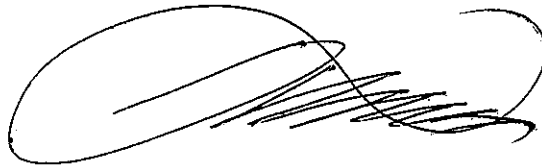


Customs and Excise Service Welfare Fund

Financial statements for the year ended 31 March 2019

**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 2018 to 31 March 2019.
2. Total receipts of \$942,028 included bank interest of \$3,048, contribution from the Government of the Hong Kong Special Administrative Region of \$309,960 (calculated on the basis of \$60 per disciplined officer per annum for the actual strength of 5 166 disciplined officers as at 1 April 2018), donation of \$580,000 and rental income from holiday house of \$49,020. The total receipts for the year showed an increase of \$190,966 over last year's total receipts of \$751,062, which was mainly due to the increase in donation during the year.
3. Total expenditure of \$1,137,986 showed an increase of \$425,581 against last year's total expenditure of \$712,405. The increase was mainly due to the increase in the grants to Customs and Excise Department Sports and Recreation Club Football Sub-committee and entertainment and social gatherings.
4. The fixed deposits placed with the Bank of China (Hong Kong) Limited as at 31 March 2019 was \$673,053.
5. The accumulated balance of the Fund at the beginning of the year was \$793,978. The accumulated balance of the Fund was \$598,020 as at 31 March 2019 after deducting the total comprehensive loss of \$195,958 for the year.
6. The Balance Sheet as at 31 March 2019, the Income and Expenditure Account for the year ended 31 March 2019, the Statement of Changes in Equity for the year ended 31 March 2019 and the Statement of Cash Flows for the year ended 31 March 2019 are attached.



(Hermes TANG)
Commissioner of Customs and Excise Incorporated
21 September 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 Customs and Excise Service Welfare Fund set out on pages 4 to 16, 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 Customs and Excise 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 10(1)(b) of the Customs and Excise Service (Welfare Fund) Regulation (Cap. 342 sub. leg. C).

Basis for opinion

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. 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 Customs and Excise 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 Commissioner of Customs and Excise Incorporated for the financial statements

The Commissioner of Customs and Excise Incorporated 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 10(1)(b) of the Customs and Excise Service (Welfare Fund) Regulation, 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.

In preparing the financial statements, the Commissioner of Customs and Excise Incorporated is responsible for assessing the Customs and Excise 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 Customs and Excise 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 Commissioner of Customs and Excise Incorporated;
- conclude on the appropriateness of the Commissioner of Customs and Excise Incorporated'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 Customs and Excise 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 Customs and Excise 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

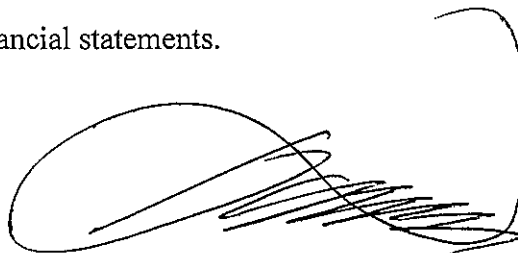
25 September 2019

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

Customs and Excise Service Welfare Fund
Balance Sheet as at 31 March 2019

	Note	2019 HK\$	2018 HK\$
Current assets			
Accounts receivable		869	752
Prepayments		671	671
Cash and cash equivalents	3	<u>740,380</u>	<u>827,595</u>
		<u>741,920</u>	<u>829,018</u>
 Current liabilities			
Accounts payable		(142,395)	(31,600)
Rental income collected in advance		<u>(1,505)</u>	<u>(3,440)</u>
		<u>(143,900)</u>	<u>(35,040)</u>
 Net current assets		 <u>598,020</u>	 <u>793,978</u>
 Accumulated fund		 <u>598,020</u>	 <u>793,978</u>

The accompanying notes 1 to 8 form part of these financial statements.



(Hermes TANG)

Commissioner of Customs and Excise Incorporated

25 September 2019

Customs and Excise Service Welfare Fund
Income and Expenditure Account
for the year ended 31 March 2019

	2019 HK\$	2018 HK\$
Income		
Donation	580,000	400,000
Government grant	309,960	290,520
Rental income from holiday house	49,020	53,105
Civil Service Outstanding Service Award	–	4,500
Bank interest	3,048	2,937
	942,028	751,062
 Expenditure		
Grants to Customs and Excise Department Sports and Recreation Club	(465,100)	(451,300)
Grants to Customs and Excise Department Sports and Recreation Club Football Sub-committee	(281,000)	–
Entertainment and social gatherings	(230,759)	(128,273)
Running expenses of holiday house	(99,257)	(107,119)
Stores	(61,870)	(25,713)
	(1,137,986)	(712,405)
 (Deficit)/Surplus for the year	(195,958)	38,657
Other comprehensive income	–	–
Total comprehensive (loss)/income for the year	(195,958)	38,657

The accompanying notes 1 to 8 form part of these financial statements.

Customs and Excise Service Welfare Fund
Statement of Changes in Equity
for the year ended 31 March 2019

	Accumulated fund HK\$
Balance at 1 April 2017	755,321
Total comprehensive income for 2017 – 18	<u>38,657</u>
Balance at 31 March 2018	793,978
Total comprehensive loss for 2018 – 19	<u>(195,958)</u>
Balance at 31 March 2019	<u><u>598,020</u></u>

The accompanying notes 1 to 8 form part of these financial statements.

Customs and Excise 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)/Surplus for the year		(195,958)	38,657
Bank interest		(3,048)	(2,937)
(Increase)/Decrease in accounts receivable		(220)	47
Increase in accounts payable		110,795	23,982
Decrease in rental income collected in advance		<u>(1,935)</u>	<u>(215)</u>
Net cash (used in)/from operating activities		<u>(90,366)</u>	<u>59,534</u>
Cash flows from investing activities			
Bank interest received		<u>3,151</u>	<u>2,198</u>
Net cash from investing activities		<u>3,151</u>	<u>2,198</u>
Net (decrease)/ increase in cash and cash equivalents		(87,215)	61,732
Cash and cash equivalents at beginning of year		<u>827,595</u>	<u>765,863</u>
Cash and cash equivalents at end of year	3	<u><u>740,380</u></u>	<u><u>827,595</u></u>

The accompanying notes 1 to 8 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 (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 items 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 amounts of the items at 1 April 2018 have 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 and financial liabilities

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 financial assets, comprising cash and cash equivalents and accounts receivable, were previously classified as loans and receivables carried at amortised cost under HKAS 39. They were reclassified to financial assets measured at amortised cost under HKFRS 9. The carrying amounts of the Fund's financial assets as at 1 April 2018 were the same as those as at 31 March 2018.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

(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 amounts of the financial assets as at 1 April 2018.

(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

These comprise accounts receivable and 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)(v)).

Financial liabilities measured at amortised cost

This category comprises accounts payable. They are subsequently measured at amortised cost.

(iii) Categorisation and subsequent measurement before 1 April 2018

The Fund's financial assets and financial liabilities included accounts receivable, cash and cash equivalents and accounts payable. Financial assets were subsequently measured at amortised cost using the effective interest method, less impairment losses, if any (note 2(d)(vi)). Financial liabilities were subsequently measured at amortised cost using the effective interest method.

(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) Impairment of financial assets from 1 April 2018

For accounts receivable and 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 estimate 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 bases:

- 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.

(vi) Impairment of financial assets before 1 April 2018

The carrying amounts of financial assets were 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 the income and expenditure account. 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

- (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.
- (iv) Donation income is recognised once cash is received and the approval for acceptance is obtained.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash with Director of Accounting Services and deposits with banks with original maturities of three months or less from the date of placement.

3. Cash and cash equivalents

	2019	2018
	HK\$	HK\$
Bank deposits with original maturities within three months	673,053	779,902
Cash with the Director of Accounting Services	67,327	47,693
	<u>740,380</u>	<u>827,595</u>

4. Financial risk management

The Fund's major financial instruments are bank deposits, cash with the Director of Accounting Services 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. The Fund's maximum exposure to credit risk at the reporting date in relation to the financial instruments is the carrying amount of these assets as stated in the balance sheet. The Fund limits its exposure to credit risk by transacting with reputable licensed banks in Hong Kong. Hence, the credit risk associated with bank deposits and bank balances is considered to be low. As such, the credit risk on these financial instruments is assessed as not having increased significantly since initial recognition and the Fund determines the loss allowance required to be recognised based on 12-month expected credit losses.

The credit quality of bank deposits, analysed by the ratings designated by Moody's or their equivalents, at the reporting date is shown below:

	2019	2018
	HK\$	HK\$
Bank deposits, by credit rating		
Aa1 to Aa3	<u>673,053</u>	<u>779,902</u>

The Fund has estimated that 12-month expected credit losses on these financial instruments are immaterial and considers that no loss allowance is required.

(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.

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 four months or less (2018: three months or less).

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 reporting 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 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.

8. Possible impact of amendments, new standards and interpretations 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.