

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Loan Fund

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Loan Fund set out on pages 88 to 95, which comprise the statement of assets and liabilities as at 31 March 2022, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Loan Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance 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 have fulfilled the independence and 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.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2022 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, 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 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 Loan Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services.

I communicate with the Director of Accounting Services regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Prof. LAM Chi Yuen Nelson
Director of Audit

26 October 2022

Audit Commission
6th Floor, High Block
Queensway Government Offices
66 Queensway
Hong Kong

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2022

(Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
Assets			
Loans Outstanding	3		
Housing loans		4,020,626	3,743,230
Education loans		22,359,857	19,795,981
Other loans		10,577,546	10,597,269
		36,958,029	34,136,480
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	3,969,552	4,359,129
Cash and bank balances		2,320	2,201
		3,971,872	4,361,330
Current Liabilities			
Deposits	5	(140,488)	(105,876)
		3,831,384	4,255,454
		40,789,413	38,391,934
Representing:			
Total Fund Balance			
Applied Fund	6	36,958,029	34,136,480
Available Fund			
Balance at beginning of year		4,255,454	4,644,941
Deficit for the year		(424,070)	(389,487)
Balance at end of year		3,831,384	4,255,454
	8	40,789,413	38,391,934

Notes 1 to 11 form part of these financial statements.

Ms Susanna CHEUNG
Director of Accounting Services
26 August 2022



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2022

(Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
Cash and bank balances at beginning of year		2,201	12,300
Receipts	9	2,985,136	2,347,361
Payments	10	(3,409,206)	(2,736,848)
Deficit for the year		(424,070)	(389,487)
Other cash movements	11	424,189	379,388
Cash and bank balances at end of year		2,320	2,201

Notes 1 to 11 form part of these financial statements.

Ms Susanna CHEUNG
Director of Accounting Services
26 August 2022



Loan Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

The Loan Fund finances loans and advances for schemes of developments in Hong Kong and loans to students under schemes approved by the Finance Committee. It was established with effect from 1 April 1990 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 14 March 1990.

2. Accounting Policies

- (i) Subject to (ii) below, the accounts of the Loan Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid.
- (ii) The Statement of Assets and Liabilities is structured to show the overall financial position of the Fund including the total outstanding loans.

3. Loans Outstanding

	2022			2021		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at beginning of year	3,743,230	19,795,981	10,597,269	3,420,503	17,949,149	10,516,414
Additions						
Loan payments	358,065	2,937,938	113,203	385,671	2,254,988	96,189
Capitalised interest	34	22	127,195	31	436	222,661
	358,099	2,937,960	240,398	385,702	2,255,424	318,850
Deductions						
Loan repayments	(80,703)	(368,559)	(251,176)	(62,975)	(407,893)	(217,925)
Loans written off	-	(5,525)	(8,945)	-	(699)	(20,070)
	(80,703)	(374,084)	(260,121)	(62,975)	(408,592)	(237,995)
Balance at end of year	4,020,626	22,359,857	10,577,546	3,743,230	19,795,981	10,597,269

Loan Fund

4. Investments with the Exchange Fund

(i) These are investments and deposits held under paragraph 8 of the Resolution:

	2022 \$'000	2021 \$'000
Investments (Notes (ii) and (iii) below)	3,966,389	4,355,881
Deposits	3,163	3,248
	<u>3,969,552</u>	<u>4,359,129</u>

(ii) The investments represent the cost of investments together with the investment income received in the year being reported.

(iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, 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 government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2021 was 4.7% (2020: 3.7%). The annual investment income is receivable on 31 December each year.

5. 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:

	2022 \$'000	2021 \$'000
Students	140,358	105,759
Others	130	117
	<u>140,488</u>	<u>105,876</u>

6. Applied Fund

This represents the outstanding loans made from the Fund under paragraph 6 of the Resolution.

7. Available Fund

This represents funds available for making loans under paragraph 6 of the Resolution.

8. Commitments

The commitments under loan schemes operating on revolving and non-revolving bases were as follows:

	2022 \$'000	2021 \$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	1,317,481	2,441,201
Balance of approved loans operating on revolving basis available for granting of new loans	10,438,540	10,699,992
	<u>11,756,021</u>	<u>13,141,193</u>

Loan Fund

9. Receipts

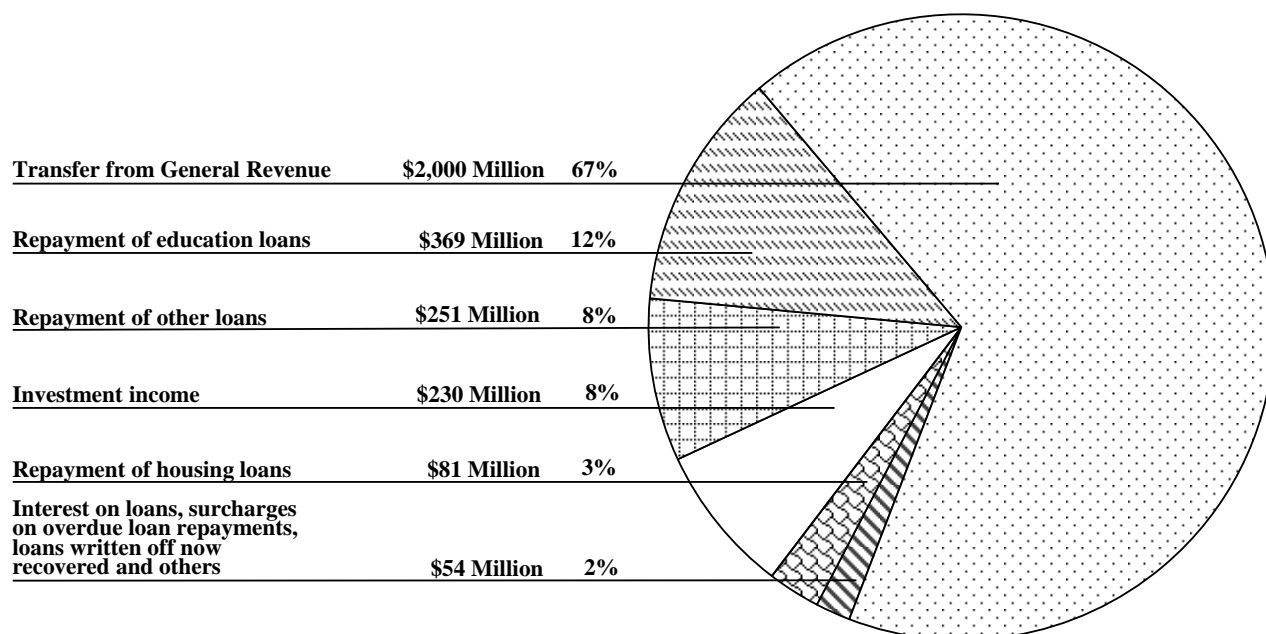
	2022		2021
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments			
Housing loans	124,020	80,703	62,975
Education loans	148,409	368,559	407,893
Other loans	934,000	251,176	217,925
	1,206,429	700,438	688,793
Interest on loans	239,284	51,122	52,370
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	230,465	159,140
Others	-	1	18
	195,000	230,466	159,158
Surcharges on overdue loan repayments	4,251	3,071	3,559
Loans written off now recovered	-	1	-
Others	-	38	31
Transfer from General Revenue	2,000,000	2,000,000	1,443,450
	<u>3,644,964</u>	<u>2,985,136</u>	<u>2,347,361</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$168 million (comprising \$52 million for 2014 and \$116 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 4(iii). The accumulated investment return was \$44 million up to 31 December 2021 (2020: \$35 million), including the investment return for the calendar year 2021 amounting to \$9 million (2020: \$7 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$190 million from the Fund) was earmarked for public housing development.

During the financial year 2021-22, \$63 million (2021: Nil) was brought back from the Housing Reserve to the Fund and recorded as investment income. As at 31 March 2022, the investment incomes and the accumulated investment return (i.e. up to calendar year 2021) not received and recorded by the Fund and retained for the Housing Reserve totalled \$149 million (2021: \$203 million).

Loan Fund

Analysis of Receipts for the year ended 31 March 2022



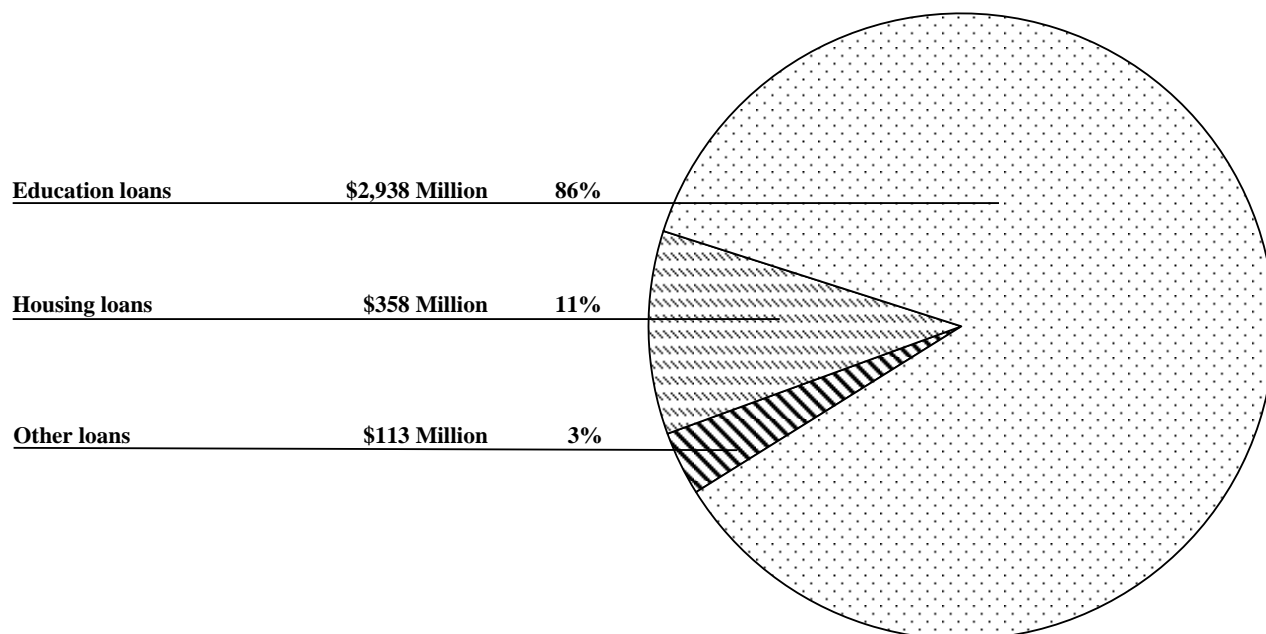
Total Receipts
\$2,985 Million

10. Payments

	2022		2021
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments			
Housing loans	636,200	358,065	385,671
Education loans	1,974,163	2,937,938	2,254,988
Other loans	208,145	113,203	96,189
	<u>2,818,508</u>	<u>3,409,206</u>	<u>2,736,848</u>

Loan Fund

Analysis of Payments for the year ended 31 March 2022



Total Payments
\$3,409 Million

11. Other Cash Movements

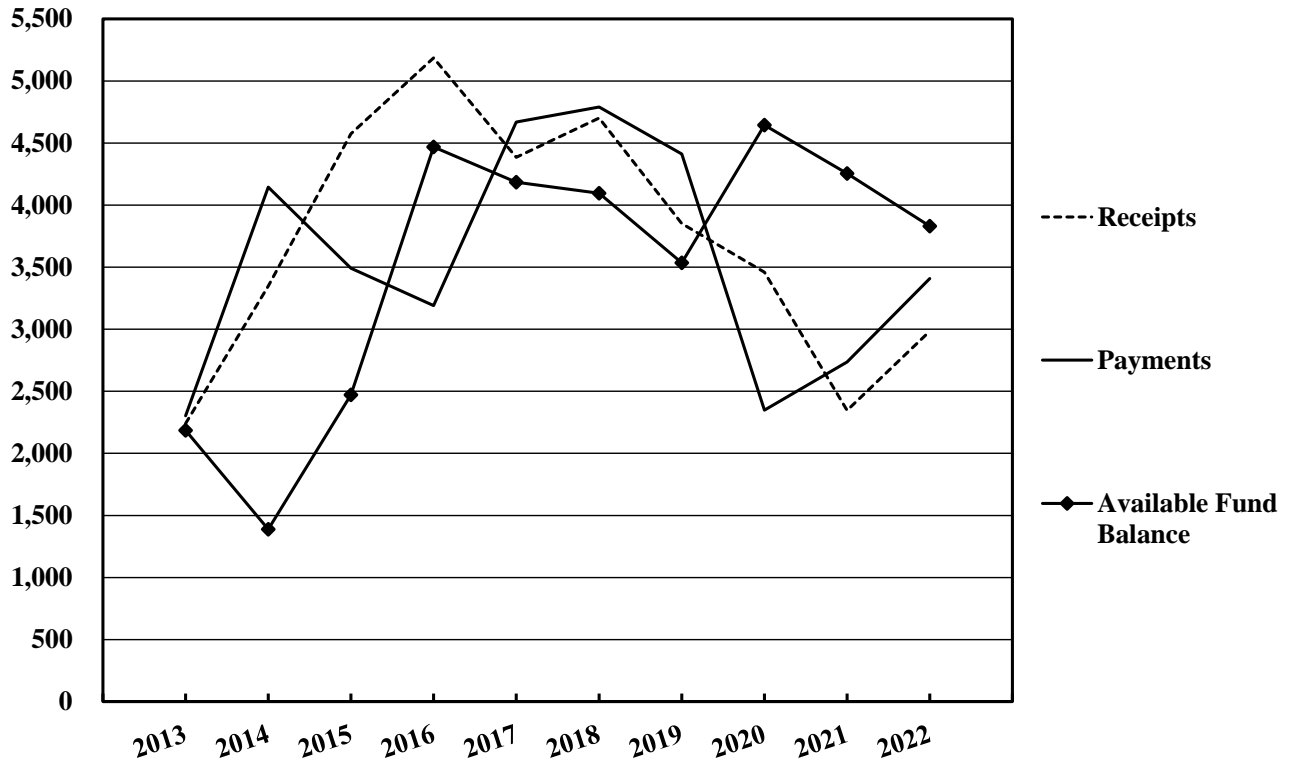
These are cash movements arising from changes in other assets and liabilities:

	2022 \$'000	2021 \$'000
Reduction in Assets		
Investments with the Exchange Fund	389,577	305,706
Increase in Liabilities		
Deposits	34,612	73,682
	424,189	379,388

Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2013 to 2022

\$Million



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