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Parliament of New South Wales

**Public Accounts Committee  
of the  
Forty-Ninth Parliament**

**Fiftieth Report**

Inquiry pursuant to Section 57(1) of the Public Finance and  
Audit Act 1983, concerning the Lord Howe Island Board

(Transcripts of Proceedings are printed in a separate volume to this Report)

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**From left:**

Phillip Smiles (Chairman), George Souris (Vice Chairman), Allan Walsh, Terry Griffiths, John Murray

# Members of the Public Accounts Committee

The Members of the Public Accounts Committee of the Forty-Ninth Parliament are:

## **Mr Phillip Smiles, LL.B., B.Ec., M.B.A., Dip. Ed., M.P., Chairman**

Phillip Smiles was elected Member for Mosman in March 1984.

A management and marketing consultant since 1974, Phillip Smiles has been involved with entrepreneurial business activities since his teens. Since entering Parliament he has been actively interested in areas of small business, emergency services, welfare and financial analysis. He was appointed a Member of the Public Accounts Committee in 1984 and was elected Chairman in 1988.

## **Mr George Souris, B.Ec., Dip. Fin. Mangt., F.A.I.M., F.A.S.A., C.P.A., M.P., Vice Chairman\***

George Souris was elected Member for Upper Hunter in 1988.

An accountant in public practice for 12 years, George Souris also served as a Shire Councillor in Singleton for seven years, four of which were as Deputy President. At university he was a Rugby Blue, represented NSW Country, Australian Universities and Australian Colts rugby teams. He is the NSW Parliament's appointed Member of the University of Newcastle Council. George Souris has experience in taxation and business management and an interest in financial analysis. He is a member of Rotary and other community organisations.

## **Mr John Murray, B.A., M.P.**

John Murray, was elected Member for Drummoyne in April, 1982.

Formerly a teacher, John Murray served as an Alderman on Drummoyne Council for three terms, was Major of the Council for five years and served four years as Councillor on Sydney County Council. He has served as a member of the Prostitution Committee and the House Committee, and is a former Chairman of the Public Accounts Committee.

## **Mr Allan Walsh, B.A.(Hons), Dip. Ed., M.P.**

Allan Walsh was elected Member for Maitland in September, 1981.

Following eight years as a Mirage fighter pilot with the R.A.A.F., he was involved in business management. Allan Walsh has also taught industrial relations, management and history at technical colleges.

## **Mr Terry Griffiths, M.P.**

Terry Griffiths was elected Member for Georges River in 1988.

Prior to being elected to Parliament he was the Chief Executive of the Scout Association of Australia. Before this he was an Army Officer. He is a graduate of the Officer Cadet School Portsea, a graduate of the School of Military Engineering and a Fellow of the Australian Institute of Management. He has been actively involved in Lions, Rotary and other community organisations.

\* Mr George Souris, M.P., Member for Upper Hunter, was appointed to the Committee on 23 February 1989, and elected Vice-Chairman on 2 March 1989. Mr Souris replaced Miss W. Machin, M.P., who was appointed to the position of Chairman of Committees on 23 February 1989.

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# Report on the Lord Howe Island Board

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## CHAIRMAN'S FOREWORD

This report represents a detailed analysis of just one of the hundred's of small organisations established over many years by the New South Wales Parliament. While the Inquiry commenced as a result of the Committee considering a number of significant matters concerning the Lord Howe Island Board contained in Volume I of the 1989 Auditor-General's Report, the Public Accounts Committee's concern was fundamentally to examine the Board as one example of these hundreds of organisations.

This report provides an opportunity to consider the necessary demands which must be placed on all Government organisations, whether big or small, located in Sydney or some isolated region, and whether staffed by thousands or just a handful.

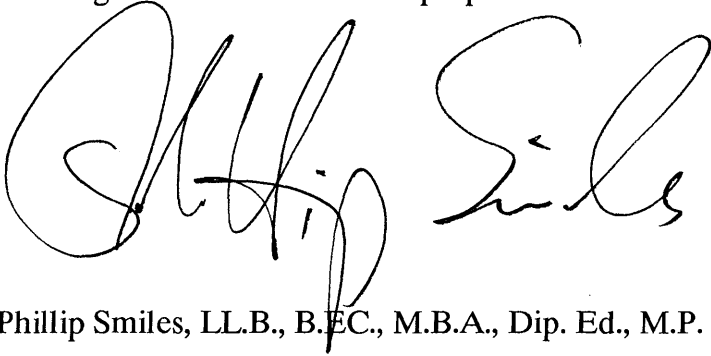
The Public Accounts Committee has recognised the hard work and professional dedication displayed in recent months by members of the Lord Howe Island Board staff. However, the Committee's continuing concern focuses on the Board's inability to come to grips with long-term planning for the Island's essential tourist industry, the Board's overall hostility to environmental issues, the need to be mindful of conflicts of interest and the significant threat to the Kentia Palm Industry which will emerge from Norfolk Island in five to eight years.

The Lord Howe Island community, numbering less than 300 permanent residents is fast coming to an historical crossroads. In my opinion the survival of the community will significantly depend on the preparedness of all concerned to embrace the recommendations presented in this report. While controversy may currently exist over the structure of the Board, in the medium and long term it will be the issues of efficiency, effectiveness and accountability in the management of the Island's financial and administrative affairs which will come to dominate the question of whether the Island community will be able to continue living on their island paradise.

## Report on the Lord Howe Island Board

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I would like to acknowledge the constructive contribution and co-operation offered to the Committee by Mrs Judy Mortlock, Manager/Executive Officer of the Lord Howe Island Board, and staff, and the dedication of my fellow Committee Members. I would also like to record my gratitude to Ian Holt for his commitment and diligence in assisting the Committee in the preparation of this Report.

A handwritten signature in black ink, appearing to read "Phillip Smiles". The signature is written in a cursive, flowing style with large loops and a prominent initial "P".

Phillip Smiles, LL.B., B.E.C., M.B.A., Dip. Ed., M.P.  
Chairman

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To improve the lack of management information the Committee recommends that the Board administration prepare and submit monthly financial statements on the Board's palm nursery and liquor store operations to each Board meeting. Similarly the Committee has also recommended that the Liquor Store Manager submit management reports on operations to each Board meeting.

One matter of considerable significance to the Board's palm nursery production, and the viability of the Board's administration, noted by the Committee was that of severe fluctuations in the Kentia palm seed harvests over an extended period.

Previous concerns expressed to the Committee as to the adequacy of the Board's priority setting for capital works projects were confirmed by evidence that often these priorities were changed following pressure from residents, with overall priorities determined in an ad hoc unplanned manner.

The Committee recommends that the Manager/Executive Officer formally prepare and document those systems and procedures relating to setting priorities of capital works projects having regard to procedures adopted in local government.

In examining the status of the Board, whether it is a State or Local Government body the Committee concludes that the Board should be considered as both a commercial business and a local government entity which also carries out State and Commonwealth agency functions.

The Committee examined the Board's local government activities and recommends that its management could benefit by the adoption of forward planning techniques and preparation of long term plans for roads, parks and other community facilities. The Committee also recommends that the Board become a member of the Local Government and Shires Association to provide exposure for Board members to current attitudes and developments applicable in local government administration.

The Committee became aware during its public hearings on the Island of incidents where conflicts of interests and pecuniary interests could have occurred. In fact, the Committee noted that some Island Board members apparently disregarded or ignored agreed Board procedures in this area to disclose such interests, nor did they regard such interests as serious.

The Committee has made a number of recommendations to improve this contentious area by improving meeting procedures and minute taking, holding all Board or Committee meetings in public and recording of pecuniary interests.

After examining the Board Minutes and the evidence the Committee concluded that the Board's present Works and Services Committee served little useful purpose and recommends that it be abolished.

As an aid in providing a corporate direction, and to define Board policies for the benefits of residents, the Committee recommends that the Board should prepare a corporate plan and management strategy. As a further aid in this area the Committee recommends that, to provide for continuity of administration, the Board document those systems, procedures and policies pertaining to the Board.

To improve the Board's ability to earn investment income the Committee recommends that the Lord Howe Island Act be amended to allow the Board to take advantage of the latest investment policies pertaining to other State Government organisations.

The Committee finds it anomalous that the Board, as a 'local council,' is meeting the cost of maintenance and development works in this World Heritage listed Island's permanent park preserves, which are in essence national parks. The Committee recommends that the State Government annually recoup the Board for the cost of these works.

Considerable attention has been directed in the Report to constraints in managing a small island such as Lord Howe and the possible effects that limited size and isolation can and does have in island management.

Of key importance to Lord Howe Island is the tourist industry, which is the only other industry on the island. The Committee has sought to make recommendations for improvements in this area in that the Board should examine the potential demand for tourist accommodation and facilities, develop and publish a tourism policy, marketing plan and strategy. The Committee also recommends that the Board implement a system of tourist accommodation assessment and grading. A number of options to expand and add direction to the Island's tourism industry have been included for consideration.

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During its enquiries the Committee was presented with substantial evidence that the Board's palm nursery operations may be swamped by the impact of new Kentia palm seed producers within five to eight years, with these producers being projected to increase the world product supply of Kentia palm seed by up to three times the Board's present annual native seed harvest.

Without the profit generated from the Board's palm nursery, the Board would have immense difficulty in providing both State and Local government services to its local residents and the 8,000 tourists that visit the Island annually.

The Committee notes the considerable lead time involved in increasing production, and recommends that the Board plan for the future by developing a three year business plan, form a specific Board Committee to advise it on all issues pertaining to the palm industry and prepare a strategy and plan for the production, harvesting and collection of Kentia palm seeds.

As an aid in addressing future funding options the Committee has detailed various options to separate the Board's State and Local Government operations and to raise additional revenue for the Board.

## LIST OF RECOMMENDATIONS

1. It is recommended that the Lord Howe Island Board assess, upgrade and strengthen the present system of internal checks and controls.
2. It is recommended that the Lord Howe Island Board seek the views of the Auditor-General as to the terms of reference and extent of the internal audit program coverage proposed.
3. It is recommended that the Lord Howe Island Board tender its internal audit function to ensure adequate value for money.
4. It is recommended that the Lord Howe Island Board implement a comprehensive computer training program for all staff.
5. It is recommended that in future the Lord Howe Island Board Administration prepare and submit to each Board meeting full trading statements on the Board's trading operations.
6. It is recommended that the Lord Howe Island Board administration investigate the reasons for past variations in palm seed harvests and the decline in relative profitability of its palm nursery operations since 1986.
7. It is recommended that the Liquor Store manager report to each Lord Howe Island Board meeting on management and administrative issues pertinent to the Liquor Supply outlet, including such areas as sales and stock levels, pricing, staffing and administration initiatives for increasing turnover and the like.
8. It is recommended that the Budget Papers in future fully disclose the extent of financial resources allocated to the Lord Howe Island Board.
9. It is recommended that the Manager/Executive Officer of the Lord Howe Island Board prepare and document in a manual those systems and procedures relating to formulation and priority setting of capital works projects.

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10. It is recommended that the Lord Howe Island Board address the issue of forward planning with long term plans for roads, parks and other community facilities.
11. It is recommended that the Lord Howe Island Board become a member of the Local Government and Shires Association to provide exposure to current attitudes and developments applicable in local government administration.
12. It is recommended that in future all meetings of the Lord Howe Island Board and its committees to be held in public.
13. It is recommended that the Lord Howe Island Board administration liaise with the Department of Local Government in drafting meeting procedures for use by the Board and its Committees for inclusion in the regulations to the Lord Howe Island Act.
14. It is recommended that the Lord Howe Island Board review its minute taking procedures to ensure that the minutes accurately reflect proceedings of the Board and its committees and thus fulfil its accountability responsibilities.
15. It is recommended that the Lord Howe Island Act be amended to include a requirement that such pecuniary interests shall be fully disclosed and recorded in a register which is open to the public.
16. It is recommended that the Lord Howe Island Board consider making it a requirement that the health and building consultant and other persons or organisations engaged to prepare reports for the Board be available for interview by Board or committee members in open meetings when they are on the Island.
17. It is recommended that the Lord Howe Island Board Works and Services Committee be abolished.
18. It is recommended that the Lord Howe Island Board administration should proceed as a matter of priority in preparing a corporate plan and a management strategy plan.

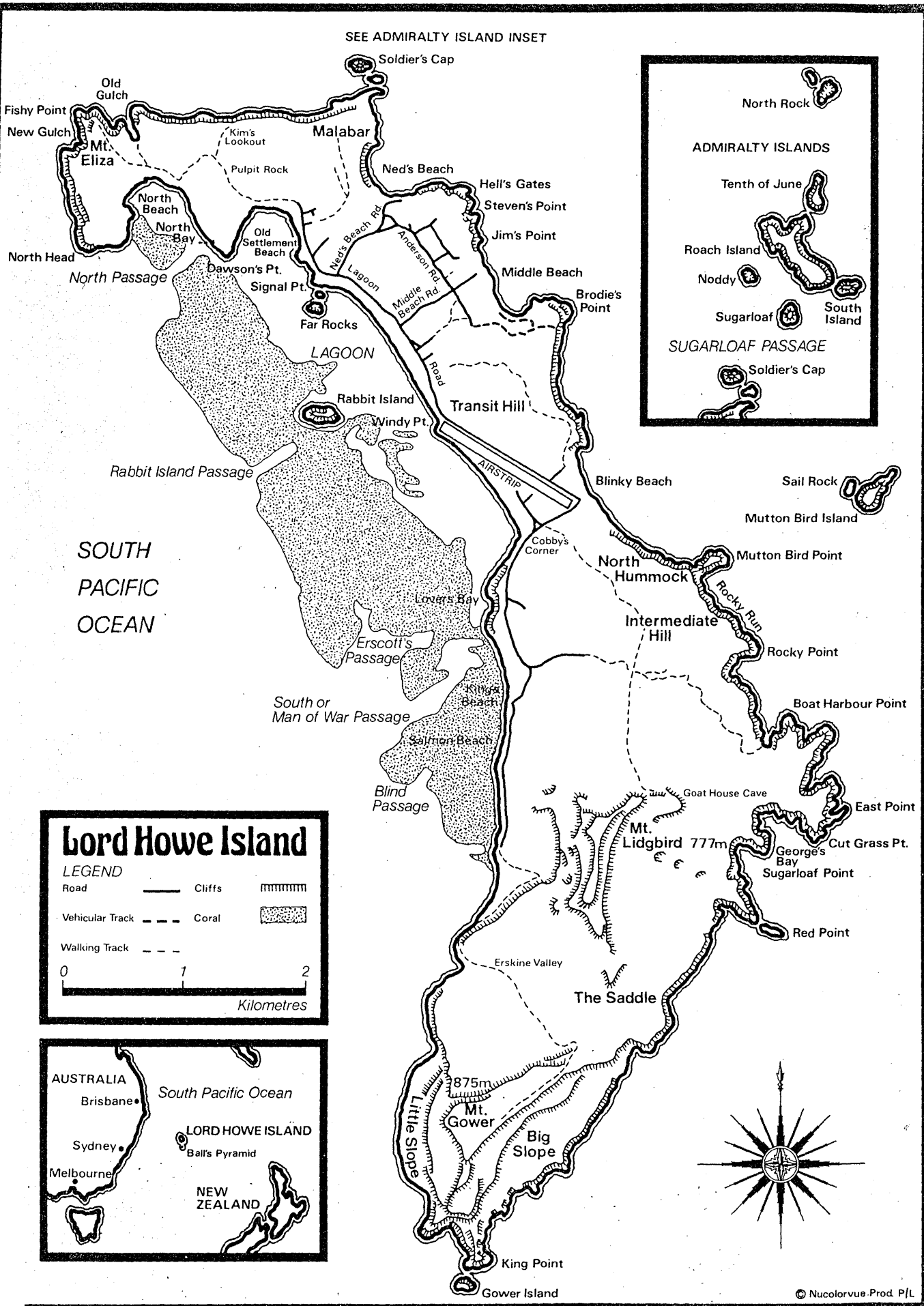
19. It is recommended that the regulations to the Lord Howe Island Act be reviewed and upgraded to ensure that the Lord Howe Island Board is empowered to more adequately carry out its functions.
20. It is recommended that to provide for continuity of administration, the Lord Howe Island Board administration document as a matter of priority, those systems, procedures and policies pertaining to the Board in a policy register which is available generally to members and the public for inspection.
21. It is recommended that the Lord Howe Island Board review and reassess the salary and grading of its senior administrative positions of Manager/Executive Officer and Assistant Manager/Accountant to ensure it maintains an ability to attract suitably qualified staff.
22. It is recommended that the Lord Howe Island Board administration maintain a register of visitors to the Island from Government departments and authorities in which the cost, the purpose of the visit and the organisation involved are recorded, with these details also reported in the Board's annual report.
23. It is recommended that the Lord Howe Island Board urgently assess the full extent of its liability for unpaid sales tax and payroll tax and discharge its liability as a matter of priority.
24. It is recommended that the Lord Howe Island Act 1953 be amended to exclude the requirement that all incomes are to be paid into its special deposits account at Treasury and that out of this account all expenditures are to be met.
25. It is recommended that the Public Authorities (Financial Arrangements) Investment Powers Regulation 1990 be amended to include the Lord Howe Island Board within the list of authorities referred to in Schedule 1 of that regulation.
26. It is recommended that the Lord Howe Island Board administration undertake an analysis of past variations in expenditures and incomes for its trading and service operations over the last seven years to analyse the reasons for such movements, and report its findings to the Board.



27. It is recommended that the State Government annually recoup the Lord Howe Island Board the cost of maintenance and development works within the Island's Permanent Preserves.
28. It is recommended that the Lord Howe Island Board prepare a policy and a forward plan for use of borrowing to finance major capital works on the Island.
29. It is recommended that the Lord Howe Island Board examine the potential demand for tourist accommodation on the Island and consequential transport infrastructure.
30. It is recommended that the NSW Government add a representative from the Tourism Commission of NSW to the Lord Howe Island Board to provide professional tourism promotion and development support.
31. It is recommended that the Lord Howe Island Board develop and publish a tourist policy applicable to that Island as a matter of priority.
32. It is recommended that the Lord Howe Island Board, in conjunction with the Lord Howe Island Tourist Promotion Committee and the New South Wales Tourism Commission develop and publish a tourism marketing plan and strategy applicable to that Island as a matter of priority.
33. It is recommended that the Lord Howe Island Board implement a system of tourist accommodation assessment and grading in a similar manner to that implemented by the Norfolk Island Administration.
34. It is recommended that in future the Minister administering the Lord Howe Island Board be mindful of the need for Government appointees to the Board to possess management and other expertise pertinent to the Island.
35. It is recommended that the Lord Howe Island Board develop a three year business plan for its trading operations which includes marketing and financial plans for the short, medium and longer term.

36. It is recommended that the Lord Howe Island Board formally agree to seek the Minister's approval to a delegation of powers under Section 14(i) of the Lord Howe Island Act to a Palm Industry Committee to advise the Board on all issues pertaining to the Kentia Palm Industry, including the recommendation of production, development and marketing plans for the short, medium and longer term.
37. It is recommended that the Lord Howe Island Board consider its future directions, and determine what business it is in and also its commercial, social and regulatory objectives so that each can be pursued in its own right.
38. It is recommended that the Lord Howe Island Board examine the procedures in NSW of corporatisation of State trading enterprises to determine how the benefits of corporatisation may be applied by the Board to its trading operations.
39. It is recommended that the Lord Howe Island Board prepare a strategy and plan for the the production, harvesting, and collection of Kentia palm seeds and the maintenance of Kentia palm trees within Lord Howe Island.

# Report on the Lord Howe Island Board



# 1. INTRODUCTION

## Background to the Inquiry

- 1.1 The Public Finance and Audit Act 1983 prescribes under Section 57 the functions of the Public Accounts Committee. As part of the functions described therein the Committee is to examine the accounts of authorities of the State that have been audited by the Auditor General. The Committee is to report to the Legislative Assembly upon any item, or any circumstances connected with those accounts, reports or documents.
- 1.2 The Auditor General, in Volume One of his Report for 1989 detailed a number of significant matters concerning the Lord Howe Island Board. The Committee, in its 47th Report 'The Challenge of Accountability' briefly commented on the matters raised by the Auditor-General and resolved to follow up these aspects.

## Terms of Reference

- 1.3 The Terms of Reference for the Inquiry were to examine the Accounts and other matters related to the Lord Howe Island Board with particular reference to:
- i. the late lodgement of financial statements for the financial years ending 30 June 1987, 30 June 1988 and 30 June 1989;
  - ii. the circumstances by which the Auditor General returned financial statements for adjustment and correction;
  - iii. the qualified audit opinions given by the Auditor General and the reason for such qualification;
  - iv. the accounting, financial and management systems of the Board and the adequacy of those systems to ensure an appropriate level of accountability to the Parliament;
  - v. the management of stock and assets, their control and valuation in relation to the Board's retailing activities;

- vi. regional or locational problems that impact on the Board's management of the Island or the delivery of services;
- vii. the adequacy of planning and administration of Capital Works projects and available funding resources;
- viii. any other matters relating to the accountability, efficiency and effectiveness of the Lord Howe Island Board.

## Background

### History of the Island

- 1.4 The Island was first discovered on 17 February 1788 by Lieutenant Henry Lidgbird Ball, commander of the 'Supply'. Lieutenant Ball was en route to Norfolk Island where it was intended to found a second colony. On the 13 March 1788, on the way back to Port Jackson, Lieutenant Ball landed and took possession of the Island in the name of the Crown. The Island was named after the First Lord of the Admiralty and Vice Admiral of England.
- 1.5 For the next 45 years Lord Howe Island was visited by passing ships for food, water and firewood but it was not until after 1833 that the first permanent settlers arrived, who then engaged in supplying passing ships for their livelihood. During these early days Islanders would rely on these ships to bring news of the outside world, supplies and passengers.
- 1.6 In the 1880s the Kentia palm, a native of Lord Howe Island, became the doyen of indoor palms, gracing parlours, drawing rooms, ballrooms and hotel lobbies around the world. The palmseed industry developed in haphazard manner, with Islanders continually undercutting each other in price. The State Government sponsored two Commissions of Inquiry. Following recommendations of Commissioner Bevan (1912) a Board was formed to *"take charge of the affairs of the Island and the trade thereof"*.
- 1.7 The first world war disrupted trade and following the grounding of the ship 'Makambo' in 1918 a number of rats escaped onto the Island with these rodents reducing the palmseed harvests. In 1928 owls were introduced to try to reduce the rat population, but without great effect.

- 1.8 During World War II the Island played an important role in the collection and transmission of meteorological data and monitored aircraft movement across the Pacific. Radio facilities were taken over by the Department of Civil Aviation and upgraded, a radio telephone being installed which enabled voice communication with aircraft over a limited range.
- 1.9 After the War, numerous cargo ships operated from Sydney on a fairly regular basis but there was no passenger service. In 1947 a flying-boat service from Sydney commenced, which improved transport to and from the Island and opened the way for a greater number of tourists to visit the Island.
- 1.10 Presently Islanders still rely on ships to transport heavy or bulky cargo. In 1974 a 1,000 metre all weather airstrip was constructed on the Island which is suitable for short take-off aircraft.
- 1.11 In 1982 the Lord Howe Island Group was granted World Heritage status by the UNESCO World Heritage Committee in Paris.

### **Island Culture**

- 1.12 Unlike mainland Australia, the Island was uninhabited when the first settlers arrived in 1833. The early settlers hailed from many places - England, Portugal, America, South Africa, Micronesia, New Zealand and Australia. In their new home they were forced by necessity to become farmers, fishermen, hunters, barterers and traders. The geologist, R.G. Fitzgerald, provided a succinct summary when he wrote in 1869: *"The inhabitants are ... of a class quite equal, in my opinion, to the settlers on land in Australia, and they are thirty five in number."*
- 1.13 From this diverse multicultural background many of the 286 present Island residents are descended, with some families able to trace their heritage back eight generations. The restriction in the number of residents and visitors and the sheer isolation of the island has resulted in a very close community which could be called 'parochial' by some.
- 1.14 The closeness of the community relationship was illustrated to the Committee when it was informed in its public hearings *"For instance, at a board meeting last year one of the Island members said, Look, that happens in Australia. It does not happen here. It was astonishing that they did not see themselves as part of Australia or New South Wales: they are Lord Howe Islanders"*.

## Land Tenure

- 1.15 Up until 1855, when the colony of New South Wales was granted autonomous government and assumed responsibility for Island affairs, control of the Island was vested in the British Crown.
- 1.16 In the next twenty years this transfer of responsibility, by all accounts, made no difference to land tenure policy as a number of settlers requested a lease of the land and were apparently ignored. In 1875 the Crown Lands Consolidation Act was passed by State Parliament which resulted in the first survey of the Island in 1878.
- 1.17 Because of difficulties in the Island palmseed trade, the State Government appointed two Commissions of Inquiry into Island affairs in 1911 and 1912. Mr Langwell, who led the first Commission, recommended that holders of permissive occupancies be granted leases subject to some strict conditions. The second Commission, led by Mr W Bevan, recommended that a Board of Control be established to manage the affairs of the Island on behalf of the Government. He further recommended that the proposed Board be empowered to grant (a) special homestead leases up to 21 years and (b) grazing leases for short periods.
- 1.18 The current system of land tenure was implemented in 1953. Prior to this Islanders were squatters in the traditional sense; they did not have secure tenure over land they had occupied for generations.
- 1.19 Despite a number of attempts by the Government between 1933 and 1953 land tenure was not formalised until the enactment of the Lord Howe Island Act 1953 which provides that the Island is vested in Her Majesty freed and discharged from any estate of any person. The Island as Crown land is to be dealt with in terms of the Act which provides for the:
- creation of a permanent park preserve for public purpose of preserving native flora and fauna;
  - lease of areas not exceeding 2 hectares of vacant Crown land for the purpose of residence as a lease in perpetuity; and
  - granting of special leases of land for cultivation or grazing, or such other purpose as the Minister for Lands may approve, with the term of such

lease to be fixed for any period not exceeding ten years, with provision for an extension of the lease.<sup>1</sup>

## Administration

1.20 The first resident government official, Captain Armstrong, arrived in 1878 after the Island had been proclaimed a Forest Reserve. He held various posts of Forest Ranger, Resident Magistrate, Clerk of Petty Sessions, Postmaster and Registrar of Births, Deaths and Marriages.

1.21 In 1911 and 1912 two Royal Commissions were established to investigate the affairs of the Island. Following these the New South Wales government accepted the following recommendations:

- That the Board be immediately appointed to take charge of the affairs of the Island ...;
- That such a Board consist of three persons to be appointed by the Government...;
- That the Board should appoint a certain number of Islanders to act as a local committee to supervise the affairs of the Island under its control...<sup>2</sup>

1.22 These recommendations remained the fundamental basis for Island administration until quite recently though, naturally, some modifications were made to adapt administration to the times.

1.23 The formation of the new 'Board of Control' was notified in the Government Gazette of February, 1913. The chairman was the Under Secretary of the Chief Secretary's Department, and the other two members were connected with the Department of Agriculture. The new Board was strictly Sydney-based, carrying out most of its deliberations on the mainland. Board decisions were conveyed to Island residents by circulars sent out about three or four times per year. Once every year the Board went through the ritual of visiting the Island, making courtesy calls on every Island family to solicit local views on the controversial issues of the day.

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1 Sections 19A, 21 and 22 of the Lord Howe Island Act, 1953

2 Recommendations 3, 4 and 6 of the Bevan Royal Commission, 1912



## Report on the Lord Howe Island Board

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- 1.24 On the Island a three-man local committee was established to advise the Board on all matters connected with the Island, and to carry out policy decisions arising from the Board's deliberations. All positions on the local Advisory Committee were held in an honorary capacity by Islanders. The Committee Chairman was permanently appointed with two other members elected, usually on a biennial basis.
- 1.25 These arrangements continued until August 1940 when the Board appointed an administrative official who was given the responsibility of bolstering the Island economy following the slump in palmseed sales and the tourist industry.
- 1.26 In 1953 the Lord Howe Island Act was enacted. It provided for a reconstituted board of five instead of three members, with Islanders to elect one representative to the Board. Of the other four Board members, two were ministerial appointees, one was the local member of State Parliament, and the Chairman was the Under Secretary of the Chief Secretary's Department. The old Island Committee was retained to advise the Board but now comprised four elected Islanders.
- 1.27 As a result of community pressure and conflict in administration the old Island Committee was abolished by way of the Lord Howe Island Amendment Act (1981). Islanders were given three elected positions on a reconstituted five-man Board and their political and land rights were extended to include any settlers resident on the Island for ten years.
- 1.28 Today, as in the past, the Lord Howe Island Board is responsible for a range of functions which in mainland Australia are carried out by three tiers of government. In addition they are responsible for other functions which are 'commercial' in nature. Among these functions they are required to:
- maintain and operate the local aerodrome and port facilities;
  - generate and reticulate electricity;
  - administer the Island's health service;
  - maintain public roads, parks, buildings and tourist facilities;
  - manage the Island's permanent park preserves; and

- conduct a large palm nursery and a liquor distribution outlet.
- 1.29 To carry out these functions, the Board employs a permanent staff of around 22 people, details of which are included as Appendix 4.
- 1.30 At each Board meeting the members are faced with a diversity of issues. Currently their deliberations include proposals for a sewerage treatment system, repair to the Island road system, wind erosion of a major access road and provision of care for aged islanders.

### **Trading Operations**

#### **Liquor Supply**

- 1.31 The Lord Howe Island (General) Regulations 1954 provide via Section 40 that the Board may "acquire intoxicating liquor and store, sell and distribute such liquor on the Island." This regulation also provides that the Board may erect such premises as necessary and employ staff to operate the liquor supply outlet.
- 1.32 Section 40A of the Regulations also provides for the Board to issue permits to "any person for the sale and distribution of intoxicating liquor on the Island". The Committee notes that it has issued permits to guesthouses, restaurants and general stores for the supply of liquor and that these outlets are required to purchase their liquor stock from the Board.

#### **Palm Nursery**

- 1.33 Lord Howe Island boasts four unique palm species, with one of these the *Howea forsteriana* (Kentia palm) finding favour with nursery men and women worldwide due to its remarkable tolerance to a wide variety of climatic and lighting conditions.
- 1.34 In the 1970s the Board established its own nursery on the Island to germinate seed. By 1981 palmseed exports had ceased entirely, and only live plants were being shipped from the Island. Export of *Kentia* palm seedlings has now become the largest export earner for the Island and the Board. The profits from the nursery support the costs incurred by the Board in providing State and Local Government services to residents.
- 1.35 Concurrently a group of Islanders established an unincorporated palmgrowers co-operative which also produces seedlings for sale. The Board has agreed to

sell 12.5% of the annual seed harvest to the co-op, which continues to operate alongside the Board's operation today.

## **Tourism**

- 1.36 Lord Howe Island's beauty, charm and accessibility have attracted visitors to the island for over eighty years. Its remoteness and its easy-going lifestyle offer a break away to peace and tranquillity in an 'unspoilt' natural environment. The lifestyle appears unchanged over the years. Mr Walter Bevan, Royal Commissioner in 1912 commented *"the climate of the Island is most equable, and the scenery beautiful. An increasing number of visitors may be expected"*.
- 1.37 Prior to World War I, ships operated by Burns Philp occasionally called at the Island to discharge cargo, at which times passengers came ashore to gain respite from the adverse conditions at sea. They were accommodated by islanders overnight. Burns Philp, by 1920 were promoting the limited accommodation available. By 1928 a number of guest houses were operating and they added extra rooms to accommodate the increased flow of visitors.
- 1.38 By 1939 there were about 60 beds available for visitors. Income from tourism had reached a significant level. The family run guest houses became renowned for the quality and variety of their meals.
- 1.39 Access to Lord Howe Island was improved following the commencement of the flying-boat service from Sydney in 1947. Additional accommodation was constructed to meet the demand and more than 300 beds came available. The flying boat service was discontinued following the construction of the airstrip in 1974 which resulted in the introduction of air services from Brisbane, Port Macquarie and Norfolk Island as well as Sydney.
- 1.40 Presently the maximum number of licenced beds on the Island is limited to 400 under the 1986 Regional Environmental Plan with approximately 8,000 tourists visiting each year. Their average stay is five to six days and the peak season is over in the summer school holidays. The average bed occupancy rate is between 28 to 33%.

## Present Day Controversy

- 1.41 The Committee is aware of the changes proposed by the Minister for the Environment concerning the future administration of Lord Howe Island. Although not part of the scope of the Committee's inquiry, brief comment on the Government's World Heritage Properties Conservation (New South Wales) Bill is warranted to complete the current scenario of issues facing the Board and the Island residents.
- 1.42 The objects of the Bill are to recognize the world heritage value of the Lord Howe Island Group, the Willandra Lakes Region and the Australian East Coast Temperate and Sub-Tropical Rainforest Parks. The Bill seeks, amongst other things to make provision for the proper, prudent and consistent management of world heritage properties and to promote consultation with the owners and occupiers of world heritage properties.
- 1.43 In a recent radio program the Hon T.J. Moore MP, Minister for the Environment made this comment:

*"The State Government is saying that Lord Howe Island has to be a balance of local responsibility and State, National and International responsibility ... basically we're offering to the Commonwealth ... an option ... to nominate a member of the Lord Howe Island Board and we would be saying to the Commonwealth as part of that process ... to make a financial commitment to dealing with the problems..."<sup>3</sup>*

- 1.44 The opposing argument is succinctly summarised by Bruce MacFadyen, Vice Chairman of the Lord Howe Island Board in the same interview:

*"The process that Mr Moore is trying to put on us is just absolutely undemocratic. We're on the Island, we've looked after the Island and I must say that if we were Aboriginals we would own the Island."<sup>4</sup>*

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<sup>3</sup> Radio interview between the Minister for the Environment, Bruce McFadyen and Andrew Olle on 2BL, 14 May 1990

<sup>4</sup> Ibid

## Approach of the Inquiry

- 1.45 The principal thrust of this inquiry was to critically review the operations of the Lord Howe Island Board, with special reference to the Terms of Reference. In addition, the Committee:
- considered the implications of its findings on the future operations of the Board after contrasting the problems faced by the Board with those faced by the administrators of Norfolk Island; and
  - considered management of the Island as an example of public sector management of similar operations of a comparable scale.

## Method of Investigation

- 1.46 The Committee conducted its examination between April 1990 and July 1990, concurrent with a number of its other inquiries and activities according to its various functions under the Public Finance and Audit Act, 1983. The method of investigation included:
- a review of submissions and correspondence received in response to advertisements placed in late May 1990 in *The Sydney Morning Herald*, *The Daily Telegraph* and *The Australian Financial Review*;
  - letters of notification to all Members of Parliament;
  - site visits;
  - public hearings (see Appendix 3);
  - review of Minutes of meetings of the Lord Howe Island Board;
  - inspection of Norfolk Island.
- 1.47 In addition, senior officials from a number of organisations in New South Wales, including the Auditor-General's Office, the Department of Local Government, the National Parks and Wildlife Service, the Office of Public Management and NSW Treasury provided information and advice to the Committee.
- 1.48 The Committee wishes to acknowledge the extensive co-operation received from the Lord Howe Island Board and its staff throughout the course of this Inquiry.

## 2. FINANCIAL ADMINISTRATION

### Introduction

2.1 The Auditor General has a statutory responsibility to report on those matters that he considers should be brought to the attention of Parliament and thus the public at large. In Volume One of his Report for 1989 the Auditor-General commented on the following matters which remained unresolved. These matters arose from the 1987-88 audit of the Board's accounts.

- Shortcomings in internal control, accounting and administrative practices and records in relation to collections; liquor sales; Island service levy; palm sales; subsidies; disbursements and oncosts.
- Need to review stock valuation procedures for liquor stocks and nursery inventory.
- Lack of follow-up action on outstanding debtors.
- Need to implement a formal capitalisation policy for Board Expenditure.
- Need to conduct a physical stocktake of Board Assets.
- Inadequate management/audit trail in relation to the General Ledger System.
- Serious arrears in the recording of transactions in the General Ledger resulting in a loss of Budgetary Control.
- Absence of an accounting manual.

2.2 In that report the Auditor General also advised that he had qualified his audit certificate in respect of the 1987-88 financial statements, the second year in succession.

2.3 The Committee, as a Parliamentary "watch-dog" pays particular attention to the reports of the Auditor General. As he has issued a qualified audit certificate, as

disclosed in successive reports to Parliament, the Committee resolved to examine the accounts and other matters related to the Board.

- 2.4 In Volume One of the Auditor-General's 1990 report, tabled in Parliament after the commencement of this inquiry, he has advised that:

*"In Volume Three of my 1989 Report I referred to unresolved matters arising from the 1987-88 audit. I now report that satisfactory remedial action was taken or is in the process of being taken for all matters raised."*

- 2.5 Whilst the Committee is in general agreement with the thrust of the Auditor General's comments in his 1990 Report to Parliament related to the 1987-88 audit, it notes that the Board administration has still a considerable amount of work to do to bring the accounting records into line with current standards following the audit of the 1988-89 financial statements. However, from the Committee's examination of the issues it is greatly impressed with progress made by the current Manager/Executive Officer and the Accountant in resolving issues raised by the Auditor General.

## **Annual Financial Statements and Accountability**

### **The Legislative Framework**

- 2.6 The Committee wishes to emphasise that preparation and submission of comprehensive, accurate financial statements within a certain time frame is a critical element in the intent and operation of accounting and reporting legislation. These legislative requirements have been detailed so that issues raised by the Auditor General can be taken in perspective.
- 2.7 Under the Public Finance and Audit Act, 1983 (hereafter 'the Act'), a Department Head or statutory body has an obligation:
1. to keep proper accounts and records in relation to all of the organisation's operations; and
  2. within, *six weeks* after the end of the financial year concerned, to prepare and submit:

- a. to the Minister; and
- b. to the Auditor-General, for verification and certification,

financial statements for the financial year then ended.

2.8 Within *ten weeks* of receiving the financial statements of a statutory body, the Auditor-General is required to audit the accounts of that body and furnish a certificate:

1. stating that the audit has been completed;
2. indicating whether the financial statements meet statutory obligations; and
3. setting out any qualifications subject to which the certificate is issued.

2.9 Financial statements and the Auditor-General's certificate must be included in the annual report to be forwarded to the responsible Minister within *four months* and tabled within *five months* of the end of the organisation's financial year.

2.10 This tight timetable for the compilation and external audit of financial statements is designed to make available to Parliament and the public certified details of the financial affairs of public bodies as soon as practicable after the end of the organisation's financial year.

2.11 In terms of Schedule 2 of the Act the Lord Howe Island Board is designated as a statutory authority. Section 41B(1) of the Act requires that the financial statements of a statutory body shall be prepared having regard to current accounting standards on an accrual accounting basis.

2.12 The Auditor-General is required by Section 43(2) of the Act to report to the statutory body, the Treasurer and the Minister "*the result of any such inspection and audit and as to such irregularities or other matters as in the judgement of the Auditor-General or authorised person call for special notice*".

2.13 These reports issued by the Auditor General under this section have become commonly known as 'red rule' reports. In each year since 1986/87 the Auditor General has had cause to issue comprehensive red rule reports after each audit of Lord Howe Island Board financial records.



## Accountability in the Public Sector

- 2.14 The Committee is of the opinion that the operations of Lord Howe Island Board should not be considered in isolation but rather within the wider context of public sector accountability. Accountability in New South Wales takes many forms and is aimed at providing tax-payers with *"sufficient information to make informed judgements about the financial status, performance and compliance of the reporting entity."*<sup>1</sup>
- 2.15 Preparation of annual accounts and audit by an independent external auditor are but two of the requirements of accountability.
- 2.16 In the public sector governments have the power to compulsorily acquire financial resources to meet a mixture of competing social, political and economic goals on behalf of the wider community. For this reason an organisation's annual financial statements form part of the reporting mechanism on the stewardship of public funds and disclose how well it has performed during the year in meeting its competing goals.
- 2.17 The Committee would stress that *"this stewardship is a philosophy which has formed the basis for parliamentary, administrative and audit practices for centuries."*<sup>2</sup>
- 2.18 As indicated previously, the Auditor-General has made in recent years, many comments on accountability. Readers are referred to comments in Volume II of his annual reports to Parliament for 1988, 1989 and 1990 for further information on accountability in New South Wales.

## Lodgement of Financial Statements

### Concerns and Criticisms

- 2.19 The financial statements for 1986/87 were returned to the Board on 17 September, 1987 to correct irregularities, some of which included lack of reconciliation with funds held in the Board's Special Deposits Account at the NSW Treasury, financial statements not balancing and incorrect disclosure of

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1 New South Wales Auditor-General's Report for 1988, Volume II, p. 101

2 Ibid

subsidies in the financial statements. Upon completion of the audit further significant adjustments were required, with the statements returned a second time on 16 December, 1987 for amendment and to complete the necessary reconciliation action in respect of debtors, fixed assets and Special Deposits Account. Amended statements were finally endorsed with the Auditor General's certificate on 29 February, 1988.

2.20 The Committee sought to examine the reasons why these financial statements were returned. In evidence Mr D. B. McFadyen, Vice Chairman of the Board, who had been elected on 18 February, 1988, informed the Committee when questioned as to the 1987 accounts and the work of the Auditor General *"Well, I don't know because I wasn't involved. I wasn't on the Board at the time"*.<sup>3</sup>

2.21 Similarly other present Board members and administrative officers have expressed to the Committee the same lack of knowledge as to the circumstances surrounding the return of the 1986/87 financial statements for the same reason that they were not involved with or on the Board at that time. The present Chairperson, M/s V. Ingram advised the Committee, in response to a question concerning the reasons for the late returns for 1987, 1988, and 1989 that:

*"Briefly, in that (period) I had very little involvement with the Board at that time. I think there was considerable confusion from the transfer of accounting from the Premier's Department to the Island. The Island at that stage had very limited capacity to handle that accounting. It is an area in which I think only up until last year the Island has been quite deficient."*<sup>4</sup>

2.22 An examination of administrative appointments has indicated to the Committee that there have been gaps of up to 9 months in the permanent filling of the key positions of Manager and Accountant over the period 1987-88 to 1989-90. Recommendations to address this aspect of continuity are included in Chapter 4 of this Report.

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<sup>3</sup> Minutes of Evidence, 11 May 1990, p. 38

<sup>4</sup> Ibid, 4 June 1990 p. 99

- 2.23 The Committee previously sought advice from the Minister responsible, The Hon. T. Moore, M.P., Minister for the Environment, regarding both the very late submission of the Board's financial statements for 1987/88 (due 11 August 1988, received 27 February 1989) and the qualification of the Board's accounts.
- 2.24 At that time the Committee was advised by the Minister that the more than six months delay in submitting financial statements resulted from the transfer of the management of the Board's accounts from the Premier's department direct to the Board office on Lord Howe Island, the lack of trained accounting staff on the island, and arrears in accounting.
- 2.25 In his evidence to the Committee, Mr J Lonigan, Secretary of the Board indicated that in September 1986 the administration of the Board was transferred from the Premier's Department to the Department of Local Government which *"did not have the resources to assist the Board in compilation of financial statements, etc. It was a matter of the local administration being forced to undertake a function that they did not have the resources to undertake."*<sup>5</sup>
- 2.26 The Committee understands that the Premier's Department staff had considerable experience in preparing financial statements on an accrual accounting basis, but that this experience was not available to the Board after the transfer of administration to the Department of Local Government in 1986.
- 2.27 In April 1988 administration of the Board was then transferred to the National Parks and Wildlife Service. The Committee was informed that since that time delays have been experienced in gaining necessary information from the National Parks and Wildlife Service. This matter was commented upon by the Auditor-General in Volume One of his 1990 Report to Parliament when he advised that completion of the 1988-89 financial statements was further delayed due to:

*"The National Parks and Wildlife Service not promptly providing essential information for incorporation into the Board's accounting records despite repeated requests for this information.*

*The Board having to reconstruct its general and debtors ledgers as the original base accounting records were substantially flawed.*

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<sup>5</sup> Ibid, 11 May 1990 p. 2

*The disclosure by my officers of significant errors and omissions in the draft financial statements.”<sup>6</sup>*

- 2.28 The position of Accountant/Assistant Manager to the Board was created in January 1988. Prior to this the accounting function was carried out during 1986-87 by the previous Board Secretary in addition to his other duties.
- 2.29 Until recently the Board lacked a suitably qualified accountant. The Board’s previous accountant was effectively employed for a period of less than ten months, with the accountant’s position vacant for a period of approximately four months from 23 June 1989 to until 29 October 1989 when the present accountant was employed, to amongst other things, bring the arrears in the accounts up to date and to commence preparation of the 1988/89 financial statements. The Auditor-General reported in Volume One of his 1990 Report that the arrears in the accounts have now been brought up to date.
- 2.30 Evidence was presented to the Committee by Mr J. Gilloway, the present Accountant and Ms E. Wilson the Accounts/Computer Systems Officer that they had to reconstruct the ledger for 1988-89 to correct a number of posting errors which in turn delayed preparation of the 1988/89 financial statements.<sup>7</sup> These posting errors were *“both manually and in the computer system itself.”*<sup>8</sup>
- 2.31 The Committee was informed that the financial statements for 1988-89 were certified by the Auditor-General on 6 July 1990, approximately some 10 months late.
- 2.32 The Committee noted that the Auditor-General again issued a comprehensive management letter to the Board in respect to these 1988-89 accounts, with these matters listed in Volume II of his 1990 Report at page 307.
- 2.33 The Committee is seriously concerned as to the Board’s apparent inability to keep the key financial function position adequately staffed and concurs with the view expressed previously by the Auditor-General that the following factors significantly contributed to delays in preparation of financial statements in previous years:

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6 New South Wales Auditor General’s Report for 1990, Volume I, p. 234

7 Minutes of Evidence, 11 May 1990, p. 15

8 Ibid, p. 16

- lack of suitably qualified accounting staff
- inadequacies of the computerised accounting system
- arrears in processing accounting transactions
- changes in administration of the Board from one department to another without adequate human resources and support.

2.34 It is also noted by the Committee that the Auditor-General's staff have endeavoured to assist the Board and expended considerable amounts of time and effort in the auditing of the Board's financial statements.

## Board Accounting Policies

2.35 The Auditor-General, in his 'red rule' report on the 1987-88 financial statements, and in his 1989 report to Parliament, advised that his audit certificate was qualified by inclusion of the following:

*"As in the previous year, the Board has departed from Australian Accounting Standards AAS 4 and AAS 5 in relation to the capitalisation and depreciation of certain assets, as outline in Note 1.5 to the financial statements. The effect of these departures on the financial statements cannot be quantified."*

2.36 In examining *"the accounts of authorities of the State"*, pursuant to Section 57(1)(b) of the Act, the Committee pays particular regard to any case where a qualified audit certificate is issued. It is of concern to the Committee that the Board's financial statements have been qualified in two successive years.

2.37 As indicated by the Committee in its 47th Report, *"The Challenge of Accountability"* the Board deferred the review of its capitalisation and depreciation policy in 1987/88. However it did bring to account in that year the costs of the airstrip, air terminal and resealing of the airstrip.

2.38 In evidence Mrs J. Mortlock, the Manager/Executive Officer advised that:

*"... the Board with the current Accountant, on his recommendation, did set up a policy, I think it was in about June last year,...which was put into finalisation of these accounts this year (1988-89). ... one of the things the Auditor General did ask that (policy) be carried back*

*prior to 1987, so that did actually take some time. We've brought to account our road system and all the things that were outstanding. Assets that the Board's got without cost".<sup>9</sup>*

- 2.39 The Committee notes that a clear audit certificate for the 1988/89 financial statements has issued, indicating resolution of these policy deficiencies. The Auditor-General has also indicated that the Board should undertake a general review of depreciation policy and implement a formal capitalisation policy for buildings and roads expenditure and conduct a census of the Board's assets on the Island.<sup>10</sup>

## Conclusions

- 2.40 The Committee is satisfied that the present Manager/Executive Officer and the Accountant have made significant progress in rectifying the accounting problems and implemented appropriate systems to produce management reports and the annual financial statements.
- 2.41 However, the Committee notes the recently published comments of the Auditor-General in Volume II of his 1990 Report to Parliament on the 1988-89 accounts and proposes to review in 12 months time the progress made by the Board in rectifying all of the issues raised by the Auditor-General as there appears to be significant work yet to be completed by the administration.

## Internal Control and Audit

### Background

- 2.42 As indicated previously the aspect of internal control was commented upon by the Auditor-General in his reports. Section 11(1) of the Act provides that:

*"The Head of an authority shall ensure that there is an effective system of internal control over the financial and related operations of the authority, including -*

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<sup>9</sup> Ibid, p. 78

<sup>10</sup> New South Wales Auditor-General's Report for 1990, Volume II, p. 307

## Report on the Lord Howe Island Board

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- a. *management policies and requirements made by the provisions of this Act and the prescribed requirements;*
- b. *sound practices for the efficient, effective and economical management of functions by each organisational branch or section within the authority;*
- c. *a system of authorisation and recording and procedures adequate to provide accounting control in relation to assets, liabilities, receipts and expenses;*
- d. *proper segregation of functional responsibilities; and*
- e. *procedures to review the adequacies of and compliance with the system of internal control."*

2.43 The Committee raised this issue following the Auditor General's comments in Volume 3 of his 1989 report. He indicated in that report that the 1988-89 internal audit coverage of key financial systems and associated accounting records was extremely limited. *"This was due to limited terms of reference for the (contract) internal audit function and the arrears in accounting work on the Island at the time the internal audit was conducted."* The Assistant Auditor General was more critical in a letter to the then Chairman, Mr J Whitehouse of 11 July, 1989 when he advised that *"... there will be no reliance placed upon the work of the contracted internal auditor by this Office in 1988-89."*

2.44 The NSW Treasury issued guidelines for internal audit in May 1984. These guidelines were reissued in May 1990 and have been updated and expanded to provide an overview of internal auditing and other review activities within the NSW Public Sector. The Committee endorses the comments made in these guidelines when detailing the functions of internal auditing.

*"The key note of modern internal auditing is that it primarily functions as a service to management by providing independent, management oriented advice on an organisation's operations and performance. It can be regarded as a managerial control which functions by measuring and evaluating the effectiveness of other controls. The nature of modern internal audit is aimed at the promotion of*

*efficiency, economy and effectiveness of management processes as well as the reliability and accuracy of operations.”<sup>11</sup>*

### **Internal Audit Scope**

2.45 The Committee is of the view that the internal audit function has been carried out inconsistently in recent years. In particular, the Committee is of the opinion that the 1988-89 internal audit did not serve a useful purpose to the Board, its Manager/Executive Officer and the external auditor in providing an attest audit function.

2.46 In evidence, the Committee questioned the Manager/Executive Officer concerning the limitations to the terms of reference for the 1988/89 internal audit. She replied that:

*“...the checking system, it was very poor and it should have been given as the terms of reference for that Internal Auditor that was brought in. I think whilst I can agree with you there, but that has been rectified, we’ve now had the Internal Auditor in, the terms of reference were discussed with the Auditor-General and they appear now to be satisfied.”<sup>12</sup>*

2.47 The Committee understands that the firm of public accountants who completed the 1988/89 internal audit were given a restricted terms of reference and when they visited the Island to conduct the internal audit the Accountant was on leave and arrears in posting the accounts effectively prevented them from carrying out the financial or attest audit. Additionally, the time taken to complete the internal audit in 1988-89 was approximately two fifths of the time taken by the Treasury Internal Audit Bureau in 1987-88.

2.48 It is noted that in a comparison of the relative fees charged in 1988-89 and 1989-90 the Treasury Internal Audit Bureau provided greater value for money in respect to time actually expended in undertaking the internal audit function.

2.49 The Treasury Internal Audit Bureau was engaged to undertake the 1989/90 internal audit with much wider terms of reference. In evidence to the Committee, the Chairperson and the Secretary of the Board expressed a degree

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<sup>11</sup> Internal Audit, Guidelines for Government Organisations, NSW Treasury, May 1990

<sup>12</sup> Minutes of Evidence, 11 May 1990, p. 79



of comfort in the appointment of the Treasury Internal Audit Bureau. The Committee, however understands that such an appointment was for only one year. In 1989/90 the Treasury Internal Audit Bureau once again reported continuing problems in stock control, liquor operations, debtors, collections and accounts payable areas.

- 2.50 The Auditor-General's audit of the 1988/89 financial statements highlighted concerns over the lack of appropriate internal checking procedure and controls, and the limited scope of the internal audit. As indicated in the Auditor-General's 1990 Report, Volume II at page 307, more internal checking is required in the key financial systems of debtors, creditors, collections and banking, to safeguard Board assets.
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### **Recommendation 1**

**It is recommended that the Lord Howe Island Board assess, upgrade and strengthen the present system of internal checks and controls.**

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### **Recommendation 2**

**It is recommended that the Lord Howe Island Board seek the views of the Auditor-General as to the terms of reference and extent of the internal audit program coverage proposed.**

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### **Tendering and Evaluation Procedures**

- 2.51 The Committee also understands that the tendering and evaluation procedure undertaken in respect to the 1988-89 internal audit were not adequate as the internal auditor engaged quoted on a different time and audit coverage basis to that quoted by the Treasury Internal Audit Bureau. It is noted by the Committee that in evaluating any tenders in future for internal audit work that the Board must set the audit scope and ensure that the key financial systems are evaluated

on a regular basis, in addition to any management audit tasks required by the Board.

- 2.52 Due to the small size of the Island administration and its limited experience in tender evaluation it would not be unreasonable to assume in future that the Administration would need to request assistance in this area from other Government departments or the Auditor General.
- 2.53 The Public Finance and Audit Act does not restrict who would be appointed as internal auditor. Given the trend to using private sector accounting firms the Committee considers that there may be advantages to the Board in going to tender for an internal audit on the proviso that the extent of the internal audit coverage is discussed with the Auditor General.
- 2.54 The Committee believes that a normal comprehensive internal audit program which adequately completed the attest cycle could be undertaken in two visits to the Island each year. It is noted that one of the large Sydney or Brisbane based accounting firms may tender for the Board's internal audit at a cost rather than quality advantage to the Board. The Committee understands that it is industry practice that the client meet the travel and accommodation costs involved in each visit to its offices. In these circumstances the Treasury Internal Audit Bureau would not be precluded from the competitive tender process and thus tendering should ensure value for money.

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### **Recommendation 3**

**It is recommended that the Lord Howe Island Board tender its internal audit function to ensure adequate value for money.**

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## The Computerised Accounting System

### Background

- 2.55 In various reports to Parliament, the Auditor-General has commented on a number of occasions on the inadequacy of the Board's computer system.
- 2.56 From August 1983 until September 1986 the Board came under the administration of the Premier's Department which took responsibility for the accounting function. Following the attachment of the Board to the administration of the Department of Local Government in 1986 the computerised accounting system was transferred to the Island.
- 2.57 The Auditor-General has commented in Volume One of his 1989 Report that *"the accounting system, however, was basic to the need for maintaining the Board's accounts and provided quite limited management information and budget control functions."*<sup>13</sup>
- 2.58 The Auditor General continues, in the same report to say:

*"In my opinion, the inadequacies of the accounting system [and] ... the absence of an effective budgetary control and management information system combined with arrears in processing 1987-88 transactions, contributed to the cost overruns that had a largely detrimental effect on the Board's financial result for 1987-88"*<sup>14</sup>

- 2.59 The Committee notes that these shortcomings in the computerised accounting system existed throughout 1988-89 and were further aggravated by a continuation of lengthy delays in the processing of accounting transactions. The Auditor General also commented in his "red rule" report on the 1987-88 accounts of 29 May, 1989 that it was essential to fill the *"... vacant accounting position (Accounts/Computer Systems Officer) at an early date to enable timely preparation of future financial statements."*<sup>15</sup>

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13 New South Wales Auditor-General's Report for 1989, Volume I, p. 194

14 Ibid

15 Report by Deputy Auditor General under Section 43(2) of the Act on the Accounts for 30 June 1989 of 29 May 1989, p. 2

2.60 In a later report, the Auditor-General has advised that:

*"From 1 July 1989 the Board instituted a system of budgetary control and more recently approximately \$9,000 was expended on acquiring a new computerised accounting system. A preliminary review of this system by my officers indicated that the Board now has an adequate vehicle to support budgetary control as well as the maintenance and reporting of financial information. ...*

*The progress by the Board in this matter is pleasing. However it should be borne in mind that the Board expended approximately \$120,000 in 1987-88 when establishing its original computerised facility for accounting and administrative purposes. Having regard to the size of the systems in operation at the Board it is questionable whether the expenditure of these funds provided value for money."* <sup>16</sup>

2.61 The Committee noted with some considerable concern the implications of these comments by the Auditor-General on the Board's administration.

### **Computer Usage Scenario**

2.62 The Committee in its inquiries was conscious of the stage of development during 1986 of computerisation within NSW Public Service departments and authorities.

2.63 Around the time of the transfer of the accounting function to the Island the NSW Government was introducing computerised accounting systems to replace both manual and semi manual systems. The then Public Service Board was responsible for evaluating computer hardware and software commercially available to fulfil the needs of small to medium sized Government departments and recommending the appropriate firm and hardware equipment to be granted the Government supply contract.

2.64 The Committee understands that the "Easy" accrual accounting version software was supported by the Public Service Board. However, as a prerequisite in computer system design, each authority had the responsibility of determining their specific user needs and based on these needs they would evaluate the alternative software available as they were not bound to use the Public Service

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16 New South Wales Auditor General's Report for 1990, Volume I, p. 235

Board supported products. It is also understood that the "Easy" accounting software was also used as source code to develop the Budgetary Accounting Software (BAS) for the majority of the Inner Budget Sector departments. BAS is presently in use by departments until such time as they change over to accrual accounting progressively from 1990-91.

- 2.65 As part of the initial selection of accounting software the Committee understands that the Public Service Board selected Burroughs hardware, running under the BTOS operating system, to be placed in contract rather than IBM compatible hardware for the majority of Government departments.

### **Computer Hardware and Software**

- 2.66 In 1986 Burroughs computer hardware was purchased under the Government contract by the Premier's Department for the Board together with "Easy" accrual accounting version software. A parallel computer system was then maintained by the Premier's Department, which allowed ready comparison of transactions posting and correction of errors up until September, 1986 when the administration of the Board was transferred.
- 2.67 The Committee understands that a firm of computer consultants, McLachlan Consultants was engaged by the Board in August 1987 to report on modifications to the "Easy" accounting software being run on the Unisys (formerly Burroughs) hardware. Their report of September 1987, at the request of the then Chairman, Mr F. Elliott, Secretary of the Department of Local Government, was reviewed by the NSW Treasury to provide an independent assessment of the consultants recommendations. This report dealt with modifications to the "Easy" accounting software in debtors control and other areas and acquisition of additional hardware to improve the Board's accounting function.
- 2.68 The NSW Treasury was engaged, in the absence of other independent assistance, to provide project management in the review and development of accounting systems for operation within the Board. The consultants were also engaged to write computer programs to create a data base reporting system for debtors control purposes.

- 2.69 Board papers indicate that the total cost of the computer hardware, software and consultants fees was approximately \$138,913, of which consultants fees, including programming costs amounted to \$65,508.
- 2.70 Evidence has been presented to the Committee by the Accounts/Computer Systems Officer that the Unisys computer system purchased is now only used "... for some things like balancing the bank accounts and pay-roll taxation balancing and word processing"<sup>17</sup> applications.
- 2.71 The Accountant also informed the Committee as to the reasons for the acquisition of a separate IBM compatible computer system on which to run the recently acquired "Sybiz" accounting software when he advised that *"We've got a machine, a Unisys which cost the Board a lot of money a few years back and we went and looked for an accounting system. The first people we approached were Unisys software dealers and they were unable to find an accounting system that was suitable to the board at a price that would near even match other hardware suppliers. So to put on the Unisys system, an accounting system that worked on that machine, it was not up to scratch to what the Board needed and also it was dearer than that what we could buy an IBM compatible machine for (including software)".*<sup>18</sup>
- 2.72 The Committee notes the reservation by the Auditor-General in Volume One of his 1990 Report that *"it is questionable whether the expenditure of these funds (\$120,000) provided value for money"*.<sup>19</sup> When asked by the Committee whether the \$120,000 was well spent, the Accountant replied "No."<sup>20</sup>

### Accounting System Failures

- 2.73 The Committee echoes the Auditor-General's concern over the adequacy of the Board's previous computerised accounting system.
- 2.74 The Committee is most disturbed by evidence from the Accountant that *"when I arrived (in October, 1989) I found that the computer system that the Board had, ... basically just didn't work"*.<sup>21</sup> The Committee was also informed that the Accountant had to go back 4 or 5 years in some instances and that *"We had to*

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17 Ibid, p. 20

18 Ibid, p. 22

19 New South Wales Auditor General's Report for 1990, Volume I, p. 235

20 Minutes of Evidence, 11 May 1990, p. 18

21 Ibid, p. 15

*redo the ledger for the previous year for the 1988/89 year"*<sup>22</sup> and that the main errors were *"posting errors, both manually (generated) and (generated) in the computer system itself"*.<sup>23</sup>

- 2.75 Equally disturbing evidence has been presented to the Committee by the Accountant that the "Easy" computerised accounting system installed, and later enhanced, had significant failings in balancing accounts, data input, report production, budgetary control and management reporting and *"that system was widely used throughout State Government offices in New South Wales and I think it disappeared fairly quickly as well"*.<sup>24</sup>
- 2.76 One of the major failings of the Board's computerised accounting system was the way it's chart of accounts was structured, *"an inability to process/maintain the current year's accounts until the previous years accounts were closed, the management module only allowing for yearly rather than monthly comparisons of budget and accrual operations."*<sup>25</sup> The computerised accounting system did not allow adequate accurate management reporting on each cost centre, and initially lacked an integrated debtors control system which resulted in a considerable amount of manual effort to re-enter data into a different data base to bring together the diverse debtors records for follow up action.

## Computer Strategy

- 2.77 In its public hearings the Committee raised the issue of an overall computer strategy plan for the immediate future for the Board. It was concerned, in view of the path taken by the Board previously, that it should have in place a computer strategy plan to guide it. The Accountant advised the Committee that *"Yes"* he was *"very clear on where (he) wants to go computerisation wise"* *"The plan has been discussed and tabled with the Executive Officer but it hasn't been put to the Board"*.<sup>26</sup>
- 2.78 Accordingly, the Committee is pleased to note that, following its public hearings in May the Board adopted a computer plan on 26 June 1990 detailing use of computers for the next five years.

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22 Ibid

23 Ibid, p. 16

24 Ibid, p. 19

25 Report by Deputy Auditor General under Section 43(2) of the Act on the Accounts for 30 June 1989 of 29 May 1989, p. 2

26 Minutes of Evidence, 11 May 1990, p. 21

## Conclusions

- 2.79 Examination of the circumstances surrounding the acquisition of the computer hardware and accounting software has led the Committee to conclude that, like any organisation, the Board was reliant at the time on advice given to it and the availability of suitable modern computer technology.
- 2.80 It is acknowledged by the Committee that due to the isolation of the Island administration away from the main computer equipment hardware suppliers and computer training firms and the limited terms of the seconded senior administrative staff that it will occur that new and existing staff may be unfamiliar with the Board's computerised system. The Committee recommends that the Board address this issue as a matter of priority by ensuring adequate training of all staff.
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### Recommendation 4

**It is recommended that the Lord Howe Island Board implement a comprehensive computer training program for all staff.**

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- 2.81 The Committee supports the efforts of the current Board administration to improve the computerised accounting system and develop computerised budgetary control procedures and financial management information systems.
- 2.82 Similar sentiments were expressed by the Chairperson, Ms V. Ingram, when asked if she was happy with the accounting procedures now.

*"... I am certainly much happier now than I was when I first became a member of the Board, and certainly since Mrs Mortlock became the Manager/Executive Officer and since Mr Gilloway became the Accountant. I am confident that everything is being done to ensure appropriate budgetary control and I am confident of accessible, accurate monitoring of financial matters." <sup>27</sup>*

- 2.83 In the following chapter the Committee examines the Board's management information systems and reporting procedures.

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<sup>27</sup> Ibid, p. 100



## 3. MANAGEMENT INFORMATION AND REPORTING

### Introduction

- 3.1 In this chapter the Committee examines the Board's management information systems and reporting, to assess their adequacy in administration of the Island and in meeting statutory reporting requirements to Parliament and others.
- 3.2 The Committee wishes to emphasize its previous comments on accountability of public sector managers for the operation of departments and statutory authorities. Without adequate management information systems the Committee considers managers cannot make adequate management decisions on a fully informed basis.
- 3.3 A number of recommendations have been made for improvements in reporting in the areas of trading operations, disclosing the extent of Budget support for the Board and formulation of priorities for capital works projects.

## PART A - MANAGEMENT INFORMATION

### Introduction

- 3.4 The phrase, 'management information systems', has in recent years become more common in everyday usage. Management information systems can be defined as:

*"The formal and informal systems that provide past, present, and projection information in a written and oral form relating to the firm's internal operations and its environment. It supports the managers and employees and key environmental elements by furnishing information in the proper time frame to assist in decision making."*<sup>1</sup>

- 3.5 The Auditor-General, in his 1989 Report to Parliament commented on the adequacy of the Board's then computerised accounting system and management

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<sup>1</sup> Management Information Systems, Raymond Mcleod Jr. Science Research Associates 1986, p. 17

information system when discussing the Board's financial result for 1987-88. He advised that *"the absence of an effective computerised budgetary control and management information system ... contributed to a detrimental financial result for that year."*<sup>2</sup>

## Management and Information Systems

- 3.6 The New South Wales Commission of Audit made comments on this area. The Committee, whilst recognising the small scale of the Board as against those organisations examined by the Commission, echoes the following comments.

*"The most serious problem with management is the lack of adequate financial management systems and the lack of clear responsibility for financial performance."*

*In general, management information systems do not relate to profit/cost centres and as such the profitability of individual business areas can not be identified. This is particularly important in cases where the Authority is providing a subsidised or non-commercial service."*<sup>3</sup>

## Financial Information

- 3.7 The Committee is of the opinion that comprehensive financial information is of key importance to the Board, the administration and external users.
- 3.8 The Auditor-General expressed his reservation in this area, on the inadequacy of the Board's management information system and the lack of budgetary control procedures in his 1989 Report to Parliament.<sup>4</sup>
- 3.9 In a later report he also commented, *"For the first time in over two years I understand that information to facilitate financial management was available for Board members prior to the April 1990 meeting."*<sup>5</sup>

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2 New South Wales Auditor-General's Report for 1989, Vol I, p. 194

3 Focus on Reform, Report on the State's Finances. Executive Summary NSW Commission of Audit, p. 16

4 New South Wales Auditor-Generals Report for 1989, Volume I, p. 194

5 New South Wales Auditor-General's Report for 1990, Volume I, p. 235

3.10 This statement by the Auditor-General reflects the evidence presented to the Committee by the Manager/Executive Officer. The Committee asked her on 11 May 1990 whether there was an income and expenditure statement presented to each Board meeting for trading operations. In reply she advised that *"No, there isn't but mainly because of the situation of the Board's accounts as they were. I can confidently say from now on there will be an income and expenditure on the trading operations, and in fact, on the service operations."*<sup>6</sup>

3.11 In examining the financial report presented to the June 1990 meeting of the Board the Committee noted that:

- Brief comment is made on major areas of activities as to the reasons for variation from budget;
- full financial details were not included on trading operations (income and expenditure statements).

3.12 The Committee is concerned that the Board should be provided with full trading statements for the palm nursery operation and liquor store operations (with annual turnovers of \$2.1 million and \$0.6 million respectively) to enable it to be fully appraised of individual item variations on these key trading operations. Inadequate management information may restrict effective price setting and cost recovery.

3.13 These reports could also be summarised and include a variance analysis, with the Board's recently acquired computer system used to facilitate this task.

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## Recommendation 5

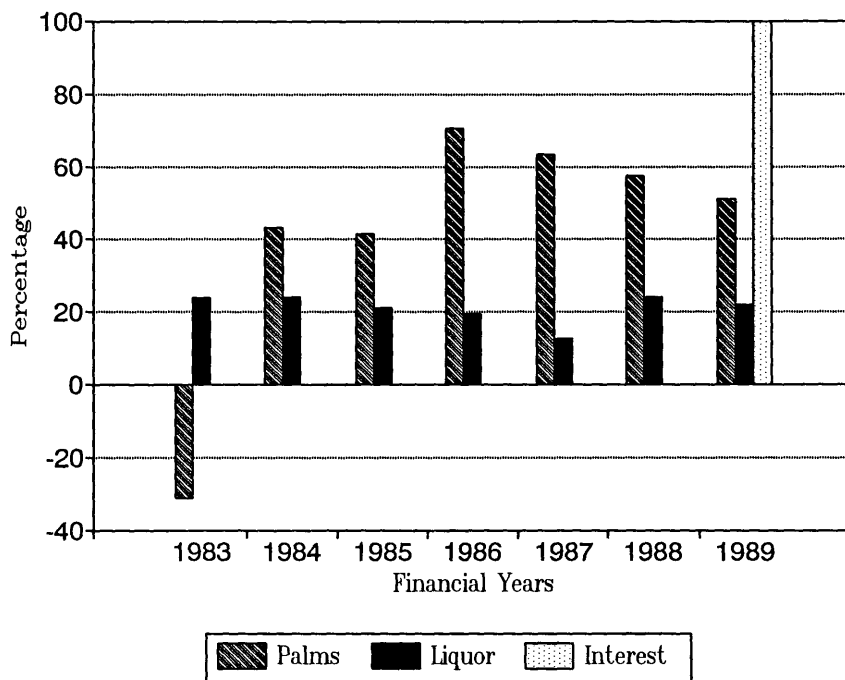
**It is recommended that in future the Lord Howe Island Board Administration prepare and submit to each Board meeting full trading statements on the Board's trading operations.**

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<sup>6</sup> Minutes of Evidence, 11 May 1990, p. 77

3.14 The Committee also considers that the Board administration should review past financial trends to isolate the reasons for variations. A preliminary review of Figure 3.1 would indicate that the Board's trading operations consistently yield a substantial profit. However, there is a declining trend which needs to be investigated, together with the reasons for such variances.

**Figure 3.1**  
**Comparison of Returns from Board's Trading Operations**



Source: Appendix 5 data

3.15 The Committee also notes that such profit is determined without regard to income tax and dividends, which in traditional commercial business sense would considerably reduce the profitability of these trading enterprises.

## Palm Nursery Operations

3.16 In 1988-89 the Board's palm nursery generated \$2.1 million in revenue, and returned a profit of \$1.0 million. This profit was in turn used to support the remainder of the Board's activities, full details of which are included in Chapter 5 of this Report.

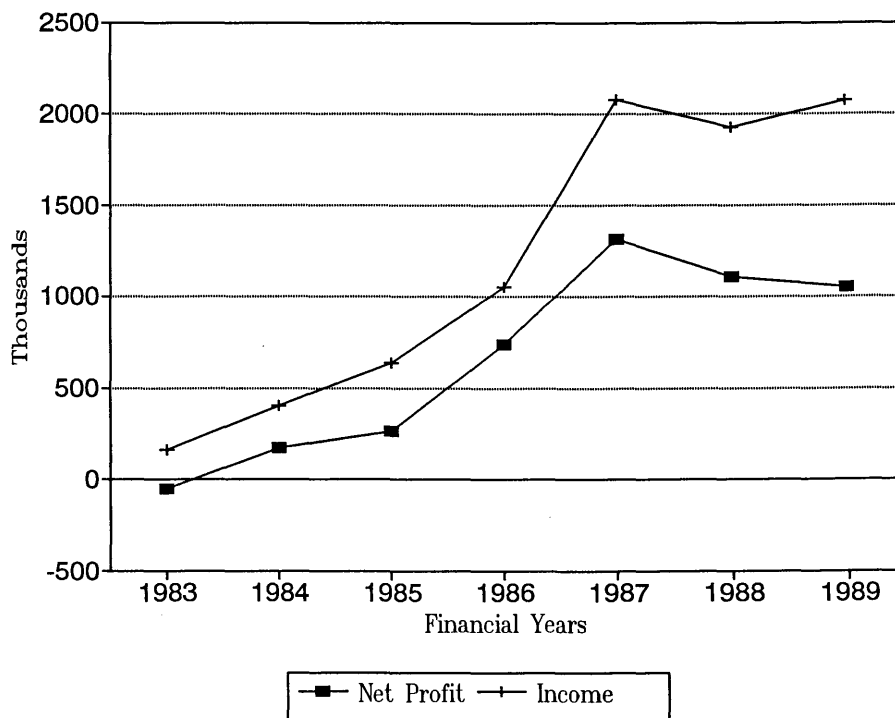
3.17 The Committee was informed by Mr R Schwartz, Nursery Manager, that the reports presented to each Board meeting contain

*"the production figures, the sales which have occurred in the financial year, any price variations, the amount of seed that is collected, the amount of seed planted and any seed that is sold to local growers and any other matters which I think need to be raised for the Board's consideration".*

3.18 In reviewing these reports the Committee notes that they concentrate mainly on the operational side of nursery operations. The Committee is mindful that the nursery manager does not possess accounting qualifications and accordingly his reports could not be expected to include financial analysis.

3.19 The Committee, in analysing past trends for the period 1983 to 1989, notes with some considerable concern the growing margin between the income level and net profit on nursery operations as evidenced in Figure 3.2.

**Figure 3.2**  
**Comparison of Net Profit Versus Income**



Source: Appendix 5 data

## Report on the Lord Howe Island Board

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- 3.20 It would be reasonable to conclude a correlation between income and net profit for the period up to 1986. However, since that date the graph shows a marked decline in relative profitability in the palm nursery operations. The Committee was informed by the Accountant that due to state of the accounts in the past little analysis had been undertaken of trends in profitability, a key area of concern in the private sector.
- 3.21 The Committee sought to examine the relationship between palm seed harvest and profitability of the palm nursery. Table 3.1 below details the *Kentia* palm seed harvest for the period 1982 to 1990.

**Table 3.1**  
***Kentia* Palm Seed Harvest (bushels)**

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	1982	1983	1984	1985	1986	1987	1988	1989	1990
Seed Harvest	854	1,383	679	784	430	1,184	1,518 *	811	920 (est)
% Variation on Previous Year	-	61.9	-50.9	15.5	-45.2	175.3	28.2	-46.6	13.4

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\* Picking stopped due to excessively large harvest

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Source: Compiled from data provided by the Lord Howe Island Board

- 3.22 From the Committee's enquiries it is apparent that there is no direct correlation between the seed harvest and profitability. Seed germination rates, market trends, world product prices and other variables must be taken into consideration in assessing the extent of the correlation to seed harvest yields.
- 3.23 The Committee notes that there are severe fluctuations in the seed harvests over an extended period (7 - 8 years)<sup>7</sup>, with independent variations in yields experienced annually in different harvest areas on the Island. This is evident from data supplied by the Board where it is noted that some seed picking areas

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<sup>7</sup> Letter from the Manager/Executive Officer of Lord Howe Island Board of 17 July 1990

(e.g. Lowlands) experienced variations from the mean ranging from -35% to +102%.

- 3.24 The Committee is of the opinion that in view of past fluctuations in native palm seed supply the Board should examine past trends to assist it in making projections of future production in the short to long term.
- 3.25 Recommendations to address the issue of future product supply are included in Chapter 8.
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### Recommendation 6

**It is recommended that the Lord Howe Island Board administration investigate the reasons for past variations in palm seed harvests and the decline in relative profitability of its palm nursery operations since 1986.**

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- 3.26 In the nursery manager's report to the January 1990 Board meeting he has indicated that the nursery's production has increased from 1.4 million palms in 1985/86 to 3 million in 1988/89, with current year's production expected at over 3.5 million palms.
- 3.27 The Nursery Manager, Mr Schwartz, was asked by the Committee how and why does the price vary. In reply he advised that

*Mr Schwartz* "The price is negotiated within certain limits approved by the board by our Marketing Agents in consultation with myself and the Executive Officer. They do not vary a great deal usually."

*Committee* "Is demand led by price variation?"

*Mr Schwartz* "That has changed over the last few years. At the moment we have been able to increase the price due to an increased demand in product."<sup>8</sup>

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<sup>8</sup> Minutes of Evidence, 11 May 1990, p. 48

- 3.28 It is apparent to the Committee that the marketing agents, Howe Island Marketing play a crucial role in the success or otherwise in marketing the Board's palm nursery products. The Committee notes the comments of the Chairperson that *"what had concerned the Board was that the previous agent appeared to be simply riding on old successes and using old clients so that there were no new markets pursued at all ... [the agent] was chosen on the basis that it would provide a high quality marketing approach for the palm industry"*.<sup>9</sup>
- 3.29 The Committee is aware that the marketing agents prepared a marketing forecast for a 12 month period. This forecast is based on estimates prepared by the Nursery Manager and *"based on those estimates our marketing agents seek clients and enter into informal purchasing agreements"*.<sup>10</sup>
- 3.30 Given that the Kentia palm seed is *"germinated over a period of approximately two years and sales flow from the germinated seed"* <sup>11</sup> the Committee wonders why only twelve monthly plans are prepared. The Committee is strongly of the opinion that the Board should prepare a marketing strategy and three year plans for its palm nursery operations in order to optimise its market opportunities for all its four palm varieties. Further options in this area are detailed in Chapter 8.

## Liquor Supply Operations

- 3.31 The Lord Howe Island Board has, under the regulations to the Act, a monopoly on the supply of liquor on the Island. The Board both sells liquor from its own liquor outlet and sells to other guesthouses, restaurants and general stores which it licenses.
- 3.32 The liquor supply outlet has an annual turnover of roundly \$0.6 million. It is the Board's second largest commercial activity.
- 3.33 The Committee sought information on whether the Board was provided with regular reports on the Liquor Supply operation and whether the matters raised by the Auditor-General in his 1989 report regarding the liquor supply operation had been heeded and corrected.

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9 Minutes of Evidence, 4 June 1990, p. 111

10 Minutes of Evidence, 11 May 1990, p. 48

11 Ibid



3.34 The Committee raised the issue of regular reporting on the liquor store with the Board Vice Chairman, Mr D B McFadyen who advised that *"As a rule not. I'm not sure whether we got one at the last Board meeting."*<sup>12</sup> When further questioned as to whether he thought he should receive reports on the liquor store he said, *"Yes."*

3.35 The uncertainty experienced by the Vice Chairman was later clarified in evidence by Mr H J Ackers, Liquor Store Manager when he was asked whether he reported to the Board on a regular basis.

<i>Mr Ackers</i>	<i>"To the Board in general, no."</i>
<i>Committee</i>	<i>"No written reports to the Board?"</i>
<i>Mr Ackers</i>	<i>"No."</i>
<i>Committee</i>	<i>"No financial reports to the Board?"</i>
<i>Mr Ackers</i>	<i>"No."</i>

3.36 The Committee, in further questioning asked

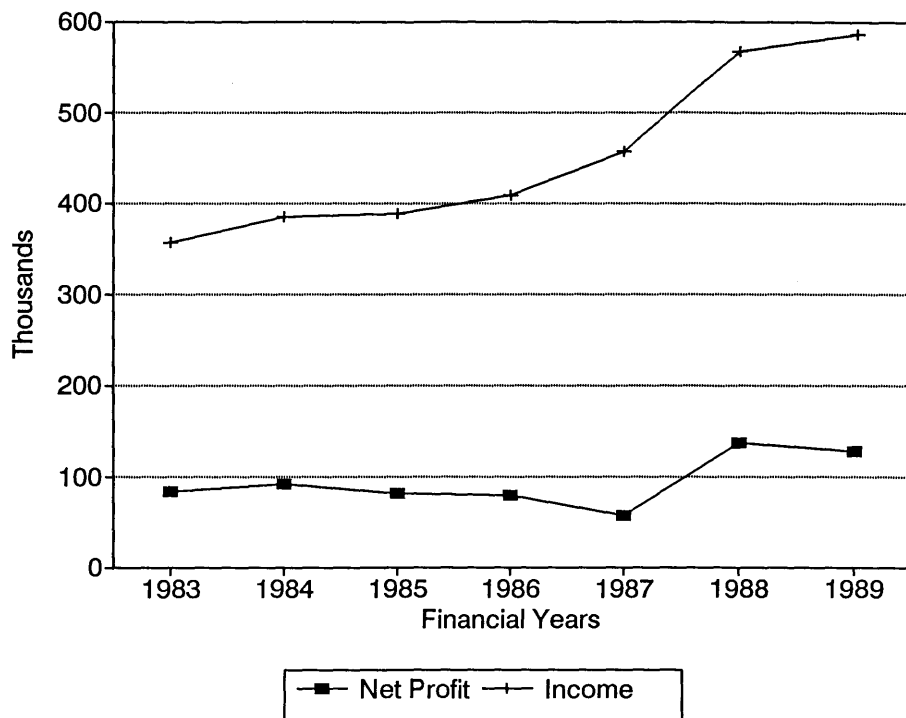
<i>Committee</i>	<i>"Do you think you should present a written monthly or five monthly report to the Board?"</i>
<i>Mr Ackers</i>	<i>"Yes, that could be a good idea to do that. At least it would keep it on an even scale right through so that each month the Board and myself would know if there's any corrections to be made."</i> <sup>13</sup>

3.37 The Committee noted a trend worryingly similar to the Palm Nursery operations in the decline in relative profitability of the Board's Liquor Store operations over recent years, as evidenced in Figure 3.3 below:

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12 Ibid  
13 Ibid, p. 64

**Figure 3.3**  
**Comparison of Net Profit Versus Income**



Source: Appendix 5 data

- 3.38 The Committee cannot emphasise too strongly that the Board's operations must be fully accountable. The lack of management reporting of the liquor store to the Island Board is unacceptable given its importance to the viability of the Board administration.
- 3.39 It is acknowledged that the Accountant now advises the Board on financial operations of the Liquor supply outlet on a regular basis. However the Committee would wish to see the Island Board more fully informed on management issues related to the liquor store.

## Recommendation 7

It is recommended that the Liquor Store manager report to each Lord Howe Island Board meeting on management and administrative issues pertinent to the Liquor Supply outlet, including such areas as sales and stock levels, pricing, staffing and administration initiatives for increasing turnover and the like.

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### Stock Control

- 3.40 The Committee sought to examine the Board's system of stock control following reservations expressed by the Auditor-General in his 1989 red rule report.
- 3.41 The Liquor Store manager explained to the Committee that the physical stocktake

*"... in years past it was successful but now we need a completely new system down there which I believe is coming in next week. The system we're using now is a system that was devised when we opened sometimes two hours a day and we carried maybe fifty or sixty lines. Now we carry 250 different items and the system I'm using now is completely antiquated."*<sup>14</sup>

- 3.42 The Board's Accountant advised the Committee that the Board had spent \$7,000 on a new computer based retail system for the liquor store<sup>15</sup> *"that is designed for bottle shops... Its a well known system so I feel more than confident that its going to fit the needs here."*<sup>16</sup>
- 3.43 In a letter to the Committee the Manager/Executive Officer has advised that

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14 Ibid, p. 64

15 Ibid, p. 22

16 Ibid, p. 17

*"Frequency of Stocktakes - Liquor Store*

*i) Old System*

*Stocktakes were carried out monthly. The results were then checked against a manual record, showing what stock should be held. This was reviewed by the Assistant Manager. A failing of this method was that no damaged stock or bad product was written off - which then showed up as a stocktake variation.*

*ii) New System*

*Stocktakes are still carried out on a monthly basis. Comparison is made to the computer record. The new computer system allows for writing off damaged stock and therefore any variation in the stocktake is significantly reduced."<sup>17</sup>*

3.44 The Committee is pleased to note the changes implemented in the stock control area and is confident that significant improvements will flow in provision of management information to the Board and the administration.

3.45 The Computer plan approved by the Board at its meeting of 26 June 1990 makes reference to this computerised system and in it the Board was advised that *"this system meets all criteria set out by the Auditor-General's Office and the Internal Audit Bureau. Operation of this computer has commenced and ... it is working to expectations."*<sup>18</sup> Notwithstanding, the Committee proposes to review in 12 months time the success of the Board in this area.

## **PART B - REPORTING**

### **Introduction**

3.46 The Committee is concerned that all government departments and authorities should be accountable for the expenditure of public funds.

3.47 The issue of financial reporting and accountability was raised at the Committee's seminar on Accrual Accounting. 'Accountability' was noted as *"an expectation that government departments and authorities will provide information about their*

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<sup>17</sup> Letter from Lord Howe Island Board of 17 July 1990

<sup>18</sup> Proposal for the Use of Computers for next five years. Lord Howe Island Board Minutes, Item 29(viii)

*activities and affairs in external reports; and that ministers or public service managers will be answerable to Parliament or other interested parties about those matters.”<sup>19</sup>*

- 3.48 The Committee considers that an efficient and effective reporting mechanism are an integral part of the accountability of departments and authorities.
- 3.49 The adequacy of the Board’s financial reporting system has previously been addressed by the Committee. In this section the Committee addresses the question of the adequacy of the Board’s reporting procedures to other government Departments and its internal priority setting procedures.

## External Reporting

- 3.50 The Board is required to report to the Government’s Central Agencies (Treasury, Premier’s Department, Department of Industrial Relations etc) in regard to financial, audit and staffing controls. These agencies in turn are responsible through their respective Ministers to Parliament.
- 3.51 Some concerns have been expressed to the Committee as to the adequacy of the board’s reporting to the Central Agencies with regard to the setting of capital works priorities. The Committee has sought to examine this issue, as in the public hearings it was apparent that some Board members did not fully understand the Government’s requirements in this area and how this impacted on the Board’s management.

## Budget Preparation

### Recurrent Budget Preparation

- 3.52 The Budget Papers basically include those organisations which receive an annual allocation to meet their costs of administration. As the Lord Howe Island Board is mainly self financing it is not included as a Budget organisation. Rather any contribution to the Board is included under the relevant administering department for the purposes of Parliamentary appropriation.

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<sup>19</sup> Public Accounts Committee Report No. 38, May 1988, p. 20

- 3.53 Up until 1987-88 the Budget Papers disclosed the Government's direct contribution to the administration of the Board. The Committee notes that in Volume II of the Consolidated Fund Estimates of that year for the Department of Local Government the Board is shown as receiving, on page 413 an "*Other services*" and "*Capital Works and Services allocation*". This had the benefit of clearly disclosing the Government's contribution to the Board's operations.
- 3.54 Currently the Government's contribution to the Board for the salaries cost of public service positions is included within the annual appropriation to the National Parks and Wildlife Service. The Auditor General's officers have raised with the Committee two problems with this arrangement. Firstly, under the Government's present budgetary arrangements there is a problem in determining the extent of the Budget allocation for salaries and related oncosts. Secondly, the payment of the Budget subsidy by the National Parks and Wildlife Service under its act to the Board could be interpreted as illegal as it is not an authorised payment under that act.
- 3.55 The combination of these factors reinforce evidence from the Board's Accountant that the current method of recoupment from the National Parks and Wildlife Service to the Board's special deposit account was cumbersome.<sup>20</sup>
- 3.56 It is of concern to the Committee that these minor administrative matters have been one of the many reasons for delays in preparation of the accounts, as most recently reported by the Auditor-General in his 1990 Report, Volume I.<sup>21</sup> The Committee considers the solution would be for the Budget Papers to disclose in a separate line item the extent of annual direct Budget funding.
- 3.57 This would have the advantage of clearly reporting to Parliament and other readers direct funding proposed to be appropriated to the Board.

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20 Minutes of Evidence, 11 May 1990, p. 24

21 New South Wales Auditor-General's Report 1990, Volume I, 11 May 1990, p. 233

## Recommendation 8

**It is recommended that the Budget Papers in future fully disclose the extent of financial resources allocated to the Lord Howe Island Board.**

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## Capital Works

### Introduction

- 3.58 Departments and Authorities are annually required to report to the NSW Treasury and the Premier's Departments their funding priorities for capital works projects. This information is in turn used to determine the Government's capital works funding priorities each year.
- 3.59 Concern has been expressed to the Committee informally that the Board's method of priority setting was constantly changed with projects either abandoned, deferred or delayed.
- 3.60 As a key part of performance measurement and corporate planning, targets or objectives are set by an organisation against which achievement of these objectives can be monitored. The Committee is concerned that the Board's system established to set capital works priorities, and thus measure the achievement of objectives, was not operating efficiently and in turn indicated a lack of adequate planning and administration.

## Priority Setting

- 3.61 The Committee received evidence from the Board's Vice Chairman, Mr D. B. McFadyen that

*"we have a budget for the start and the Works and Services Committee has a say in the priorities, sometimes we delegate that to the administrative officer. In any major things we normally have a meeting and we look at things and we say our priorities might be to*

*seal the Skyline Drive, instead of filling the pot-holes outside the public hall."*<sup>22</sup>

- 3.62 In further evidence Mr McFadyen advised the Committee that internal priorities may change as *"pressure (comes) from the residents"*.<sup>23</sup>
- 3.63 The Committee also received evidence from the Board's Chairperson, when asked if the Capital Works Committee determines its capital works priorities that:

*"It is not my understanding that the Works and Services Committee determines capital priorities. The determination of capital priorities is, as I see it, done with the Works and Services Committee, the manager, and the full Board. It goes through a process. I would not say that the Works and Services Committee determines capital priorities."*<sup>24</sup>

- 3.64 In continuing this line of questioning the Committee was further informed that the Board receives at a meeting, recommended priorities *"from the Manager/Executive Officer"*.<sup>25</sup> This apparent conflict was resolved in the Committee's mind when the Chairperson further advised that *"I have no doubt she will discuss matters with the Island Board members either in their capacity as Island Board members or as Works and Services Committee members"*.<sup>26</sup>
- 3.65 The Manager/Executive Officer advised the Committee, in answer to a question on whether capital works project priorities have constantly changed in previous years with projects either abandoned, deferred or delayed that:

*"I think its probably an accurate statement. Could I say that in my time, because of the accounting situation, I was not aware or could not be told what our income or expenditure was properly. ... So until I was made sure how much funding we had there was capital works deferred, sometimes it's not impossible to do some of the things that the Board has wanted, not only for money, but physical resources."*<sup>27</sup>

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22 Minutes of Evidence, 11 May 1990, p. 41

23 Ibid, p. 42

24 Minutes of Evidence, 4 June 1990, p. 99

25 Ibid

26 Ibid

27 Minutes of Evidence, 11 May 1990, p. 81



3.66 In evidence from varying witnesses the Committee noted that none addressed the issue of planning for local needs in an organised, prioritised methods or made a distinction between planning for development and maintenance works.

3.67 The Committee notes that in local government, capital works includes both development and maintenance works within a Council's area. The priorities are usually determined by the Council having regard to the assets register which discloses, amongst other things:

- a. the asset replacement date;
- b. maintenance required;
- c. asset value;
- d. asset life or service period, and

reports on all roads, plant and equipment, curb and guttering, footpaths, drain, etc which are regularly inspected to determine their state of repair, rather than being replaced on an ad hoc unplanned manner.

3.68 The Committee is aware that once the Council's priorities are determined the prioritised works are included within the Council's current and forward year budgets on the basis of availability of funding resources. Prioritising provides the basis of forward planning for all tiers of government.

3.69 In the following chapter the Committee further addresses these and other local government issues which it considers relevant to the administration of Lord Howe Island.

## Planning and Administration

3.70 The Committee also addressed the question to the Manager/Executive Officer of whether the planning and administration of capital works are adequate.

*Mrs Mortlock*

*"Probably they haven't been if you want an honest answer. But that is one of the things that in my term hopefully will be improved.*

## Report on the Lord Howe Island Board

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*Committee*

*How have you been addressing the inadequacy as you found it?*

*Mrs Mortlock*

*"Straight from scratch when I came in there were no procedures, there were no systems, there was no liaison with any staff, and no Policy Register so I found it very difficult to actually see where I was going and it has taken a long time for me to get a strategy under way."<sup>28</sup>*

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### Recommendation 9

**It is recommended that as a matter of priority the Manager/Executive Officer of the Lord Howe Island Board prepare and document in a manual those systems and procedures relating to setting priorities of capital works projects.**

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- 3.71 The Committee proposes to review in 12 months the progress made in this area by the Manager/Executive Officer.
- 3.72 In the next Chapter, the Committee addresses the issue of the Board's status, roads and other public works, management of the Island and staffing and administration.

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28 Ibid

## 4. ISLAND MANAGEMENT AND ADMINISTRATION

### Introduction

- 4.1 In this chapter the Committee sought to address issues pertaining to Lord Howe Island Board in its daily operations. The Committee's view is that the Board has been poorly managed in the past with matters raised by the Auditor-General being but symptoms of a more extensive problem.
- 4.2 The first issue addressed is the proper status of the Board; a State or a local government body? Other issues addressed are local issues, management procedures, conflict of interest and island administration.

### What is the Board's Status?

- 4.3 In previous chapters the Committee commented upon the Board's financial administration in terms of the statutory requirements and upon management information systems that should pertain to the Board as to any business organisation.
- 4.4 The Committee has little doubt that the Board has many varied functions to undertake, which stem from the limited size of the Island and its population and which on efficiency grounds, preclude the division of State and Local Government administrative responsibilities.
- 4.5 The Public Finance and Audit Act 1983 indicates via Schedule 2 that the Board is not a local council but a statutory authority under that Act.
- 4.6 On the other hand, Section 2 of the Commonwealth Local Government (Financial Assistance) Act 1986 provides for the Board to receive a financial assistance grant as an untied general purpose grant to be used *"by local authorities in accordance with local priorities."*<sup>1</sup>

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<sup>1</sup> Local Government Grants Commissions NSW 1989 Annual Report, p. 9

- 4.7 The Committee also noted that the State Government, in its Report on Classification and Control of State Organisations, classified the Board as a semi-commercial service run by the State Government.<sup>2</sup>

### **The Board's Classification - Should It Change?**

- 4.8 Inherent in the Government's classification of the Board as a semi-commercial service are controls based on the degree of competition faced by the organisation in the market place and the extent of Government subsidy received from the Budget. *"The controls apply to either or both the input and output sides of organisations as well as their operational processes and accountability mechanisms."*<sup>3</sup>
- 4.9 In examining this report, the Committee noted that this Government classification means that the Board is engaged in a monopolistic market and is partly subsidised from the Budget.
- 4.10 The Committee is firmly of the view that the Board's finances could benefit by more businesslike management of its trading operations, while at the same time acknowledging it is engaged in a monopolistic market in the supply of liquor and palm seedlings. The Committee has discussed these aspects in Chapter 8.
- 4.11 The Committee concludes that in all practical senses the Lord Howe Island Board should be considered as both a commercial business and a local government entity, which also carries out State and Commonwealth government agency functions.

## **Local Government Issues**

- 4.12 The Committee considers that Parliament made clear its intentions in 1953 when framing Section 38 (4b) of the Lord Howe Island Act which states

*"Regulation under this subsection may adopt any of the provisions of the Local Government Act, 1919, as amended by subsequent Acts, and the ordinances thereunder..."*

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<sup>2</sup> Classification and Control of State Organisations Report, NSW Government June 1989, p. 32

<sup>3</sup> Ibid, p. 13

4.13 This provides the Board with the flexibility to operate as a local council does in all those matters relevant to its local government administration.

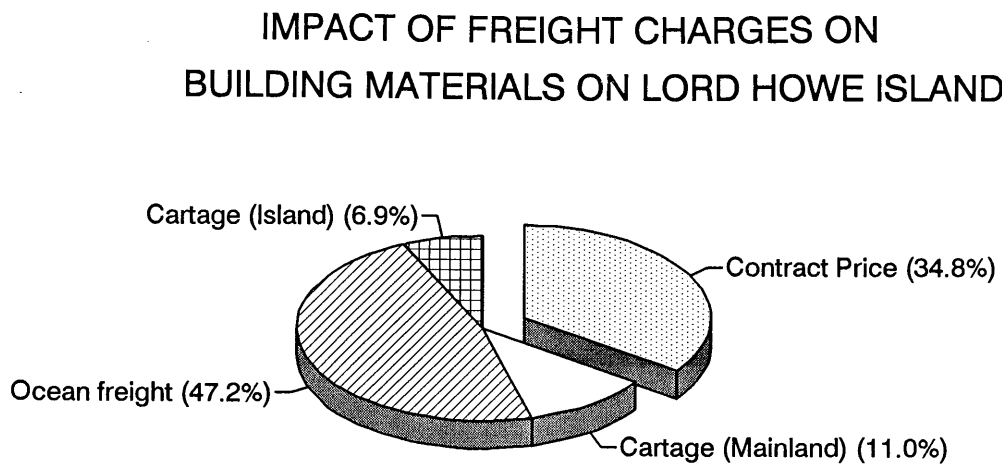
4.14 In this section the Committee examines the local government issues of roads and other works and services pertaining to Lord Howe Island.

### Road Maintenance

4.15 The Island has approximately 10 kilometres of roadway all of which are maintained by the Board. Approximately seven kilometres of roadway are presently sealed, the remainder are dirt surfaces.

4.16 All roadbase material, gravel and bitumen necessary for sealing of roads is imported from the mainland. An illustration of the impact of transportation costs on the landed goods price is shown in Figure 4.1.

**Figure 4.1**  
**Impact of Freight Charges on Building Materials**



Source: Report on Disabilities and Options, Lord Howe Island Board 1988

4.17 The Board currently receives grants totalling approximately \$50,000 p.a. for road works from the Roads and Traffic Authority. In the year ending June, 1987, following the curtailment of extractive industries on the Island and the necessity to ship aggregate from the mainland, the Board overran its original budgetary estimates for road work by 160%.

4.18 The Board has examined options for the local crushing of aggregate from boulders at the Southern end of the Island. An EIS was prepared for this project. However, due to intense opposition from environmental lobby groups, including the National Trust and Heritage Commission, this project was abandoned.

4.19 The Committee received evidence from the Vice Chairman that *"The roads are our number one priority as far as I am concerned."*<sup>4</sup>

4.20 The Committee asked the Vice Chairman *"What would you do to the roads?"* In response the Vice Chairman advised,

*"Well, we've had experts look at them. If you're anywhere else you'd bulldoze them all up and start off with road base and you'd have a road that might last you for 20 or 30 years. Here we can't do that..."*<sup>5</sup>

*"... Because we are a World Heritage site,..."*<sup>6</sup>

4.21 In further questioning as to what could be done to improve the roads the Committee asked the Chairperson, that since the speed limit is only 20kph on the island, why do you need a road of the width we have here for a speed limit of 60kph?

*"If you were there at peak season you would understand that the roads are too narrow. You have cyclists riding half a dozen abreast. The majority of the islanders do not stick to the speed limit. I would have thought that narrowing the roads would be dangerous. ...I think we have a problem with the number of vehicles on the island and the fact that the method by which tourists get around the island is by bicycle."*<sup>7</sup>

4.22 The Committee is convinced from its inspections and formal evidence that the Board's road maintenance program is carried out on an ad hoc basis in response to pressure from residents. The Committee also acknowledges that available funding and the Island's world heritage listing does restrict options available to the Board to source road building materials.

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4 Minutes of Evidence, 11 May 1990, p. 42

5 Ibid, p. 43

6 Ibid

7 Minutes of Evidence, 4 June 1990, p. 94

4.23 To improve this area the Committee is of the opinion that the Board should

1. review the state of repair of all its roads and prioritise repair and maintenance of roads;
2. adopt 10 year planning cycles for maintenance of roads and other community assets, categorised on a three year basis to provide a continuum;
3. assess the extent of traffic flows on all island roads;
4. consider whether only the main traffic flow roads should be tarred with the minor roads returned to a dirt surface;
5. review the viability of other road building materials, for example concrete or asphalt recycling (being tested in NSW)<sup>8</sup>;
6. prepare a draft traffic management strategy for exhibition and public comment on the Island. Following this the Board should determine a formal traffic management strategy which should form the basis for policies on road maintenance and construction planning, permissible vehicles types and numbers etc.

### **Other Works and Services**

4.24 Local councils traditionally provide and maintain other services within their local government areas, including footpaths, parks and other community services.

4.25 The Committee notes from its inquiries that the capital components of these services have been traditionally financed from borrowings raised by Councils and repaid from rates and other revenues over the long term. This method of funding has the advantage of spreading the burden of repayment over the life of the asset and allows users to meet the asset cost over the longer term.

4.26 As noted by the Committee, State Government policy is now swinging away from borrowing to finance non income producing assets. In local government,

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<sup>8</sup> Performance of NSW Government Businesses, Microeconomic Reform, NSW Government, September 1990, p 49

borrowing restrictions and rating ceilings have resulted in local councils also finding alternative funding methods of financing capital works.

- 4.27 The Committee is of the opinion that similar to the approach recommended for managing road maintenance, the Board should adopt a revised maintenance strategy for these assets.

### **Forward Planning**

- 4.28 The Committee notes that in local government, forward planning is undertaken to determine which priorities can be met when, within available or projected funding resources.
- 4.29 Whilst the Committee recognises that raising borrowings to finance capital works may not be an option for some Councils it does not curtail the need to adequately address the issue of forward planning.

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### **Recommendation 10**

**It is recommended that the Lord Howe Island Board address the issue of forward planning with long term plans for roads, parks and other community facilities.**

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- 4.30 The Committee also considers that should the Board members and the administration become members of the Local Government and Shires Association such membership could provide a valuable input into this and other areas of the Board's local administration.



## Recommendation 11

It is recommended that the Lord Howe Island Board become a member of the Local Government and Shires Association to provide exposure to current attitudes and developments applicable in local government administration.

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## Management of the Island

4.31 In this section the Committee sought to examine the effectiveness of the Board management of Lord Howe Island in fulfilling its accountability responsibilities to both the local Island residents and Parliament.

### The Board

4.32 The Lord Howe Island Act provides that the Board shall consist of five members, three of whom shall be Islanders, who are elected for a term not exceeding three years. The present members are as follows with their date of election/appointment.

	Ms V. Ingram (Chairperson)	September 1989
*	Mr D. B. McFadyen (Vice Chairman)	February 1988
*	Mr G. C. Wilson	February 1988
*	Mr R. A. Williams	February 1988
	Mr A. P. Spate	October 1989
*	Elected by 'Islanders'.	

4.33 Prior to elections on the Island in February 1988, the Board's present Liquor Store Manager, Mr Henry Ackers was a member of the Board where he served two terms of three years.<sup>9</sup>

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<sup>9</sup> Minutes of Evidence, 11 May 1990, p. 63

## Is There a Conflict of Interest?

- 4.34 The Local Government Act 1919 provides in Section 30(3)(a) that an employee of a Council may not be a member of the Council in which he is employed.
- 4.35 Similarly Section 30A of the Local Government Act provides for the disclosure by Council members of direct and indirect pecuniary interests in contracts, proposed contracts or any other matters.
- 4.36 It is widely recognised in both the public and private sectors that there is a need for conflict of interest and pecuniary interest provisions to ensure and maintain public confidence in systems of government and business. The community has a right to expect that elected representatives on public bodies and their staff consider and act on all matters in a fair and unbiased manner, unaffected by considerations of self-interest or personal gain.
- 4.37 It is important to separate the 'regulatory' functions of a council - which restrict what people can do (in the best interests of the community at large) from the service delivery functions - where the Council provides a particular service like pensioner housing, waste disposal or road construction and maintenance.
- 4.38 The Council decision making process must ensure that the Council as a rule-maker doesn't act more leniently towards itself, or its members than towards other users. Citizens must be sure that conflicts of interest do not occur which could result in actions detrimental to the environment or the well-being of the community.
- 4.39 The Committee became aware during its public hearings on the Island of incidents where conflicts of interests could have occurred.
- 4.40 The Committee learned from Mr Ackers that he was a member of the Board when he was appointed to his present position in September 1987 and that such appointment *"didn't create any conflict at all"*.<sup>10</sup>
- 4.41 In examination of the Board Minutes the Committee was distressed to note occurrences of possible conflict of interest, for example:

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<sup>10</sup> Ibid

- the present Liquor Store Manager, whilst a Board member voted to defer an application for a liquor licence by a private individual (15 February 1988, Item 11);
- Gower Wilson and Raynor Alan Williams voted to extend the terms of their own special leases on Lord Howe Island (8 and 9 September 1988, Item 18);
- Gower Wilson voted to increase his position as Harbourmaster's honorarium to \$2,500 per annum (16 December 1988, Item 15(iii)).

4.42 In further examination of the Minutes of 17 and 18 March 1988 the Committee notes that the present Board agreed to adopt procedures relating to the conduct of meetings if a Board member has a conflict of interest or pecuniary interest in an agenda item. The Committee is appalled to note from reviewing the Board Minutes that some Island Board members subsequently disregarded or ignored agreed Board procedures in this area.

4.43 In evidence Mr G. Wilson advised the Committee that in addition to being an elected Island Board member, he was the *"Plant Officer for the Lord Howe Island Board and also Harbour Master."*<sup>11</sup>

4.44 The Committee was amazed during public hearings that the Island members of the Board did not regard these conflicts of interest as serious. In fact Mr G. Wilson advised the Committee, *"There is no conflict in my regard. I'm totally for the Island and the Board is totally for the Island."*<sup>12</sup>

4.45 Islanders due to their very close Island community are aware of most circumstances on the Island. The Vice Chairman spoke of this when he advised, *"I can see that it can be a conflict because I do own the biggest private owned business on the Island. But, again, everyone on the Island knows that and if they don't want me on the Board they have the opportunity next February to bring me off it"*.<sup>13</sup>

4.46 On Norfolk Island the Committee found the same conflict where the President of the Norfolk Island Legislative Assembly, the Hon D E Buffett, AM, MLA, is also

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11 Ibid, p. 26

12 Ibid, p. 27

13 Ibid, p. 32

employed in the Island's public service in a managerial position. The Committee is mindful of advice received during its visit to Norfolk Island that this arrangement can and does cause difficulties and conflicts in Island administration.

- 4.47 Notwithstanding the arguments that these are clearly conflicts of interest in the traditional sense the Committee notes the opposing argument, *"that is very difficult to get around when everybody is related to everybody else on Lord Howe. You cannot get an issue that is not going to involve somebody"*.<sup>14</sup>

## Resolution of Conflict of Interest

- 4.48 It is the considered view of the Committee that any recommendations for resolution of possible conflict of interest on the Island must take account of the Island's unique attributes, its isolation and size, and limited population. Similar to other local government areas the Islander's democratic rights should not be compromised.

- 4.49 Options available may be to:

1. legislate that no employee of the Board may be a member;
2. change the composition of the Board;
3. improve meeting and minute taking procedures to ensure that all possible conflicts and pecuniary interests are declared, documented and disclosed;
4. develop a corporate plan to ensure that Islanders and Board members would be aware of the Board's structure and the *"Islanders would know what defined Board policies were on major issues"*,<sup>15</sup>
5. revise the Island's building code to ensure that it strictly defines building constraints;
6. revise the regulations to the Lord Howe Island Act to ensure that all Islanders are aware of the rules and penalties applicable to minimise elected members making 'ultra vires' decisions;
7. create an advisory council to advise the Board on local issues and be a voice for residents and Islanders.

These options are discussed below.

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14 Minutes of Evidence, 4 June 1990, p. 104

15 Ibid, p. 96

## Board Composition

- 4.50 The Committee addressed the various options in this area. However it is also mindful that the Government has tabled for consideration of Parliament proposed legislation affecting the composition of the Island Board.
- 4.51 As a first step the Committee examined the Classification and Control of State Organisations Report, in which it is indicated that the Board could consist of between five and ten members, with members having a mix of business expertise, special knowledge or consumer representation.<sup>16</sup>
- 4.52 On the other hand, the Committee notes in local government a Council is composed of local residents who have stood and been accepted by their peers for public office. Members are not *per se* required to hold professional or business qualifications. However it usually happens that a mix of skills are held by members.
- 4.53 The Chairperson advised the Committee when asked as to the Board members' capacity, *"at least two of the Island Board members are businessmen and one in particular is not only a business man... but also throughout the course of his life he had extensive shipping business interests"*.<sup>17</sup>
- 4.54 The Committee is soundly of the opinion that the Board must, due to its wide range of functions, include a balance of both local and business experience with access to expertise pertaining to the Island to ensure that it is well managed to overcome any future problems in the tourist and palm industries.

## Meeting Procedures

- 4.55 Council meetings are a very important factor in the operation of local government as they provide the forum wherein the council, representing the people of the area, make the key decisions for the local administration and provision of services. Fair and efficient meeting procedures are an essential element in the making of good decisions.
- 4.56 In contrast to the Local Government Act requirements for meetings (Ordinance One) the Committee noted from evidence from the Manager/Executive Officer

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16 Classification and Control of State Organisations, NSW Government, June 1989, p. 37

17 Minutes of Evidence, 4 June 1990, p. 113

that the Board's Works and Services Committee meetings are not open to the public.<sup>18</sup>

- 4.57 The Committee is strongly of the opinion that similar to the requirements in local government, all Board and Committee meetings must be open to the public to ensure adequate accountability and public input.
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### Recommendation 12

**It is recommended that in future all meetings of the Lord Howe Island Board and its committees be held in public.**

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- 4.58 The Works and Services Committee *"is made up of the three Island members"*,<sup>19</sup> the function of which is *"to deal with matters that the manager cannot deal with herself"*<sup>20</sup> namely matters delegated to it by the full Board.
- 4.59 In examining local government procedures as detailed in Ordinance 1, "Council Meetings and General Business", which presently are a restatement of Common Law, the Committee considers that such procedures, if adopted by the Board, would greatly assist in conducting both the Board and Committee meetings.
- 4.60 The Committee notes from a letter from the Manager of the Board of 7 September 1990 that this issue is presently being addressed. Information available to the Committee from the Department of Local Government indicates, that as part of the current review of the Local Government Act, the Department has reviewed alternatives to Ordinance 1 applicable to other states and the United Kingdom, with a Policy and Options paper to be released shortly by the Department.
- 4.61 In those emergency situations where ad hoc full committee meetings are needed the Committee recognises the opportunity to use modern communications to conduct these meetings. Such a conference style approach should include a facility to broadcast the proceedings on the Island for the benefit of residents.

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18 Minutes of Evidence, 11 May 1990, p. 80

19 Ibid, p. 28

20 Minutes of Evidence, 4 June 1990, p. 97

### Recommendation 13

**It is recommended that the Lord Howe Island Board administration liaise with the Department of Local Government in drafting meeting procedures for use by the Board and its committees for inclusion in the regulations to the Lord Howe Island Act.**

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#### Minutes

- 4.62 In general practice Minutes of meetings record the proceedings of meetings and form part of the chain of accountability. Proceedings of Councils and other bodies are required to be accurately recorded in the Minutes. This allows electors, residents and the media to have access to full records of these meetings and to ensure that the organisation's accountability responsibilities are being undertaken.
- 4.63 The Committee was informed by the Secretary, Mr J Lonigan, that it was his responsibility to keep the minutes of meetings, prepare agendas and briefing papers and ministerial submissions.<sup>21</sup> In evidence to the Committee, the Chairperson expressed some reservations whether the minutes were as complete as could be expected in that they do not show, for example, the extent of a divided vote or "mover and seconder".<sup>22</sup>
- 4.64 Additionally, the Committee was informed that they do not indicate any person who says "I wish my name to be recorded against this motion". In one instance the Chairperson moved a resolution to insist that it be noted in the minutes.<sup>23</sup>

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21 Minutes of Evidence, 11 May 1990, p. 9

22 Minutes of Evidence, 4 June 1990, p. 102

23 Ibid

## Recommendation 14

It is recommended that the Lord Howe Island Board review its minute taking procedures to ensure that the minutes accurately reflect proceedings of the Board and its committees and thus fulfil its accountability responsibilities.

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### Pecuniary Interests

- 4.65 The community has a right to expect that elected representatives on public bodies and their staff consider and act on all matters in a fair and unbiased manner, unaffected by considerations of self-interest or personal gain.
- 4.66 In its inquiries in this area the Committee noted that decisions had been made by the Board that could have been subject to the impact of pecuniary interests. It notes that all present Island Board members own or operate tourist lodges. This was brought home to the Committee when the Chairperson advised that a vote on accommodation licence fees increase would result in lack of a quorum as current Island Board members would declare a pecuniary interest.<sup>24</sup>
- 4.67 The Committee also notes from examining the minutes that on occasions pecuniary interests are not declared as such but that "*... declared an interest in this item and took no part in this decision*" is recorded in the minutes.
- 4.68 It is also noted by the Committee from evidence that there is no pecuniary interests register for board members.<sup>25</sup>
- 4.69 Additionally, similar pecuniary interest provisions exist in other statutes, for example Schedule 2 of the Bicentennial Park Trust Act 1987 provides for disclosure of pecuniary interests.

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24 Ibid, p. 104

25 Ibid, p. 107



## Recommendation 15

It is recommended that the Lord Howe Island Act be amended to include a requirement that pecuniary interests shall be fully disclosed and recorded in a register which is open to the public.

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### Who Advises the Board?

- 4.70 The Committee acknowledges that factors such as the small number of residents and the geographic isolation of the Island demands that all issues of significance within the Board's ambit be addressed by the Board as a whole. Consequently the Board should avoid, where possible, delegating powers to small select committees.
- 4.71 In consequence the Board should anticipate the need for greater delegation of day-to-day management functions and contingencies to the Manager/Executive Officer.
- 4.72 The Committee has heard evidence that the Board's Works and Services Committee is constituted of three Island members. However, *"there is no real charter to their operation; they have certain delegations that they can carry out..."*<sup>26</sup> and *"all of the decisions made by the Works and Services Committee are then referred back to the two mainland Board members for their concurrence and/or comment..."*<sup>27</sup>
- 4.73 The Committee questions how realistic this arrangement is where committee decisions are later endorsed by the full Board. Why could not the Board consider all matters, without a committee? The Chairperson advised the Committee that *"It happens in instances where, because the Board meetings are held quite far apart, day to day issues of granting building approvals would greatly inconvenience people if they had to wait for the next Board meeting"*.<sup>28</sup>

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26 Minutes of Evidence, 11 May 1990, p. 79

27 Minutes of Evidence, 4 June 1990, p. 97

28 Ibid

- 4.74 The Committee has also heard evidence that a health and building consultant is engaged by the Board to review building applications and make site inspections to ensure building work has been properly carried out, that plans are accurate and appropriate, however he is not available to address the Board in response to any queries raised.
- 4.75 The Committee notes that in local government it is the usual procedure that the Health and Building Inspector is available to address the Council, if required, in respect of building matters. This in turn aids members' understanding of matters before the Council and assists in making proper decisions.
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### **Recommendation 16**

**It is recommended that the Lord Howe Island Board consider making it a requirement that the health and building consultant and other persons or organisations engaged to prepare reports for the Board be available for interview by Board or committee members in open meetings when they are on the Island.**

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- 4.76 From reviewing the Minutes of the Board and its Works and Services Committee, the Committee questions why both bodies apparently consider the same matters. An alternative may be to have more frequent Board meetings and have greater delegations of powers to the Manager/Executive Officer to finalise, for example, building applications approved in principle by the Board.
- 4.77 In fact, given the possibility of direct and indirect conflict of interest the Committee is concerned that the three Island Board members may not be the most appropriate group to determine building and development applications.
- 4.78 The Committee noted that the Bicentennial Park Trust Act provides for committees to be established to assist the trust in connection with any of its functions, with the Manager being an ex-officio member of each committee.<sup>29</sup>

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<sup>29</sup> Bicentennial Park Trust Act 1987, Section 17

- 4.79 One argument put forward to the Committee is that the Works and Services Committee could be renamed the Lord Howe Island Advisory Council and could advise the Board on roads, tourism, planning, finances, capital works, environmental management and other areas delegated by the Board.
- 4.80 However, on balance the Committee considers that the Local Government example, of a committee of the whole, is the most appropriate management vehicle for the Island and that the Manager/Executive Officer should have full delegated power from the Board to handle day-to-day management.
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### Recommendation 17

**It is recommended that the Lord Howe Island Board Works and Services Committee be abolished.**

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### Planning

- 4.81 The Committee during its inquiries also addressed the question of planning, after learning from public hearings the Board had few formalised policies. The Board does not have *"policies that are perceived to be run on business and management lines"*.<sup>30</sup> Indeed the Chairperson advised the Committee *"...that is very largely also a function of the smallness of the Island, that when the Board does come to formulate policies they are very often formulated based on Island interests rather than formulated with a view to the broader perspective of community welfare and functioning as a whole."*<sup>31</sup>
- 4.82 She went further in saying

*"Our Board meetings are open, as you are aware, so you have Islanders present at a Board meeting where an Island Board member openly contradicts Board policy and openly supports flagrant breaking of the law - for want of a better way of putting it. That worries me and I think if we had something in the nature of a corporate plan the*

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30 Minutes of Evidence, 4 June 1990, p. 95

31 Ibid

*Board would have a sense of structure and the Islanders would know what defined Board policies were on major issues.”<sup>32</sup>*

- 4.83 The Committee echoes her concerns and recommends that the Board prepare a corporate plan which clearly defines its mission and objectives, functions and structure and provides a framework for the application of more specialised programs such as staff training and development, staff performance appraisal and computer applications.
- 4.84 It is pleasing to note that the Manager/Executive Officer has also perceived this shortfall in management, for in a letter to the Committee of 7 September 1990 she has commented that a corporate plan or management strategy *“should assist the Board in its decision making and avoid inconsistencies and irregularities which occur from dealing with specific issues on an ad. hoc basis. Such plan would have regard for the World heritage listing and conserving the environment and addressing the deficiencies of the regional Environmental Plan, quantify development, carrying capacity and limitation of motor vehicles”*.
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### **Recommendation 18**

**It is recommended that the Lord Howe Island Board administration should proceed as a matter of priority in preparing a corporate plan and management strategy plan.**

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### **Board Policies**

- 4.85 The Board’s policy on the importation of animals to the Island has recently generated a degree of media and press interest with headlines such as *“Woman Quits ‘Paradise Isle’ Over Cat Ban”*<sup>33</sup>. The Board’s Works Supervisor, Mr T Wilson, and his wife had challenged the Board policy prohibiting the importation of her cats to Lord Howe. However the Supreme Court Judge, Justice Finlay has now ruled against them.

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32 Ibid, p. 96

33 Daily Telegraph of 8 September 1990

- 4.86 The Committee is concerned about the appropriateness of the Board's regulatory powers as the press article continued, "...there were other unregistered cats on the Island but the Board had not taken action against their owners". In her evidence before the Committee Ms V Ingram advised "*in my opinion ...the Board has been chronically unable to stick to a policy of limiting domestic pets and particularly sticking to its policy of not allowing cats at all.*"<sup>34</sup>
- 4.87 It is also noted by the Committee that the regulations to the Lord Howe Island Act do not provide the Board with power to control dogs, a power provided normally by the New South Wales Dog Act, 1966.
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### Recommendation 19

**It is recommended that the regulations to the Lord Howe Island Act be reviewed and upgraded to ensure that the Board is empowered to more adequately carry out its functions.**

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- 4.88 In evidence the Manager/Executive Officer also advised the Committee, when questioned as to inadequacies in planning and administration of capital works that "*when I came in there (in November 1988) there were no procedures, there were no systems, there was no liaison with any staff, and no Policy Register.*"<sup>35</sup>
- 4.89 The Committee found during its enquiries that this lack of knowledge of policies, procedures and systems hindered the administration of the Board. Once the senior administrative officer completed their secondment/terms of employment all corporate knowledge '*walked out the door*' with them.

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34 Ibid, p. 96

35 Ibid, p. 81

## Recommendation 20

It is recommended that, to provide for continuity of administration, the Lord Howe Island Board document as a matter of priority, those systems, procedures and policies pertaining to the Board in a policy register which is available generally to members and the public for inspection.

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### Development and Building Code

- 4.90 The Committee has heard evidence from the Chairperson that the building code has resulted in *"much greater control of building and development on the Island and much less of getting around the Board policy"*.<sup>36</sup> However the Committee notes that this is still a problem area with the Board resolving to review the Development and Building Control Code with a view to *"correcting various anomalies in the code and providing for improved control over development and building in general"*.<sup>37</sup>
- 4.91 It is also noted by the Committee that the Government, as part of the review of the Local Government Act, has outlined proposed changes to building approval processes by councils and other Local Government reforms in a White Paper released for discussion by the Minister for Local Government on 12 July 1990.
- 4.92 The Committee considers that, as part of the Board's review of its development and building code, the administration should review the proposed Local Government legislation to ensure that its revised code provides suitable flexibility and control of development and building on the Island.

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36 Minutes of Evidence, 4 June 1990, p. 96

37 Minutes of Lord Howe Island Board, 26 and 27 October 1989, Item 5(viii)

## Staffing and Administration

### Term of Secondment

- 4.93 The Committee sought to examine whether there was a link between the term of secondment of senior Board administrative officers and the breakdown in management information systems and financial administration witnessed by the Auditor-General.
- 4.94 As concluded by the Committee in Chapter 2 there have been gaps of up to nine months in the permanent filling of the key positions of Manager and Accountant.

**Table 4.1**

	Position	Appointed	Resigned
<b>1.</b>	<b>Administrator/Executive Officer</b>		
	Jim Lacey	Dec 1983	May 1988
	Paul Carter (temporary)	May 1988	September 1988
	Judy Mortlock	November 1988	--
<b>2.</b>	<b>Assistant Manager/Accountant</b>		
	Bill Greta (on leave 6 March 1989 to 1 May 1989)	February 1988	June 1989
	John Gilloway	October 1989	--

- 4.95 The Committee was made aware of the gaps in the Board's administration over time from the comments of the Manager/Executive Officer that there had been no continuity of corporate knowledge.
- 4.96 An option apparent to the Committee is that the present term of secondment of two to three years could be extended. It appears that the present period of appointment is too short, particularly in those cases where there is considerable work to do in filling gaps in administrative policy and systems.
- 4.97 It is appreciated that in the past appointment to the position of 'Administrator' or 'Manager/Executive Officer' could have been seen by some as a 'thank you' for work on the mainland and that person's appointment was more a 'rest'.

However the Committee wishes to stress that changes within the NSW Public Service in recent years have placed much greater responsibility on public service managers and for them to be accountable for their management.

- 4.98 The Committee is aware that one component of the corporate planning process is the requirement for a performance agreement between the departmental head and the Minister. From 1 July 1989 performance agreements with respective Ministers were compulsory for all Departments.
- 4.99 A further required component is performance measurement, to enable regular evaluation of the Department's performance in meeting its stated objectives.
- 4.100 The Committee is strongly of the opinion that such corporate planning and performance review processes should be extended to the administration of Lord Howe Island, to measure the performance of the Board, its Manager, and the Accountant, and should flow through the whole staff structure.
- 4.101 As an integral part of this process there should be rewards and sanctions. The Committee also notes that the Classification and Control of State Organisations report states that a Semi Commercial Service or Business should be free to determine:
- i. staff establishments (including classifications and gradings);
  - ii. staff members;
  - iii. salary and wage levels and conditions of service.
- 4.102 The Committee is strongly of the view that the Board should consider the appropriateness of the gradings and salary levels of its senior administrative positions. It is also noted from evidence by the Manager/Executive Officer that it *"has been quite difficult for the Board because not everyone wants to come and live and work on Lord Howe Island. Take an accountant for instance, because its not a highly paid job ..."*<sup>38</sup> This statement is born out by examining the grading and salary of similar jobs within the Public Service which confirm that this position could be considered as significantly undergraded.

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38 Minutes of Evidence, 11 May 1990, p. 82



- 4.103 Unless the Board addresses this issue the Committee considers that it will continue to have difficulty in recruiting appropriately qualified people and with this difficulty comes sanctions as to its accountability.
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### Recommendation 21

**It is recommended that the Lord Howe Island Board review and reassess the salary and grading of its senior administrative positions of Manager/Executive Officer and Assistant Manager/Accountant to ensure it maintains an ability to attract suitably qualified staff.**

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### Visitors' Register

- 4.104 Serious concerns were expressed to the Committee that the Islanders *"perceive that their Island is overrun by bureaucrats taking advantage of the opportunity of visiting a beautiful island. It is a common complaint..."*<sup>39</sup>
- 4.105 The Committee also has serious concerns in this area as it notes that members of various government departments do not necessarily pay their way<sup>40</sup> and that these visits often require time and resources of the Board. It should be noted that the Committee sought to examine the frequency of visits by government departments. However its request for information was not met.
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### Recommendation 22

**It is recommended that the Lord Howe Island Board administration maintain a register of visitors to the Island from Government departments and authorities in which the cost, the purpose of the visit and the organisation involved are recorded, with these details also reported in the Board's annual report.**

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<sup>39</sup> Minutes of Evidence, 4 June 1990, p. 92

<sup>40</sup> Ibid

## 5. Financial Position of the Board

### Introduction

- 5.1 This chapter reports on the Committee's assessment of the financial position of the Lord Howe Island Board. A brief overview is presented of assets and liabilities and a more detailed analysis of income and expenditure and contingent liabilities. A number of key issues are then raised concerning the Board's past funding sources and future trading operations.
- 5.2 The Committee is of the view that both the State and Commonwealth Governments must recognise the special nature of the Island and contribute to the management of the permanent park preserves to safeguard the Island's World Heritage listed assets.

### The Balance Sheet

- 5.3 Table 5.1 puts the current position in context by presenting a summary of Balance Sheets from 1984/85 to 1988/89.
- 5.4 The details shown in this table have been compiled from the Board's audited financial statements over the period.
- 5.5 The Committee also notes the Auditor-General's qualification of the financial statements prepared for 1986/87 and 1987/88 in respect to an acceptable accounting policy on depreciation and capitalisation of assets.
- 5.6 Periodic comparisons of the Board's balance sheets presented a particular difficulty due to the changing accounting basis, the treatment of adjustments and transfers to and from reserves. The Committee has confined its interest to the financial position of the Board and has made a number of explanatory comments on the significant movements in assets.

Table 5.1

Lord Howe Island Board Balance Sheets  
1985 - 1989\*

	1984/85	1985/86	1986/87	1987/88	1988/89
	----- \$'000 -----				
<b>Assets</b>					
Non Current	2,567	2,909	3,283	2,280	4,256
Current	1,162	1,340	2,333	4,469	2,879
Total Assets	3,729	4,249	5,616	6,749	7,135
<b>Liabilities</b>					
Current	496	317	476	478	457
Non Current				1,269	1,278
Total Liabilities	496	317	476	1,747	1,735
Net Assets	3,232	3,931	5,140	5,002	5,400
Capital and Retained Earnings	3,232	3,931	5,140	5,002	5,400
* Totals may not add due to rounding					

Source: Compiled from Audited Financial Statements of Lord Howe Island Board

**Assets**

5.7 Current assets in the balance sheet relate to cash, accounts receivable and inventories. The balance sheet details for non current assets reflect the changing accounting treatment of fixed assets over the period. Prior to 1988/89 not all assets acquired free of cost by the Board were brought to account in the Board's Balance Sheet. Assets acquired free of cost included the airport, motor vehicles, golf club house, road works, slipway, tanks and other sundry items.

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5.8 Details of assets brought to account or their source are shown hereunder.

	1985/86	1986/87	1987/88	1988/89
	----- \$'000 -----			
Premier's Department	180			
Department of Sport and Recreation		20		
Department of Local Government		446		
Commonwealth - airport			1,210	
Grant public hall			100	
Road works				375
Furnishing				3
	180	466	1,310	378

Source: Compiled from information provided by Lord Howe Island Board

5.9 The Committee notes that the Board has received \$2.334 million from the State and Federal Governments in capital assistance over this period. It should also be noted that these substantial grants represent a considerable percentage of assets presently shown in the Board's balance sheet as at 30 June, 1989.

### Liabilities

5.10 In her evidence before the Committee Ms V Ingram, Chairperson, advised that

*"We do not have a policy one way or another in relation to borrowing for capital works. Indeed in my short time on the Board, it strikes me that the Board's attitude is that it needs to live within its budget and apply where it can for Government subsidy and assistance".<sup>1</sup>*

5.11 This mentality of not borrowing is clearly evidenced in the Board's balance sheet as the major long term loan is of \$1.2 million borrowed in 1981 from the NSW Treasury Fire Risks Account to construct, in the main, a jetty on the Island. The Committee notes that against this liability the Board has since 1986/87 transferred \$150,000 p.a. to a Loan Repayment Reserve. The Board's current liabilities relate simply to accounts payable and provisions for employee entitlements.

<sup>1</sup> Minutes of Evidence, 4 June 1990, p. 95

## Contingent Liabilities

- 5.12 The notes to the 1987-88 and 1988-89 accounts disclose contingent liabilities for:
- sales tax on purchases of liquor for the Board's liquor store;
  - pay-roll tax for the three years ending 30 June 1988 of approximately \$127,000.
- 5.13 The Committee sought to examine whether it was a failing of the Board management that these liabilities had not been brought to account.

In evidence the Manager/Executive Officer advised that:

*"...I've had to sort of have a holding pattern since I've been in office and whilst we're aware of that liability owing to the Sales Tax Office we've really needed to get our accounts up and running before we go back and see what sales tax is owing and I think it was just an oversight really that it wasn't paid. ..."*<sup>2</sup>

- 5.14 The Committee regards this oversight with considerable concern and it understands that this position has not yet been corrected.
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## Recommendation 23

**It is recommended that the Lord Howe Island Board urgently assess the full extent of its liability for unpaid sales tax and payroll tax and discharge its liability as a matter of priority.**

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- 5.15 The Committee proposes to review the Board's action in this matter within 12 months.

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<sup>2</sup> Minutes of Evidence, 11 May 1990, p. 75

## Income and Expenditure

5.16 The Committee sought to examine the trends in Board incomes, subsidies and expenditure on services provided by it. In this respect the following table summarises the major income and expenditure classifications as presented in the audited financial statements, with full details shown in Appendix 5.

5.17 In a later section of this chapter this information is recast in order to examine in more detail the extent of support provided to the Board from various levels of government towards the many and varied Board activities and services.

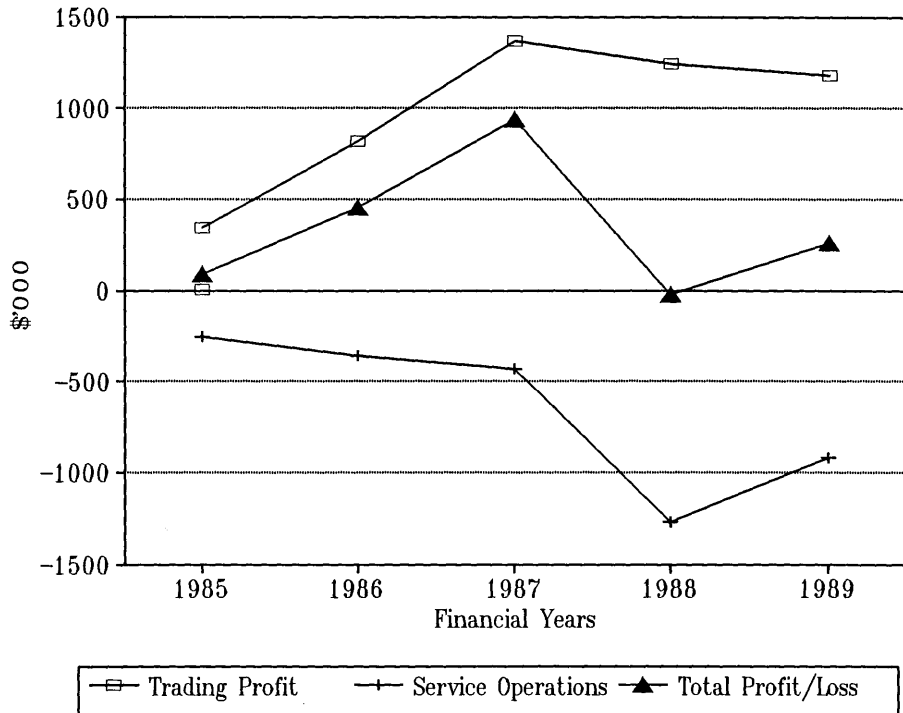
**Table 5.2**  
**Comparative Income and Expenditure**

	Trading Operations (\$'000)	Service Operations (\$'000)
<b>(a) Year ended 30 June 1985</b>		
Income	1,023	472
Subsidies	-	689
Expenditure	681	1,414
Net Position	342	-253
Operating Surplus/Deficiency		89
<b>(b) Year ended 30 June 1986</b>		
Income	1,456	496
Subsidies	-	1,052
Expenditure	638	1,911
Net Position	818	-363
Operating Surplus/Deficiency		455
<b>(c) Year ended 30 June 1987</b>		
Income	2,533	591
Subsidies	-	1,129
Expenditure	1,163	2,151
Net Position	1,370	-431
Operating Surplus/Deficiency		939
<b>(d) Year ended 30 June 1988</b>		
Income	2,492	676
Subsidies	-	912
Expenditure	1,250	2,855
Net Position	1,242	-1,267
Operating Surplus/Deficiency		-25
<b>(e) Year ended 30 June 1989</b>		
Income	2,658	1,000
Subsidies	-	875
Expenditure	1,481	2,794
Net Position	1,177	-919
Operating Surplus/Deficiency		258

Source: Compiled from Audited Financial Statements of Lord Howe Island Board

5.18 It is apparent from the preceding table that the service operations carried out by the Board are subsidised each year by the profits earned from its trading operations namely, the palm nursery and the liquor store. This is more graphically shown below in Figure 5.1

Figure 5.1



Source: Appendix 5 data

5.19 This large variation in Board profitability in its trading and service operations is explained in the following sections.

## Major Issues Arising

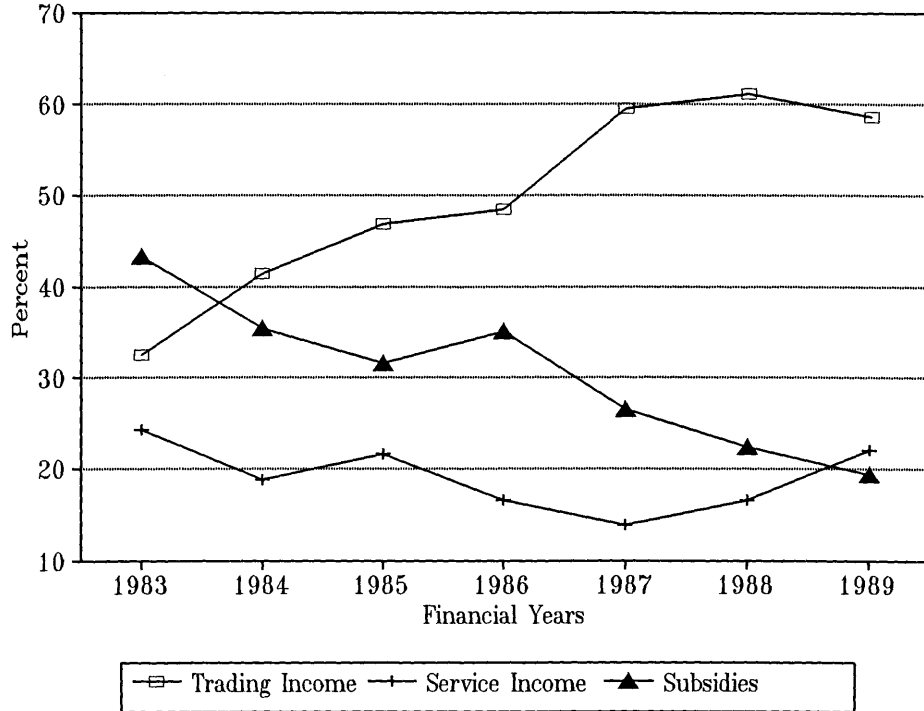
5.20 In Volume I of his 1989 report the Auditor-General has attributed the detrimental effect on the Board's financial result in that year in part to *"the absence of an effective budgetary control and management information system and combined with arrears in processing 1987-88 transactions..."*<sup>3</sup>

5.22 In analysing income sources, as graphically shown in Figure 5.2 over a longer period (from 1983), it can be seen that government subsidies, as a percentage of

<sup>3</sup> New South Wales Auditor-General's Report for 1989, Volume I, p. 194

total income, have significantly declined. Trading income has greatly increased to bridge the gap left by the decline in subsidies.

Figure 5.2



Source: Appendix 5 data

- 5.23 The minor growth in service income in 1989, has in part been assisted by the Treasurer’s approval (effective from 1 July 1988) to the payment of interest on funds held in the Board’s Special Deposit Account at the Treasury, which has added \$163,000 to service income in 1988/89. However, the Committee considers that disclosing this interest income within Service Operations is incorrect as interest is earned on surplus funds generated from trading operations.
- 5.24 In following sections the Committee examines the Board’s investment powers, the level and extent of services provided and subsidies received.

**Board Banking and Investment Powers**

- 5.25 Section 34 (1) of the Lord Howe Island Act provides that all funds received by the Board shall be paid into the Lord Howe Island account in special deposits at the Treasury. Out of this account all expenses in administration of the Board’s functions are to be met.



- 5.26 Unlike other similar statutes the Lord Howe Island Act does not make any provision for the investment of surplus funds in any way other than as an investment with the Treasury in special deposit accounts.
- 5.27 The Committee notes that the Bicentennial Park Trust Act 1987 and the Royal Botanic Gardens and Domain Trust Act 1980 do not make specific provision to create a special deposit account at Treasury. Neither does the Zoological Parks Board Act 1973 make a similar provision, however, this Act does specify in Section 22 constraints as to investment of funds.
- 5.28 In the absence of specific provision for investment of funds the Committee notes that the provisions of the Public Authorities (Financial Arrangements) Act 1987 apply which provide for greatly enhanced investment powers..
- 5.29 It is considered that the Lord Howe Island Board should have the same investment powers as similar statutory authorities. In this regard the Committee wishes to emphasise the recent reforms by the Government in this area, namely the Public Authorities (Financial Arrangements) Investment Powers Regulation 1990 has prescribed revised investment powers for the aforementioned organisations which improves the scope for increased investment returns.
- 5.30 The Committee notes that the recent amendment to the Annual Reports (Statutory Bodies) Act Regulation requires the Board to include in its annual report from 1 July 1990 a comparison of investment performance, and the Board's current Act could be considered to hamper its investment and debt management performance.
- 5.31 In evidence the Board's Accountant identified considerable difficulties in *"getting information from National Parks and Treasury"* <sup>4</sup> as to the transactions posted to the Board's special deposits account. In the case of Treasury involvement he further advised that *"you just want to be able to confirm (like a bank statement) ... we get a significant amount of interest from Treasury on our funds on deposit there and if you're going to keep your accounts up to auditing you want to know what interest you're paying and receiving."* <sup>5</sup>

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4 Minutes of Evidence, 11 May 1990, p. 23

5 Ibid, p. 24