

**Report by the Commissioner of Correctional Services  
on the administration of the Prisoners' Welfare Fund  
for the year ended 31 March 2019**

**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 2019.

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; and
- (c) assisting prisoners after discharge from prison.

**Progress and Results**

5. During the year under review, the Fund received donations totalling HK\$4,135,000. 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\$681,619.

6. The accumulated fund has increased by HK\$681,619, i.e. from HK\$3,922,342 as at 1 April 2018 to HK\$4,603,961 as at 31 March 2019. The stock of sales items amounting to HK\$315,604 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.



WOO Ying-ming  
Commissioner of Correctional Services  
21 June 2019



Prisoners' Welfare Fund

Financial statements for the year ended 31 March 2019

# Report of the Director of Audit



**Audit Commission**

The Government of the Hong Kong Special Administrative Region

## **Independent Auditor's Report To the Legislative Council**

### *Opinion*

I certify that I have audited the financial statements of the Prisoners' Welfare Fund set out on pages 4 to 14, which comprise the balance sheet as at 31 March 2019, and the income and expenditure account, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 2019, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with rules 272(1) and 272(2) of the Prison Rules (Cap. 234 sub. leg. A).

### *Basis for opinion*

I conducted my audit in accordance with rule 272(3) of the Prison Rules 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 am independent of the Prisoners' Welfare Fund in accordance with those standards, and I have fulfilled my 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.

### *Responsibilities of the Commissioner of Correctional Services for the financial statements*

The Commissioner of Correctional Services is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA

and rules 272(1) and 272(2) of the Prison Rules, 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.

In preparing the financial statements, the Commissioner of Correctional Services is responsible for assessing the Prisoners' Welfare Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

### *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 Prisoners' Welfare Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commissioner of Correctional Services;
- conclude on the appropriateness of the Commissioner of Correctional Services' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast

significant doubt on the Prisoners' Welfare Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Prisoners' Welfare Fund to cease to continue as a going concern; and

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



LIANG Kar-lun, Ken  
Principal Auditor  
for Director of Audit

21 June 2019

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

**Prisoners' Welfare Fund**  
**Balance Sheet as at 31 March 2019**

	Note	2019 HK\$	2018 HK\$
<b>Current Assets</b>			
Stock items		315,604	231,487
Accounts receivable		11,587	11,203
Accrued interest		337	456
Cash and cash equivalents	3	4,284,638	3,684,172
		<b>4,612,166</b>	<b>3,927,318</b>
<b>Current Liabilities</b>			
Advance receipts		(5,265)	(4,976)
Accounts payable		(2,940)	-
		<b>(8,205)</b>	<b>(4,976)</b>
<b>Net Current Assets</b>		<b>4,603,961</b>	<b>3,922,342</b>
<b>Accumulated Fund</b>		<b>4,603,961</b>	<b>3,922,342</b>

The accompanying notes 1 to 9 form part of these financial statements.



WOO Ying-ming  
Commissioner of Correctional Services  
21 June 2019

**Prisoners' Welfare Fund**  
**Income and Expenditure Account for the year ended 31 March 2019**

	<b>2019</b>	<b>2018</b>
	<b>HK\$</b>	<b>HK\$</b>
<b>Income</b>		
Donations	4,135,000	1,510,000
Confiscated money	2,620	2,030
Bank interest	40,031	16,641
Gain on sale of stock items	4,976	307
	<u>4,182,627</u>	<u>1,528,978</u>
 <b>Expenditure</b>		
Prisoners' welfare expenses	(93,147)	(83,752)
Prisoners' expenses not chargeable to the general revenue	(3,397,861)	(2,596,985)
Education assistance for rehabilitated offenders	(10,000)	(8,800)
	<u>(3,501,008)</u>	<u>(2,689,537)</u>
 <b>Surplus/(Deficit) for the year</b>	 <b>681,619</b>	 <b>(1,160,559)</b>
<b>Other comprehensive income</b>	 <b>-</b>	 <b>-</b>
	<u><u>681,619</u></u>	<u><u>(1,160,559)</u></u>

The accompanying notes 1 to 9 form part of these financial statements.



**Prisoners' Welfare Fund**  
**Statement of Changes in Equity for the year ended 31 March 2019**

<b>Accumulated Fund</b>	<b>2019 HK\$</b>	<b>2018 HK\$</b>
Balance at beginning of year	3,922,342	5,082,901
Total comprehensive income/(loss) for the year	681,619	(1,160,559)
Balance at end of year	<u><u>4,603,961</u></u>	<u><u>3,922,342</u></u>

The accompanying notes 1 to 9 form part of these financial statements.

**Prisoners' Welfare Fund**  
**Statement of Cash Flows for the year ended 31 March 2019**

	Note	2019 HK\$	2018 HK\$
<b>Cash flows from operating activities</b>			
Surplus/(Deficit) for the year		681,619	(1,160,559)
Interest income		(40,031)	(16,641)
(Increase)/Decrease in stock items		(84,117)	45,984
Increase in accounts receivable		(384)	(8,237)
Increase in advance receipts		289	214
Increase in accounts payable		2,940	-
		<hr/>	<hr/>
<b>Net cash from/(used in) operating activities</b>		<u>560,316</u>	<u>(1,139,239)</u>
<b>Cash flows from investing activities</b>			
Interest received		40,150	16,714
		<hr/>	<hr/>
<b>Net cash from investing activities</b>		<u>40,150</u>	<u>16,714</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		600,466	(1,122,525)
<b>Cash and cash equivalents at beginning of year</b>		3,684,172	4,806,697
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<b>3</b>	<u><u>4,284,638</u></u>	<u><u>3,684,172</u></u>

The accompanying notes 1 to 9 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 (HKICPA).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

- (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 reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Fund. Of these, the Fund has adopted the requirements of HKFRS 9 "Financial Instruments" from 1 April 2018.

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Fund has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements without restating comparative information (i.e. the comparative information continues to be reported under HKAS 39). The carrying amounts of the items at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The Fund's financial assets, comprising cash and cash equivalents, accounts receivable and accrued interest, were previously classified as loans and receivables carried at amortised cost under HKAS 39. These were reclassified to financial assets measured at amortised cost under HKFRS 9. The carrying amounts at 31 March 2018 were the same as those at 1 April 2018.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Credit losses and impairment

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” model. The expected credit loss model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses earlier than under the “incurred loss” accounting model in HKAS 39. The Fund applies the new expected credit loss model to the financial assets measured at amortised cost. The initial application of the new impairment requirements had no impact on the carrying amounts of the financial assets at 1 April 2018.

(d) Financial assets and financial liabilities

(i) Initial recognition and subsequent measurement

The Fund’s financial assets and financial liabilities include accounts receivable, accrued interest and cash and cash equivalents and accounts payable. They are initially measured at fair value plus or minus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities. Subsequent to initial recognition, financial assets are measured at amortised cost, net of loss allowance. Financial liabilities are subsequently measured at amortised cost.

(ii) 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. A financial liability is derecognised when the obligation specified in the contract is discharged, is cancelled or expires.

(iii) Impairment of financial assets from 1 April 2018

For cash and cash equivalents, accrued interest and accounts receivable, the Fund measures the expected credit losses to determine the loss allowance required to be recognised.

Expected credit losses are a probability-weighted estimate of credit losses. They are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Fund expects to receive, discounted at the effective interest rate. They are measured on either of the following bases:

- 12-month expected credit losses for financial instruments for which there has not been a significant increase in credit risk since initial recognition: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime expected credit losses for financial instruments for which there has been a significant increase in credit risk since initial recognition: these are losses that are expected to result from all possible default events over the expected life of the financial instrument.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Fund compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this assessment, the Fund considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Fund in full; or (ii) the financial asset is 90 days past due. The Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(iv) Impairment of financial assets before 1 April 2018

The carrying amounts of financial assets were reviewed at each reporting date to determine whether there was objective evidence of impairment. If any such evidence existed, an impairment loss was recognised in surplus or deficit 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through surplus and deficit. A reversal of impairment losses was limited to the asset's carrying amount that would have been determined had no impairment losses been recognised in prior years.

(e) 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.

(f) Revenue recognition

- (i) Donation income is recognised once the amount is received and approval for acceptance is obtained.
- (ii) Interest income is recognised as it accrues using the effective interest method.
- (iii) Sales of stock items are recognised when the titles of the items have passed to the purchasers.

(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**

	<b>2019</b>	<b>2018</b>
	<b>HK\$</b>	<b>HK\$</b>
Bank deposit with original maturity within 3 months	1,709,419	1,499,269
Cash with the Director of Accounting Services	<u>2,575,219</u>	<u>2,184,903</u>
	<u>4,284,638</u>	<u>3,684,172</u>

**4. Financial risk management**

The Fund's major financial assets include bank deposits and cash with the Director of Accounting Services. The risks associated with these financial assets are set out below.

(a) Credit risk

The Fund's maximum exposure to credit risk at the reporting 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 the Director of Accounting Services is considered minimal.

The credit quality of bank deposits, analysed by the ratings designated by Moody's, at the reporting date is shown below:

	<b>2019</b>	<b>2018</b>
	<b>HK\$</b>	<b>HK\$</b>
Bank deposits, by credit rating		
A1 to A3	<u>1,709,419</u>	<u>1,499,269</u>

The credit risk on these financial assets is assessed as not having increased significantly since initial recognition and the Fund determines the loss allowance required to be recognised based on 12-month expected credit losses. The Fund has estimated that 12-month expected credit losses on these financial assets are immaterial and considers that no loss allowance is required.

(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 2019, there were commitments of:

- (a) HK\$4,850 (2018: HK\$4,850) being the unspent portion 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
- (b) HK\$225,912 (2018: HK\$482,296) being the unspent portion 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 and financial liabilities**

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

**9. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019**

Up to the date of the 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 March 2019 and which have not been early adopted in the financial statements. The Fund is in the process of making an assessment of the impact expected of these amendments, new standards and interpretations in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's financial performance and financial position.