

Civil Service Pension Reserve Fund

REPORT OF THE DIRECTOR OF AUDIT



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Audit Report To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Civil Service Pension Reserve Fund set out on pages 60 to 63, which comprise the statement of assets and liabilities as at 31 March 2016, 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 Civil Service Pension Reserve Fund for the year ended 31 March 2016 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

26 October 2016

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

Civil Service Pension Reserve Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

| | Note | 2016 HK\$'000 | 2015 HK\$'000 |
|------------------------------------|------|-------------------|-------------------|
| Assets | | | |
| Investments with the Exchange Fund | 3 | <u>27,128,846</u> | <u>27,028,846</u> |
| Representing: | | | |
| Fund Balance | | | |
| Balance at beginning of year | | 27,028,846 | 27,028,846 |
| Surplus for the year | | <u>100,000</u> | - |
| Balance at end of year | | <u>27,128,846</u> | <u>27,028,846</u> |

Notes 1 to 5 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Civil Service Pension Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

| | Note | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------|------------------|------------------|
| Cash and bank balances at beginning of year | | - | - |
| Receipts | 4 | 100,000 | - |
| Payments | | - | - |
| Surplus for the year | | 100,000 | - |
| Other cash movements | 5 | (100,000) | - |
| Cash and bank balances at end of year | | - | - |

Notes 1 to 5 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Civil Service Pension Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Civil Service Pension Reserve Fund is intended to meet payment of civil service pensions in the most unlikely event that the Government cannot meet such liabilities from the General Revenue. It was established with effect from 27 January 1995 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 25 January 1995.

2. Accounting Policy

The accounts of the Civil Service Pension Reserve Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (f) of the Resolution.
- (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, 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 Exchange Fund Notes (replaced by three-year government bond 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 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$1.49 billion for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 4(i)).

4. Receipts

| | 2016 | | 2015 |
|--|-------------------------------|-----------------------|--------------------|
| | Original Estimate HK\$'000 | Actual HK\$'000 | Actual HK\$'000 |
| Investment income | | | |
| Investments with the Exchange Fund (Note (i) below) | 1,488,000 | - | - |
| Transfer from General Revenue | 100,000 | 100,000 | - |
| | <u>1,588,000</u> | <u>100,000</u> | <u>-</u> |

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$1.49 billion investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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 3(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$0.05 billion on the initial provision set aside from the HK\$0.97 billion investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$2.51 billion.

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5. Other Cash Movements

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

| | 2016 HK\$'000 | 2015 HK\$'000 |
|------------------------------------|------------------|------------------|
| Increase in Assets | | |
| Investments with the Exchange Fund | <u>100,000</u> | <u>-</u> |