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Introduction

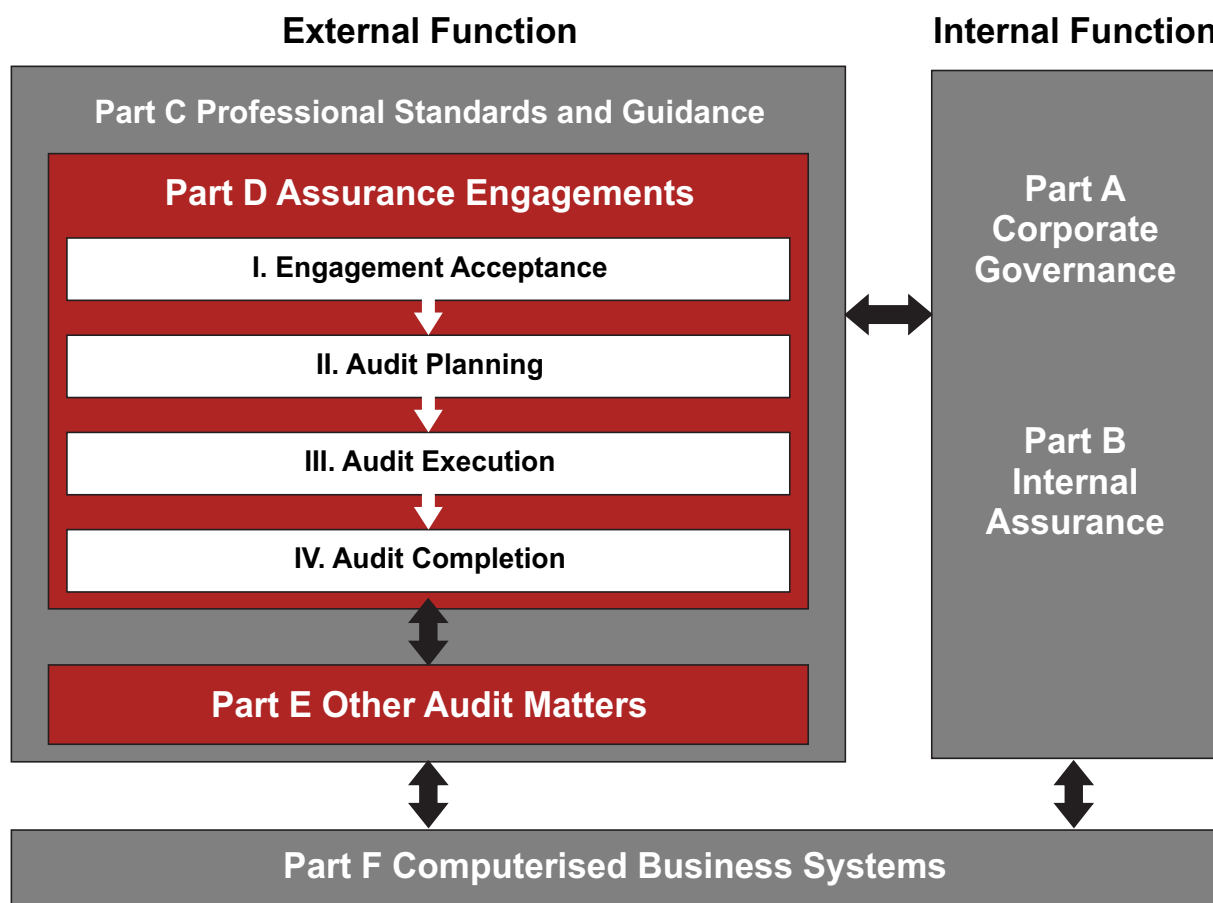
Module Aim and Structure

This module will enable you to perform effective assurance and related assignments. You will also understand the importance of corporate governance and be able to ensure if it has been effectively set up in an organisation.

The module is structured in such a way that it can achieve the module aim. The module structure displayed below starts with internal focus on corporate governance and internal assurance. It then extends to the external focus. The external focus follows the audit process, from engagement acceptance, audit planning and execution to audit completion. Activities of both internal and external assurance usually take place on an IT platform.

This module structure applies to both the Learning Pack and the module workshops to ensure a linkage between the module study materials and the workshop materials.

Overall Structure of Module C (Business Assurance)



Workshop Structure and Format

During Workshop 1, we first look at the corporate governance issue from the point of view of different stakeholders (internal assurance). We will then go through an audit journey in which we will experience the whole audit process (external assurance).

You will be working on case exercises during the workshops. Through group activities and discussion, you will look at how the auditing standards are applied to given case scenarios and how an assurance assignment is managed as a project in the business world.

Workshop Objectives

The workshop objectives include the following:

- understand the needs and the relevant issues of various stakeholders in corporate governance and address them in accordance with the statutory requirement;
- recognise conflicts or ethical issues and advise on appropriate actions;
- identify potential risks in accepting or continuing with an audit engagement in the client acceptance procedures;
- identify inherent risks based on an understanding of the client operation and environment, and evaluate the impact of risks on the financial statements and at assertions levels;
- evaluate the internal controls of an organisation for their effectiveness;
- evaluate the control system of an entity and identify control risks, including IT related risks;
- exercise judgment to decide on an appropriate audit approach that can address the risks identified;
- judge when to rely on the work of clients' internal audit function;
- identify audit issues, evaluate their implications and resolve them;
- perform the final review of the financial statements to evaluate the reasonableness of the financial statements;
- determine and draft the appropriate audit opinion in various situations;
- understand the project and audit issues in relation to a group audit for effective planning and management; and
- be aware of the internal and external stakeholders' needs and be able to manage and address their expectations.

Development Indicators for Generic and Technical Competencies

The focus of the workshops is on formative development of skills, i.e. to train students to become future CPAs. A set of development indicators has been designed to encourage students to participate in the workshops and demonstrate the development of the intended learning objectives.

The purpose of the development indicators is to encourage you to:

- prepare for the workshops;
- actively participate and be engaged in the workshops; and
- achieve the learning objectives by developing the technical and generic competencies.

It also allows the workshop facilitators to monitor the development of the students so that appropriate actions or counselling can be done.

As the learning objectives of each module are different, there will be different development indicators or criteria for different modules. There are core criteria, i.e. criteria that are common to all four modules, as well as some criteria which are specific to an individual module.

You are expected to demonstrate the following core criteria at each workshop:

- be well prepared for the workshop by demonstrating a reasonable level of knowledge of technical content (i.e. contribute to discussion by offering relevant facts or information);
- be punctual (i.e. arrive at the workshop on time and do not leave early except with the approval of the Institute or workshop facilitators);
- work well with team members and workshop facilitators (i.e. interact with them in a constructive manner);
- proactive participation (i.e. show willingness to take up roles in Group discussion and raise questions or express ideas / opinions appropriately); and
- adhere to an ethical mindset and professional behaviour.

You are also expected to demonstrate the development of the following specific criteria for Module C:

- reasonable understanding and ability to decide on an audit approach;
- ability to evaluate the impact of risks on the financial statements and assertion levels;
- ability to evaluate the control system of an entity and identify its control risks;
- reasonable understanding and ability to resolve audit issues;
- an awareness of stakeholders' different interests and expectations, and the ability to manage them; and
- ability to plan and manage a project.

Passing Criteria for Workshops

A two-scale system of performance comprising 'yes for demonstrated' (i.e. 'green light') and 'no for not demonstrated' (i.e. 'red light') is set up for each development indicator. Students must achieve at least 70% of the available indicators obtaining 'green light' for satisfactory completion of workshops. In quantitative terms, a student will need to retake the two full-day workshops of a module if more than 4 out of the 16 development indicators for two workshops have been marked as 'no for not demonstrated' i.e. 'red light'.

Satisfactory completion of workshops is a prerequisite to sitting the module examination i.e. students who fail to complete the workshop satisfactorily are not allowed to take the relevant module examination. In order to complete the workshop satisfactorily, you are required to attend the two full-day workshops and demonstrate your successful accomplishment of the workshop objectives, via active participation.

Your Role and Responsibilities as a Workshop Student

You are expected to:

- follow your study plan, study the Learning Pack chapters (and other reference materials where appropriate) in accordance with the workshop coverage and prepare well for the workshops;
- read the case materials and complete the pre-workshop exercises, if any, prior to attending the workshops;
- be proactive in discussion and participation in group activities during the workshops;
- develop your technical and generic skills through active participation in group discussion and activities; and
- observe relevant rules of the workshops (e.g. be punctual for workshops and follow the instructions of workshop facilitators).

Workshop Materials for Students

Prior to the workshops, you will be given:

- this introduction booklet, providing general information on the workshops in particular the topic coverage and the corresponding chapter list in the Learning Pack, which are listed under *Workshop Outline and Learning Methodologies* below;
- pre-workshop materials including the case background and exercises (if any); and
- the module Learning Pack.

During the workshops, you will be given:

- additional case information; and
- handouts (i.e. questions) for class work, which will be collected back at the end of each workshop.

Workshop Outline and Learning Methodologies

Session	Methodologies	Chapters covered
Workshop 1		
1. Introduction	<ul style="list-style-type: none"> • Presentation • Group discussion 	
2. Corporate governance	<ul style="list-style-type: none"> • Case study • Group discussion 	Ch. 1 & 2
3. Overview of an audit	<ul style="list-style-type: none"> • Card game 	
4. Audit acceptance / continuance	<ul style="list-style-type: none"> • Case study • Group discussion 	Ch. 4
5. Audit planning	<ul style="list-style-type: none"> • Case study • Group discussion 	Ch. 8, 9, 10, 11 & 12
6. Project management in audit planning stage	<ul style="list-style-type: none"> • Group discussion 	Ch. 8
7. Conclusion	<ul style="list-style-type: none"> • Presentation • Group discussion 	
Workshop 2		
8. Reboot	<ul style="list-style-type: none"> • Presentation • Group discussion 	
9. Audit execution	<ul style="list-style-type: none"> • Individual work • Progress meeting and reporting • Group discussion 	Ch. 9 – 15, 19, 20
10. Project management in audit execution stage	<ul style="list-style-type: none"> • Presentation • Group discussion 	
11. Audit completion	<ul style="list-style-type: none"> • Group sharing • Group discussion 	Ch. 16 & 17
12. Group audit	<ul style="list-style-type: none"> • Group discussion 	Ch. 18
13. Conclusion	<ul style="list-style-type: none"> • Presentation • Group discussion 	

You are expected to have studied the relevant auditing standards, chapters of the Learning Pack and completed the pre-workshop materials (if any) thoroughly prior to attending the workshops. It is important for you to become familiar with the workshop materials as they will be raised for discussion throughout the workshops.

You are advised to bring the relevant auditing standards to the workshops for reference use.

Pre-Workshop Materials

Workshops 1 and 2

Case Background

New Ocean Holdings Limited ('New Ocean')

Background Information

New Ocean Holdings Ltd (New Ocean) is a passenger ferry company operating ferries from piers on Hong Kong Island to the outlying islands of Cheng Chau, Lantau Island, Peng Chau and Lamma Island. The company has been operating ferries in Hong Kong since 1905 and has gained a reputation as one of the most reliable ferry operators.

Ferries are operated by New Ocean for a number of markets:

- Daily timetabled services which are used by:
 - Island inhabitants who commute daily to their workplaces in Hong Kong
 - Tourists who use the ferry as transport to visit the islands on day trips from Hong Kong or who are staying in a hotel on one of the islands
- Corporate charter, to larger organisations based in Hong Kong, for private events, parties and other corporate entertaining.
- In March 2014, New Ocean commenced operation of a high speed ferry service between Central, Hong Kong International Airport and Macau, running the service using a new fleet of high-speed vessels branded DartKITE. The service is predominantly used by tourists.

New Ocean Revenue

New Ocean generates revenue from:

1. Ticket sales for travel on board New Ocean ferries to outlying islands. There are a number of ways in which passengers can purchase tickets for these journeys:
 - (a) Using cash, debit or credit card at ticket offices and self-service ticket machines located on the ferry piers. The ferry is then boarded by inserting the ticket at the ferry ticket gate.
 - (b) Using a pre-loaded Octopus card which is read by an Octopus card reader at the ticket gate.
 - (c) Purchasing a monthly pass which gives the holder unlimited journeys for a period of one month from the date of purchase. The ferry can be boarded directly using the monthly pass at the ticket gate.

Passengers are admitted onto the ferry on a first-come first-served basis. Once the ferry is full it will set sail, even if this is earlier than the scheduled departure time. Two classes of accommodation are available on board each ferry: ordinary and deluxe. Once on board, all passengers are able to upgrade to the deluxe class using an Octopus card.
2. Ticket sales for travel on board the DartKITE to/from Macau. Passengers may purchase tickets in advance for this service in the following ways:
 - (a) Using New Ocean's online booking system where customers can purchase tickets using debit or credit cards. Passengers are emailed a booking confirmation which contains a QR code. The QR code is scanned (either from the printed booking confirmation or the passengers smartphone) as the passenger passes through the check-in gate.
 - (b) Using the new DartKITE app to search and book tickets using a smartphone. The app

stores a QR code to enable the passenger to check-in at the gate using a smartphone (as above).

- (c) Ticket offices and self-service ticket machines located at the ferry terminals using cash, credit or debit cards.
- (d) Approved travel and ticket agents located throughout Hong Kong and on Macau.

In all cases tickets for DartKITE services can be purchased up to 90 days in advance of the scheduled departure.

3. Corporate charter services. These are arranged with large companies in Hong Kong for the purposes of employee and client entertaining and vessels are hired on an exclusive basis. A fixed price is negotiated with each corporate customer based on the specifications for the event such as duration of the event, ferry route, food, beverage and entertainment requirements etc. Prices are negotiated directly with the customer by the New Ocean corporate services team.

Once a specification and price for the charter service has been agreed with the customer an invoice is raised for 50% of the agreed price and must be paid by the customer no later than six weeks prior to the event date. The remaining 50% is invoiced to the customer the day after the event. New Ocean's credit terms are 30 days. At the time of booking the customer is required to sign New Ocean's standard terms and conditions as well as the agreed specification and price quoted. Regular statements are sent to customers with outstanding amounts.

4. Sales of drinks and snacks from vending machines located on board island ferries which are purchased by passengers using their Octopus card.
5. Meal, drink and duty-free services operating on the DartKITE. Passengers are served in their seats or cabins and can pay by cash, credit or debit card.
6. Rental income from retailers and exhibitors. The ferry piers, from which New Ocean's ferry services depart, include retail and exhibition space which is rented out by New Ocean. Rent is paid to New Ocean by retailers and exhibitors quarterly in advance.

Revenue from ticket sales and food and beverage sales is recognised in the financial statements on the date of departure. For ticket sales made by travel and ticket agents, appropriate adjustments are made at year end for any sales of tickets relating to departures after the year end. Revenue from charter services is recognised on the date of the event or service. Rental income is recognised evenly over the term of the rental period.

New Ocean – Financial and Corporate Structure and financing

New Ocean is a public company with shares being owned by both individuals and pension funds. The single largest stakeholder is Mr Kenneth Pao, owning 10% of the company and who is a surviving member of the Pao family who founded the original ferry service between Hong Kong Island and Cheng Chau in 1905. Mr Pao is not involved in the day to day running of the New Ocean business.

New Ocean is run by its board of directors which consists of the following:

- Chairman – Mr Charles Yeung
- Chief Executive Officer (CEO) – Mr Edward Hon (appointed September 2013)
- Chief Financial Officer – Mrs Penelope Suen
- Chief Operating Officer – Mr Don Ng
- Director of Sales and Marketing – Ms Sandra Kim

The board also has three non-executive directors.

All the members of the board, with the exception of Edward Hon, have been in post for over 10 years. Edward Hon was appointed as CEO in September 2013. He previously served on the board of directors at Sunshine Island Ferries (SIF) a subsidiary of Hong Kong Development Company Ltd (HKD). HKD developed the previously uninhabited Sunshine Island, which now has 8,000 residents

after the recent completion of the development. HKD is obliged, under its agreement with the Hong Kong government, to provide continuous ferry services for the residents of Sunshine Island.

Until recently, the only external financing required by New Ocean was in respect of the fleet of ferries used to operate the ferry services to the outlying islands. The fleet is financed by Capital Holding Co Ltd (CHC) based in Shanghai, China. The ferries are held under 25-year finance leases. The eight vessels on the busiest route to Cheng Chau have less than 18 months until their leases expire. The board are currently discussing potential plans as to how these vessels will be replaced in order to ensure a continued service.

Additional finance was obtained in September 2013 to fund the new high speed service to Macau. The finance was provided by HK Maritime Leasing Co Ltd ('HKML') which leases the DartKITE vessels to New Ocean under a 20-year finance lease. The leases were negotiated at preferential finance rates with HKML as it was eager to be involved in this new prestigious service and to have the name of its sister company, SeaSonic Ltd, associated with the route. SeaSonic Ltd is a boat building company which built and supplied the DartKITE vessels.

Ferry services in Hong Kong

Licences to operate ferry services are granted by Hong Kong's Transport Department to private ferry operators. Licences are granted for a period of three years with ferry operators (re)tendering for licences on routes when they are due for renewal. Ferry operators are also charged by the Marine Department, for the rental of the piers from which the ferry services depart.

Ferry services are very important to the functioning of the Hong Kong economy and the government is committed to ensuring the long term viability of key ferry routes and also fare stability for ferry users. However, many of the ferry routes between Hong Kong Island and the outlying islands are not profitable and the government has therefore supported the ferry operators of key routes through 'special helping measures'.

'Special helping measures' allow for the reimbursement to ferry operators of actual expenses incurred by them on designated expenditure. The amount of reimbursement of expenses is subject to financial caps each year. Ferry operators are required to submit audited financial statements to the Transport Department at the end of each financial year for substantiating the actual expenditure incurred. The actual amounts reimbursed to ferry operators include the following key operating expenses/revenue:

- Mooring charges
- Pier electricity and water
- Vessel maintenance costs
- Vessel insurance costs
- Revenue forgone due to the requirement on ferry operators to continue to provide concessionary fares to children and the elderly

The special helping measures apply to all of the routes operated by New Ocean, with the exception of the services to Cheng Chau and Macau which are independently profitable. The licences to operate many ferry services, including those operated by New Ocean are due to expire in July 2015. New Ocean has already expressed its interest to the Transport Department to extend its licences to operate its existing routes, and also to consider tendering for additional licences to operate some other routes. New Ocean has stated it is only prepared to continue to operate the existing services if special helping measures are kept in place for the duration of the licence period (2015-2018) and sufficient upward adjustment is made to the financial caps applied in respect of the reimbursements and more flexibility is given to operators in respect of fare increases.

As part of receiving such special helping measures the ferry operators are subject to restrictions on fare increases. Fare increase applications must be submitted to the Transport Department and supported by strong and substantive justifications. Public affordability is also taken into account when considering fare increases and the Transport Department has the power to refuse any such applications.

A final decision regarding the outcome of the tendering process/applications to extend existing licences will be made by the Transport Department in March 2015.

The industry operates under a large number of health and safety regulations, compliance with which is regularly monitored by government departments. Relevant certification and licences to operate are required, both by the ferry operator and key members of its operational staff, such as ferry captains and other crew members. Where serious breaches of regulations are found the authorities have the power to either temporarily or permanently revoke licences.

The management at New Ocean have a team in place to ensure the continuous compliance with the relevant regulations and monitoring is carried out on a regular basis.

New Ocean Management structure

The board of New Ocean oversees the strategic direction of the business, and works out of New Ocean's head office, based at Central Pier, along with a number of core business departments, responsible for key areas in operating the business on a day to day basis. Each core business department produces a monthly board report which is presented to board members at their monthly board meetings. The core departments and their responsibilities are as follows:

- Finance:
 - Reports to Penelope Suen
 - Responsibilities: Monthly management accounts and quarterly forecasting, financial reporting, ticketing (including online ticket sales) and ticketing partners/agents, Octopus card management, banking, fleet leasing, receivables management and collection, banking, internal financial control and internal audit, management of the outsourced payroll service provider.
- Human resources
 - Reports to Don Ng
 - Responsibilities: Recruitment of all staff including ferry crews, pier attendants, head office employees, employees' health & safety, design and delivery of training programmes and certification for ferry crew members.
- Sales & marketing (including the corporate charter services team)
 - Reports to Sandra Kim
 - Responsibilities: Advertising, promotions, corporate services, customer services and complaints, PR, website maintenance, social media.
- Operations & logistics
 - Reports to Don Ng
 - Responsibilities: Timetables and schedules, pier, check-in and gate management, retail space management, on-board services (i.e. food, drink and duty-free), passenger health and safety, insurance, legal services (outsourced to a Hong Kong based legal firm).

Each pier has a pier manager and pier assistants who are responsible for the management of passengers and the arrival and departure of ferries according to the timetable. Each ferry has a number of crew members, led by a captain, responsible for the safe running of the ferry and the on-board services.

Accounting systems and internal controls

Tyme accounting system

New Ocean uses an accounting software system, called Tyme, which was developed specifically for New Ocean by Accountware Solutions Ltd (Accountware). Tyme is integrated with the following sales systems which means that the sale of tickets to passengers through these systems are automatically recorded in Tyme:

- The online booking system used by passengers to purchase tickets over the internet
- Ticket machines and ticket office sales system located at the piers
- Ticket sales using Octopus cards
- The DartKITE app

The introduction of the DartKITE service in March 2014 required a significant amount of development to Tyme and New Ocean's website. Accountware built new bespoke e-commerce features on New Ocean's website which were integrated with Tyme as well as developing the new DartKITE app. In addition to software development expenditure, New Ocean also invested significant amounts in new check-in gates which are capable of reading QR codes.

Travel and ticket agents

Sales of tickets via approved travel and ticket agents are not directly integrated with Tyme. Travel and ticket agents send monthly reports to New Ocean in respect of sales made and remit revenue monthly after deducting their commission fee, according to their agreement with New Ocean, which is calculated as a percentage of gross sales made. Amounts reported and remitted are reconciled by a sales ledger clerk and revenue is then recorded manually in Tyme.

Charter services

Corporate charter services and rental of retail space on the piers are invoiced to customers at the relevant times by a sales ledger clerk on the instruction of the sales and marketing team (for corporate charter sales) and the operations and logistics team (for rental of retail space).

Internal audit

New Ocean does not have its own internal audit department. Previous reviews of internal controls were undertaken by employees within the finance team. However, Edward Hon is not satisfied with the extent or scope of these reviews and engaged an independent firm of auditors, Trident Services Co (Trident), in March 2014 to perform the role of an internal audit function, undertaking quarterly reviews. Penelope Suen will be responsible for liaising with Trident and overseeing their work. The area of review for the first quarter (April-June 2014) was controls surrounding payments made by customers using cash and Octopus cards (see Appendix G).

Tangible non-current assets

New Ocean holds a significant amount of tangible non-current assets in the form of vessels (held under finance leases) and plant and equipment. An asset register for plant and equipment is maintained and regular reconciliations between physical assets and the register are performed as part of the company's health and safety checks, i.e. ensuring all relevant equipment is available and in good working order.

Young Brothers & Co (Young Bros)

Your firm, Young Brothers & Co (Young Bros) has been the external auditor of New Ocean since 1995 and has a strong relationship with the board of directors. Ivan Ho has held the position of New Ocean audit engagement partner since the year ended 31 August 2006.

The board of New Ocean has requested that, in addition to performing the external audit for the year ending 31 August 2014, it also accepts an engagement to provide assurance on an insurance claim being submitted by New Ocean to its insurance company.

You have the following additional information available to you at the planning stage:

- Octopus Merchant Fact Sheet (Appendix A)
- Traveller Magazine: Going paperless with a QR code ticket (Appendix B)
- Hong Kong Dail-E-News Website: Macau ferry accident (Appendix C)
- Hong Kong Post: Sunshine Island Ferry Row (Appendix D)
- Young Bros Technical briefing paper – HKAS17 Leases (Appendix E)
- Financial information from prior year audit file (Appendix F)
- Trident Services Co internal audit report (Appendix G)
- Email from New Ocean financial controller (Appendix H)

Additional information

New Ocean Prior Year Audited Financial Information Extracts

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 AUGUST 2013

	<i>Note</i>	<i>2013</i> HK\$'000
Revenue	1	391,316
Cost of sales		<u>(338,273)</u>
Gross profit		53,043
Administrative expenses		<u>(12,198)</u>
		40,845
Finance costs		<u>(32,019)</u>
Profit before taxation		8,826
Taxation		<u>(1,450)</u>
Profit for the year		<u><u>7,376</u></u>

STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2013

	<i>Note</i>	<i>2013</i> HK\$'000	<i>2013</i> HK\$'000
ASSETS			
<i>Non-current assets</i>			
Intangible assets	2	187,716	
Property, plant and equipment	3	<u>412,167</u>	
			599,883
<i>Current assets</i>			
Inventories		5,198	
Trade and other receivables	4	35,827	
Cash and bank balances		<u>80,891</u>	
			<u>121,916</u>
<i>Total assets</i>			<u><u>721,799</u></u>
EQUITY AND LIABILITIES			
<i>Equity</i>			
Issued share capital		100,000	
Retained earnings		<u>217,199</u>	
			317,199
<i>Non-current liabilities</i>	5		267,529
<i>Current liabilities</i>	6		<u>137,071</u>
<i>Total equity and liabilities</i>			<u><u>721,799</u></u>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 AUGUST 2013

	<i>Issued share capital</i> HK\$'000	<i>Accumulated profit</i> HK\$'000	<i>Total</i> HK\$'000
Balance as at 1 September 2012	100,000	209,823	309,823
Profit for the year	—	7,376	7,376
Balance as at 31 August 2013	<u>100,000</u>	<u>217,199</u>	<u>317,199</u>

Notes to financial statements for the year ended 31 August 2013

1 ACCOUNTING POLICIES

1.1 Basis of preparation

The financial statements for the year ended 31 August 2013 are prepared on the historical cost basis.

1.2 Revenue

Revenue comprises the amounts earned from ferry ticket sales, charter services, rental income and sale of food and beverages.

Ticket sales and food and beverage sales are recognised on the date of departure. Revenue from charter services is recognised on the date of the event or service. Rental income is recognised evenly over the term of the rental period.

1.3 Intangible assets

Intangible assets relate to the cost of licences to operate ferry routes and are stated at cost less accumulated amortisation. Amortisation is provided at rates calculated to write off the cost of the intangible asset over the licence term.

1.4 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation.

Leased assets where the company assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, assets held under finance leases are measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments.

Depreciation is provided at rates calculated to write off the cost of non-current assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold properties	– 5% to 15% straight line
Vessels held under finance leases	– straight line over the lease term (usually 20-25 years)
Plant and equipment	– 20% straight line

1.5 Inventories

Inventories are valued at the lower of cost and net realisable value.

1.6 Trade receivables

Trade receivables are reduced by an allowance for estimated irrecoverable amounts.

1.7 Trade and other payables

Trade payables and accruals include amounts owed to suppliers.

1.8 Finance leases

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each lease period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability.

1.9 Deferred income

Deferred income represents amounts received in advance in respect of charter services and rental income.

2 INTANGIBLE ASSETS

	<i>Licences</i> HK\$'000
<i>Cost</i>	
At 1 September 2012	483,148
Additions	-
Disposals	-
At 31 August 2013	<u>483,148</u>
<i>Amortisation</i>	
At 1 September 2012	143,256
Charge for the year	152,176
Disposals	-
At 31 August 2013	<u>295,432</u>
<i>Carrying amount</i>	
At 31 August 2013	<u>187,716</u>
At 1 September 2012	<u>239,892</u>

3 PROPERTY, PLANT AND EQUIPMENT

	<i>Leasehold properties</i> HK\$'000	<i>Vessels held under finance leases</i> HK\$'000	<i>Plant and equipment</i> HK\$'000	<i>Total</i> HK\$'000
<i>Cost</i>				
At 1 September 2012	369,852	468,503	127,910	966,265
Additions	-	-	21,901	21,901
Disposals	-	-	(18,108)	(18,108)
At 31 August 2013	<u>369,852</u>	<u>468,503</u>	<u>131,703</u>	<u>970,058</u>
<i>Depreciation</i>				
At 1 September 2012	231,964	208,726	61,206	501,896
Charge for the year	32,789	21,295	19,829	73,913
Disposals	-	-	(17,918)	(17,918)
At 31 August 2013	<u>264,753</u>	<u>230,021</u>	<u>63,117</u>	<u>557,891</u>
<i>Carrying amount</i>				
At 31 August 2013	<u>105,099</u>	<u>238,482</u>	<u>68,586</u>	<u>412,167</u>
At 1 September 2012	<u>137,888</u>	<u>259,777</u>	<u>66,704</u>	<u>464,369</u>

4 TRADE AND OTHER RECEIVABLES

	2013
	HK\$'000
Gross trade receivables	4,250
Less: Allowance for receivables	<u>(150)</u>
	4,100
Amounts due from Transport Department under special helping measures	<u>31,727</u>
	<u>35,827</u>

5 NON-CURRENT LIABILITIES

	2013
	HK\$'000
Finance lease liabilities (note 7)	<u>267,529</u>

6 CURRENT LIABILITIES

	2013
	HK\$'000
Trade and other payables	10,187
Taxation payable	1,724
Finance lease liabilities (note 7)	52,245
Accruals and deferred income	<u>72,915</u>
	<u>137,071</u>

7 FINANCE LEASE LIABILITIES

<i>Maturity of lease liabilities:</i>	<i>Future minimum lease payments</i>	<i>Interest</i>	<i>Present value of minimum lease payments</i>
	\$'000	\$'000	\$'000
Less than one year	88,519	36,274	52,245
Between one and five years	186,754	56,556	130,198
More than five years	<u>165,692</u>	<u>28,361</u>	<u>137,331</u>
	<u>440,965</u>	<u>121,191</u>	<u>319,774</u>

Appendix A – Octopus Merchant Fact Sheet



BECOME AN OCTOPUS MERCHANT

Becoming an Octopus merchant is easy and there are so many ways for your business to benefit:

Improve operational efficiency: a secure, efficient, flexible and reliable means to collect revenue. Reduces administrative effort and risks or errors associated with collecting and handling cash.

Increase revenue: high level of customer satisfaction and enhances your company's brand as well as reducing fraud.

Customer experience

Octopus cards contain electronic microchips that store and update payment information and monetary value. When a customer uses it, the card is scanned by an Octopus reading processor (located in your vehicle, on your premises, at the departure/ticket gate or on vending machines), which deducts the transaction amount from the card. Customers can easily reload their Octopus card through automatic reloading when linked to their credit card or bank account, or at one of many reloading points.



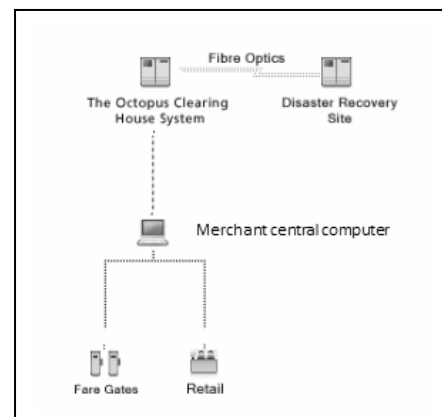
Octopus card technology and Octopus Clearing House

Octopus cards have built-in circuit chips that communicate with different fare processors through the use of an Octopus card reader/writer. The reader/writer is made of a controller board and an antenna. It uses inductive radio frequency to transmit data signals to the processors inside the Octopus card.

The Octopus Clearing House (OCH) is the core of the system that is responsible for validating transactions, allocating revenue and transferring funds to the relevant merchants. The reading processors can communicate with the merchant's central computer in real-time if the processor is online. Other reading processors, such as those used in moving vehicles, store transaction data offline and then sends the data to the central computer when the merchant connects the reader to the network. Data is then transmitted from the merchant's central computer to the OCH system which uses a complex set of business rules to validate each transaction prior to authorising settlement amounts.

A standard set of reports is then sent to each participating merchant on a daily basis and the settlement amounts (i.e. the amounts spent on the Octopus cards by the merchant's customers less OCH charges) are deposited into the merchants bank accounts within 24 hours.

OCH is protected by a full disaster recovery site so your data and payments are always safe.



Appendix B – Traveller Magazine article

Going paperless with a QR code ticket

March 2014

One of the newest mobile developments is the ability to check-in when travelling via a mobile device using a QR code, or mobile ticket/boarding pass. QR codes are those “blocky” barcodes that are starting to appear on everything from magazine ads to chocolate bars.



How to Use QR Codes as Mobile tickets

The mobile ticket is essentially a paperless e-ticket. Here is how it works:

The travel operator sends your boarding document, with a link to your QR code, directly to your mobile device via e-mail or in their own app.

For emailed QR codes you click the link in the email to retrieve your QR code.

Anytime you need to present your ticket – at the security gate before boarding for example – you hold up your QR code to a scanner, which reads the information.

The QR code acts as a unique link to all of your travel information.

QR codes are unique and once registered by a scanner cannot be re-presented so they are a huge advancement in preventing fraud and ticket theft.



QR Codes words of warning



Travellers should be wary of the potential pitfalls of the seemingly handy paperless QR ticket.

If you are planning to go completely paperless with your travel arrangements, make sure your mobile device is fully charged – it will be tough to display your ticket on your smartphone screen if the battery is dead!

Also, in the event that their scanners fail to read your pass (sometimes the technology can be a bit 'glitchy'), you might be sent back to the travel counter to get a printed ticket, which could cost you time just before your departure.

QR codes were recently introduced on New Ocean's new ferry service to Macau. Initial teething problems with New Ocean's newly purchased 'high tech' scanners caused some passengers to miss their allotted sailing time.

A solution for both of these problems? Print a copy of your boarding pass as backup. Obviously, for passengers trying to go paperless, this would seem counter-intuitive, but it can save you from a potentially huge hassle. Hopefully, as the technology evolves and improves, these problems will become relics of our paper-filled past.

Appendix C – Hong Kong Dail-E-News Website: Macau ferry accident

Dail-F Hong Kong news first

18 June 2014

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Macau ferry accident – ‘unidentified object’?



Dail-F's Helena Liu reports on today's emerging story of a horrific ferry accident on the high speed Macau service.

About 75 people have been injured, twelve of them seriously, when a high-speed ferry hit an "unidentified object" in Hong Kong, officials say.

A government spokesman told the *Dail-F* - News that the accident happened today (18 June 2014) at 18.30 local time near the Soko Islands. The ferry was travelling from Hong Kong to Macau. The operator, renowned ferry giant New Ocean, said it had 125 passengers and 10 crew on board.

"There was suddenly a loud bang. The ferry was thrown upwards. Then many passengers were thrown out from their seats," one passenger told *Dail-F*'s Helena Liu. "It was total chaos. No one knew what to do, including the crew!"

An investigation is now under way. Fire officers launched a search at the scene of the collision, but could not locate the unidentified object.

In a statement, New Ocean's spokeswoman said "The ferry has been escorted to Lantau Island Ferry Terminal. Preliminary checks revealed no significant damage. New Ocean will co-operate closely with the authorities to investigate the cause of the incident." New Ocean refused to comment on the condition of the injured passengers.

Dail-F - News understands that the ferry is part of a newly acquired fleet for the prestigious Hong Kong – Macau route which New Ocean started operating in March 2014. SeaSonic, the company responsible for building the ferries, refused to comment as to whether the incident could be the result of mechanical failure or whether there was a risk of a similar incident occurring on the other ferries operating on the route. New Ocean has not indicated whether it intends to withdraw the ferries from service. Current departures appear to be continuing on schedule.

0 comments



Leave a message...

Like 0 +1 0 Tweet 0 Share

Appendix D – Hong Kong Post: Sunshine Island Ferry Row

Sunshine Islander's Row Over Ferry Services

Edward Chan
August 2014

Government worker Richard Lang and his young family have lived on Sunshine Island since the first phase of the island development was completed. "We chose to live here because of the quiet and green environment that was unusual in Hong Kong. It seemed like a great place to raise a family whilst the guaranteed ferry service to Hong Kong island meant I could still easily commute to work" Lang said of the residential dream island.

The regular ferry service to Central - a 35-minute ride, free of congestion and with a guaranteed seat - clinched the deal. "The travelling time to my office in Central was equivalent to, or often better than, when we lived in Chai Wan," he said. But a Transport Department notice sent to Sunshine's residents has them worried about the future of the all-important ferry service.

The department is seeking residents' views on a proposal by the ferry operator, Sunshine Island Ferries (SIF), to contract out the service. Many saw it as an attempt by the ferry operator - a subsidiary of developer Hong Kong Development Company (HKD) - to shirk its responsibility. HKD has sole private development rights on Sunshine Island, but it is also obliged to provide ferry services to the city.

Residents say SIF has been increasing fares on an annual basis since services began, yet it refuses to release figures for passenger numbers and fuel costs. The Transport Department has cited "operating conditions" in approving the fare increase.

Rumour has it that SIF has struggled to make the service profitable due to poor management, in spite of the 'Special Helping Measures' provided by the government to ensure continuous ferry services for Hong Kong residents at sustainable prices. Notably SIF's Director of Operations, Edward Hon, resigned last year only to be appointed as CEO of New Ocean, one of Hong Kong's major ferry operators. It is widely anticipated that a deal will be struck between SIF and New Ocean to contract out the Sunshine Island ferry service. However, this will not be good news for residents given New Ocean has already publically challenged the Transport Department over its caps on Special Helping Measures and fare rises, suggesting that if it did take over the contract fare rises would be inevitable.



Richard Kai-Lan and his Wife, Rachel at Sunshine Island ferry terminal

Appendix E – Technical briefing paper – HKAS17 Leases



Young Brothers & Co

Technical Briefing Paper – HKAS 17 Leases: Finance Leases

Definitions

A **lease** is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

A **finance lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not eventually be transferred.

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make.

Initial recognition

At the commencement of the lease term, lessees recognise finance leases as assets and liabilities, in the statement of financial position, at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate is used.

Worked example:

The fair value of a leased item of plant at the commencement of the lease term is \$497,380.

Dr	Plant	497,380	
	Cr	Finance Lease	497,380



Audit look out!

- Fair value = judgmental
- Calculation of lessee's incremental borrowing rate is complex

Subsequent measurement

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability (called the rate implicit in the lease).

Worked example continued:

Minimum lease payments = 3 annual payments of \$200,000 = \$600,000 (therefore total interest payments = \$600,000 – \$497,380 = \$102,620). Interest rate implicit in the lease = 10%

Year 1

Dr	Finance Lease Liability	\$200,000	
	Cr	Cash	\$200,000
Dr	Interest expense (\$497,380 × 10%)	\$49,738	
	Cr	Finance Lease Liability	\$49,738

The payment of \$200,000 is apportioned between the finance charge (\$49,738) and reduction of the finance lease liability (\$150,262, (ie \$200,000 – \$49,738)).



Audit look out!

- Complex calculations

Appendix F – Financial information from prior year audit file

You have obtained the prior year audit files to assist with your planning and have noted the following financial information for New Ocean in relation to the prior year:

Impact on revenue and cost of sales of Special Helping Measures (SHMs) - 2013

Revenue analysis

	2013
	HK\$'000
Ticket sales to outlying islands	189,876
Corporate charter services	102,765
Rental income from retailers and exhibitors	56,278
Food and beverage sales	29,217
Special helping measures* – revenue forgone due to concessionary fares	<u>13,180</u>
Revenue included in financial statements	<u>391,316</u>

Cost of sales

	2013
	HK\$'000
Actual costs incurred	356,820
Special helping measures* – amounts to be reimbursed in respect of mooring charges, electricity, water, ferry maintenance and ferry insurance costs	<u>(18,547)</u>
Cost of sales included in financial statements	<u>338,273</u>

* amounts in respect of SHMs are estimated based on actual costs incurred and financial caps in place under SHMs. New Ocean receives payment from the Transport Department once it has reviewed New Ocean's audited financial statements.

The amounts claimed by New Ocean under SHMs are calculated based on an agreement between New Ocean and the Transport Department. The amounts claimed for 2013 have been calculated in accordance with the agreement and the receipt of such amounts is considered to be virtually certain. No previous claims by New Ocean have been refused or amended by the Transport Department.

Appendix G – Internal audit report

Trident Services

15 July 2014

Board of Directors
New Ocean Holdings Ltd
Central Ferry Pier No. 5
Central
Hong Kong

Trident Services internal audit: April – June 2014

I have pleasure in enclosing Trident's initial internal audit report covering the internal controls and processes in operation over cash receipts from customers and Octopus card receipts at New Ocean Ltd.

As part of Trident's internal audit process our reports highlight both areas of strength in the internal control procedures and processes tested and areas which require improvement. I would like to arrange for a follow up meeting with the board when you have had an opportunity to consider our observations – particularly in relation to those areas which require improvement. Please contact my personal assistant, Dana Lan, to arrange this.

I would also like to take this opportunity to thank you and your staff for your hospitality during our visits.

Yours sincerely,

Jonathan Crane

Jonathan Crane
Director of Internal Audit
Trident Services Co

Trident Services

Internal Audit Report

New Ocean Holdings Ltd Review of internal control procedures: Cash and Octopus Card Receipts

Date of internal audit visit: April - June 2014

Date of report: July 2014

Contents

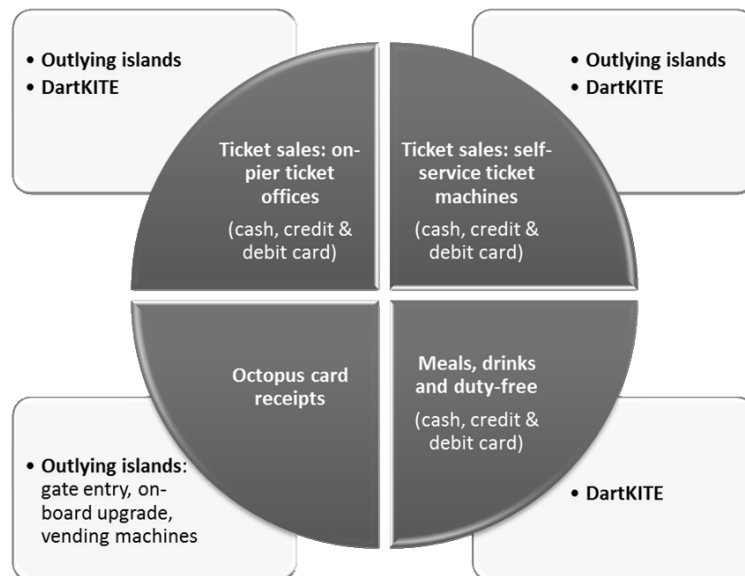
1. Introduction
2. Scope of the review
3. Objectives of the review
4. Executive summary
5. Findings and Recommendations

1 Introduction

- 1.1 A review of internal control procedures was undertaken by Trident Services as part of its engagement with New Ocean to independently review, on a quarterly basis, critical areas of internal control in the New Ocean business. The programme of areas for review is agreed with senior management with one area being selected in each quarter of the year.
- 1.2 This review covers internal control procedures in respect of cash receipts from customers and receipts through the Octopus card payment system.
- 1.3 Site visits were made to the finance department located at New Ocean's head office and a sample of piers and ferries.
- 1.4 The audit findings are based on:
- Discussions with and observation of New Ocean employees
 - The use of test data in the Tyme accounting system
 - Review of communication between New Ocean and Octopus Holdings Ltd

2 Scope of the review

- 2.1 There are a number of sources through which New Ocean generates receipts from its customers. The diagram below illustrates the scope of receipts from customers which were subject to this review:



In addition, the scope of the review included coverage of internal controls over cash exercised by head office.

3 Objectives of the Review

3.1 The main objectives of the review were to identify areas of weakness in controls in order to provide recommendations for improvement.

3.2 Recommendations are categorised on the following basis:

Fundamental – action that is considered imperative to ensure that the organisation is not exposed to high risks.

Significant – action that is considered necessary to avoid exposure to significant risks.

Merits attention – action that is considered desirable and should result in enhanced control or better value for money.

4 Executive summary

4.1 Overall the attitude of management and employees at New Ocean to the design and implementation of controls was found to be good with a well-structured approach to ensuring that employees operating services to outlying islands are appropriately trained to perform relevant internal control procedures.

4.2 Notably the integration between systems (ie ticket office systems, ticket machines and Tyme) were found to be effective.

4.3 Some security measures were found to be inadequate exposing New Ocean to unnecessary risk and there were instances where procedures were insufficiently formal to be effective in addressing potential risk. The key areas where more formal procedures are required are:

- Ticket office and ticket machine security arrangements including the frequency of secure cash collections and cashing-up procedures
- Use of hierarchical passwords and authorisation of discounts

4.4 An absence of effective reconciliations was identified between transmissions to Octopus Clearing House (OCH) and reports/ remittances from OCH.

4.5 Procedures around the sale of meals, drinks and duty-free on the new DartKITE service were found to be inadequate and a full review of procedures and employee training needs should be undertaken.

5 Findings and Recommendations

Internal controls observed/tested	Findings/risks
<p>1 Ticket sales: on-pier ticket offices</p> <p>The following areas were observed/tested in relation to the control of ticket sales from ticket offices:</p> <ul style="list-style-type: none"> • Sale of tickets to customers • Integration with Tyme accounting system • Ticket office security • Cashing-up procedures 	<ul style="list-style-type: none"> • Employees responsible for ticket sales were found to be well trained and knowledgeable about required procedures and processes. However, the majority of ticket offices visited did not have a procedures manual available for reference which could result in errors particularly for transactions with which employees are less familiar. • All employees at ticket offices have the same level of access to the ticket office system, including access to functions which allow for the discounting of tickets. Whilst abuse of this control deficiency was not observed this exposes New Ocean to the risk of inappropriate discounting and lost revenue. • Test data entered into the ticketing system in the ticket offices was found to be accurately recorded in the sales ledger of the Tyme accounting system when this was checked at head office. There were no exceptions and our tests conclude that the integration works effectively. • Ticket sales cannot be made manually and therefore the risk of unrecorded sales is limited. • Ticket offices each have a designated supervisor. However, ticket office employees were observed on a number of occasions to be unsupervised and/or working alone as the designated supervisor had other responsibilities on the pier. This increases the risk of fraudulent conduct and may expose employees to unnecessary risks. • Most, but not all, ticket offices had CCTV installed. On a number of occasions we observed that ticket office employees left the ticket office door open in order to improve ventilation in the office. This increases the risk of theft. • Collection of cash by security firms was found to be sporadic resulting in instances of large amounts of cash remaining in ticket offices for long periods of time. This would increase the extent of any losses to New Ocean in the event of a theft. • New Ocean procedures for cashing-up at the end of each day were found to be appropriately followed by employees and a reconciliation is performed between cash receipts recorded as part of the cashing-up process and the amount of sales recorded in the ticketing system. However, there is no requirement in the cashing-up procedures to perform this process in pairs or to ensure it is performed in a locked room out of sight of the public. This exposes New Ocean to fraudulent conduct by employees and the threat of theft.

Recommendations

- Procedures manual to be made available in all ticket offices and employees made aware of its availability – **Merits attention**
- Hierarchical passwords for system access and introduction of authorisation procedures for discounting – **Significant**
- Continuous supervision and/or installation of CCTV cameras in all ticket offices – **Significant**
- Installation of air-conditioning to allow ticket office doors to be locked at all times. Communication of policy on locking doors to employees – **Fundamental**
- Update procedures for cashing-up to ensure this is performed by two employees out of sight of the general public – **Fundamental**
- Review of arrangements with security firms to ensure more frequent collection of cash from ticket offices – **Significant**
- Daily reconciliation, by an employee not involved in the cashing-up procedures, between cash receipts and sales recorded in the ticketing system – **Fundamental**

Internal controls observed/tested

Findings/risks

2 Ticket sales: self-service ticket machines

The following areas were observed/tested in relation to the control of ticket sales from self-service ticket machines:

- Integration with Tyme accounting system
- Security measures
- Test transactions performed on the ticket machines were found to be accurately recorded in the sales ledger of the Tyme accounting system when this was checked at head office. There were no exceptions and our tests conclude that the integration works effectively.
- However, it was identified that developments and changes to the software, which controls the ticket machine system and its integration with Tyme, are not always tested in a test environment with some changes being introduced directly into the live environment. This could result in serious consequences for the system, such as inaccurate recording or system failures.
- Collection of cash by security firms was found to be sporadic resulting in some instances of large amounts of cash remaining in the ticket machines for long periods of time, in some instances this was overnight. This would increase the extent of losses to New Ocean in the event of a theft.
- Security measures around ticket machines were found to be good with CCTV installed in all locations visited. However, keys for opening ticket machines were found to be stored insecurely in most locations with some keys left available in ticket offices for any employee to access.

Recommendations

- Ticket system development should be tested in a test environment before release to the live environment without exception – **Fundamental**
- Review of arrangements with security firms to ensure more frequent collection of cash from ticket offices – **Significant**
- Keys to ticket machines should only be issued to employees with authority to access them and not be left in ticket offices – **Significant**

<p>3 Octopus card receipts</p> <p>The following areas were observed/tested in relation to the control over receipts from Octopus cards:</p> <ul style="list-style-type: none"> • Transmission of data from Octopus scanning devices to New Ocean's central computer • Transmission of data from New Ocean's central computer to Octopus Clearing House (OCH) • Reconciliation of remittances from OCH to amounts transmitted • Recording of OCH remittances • Procedures for incident monitoring and management 	<ul style="list-style-type: none"> • New Ocean has a number of devices at which customers can scan their Octopus card. These include ticket barriers for entry onto ferries, on-board scanners for upgrade to Deluxe accommodation and vending machines for food and drinks on board ferries. A sample of each type of scanner was tested as part of the review and the automated data transfer to New Ocean's central computer was found to be accurate. • Daily transmission of data from the central computer to OCH is a manually triggered process which is performed by the sales ledger manager. The process is simple and was observed to be carried out appropriately. However, there are no procedures in place for the transmission to be performed by another employee in the event the sales ledger manager is unavailable, with any absences being managed on an ad hoc basis. This may result in delayed or missed transmission of data which could result in lost receipts from OCH. • A daily reconciliation between the report and remittances received from OCH and the amounts transmitted is performed. There were no missing reconciliations for the period under review, however, the reconciliation is also performed by the sales ledger manager and, as with the daily transmission, there is no formal procedure in place for managing absences of the sales ledger manager. • A number of daily reconciliations were inspected as part of our review. 30% of reconciliations identified discrepancies between the report/remittance provided by OCH and the amounts recorded in the initial transmission to OCH. In half of these reconciliations the discrepancy remained unresolved. A large proportion of reconciliations were also not evidenced as having been reviewed by a senior manager. This could result in lost revenue as a result of errors in OCH reports/remittances which are not sufficiently investigated or resolved by New Ocean. • Octopus cards are a well-established method of payment and New Ocean receives a significant proportion of its revenue through this payment method. However, periodically the Octopus card system fails for some customers or results in errors, such as over or under charging customers cards. During our review we identified that there is no responsibility assigned to any employee for the monitoring or management of such failures or incidents with the Octopus card system and there is no disaster recovery plan in place should the Octopus system fail. This means New Ocean is unable to react quickly to incidents occurring, which may adversely affect New Ocean's reputation with customers and, in the event of significant failure, may result in lost revenue.
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Recommendations

- Procedures must be established for covering the sales ledger manager's responsibilities in case of her absence. These should be documented and alternative employees adequately trained in this area of responsibility – **Fundamental**
- Discrepancies in the reconciliation should be followed up with OCH if they cannot be resolved by New Ocean. The reconciliations should be reviewed, and evidenced as such, by a senior manager on a daily basis. Reconciliations should not be signed off until discrepancies are resolved – **Fundamental**
- A disaster recovery plan in respect of the Octopus card payment system should be designed, documented and communicated to all relevant employees – **Significant**
- An New Ocean employee should be responsible for daily monitoring of any known issues with the Octopus card payment system through the Octopus website and regular communication with the New Ocean account team at Octopus. Significant issues and New Ocean's response should be communicated to all employees with customer facing roles as soon as practicable – **Merits attention**

Internal controls observed/tested

Findings/risks

<p>4 Meals, drinks and duty-free</p> <p>The following areas were observed/tested in relation to the controls over the sale of meals, drinks and duty-free on board the DartKITE services:</p> <ul style="list-style-type: none"> • Recording of customer orders • Taking customer payments at the end of meal/duty-free services • Cashing-up procedures 	<p>At the time of our visits on DartKITE sailings the service and employees were new, the service having commenced in March 2014. We observed a number of deficiencies in internal control arising from employees lack of experience and familiarity with the required procedures and processes:</p> <ul style="list-style-type: none"> • Customer orders were taken in passengers seats but were often not read back to passengers resulting in errors in orders which were only identified when incorrect food/drink was provided to the passenger. This resulted in lost revenue and disgruntled passengers. • There were no procedures in place to ensure that payments were collected from all cabins/seats increasing the risk that some cabins/seats were not visited to request payment for the meal service or duty-free supplied. On some sailings the collection of payments did not commence early enough meaning the ferry had docked with passengers wishing to disembark before payment had been taken from them. • Cashing-up procedures at the end of each sailing were observed and were found to be satisfactory where collection of payments was completed before the ferry docked. However, errors resulted in cashing-up where payments from customers were late being collected and had occurred after the cashing-up process had started.
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Recommendations

- A review of current training needs of DartKITE employees should be made and further training provided – **Fundamental**
- A schedule for payment collection should be created and employees responsible for collecting payment should be made aware by their supervisor of the cabins/seats from which they are required to collect payment, with each cabin/seat being marked off the schedule when payment is taken – **Fundamental**
- A supervisor should monitor the process of payment collection to ensure all payments are collected before the ferry docks – **Fundamental**
- A schedule of timings for orders, payments and cashing up should be provided to employees for each sailing – **Significant**

- 5** **Controls exercised by head office**
- The following areas were observed/tested in relation to the controls over cash exercised by head office
- Head office is responsible for the organisation of cash collections from ticket offices and ticket machines. Whilst an independent security firm is contracted to make cash collections we observed some instances of sporadic cash collection (see comments in section 1 above).
 - Weekly bank reconciliations are carried out by personnel within the finance team at head office. There were no reconciliations missing for the period under review and all reconciling items were adequately investigated. Reconciliations were found to have been signed off as reviewed by the financial controller.
 - Personnel performing bank reconciliations do not have any responsibility for posting cash entries to the ledgers (such as those required to record ticket agent sales or amounts remitted by OCH) or responsibility for depositing amounts into bank accounts. Segregation of duties was therefore found to be appropriate.

Recommendations

- Head office should conduct a review of the cash collection arrangements with the current security firm and consider the implementation of a service line agreement so that collection of cash is sufficiently frequent to avoid large amounts being left in ticket offices/machines. The service levels should be regularly monitored by head office and steps taken to remedy any failure to meet the required service levels – **Significant**

Appendix H – Email from New Ocean financial controller

To: New Ocean audit manager

From: New Ocean financial controller

Date: 14 September 2014

Subject: Draft trial balance for year ended 31 August 2014

As we discussed, I am attaching a draft trial balance as at 31 August 2014 to help you with your planning for the forthcoming audit.

Unfortunately, I have been very busy working with the board on the tendering processes for a number of existing and new routes so I have not been able to do very much work on the year-end figures and have not yet made any of the year-end adjustments.

Penelope Suen has done some work on the amounts due under special helping measures so I have included the figure that we expect to receive from the Transport Department in respect of this.

You will also notice that there is a suspense account – this relates to a single payment made to Wong Commercial Ltd and was made by Edward Hon. I asked him about it but he just said not to worry about it for now – I think it is something to do with a tender for a new ferry route to mainland China but I don't know how to account for it so I have left it in the suspense account for now.

I hope this helps with the planning and I will supply you with a set of draft financial statements for the purposes of the audit when you commence the fieldwork.

Best regards

1 Attachment

Attachment:**New Ocean trial balance – 31 August 2014**

Account	<i>Dr</i> \$'000	<i>Cr</i> \$'000
Revenue		547,842
Cost of sales incurred in year	405,923	
Admin expenses	10,741	
Finance costs	38,890	
Taxation	-	
Licences – cost	483,148	
Licences – accumulated amortisation at 31 August 2013		295,432
Software development – cost	10,400	
Software development – accumulated amortisation at 31 Aug 2013		-
Leasehold properties – cost	369,852	
Leasehold properties – accumulated depreciation at 31 August 2013		264,753
Vessels – cost	629,735	
Vessels – accumulated depreciation at 31 August 2013		230,021
Plant and equipment – cost	180,009	
Plant and equipment – accumulated depreciation at 31 August 2013		63,117
Inventory – at 31 August 2013	5,198	
Trade receivables – gross	3,908	
Allowance against receivables – at 31 August 2013		150
Amounts due from Transport Dept (special helping measures)	50,098	
Cash and bank	25,163	
Finance leases		482,219
Trade and other payables		24,332
Taxation payable		-
Accruals and deferred income		-
Issued share capital		100,000
Accumulated profit – at 31 August 2013		217,199
Suspense account	12,000	
	<u>2,225,065</u>	<u>2,225,065</u>

