FOCAL POINT
DATA RISK

INTERNAL AUDIT CONTROLS OVER ASC 842: LEASE ACCOUNTING

As we near the implementation of the new leasing standard ASC 842, it is important to consider the impact ASC 842 will have on your Company's internal control structure. Internal controls should be put in place in two phases, during the Company's transition to ASC 842 and after the implementation of ASC 842 to reduce risk and costs to the Company.

Why Is the Control Environment Important to Consider Now?

Various challenges have been identified by companies implementing the new standard including, properly identifying and classifying leases, selecting and implementing an adequate leasing system, entering leases into the leasing system, and reporting on proper accounting treatment and disclosures. Companies can mitigate these challenges by identifying and implementing internal controls over the new leasing processes now (during the transition to ASC 842) as these controls can help ensure the accuracy and completeness of the Company's leasing information and prevent misstatements in the Company's balance sheets after the transition to ASC 842.

While this may sound like another chore to add to Management's list during the transition to ASC 842, implementing controls such as information verification and review early in the process can save your Company time and money by decreasing or preventing time waste in performing corrections over information incorrectly entered into new leasing software or leases improperly classified within the new system. This preemptive measure can also aid with the prevention of misstatements on financial statements due to inappropriate classifications or missing lease information. Additionally, by enhancing these lease controls, Management will decrease the likelihood of exceptions within its leasing process.

EFFECTIVE DATES

January 1, 2019
Public Entities
(for accounting years starting after December 15, 2018)

January 1, 2020
Non-Public Entities
(for accounting years starting after December 15, 2019)

Early adoption permitted

ABOUT US

Focal Point Data Risk is a new type of risk management firm, one that delivers a unified approach to addressing data risk. Focal Point has brought together industry-leading expertise in cyber security, identity governance and access management, data privacy and analytics, internal audit, and hands-on training services, giving companies everything they need to plan and develop effective risk and security programs. By integrating these services, we provide our clients with the flexible support they need to protect and leverage data across any part of their organization.

What Controls Should Be Implemented?

Transition related controls should be put in place by the Company as soon as possible to aid in ensuring the completeness and accuracy of the Company's initial implementation of ASC 842. Additionally, as ASC 842 will affect the Company's balance sheet going forward, entity level controls, activity level controls, and IT general controls over the Company's processes for the new standard should be put in place to ensure effective financial reporting and management oversight.

TRANSITION RELATED CONTROLS

Short-term procedures or controls which only occur during the transition period for the Company to minimize risks related to the following:

- Identification of all leases and lease obligations
- Accuracy of scripts for reports and journal entries
- Accuracy and completeness of the recording of the adoption of the lease standard
- Accuracy and completeness of accounting conclusions

FINANCIAL REPORTING CONTROLS

Should cover the following:

- Additions to GAAP/Disclosure checklists related to ASC 842
- Changes to inserts/footnote disclosures for ASC 842 compliance
- Recalculation/review of data intensive elements, including weighted average calculations and variable lease payments

ACTIVITY RELATED CONTROLS

Should cover the following:

- Identification of embedded leases
- Classification of operating vs. financing leases
- Timely identification of lease modifications.
- Review/approval of new leases and changes to leases
- Calculation/recording of leasehold assets and liabilities

IT GENERAL CONTROLS

Should cover the following:

- Completeness and accuracy of source data and system interfaces
- Review/approval through workflow management of changes to lease information
- Segregation of duties
- ITGC change management, logical access, and operations controls over the new leasing system
- Implementation of audit trail