



A COMPLETE GUIDE TO
**A SUCCESSFUL AUDIT WITH THE NEW
LEASE ACCOUNTING STANDARDS**

INTRODUCTION

Whether you comply with ASC 842, IFRS 16 or GASB 87, auditors will review your newly-adopted financial audit for completeness, valuation and proper classification. Without the proper setup and adequate preparation beforehand, your audit could be at serious risk of failing.

Financial audit errors not only increase risk exposure, but consume valuable resources that could be better spent building the business. Inaccuracies can also cause under- or overvaluation by improperly accounting for leases on their balance sheets. Further, when auditors find discrepancies, it can snowball into more work in reevaluating your processes. – But these are avoidable scenarios.

There are steps you can take to minimize the risk of this potentially disruptive process. Although mistakes do happen, they are more likely to occur when rushing to comply with new requirements. It is critical to slow down and make sure things are done right the first time.

In this eBook, we will examine the critical factors in a successful first-time audit:

- **How to overcome common challenges associated with gathering lease data;**
- **Tips for choosing a solution and developing best practices for implementation; and**
- **Why preparing for the audit by running reports before the deadline is critical to success**



POTENTIAL ROADBLOCKS TO GATHERING LEASE DATA

Accounting for all your organization’s leases is a critical first step, according to Nicholas DeMarco, CPA, Manager, Financial Reporting at Visual Lease, a leading provider of lease accounting and management software. “Lease completeness is often a challenge, as companies often have leases in different places.”

Accurate lease accounting begins with establishing a complete inventory of leases. This means centralizing leases located all throughout the business, which are often scattered around in disparate formats. This has proven to be the most time-consuming part of the process for companies — and is often a thankless, manual and painful part of the implementation process.

While a failure to overcome these obstacles puts your organization at risk, the challenges can be overcome with a well-thought-out plan.

“In many cases, only larger companies have a dedicated lease department,” DeMarco said. “Even that isn’t a guarantee that corporate is aware of all of the lease agreements. Leases can get signed and stuffed in a drawer at a local office.”

“Then there is the challenge of determining which contracts should be classified as leases. When gathering lease data, companies must carefully consider all agreements to determine if there is a lease component,” said Bill Harter, Lease Accounting Expert at Visual Lease.

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**— BILL HARTER,
LEASE ACCOUNTING
EXPERT,
VISUAL LEASE**

However, it isn't always obvious what constitutes a lease under the new guidelines. Harter described an example involving an agreement related to a capsule endoscopy system, commonly referred to as a pill camera. "The pill is just a piece of the agreement. There was also a small belt and reader to gather the diagnostics from the pill. That constituted a lease."

Yet another challenge is the fluid nature of leases. Many leases change over the course of the lease or amended upon renewal. The process for tracking those changes tends to be manual and hyper-local, so those updates are not always easily identified.

Addressing these challenges involves laying the groundwork for gathering all leases from sometimes far-flung local offices. When you have a complete accounting of leases, it is easier to evaluate them and gather data that is important to the business and auditors.

CASE STUDY

GLOBAL MANUFACTURER CONSOLIDATES 300 LEASES

Apex Tool Group (ATG), the world's largest manufacturer of professional hand and power tools, had 300 leases for assets scattered across the globe. Before implementing Visual Lease, ATG did not have a detailed centralized repository of all relevant financial information for its leases. The pressure was mounting, as they faced the deadline to meet the ASC 842 standard.

Although ATG started gathering lease data 18 months before implementation, assembling a complete inventory of leases proved to be the most time-consuming and painful part of the implementation process. In the end, 120 leases were recorded in Visual Lease due to their materiality threshold.

The result: With complete and accurate lease portfolio data in a centralized and fully configurable system, it was easy for ATG to surface relevant lease information. Now, everyone on their team can easily generate any report they need, including amortization schedules and journal entries.

Click [here](#) for more information.

SELECTING A TECHNOLOGY SOLUTION

Choosing and implementing a lease accounting system has widespread implications for teams across an organization, including finance, real estate, operations, equipment, governance and legal. A centralized lease accounting and management solution should serve all of these stakeholders and streamline cross-functional collaboration in the process.

Finding a solution that meets business and compliance needs can be challenging, so many companies turn to third-party auditors for help. They are familiar with the regulations and hurdles many organizations face in lease accounting.

Also, since internal auditors often work closely with the system, companies should involve them early in the selection process. Auditors can help scope requirements and assist with some interpretation questions.

“Involve the auditors every step of the way to ensure that your financial reporting is accurate,” DeMarco said. “While the regulations provide guidance, some instances require informed estimates and judgment calls.”

Getting internal or third-party auditors involved in the process early can prevent problems later. “Auditors can stop you if you make a mistake and provide tips to make the process easier,” said DeMarco. “If you do something wrong throughout the entire year, that means more work later and potential fines.”

Additionally, a lease accounting solution should be adaptable to the organization’s needs, including the ability to handle specific, unique lease terms. “One of the most important considerations in choosing a lease accounting system is flexibility,” said Daniel Beil, Partner at RSM US LLP, a Visual Lease partner.

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**— NICHOLAS DEMARCO,
CPA, MANAGER, FINANCIAL
REPORTING, VISUAL LEASE**

Beil says it is essential to select the right technology for the job. “Some systems are more configurable from the start, while others require developers to get involved in order to make changes. It is important to know what you’re getting involved in, as technology can be one of the biggest hurdles to lease accounting compliance.”

Establishing goals for your lease accounting system is essential to success. “Do I just want a system for lease accounting, or do I have to manage them better?” asked Kirk Rogers, Partner at RSM US LLP.

To provide an example of the risks associated with manual systems, Rogers proposed a hypothetical regarding returning equipment. “If you don’t return equipment on time, that costs money.” Using automated lease management systems can help you avoid risks, overpayments and fines.

During the adoption process, regular meetings are key to collaborating on the elections to take and other functions. Determining information critical to your business upfront bolsters success. “Ask about the information that management wants to see that they can’t right now because the information isn’t stored properly,” Harter said. “That will help you identify as much supportive lease information as you can.”

CASE STUDY

HUNDREDS OF HOURS SAVED WITH LEASE ACCOUNTING TECHNOLOGY

CURO, the market-leading provider of short-term credit solutions for consumers, was well-positioned to meet the public company deadline for FASB ASC 842. Their lease management solution provided transparency into changes to lease data and captured an audit trail of any updates made within the platform.

The result: Given the company already had their leases tracked within a centralized location, they saved hundreds of hours that would have been spent tracking down and verifying accurate lease information – and it was much easier for them to achieve lease accounting compliance and produce accurate financial reports.

Click [here](#) for more information.



WHAT TO INCLUDE IN YOUR INTERNAL CONTROLS AND POLICIES

Internal controls and policies play a critical part in how your leases are represented on the balance sheet. Having a clear process provides confidence for auditors that procedures are in place and have been followed. Also, an established framework makes it easier to spot errors early and ensures leases have been properly accounted for.

To do so, you'll want to weigh your options for:

- **Discount rates**
- **Payments and allocations**
- **Policy elections**
- **Disclosure requirements**
- **Practical expedients**

Each of these identified areas require critical, albeit challenging decisions to make, and depend on your company structure and lease portfolio. While some areas are more straightforward and common than others, they all include significant attention and preparation to accomplish.

RUNNING REPORTS AHEAD OF THE AUDIT

The initial audit following the updated guidelines can be unnerving, but laying the proper groundwork is the best way to ensure it's successful.

“Auditors want to see that there is an established process for lease accounting, and will look to see that the process was followed,” Harter said. “This is particularly important when preparing for a first-time audit under the new regulatory guidelines. It would be best to perform a dry run to ensure that the established guidance has been followed.”

While not all companies chose to run reports ahead of the deadline, doing so can identify potential issues that would result in fines and save time ahead of the deadline.

Robust technology solutions with configurable ad-hoc reports or a library of standard reports makes the reporting process easy, accessible and automated.

Being audit-ready should always be a priority even if there isn't an audit on the horizon. “Organizing your leases — both digital and hard copies — will not only help the audit process, but it will make it easier to extract the valuable data points you need to make better business decisions,” said RSM's Rogers.

CASE STUDY

SAVING FEES AND MAKING AUDITS EASIER

Interface Security Systems, a leading managed services provider, saved tens of thousands of dollars in auditor fees by streamlining their lease management directly in Visual Lease.

Using the platform's user admin permission settings, they set up a unique login for their auditors with read-only access. Their auditors were then able to log into Visual Lease to fully access and view every document — without Interface having to assist or pull additional data or reports manually.

“Visual Lease enabled us to become one of the early adopters of ASC 842,” said Ray House, the company's Senior VP Finance.

The result: The company achieved substantial savings on auditor fees and drastically reduced the time needed to generate necessary financial reports or modify lease information.

Click [here](#) for more information.

CONCLUSION

A lease audit can be anxiety-inducing, especially for the first time, following changes in the regulations. However, with the right technology and preparation, it doesn't have to be disruptive.

Doing the work ahead of time ensures completeness, proper valuation and appropriate classification of leases to smooth the audit process.



KEY POINTS

- Leases can be scattered, making it difficult to gather all the data needed to ensure they're being recorded properly.
- Involving internal or third-party auditors early in the discussion is critical to getting the right system, not just to respond to an audit, but to analyze data to make smarter decisions.
- Run reports before the deadline to ensure you can provide the auditors with accurate information and flag any problems before starting the process.

ABOUT **THE SPONSOR**

Visual Lease provides lease accounting and lease administration software solutions to help companies manage, analyze and report on their leased asset portfolios, including real estate, equipment and more. The company's SaaS platform combines GAAP, IFRS and GASB-compliant lease accounting controls with sophisticated and flexible lease portfolio administration. Over 700 of the largest publicly traded and privately-owned corporations, retailers, hospitals and institutions around the globe rely on Visual Lease's cloud-based SaaS platform to meet operational and compliance requirements. For more information, visit www.visuallease.com