

CIGFARO / mSCOA ANNUAL WORKSHOP

ITEM 12
Seamless Integration of sub-systems into the Core Financial System

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Seamless Integration of sub-systems into the Core Financial System
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Date 17/11/2021





national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA





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NATIONAL TREASURY
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What is meant by seamless integration of sub systems into the Core Financial System ?

Legislative Guidelines

The mSCOA Regulations Gazette 37577 in the Preamble refers to :

- “These regulations also proposes the specification of minimum business process requirements for municipalities and municipal entities as well as the implementation of processes within an integrated transaction processing environment “
- Within the contents of definitions reference is made to the following :**
 - “**general Ledger** “ means the central depository of the accounting data transferred from all sub-ledgers
 - “**minimum system requirements**” means those specifications for an integrated software solution ,incorporating an enterprise resource management system determined in terms of regulation 7”.

Minimum system requirements 7.(1) The Minister may, by notice in the Gazette, determine the minimum system requirements for municipalities and municipal entities to enable implementation of regulations 4 and 5. (2) Each municipality and municipal entity must implement the minimum system requirements by the date determined in the notice referred to in sub-regulation (1).

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What is meant by seamless integration of sub systems into the Core Financial System ?

The mSCOA Regulation requires that systems of financial management and internal control:

- May not apply methodologies of data mapping or data extrapolation to provide for the segmented transactional data string at a transactional level above as explained above; and
- Must provide for full seamless integration between the core financial system representing the general ledger, and any third-party system with a direct impact on the general ledger i.e. human resource and payroll third party systems, billing etc.

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MINIMUM SYSTEM SPECIFICATIONS

What is meant by systems of financial management and internal control, core financial system and third party system?

In short, we can define this as:

- **System(s) of financial management** refers to the software system (including processes and procedures) that are used by a municipality (or municipal entity) to exercise financial control and accountability. These measures include recording, verification, and timely reporting of transactions that affect revenues, expenditures, assets, net assets and liabilities.
- **System(s) of internal control** refers to any system(s) that receives or provides information to the core financial system for financial and (or) reporting purposes such as the performance management system.
- **Core financial system** refers to that that system which manages the general ledger function. The general ledger is the highest level of summarization and must maintain account balances by the accounting classification elements established in the Core Financial System Management function. In most instances vendors have additional modules and sub modules that feed into the core financial systems which may include billing, payroll, asset management, etc.
- **Third Party System** refers any system, other than the core financial system, that must provide financial information to the core financial system. **These are also referred to as bespoke systems –custom designed**. Examples of third-party systems, includes and is not limited to; systems that assist with the preparation of the annual financial statements, section 71 reports management of cemeteries, management of fire and emergency; management of library, management of Round

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MINIMUM SYSTEM SPECIFICATIONS

- A municipality may have several complementary systems to cater for its different business needs. These systems must be integrated seamless to increase the efficiency of the overall system and the reliability of the under lying data (a single data set, i.e. one version of the truth). To achieve this, any system that interacts with the core financial system must be able to accommodate and operate the classification framework across all seven segments at a transactional level as defined in the associated detail to the segments and that information is transferred the to ensure that there is always “one version of the truth”.
- Integration can be divided into two main categories i.e. manual and automated. Manual integration is defined as the integration which is triggered manually by system user, while in an automated method, data integration can be pre-defined and scheduled at regular intervals or based on events. mSCOA requires that all systems integration must automated.
- Seamless integration means that a 3rd Party System is able to transfer information to the core financial system without any human interference in the data provided. The two systems should be able to transfer data seamlessly between each other without having to create files that are placed on a network drive or other location.
- Third party system exist due to certain systems not having certain functionality; specific requirements of the municipality or municipal entity the or the municipality has historically used the third-party system and is not willing to change for various reasons.

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MINIMUM SYSTEM SPECIFICATIONS

- Municipalities may decide to use a third-party system instead of the modules/sub-system of the vendor that provides the core financial systems. The choice of which system to use rests with the municipality. Notwithstanding this, the municipality must assess the costs of this in terms of the ICT procurement (and considerations must be given to the timing of integrations (real time, daily, etc.) to ensure that the core financial system and the 3rd party system contains ‘one version of the truth’.
- When integrating systems (seamlessly), the general rule is that the system vendor of the core financial systems provide direction in terms of the structure and content of the data being submitted from the third party system.
- Since municipalities are required to compile consolidated budgets, in-year reports and Annual Financial Statements as per the MFMA and MBRR, the data of the entities of the municipality must also seamlessly integrate with the core financial system.
- Municipalities must note that systems of internal control must also be mSCOA enabling. For example, a performance management system may not send financial information to the core system. It does however receive information from the financial management systems. As the performance management systems will fall within the ambit of mSCOA.

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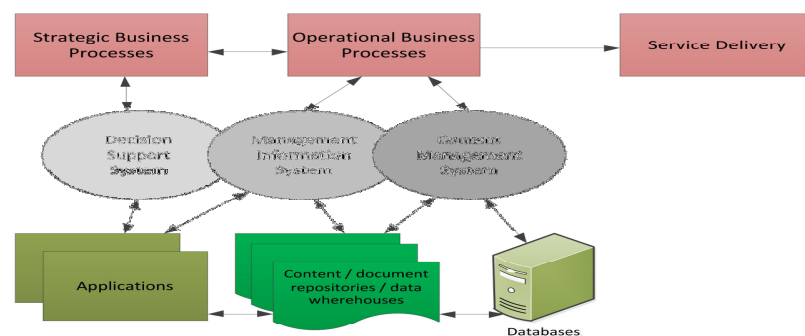
MINIMUM SYSTEM SPECIFICATIONS

- Government is moving to system-to-system communication where data will be sent from the municipal financial system to the LGDRS without any manual intervention. Seamless integration between the core financial system, third party sub-systems and entity systems are therefore critical to ensure that data is accurate.

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Seamless integration between the Business process and System Application Support

The following diagram provides an illustrative perspective of the complete information management system and linkage to business processes:



The diagram below provides an illustrative perspective of the linkage between the local government financial management accountability cycle and mSCOA. The diagram clearly demonstrates how business processes, system functionality and management decision making need to be considered in a seamless manner and that these cannot be considered in isolation:

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Sub ledger /3rd Party systems seamless integration to Core financial system

- In terms of MFMA Circular No. 80, a municipality must transact across the seven
- segments of mSCOA with subsystems seamlessly integrating to the core
- financial system.
- This means that the core financial system provider must determine how the
- sub-system information will be integrated into the core financial system and then
- inform the sub-system provider accordingly.
- It further specifies that the following **seven components/sub ledgers** must integrate seamlessly
- with the mSCOA general ledger and comply at a **posting level to the mSCOA**
- **Regulations and GRAP:**
- General Ledger
- Billing
- Supply chain management
- Assets management
- Inventory and stores
- Budgeting and planning
- Human Resources and payroll

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Review of 3rd Party systems in Municipalities

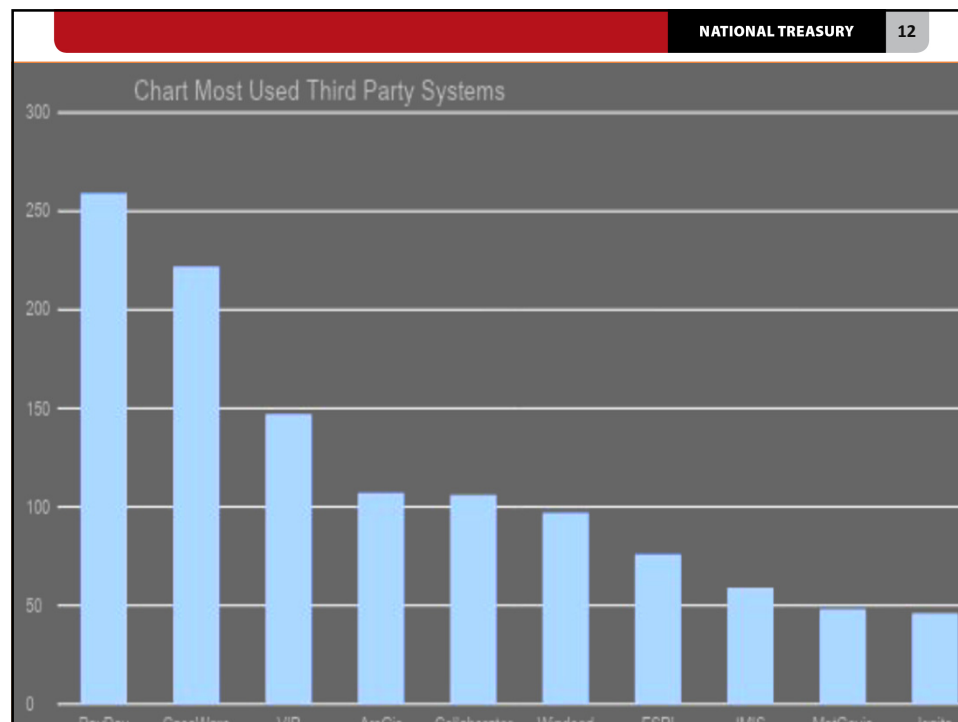
- Identified the top 10 most used 3rd Party Systems (ex Stock Take)
- 3rd Party Vendor to outline process and status of seamless Integration with Core Financial System
- Completion of 3rd Party Questionnaire(2018)

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3 rd. Party Systems – mostly used

- **Approximately 160 different third party systems identified**
- 48 Functionality assessed against 17 business processes (required by mSCOA, Legislation. Best Practice and Optional)
- **Top Ten 3rd Party Systems:**
 - Payday
 - Caseware
 - VIP
 - ArcGis
 - Collaborator
 - Windeed
 - ESRI
 - IMIS
 - Metgovis
 - Ignite

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Consideration of Seamless Integration

- When considering integration the question of Functionality is important in relation to the core system or the 3RD party system
- Is Functionality in Core System or Sub System (Yes/No)
- Is Functionality Seamlessly Integrated
- How is it Integrated? (Method of integration)
- Frequency of Integration? (Daily/Weekly/Monthly)
- Are all mSCOA segments maintained at transactional level in Sub-System or only in Core System
- Drill Down Capability from face of AFS or Budget Schedules to detail transactions reflecting all segment

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What are we working towards

- Seamlessly integrated system between the Core Financial system and sub ledgers which will ensure accuracy and credibility in the reporting of financial and management information .
- **The integrated system for local Government must ensure :**
- **Productivity :** A system which makes you and your staff more productive
- **Functionality:** A system that has feature and functions that actually perform the daily accounting and business management functions
- **Technology :** Hardware which leverages technology for mobility ,usability , customizability and maintain ability
- **Value :** A system/Product that maximize features and functions vs cost for the usable life time of the product
- **Risk :** A product which minimises risks and facilitate security both network and financial
- **The end result**
System-to-System communication where data will be sent from the municipal financial system to the LGDRS without any manual intervention. Seamless integration between the core financial system, third party sub-systems and entity systems are therefore critical to ensure that data is accurate.

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