



Municipal Financial Systems and Processes

The objective of this circular is to inform municipalities of the investigation into local government financial systems and processes and to outline the procedure that municipalities need to comply with when considering a replacement of their core financial systems.

Section 5 of the MFMA enables National Treasury to investigate any system of financial management and internal control in a municipality or municipal entity and recommend appropriate improvements. This relates to all financial applications, including those used for revenue, expenditure, supply chain, asset and liability management, payroll, accounting, etc. It is imperative that municipalities operate effectively and utilise financial applications optimally to present credible information on a timely basis for internal and external use.

Financial Systems

The project commissioned by the Budget Council and undertaken by the National Treasury includes research and assessment into various financial applications and related software systems in use by municipalities. This research is intended to highlight the costs and capabilities of current systems and provide information on whether or not current applications can accommodate the requirements of the envisaged Standard Chart of Accounts (SCOA) for local government.

Information from the Consolidated General Report on Local Government Audit Outcomes for 2009/10 points to various weaknesses in the financial management and IT systems of municipalities and municipal entities that require urgent attention. These include governance arrangements to ensure that IT functions are operational, work processes are streamlined, continuity is promoted, disaster recovery plans and facilities are in place to ensure availability of financial information in instances of data loss, minimal dependency on service providers, central coordination, guidance and specialist support offered in a cost-effective and efficient manner.

The Auditor-General also proposed that guidelines be issued on minimum standards for financial systems which would minimise excessive or duplicate systems, examine critical integrated IT solutions to maximise capabilities and achieve cost effectiveness while addressing associated maintenance costs. These minimum standards will also need to be aligned with the envisaged SCOA requirements for application in all municipalities and municipal entities. It was observed that municipalities have in the past diluted the benefits of financial applications by choosing to implement certain 'components' or altering the application to meet their specific requirements or utilising an application that was not integrated with the financial system.

Processes

Service delivery is a by-product of effective, efficient and economical processes that are informed by strategic direction, resource planning and implementation. An integrated financial system (software application) is an 'enabler' that translates effective processes into meaningful management information.

The effectiveness of a financial system is determined by the quality and credibility of the data. If the data input into a financial system is incorrect then any management information generated by the system will lack credibility and reliability for decision making. The combination of both credible data inputs and an effective financial system is fundamental to improving the content, quality and timeliness of financial reporting.

Furthermore, a municipality with poorly designed business processes will not resolve the problem by implementing a new financial system. Firstly, processes must be redesigned with the necessary data validation rules if the municipality is to improve its data integrity. This foundation is integral to ensuring that software applications generate credible information and can be used effectively by municipalities.

This project will result in the development of a standard set of financial and related processes for municipalities and municipal entities. This will take into account cross-cutting functionality, critical linkages and streamlining of operational activities. The processes in respect of these functional areas should ideally be implemented according to a logical workflow that is aligned to the financial application so that clearly defined job responsibilities and audit trails are assigned to the tasks being performed.

Most system modifications are necessitated by process flow changes that municipalities may have requested after the initial scoping work was undertaken. The development of integrated processes will facilitate effective management of operations and improve service delivery.

Engagement with Vendors

Engagements have commenced with the majority of municipal and municipal entity financial system vendors to discuss various issues including the possibility of creating an integrated web portal whereby financial transaction information would be accessible to National Treasury, provincial treasuries and the Auditor-General. A vendor forum has been established to create a communication channel whereby reform initiatives that have implications for municipal financial systems can be discussed. It has become apparent that the enhancement of most system developments has moved towards either system process flows or complete ERP integration.

Reporting

An initial survey undertaken in December 2010 and updated in June 2011 on the core financial systems currently operated at municipalities show that within the last six months, fifteen municipalities had migrated to a new financial system. The implementation of a new financial system requires extensive planning to ensure a smooth operational transition; however, in most cases it resulted in disruptions to operations and impacted negatively on performance. Where financial system conversions are poorly executed, it can be costly and may be deemed to be fruitless and wasteful expenditure.

In light of the above and in terms of section 74 of the MFMA municipalities and municipal entities must report all problems with existing financial and other systems or if considering replacement of existing core financial applications, such as, HR, budgeting, billing and accounting to the National Treasury.

Municipalities are required to follow this process **before** inviting proposals for a new system:

- National and Provincial Treasuries should immediately be informed of any intention to replace the accounting or billing system currently operating at the municipality;
- The submission should include a comprehensive motivation with specific reasons for why it is deemed necessary to replace the existing financial system;
- A copy of the service level agreement with minutes of the meetings between the municipality and the current service provider (financial system vendor) during the previous twelve months must be made available;
- The organisational structure, specifically for the IT department/function, clearly indicating management capacity and responsibility for operating the financial system, must be submitted;
- An assessment should be done to determine which modules of the existing financial system are being utilised by the municipality and reasons must be provided for modules not in operation. In cases where an existing system is not an ERP system the municipality must provide details of any other systems utilised by the municipality;
- The date on which the existing financial system was implemented, the procurement and implementation costs and the current operational costs thereof must be disclosed;
- A technical assessment must be undertaken on the server and network requirements of the new financial system and a copy of such report should be submitted; and
- Copies of all IT strategies, policies and procedural documents including the IT disaster recovery plan must be made available.

The above submissions and all enquiries must be forwarded to lgdataqueries@treasury.gov.za or emailed to Jan.Hattin@treasury.gov.za. A working committee comprising representatives from the National and Provincial Treasuries, the Auditor-General and other relevant stakeholders will assess the submissions and respond with its findings.

Conclusion

Guidance will be provided to municipalities and municipal entities on financial system applications.

It is incumbent on the accounting officer to ensure that this circular is brought to the attention of senior management and, more specifically the manager responsible for ICT, the CFO, supply chain management practitioners, and members of bid committees in the municipality and municipal entities.

Contact



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post

Private Bag X115, Pretoria 0001

Phone

012 315 5009

Fax

012 395 6553

Email – General

mfma@treasury.gov.za

Website

www.treasury.gov.za/legislation/mfma

JH Hattingh

Chief Director: Local Government Budget Analysis

20 October 2011