national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Payments to suppliers within 30 days

Consolidated Report for the period January 2013 to December 2013

May 2014

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1. Executive Summary

This consolidated report provides a twelve month assessment (January 2013 to December 2013) on the payment of suppliers within 30 days and serves to update the Forum of South African Directors-General (FOSAD) and other interested stakeholders on the progress made and the status of compliance with the requirement to pay suppliers within 30 days from receipt of an invoice. It is hoped that this report will 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, as required in terms of section 38(1)(f) of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) and Treasury Regulations 8.2.3.

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. Treasury Regulation 8.2.3 prescribes the period as 30 days from receipt of an invoice or in the case of civil claims, from the date of settlement or court judgement. On 30 November 2011, the National Treasury issued Instruction Note 34 which requires departments to submit monthly information relating to their compliance with the '*thirty day rule*'.

This report provides the status of departments' compliance with the legislative requirement; the most common reasons advanced by departments for not being able to meet their creditors' obligations timeously, efforts by the National Treasury to help improve compliance and the effect of non-compliance with the *thirty day rule*. This report also highlights the improvements in payment patterns of national and provincial departments throughout the 2013 calendar year. The trend analysis and narratives to the graphs for the report are generated from the monthly exception reports submitted to the National Treasury by national departments and provincial treasuries, as required by Instruction Note 34.

Furthermore, this report contains information on the (a) compliance submission rate of national departments and provincial treasuries, (b) timely submission rate of national departments and provincial treasuries, (c) the number of and the Rand value of invoices paid after 30 days, (d) the number of and the Rand value of invoices older than 30 days which remained unpaid, (e) the most improved and least improved departments in relation to the compliance and timely submission rate, (f) the poor performing and least improved departments effecting payments after 30 days, (g) the National Treasury's initiatives to improve the payment of suppliers within 30 days, and (h) robust recommendations to oversight structures regarding strategies to be undertaken in order to improve the payment of suppliers within 30 days.

Table 1 (below) provides a comparative summary for the reporting period of January 2013 to December 2013 and for the previous period of January 2012 to December 2012. It is abundantly clear from the table below that departments still have 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 and medium enterprise sector is the most affected with many of such businesses experiencing severe financial constraints without a regular cash flow because they are not paid timeously for goods supplied or services rendered.

Table 1

No	Description	Average % for January / December 2013	Average % for January / December 2012	Average % Improvement / Regression	↑ = Improvement ↓ =Regression ↔ =Stagnation
1	**Compliance submission rate for national and provincial departments.**	**97%**	**93%**	**5%**	↑
	Compliance submission rate for national departments.	97%	92%	5%	↑
	Compliance submission rate for provincial departments.	98%	93%	5%	↑
2	**Submission rate for national and provincial departments.**	**67%**	**42%**	**25%**	↑
	Timely submission rate for national departments.	63%	41%	22%	↑
	Timely submission rate for provincial departments.	72%	43%	29%	↑
3	**Number of invoices paid after 30 days for national and provincial departments.**	**47 253**	**45 610**	**(-4%)**	↓
	Number of invoices paid after 30 days for national departments.	22 873	22 902	0.1%	↑
	Number of invoices paid after 30 days for provincial departments.	24 380	22 708	(-7%)	↓
4	**Number of invoices older than 30 days which remained unpaid for national and provincial departments.**	**30 805**	**33 709**	**9%%**	↑
	Number of invoices older than 30 days which remained unpaid for national departments.	8 673	13 870	38%	↑
	Number of invoices older than 30 days which remained unpaid for provincial departments.	22 132	19 902	(-11%)	↓
5.	**Rand value of invoices paid after 30 days for national and provincial departments.**	R 1 322 billion	R 1 751 billion	**25%**	↑
	Rand value of invoices paid after 30 days for national departments.	R382 million	R451 billion	15%	↑
	Rand value of invoices paid after 30 days for provincial departments.	R940 million	R1.3 billion	27%	↑
6.	**Rand value of invoices older than 30 days which remained unpaid for national and provincial departments.**	1 143 billion	1 306 billion	**12%**	↑
	Rand value of invoices older than 30 days which remained unpaid for national departments.	R143 million	R306 million	53%	↑
	Rand value of invoices older than 30 days which remained unpaid for provincial departments.	R1 billion	R1.billion	0%	↔

A year-on-year comparison of performance in respect of payment of suppliers within 30 days indicates that some departments have made concerted efforts to improve their internal control processes relating to the "*thirty day payment rule*". It is also worthy of mention that improvements indicated in the table above are, however, not sufficient since the number of invoices paid after 30 days have slightly regressed whilst the Rand value of invoices older than 30 days which remained unpaid has improved by 12%.

On analysis of the data collated over a period of 12 months, it has come to light that provincial treasuries outperformed national departments in the category of compliance and timely submission of the required information to the National Treasury, whereas the national departments performed better than provincial treasuries in reducing the number of payments made to suppliers after 30 days and in reducing the number of invoices that are paid which are older than 30 days.

Statistic South Africa (Stats SA) has performed consistently well during 2012 and 2013 to be considered the department that best complies with the required to pay their suppliers within 30 days. In the 2012 consolidated report, the Department of Correctional Services was listed as one of the five worst performing departments, however, for the reporting year 2013; the Department of Correctional Service showed a significant improvement to the extent that the Department is now in the category of top performing departments in respect of the payment of suppliers within 30 days.

For the months of January 2013, February 2013, April 2013, July 2013, August 2013 and September 2013, all national departments submitted exception reports, thus representing 100 % compliance in this regard. For the months of January 2013 to November 2013, all provincial treasuries submitted their exception reports to the National Treasury, thus also representing 100% compliance rate.

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".*

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 date of receipt of an invoice.

On 31 May 2010, the National Treasury forwarded a communique to institutions urging better compliance with Treasury Regulation 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 30 days from date of 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 and medium enterprises, 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 30 days. Information received from national departments and provincial treasuries forms the basis for preparation of these progress reports.

5. Instruction Note Number 34 dated 30 November 2011

The purpose of Instruction Note 34 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 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 it is actually paid. 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

Graph 1 below provides information on the annual average percentage of departments that submitted their exception reports timeously to the National Treasury. The aforementioned information is provided for the period of January 2013 to December 2013 (hereafter referred to as the 2013 calendar period) and reflects information received from departments as at 31 January 2014. The graph also includes the annual average percentages in respect of the submission of exception report information and the timeous submission thereof for the 2012 and 2013 calendar years.

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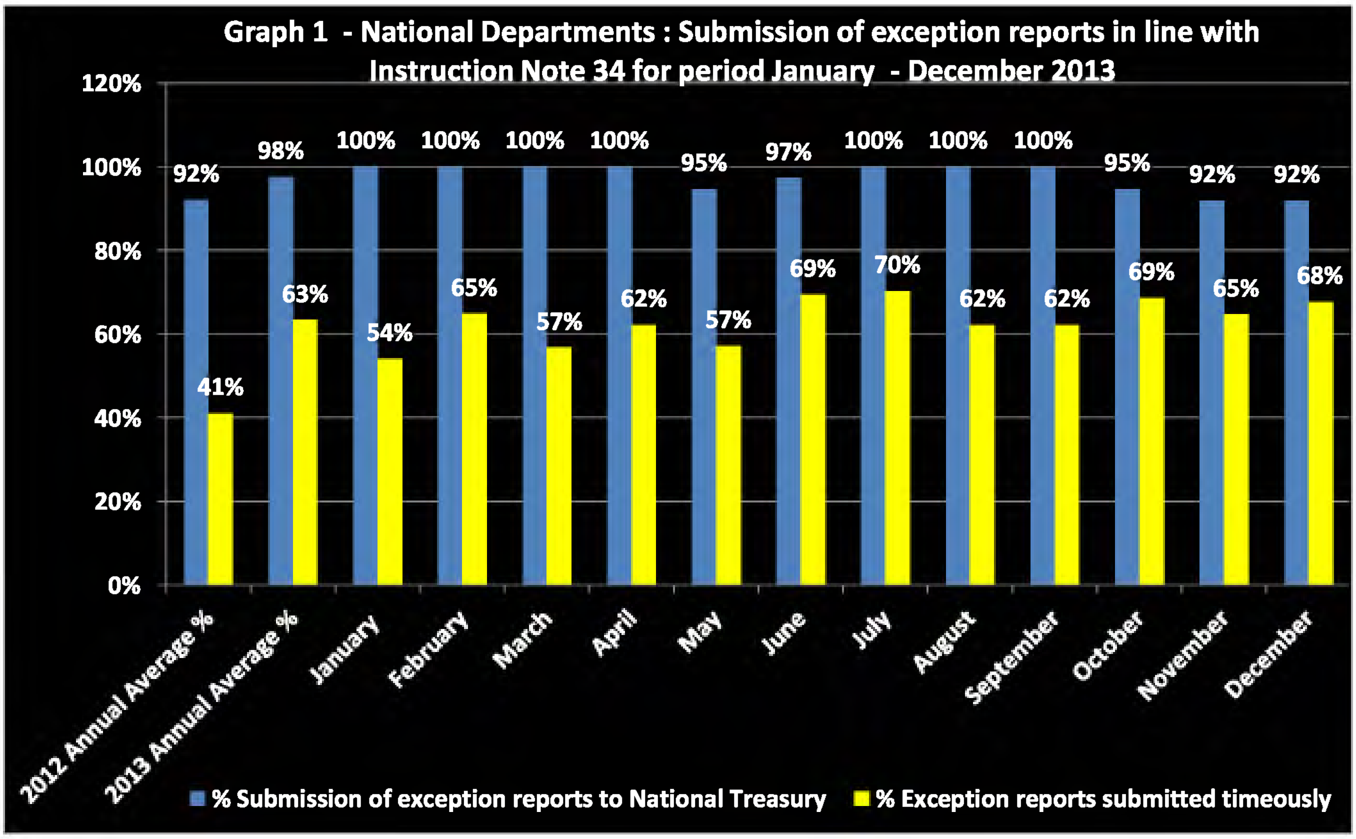

For the period 2013 calendar period, 98% of departments submitted their exception report information to the National Treasury whilst only 63% of such departments submitted this information by the 7th of each month, as required in Instruction Note 34. The aforementioned represents a marginal improvement from the 2012 calendar period when 92% of departments submitted their information timeously with only 41% of such departments meeting the due date for submission. It is also clear that the timely submission of information improved from 41% in 2012 to 63% in 2013, hence recording a 54% improvement in this regard.

For the 2013 calendar period, all departments submitted their exception report information to the National Treasury for the months of January 2013, February 2013, April 2013, July 2013, August 2013 and September 2013, thus recording a 100% compliance submission rate in this regard. During 2012 calendar period, a 100% compliance submission rate was only achieved for the months of September 2012 and October 2012. It is therefore clear that departments are making an effort to ensure that their exception report information is submitted to the National Treasury, as required in Instruction Note 34.

Whilst the above improvement in the submission of information is noted, the timeous submission of such information remains problematic with an annual average of only 63% of departments submitting their information timeously to the National Treasury during the 2013 calendar period.

The enclosed **Annexure A** contains a list of national departments and provincial treasuries that did not submit their required exception report information during 2013 whilst **Annexure B** provides the compliance and timely submission rates per month for national departments.

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TABLE 2: Departments showing best performance in relation to the regular and timeous submission of exception report information in line with Instruction Note 34.

Table 2					
VOTE	Name of Department	Total exception reports submitted for the year (Compliance submission)		Timeous submission of exception reports for the year	
		Number	Annual Average %	Number	Annual Average %
1	Presidency	12	100%	12	100%
9	Government Communication and Information Systems	12	100%	12	100%
13	Statistics SA	12	100%	12	100%
17	Higher Education and Training	12	100%	12	100%
29	Energy	12	100%	12	100%
38	Water Affairs	12	100%	12	100%
36	Trade and Industry	12	100%	12	100%
35	Tourism	12	100%	12	100%
16	Health	12	100%	11	92%
15	Basic Education	12	100%	11	92%

In the consolidated report submitted to FOSAD for the 2012 calendar period, the Departments of National Treasury, Performance Monitoring and Evaluation, Public Service and Administration, Tourism and Trade and Industry showed exceptional performance in relation to the regular and timeous submission of information to the National Treasury. In this consolidated report for the 2013 calendar period, the Departments of Tourism and Trade and Industry have maintained their exceptional performance by submitting their information regularly and timeously. Although the Departments of National Treasury, Performance Monitoring and Evaluation and Public Service and Administration are no longer in the 'best performance' category, none of these departments fall within the category of departments showing poor performance.

TABLE 3: Departments showing poor performance in relation to the regular and timeous submission of exception report information in line with Instruction Note 34.

Table 3					
VOTE	Name of Department	Total exception reports submitted for the year (Compliance submission)		Timeous submission of exception reports for the year	
		Number	Annual Average %	Number	Annual Average %
7	Public Works	10	83%	5	50%
8	Women, Children and People with Disabilities	10	83%	5	50%
25	Police	11	92%	4	36%
3	Cooperative Governance and Traditional Affairs	12	92%	3	25%
19	Social Development	12	100%	1	8%
5	International Relations and Cooperation	10	83%	0	0%
18	Labour	12	100%	0	0%

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In the consolidated report submitted to FOSAD for the 2012 calendar period, the Departments of Communication, Economic Development, Police, Social Development and Women, Children and People with Disabilities were identified as departments that performed poorly in relation to the regular and timeous submission of information to the National Treasury. During the 2013 calendar period, the Department of Communication showed improvement whilst the Departments of Economic Development, Police, Social Development and Women, Children and People with Disabilities were again identified as departments that performed poorly in relation to the regular and timeous submission of information to the National Treasury. The Departments of Cooperative Governance and Traditional Affairs, International Relations and Cooperation and Public Works were also identified as performing poorly in relation to the regular and timeous submission of information. Although the Department of Labour submitted exception report information for each month of 2013, none of these reports were submitted to the National Treasury by the due date. Similarly the Department of International Relations and Cooperation submitted 10 reports for 2013 whilst none of these reports were submitted to the National Treasury on time. The Department of Social Development submitted exception report information for all 12 months of 2013 with only 1 report having been submitted to the National Treasury on time.

In order to exercise meaningful supervision, FOSAD and other oversight structures require complete and accurate information related to the status of departmental compliance with the requirement to pay invoices within 30 days from receipt. The regular and timeous submission of exception report information to the National Treasury is therefore of critical importance since the non-submission and/or late submission of information adversely affects the completeness and accuracy of information that is reported to FOSAD.

7. Analysis of exception report information – National Departments

Graph 2 below provides information in respect of the 2013 calendar period on the number of invoices that were **not paid** within 30 days from the date of receipt, as required in terms of Treasury Regulation 8.2.3. The graph reflects information received from departments as at 31 January 2014 and includes the annual average number of invoices that were paid after 30 days and those invoices that were older than 30 days but which were still not paid. The aforementioned information is contained in Graph 2, both for the 2012 and 2013 calendar years

On analysing the information in Graph 2, it is clear that there is a reduction in the number of invoices that were paid after 30 days as well as in the number of invoices that were older than 30 days but which remained unpaid. This reduction represents an improvement when compared to the same period for 2012. For the 2013 calendar period, the annual average number of invoices that were paid after 30 days amounted to 22 873 whereas, for the 2012 calendar period, the annual average number amounted to 22 902, thereby resulting in a marginal improvement in this regard.

During March 2013, 38 439 invoices were paid after 30 days from receipt which is the highest when compared to other months during the 2013 calendar year. This is hardly surprising since every year, the number of invoices paid during the last month of the financial year contributes towards the 'March spike', which results when departments

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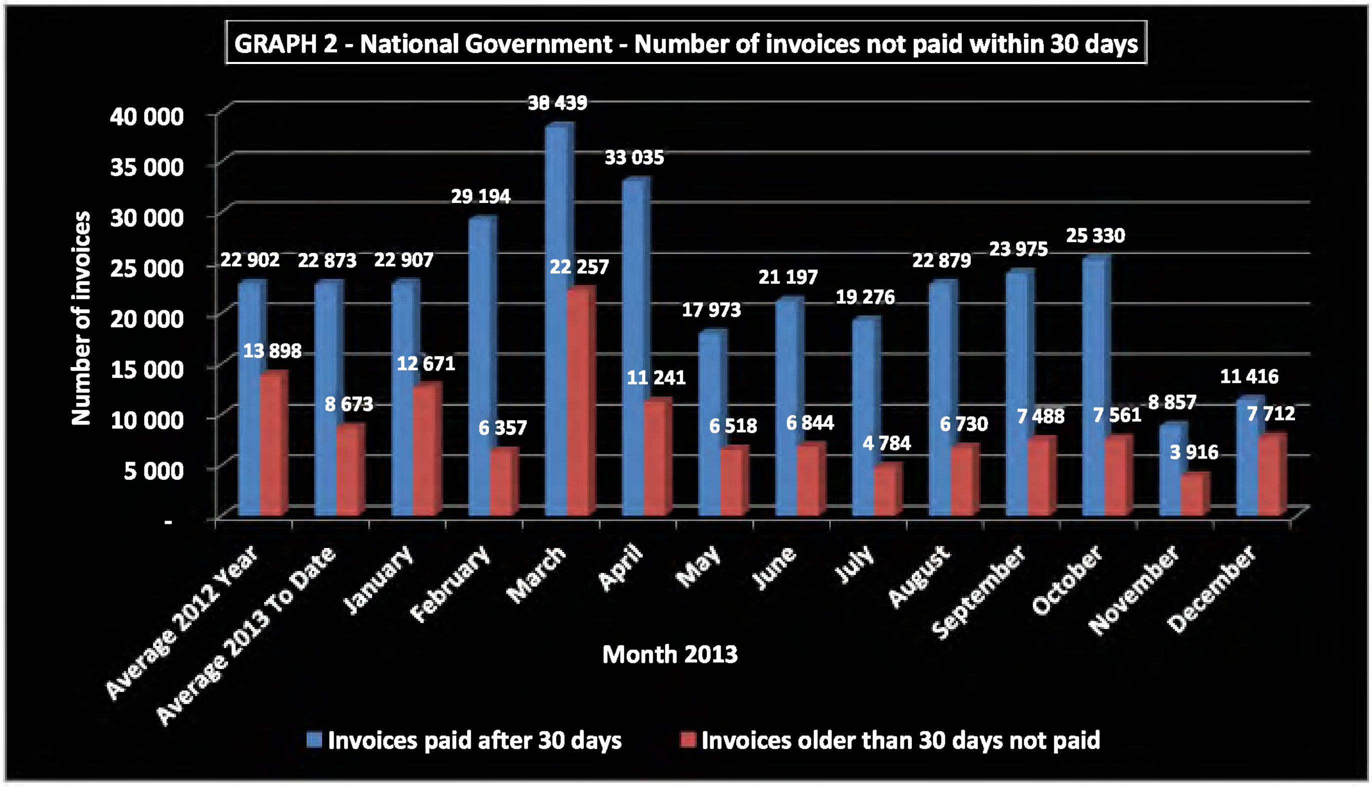
tend to ensure that all outstanding invoices are paid from their available funds due to closure of the financial year on 31 March.



Graph 2 also provides information on the annual average number of invoices that were older than 30 days but which remained unpaid. The annual average for the 2013 calendar year amounted to 8 673 invoices whilst the corresponding annual average for the 2012 calendar year amounted to 13 898. This 38% improvement between the two reporting periods shows a positive trend by departments towards ensuring compliance with Treasury Regulation 8.2.3.

Table 4 below provides information in relation to departments that significantly reduced the number of invoices that were paid after 30 days from receipt. This information is based on the analysis of information contained in exception reports that were submitted to the National Treasury during the 2013 calendar year.

TABLE 4: Most improved departments in relation to the timeous payment of suppliers

Table 4			
Vote	**Department**	**% Movement in number of invoices paid after 30 days**	**Description of improvement in paying invoices within 30 days**
14	Arts and Culture	Excellent performance is maintained	Improved from **0** invoices (nil) paid after 30 days in January 2013, to **0** invoices (nil) paid after 30 days in December 2013
29	Energy	Excellent performance is maintained	Improved from 0 invoices (nil) paid after 30 days in January 2013, to 0 invoices (nil) paid after 30 days in December 2013
12	Public Service and Administration	Excellent performance is maintained	Improved from **0** invoices (nil) paid after 30 days in January 2013, to **0** invoices (nil) paid after 30 days in December 2013

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Table 4

Vote	Department	% Movement in number of invoices paid after 30 days	Description of improvement in paying invoices within 30 days
35	Tourism	Excellent performance is maintained	Improved from **0** invoices (nil) paid after 30 days in January 2013, to **0** invoices (nil) paid after 30 days in December 2013
36	Trade and Industry	Excellent performance is maintained	Improved from **0** invoices (nil) paid after 30 days in January 2013, to **0** invoices (nil) paid after 30 days in December 2013
9	Government Communication and Information System	100% improvement in performance	Improved from 1 invoice (R 2 974) paid after 30 days in January 2013, to 0 invoices (R nil) paid after 30 days in December 2013
6	Performance Monitoring and Evaluation	100% improvement in performance	Improved from **320** invoices (R 217 955) paid after 30 days in January 2013, to **0** invoices (R nil) paid after 30 days in December 2013
11	Public Enterprises	100% improvement in performance	Improved from **6** invoices (R 144 103) paid after 30 days in January 2013, to **0** invoices (nil) paid after 30 days in December 2013
13	Statistics SA	100% improvement in performance	Improved from **249** invoices (R 2 280 506) paid after 30 days in January 2013, to **0** invoices (R nil) paid after 30 days in December 2013

The above table provides details of those departments that recorded significant improvements in the timeous payment of invoices during the 2013 calendar year. During the year under review, the National Treasury engaged with some of these departments and it was learnt that many of them, despite having decentralised operations, had implemented stringent mechanisms to track the receipt and processing of all invoices received. These departments also effected improvements to their internal control structures to ensure the successful implementation of Treasury Regulation 8.2.3. The departments listed in Table 4 serve as models of excellence with regard to financial management leadership and the timeous payment of suppliers.

TABLE 5: Poor performing departments in relation to the timeous payment of suppliers

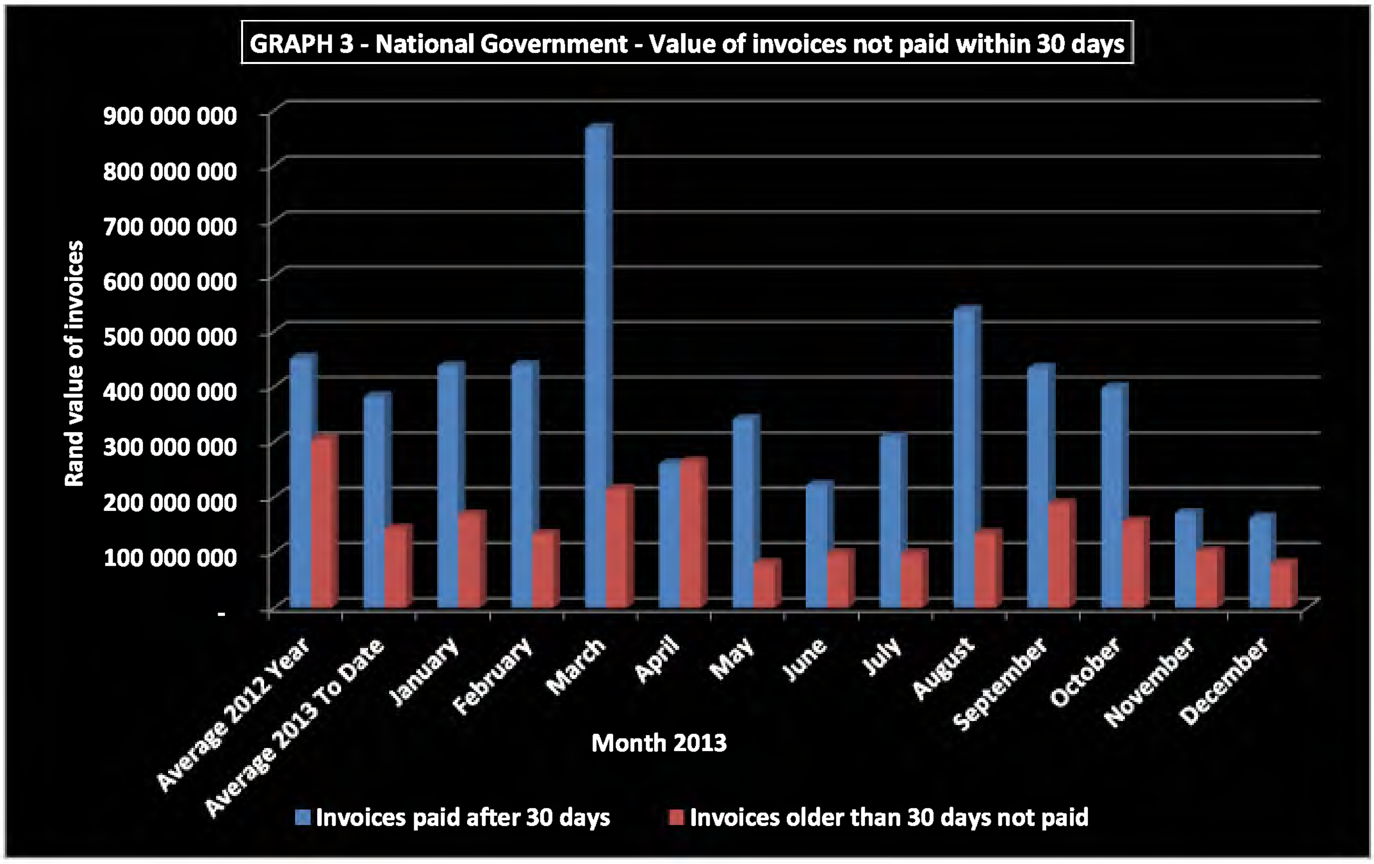
Table 5 below provides details of those departments that have a high average number of invoices on hand that are older than 30 days but which remained unpaid.

Table 5

Vote	Department	Invoices paid after 30 days		Invoices older than 30 days not paid	
		Average Rand value 2013	Average Number 2013	Average Rand value 2013	Average Number 2013
22	Defence and Military Veterans	55,491,781	8,792	5,888,116	370
24	Justice and Constitutional Development	45,271,621	1,396	53,304,473	3,900
25	Police	88,130,843	7,771	8,302,699	1,679
7	Public Works	86,718,218	1,863	55,870,029	2,031
38	Water Affairs	48,007,069	1,209	8,623,666	254

During this analysis, an important factor that was taken into account was the relative size of the abovementioned departments, both in terms of their respective budgets as well as the geographical footprint that they have within South Africa, with many having regional and/or district offices. Some of these departments have reported that they operate a centralised payment function and that invoices from regional and/or district offices often take time to reach the payment processing section at head office. It is argued that these delays often result in the late payment of these invoices. Some of these departments have, however, reported action plans to improve the timeous processing of invoices which include centralizing the receipt and processing of invoices at head office level and the introduction of mechanisms to confirm the receipt of goods and services at regional and/or district office level.

Graph 3 below provides information on the Rand values of invoices that were paid after 30 days from the date of receipt during the 2013 calendar year. The graph also provides information on the Rand value of invoices that were older than 30 days but which remained unpaid. For purposes of drawing comparisons, the graph includes the annual average figures for the 2012 and 2013 calendar years.



Graph 3 above indicates that, for the 2013 calendar period, the average Rand value of invoices that were paid after 30 days from the date of receipt amounted to R 382 million, which is 15% lower than the average of R451 million that was recorded for the corresponding 2012 calendar period. The total average Rand value of invoices older than 30 days and which remained unpaid for the 2013 calendar period amounted to R 143 million whilst the total average Rand value for the corresponding 2012 calendar period amounted to R 306 million. On comparing the total average Rand value for both the calendar periods, it is clear that there is a significant improvement of 53% between 2012 and 2013.

Over the 2013 calendar period, national departments have shown a tremendous improvement in the Rand value of invoices that were processed after 30 days, from a high of R 868 million in March 2013 to R 163 million in

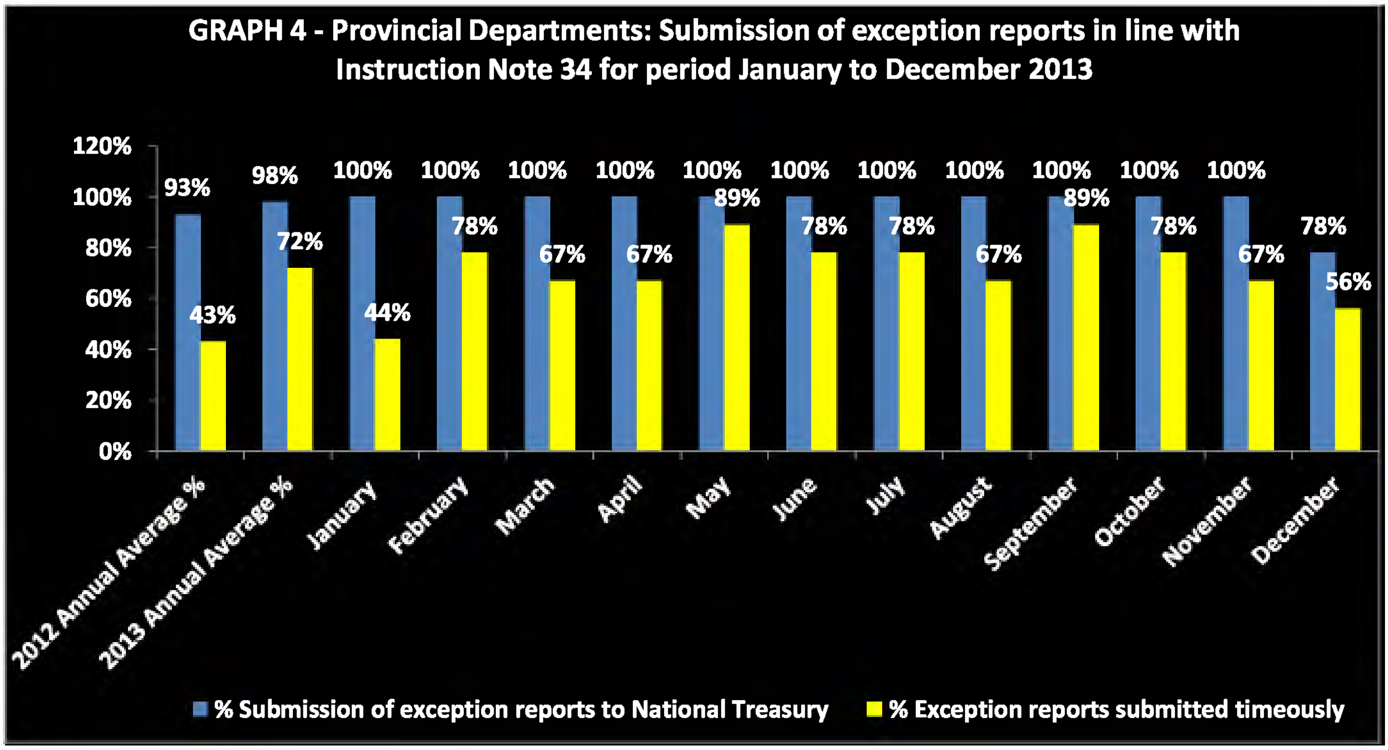
December 2013. This represents a decrease of 81%. The spike in the Rand value of invoices paid late in March 2013 (R 868 million), may be attributed to departments trying to settle outstanding invoices prior to the beginning of the new financial year.

The enclosed **Annexure C** provides detailed information, per national department, on their compliance with the 30 day principle for the 2013 calendar period.

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

Graph 4 below provides information on the annual average percentage of provincial treasuries that submitted exception report information to the National Treasury. The aforementioned information is provided for the 2013 calendar period and reflects information received from provincial treasuries as at 31 January 2014. The graph also includes the annual average percentages in respect of the submission of exception report information and the timeous submission thereof for the 2012 and 2013 calendar years.

For the 2013 calendar period, the annual average compliance submission rate was 98% and the annual average timely submission rate is 72%. The annual average compliance submission rate for calendar year 2012 was 93% and the annual average timely submission rate for calendar year 2012 was 43%, thus representing an improvement when compared to percentage figures for the 2013 calendar year. There is a significant improvement of 67% in the area of 'average timely submission rate' which improved from 43% in the 2012 calendar year to 72% in the 2013 calendar year.



For the 11 month period commencing January 2013 to November 2013, all provincial treasuries submitted exception report information in respect of their provincial departments, thus representing 100 % compliance submission rate. During the 2012 calendar period, a 100% compliance submission rate was only achieved for the 6

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month period commencing July 2012 to December 2012. It is therefore clear that departments are making an effort to ensure that their exception report information is submitted in accordance with the requirements of Instruction Note 34. It is critical that Provincial Treasuries submit the information, as required, since the non-submission and/or late submission of information adversely affects the accuracy and completeness of information in this report. Furthermore, it is disconcerting to note that not all provincial departments are submitting the required information to their relevant treasuries timeously. This affects the quality and completeness of information that the National Treasury reports to FOSAD.

It is worthy of mention that, during the year under review, the Eastern Cape Provincial Treasury was the only province that submitted its exception report information timeously to the National Treasury.

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 the date of receipt, as required in terms of Treasury Regulation 8.2.3. The graph reflects information received from provincial treasuries as at 31 January 2014 and includes the annual average number of invoices that were paid after 30 days as well as those invoices that were older than 30 days but which were still not paid. The aforementioned information is contained in Graph 2, both for the 2012 and 2013 calendar years.

On analysing the information in Graph 5, it is clear that there is a marginal number of invoices that were paid after 30 days as well as an increase in the number of invoices that were older than 30 days but which remained unpaid. This increase in the number of late/unpaid invoices in the 2013 calendar year represents a regression when compared to the 2012 calendar year. For the 2013 calendar year, the annual average number of invoices that were paid after 30 days amounted to 24 380 whereas, for the 2012 calendar year, the annual average was amounted to 22 708, thereby resulting in a slight regression of 7%.

During the months of March 2013 (31 066 invoices), July 2013 (29 835) and September 2013 (30 195), a noticeably high number of invoices were paid after 30 days from receipt. Although the high number of invoices paid in March 2013 can be attributed to the 'March spike', it is unclear why similar spikes took place during July 2013 and September 2013.

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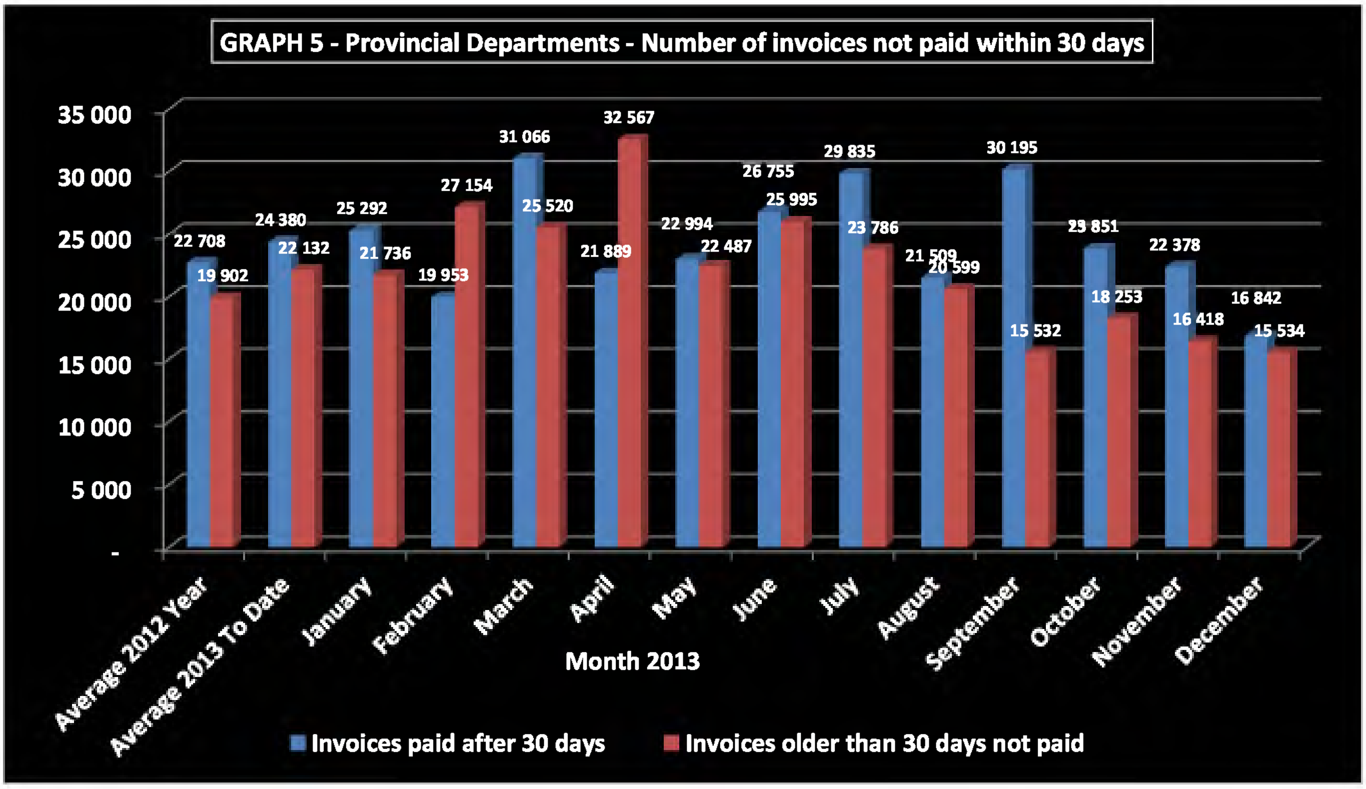

Graph 5 also indicates that the annual average number of invoices that were older than 30 days but which remained unpaid amounted to 22 132 for the 2013 calendar year whereas the corresponding number for the 2012 calendar year amounted to 19 902, thus resulting in a marginal improvement.

Graph 6 below provides information on the Rand values of invoices that were paid after 30 days from the date of receipt as well as those invoices that were older than 30 days but which remained unpaid. This Graph also provides information related to the annual average figures of the aforementioned for the 2012 and 2013 calendar years.

The data in Graph 6 below shows that for the 2013 calendar year, the total Rand value of invoices that were paid after 30 days from date of receipt amounted to an annual average of R 944 million, which is 27% lower than the R1.3 million average for the 2012 calendar period .

Coincidentally, the Rand value of invoices older than 30 days which remained unpaid for the 2012 and 2013 calendar periods remained the same at R1 billion, hence no improvement has been observed in this category.

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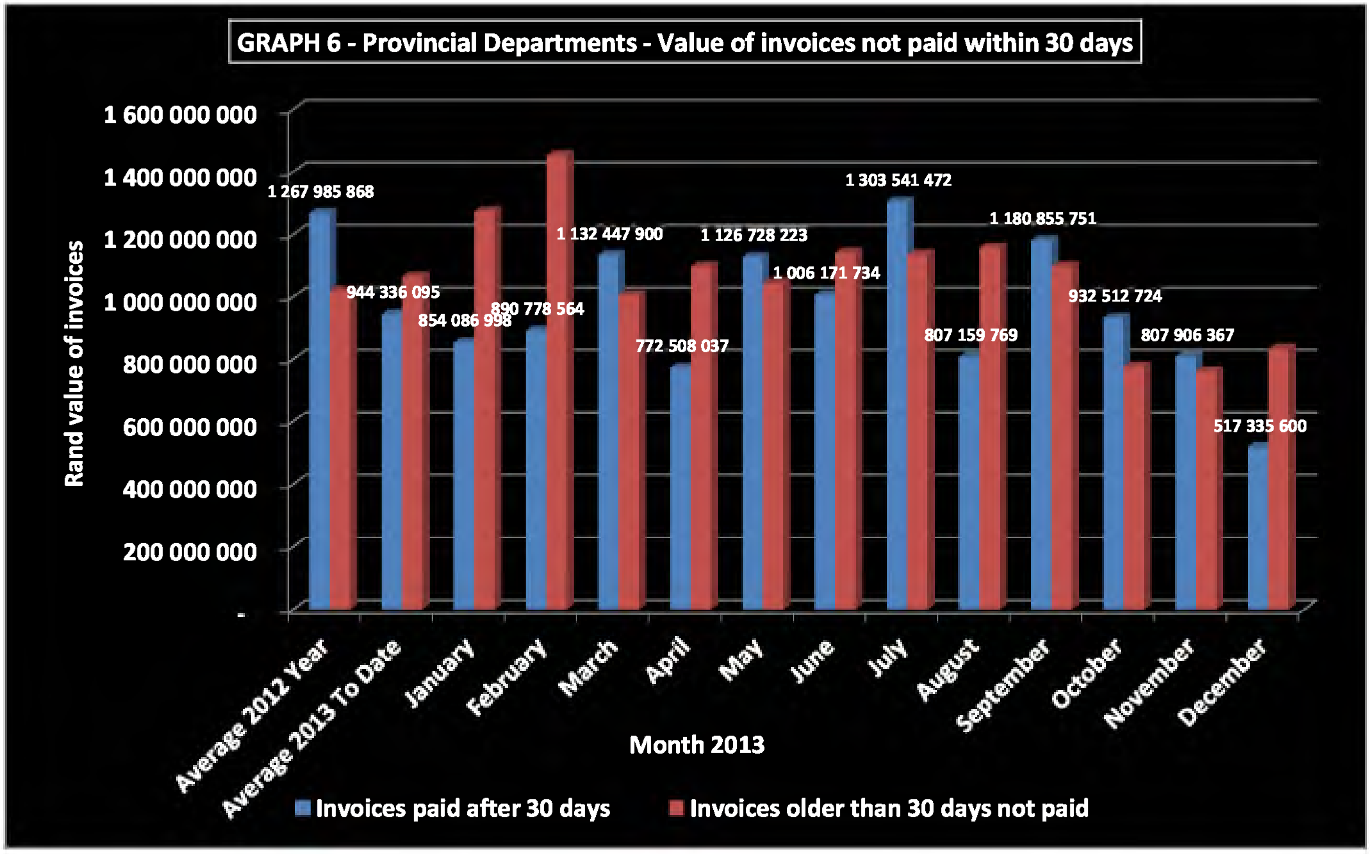

The enclosed **Annexure D** provides the compliance and timely submission rates per month for provincial treasuries and **Annexure E** provides detailed information on compliance with the 30 day principle, per provincial treasury, for the 2013 calendar period.

10.Top 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 2013 calendar period, the following are the ten most reported reasons (in no particular order) as being the root cause of departments not paying suppliers timeously:

Reasons provided for late and or non-payment of invoices	Root causes	Remedies to address reasons for late and/or non-payment
a) Banking details queries (SafetyWeb).	Departments not having updated banking details of suppliers, process of verifying banking details of suppliers and rejection of suppliers' details on SafetyWeb due to different banking details.	Departments have a role to play in ensuring that banking detail queries are minimised or eliminated. It is procedural and sound business practice to ensure that all suppliers banking details are verified at the time when contracts are entered into or when orders are placed with suppliers.

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Reasons provided for late and or non-payment of invoices	Root causes	Remedies to address reasons for late and/or non-payment
b) Misfiled, misplaced or unrecorded invoices.	Invoices are received but are 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 interests 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. Disciplinary procedures should also be undertaken for officials who wilfully and negligently commit fruitless and wasteful expenditure.
c) Inadequate budget / cash flow management.	Some departments don't readily have the funds available to pay for goods and/or services ordered.	Departments are required to procure against demand and acquisition plans. 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. It is not an acceptable practice to place orders without verifying that there are available funds to meet expenditure related to those orders.
d) Inadequate internal capacity.	Lack of human capacity in departments, including finance and IT units has been one of the major causes for control system breakdowns; hence it is also a key focus area for the Auditor-General.	Departments are 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. Ideally, vacancy levels within departments should not exceed five percent (5%) of the approved establishments. This will also ensure that there is sufficient segregation of duties to not compromise on the quality of work being performed.
e) IT system issues (BAS, Logis and SafetyWeb, etc.	Systems being slow, "hanging" and generation of system errors.	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 (SITA) 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	Changes in coding of items used for classification, budgeting, recording, of	National Treasury provides adequate training, circulars and guidance on SCoA prior to any changes being made. Departments are urged to be proactive in implementing the relevant changes so

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Reasons provided for late and or non-payment of invoices	Root causes	Remedies to address reasons for late and/or non-payment
problems.	revenue and expenditure within the accounting system in order to facilitate the recording of all transaction affecting assets and liabilities.	as to avoid having problems with the relevant codes when they become effective. Furthermore, the super-users and /or system administrators of the financial systems should ensure that the correct codes are used at all times.
g) Tax clearance certificate issues.	Non-submission of Tax Clearance Certificates (TCC) by suppliers, submission of expired TCCs and suppliers taking long to provide the departments with the Tax Clearance Certificates.	Departments are required to obtain and ascertain the validity of tax clearance certificates 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. This should be included as part of the checklist of what should be submitted by the suppliers.
h) Late submission of banking details by suppliers.	Non-submission of banking details and late submission of change in banking details by suppliers.	Departments should ensure that the banking details are submitted when contracts are entered into (not on delivery of goods and services). In case where the suppliers change banking details subsequent to orders having been placed, departments need to create means for suppliers to inform them of such changes and departments are urged to verify the validity of the banking account details as soon as possible before the payment becomes due.
i) Unresolved invoice discrepancies.	Suppliers submitting incorrect and/or invalid invoices and invoices with discrepancies.	Incorrect / invalid invoices should be returned to suppliers to enable them to correct and then re-submit. A valid/legitimate invoice is the one that is free from material errors or disputes with the supplier and contains all the information that should be contained on the face of an invoice as required by the paying department. 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 impacts on the analysis the National Treasury conducts.
j) Incomplete supporting documents	Suppliers not submitting complete documents. The departments are therefore	Departments should have a checklist for suppliers detailing what should be attached to a valid invoice when submitting to departments to enable them to process payments successfully.

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Reasons provided for late and or non-payment of invoices	Root causes	Remedies to address reasons for late and/or non-payment
submitted by suppliers for payment processing.	advised to report information on invoices that are with material errors and are under disputes in order to ensure good quality, accuracy and completeness of the report submitted to FOSAD.	

Reasons provided to the National Treasury during the 2012 and 2013 calendar years for the late and/or non-payment of suppliers are almost identical in nature, thus indicating that departments have not fully addressed the internal control breakdowns identified in the 2012 calendar year report. It is concerning that since most of the reasons are internal to departments and have been known for almost two calendar years yet it would appear that no constructive steps have been taken to address such.

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

It is of concern that many departments are not complying with the 30 day payment rule. 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 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 about 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 made within 30 days from receiving an invoice.

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The late and/or non-payment of invoices impacts on the financial health of 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 for the late payment of invoices, suppliers are often reluctant to implement such on overdue accounts for fear of reprisal from departments. Financial institutions from where these suppliers source funding do, however, charge these suppliers interest on their borrowed funds, thus disadvantaging these service providers to a considerable extent.

From an economic perspective, it must be emphasised that small and medium enterprises 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 employment stimulates the activities of their suppliers, hence furthering government's objectives 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 economy in South Africa through, amongst others, contributing towards the taxation coffers.

Whilst Government, in pursuit to fulfil the tenets of the National Development Plan and the New Growth Path, 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.

12.Meeting with the Standing Committee on Appropriation

In February 2012, the National Treasury reported to FOSAD that the Departments of Correctional Services, Defence and Military Veterans, Justice and Constitutional Development, Police and Public Works were showing little improvement in effecting payments within 30 days. These departments were scaled as least improved departments because they had a very high average Rand value of invoices that remained unpaid and a high average number of invoices that remained unpaid after 30 days. Pursuant to submission of the report to FOSAD, the Standing Committee on Appropriation (SCoA) held meetings with the Departments of Correctional Services, Defence and Military Veterans and Justice and Constitutional Development in September 2013 to discuss the challenges around non-compliance with Treasury Regulations 8.2.3 and action plans to resolve the non-compliance with this provision. The Departments presented the following challenges and action plans to be undertaken to remedy the situation:

Department	Challenges	Action Plans
Defence and Military	1. High vacancy rate within the SCM Centres/Offices.	1. Procurement centres to be staffed with qualified and skilled procurement personnel

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Department	Challenges	Action Plans
Veterans	2. Legacy ICT systems. 3. No clarity on where supplier invoices should be submitted. 4. Incomplete supplier details on the invoice and payment systems. 5. Dispute with suppliers. 6. Lack of administrative processes. 7. Availability of funds after delivery of goods. 8. Lack of skilled personnel. 9. High volume of medical invoices	2. Staff retention plan and training plan to be developed for implementation 3. Review current business processes for efficiency purposes. 4. An invoice tracking system is being developed to assist with tracking of valid invoices. 5. Requesting submission of tax certificate and banking details with price quotations. 6. A register of invoices in dispute to be maintained and such invoices to be excluded from returns submitted to National Treasury in line with Instruction Note 34. 7. Additional funding to be sources to pay for monies already committed.
Justice and Constitutional Development	1. Financial operating business model for the department not streamlined 2. Department processing high volume of invoices in a particular time 3. Lack and/or inadequate supporting documentation 4. Challenges with the validation of banking details and tax certificates	1. Creditors Division is being established 2. Receipt of invoices is being centralised at National Office. 3. Creditors Database is being created 4. Monthly reconciliations are being performed 5. Communication within the department on the subject of compliance with Regulation 8.2.3 already underway. 6. Non- compliance with the Regulation 8.2.3 is being escalated to executive management meetings
Correctional Services	1. System related problems	1. Head Office and regions are requested to indicate payments not made within 30 days and to provide reasons. 2. Monthly finance meetings are held by each Head Office Directorate as well as each management area / centre. 3. The turnaround for the processing of sundry payments has been reduced from 7 days to 48 hours within the receipt of payment documentation. 4. In case BAS is extremely slow at DCS, arrangements are made for officials to capture payments at SITA to ensure that payments are processed on time.

13.National Treasury's interventions in respect of payments within thirty (30) days

Since it is evident that the departments are still experiencing difficulties to comply with the *"thirty days payment rule"*, the National Treasury has come-up with initiatives and solutions that will assist departments to improve compliance with the rule. Below are some of the initiatives and solutions that the National Treasury is working on so far:

a. <u>Instruction Note No 34 Survey</u>

Instruction Note No 34, issued on 30 November 2011 requires departments to have in place systems (processes and procedures) that may either be electronic or manual to improve and comply with the thirty day payment rule. Departments were required to have implemented these systems by 31 December 2011.

Following the issue of the Instruction Note 34, the National Treasury conducted a survey with the aim of determining whether departments have in deed implemented systems (processes and procedures) to assist in improving their compliance with the *"thirty days payment rule"*. The results of the survey are as follows:

- Of the 37 surveyed departments, only 33 departments responded;
- Of the 33 departments that responded, only 27 departments reported to have in place a mechanism that enables them to track the progress of invoices;
- 77 % of the 27 departments reported that mechanisms were implemented prior to the requirement being made compulsory by Instruction Note 34;
- Only 9 departments reported having a tracking process that is electronic, of which three departments (Trade and Industry, Statistics-South Africa and the Department of Police) indicated that the system was developed in-house;; and
- 17 of the 32 respondent departments reported that there are plans in place to address system deficiencies.

Based on the results of the survey and exception reports submitted to the National Treasury, it is clear that departments with an automated electronic invoice tracking system perform better than those without, hence National Treasury's initiative to work with the departments with electronic systems to develop an automated invoice tracking system for the public sector.

b. Development of an automated Invoice Tracking System (ITS)

The Office of the Accountant-General is investigating the possibility of implementing a generic automated invoice tracking system that will be capable of customisation towards departments' requirements. The National Treasury, in collaboration with Statistics South Africa, is at an advanced stage with the development of an Invoice Tracking System (ITS). The main objective for developing such a system is to help improve compliance with the legislative prescripts that require payments to be made within 30 days from receipt of an invoice. It is also envisaged that by developing such a system, the National Treasury will be able ensure correct and proper disclosure of payment information to oversight structures, including FOSAD. The system will also be able to track the progress and status of valid invoices from the date of its receipt up until the date on which payment is actually made. This will also assist with maintaining adequate records related to creditor age analyses for disclosure and compliance purposes.

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It is envisaged that the system will have the capability to register internal and external users thus enabling the department and its suppliers to track the status of invoices as they are processed. The National Treasury will also have access to the system and will be able to verify information as submitted by departments through an automated submission portal. The Invoice Tracking System will also have the capability to produce reports on accruals and on the age analyses of creditors which will assist in managing invoice processing effectively. The system will be able to interface with other systems already being used in government such as BAS, LOGIS and SafetyWeb. The system will be piloted before its full roll out to all departments.

c. Departmental Visits

The Forum of South African Directors-Generals (FOSAD) resolved that departments noted to be least performing in relation to payment of suppliers within 30 days should be given special attention in order to assist them in complying with Treasury Regulation 8.2.3. As such, the Office of the Accountant-General conducted site visits to certain national departments with a view to understanding the processes these departments use and the problems they experience with a view to sharing possible solutions that may assist in resolving their problems.

The following is a short summary of challenges faced by the majority of departments and solutions thereof applied by other departments we have visited. Below, are the solutions we hope could be used commonly by the departments that are struggling in order to resolve their current challenges in relation to payment of suppliers on time:

Department	Problem	Solution
Department of Performance Monitoring and Evaluation (DPME)	Changed supplier banking details	1. The department ensures that the order forms are sent to departments with verified banking details already captured on the form. Suppliers are then required to verify these banking details so as to ensure that at payment stage, the department does not have difficulty with changed bank details. 2. Where banking details are changed subsequent to the order being placed, suppliers are required to timeously inform the department. 3. Charging of staff with financial misconduct is taking place for delaying payment to suppliers. 4. Relationship management with suppliers is an important factor in all procurement transactions.
Department of Public Enterprises (DPE)	Timely approval for payments where there are no delegations	1. Where the relevant signatory will not be in the office, an acting person will be appointed to ensure that work carries on even in the absence of a relevant signatory. 2. Strong monitoring and evaluation system in place (regular meetings with Finance & SCM).
Department of	Staff not submitting invoices	1. Minister and senior management support the payment of suppliers within 30 days to such an extent that payment of suppliers in time is a

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Department	Problem	Solution
Public Works	for payment thus causing backlogs in processing of invoices	standing agenda item of the EXCO 2. Department has introduced a central registry for invoices in both their head office and in regional offices; 3. The department currently conducts awareness campaigns to emphasise the importance of paying suppliers timeously. 4. A two week amnesty period is granted to staff that have outstanding invoices for submission to submit these so as to clear the current backlog of invoices. 5. Standardised process of payment of suppliers between regions (manual) 6. Payment of suppliers forms part of an EXCO agenda 7. Introduction of a help desk at head Office to respond to SCM queries has been prioritised
Department of Justice and Constitutional Development	Incomplete supporting documentation	1. A checklist of what should be submitted together with the invoice is attached to the contract. 2. SCM champions are appointed in regional offices to guide and sign off on all SCM documents to ensure that these do not cause delays in processing of invoices. 3. Delegations of authority decentralised to regions and districts. 4. Development of an Invoice Tracking System for the department.
Department of Science and Technology	Invoice discrepancies and disputed invoices	1. In an effort to manage their relationships with clients better, where there are discrepancies on invoices or any disputes, the department arranges personal face to face meetings with the client to discuss the matter at hand to ensure that these are resolved speedily. 2. All the SCM and finance staff are directly involved in the process to ensure that their client relationships are managed well and they all have active relationships to ensure that the reputation of the department is also well maintained. 3. Bulk processing to avoid system down-time
Department of Cooperative Governance and Traditional Affairs	Timeous submission of Instruction 34 report information and limited human capacity in Finance unit	1. Department to create a central registry for receipt of all invoices so that Instruction Note 34 report information is complete and accurate. 2. Capacitate the CFO office, especially the Finance, Supply Chain Management and Internal Control units. 3. Create awareness within the Department on a need for payment of suppliers within 30 days and consequences thereof for not paying suppliers within prescribed time.

Further departmental visits are planned to be undertaken. These visits will be targeted mostly to departments identified in this 2013 calendar year FOSAD annual report with a view of sharing possible solutions and best practices that may assist in resolving their problems.

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14.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;
- **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 for long periods but have not been addressed adequately;
- **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 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 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; and
- **resolves** that the payment of suppliers within 30 days should be a standing agenda item for discussion in each meeting of the Forum of Head of Departments (HODs) in all provinces.

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