

**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 2020**

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 2020.

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 notice from time to time given by the Chief Executive for the purposes of section 3 of the Prevention of Bribery Ordinance (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 \$5,456,362 as at 31 March 2020. During the year under review, the total income was \$831,884.

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 \$40,000 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 \$195,836 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.



WOO Ying-ming
Commissioner of Correctional Services of
Hong Kong Incorporated
10 February 2021



Appendix

Correctional Services Department Welfare Fund

Financial statements for the year ended 31 March 2020

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 Correctional Services Department Welfare Fund set out on pages 4 to 14, which comprise the balance sheet as at 31 March 2020, 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 Correctional Services Department Welfare Fund as at 31 March 2020, 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 rule 264(1)(b) of the Prison Rules (Cap. 234 sub. leg. A).

Basis for opinion

I conducted my audit in accordance with rule 264A(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 Correctional Services Department 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 of Hong Kong Incorporated for the financial statements

The Commissioner of Correctional Services of Hong Kong Incorporated 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 rule 264(1)(b) of the Prison Rules, 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.

In preparing the financial statements, the Commissioner of Correctional Services of Hong Kong Incorporated is responsible for assessing the Correctional Services Department 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 Correctional Services Department 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 of Hong Kong Incorporated;

- conclude on the appropriateness of the Commissioner of Correctional Services of Hong Kong Incorporated's 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 Correctional Services Department 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 Correctional Services Department 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.



S. M. CHOI
Principal Auditor
for Director of Audit

23 December 2020

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

Correctional Services Department Welfare Fund
Balance Sheet as at 31 March 2020

	Note	2020 HK\$	2019 HK\$
Current Assets			
Stock of souvenir items		91,235	113,054
Stock of souvenir plaques		10,965	27,625
Accrued bank interest		28,251	22,384
Advance payments and deposit		14,585	4,217
Bank deposit with original maturity over 3 months		500,000	500,000
Cash and cash equivalents	3	4,849,240	5,122,272
		<u>5,494,276</u>	<u>5,789,552</u>
Current Liabilities			
Sundry creditors		(37,914)	(52,536)
Advance receipts		-	(2,020)
		<u>(37,914)</u>	<u>(54,556)</u>
Net Assets		<u><u>5,456,362</u></u>	<u><u>5,734,996</u></u>
Accumulated Fund			
Capital	5	500,000	500,000
Accumulated surplus		4,956,362	5,234,996
		<u>5,456,362</u>	<u>5,734,996</u>

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



WOO Ying-ming
Commissioner of Correctional Services of
Hong Kong Incorporated
29 September 2020

Correctional Services Department Welfare Fund
Income and Expenditure Account for the year ended 31 March 2020

	2020	2019
	HK\$	HK\$
Income		
Proceeds from sale of souvenir items	82,144	138,973
Cost of souvenir items sold	(61,642)	(110,292)
	20,502	28,681
Gross gain on sale of souvenir items		
Government grants	353,880	364,440
Bank interest	91,322	75,490
Donations and voluntary contributions	350,000	500,000
Electricity and maintenance charges for holiday premises	16,180	31,540
	831,884	1,000,151
Expenditure		
Amenities and staff welfare grants	(873,642)	(777,671)
Financial assistance for employees' or former employees' funeral expenses	(40,000)	(70,000)
Other welfare grants	(195,836)	(260,670)
Operating expenses of the Hong Kong Correctional Services Museum Souvenir Shop	(1,040)	(1,040)
	(1,110,518)	(1,109,381)
Deficit for the year	(278,634)	(109,230)
Other comprehensive income	-	-
Total comprehensive loss for the year	(278,634)	(109,230)

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 2020

	Capital	Accumulated	Total
	HK\$	surplus	HK\$
	HK\$	HK\$	HK\$
Balance at 1 April 2018	500,000	5,344,226	5,844,226
Total comprehensive loss for 2018-19	-	(109,230)	(109,230)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2019	500,000	5,234,996	5,734,996
Total comprehensive loss for 2019-20	-	(278,634)	(278,634)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2020	<u>500,000</u>	<u>4,956,362</u>	<u>5,456,362</u>

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 2020

	Note	2020 HK\$	2019 HK\$
Cash flows from operating activities			
Deficit for the year		(278,634)	(109,230)
Adjustments for:			
Bank interest		(91,322)	(75,490)
Decrease/(Increase) in stock of souvenir items		21,819	(5,144)
Decrease in stock of souvenir plaques		16,660	150
(Increase)/Decrease in advance payments and deposit		(10,368)	361
Decrease in sundry creditors		(14,622)	(85,397)
(Decrease)/Increase in advance receipts		(2,020)	1,120
		<hr/>	<hr/>
Net cash used in operating activities		(358,487)	(273,630)
		<hr/>	<hr/>
Cash flows from investing activities			
Bank interest received		85,455	68,396
		<hr/>	<hr/>
Net cash from investing activities		85,455	68,396
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(273,032)	(205,234)
Cash and cash equivalents at beginning of year		5,122,272	5,327,506
		<hr/>	<hr/>
Cash and cash equivalents at end of year	3	4,849,240	5,122,272
		<hr/> <hr/>	<hr/> <hr/>

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 (HKICPA).

(b) Basis of preparation of the financial statements

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) Impact of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs which are effective for the current accounting period. There have been no changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

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) Financial assets and financial liabilities

(i) Initial recognition

Financial assets and financial liabilities are recognised on the date the Fund becomes a party to the contractual provisions of the financial instrument. They are initially stated at fair value plus or minus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities.

(ii) Categorisation and subsequent measurement

Financial assets measured at amortised cost

These comprise accrued bank interest, bank deposits and cash and cash equivalents. They are held for the collection of contractual cash flows which represent solely payments of principal and interest. They are subsequently measured at amortised cost, net of loss allowance, if any (note 2(d)(iv)).

Financial liabilities measured at amortised cost

This category comprises sundry creditors. They are subsequently measured at amortised cost.

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

(iv) Impairment of financial assets

For accrued bank interest, bank deposits and cash and cash equivalents, 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; or
- 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.

For a financial asset with lifetime expected credit losses recognised in the previous reporting period, if its credit quality improves and reverses the previously assessed significant increase in credit risk, then the loss allowance reverts from lifetime expected credit losses to 12-month expected credit losses.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(e) 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 reporting date.

(f) 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.
- (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.

(g) 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.

(h) Cash and cash equivalents

Cash and cash equivalents include cash, bank balances, deposit with the Treasury and other short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

3. Cash and cash equivalents

	2020 HK\$	2019 HK\$
Bank deposits with original maturities within 3 months	3,952,261	4,374,515
Cash at the Hong Kong Correctional Services Museum Souvenir Shop	500	500
Cash with the Director of Accounting Services	358,035	250,515
Cash at bank	538,444	496,742
	<u>4,849,240</u>	<u>5,122,272</u>

4. Financial risk management

The Fund's major financial instruments include bank deposits, cash with the Director of Accounting Services and cash at bank. The main 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 at the reporting 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 licensed banks in Hong Kong. Hence, the credit risk associated with bank deposits and cash at bank is considered to be low. The credit risk in respect of cash with the Director of Accounting Services is considered minimal. As such, the credit risk on these financial instruments 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 instruments are immaterial and considers that no loss allowance is required.

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

	2020 HK\$	2019 HK\$
Bank deposits and bank balances, by credit rating		
Aa1 to Aa3	1,862,825	496,742
A1 to A3	3,127,880	4,874,515
	<u>4,990,705</u>	<u>5,371,257</u>

(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 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 deficit 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

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

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 effects of fluctuations in cash flows. Hence, the Fund does not have significant exposure to liquidity risk.

As at 31 March 2020, the remaining contractual maturities of all financial liabilities, based on contractual undiscounted cash flows and the earliest date on which the Fund can be required to pay, were three months or less (2019: three months or less).

5. **Capital management**

The capital structure of the Fund consists of 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 Prison Rules; 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 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.