

**Report by the Commissioner of Correctional Services
on the administration of the Prisoners' Welfare Fund
for the year ended 31 March 2016**

Introduction

The Prisoners' Welfare Fund (the Fund) was established under section 21A of the Prisons (Amendment) Ordinance (No. 42 of 1986) which was passed into law by the Legislative Council on 9 July 1986 and enacted on 11 July 1986.

2. In accordance with section 21A(3) of the Prisons Ordinance, the Fund is controlled by the Commissioner of Correctional Services, and as required by rule 272(4) of the Prison Rules, I take pleasure in presenting to the President and Honourable Members of the Legislative Council a copy of the signed and audited financial statements, the Director of Audit's Report and my report on the administration of the Fund for the year ended 31 March 2016.

3. The Fund was established on 11 July 1986 by transferring a sum of HK\$245,205 from the Prisoners' Welfare Donation Fund administered under the Financial and Accounting Regulations.

Purpose of the Fund

4. In accordance with section 21A(3) of the Ordinance, the Fund shall be applied for the benefit of prisoners in such ways as the Commissioner may determine, including :

- (a) procuring for prisoners while in prison comforts, convenience or other advantages;
- (b) meeting expenses of prisoners and providing services for prisoners or items not chargeable to the general revenue;
- (c) assisting prisoners after discharge from prison.

Progress and Results

5. During the year under review, the Fund received donations totalling HK\$4,385,000. After taking into account expenses incurred in providing prizes and refreshments for prisoners, refund of course fees to rehabilitated offenders and other prisoners' expenses not chargeable to the general revenue, the excess of income over expenditure for the year amounted to HK\$2,764,663.

6. The accumulated fund has increased by HK\$2,764,663 i.e. from HK\$2,577,805 as at 1 April 2015 to HK\$5,342,468 as at 31 March 2016. The stock of sales items amounting to HK\$366,648 include the cost of radios, radio earphones, photo albums, carrier bags, sports shoes and eye masks which were acquired for re-sale to the prisoners.

Auditor

7. In accordance with rule 272(3) of the Prison Rules, the Director of Audit was appointed as the Auditor of the Fund.

8. The audited financial statements of the Fund have been prepared and the Director of Audit's report and signed financial statements are attached at the Appendix.



YAU Chi-chiu
Commissioner of Correctional Services
28 June 2016



Prisoners' Welfare Fund

Financial Statements for the year ended 31 March 2016

Comptroller of Correctional Services' Responsibility for the Financial Statements

The Comptroller of Correctional Services is responsible for the preparation of financial statements that give a true and fair view and compliance with rules 20(1) and 20(2) of the Prisoners' Welfare Fund (Cap 212 sub-sec 4) and the Financial Reporting Standards and for such financial statements. The Comptroller of Correctional Services is responsible for ensuring that the preparation of financial statements that give a true and fair view and compliance with rules 20(1) and 20(2) of the Prisoners' Welfare Fund (Cap 212 sub-sec 4) and the Financial Reporting Standards is done in accordance with the standards of the Institute of Chartered Accountants of Sri Lanka.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with rule 20(1) of the Prisoners' Welfare Fund (Cap 212 sub-sec 4) and the Auditing Standards. These standards require that I comply with the requirements and rules and perform the audit in a manner that is consistent with the standards of the Institute of Chartered Accountants of Sri Lanka.

It must involve performing a procedure of audit in order to obtain sufficient evidence and disclosure in the financial statements. The procedure required depends on the nature of the financial statements and the nature of the transactions. In the case of the Prisoners' Welfare Fund, the auditor is required to obtain sufficient evidence and disclosure in the financial statements.

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Audit Report

To the Legislative Council

I certify that I have audited the financial statements of the Prisoners' Welfare Fund set out on pages 3 to 10, which comprise the balance sheet as at 31 March 2016, and the income and expenditure account, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Commissioner of Correctional Services' Responsibility for the Financial Statements

The Commissioner of Correctional Services is responsible for the preparation of financial statements that give a true and fair view in accordance with rules 272(1) and 272(2) of the Prison Rules (Cap. 234 sub. leg. A) and Hong Kong Financial Reporting Standards, and for such internal control as the Commissioner of Correctional Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 rule 272(3) of the Prison Rules 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.

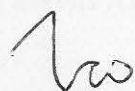
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 Commissioner of Correctional 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 give a true and fair view of the financial position of the Prisoners' Welfare Fund as at 31 March 2016, 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 rules 272(1) and 272(2) of the Prison Rules.



TEO Wing-on
Principal Auditor
for Director of Audit

28 June 2016

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

Prisoners' Welfare Fund
Balance Sheet as at 31 March 2016

	Note	2016 HK\$	2015 HK\$
Current Assets			
Stock items		366,648	464,869
Accounts receivable		4,993	3,368
Accrued interest		308	240
Cash and cash equivalents	3	5,038,102	2,127,776
		<u>5,410,051</u>	<u>2,596,253</u>
Current Liabilities			
Advance receipts		(4,389)	(3,255)
Accrued expenses		(63,194)	(15,193)
		<u>(67,583)</u>	<u>(18,448)</u>
Net Current Assets		<u>5,342,468</u>	<u>2,577,805</u>
Accumulated Fund		<u>5,342,468</u>	<u>2,577,805</u>

The accompanying notes 1 to 8 form part of these financial statements.



YAU Chi-chiu
Commissioner of Correctional Services
28 June 2016

Prisoners' Welfare Fund
Income and Expenditure Account for the year ended 31 March 2016

	2016 HK\$	2015 HK\$
Income		
Donations	4,385,000	3,690,000
Confiscated moneys	4,242	1,094
Bank interest	6,412	8,886
	<u>4,395,654</u>	<u>3,699,980</u>
Expenditure		
Prisoners' welfare expenses	(102,631)	(91,329)
Prisoners' expenses not chargeable to the general revenue	(1,510,426)	(3,902,541)
Education assistance for rehabilitated offenders	(14,569)	(19,290)
Loss on sale of stock items	(3,365)	(3,406)
	<u>(1,630,991)</u>	<u>(4,016,566)</u>
Surplus/(Deficit) for the year	2,764,663	(316,586)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income/(loss) for the year	<u>2,764,663</u>	<u>(316,586)</u>

The accompanying notes 1 to 8 form part of these financial statements.

Prisoners' Welfare Fund
Statement of Changes in Equity for the year ended 31 March 2016

Accumulated Fund	2016 HK\$	2015 HK\$
Balance at beginning of year	2,577,805	2,894,391
Total comprehensive income/(loss) for the year	<u>2,764,663</u>	<u>(316,586)</u>
Balance at end of year	<u>5,342,468</u>	<u>2,577,805</u>

The accompanying notes 1 to 8 form part of these financial statements.

Prisoners' Welfare Fund
Statement of Cash Flows for the year ended 31 March 2016

	Note	2016 HK\$	2015 HK\$
Cash flows from operating activities			
Surplus/(Deficit) for the year		2,764,663	(316,586)
Interest income		(6,412)	(8,886)
Decrease/(Increase) in stock items		98,221	(287,608)
(Increase)/Decrease in accounts receivable		(1,625)	10,835
Increase/(Decrease) in advance receipts		1,134	(7,360)
Increase/(Decrease) in accrued expenses		48,001	(50,967)
Net cash from/(used in) operating activities		2,903,982	(660,572)
Cash flows from investing activities			
Interest received		6,344	9,009
Net cash from investing activities		6,344	9,009
Net increase/(decrease) in cash and cash equivalents		2,910,326	(651,563)
Cash and cash equivalents at beginning of year		2,127,776	2,779,339
Cash and cash equivalents at end of year	3	5,038,102	2,127,776

The accompanying notes 1 to 8 form part of these financial statements.

Prisoners' Welfare Fund
Notes to the Financial Statements

1. General

The Prisoners' Welfare Fund (the Fund) was established in accordance with section 21A(3) of the Prisons Ordinance (Cap. 234) for the benefit of prisoners in such ways as the Commissioner of Correctional Services may determine, including:

- (a) procuring for prisoners while in prison comforts, convenience or other advantages;
- (b) meeting expenses of prisoners and providing services for prisoners or items not chargeable to the general revenue; and
- (c) assisting prisoners after discharge from prison.

The address of the Fund's principal place of business is 24/F, Wan Chai Tower, 12 Harbour Road, Hong Kong.

2. Significant accounting policies

- (a) Statement of compliance

The financial statements have been prepared in accordance with rules 272(1) and 272(2) of the Prison Rules (Cap. 234 sub. leg. A) and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants.

- (b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on 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 neither key assumptions concerning the future nor 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) Adoption of new/revised HKFRSs

The Fund has adopted all new/revised HKFRSs which are effective and relevant to the Fund for the current accounting period.

The Fund has not early adopted any amendments, new standards and interpretations which are not yet effective for the current accounting period. The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretation 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 result of operations and financial position.

(d) Valuation of stock items

Stock items are valued on a first-in-first-out basis. The value of stock at year end is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated selling expenses.

(e) Revenue recognition

(i) Donation income is recognised once the amount is received and approval for acceptance obtained.

(ii) Interest income is recognised as it accrues using the effective interest method. The effective interest method is a method of calculating the amortised cost of financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset.

(iii) Sales of stock items are recognised when the titles of the items have passed to the purchasers.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when acquired.

3. Cash and cash equivalents

	2016 HK\$	2015 HK\$
Bank deposit with original maturity within 3 months	2,008,147	911,803
Cash with the Director of Accounting Services	3,029,955	1,215,973
	<u>5,038,102</u>	<u>2,127,776</u>

4. Financial risk management

The Fund's major financial instruments include bank deposits and cash with other government departments. The risks associated with these financial instruments are set out below.

(a) Credit risk

The Fund's maximum exposure to credit risk at the balance sheet date in relation to each class of financial assets is the carrying amount of the assets as stated in the balance sheet. The Fund limits its exposure to credit risk by transacting with reputable banks in Hong Kong and invests in short-term deposits only. The credit risk in respect of cash with other government departments is considered minimal.

(b) Interest rate risk

Interest rate risk is 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 value of a financial instrument will fluctuate because of changes in market interest rates. Since the Fund's bank deposit bears interest at fixed rates, its fair value will fall when market interest rates increase. However, as it is stated at amortised cost, changes in market interest rates will not affect its carrying amount and the Fund's surplus and equity.

Cash flow interest rate risk is the risk that future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Fund is not exposed to cash flow interest rate risk as it has no financial instruments bearing interest at floating rates.

(c) Liquidity risk

In the management of liquidity risk, the Fund maintains the level of cash and cash equivalents that is considered adequate to finance its operations and mitigate the effect of fluctuations in cash flows.

5. Capital management

The capital of the Fund consists solely of the accumulated fund balance. The Fund's objectives when managing capital are:

- (a) to comply with the Prisons Ordinance; and
- (b) to maintain a strong capital base for the provision of benefits to prisoners as stated in note 1 above.

The Fund manages its capital to ensure that its level is adequate to fund expenditure, taking into account its projected cash flow requirements, future financial obligations and commitments.

6. Commitments

As at 31 March 2016, there were commitments of:

- i) HK\$4,800 (2015:HK\$3,759) being the outstanding balance of approved refund of course fees to rehabilitated offenders who are undergoing statutory supervision by the Aftercare of Correctional Services Department for pursuing education programmes and employment-related courses; and
- ii) HK\$246,631 (2015:HK\$212,592) being the outstanding balance of approved grants to the needy prisoners/inmates to pay for vocational training courses/public examinations/course enrolments and the procurement of learning aids/equipment in their educational pursuits.

7. Cost of administering the Fund

The cost of administering the Fund has been borne by the Government of the Hong Kong Special Administrative Region in accordance with section 21A(4) of the Prisons Ordinance.

8. Fair values of financial assets

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