

# *Report of the Director of Audit*



**Audit Commission**

The Government of the Hong Kong Special Administrative Region

## **Independent Audit Report**

### **To the Permanent Secretary for Education Incorporated**

I certify that I have audited the financial statements of the HKSAR Government Scholarship Fund set out on pages 3 to 13, which comprise the balance sheet as at 31 August 2009, and the income and expenditure account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Permanent Secretary for Education Incorporated's responsibility for the financial statements**

The Permanent Secretary for Education Incorporated is responsible for the preparation and the true and fair presentation of these financial statements in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098) and Hong Kong Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **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 8(5) of the Permanent Secretary for Education Incorporation 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 as to 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 and true and fair presentation 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 and the reasonableness of accounting estimates made by the Permanent Secretary for Education Incorporated, 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 give a true and fair view of the financial position of the HKSAR Government Scholarship Fund as at 31 August 2009 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance.

  
(CHAN Bar-keung)  
Assistant Director of Audit  
for Director of Audit

24 February 2010

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

**HKSAR GOVERNMENT SCHOLARSHIP FUND  
INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 AUGUST 2009**

	Note	2009	From 3 March 2008 (Date of establishment) to 31 August 2008
		HK\$'000	HK\$'000
<b>INCOME</b>			
Government grants	3	-	1,000,000
Interest income	4	<u>11,890</u>	<u>7,987</u>
		11,890	1,007,987
<b>EXPENDITURE</b>			
Scholarship grants	5	<u>(11,970)</u>	<u>-</u>
<b>(DEFICIT)/SURPLUS FOR THE YEAR/PERIOD</b>		<u><u>(80)</u></u>	<u><u>1,007,987</u></u>

The accompanying notes 1 to 10 form part of these financial statements.

**HKSAR GOVERNMENT SCHOLARSHIP FUND**  
**BALANCE SHEET**  
**AS AT 31 AUGUST 2009**

	Note	2009	2008
		HK\$'000	HK\$'000
<b>CURRENT ASSETS</b>			
Cash at banks		14	12
Deposits with banks	6	1,007,440	1,007,800
Interest receivable	7	<u>453</u>	<u>175</u>
<b>TOTAL ASSETS</b>		<u><u>1,007,907</u></u>	<u><u>1,007,987</u></u>
 <b>Representing:</b>			
<b>FUND BALANCE</b>			
Accumulated surplus		<u><u>1,007,907</u></u>	<u><u>1,007,987</u></u>

The accompanying notes 1 to 10 form part of these financial statements.



( Raymond H C Wong )

Permanent Secretary for Education Incorporated  
Trustee of the HKSAR Government Scholarship Fund  
24 February 2010

**HKSAR GOVERNMENT SCHOLARSHIP FUND  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 AUGUST 2009**

	2009	From 3 March 2008 (Date of establishment) to 31 August 2008
<b>ACCUMULATED SURPLUS</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Balance at beginning of year/period	1,007,987	-
(Deficit)/Surplus for the year/period	<u>(80)</u>	<u>1,007,987</u>
Balance at end of year/period	<u><u>1,007,907</u></u>	<u><u>1,007,987</u></u>

The accompanying notes 1 to 10 form part of these financial statements.

**HKSAR GOVERNMENT SCHOLARSHIP FUND  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 AUGUST 2009**

	2009	From 3 March 2008 (Date of establishment) to 31 August 2008
	HK\$'000	HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Deficit)/Surplus for the year/period	(80)	1,007,987
Adjustments for:		
Interest income	(11,890)	(7,987)
Interest received	11,612	7,812
	(358)	1,007,812
<b>NET CASH (USED IN)/FROM OPERATING ACTIVITIES</b>		
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD</b>	1,007,812	-
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>	1,007,454	1,007,812

**ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS**

	2009	2008
	HK\$'000	HK\$'000
Fixed deposits maturing within three months	1,007,440	1,007,800
Cash at banks	14	12
	1,007,454	1,007,812

The accompanying notes 1 to 10 form part of these financial statements.

**HKSAR GOVERNMENT SCHOLARSHIP FUND**  
**Notes to the financial statements**

**1. General**

The HKSAR Government Scholarship Fund was established by a declaration of trust made on 3 March 2008 by the Permanent Secretary for Education Incorporated (the Trustee). The Fund provides scholarships to students studying in full-time undergraduate degree or above programmes funded by the Government of the Hong Kong Special Administrative Region in recognition of their achievements, to attract and retain such students to pursue their studies in Hong Kong.

**2. Significant accounting policies**

(a) Statement of compliance

The financial statements have been prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098), accounting principles generally accepted in Hong Kong, and all applicable Hong Kong Financial Reporting Standards (HKFRSs), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). A summary of the significant accounting policies adopted by the Fund is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost as explained in the accounting policies set out below.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical accounting judgements involved in the application of the Fund's accounting policies. There are also no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Financial assets

(i) Initial recognition

The Fund's financial assets include cash at banks, deposits with banks and interest receivable. They are measured initially at fair value, which normally will be equal to the transaction prices plus transaction costs that are directly attributable to the acquisition of the financial asset.

The Fund recognises financial assets on the date it becomes a party to the contractual provisions of the instrument.

(ii) Subsequent measurement

After initial recognition, financial assets are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(c)(iv)).

(iii) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

(iv) Impairment of financial assets

The carrying amounts of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised in the income and expenditure account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If in a subsequent period the amount of such impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income and expenditure account.



(d) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash at banks and deposits with banks with a maturity of three months or less from the date of placement.

(e) Revenue recognition

(i) Government grants

Government grants are recognised in the income and expenditure account during the year in which they are receivable.

(ii) Interest income

Interest income is recognised in the income and expenditure account on an accrual basis, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(f) Scholarships recognition

Scholarships are recognised as expenditure when they are granted to the recipients.

(g) Income tax

The Fund is exempt from income tax.

### 3. Government grants

During the year, the Fund did not obtain any government grants. In the prior period, the Fund obtained a government grant of HK\$1 billion as approved by the Finance Committee of the Legislative Council.

#### 4. Interest income

	2009 HK\$'000	From 3 March 2008 (Date of establishment) to 31 August 2008 HK\$'000
Interest income from Hong Kong dollar bank deposits	<u>11,890</u>	<u>7,987</u>

#### 5. Scholarship grants

	2009 HK\$'000	From 3 March 2008 (Date of establishment) to 31 August 2008 HK\$'000
Scholarship grants to institutions	<u>11,970</u>	<u>-</u>

#### 6. Deposits with banks

	2009 HK\$'000	2008 HK\$'000
Hong Kong dollar fixed deposits	<u>1,007,440</u>	<u>1,007,800</u>

#### 7. Interest receivable

	2009 HK\$'000	2008 HK\$'000
Interest receivable	<u>453</u>	<u>175</u>

#### 8. Commitments

Approved scholarship commitments as at 31 August 2009 not provided for in the financial statements were as follows:

	2009 HK\$'000	2008 HK\$'000
Scholarships to be granted in the next school year	<u>23,590</u>	<u>11,970</u>

Once awarded, a scholarship will be tenable for the normal duration of the programme concerned and renewable annually subject to satisfactory academic performance of the recipients.

## **9. Financial risk management**

### **(a) Investment management and control**

The Permanent Secretary for Education Incorporated, as the Trustee of the Fund, may invest monies of the Fund in accordance with section 5 of the Permanent Secretary for Education Incorporation Ordinance. He has appointed the Director of Accounting Services to handle the investment of the Fund monies.

The Steering Committee may advise the Trustee on policies and procedures governing the operation and development of the Fund. The Investment Committee established under the Steering Committee may advise the Trustee on the formulation of policies for and the monitoring of the investment of the Fund. Proposals endorsed by the Investment Committee are forwarded to the Steering Committee for comments and reference, and submitted to the Trustee for approval. Members of both Steering Committee and Investment Committee are appointed by the Secretary for Education.

The Fund's investment aims to maintain capital and generate recurrent income to support the annual grant of scholarships.

The investment performance of the Fund is monitored through the Investment Committee which meets periodically to review investment reports prepared by the Director of Accounting Services and to interview the Fund's external investment managers. The Investment Committee also formulates guidelines on asset allocation in order to meet the investment objective.

The investment management and control of the Fund are set out in a documented risk management or investment strategy and are reviewed on a regular basis by the Investment Committee.

### **(b) Interest rate risk**

Interest rate risk refers to the risk of loss arising from changes in market interest rates. This can be further classified into fair value interest rate risk and cash flow interest rate risk.

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Since the Fund's deposits with banks bear interest at fixed rates, their fair values will fall when

market interest rates increase. However, since they are all stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's surplus and balance.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund has no exposure to cash flow interest rate risk because it has no floating-rate financial instruments.

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund does not have an exposure to currency risk as all of its financial instruments are denominated in Hong Kong dollar.

(d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund's financial assets which are potentially subject to credit risk consist principally of deposits with banks. The Fund selects counterparty with good credit standing, strong financial strength and sizable capital. The Fund limits the individual exposure, in accordance with a documented risk management or investment strategy. Hence the Fund does not have significant exposures to credit risk and monitoring is done on a continuous basis.

The Fund does not have significant concentrations of credit risk. The maximum exposure to credit risk at the balance sheet date without taking account of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the balance sheet.

(e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Fund monitors the liquidity requirements on a continuous basis and maintains a level of short term deposits and cash to pay scholarships as necessary. Hence the Fund does not have significant exposures to liquidity risk.

(f) Fair values

The Fund's financial instruments are not quoted in active markets. Their fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date.

All financial instruments are stated in the balance sheet at amounts equal to or not materially different from their fair values.

**10. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2009**

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 August 2009 and which have not been early adopted in the financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

The following revised standards may result in new or amended disclosures in future financial statements:

	<b>Effective for accounting periods beginning on or after</b>
HKAS 1 (Revised) Presentation of Financial Statements	1 January 2009
HKFRS 9 Financial Instruments	1 January 2013