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Financial Audit of Cross Lease Property 9 Sarawia Street, Newmarket

Hi Greg or Johan,

it is my understanding that you are currently auditing the accounts of our Cross Lease, which have been prepared by Body Corporate Administration Ltd in conjunction with Graham Smith, who is the sole signatory on our Westpac bank account 03-0195-0331132-00.

As a member of the Owners Committee for this property during the accounting period currently under audit, I have been scrutinising the numbers myself. The Owners Committee, just like a Board of Directors, is responsible for the oversight of our financial matters. You may have come across my name in previous communications, as I have been a fierce critic of BCA Ltd's handling of our accounts. Recently, the relationship between Graham Smith and BCA Ltd on one side and myself on the other side has broken down to the point where Graham/BCA refuse to communicate with me. Nevertheless, there is a duty of care by the persons responsible for our accounts towards all owners of our crosslease.

I believe, it is therefore proper for me to contact you as our auditor directly with two closely related concerns about our accounts. Please consider, whether it is appropriate for you as our auditor to address the issues described in the remainder of this letter, or whether I should be raising them elsewhere. Here is what I found:

The remuneration for our on-site building Caretaker consists of two parts: a monthly cash payment and the use of the ground-floor "Caretakers Flat" as a personal living space. Up to April 2013, the monthly net cash wages were \$829.73 and PAYE was \$226.07. From May 2013, the monthly net cash wages were increased by 40% to \$1,163.08, while corresponding PAYE has **decreased** by 23% to \$175.24. (There was one other one-off payment with its own tax payment, which should be of no concern here). The question that needs to be addressed is: "How should the rental value of the Caretakers Flat flow into the calculation of PAYE?"

The second closely related question is the rental valuation of the Caretakers Flat itself (it is currently claimed to be \$6,616.00 per year in our accounts). However, that number would mean a weekly rent of \$127.23. Graham Smith, who in his day job is the manager of Barfoot &



Thompson's City Office, is probably the best-informed person among us owners about rental values in our building (he owns 8 flats here). As recently as September, he offered the flat directly 2 floors above the Caretakers Flat at a weekly rental of \$360.00 (see attached web site snapshot of 1. September 2013) and it was quickly taken. The Caretakers Flat is still more than 10% larger and just as well refurbished. This would give it a more realistic rental value of \$20,500.00 per year.

My concerns with these two raised items are that

- the real "Caretaker - Wages & Expenses" might be misrepresented by as much as about \$14,000.00 in our accounts and
- PAYE tax might be significantly underpaid.

Cheers,
Christoph Paszyna