

Inside the Audit: Part 9- Leases & Right-of-Use (ROU) Assets

Audit Procedures – Ind AS 116

A. COMMON AUDIT PROCEDURES (APPLICABLE TO ALL LEASES)

Test of Controls

- Perform walkthroughs of lease lifecycle transactions - from contract initiation to accounting recognition.
- Understand and evaluate management's process for identifying lease arrangements embedded in contracts.
- Review controls over lease approval, modification, renewal, and termination.
- Evaluate controls over determination of lease term, discount rate, and classification.
- Review controls over periodic reassessment of lease liabilities and ROU assets.
- Verify system controls for lease accounting software/spreadsheets, including access and change management.
- Review controls over journal entries, amortisation schedules, and reconciliation processes.

B. SUBSTANTIVE AUDIT PROCEDURES

Existence / Occurrence

- Obtain a complete lease register with classification under Ind AS 116.
- Inspect lease agreements, amendments, and renewal letters.
- Verify key contractual terms - lease term, payment schedule, escalation clauses, and termination rights.
- Trace lease payments to bank statements.
- Confirm leased premises/assets through physical verification or management representation.
- Obtain third-party confirmations from lessors, where considered necessary.

Completeness

- Review expense ledgers (rent, maintenance, facility costs) to identify unrecorded leases.
- Examine board minutes and major vendor contracts for embedded lease arrangements.
- Reconcile lease register with general ledger balances.
- Perform analytical procedures to identify unusual fluctuations in lease expenses.

Accuracy / Measurement (Ind AS 116 Specific)

- Verify initial recognition of lease liability at present value of lease payments.
- Recompute discount rate applied (incremental borrowing rate or implicit rate, where available).
- Validate lease term assumptions including renewal/termination options.
- Recalculate amortisation of ROU asset and interest on lease liability.
- Verify treatment of lease incentives, variable lease payments, and restoration obligations.
- Review reassessment accounting for lease modifications or changes in estimates.

Rights & Obligations

- Inspect lease agreements to confirm entity's right to use the asset.
- Verify that leased assets and obligations are recorded in the name of the entity.
- Assess whether any sublease arrangements exist and their accounting treatment.

Cut-off

- Verify leases commencing or terminating near reporting date are accounted in the correct period.
- Review timing of lease modifications and reassessments.

Classification & Presentation

- Verify classification between current and non-current lease liabilities.
- Ensure separate presentation of ROU assets in financial statements.
- Review disclosures including:
 - Lease maturity analysis
 - Expense breakdown
 - Variable lease payments
 - Practical expedients applied

C. COMPLIANCE

- Verify compliance with Ind AS 116 recognition, measurement, and disclosure requirements.
- Check consistency with company accounting policy.
- Review adherence to Schedule III presentation requirements.

D. LEASE-SPECIFIC ADDITIONAL PROCEDURES**Property Leases**

- Verify escalation clauses and common area maintenance charges.
- Assess renewal options and management intent.

Equipment / Vehicle Leases

- Verify asset usage and maintenance obligations.
- Review insurance and residual value clauses.

Short-Term / Low-Value Leases

- Validate eligibility for exemption under Ind AS 116.
- Review expense recognition treatment.

Lease Modifications

- Examine revised agreements and recompute remeasurement impact.
- Verify accounting treatment aligns with modification guidance.