



An overview of technology solutions

AASB 16 Leases

AASB 16 Overview

A quick glance at the standard



What is AASB 16 Leases (AASB 16)?

AASB 16 is the new leases standard and became effective for financial periods beginning on or after 1 January 2019



What is the impact?

The standard brings most lessee's leases onto the balance sheet with resulting changes to the income statement and introduces additional disclosure requirements



How will entities comply?

Using a software solution to automate the valuation of lease liabilities, financial statement disclosures, and journals can alleviate pressure from finance teams

Impact of the new standard

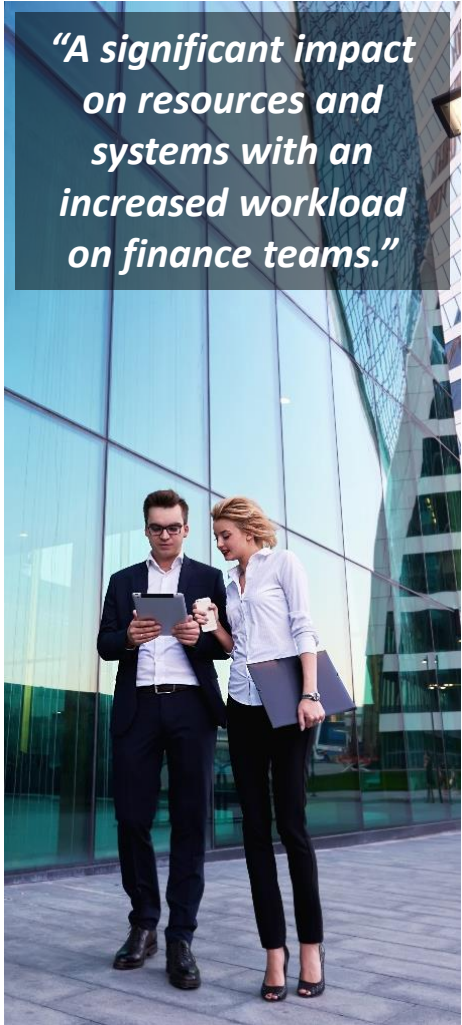
AASB 16 is more than a financial reporting issue.

It can 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 on-going compliance with 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.”

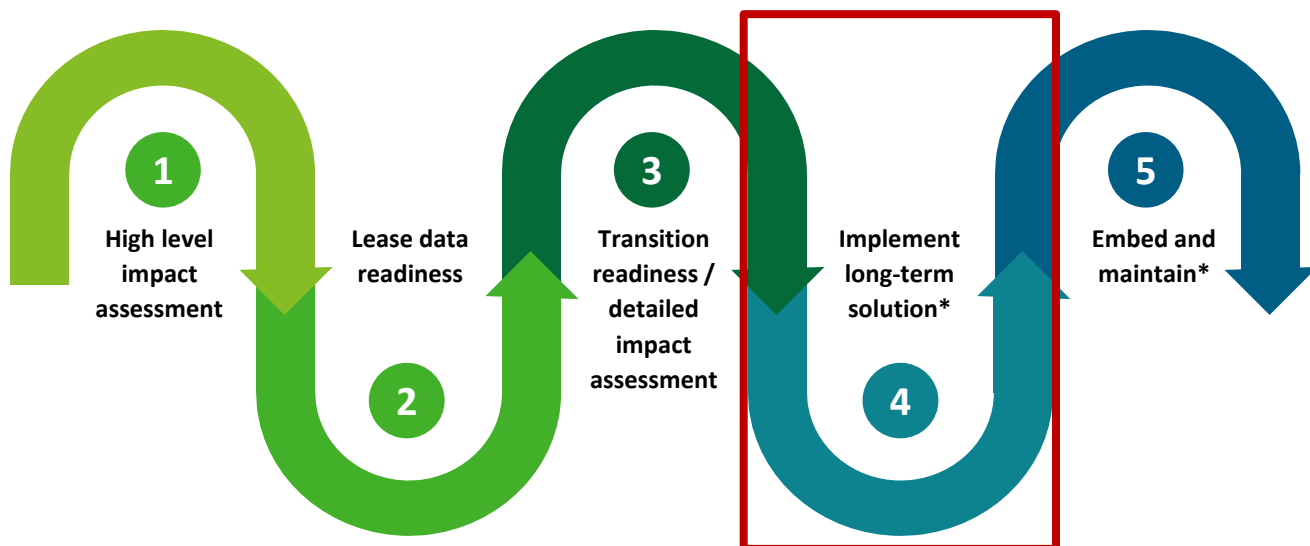
Complexity of AASB 16 accounting – More than a simple spreadsheet:

Key consideration	Effect on Complexity	Description
Multiple additional lease data entry points	Numerous new lease data points need to be captured and accounted for	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.
Right-of-use lease asset introduced	Significant additional accounting calculations	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)
Lease liability now calculated	Significant additional accounting calculations	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
Re-assessments	Various balances affected by re-assessments.	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
Discount rate	Significant complexity in calculations and adjustments to various account balances	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
Management judgement	Various management judgements would need to be recorded, tracked and re-assessed over the period of a lease	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.
Integration of lease entries with ERP system	Without integration the manual processing would be time consuming	The accounting of lease entries into the ERP system could be significant, and without a integration process this could be very time consuming
Forecasting lease reporting	Forecasting lease reporting would be significantly complex	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.
Time involved in calculations	Automated calculation vs Manual calculation	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
Risk of error	Complexity adds to the risk of accounting misstatement	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
Reporting analysis	Manual reporting analysis vs a automated solution	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.

Implementing AASB 16 and the need for a technology solution

How a technology solution fits in

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:

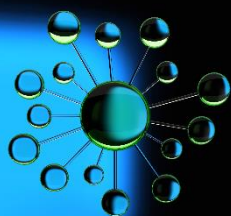


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The need for a long term technology solution

AASB 16 introduces additional complexities to account for individual leases, leading 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 additional complexities... leading to the need for a new solution to be able to navigate through the complexities introduced”

Technology options available:

There are 3 options that entities 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:

			
Solution	1. On premise / Cloud	2. Software as a Service ('SaaS')	3. Managed Service
Benefits	<ul style="list-style-type: none"> • Minimal on-going costs • Highest level of data security • High degree of customisation for the entity's IT and operational environment • Direct integration with client's systems and architecture 	<ul style="list-style-type: none"> • Minimal upfront costs • Minimal investment in IT architecture upgrades required • Updates and standard changes automatically pushed through • Usually web-browse access (with some interface) • Possible direct ERP integration 	<ul style="list-style-type: none"> • Minimal upfront costs • Minimal operational and technological changes required • Eases burden on existing finance resources • Updates and standard changes managed by service provider • Focussed on outputs • Digital solution agnostic
Drawbacks	<ul style="list-style-type: none"> • High up-front costs • Updates and changes may incur additional costs • Future proofing compromise, as clients move IT infrastructure to cloud-based solutions 	<ul style="list-style-type: none"> • On-going licence costs • Possible data security issues, dependant on location of cloud • Lack of customisation compared to on premise solution 	<ul style="list-style-type: none"> • On-going service costs • Lease data only available through service provider. • Additional or ad-hoc reporting needs incur additional costs • No direct ERP integration
Who manages the process?	In-house	In-house	External
Who manages the software?	In-house	External	External

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.

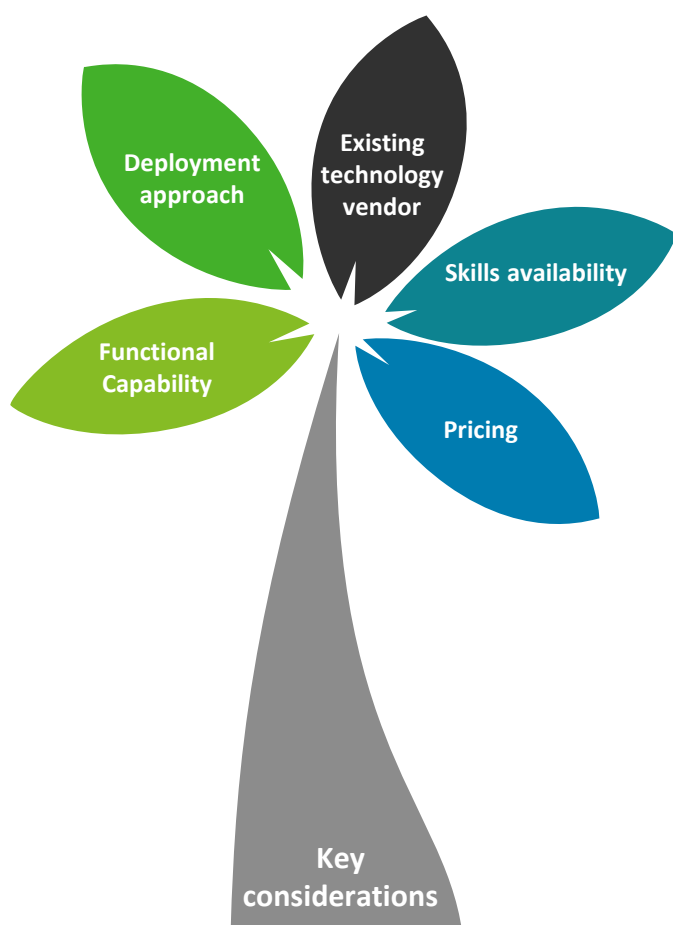


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Key considerations:

When deciding on a long term solution for you 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?
Deployment approach	Is the preferred solution on premise, cloud based or a managed service?
Existing Technology Vendor	Does the organisation have an existing vendor of choice?
Availability of skills in market	Are the skills to support the technology available in the location required?
Pricing	What are the costs, both up-front and ongoing? Would a managed service make more economic sense?



- Functional Capability**
 - Customisation 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**
 - Hosting model (On premise / Cloud)
 - Host location
 - Data security
 - Data availability
 - Multi-location / jurisdiction accessibility
- Existing technology vendor**
 - System integration opportunities
 - Existing vendor of choice
 - Alignment with IT strategy / policy
- Skills availability**
 - Vendors in the market and ongoing support available
- Pricing**
 - Up-front vs on-going vs managed service

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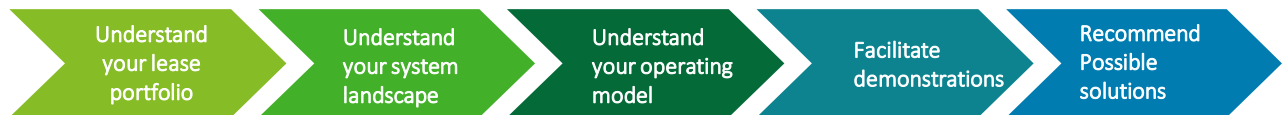
Long term solutions

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:



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. | Anaplan

IFRS 16 LEASE ACCOUNTING SOLUTION

Cloud based SaaS, built on an enterprise wide platform; highly customisable 'plug and play' solution with easy interface with ERP and any other Anaplan tools, e.g. consolidation



Lease management and accounting platform that automates the lease accounting close. Based in Sydney, headquartered in US.



Partnered with Innervision – the LOIS SaaS solution is an established Lease management tool with full Lease Accounting Ledgers/Reporting under IFRS and USGAAP (NZ owned company).



IFRS 16 lease accounting and management software. Customisable real-time reporting. Support for full onboarding and training (NZ and AU owned).



SAP Contract and Lease Management

Natively integrated with finance functionality from SAP, allowing for seamless journal posting without any external interfaces. Supports leasing and contract management processes including lease administration and payment management. Multi-GAAP functionality with both IFRS 16 and ASC 842 supported.



Oracle Cloud ERP/EPM

- Native Cloud Software as a Service with Australian based data centres
- Deloitte developed EPM accelerated solution
- Enabled an end-to-end lease management from contract abstraction and global lease management, to financial statement disclosures
- Multi-GAAP functionality with both IFRS and US GAAP supported
- Leverage real-time native connectivity with other Oracle modules

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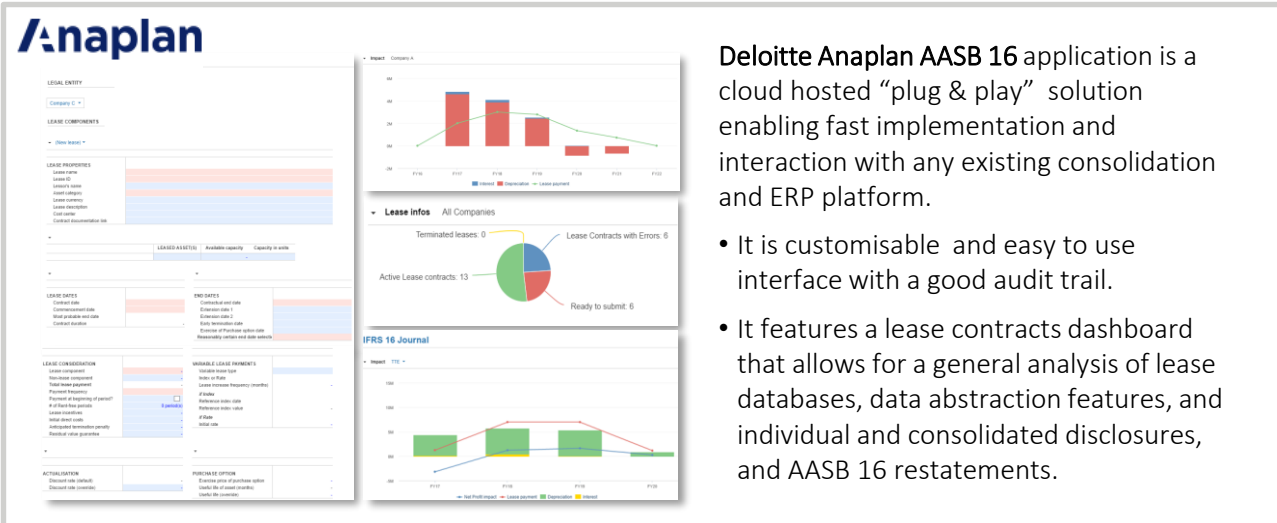
Why choose Deloitte?

We understand business requirements in seeking a digital solution to automate lease accounting compliance required under AASB 16 *Leases*. We appreciate that the solution needs to meet various business and IT requirements, principally accounting and reporting compliance as the transition is made to AASB 16. With a holistic view we account for the broader impacts to business process owners and have considered functionality and customisation needs from an end-user perspective. We will assist in choosing a best fit digital solution that aligns with your primary objectives.

To enable your primary objectives to be met, we will leverage:

- a number of **accelerator tools** that will assist you in making the decision, including detailed process maps and reference technology solutions.
- a **highly skilled integrated team** comprising of 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.
- we **conduct system agnostic reviews** for our clients, leveraging our **deep understanding** of clients' requirements, to effectively account for and manage their leasing portfolios.
- our experience has led us to create a technology solution – Deloitte Anaplan

Deloitte-created solutions:



The screenshot displays the Deloitte Anaplan AASB 16 application interface. On the left, there is a navigation pane with sections for 'LEGAL ENTRY', 'LEASE COMPONENTS', 'LEASE INFORMATION', 'LEASE DATES', 'LEASE CONSIDERATION', and 'ACTUALIZATION'. The main area shows a 'LEASE ASSETS' table with columns for 'Asset name', 'Capacity in units', and 'Status'. To the right, there are several data visualizations: a bar chart showing 'LEASE ASSETS' over time (FY19 to FY23), a pie chart titled 'Lease Infos' showing 'Terminated leases: 0', 'Active Lease contracts: 13', and 'Lease Contracts with Errors: 6', and a line chart titled 'IFRS 16 Journal' showing 'IFRS 16 Journal' over time (FY19 to FY23).

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 customisable 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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