

Applicability of Lease Accounting – ACE II

This document assesses whether the subscription by Statutory Boards (SBs) to ACE II should be accounted for as a leasing arrangement, under *Statutory Board Financial Reporting Standards (SB-FRS) 116 Leases*.

2. This document contains AGD's professional views and should not be taken as a pronouncement by a standard-setter. Accordingly, the interpretation contained in this document is non-binding and SBs should discuss the accounting treatment for the ACE II subscription with their auditors of their financial statements.

ACE II

3. The Government had entered into an ACE II contract with Accenture Pte Ltd for the upgrade of ACE (a shared integrated human resource, finance and procurement system) to ACE II, and the subsequent maintenance of ACE II. Accordingly, the Government and the participating Agencies have set out their understanding on the implementation and operation of the ACE II system in a Memorandum of Understanding (MOU). The MOU covers areas such as the scope and duration of the participating agencies' subscription to ACE II, the roles of the Government and participating agencies, the basis for the implementation and operation of ACE II for the participating agencies, the fees and charges to be paid by the participating agencies, and the management of ACE II data and records by the Government and the participating agencies. In assessing the accounting treatment for the ACE II subscriptions, AGD has referred to the MOU between the Government and the participating Agencies dated May 2018.

AGD's Assessment

4. SB-FRS 116 applies for annual periods beginning on or after 1 January 2019. SB-FRS 116 is therefore the relevant standard on leases for SBs' financial statements for the year ended 31 March 2020, and onwards.

5. According to SB-FRS 116, whether or not a contract contains a lease depends on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration (paragraph 9).

6. SB-FRS 116 paragraph B9 further sets out that whether or not the contract conveys the right to control the use of an identified asset for a period of time depends on whether, throughout the period of use, the customer (or in this context the SB), has:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
- (b) the right to direct the use of the identified asset.

7. AGD is of the view that the ACE II arrangement does not contain a lease, because it does not meet both of the conditions specified in SB-FRS 116 paragraph B9:

- No single SB has the right to obtain substantially all of the economic benefits from use of the ACE II system:
 - There are 20 participating agencies in ACE II (MOU Appendix A);
 - Each of the 20 SBs pay a subscription fee to PSD in order to use the ACE II System (MOU section 4.1b – Fees and Charges); and
 - It is not feasible to subdivide the ACE II system into 20 distinct systems used by 20 SBs.

- No single SB has the right to direct the use of the ACE II System:
 - No single SB has the decision-making rights to change the ACE II System, as SBs need to seek the concurrence of the Government for any change request to ACE II (even those which are Agency-specific) to ensure alignment to the Whole-of-Government (WOG) strategic direction and processes;
 - The Government has the substantive right to decide on the strategy and changes/enhancements to the ACE II System.
 - ACE II System runs on SAP Software. Any request by SBs to modify standard SAP programs are prohibited unless interim exemptions are granted by the Government.

8. Accordingly, in the absence of a lease within the ACE II arrangement, the ACE II subscription should be accounted for as a service contract.