



AASB 16 *Leases*

**What is your strategy
post implementation?**



Planning for post-implementation success



Having recently implemented AASB 16 Leases, you will be aware that the standard can challenge and impede the efforts of even well-prepared and sophisticated finance and reporting teams. Whether you have completed your implementation and are already 'live', ready for 'go live', or still working through implementation steps, there will still be many aspects of the process to consider and/or review.

Ensuring effective systems, processes and controls are in place post-implementation will allow visibility over your lease portfolio and efficient management going forward. This will aid lease-versus-buy decision-making, cost-efficient sourcing, and end-of-term management.

Governance

- Perform a risk assessment of your AASB 16 implementation process to assess if compliance is sustainable
- Implement change management controls to support the implementation of AASB 16
- Identify any controls that may be impacted by the implementation of AASB 16 and assess whether they are required to be changed on an ongoing basis
- Identify the impact of change on non-lease contractual arrangements e.g. bank covenants

Reporting & Data

- Set or adjust any strategic KPIs for effective management of your company's lease portfolio
- Validate entries for input into your company's ERP / accounting software
- Consider any weaknesses in data quality, availability, or precision as well as the ability to obtain lease data to be obtained in a timely manner
- Assist and support the awareness of technical accounting or disclosure enhancements
- Consider changes to management reporting to ensure ongoing effective management of performance

In addition, having a centralised and embedded lease accounting process means that, down the road, when more changes inevitably come, you'll be able to comply with far greater ease.

Below are some areas of focus and suggested activities to ensure better practice and sustainable AASB 16 compliance. Through an in-flight or post implementation review, KPMG is able to provide a level of quality assurance to management as to the work that has been performed to date as part of the company's own impact assessment and implementation activities.

People

- Perform an assessment of resident skills within operation and finance teams for ongoing AASB 16 compliance
- Consider your company's agility and workflow management
- Continually monitor regulatory developments and provide necessary technical accounting training

Processes

- Analysis of end-to-end processes, including reporting and activities to capture new, completed and modified leases that are within the scope of AASB 16, both at transition and on an ongoing basis
- Identify opportunities for improvement (e.g. elimination of redundant activities, waste using lean methodology (LEAN))
- Consider whether resources deployed (cash costs, people, management time etc.) can be better deployed, and whether outsourcing should be considered

Technology

- Gaps in functionality and requirements of lease software to enable effective ongoing management and accounting of leases
- Consider any opportunities for automation and relevant IT solutions to develop new efficiencies in your company's operating framework
- Implement change management and data migration procedures



In-flight and Post-implementation

An independent assessment of your post-implementation strategy may help your company develop a technical architecture to ensure continued compliance with the new lease accounting standard, provide assurance to key stakeholders, critically assess any new accounting systems and processes and benchmark your implementation against your industry competitors.

How can KPMG help?

<p>In-flight or post implementation review</p> 	<ul style="list-style-type: none"> – Over an accelerated period, KPMG will assess the overall quality of your company's implementation of the new lease accounting standard and consider whether you are operating at a 'compliant' level – KPMG will provide a level of quality assurance to management and/or those charged with governance in relation to the work that has been performed as part of the company's own impact assessment and implementation activities – KPMG will obtain information on identified areas of focus via questionnaires and stakeholder discussions – At the conclusion of the engagement, KPMG will provide a report which identifies risk factors to both compliance on transition date and sustainable compliance post-transition date
<p>Expertise and technical support</p> 	<ul style="list-style-type: none"> – Our leasing experts will determine whether your accounting policies are appropriate – Perform an analysis of existing accounting processes and assess their robustness and ongoing suitability within the company – Provide targeted training to staff to improve their knowledge of the new Standard – Perform an analysis of your leasing data and assess the suitability of materiality thresholds, key accounting judgments and statutory financial disclosure preparedness – Consider and assess processes around inputting data into lease accounting systems, focusing on the robustness of strategy for compliance on transition and ongoing collection of relevant information to understand how this process will be embedded into the business post-implementation to ensure sustainable compliance – Evaluate your existing accounting processes to identify gaps in accurate post-implementation reporting and work with you to remedy gaps / weaknesses identified including educating key process and control owners within your organisation.
<p>Process and control review</p> 	<ul style="list-style-type: none"> – Perform a comprehensive evaluation of your control environment and provide recommendations on improvements to address any gaps or weaknesses identified – Consider any new or revised process documentation to determine whether it is sufficiently extensive or may fall short of addressing the requirements of the new lease accounting standard
<p>Industry Insights</p> 	<ul style="list-style-type: none"> – Perform a benchmarking assessment of your company's disclosures against industry competitors

Some of the services described herein may not be permissible for KPMG audit clients and their affiliates.

Pre- implementation: how KPMG can help with your implementation project

We recognise that some entities may still be working on their implementation, and may not therefore be in a position to benefit from our post-implementation review processes. Should you be in this phase, KPMG provides a range of services and solutions that can help your organisation successfully implement AASB 16. The experience that we have gained to date from lease implementation projects performed across Australia and globally has created a robust methodology to assist client's transition to AASB 16 in a time efficient and effective manner.

How can KPMG help?

<p>AASB 16 Lease Accounting solutions</p> 	<ul style="list-style-type: none"> – Provide access to a wide range of solutions to help your business calculate its AASB 16 lease accounting journals – These solutions range from a fully managed end-to-end managed service (KPMG Lease Hub) to excel based tools – Lease Reporting Model (LRM) and KPMG IFRS16 Accounting Tool (KIAT) – providing full accounting and reporting support to cater for all different business types. – Please see the following pages or refer to the below link to the find out more about our tools – leaseaccounting.kpmg.com.au
<p>Insight on transition impact</p> 	<ul style="list-style-type: none"> – KPMG can help you determine the most appropriate transition option by quantifying the impacts to the balance sheet, profit or loss and key metrics under the different transition options to assist you with communicating the change to key stakeholders
<p>Expertise and technical support</p> 	<ul style="list-style-type: none"> – Support the finance team with analysis of complex contracts and provide assistance with key judgments and assumptions – Develop technology to minimise the impact of the new Standard
<p>Transformation and IT system gap analysis</p> 	<ul style="list-style-type: none"> – Perform systems assessment of potential third-party lease accounting tools to process and maintain new lease data
<p>Accounting policy and process guidance</p> 	<ul style="list-style-type: none"> – Assistance with development of updated accounting policy and process documents – Design future-state internal controls to identify and collect new lease data
<p>Leasing strategy and valuation support</p> 	<ul style="list-style-type: none"> – Support you to determine the optimal procurement strategy and lease terms to drive preferred accounting outcomes – Provide the valuation services of KPMG's SGA and Real Estate Advisory
<p>Quality Implementation</p> 	<ul style="list-style-type: none"> – Provide our global tools and methodologies to support your project needs, including experienced project managers with proven methodologies and tools to assist you with gap analysis, transition option modelling, impact assessment for key financial metrics, and changes required to processes and systems

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KPMG's AASB 16 Lease Accounting Solutions

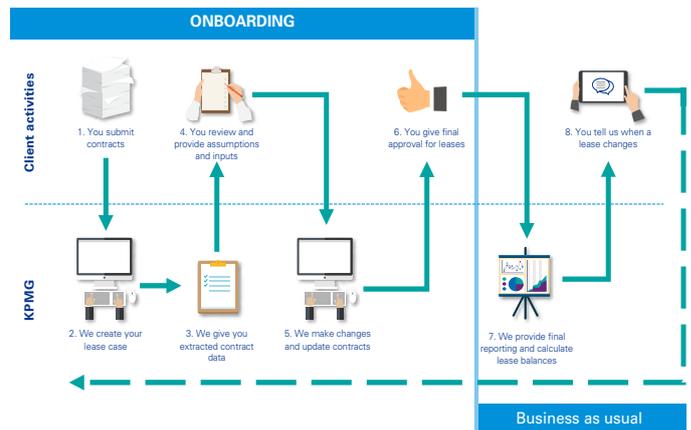
To assist in your implementation of AASB 16 and the complexities of performing the required calculations on transition and on an ongoing basis, KPMG has developed three separate solutions: KPMG Lease Hub, Lease Reporting Model, and the KPMG IFRS16 Accounting Tool. KPMG's solutions have been designed to assist in meeting your AASB 16 requirements and to cater to your specific business needs.

KPMG Lease Hub

Lease Hub is KPMG's AASB 16 managed service offering and cloud-based solution which involves KPMG managing your lease accounting process from start to finish, in order to generate the required lease balances, journal entries and disclosures for you. You provide your base information (e.g. lease contracts) and management assumptions (facilitated through easy-to-complete templates) and we provide the required balances under AASB 16 on a timely and cost-efficient basis for your reporting.

Lease Hub utilises a cloud-based solution (hosted in Australia) to manage the workflow, the functionality of which meets critical needs and is specifically designed for high volumes of data. The key benefit of Lease Hub is that it removes the burden of system selection, implementation and on-going reassessments, enabling you to focus on BAU and avoid additional costs.

How does Lease Hub work?

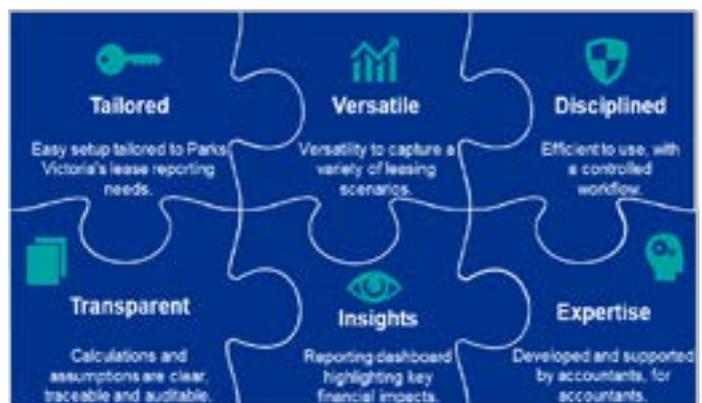


Lease reporting Model (LRM)

LRM is KPMG's Excel-based tool which provides an efficient solution to the potential disruption caused by the implementation of AASB 16.

LRM is a simple, easy-to-use solution that generates the leasing schedule, Right-of-Use (RoU) asset and lease liability balances as well as subsequent journal entries required under AASB 16 over the life of the lease. The solution allows organisations to efficiently track leases without the complexities and costs often associated with large accounting systems.

Whilst LRM has a proficient level of functionality, it is a constantly evolving tool. One advantage of this tool is that it can be built and customised to your specific requirements and address all of your critical needs, including accommodating changes to leasing arrangements, transitional adjustments and product of reports at an individual and aggregate level.



This tool also allows the user to upload a large number of leases at once and is able to manage high volumes of data. It has been stress-tested for 1,500 leases and is available to KPMG non-PIE audit clients on a low cost annual licence fee basis, including training and regular updates.

KPMG IFRS 16 Accounting Tool (KIAT)

KIAT provides an effective solution to quickly, easily and accurately manage and account for lessee accounting under AASB 16. Designed to automate lease accounting and reduce the disruption of the accounting standard change, KIAT generates both the AASB 16 and AASB 117 comparative accounting entries, while providing granular level journal entries. KIAT provides annual and monthly journal outputs for posting and produces annual and monthly projections of relevant items both on an aggregate and individual basis affecting income statement, balance sheet and cash flow.

KIAT is an off-the-shelf Excel-based tool which addresses your critical needs and can be tailored to meet certain needs such as the depreciation method chosen. It can accommodate changes to leasing arrangements and transitional arrangements whilst also providing reports on a monthly and annual basis.

The tool can upload a large number of leases at once and is able to manage high volumes of data. It has been stress-tested for



6,000 leases and is available on a low-cost, one-off fee, which includes training. KIAT is not available to KPMG audit clients.

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