

# Lotteries Fund

## REPORT OF THE DIRECTOR OF AUDIT



### **Audit Commission**

The Government of the Hong Kong Special Administrative Region

### **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 Lotteries Fund set out on pages 102 to 107, which comprise the statement of assets and liabilities as at 31 March 2021, 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 Lotteries Fund are prepared, in all material respects, in accordance with section 7(1) of the Government Lotteries Ordinance (Cap. 334).

#### ***Basis for opinion***

I conducted my audit in accordance with section 7(1A) of the Government Lotteries 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 that I have obtained prior to the date of this auditor's report is all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2021 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 on the other information obtained prior to the date of this auditor's report, 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***

Under section 7(1) of the Government Lotteries Ordinance, 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. Also, 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 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 Lotteries Fund's internal control; and
- evaluate the appropriateness of accounting policies used by the Director of Accounting Services.

John Chu  
Director of Audit

8 September 2021

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Wanchai, Hong Kong

# Lotteries Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	20,841,671	23,360,339
Cash and bank balances		1	-
		<b>20,841,672</b>	<b>23,360,339</b>
<b>Liabilities</b>			
Deposits	4	(27,442)	(20,259)
		<b>20,814,230</b>	<b>23,340,080</b>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		23,340,080	23,861,961
Deficit for the year		(2,525,850)	(521,881)
Balance at end of year	5	<b>20,814,230</b>	<b>23,340,080</b>

Notes 1 to 8 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
19 July 2021



# Lotteries Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
<b>Cash and bank balances at beginning of year</b>		-	-
Receipts	6	1,106,777	1,909,701
Payments	7	(3,632,627)	(2,431,582)
<b>Deficit for the year</b>		<b>(2,525,850)</b>	<b>(521,881)</b>
<b>Other cash movements</b>	8	<b>2,525,851</b>	<b>521,881</b>
<b>Cash and bank balances at end of year</b>		<b>1</b>	<b>-</b>

Notes 1 to 8 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
19 July 2021



# Lotteries Fund

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

### 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:

	2021 \$'000	2020 \$'000
Investments (Notes (ii) and (iii) below)	20,841,571	23,360,243
Deposits	100	96
	<u>20,841,671</u>	<u>23,360,339</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 2020 was 3.7% (2019: 2.9%). The annual investment income is receivable on 31 December each year.

### 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:

	2021 \$'000	2020 \$'000
Donations	14,582	15,543
Contract retention money	12,860	4,716
	<u>27,442</u>	<u>20,259</u>

# Lotteries Fund

## 5. Commitments

The approved grants that were unpaid were as follows:

	<b>2021</b>	2020
	<b>\$'000</b>	\$'000
Grants	<b>12,366,419</b>	13,256,850

## 6. Receipts

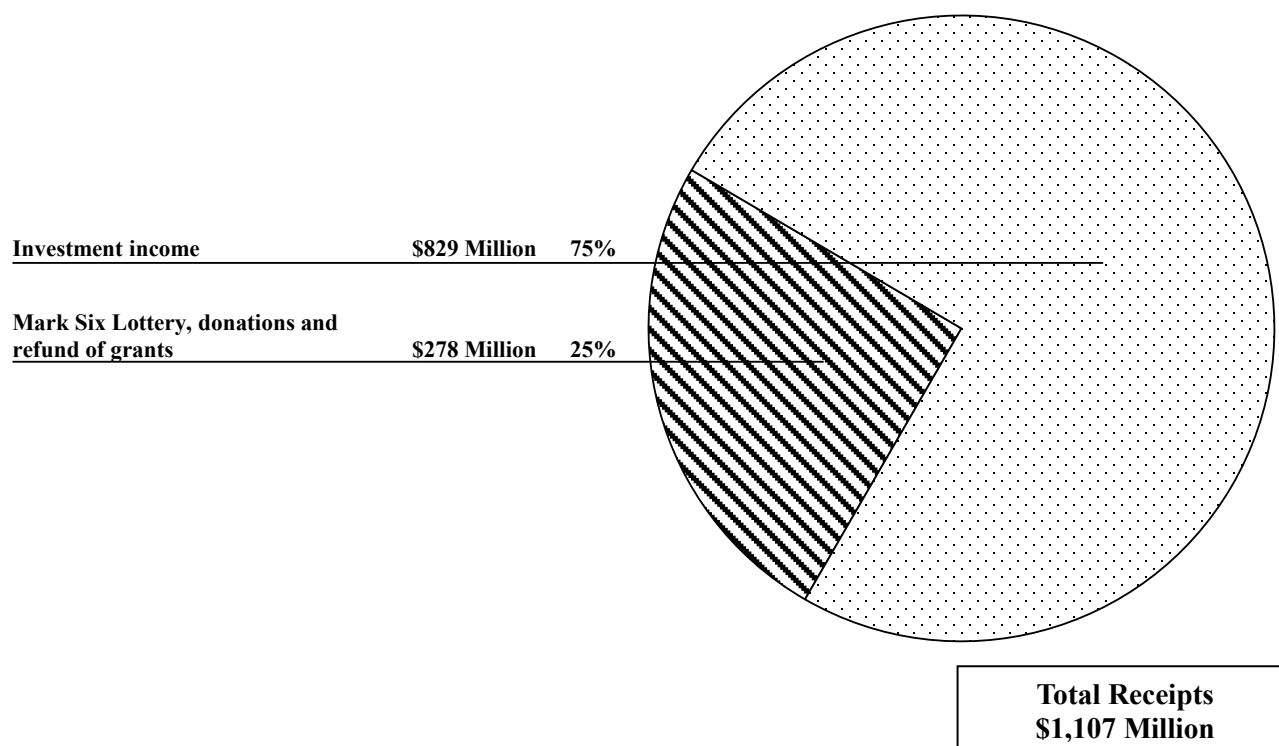
	<b>2021</b>		2020
	Original Estimate \$'000	<b>Actual</b> <b>\$'000</b>	Actual \$'000
Mark Six Lottery	1,331,490	<b>275,376</b>	1,158,944
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	<b>829,393</b>	684,006
Others	-	<b>1</b>	8
	838,000	<b>829,394</b>	684,014
Net proceeds of auctions of vehicle registration marks	68,044	-	65,901
Donations	9,940	<b>2,005</b>	842
Refund of grants	-	<b>2</b>	-
	<b>2,247,474</b>	<b>1,106,777</b>	<b>1,909,701</b>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$1.9 billion (comprising \$0.7 billion for 2014 and \$1.2 billion 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 3(iii). The accumulated investment return was \$0.39 billion up to 31 December 2020 (2019: \$0.31 billion), including the investment return for the calendar year 2020 amounting to \$0.08 billion (2019: \$0.06 billion). 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 \$2.15 billion from the Fund) was earmarked for public housing development.

During the financial year 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$2.29 billion (2020: \$2.21 billion).

# Lotteries Fund

## Analysis of Receipts for the year ended 31 March 2021



## 7. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Grants	4,075,419	3,632,627	2,431,582
Additional commitments	559,261	-	-
	<u>4,634,680</u>	<u>3,632,627</u>	<u>2,431,582</u>

## 8. Other Cash Movements

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

	2021 \$'000	2020 \$'000
<b>Reduction in Assets</b>		
Investments with the Exchange Fund	2,518,668	516,134
<b>Increase in Liabilities</b>		
Deposits	7,183	5,747
	<u>2,525,851</u>	<u>521,881</u>

# Lotteries Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2012 to 2021

\$Million

