national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Payments to suppliers within 30 days

Consolidated Report for the period January 2012 to December 2012

February 2013

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1. Executive Summary

In terms of Treasury Regulation 8.2.3, accounting officers are required to ensure that their departments pay their creditors within thirty (30) days from receipt of an invoice. Pursuant to reports by the Auditor-General, the Forum of South African Directors-General (FOSAD) requested the National Treasury to provide the Forum with regular information on departmental compliance with this requirement. On 30 November 2011, the National Treasury issued Instruction Note No. 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.

This consolidated report provides a twelve month assessment of departmental compliance with the '*30 day rule*', the efforts of oversight structures to improve adherence with this legislative requirement, the most common reasons advanced by departments for not being able to meet their creditor obligations timeously and the effects of non-compliance with this requirement. This report also highlights the improvements in payment patterns of national and provincial departments throughout the calendar year ended 2012.

On analysis of data information collated over a period of twelve (12) months, it is abundantly clear that departments have still a long way to go to ensure that suppliers who do business with government are paid within 30 days from receipt of an invoice. The Small Medium and Micro Enterprise (SMME) sector is the most affected with many of such businesses experiencing severe financial constraints without a regular cash flow. Some are resorting to retrenching employees to keep their businesses liquid whilst others resort to more drastic measures, such as liquidation. These solutions are often counterproductive in that this sector of the economy employs up to forty three (43) per cent of South Africa's workforce. Employers are not going to be able to create more jobs if government, as the largest consumer of goods and services, is not serious about paying its creditors on time.

This report serves to update FOSAD on the status of compliance with Instruction Note 34 since the last report that was submitted in December 2012. It is hoped that this report will also form the basis for robust discussions on possible actions that may be taken in order to ensure that departments comply with the requirement to pay their suppliers timeously.

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

Section 38(1)(f) of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) 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 from date of 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 Regulation 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 comply with the Treasury Regulation provision that requires payments to be settled within 30 (thirty) 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 30 (thirty) days from receipt of an invoice.

On 31 May 2010, the National Treasury forwarded a communique to institutions urging better compliance with TR 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 Resolution

Recognising that the late and/or non-payment of suppliers is seriously impacting on the sustainability of Small Medium and Micro Enterprises (SMMEs), the Forum of South African Directors-General (FOSAD) resolved that the National Treasury must provide the Forum with regular reports on the extent of departmental compliance with Treasury Regulation 8.2.3. As such, the National Treasury submits bi-monthly progress reports to FOSAD on 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.

5. Instruction Note Number 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 No. 34 on 30 November 2011 (hereafter referred to as the Instruction Note). The purpose of this Instruction Note is to enhance compliance with section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3 by requiring departments to submit relevant information on the late and non-payment of suppliers within 30 days from receipt of an invoice, and the reasons therefore.

The Instruction Note further requires of departments to implement systems (manual or electronic processes or procedures) that will enable an invoice to be tracked from the time it is received at a cost centre until the time 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 details of the following information:

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

The first tranche of information submitted in accordance with the Instruction Note was due on 7 February 2012 and as at that date, only six (6) departments had submitted exception reports. A further sixteen (16) departments submitted exception reports for January 2012 in the months that ensued to bring the tally up to twenty two (22) reports that were received for the first month, which represents a compliance rate of only 59% of departments.

After January 2012, the submission rate of exception reports by national departments improved significantly with a return rate of 92% being recorded for information related to February 2012. This reporting rate was more or less sustained throughout the calendar year. For the months of September 2012 and October 2012, all national departments submitted exception reports, thus representing 100 % compliance in this regard. For December 2012, however, only 12 departments submitted their exception reports timeously and delays in the submission of information for this month can be attributed to the holiday period when departments generally operate with a much smaller contingent of staff.

There was a noteworthy improvement in the number of exception reports that were submitted timeously throughout the year, which may be attributable to FOSAD placing increased importance on these reports at its meetings, an increased awareness of the Instruction Note by departments and reduced ambiguity over due dates for submission of exception reports to the National Treasury.

Whilst national departments have recorded significant improvements in the submission of their exception reports, timeous submission by departments remain a challenge with the annual average percentage of compliance amounting to only 41% for 2012. This is of particular concern, especially since the absence of their information affects the completeness of information in the National Treasury's reports to FOSAD.

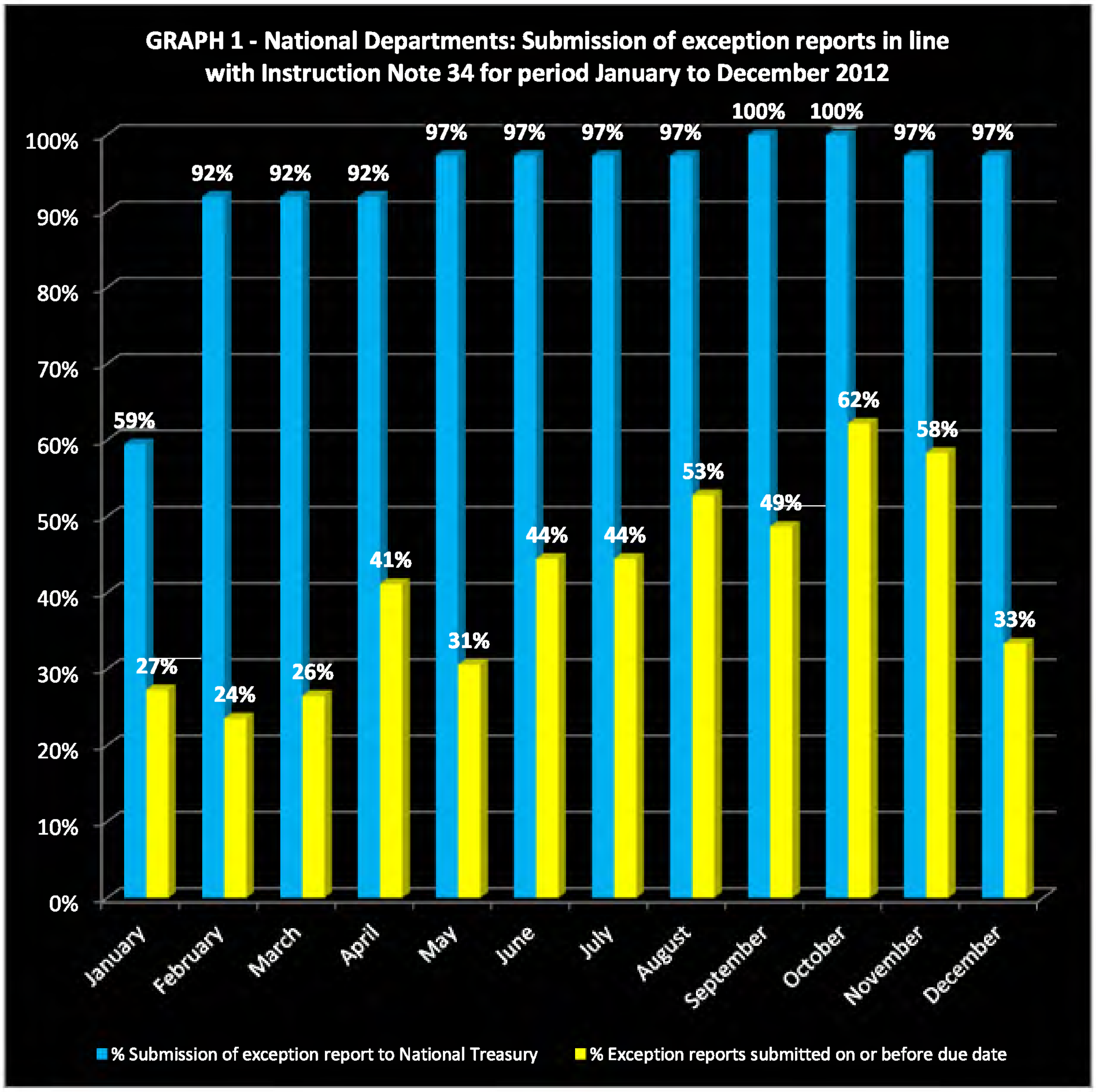


TABLE 1 - Five departments showing best performance in submission of exception reports in line with Instruction Note 34 (total & timely submissions)

VOTE	Name of Department	Total report submissions for year		Submission on or before due date	
		Number	%	Number	%
6	Performance Monitoring and Evaluation	12	100%	11	92%
10	National Treasury	12	100%	11	92%
12	Public Service and Administration	12	100%	11	92%
35	Tourism	12	100%	11	92%
36	Trade and Industry	12	100%	10	83%

TABLE 2 - Five departments showing worst performance in submission of exception reports in line with Instruction Note 34 (total & timely submissions)

VOTE	Name of Department	Total report submissions for year		Submission on or before due date	
		Number	%	Number	%
8	Women, Children and People with Disabilities	5	42%	0	0%
25	Police	8	67%	3	38%
28	Economic Development	9	75%	5	56%
27	Communications	10	83%	1	10%
19	Social Development	10	83%	2	25%

The following is a summary of reasons provided by the abovementioned departments for their poor performance:

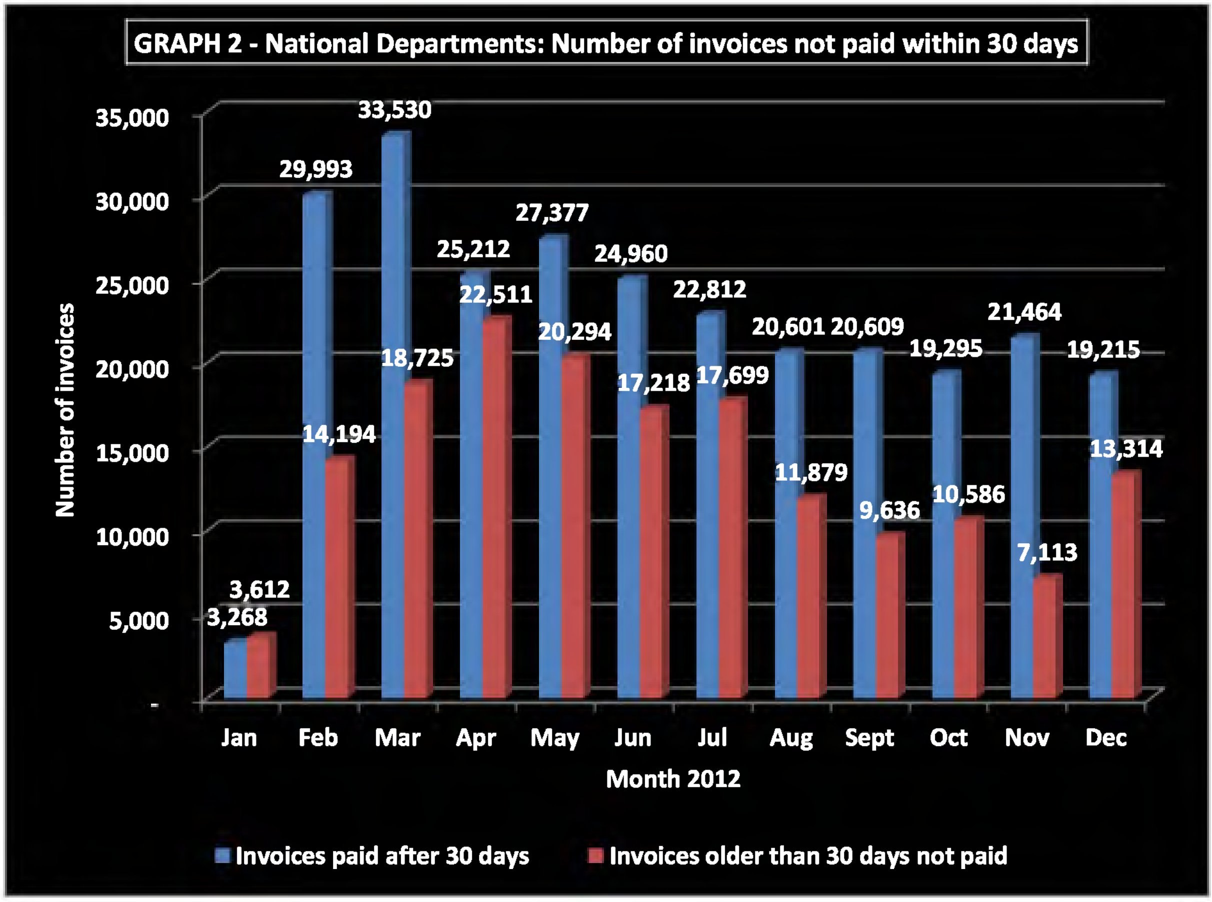
a. The Chief Financial Officer, who is entrusted with the task of ensuring compliance with the Instruction Note, has left the employ of the department;
b. The department does not have systems to track and monitor invoices as they are received and paid;
c. Goods and services are being procured centrally with the delivery of such taking place at a decentralised level;
d. There are weaknesses in the financial management and internal control environment of the department; and
e. The department does not have sufficient capacity and lacks critical controls which often result in processes being either avoided or disregarded.

Most departments that struggled to submit their exception reports timeously were also found to default significantly with the requirement to pay suppliers within thirty (30) days. These departments have, however, committed to improving their processes and implementing systems to improve compliance with the Instruction Note and to paying suppliers within thirty (30) days from receipt of an invoice.

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

7. Analysis of exception reports information – National Departments

Graph 2 (below) provides information on the number of invoices that were not paid within thirty (30) days from receipt of invoice and information on invoices that were older than thirty (30) days and which were not paid from January 2012 to December 2012 in the respective months.



The above graph illustrates a reduction in the number of invoices that were paid after 30 days. In March 2012, 33 530 invoices were processed after 30 days from receipt of an invoice compared to December 2012 when 19 215 of such invoices were processed. Whilst this represents a significant decrease of 42%, it must be noted that the significant number of invoices that were processed in March 2012 could be attributed to departments wanting to pay all outstanding invoices due to the financial year end approaching, hence contributing towards the 'March spike'.

Invoices older than 30 days that were on hand and which were not paid decreased notably from 22 511 in April 2012 to 7 113 in November 2012. This number, however, increased substantially to 13 314 in December 2012 and this increase could possibly be attributed to staff going on leave and there not being adequate arrangements for the processing of payments.

The following table shows five (5) departments that have displayed the most improvement in terms of effecting their payments timeously. This information is based on an analysis of information that is contained in exception reports that national departments submitted to the National Treasury during 2012. This information also serves to highlight the success stories since implementation of the Instruction Note.

TABLE 3 - Five Departments showing biggest improvement in effecting payments within 30 days

Vote	Department	Description of improvement in paying invoices within 30 days
37	Transport	Improved from 1,143 invoices (R 6,592,136) paid after 30 days in May 2012, to 0 invoices (R nil) paid after 30 days in December 2012
36	Trade and Industry	Improved from 32 invoices (R 5,092,316) paid after 30 days in January 2012, to 0 invoices (R nil) paid after 30 days in December 2012
35	Tourism	Improved from 74 invoices (R 532,182) paid after 30 days in August 2012, to 1 invoice (R 38,500) paid after 30 days in December 2012
16	Health	Improved from 376 invoices (R 10,838,450) paid after 30 days in February 2012, to 16 invoices (R 371,840) paid after 30 days in December 2012
13	Statistics South Africa	Improved from 3,330 invoices (R 28,467,486) paid after 30 days in August 2012, to 23 invoices (R 197 870) paid after 30 days in December 2012

It is also worthy to note that the above departments either already had mechanisms in place to track the receipt and processing of invoices through their department, or have, subsequent to the issuing of the Instruction Note, implemented such mechanisms and improved internal processes.

TABLE 4 - Five Departments showing little improvement in effecting payments within 30 days, very high average value and number of invoices unpaid

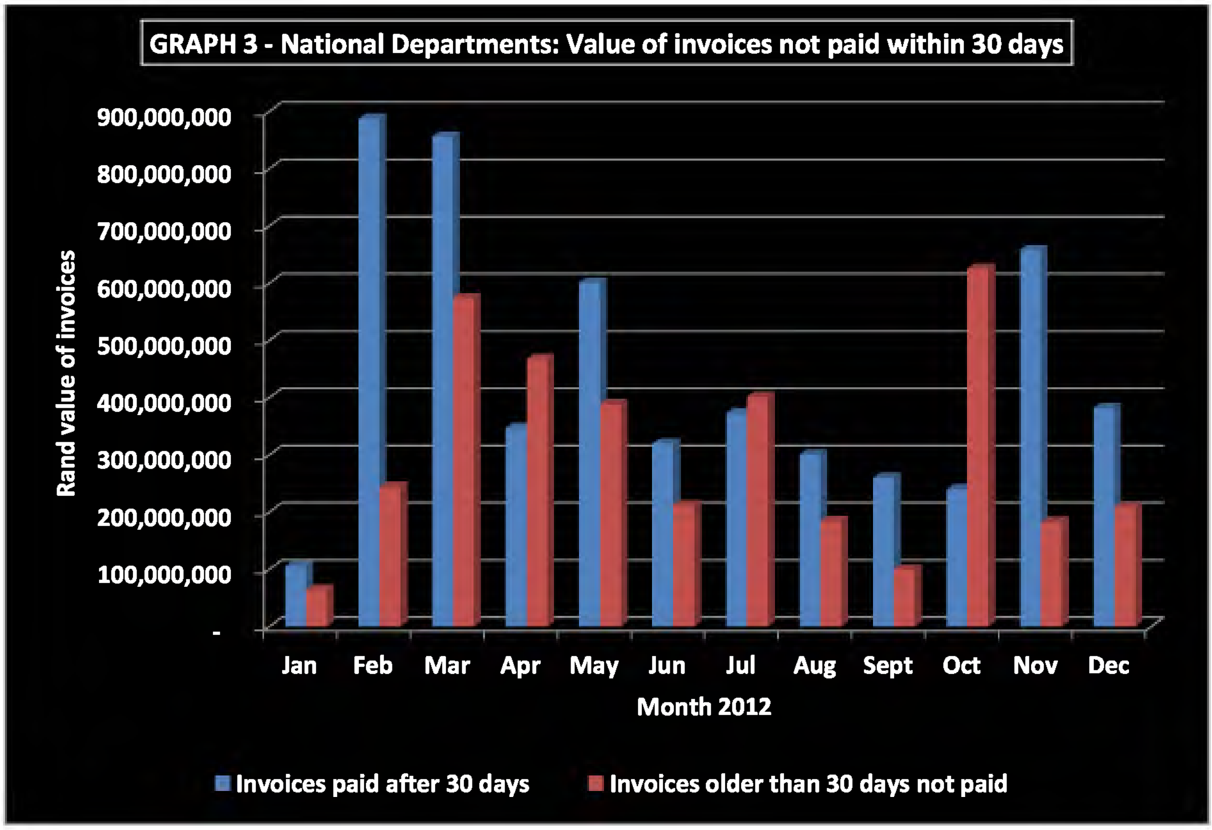
Vote	Department	Invoices paid after 30 days		Invoices older than 30 days not paid	
		Average Rand value 2012	Average Number 2012	Average Rand value 2012	Average Number 2012
22	Defence and Military Veterans	70,989,154	11,266	1,517,968	344
25	Police	58,164,748	6,964	5,351,402	274
24	Justice and Constitutional Development	86,117,484	2,149	172,955,218	9,588
21	Correctional Services	43,184,240	1,186	51,417,589	1,350
7	Public Works	83,448,357	860	44,669,564	1,062

The table above provides details of those departments that have displayed the least improvement in invoice payment patterns since the monitoring of such started with the inception of the Instruction Note. This is indicated by the high average number of invoices with corresponding average Rand values of invoices that were not paid within 30 days.

An important factor to take into consideration during this analysis is the relative size of the above mentioned departments, all of which are highly decentralised and have regional and/or district offices. Some of these departments have reported that a contributing factor to the late processing of invoices is due to a centralised payment function that they operate, resulting in invoices taking time to reach the section that actually processes payments.

Despite the geographical spread of regional/district offices, it is still extremely important that these departments implement invoice tracking systems, faster verification processes for completed work and improvements in payment mechanisms, as required by Instruction Note 34, to improve their ability to capture and process correct and complete payments within agreed timeframes.

Graph 3 (below) provides information on the Rand values of invoices for the period January 2012 to December 2012 that was paid after thirty (30) days from receipt. The Graph also provides information on invoices that were not paid and which were older than thirty (30) days.



Over the 12 month period, national departments showed a decrease in the Rand value of invoices that were processed after 30 days, from a high of R 887 million in February 2012 to R 382 million in December 2012, a decrease of 57% which is similar to the percentage decrease in number of invoices that were paid after the 30 day period. It would appear that there is a positive correlation in the Rand value and the number of invoices processed late. The very high Rand value of invoices paid late in March 2012 (R 855 million), may be attributed to departments trying to settle outstanding invoices prior to the beginning of the new financial year. During November 2012, there was a significant spike in the value of invoices (R 658 million) paid after 30 days, most of which can be attributed to the Department of Correctional Services which alone processed 1,209 invoices to the value of R 391 million.

The Rand value of invoices that were older than thirty (30) days but which remained unpaid decreased substantially from March 2012 to December 2012. This indicates that payment patterns across national departments are improving and are moving towards the trend of paying suppliers on time.

Considering that some suppliers go to extreme lengths to provide quality goods and services to departments, sometime at short notice, it is not an acceptable practice for departments to delay their payments, for extended periods of time and often without a plausible reason.

The slow and/or non-payment of invoices impacts on the financial health of such suppliers who are often forced to borrow money in order to meet their contractual obligations with the State, which in turn fails to pay them timeously, as required in terms of the very contracts which the suppliers are obliged to meet.

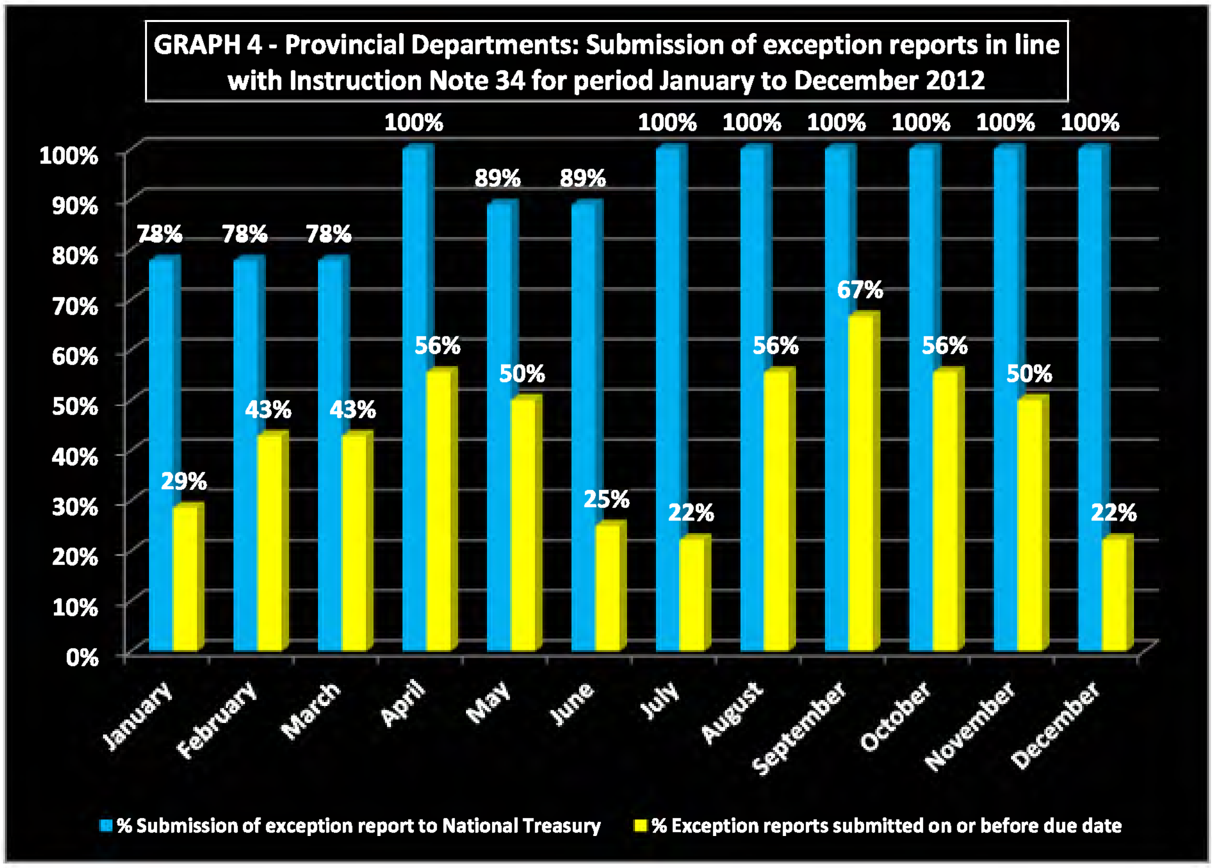
Despite having clauses in their contracts that allow for the charging of interest, suppliers are often reluctant to charge departments for overdue accounts for fear of reprisal from departments. Banks and other financial institutions from whom these suppliers source funding do, however, charge suppliers interest on their borrowed funds, thus disadvantaging these service providers to a considerable extent.

From an economic perspective, it must be emphasised that SMME`s are not just suppliers but are also employers and consumers with an important role to play in positioning themselves in a market with purchasing power. Their demand for industrial or consumer goods and their ability to create jobs stimulates the activities of their suppliers, hence furthering government's objective of job creation and growing the economy. Therefore it is important to strengthen their ability to generate income so that they may also be able to assist in improving the state of affairs in South Africa through, amongst others, contributing towards the taxation coffers. Opportunities therefore need to be created for SMMEs to provide manufacturing inputs to larger manufacturers and to government, thus encouraging entrepreneurship.

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

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

During the 12 months ended December 2012, provincial treasuries were only able to achieve a 100% compliance rate for the submission of exception reports to the National Treasury during the months of April, August, September October and December 2012. All nine (9) provincial treasuries did, however, submit monthly collated compliance information relating to their respective provincial departments, although some inputs did not contain information in respect of all provincial departments under that treasury's watch.



Although compliance with Instruction Note 34 in the provinces has improved since the inception of the Instruction Note, it is still concerning that the majority of exception reports are not being submitted timeously to the National Treasury, as required in terms of the Instruction Note. For the period ended December 2012, it is particularly disturbing that only two provincial treasuries submitted exception reports timeously.

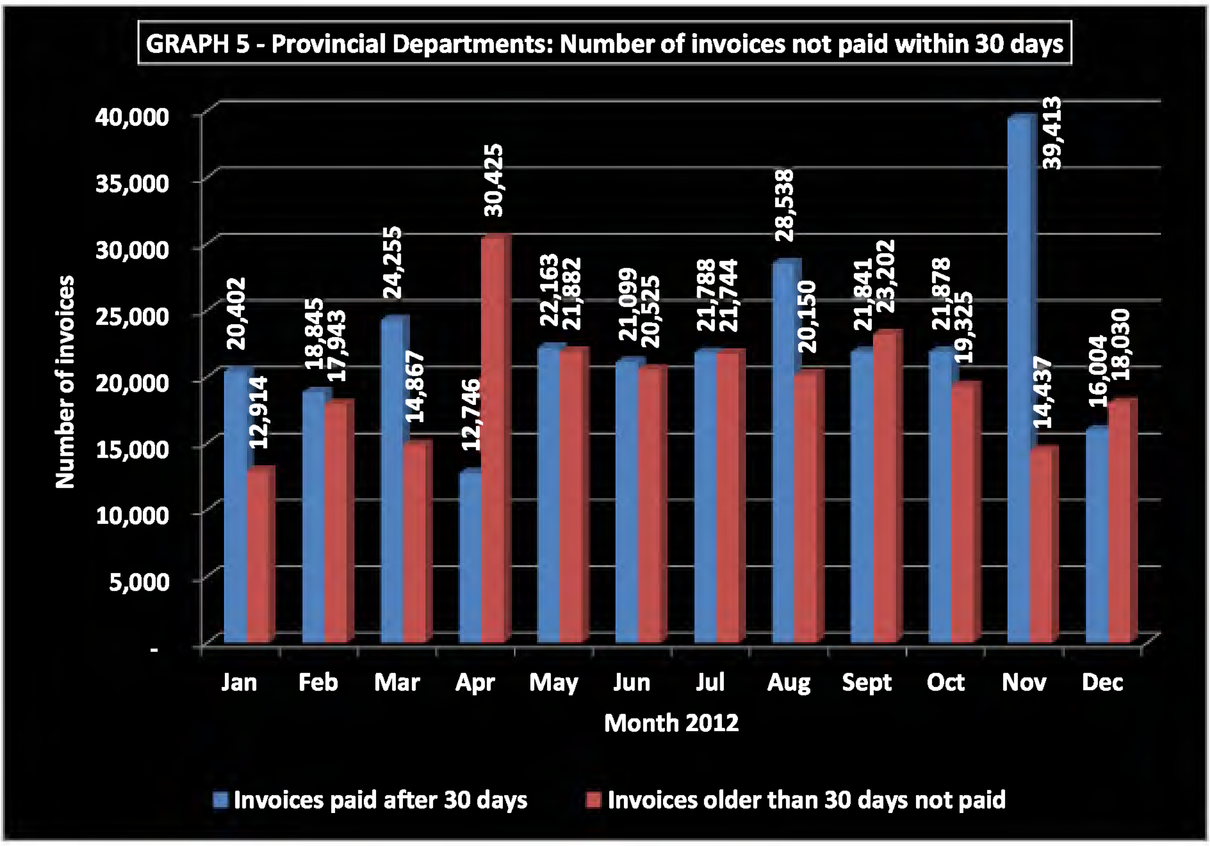
The National Treasury expects provincial treasuries, as overseers of financial management in the provincial sphere of government, to be in a better position to enforce compliance within provincial departments and to ensure that the practice of not paying suppliers timeously is addressed. Furthermore, it is disconcerting to note that not all provincial departments are submitting the required information to their relevant treasuries. This affects the quality and completeness of information that the National Treasury reports to FOSAD.

The Limpopo Provincial Treasury and the North West Provincial Treasury are the only provincial treasuries that submitted exception reports that were completed by all their departments in the twelve (12) months ended December 2012. This is commendable and allows the National Treasury to be able to conduct a more meaningful analysis of payment trends within the province.

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

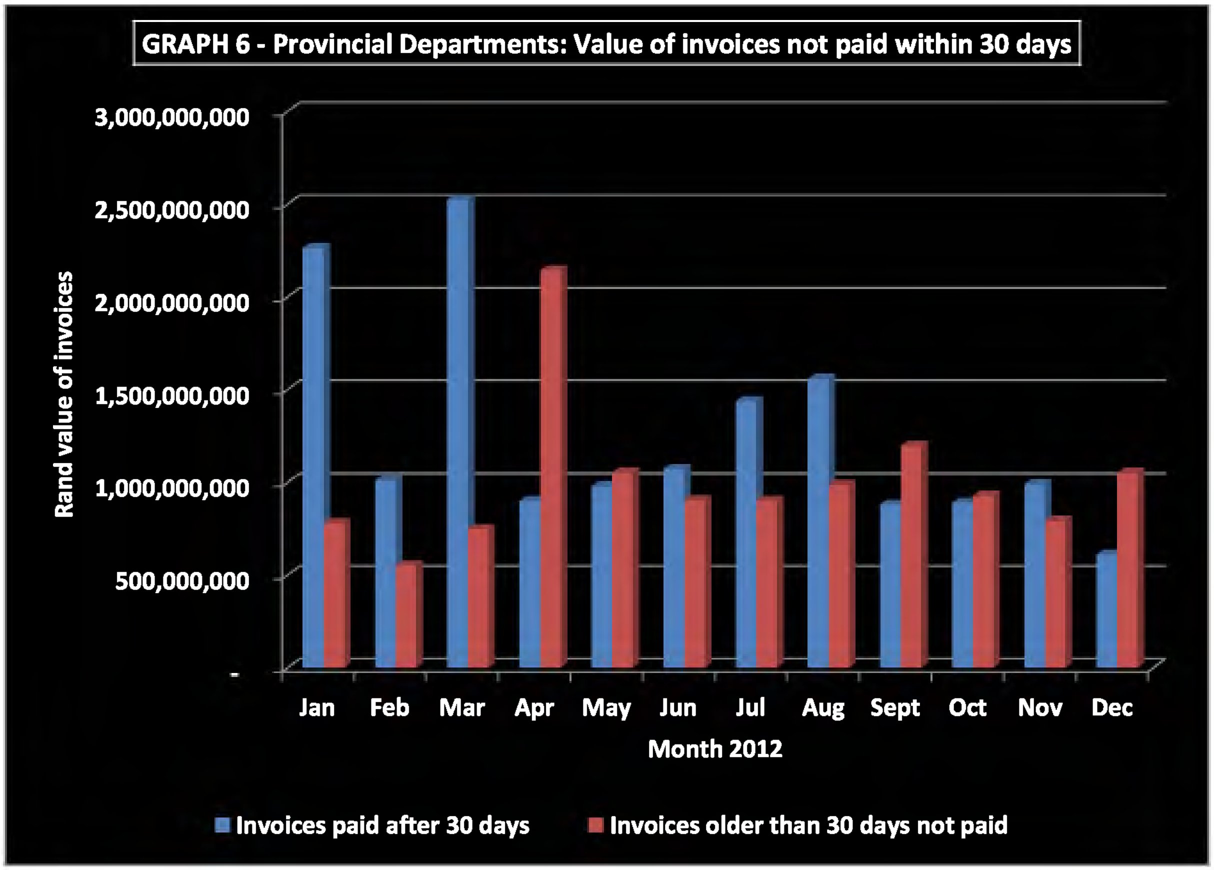
9. Analysis of exception reports – Provincial Departments

Graph 5 (below) provides information on the number of invoices that were not paid within thirty (30) days from receipt of an invoice. The graph also provides information on invoices that are older than thirty (30) days and which were not paid. The aforementioned information is provided for the period January 2012 to December 2012.



For the period January 2012 to December 2012, provincial information in the above graph reveals that, the average number of invoices that were paid after thirty (30) days amounted to 22 414 whilst the average number of invoices that were on hand and which were still to be paid amounted to 19 620. These two averages are extremely high and the effect of delaying payment to suppliers can really be detrimental, especially to SMMEs who are dependent on a regular cash flow. The spike in the amount of invoices paid after thirty days in November 2012 may be attributable to additional funds having been made available through a province's adjustments budget to meet such expenses and/or increased compliance with exception reports submitted to the National Treasury.

Graph 6 (below) provides information on the Rand value of invoices that were paid after (30) days from receipt of invoices. The graph also provides similar information on invoices that were older than thirty (30) days and which had not been paid. The aforementioned information is reflected for the period January 2012 to December 2012.



Increases in departmental spending to R 2 523 million towards the end of the financial year, often referred to as the 'March spike', could be ascribed to departments making increased purchases (whether necessary or not) due to the availability of funds on their budgets, resulting in 'fiscal dumping'. This resulted in a significant increase in the number of invoices on hand, which exceed 30 days, but which were not paid for April 2012. The trends at national department level are similar.

Towards the end of the 12 month period, there has been a steady decrease in the value of invoices not paid within 30 days, from R 881 million in September 2012 to R 610 million in December 2012, a decrease of 30%.

Of serious concern is the high value of invoices that are older than 30 days that have not been paid. In some months this value was greater than the value of invoices that were older than 30 days but which were paid. This indicates serious challenges with the internal control systems relating to the tracking of invoices. Much more needs to be done in the provinces, both departments and provincial treasuries, to correct this trend and to focus on paying suppliers who have submitted valid invoices within 30 days of receipt.

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

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

Based on an analysis of exception reports submitted by national departments and provincial treasuries over the 12 month period, the following are the ten most reported reasons (in no particular order) as being the root cause of departments not paying suppliers timeously:

a) Banking details query (SafetyWeb)

Departments who are not in possession of suppliers' correct and updated banking details is a reason provide by at least a third of national departments and this reason also appears widespread across provincial departments. Some of the reasons provided in this regard include delays caused by the process of verifying banking details of suppliers, which has been reported to at times take up to four (4) days to finalise, and the rejection of suppliers' details on SafetyWeb due to differing banking details. In this regard, it is worthy of note that departments have a role to play in ensuring that the aforementioned problems are minimised or eliminated. It is procedural and sound business practice to ensure that all supplier and banking verification takes place at the time when contracts are entered into or when orders are placed with suppliers.

b) Delay in submission of invoices for processing

Invoices being submitted late for processing within departments are a major contributing factor in the scourge of departments paying suppliers late. It has been reported that in some instances invoices are received but are either misfiled, improperly recorded or just merely left on the table or in the drawers of some officials without being recorded and taken to the relevant centre for processing. This internal control deficiency must be rectified through proper education of all officials within departments on the consequences of not paying suppliers timeously. In addition, it must be noted that should interest be charged on overdue accounts, such interest shall be regarded as fruitless and wasteful expenditure and must be recovered from the official(s) who caused that invoice not to be paid timeously. Such a transgression shall be regarded as financial misconduct with the accompanying disciplinary processes.

c) Inadequate budget / cash flow management

It is particularly concerning that although some departments don't readily have the funds to pay for goods and/or services that they have ordered yet they continue with regardless. This is an unacceptable practice as it leads to the departments incurring expenditure for which they are unable to meet timeously without having to shift internal funds. Furthermore, this is not considered a plausible reason for late and/or non-payment since departments are required to procure against demand and acquisition plans, meaning that acquisitions ought to have been planned and budgeted for. Departments need to manage their budgets in an effective and efficient manner in line with their strategic and annual performance plans.

d) Inadequate internal capacity

Some departments have cited the lack of capacity within their finance units as being one of the main reasons for failing to process payments timeously. Ideally, vacancy levels within departments should not exceed five percent (5 %). Departments are therefore urged to employ the right persons with the right qualifications, skills and attributes in relevant positions to fill all unfilled vacancies. This will ensure that there are adequate skills and capacity to perform the duties within the payment function. This will also ensure that there is sufficient segregation of duties to not compromise on the quality of work being performed. Lack of human capacity in departments has been one of the major causes of control system breakdowns; hence it is also key focus area of the Auditor General.

e) IT system issues (BAS, Logis and SafetyWeb etc.)

Systems being slow, 'hanging' and the generation of system errors are also common reasons that departments provide for the late and/or non-payment of invoices. Such system problems are not constant in nature and therefore departments are urged to determine suitable times during the day when payments can be captured on the financial system. If there are continuous IT related system problems, departments should be proactive and report such to the State Information Technology Agency with a view to resolving these problems timeously to ensure minimal delays in the processing of invoices

f) Standard Chart of Account (SCoA) related system problems

Standard Chart of Account (SCoA) changes comprise the coding of items used for classification, budgeting, recording and reporting of revenue and expenditure within the accounting system in order to facilitate the recording of all transactions affecting assets and liabilities. The National Treasury provides adequate training, circulars and guidance in this regard prior to any changes being effected. Departments are urged to be proactive in implementing the relevant changes so as to avoid having problems with the relevant codes when they become effective.

g) Tax clearance certificate issues

The issue of Tax Clearance Certificates either having expired or suppliers taking long to provide such to departments is considered ridiculous. In the first instance, departments are required to obtain and ascertain the validity of such documents prior to entering into contracts with suppliers. Departments should take care to ensure that they only enter into contracts with suppliers who have all their tax affairs in order so as to avoid such problems.

h) Timely approval of payments not done

This relates to relevant managers within departments not providing approval for payments to be actioned timeously due to vacation leave and other commitments. This causes unnecessary delays in the payment process and is counterproductive to efforts of other employees who may have performed their functions diligently and timeous, as required. These unnecessary internal process delays not only affect the department and suppliers but show a lack of proper attention or care being given by personnel in improving payments to suppliers. As such, powers should be delegated to relevant staff members in order to avoid there being cases where payments are due to be made but the relevant signatory is unavailable to sign off on the payments.

i) Unresolved invoice discrepancies

Invoices that contain discrepancies and/or are currently under investigation to establish their validity need not be included in the reports submitted to National Treasury as this distorts the figures submitted and thus impacts on the analysis the National Treasury conducts. Incorrect / invalid invoices should be returned to suppliers to enable them to correct and then re-submit.

j) Unresolved Supply Chain Management related queries

These relate to circumstances where goods are procured without the correct Supply Chain Management processes being followed thus leading to queries, either internally or with third parties such as suppliers. This is considered unacceptable as departments are expected to constantly follow all the required procedures in order to ensure that there are no eventualities that may compromise the integrity of their due processes.

Essentially, 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 almost a year, it is unthinkable as to why constructive steps are not being taken as yet to address same.

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

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). It also shows contempt for Government's efforts to improve public sector financial management.

Departments are knowledgeable on the legislative prescripts that require payments to be made within 30 days from receipt of an invoice. Some departments have confirmed that they have invoice tracking systems in place which enable them to track the progress of invoices as they move through different points within the department. Despite this, the number of invoices that are not paid timeously is still unacceptably high.

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.

There has been a notable improvement in the number of departments that are now submitting exception report information to the National Treasury; however, there is sufficient proof that not enough progress has been made since February 2012 to improve compliance with the requirement to ensure that payments to creditors are done within 30 days from receiving an invoice.

The late and/or non-payment of suppliers by government departments is having a serious 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.

Whilst Government is committed to growing the economy and creating jobs, 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 Presidential Hotline and Small Enterprise Development Agency (SEDA) Hotline continue to receive complaints from suppliers who have not been paid for services rendered to government departments. The Department of Performance Monitoring and Evaluation and the National Treasury have been in dialogue with the relevant departments and provincial treasuries to ensure that payments are made.

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

12. Public Hearings (Public Service Commission)

During the 2012/13 financial year, the Public Service Commission (PSC) held public hearings with relevant stakeholders on Government's compliance with the thirty (30) day payment rule. The aim of these public hearings was to solicit from service providers and departments, the challenges that they experience with payment processes.

Representatives from the National Treasury attended the public hearing held in Pretoria on 2 November 2012. Below are some of the stakeholder's recommendations that came out of the above mentioned public hearing:

- Departments should use technology optimally to ensure that payment processes are not unnecessarily complicated or delayed, for example sms's to be sent to suppliers should a payment fail due to banking information or incomplete information submitted.
- Optimal use of systems and internal controls which should be reviewed for relevance and suitability on a continuous basis with required improvements made when deemed fit.
- Better management of internal turnaround times within departments.
- Departments should be required to provide statistics to the Public Service Commission on disciplinary action, if any, taken against officials who cause departments to pay their suppliers late. In addition, there should be consequences for non-performance or dereliction of duties by such officials.

- Clarity to be provided to suppliers on the issue of the interest rates that suppliers can charge to defaulting departments due to late and non-payment.
- Clarity to be provided to departments on information required as per Instruction Note 34, for example some departments are including invoices which they have disputed and are still in discussions with suppliers on, which in fact distorts the statistics on which this report is based.
- For departmental officials to be "work-shopped" on business conduct relating to the payment of suppliers within 30 days.

13. Presidential Coordinating Council

On 20 November 2012, the Presidential Coordinating Council resolved that Heads of Departments and Members of Executive Committees responsible for Finance within the provinces be furnished with the bi-monthly FOSAD status report on the payment of suppliers within thirty (30) days as by the time these reports are tabled for the Council it is already too late and the damage has been done.

The council further resolved that decisive action needs to be taken in all spheres of government to ensure that payments due to suppliers are made within the required time-frames. The President of South Africa required that by the end of 2013, there should be a task team put together to telephonically deal with non-payment queries, the method of communication should then be progressed to process e-mail and postal queries as well.

14. Profile of Departments

In compiling this report the National Treasury wanted to include more detail on success stories at national departments who have shown improvement in payments to suppliers within 30 days. The following is a brief profile of two Departments, the Department of Trade and Industry (dti) and the Department of Health who have been successful in monitoring, tracking and paying invoices in accordance with Instruction Note 34. The profiles are intended to serve as a possible benchmark for those departments who may not already have the systems as required in terms of the Instruction Note in place or as a guide on how existing systems may be improved in order to better departmental systems already in place.

a) Department of Trade and Industry (dti)

The dti runs an IT based CFO Helpdesk which is the central point where all payment transactions and enquiries are received and recorded. They are then assigned to relevant staff for processing and tracked in respect of response handling. Tracking is based on turnaround times determined for the different transactions. In cases where turnaround the times are exceeded, the matter is and addressed by senior management using exception reports generated by the system.

The Financial Accounting and Supply Chain Management units also maintain and submit statistics on all payments received and processed during the previous day, enabling senior managers to timeously identify any delays that may occur in processing due to volumes and backlogs in terms of transaction processing. All open orders are followed up on a daily basis with suppliers and business units to ensure that invoices are received timeously. With regards to interdepartmental services, monthly communication and visits are undertaken to ensure that interdepartmental claims are received and paid on time.

The Internal Audit unit issues monthly reports to the Chief Financial Officer on all potential duplicate payments and payments not finalised within thirty (30) days using its KOLA auditing tool. It is important to note that management oversight in respect of the above processes is critical for their successful implementation. The above process ensures that the majority of payments are processed and finalised within a maximum of 14 days.

b) Department of Health

The following are some of the steps which have been taken by the Department of Health to address the non-payment of suppliers within thirty (30) days. It is worthy to note that this has led to a reduction of eighty-five per cent (85 %) in the number of invoices paid late when comparing with the period February 2012 to January 2013.

- Correspondence was distributed throughout the Department to create awareness of the requirement to pay invoices within thirty (30) days of receiving a valid invoice.
- Regular meetings were held with staff from the Supply Chain Management Directorate to emphasise the importance of processing valid invoices immediately.
- SCM circular No. 2 of 2012 was issued instructing departmental staff to cooperate and assist in processing payments to suppliers within thirty days from date of receiving valid invoices.
- The Chief Financial Officer and Director: SCM made presentations at senior management meetings on the implications of Instruction Note 34.
- A circular was issued to transfer all cellular phones and 3G contracts onto the split billing account which reduced the number of late payments toward cellular phone accounts.
- As units were not providing meter readings for photo copy machines timeously the SCM Directorate introduced a process whereby specific SCM staff members are tasked to collect all meter readings on a specified date which allows for immediate confirmation of the correctness of invoices and this decreases payments periods.

- Cluster managers within the Department were instructed to investigate non-compliance and to institute disciplinary action against officials who wilfully or negligently prevents invoices from being paid within thirty (30) days.
- The Office of the CFO started issuing memorandums to all Units that delayed payment with an instruction to Managers to take disciplinary action against those causing delays.
- Urgent attempts were made to fill all vacancies within the Sub Directorate: Logistical Management and a second payment supervisor was appointed, thereby improving the Department's ability to effect payments within shorter periods.
- A date stamp is placed on all invoices when received, when it is forwarded to Units for signature and when it is received back from units which allows the Department to identify where delays took place and to take appropriate action.
- The Department introduced payment schedules that are completed daily by payment supervisors. These schedules provide information on when invoices are received, when payments are made and it also contains other information pertaining to invoices such as supplier name, invoice number and date. The schedules are used to populate information for the National Treasury Instruction Note 34 exception reports.

15.Conclusion

In conclusion, the problem of non-payment has reached such disturbing levels that Government must aim to not only pay all their outstanding invoices but to also settle such outstanding payments timeously. In order to encourage entrepreneurship and to further Government's central objectives of empowering its citizens by reducing poverty, reducing unemployment and growing the overall economy, unrelenting efforts must be made by all officials within the public service to ensure that all is done to assist businesses, to ensure that they thrive.

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

- **Notes** the number and value of invoices that are paid after the 30 day period;
- **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;
- **notes** that even though it has been a year since the inception of the Instruction Note, many provincial departments are still not submitting exception reports to their relevant treasuries by the due date, as required in the Instruction Note;

- **notes** that the thirty (30) days period to pay suppliers is merely a guide on the maximum time period that payments should be made in and, where possible, departments should aim to pay suppliers prior to the thirty (30) days being exceeded;
- **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 inspect and verify with the chief financial officer that their Department does have a system (manual or electronic) to track and monitor progress regarding the payment of invoices, as required by the Instruction Note;
- **resolves** that accounting officers must request their chief financial officers to report to them monthly on steps taken to ensure compliance with the requirement to pay invoices within 30 days;
- **resolves** that accounting officers report at the each FOSAD meeting on the steps taken and improvements made to ensure compliance with TR 8.2.3;
- **resolves** that the bi-monthly FOSAD report be availed to Executive Authorities, Heads of Departments, Members of Executive Committees for Finance within provinces and all chief financial officers of affected institutions;
- **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; and
- **resolves** that accounting officers must report at each FOSAD meeting on disciplinary measures that have been taken against officials who were charged for financial misconduct relating to delays in effecting payments within thirty (30) days.

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