Guidance on Financial and Non-Financial Alignment – ISO 55010

Andre Jordaan | October 2020 | 20min

Our Topics of Discussion for Today

1. Key introductory observations (Background, scope and motivation)
2. Benefits of alignment
3. Enablers of alignment
4. How to achieve system alignment
5. How to achieve asset-register-related alignment
6. Financial planning for AM
7. Performance management
8. Annexures
9. Final observations

ISO/TS 55050:2019(E)

Table of Contents

Contents

Page

Foreword ... iv
Introduction ... v
1 Scope ... 1
2 Normative references ... 1
3 Terms and definitions ... 1
4 Why alignment between financial and non-financial functions is important ... 4
4.1 General ... 4
4.2 Benefits of alignment ... 5
5 Enablers for alignment ... 6
5.1 General ... 6
5.2 Processes, leadership and governance ... 6
5.2.1 Processes ... 6
5.2.2 Leadership ... 6
5.2.3 Governance ... 7
5.3 Policy, strategy, data and information ... 7
5.3.1 Asset management policy support ... 7
5.3.2 Strategic asset management plan support ... 7
5.3.3 Data and information ... 8
5.4 Non-financial functions in asset management ... 8
5.5 Terminology for financial and non-financial alignment ... 8
6 How to achieve system alignment ... 8
6.1 General ... 8
6.2 Information systems ... 9
6.3 Data management ... 9
7 How to achieve asset-register-related alignment ... 10
7.1 General ... 10
7.2 Financial asset registers ... 10
7.3 Non-financial asset registers ... 10
7.4 Asset register alignment ... 11
8 Financial planning for asset management ... 12
8.1 General ... 12
8.2 Capital investment planning ... 12
8.3 Long-term financial planning ... 13
8.4 Budgeting ... 13
9 Performance management ... 14
9.1 General ... 14
9.2 Performance measurement ... 14
9.3 Performance reporting ... 15
9.4 Financial reporting in asset management ... 16
Annex A (informative) Guidance on capital investment planning ... 17
Annex B (informative) Guidance on long-term financial planning ... 18
Annex C (informative) External financial reporting standards and principles ... 22
Annex D (informative) Financial accounting functions for financial reporting ... 24
Annex E (informative) Non-financial functions in asset management ... 30
Annex F (informative) Implementation example ... 35
Annex G (informative) Cost input to pricing for product or service ... 38
Bibliography ... 39

pragma

1 Key Introductory Observations

- The ISO 5500x management standards have raised awareness of the importance of improving alignment between an organisation's financial and non-financial functions. ISO 55001:2014, 7.5 d), states that **"the organisation shall determine the requirements for alignment of financial and non-financial terminology relevant to asset management throughout the organization".**

- Why? In many organizations, the financial and non-financial functions of asset management are inadequately aligned.

- The definition of "asset" in ISO 55000 differs from that of the generally accepted accounting principles (GAAP) or the International Financial Reporting Standards (IFRS).

1 Key Introductory Observations: Definition of “financial functions”

Financial functions includes activities such as:

- Financial Accounting (Historical for management and shareholders, audited against accounting standards)
- Management accounting (predictive, to facilitate management decision making)
- Managerial costing
- Budgeting
- Financing
- Valuation of assets.

1 Key Introductory Observations: Definition of “non-financial functions”

Non-financial functions are the complementary processes and activities, for providing a product or service from the assets

Diagram as found and described in Annex E

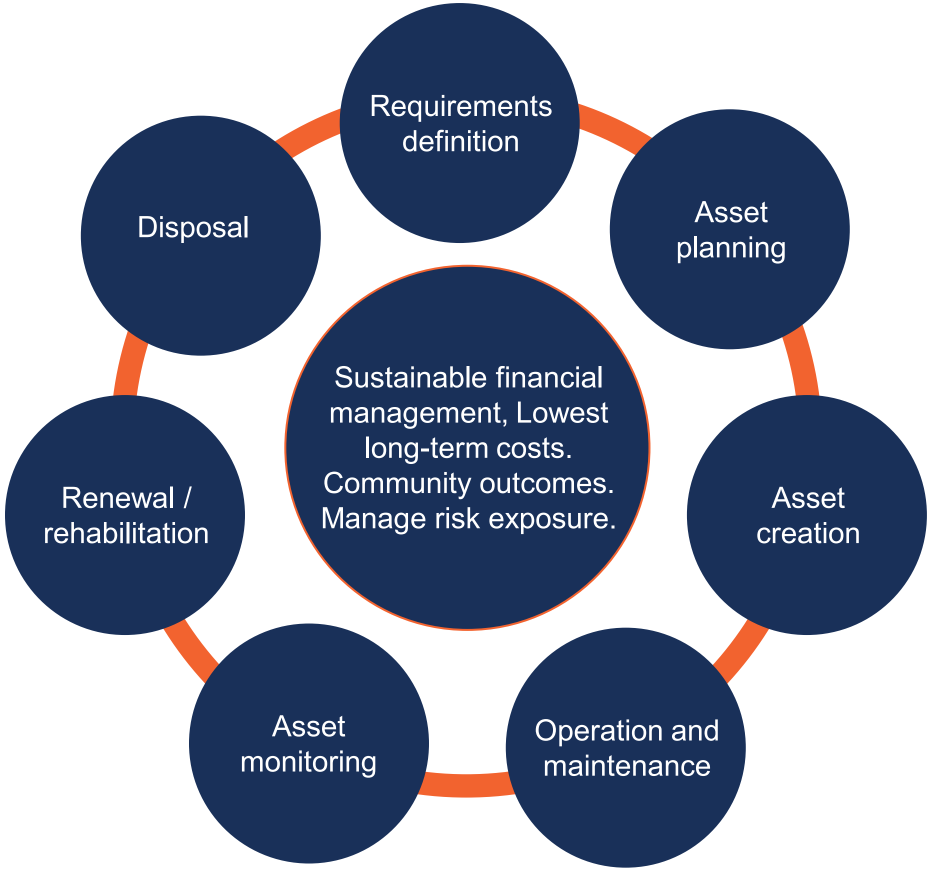


Figure E.1 – Asset life cycle activities

1 Key Introductory Observations

Alignment needs to work both “vertically” and “horizontally”.

Vertical alignment means that financial and non-financial asset-related directives by top management are informed by accurate upward information flows, effectively implemented across the appropriate levels of the organization.

Horizontal alignment means that financial and non-financial information that flows between departments (conducting functions such as operations, engineering, plant maintenance, financial accounting, financial management and risk management) uses the same terminology and refers to the assets identified in the same way.

On silos, i.e. Horizontal departmental view:
Lack of alignment between financial and non-financial functions can be attributed to silos in an organization, including reporting structures, functional/operational business processes, and related technical data. The United States Government's “Government Accountability Office interviews with asset management experts” advises that **“… silos are necessary to allow for the required level of specialization, but if these silos do not communicate, inefficiencies and errors in asset management result**” and that “**when asset management implementation fails, it is often because asset management staff and senior management are not in alignment”.**

1 Key Introductory Observations

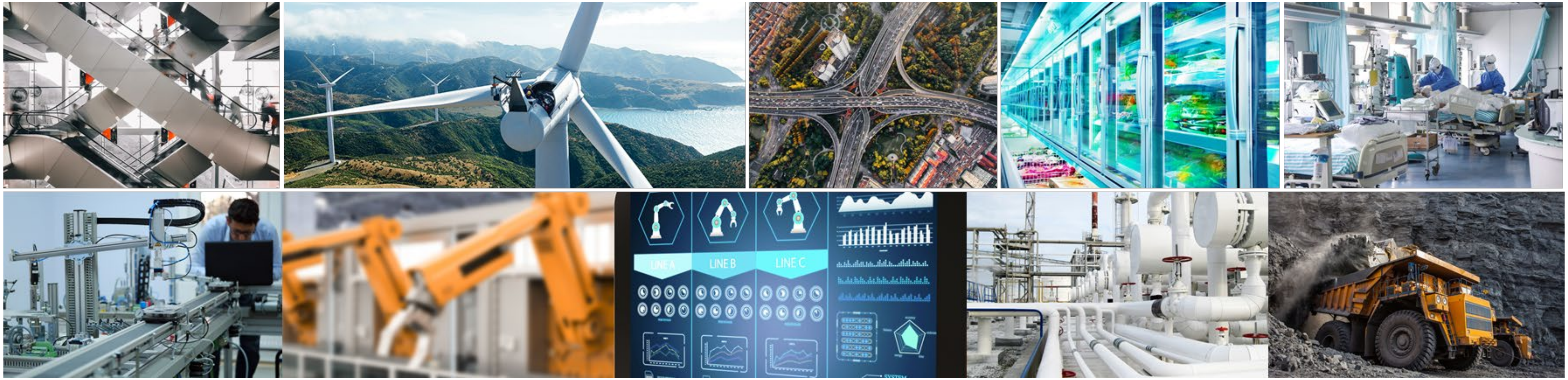
ISO 55010 Scope

It applies to:

- **all types and sizes of organisations** and
- **all types of assets**

Methodology

- It does not seek to explicitly answer these questions individually but instead guides users to adopt the concepts contained within this document to find their own answers to these and other pertinent questions.
- THUS: **It is the complete set of questions, for you to find the "appropriate" answer**



2 Benefits of Alignment

Why Align? (Examples)

- How can I be sure I am getting best value for my stakeholders from my assets?
- How do my assets contribute to the delivery of the organization's strategy and objectives? Which assets are critical for it?
- How can I know the total cost of ownership (TCO) of my assets?
- Are we making decisions that provide short-term cost savings but, due to lack of adequate asset management involvement, are leading to higher long-term costs?
- Are my stakeholders confident about the asset verification/valuation/existence/necessity/ impairment tests?
- What assets are not delivering the value expected and what assets are costing more than anticipated?

Benefits (Examples)

- Improved expression of *asset criticality and risk* in financial terms, which would help to implement more robust risk controls.
- Integrated and efficient asset investment planning and prioritization for the short- and longer-term timescales.
- Improved options analysis and decision-making on investment projects based on more complete information from both financial and non-financial functions. (Better expression of projects in "value" terms)
- Better alignment of long-term financial planning and asset life cycle planning.
- Improved depreciation methodology.

3 Enablers for Alignment

Key enablers

- Business processes, leadership and governance
- Policy, strategy, data and information
- Non-financial functions in Asset Management
  - (i.e. their effect on financials)
- Common terminology
  - E.g. “repair” (expense) vs. “improvement” (CapEx)

4 How to Achieve System Alignment

Financial System

… used to describe and manage the organisation’s *financial accounts* and *management accounting*

Asset: a hospital

Reach agreement on the common levels of asset detail and Implement to that level

Non-Financial System

… where relevant technical or operational data and information of an asset are kept.

Asset: a pump, a bed

Create a procedures to maintain the link

clearly define, develop and communicate the processes

- the capture and creation of data,
- for managing and the dissemination of data, and for
- data maintenance and updates

5 How to Achieve Asset-register-related Alignment

Asset register alignment is achieved when the following criteria are met (this also applies to different non-financial functions within asset management):

a) a **common understanding** of the specific asset data capture, reporting and analysis **requirements** across each functional area is achieved;

b) **data and information** that needs to be **shared** across the different functional areas is **identified and defined**;

c) a **single key source** for each of the specific data elements is **identified and agreed upon**;

d) data quality standards, business processes, responsibilities and timelines for **maintaining the asset register data** have been **defined and agreed upon** by the different stakeholders.

6 Financial Planning for AM

- Financial planning for asset management is an integral part of the overarching asset management process.
- Asset management planning aims to achieve both financial and non-financial objectives while balancing performance, cost and risk over the total life cycle of the asset systems.
- It speaks to all phases of the asset's life cycle (Acquire, operation, maintain and dispose phase)

- This need to be applied in:
  - Long-term planning, which includes:
    - capacity planning,
    - asset life cycle planning,
    - capital investment planning and
    - long-term financial planning.
  - Short-term planning, which includes
    - budgets and
    - operational planning.

Financials

7 Performance Management

- Performance measurement
  - A lot of focus on financial reporting via auditing, and what would be required for the auditor. Mostly pertaining to the financial functions
- Performance reporting
  - An example: can on-line monitoring of condition also inform condition measures as set up by finance
- Financial Reporting in asset management

It is useful for non-financial functions to have a basic understanding of financial and accounting principles for asset management to foster discussion and communication between different functional areas within an organization. It leads to better understanding of the terminology and language commonly applied by financial and non-financial staff relating to asset management.

See Annexure D

8 Annexures

A - **Guidance on capital investment planning** **(1 page)**

B - Guidance on long-term financial planning **(4 pages)**

C - External financial reporting standards and principles **(2 pages)**

D - Financial accounting functions for financial reporting **(6 pages)**

(Financial Asset register, Valuation / Revaluation, Valuation Techniques, Depreciation, Impairment, Useful Life / remaining useful life, Residual Value)

E - Non-financial functions in asset management **(4 pages)**

i.e. the lifecycle stages of an asset (see chapter 1)

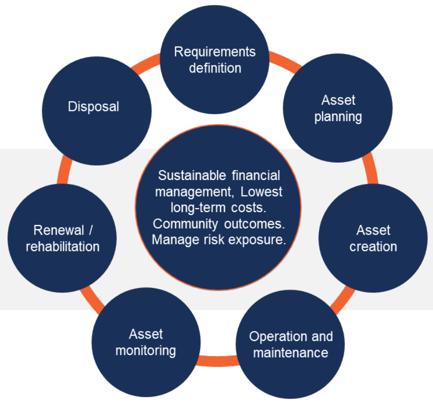


Figure E.1 – Asset life cycle activities

F - Implementation example **(3 pages)**

G - Cost input to pricing for product or service **(1 page)**

9 Final Observations

- Scope: This document gives guidelines for the alignment between financial and non-financial asset management functions, in order to improve internal control as part of an organization's management system. Alignment of these functions will enable the realization of value derived from the implementation of asset management.

- Its focus is on aligning the systems, ISO 55001:2014, 7.5 d), states that "the organization shall determine the requirements for alignment of financial and non-financial terminology relevant to asset management throughout the organization". The value is the benefits gained in efficiency, accuracy, shared understanding, etc. of the alignment.

For one, it will enable the financial dept. to do their reporting more accurately and efficiently.

It will provide information which is aligned, reliable and useful for decision making

THE END