

# *Report of the Director of Audit*



**Audit Commission**  
The Government of the Hong Kong Special Administrative Region

## **Capital Works Reserve Fund**

### **Independent Audit Report To the President of the Legislative Council**

I certify that I have examined and audited the financial statements of the Capital Works Reserve Fund set out on pages 23 to 30, which comprise the statement of assets and liabilities as at 31 March 2014, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Director of Accounting Services' responsibility for the financial statements**

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

#### **Auditor's responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements of the Capital Works Reserve Fund for the year ended 31 March 2014 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun  
Director of Audit

28 October 2014

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

# Capital Works Reserve Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	81,059,287	79,033,643
Cash and bank balances		909	1,710
		<b>81,060,196</b>	<b>79,035,353</b>
<b>Liabilities</b>			
Deposits	4	(1,287,294)	(1,044,769)
		<b>79,772,902</b>	<b>77,990,584</b>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		77,990,584	70,280,037
Surplus for the year		1,782,318	7,710,547
Balance at end of year	5, 6	<b>79,772,902</b>	<b>77,990,584</b>

Notes 1 to 9 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
15 August 2014



# Capital Works Reserve Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
Cash and bank balances at beginning of year		1,710	887
Receipts	7	89,179,116	74,237,782
Payments	5, 8	(87,396,798)	(66,527,235)
Surplus for the year		1,782,318	7,710,547
Other cash movements	9	(1,783,119)	(7,709,724)
Cash and bank balances at end of year		909	1,710

Notes 1 to 9 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
15 August 2014



# Capital Works Reserve Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Purpose and Legislation

The Capital Works Reserve Fund was set up to finance public works programmes, acquisitions of land, capital subventions and major systems and equipment items. It was initially established on 1 April 1982 by a Resolution of the Legislative Council passed on 20 January 1982 and has been reconstituted since 1 January 1998 under another Resolution passed on 17 December 1997 (hereinafter referred to as the Resolution).

### 2. Accounting Policies

- (i) The accounts of the Capital Works Reserve Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid. The Statement of Assets and Liabilities of the Fund excludes fixed assets, loans, investments other than those made under paragraph (d)(iii) of the Resolution, and debtors and creditors other than those deposits referred to in Note 4 below.
- (ii) For the purposes of these financial statements, a contingent liability is defined as:
- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Government; or
- (b) a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.
- (iii) Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Foreign currency balances are translated into Hong Kong dollars at weighted average cost.

### 3. Investments with the Exchange Fund

- (i) These are investments and deposits held under paragraph (d)(iii) of the Resolution:

	2014 HK\$'000	2013 HK\$'000
Investments (Note (ii) below)	81,017,935	78,985,953
Deposits	41,352	47,690
	<u>81,059,287</u>	<u>79,033,643</u>

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported. Effective from 1 April 2007, the investment income is calculated on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes for the previous year subject to a minimum of zero percent, whichever is the higher. The investment income for the year ended 31 March 2014 was HK\$4.76 billion (2013: HK\$4.57 billion).

# Capital Works Reserve Fund

## 4. Deposits

These are moneys received from time to time from individuals or organisations for a variety of reasons and are in due course either repayable or transferable for credit to the Fund:

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Contract retention money	<b>1,016,033</b>	837,362
Others	<b>271,261</b>	207,407
	<b><u>1,287,294</u></b>	<u>1,044,769</u>

## 5. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Capital Works Reserve Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (b)(v) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in payments charged to the Fund under paragraph (d)(ii) of the Resolution.

Following a resolution passed under section 3(1) of the Loans Ordinance, the Government issued in July 2004 bonds and notes totalling HK\$20 billion to retail and institutional investors. These include institutional notes of US\$1.25 billion denominated in United States dollar. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Outstanding government bonds and notes	<b><u>11,197,188</u></b>	<u>11,203,688</u>

Of these bonds and notes, repayment of US\$1.25 billion, equivalent to HK\$9.7 billion as at 31 March 2014, was made in July 2014 and the rest denominated in Hong Kong dollars will mature in July 2019. During the financial year, there were payments of interest of HK\$574 million on the notes but no repayment of principal.

The institutional notes denominated in United States dollar are translated into Hong Kong dollar at the exchange rate ruling at the end of the reporting period.

## 6. Contingent Liabilities

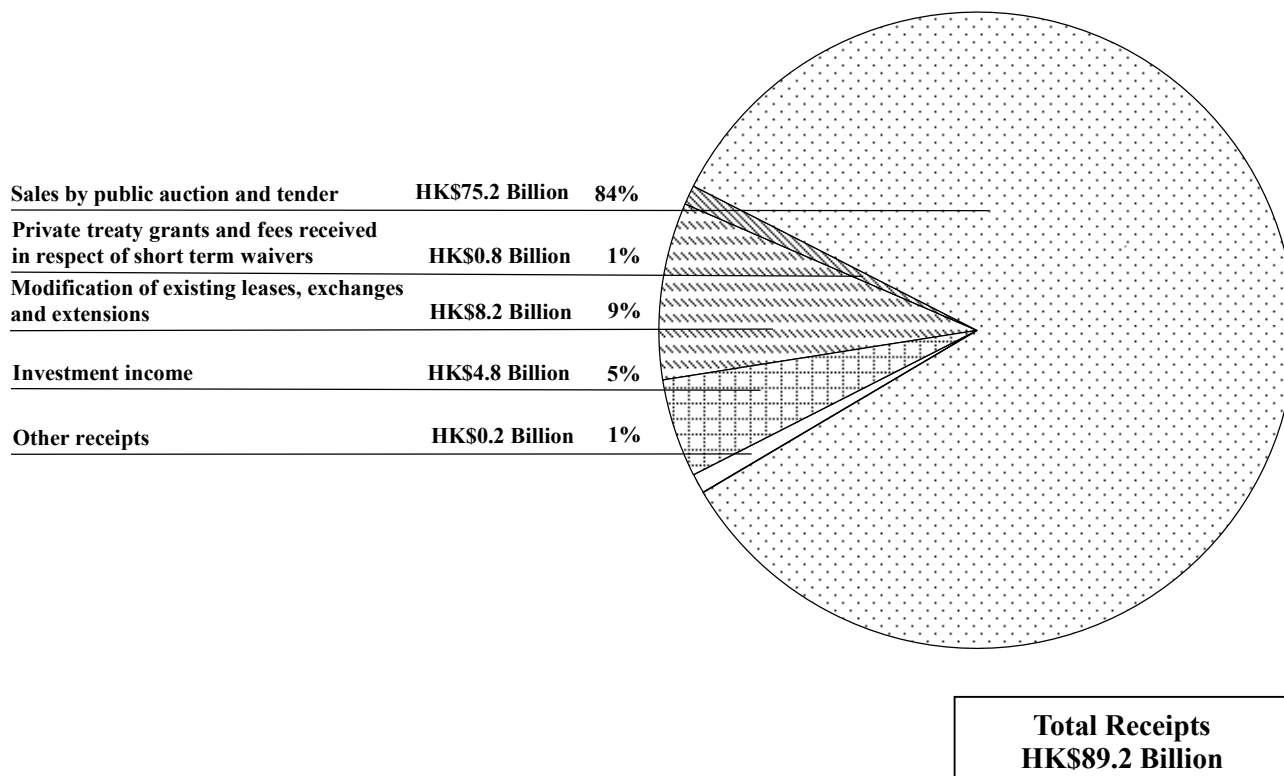
As at 31 March 2014, the amount of contingent liabilities arising from legal claims, disputes and proceedings was HK\$2,194 million (2013: HK\$3,812 million).

# Capital Works Reserve Fund

## 7. Receipts

	2014		2013
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land premium			
Sales by public auction and tender	-	75,261,874	43,125,157
Private treaty grants	-	191,376	1,510,807
Modification of existing leases, exchanges and extensions	-	8,228,051	24,357,205
Fees received in respect of short term waivers	-	573,581	569,458
	69,000,000	84,254,882	69,562,627
Investment income			
Investments with the Exchange Fund	-	4,758,639	4,571,991
Others	-	3,087	2,032
	4,118,000	4,761,726	4,574,023
Other receipts			
Recovery from MTR Corporation Ltd.	131,000	-	-
Donations and contributions	-	18,900	30,331
Others	-	143,608	70,801
	131,000	162,508	101,132
	73,249,000	89,179,116	74,237,782

### Analysis of Receipts for the year ended 31 March 2014



# Capital Works Reserve Fund

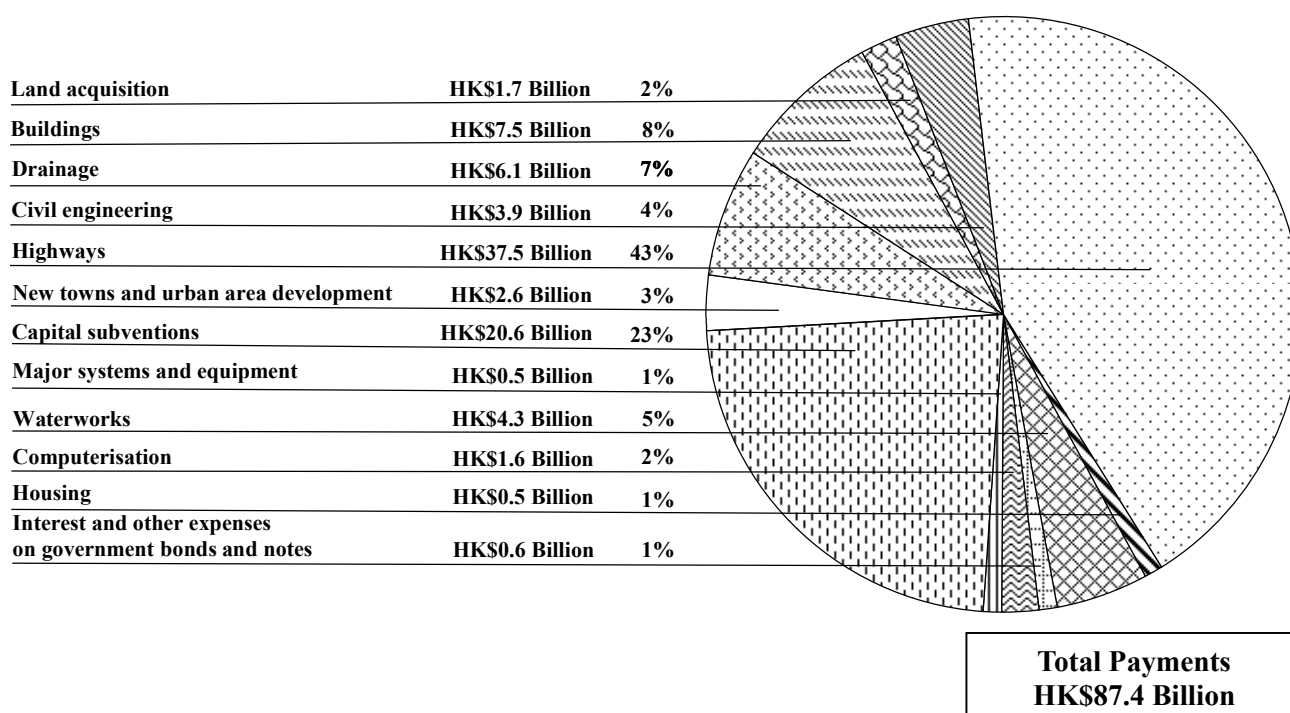
## 8. Payments

	2014		2013
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land acquisition	3,505,896	1,657,317	1,810,446
Public Works Programme			
Port and airport development	17,730	2,013	3,309
Buildings	7,869,369	7,546,209	10,416,968
Drainage	5,629,153	6,076,752	5,901,583
Civil engineering	3,958,092	3,856,580	4,439,937
Highways	38,022,629	37,521,843	26,682,392
New towns and urban area development	2,502,644	2,606,787	2,597,050
Waterworks	3,819,914	4,306,358	3,354,633
Housing	609,443	523,335	529,160
	62,428,974	62,439,877	53,925,032
Capital subventions and major systems and equipment			
Capital subventions	7,639,665	20,589,684	8,447,221
Major systems and equipment	1,441,355	504,354	393,323
	9,081,020	21,094,038	8,840,544
Computerisation	2,245,775	1,600,794	1,374,343
Government bonds and notes issued in July 2004			
Interest and other expenses	576,581	574,068	573,455
Other payments			
Refund of overpayment of land premium	-	30,704	3,415
	77,838,246	87,396,798	66,527,235



# Capital Works Reserve Fund

## Analysis of Payments for the year ended 31 March 2014 \*



\* Actual payments on “Port and airport development” and “Refund of overpayment of land premium” are not shown as it is less than HK\$0.1 billion each.

## 9. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities:

	2014 HK\$'000	2013 HK\$'000
<b>Increase in Assets</b>		
Investments with the Exchange Fund	(2,025,644)	(7,835,639)
<b>Increase in Liabilities</b>		
Deposits	242,525	125,915
	(1,783,119)	(7,709,724)

# Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2005 to 2014

HK\$Billion

