

Lotteries 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 Lotteries Fund set out on pages 98 to 103, 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

Under section 7(1) of the Government Lotteries Ordinance (Cap. 334), the Director of Accounting Services is responsible for the preparation of the statement of the accounts which includes a receipts and payments account and a statement of assets and liabilities. In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is also responsible 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 7(1A) of the Government Lotteries Ordinance 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 Lotteries Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with section 7(1) of the Government Lotteries Ordinance.

David Sun
Director of Audit

26 October 2016

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

Lotteries 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	22,016,238	21,622,033
Cash and bank balances		-	1
		22,016,238	21,622,034
Liabilities			
Deposits	4	(2,567)	(2,444)
		22,013,671	21,619,590
Representing:			
Fund Balance			
Balance at beginning of year		21,619,590	21,173,070
Surplus for the year		394,081	446,520
Balance at end of year	5	22,013,671	21,619,590

Notes 1 to 8 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Lotteries 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		1	1
Receipts	6	1,330,652	1,322,168
Payments	7	(936,571)	(875,648)
Surplus for the year		394,081	446,520
Other cash movements	8	(394,082)	(446,520)
Cash and bank balances at end of year		-	1

Notes 1 to 8 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Lotteries Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Lotteries Fund finances social welfare services by grants, loans and advances. It was established with effect from 30 June 1965 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council on the same date and subsequently deemed to have been established under section 29(3) of the Public Finance Ordinance (Cap. 2). The financial statements of the Fund are prepared in accordance with section 7 of the Government Lotteries Ordinance (Cap. 334).

2. Accounting Policy

The accounts of the Lotteries 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 2 of the Resolution, and debtors and creditors other than those deposits referred to in Note 4 below.

3. Investments with the Exchange Fund

(i) These are investments and deposits held under paragraph 2 of the Resolution:

	2016	2015
	HK\$'000	HK\$'000
Investments (Note (ii) below)	22,016,138	21,621,933
Deposits	100	100
	22,016,238	21,622,033

(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\$1.2 billion for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 6(i)).

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:

	2016	2015
	HK\$'000	HK\$'000
Donations	521	521
Contract retention money	2,046	1,923
	2,567	2,444

Lotteries Fund

5. Commitments

The approved grants that were unpaid were as follows:

	2016	2015
	HK\$'000	HK\$'000
Grants	7,628,455	3,778,716

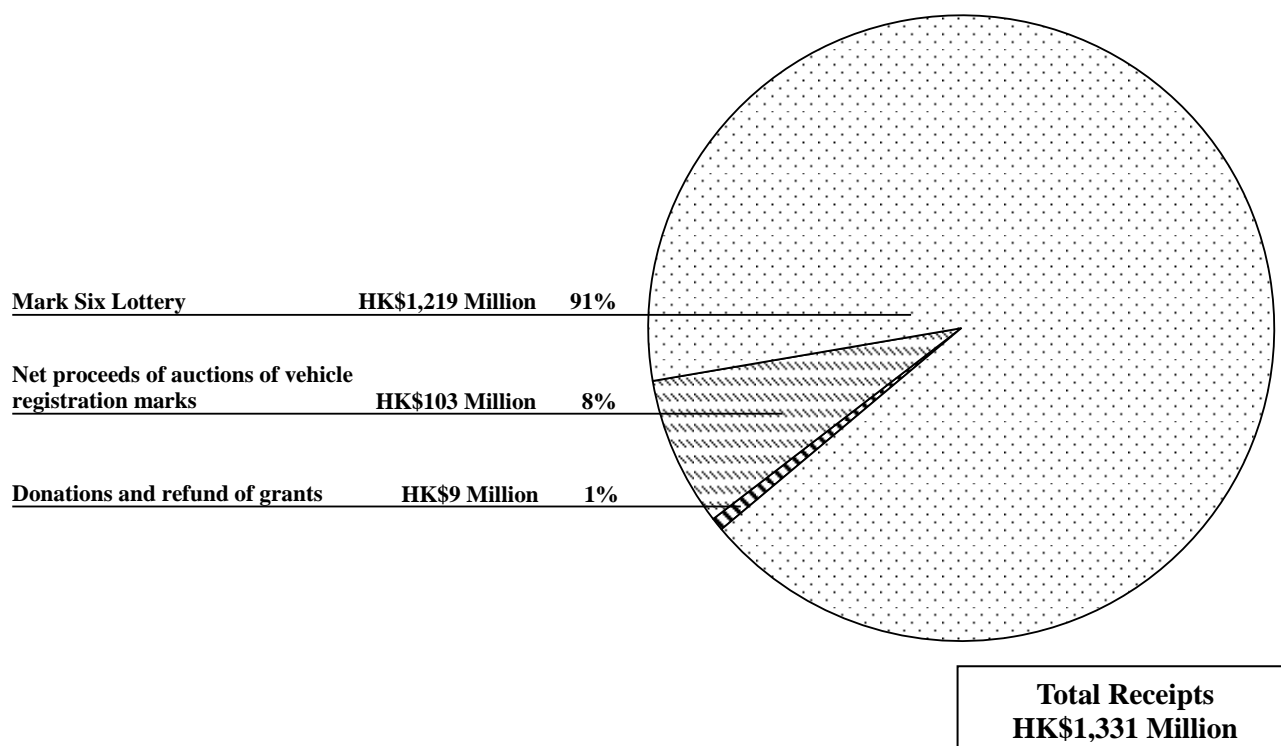
6. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Mark Six Lottery	1,311,397	1,219,325	1,182,210
Investment income			
Investments with the Exchange Fund (Note (i) below)	1,202,000	-	-
Net proceeds of auctions of vehicle registration marks	62,961	102,947	70,903
Donations	9,580	8,288	69,028
Refund of grants	-	92	27
	<u>2,585,938</u>	<u>1,330,652</u>	<u>1,322,168</u>

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$1.2 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\$0.04 billion on the initial provision set aside from the HK\$0.7 billion investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$1.94 billion.

Lotteries Fund

Analysis of Receipts for the year ended 31 March 2016



7. Payments

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Grants	654,672	936,571	875,648
Additional commitments	264,536	-	-
	919,208	936,571	875,648

8. 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	(394,205)	(391,179)
Increase/(Reduction) in Liabilities		
Deposits	123	(55,341)
	(394,082)	(446,520)

Lotteries Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2007 to 2016

HK\$Million

