



Report on stakeholder engagement on non-compliance with 30 days payment of suppliers

**Public Service Commission
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Vision

A champion of Public Service excellence in democratic governance in South Africa.

Mission

To promote the constitutionally enshrined democratic values and principles throughout the Public Service by -

- investigating, monitoring, evaluating the organisation and administration, and personnel practices;
- proposing measures to ensure the effective and efficient performance;
- issuing directions with regards to personnel procedures relating to the recruitment, transfers, promotions and dismissals;
- advising on personnel practices; and
- reporting on its activities.

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1. INTRODUCTION AND BACKGROUND

The Monitoring and Evaluation Specialist team of the Public Service Commission (PSC) recommended to plenary of 01 March 2018 that based on the 3rd quarter report of 2017/18, the Directors-General of the top five defaulters at national and provincial governments should be summoned to appear before the PSC. At that time, the top five defaulters at national level were the following:

- Departments of Water and Sanitation,
- Public Works,
- Social Development,
- Women, and
- Rural Development and Land Reform.

The PSC wrote to the above-mentioned departments with a request for reasons for non-payment. The department of Women provided satisfactory response and social development's reasons were not satisfactory, whereas the remaining departments did not provide any reasons at all.

The second quarter report of 2018/19 showed that in addition to the five above-mentioned departments, the department of Cooperative Governance and the South African Police Service also had high number of invoices older than 30 days not paid and as a result the PSC resolved that the two departments should be added to the list of the defaulters. To this end, the following departments (with the exception of Women) were regarded as the worst performing in respect of the 30 days payment of invoices:

- Departments of Water and Sanitation,
- Public Works,
- Social Development,
- Rural Development and Land Reform
- Cooperative Governance and
- South African Police Service

To this end, on 18 September 2018, the PSC held an engagement with national departments that are not compliant with the 30 days payment of supplies as stipulated in the National Treasury regulations, at the National Office. Of the above-mentioned departments, Social Development and Rural Development and Land Reform did not honour the PSC's invite.

The purpose of the meeting was to provide departments with an opportunity to present to the PSC the reasons for their non-compliance to the 30 day payment rule, including challenges that they

faced; and assess the mechanisms that the departments have put in place to mitigate these challenges.

The meeting was chaired by Commissioner P Nzimande. Deputy Chairperson, Mr Ben Mthembu, Commissioners Sellinah Nkosi and Commissioner Bruno Luthuli were also present at the meeting. Four departments were represented at the interaction namely, Public Works, Water and Sanitation, South African Police Service and Cooperative Governance (DCoG). The department of Public Works was represented by the Director-General (DG) and the finance team, Water and Sanitation was represented by the acting Director-General and the Chief Financial Officer (CFO), SAPS was represented by Brigadier Marais from the CFO's office and DCoG was represented by the Director: Finance and her team.

2. MANDATE OF THE PUBLIC SERVICE COMMISSION

The Public Service Commission (PSC) is an independent and impartial institution established in terms Chapter 10 of the Constitution¹ with the sole aim of strengthening and supporting constitutional democracy. In this regard, the PSC *“must exercise its powers and perform its functions without fear, favour or prejudice”*. Its powers and functions include the promotion of the following constitutional values and principles set out in section 195 of the Constitution:

- A high standard of professional ethics must be promoted and maintained.
- Efficient, economic and effective use of resources must be promoted.
- Public administration must be development-oriented.
- Services must be provided impartially, fairly, equitably and without bias.
- People's needs must be responded to and the public must be encouraged to participate in policy making.
- Public administration must be accountable.
- Transparency must be fostered by providing the public with timely, accessible and accurate information.
- Good human resource management and career development practices to maximise human potential must be cultivated.

¹ Republic of South Africa. The Constitution of the Republic of South Africa. Act 108 of 1996.

- Public administration must be broadly representative of South Africa's people, with employment and personnel management practices based on ability, objectivity, fairness and the need to redress the imbalances of the past in order to achieve broad representation.

Through its mandate of evaluating the performance of the public service, the PSC, therefore, decided to invite the Directors-General of the affected Departments to an engagement to discuss the challenges that are faced by the departments with regard to compliance with 30 days payment of suppliers and how the PSC can assist and support the departments with the issue.

3. DETAILS OF THE ENGAGEMENT

Payment of suppliers within 30 days is a requirement in terms of Section 38 (1)(f) of the PFMA and Treasury Regulations 8.2.3 which respectively stipulate that *'Accounting Officers of departments should settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period and also ensure that all payments due to creditors are settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement'*.

Recognising that the late and non-payment of suppliers is seriously impacting the sustainability of SMMEs, regular monitoring of 30 days payment of suppliers started in 2010. The monitoring of payment of invoices was previously done by the National Treasury alone and the PSC recommended that the responsibility be moved to the Presidency.

The PSC raised a concern or questioned why is it still taking long for departments to pay supplier invoices or not at all and shouldn't we find the inability to pay service providers on time disgraceful? The nature of our mandate is developmental and as a developmental state we can't be failing to pay service providers within 30 days.

The responses from the represented departments were as follows:

3.1 Department Cooperative Governance

The representative from the department indicated that there has been an improvement in payment although the department still experience late payment of invoices. In the first quarter of 2018/19

only 11.8% of invoices were not paid on time. The main challenges faced by the department on compliance with 30 days payment of suppliers are:

- *Processing of bulk invoices for Community Works Programme (CWP).* The process of verifying invoices mainly from CWP implementing agencies who are based in local municipalities across the country takes too long. The service providers are outsourced to provide services on behalf of department as implementing agencies for CWP.
- *Incorrect banking details of service providers* were also making it difficult for the department to pay invoices on time.
- *Service providers do not submit invoices on time.*

The department previously incurred irregular expenditure and this has led the department ensuring that all required documents for service provided are available before making payments. The department has also developed a turnaround strategy which already yielding positive results.

3.2 Department of Water and Sanitation

The acting DG indicated that the department has invoices that they are currently unable to pay. The department also has liabilities running over a number of years that they are unable to honor. The acting DG further mentioned that many of the challenges faced by the department in relation to the 30 day payment of suppliers emanated from the non-payment of suppliers by the department's implementing agencies, that is, water boards as well as municipalities that re not paying for their bulk water accounts. The department has about R2 billion of accruals that must still be paid. The department indicated that the following challenges that they are faced with:

- Lack of funds;
- Banking details;
- Internal controls;
- Verification of work done prior to invoices being processed for payment.

Over and above these challenges, the department is faced with human resource capacity challenges and it is forced to outsource most of its work that could be done internally in the department. The change at leadership level as well as restructuring of the department which put moratorium on filling of vacancies means that the department cannot recruit. This has had a negative impact on the department as they cannot appoint qualified engineers who will assist with the implementation of about 1000 projects and verification of invoices. The department has

developed a turnaround plan and working in collaboration with National Treasury to ensure that the issue of accruals is fast tracked. Some of the accruals will be catered for during the budget adjustments and payments will be effected during the 3rd quarter.

3.3 Department of Public Works

The department manages about 93 000 government buildings across the country. Most of the projects that are implemented the departments implements them on behalf of other national and provincial departments. The department of Public Works’ main challenge with regard to the payment of suppliers within 30 days was the verification of work done for the department especially in rural areas which causes in delays in processing of invoices. Another challenge is that the department is faced with lack of human resource capacity. The department further indicated that there are instances departments will approach Public Works to assist with acquisition of buildings informing Public Works that they have funds for the project only to get cuts from Treasury which then makes it difficult for Public Works to pay suppliers.

The department informed the PSC that at the end of August 2018 the department had 84 000 invoices of which 73% were paid within 30 days, 16% were paid after 30 days and 11% were still not paid. In April the department had 11 782 invoice from prior year that were still not paid and in May the number of invoices decreased to 6 984. The table below is a presentation of the number of invoices paid and their amounts since April.

Table 1: total number of invoices received

Analysis of total invoices received unpaid										
	April		May		June		July		August	
MONTHS	UNPAID INVOICES									
	Number	Value R'000								
Prior year	11 782	826 257	6 984	475 833	2 745	165 415	790	82 572	15	620
APRIL	8 448	475 352	1 941	97 411	437	25 553	144	9 280	52	4 405
MAY			7 847	657 799	1 047	212 987	208	50 387	87	15 043
JUNE					6 384	728 937	797	33 036	170	5 989
JULY							5 788	542 266	860	60 121
AUGUST									7 753	702 697
SEPTEMBER										
OCTOBER										
NOVEMBER										
DECEMBER										
JANUARY										
FEBRUARY										
MARCH										
TOTAL	20 230	1 301 609	16 772	1 231 043	10 613	1 132 892	7 727	717 541	8 937	788 875

The department mentioned that most of the invoices that are not paid are invoices from Cape Town and Pretoria due to a large number of buildings in the two regions.

Furthermore, the department indicated that invoices in the department are received centrally by an automated system which starts tracking the invoice as soon as it is received. This enables the department to count how many invoices were received and how many are paid. Furthermore, the department has a call center where service providers can call to check the status of their invoices.

3.4 South African Police Service

The department reported that by end of August 99.7% of the invoices received were paid within 30 days and only 0.3% were not paid. Furthermore, the department had 38 invoices amounting to R 88 860 634 from prior year that were still not paid which emanates in the main from disputes between SITA and SAPS and litigation process between FDA and the SAPS. The main challenges faced by the department on compliance with 30 days payment of suppliers are:

- Banking details of service providers not updated on CD.
- Service providers the owe SARS and payment cannot be effected until SARS is paid.

The department has a system for tracking invoices from the time the order issued to when the invoice is paid. The system is four tiered with segregation of duties to prevent fraud or corruption

happening. The system is enabled to issue notifications/warnings to responsible officials when invoices take long to be processed. By day 28 if an invoice has not being processed then it gets escalated to the CFO. The department has also ensured that the function is included in the KPAs of SMS members.

4. DECISIONS AND WAYFOWARD

The chairperson closed the engagement by indicating that the issue of brown envelopes being demanded by departmental officials from suppliers must be dealt with.

The following decisions were taken:

- PSC will engage, DPME, Treasury and Small Business Development departments on their role of supporting the suppliers in order to assist them to get their affairs in order especially with regard to changing information i.e banking details.
- PSC will engage with Small Business Development on their role in capacity building of the SMMEs.
- Information sharing structure where 30 day payment of suppliers is discussed and learning from each other must be established