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Sender: Christoph Paszyna · 511/9 Sarawia St. · Auckland

To the Owners Committee of  
Belvue Apartments — Crosslease 93132

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Your Reference	Our Reference	Date	Pages
AGM 2018 Invitation		November 22, 2018	7

## Financial Statements and Other Matters

Dear Owners Committee,

I refer back to my letter addressed to the Owners Committee and distributed at the AGM 2016, which raised a number of issues related to our financial statements of that year. Those issues remain unresolved and the failure to resolve them has resulted in further unjustified expenses to our crosslease.

Here are my comments and questions related to this year's AGM matters. Of course, I still hold the position that as long as the past's matters remain unresolved, the current accounts cannot be considered as accepted.

1. **Auditor Resignation.** The AGM 2017 Minutes fail to mention the resignation of our previous auditor. An auditor resignation is generally an alarm signal to the owners that something fishy is happening in the financials and needs to be reported to all owners.

I had this exchange with our previous auditor in trying to determine what really happened:

**From:** Christoph Paszyna

**Sent:** Tuesday, January 16, 2018 4:27 PM

**To:** Johan Theunissen

**Subject:** Financial Statements of Cross Lease Property 9 Sarawia St, Newmarket, as of 30.09.2016

Dear Mr Theunissen,

I am contacting you in my role as proprietor of one of the apartments at 9 Sarawia Street and feel justified to do so, because I have the same rights as all other proprietors of that building. It is my financial interest — as much as the financial interest of all other apartment owners — on whose behalf you have been appointed as auditor.

As part of our 1.12.2016 AGM invitation, I have received an undated preliminary version of our accounts, to which I responded with the attached letter. As far as I can see, the preliminary version does not differ from the later audited version signed by you. So, my letter is still current.



The purpose of this e-mail is to enquire your position on where responsibility for resolving the outstanding issues still present in our audited accounts should now be placed. You as the auditor have clearly the right to address the proprietors of our building with your opinion on our financial affairs, should you wish to do so, and our building administrator would have the obligation to forward such an opinion to all proprietors. You may also choose to forward such an opinion to our new auditors (contact person: Alison.Anderson@williambuck.co.nz).

In the following, I'm outlining the rationale of my actions and the subsequent disappointment.

Chain of responsibilities:

According to the Memorandum of Lease (MoL) for our building, responsibility for the financial statements of our property rests with the "Lessors" (i.e. all proprietors taken together), but can be delegated to an "Owners Committee", if such a committee is appointed. My letter is therefore addressed to the members of the Owners Committee, because the \*oversight\* of our financial statements are primarily \*their\* responsibility, even though they in turn delegated the actual creation of these statements to Body Corporate Administration Ltd. (BCA). My letter calls for the scrutiny of BCA's work and that of the sole signatory of our bank accounts (Graham Smith) and is in no way a criticism of your work as our auditor. It is my understanding that auditing involves a general review of the appropriateness of accounting presentation and procedures as well as a few random checks to match invoices against bank statements. I acknowledge, you have to rely on a certain level of trust, unless you discover clear signs of "irregularities" and start to dig deeper. You as an auditor also have no direct visibility of the authorisation of payments, the circumstances for levy discounting or whether invoiced work has been carried out satisfactorily. Checking those tasks is the responsibility of the Owners Committee.

What I expected in response to my letter:

The issues raised in my letter are in my view entirely reasonable and can be easily checked for their factual correctness, even though the findings might be uncomfortable for some. But financial accountability is not about pleasing everyone, it's about being diligent with facts and doing so in a timely manner. My letter is detailed and specific enough to make the requested checks easy for anyone with read access to our bank statements and invoices.

The most logical course of action I would have expected from the Owners Committee back in December 2016 would have been the following: The Owners Committee should have requested that BCA checks the issues raised and

A.) should have corrected any errors found and have them re-audited at BCA's expense, or

B.) if no errors were found, BCA should have declared its acceptance of full financial responsibility for the correctness of the accounts, or

C.) if BCA objected to taking full financial responsibility, they should have at least provided the source documents (bank records, invoices) to the Owners Committee for verification.

What happened instead:

I have only received a spreadsheet showing 15 payments for our painting contractor



and our lift phone, addressing points 1 and 2 of my letter and showing to me that accruals for the painting contractor have been done inconsistently with the past and the lift phone invoices have been incorrectly added up. The more contentious issues have been left completely unaddressed and I've been left waiting a full year without further communication.

Now, Glenn Kwok (director of BCA) claimed at the 11.12.2017 AGM that you have reviewed my letter, have declined to investigate the issues raised on the grounds of cost and effort, have expressed concerns about my web site [belvue.org.nz](http://belvue.org.nz) and as a consequence have resigned from the position of being our auditor. The Owners Committee members present at that AGM remained conspicuously silent on this entire topic. Only one absent Committee member has supplied a written statement in protest against BCA, including the quote "Although agreed upon, BCA omits to circulate their planned monthly payments to the committee, which prevents committee members to comply with their fiduciary duty".

Obviously, Glenn Kwok and the silent majority of the Committee believe, this is the end of the matter. But whether or not you have resigned from your role as our auditor and whether or not you have an opinion on my web site is utterly irrelevant to the responsibility of the Owners Committee to guarantee proper financial oversight. It would be "too convenient" for them to have the issues raised fall between the cracks of a previous accounting period, for which there is no auditor any more and the new accounting period, whose auditor is not responsible for "past matters".

I do not know what communication took place between you and either BCA or any member of the Committee in the lead up to your decision to end your auditing relationship with our Crosslease. I also have my well-founded reasons to always seek to independently verify the truth of any statements by BCA or Graham Smith. That's why I'm addressing you directly and asking for a clarification of your position on what led to your resignation and on how the outstanding issues should in your opinion be dealt with. I trust that you as a member of the Institute of Chartered Accountants do have a well-considered response in the best interest of your client, that is: all proprietors of our building.

With kind regards,  
Christoph Paszyna

**Date:** Tue, 16 Jan 2018 03:59:16 +0000

**From:** Johan Theunissen

**To:** Christoph Paszyna

**CC:** Glenn Kwok, Paula Beaton, Graham Smith

**Subject:** RE: Financial Statements of Cross Lease Property 9 Sarawia St, Newmarket, as of 30.09.2016

Dear Christoph,

I take note of your letter. Our engagement letter has been agreed on between our firm and the Owners' Committee who is representing the owners. We have provided the reasons for our resignation as auditors in an e-mail to BCA during



September 2017. I suggest that you contact them and/or the Owners' Committee to get answers to your questions and concerns. It is not our policy, to engage with individual owners and, in our opinion, issues that owners might have should be addressed to and sorted in liaison with the Owners' Committee as representative of them. I trust that you will respect our position and opinion in this regard.

PS. I have copied Glenn and Paula from BCA as well as Graham Smith in on this e-mail to be transparent.

Regards, Johan Theunissen

Auckland Chartered Accountants Ltd

**From:** Christoph Paszyna

**Date:** 17 January 2018 10:33:40 NZDT

**To:** Glenn Kwok

**Subject:** RE: Financial Statements of Cross Lease Property 9 Sarawia St, Newmarket, as of 30.09.2016

Hi Glenn,

could you please forward our auditor's resignation e-mail from last September to me, alongside with a copy of that engagement letter.

Thank you,

At this point, despite repeated reminders to BCA Ltd, the requested information was refused. Suppression of this engagement letter and the auditor's resignation e-mail in its original form is unacceptable.

2. **Failure to Deal with AGM2016 Letter.** As explained above, it's just too convenient that the issues addressed in my AGM2016 letter have now been laid to rest in that no-mans-land between a previous auditor, who feels no longer responsible for our 2016 financial statements and our current auditor, who has not been given the mandate to look into issues that happened before their appointment.

This is even more remarkable, as my AGM2016 letter was never addressed to our auditor, but to the primarily responsible persons with the duty to ensure the correctness of our accounts — the Owners Committee.

I don't accept this state of affairs and continue to withhold further levies until the addressed issues have been corrected.

3. **Programmed Maintenance Services.** I questioned the inconsistent apportioning of PMS invoices into consecutive accounting periods in my AGM2016 letter. I also urged the Committee to verify the sequencing and amounts of invoices, because PMS had overcharged us in the past and our own checking procedures were inadequate. Our painting contract with PMS started on 22.7.2005 and ended 12 years later (on 21.7.2017). Our final quarterly payment of \$8,480.34 should have been due during our 2016/2017 budget year and appears in the "Accounts Payable" table as not yet paid by 30.9.2017. Now, a full year later, our financial statements show in the "Accounts Payable" table that there were two further PMS invoices



of \$8,480.34 due during the 2017/2018 accounting period and that by 30.9.2018, we still owe PMS a total of \$16,960.68. I doubt this is a true statement of our financial obligations. All invoices and payments should have been checked and concluded more than one year ago!

One other side effect of not acting on my AGM2016 remarks on PMS is that due to wrongly inflated PMS expenses in our 2015/2016 financial statements a higher painting maintenance budget was subsequently planned and owners levies were unnecessarily overcharged.

4. **Note 1.1 to the Financial Statements.** “The financial statements ... are special purpose financial statements prepared solely for the owners”. How and why do these financial statements differ from “Financial Statements” according to “Generally Acceptable Accounting Practice” as defined in sections 3 and 8 of the “Financial Reporting Act 1993”?

Specifically, it remains unexplained, what column “YTD Actual” represents and how it is determined. As an example, the building’s insurance premium, accounted on the accruals basis, should be apportioned as 50% of the insurance premium paid in 2017 plus 50% of the 2018 premium, because our budget year and our insurance year are shifted by precisely 6 months. In numbers,  $0.5 * \$33,605.46 + 0.5 * \$40,775.77 = \$37,190.62$ . Please present your calculation of the “YTD Actual” entry for “Insurance Premium” in the “Statement of Operating Financial Performance” that arrived at \$37,256.85 instead! Similar unexplained deviations seem to be present in other numbers.

I request that you add a “Cash Flow Statement” to complement our “Statement of Financial Performance” and “Statement of Financial Position”. This will provide our Financial Statements with cross-validation opportunities through standard and well-known accounting constraints.

5. **Statement of Operating Financial Performance.** If you choose to present the “Budget” numbers as part of this table, budget estimates should also be included on the “Income” positions, not just the “Expenses” positions. Failing to do so has the effect of underestimating our money supply and overcharging our levies.
6. **Expenses for Utilities “Water & Waste”.** Just an explanation for some of the increased cost: there has been a leak through the hot water cylinder overflow pipe onto car park 306 (precisely opposite the caretaker apartment’s entrance door). This has been going on for at least 2 months during May / June / July. You would have thought that something so obviously in plain sight from the caretaker apartment should have been fixed quickly in a well-managed property, but sadly that wasn’t the case on our property. Well, in addition to our increased water bill, the tenant of the apartment with the leaking hot water cylinder was also faced with a power bill exceeding \$400.
7. **End of Employment of Katrina James.** Please explain how the employment of Katrina has ended. By employee resignation? By mutual agreement? Or by employer termination? What reasons have been given by either side? What was the need for a lawyer’s involvement? Have there been substantial disagreements between employer and employee? What complications arose from her employment never having been written down in an employment contract? What are the terms and costs of the final settlement? Please make a copy of the settlement terms available to owners.
8. **Accounting of Final Settlement.** In Note 6 to the financial statements, the “Accounts Payable” table, Katrina James is listed as a “Creditor” to the amount of “-\$5,501.83”.



This looks definitely odd! A “Creditor” with a negative dollar value is a “Debtor” with the correspondingly inverted positive dollar value. Does this mean, Katrina James owes our Crosslease \$5,501.83? Also, since our financial statements are measured on accrual basis based on historic cost (Note 1.2), it’s not clear, whether this “Creditor/Debtor” entry should be booked in the current accounting year or the following accounting year. If it belongs to the current accounting year, it probably should also be listed in the “Statement of Operating Financial Performance” Expenses entry for “Caretakers Fee”.

9. **Appointment of Building Manager.** What lessons have been learned from the end of Katrina’s employment for the appointment of a new building manager? What options for the way forward were considered? What advertising/search for a new candidate was performed? How many applications were received / how many interviews were performed? What was the selection process? What contractual arrangements have been entered into? Please make a copy of this contract available to owners.
10. **Contract Between BCA and Crosslease.** In an October email from Sara (BCA), it was stated “At the most recent OCM, the committee had finalised their contract with BCA LTD”. Please make a copy of this contract available to owners.
11. **Statements of Movement in Equity.** The last column in these 2 tables is just a repeat of the second column. Instead, it should contain the comparison numbers of the previous budget year for the “Actual” column.
12. **Statement of Financial Position: Income Taxation.** In my AGM2016 letter, I spotted unexplained inconsistencies in our income taxation and asked: “Please check our yearly income tax return filings for the last 2 years and explain the difference”. This request was ignored and our current Financial Statements add further inconsistency: whereas our income taxation in the year to 30.9.2017 was \$796.00 (equivalent to 10.33% of our stated interest, dividend and other income), our income taxation in this year appears as \$1,814.62 (now precisely tripled to 30.99% of our stated interest, dividend and other income). How do you explain this?
13. **Accounting of “Long Term Maintenance Fund” and Budget Surplus.** Our financial statements try to distinguish between an “Operating Fund” and a “Long Term Maintenance Fund”, pretending that precisely \$115,911.56 has been accumulated for the purpose of (unexpected) big maintenance expenses. Over the last few AGMs, it was argued that we should continue to budget a yearly \$10,000.00 increase in this “separate stash of cash”.

But the financial truth is different from this. This becomes obvious when our savings account at the bank is confusingly named “Sarawia LTMF”, but has a different bank balance (\$145,431.21). In reality, there is no “separate stash of cash”. Our money is arbitrarily moved between our transaction account, savings account and term deposit account simply based on an estimate when it is needed and how long it can be left behind to produce interest income.

What really represents our ability to pay for unexpected maintenance expenses is the sum of our bank balances minus expected regular budgeted expenses up to the time of the next levy due date. This essential metric is most easily seen in a “Cashflow Statement”. Based on



the published numbers in the financial statements, our “Realistic Long Term Maintenance Fund” is now at  $\$145,431.21 + \$102,284.93 + \$15,833.37 - \frac{5}{12} * \$188,220.60 = \$185,124.26$ . This value has risen from the previous year’s value of \$155,504.33 by roughly \$30,000.00. So, in reality, our Long Term Maintenance Fund was increased three times as much as last year’s proposed budget would make us believe. We’ve been fooled. The reason for the mismatch is that any budget surpluses are silently added to our net assets at the end of the budget year instead of being used to reduce the next year’s levies.

14. **Caretaker — Wages & Expenses.** Enough has been said already on this in my AGM2016 letter. For the record, I just add that the 2 years delay up to the dissolution of Katrina’s employment has added further costs to our Crosslease.

I welcome a constructive dialogue that seeks to correct the mistakes of the past.

Cheers,  
Christoph Paszyna