Preparing for IFRS 16 to ensure public sector lease compliance

Focus areas for IFRS 16 reporting

- Lease accounting policies for the organization, covering all material aspects of it's leasing arrangements (eg. accounting for non-lease components, sale and leaseback transactions and activities as a lessor
- Disclosure clearly explaining the significant judgements made by management (particularly to determine the lease term) and estimation uncertainty.
- Adequate presentation of leasing arrangements in primary statements.
- Sufficient level of qualitative and quantitative information in respect of the company's leasing arrangements and their financial effects.
- Material balance sheet movements in right of use assets and lease liability balances explained.
- Clear explanation of the circumstances in which the interest rate implicit in the leases can be determined.

What is it?

IFRS 16 is an international accounting standard that regulates how organizations report their lease contracts. This reporting standard for lease accounting is designed to improve reporting accuracy and transparency. But if you are still using legacy systems, ongoing IFRS 16 management will create yet more manual work for public sector finance teams in 2024.

If you have leases that are not yet compliant with IFRS 16, it's wise to prepare now!

Why is it important?

IFRS 16 came into force in January 2019. Although the public sector compliance deadline was initially deferred to April 2020, it was then deferred again until April 2021. There is now urgency on public sector organisations to act as standards come into force in **April 2024**.

How does it work?

The new standard eliminates off-balance-sheet lease accounting by removing the distinction between finance leases and operating leases. This means that virtually all your leases will need to be reported in your balance sheet during April 2024.

The main objective of IFRS 16 is to increase the transparency and comparability of financial lease information by requiring organisations to recognize all leases on their balance sheets. Previously, organizations could classify some leases as operating leases and record only the lease payments as expenses in the income statement. This way, they could avoid showing the leased assets and liabilities on their balance sheets.

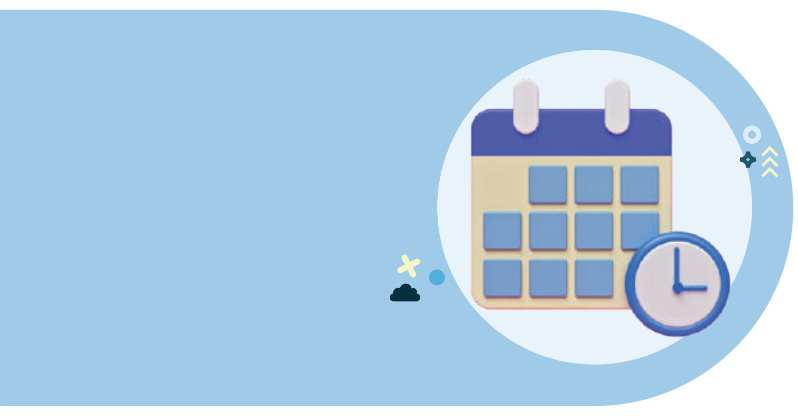
IFRS 16 impacts operating expenses and asset depreciation in the income statement. **The only two exemptions are leases of 12 months or less or those with low value (typically £5,000 or less).**

The UK perspective

In the UK, local government council's readiness to adopt new accounting standards has been slow due to limited resource constraints – including staff shortage and spending cuts. Given this, a preliminary decision was subsequently considered by the government's Financial Reporting Advisory Board (FRAB). FRAB advised CIPFA LASAAC that it agreed with the deferral of IFRS 16 Leases until 1 April 2024.

IFRS 16 compliance challenges for public sector lessees

For public sector organisations, IFRS 16 means you'll need to reassess all your operating leases and understand the changes in right of use calculations and their impact on KPIs. And you'll need to find a more efficient way to collect, structure and document all existing and future leases within your organization.



Act now

If you've been using legacy software to manage lease accounting up till now, and plan on doing so into the 2024/2025 financial year, this will create extra manual work for your finance teams.

For more information, go to:
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