

**Auditor-General of Queensland  
Report to Parliament No. 3 for 2007  
Results of Aboriginal Shire Council and  
Torres Strait Island Council Audits for 2005-06**



Queensland

Prepared under Part 6

Division 3 of the

*Financial Administration and Audit Act 1977*

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# Auditor-General of Queensland

June 2007

The Honourable M F Reynolds MP  
Speaker of the Legislative Assembly  
Parliament House  
BRISBANE QLD 4000

Dear Mr Speaker

This Report, prepared under Part 6 Division 3 of the *Financial Administration and Audit Act 1977*, on the results of Aboriginal Shire Council and Torres Strait Island Council Audits for 2005-06, is the third in the series of the Auditor-General's Reports to Parliament for 2007.

In accordance with s.105 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely



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# Section 1

## Executive summary

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### 1.1 Auditor-General's overview

This report outlines the results of the audits of the 32 Aboriginal Shire Councils and Torres Strait Island Councils and their respective controlled entities for the 2005-06 financial year.

This is my third report on the indigenous Council sector and while there has been limited improvement in the overall audit results compared to the results outlined in my Report No. 3 for 2006, it is disappointing to note that there is still a significant number of Councils that are showing no tangible signs of improvement in the areas of governance, financial performance, timeliness and quality of financial reporting, debt management, management of enterprise and commercial activities and basic record keeping.

I welcome the Government's announcement of the State-wide Local Government Reform, which is outlined in Section 2.1 of this report, as a constructive response to the financial management issues that have been raised over many years and were summarised in my Report No. 3 for 2006.

In this regard, there are a number of transitional issues that will need to be considered by stakeholders during the reform process to ensure that all risk exposures have been identified and appropriate strategies developed and implemented to mitigate these risks.

### 1.2 Councils' performance

Of the twenty-five independent audit reports provided for Aboriginal Shire Councils and Torres Strait Island Councils at the date of this report, seven Councils were issued with qualified audit opinions. The audit of four Aboriginal Shire Councils and three Torres Strait Island Councils remain outstanding due to delays in the finalisation of draft financial statements for audit by each of these Councils. Based on the audit activity undertaken to date it is expected that at least five of these seven Councils will receive qualified audit opinions when the financial statements are received and audited.

Four Torres Strait Island Councils moved from a qualified audit opinion in 2004-05 to an unqualified audit opinion in 2005-06. In achieving this success, the Councils of Mabuiag, Seisia, Ugar and Yorke have demonstrated that action has been taken to remedy the high risk audit issues previously raised.

Despite the improvement identified at these Councils, poor governance and ineffective controls over payroll, enterprises, cash, loans to community members, expenditure and property, plant and equipment continue to be the most prevalent causes of audit qualifications.

For six of the seven Councils issued with qualified audit opinions in 2005-06, little or no improvement has been noted in 2005-06 in addressing the issues that resulted in the qualifications for 2004-05.

Last year I introduced a rating (1 to 6) as an indicator of financial performance for each Council. While three Aboriginal Shire Councils and three Torres Strait Island Councils achieved an upgraded rating for this year, another two Torres Strait Island Councils received a downgraded rating.

I consider that an acceptable rating would be a rating of 1 or 2. Based on the audit results outlined in this report, there are ten Aboriginal Shire Councils and 11 Torres Strait Island Councils that have not achieved an acceptable rating. A summary of the ratings assessed for each Council is provided in Tables 2.2 and 2.3.

Four of the six controlled entities of Councils had not completed their financial statements at the date of this report.

## 1.3 Audit results for 2005-06

The results of a review of Councils' financial operations identified the following issues of concern —

- Inadequate and/or ineffective action taken by Councils to recover debts owed to them. Non-grant related debts owed to councils totalled \$11.8m, of which \$5.1m (or 43 per cent) has been assessed by the Councils as being doubtful of recovery.
- Councils continue to make loans in contravention of their respective policies. There are community loan debts totalling \$0.398m for 12 councils, of which \$0.286m has been outstanding for more than 12 months with these loans now in breach of the repayment terms.
- The level of debt owed by some current and immediate past councillors has been raised on several occasions. Of the Councils with finalised financial statements for 2005-06, 11 Councils had combined debts greater than \$10,000 owed by current and immediate past Councillors.
- Assets written off by Councils in 2005-06 included non-grant debts owed to Councils of \$0.648m. Councils should explore all possible avenues of debt recovery prior to clearing these items through the write-off approval process.
- Ineffective controls over stock and cash assets led to audit qualification of enterprise activities for Mer Island Council and Palm Island Aboriginal Shire Council.
- Councils must closely monitor the operations of enterprise and commercial activities to identify opportunities for enhanced controls over assets and to identify areas for improved profitability.
- Initiatives by government have included the appointment of financial controllers at three councils. The case for more frequent appointment of financial controllers continues to require close consideration.

## 1.4 Management of Aboriginal Shire Council and Torres Strait Island Council audits

As Auditor-General, my role requires that I examine and issue an audit opinion on the annual financial statements of 15 Aboriginal Shire Councils and 17 Torres Strait Island Councils and six controlled entities. The 2005-06 program of visiting Aboriginal Shire Councils and Torres Strait Island Councils included senior QAO management visits to six of the Councils. These visits provided my staff and I with a direct insight into the issues impacting on Councils.

The audits of Mornington Shire Council and Aurukun Shire Council were discussed in Report No. 1 for 2007 tabled in Parliament on 19 April 2007.

## 1.5 Modified audit opinions

At the date of this report, qualified audit opinions were issued for the 2005-06 financial statements of Lockhart River, Palm Island, Pormpuraaw and Wujal Wujal Aboriginal Shire Councils, Bamaga, Mer and Saibai Island Councils and Saibai Island Construction Pty Ltd. In the cases of Mer and Saibai Island Councils, the qualification items were of such magnitude and so pervasive that I was unable to express an opinion on the financial report taken as a whole.

While an unqualified audit opinion was issued in respect of the Cherbourg Aboriginal Shire Council financial statements, I included an emphasis of matter statement in the audit opinion which drew attention to the significant uncertainty as to whether the Council will be able to pay its debts as and when they fall due unless financial support is provided by grantor or other bodies. Details of these modified audit opinions are provided in Section 5 of this report.

# Section 2

## Financial management — a review of Councils' performance

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### 2.1 Follow up of last year's report

In my Report No. 3 for 2006 on the results of 2004-05 Aboriginal Shire Council and Torres Strait Island Council audits, I highlighted a number of issues where improvement was necessary to ensure sound financial management practices across the sector. In response to these findings, I made the following recommendations —

1. (a) *The Government and Councils undertake an analysis of the strengths and deficiencies in governance of each Aboriginal Shire Council and Torres Strait Island Council to assist in identifying the specific issues impacting on individual communities which shape either a successful or unsuccessful financial management regime. This could be undertaken within the framework of the Community Governance Improvement Strategy and the principles outlined in the discussion paper Size, Shape and Sustainability of Queensland Local Government published by the Local Government Association of Queensland Incorporated.*
  - (b) *The Government and Councils negotiate individual action plans for each Council with the aim of achieving satisfactory and sustainable governance arrangements. These plans should include actions which address the critical governance and accountability factors outlined in this report.*
  - (c) *The Government and Councils strongly consider supporting the implementation of the agreed action plans through the use of appropriate skills transfer and a tailored process of intensive and frequent review to assist Councillors and Chief Executive Officers in the early identification and resolution of issues which could prevent the introduction of sustained good financial management.*
2. *In the absence of clearly demonstrated improvement by 30 June 2007 in the financial management standards of the Councils which have received a qualified audit opinion for 2004-05, it is recommended that the Government consider the continued suitability of the current grant funding process used to deliver the services for each of these Councils.*

As a result of the recommendations, the Minister for Local Government, Planning and Sport provided an initial response which was presented in my Report No. 7 for 2006 tabled in Parliament on 22 November 2006.

Prior to the preparation of this report, a further response was requested from the Minister to ensure a balanced report on the developments and action taken to date in relation to the progress of the issues raised, the development of the “new blueprint” for the Community Governance Improvement Strategy (CGIS), and the newly proposed CGIS business model.

#### **Minister response**

By letter dated 31 May 2007, the Minister for Local Government, Planning and Sport advised the following —

*“Thank you for your letter of 19 February 2007 regarding your report No. 3 for 2006 on the 2004-2005 Aboriginal Shire Council and Torres Strait Island Council audits. I welcome the opportunity to provide you with the following advice on progress made by the Government in relation to the recommendations contained in your report.*

*On 17 April 2007, the Premier and I announced the commencement of a State-wide Local Government Reform program which will be a new chapter for local government in Queensland. Included in this reform is the establishment of the Local Government Reform Commission (the Commission) which will provide recommendations to the Government by 1 August 2007 on the most appropriate system and structure of local government for Queensland. An aim of the reform is to develop financially viable and efficient local government. Aboriginal Shire Councils and Torres Strait Island Councils are included in the reform process.*

*On the same date, the Department of Local Government, Planning, Sport and Recreation released Community Government in the Torres Strait – The Way Forward, which presents a new vision for governance in the Torres Strait that responds to the deficiencies in corporate governance and accountability identified by your audits of councils. A single regional local government (in addition to the Torres Shire) is proposed to replace the existing 17 Island Councils. This new Torres Strait Regional Council would be complemented by the establishment of 17 Community Boards representing the 17 existing island communities under the Government's proposal to the Commission. Aboriginal Shire Councils will also be considered by the Commission as a part of the reform process and deliberation will be supported by an Indigenous Reference Group. The Department continues with its support of and interventions in Indigenous Councils.*

*In addition, an intervention strategy has been developed for immediate implementation with the identified 'high risk' councils. The strategy includes a decision framework to provide guidance on the scope and nature of a proposed intervention, based on the circumstances of a particular council.*

*Interventions are aligned with the ratings provided in your Report No. 3 2006 and match deteriorating levels of performance to an escalating level of interventions and support – from negotiated agreements at a low level, to dismissal of the council and appointment of an administrator, being the highest level.*

*The new intervention strategy provides stricter controls to address poor financial management and accountability. The level of intervention will be consistently applied across all 'high risk' councils according to the decision framework.*

*The Department has also appointed Financial Controllers to Murray Island Council (in February 2007) and Badu Island Council and Doomadgee Aboriginal Shire Council (in April 2007), in response to their poor financial positions and financial management practices. The Department will continue to closely monitor and respond to financial management concerns of other councils.*

*The Department is presently undertaking a review of the State Government Financial Aid grant program. The effects of Councils providing non-municipal services (e.g. Community Development Employment Program, social programs including housing) on councils' financial sustainability will also be examined in this review.*

*Finally, I have instructed the Department to examine a joint shareholder arrangement, with a corporate model similar to Local Government Infrastructure Services, for the provision of shared service arrangements for remote local governments.*

*I trust this information is of assistance to you in planning your report to Parliament for the Aboriginal Shire Councils and Torres Strait Island Councils Audit Results for 2005-2006."*

## **Audit comment**

I believe that the concerns raised in my Report No. 3 for 2006 have been duly considered by the Government and I will continue to monitor, and report on, the effectiveness of the reforms implemented in respect of financial management and accountability in the Aboriginal Shire Council and Torres Strait Island Council sector.

## 2.2 Councils' performance

### 2.2.1 Qualified audit opinions

Table 2.1 provides a summary of audit opinions issued on Aboriginal Shire Councils and Torres Strait Island Councils over the past six years.

**Table 2.1 — Qualified and unqualified audit opinions**

	Number of qualified audit opinions*					
	2006 <sup>^</sup>	2005	2004	2003	2002	2001
Aboriginal Shire Councils	6	7	8	7	9	9
Torres Strait Island Councils	6	9	7	6	7	7
<b>Total qualified audit opinions</b>	<b>12</b>	<b>16</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>16</b>
	Number of unqualified audit opinions					
Aboriginal Shire Councils	9	8	7	8	6	6
Torres Strait Island Councils	11	8	10	11	10	10
<b>Total unqualified audit opinions</b>	<b>20</b>	<b>16</b>	<b>17</b>	<b>19</b>	<b>16</b>	<b>16</b>
Proportion of qualified opinions (%)	38%	50%	47%	41%	50%	50%

\* Qualified audit opinions include those situations where an inability to form an audit opinion is issued due to the poor state of the financial records.

<sup>^</sup> As at 4 May 2007, four Aboriginal Shire Councils and three Torres Strait Island Council audits remained outstanding for 2005-06. Based on the audit activity undertaken to date, it is expected that for 2005-06 at least five of these Councils will be issued with a modified audit opinion. The Councils which are likely to have modified opinions issued have been included in Table 2.1.

Four Torres Strait Island Councils improved from a qualified audit opinion in 2004-05 to an unqualified audit opinion in 2005-06. The primary reason for this improvement has been the effective action taken by these Councils in addressing the audit issues from 2004-05 that resulted in qualification. While these four Torres Strait Island Councils (Mabuiag, Seisia, Ugar and Yorke) have achieved an unqualified audit opinion, three other Torres Strait Island Councils were issued with a qualified audit opinion and a further three Councils are expected to be issued with a qualified audit opinion.

I was unable to form an opinion on the financial statements of Mer Island Council and Saibai Island Council due to the generally poor state of the financial records available for audit.

I acknowledge the efforts of both Hope Vale Aboriginal Shire Council and Woorabinda Aboriginal Shire Council in achieving an unqualified audit opinion for the first time in many years.

This success is overshadowed by the continuing poor results for at least six other Aboriginal Shire Councils. Four of the Aboriginal Shire Councils that were issued with qualified audit opinions in 2005-06 had not addressed all of the high risk issues that gave rise to the qualified audit opinion in the previous year.

Overall, the causes of qualification and high risk issues are ineffective governance and poor internal control structures, inadequate record keeping and incomplete and incorrect documentation to support financial transactions and balances.

Details of the modified audit opinions issued for the financial year are detailed in Section 5 of this report.

### 2.2.2 Ratings of performance

In Report No. 3 for 2006, I assigned a rating for each Council to provide an indication of the overall level of financial accountability and stewardship of financial resources up to 30 June 2005.

For the period to 30 June 2006, Tables 2.2 and 2.3 provide a rating for each Aboriginal Shire Council and Torres Strait Island Council on a scale of 1 to 6 where rating 1 denotes ongoing sound performance while rating 6 indicates generally poor financial management performance. These tables also provide details of the type of audit opinion issued for each Council over the six years since 2000-01.

The following rating criteria have been used to rate Councils' performance.

Rating	Rating criteria
1	Unqualified audit opinion for 2005-06 and in all years.
2	Modified audit opinion for 2005-06 with no qualification in the previous five years. Unqualified for 2005-06 with one modified audit opinion in the previous five years. Outstanding for 2005-06 and unqualified in previous five years.
3	Modified audit opinion for 2005-06 with one to two modified audit opinions in the previous five years. Outstanding for 2005-06 with one or two modified audit opinions in the previous five years. Unqualified for 2005-06 with two or three modified audit opinions in the previous five years.
4	Modified audit opinion or not yet finalised for 2005-06 with three to four modified audit opinions in the previous five years. Unqualified for 2005-06 with four modified audit opinions in the previous five years.
5	Modified audit opinion in all but one year. Unqualified for 2005-06 with five modified audit opinions in the previous years.
6	Modified audit opinion in all years and not yet finalised for 2005-06.

**Table 2.2 — Rating and summary of audit opinions for Aboriginal Shire Councils**

Council	Rating		2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
	2005-06	2004-05						
Cherbourg	3	3	U <sup>1</sup>	U	U	Q	Q	U
Doomadgee	6	6	NYF	I	Q	Q	Q	Q
Hope Vale	5	6	U	Q	Q	Q	Q	Q
Injinoo	2	2	U	U	U	U	U	Q
Kowanyama	2	2	NYF	U	U	U	U	U
Lockhart River	6	6	Q	I	I	I	Q	Q
Mapoon	2	2	NYF	U	U	U	U	U
Napranum	4	5	NYF	U	I	U	Q	Q
New Mapoon	1	1	U	U	U	U	U	U
Palm Island	4	4	Q	Q	Q	Q	U	U
Porpuraaw	6	6	Q	Q	Q	I	Q	Q
Umagico	3	3	U	U	U	U	Q	I
Woorabinda	5	6	U	Q	Q	I	Q	Q
Wujal Wujal	4	4	Q	Q	Q	U	U	Q
Yarrabah	2	2	U	U	U	U	Q	U

U = Unqualified audit opinion Q = Qualified audit opinion I = Inability to form an opinion NYF = Not yet finalised

<sup>1</sup> Without qualification to the audit opinion, attention was drawn to Councils uncertainty regarding continuation as a going concern.

**Table 2.3 — Rating and summary of audit opinion for Torres Strait Island Councils**

Council	Rating		2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
	2005-06	2004-05						
Badu	4	3	NYF	Q	Q	Q	U	U
Bamaga	3	2	Q	Q	U	U	U	U
Boigu	3	3	U	U	U	U	Q	Q
Dauan	6	6	NYF	Q	Q	Q	Q	Q
Erub	2	3	NYF	U	U	Q	U	U
Hammond	3	3	U	U	U	U	Q	Q
Iama	1	1	U	U	U	U	U	U
Kubin	2	2	U	U	Q	U	U	U
Mabuiag	4	5	U	Q	Q	U	Q	Q
Mer	5	5	I	Q	Q	Q	U	Q
Poruma	1	1	U	U	U	U	U	U
Saibai	5	5	I	I	I	I	Q	U
Seisia	3	3	U	Q	U	U	U	Q
St Pauls	1	1	U	U <sup>1</sup>	U	U	U	U
Ugar	3	4	U	Q	U	U	Q	Q
Warraber	1	1	U	U	U	U	U	U
Yorke	4	4	U	Q	Q	Q	Q	U

U = Unqualified audit opinion Q = Qualified audit opinion I = Inability to form an opinion NYF = Not yet finalised

<sup>1</sup> Without qualification to audit opinion, attention was drawn to loans provided to community residents without an approved policy in place.

## 2.2.4 Financial viability and grants management

The audit process includes an assessment of a Council's financial viability which is reflected in its ability to pay its debts and fulfil grant obligations in the next 12 months. A combination of factors can indicate that the financial viability of an entity should be closely monitored. These include —

- cashflow difficulties;
- inadequate attention to key ratios, such as the current ratio whereby current liabilities exceed current assets;
- insufficient available cash and investments to cover unspent grant balances; and
- creditors not paid within normal business terms.

In my view, the most relevant indicators of viability problems for councils are —

- current ratio (current assets over current liabilities) of less than 1:1; and
- cash and investments over unspent grant liability/reserve balances of less than 1:1.

Table 2.4 provides a comparison between 2005 and 2006 of Aboriginal Shire Councils and Torres Strait Island Councils where either the current ratio and/or the cash to unspent grants ratio is less than 1.0.

**Table 2.4 — Councils with current ratio and/or ratio of cash to unspent grants less than 1.0**

Council	Current ratio <sup>1</sup>		Cash to unspent grants <sup>2</sup>	
	2006	2005	2006	2005
<b>Aboriginal Shire Councils</b>				
Cherbourg	0.72	0.76	0.78	1.02
Lockhart River <sup>3</sup>	0.90	0.90	2.33	0.72
Umagico	0.99	1.04	1.16	1.17
Woorabinda	1.04	1.52	0.87	1.25
Wujal Wujal	0.98	0.93	2.58	1.77
<b>Torres Strait Island Councils</b>				
Bamaga <sup>3</sup>	0.95	1.05	1.51	1.60
Boigu	0.96	0.89	1.61	1.04
Iama	0.69	0.82	0.87	0.86
Mer <sup>4</sup>	0.75	0.89	-	1.05
St Pauls	0.53	0.85	1.25	1.82

<sup>1</sup> Current ratio is obtained by dividing current assets by current liabilities. This is a measure of an entity's ability to pay its current liabilities. A current ratio of less than 1.0 indicates that the entity does not have sufficient current assets to be able to pay its current liabilities.

<sup>2</sup> Ratio of cash to unspent grants is obtained by dividing cash by the unspent grants of the entity. A cash to unspent grant ratio of less than 1.0 indicates that the entity has used funds relating to unspent grants for purposes other than that for which the unspent grants relate to.

<sup>3</sup> For the purpose of consistency, where a Council has classified its unspent grants as "reserves", unspent grants have been included in the calculation of current ratio and ratio of cash to unspent grants.

<sup>4</sup> At 30 June 2006, Mer Island Council did not have any reported unspent grants.

The current liabilities of nine Councils exceeded their current assets. This raises concerns as to whether these councils will be able to pay their debts as and when they fall due.

Three Councils had insufficient available cash and investments to cover their unspent grant obligations at 30 June 2006. A cash to unspent grant ratio of less than 1.0 indicates that the entity has used funds relating to grants for purposes other than that for which the grants were intended.

The current ratio deteriorated from the 2004-05 period for 12 of the 25 Councils with audit certified financial statements. There was also a deterioration in the cash to unspent grants ratio in nine of the Councils.

Grant funding of \$122.5m was provided to the 25 audited Aboriginal Shire Councils and Torres Strait Island Councils in 2005-06 and this represented 69.5 per cent of the total revenue collected by Councils. Due to the reliance of Councils on grant funding it is important that they utilise grant funding for the purposes for which the grant provider intended and also restrict expenditure to a level that enables adequate cash balances to be maintained to cover outstanding grant obligations. Councils which use their grant funding for unauthorised purposes run the risk of grant providers withdrawing funding support.

I consider that the grant funding bodies should be exercising a greater responsibility for monitoring the conditions under which grant funding is provided. Once funding bodies impose conditions on the use of the funds, there is a clear responsibility on the funder to ensure that expenditure is effectively contained within the grant conditions.

While the Government is currently considering the long-term sustainability of local government across the State, the operations and financial activities of indigenous councils will pose unique challenges for Local Transition Committees which may be formed to guide the transition to an alternative governance framework for these councils.

## 2.3 Status of the audits of controlled entities of Aboriginal Shire Councils and Torres Strait Island Councils

The status of the 2005-06 audits of entities controlled by Aboriginal Shire Councils and Torres Strait Island Councils is summarised in Table 2.5.

**Table 2.5 — Status of 2005-06 audits — controlled entities of Aboriginal Shire Councils and Torres Strait Island Councils**

Controlled entity	Parent Council	2005-06 status		
		Unqualified audit opinion	Qualified audit opinion	Financial statements not finalised
Bayan Mayi-Ji Ltd	Wujal Wujal			√
Edward River Crocodile Farm Pty Ltd	Pormpuraaw			√
Lockhart River Aerodrome Company Pty Ltd	Lockhart River			√
Woorabinda Pastoral Company Pty Ltd	Woorabinda	√		
Poruma Island Pty Ltd	Poruma			√
Saibai Island Constructions Pty Ltd*	Saibai		√	
<b>Total</b>		<b>1</b>	<b>1</b>	<b>4</b>

\* Company was issued with an inability to form an audit opinion for 2005-06. Directors have advised that they intend to wind up the company in 2006-07.

The late completion of financial statements indicates poor accountability as well as potentially poor financial control. It is vital that the financial statements of these controlled entities be completed in a more timely manner for the 2006-07 financial year, so that the future of these entities can be effectively considered by the Councils, particularly during a period of possible change through the local government reform process.

The ongoing use of company structures to effect Council business and the associated governance frameworks should be closely considered by government.



# Section 3

## Audit results for 2005-06

### 3.1 Sector wide issues

#### 3.1.1 Recovery of debts owed to Councils

The action taken by many Councils to recover debts owed to them is inadequate and / or ineffective. By not recovering debts in a timely manner, Councils' available cash flows which are not subject to grant conditions are reduced. Table 3.1 shows the reported amount of debts owed to Councils, excluding grants due at 30 June 2006, together with those debts considered doubtful of recovery.

**Table 3.1 — Analysis of debts owed to Councils excluding grants due as at 30 June 2006**

Council	Housing rentals (\$)	Other (\$)	Total <sup>1</sup> (\$)	Provision for doubtful debts (\$)	Doubtful debts as a percentage of total receivables %
Cherbourg	578,877	267,920	846,797	154,597	18.3
Hope Vale	1,870	337,931	339,801	85,000	25.0
Injinoo	50,868	568,657	619,525	35,411	5.7
Lockhart River	46,141	412,972	459,113	200,000	43.6
New Mapoon	100,063	63,314	163,377	-	-
Palm Island	1,599,355	347,107	1,946,462	1,752,439	90.0
Pormpuraaw	-	1,165,798	1,165,798	-	-
Umagico	91,327	106,346	197,673	60,000	30.4
Woorabinda	751,665	607,476	1,359,141	708,372	52.1
Wujal Wujal	85,610	190,739	276,349	230,475	83.4
Yarrabah	1,017,756	254,993	1,272,749	477,332	37.5
<b>Total for Aboriginal Shire Councils</b>	<b>4,323,532</b>	<b>4,323,253</b>	<b>8,646,785</b>	<b>3,703,626</b>	<b>42.8</b>
Bamaga	53,774	213,859	267,633	20,401	7.6
Boigu	4,530	51,545	56,075	33,133	59.1
Hammond	38,809	41,838	80,647	38,033	47.2
Iama	4,152	69,234	73,386	15,523	21.2
Kubin	260,052	132,997	393,049	160,352	40.8
Mabuiag	74,036	84,239	158,275	-	-
Mer	150,927	5,144	156,071	-	-
Poruma	77,677	92,749	170,426	12,346	7.2
Saibai	58,277	1,043,880	1,102,157	994,617	90.2
Seisia	14,488	288,514	303,002	-	-

<b>Council</b>	<b>Housing rentals (\$)</b>	<b>Other (\$)</b>	<b>Total <sup>1</sup> (\$)</b>	<b>Provision for doubtful debts (\$)</b>	<b>Doubtful debts as a percentage of total receivables %</b>
St Pauls	29,550	75,352	104,902	-	-
Ugar	61,080	40,398	101,478	54,460	53.7
Warraber	17,318	28,808	46,126	15,114	32.8
Yorke	110,050	60,421	170,471	82,693	48.5
<b>Total for Torres Strait Island Councils</b>	<b>954,720</b>	<b>2,228,978</b>	<b>3,183,698</b>	<b>1,426,672</b>	<b>44.8</b>
<b>Total</b>	<b>5,278,252</b>	<b>6,522,231</b>	<b>11,830,483</b>	<b>5,130,298</b>	<b>43.4</b>

<sup>1</sup> Total includes community loan debts and debts owed by Councillors (discussed in Section 3.1.2 of this report).

As at 30 June 2006, non-grant related debts owed to Councils totalled \$11.8m. Of these debts, 43.4 per cent has been assessed by the Councils as being doubtful of recovery.

While local issues may impact on individual Councils' ability to deal effectively with the recovery of debts, Councils with large debtor balances should explore all means of recovery available to them and should also review their policies and procedures for approving transactions which may be difficult to recover.

### 3.1.2 Loans to community members

Section 38 of *Local Government (Community Government Areas) Act 2004* allows a community government to lend amounts to an adult resident only if it does so under a lending policy adopted by resolution and which has been approved by the Minister. Similarly, for Torres Strait Island Councils, Section 46 of the *Community Services (Torres Strait) Act 1984* states that a Council can make loans to community members but only if it has a lending policy that has been approved by resolution and been approved by the Minister.

Lending policies have been approved for five Aboriginal Shire Councils and seven Torres Strait Island Councils. The Badu Island Council has a lending policy, however, this policy has not been approved by the Minister. Ten Aboriginal Shire Councils and nine Torres Strait Island Councils have a policy of not providing loans to community members.

It was observed however, in the case of Injinoo Aboriginal Shire Council, loans have been made in spite of this Council having a specific policy of not advancing loans to community members.

#### Recovery of Community loan debts

The debt recovery process for community loans continues to be ineffective for the 12 Councils with outstanding community loan balances.

In eight of these councils, more than 50 per cent of the loan balances have been outstanding for more than the maximum loan term allowed under their loan policy.

The approved loan policies for Councils provide for loans ranging from \$500 to \$2,500 per community member and for maximum loan terms from six months to 12 months.

Across the sector, 72 per cent of the \$0.286m of total Community loan debts have been outstanding for more than 12 months which, at face value, would indicate there is a significant doubt that these loan debts will be recovered by the Councils.

In addition, the level of debts owed by some current and immediate past councillors, their spouses or partners and immediate family members continues to be problematic.

Councils with loans and debts owed by current and immediate past Councillors which in aggregate total more than \$10,000 are as follows —

**Table 3.2 — Councils with total debts of greater than \$10,000 owed by current and immediate past councillors, their spouses or partners and immediate family members**

Council	Aboriginal Shire Councils \$	Torres Strait Island Councils \$
Cherbourg	23,837	
Lockhart River	22,903	
Palm Island	111,887	
Umagico	14,541	
Woorabinda	16,047	
Yarrabah	50,574	
Kubin		35,318
Mabuiag		15,344
Mer		10,435
Seisia		11,974
Ugar		24,695

In conclusion, the analysis of community loan debts indicates that there is a high level of contravention of loan policies. This situation creates significant financial risk which needs to be addressed at a policy level between the Councils and Government.

## 3.2 Assets written-off

Table 3.3 shows the comparison of total asset write-offs by asset category for the financial years 2005-06 and 2004-05.

**Table 3.3 — Comparison of total asset write-offs for the financial years 2005-06 and 2004-05**

Asset category	Aboriginal Shire Councils		Torres Strait Island Councils	
	2006 <sup>1</sup> \$	2005 <sup>2</sup> \$	2006 <sup>3</sup> \$	2005 <sup>4</sup> \$
Cash losses	4,194	52,236	6,209	10,174
Housing rentals	325,503	240,967	79,351	133,830
Property, plant and equipment	206,792	37,194	1,767	487,732
Stock	21,175	77,115	5,934	49,860
Debtors	142,614	9,675	17,577	53,563
Community loans	68,837	-	13,645	32,833
<b>Total</b>	<b>769,115</b>	<b>417,187</b>	<b>124,483</b>	<b>766,992</b>

Excludes unfinalised financial statements for —

- 1 Doomadgee, Kowanyama, Mapoon and Napranum Councils;
- 2 Mapoon and Napranum Councils;
- 3 Badu, Dauan, and Erub Councils; and
- 4 Badu, Bamaga, Dauan, Saibai and Ugar Councils.

The write-off of housing rental debtors included \$225,163 at Lockhart River Aboriginal Shire Council which resulted in a qualified audit opinion (refer Section 5.1) in that the Council did not maintain an effective system for the recording and collection of rental revenue before write-off.

The audit opinion for the Palm Island Aboriginal Shire Council was qualified in respect of stock losses and ineffective controls over bank agency funds that led to an unexplained cash shortage of \$49,603 between bank and Council records which was subsequently written-off by the Council.

While weak systems of internal control can result in losses of Council assets, continued and timely action to follow up debts and the results of asset stocktakes will help ensure that adequate monitoring is undertaken and that records are maintained in a current state.

### 3.3 Timeliness

In Report No. 3 for 2006, I emphasised the need to implement effective strategies to ensure that all Councils finalise their annual financial statements in a timeframe that meets current public sector reporting standards.

For 2005-06, the financial statements of seven entities in the Aboriginal Shire Council and Torres Strait Island Council sector had not been finalised at 4 May 2007. Of the 11 Aboriginal Shire Councils and 14 Torres Strait Island Councils which had been finalised at that date, only six were able to finalise their 2005-06 financial statements within six months of the end of the financial year. The audit of Erub Island Council for 2005-06 was scheduled for commencement in June 2007. The delay is due to the failure of the Council to prepare its financial statements for 2005-06.

Section 40 of the *Local Government (Community Government Areas) Finance Standard 2004* requires all Aboriginal Shire Councils to prepare and certify proposed financial statements by 15 September each year and present them to the Auditor-General for audit. As soon as practicable after the proposed financial statements are provided to audit, they must be presented to a meeting of the community government.

Section 60 of the *Community Services (Torres Strait) Act 1984* requires all Torres Strait Island Councils to prepare and certify proposed annual financial statements each year and provide them to the Auditor-General by 31 August. As soon as practicable after certification of the financial statements by the Auditor-General, they must be presented at the next ordinary meeting of the Torres Strait Island Council. There is no date stipulated by which the statements are to be finalised and certified.

The regular production and monitoring of relevant, reliable and timely information on an entity's operating results and financial position is an important element of sound financial management and governance. The provision of such information in the form of financial reports permits problem areas to be identified and informed decisions to be made.

The unavailability of timely audited financial statements reduces the capacity of the local community and other interested parties to assess the financial performance of Councils and casts doubts over the effectiveness of the accountability regime. In particular, the lack of timeliness in completion of annual audited financial statements may reduce the ability of stakeholders to determine whether a Council remains financially viable. Table 3.4 details the number of financial statements certified by Councils by respective month end over the past six years and highlights the deterioration in the timely completion of those financial reports over the past three years.

**Table 3.4 — Audit certification of financial statements**

No. of audits certified by —	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
<b>Aboriginal Shire Councils</b>						
30 November	1	1	2	1	0	0
31 December	2	4	6	7	1	2
31 January	2	5	7	8	4	2
28 February	6	7	8	9	6	3
31 March	9	7	11	14	12	10
30 April	*11	10	14	14	14	12
Outstanding as at 4 May	4	5	1	1	1	3
<b>Torres Strait Island Councils</b>						
30 November	1	1	2	1	1	3
31 December	2	1	4	1	4	6
31 January	4	3	7	3	5	7
28 February	6	5	9	6	7	9
31 March	11	6	10	11	10	12
30 April	*14	8	12	11	13	13
Outstanding as at 4 May	3	9	5	6	4	4

\* For comparative purposes, financial statements certified on or before 4 May 2007 have been included.

While there can often be some delay between the finalisation of the audit field visit, resolution of residual audit issues and the issuing of the independent audit report, there appears to be some common factors which have affected the timeliness of financial statement completion for 2005-06. These are —

- resource shortages caused by an inability to fill key financial positions or through illnesses or resignations of key staff;
- difficulties associated with the introduction of new financial systems; and
- significant audit issues associated with the valuation of non-current assets.

## 3.4 Enterprise and commercial activities

A number of Councils are involved in the operation of enterprises with the most common enterprises being canteen, supermarket, accommodation and service station/bulk fuel. Other enterprises include cattle, farm, post office, campground, stevedoring, meat processing, rental properties and livestock. Tables 3.5 and 3.6 summarise the reported enterprise receipts for 2005-06.

### 3.4.1 Aboriginal Shire Councils

Table 3.5 — Composition of enterprise receipts for 2006 <sup>1</sup>

Councils	Canteen \$m	Supermarket \$m	Accomm. \$m	Service station / bulk fuel \$m	Other \$m	Total enterprise receipts \$m
Cherbourg	-	-	-	-	0.117	0.117
Hope Vale	-	1.709	-	0.479	-	2.188
Injinoo	-	-	0.211	0.439	0.612	1.262
Lockhart River	0.755	-	-	-	-	0.755
Palm Island	1.519	-	-	0.592	-	2.111
Pormpuraaw	1.751	-	-	0.338	-	2.089
Umagico	0.442	1.995	-	0.086	-	2.523
Yarrabah	1.322	-	-	-	-	1.322
<b>Total</b>	<b>5.789</b>	<b>3.704</b>	<b>0.211</b>	<b>1.934</b>	<b>0.729</b>	<b>12.367</b>

<sup>1</sup> Excludes Doomadgee, Kowanyama, Mapoon and Napranum Councils as the financial statements had not been completed at the date of this Report.

### 3.4.2 Torres Strait Island Councils

Table 3.6 — Composition of enterprise receipts for 2006 <sup>1</sup>

Councils	Canteen \$m	Supermarket \$m	Accomm. \$m	Service station / bulk fuel \$m	Other \$m	Total enterprise receipts \$m
Bamaga	-	-	0.272	-	0.183	0.455
Mer	0.704	-	-	-	0.511	1.215
Poruma	-	-	-	-	0.033	0.033
Saibai	0.489	0.733	0.117	-	0.060	1.399
Seisia	-	3.719	0.871	1.473	1.985	8.048
St Pauls	-	-	0.071	-	-	0.071
Warraber	-	-	0.045	-	0.156	0.201
<b>Total</b>	<b>1.193</b>	<b>4.452</b>	<b>1.376</b>	<b>1.473</b>	<b>2.928</b>	<b>11.922</b>

<sup>1</sup> Excludes Badu, Dauan and Erub Councils as the financial statements had not been completed at the date of this Report.

This enterprise receipt information only includes activities that have been classified by Councils as an enterprise and where trading statements for those activities were prepared.

The following common audit issues relating to enterprise and commercial activities were identified in 2005-06 —

- The majority of the Councils do not allocate all costs such as administrative support costs to the enterprise operations and therefore the level of profitability is not ascertainable and therefore not reported.
- A balance sheet as at 30 June 2006 was not prepared for a total of 12 enterprise activities at six Councils.
- There was inadequate security over inventory which resulted in concerns in regard to enterprise management. This applies particularly to the Palm Island Aboriginal Shire Council and Mer Island Council whose financial statements have been qualified because of ineffective control procedures in relation to enterprise stock and cash management.

## **3.5 Government initiatives**

### **3.5.1 Appointment of financial controllers**

The *Local Government (Community Government Areas) Act 2004* and the *Community Services (Torres Strait) Act 1984* include provisions for the appointment of financial controllers. Under these Acts, financial controllers can be appointed by the Minister to ensure Councils adhere to their budgets. Controllers may also give advice about financial management to the Council and undertake administrative tasks as requested by the Minister and the Council.

In Report No. 3 for 2006, I reported on the Councils where a financial controller had been appointed since 1999. In my Report, I stated —

*“The audit findings since 1999 could be considered to provide some evidence that the criteria included in the legislation for financial controllers to be appointed has been met for a number of the Councils. The case for more frequent appointment of financial controllers may require closer consideration.”*

Since the tabling of Report No. 3 for 2006, I note that financial controllers have been appointed at Mer and Badu Island Councils and Doomadgee Aboriginal Shire Council.

The initiative taken by the Department and Minister to establish criteria to assess the need for financial controllers is welcomed.

### **3.5.2 Government champions**

The State Government champions initiative has been operating since 2002. The program is a worthwhile initiative which encourages Directors-General to become “champions” for specific communities. Directors-General undertake a variety of key functions to provide assistance to communities and the management of Councils.

### **3.5.3 Assistance from Queensland Audit Office**

In Report No. 3 for 2006 on the results of 2004-05 Aboriginal Shire Council and Torres Strait Island Council audits, I indicated that within the constraints of my external audit role and available resources, I was willing to assist in the identification of possible actions to achieve an improvement in the financial accountability of this sector. Over the past twelve months, QAO has contributed to this process in the following ways —

- allocation of additional resources to QAO staffed Council audits to allow time to investigate and resolve long outstanding issues as well as providing some limited advice to Council financial staff;
- increased liaison with both the Crime and Misconduct Commission and the Department of Local Government, Planning, Sport and Recreation concerning investigation of matters within the mandate of each agency; and
- ongoing input into the streamlining of financial reporting requirements for Councils.



# Section 4

## Management of Aboriginal Shire Council and Torres Strait Island Council audits

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### 4.1 Auditor-General's role

The Aboriginal Shire Council and Torres Strait Island Council sector in Queensland consists of 15 Aboriginal Shire Councils and 17 Torres Strait Island Councils each administering an equivalent to a local government area, and six controlled entities. These entities are listed in Section 6 of this report. The audits of Mornington Shire Council and Aurukun Shire Council were discussed in Report No. 1 for 2007 tabled in Parliament on 19 April 2007.

Aboriginal Shire Councils are Local Governments as defined in Queensland by the *Local Government Act 1993* and are governed by the *Local Government (Community Government Areas) Act 2004*, and the *Local Government (Community Government Areas) Finance Standard 2004*. The provisions of the *Local Government Act 1993* also apply except where stated in the *Local Government (Community Government Areas) Act 2004*.

Torres Strait Island Councils are governed by the *Community Services (Torres Strait) Act 1984*, and the *Community Services (Island Council) Accounting Standard 2002*.

The relevant legislation requires the Auditor-General to prepare a report on any audit of an Aboriginal Shire Council or Torres Strait Island Council. In the case of the Aboriginal Shire Councils, copies of that report are required to be given to the Mayor who is in turn required to table a copy of this report at the next ordinary meeting of the Council. For Torres Strait Island Councils, a copy of the audit report is provided to the Council Clerk. Copies of the audit reports are also required to be given to the Minister.

The legislation requires the Auditor-General, as part of the annual audit, to examine the Council's annual financial statements and provide an independent audit report on those financial statements.

### 4.2 Audit arrangements and relationships with regional clients

In order to complete the audits of Aboriginal Shire Councils and Torres Strait Island Councils and their controlled entities, extensive use is made of appropriately qualified contract auditors who are not officers of the Queensland Audit Office. In all cases, contract auditors are persons with proven experience who are professionally qualified and practising as private sector auditors. Of the 15 Aboriginal Shire Council and 17 Torres Strait Island Councils, and six controlled entity audits performed in 2005-06, the audits of 12 Aboriginal Shire Councils, 14 Torres Strait Island Councils and four controlled entity audits were conducted by contracted auditors based in regional Queensland.

The QAO's Contract Auditors Workshop held on 20 April 2007 included a special briefing session for contractors assisting QAO within this sector.

As part of our ongoing program of visiting Aboriginal Shire Councils and Torres Strait Island Councils throughout the State during 2005-06, QAO staff conducted the audits of three Aboriginal Shire Councils, and three Torres Strait Island Councils and two controlled entities of Councils.

An added focus for the 2005-06 year was the development of a more direct involvement by QAO staff with Councils that are struggling to achieve an acceptable level of financial management and accountability. This involvement included direct resourcing of the audits by QAO staff, attendance at audit exit interviews with contract auditors and Councils and the annual program of regional visits to cover different centres to address particular issues and to maintain QAO knowledge of regional issues.

In 2005-06, senior QAO staff visited Cherbourg, Mapoon, Napranum, Pormpuraaw and Kowanyama Aboriginal Shire Councils as well as Bamaga Island Council.

Revised audit arrangements for this sector are under consideration for the 2006-07 financial year following the Government's announcement of the local government reform process.



# Section 5

## Modified audit opinions

### 5.1 Aboriginal Shire Councils and controlled entities

Extracts from modified audit opinions and referral letters issued to the date of this report for Aboriginal Shire Councils and their controlled entities in respect of the 2005-06 financial year are included in Table 5.1.

**Table 5.1 — Modified audit opinions**

Entity	Details
Cherbourg Aboriginal Shire Council	<p><b>Modified Audit Opinion – Emphasis of Matter</b></p> <p>Without qualification to the opinion expressed above, attention is drawn to the following matter.</p> <p>The Council’s financial statements for the year ending 30 June 2006 disclosed that current liabilities exceeded current assets by \$482,410 (2005 - excess liabilities of \$482,553). In addition, as at 30 June 2006, Council had \$398,131 in cash available to meet the balance of unexpended grant monies of \$507,579 as set out in Note 26, representing a shortfall in available cash of \$109,448. This indicates the prevalence of inadequate cash management practices in that Council has used grant funding for purposes other than those approved by grant providers. Consequently, there is significant uncertainty as to whether the Council will be able to pay its debts as and when they fall due and whether the Council will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report unless financial support is provided by grantor or other bodies.</p> <p><b><u>Council response</u></b></p> <p>The Chief Executive Officer advised in his letter of 23 February 2007 —</p> <p><i>“There are a couple of issues that have caused the excess of current liabilities over current assets.</i></p> <p><i>Firstly, we are showing a provision for long service leave and annual leave of \$547,625.00 which is a substantial amount for which we have not been able to address to date. Council has been slowly each year collecting funds towards this however it will take a few more years to be in a position to meet this provision in total.</i></p> <p><i>Secondly, as was raised by the auditor, we have some concern over the accuracy of the inventories figures as at the 30 June. It is believed that this amount may have been understated however we were unable to go back to rectify the figure as a lot of the stock had subsequently been used.</i></p> <p><i>In relation to the use of grant funds, this is an issue that we are constantly having to monitor and we have put budgets into place this financial year to endeavour to overcome any further problems.</i></p> <p><i>You may be aware that our Council is now in a situation where it is almost totally reliant on grant funding. Our capacity to operate substantial enterprises is very limited. We continue to persevere with the cattle operation as stock numbers are constantly increasing and thus giving us a valuable asset.”</i></p>

Entity	Details
Lockhart River Aboriginal Shire Council	<p><b>Qualification</b></p> <p>In my report for the 2004-05 financial year I did not express an opinion on the Financial Statements prepared by the Council due to Council's failure to institute and maintain accounting records and systems of internal control and the fact that information sought could not be provided, resulting in a limitation of scope on the audit. I am therefore unable to and do not express an opinion on the comparatives for 2004-05.</p> <p>Council did not have an effective system in place for the collection of rental revenue before write-off as is prescribed by s34(2) of the <i>Local Government (Community Government Areas) Finance Standard 2004</i>. As disclosed in Note 7 and Note 28, rental debts of \$225,163 were written-off during the year, which represented all unpaid debts from the former Attaché accounting system.</p> <p><b><u>Council response</u></b></p> <p>The Mayor advised in his letter of 16 March 2007 —</p> <p><i>"I acknowledge receipt of your letter of the 28 February 2007 enclosing our 2005-06 audit. I am attaching for your information Council's response to matters arising together with our action plan to address these issues. Council are very pleased with the result which to us represents a vast improvement in our administration and our governance and we will not stop here, but will strive to improve further in the current year. We must thank your audit team for their commitment to solve outstanding issues and to ensure that the Council moves forward from the past situation with realistic and verifiable opening balances."</i></p>
Palm Island Aboriginal Shire Council	<p><b>Qualification</b></p> <p>Council failed to maintain an effective system of control over canteen stock as is prescribed by s34(2)(c) of the <i>Local Government (Community Government Areas) Finance Standard 2004</i>. As a consequence, stock losses of \$13,197, including approximately 535 cartons of beer, (2005: \$45,426 – including approximately 1,480 cartons of beer) have been identified and written off during the year. These losses are disclosed in Note F to the financial statements.</p> <p>Council failed to maintain an effective system of control over bank agency funds as is prescribed by s34(2)(c) of the <i>Local Government (Community Government Areas) Finance Standard 2004</i>. As at 30 June 2006, Council identified an unexplained cash shortage of \$49,603 (2005: \$1,606) between the bank and the Council records. As disclosed in Note 28, Council has subsequently resolved to repay these cash shortages to the bank.</p> <p><b><u>Council response</u></b></p> <p>On 11 December 2006 the Chief Executive Officer advised —</p> <p><i>"Council also has concerns about the operations of the Bank and believe part of the problem may be due to staff not appropriately trained. This training is being sought through the Commonwealth Bank. Council has also resolved to refer this matter to the Queensland Police. A system has been put in place to have a senior employee check daily balances with the Bank Clerk. The Clerk has been instructed to reduce the amount of cash held at the bank."</i></p> <p><i>Council has resolved to report stock losses to the Police. A regime of daily stock taking has been put in place, however losses still continue. Employees are continually monitored and recent warning letters have been issued to some staff members. Staff members have been instructed to bank each day and that a supervising staff member is to be present when cash is deposited into the bank."</i></p>

Entity	Details
Pormpuraaw Aboriginal Shire Council	<p><b>Qualification</b></p> <p>The 2004-05 audit report was qualified on the basis of property, plant and equipment (\$25,153,874), depreciation (\$2,083,107) and employee benefits expenses (\$6,052,471), due to a lack of supporting documentation, which meant that the completeness and accuracy of the reported amounts was unable to be verified. I am therefore unable to and do not express an opinion on these comparative balances for 2004-05.</p> <p>The reliability of the Property, Plant and Equipment balance of \$25,290,369 as set out in Note 9, and the depreciation expense in the Income Statement of \$2,159,479 could not be substantiated in that —</p> <ul style="list-style-type: none"> <li>● the Council did not maintain a complete and accurate asset register nor were asset movements completely and accurately recorded for either of the 2005-06 or the 2004-05 financial years;</li> <li>● depreciation charges were incorrectly calculated by asset category rather than on an asset by asset basis; and</li> <li>● an independent revaluation of buildings and freehold land has not been undertaken at least once every five years.</li> </ul> <p>Employee benefit liabilities for annual leave (\$173,463) and long service leave (\$130,315) as set out in Note 16 to the financial statements could not be verified as the Council could not provide any documentary evidence to support the liabilities.</p> <p>The net impact of these matters on the financial report cannot be practicably quantified due to the absence of reliable data.</p> <p>Also, the Council did not maintain adequate systems of internal control as required by s13 of the Local Government (Community Governance Areas) Finance Standard 2004 in that there was a lack of adequate evidence —</p> <ul style="list-style-type: none"> <li>● that employee timesheets, pay runs, and invoices for goods and services had been appropriately authorised;</li> <li>● to support journal entry postings; and</li> <li>● to verify revenue reconciliations between Macair agency sales and cash takings.</li> </ul> <p><b><u>Council response</u></b></p> <p>In correspondence dated 16 March 2007, the Chief Executive Officer advised that audit recommendations are noted and accepted, and —</p> <ul style="list-style-type: none"> <li>● <i>“Current intentions are to fully assess the capabilities of MYOB with the intention to transfer all accounting processes to MYOB commencing 1 July 2007. Council is working with Australian Bookkeeping Company, Nadine Bent, certified MYOB consultant to achieve this.</i></li> <li>● <i>Council is in the process of transferring all accounting/payroll functions to MYOB.</i></li> <li>● <i>Revaluations are being carried out as part of the compilation of the new Asset Register.”</i></li> </ul>

Entity	Details
Wujal Wujal Aboriginal Shire Council	<p><b>Qualification</b></p> <p>In my report for the 2004-05 financial year I did not express an opinion on housing rental debtors of \$47,059 due to the lack of an effective audit trail for each tenant's debt. Also, the Council did not maintain an effective system for the management of housing rental debts, as evidenced in Council's decision to write-off the full amount (\$176,038) of all unpaid housing rental debts as at 1 July 2004 without taking adequate steps to collect these debts. I am therefore unable to express an opinion on these comparative balances reported for 2004-05.</p> <p>While Note E to the financial statements indicates that the Council owns a 100 per cent interest in the controlled entity, Bayan Mayi-Ji Ltd, this company has yet to provide its 2002-03, 2003-04, 2004-05 and 2005-06 financial statements for my review and opinion. While Council is not required in terms of the prescribed requirements to consolidate the company's financial results into its financial statements, as a controlled entity of the Council —</p> <ul style="list-style-type: none"> <li>● the impact of the company's results and financial position on the Council is uncertain; and</li> <li>● the basic accountability requirements of the Corporations Act have not been met.</li> </ul> <p><b><u>Council response</u></b></p> <p>At the date of this report, no response from the Council had been received.</p>

## 5.2 Torres Strait Island Councils and controlled entities

Extracts from modified audit opinions and referral letters issued to the date of this report for Torres Strait Island Councils and their controlled entities in respect of the 2005-06 financial year are included in Table 5.2.

**Table 5.2 — Modified audit opinions**

Entity	Details
Bamaga Island Council	<p><b>Qualification</b></p> <p>The reliability of the trade creditors and accruals balances of \$462,246 and \$141,507 respectively as set out in Note 17 Payables, and of the supplies and services balance in the Income Statement of \$2,604,923, could not be substantiated.</p> <p>Council was unable to provide a detailed listing supporting \$308,037 of recorded trade creditors (or 67 per cent of total recorded trade creditors) for audit verification. A detailed listing was also not able to be provided for \$372,269 of the 30 June 2005 trade creditors balance included in the comparative figures.</p> <p>A process was not in place to recognize accruals in respect of supplies and services (other than for audit fees) and capital expenditure that had been incurred by 30 June 2006 but that had not been paid by this date or included in the Trade Creditors balance.</p> <p>The net impact of these matters on the payables and supplies and services balances for 2006 and 2005 can not be practicably quantified due to the absence of reliable data.</p> <p><b><u>Council response</u></b></p> <p>At the date of this report, no response from the Council had been received.</p>
Mer Island Council	<p><b>Qualification – Inability to form an Opinion</b></p> <p>I was unable to obtain all the information and explanations I required in order to form an opinion on the financial report of Mer Island Council. The more significant factors that resulted in a limitation on the scope of the audit were —</p> <ul style="list-style-type: none"> <li>• In my report for the 2004-05 financial year, I qualified my opinion on the financial statements prepared by the Council due to Council's failure to provide adequate supporting documentation and audit trails to confirm the completeness and accuracy of canteen sales; property, plant and equipment; housing rentals; trade creditors; and inventories. I was also unable to substantiate the existence of cash on hand of \$45,505.</li> <li>• The completeness and accuracy of the Statement of Receipts and Disbursements cannot be relied upon as the statement includes a balancing adjustment of \$136,337 which could not be supported.</li> <li>• As Council did not maintain adequate controls over the receipting and banking of cash collected resulting in cash shortages, the completeness and accuracy of the cash balance of \$489,710 (2005 - \$978,030) as disclosed in Note 14 of the financial report could not be verified.</li> <li>• As canteen cash sales and inventory records were poorly maintained during the year, the completeness and accuracy of the reported value of canteen sales of \$704,477 (2005 - \$765,378) as set out in Note 3 and the Canteen Trading Statement in Note H to the financial report, could not be relied upon.</li> <li>• As the Council did not calculate depreciation in the current year and did not maintain a detailed asset register, the completeness and accuracy of the reported value of property, plant and equipment of \$15,535,102 (2005 - \$15,535,102) as set out in Note 17 to the financial report could not be relied upon.</li> </ul>

Entity	Details								
	<ul style="list-style-type: none"> <li>• As housing rental records were poorly maintained, the completeness and accuracy of the value of housing rentals receipts of \$207,637 (2005 - \$159,662) recorded in the Statement of Receipts and Disbursements could not be verified.</li> <li>• Many of the receipts and disbursements disclosed in the financial report could not be verified as they were not supported by related balances in the general ledger trial balance. The more significant of these balances were rental house maintenance of \$112,713 (Note 8), camp expenses of \$178,960 (Note 10), construction – other works of \$187,905 (Note 10) and enterprise - freezer wages of \$124,214 (Note 11).</li> <li>• Disbursements for the ATSI New Housing Project were disclosed as \$887,185 in Note D to the financial report, however, the disbursements recorded in the Council’s general ledger for this project totalled \$1,623,053. Consequently, the disbursements and the closing balance of this project of -\$393,635 could not be verified.</li> <li>• The Council did not maintain adequate systems, controls or records to support balances for inventories of \$60,639 (2005 – \$28,399), trade creditors of \$92,154 (2005 - \$98,325), GST/PAYG withholding liabilities of \$536,639 and employee entitlements for which no balance was disclosed in the financial report.</li> </ul> <p>The financial impact of these matters on the 2005-06 financial report can not be practicably quantified due to the absence of reliable evidentiary source documents.</p> <p>Given the state of the financial records as detailed above and the lack of financial management oversight by the Council, the ongoing financial viability of the Council cannot be assessed.</p> <p><b><u>Council response</u></b></p> <p>The Chief Executive Officer advised in his letter of 17 May 2007 —</p> <p style="padding-left: 40px;"><i>“An audit action plan has been implemented in relation to the 2005-06 Audit Financial Statements together with Council comments on the Matters Arising.”</i></p>								
Saibai Island Council	<p><b>Qualification – Inability to form an Opinion</b></p> <p>I was unable to obtain all the information and explanations I required in order to form an opinion on the financial report of Saibai Island Council. The most significant factors that resulted in a limitation on the scope of the audit were —</p> <ul style="list-style-type: none"> <li>• In my report for the 2004-05 financial year I did not express an opinion on the financial statements prepared by the Council due to the Council's failure to institute basic accountability processes and to provide adequate supporting documentation, audit trails and control reconciliations to confirm the completeness and accuracy of key balances including supplies and services (\$2,290,498); employee expenses (\$2,574,759); other expenses (\$1,479,075); receivables (\$167,232); property, plant and equipment (\$18,458,139); provisions (\$127,922) and extraordinary items (\$1,155,802). I was also unable to confirm the Statement of Cash Flows, which did not accurately reflect the movements of cash as recorded in the general ledger. These inadequacies resulted in a limitation on the scope of the audit. I am therefore unable to and do not express an opinion on the comparatives for 2004-05.</li> <li>• Basic accountability processes were lacking and the Council was unable to provide adequate supporting documentation, audit trails to confirm the completeness, accuracy and validity of the following key general ledger account balances including —</li> </ul> <p><b>Income Statement</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Sale of goods</td> <td style="text-align: right;">\$1,282,889</td> </tr> <tr> <td>Supplies and services</td> <td style="text-align: right;">\$1,960,374</td> </tr> <tr> <td>Employee expenses</td> <td style="text-align: right;">\$2,740,560</td> </tr> <tr> <td>Grant expenditure</td> <td style="text-align: right;">\$817,335</td> </tr> </table>	Sale of goods	\$1,282,889	Supplies and services	\$1,960,374	Employee expenses	\$2,740,560	Grant expenditure	\$817,335
Sale of goods	\$1,282,889								
Supplies and services	\$1,960,374								
Employee expenses	\$2,740,560								
Grant expenditure	\$817,335								

Entity	Details						
	<p><b>Balance Sheet</b></p> <table data-bbox="363 264 965 353"> <tr> <td>Property, Plant and Equipment</td> <td>\$17,854,343</td> </tr> <tr> <td>Long Service Leave Liabilities</td> <td>\$104,217</td> </tr> <tr> <td>Annual Leave Liabilities</td> <td>\$86,444</td> </tr> </table> <p>Due to a lack of adequate supporting documentation, the completeness, accuracy and validity of the opening balance adjustment of \$680,113 to retained surplus as disclosed in the statement of equity, was unable to be substantiated.</p> <p>The financial impact of these matters on the 2005-06 financial report cannot be practicably quantified due to the absence of reliable evidentiary source documents.</p> <p><b><u>Council response</u></b></p> <p>At the date of this report, no response from the Council had been received.</p>	Property, Plant and Equipment	\$17,854,343	Long Service Leave Liabilities	\$104,217	Annual Leave Liabilities	\$86,444
Property, Plant and Equipment	\$17,854,343						
Long Service Leave Liabilities	\$104,217						
Annual Leave Liabilities	\$86,444						
Saibai Island Constructions Pty Ltd	<p><b>Qualification</b></p> <p>The following factors resulted in a limitation on the scope of the audit —</p> <ul data-bbox="335 795 1460 1724" style="list-style-type: none"> <li>• Due to the failure of the Company to maintain adequate accounting records, all the information and explanations sought by audit could not be provided.</li> <li>• In accordance with Note 1, the financial report has been prepared on the basis of superseded accounting standards.</li> <li>• In the opinion of the Directors', the company experienced significant upheaval and staff turnover in the financial management areas which led to a lack of audit trail and supporting evidence. As a result of these inadequacies, the Directors qualified their declaration that the financial statements: <ul data-bbox="367 1097 1460 1232" style="list-style-type: none"> <li>– give a true and fair view of the financial performance for the 2005-06 financial year and financial position as at 30 June 2006; and</li> <li>– had been prepared in accordance with the <i>Corporations Act 2001</i> and <i>Australian Accounting Standards</i>.</li> </ul> </li> <li>• The Directors have failed to disclose in the financial report that the reported assets and liabilities as at 30 June 2006 have been transferred to the Saibai Island Council.</li> <li>• The Directors have prepared the special purpose financial report of Saibai Constructions Pty Ltd on a going concern basis. However, as stated in Note 8 to the financial report, the company no longer operates and is currently preparing to be wound up. Consequently, in my opinion, it is highly improbable that the company will be able to continue as a going concern and, therefore, I believe the going concern basis should not be used.</li> <li>• Had the going concern basis not been used, adjustments would need to be made relating to the recoverability and classification of recorded asset amounts, and / or to the amounts and classification of liabilities, to reflect the fact that the company and its controlled entity may be required to realise its assets and extinguish its liabilities other than in the normal course of business, and at amounts different from those stated in the financial report.</li> </ul> <p><b><u>Council response</u></b></p> <p>At the date of this report, no response from the Council had been received.</p>						



# Section 6

## Appendices

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### 6.1 Appendix A - Aboriginal Shire Councils

Cherbourg	Doomadgee
Hope Vale	Injinoo
Kowanyama	Lockhart River
Mapoon	Napranum
New Mapoon	Palm Island
Pormpuraaw	Umagico
Woorabinda	Wujal Wujal
Yarrabah	

### 6.2 Appendix B - Torres Strait Island Councils

Badu	Bamaga
Boigu	Dauan
Erub	Hammond
Iama	Kubin
Mabuiag	Mer
Poruma	Saibai
Seisia	St Pauls
Ugar	Warraber
Yorke	

### 6.3 Appendix C - Controlled entities

Bayan Mayi-Ji Ltd  
Edward River Crocodile Farm Pty Ltd  
Lockhart River Aerodrome Company Pty Ltd  
Poruma Island Pty Ltd  
Saibai Island Construction Pty Ltd  
Woorabinda Pastoral Company Pty Ltd

## 6.4 Appendix D - Aboriginal Shire Councils and Torres Strait Island Councils 2006 population

Aboriginal Shire Council	2001 Census <sup>1</sup>	2006 ERP <sup>2</sup>	Torres Strait Island Council	2001 Census <sup>1</sup>	2006 ERP <sup>2</sup>
Cherbourg	1,087	1,250	Badu	516	786
Doomadgee	979	1,236	Bamaga	638	937
Hope Vale	674	914	Boigu	245	295
Injinoo	376	446	Dauan	105	120
Kowanyama	753	1,054	Erub	278	320
Lockhart River	276	642	Hammond	195	208
Mapoon	192	214	Iama	275	363
Napranum	676	813	Kubin	166	226
New Mapoon	305	360	Mabuiag	198	240
Palm Island	1,949	2,378	Mer	408	462
Pormpuraaw	559	631	Poruma	178	175
Umagico	237	288	Saibai	229	368
Woorabinda	896	1,035	Seisia	110	144
Wujal Wujal	235	379	St Pauls	186	239
Yarrabah	1,987	2,322	Ugar	61	57
			Warraber	207	239
			Yorke	244	336
<b>Total</b>	<b>11,181</b>	<b>13,962</b>	<b>Total</b>	<b>4,239</b>	<b>5,515</b>

<sup>1</sup> As per 2001 ABS Census.

<sup>2</sup> Australian Bureau of Statistics has published the "Regional Population Growth, Australia, 2005-06 (ABS cat. no. 3218.0) and Population by Age and Sex, Queensland (ABS cat. no. 3235.3.55.001) [Latest Issue released at 11.30 AM (Canberra Time) 27/02/2007]. The numbers are preliminary estimates of Estimated Resident Population (ERP).

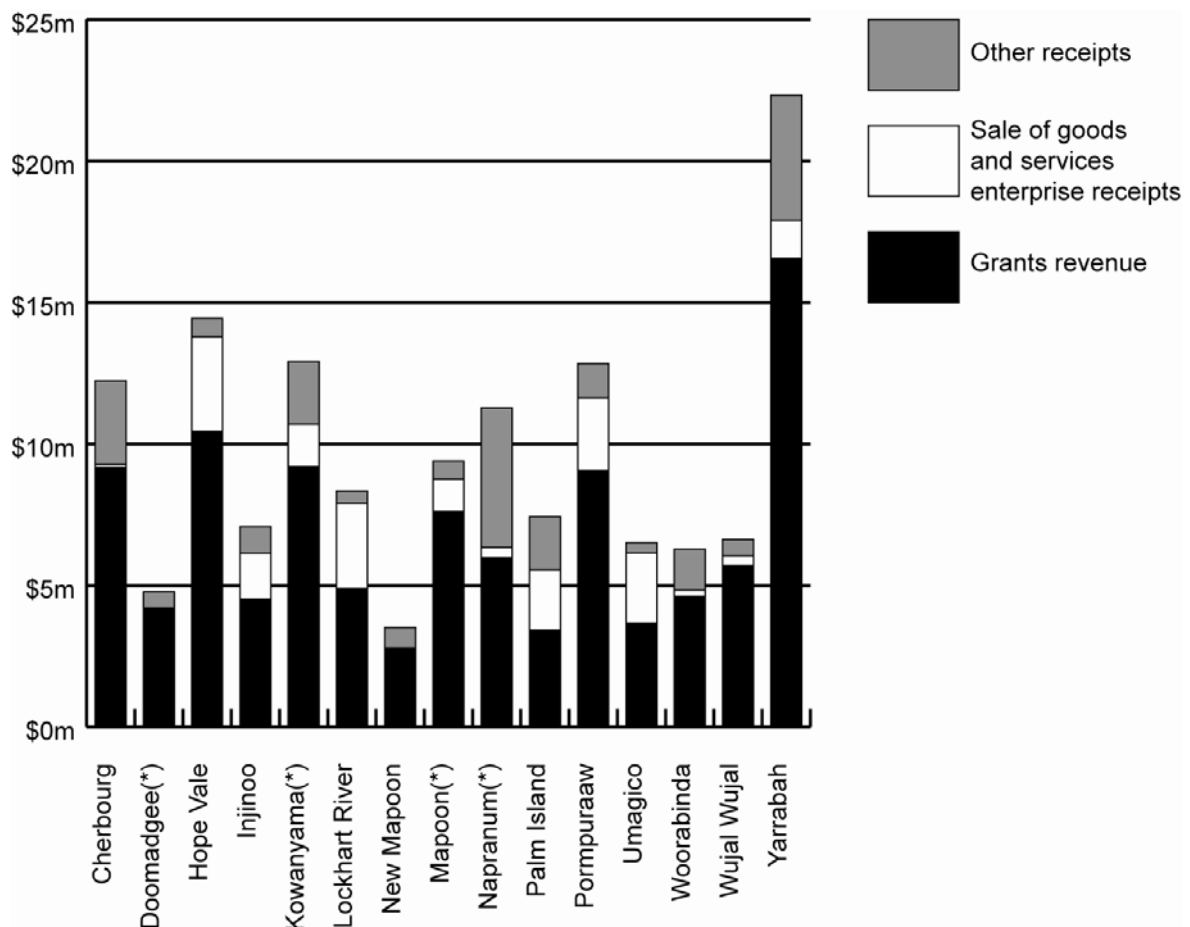
## 6.5 Appendix E - Scale of operations

In order to provide some context to the operations of these entities, I have outlined the key financial data for all the Councils.

### Aboriginal Shire Councils

Figure 6.1 sets out the total receipts for 2005-06 and Table 6.2 outlines the total assets and liabilities as at 30 June 2006 for Aboriginal Shire Councils.

**Table 6.1 — Total receipts of Aboriginal Shire Councils for 2006**



(\*) As the financial statements for 2005-06 were not finalised at the date of this Report, 2004-05 balances have been used.

**Table 6.2 — Summary of total assets and liabilities as at 30 June 2006 for Aboriginal Councils**

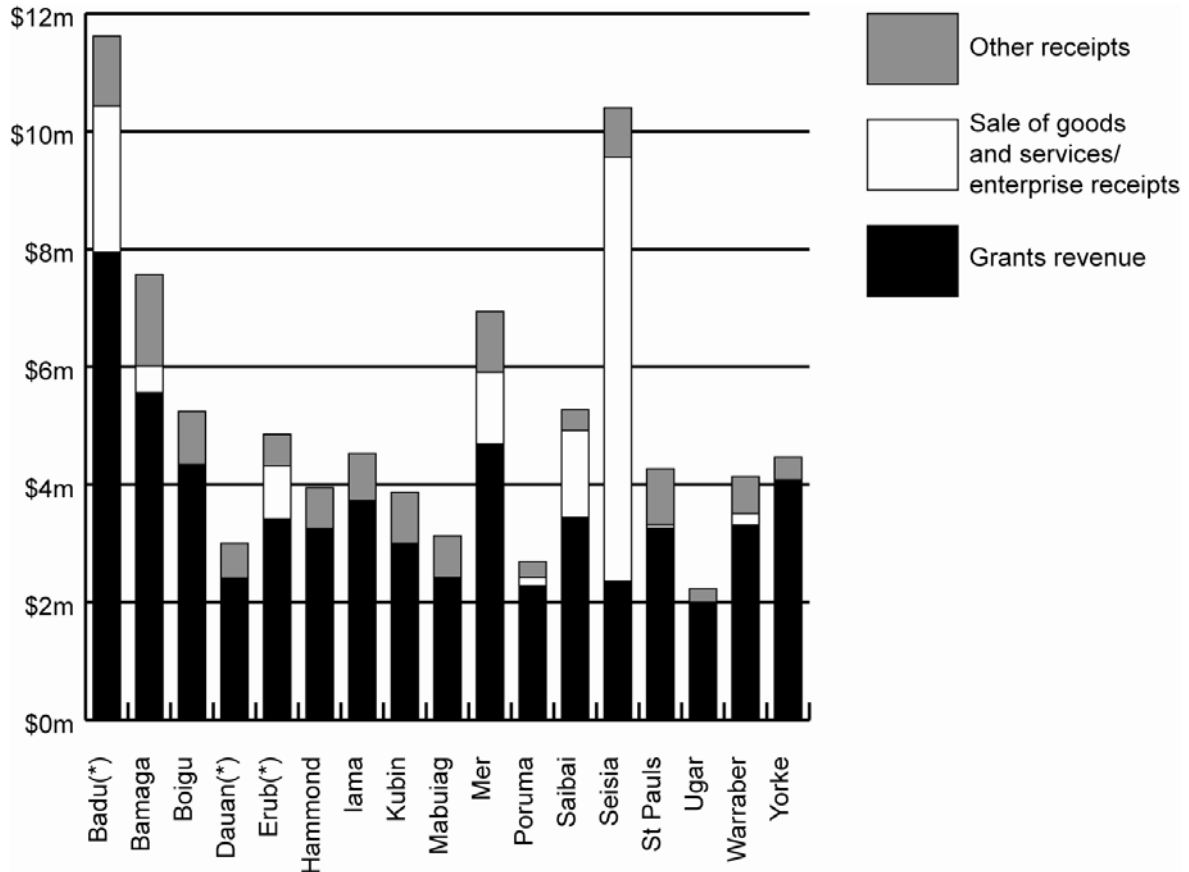
<b>Council</b>	<b>Total assets \$m</b>	<b>Total liabilities \$m</b>	<b>Net assets \$m</b>
Cherbourg	53.163	2.033	51.129
Doomadgee*	28.061	0.946	27.115
Hope Vale	40.734	1.855	38.879
Injinoo	16.951	0.712	16.239
Kowanyama*	39.677	1.886	37.791
Lockhart River	29.453	1.151	28.302
Mapoon*	21.139	1.213	19.926
Napranum*	43.054	2.292	40.762
New Mapoon	20.808	1.165	19.643
Palm Island	61.482	1.300	60.182
Pormpuraaw	29.715	1.766	27.949
Umagico	13.692	2.222	11.470
Woorabinda	36.988	1.816	35.172
Wujal Wujal	21.925	1.537	20.388
Yarrabah	28.157	2.662	25.495
<b>Total</b>	<b>484.998</b>	<b>24.556</b>	<b>460.442</b>

\* As the financial statements for 2005-06 were not finalised at the date of this Report, 2004-05 balances have been used.

## Torres Strait Island Councils

Figure 6.3 sets out the total receipts for 2005-06 and Table 6.4 sets out the total assets and liabilities as at 30 June 2006 for the Torres Strait Island Councils.

**Figure 6.3 — Total receipts of Torres Strait Island Councils for 2006**



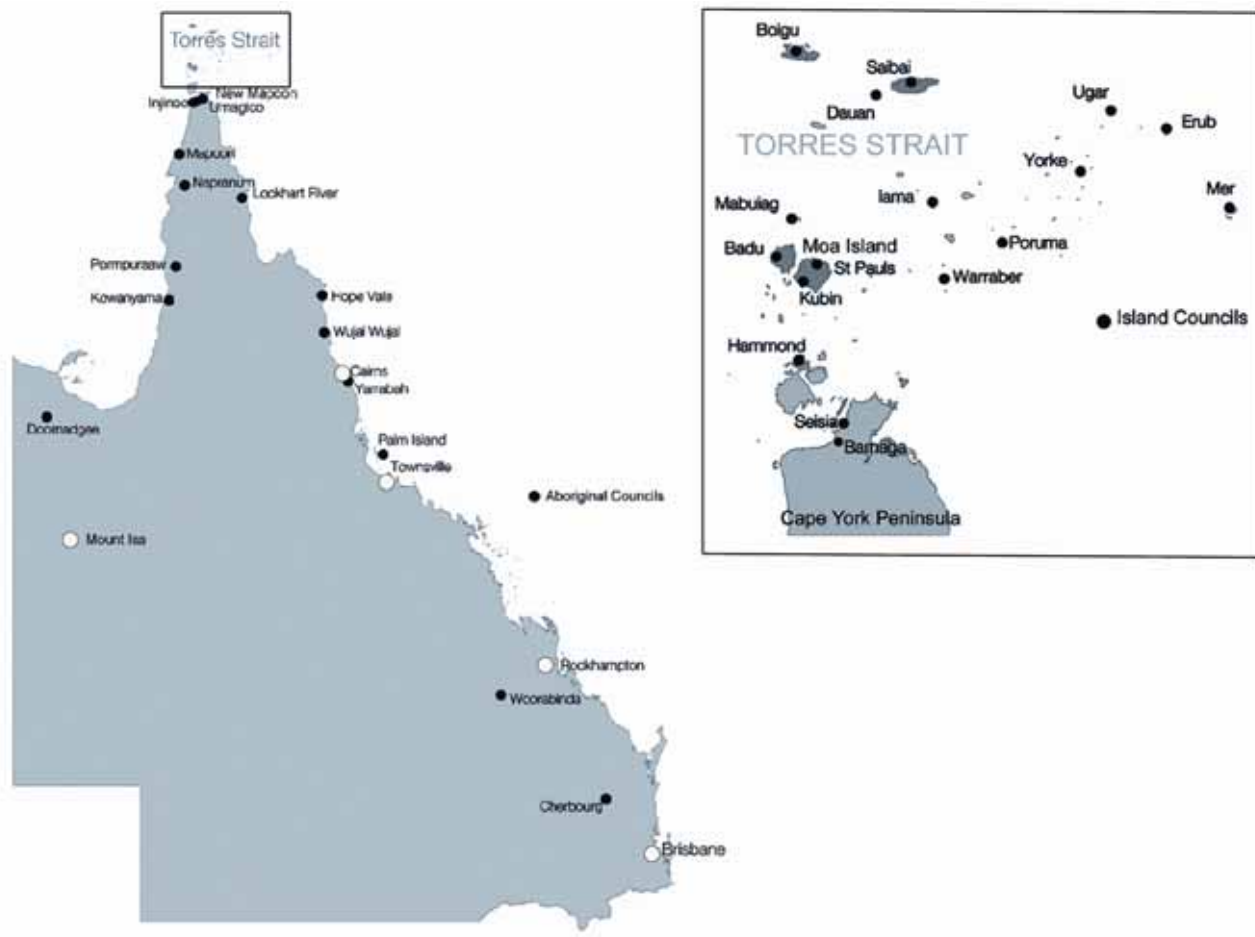
(\*) As the financial statements for 2005-06 were not finalised at the date of this Report, 2004-05 balances have been used.

**Table 6.4 — Summary of total assets and liabilities as at 30 June 2006 for Torres Island Councils**

<b>Council</b>	<b>Total assets \$m</b>	<b>Total liabilities \$m</b>	<b>Net assets \$m</b>
Badu*	48.162	1.487	46.675
Bamaga	40.897	1.224	39.673
Boigu	17.228	0.729	16.499
Dauan*	9.838	0.934	8.904
Erub*	24.545	1.157	23.386
Hammond	8.706	0.380	8.326
Iama	12.654	1.292	11.362
Kubin	12.773	0.935	11.837
Mabuiag	13.649	0.796	12.853
Mer	16.242	0.939	15.303
Poruma	14.059	0.961	13.098
Saibai	20.251	1.249	19.002
Seisia	12.420	2.858	9.562
St Pauls	17.002	0.550	16.452
Ugar	6.268	0.656	5.612
Warraber	17.391	1.338	16.053
Yorke	17.860	1.044	16.816
<b>Total</b>	<b>309.945</b>	<b>18.531</b>	<b>291.414</b>

\* As the financial statements for 2005-06 were not finalised at the date of this Report, 2004-05 balances have been used.

## 6.6 Appendix F - Location of Aboriginal Shire Councils and Torres Strait Island Councils





# Section 7

## Acknowledgements

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Many people contribute time and effort to the compilation of an Auditor-General's report to Parliament.

I acknowledge the efforts and commitment of all Queensland Audit Office staff and the appointed audit contractors in the performance of these audits and their willingness to assist the public sector entities. I extend my thanks to the staff who contributed to the preparation of this report.



Glenn Poole  
Auditor-General



# Section 8

## Publications

### 8.1 Queensland Audit Office publications

Publication	Date released
Annual Report 2006	October 2006
<b>INFORM</b>	
Issue 3 for 2007	June 2007
Issue 2 for 2007	April 2007
Issue 1 for 2007	February 2007
<b>Guidelines</b>	
Checklist for Organisational Change — Managing MOG Changes	September 2006
Checklist — Preparation of Financial Statements	August 2006
Better Practice Guide — Output Performance Measurement and Reporting	February 2006
<b>Other</b>	
Auditor-General of Queensland Auditing Standards	April 2007
Performance Management Systems Audits — An Overview	January 2006

### 8.2 Auditor-General's Reports to Parliament 2007

Report No.	Subject	Date tabled in the Legislative Assembly
1	Auditor-General's Report No. 1 for 2007 Results of Local Government Audits for 2005-06	19 April 2007
2	Auditor-General's Report No. 2 for 2007 Results of Performance Management Systems Audits of Management of Funding to Non-Government Organisations	22 May 2007
3	Auditor-General's Report No. 3 for 2007 Results of Aboriginal Shire Council and Torres Strait Island Council Audits for 2005-06	June 2007

Queensland Audit Office publications are available at [www.qao.qld.gov.au](http://www.qao.qld.gov.au) or by phone on (07) 3405 1100





