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To the Owners Committee of
Belvue Apartments — Crosslease 93132
c/o Body Corporate Administration Ltd.

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AGM 2016 Invitation		December 1, 2016	4

Financial Statements

Dear Owners Committee,

thank you for distributing the **draft** financial statements 2016 with the AGM invitation. Before producing and distributing the finalised and audited financial statements (i.e. the version **signed** by BCA/Committee/Auditor), please address and resolve the issues raised in this letter. I'm also raising issues related to last year's financial statements, since those statements were only released during the AGM2015 itself, without any lead time to allow for a meaningful prior consideration.

- 1. Programmed Maintenance Services.** The Statement of Financial Performance and its Note 1 list a \$37,541 expense in the current year as well as an accrual of \$8,356 on the last page of our Financial Statements. However, our contractual agreement with PMS is for exactly 4 quarterly payments of the same amount with only an inflation-adjustment (currently roughly 1-2%) once a year. If we were charged 5 times during a 12-month period, this needs to be taken up with PMS or booked as prepayment against the next year's accounts. Anyway, the \$37,541 amount is out of line with our contractual payment schedule and can't be right. Please also check the previous year's amount for correctness and compare the numbers against the actual PMS invoices and their dates. If we lose track of the sequencing and amounts of invoices, we run the risk of being overcharged by PMS. **Note:** About 7 years ago, it turned out that PMS had significantly overcharged us since the beginning of our contract period. The recovery of our overcharged expenses was dragged out over at least 2 years due to the late discovery of the problem and BCA's difficulty to re-calculate payments over several accounting periods.
- 2. Lift Phones.** The \$700 expense in the Statement of Financial Performance looks a bit suspicious. The lift phone is a standard phone line supplied by Spark and connects to the lift maintenance company whenever the emergency button is pressed. It consists of a land-line fee plus calling charges. In most months, we only pay the base fee. Only occasionally someone presses the emergency button and may invoke a small calling charge. Spark phone line rentals are fairly stable and the jump from previous year's \$558 to this year's \$700 as well as the unusually round amount seem strange. This can be easily verified by looking at our recent Spark phone line invoices. Please do so. **Note:** In our 2011 accounts, a similarly odd but innocent looking account entry led to the discovery of accounting irregularities caused by a BCA employee who was subsequently dismissed. This is documented in <http://belvue.org.nz/accounts2011.html>



3. **Income Taxation.** According to the statement of accounting policies 1.(C)(c), our Crosslease is only liable to Income Tax on our interest (via Resident Withholding Tax) and dividend receipts (Auckland Energy Consumer's Trust). According to our Statement of Financial Position (under "Liabilities"), we had a \$654 **refund** from IRD in the previous accounting year. This year, we have a \$620 **liability** towards IRD. But there is no underlying significant change in our financial circumstances visible anywhere in our accounts to justify this complete reversal in our tax position. Please check our yearly income tax return filings for the last 2 years and explain the difference.
4. **Body Corporate Administration Fee.** There is an accounting problem here that started in the previous year. On the last page of the 2015 financial statements, there is an Accrual entry that says "Body Corporate Administration Fee (Section 147) \$537". It is a claim by BCA against our Crosslease. Most people wouldn't have a clue what this means. "Section 147" refers to a section of the "Unit Titles Act 2010" — a law that does **not** apply to our Crosslease, so BCA has no right to claim money under this provision from us. Specifically, this Section 147 regulates how a prospective apartment buyer obtains a certificate that the corresponding prospective seller has no outstanding debt against the body corporate. Any costs associated with issuing such a certificate are a private matter between buyer and seller and under no circumstances a cost to any other non-involved apartment owners!
In our current (2016) financial statements, the last page has a less descriptive entry under Accrual: "Body Corporate Administration Fee \$3,247", which means, the financial claim by BCA against our Crosslease has now increased to \$3,247. It seems to subsume the previous year's wrong claim. Our financial statements don't show the details of this year's claim. As far as I understand the payment process, BCA receives a fixed monthly automated payment from our bank account. If that's true, I simply can't see, how such a \$3,247 "backlog" in claims could possibly come about. Please check that the corresponding monthly invoices by BCA to our Crosslease match up with our monthly payments and that their sum over the budget year matches the total yearly administration fee agreed with BCA at the start of the budget year.
5. **Annual Levy — Discount.** There is at least \$771.80 cash missing in our accounts due to improperly granted levy discounts. It may not be easy to see on first glance, but the lack of proper levy accounting has been a long standing and well-known problem with BCA. Here is how you can see that the numbers are wrong and need correction:
 - (a) From the Statement of Financial Position, under "Accounts Receivable — Levy \$14,765", you can conclude that on 30. September 2016 at least 10 half-yearly Levy invoices have been overdue by more than 30 days.
 - (b) At least those 10 levy payments should not have had their \$153.88 discounts granted.
 - (c) On a total sum of \$200,040 in levies (before discounts), at most \$20,004.00—\$1,538.80 = \$18,465.20 should have been granted as discounts.
 - (d) This contrasts the actual discounts granted in the Statement of Financial Performance entry "Annual Levy — Discounts (\$19,237)".
 - (e) The difference between the last 2 numbers, \$771.80, is the minimum shortfall due to improperly granted discounts. The actual shortfall may be even higher, but it can only be determined by looking into our detailed bank statements.



6. **Contractual Liabilities.** Even at the risk of being accused that I'm nit picking, please observe the following: during the 2015 AGM, David Lee asked for the correction of the financial statements to note that our PMS contract is for 12 rather than 10 years. While the correction request is noted in the meeting minutes, nobody acted on it and the wrong 10-year time frame is still referred to in our current financial statements. Please make sure, this is corrected.

7. **Caretaker — Wages & Expenses.** The list of problems in this area of our accounts is long and it dates back to May 2013! Although I have repeatedly pointed out the problems, requested their correction and been publicly promised their resolution and a copy of the detailed Cashflow statements / PAYE calculations at previous AGMs, my requests have been left unanswered to this day. There is a log of the problems' history on <http://belvue.org.nz/manager.html>

(a) **Separation of wages and expenses.** At the 2014 AGM, Glenn Kwok admitted that some errors were made regarding the Caretaker's PAYE calculation. He was vague in his comments, said it is related to "expenses" being wrongly included in PAYE calculations and that this is being followed up with IRD. I'm sure, his comments were misleading. If "expenses" were falsely included in PAYE calculations, the resolution must have been a **refund** of overpaid PAYE to us by IRD. No such refund was subsequently recorded in our financial statements.

Glenn also promised to separate wages and expenses into 2 accounting categories for more clarity. This was welcomed. However, the subsequent 2015 financial statements failed to show the accounting categories separately. In addition, the accounting calculations wrongly added the \$1,163.68 "Caretaker Expenses" from the "Budget versus Actual" table into "Fire Services" expenses in the Statement of Financial Performance, showing a total of \$38,251 for "Caretaker — Wages & Expenses" and \$6,715 for "Fire Services", when the real numbers should have been \$39,414 and \$5,551, respectively for 2015.

Our 2016 financial statements still have the Caretaker Wages and Expenses consolidated in a single accounting category, making it impossible to see, what the true gross wages for the Caretaker are in 2016. Please correct this and show "Caretaker — Wages" and "Caretaker — Expenses" as separate entries in our Financial Statements.

(b) **PAYE "correction" filed with IRD.** During the previous financial year 1.10.14-30.9.15, a PAYE "correction" must have been filed with IRD and paid from our Crosslease accounts. It is not directly visible in our 2015 accounts, but can be indirectly inferred from the disappearance of the Liability "Provision: PAYE Payable \$1,358" between the 2014 and 2015 accounts. It should also be visible in our FY2015 Cashflow or bank statements. This is part of what I've asked to see, but have been refused access to.

What's wrong with this is simple: PAYE is part of Income Tax and as such a tax obligation of the employee, not the employer. The employer only acts as a tax agent on behalf of IRD when deducting this employee tax obligation from the employee's gross wages and forwarding it to IRD. It should not have been a liability against the accounts of our Crosslease and needs to be refunded by whoever was responsible for it in the first place. If it was a genuine error by either BCA or a specific member of the Owner's committee (and cannot be retrospectively recovered from the employee), I'm confident



it should be covered by either of their professional indemnity insurance.

- (c) **Historical perspective.** During 2013, while I was a member of the Owners Committee, I've raised a number of contentious issues about the way our Crosslease is operating. These issues are largely still unresolved to this day and documented on <http://belvue.org.nz>. In May 2013, Graham Smith decided unilaterally to give our building Caretaker a hefty pay rise and didn't even mention it in the following Committee meeting. The pay rise happened just 2 weeks before Graham Smith notified me, he wouldn't show me our bank statements any more. Then he claimed at the 2013 AGM, the pay rise was just an inflation adjustment for the previous 2 years, calculated by BCA as 2% for 2012 and 1.58% for 2013. The numbers did not match up from the start and I protested loudly as soon as I had some access to our account details. Now look just at the numbers for "Caretaker — Wages & Expenses" as presented in the previous year's AGMs, I show them here without any corrections of my own:

Year ending 30. September	Caretaker — Wages & Expenses
2010	\$ 21,974
2011	\$ 21,855
2012	\$ 21,393
2013	\$ 28,920
2014	\$ 38,323
2015	\$ 38,251
2016	\$ 40,640

It was **not** a cumulative 3.6% pay rise in 2013! Graham's statement at the 2013 AGM was provably wrong and by now the Caretaker's gross wages have nearly doubled without any honest discussion of how much value our building Caretaker actually contributes to our Crosslease. In 2013, I've published an honest outline of how to handle our Crosslease's responsibilities properly, including the sensitive employment issues at <http://belvue.org.nz/discussion.pdf>. Sadly, this 30-page document's delivery to the Owner's committee of the time was only answered with the refusal to re-imburse its \$24.60 photocopying costs by the person in charge of our bank accounts.

The now accumulated discrepancy between what would have been a true 3.6% wage increase in 2013 and what has actually been registered in our financial statements since 2013 already exceeds \$50,000, even though it is arguable that in practical terms, our building Caretaker has actually already retired.

Please send the AGM 2016 meeting minutes and the written replies / corrections to the accounting issues raised above either before or at the same time as the invoices for the next levy are sent out.

Cheers,
Christoph Paszyna