

**Report by the Controller, Government Flying Service
on the Administration of the
Government Flying Service Welfare Fund
for the year ended 31 March 2019**

Introduction

The Government Flying Service Welfare Fund (the Fund) was established under section 15 of the Government Flying Service Ordinance (Chapter 322).

2. In accordance with section 16 of the Ordinance, the Fund shall be controlled by the Controller, Government Flying Service. As required by section 12(3) of the Government Flying Service (Welfare Fund) Regulation made under section 17 of the Government Flying Service Ordinance, I take pleasure in presenting to Honourable Members of the Legislative Council a copy of the signed and audited statement of accounts, the Auditor's report and my report on the administration of the Fund for the year ended 31 March 2019.

3. The Fund was established with the purpose of procuring benefits that are not chargeable to the general revenue and making loans and grants to eligible persons as stipulated in section 16 of the Government Flying Service Ordinance. The Fund consists of :-

- (a) any donation or voluntary contribution made to the fund;
- (b) such sums as may be voted by the Legislative Council;
- (c) gifts of money required under the notice from time to time given by the Chief Executive for the purposes of section 3 of the Prevention of Bribery Ordinance (Chapter 201) to be disposed of by being paid into the Fund; and
- (d) such sums as may accrue as dividends or as interest from the investment of the Fund.

Objects of the Fund

4. The Fund, under the control of the Controller, Government Flying Service, is applied for the following purposes :-

- (a) to procure benefits that are not chargeable to the general

revenue for the following eligible persons :-

- (i) members;
 - (ii) former members who have retired;
 - (iii) persons currently employed other than as members in the Government Flying Service (whether as public servants or otherwise);
 - (iv) where a member, former member or a person currently employed at the time of his death other than as a member in the Government Flying Service (whether as a public servant or otherwise) has died, any person who was wholly or partially dependent on him at the time of his death;
 - (v) dependants of members, of former members who have retired and of persons currently employed other than as members in the Government Flying Service (whether as public servants or otherwise);
- (b) to make loans to eligible persons; and
- (c) to make grants to eligible persons who are in need of financial assistance.

Operating Results

5. The Fund amounted to a total of \$518,715 as at 31 March 2019. During the year under review, a total income of \$14,760 was received. An amount of \$3,000 came from donations and an amount of \$11,760 was voted by the Legislative Council.

6. The Fund has been utilized for the benefit of staff with particular attention given to the promotion of recreational activities such as participation in inter-departmental sports competition. The recreational activities have helped enhance staff relations and project the department's image as a young and energetic member of the disciplined services.

Auditor

7. In accordance with section 12(2) of the Government Flying Service (Welfare Fund) Regulation, the Director of Audit was appointed as the Auditor of the Fund.

8. The Auditor's Report and the signed and audited financial statements for the Fund are at Appendices I and II.

Director of Accounting Services

9. In accordance with section 3 of the Government Flying Service (Welfare Fund) Regulation, the maintenance of the Fund is vested with the Director of Accounting Services. All moneys due to the Fund are immediately paid in full to the Director of Accounting Services, who will credit such sum or sums to a deposit account named "Deposits - Government Flying Service Welfare Fund" and render to this Department after the closing of each month's accounts a return showing all transactions of the Fund in the accounts during the previous month. All payments with regard to the Fund are made by the Director of Accounting Services on the request of the Department.

Acknowledgement

10. I take this opportunity to extend my thanks to the Director of Accounting Services, the Director of Audit and all other officers concerned for their assistance in making the Fund function in the best interest of the staff of the Government Flying Service. The Fund will continue to be utilized in the most beneficial way for the greatest number of staff possible.

(Captain Michael CHAN)
Controller,
Government Flying Service

Date : 6 September 2019

Government Flying Service Welfare Fund

Financial statements for the year ended 31 March 2019

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report To the Legislative Council

Opinion

I certify that I have audited the financial statements of the Government Flying Service Welfare Fund set out on pages 4 to 14, which comprise the balance sheet as at 31 March 2019, and the income and expenditure account, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements give a true and fair view of the financial position of the Government Flying Service Welfare Fund as at 31 March 2019, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with section 12(1)(b) of the Government Flying Service (Welfare Fund) Regulation (Cap. 322 sub. leg. C).

Basis for opinion

I conducted my audit in accordance with section 12(2) of the Government Flying Service (Welfare Fund) Regulation and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the Government Flying Service Welfare Fund in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Controller of the Government Flying Service for the financial statements

The Controller of the Government Flying Service is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and section 12(1)(b) of the Government Flying Service (Welfare Fund) Regulation, and for such internal control as the Controller of the Government Flying Service determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Controller of the Government Flying Service is responsible for assessing the Government Flying Service Welfare Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Government Flying Service Welfare Fund's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Controller of the Government Flying Service;
- conclude on the appropriateness of the Controller of the Government Flying Service's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Government Flying Service Welfare Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Government Flying Service Welfare Fund to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

LIANG Kar-lun, Ken
Principal Auditor
for Director of Audit

12 July 2019

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

Government Flying Service Welfare Fund
Balance Sheet as at 31 March 2019

| | Note | 2019 | 2018 |
|-----------------------------|------|--------------------|--------------------|
| | | HK\$ | HK\$ |
| Current Assets | | | |
| Cash and cash equivalents | 3 | 552,014 | 594,680 |
| Current Liabilities | | | |
| Accrued expenses | | (33,299) | - |
| Net Assets | | <u>518,715</u> | <u>594,680</u> |
| <i>Accumulated Fund</i> | | <u>518,715</u> | <u>594,680</u> |

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

(Captain Michael Chan)
Controller
Government Flying Service
Date : 12 July 2019

Government Flying Service Welfare Fund
Income and Expenditure Account for the year ended 31 March 2019

| | 2019 | 2018 |
|---------------------------------------|------------------------|------------------------|
| | HK\$ | HK\$ |
| Income | | |
| Government grant | 11,760 | 10,860 |
| Donation | 3,000 | 3,300 |
| | <u>14,760</u> | <u>14,160</u> |
| <i>Expenditure</i> | | |
| Sports and recreational activities | (76,660) | (83,388) |
| Stores | (13,065) | (16,476) |
| Other staff welfare | (1,000) | (1,200) |
| | <u>(90,725)</u> | <u>(101,064)</u> |
| Deficit for the year | (75,965) | (86,904) |
| Other comprehensive income | <u>-</u> | <u>-</u> |
| Total comprehensive loss for the year | <u><u>(75,965)</u></u> | <u><u>(86,904)</u></u> |

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

Government Flying Service Welfare Fund
Statement of Changes in Equity
for the year ended 31 March 2019

| | 2019 | 2018 |
|---------------------------------------|----------------|----------------|
| Accumulated Fund | | HK\$ |
| | HK\$ | |
| Balance at beginning of year | 594,680 | 681,584 |
| Total comprehensive loss for the year | (75,965) | (86,904) |
| Balance at end of year | <u>518,715</u> | <u>594,680</u> |

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

Government Flying Service Welfare Fund
Statement of Cash Flows for the year ended 31 March 2019

| | Note | 2019 HK\$ | 2018 HK\$ |
|---|-------------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Deficit for the year | | (75,965) | (86,904) |
| Increase in accrued expenses | | 33,299 | - |
| Net cash used in operating activities | | <u>(42,666)</u> | <u>(86,904)</u> |
| Net decrease in cash and cash equivalents | | <u>(42,666)</u> | <u>(86,904)</u> |
| Cash and cash equivalents at beginning of year | | 594,680 | 681,584 |
| Cash and cash equivalents at end of year | 3 | <u><u>552,014</u></u> | <u><u>594,680</u></u> |

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

Notes to the Financial Statements

1. General

The Government Flying Service Welfare Fund (the Fund) was established for the purpose of procuring benefits that are not chargeable to the general revenue and making loans and grants to eligible persons as stipulated in section 16 of the Government Flying Service Ordinance (Cap. 322). The Fund's principal place of business is 18 South Perimeter Road, Hong Kong International Airport, Lantau, Hong Kong.

2. Significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with section 12(1)(b) of the Government Flying Service (Welfare Fund) Regulation (Cap. 322 sub. leg. C) and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

(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 reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Fund. Of these, the Fund has adopted the requirements of HKFRS 9 "Financial Instruments" from 1 April 2018.

HKFRS 9 replaces Hong Kong Accounting Standard (HKAS) 39 "Financial Instruments: Recognition and Measurement". It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Fund has applied HKFRS 9 retrospectively to item that existed at 1 April 2018 in accordance with the transition requirements without restating comparative information (i.e. the comparative information continues to be reported under HKAS 39). The carrying amount of the item at 1 April 2018 has not been impacted by the initial application of HKFRS 9.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) Classification of financial assets

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the

business model under which the financial asset is managed and its contractual cash flow characteristics.

The Fund's cash and cash equivalents were previously classified as loans and receivables carried at amortised cost under HKAS 39. They were reclassified to financial assets measured at amortised cost. The carrying amount at 31 March 2018 was the same as that at 1 April 2018.

An explanation of how the Fund classifies and measures financial assets is set out in note 2(d)(ii).

(ii) Credit losses and impairment

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" model. The expected credit loss model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses earlier than under the "incurred loss" accounting model in HKAS 39. The Fund applies the new expected credit loss model to the financial assets measured at amortised cost. The initial application of the new impairment requirements had no impact on the carrying amount of the financial asset at 1 April 2018.

For further details on the Fund's new accounting policy for impairment, see note 2(d)(vi).

(d) Financial assets and financial liabilities

(i) Initial recognition

Financial assets and financial liabilities are recognised on the date the Fund becomes party to the contractual provisions of the financial instruments. They are initially stated at fair value plus or minus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities.

(ii) Categorisation and subsequent measurement from 1 April 2018

Financial assets measured at amortised cost

This category comprises cash and cash equivalents. They are held for

the collection of contractual cash flows which represent solely payments of principal and interest. They are subsequently measured at amortised cost, net of loss allowance, if any (note 2(d)(vi)).

Financial liabilities measured at amortised cost

This category comprises accrued expenses. They are subsequently measured at amortised cost.

(iii) Categorisation and subsequent measurement before 1 April 2018

Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and which the Fund had no intention of trading, other than those that the Fund, upon initial recognition, designated as at fair value. This category included cash with the Director of Accounting Services. It was carried at amortised cost using the effective interest method less impairment losses, if any (note 2(d)(vii)).

(iv) 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, is cancelled or expires.

(v) Offsetting

Financial assets and financial liabilities are offset and net amount is reported in the balance sheet 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.

(vi) Impairment of financial assets from 1 April 2018

For cash and cash equivalents, the Fund measures the expected credit losses to determine the loss allowance required to be recognised.

Expected credit losses are a probability-weighted estimates of credit

losses. They are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Fund expects to receive, discounted at the effective interest rate. They are measured on either of the following basis:

- 12-month expected credit losses for financial instruments for which there has not been a significant increase in credit risk since initial recognition: these are losses that are expected to result from possible default events within the 12 months after the reporting date; or
- lifetime expected credit losses for financial instruments for which there has been a significant increase in credit risk since initial recognition: these are losses that are expected to result from all possible default events over the expected life of the financial instrument.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Fund compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Fund considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Fund in full; or (ii) the financial asset is 90 days past due. The Fund considers both quantitative and qualitative information that is reasonable and supportable including historical experience and forward-looking information that is available without undue cost or effort. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(vii) Impairment of financial assets before 1 April 2018

The carrying amount of loans and receivables was reviewed at each reporting date to determine whether there was objective evidence of impairment. If any such evidence existed, an impairment loss was 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through surplus or deficit. A reversal of impairment losses was limited to the asset's carrying amount that would have been

determined had no impairment loss been recognised in prior years.

(e) Revenue recognition

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

Donation income is recognised once cash is received and the approval for acceptance is obtained.

(f) Cash and cash equivalents

Cash and cash equivalents include cash with the Director of Accounting Services.

3. Cash and cash equivalents

| | 2019 | 2018 |
|---|----------------|----------------|
| | HK\$ | HK\$ |
| Cash with the Director of Accounting Services | <u>552,014</u> | <u>594,680</u> |

4. Financial risk management

Financial risk includes credit risk and liquidity 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. The Fund's financial assets consist solely of cash with the Director of Accounting Services and the credit risk is considered low. 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.

As at 31 March 2019, the remaining contractual maturities of all financial liabilities, based on contractual undiscounted cash flows and the earliest date on which the Fund can be required to pay, were three months or less (2018: Nil).

5. Capital management

The capital of the Fund consists solely of its accumulated fund. The Fund's

objectives when managing capital are :

- to comply with the Government Flying Service Ordinance; and
- to maintain a capital base for carrying out the purpose of the Fund as stated in note 1 above.

The Fund manages capital to ensure that its level is sufficient to fund future expenditure, taking into account projected cash flow requirements, future financial obligations and commitments.

6. Fair values of financial assets and financial liabilities

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

7. Possible impact of amendments, new standards and interpretation issued but not yet effective for the year ended 31 March 2019

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2019 and which have not been early adopted in the financial statements. The Fund is in the process of making an assessment of the impact expected of these amendments, new standards and interpretations in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's financial performance and financial position.