

Customs and Excise Service Welfare Fund

Financial Statements for the year ended 31 March 2015

Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Independent Audit Report

To the Legislative Council

I certify that I have audited the financial statements of the Customs and Excise Service Welfare Fund set out on pages 3 to 11, which comprise the balance sheet as at 31 March 2015, and the income and expenditure account, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Commissioner of Customs and Excise Incorporated's Responsibility for the Financial Statements

The Commissioner of Customs and Excise Incorporated is responsible for the preparation of financial statements that give a true and fair view in accordance with section 10(1)(b) of the Customs and Excise Service (Welfare Fund) Regulation (Cap. 342 sub. leg. C) and Hong Kong Financial Reporting Standards, and for such internal control as the Commissioner of Customs and Excise Incorporated determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 11(3) of the Customs and Excise Service (Welfare Fund) Regulation and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commissioner of Customs and Excise Incorporated, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Customs and Excise Service Welfare Fund as at 31 March 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with section 10(1)(b) of the Customs and Excise Service (Welfare Fund) Regulation.



TEO Wing-on
Principal Auditor
for Director of Audit

29 September 2015

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Customs and Excise Service Welfare Fund
Balance Sheet as at 31 March 2015

	Note	2015 HK\$	2014 HK\$
Current assets			
Accounts receivable		5	119
Prepayments		671	671
Fixed deposits		-	451,344
Cash and cash equivalents	3	708,935	384,073
		709,611	836,207
Current liabilities			
Accounts payable		(105,029)	(95,933)
Rental income collected in advance		(1,075)	(8,300)
		(106,104)	(104,233)
Net current assets		603,507	731,974
Accumulated fund		603,507	731,974

The accompanying notes 1 to 7 form part of these financial statements.



(Roy Tang)

Commissioner of Customs and Excise Incorporated
29 September 2015

Customs and Excise Service Welfare Fund
Income and Expenditure Account
For the year ended 31 March 2015

	2015 HK\$	2014 HK\$
Income		
Bank interest	47	361
Government grant	277,680	270,120
Donation	1,100,000	350,000
Rental income from holiday houses	145,780	163,870
	<u>1,523,507</u>	<u>784,351</u>
Expenditure		
Entertainment and social gatherings	(180,502)	(134,445)
Running expenses of holiday houses	(235,686)	(351,316)
Stores and equipment	(74,832)	(15,042)
Repairs & Maintenance	(463,300)	-
Miscellaneous Charges	(110)	-
Grants to Customs and Excise Department Sports and Recreation Club	(347,544)	(362,347)
Subsidies to Customs and Excise Band	(350,000)	(350,000)
	<u>(1,651,974)</u>	<u>(1,213,150)</u>
Deficit for the year	(128,467)	(428,799)
Other comprehensive income	-	-
Total comprehensive expense for the year	<u>(128,467)</u>	<u>(428,799)</u>

The accompanying notes 1 to 7 form part of these financial statements.

Customs and Excise Service Welfare Fund
Statement of Changes in Equity
For the year ended 31 March 2015

	Accumulated fund HK\$
Balance at 1 April 2013	1,160,773
Total comprehensive expense for 2013 – 14	<u>(428,799)</u>
Balance at 31 March 2014	731,974
Total comprehensive expense for 2014 – 15	<u>(128,467)</u>
Balance at 31 March 2015	<u><u>603,507</u></u>

The accompanying notes 1 to 7 form part of these financial statements.

Customs and Excise Service Welfare Fund
Statement of Cash Flows
For the year ended 31 March 2015

	Note	2015 HK\$	2014 HK\$
Cash flows from operating activities			
Deficit for the year		(128,467)	(428,799)
Interest income		(47)	(361)
Decrease in accounts receivable		15	2
Increase in prepayments		-	(1)
Increase in accounts payable		9,096	36,243
(Decrease)/Increase in rental income collected in advance		(7,225)	490
Net cash used in operating activities		<u>(126,628)</u>	<u>(392,426)</u>
Cash flows from investing activities			
Interest received		146	372
Net decrease in fixed deposits with original maturity over three months		451,344	242,548
Net cash from investing activities		<u>451,490</u>	<u>242,920</u>
Net increase/(decrease) in cash and cash equivalents		324,862	(149,506)
Cash and cash equivalents at the beginning of year		<u>384,073</u>	<u>533,579</u>
Cash and cash equivalents at the end of year	3	<u><u>708,935</u></u>	<u><u>384,073</u></u>

The accompanying notes 1 to 7 form part of these financial statements.

Customs and Excise Service Welfare Fund

Notes to the Financial Statements

1. General

The Customs and Excise Service Welfare Fund (the Fund) is mainly used for providing and maintaining amenities for the use and enjoyment of and making loans to beneficiaries including members, former members, dependants of deceased members and dependants of deceased former members of the Customs and Excise Service (the Service), and granting financial assistance to dependants of deceased members and deceased former members of the Service, in accordance with section 19D of the Customs and Excise Service Ordinance (Cap. 342). The Fund's principal place of business is 29th and 31st floors of the Customs Headquarters Building, 222 Java Road, North Point, Hong Kong.

2. Significant accounting policies

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with section 10(1)(b) of the Customs and Excise Service (Welfare Fund) Regulation (Cap. 342 sub. leg. C) and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants.

(b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical accounting judgements involved in the application of the Fund's accounting policies. There are neither key assumptions concerning the future nor other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Adoption of new / revised HKFRSs

The Fund has adopted all new / revised HKFRSs which are effective and relevant to the Fund for the current accounting period.

The Fund has not early adopted any amendments, new standards and interpretations which are not yet effective for the current accounting period. The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

(d) Revenue recognition

(i) Government grant is recognised in the income and expenditure account over the period necessary to match it with the costs it is intended to compensate.

(ii) Rental income from holiday houses are recognised when services are provided.

(iii) Interest income is recognised as it accrues using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset.

(e) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when acquired.

3. Cash and cash equivalents

	2015	2014
	HK\$	HK\$
Bank deposits with original maturity within three months	171,489	-
Cash with the Director of Accounting Services	537,446	384,073
	<u>708,935</u>	<u>384,073</u>

4. Financial risk management

The Fund's major financial instruments are bank deposits and receivables. The major risks associated with these financial instruments are set out below.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

To minimise the credit risks arising from bank deposits, all time deposits are placed with reputable licensed banks in Hong Kong.

The maximum exposure to credit risk as at the balance sheet date in relation to each class of financial assets is the carrying amount of those assets as stated in the balance sheet.

(b) Interest rate risk

Interest rate risk is the risk of loss arising from changes in market interest rates. This can be further classified into fair value interest rate risk and cash flow interest rate risk.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Since the Fund's bank deposits bear interest at fixed rates, their fair value will fall when market interest rates increase. However, as they are stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's deficit and equity.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund is not exposed to material cash flow interest rate risk as it has no major financial instruments bearing interest at a floating rate.

(c) Liquidity risk

In the management of liquidity risk, the Fund maintains a level of cash and cash equivalents that is considered adequate to finance its operations and mitigate the effects of fluctuations in cash flows.

5. Capital management

The capital structure of the Fund consists solely of accumulated fund. The Fund's objectives when managing capital are:

- (a) to comply with the Customs and Excise Service Ordinance; and
- (b) to maintain a strong capital base for carrying out the purposes of the Fund as stated in note 1 above.

The Fund manages its capital to ensure that it is adequate to fund expenditure, taking into account the Fund's projected cash flow requirements, future financial obligations and commitments.

6. Fixed assets

Prior to the year 2005 – 06, the Fund had taken advantage of the exemption under paragraph 2 of SSAP 17 "Property, Plant and Equipment" and all property, plant and equipment acquired for use by the Fund were written off to the income and expenditure account in the year of acquisition. The following real estate was owned by the Fund as at the balance sheet date:

Description and location	Cost	Date of Acquisition	Memorial No.
Customs and Excise Service Holiday House DD316 Lot 1085 to 1088 40 Sun Wai Tsuen, G/F Pui O, Lantau Island.	HK\$330,455	8 August 1988	144771

7. Fair values of financial assets and liabilities

All financial assets and liabilities are stated in the balance sheet at amounts equal to or not materially different from their fair values.

**Summary of the Financial Statements of the
Customs and Excise Service Welfare Fund
Customs and Excise Service Ordinance, Cap. 342
Customs and Excise Service (Welfare Fund) Regulation**

1. The financial statements cover the year from 1 April 2014 to 31 March 2015.
2. Total receipts of \$1,523,507 included bank interest of \$47, contribution from the Government of the Hong Kong Special Administrative Region of \$277,680 (calculated on the basis of \$60 per disciplined officer per annum for the actual strength of 4 628 disciplined officers as at 1 April 2014), donation of \$1,100,000 and rental income for holiday houses of \$145,780. The total receipts for the year showed an increase of \$739,156 which was mainly due to the increase in donation during the year.
3. Total expenditure of \$1,651,974 showed an increase of \$438,824 from last year's total expenditure of \$1,213,150. The increase was mainly due to the increase in the repair and maintenance of holiday house.
4. The fixed deposits placed with the Hongkong and Shanghai Banking Corporation Limited as at 31 March 2015 was \$171,489.
5. The accumulated balance of the Fund at the beginning of the year was \$731,974. The accumulated balance of the Fund was \$603,507 as at 31 March 2015 after deducting the deficit of \$128,467 for the year.
6. The Balance Sheet as at 31 March 2015, the Income and Expenditure Account for the year ended 31 March 2015, the Statement of Changes in Equity for the year ended 31 March 2015 and the Statement of Cash Flows for the year ended 31 March 2015 are attached.

(Roy Tang)
Commissioner of Customs and Excise Incorporated
September 2015