



Customs and Excise Service Welfare Fund

Financial statements for the year ended 31 March 2020

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 15, which comprise the balance sheet as at 31 March 2020, 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 2020, 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.



S. M. CHOI
Principal Auditor
for Director of Audit

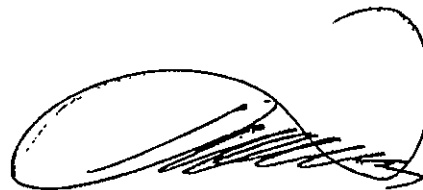
29 September 2020

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

Customs and Excise Service Welfare Fund
Balance Sheet as at 31 March 2020


	Note	2020 HK\$	2019 HK\$
Current assets			
Accounts receivable		1,617	869
Prepayments		669	671
Cash and cash equivalents	3	<u>1,489,677</u>	<u>740,380</u>
		<u>1,491,963</u>	<u>741,920</u>
 Current liabilities			
Accounts payable		(714,799)	(142,395)
Rental income collected in advance		<u>-</u>	<u>(1,505)</u>
		<u>(714,799)</u>	<u>(143,900)</u>
 Net current assets		 <u>777,164</u>	 <u>598,020</u>
 Accumulated fund		 <u>777,164</u>	 <u>598,020</u>

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



(Hermes TANG)

Commissioner of Customs and Excise Incorporated

 September 2020

Customs and Excise Service Welfare Fund
Income and Expenditure Account
for the year ended 31 March 2020

	2020 HK\$	2019 HK\$
Income		
Donations	2,830,000	580,000
Government grant	351,900	309,960
Rental income from holiday house	40,635	49,020
Civil Service Outstanding Service Award	8,750	-
Bank interest	10,650	3,048
	<u>3,241,935</u>	<u>942,028</u>
Expenditure		
Grants to Customs and Excise Department Sports and Recreation Club	(1,495,200)	(465,100)
Grants to Customs and Excise Department Sports and Recreation Club Football Sub-committee	-	(281,000)
Subsidies to Customs and Excise Band	(400,000)	-
Entertainment and social gatherings	(423,620)	(230,759)
Running expenses of holiday house	(98,010)	(99,257)
Stores	(95,059)	(61,870)
Other Welfare	(550,902)	-
	<u>(3,062,791)</u>	<u>(1,137,986)</u>
Surplus/(Deficit) for the year	179,144	(195,958)
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year	<u>179,144</u>	<u>(195,958)</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 2020

	Accumulated fund HK\$
Balance at 1 April 2018	793,978
Total comprehensive loss for 2018 – 19	<u>(195,958)</u>
Balance at 31 March 2019	598,020
Total comprehensive income for 2019 – 20	<u>179,144</u>
Balance at 31 March 2020	<u><u>777,164</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 2020

	Note	2020 HK\$	2019 HK\$
Cash flows from operating activities			
Surplus/(Deficit) for the year		179,144	(195,958)
Bank interest		(10,650)	(3,048)
Decrease/(Increase) in accounts receivable		220	(220)
Decrease in prepayments		2	-
Increase in accounts payable		572,404	110,795
Decrease in rental income collected in advance		(1,505)	(1,935)
Net cash from/(used in) operating activities		<u>739,615</u>	<u>(90,366)</u>
Cash flows from investing activities			
Bank interest received		9,682	3,151
Net cash from investing activities		<u>9,682</u>	<u>3,151</u>
Net increase/(decrease) in cash and cash equivalents		749,297	(87,215)
Cash and cash equivalents at beginning of year		<u>740,380</u>	<u>827,595</u>
Cash and cash equivalents at end of year	3	<u><u>1,489,677</u></u>	<u><u>740,380</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 (HKICPA).

(b) Basis of preparation of the financial statements

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) Impact of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs which are effective for the current accounting period. There have been no changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

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) Financial assets and financial liabilities

(i) Initial recognition

Financial assets and financial liabilities are recognised on the date the Fund becomes a party to the contractual provisions of the financial instrument. 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

Financial assets measured at amortised cost

These comprise accounts receivable, 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)(iv)).

Financial liabilities measured at amortised cost

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

(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, is cancelled or expires.

(iv) Impairment of financial assets

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 assessment, 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.

For a financial asset with lifetime expected credit losses recognised in the previous reporting period, if its credit quality improves and reverses the previously assessed significant increase in credit risk, then the loss allowance reverts from lifetime expected credit losses to 12-month expected credit losses.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(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) The Fund recognises revenue from contracts with customers when it satisfies a performance obligation by transferring a promised service to a customer, at the amount of consideration to which the Fund expects to be entitled in exchange for the service.
- (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

	2020	2019
	HK\$	HK\$
Bank deposits with original maturities within three months	602,735	673,053
Cash with the Director of Accounting Services	886,942	67,327
	<u>1,489,677</u>	<u>740,380</u>

4. Financial risk management

The Fund's major financial instruments include 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 is considered to be low. The credit risk in respect of cash with the Director of Accounting Services is considered minimal. 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 Fund has estimated that 12-month expected credit losses on these financial instruments are immaterial and considers that no loss allowance is required.

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

	2020	2019
	HK\$	HK\$
Bank deposits, by credit rating		
Aa1 to Aa3	<u>602,735</u>	<u>673,053</u>

(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 values 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 surplus 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

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

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. Hence, the Fund does not have significant exposure to liquidity risk.

As at 31 March 2020, 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 six months or less (2019: four 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 the Customs and Excise Service (Welfare Fund) Regulation; 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:

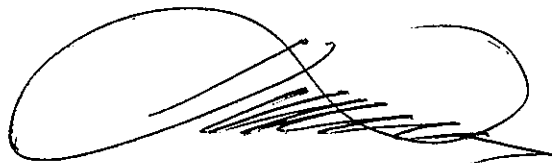
Description and location	Cost	Date of Acquisition	Memorial No.
Customs and Excise Service Holiday House DD316 Lot 1085 to 1088 40 Sun Wai Tsuen, G/F Pui O, Lantau Island.	HK\$330,455	8 August 1988	144771

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.

**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 2019 to 31 March 2020.
2. Total receipts of \$3,241,935 included bank interest of \$10,650, contribution from the Government of the Hong Kong Special Administrative Region of \$351,900 (calculated on the basis of \$60 per disciplined officer per annum for the actual strength of 5 865 disciplined officers as at 1 April 2019), donation of \$2,830,000, rental income from holiday house of \$40,635 and Civil Service Outstanding Service Award of \$8,750. The total receipts for the year showed an increase of \$2,299,907 over last year's total receipts of \$942,028, which was mainly due to the increase in donation during the year.
3. Total expenditure of \$3,062,791 showed an increase of \$1,924,805 against last year's total expenditure of \$1,137,986. The increase was mainly due to the increase in the grants to Customs and Excise Department Sports and Recreation Club and Other Welfare.
4. The fixed deposits placed with the Bank of China (Hong Kong) Limited as at 31 March 2020 was \$602,735.
5. The accumulated balance of the Fund at the beginning of the year was \$598,020. The accumulated balance of the Fund was \$777,164 as at 31 March 2020 after adding the total comprehensive income of \$179,144 for the year.
6. The Balance Sheet as at 31 March 2020, the Income and Expenditure Account for the year ended 31 March 2020, the Statement of Changes in Equity for the year ended 31 March 2020 and the Statement of Cash Flows for the year ended 31 March 2020 are attached.



(Hermes TANG)

Commissioner of Customs and Excise Incorporated

September 2020