

Capital Works 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 Capital Works Reserve Fund set out on pages 34 to 41, which comprise the statement of assets and liabilities as at 31 March 2012, 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 2012 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 2012

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 2012

	Note	2012 HK\$'000	2011 HK\$'000
Assets			
Investments with the Exchange Fund	3	71,198,004	43,479,467
Deposits with banks	4	-	68
Cash and bank balances		887	300
Advances	5	-	77,362
		71,198,891	43,557,197
Liabilities			
Deposits	6	(918,854)	(906,241)
		70,280,037	42,650,956
Representing:			
Fund Balance			
Balance at beginning of year		42,650,956	27,846,126
Surplus for the year		27,629,081	14,804,830
Balance at end of year	7	70,280,037	42,650,956

Notes 1 to 10 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
15 August 2012



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 HK\$'000	2011 HK\$'000
Cash and bank balances at beginning of year		300	1,975
Revenue	8	88,466,275	68,342,221
Expenditure	9	(60,837,194)	(53,537,391)
Surplus for the year before repayment of government bonds and notes		27,629,081	14,804,830
Repayment of government bonds and notes	7	-	-
Surplus for the year after repayment of government bonds and notes		27,629,081	14,804,830
Other cash movements	10	(27,628,494)	(14,806,505)
Cash and bank balances at end of year		887	300

Notes 1 to 10 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
15 August 2012



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 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 advances and deposits referred to in the Notes below.

(ii) Currency balances other than Hong Kong dollar are stated at weighted average cost.

3. Investments with the Exchange Fund

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

	2012	2011
	HK\$'000	HK\$'000
Investments (Notes (ii) and (iii) below)	71,150,504	43,431,335
Deposits	47,500	48,132
	<u>71,198,004</u>	<u>43,479,467</u>

(ii) The investments represent the cost of investments together with interest of HK\$3.61 billion received in the year ended 31 March 2012.

(iii) Effective from 1 April 2007, the return on the investments 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.

4. Deposits with Banks

These are foreign currency deposits placed with licensed banks in Hong Kong:

	2012	2011
	HK\$'000	HK\$'000
Foreign currency	<u>-</u>	<u>68</u>

Capital Works Reserve Fund

5. Advances

Advances are paid under the authority of warrants issued under section 20 of the Public Finance Ordinance for a variety of reasons and are either recoverable or chargeable to expenditure upon authority being given:

	2012	2011
	HK\$'000	HK\$'000
Advances in respect of other capital works projects	<u>-</u>	<u>77,362</u>

6. 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 to revenue:

	2012	2011
	HK\$'000	HK\$'000
Contract retention money	721,983	611,016
Others	196,871	295,225
	<u>918,854</u>	<u>906,241</u>

7. 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 expenditure 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:

	2012	2011
	HK\$'000	HK\$'000
Outstanding government bonds and notes	<u>11,207,500</u>	<u>11,230,313</u>

The outstanding amount will mature within the period from August 2014 to July 2019. During the financial year, there were payments of interest of HK\$575 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 rate of exchange ruling on the last working day of the year.

Capital Works Reserve Fund

8. Revenue

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land premium			
Sales by public auction and tender	-	63,722,624	44,116,460
Private treaty grants	-	331,238	10,673,947
Modification of existing leases, exchanges and extensions	-	19,999,555	10,312,726
Fees received in respect of short term waivers	-	591,001	441,427
	62,000,000	84,644,418	65,544,560
Investment income	2,689,000	3,609,384	2,711,135
Transfer from General Revenue	25,000,000	-	-
Other revenue			
Recovery from MTR Corporation Ltd.	131,000	-	-
Donations and contributions	116,138	106,000	-
Others	-	106,473	86,526
	247,138	212,473	86,526
	<u>89,936,138</u>	<u>88,466,275</u>	<u>68,342,221</u>

Capital Works Reserve Fund

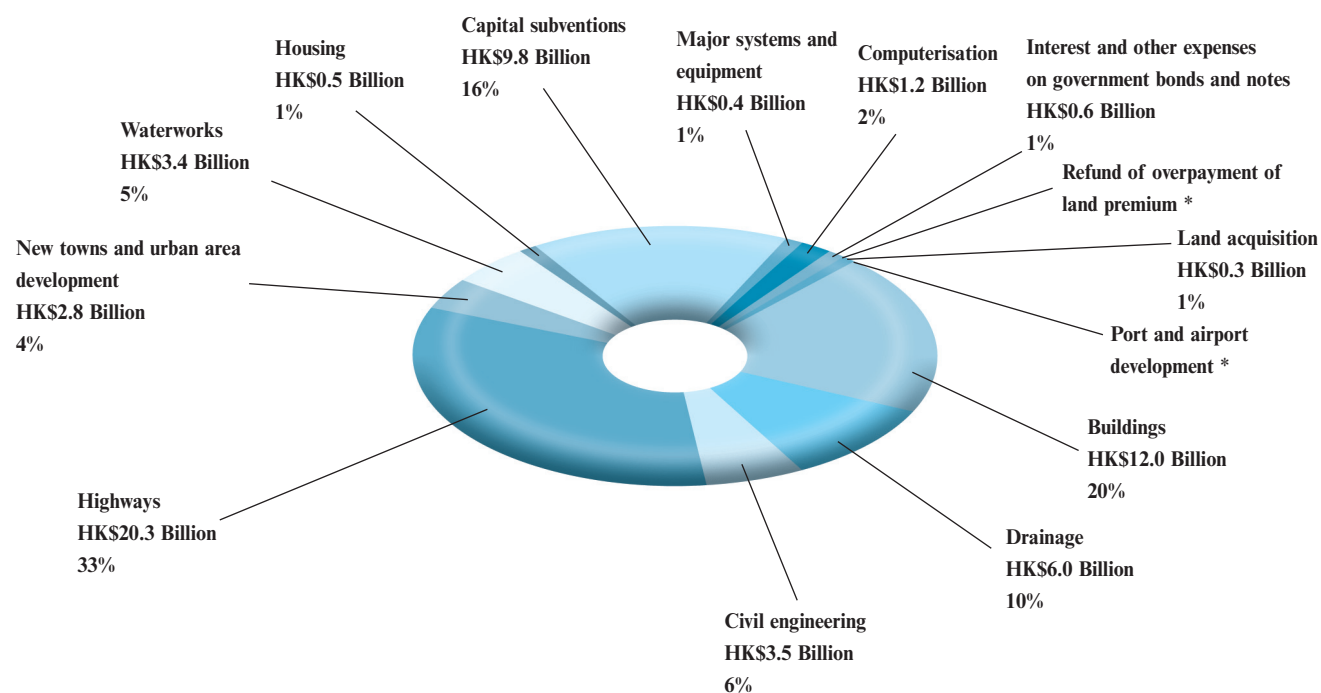
9. Expenditure

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land acquisition	2,289,360	329,366	1,533,533
Public Works Programme			
Port and airport development	4,214	1,505	1,056
Buildings	11,767,867	11,990,125	12,001,574
Drainage	6,108,637	5,965,515	6,089,283
Civil engineering	3,448,202	3,545,999	2,456,300
Highways	20,992,157	20,358,764	15,201,075
New towns and urban area development	2,588,078	2,833,517	3,590,102
Waterworks	3,662,876	3,368,184	3,653,378
Housing	572,553	475,269	562,106
	49,144,584	48,538,878	43,554,874
Capital subventions and major systems and equipment			
Capital subventions	9,170,128	9,816,678	6,225,477
Major systems and equipment	952,820	390,022	527,891
	10,122,948	10,206,700	6,753,368
Computerisation	1,743,952	1,183,199	1,120,341
Interest and other expenses on government bonds and notes	577,002	575,348	574,844
Other payments			
Refund of overpayment of land premium	-	3,703	431
	<u>63,877,846</u>	<u>60,837,194</u>	<u>53,537,391</u>

Further analyses of expenditure appear on pages 138 to 205 of the Supporting Statements.

Capital Works Reserve Fund

Analysis of Expenditure for the year ended 31 March 2012



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

Total Expenditure
HK\$60.8 Billion

10. Other Cash Movements

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

	2012 HK\$'000	2011 HK\$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	(27,718,537)	(14,923,664)
Deposits with banks	68	(4)
Advances	77,362	1,027
	(27,641,107)	(14,922,641)
Increase in Liabilities		
Deposits	12,613	116,136
	(27,628,494)	(14,806,505)

Capital Works Reserve Fund

Revenue, Expenditure plus Repayment of Government Bonds and Notes, and Fund Balance for the years ended 31 March 2003 to 2012

HKS Billion

