Guide on AASB 16 Technology solutions
AASB 16 Leases
AASB 16 Overview

A quick glance at the standard

<table>
<thead>
<tr>
<th>What is AASB 16 Leases (AASB 16)?</th>
<th>When will it impact?</th>
<th>What is the impact?</th>
</tr>
</thead>
<tbody>
<tr>
<td>AASB 16 is the new leases standard and was issued by the AASB in January 2016.</td>
<td>The effective date for AASB 16 is annual reporting periods beginning on or after January 1, 2019, and interim periods therein.</td>
<td>The standard brings most lessee’s leases onto the balance sheet with resulting changes to the income statement and introduces additional disclosure requirements</td>
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</table>

Impact of the new standard

AASB 16 is more than a financial reporting issue.

It could have a consequential effect on the following areas:

• Commercial impact on long term lease contract negotiation, gearing and banking covenants, forecasts and cash flows
• Educating stakeholders on the impact of the standard and managing expectations
• Indicators and key performance metrics, which may impact remuneration schemes.
• Impact on technology systems and implementing new technology solutions may be needed

Some key challenges that entities may face in assessing the impact of AASB 16 include:

• Technical application of the standard
• Increased requirement for management judgement
• Significant resource and systems implications with workload on finance teams increasing on an ongoing basis
• The impact of AASB 16 on key metrics, debt covenants and management compensation.
• Extensive data requirements, beyond what many entities currently have available
• Establishing an accurate and complete lease data collection process
• Leasing strategy implications

"a significant impact on resources and systems with an increased workload on finance teams.”
### Complexity of AASB 16 accounting – More than a simple spreadsheet:

<table>
<thead>
<tr>
<th>Key consideration</th>
<th>Effect on Complexity</th>
<th>Description</th>
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<tbody>
<tr>
<td>Multiple additional lease data entry points</td>
<td>Numerous new lease data points need to be captured and accounted for</td>
<td>There now is a need to capture and account for numerous additional data points in lease contracts, that were not needed for accounting purposes before. This significantly increases the risk of error in a environment where the accounting process is not automated.</td>
</tr>
<tr>
<td>Right-of-use lease asset introduced</td>
<td>Significant additional accounting calculations</td>
<td>For each lease a right-of-use asset now needs to be calculated and depreciation calculated over the period of the lease (With re-assessments affecting the right of use asset value)</td>
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<tr>
<td>Lease liability now calculated</td>
<td>Significant additional accounting calculations</td>
<td>A lease liability is now introduced with a complex calculation method, with interest expense being expensed in the Income Statement. This expense is “front loaded” over the period of a lease with the expense being higher at the beginning of a lease vs the end of the lease</td>
</tr>
<tr>
<td>Re-assessments</td>
<td>Various balances affected by re-assessments.</td>
<td>Changes to data points such as CPI or extension options would have a knock-on effect on various calculations, that will be difficult to maintain if this was done using only a spreadsheet, and not a purpose built AASB 16 technology solution</td>
</tr>
<tr>
<td>Discount rate</td>
<td>Significant complexity in calculations and adjustments to various account balances</td>
<td>The standard requires the use of a “Rate implicit to the lease” or a “incremental borrowing rate” in order to calculate lease liabilities. This adds to the complexity and determining the lease liability values</td>
</tr>
<tr>
<td>Management judgement</td>
<td>Various management judgements would need to be recorded, tracked and re-assessed over the period of a lease</td>
<td>A number of aspects of the application of IFRS 16 will require the exercise of management. These areas of management judgement would need to be captured in the lease accounting system where judgements can be retained for future reference and audit purposes.</td>
</tr>
<tr>
<td>Integration of lease entries with ERP system</td>
<td>Without integration the manual processing would be time consuming</td>
<td>The accounting of lease entries into the ERP system could be significant, and without a integration process this could be very time consuming</td>
</tr>
<tr>
<td>Forecasting lease reporting</td>
<td>Forecasting lease reporting would be significantly complex</td>
<td>Entities would need to consider their need to forecasting lease reporting for budget and forecasting purposes. This would be difficult in the absence of a Leases technology solution.</td>
</tr>
<tr>
<td>Time involved in calculations</td>
<td>Automated calculation vs Manual calculation</td>
<td>The additional time required to account for AASB 16 is significant and an automated purpose built technology solution would be a huge advantage in efficiently accounting for AASB 16</td>
</tr>
<tr>
<td>Risk of error</td>
<td>Complexity adds to the risk of accounting misstatement</td>
<td>With the additional data points and accounting entries taking place there is a increased risk of error if a proven technology solution is not used to account for AASB 16 leases. The risk of error could also lead to a increase in audit fees</td>
</tr>
<tr>
<td>Reporting analysis</td>
<td>Manual reporting analysis vs a automated solution</td>
<td>Entities need to consider the need for reporting analysis on the lease portfolio for example future trends and ageing of leases. A technology solution will cater for this reporting need.</td>
</tr>
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</table>
Implementing AASB 16 and the need for a technology solution

The typical implementation process

Our structured approach in transitioning to AASB 16 is broken down into phases, with each phase leading to the next. The various implementation phases are shown below, with the focus of this document being on Stage 4 – Implementing a long term Technology solution:

- **1. High level impact assessment**
- **2. Lease data readiness**
- **3. Transition readiness / detailed impact assessment**
- **4. Implement long-term solution**
- **5. Embed and maintain**

*For Deloitte audit clients, Deloitte is only permitted to provide advisory services for phases 1 to 3. Some of these offerings may be subject to independence restrictions for audit clients of Deloitte, please consult with your Deloitte contact.

The need for a long term technology solution

AASB 16 introduces a new way of accounting for leases, which leads to the need for a new solution to be able to navigate through the complexities introduced.

With the additional complexity, resourcing requirements and accounting calculation as well as forecasting, analyses and disclosure requirements, companies are faced with significant risk in the absence of a robust, well designed AASB 16 technology solution to automate the accounting for leases, and for providing key analytical information and insights into the lease portfolio.

“AASB 16 introduces a new way of accounting for leases, which leads to the need for a new solution to be able to navigate through the complexities introduced”
Technology options available:

There are 3 options that companies can choose from as a long term solution to their AASB 16 Leases needs, being:
1. On Premise / Private cloud
2. Software as a Service
3. Managed Service.

The three options are explored in more detail in the table below:

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<tr>
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<tbody>
<tr>
<td>Benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Minimal on-going costs</td>
<td>• Minimal upfront costs</td>
<td>• Minimal upfront costs</td>
</tr>
<tr>
<td></td>
<td>• Highest level of data security</td>
<td>• Minimal investment in IT architecture upgrades required</td>
<td>• Minimal operational and technological changes required</td>
</tr>
<tr>
<td></td>
<td>• High degree of customisation for client’s IT and operational environment</td>
<td>• Updates and standard changes automatically pushed through</td>
<td>• Eases burden on existing finance resources</td>
</tr>
<tr>
<td></td>
<td>• Direct integration with client’s systems and architecture</td>
<td>• Usually web-browse access (with some interface)</td>
<td>• Updates and standard changes managed by service provider</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Possible direct ERP integration</td>
<td>• Focussed on outputs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Digital solution agnostic</td>
</tr>
<tr>
<td>Drawbacks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• High up-front costs</td>
<td>• On-going licence costs</td>
<td>• On-going service costs</td>
</tr>
<tr>
<td></td>
<td>• Updates and changes may incur additional costs</td>
<td>• Possible data security issues, dependant on location of cloud</td>
<td>• Lease data only available through service provider.</td>
</tr>
<tr>
<td></td>
<td>• Future proofing compromise, as clients move IT infrastructure to cloud-based solutions</td>
<td>• Lack of customisation compared to on premise solution</td>
<td>• Additional or ad-hoc reporting needs incur additional costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• No direct ERP integration</td>
</tr>
<tr>
<td>Who manages the process?</td>
<td>In-house</td>
<td>In-house</td>
<td>External</td>
</tr>
<tr>
<td>Who manages the software?</td>
<td>In-house</td>
<td>External</td>
<td>External</td>
</tr>
</tbody>
</table>

How can we help?

• We can help you navigate through the complexity of making a technology solution decision that suits your organisations needs and that fits around your business
• We have tailored solution offerings for on premise technology, cloud technology, Software as a Service (SaaS) and a Deloitte Lease Accounting Managed service.

*Some of these offerings may be subject to independence restrictions for audit clients of Deloitte. Please consult with your Deloitte contact.*
When deciding on a long term solution for your lease accounting needs, there are a number of key considerations that need to be considered. These areas include:

**Functional capability**
- Does the technology provide the right functionality to suit the organisation?
- Customization needs
- Implementation needs
- Effort to implement (Time / resources)
- Mass data upload
- Accounting compliance
- Internal controls
- Lease management functionality
- Complex accounting features (modifications, reassessments, non-lease components)
- Multi GAAP features

**Deployment approach**
- Is the preferred solution on premise, cloud based or a managed service?
- Hosting model (On premise / Cloud)
- Host location
- Data security
- Data availability
- Multi-location / jurisdiction accessibility

**Existing technology vendor**
- Does the organisation have an existing vendor of choice?
- System integration opportunities
- Existing vendor of choice
- Alignment with IT strategy / policy

**Availability of skills in market**
- Are the skills to support the technology available in the location required?
- Vendors in the market and ongoing support available

**Pricing**
- What are the costs, both up-front and ongoing? Would a managed service make more economic sense?
- Up-front vs on-going vs managed service

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Long-term solutions

Navigating your technology solution options:

Technology underpins the end-to-end lease accounting process. Careful consideration of the options available is key to success.

We are here to help you:

To assist you in identifying a solution that meets all of your needs, Deloitte adopts a five phase approach as follows:

- Understand your lease portfolio
- Understand your system landscape
- Understand your operating model
- Facilitate demonstrations
- Recommend possible solutions

Activities

- Current state process and technology assessment
- Technical architecture solution, mapping the existing landscape to potential technology options to assess suitability
- Impact assessment and gap analysis
- Recommended execution plan based on inputs from key stakeholders and existing projects

Deliverables

- Long term options assessment radar
- Execution roadmap for long term solution
- Impact assessment and gap analysis
- High level future state technology solution assessment including:
  - Application suitability with risk and opportunity rating
  - Integration assessment
  - SWOT analysis of cloud/managed/on-premise solutions

Demonstrations of software vendor solutions

We will arrange demonstration of the functionalities of these solutions at your request. Once you have decided on the best fit-for-purpose solution, we will support you through the implementation and embedding phases.

Selection (not exhaustive) of long term solutions available in the market

- Deloitte innosys for leasing: Integrative, comprehensive and innovative lease accounting solution under IFRS 16, USGAAP and IAS 17 – enables compliance and scenario planning analysis
- SAP Flexible Real Estate (RE-FX): SAP Real Estate Management is a subcomponent of SAP Finance and when used instead of a stand-alone solution can simplify your solution landscape by:
  - Producing real-time valuation of leases
  - Eliminating financial interfaces
  - Reducing the number of applications in your system landscape
- Deloitte i innosys: Pre-configured on-premise solution for IFRS 16 based on innosys. User friendly and easy handling. Faster implementation. Simple maintainability. Enhancements possible (e.g. ERP interface, simulation).
- Aptitude SOFTWARE: Lease Accounting Engine – marketed as on-premise / cloud solution that could handle complex and high volume of leases
- L.easy: Cloud based SaaS, built on an enterprise wide platform; ‘plug and play’ solution with easy interface with ERP and consolidation tools
- Quadrant: Partnered with Innervision – solution ‘LOIS’ marketed to be lease management solution with accounting reports under IFRS and USGAAP
- Tenancy management solution, IFRS 16 module now added – cloud based SaaS (NZ owned company)
- NAKISA: SEE WHAT’S POSSIBLE

SAP Lease Administration by Nakisa (SLAN)

- Enable an end-to-end lease management, accounting, and reporting solution that supports compliance with new lease accounting regulations
- Leverage real-time native connectivity with SAP financial modules
- Save on the significant costs that can come from payment penalties, past-term leases, and lost equipment.

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The implementation of any system and process changes that are driven by AASB 16 will need to be carefully managed to minimise disruption to the business, while identifying opportunities to enhance the value obtained from the programme.

To assist you, we have:

• a number of accelerator tools that will assist you in making these decisions, including detailed process maps and reference technology solutions.

• a highly skilled integrated team comprising both experienced accounting technical and IT consulting staff. Our experience in delivering finance change programmes to a wide variety of clients, together with our knowledge of accounting systems mean that we can help you to formulate a pragmatic and effective response to the standard.

• Whilst we conduct system agnostic reviews for our clients, our deep understanding of the requirements clients have, to effectively account for and manage their leasing portfolios, has led us to create two technology solutions (Innosys for leasing and Deloitte Anaplan).

Why choose Deloitte?

Deloitte-created solutions:

**innosys for leasing** is a Deloitte developed lease accounting solution that provides all the relevant functionalities for lease accounting under AASB 16 (and IAS 17).

• Calculates the accounting journal entries
• Support for planning and simulation of leasing contracts
• Customizable
• It is currently offered as on premise installation
• Software as a Service and managed services offerings being developed

**Deloitte Anaplan AASB 16** application is a cloud hosted “plug & play” solution enabling fast implementation and interaction with any existing consolidation and ERP platform.

• It is customizable and easy to use interface with a good audit trail.
• It features a lease contracts dashboard that allows for a general analysis of lease databases, data abstraction features, and individual and consolidated disclosures, and AASB 16 restatements.

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