IT Service Financial Management

Description/Summary

Task of the *Financial Management* for IT Services is

- budget definition, monitoring and review,
- monitoring of IT relevant costs and revenues
- internal cost allocation for IT services (optional)

Based on customer requirements a balanced ratio between quality and costs needs to be fined.

Objectives

Objectives of the *Financial Management* for IT Services are:

- simplification of data collection in the sub process accounting
- support of the internal organization
- creation of awareness of internal cost allocation complexity
- reduction of costs
- increase of a service and customer reliability

Roles & Functions

Financial Management specific roles

Static Process Roles

Financial Management Process Owner

Financial Management Process Manager (Financial Manager)

Responsible for the process, continuous process improvement and hierarchical escalation. More over responsible for process controlling, establishing an early warning system. Following activities are to be performed by the Process Manager on regular base:

- Reporting
- Hierarchical Escalation
- Continuous Process Improvement
- Review KPI and undertake counter actions
- Over all budget Planning
- Over all accounting planing
- Over all charging planing
- Decision on cost and price models
- Definition of process rules and policies aligned with overall rules and policies
- Provide tool support for process
- Ensure data quality of Financial Management

Financial Management Process Budgeting Team

Support of the Process Manager, performance of the sub process, performance of the budgeting for defined services.

Financial Management Process Charging Team

Support of the Process Manager, performance of the sub process, performance of the charging for defined services.

Overall Budget Responsible Person

Responsible for the over all budget of a service. Approves defined service budgets. Responsible for implementation and operation of early warning systems and indicators.

Dynamic Process Roles

Financial Auditor

Financial Auditor is providing the verification of finance policies, processes and tools. Auditor should be altering an external and internal resource to provide independent and reliable audit.

Service Specific Roles

Roles depending on the affected service are found in the Service Description. The Service Description, including the service specific roles, is delivered from the Service Portfolio Management (/service-portfolio-management-en).

Service Expert/Service Specialist

Service Owner

Service User

Customer Specific Roles

Roles depending on the affected customer(s) are found in the Service Level Agreement. The Service Level Agreement for the customer specific roles is maintained by the Service Level Agreement Management (/service-level-agreement-management-en).

Customer(s)

Customers of the affected service with a valid SLA

Information artifacts

Finacial Plan

The process depends on general financial plan. Moreover, this process is responsible for the permanent improvement and adjustment of general financial plan, policies and rules.

Financial plan is a collection of predicted future values for income, cash flow and spendings, build on current business numbers. Financial plan is prepared by a Specialist.

Business Case

Business case aims to capture the reasoning for initiating a project or task. Business case presents a business project based on the idea that

- any time resources such as money or effort are consumed,
- they should be in support of the business.

An example could be that a software service upgrade might improve service performance but the "business case" is that better performance would improve customer satisfaction.

Invoice

Invoice is a commercial document issued by a seller to the buyer, indicating

- products,
- quantities,
- agreed prices for products or services

the seller has provided the buyer.

An invoice indicates that the buyer must pay the seller, according to the payment terms.

Budget Design Record (Budget Information)

- Budget Design ID
- Budget Design Requester
- Budget Design Description
- Budget Design Agent
- Budget Design Owner
- Service targeted: Service which has to be budgeted
- Budget size

Budget Transition Record (Financial Performance)

- Budget Transaction ID
- Budget Transition Requester
- Budget Transition Description
- Budget Transition Agent
- Budget Transition Owner
- Service: Services affected by the Budget Transition

Budget Verification record (Financial Audit)

- Budget Verification ID
- Budget Verification Requester
- Budget Verification Description
- Budget Verification Agent
- Budget Verification Owner
- Budget Auditor
- Service: Services affected by the Budget Audit
- Configuration Items: CI affected by the Budget Audit
- Customer: Customer affected by the Budget Audit
- User: User affected by the Budget Audit
- Expert/Specialists: Expert/Specialists affected by the Budget Audit

Key Concepts

Budgeting

Budgeting involves predicting costs and income. This often starts by preparing a plan with the anticipated customer demand for the services and the related costs.

Accounting

Accounting means monitoring how the IT organization spend its money. It is particularly important to be able to determine the costs for each customer, service, activity, etc.

Charging

Charging refers to all activities needed to bill the customer for the services provided to them.

Cost Models

Two different cost models can be chosen within the budgeting sub process:

- Cost by Customer
- Cost by Service

Both cost models will be explained in the following examples:

Cost for Customer

The graph above states that three customer are existing. In the top part of the graph different cost types can be seen: Hardware, Software etc. This cost elements are directly charged to each customer, as far as it is possible. Cost that can not be charged directly are splitted up in accountable indirect and not accountable indirect costs. Appointable indirect costs are charged as well to the customer. Non accountable indirect costs need to be shared between the customer as well. This can be done on percentage base or any other method.

Cost by Service

Second example is dealing with *Cost by Service* model. Different cost elements e.g. Hardware, Software etc. need to be distributed to the relevant cost causing factors. In this case the cost are caused by service issued. Direct related can be linked with service easily. Not direct related cost need to be distributed by a defined distribution model, the organization agrees on. In this case the distribution is done on base of a defined key.

Cost Types

- Equipment Cost Unit (ECU)
- Software Cost Unit (SCU)
- Organization Cost Unit (OCU)
- Accommodation Cost Unit (ACU)
- Transfer Cost Unit (TCU)
- Cost Accounting (AC)
- Other

Price Models

Different pricing models are existing. Pricing models needs to be seen in correlation with the chosen cost models. Cost and price models need to be adjusted to each other. Following three price models are common:

Cost Plus Model

Surcharge is added on the cost derived from accounting. Total charge is billed to the customer.

Fix Price Model

Fixed price for service on time period base agreed. Less operational efforts for charging. Depending on accounting model, efforts in accounting necessary to define costs.

Price Based on Individual Agreements

Most used pricing model for customer agreements. Typically a base factor is defined. This factor could be:

- Number of users
- Number of network access points
- Number of working hours

Data necessary for billing of this pricing models to be collected in accounting.

Security Controls

Security Data Set for Budgeting

Life Cycle of Data Set for Budgeting

- new: Budget planning for a new or existing service was triggered by responsible staff
- done: Business case with all related activities was provided and is ready for approval
- to be change: Budget planning was not approved and was returned to the sub-process budgeting with a proposal for optimization
- approved: Budget planing was approved by all responsible staff. Service can be added in the Service Catalogue, by Financial Management approval
- not approved: Service was not approved. Service can not be added in the Service Catalogue. New budgeting will be not done.
- end: Activity budgeting of a service is ended for a service

Security Data Set for Accounting

Life Cycle of Data Set for Accounting

- new: Service and one or more SALa are existing. Preparation for accounting planned in budgeting can now be fulfilled.
- prepared: All activities planned for accounting in budgeting were fulfilled.
- collected: First time period of data collection for that service is done.
- continue collection: Service and one or more SLAs are delivered to the customer so data collection need to be continued.
- end: Service is not longer in the Service Catalogue and is not performed to any cutsomer. Data collection can be stopped.

Security Data Set for Charging

Life Cycle of Data Set for Charging

- new: Instance of the process '*Charging* was started by no activity ended yet
- arranged: Data from accounting was processed and arranged for the Charging
- checked: Arranged invoicing data was checked on plausibility
- billed: Invoice was provided and send to customer with all relevant additional data
- collected - end: Payments were collected, instance can be closed

Process

Financial Management for IT Services has interfaces to almost all other ITIL processes and to Project Management. Therefore is the interface definition of high importance. Financial Management for IT Services is build up by three sub-processes:

- Budgeting
- Accounting
- Charging

Critical Success Factors

Critical Success *Factors* (CSF) define a limited amount of factors influencing the success of a process. For the *Financial Management* following factors can be defined as CSF:

- Competent *Financial Manager* with understanding of IT and customer issues
- Awareness creation of the process at customer and IT (marketing)
- Awareness of customers billing requirements
- Clear structure of *Financial Management* service process.
  - Breakdown of the process into:
    - Process control
    - Operational tasks
    - Continued process optimization
    - Management support
  - Precise separation of the charging and accounting sub-processes

Financial Manager has to regard the CSFs and to define and implement measures to fulfill the process success.

Financial Plan

High Level Process Flow Chart

This chart illustrates the Financial Plan Creation and Control
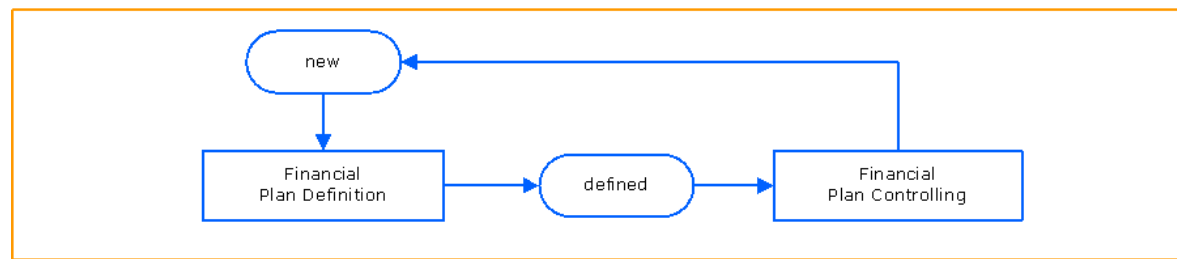
Performance Indicators (KPI)

- Number of changes to Financial plan

Process Trigger

Event Trigger

- The process is is not time triggered

Time Trigger

- Financial Plan is activated periodically

Process Specific Rules

- Each Change to the Financial Plan has to be documented
- Each Change to the Financial Plan has to be published

Process Activities

Financial Plan Definition

Financial Plan Definition is dealing with definition of

- Financial plan for the whole service portfolio

It may include basic finance rules and policies.

Basic finance rules define the Finance organization and are business strategy aligned. Main orientation rule for finance plan are assurance of liquidity and profit, and finacial risk management.

Activity Specific Rules

- **Finance Manager** is set to the person who is responsible for Finance process
- **Finance Process Owner Manager** is set to the person who is accountable for Finance process
- The Financial Plan is created or updated
    - add new Rules and Information
    - modify existing rules and information
    - delete unnecessary rules and information
- The Financial Plan is signed by the Senior Management and published

Financial Plan Controlling

Financial Plan Implementation and Monitoring is responsible for the implementation, communication, monitoring and update of rules, policies and information.

Activity Specific Rules

- Communicate Financial Plan
- Check for new Financial Threats
- trigger Financial Plan update when necessary
- Assure that staff understands and the rules by auditing and teaching staff

Service Design Assistance - Budgeting

Service Design Assistance - Budgeting is responsible

- for the financial forecast of incomes and expenses related to each service - it supports the Service responsible.
- for choosing a cost model - it can be chosen between **cost-by-user**, **cost-by-service** etc. models. Each service may be based on different cost model, but it might save efforts and reduce complexity to use same cost model for different services provided. Policies of Financial Management should be regarded.

Service Design Assistance - Budgeting is triggered when a new service is calculated or calculation of existing service is reviewed. This reviews are performed, when a service is changed. The trigger for calculation is provided by Service Portfolio Management.

Additional monitoring focused on early recognition of budget extension need to be implemented.

High Level Process Flow Chart

This chart illustrates the Financial Management Budgeting process and its activities.
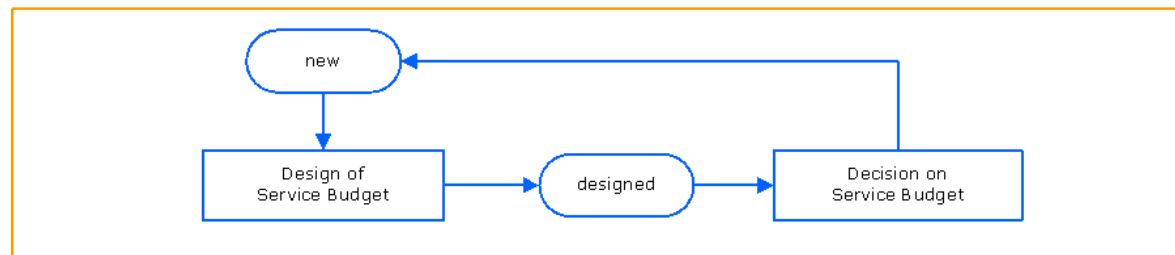
Performance Indicators (KPI)

- Under- and over-consumption of budget
- Percentage of as-is/ to-be budget divergences
- Number of incorrect invoices
- Variance of planned and and actual costs
- Durance of the **Planning** activity in sub-process **Budgeting**
- Durance of the **Approval** activity in sub-process **Budgeting**
- Durance of the **Preparation** activity in sub-process **Accounting**
- Durance of the **Data Comparison** activity in sub-process **Accounting**

Process Trigger

Event Trigger

Process is triggered when a new service is calculated by Service Portfolio Management.

Time Trigger

Process Specific Rules

- Each Change to the Budget has to be documented
- Each Change to the Budget has to be communicated

Process Activities

Design of Service Budget

Financial Management for IT Services is supporting the Service Responsible during the Design of Service Budget. This activity is triggered by Service Portfolio Management for the calculation of services. Two triggers are possible:

- Calculation of new service:
  - Price calculation - Customer demand analysis is required. Market analysis might be necessary. Due to missing historic data for analysis, the risk of wrong results is high.
  - Cost calculation - It hast be defined which costs can be charged directly and which not directly to the service defined. For non direct chargeable costs a key needs to be defined for the coast distribution.

- New Calculation of existing service: Existing service needs to be new calculated because an important parameter was changed.
  - Price calculation - Customer demand analysis is required as well. Market analysis might be necessary. Supporting historic data for analysis is existing, risk of wrong analysis results is lower.
  - Cost calculation - It hast be defined which costs can be charged directly and which not directly to the service defined. For non direct chargeable costs a key needs to be defined for the coast distribution.

After the price and cost model definition the Business Case including the Return on Invest period can be calculated. In addition in this phase already some preparation need to be done for the accounting and charging sub-process. This preparation includes the definition of financial mile stones for the services and definition of financial to be values for those mile stones.

Activity Specific Rules

- **Financial Manager** is set to the person who is responsible for budgeting process
- **Financial Management Process Owner Manager** is set to the person who is accountable for budgeting process
- The Budget is created or updated
  - add new numbers, conditions and information
  - modify existing numbers, conditions and information
  - delete unnecessary numbers, conditions and information
- The Budget is signed by the Senior Management and communicated

Decision on Service Budget

In this activity the Designed Service Budget is reviewed and approved or rejected for re-design. Service not providing profit on an defined level are rejected as well. Every rejected service can be approved by an Financial Management Authority. Non-profitable services are offered to provide a complete Service Portfolio to the customer.

Activity Specific Rules

- Communicate Budget
- Check for new Budget Threats
- trigger Budget update when necessary
- Assure that staff understands and the rules for budgeting by auditing and teaching staff

Service Transition Assistance - Accounting

Sub-process Service Transition Assistance - Accounting is dealing with the identification of costs for services. A cost report is provided and compared with the defined to-be values from the budgeting. The prerequisites for the approach are defined in the first activity. Data need to collected for the accounting - this is performed in the following activity. In the same activity data for charging is being collected. Collected as-is data is compered with the to-be data values. If defined divergence levels are missed, predefined actions need to be undertaken (early warning system). One of the results could be improved budgeting process. The basic principles of accounting , e.g. the basic cost models used, need to be defined in budgeting sub-process and are only used in the Service Accounting sub-process.

High Level Process Flow Chart

This chart illustrates the Financial Management Accounting process and its activities.
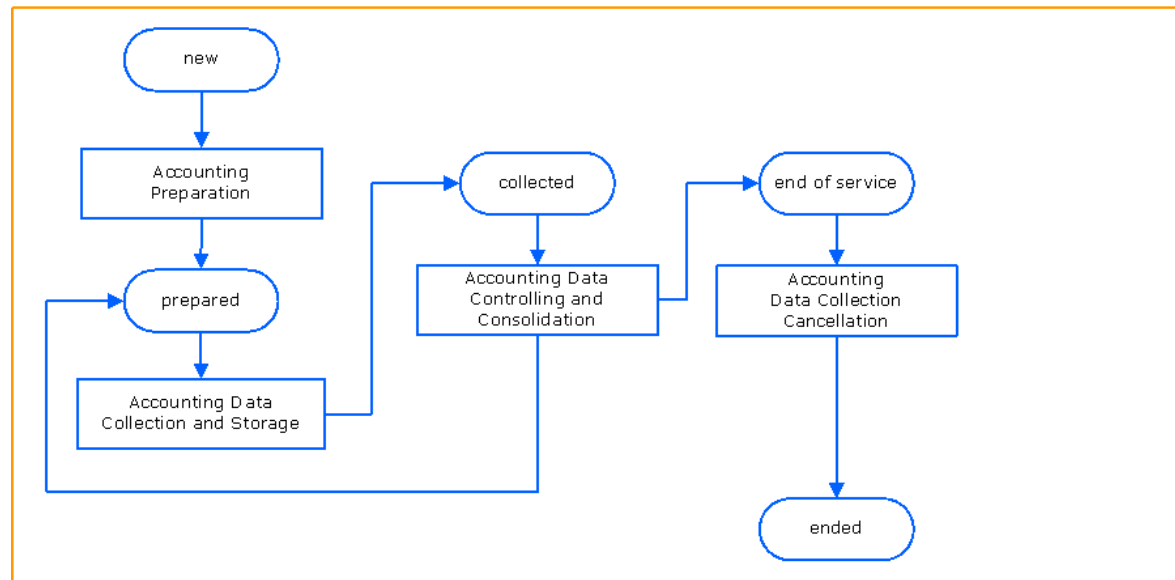
Performance Indicators (KPI)

- Number of correct reports on costs and services
- Number of issues when performing data collection, consolidation and analysis

Process Trigger

Event Trigger

Process may be performed on customer or legal request

Time Trigger

Process is performed on regular base like daily, weekly, monthly.

Process Specific Rules

- Each result of accounting process need to be documented
- Each result of accounting process need to be communicated

Process Activities

Accounting Preparation

To process accounting sub-process, some preparations need to be performed. The default settings for the preparations are provided by Budgeting. In some cases Change Management (interface) need to be involved to adjust metrics and conduct new measurements. Data collection can not be started before the preparations are fulfilled.

Activity Specific Rules

- Budget in status **approved** at the beginning of the activity
- Define variables for cost collection (e.g. order in SAP)
- **Accounting Agent** is set "Accounting Management Team" if there is not a person as accounting agent available
- **Accounting Process Owner** is set "Accounting Management Team" if there is not a person as accounting owner available
- Final status of process record **prepared**

Accounting Data Collection and Storage

After the preparation to accounting the collection and storage of accounting data starts. An interface to almost all service management processes exists here. For example:

- Incident Management Process delivers the number of Incidents and duration of Incident handling,
- Change Management Process delivers number of Changes and duration of Change handling,
- Capacity Management Process delivers data on service utilization and
- Availability Management Process delivers number on service availability.

This data is delivered only in case it is necessary for budgeting or charging of services. More over Accounting Data Collection and Storage activity process the data needed for Total Cost of Ownership (TCO) calculation.

Activity Specific Rules:

- start of the activity, status set to **prepared**
- collect data necessary for accounting
- end of the activity, status set to **collected**

Accounting Data Controlling and Consolidation

In this process step a comparison is done between plan versus as-is data of time period regarded. This process step is proceeded on a periodical base, the time frame is defined before. If the difference between as-is and plan data is exceeding defied limits, action need to be defined. Depending on the spread of plan versus as-is data a warning is provided or concrete actions need to be taken.

Activity Specific Rules:

- start of the activity, status set to **collected**
- analyse and control data
- consolidata data for reporting
- continue data collection until "end of service"

Accounting Data Collection Cancelation

In case of cancellation of customer contract, the Financial Management need to be informed to cancel the data collection activity as well. If a change in the infrastructure is necessary for the data collection cancellation a RSC should be issued.

Activity Specific Rules:

- start of the activity, if status is set to **end of service**
- trigger form the Service Portfolio Management
- end of the activity, status set to **ended**

Service Operation Assistance - Charging

In this sub process the data for the billing is consolidated and billing is processed, based on the defined pricing policy. To reduce the error rate of send bills, bills are checked on obvious errors before sending out to customer. Moreover accompanying documents are added before sending, if necessary. Service Operation Assistance - Charging is triggered periodically and is depending on collection of valid and correct data.

High Level Process Flow Chart

This chart illustrates the Financial Management Charging process and its activities.
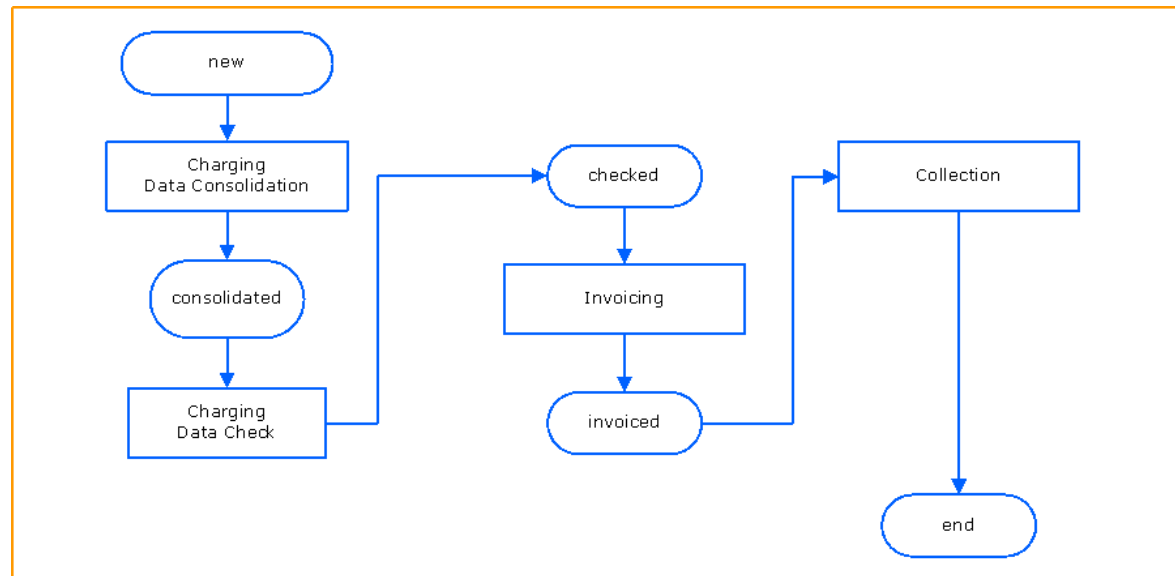
Performance Indicators (KPI)

- Number of billing runs without process issues
- Number of bills issued
- Number of customer/ services billed

Process Trigger

Event Trigger

Activities are triggered by the agreement with the customer or internal policy

Time Trigger

Process Specific Rules

- Document and communicate each change to the process

Process Activities

Charging Data Consolidation

Data needed for the billing are extracted from the accounting and processed for the charging.

Activity Specific Rules:

- data for charging to be provided by accounting complete and on agreed time schedule
- data to be provided from expenditure monitoring tools/ systems
- customer ordering data to be provided
- end of the activity, all relevant data is processed an prepared for charging
- set status to "consolidated"

Charging Data Check

Before the charging is proceeded, the consolidated data is reviewed and checked on plausibility and correctness. In some cases missing or incorrect data need to requested at accounting or at other data supplies. This activity is important in order to reduce the amount of wrong invoices provided to the customer.

Activity Specific Rules:

- all relevant data for charging is provided complete and on agreed time schedule
- sample values are defined to compare data delivered with sample values
- rules are defined for data check
- end of the activity, status set to "checked"

Invoicing

The data checked in the activity before is now processed on, customer invoices are created and send out to the customer. Invoicing data of different service can be spread on different invoices or consolidated to one invoice:

- In case of consolidated invoices, one error on the invoice makes it necessary to change the whole invoice. The invoice is then not paid and the invoicing process is delayed.
- Non consolidated invoice create higher process costs and often the customer requests a consolidated invoice

Activity Specific Rules:

- all relevant data for charging is approved

- Start invoice proceeding
- Send invoices
- Set status to "invoiced"

Collection

In this activity the collection of issued invoices is monitored. Not collected invoices are dunned. More over invoice issues are clarified. The invoice issue clarification is performed in the financial department. Quarterly non paid invoices are printed and defined actions are undertaken on that invoices.

Activity Specific Rules:

- compare invoiced customer and customer who paid
- perform dunning activities for invoiced not paid

Service Verification - Financial Audit

This activity is performed by the *Financial Manager*. The target of the activity is to verify that Financial Management fulfills the planned results – Audit uses the "Four-Eye Principle".

If actions do not provide the results planned, the status can be set to *re-designed*. Planning activity needs to be started again. If it is decided that a audit action is not approved, then the status should be set to *cancelled*. If the *Financial Management* approved that decision, the status is being set to *OK*.

High Level Process Flow Chart

This chart illustrates the Financial Management Auditing process and its activities
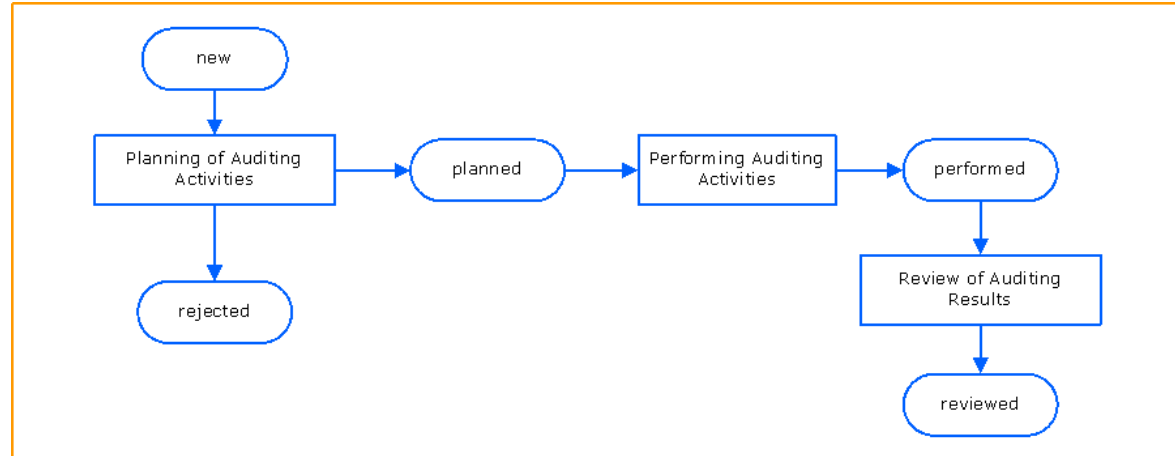
Performance Indicators (KPI)

- Number of Financial incidents
- Number of external Financial audits
- Number of internal Financial audits
- Top Ten services with the most Financial issues

Process Trigger

Event Trigger

- Any request for a Financial Audit
    - from any Process Manager or Process Owner
    - from any Service Owner
    - from Senior Management
    - from Customer and Customer Owner (Account Manager)

Time Trigger

- Financial Audits are often time triggered and processed on regular base.

Process Specific Rules

Process Activities

Planning of Audit Activities

This activity plans the audit activities. Issues to be addressed by the planning:

- Which services need to be audited regrading Financial issues?

This depends on the number of Financial incidents and the severity of Financial incidents per service as well as the importance of a service.

- What is the scope of the audit?

What is the extend of the audit: full audit or just the check of few indicators?

- Auditing method?

Audit to be fulfilled by checks, real life tests or just an questionnaire?

- How often is the audit needed?

This depends on the number of Financial incidents and the severity of Financial incidents per service as well as the importance of a service and how exposed a service is to external and internal threads.

- Who is performing the audits?

Auditors need to be alternated often to assure that the auditor is independent, not influenced by options or customer relationship and by the will to keep the auditing contract.

Result of this activity is an audit plan, that need to be communicated.

Activity Specific Rules

- set Financial Audit Agent to member of IT Financial Management Staff
- set Financial Audit Owner to Financial Manager
- set Financial Audit Requester
- create Financial Audit Description
- select Financial Audit Auditor according to the Financial Policy
- document Service affected by the Financial Audit

- document Configuration Items affected by the Financial Audit
- document Customer affected by the Financial Audit
- document User affected by the Financial Audit
- document Expert/Specialists affected by the Financial Audit
- create audit plan
- go to control activity "planed"

Performing Audit Activities

Based on an audit plan, the audit is performed by the Financial Audit Auditor

Activity Specific Rules

- set Financial Audit Agent to Financial Audit Auditor
- set Financial Audit Owner to Financial Manager
- document result in Financial Audit Record
- go to control activity "performed"

Review of Audit Results

Results of the audit need to be checked. If Financial incidents occur these need to be classified in severity breach levels and handled by the Process Manager. In case of minor changes the Change Management is addressed, in case of major changes, the process is started with a redesign of new design of e Financial Package.

Activity Specific Rules

- set Financial Audit Agent to Financial Auditor
- Evaluation & classification of each Financial Incident
- trigger Incident, Problem or Change Management where necessary
- document result in Financial Audit Record
- go to control activity "reviewed"

> **Termine & Anmelden**

(https://www.mitsm.de/mitsm/termine-anmeldung)

⊙ ITIL Video
Der Weg zum ITIL Expert

(https://www.youtube.com/embed/-mVhE6w9Nrc?
wmode=transparent&autoplay=1&theme=light&modestbranding=1&rel=0)

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📅 Aktuelle Termine
die nächsten 5 Kurse

nur noch 1 Platz	05.12.2016 ISO 27001 Foundation (https://www.mitsm.de/iso-27001-foundation-zertifizierungskurs)
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Warte-liste	07.12.2016 ITIL Foundation (https://www.mitsm.de/itil-foundation-zertifizierungskurs)
Termin-garantie	09.12.2016 SCRUM Product Owner - Professional Add-On (https://www.mitsm.de/scrum-master-product-owner)

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❯ Weitere Termine   (/mitsm/termine-anmeldung)

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