

Aligning Asset Management Policy to Corporate Strategy

The Asset and Liabilities Management Seminar

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Uphold Public Interest

Agenda



- Introduction
- Asset Management
- Asset Management Policy
- Legal Perspective of AM
- Financial Perspective of AM
- AM Paradigm
- Benefits of AM
- Challenges

Introduction



- Organizations are developing a comprehensive and long term view of how the various asset classes compliment each other across time and function
- There is a perceptive change from the management of an asset to a whole life view of the management of the contribution it makes and the value it provides in cooperation with other assets.
- Question to ask....
 How can assets be best used to meet organizational objectives?
- Answer lies on...
 - What the organization owns
 - Why it was acquired
 - What condition it is in

- Where it is located
- What opportunities it provided
- What risks it entails

This process will uncover synergies among assets and provide additional method of measuring organizational performance

Let's Reflect – Asset management Policy?





Asset Management



Various definitions of AM

Engineering Institute Sarajevo-HEIS, GIZ &ORF

• "The life cycle management of physical assets to achieve the stated outputs of the enterprise". AM Council, Australia

- "A systematic process of maintaining, upgrading, and operating assets and providing tools to facilitate a more organized and flexible approach to making the decisions necessary to achieve the public's expectations". Organization of Economic Cooperation and Development(OECD), 2001
- An integrated approach to monitoring, operating, maintaining, upgrading, and disposing of assets cost-effectively, while maintaining a desired level of service. (Report on international asset management practices, 2014,; Asset Management for water and sanitation sector in South-East Europe Hydro

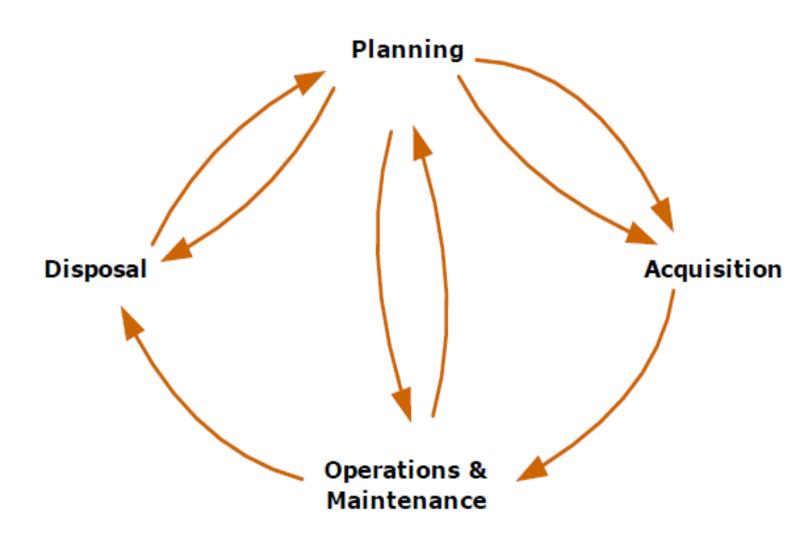
Asset Management



- "...activity that ensures that the asset base of an organization is optimally structured in the best corporate interest of the entity concerned". Royal Institute of Chartered Surveyors (RICS)
- ISO 55000 defines asset management as "coordinated activity of an organization to realize value from assets". Goes beyond just maintenance of physical equipment or maximizing of yield
 - Asset management is the process of decision making, planning and control over the acquisition, use, safeguarding and disposal of assets so as to maximise their service delivery potential and manage the related risks and costs over their entire life
- A better service, not a better asset, is a key indication of successful asset management.

Asset Management





Asset Management Policy



• Asset management (AM) policy – a formal statement adopted by an organisation and articulates an organisations commitment to asset management and provides policy statements to guide staff in carrying out the organization's business strategies, plans and activities

- A policy document which states the intentions and direction of an organization, as formally expressed by its top management
- The AM Policy establishes a platform for service delivery and provides the framework (guiding principles) that enables the asset management strategy and plans to be produced.

Guides the development and use of organizational asset management

AM Strategy



• Asset management strategy – the means by which an organisation proposes to manage its assets to meet its goals and objectives most effectively

 AM strategy outlines how an organisation's asset portfolio will meet the future needs and enable the achievement of the asset management policy in the most cost effective manner.

AM Plan



• Asset management plan – a plan for managing and organisation's infrastructure and assets to deliver an agreed standard of practice in a cost-effective manner now and in future

 AM Plan should be developed for all asset classes with a view to operating, maintaining and renewing assets in the most cost-effective manner, while providing a specified level of service

- It can be divided into two areas;
 - Asset operations plan
 - Asset maintenance plan ISO 55000 & Asset Management Landscape (GFMAM

Fundamentals and value of AM



• Encompasses all asset types, tangible, intangible, individual components or complex systems

- Encompasses all activities involved in the assets' life cycle-from;
 - initial identification of requirements or opportunities
 - acquisition/creation
 - operations or utilization activities
 - asset stewardship plus
 - any remaining liabilities or care/maintenance responsibilities, to
 - renewal or disposal

ISO 55000 & Asset Management Landscape (GFMAM)

Fundamentals of AM



- The fundamentals of asset management
 - 1) Value: assets exist to provide value to entities and stakeholders (focus is not on the item itself but on what it can provide
 - 2) Alignment: AM translates the organizational objectives into technical and financial decisions, plans and activities
 - 3) Leadership: leadership and workplace culture are determinants of realization of value
 - 4) Assurance: AM gives assurance that assets will fulfil their required purpose

ISO 55000 & Asset Management Landscape (GFMAM)

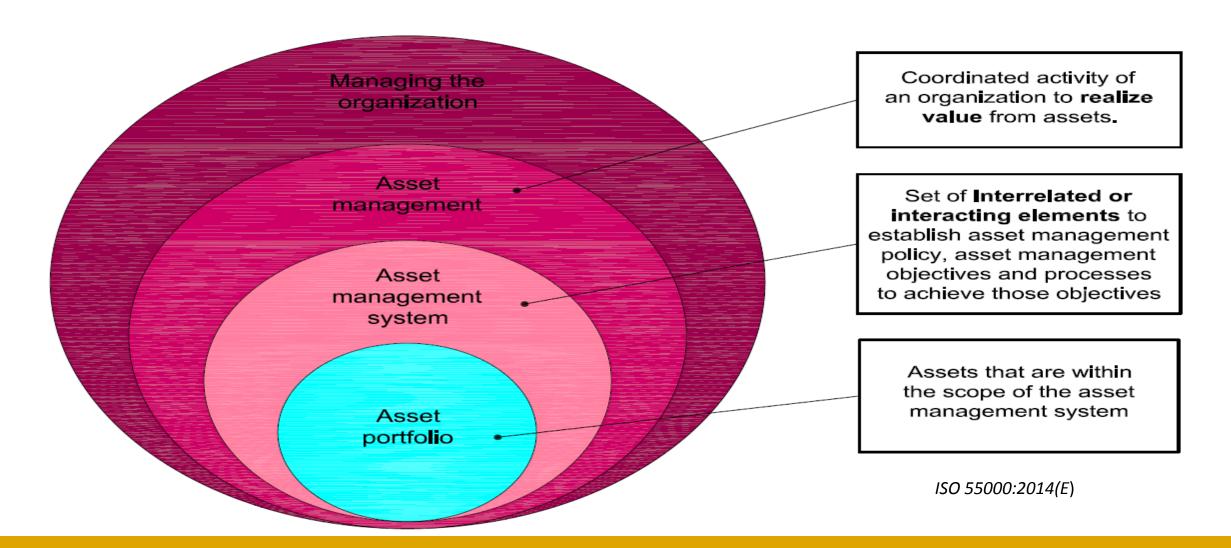
AM Objectives



- Asset management objectives must be aligned to the overall objectives of the entity (SP)
- Effective asset management makes an essential contribution to the governance and management of a public entity's business
- It is an integral part of an organization's wider service and financial planning process and
- Should be built on elements of other management systems such as quality, environment, health and safety, risk management

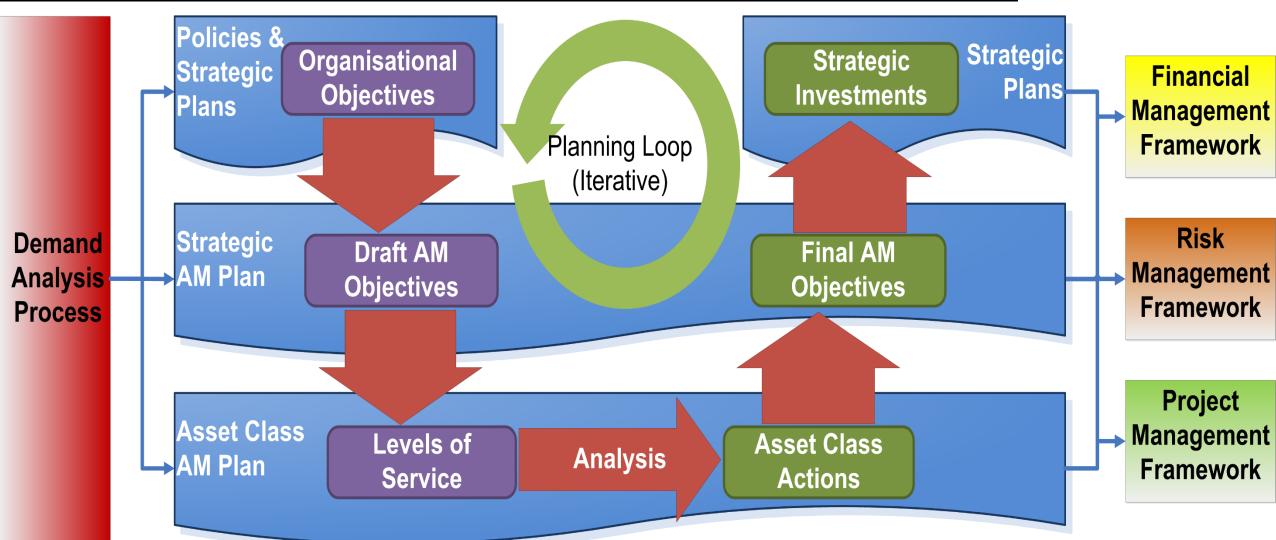
Relationship Between Asset Management and Strategic Management of an Organization





Relationship Between Asset Management and Strategic Management of an Organization





Asset Management Policy



- The principles by which the organisation intends to manage its assets are set out in the Asset Management Policy, while the approach to implementing these principles is contained in the Strategic Asset Management Plan
- Asset Management Policy should be a short statement, and need not be a separate document

 contained within the Strategic Asset Management Plan.
- The policy commits the organisation to applying specified principles when making decisions relating to asset management:
 - A commitment to providing the resources necessary to deliver the organisation's asset management objectives
 - A commitment to using specified decision making processes or guidelines when making decisions about assets
 - >A commitment to measuring and reporting on asset and asset management performance
 - >A commitment to the achievement of long-term, sustainable outcomes

How to write a Good Asset Management Policy



- ISO 55001:2014 states (in Section 4.3) that the scope of the organisation's Asset Management system should be aligned with the Asset Management Policy.
- the Asset Management System is the management system for managing the organisation's assets. It is used by an organisation to plan, coordinate, control, execute, monitor and improve the activities associated with managing assets.
- It is not just a computerised information system, although this may form part of an organisation's Asset Management System.
- In addition, Section 5.2 of ISO 55001:2014 requires that the policy is aligned with and consistent with other organisational policies and plans (including the Strategic Asset Management Plan).

Asset Management Policy



- Top Management demonstrates leadership and commitment by, amongst other things, ensuring that the Asset Management policy is established and is compatible with the organisation's overall business objectives.
- Section 5.2 of ISO 55001:2014 has some specific requirements regarding the content of the Asset Management Policy. Amongst these are that it should:
 - ➤ Be appropriate to the purpose of the organisation
 - ➤ Provide a framework for setting Asset Management objectives
 - Include a commitment to satisfying applicable [mandatory and legal] requirements
 - ➤ Include a commitment to continual improvement of the Asset Management System
 - ➤In addition, there are a number of other requirements concerning things such as:
 - ✓ a requirement for the policy to be documented, available and communicated, and
 - ✓ a requirement for the policy to be reviewed on a regular basis and updated if required.

What should your Asset Management Policy contain?



- Should be short no more than one or two pages. Consider your Asset Management Policy as being similar in nature to your organisation's Safety Policy or Environmental Policy. The policy should provide high level guiding principles only, and the detail should be contained in other documents – most likely in your Strategic Asset Management Plan, or in other related policies, plans
- The policy should be useful in providing guidance regarding asset management and assetrelated decisions. If members of the organisation are unsure regarding how they should go about making a decision, then the Asset Management Policy should indicate high level principles that they should apply when making that decision.
- Mandatory elements that should be in any Asset Management policy.
 - >A commitment to comply with all relevant legislative, regulatory and legal requirements
 - >A commitment to continual improvement of the Asset Management System
- <u>Sample Asset Management Policy.docx</u> <u>TransGrid Appendix D Asset Management Policy May 2014.pdf</u>

Asset Register



- Regardless of the size of the asset portfolio, it is important to maintain a record of each asset, both monetary and non-monetary information over the entire lifecycle of each asset for the purposes of;
 - >accountability,
 - >asset planning,
 - monitoring performance and
 - > for assisting in legislative compliance and meeting accounting standards
- Asset registers enable entities to monitor the acquisition, operation and disposal of their assets



- The law and applicable regulations advices on the design and execution of,
 - >asset related transactions
 - >Acquisition and or creation
 - > operations and maintenance, and
 - ➤ disposal

It addresses optimization of the management of asset portfolios

It advices on suitable contracts and documentation

Advices on legal aspects and requirements relating to construction, leases etc.



Constitution of Kenya

Bill of Rights – will require proper AM



- Article 227(1),(2):
 - acquisition of goods and services using a system that is "fair, equitable, transparent, competitive and cost effective";
 - framework for procurement and asset disposal
- Sixth Schedule Part 6 Miscellaneous Matters(33) legal succession of institutions' assets and liabilities

 229- audit report to confirm whether public money has been applied lawfully and in an effective way- compliance & performance/vfm)



- **PFMA, 2012**; s72, s153: Accounting Officers designated to manage assets and liabilities of national and government county entities
 - Assets acquired through development expenditure(creating or renewing), "in a way which
 ensures that the entity achieves value for money in acquiring, using and disposing of those
 assets"
 - NT- custodian of an inventory of national government assets except where provided by law(Directorate of National Assets and Liabilities Management NALM)
 - County Treasury-custodian for assets in county governments
 - PFMA prohibits loaning or transferring of assets for purposes other than carrying out the functions of the entity



- PFMA, 2012
 - s73 IAG- reviewing the governance mechanism for transparency and accountability with regard to assets



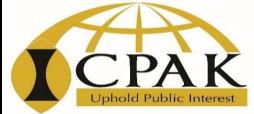
- s81 annual reporting- a statement of the entity's assets and liabilities as at the end of the financial year
- s99 CS-NT can provide for liquidation of specific asset in a recovery plan for a county government unable to perform its functions
- s197, s198 offence disposing or taking possession of public assets without lawful authority (penalty >=5yrs, 10m)
- PFM Regulations 2015
- NT published and issued County Financial and Reporting Manual



 PSASB- mandate to set standards for effective, prudent and efficient management of assets of the public institutions



- County Government Act, 2012: S108 5 Year County Integrated Plan- to include a resource mobilization and management framework including a financial strategy that may address asset management strategies, and cost effectiveness
- **TDGA,2012**: s7(2)(e)- TA to prepare and validate an inventory of all the existing assets and liabilities of government, other public entities and (defunct) local authorities County Assets and Liabilities Committees
- Intergovernmental Relations Act, 2012: IGRTC has taken over the residual functions of the Transition Authority



• **Urban Areas and Cities Act, 2011-** functions of the board or town committee with regard to assets(accounts and audit)



- **Public Procurement and Disposal Act, 2015**, comprehensive law on procurement and disposal of assets.
- **Public Audit Act,2015:**reports to address provision for depreciation and amount set aside for renewal(state corporations & defunct local authorities), statement of assets and liabilities, BS(state corporations)
- Respective laws governing the organization/entity
- Other laws e.g. Contract Laws, EMCA, analysis of natural resources of Kenya with an indication as to any pattern of change in their distribution and quantity
 - Sustainability
 - Construction projects, disposal of waste

Financial Perspective of AM



 Asset creation, acquisition and maintenance requires capital investment development and recurrent expenditure

• Evaluation of alternative investments with a vision of long-term benefits (asset-life cycle perspectives) for optimal options is essential

- Calls for a capital strategy for assets to address;
 - the overall capital requirements of the asset strategy, and
 - funding sources to meet those requirements



AM Paradigm



• AM provides a new perspective on an organization and a basis for innovative organizational development -this is key especially due to resource constraints

- The release of the standard for Asset Management ISO 55000:2014 by the International Standards Organization in January 2014.
 - highlights the growing importance of asset management in creating value for asset intensive companies
 - growing understanding of the strategic role of robust asset management
- AM organizations- taking a more holistic approach to their financial, operational and technical functions and how they contribute to the strategic aims of companies

AM Paradigm



- ISO 55000 explicitly places assets in a value context, widening the definition of 'asset' to include: "Something that has potential or actual value for an organization".
- That value can be tangible or intangible, financial or non-financial, and includes consideration of asset risk and liabilities

- The ISO 5500x family comprises three documents
 - ISO 55000 provides an overview of asset management and the standard items and definitions to be used
 - **ISO 55001** outlines the requirements specification for an integrated, effective system for assets
 - ISO 55002 provides guidance on how to implement a compliant system

AM Paradigm



- ISO 55000- also states that the process of establishing an AM system requires a thorough understanding of each element, policies, plans and procedures that integrate them.
 - > context of the organization
 - > leadership
 - planning
 - > Support
 - > operations
 - > performance evaluation
 - > improvement

Benefits of Aligning Asset Management Policy to Corporate Strategy



- improved financial performance: improving the return on investments and reducing costs
- **informed asset investment decisions**: enabling the organization to improve its decision making and effectively balance costs, risks, opportunities and performance
- managed risk: reducing financial losses, improving health and safety, good will and reputation, minimizing environmental and social impact, can result in reduced liabilities such as insurance premiums, fines and penalties
- improved services and outputs: assuring the performance of assets can lead to improved services or products that consistently meet or exceed the expectations of customers and stakeholders
- demonstrated social responsibility: improving the organization's ability to, for example, reduce emissions, conserve resources and adapt to climate change, enables it to demonstrate socially responsible and ethical business practices and stewardship

Benefits of Aligning Asset Management Policy to Corporate Strategy



- demonstrated compliance: transparently conforming with legal, statutory and regulatory requirements
- enhanced reputation: through improved customer satisfaction, stakeholder awareness and confidence
- improved organizational sustainability: effectively managing short and long-term effects, expenditures and performance, can improve the sustainability of operations and the organization
- improved efficiency and effectiveness: reviewing and improving processes, procedures and asset performance can improve efficiency and effectiveness, and the achievement of organizational objectives
- better focus on priorities: optimal choices

Challenges in AM



- Focus is on benefit to customers/citizens: The cost of ownership (or control) and the management and use of the asset influences the total cost and the quality of service delivery
- Challenge in collecting and managing data for implementing AM: Asset management decisions need to be based on a proper evaluation of options which take into account all costs and benefits over the life of the asset, and incorporate an explicit analysis and determination of an acceptable level of risk.
- Low level of IT application in asset management in the public sector is quite low: It is costly to procure and maintain software or technological approaches to support AM (simple)
- Management responsibility: Asset procurement and management must be responsible, accountable, open, consistent and ethical. Not always the case in the public sector.

Challenges in AM



- Integration of planning and management processes: Management is responsible for the integration of asset planning, budgeting, reporting and monitoring as part of their own overall management processes within their agency. An integrated approach may call for consultation with, and coordinated reporting to, central agencies
- Resources challenges: budgets, low economic growth levels and lack of expertise
- Balancing: between what should be done and what the stakeholders require

• Aging assets: infrastructure that require heavy capital outlay

Conclusion



 'Asset management is an essential component of good governance in both the private and the public sector' and if we embrace it entirely it will make a difference in the lives of Kenyans

INTOSAI GOV 9160 (Exposure Draft)on Enhancing Good Governance for Public Assets-Guiding Principles for Implementation



THANK YOU VERY MUCH