

**Early Retirement Ex-gratia Payment Fund
for Aided Secondary School Teachers**

Financial statements for the year ended 31 August 2013

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Early Retirement Ex-gratia Payment Fund for Aided Secondary School Teachers

Independent Audit Report

To the Permanent Secretary for Education Incorporated

I certify that I have audited the financial statements of the Early Retirement Ex-gratia Payment Fund for Aided Secondary School Teachers set out on pages 3 to 10, which comprise the statement of financial position as at 31 August 2013, and the statement of comprehensive income, 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.

Permanent Secretary for Education Incorporated's Responsibility for the Financial Statements

The Permanent Secretary for Education Incorporated is responsible for the preparation of financial statements that give a true and fair view in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098) and Hong Kong Financial Reporting Standards, and for such internal control as the Permanent Secretary for Education 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 8(5) of the Permanent Secretary for Education Incorporation Ordinance 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 Permanent Secretary for Education 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 Early Retirement Ex-gratia Payment Fund for Aided Secondary School Teachers as at 31 August 2013, 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 8(3) of the Permanent Secretary for Education Incorporation Ordinance.

LAU Sun-wo
Assistant Director of Audit
for Director of Audit

24 February 2014

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

EARLY RETIREMENT EX-GRATIA PAYMENT FUND
FOR AIDED SECONDARY SCHOOL TEACHERS
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2013
(Expressed in thousands of Hong Kong dollars)

	2013	2012
INCOME		
Interest income	1,376	4,307
EXPENDITURE		
Ex-gratia payments	(292)	(128,018)
	<hr/>	<hr/>
SURPLUS/(DEFICIT) FOR THE YEAR	1,084	(123,711)
OTHER COMPREHENSIVE INCOME	<hr/> —	<hr/> —
TOTAL COMPREHENSIVE INCOME/(LOSS)		
FOR THE YEAR	1,084	(123,711)
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The accompanying notes 1 to 4 form part of these financial statements.

EARLY RETIREMENT EX-GRATIA PAYMENT FUND
FOR AIDED SECONDARY SCHOOL TEACHERS
STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2013

(Expressed in thousands of Hong Kong dollars)

	2013	2012
CURRENT ASSETS		
Interest receivable	—	63
Bank deposits with original maturity within three months	—	131,160
Bank deposits with original maturity over three months	—	87,000
	<hr/>	<hr/>
	—	218,223
CURRENT LIABILITIES		
Ex-gratia payments payable	—	(128,018)
	<hr/>	<hr/>
NET ASSETS	<hr/>	<hr/>
	—	90,205
	<hr/>	<hr/>
Representing:		
FUND BALANCE		
Accumulated surplus	—	90,205
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The accompanying notes 1 to 4 form part of these financial statements.

Permanent Secretary for Education Incorporated
Trustee of the Early Retirement Ex-gratia Payment Fund
for Aided Secondary School Teachers

(Mrs Cherry Tse)
Permanent Secretary for Education
24 February 2014

EARLY RETIREMENT EX-GRATIA PAYMENT FUND
FOR AIDED SECONDARY SCHOOL TEACHERS
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2013
(Expressed in thousands of Hong Kong dollars)

	Note	2013	2012
ACCUMULATED SURPLUS			
Balance at beginning of year		90,205	213,916
Total comprehensive income/(loss) for the year		1,084	(123,711)
Return of fund balance	4	(91,289)	—
Balance at end of year		<u>—</u>	<u>90,205</u>

The accompanying notes 1 to 4 form part of these financial statements.

EARLY RETIREMENT EX-GRATIA PAYMENT FUND
FOR AIDED SECONDARY SCHOOL TEACHERS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2013
(Expressed in thousands of Hong Kong dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	1,439	4,335
Ex-gratia payments made	(128,310)	(32,476)
Decrease in bank deposits with original maturity over three months	87,000	125,000
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(39,871)	96,859
CASH FLOWS FROM FINANCING ACTIVITIES		
Return of fund balance	(91,289)	—
NET CASH USED IN FINANCING ACTIVITIES	(91,289)	—
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	131,160	34,301
CASH AND CASH EQUIVALENTS AT END OF YEAR	—	131,160
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank deposits with original maturity within three months	—	131,160

The accompanying notes 1 to 4 form part of these financial statements.

EARLY RETIREMENT EX-GRATIA PAYMENT FUND FOR AIDED SECONDARY SCHOOL TEACHERS

Notes to the financial statements

(Amounts expressed in thousands of Hong Kong dollars, unless otherwise stated.)

1. General

The Early Retirement Ex-gratia Payment Fund for Aided Secondary School Teachers (the Fund) was established by a declaration of trust made on 29 August 2005 by the Permanent Secretary for Education Incorporated (the Trustee). The Fund makes ex-gratia payments to successful applicants under the Early Retirement Scheme for Aided Secondary School Teachers implemented by the Education Bureau. The scheme had been implemented for seven years starting from the 2006/07 school year and will cease to operate after the 2012/13 school year.

2. Significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098), accounting principles generally accepted in Hong Kong, and all applicable Hong Kong Financial Reporting Standards (HKFRSs), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). A summary of the significant accounting policies adopted by the Fund is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical 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 also no key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the

carrying amounts of assets and liabilities in the next year.

(c) Financial assets and financial liabilities

(i) Initial recognition

The Fund classifies its financial assets and financial liabilities into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: loans and receivables and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets or the issue of the financial liabilities.

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

(ii) Categorisation and subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Fund has no intention of trading. This category includes bank deposits and interest receivable.

Loans and receivables are carried at amortised cost using the effective interest method less impairment losses, if any (see note 2(c)(v)).

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Other financial liabilities

This category includes ex-gratia payments payable. They are carried at amortised cost using the effective interest method.

(iii) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset

together with substantially all the risks and rewards of ownership have been transferred. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or when it expires.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

(v) Impairment of financial assets

The carrying amounts of loans and receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised in surplus or deficit as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If in a subsequent period the amount of such impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through surplus or deficit. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(d) Revenue recognition

Interest income is recognised in surplus or deficit on an accrual basis, using the effective interest method.

(e) Ex-gratia payments

Ex-gratia payments are recognised as expenditure when the Fund is demonstrably committed to making such payments as a result of an offer made in order to encourage voluntary early retirement.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise bank deposits with original maturity within three months.

3. Changes in accounting policies

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period. Of these, the following is relevant to the Fund's financial statements:

Amendments to HKAS 1, Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to surplus or deficit in the future if certain conditions are met from those that would never be reclassified to surplus or deficit. There is no impact on the Fund's financial statements as the Fund does not have items of other comprehensive income.

The amendments also introduce a new terminology for the "Statement of Comprehensive Income" to be renamed as the "Statement of Profit or Loss and Other Comprehensive Income". The use of this new terminology is not mandatory. The Fund has chosen to retain the title of "Statement of Comprehensive Income".

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Return of fund balance

In July 2013, the Education Bureau informed the Legislative Council that the Early Retirement Scheme for Aided Secondary School Teachers would cease to operate after the 2012/13 school year. The balance of the Fund of HK\$91.3 million was returned to the Government in August 2013.