

**Report by the Commissioner of Correctional Services of
Hong Kong Incorporated on the Administration of the
Correctional Services Department Welfare Fund
for the year ended 31 March 2016**

Introduction

The Correctional Services Department Welfare Fund (hereafter known as “the Fund”) was established under Section 24C to 24M of the Prisons Ordinance (Chapter 234).

2. In accordance with Section 24G of the Ordinance, the Fund shall be administered by the Commissioner of Correctional Services of Hong Kong Incorporated, and as required by Prison Rule 264B, I take pleasure to present to the President and Honourable Members of the Legislative Council a copy of the signed and audited statement of accounts, the Auditor’s report and my report on the administration of the Fund for the year ended 31 March 2016.

3. The Fund was established with the purpose of offering financial assistance to officers in need, as well as providing and subsidizing recreational and welfare facilities for all staff of the Department. The Fund consists of :-

- (a) any donations made to the Fund;
- (b) proceeds from the sale of souvenirs and the disposal of other property held for the purposes of the Fund;
- (c) all money received from the letting of holiday premises, or the hire of recreational facilities, held for the purposes of the Fund;
- (d) all fees collected from social, educational and recreational activities organized by or on behalf of the Commissioner for the purposes of the Fund;
- (e) money derived from the investment of the Fund;
- (f) money accruing as interest on loans made from the Fund;
- (g) gifts of money required under the Acceptance of Advantages (Chief Executive’s Permission) Notice 2004 (Section 3, Cap. 201) to be disposed of by being paid into the Fund;
- (h) any money voted to the Fund by the Legislative Council;
- (i) money held in the Fund immediately before the commencement of Schedule 3 to the Disciplined Services Welfare Funds Legislation (Amendment) Ordinance 1999 (58 of 1999) and money which was, immediately before that commencement, recoverable for the Fund and which is subsequently paid to, or recovered for, the Fund after that commencement;
- (j) money paid or payable to the credit of the Fund from any other lawful source.

Objects of the Fund

4. In accordance with Section 24H(1) of the Ordinance, the Fund may be used for any of the following purposes :-

- (a) providing and maintaining amenities for the use and enjoyment of Correctional Services employees and former Correctional Services employees;
- (b) acquiring real and personal property for the purpose specified in paragraph (a);
- (c) making payments to the corporation's employees in respect of their employment;
- (d) making payments for the services of the corporation's agents;
- (e) making loans to Correctional Services employees and former Correctional Services employees;
- (f) granting financial assistance to dependants of deceased persons who, at the time of death, were Correctional Services employees or former Correctional Services employees in order to meet the funeral expenses of those employees or former employees;
- (g) making grants, allowances and gifts to beneficiaries for purposes other than the purpose mentioned in paragraph (f);
- (h) making or acquiring souvenirs for sale to beneficiaries and others;
- (i) making donations to charitable or community organizations;
- (j) paying interest that is payable on loans made to the corporation or the Fund.

Operating Results

5. The Fund amounted to a total of \$6,085,618 as at 31 March 2016. During the year under review, the total income was \$1,807,422.

6. The Fund has been utilized to provide benefits for staff, with particular attention given to the promotion of staff welfare as well as recreational facilities. An annual subsidy of \$30 per staff member was provided to all institutional Staff Messes to subsidize functions and activities beneficial to staff.

7. The Fund provides financial assistance to staff families who are in need. At present, family members of the deceased officers are granted a sum of money towards the payment of funeral expenses. During the year under review, a total of \$50,000 was granted.

8. In addition, loans are made to staff members at an interest rate not exceeding 5% per annum. No amount was loaned to staff during the year under review. This facility is appreciated by staff who are in need of contingency relief, or who wish to procure reasonable utilities and comforts which they would not normally feel free to do.

9. The Fund also makes grant as retirement gift to staff who have served not less than 20 years and are retired from the service as well as other welfare grants. During the year under review, a total amount of \$265,908 was granted.

Auditor

10. In accordance with Prison Rule 264A, the Director of Audit was appointed as the Auditor of the Fund.

11. An audited statement of accounts for the Fund has been prepared. The Auditor's Report and signed statement of accounts are attached at the Appendix.

Director of Accounting Services

12. In accordance with Prison Rule 257, the maintenance of the Fund is vested with the Director of Accounting Services. All moneys due to the Fund are immediately paid in full to the Director of Accounting Services, who shall credit such sum or sums to the Correctional Services Department Welfare Fund account and render to this Department a monthly return showing all transactions of the Fund. All payments with regard to the Fund are made by the Director of Accounting Services on the request of the Department.

Vote of Thanks

13. I take this opportunity to extend my thanks to the Director of Accounting Services, the Director of Audit and all other officers concerned for their assistance in making the Fund function in the best interest of the staff of Correctional Services Department. The Fund will continue to be utilized in the most beneficial way for the greatest number of staff possible.



YAU Chi-chiu
Commissioner of Correctional Services of
Hong Kong Incorporated
8 February 2017



Correctional Services Department Welfare Fund

Financial Statements for the year ended 31 March 2016

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 Correctional Services Department 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 of Hong Kong Incorporated's Responsibility for the Financial Statements

The Commissioner of Correctional Services of Hong Kong Incorporated is responsible for the preparation of financial statements that give a true and fair view in accordance with rule 264(1)(b) 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 of Hong Kong Incorporated 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 264A(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.

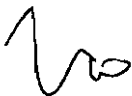
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of

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 of Hong Kong 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 Correctional Services Department 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 rule 264(1)(b) of the Prison Rules.



TEO Wing-on
Principal Auditor
for Director of Audit

28 December 2016

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

Correctional Services Department Welfare Fund
Balance Sheet as at 31 March 2016

	Note	2016 HK\$	2015 HK\$
Current Assets			
Stock of souvenir items		129,116	99,929
Stock of souvenir plaques		34,415	23,875
Accrued bank interest		6,328	8,042
Advance payments and deposit		4,556	4,568
Bank deposits - original maturity over 3 months		500,000	500,000
Cash and cash equivalents	3	5,477,276	4,789,274
		<u>6,151,691</u>	<u>5,425,688</u>
Current Liabilities			
Sundry creditors		(64,993)	(44,744)
Advance receipts		(1,080)	(2,200)
		<u>(66,073)</u>	<u>(46,944)</u>
		<u>6,085,618</u>	<u>5,378,744</u>
Accumulated Fund			
Capital	5	500,000	500,000
Accumulated surplus		5,585,618	4,878,744
		<u>6,085,618</u>	<u>5,378,744</u>

The accompanying notes 1 to 6 form part of these financial statements.



YAU Chi-chiu
Commissioner of Correctional Services of
Hong Kong Incorporated
28 December 2016

Correctional Services Department Welfare Fund
Income and Expenditure Account for the year ended 31 March 2016

	2016 HK\$	2015 HK\$
Income		
Proceeds from sale of souvenir items	204,915	207,470
Cost of souvenir items sold	(147,401)	(147,619)
	<hr/>	<hr/>
Gross gain on sale of souvenir items	57,514	59,851
Government grants	368,040	364,020
Bank interest	26,768	42,237
Donations and voluntary contributions	1,310,000	-
Electricity and maintenance charges for holiday premises	45,100	23,500
	<hr/>	<hr/>
	1,807,422	489,608
Expenditure		
Amenities and staff welfare grants	(782,160)	(1,106,642)
Financial assistance for employees' or former employees' funeral expenses	(50,000)	(50,000)
Other welfare grants	(265,908)	(219,536)
Operating expenses of the Hong Kong Correctional Services Museum Souvenir Shop	(2,480)	(3,180)
	<hr/>	<hr/>
	(1,100,548)	(1,379,358)
	<hr/>	<hr/>
Surplus/(Deficit) for the year	706,874	(889,750)
Other comprehensive income	-	-
	<hr/>	<hr/>
Total comprehensive income/(loss) for the year	706,874	(889,750)
	<hr/>	<hr/>

The accompanying notes 1 to 6 form part of these financial statements.

Correctional Services Department Welfare Fund
Statement of Changes in Equity for the year ended 31 March 2016

	Capital	Accumulated surplus	Total
	HKS	HKS	HKS
Balance at 1 April 2014	500,000	5,768,494	6,268,494
Total comprehensive loss for 2014-15	-	(889,750)	(889,750)
Balance at 31 March 2015	500,000	4,878,744	5,378,744
Total comprehensive income for 2015-16	-	706,874	706,874
Balance at 31 March 2016	500,000	5,585,618	6,085,618

The accompanying notes 1 to 6 form part of these financial statements.

Correctional Services Department 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		706,874	(889,750)
Adjustments for:			
Bank interest		(26,768)	(42,237)
(Increase)/Decrease in stock of souvenir items		(29,187)	5,500
(Increase)/Decrease in stock of souvenir plaques		(10,540)	3,450
Decrease/(Increase) in advance payments and deposits		12	(115)
Increase in sundry creditors		20,249	23,330
(Decrease)/Increase in advance receipts		(1,120)	1,960
Net cash from/(used in) operating activities		659,520	(897,862)
Cash flows from investing activities			
Bank interest received		28,482	41,260
Net cash from investing activities		28,482	41,260
Net increase/(decrease) in cash and cash equivalents		688,002	(856,602)
Cash and cash equivalents at beginning of year		4,789,274	5,645,876
Cash and cash equivalents at end of year	3	5,477,276	4,789,274

The accompanying notes 1 to 6 form part of these financial statements.

Correctional Services Department Welfare Fund
Notes to the Financial Statements

1. General

The Correctional Services Department Welfare Fund (the Fund) was established for the main purposes of providing and maintaining amenities for the use and enjoyment of, and making loans to Correctional Services employees and former Correctional Services employees; providing financial assistance and making grants, allowances and gifts to Correctional Services employees, former Correctional Services employees and dependants of deceased Correctional Services employees or former Correctional Services employees; and making souvenirs for sale to beneficiaries and others in accordance with section 24H of the Prisons Ordinance (Cap. 234).

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 rule 264(1)(b) 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 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.

(d) Interest on loans

At the discretion of the Commissioner of Correctional Services of Hong Kong Incorporated, loans are subject to the payment of interest at the rate of 5% per annum calculated monthly on the balance outstanding at the end of each month until the loan is repaid in full. The interest is payable within one month after the date on which the previous instalment became payable or upon default in the repayment of any monthly instalment. There were no such loans outstanding at the balance sheet date.

(e) Revenue recognition

- (i) Government grant is recognised in the income and expenditure account over the period necessary to match it with the costs it is intended to compensate.
- (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) Donation income is recognised once cash is received and the approval for acceptance is obtained.
- (iv) Sales of souvenir items are recognised when souvenir items are delivered and title has passed.
- (v) Charges for the use of holiday premises are recognised on an accrual basis.

(f) Valuation of stock of souvenir items and souvenir plaques

The cost of stock of souvenir items sold is calculated on a first-in-first-out basis and 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. Souvenir plaques for retirees are stated at historical cost.

(g) 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 deposits with original maturity within 3 months	3,913,404	3,651,426
Cash at the Hong Kong Correctional Services Museum		
Souvenir Shop	500	500
Cash with the Director of Accounting Services	1,181,214	781,041
Cash at bank	382,158	356,307
	<u>5,477,276</u>	<u>4,789,274</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

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 maximum exposure to credit risk as at the balance sheet date in relation to each class of financial assets is the carrying amount of those assets as stated in the balance sheet. The Fund limits its exposure to credit risk by transacting with reputable banks in Hong Kong. The credit risk in respect of cash with the Director of Accounting Services is considered minimal.

(b) **Market risk**

The Fund's bank deposits are exposed to market risk due to changes in interest rates. 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 all the Fund's time deposits with banks bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are all stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's surplus and equity.

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 is not exposed to material cash flow interest rate risk because interest income from financial instruments bearing interest at a floating rate is not significant.

(c) **Liquidity risk**

In the management of liquidity risk, the Fund maintains a 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 structure of the Fund consists of the Fund's capital and accumulated surplus. The capital represents a donation made by the late Sir Shiu-kin TANG and, in accordance with his wish, only the interest income may be used. The Fund's objectives when managing capital are:

- (a) to comply with the Prisons Ordinance; and
- (b) to maintain a capital base for carrying out the purposes of the Fund as stated in note 1 above.

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

6. **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.