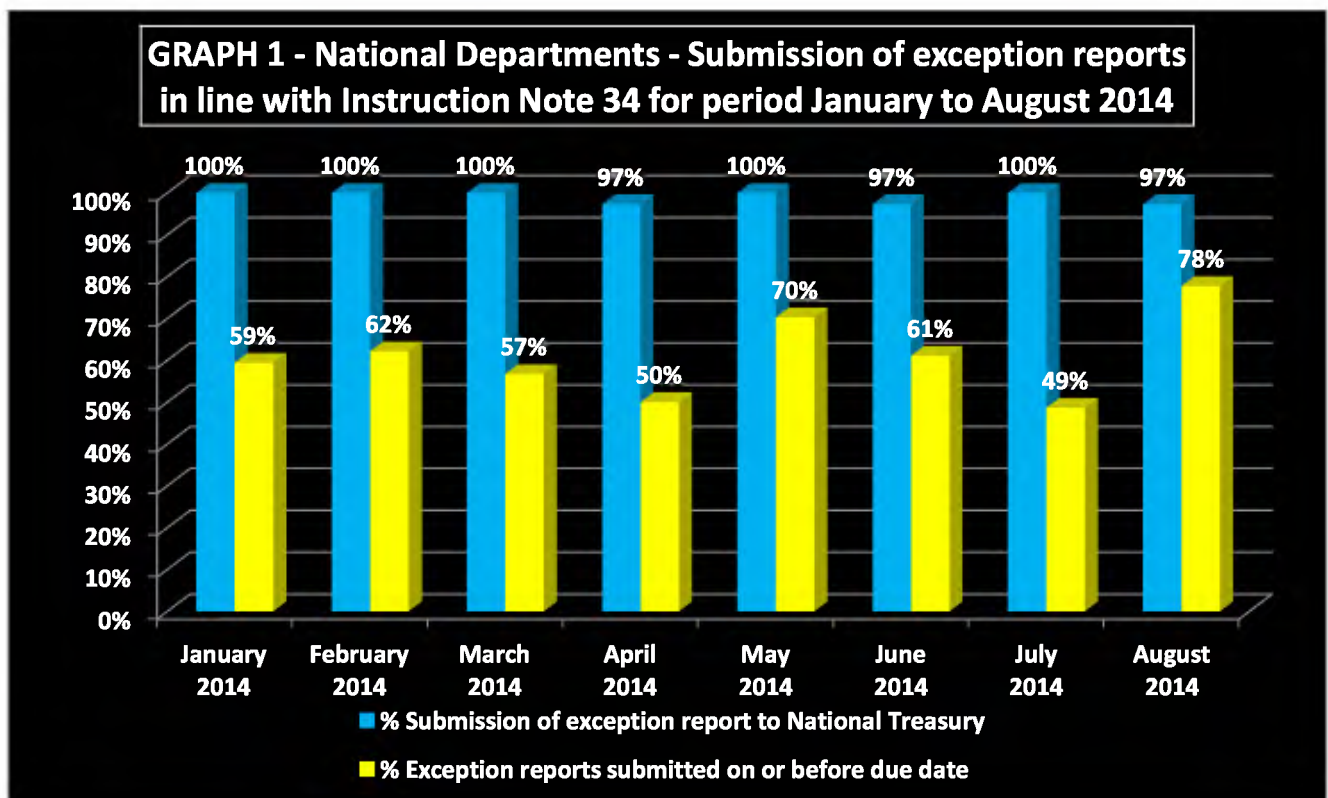
The table above reflects a 99% average compliance submission rate and a 61% average timeous submission rate of exception reports by national departments. Although the table indicates an improvement in the level of compliance submission, timeous submission of exception reports by national departments remains a challenge.

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

Treasury. The trend by the Department of Rural Development and Land Reform of not submitting the exception reports is unacceptable.

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 August 2014.

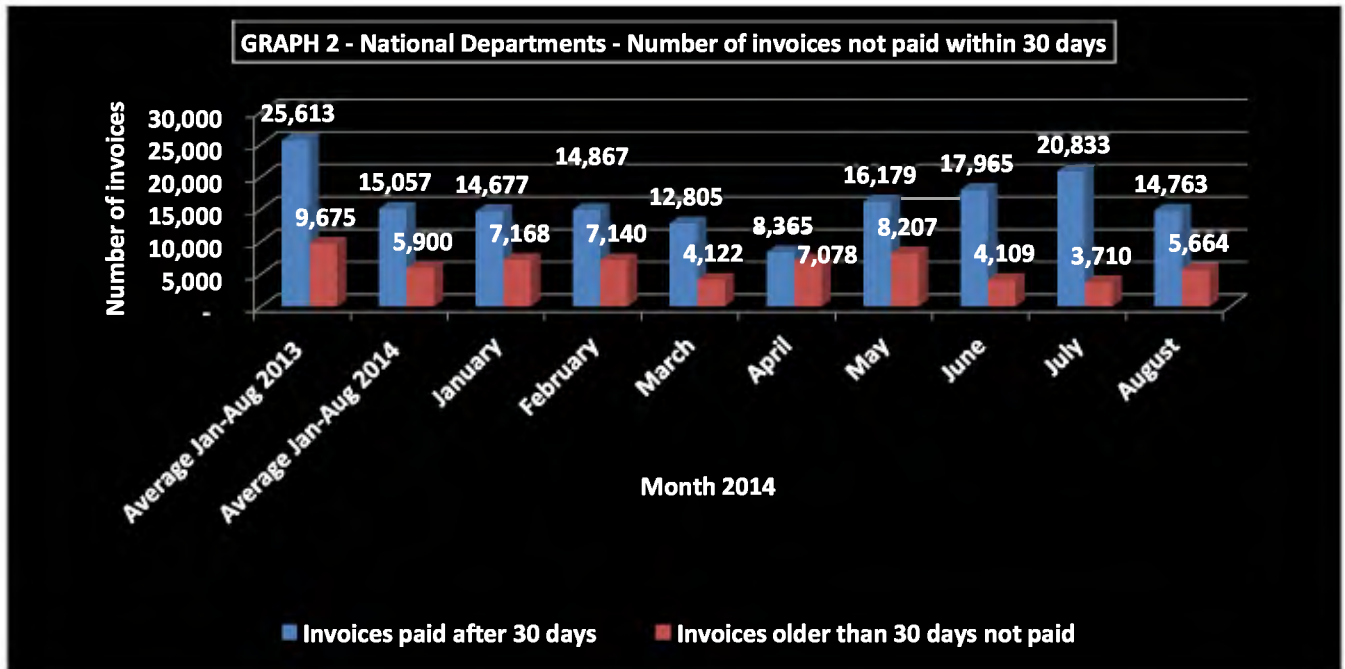


The above graph reflects 3% regression in the compliance submission rate and an improvement of 29% in the timeous submission rate for the period July 2014 and August 2014. There is however a room to achieve 100% timeous submission rate if enforcement to the requirements of the Instruction Note is exercised.

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 remains unpaid. The aforementioned information is provided for the period January 2014 to August 2014 and also includes the average figures for the 2013 calendar year and average figures for the 2014 year to date for comparison purposes.

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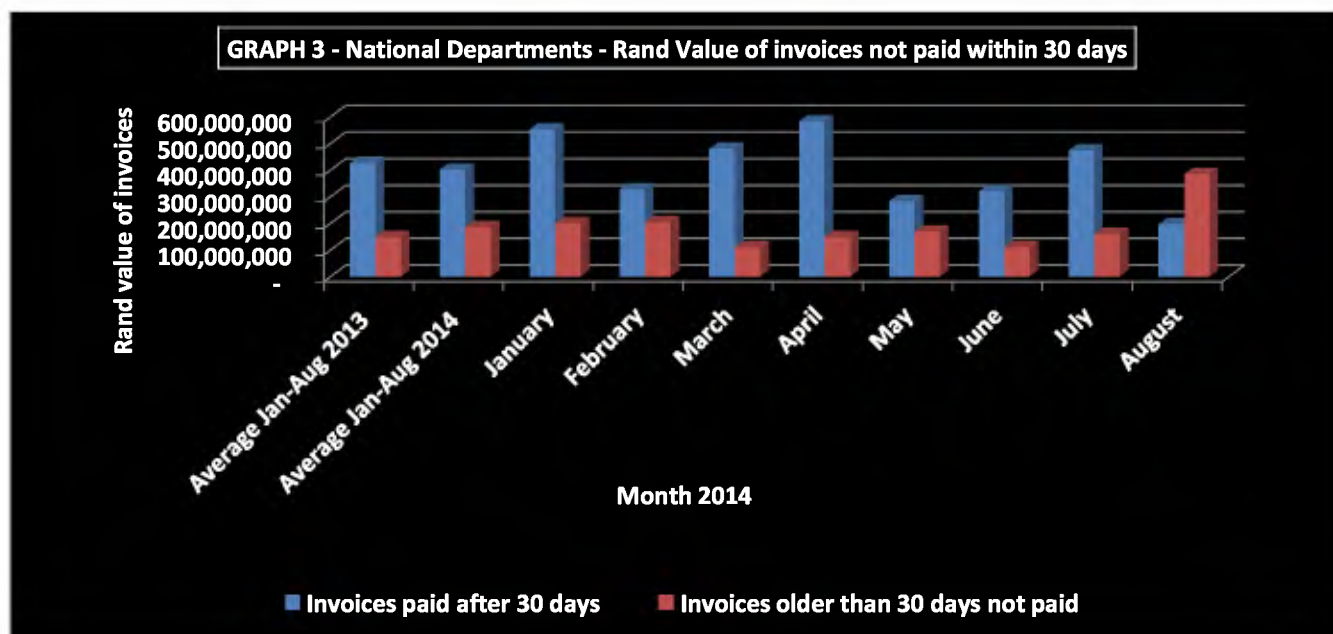
The above graph (Graph 2) indicates an improvement of 41% in the average number of invoices paid after 30 days and an improvement of 39% in the average number of invoices older than 30 days and not paid when comparing the calendar year of 2013 and 2014.

Information on hand also indicates an improvement of 29% in the number of invoices paid after 30 days and a regression of 53% in the number of invoices older than 30 days and not paid when comparing the month of July 2014 and August 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 slight improvement in the average Rand value of invoices paid after 30 days and a slight regression in the invoice older than 30 days which remained unpaid. Furthermore, invoices paid after 30 days in July 2014 amounted to R474 million and R196 million in August 2014. This represents an improvement of 59% in the Rand value of invoices paid after 30 days. Although the graph reflects an improvement in the Rand value of invoices paid after 30 days, there is however a regression of 25% in the average Rand value of invoices older than 30 days not paid. Invoices older than 30 days not paid in July 2014 amounted to R160 million and R385 million in August 2014. This represents a significant regression in the Rand value of invoice older than 30 days and not paid for the period of July 2014 and August 2014.

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In conclusion, Graph 3 (above) still largely represents a very high level of non-compliance with Treasury Regulation 8.3.2 and a slow improvement in relation to payment of suppliers within 30 days considering that the Instruction Note was issued in November 2011. Accounting officers need to pay more attention to this area by ensuring that invoices are paid timeously.

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

8. Status of submission with 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 August 2014.

Table 2: Exception reports submitted by provincial treasuries (Jan 2014 –August 2014)

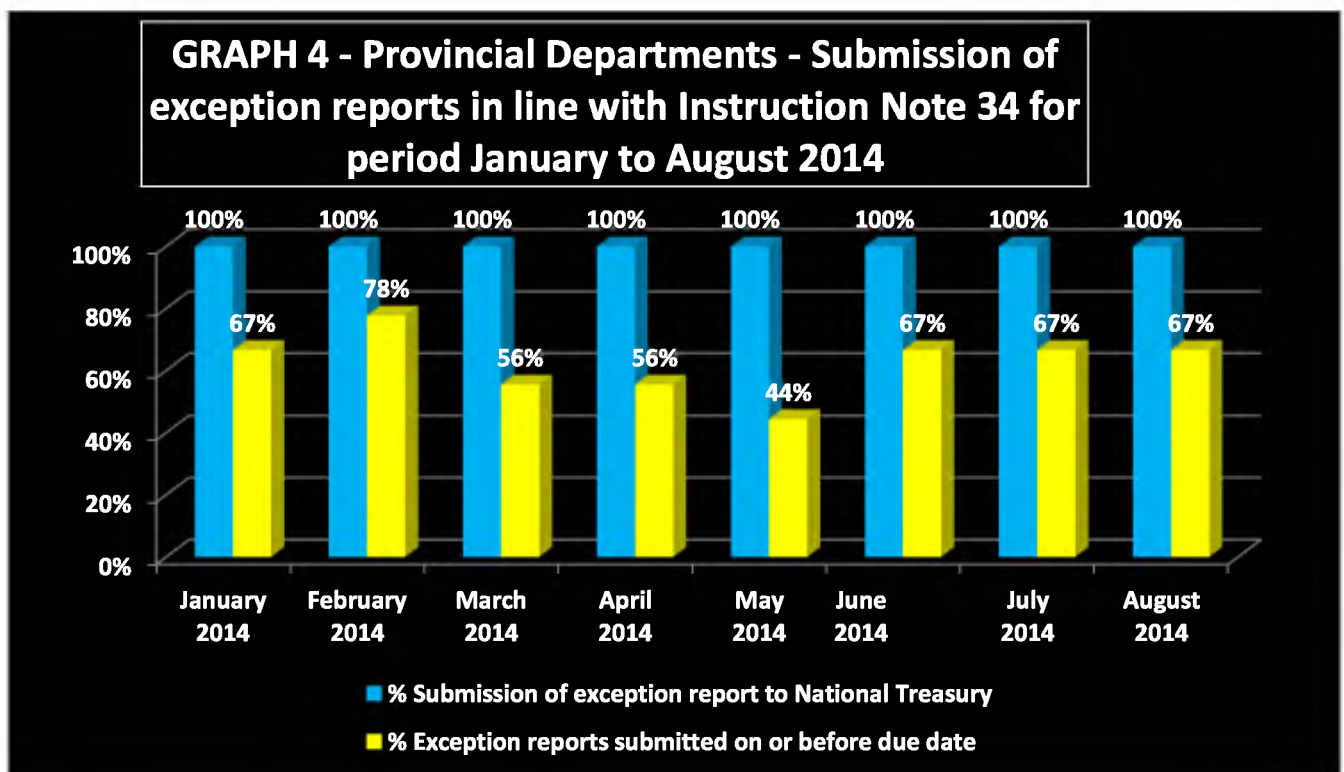
Reporting Month	Submission Due Date	Total Reports received	%	Submission on or before due date	%
January 2014	17-Feb-14*	9	100%	6	67%
February 2014	17-Mar-14*	9	100%	7	78%
March 2014	15-Apr-14	9	100%	5	56%
April 2014	15-May-13	9	100%	5	56%
May 2014	17-Jun-14*	9	100%	4	44%
June 2014	15-Jul-14	9	100%	6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

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

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The table above represents 100% compliance in respect of exception reports submitted to the National Treasury, but however reflects a continuous struggle in timeous submission of exception reports. An average of 63% is a regression when compared to same period last year, where an average of 71% 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 to August 2014.



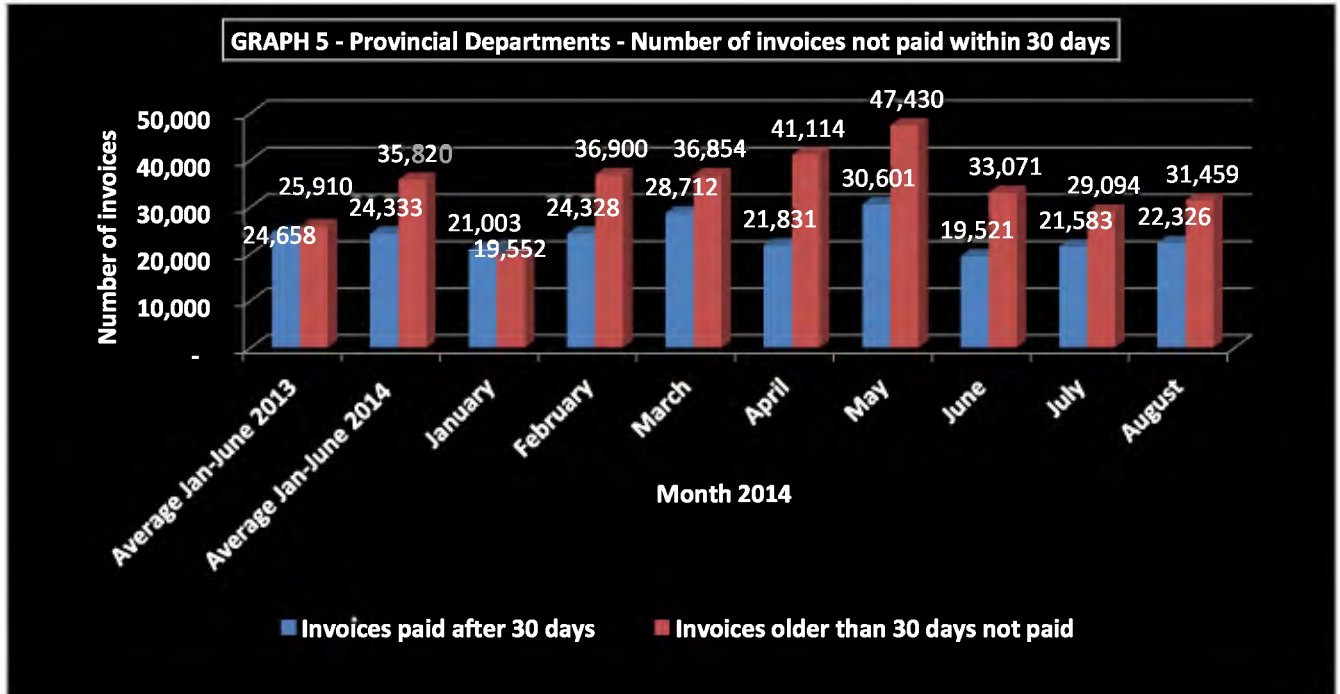
Whilst the above graph reflects a 100 % compliance submission rate for exception reports submitted by the provincial treasuries from January 2014 to August 2014, there is however still a challenge with the timely submission of these exceptions reports. It is noteworthy to mention that the rate of timely submission has been constantly sitting at 67% from June 2014 to August 2014. This illustrates a potential of improvement in timeous submission of exception reports. Provincial departments are urged to submit the exception reports to the provincial treasuries on time.

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

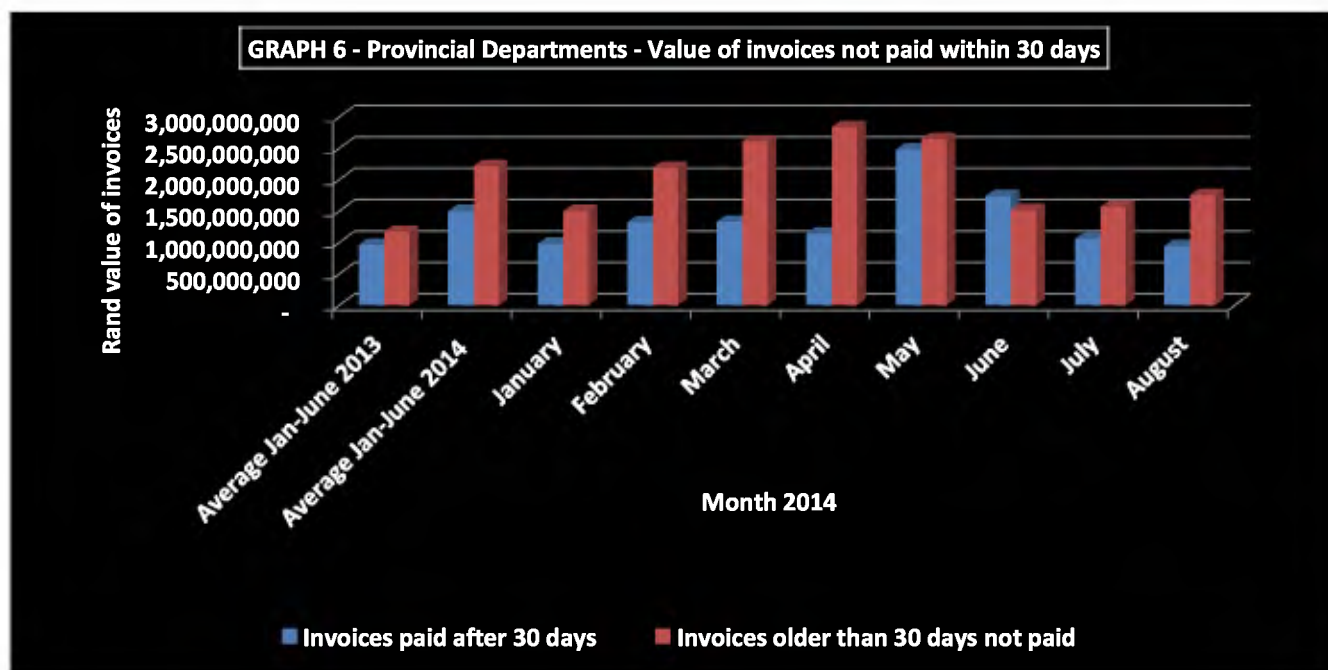
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paid. The aforementioned information is provided for the period January 2014 to August 2014, including the average figures for calendar year 2013 and average figures for calendar year 2014 to date for comparison purposes.



When comparing the average number of invoices paid after 30 days for 2013 (24 658) and 2014 (24 333) for the period January 2014 to August 2014, the average number of invoices has slightly improved. Furthermore, when comparing the average number of invoices older than 30 days not paid for 2013 (25 910) and 2014 (35 820) the number of invoices had regressed by 38%. The graph also reflects a regression in both the number of invoices paid after 30 days and the number of invoices older than 30 days not paid for the period July 2014 and August 2014. This suggests a very high level of non-compliance with Treasury Regulations 8.2.3 and a slow improvement 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 and the Rand value of invoices that were older than 30 days and which had not been paid. The aforementioned information is reflected for the period January 2014 to August 2014, including average figures for the calendar year 2013 and average figures for 2014 year to date for comparison purposes.



The above graph indicates a regression of 55% in the average Rand value of invoices paid after 30 days and a regression of 90% in the average Rand value of invoices older than 30 days not paid when comparing average figures for the calendar year 2013 and 2014.

Although the above graph indicates an improvement of 11% in the Rand value of invoices paid after 30 days from July 2014 to August 2014, there is also a regression of 12% in the Rand value of invoices older than 30 days which remained unpaid from July 2014 to August 2014.

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 non-compliance with Treasury Regulations 8.2.3 by provincial departments.

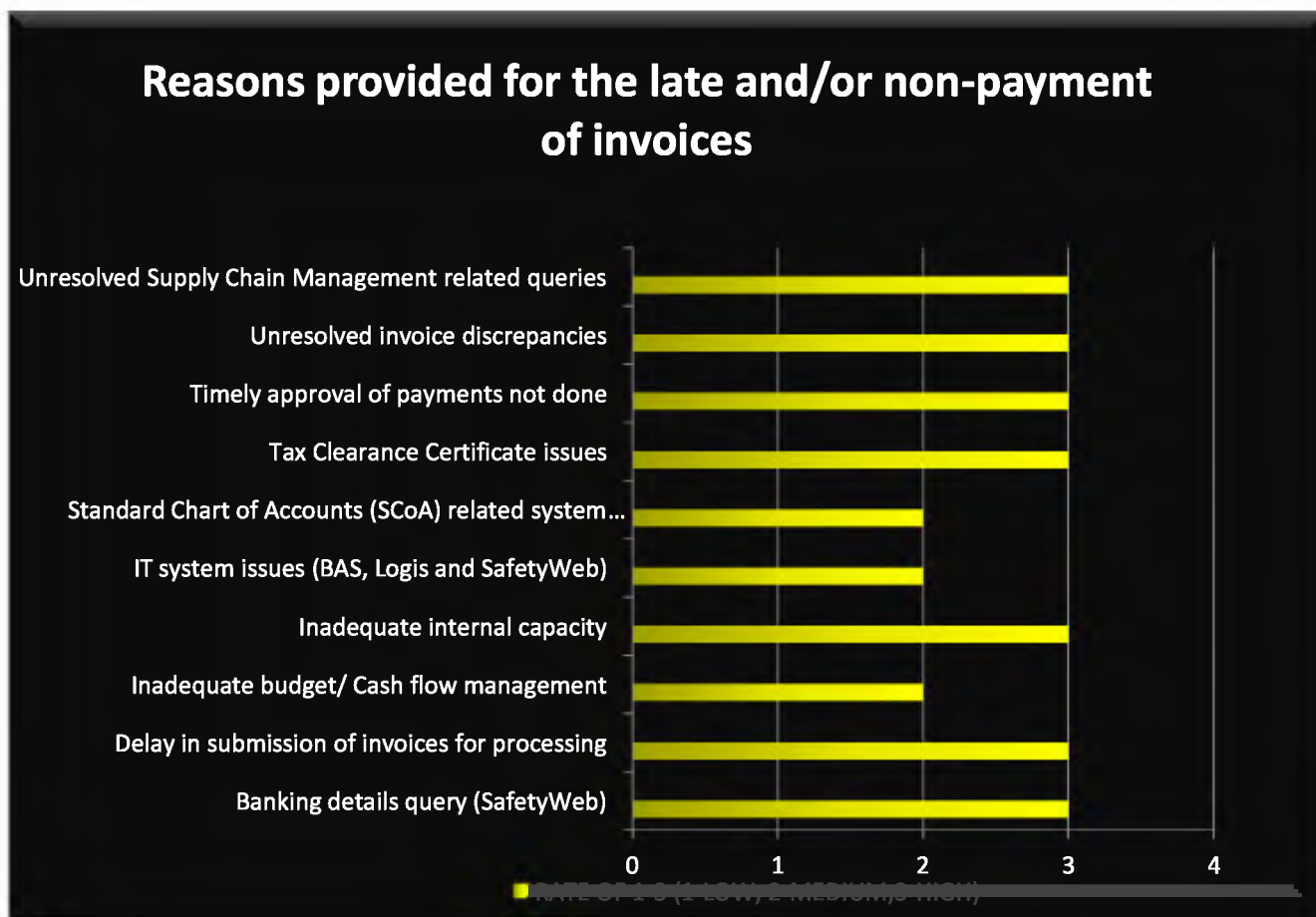
In conclusion, these statistics are of serious concern as they indicate challenges with the internal control systems relating to the tracking of invoices and thus resulting in late or non-payment of invoices. Much more needs to be done in the provinces, both by departments and provincial treasuries,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

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.



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 not clear as to why these issues are not adequately addressed as yet as most of the reasons are internal to departments and known for longer than a year. It is important to note that 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 will improve if the above reasons are adequately addressed.

11. Conclusion

Although the overall improvements are encouraging, non-compliance with Treasury Regulation 8.2.3 remains a serious challenge and significant attention is still required to improve compliance with the legislation. 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 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.

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”

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.

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;

- **Urges** accounting officers to distribute a copy of this report to their respective :
 - Executive Authorities
 - Chairpersons of Audit Committees;
 - Heads of Internal Audit;
 - Chief Risk Officers; and
 - Executive Committee of Management (EXCO)

- **Urges** Heads of Provincial Treasuries to bring the content of these reports to the MEC in their respective provinces.

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