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Audit of Accounts under RERA

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AUDIT OF ACCOUNTS UNDER RERA



CA. Vinay Thyagaraj

RERA Audits are conducted to ensure the funds collected from homebuyers are being utilized and are in line with the progress of the development / construction project. These audits help the stakeholder to get the confidence and ensure that the promoters are completing their projects within the stipulated timelines.

Key aspects of RERA :

- Financial Audits:** RERA mandates promoter to maintain a separate bank account for each project. A chartered accountant in practice carries financial audits to ensure that the funds collected from buyers are being used only for the specific project's land and construction purposes.
- Project Progress:** RERA Audit also assesses the physical progress of the project, comparing it with the timeline mentioned in the project registration. This helps in identifying delays and taking necessary actions to ensure timely completion.
- Quarterly Reports and Annual Audits:** Promoters are required to submit quarterly reports to the regulatory authority detailing the project's progress, funds utilization, and any modification, litigation etc and Annual Audit reports.

1. Legislative Framework – Reference of Audit under RERA in Act and State Rules -

3rd Proviso to section 4(2)(L)(D) – Provided also that the promoter shall get his accounts audited within six months after the end of every financial year by a **chartered accountant in practice**, and shall produce a statement of accounts duly certified and signed by such chartered accountant and it shall be verified during the audit that the amounts collected for a particular project have been utilised for the project and the withdrawal has been in compliance with the proportion to the percentage of completion of the project.

Annual Audit under RERA Act	RERA Act – 3 rd proviso to sec 4(2)(L)(D)	1. Amounts collected from Allottees for a particular project have been utilised for the same project and
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Annual Audit under RERA Act	RERA Act – 3 rd proviso to sec 4(2)(L)(D)	2. the withdrawal has been in compliance with the proportion to the % of completion of the project 3. Compliance to the provisions of RERA Act
	Due date for obtaining the Audit Report under RERA	With in six months from the end of the financial year (i.e., 30 th Sep, 20XX)

CERTIFICATE FORMAT NOTIFIED By RERA Authorities –

Karnataka RERA's has notified the new format FORM 7 during September 2022 wherein the detailed information with respect to the Rera registered project shall be certified a Chartered Accountant holding certificate of practice –

The summary of the new form 7 is as follows –

A. Report on Statement of Accounts on project fund utilisation and withdrawal -

B. Annexure A –

- Table A – amount collected from the allottees of the project – points to be considered while filling and certification –
- Table B – Amount incurred by the Promoter (the details are similar to the Form 4, Quarterly update CA Certificate format)
- Table C – summary of total collections and realisation since the inception of the project –
- Table D – Liabilities towards the Project development
- Table E – Liabilities towards Bank Borrowings –
- Table F – Liability based on the orders of RERA authority, Appellate

C. Annexure B

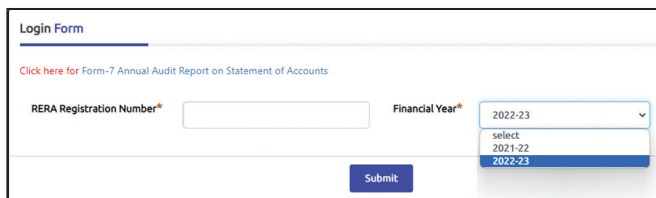
Further the professional shall certify various provisions under RERA. The brief of the compliances is as under –

- Compliance with respect to the RERA bank account

- ii. Details of all quarterly update certificates and details of filings quarter on quarter.
- iii. RERA Bank account directions 2020 contents shall be read, understand before certifying this Form 7.
- iv. Section 13 compliance - Section 13 mandates the registration of agreement of sale, if the promoter wishes to collect in excess of 10 % of the project cost and report non-compliances
- v. Details of borrowing by mortgaging the project land etc
- vi. Details of forms 4,5,6
- vii. List of Agents engaged as per project

The new Form 7 is in pdf and available at <https://rera.karnataka.gov.in/downloadPage> -

Click here to start uploading the Annual Audit Report for the Financial Year 2022-23 - <https://rera.karnataka.gov.in/applyForAnnualReport>



The screenshot shows a 'Login Form' with a link to 'Click here for Form-7 Annual Audit Report on Statement of Accounts'. It includes a 'RERA Registration Number' field, a 'Financial Year' dropdown menu (showing 2022-23, 2021-22, and 2022-23), and a 'Submit' button.

- ♦ The form 7 is exhaustive and covers the entire project financials, cash flow, various compliances mandated under the RERA Act. The certifying professional shall understand each provision before certifying the Annual Report on Statement of accounts and its annexure thereon.
- ♦ Non-compliance / non-furnishing of Form 7 (Annual Audit of Accounts Reports) shall attract penal provisions under RERA Act 2016. The Authority is having the power to impose penalties in accordance with Sec 60 of the RERA Act. Such penalty may extend upto 5 % of the estimated cost of the real estate project as determined by the Authority.

Note –

- 1) Different states prescribed a format of report along with instructions.
- 2) This report shall be issued by a Chartered Accountant holding Certificate of Practice
- 3) Chartered Accountant shall collect project financial, non-financial information from the promoter.
- 4) Collect estimated cost of project, escalation if any and details there on.

- 5) Chartered Accountant to collect and consider all professional certificates issued from time to time for withdrawal of project funds viz., Architect, Engineer and Chartered Accountants.
- 6) CA while certifying the amounts observed any deviation from the provisions of the Act, Rules, Regulations, Circulars or Orders, the same need to be listed here.
 - a) The example could be, the amount realized from the allottees is deposited in another account. In that case, what is the amount deposited in another account
 - b) If the amount has been drawn in excess of what has been permitted under CA certificate (Form-4), how much money has been overdrawn
 - c) Funds have been diverted to other projects or for other purposes, need to be reported.
 - d) Architect (Form-5) or Engineer (Form-6) certificate is not obtained or if there are any differences.
 - e) Plan sanction is upto 8th floor, and the architect certificate and also engineer certificate show about the work completed upto 10 floor and the expenses incurred on additional two floors without sanction need to be quantified and reported – reference of Section 14 of the RERA Act to be complied with
- 7) This certificate shall be submitted to authorities and is a public document. It could be made available for viewing at the portal of the regulators in the respective states. The comments in this note are purely a matter of interpretation and not binding on any regulatory authorities. Therefore, there can be no assurance that the regulatory authorities will not take a position contrary to our comments or views.

2. Responsibility of the promoters of the Real Estate Project –

- (a) Promoter to maintain the financial information and other information relating to real estate project
- (b) Provide such information to Chartered Accountant professionals to obtain RERA Audit Report on annual basis
- (c) Submit this report to authority online or offline.
- (d) Reconcile the receivables, received, utilized and balance money in bank account as on 31-03-2023
- (e) Follow best practices / Standard Operating practices

- (f) The cost of the project and cost incurred as per RERA has to be reconciled as per books for Audit and compliance under other statutes like GST, Income Tax, ROC etc
- (g) Maintain and update books of accounts from time to time
- (h) Maintenance of data as per RERA project wise in books of accounts (rather company or project wise) for better and easy reconciliation between various statues
- (i) Take support of consultants and experts to understand the importance, implementation as per statute

3. Documentation and verification of records for issuance of RERA Audit Report by Chartered Accountant

- (a) Accounting records – updated books of accounts
- (b) Copy of application filed for registration of project under RERA Act to know the details filed by the promoter to obtain the registration
- (c) Details of calculations considered to arrive at estimated cost of project – Land Cost and Construction Cost
- (d) All project related documents like land documents, sanctions, clearances, NOC's – to know the cost incurred in obtaining the Sanctions, NOC's
- (e) Amount incurred towards acquisition of land or Transferable Development Rights / Additional FSI etc
- (f) All bank statements of RERA project account and other bank accounts, where in money is deposited by the promoter
- (g) Statement of allottees / customers, list of agreement of sales entered, advances received, balance receivables etc
- (h) Money collected from allottees, 70 % deposit made to RERA project bank account
- (i) All government fees challahs for all clearances etc
- (j) All development expenses bills, vouchers, invoices for both onsite and offsite expenditures
- (k) Advance paid for supply of materials or services vouchers, references etc
- (l) Variance to estimated cost of the project compare with actual incurred and reasons there on

- (m) Certificates of Engineer, Architect and CA for withdrawal of money based on % of completion of construction
- (n) Project Loan or other loan statements
- (o) Interest calculation / attribution or allocation towards the respective RERA project based on utilisation of funds (in case of single loan borrowed by the entity and made use for multiple project – Term loan or Overdraft).
- (p) Indirect taxes / GST paid from time to time – reconciliation / assurance
- (q) TDS made by buyers @ 1 % – reconciliation / assurance

4. Best Practices –

- (a) The Promoter may have appointed external professionals to obtain certificates from time to time, consult the same professional who had issued the earlier professional certificate – handover those certificates to RERA Auditor
- (b) All the RERA Audit report must be in conformity with assurance standards issued by the ICAI.
- (c) RERA Audit Report to be backed up with adequate documentation by way of Management Representation letter and the basis of preparing such certificates. In case the regulators suggest a format later or issue any clarification in this regard, the above-suggested template may suitably be aligned.

5. RERA Audit – Challenges

- (a) Sufficient Knowledge of Act and Rules –Both promoter and professionals
- (b) Information filled during registration is erroneous – what stand will u take
- (c) Record / data / expenses maintenance - RERA Project wise
- (d) Allocation of common expenses RERA project-wise
 - a. Basis of allocation
 - b. Loan availed and interest apportionment to RERA project-wise
- (e) Reconciliation at various stages and different records
- (f) Clarity on the statute, being new to all

- (g) In case of single RERA registration – information from Landlord and compliance there on under RERA (being a Co- Promoter)

6. RERA Audit – tip to professionals

- Don't be biased on the information and report
- Don't be under the influence of Promoters / others
- Don't be casual on report / certification
- Collect sufficient documents / information before issue of report
- If you don't know, ask others
- If you are not sure – report it
- Certificates issued may become public documents and amenable under RTI

7. Penal action may be initiated by the Authority against professionals who have issued certificates for withdrawals or audits which are not in compliance with the Act, Rules, Regulations, Circulars, orders etc.

The Authority, in addition to taking penal actions as contemplated in the Act and the Rules, shall also take up the matter with the concerned regulatory body of the said professionals of the architect, engineer or chartered accountant, for necessary penal action against them, including dismemberment, if the form 4/7 issued by the Chartered Accountant reveals that:

- any certificate issued by the project architect, engineer or the chartered accountant has false or incorrect information and
- the amounts collected for a particular project have not been utilized for the project and
- the withdrawal has not been in compliance with the proportion to the percentage of completion of the project

8. Important Circulars and Notifications for References –

- RERA Bank Account Directions, 2020
- Land Owners having Area/Revenue Share in Real Estate Project to be treated as Promoter (landowner)
- Mandatory deposit of money into the RERA

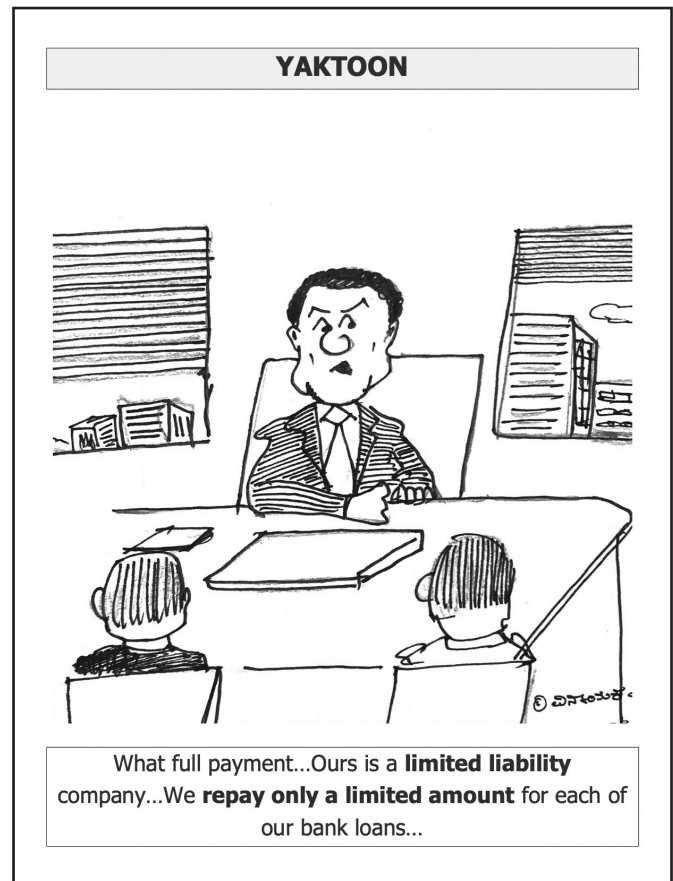
project designated bank account borrowed by the promoter by mortgage of the project land and utilisation for the same project development purposes

(these can be downloaded from <https://rera.karnataka.gov.in/home>)

Conclusion – Reconciliation of values as per Books of Accounts, RERA, GST, Income Tax etc is important before finalising and submission of RERA Audit Report.

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