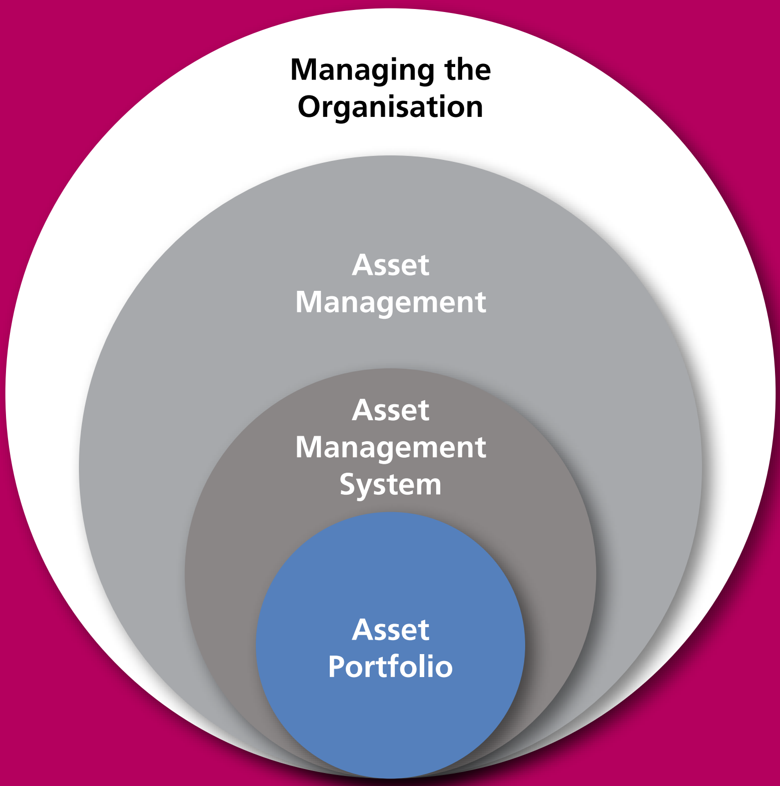
Strategy and Planning
Asset Management Decision-Making
Lifecycle Delivery
Asset Information
Organisation and People
Risk and Review

Asset Costing & Valuation

Version 1 November 2018



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About the IAM

The Institute of Asset Management (the IAM) is a not-for-profit, professional body. We are owned and controlled by our Members and committed to remaining independent from commercial and trade associations. We exist to advance the discipline of Asset Management, not only for people and organisations involved in the acquisition, operation and care of physical assets but also for the benefit of the general public. Our priorities are to promote the generation and application of knowledge, training and good practice and to help individuals become demonstrably competent.

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Disclaimer

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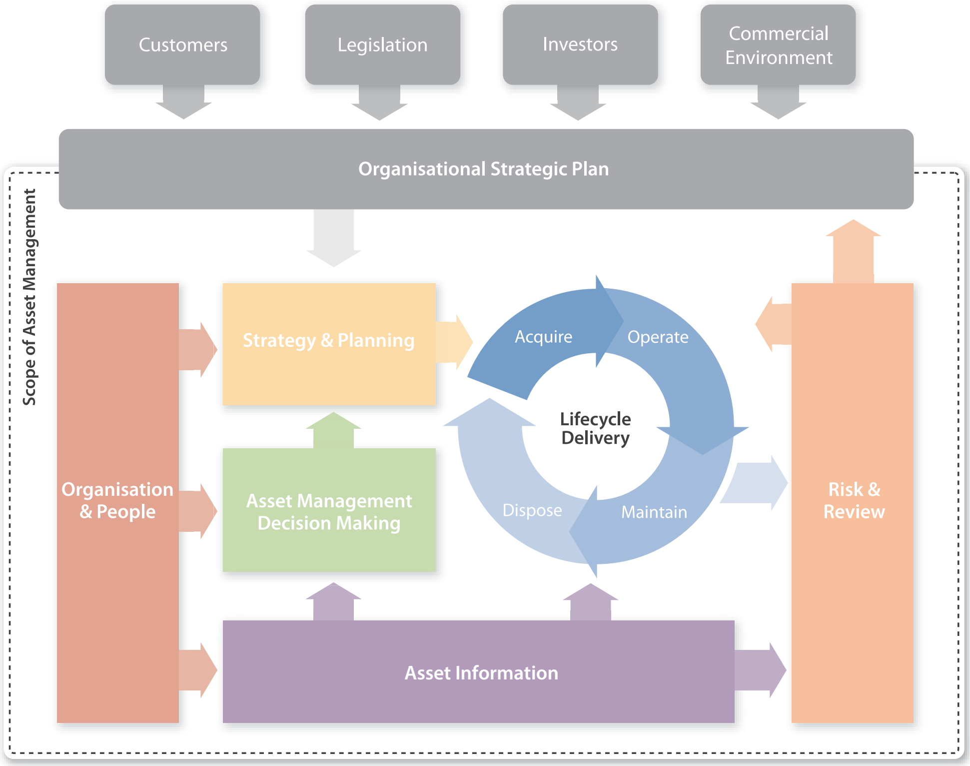
The scope of Asset Management



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1 Introduction

Asset Management and finance are inextricably linked. Organisations which rely on assets for the delivery of products or services need to spend money on creating, caring for and ultimately disposing safely of assets. The majority of the associated asset management activities rely on good interworking between asset managers and finance professionals, essential for the achievement of corporate objectives and the delivery of value to stakeholders and to satisfy external reporting needs.

This guidance document aims to provide a bridge between the worlds of finance and asset management. Whilst the document talks about "Accounting" and "Asset Management" it does not seek to suggest that these functions exist in separate silos. The intent is merely to show how those who are responsible for different aspects of the delivery of corporate objectives depend on each other.

The guidance addresses the main processes of Asset Management and how they interact with the Accounting discipline. It provides some help regarding the meaning if key terms to help with the development of a shared language. It also provides guidance on the types of disclosure in external reporting that are possible through shared understanding and common processes.

The document does not set out to be a course in finance for asset managers, nor in Asset Management for Finance professionals. Neither does it set out to repeat guidance and sources of practice elsewhere. Where appropriate, it does indicate reference sources where the reader may find out more in particular areas.

Establishing a close link between Accounting and Asset Management delivers numerous benefits including:

- A more holistic view of the value that the organisation delivers to its stakeholders.
- Better understanding of the costs and revenue within business and the drivers for these items.
- Ensure compliance with regulators and financial accounting standards.

All of these drivers are about demonstrating and delivering a better understanding of the business and the provision of evidence to support these.

2 Introduction to Subject Specific Guidelines

This Subject Specific Guidance (SSG) is part of a suite of documents designed to expand and enrich the description of the Asset Management discipline as summarised in the IAM's document 'Asset Management – an Anatomy' (referred to throughout this document as "*The Anatomy*").

The SSGs cover the 39 Subjects in The Anatomy directly as a 'one to one' (where a subject is very broad), or grouped (where subjects are very closely related).

2.1 Purpose of the SSGs

This document provides guidance for good asset management. It is part of a suite of Subject Specific Guidance documents that explains the 39 subject areas identified in "Asset Management – an Anatomy", also published by the Institute of Asset Management. These subject areas are also acknowledged by the Global Forum for Maintenance and Asset Management as the "Asset Management Landscape".

PAS 55 and ISO 55001 set out requirements which describe **what** is be done to be competent in asset management, however they don't offer advice on **how** it should be done. The SSGs are intended to develop the next level of detail for each subject in The Anatomy. They should therefore be read as **guidance**; they are not prescriptive, but rather intended to help organisations by providing a consolidated view of good practice, drawn from experienced practitioners across many sectors.

The SSGs include simple as well as complex solutions, together with real examples from different industries to support the explanatory text because it is understood that industries and organisations differ in scale and sophistication. In addition, they are at different stages of asset management; some may be relatively mature while others are at the beginning of the journey.

Accordingly, there is flexibility for each organisation to adopt their own 'fit for purpose' alternative practical approaches and solutions that are economic, viable, understandable and usable. The underlying requirement for continual improvement should drive progress.

2.2 The SSGs in context

The SSGs are a core element within the IAM Body of Knowledge and they have been peer reviewed and assessed by the IAM Expert Panel. They align fully with the IAM's values and beliefs that relate to both the development of excellence in the asset management discipline and provision of support to those who seek to achieve that level of excellence.

2.3 SSGs and the issue of Complexity versus Maturity

It is important to understand and contrast these terms. Put simply:

- The complexity of the business will drive the complexity of the solution required; and
- The maturity of the organisation will determine its ability to recognise and implement an appropriate solution.

A very mature organisation may choose a simple solution where a naive organisation may think that a complex solution will solve all its problems. In truth, there is no universal best practice in Asset Management – only good practice that is appropriate for the operating context of any particular organisation. What is good practice for one organisation may not be good practice for another.

For example, an organisation that is responsible for managing 100 assets, all in the same location, could use a spread sheet-based solution for an Asset Register and work management system. This is arguably good practice for that organisation. However, for a utility business with thousands of distributed assets, this is unlikely to represent a good practice solution.

When reading the SSGs, the reader should have a view of the complexity and maturity of the organisation, and interpret the guidance that is offered in that context.

2.4 Further reading

The Anatomy provides a starting point for development and understanding of an Asset Management capability and the SSGs follow on to support that further. However, the opportunity doesn't end there; the IAM provides a range of expert and general opinion and knowledge which is easily accessed by members through the IAM website.

3 Accounting and Asset Management

All organisations must periodically deliver accounts in one form or another that must be an accurate, complete and fair representation of their situation. These accounts:

- are used by a variety of stakeholders to judge the health of the organisation;
- must be supported by evidence and should require, according to ISO 55001, the alignment of technical and financial data;
- are subject to auditing with disclosures required that identify items that have a material impact on the accounts.

The rules of what a company must report against are defined within Accounting Standards. How a company adheres to these rules is defined through a set of accounting policies that influence both accountants and asset managers.

To highlight the impact of the assets and their management on Finance, a distinction is made between Income and Expenditure Accounting and the subset related to Capital/Tax[1] treatment.

Operational expenditure (opex) and revenues have a direct impact on the profit or loss for the current year. Those costs and revenues that fall under the auspices of Capital/Tax[2] treatment account for the fact that the assets deliver benefits and/or income over extended duration. These costs and revenues are treated over the asset's life within the financial accounts and cover accounting polices such as asset valuation, depreciation and tax. The requirements for Asset Management reporting are captured within ISO 55001 to ensure the technically and financially integrated Asset Management System delivers compliance with the general features within these Accounting Standards.

3.1 Accounting Standards

Accounting Standards define the rules that companies must comply with in preparing and reporting their accounts. These standards are either defined by:

- Globally, for example International Accounting Standards Board (IASB),
- Nationally, for example Generally Accepted Ac counting Principles (GAAP), or for
- Specific sectors and geographies (for example, regulatory frameworks set by national professional institutes).

These standards define the general features that should appear in the financial reporting of companies. The general features set out by the IASB for International Financial Reporting Standards (IFRS), which are of importance for Asset Management, are:

1) **Fair presentation and compliance with IFRS**
Fair presentation requires the faithful representation in the financial / annual accounts of the effects of all transactions, other events and conditions in accordance with the definitions and recognition criteria for assets set out in the Framework of IFRS.
2) **Accrual basis of accounting**
This approach records transactions at the time they are agreed or recognised, rather than at the time that cash or cash equivalents change hands. The accrual accounting methodology requires organisations to understand the relationship between their operational and capital expenditures and the delivery of the required value, to that organisation. The principle is to match expenditure to the period over which a company benefits from the use of an item, not the point at which the item is purchased.
3) **Materiality and aggregation**
Every material class of similar assets has to be presented as a specific asset class. Items that are of a dissimilar nature or function have to be presented separately unless they are immaterial. In the case of IFRS IAS 16 (Plant, Property and Equipment) the principle of component accounting is mandatory for these assets.

1. Tax is not relevant to all organisations. For the purposes of this document it has been grouped with capital accounting due to the specific treatment of capital assets in many countries' tax laws.
2. Tax is not relevant to all organisations. For the purposes of this document it has been grouped with capital accounting due to the specific treatment of capital assets in many countries' tax laws.

A technically and financially integrated Asset Management System should allow compliance with these general features. As a result, the ability to apply the principles of asset management is supported and enabled by these general features. The SSG Finance and Accounting takes these general features into account.

International Reporting Standards: *IAS and IFRS Reference is made throughout the documents to international accounting standards IFRS and IAS. These standards normally consist of the term IAS or IFRS and proceeded with a number. An example could be IAS 16 - Property, Plant and Equipment. This particular standard defines the reporting requirements for long lived assets. For the purposes of this document the difference between an IAS and IFRS is the period that the standard was documented. IAS covers the time from 1973 through to 2001, and IFRS, 2001 onwards. The generally accepted rule is that IFRS takes precedence over IAS where contradictions occur.*

3.2 Relevant Accountancy Policies to Asset Management

Accounting policies are the specific principles, rules and procedures implemented by a company's management team and are used to prepare its financial statements.

The policies that could impact on or reflect the actions taken by the asset managers are:

- Expenditure policy
- Revenue recognition policy
- Capitalisation policy
- Asset valuation policy
- Depreciation policy
- Asset impairment policy
- Capital rationing policy
- Tax treatment policy.
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These policies, and the involvement of asset managers in their drafting, are in most part the decisions of management. The policies are subject to internal and external financial auditing. They will also be included in ISO 55001 based assessments to test that the procedural links between the financial records and the knowledge of the material assets are in place and aligned with the policies.

A full description of these policies and the impacts that Asset Management decisions have on these policies are provided in Appendix 1.

3.3 Accounting in ISO 55001 (2014)

One of the strengths of ISO 55001 is that the standard pays a lot of attention to finance related to good asset management practice, 'financial-technical' reporting, transparency and continuous improvement. Throughout the standard there are several clauses that relate directly to the general features of Accounting Standards. These clauses include:

- Determining the stakeholder requirements for recording financial and non-financial information relevant to asset management, and for reporting on it both internally and externally (clause 4.2).
- When establishing its asset management objectives, the organization shall consider the requirements of relevant stakeholders and of other financial, technical, legal, regulatory and organizational requirements in the asset management planning process (clause 6.2.1).
- When planning how to achieve its asset management objectives, the organization shall determine and document the financial and non-financial implications of the asset management plan(s) (clause 6.2.2.i)).
- The organization shall determine the requirements for alignment of financial and non-financial terminology relevant to asset management throughout the organization (clause 7.5.d)).
- The organization shall ensure that there is consistency and traceability between the financial and technical data and other relevant non-financial data, to the extent required to meet its legal and regulatory requirements while considering its stakeholders' requirements and organizational objectives (clause 7.5.e)).
- The organization shall evaluate and report on the asset management performance, including financial and non-financial performance (clause 9.1).