

**COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT 1956 ON THE ACCOUNTS OF AIR INDIA LIMITED FOR THE YEAR ENDED 31 MARCH 2013.**

The preparation of financial statements of **Air India Limited (AIL)** for the year ended 31 March 2013 in accordance with the financial reporting framework prescribed under the Companies Act, 1956, is the responsibility of the Management of the Company. The Statutory Auditors appointed by the Comptroller and Auditor General of India under section 619(2) of the Companies Act, 1956 are responsible for expressing opinion on these financial statements under Section 227 of the Companies Act, 1956 based on independent audit in accordance with the standards on auditing prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 4 February 2014.

I, on behalf of the Comptroller and Auditor General of India (C&AG), have conducted a supplementary audit of **Air India Limited** under section 619(3)(b) of the Companies Act, 1956 of the financial statements for the year ended 31 March 2013. This supplementary audit has been carried out independently without access to working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and Company personnel and a selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matters under section 619(4) of the Companies Act, 1956 which have come to my attention and which in my view, are necessary for enabling a better understanding of the financial statements and the related Audit Report:

A. BALANCE SHEET**A.1 EQUITY AND LIABILITIES****SHAREHOLDERS' FUNDS****CURRENT LIABILITIES****OTHER LIABILITIES : ₹73,024.5 million (Note 5)**

The above does not include interest payable (₹760 million) at 9 *per cent* per annum for delayed payment of dues to Airports Authority of India (AAI) as per Memorandum of Understanding (MOU) signed between AIL and AAI in August 2013. AIL has not recognised the liability towards interest payable to AAI on the ground that AAI had not suffered any losses due to delayed payment of dues by it. Viewed from the terms and conditions of MOU and commercial principles, the contention of AIL is not tenable. Though the matter is stated to be before Ministry of Civil Aviation (MOCA) for a final decision, MOCA had not issued any advice/direction so far (March 2014) to both the parties to relax the terms and conditions of the MOU in this regard. Thus, disclosure of the amount as contingent liability in Notes Forming Part of Accounts - Note No.71(a) by AIL is not appropriate. As such, AIL should have provided for liability of ₹760 million. Non-provision of the liability has resulted in understatement of Current Liabilities and Loss for the year by ₹760 million each.

A.2 CURRENT LIABILITIES**OTHER CURRENT LIABILITIES : ₹73,024.5 million (Note 5)**

The above does not include an amount of ₹151.9 million, representing the claims for encashment of lapsable Privilege Leave (PL) received by 31 March 2013 from the employees to whom an offer was made by AIL on 22 March 2013 (before cessation of scheme for encashment of lapsable PL) to encash such leave at their credit or to avail of the same within three months, but the claims had not been settled/paid by the Company for want of funds by 31 March 2013. Note 80 of Notes forming Part of Accounts disclosing a Contingent Liability of ₹150 million in place of a liability of a firm nature is defective to this extent and has resulted in understatement of Current Liabilities and Loss for the year by ₹151.9 million each.

A.3 ASSETS - NON-CURRENT ASSETS**FIXED ASSETS - TANGIBLE ASSETS****LAND - LEASEHOLD : ₹63,421.4 million (Note 8, Note 33(b))**

As per the scheme of amalgamation of erstwhile 'Air India Limited'¹ and erstwhile 'Indian Airlines Limited'² into National Aviation Company of India Limited {renamed as Air India Limited (AIL) from 24 November 2010}, immovable properties of AIL were revalued on the appointed date *i.e.* April 2007 as per fair values determined by the valuer appointed by AIL.

1 A separate company, other than the present company Air India Limited, which existed prior to its merger into National Aviation Company of India Limited (NACIL).

2 A separate company which existed prior to its merger into National Aviation Company of India Limited (NACIL).



One of such properties, viz. Housing Colony at VasantVihar, New Delhi constructed on leasehold land was revalued at ₹ 51,295.1 million as at 1 April 2007, though lease deed of the land had been cancelled by the lessor viz. Land and Development Office, New Delhi in November 1983. The lease rights and title of the Company on the land had not been reinstated in the name of AIL as yet (March 2014). Valuation of such property at market value for which the Company does not possess any rights and titles not in order.

Despite C&AG's comments on the accounts of AIL in the earlier years in this regard, the Company continued to depict the related leasehold land at inflated value in its accounts.

A.4 ASSETS - NON-CURRENT ASSETS**FIXED ASSETS - TANGIBLE ASSETS****LAND - LEASEHOLD : ₹63,421.4 million (Note 8)**

This includes excess valuation by ₹619.9 million for 0.46 acres of land located at Baba Kharak Singh Marg, New Delhi which is not in possession of AIL. On 7 June 2013, the Ministry of Urban Development (MoUD) reduced allotment of the land from 4 acres to 3.54 acres. Despite noticing, before approval of accounts for 2012-13, that the said land in possession of the Company was 3.54 acres instead of 4 acres, the Company has valued the said land for 4 acres in its accounts for 2012-13 and, thus, did not comply with the provisions of Accounting Standard - 4 on 'Contingencies and Events Occurring After the Balance Sheet Date'. This has resulted in overstatement of Tangible Assets - Land leasehold by ₹619.9 million and understatement of Loss for the year to the same extent.

For and on the behalf of the
Comptroller & Auditor General of India

Sd/-

ParamaSen

Principal Director of Commercial Audit
& ex-officio Member, Audit Board-II, Mumbai

Place : Mumbai

Date : 25 April 2014



MANAGEMENT REPLIES TO THE COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF THE COMPANY FOR THE YEAR ENDED MARCH 31, 2013.

Sr. No.	Audit Observations	Management Reply
A	BALANCE SHEET	
A.1	<p>EQUITY AND LIABILITIES SHAREHOLDERS' FUNDS CURRENT LIABILITIES OTHER LIABILITIES : Rs.73,024.5 million (Note 5) The above does not include interest payable (Rs.760 million) at 9 per cent per annum for delayed payment of dues to Airports Authority of India (AAI) as per Memorandum of Understanding (MOU) signed between AIL and AAI in August 2013. AIL has not recognised the liability towards interest payable to AAI on the ground that AAI had not suffered any losses due to delayed payment of dues by it. Viewed from the terms and conditions of MOU and commercial principles, the contention of AIL is not tenable. Though the matter is stated to be before Ministry of Civil Aviation (MOCA) for a final decision, MOCA had not issued any advice / direction so far (March 2014) to both the parties to relax terms and conditions of the MOU in this regard. Thus, disclosure of the amount as contingent liability in Notes Forming Part of Accounts – Note no.71 (a) by AIL is no appropriate. As such, AIL should have provided for liability of Rs.760 million. Non-provision of the liability has resulted in understatement of Current Liabilities and Loss for the year by Rs760 million each.</p>	<p>It is submitted that the issue of interest was taken up in the MOU dated 26-08-2013 between the company and AAI, wherein it is stated in para 10 (quote) "However, Air India mentioned that this will severely affect the financial position and requested for waiver of the same. AAI brought to the notice of chair that Air India had agreed to pay interest on delayed payment to private operators and it will be difficult for AAI to forego interest claim. However, considering the overall financial position of AAI, it was decided that Air India will pay interest at 9% on delayed payment. However, JS MoCA directed that this issue be placed before Secretary MoCA for a final decision." (Unquote) The payment of interest to AAI is still under dispute as AI's stand has been that, it has not yet been established by AAI that they suffered a pecuniary loss on account of the delayed payments by AI. This point therefore is an issue of discussion between AI and AAI and will be accounted in the year of settlement. As a matter of abundant caution, an estimated amount of Rs. 760 million has been disclosed as Contingent Liability. Adequate disclosure in this regard has been made as per Note 71(a) of the Notes to the Accounts.</p>
A.2	<p>CURRENT LIABILITIES OTHER CURRENT LIABILITIES : Rs.73,024.5 million (Note 5) The above does not include an amount of Rs.151.9 million, representing the claims for encashment of lapsable Privilege Leave (PL) received by 31 March 2013 from the employees to whom an offer was made by AIL on 22 March 2013 (before cessation of scheme for encashment of lapsable PL) to encash such leave at their credit or to avail of the same within three months, but the claims had not been settled / paid by the Company for want of funds by 31 March 2013. Note 80 of Notes Forming Part of Accounts disclosing a Contingent Liability of Rs.150 million in place of a liability of a firm nature is defective to this extent and has resulted in understatement of Current Liabilities and Loss for the year by Rs.151.9 million each.</p>	<p>Pursuant to the recommendations made by Govt. Audit, the Sick Leave encashment has been stopped and the balances as of July 2012 have been frozen. As a cost saving measure the company has also abolished PL encashment effective 13-14. In view of the fact that payment to the employees will be released only subject to the availability of funds, as a matter of abundant caution, a contingent liability to the tune of Rs 150 million was provided in the books of accounts of 2012-13. Moreover, since the amount was disbursed subsequently in 13-14, this amount has been accounted for in FY 13-14.</p>



A.3	ASSETS – NON-CURRENT ASSETS FIXED ASSETS – TANGIBLE ASSETS LAND-LEASEHOLD : Rs.63,421.4 million {Note 8, Note 33(b)} <p>As per the scheme of amalgamation of erstwhile 'Air India Limited' and erstwhile 'Indian Airlines Limited' into National Aviation Company of India Limited {renamed as Air India Limited (AIL) from 24 November 2010}, immovable properties of AIL were revalued on the appointed date i.e. April 2007 as per fair values determined by the valuer appointed by AIL. One of such properties, viz. Housing Colony at Vasant Vihar, New Delhi constructed on leasehold land was revalued at Rs.51,295.1 million as at 1 April 2007, though lease deed of the land had been cancelled by the lessor viz. Land and Development Office, New Delhi in November 1983. The lease rights and title of the Company on the land had not been reinstated in the name of AIL as yet (March 2014). Valuation of such property at market value for which the Company does not possess any rights and title is not in order.</p> <p>Despite C&AG's comments on the accounts of AIL in the earlier years in this regard, the Company continued to depict the related leasehold land at inflated value in its accounts.</p>	Adequate disclosure in this regard has been made in Note 33(b) of the Notes to Accounts to the Financial Statements. Further it was informed the lease deed of the property was not executed and only allotment was made which was cancelled due to non-fulfilment of certain conditions. There is no clause related to sharing of 50% of unearned increase in the value of above plot in the allotment letter issued. The Company has taken several initiatives to restore the lease deed of the Property and would continue to take action till the lease deed is reinstated in the name of the Company.
A.4	ASSETS – NON-CURRENT ASSETS FIXED ASSETS – TANGIBLE ASSETS LAND-LEASEHOLD: Rs.63,421.4 million (Note 8) <p>This includes excess valuation by Rs619.9 million for 0.46 acres of land located at Baba Kharak Singh Marg, New Delhi which is not in possession of AIL. On 7 June 2013, the Ministry of Urban Development (MoUD) reduced allotment of the land from 4 acres to 3.54 acres. Despite noticing, before approval of accounts for 2012-13, that the said land in possession of the Company was 3.54 acres instead of 4 acres, the Company has valued the said land for 4 acres in its accounts for 2012-13 and, thus, did not comply with the provisions of Accounting Standard – 4 on 'Contingencies and Events Occurring After the Balance Sheet Date'. This has resulted in overstatement of Tangible Assets – Land leasehold by Rs.619.9 million and understatement of Loss for the year to the same extent.</p>	Adequate disclosure has been made in Notes to the Accounts at Para 33(a). Further, the MOA for the land as per letter dated 07-06-2013 has not been executed so far and final amount is yet to be arrived at. This property is one of the immovable properties identified for the purpose of monetization under TAP/FRP approved by CCEA. The management is taking steps for revision in the value of property as per the revised allotment letter. Necessary accounting treatment in this regard will be made at the time of monetization of this asset. According to the limited revision to AS4 issued by ICAI, adequate disclosure has to be made in the Financial Statements. Accordingly, adequate disclosure has already been done in the Notes to Financial Statements.