



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIR INDIA LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of AIR INDIA LIMITED, ("The Company"), which comprising of the Balance Sheet as at 31st March 2013, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of Significant Accounting Policies, Notes and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the company in accordance with the Accounting Standards (AS) referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act") This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from any material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. These standards require that we comply with the ethical requirements and plan and perform the audit to obtain a reasonable assurance whether the financial statements are free from any material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

BASIS FOR QUALIFIED OPINION

1. *We invite attention to Note No. 1(c)(4) read with Note No.62 and 66 regarding migration of inventory balances to new Integrated Inventory software provided by RAMCO (New System) and report as under:*

- a. *The company has during the year, changed the accounting policy as stated in Note No. 1(c)(4)(ii) read with Note No.62 with regard to repairables, and these are now to be expensed only at the time of scrappage. As such the repairables are not charged to consumption at the time of its issue. Pursuant to such change, inventories amounting to Rs.14,667.2 million charged to consumption in earlier years have been written back and an amount of Rs.8,692.8 million (net of provisions) has been credited to the Statement of Profit & Loss as Exceptional Item. As stated in the said Note, the applicable weighted average in case of these inventories were not available and hence these have been valued at latest available weighted average to the extent of Rs.5,273.7 million and at the catalogue prices, Rs.9,393.5 million wherever available. These inventories written back include unserviceable items (items not in useable conditions and awaiting repairs), items received Free of Cost, cannibalized items and items received with Aircraft, which have also been valued at latest weighted average cost/catalogue prices.*

The writing back of inventories already charged off is not in accordance with the provisions of Accounting Standard -2 on Inventories read along with AS-10 on Fixed Assets, according to which inventories are to be charged off as and when consumed. Moreover as per technical information these items do not have any specific life. The valuation of these items at latest weighted average or the catalogue price is also not in



accordance with the accounting policy followed by the company and the provisions of AS-2 on Inventories, according to which the inventories are to be valued at cost or Net Realisable Value whichever is lower. The items which are unserviceable identified to the extent of Rs.11,825.7million at the year end, received Free of cost, cannibalized and received with Aircraft, are required to be valued at Rs. NIL while in case of serviceable items amounting to Rs.11,363.5 million, to the extent these are valued at latest weighted average or catalogue prices (precise amount unascertained), these should have been valued at cost or Net realizable value whichever is lower. Further there is inadequate documentation with regard to sources of quantities of materials migrated into New-System. The precise impact of these on the closing value of inventories has not been ascertained. The company has made provision of Rs.3,255.40 million towards unserviceable items out of total provision of Rs.5,974.4 million made in accounts as stated in the note. We have not been able to form our opinion for adequacy or otherwise of the provisions made in accounts towards value corrections etc. Consequent to above, the loss for the year is understated to the extent of Rs.8,570.3million while overall impact is not ascertainable.

- b. Reference is further invited, whereby non-moving inventory of Rs.725.01 million has been identified but is remaining to be provided for and as such the compliance of stated accounting policy is pending. Loss for the year is understated to that extent.
- c. As stated in the note, the data relating to last movement of inventory items is not available in New System and supporting details of quantities and details migrated to New-system have not been documented. The non-moving items have therefore been identified based on date of migration to New System in case of inventory written back which is not in accordance with the accounting policy according to which, items not moved for more than five years are to be identified as non-moving and are to be provided for. The precise impact of the above on carrying value of inventory has remained unascertained.
- d. Further in case of expendables issued to various open work orders, the shortfall in provision amounting to Rs. 481.98 million needs to be provided for.
- e. As stated in Note No.39, pursuant to migration of inventory balances into New System, the items classified as rotables have not been fully accounted for /accounted based on estimated values and in certain cases these are carried in inventories as well as rotables. We are unable to form our opinion on the adequacy or otherwise of ad-hoc provision of Rs. 415.3 million (included in overall ad-hoc provisions stated above) made towards value of rotables included in inventories and identified to the extent of Rs. 830.60 million which should have been fully provided for. The precise impact on Current Assets, Fixed Assets and depreciation in this regard has not been ascertained. Further the basis of valuation adopted for the items reclassified or carried into New System as repairables is also not adequately documented and hence can not be commented upon.
- f. As stated in the note, there have been inadequate documentation and internal controls in the process of migration of balances into New System and migration audit has not been conducted. Confirmations of balances in respect of inventories with third parties are also pending. Precise impact arising out of the above has remained unascertained.
- g. Pursuant to a further change in accounting policy as stated in Note No.66, the company has written back an amount of Rs.583.9 million under "Provision no longer required" towards inventory related to A-310 Aircrafts, which were phased out in earlier years and were fully provided for which as per the information furnished is to be used for maintenance jobs. The change in the accounting policy, therefore is not in accordance with the provisions of AS-5 on "Changes in Accounting Policies" and therefore the amount written back needs to be provided for.

Therefore in our opinion, as at the year end, balances as stated in inventories amounting to Rs.10,294.5 million is overstated with a consequential impact on loss for the year understated to the extent of Rs.10,294.5 million. The precise impact of over valuation / discrepancies in quantities/values is not ascertained and therefore cannot be commented upon. The change in accounting policies are also not in accordance with the provisions of AS-5.



2. As stated in Note No.81, the company has been carrying the net balance of deferred tax asset amounting to Rs.28,425.2 million which was recognized in years 2007-2008 & 2008-2009. In the subsequent years deferred tax asset has been recognized only to the extent of deferred tax liabilities as a prudent measure. Since the virtual certainty as stipulated under Accounting Standard-22, Taxes on Income, had not been established in the year 2009-10, the carrying amount of deferred tax asset should have been charged off in the year 2009-10 itself. Consequent to above, the balance in Prior Period Adjustments in the 'Statement of Profit and Loss', has been under-stated to the extent of Rs. 28,425.2 million and balance of Deferred tax asset under Non-Current Assets, has been overstated to that extent. With the consequential effect, the "Loss after tax for the year" carried forward to the Balance Sheet, is understated to the extent of Rs. 28,425.2 million. Further during the year deferred tax asset has been recognized to the extent of deferred tax liability amounting to Rs.5,904.3 million. Though the management is confident of realizing the deferred tax asset based on the turnaround measures which are at various stages of implementation as stated in the said note No.81, the impact thereof as expected by the management cannot be conclusively established and therefore it has not been possible for us to conclude as to whether there is a virtual certainty as envisaged under the provisions of AS-22. We have therefore not been able to form our opinion in respect of realisability of the deferred tax asset recognized periodically. The overall impact of the above on the loss for the year could not be ascertained.
3. As stated in Note No. 28, the financial statements dealt with by this report are prepared based on SAP-ERP data base implemented during the year. The process of migration audit at document level is yet to be completed and certain observations as observed in the migration audit are remaining to be complied with. The balances as contained in the SAP data base have been relied upon pending completion of the audit and rectification of observations. Impact thereof has not been ascertained.
4. As stated in Note no.29, 55 to 57, 63 to 71 and 73, regarding confirmations and reconciliation including matching of debits/credits in various balances in subsidiary/ other assets /liabilities /income /expenditure accounts at certain locations and pending reconciliation of intermediary/transitory accounts. The accounts of various inventory related vendors and other accounts are also pending reconciliation with New System data base and stock records which are not in New System are being compiled and reconciled with the legacy/SAP data. The year end balances of inventory items as well as consumption during the year have been accounted based on reports generated out of New System , which are to be reconciled with the accounts. We are unable to comment on the impact of adjustments arising out of reconciliation/confirmation of such balances, on the Financial Statements. The impact of the same on the Financial Statements is not ascertainable.
5. *As stated in Note No. 41, the company is yet to conduct the impairment assessment in accordance with the requirements of AS-28 and the exchange differences amounting to Rs.28,179.50 million have been capitalized pending impairment assessment of the Air craft fleet. As stated in Note No.45, certain air crafts have been sold subsequent to the Balance sheet date but the assessment of impairment loss has not been conducted. The overall impact due to impairment loss has remained unascertained and therefore cannot be commented upon.*
6. *As stated in Note No. 55(g) the amount paid to Star Alliance towards joining fee Rs.639.4 million which was provided for in earlier years, has been written back by credit to the "Provision No longer Required Account" while the process of reintegration has only commenced and the right or entitlement to become a member is yet to be established. The balance appearing under "Loans and Advances" therefore, needs to be provided for.*
7. *As stated in Note 47 manufacturer and supplier credits entitlements received at the time of delivery of air crafts amounting to Rs.1,155.2 million has been recognized as Incidental revenue instead of adjusting to the cost of assets as required under the provisions of AS-10 on Fixed Assets. Loss for the year is understated to that extent. The precise impact on depreciation charged during the year has not been computed and is therefore unascertained. The accounting policy stated at Note No. 1(C)(5) is also not in compliance with AS-10.*
8. *No provision has been made in the accounts for the following :*
 - a. *Guarantee Fee amounting to Rs. 350.7 million on the NCDs issued during the year (Refer Note No. 31);*



- b. *Differential value in respect of the property at Baba Kharag Singh Marg New Delhi out of the 4 acres land valued at Rs.5390.6 million and being carried in the books of account pending registration formalities, while the revised allotment letter for 3.54 acres of land has since been accepted by the company but the accounting treatment is pending. The precise amounts in this regard are not ascertainable at this stage. (Refer Note No. 33(a)).*
 - c. *Estimated expenditure of Rs.56.6 million towards regularisation of Housing Colony at Vasant Vihar, New Delhi which has already been approved by the Board of the company, while any further financial impact on account of unearned increase if any payable is not ascertainable. (Refer Note 33(b)).*
 - d. *Advance outstanding for purchase of Nerul Land Rs. 24.6 million where execution of lease deed, hand over of possession is pending and the plot is subject to encroachments. (Refer Note No. 35);*
 - e. *Penalty and interest (amount unascertained) payable, for delayed payment of service tax, since the accounts are under reconciliation. (Refer Note 57(e));*
 - f. Short provision of Post retirement medical benefit in terms of actuary's report (Refer Note(80-D)).
9. *As stated in Note No. 84, regarding disclosure requirements under revised Schedule VI, while the exemption from the MCA for such non disclosure has not been received. Further the requirements of revised schedule VI have been complied with to the extent possible and classification of current/non-current assets/liabilities is as arrived at by the management. The impact of pending compliances can therefore not be commented upon.*
10. *We invite attention to the disclosures in following Notes forming part of accounts for which precise financial impact on accounts has remained unascertained :*
- a. Note No. 33 regarding pending registration formalities and title deeds being obtained in respect of certain properties, Note No.37 regarding various fixed assets data not migrated to SAP and classification of certain fixed assets to be aligned and the data pending reconciliation, Note No. 40(b)& (c) regarding reworking of residual life and the depreciation on certain assets, the financial impact of these have remained unascertained.
 - b. Note No. 34 regarding additional premium payable to CIDCO towards non development of surplus land being capitalized.
 - c. Note No.36, 53&56, regarding strengthening of internal audit process and improvements required with regard to physical verification of cash in hand at the year end as well as physical verification of fixed assets and inventories in accordance with the accounting policies and pending reconciliation of cash in hand and Bank accounts.
 - d. Assets retired from active use and held for disposal are also being identified as stated in Note No. 43. Compliance of AS-10 is pending.
 - e. Note No. 44 regarding, amount of Rs.7416.8 million, recognized as extraordinary items towards "Duty Credit Entitlements under Serve from India Scheme" and an amount of Rs.7369.09 million has been carried under "Loans and advances" to be adjusted against utilization during its extended validity. The realisability of this amount being contingent upon the extension of the validity of scrips which can not be commented upon. The amount utilized up-to the year end and remaining to be accounted for Rs. 24.1 million as per the confirmation from custom authorities needs to be provided for. Loss for the year is understated to that extent.
 - f. Note No. 48(i) (c), regarding exchange differences arising on short term borrowings, as long term monetary items, Note No. 48(ii) regarding certain closing balances not stated at FEDAI rates at the year end, Note No. 49 regarding Exchange Differences arising on settlement or reporting of certain transactions, not disclosed separately and para 48(i) (b) regarding treatment of exchange differences regarded as adjustments to interest cost in relation to periods up-to March 31, 2011, which is not in compliance with the requirements of AS-16 on Borrowing cost / AS-11 on Effects of Changes in Foreign Exchange Rates.



- g. Note No. 50; regarding Financial impact, if any, arising out of the pending merger of Vayudoot Ltd.;
 - h. Note No. 51 & 52 regarding strengthening of internal controls at certain locations/stations and maintenance of adequate records.
 - i. Note No. 54 regarding certain items being accounted for on cash basis.
 - j. Note No. 57(j) regarding ad-hoc provision made towards certain expenditures in the absence of bills;
 - k. Note No.59 regarding pending accounting adjustments arising out of the fraudulent transactions;
 - l. Note No. 61(d) regarding revenue share from Air India Charter Limited accounted based on provisional data.;
 - m. Note No. 63 regarding pending reconciliation of nonaircraft inventory and ascertainment of non moving inventory in respect thereof.;
 - n. Note No.65, regarding spares meant for modification of aircrafts (amount unascertained) are continued to have been included as inventory which is not in accordance with AS-2 read with AS-10.
 - o. Note No. 76 and 77 regarding non-cognizance of losses incurred by the subsidiary companies and, consequently not providing for diminution in the value of Investments to be in compliance with AS-13 on "Accounting for Investments" and non provision of Advances outstanding with these subsidiary companies where net-worth has completely eroded and these companies are in continuous losses. The recovery of these dues is subject to turnaround of these companies and the precise impact of the same has remained unascertained.;
 - p. Note No.79 (a) & (e) regarding adhoc provision for wage arrears and pending accounting of dues of employees.
11. *We further Report that in view of the observations made by us in the paragraphs 1 to 10 above, considering the impact to the extent quantifiable, Loss for the year excluding Prior period adjustments is understated by Rs.13,027.2 million and Prior Period Adjustments are understated by Rs.28,425.2 million with cumulative effect on loss after tax for the year carried to Balance sheet being understated by Rs. 41,452.4 million, Accumulated losses are understated by Rs.41,452.4 million, inventories are overstated by Rs.10,294.6 million and with consequential impact on loss for the year being not determined precisely, current liabilities are understated by Rs. 889.3 million, Fixed Assets are overstated by Rs.1,155.2 million, Current Assets, Loans and Advances are overstated by Rs. 688.2 million and Deferred Tax Asset would have been Rs. Nil. The earning per share as computed in Note No. 82 is subject to our observations contained herein.*

QUALIFIED OPINION

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give the information required by the Act in the manner so required and give a true and fair view, in conformity with the accounting principles generally accepted in India:

- (a) *in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2013;*
- (b) *in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date and*
- (c) *in the case of cash flow statement, of the cash flows for the year ended on that date.*

EMPHASIS OF MATTER

- i. As stated in Note No.79 (c), the company has paid to the employee, 75% of the allowances payable to various categories effective July 2012, pending the implementation of Dharmadikari Committee Report, which is



under sub-judice. The unpaid allowances amounting to Rs. 2361.4 million have been shown as contingent liability.

- ii. As stated in Note No. 60, during the year certain selected foreign and domestic stations of the company were visited by us. These Visits were meant to review the original records maintained at these stations/branches and to examine internal control therefor. These visits were conducted as per the schedule finalised by the management. Accounts of the other unaudited stations have been incorporated in the consolidated accounts of the company as per the data submitted by the respective stations.
- iii. As stated in Note No. 73,76,77 and in other cases wherever the company has undertaken transactions with subsidiary companies/group companies/Joint ventures, the existence of arm's length relationship in such transactions has not been determined.
- iv. Attention is further drawn to the following disclosures in Notes forming part of accounts :
 - a) Note No.88 regarding the financial statements of the Company having been prepared on a going concern basis, notwithstanding the fact that its net worth is completely eroded. The appropriateness of the said basis is inter alia dependent on Company's ability to obtain equity from the Government for meeting its obligations, improved operational/financial performance and the successful implementation of Turn Around Plan approved by the Govt.
 - b) Note No. 57 (d) regarding Delayed Payment charges paid/payable to Oil companies amounting to Rs. 3,038.3 million and interest on delayed payment of TDS/service tax Rs. 659.3 million, have been included under "Finance Cost" as against "other Expenses" in earlier years and disclosures relating to previous year have been regrouped accordingly.
 - c) Note No.83 regarding dues to MSME which are remaining to be identified and interest payable, if any in respect thereof.

Our opinion is not qualified in respect of these matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the annexure a statement on the matters specified in Paragraphs 4 and 5 of the Order.
2. As required by Section 227(3) of the Act, we report that:
 - i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit *except for the matter described in the basis for qualified opinion paragraph;*
 - ii) In our opinion, proper Books of Account as required by law have been kept by the Company, so far as appears from our examination of those books of accounts maintained at the Central Accounts Office/ Registered Office of the Company, incorporating the information/returns received from the business areas/stations/locations including those not audited by us.
 - iii) The Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this Report are in agreement with the Books of Accounts and with the returns received from stations/locations not visited by us;
 - iv) *Except for the effects of the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act;*



- v) The Company, being a Government Company as defined in Section 617 of the Act, is exempted from the applicability of the provisions of the Section 274 (1) (g) of the said Act vide Circular No. 2/5/2001/ CV.V General Circular No. 8/2002 dated March 22, 2002 issued by Ministry of Law, Justice and Company Affairs;
- vi) Since the Central government has not issued any notification as to the rate at which the Cess is to be paid under Section 441(A) of the Act nor has it issued any rules under the said Section, prescribing the manner in which such Cess is to be paid, no Cess is due and payable by the Company.

For and on behalf of
R. Devendra Kumar & Associates
Chartered Accountants
FRN: 114207 W

For and on behalf of
Kapoor Tandon & Co
Chartered Accountants
FRN: 000952C

For and on behalf of
P.K.K.G. Balasubramaniam & Associates
Chartered Accountants
FRN: 001547S

Sd/-
D.K. Gupta
Partner
M.No. 009032

Sd/-
Rajesh Parasramka
Partner
M.No. 074192

Sd/-
C. Ramesh
Partner
M.No. 025985

Place : New Delhi
Date : 4 February 2014



ANNEXURE TO INDEPENDENT AUDITORS' REPORT

Referred to in paragraph (1) under Report on Other Legal and Regulatory Requirements of our Audit Report of even date

1. (a) *The records relating to fixed assets including rotables maintained by the company are stated to be in the process of updation with reference to full particulars, quantitative details and location thereof. The Company has not yet updated fair value of assets in the Fixed Assets Register at certain locations and it is informed that the same is in process. The reconciliation of Fixed Asset Register for aircraft rotables and other fixed assets with financial records is stated to be in progress.*
- (b) *The Company has a policy of physical verification of Fixed Assets on a rotational basis so that every asset is verified once in every two years. It is observed that during the year, the physical verification has been conducted only at few locations. The physical verification process is stated to be under streamlining and as such every asset is not physically verified as required under the laid down procedure. The discrepancies noticed during the biennial period 2010-2012 are also under accounting action in certain cases. In the absence of compliance of the accounting policy and a complete reconciliation of the results of physical verification with financial records, we are unable to ascertain whether the physical verification has been conducted and to the extent conducted revealed any material discrepancy. (Refer Note No.36)*
- (c) *In our opinion and according to the information and explanations given to us, the Company has not disposed off substantial part of Fixed Assets during the year affecting the going concern assumption.*
2. (a) *The Company has a procedure of conducting physical verification of Inventory at-least once in a block of two years, on a perpetual basis. However in practice the same has not been followed and only a portion of inventory is being physically verified.*
- (b) *The procedure of physical verification of inventories on a perpetual basis by the Management needs to be in line with the accounting policy declared by the company. The physical verification conducted during the year is minimal and needs to be considerably enlarged. Considering the size of the Company and nature of its business the process of physical verification of inventories needs to be strengthened with regard to the coverage and frequency. The Company has not obtained confirmations / certificates in respect of Inventory lying with outside agencies.*
- (c) *On the basis of our examination of the Inventory records, in our opinion, the Company is to update and correct the records of air-craft related Inventory in New system in terms of values migrated and source of quantities items and in case of non aircraft stores, these are to be reconciled with the financial records. The centralized records relating to inventory and consumption maintained at stores need to be fully reconciled with the financial records. (Refer Note No. 62 & 63)*

The discrepancies noticed on physical verification of Inventory, as compared to book records are in the process of reconciliation and adjustment subjecting to scrutiny by the concerned Department and thereafter the same are properly dealt with in the Books of Accounts.
3. (a) *The Company has not granted any Loans, Secured or Unsecured to Companies, Firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956. except interest free advances to subsidiary companies which is in the nature of running account and where no terms of repayments have been specified.*
- (b) *Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans granted being prejudicial to the interests of the Company, receipt of regular principal and interest and reasonable steps taken for recovery of principal and interest does not arise except in the case of subsidiary companies, where it can not be commented upon.*



- (b) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans granted being prejudicial to the interests of the Company, receipt of regular principal and interest and reasonable steps taken for recovery of principal and interest does not arise.
- (c) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the Register maintained under Section 301 of the Act.
- (d) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans taken being prejudicial to the interests of the Company and payment of regular principal and interest does not arise.
4. *In our opinion and according to the information and explanations given to us, the internal control procedures needs to be followed as prescribed and be strengthened to be commensurate with the size of the Company and the nature of its business, for the purchases of Inventory, Fixed Assets and sale of goods and services. The Company is in the process of reconciling sub-ledgers with the general ledger in respect of Inventory, Sundry Debtors/creditors, staff advances and certain intermediary accounts, etc. (Refer Note No. 29). The management needs to take corrective action on continuing failure to improve the weakness in internal control system.*
5. (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that there are no particulars of contracts and arrangements referred to in Section 301 of the Companies Act, 1956 that need to be entered into the Register required to be maintained under that Section.
- (b) Hence, the question of commenting whether the transactions made in pursuance of such contracts or arrangements, were made at prices which are reasonable having regard to prevailing market prices at the relevant time does not arise.
6. In our opinion and according to the information and explanations given to us, the Company has not accepted any Deposits from the public and hence the provisions of Section 58A, 58AA or any other provisions of the Companies Act, 1956, read with the rules framed there under are not applicable.
7. *In our opinion, the internal audit function has to be made commensurate with the size of the Company and nature of its business. The Internal Audit coverage during the year was minimal. Internal Audit function needs to be strengthened for timely performance, reporting, compliance, extending the scope to the major online Stations & regional head quarters, registered office and Central Accounts Office, emphasizing on critical areas and taking timely monitoring action, so as to ensure effective internal controls. The closing balances as appearing in the books are required to be reviewed through internal audit.*
8. As per the information and explanations given to us, the maintenance of Cost Records has not been prescribed by the Central Government under Section 209(1)(d) of the Companies Act, 1956.
9. (a) *According to the information and explanations given to us and on the basis of our examination of the Books of Account, during the year the Company has been generally regular in depositing undisputed Statutory Dues, including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs Duty, Cess and other statutory dues applicable to it with the appropriate authorities except as stated below:*
- *In respect of foreign stations, since the records are kept at the stations, we are unable to comment whether the dues are timely deposited.*
 - *The Provident Fund dues pertaining to the employees of the contractors / sub-contractors aggregating Rs. 34.5 million are kept in a separate bank account in the absence of their registration numbers.*
 - *The Company is generally regular in depositing Tax Deducted at Source except in case of TDS on delayed payment charges to oil companies which has not been deducted. (Refer Note No. 57(d). However, at certain locations, the Company has not reconciled Tax deducted at Source and payable as at year end. The Company has not deducted tax on certain provisions made at the year end.*



- *The Company is in the process of reconciliation of Service Tax recoverable and Service Tax payable.*
- *The Service Tax including Input credit to be availed and TDS, EPF, ESIS, Profession tax and airport tax accounts are being reconciled. There have been certain delays in depositing of statutory dues at different locations.*
- *As on 31/03/2013, there are undisputed service tax dues amounting to Rs. 691.7 million and income tax dues of Rs. 229.9 million .outstanding for more than six months.*

As stated above, in the absence of reconciliation, we are unable to determine whether there are any other undisputed dues payable in respect of above as at 31st March, 2013 for a period of more than six months from the date they became payable. (Refer Note 57 & 58)

- (b) According to the information and explanations given to us, there are no dues outstanding of Sales Tax, Income Tax, Customs Duty, Wealth Tax, Service Tax, Excise Duty or cess on account of any dispute other than mentioned below:

Name of Statute	Amount (Rs. in Million)	Nature and Forum where dispute is pending
Income Tax Act, 1961	424.3	Demand Notices received by the Company which are under Appeal.
Customs Duty and Service Tax	4313.0	Customs Duty and Service Tax demanded by the Tax Authorities
Municipal Taxes / House Tax / Octroi	23.1	Property Taxes / House Tax / Octroi demanded by Municipal Authorities

10. *The accumulated losses are more than the net worth of the Company and Cash Losses have been incurred in the current and previous financial years. However, the accounts of the Company have been prepared on going concern basis based on the assumption that the company is going to turn around and have improved financial performance in future. (Refer Note No. 88).*
11. *According to the information and explanations given to us and based on the documents and records produced to us, the Company has not defaulted in repayment of dues to banks and financial institutions. However as on the date of the Balance Sheet, there were overdue loans of Rs. 178.1 million and interest on loans Rs. 298.4 million outstanding for payment. It was also observed that there were delays in repayment of interest and principal during the year.*
12. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi/ mutual benefit fund/ societies.
14. The Company does not deal in shares, securities, debentures and other investments.
15. According to the information and explanations given to us, the Company has given guarantees for loans taken by its subsidiaries from banks. The terms of such guarantee are not prima facie prejudicial to the interests of the Company.



16. According to the information and explanations given to us, the Term Loans were applied for the purpose for which the loans were obtained.
17. According to the information and explanations given to us and on an overall review of the Balance Sheet and Cash Flow of the Company, we report that nothing has come to our notice that causes us to believe that Short Term Loans have been used for long term purposes.
18. The Company has not made any preferential allotment of shares to parties or Companies covered in the Register maintained under Section 301 of the Companies Act, 1956.
19. Non convertible Debentures for an amount of Rs. 74,000 million are issued during the year which are guaranteed by the Government of India.
20. The Company has not raised any money through public issue during the year.
21. During the course of our examination of the books and records of the Company during the year, carried out in accordance with the generally accepted auditing practices in India, we have neither come across any instances of material fraud being noticed or reported on or by the company nor we have been informed of any such instances by the management.

For and on behalf of
R. Devendra Kumar & Associates
Chartered Accountants
FRN: 114207 W

For and on behalf of
Kapoor Tandon & Co
Chartered Accountants
FRN: 000952C

For and on behalf of
P.K.K.G. Balasubramaniam & Associates
Chartered Accountants
FRN: 001547S

Sd/-
D.K. Gupta
Partner
M.No.009032

Sd/-
Rajesh Parasramka
Partner
M.No.074192

Sd/-
C. Ramesh
Partner
M.No.025985

Place : New Delhi
Date : 4 February 2014



**MANAGEMENT REPLIES TO THE AUDITORS' REPORT OF THE STATUTORY AUDITORS FOR THE
FINANCIAL YEAR 2012-13.**

Sr. No.	Audit Observations	Management Comments
	<p>We have audited the accompanying financial statements of AIR INDIA LIMITED, ("The Company"), which comprising of the Balance Sheet as at 31st March 2013, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of Significant Accounting Policies, Notes and other explanatory information.</p> <p>Management's Responsibility for the Financial Statements</p> <p>Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the company in accordance with the Accounting Standards (AS) referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act") This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from any material misstatement, whether due to fraud or error.</p> <p>Auditor's Responsibility</p> <p>Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. These standards require that we comply with the ethical requirements and plan and perform the audit to obtain a reasonable assurance whether the financial statements are free from any material misstatements.</p> <p>An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.</p>	<p>This is a statement of fact.</p> <p>This is a statement of fact.</p> <p>This is a statement of fact.</p>



Sr. No.	Audit Observations	Management Comments
	<p>We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.</p> <p>BASIS FOR QUALIFIED OPINION</p> <p>1. <i>We invite attention to Note No. 1(c)(4) read with Note No.62 and 66 regarding migration of inventory balances to new Integrated Inventory software provided by RAMCO (New System) and report as under :</i></p> <p>a. <i>The company has during the year, changed the accounting policy as stated in Note No. 1(c)(4)(ii) read with Note No.62 with regard to repairables, and these are now to be expensed only at the time of scrappage. As such the repairables are not charged to consumption at the time of its issue. Pursuant to such change, inventories amounting to Rs.14,667.2 million charged to consumption in earlier years have been written back and an amount of Rs.8,692.8 million (net of provisions) has been credited to the Statement of Profit & Loss as Exceptional Item. As stated in the said Note, the applicable weighted average in case of these inventories were not available and hence these have been valued at latest available weighted average to the extent of Rs.5,273.7 million and at the catalogue prices, Rs.9,393.5 million wherever available. These inventories written back include unserviceable items (items not in useable conditions and awaiting repairs), items received Free of Cost, cannibalized items and items received with Aircraft, which have also been valued at latest weighted average cost/catalogue prices. The writing back of inventories already charged off is not in accordance with the provisions of Accounting Standard -2 on Inventories read along with AS-10 on Fixed Assets, according to which inventories are to be charged off as and when consumed. Moreover as per technical information these items do not have any specific life. The valuation of these items at latest weighted average or the catalogue price is also not in accordance with the accounting policy followed by the company and the provisions of AS-2 on Inventories, according to which the inventories are to be valued at cost or Net Realisable Value whichever is lower. The items which are unserviceable identified to the extent of Rs.11,825.7 million</i></p>	<p>In the year 2012, the Company has migrated to the RAMCO system of Inventory Control which provides an integrated system of inventory management for aircraft inventory spares for the Airbus and Boeing Fleet.</p> <p>At the time of migration, the inventory values have been migrated at the weighted average prices which were available in the erstwhile legacy system of Wide Body and Narrow Body and in respect of these inventories wherein no purchase prices were available, the catalogue prices from 2004 to 2012 have been taken into account at the time of migration. Inventories include expendables and repairables. Repairables are items which in the normal course of operation can be continuously rehabilitated to a fully serviceable condition by the approved repair or recovery procedure based on economic viability. These assemblies possess economic value either in a serviceable or unserviceable condition until they are scrapped for operation, because of obsolescence or their repair being uneconomical. In line with the accounting practices followed by other airlines, repairable class of spares has been treated as inventory in the accounts. The accounting policy of the company clearly lays down the principles for charging of these classes of inventories to P&L account at various points of time. The change in the accounting policy referred to by the auditors is in respect of repairables which would be charged off to consumption only at the time of scrappage and till then only the repair cost will be debited to P&L account. Repairables have a life greater than the operating cycle of the company and may be reused until they are beyond economic repair. The accounting practice which was different in both the erstwhile airlines AI and IA have been harmonized in the new RAMCO system which has resulted in increase in the values of the inventories as a number of repairables which were earlier charged off to consumption under the erstwhile system have now been accounted as inventory. Many of these items at the time of migration were unserviceable in nature (but capable of being repaired both internally and externally) and have been migrated at values which were either available in the erstwhile legacy system on a weighted average basis or based on catalogue price (2004-2012) by RAMCO system. These items may be temporarily</p>



Sr. No.	Audit Observations	Management Comments
	<p><i>at the year end, received Free of cost, cannibalized and received with Aircraft, are required to be valued at Rs. NIL while in case of serviceable items amounting to Rs.11,363.5 million, to the extent these are valued at latest weighted average or catalogue prices (precise amount unascertained), these should have been valued at cost or Net realizable value whichever is lower. Further there is inadequate documentation with regard to sources of quantities of materials migrated into New-System. The precise impact of these on the closing value of inventories has not been ascertained. The company has made provision of Rs.3,255.40 million towards unserviceable items out of total provision of Rs.5,974.4 million made in accounts as stated in the note. We have not been able to form our opinion for adequacy or otherwise of the provisions made in accounts towards value corrections etc. Consequent to above, the loss for the year is understated to the extent of Rs.8,570.3 million while overall impact is not ascertainable.</i></p> <p>b. <i>Reference is further invited, whereby non-moving inventory of Rs.725.01 million has been identified but is remaining to be provided for and as such the compliance of stated accounting policy is pending. Loss for the year is understated to that extent.</i></p> <p>c. <i>As stated in the note, the data relating to last movement of inventory items is not available in New System and supporting details of quantities and details migrated to New-system have not been documented. The non-moving items have therefore been identified based on date of migration to New System in case of inventory written back which is not in accordance with the accounting policy according to which, items not moved for more than five years are to be identified as non-moving and are to be provided for. The precise impact of the above on carrying value of inventory has remained unascertained.</i></p> <p>d. <i>Further in case of expendables issued to various open work orders, the shortfall in provision amounting to Rs. 481.98 million needs to be provided for.</i></p>	<p>unserviceable but with repairs and re-certification they could be fully re-usable. Those items which are beyond economical repairs will be charged off as scrappage. This has resulted in a credit of Rs. 8692.86 Million to the P&L account after providing for necessary valuation differences, obsolescence and part of the repair cost wherever applicable. Though repairables may not strictly fall in line with AS-2 definition of inventories there is no other alternative in the aviation industry other than to classify them as inventory (as is the normal practice). Some of the international airlines have classified repairables and rotables as part of Fixed Assets to be amortized over a period of time depending on their utility values.</p> <p>As regards movement of the items in the inventory since the RAMCO system did not pick up the age of the inventories at time of migration, management has made provisional estimates for making a provision depending on the ageing of the inventory which are subject to adjustments in the year in which the actual quantum of non-moving inventory are determined.</p> <p>In respect of open work orders management has already issued instructions to engineering to reassess these orders as on financial year end closing 31st March 2014 and to account for any work order which have been completed or at an advanced stage of completion</p> <p>Management has also assigned the task of inventory audit to M/s. KPMG in order to streamline the entire system of inventory control under the RAMCO system.</p> <p>The RAMCO system provides online and real time information on various items of inventory at part level so as to enable the various warehouses access to inventory at all locations and has been designed to optimize inventory cost as well as improve the availability of inventory at all locations. Management is of the view that during year 2013-14, several of the discrepancies noticed by Statutory Auditors would be rectified through help/assistance of external firms and the inhouse team which would specifically be formed for the purpose of rectifying and rationalizing/streamlining the process of inventory control.</p> <p>The year end closing balances of inventory have been reconciled on a global basis with the inventory summary statements and have been tallied substantially.</p>



Sr. No.	Audit Observations	Management Comments
	<p>e. <i>As stated in Note No.39, pursuant to migration of inventory balances into New System, the items classified as rotables have not been fully accounted for /accounted based on estimated values and in certain cases these are carried in inventories as well as rotables. We are unable to form our opinion on the adequacy or otherwise of ad-hoc provision of Rs. 415.3 million (included in overall ad-hoc provisions stated above) made towards value of rotables included in inventories and identified to the extent of Rs. 830.60 million which should have been fully provided for. The precise impact on Current Assets, Fixed Assets and depreciation in this regard has not been ascertained. Further the basis of valuation adopted for the items reclassified or carried into New System as repairables is also not adequately documented and hence can not be commented upon.</i></p> <p>f. <i>As stated in the note, there have been inadequate documentation and internal controls in the process of migration of balances into New System and migration audit has not been conducted. Confirmations of balances in respect of inventories with third parties are also pending. Precise impact arising out of the above has remained unascertained.</i></p> <p>g. <i>Pursuant to a further change in accounting policy as stated in Note No.66, the company has written back an amount of Rs.583.9 million under "Provision no longer required" towards inventory related to A-310 Aircrafts, which were phased out in earlier years and were fully provided for which as per the information furnished is to be used for maintenance jobs. The change in the accounting policy, therefore is not in accordance with the provisions of AS-5 on "Changes in Accounting Policies" and therefore the amount written back needs to be provided for.</i></p> <p><i>Therefore in our opinion, as at the year end, balances as stated in inventories amounting to Rs.10,294.5 million is overstated with a consequential impact on loss for the year understated to the extent of Rs.10,294.5 million. The precise impact of over valuation/ discrepancies in quantities/values is not ascertained and therefore cannot be commented upon. The change in accounting policies are also not in accordance with the provisions of AS-5.</i></p>	<p>Further the total inventory as of 31st March 2013 was Rs 29,297.6 Million and Provisions for obsolescence / repairs / valuation differences were Rs 12,601.7 Million which represented 43% of the total inventory.</p> <p>Management is therefore of the view that adequate provisions have been made in the accounts and excess/deficit if any will be given effect to in the year of adjustment.</p>



Sr. No.	Audit Observations	Management Comments
2.	<p><i>As stated in Note No.81, the company has been carrying the net balance of deferred tax asset amounting to Rs.28,425.2 million which was recognized in years 2007-2008 & 2008-2009. In the subsequent years deferred tax asset has been recognized only to the extent of deferred tax liabilities as a prudent measure. Since the virtual certainty as stipulated under Accounting Standard-22, Taxes on Income, had not been established in the year 2009-10,the carrying amount of deferred tax asset should have been charged off in the year 2009-10 itself. Consequent to above, the balance in Prior Period Adjustments in the 'Statement of Profit and Loss', has been under-stated to the extent of Rs. 28,425.2 million and balance of Deferred tax asset under Non-Current Assets, has been overstated to that extent. With the consequential effect, the "Loss after tax for the year" carried forward to the Balance Sheet, is understated to the extent of Rs. 28,425.2 million. Further during the year deferred tax asset has been recognized to the extent of deferred tax liability amounting to Rs.5,904.3 million. Though the management is confident of realizing the deferred tax asset based on the turnaround measures which are at various stages of implementation as stated in the said note No.81, the impact thereof as expected by the management cannot be conclusively established and therefore it has not been possible for us to conclude as to whether there is a virtual certainty as envisaged under the provisions of AS-22. We have therefore not been able to form our opinion in respect of realisability of the deferred tax asset recognized periodically. The overall impact of the above on the loss for the year could not be ascertained.</i></p>	<p>The Auditors had already drawn attention in the years 2009-10 & 2010-11 on this issue in the Annual Accounts. The DTA relates to the provision which was made in the year 2007-08 and 2008-09 when the Aviation Industry was going through a severe crisis on account of high fuel cost, global recession and low yields.</p> <p>In the current year, FY 12-13 the company has taken several initiatives towards improving its financial and operational performance. The company has turned EBIDTA positive in 2012-13 as a result of these measures. Reversal of the DTA created in 2007-08 & 08-09 would be incorrect at this juncture due to the improved performance of the Company and would reflect a lack of confidence in the implementation of the Management's Turnaround Plan (TAP) which aims at return to profitability within a reasonable period of time.</p> <p>As a result of various measures taken by Management in 2012-13, the performance during 2012-13 significantly improved in terms of On time Performance (OTP), passenger load factors, fleet utilization, availability of aircraft, discontinuation of PLI effective 01.07.2012, rationalization of routes, cutting down loss-making routes, operationalization of Subsidiary Companies, implementation of the Asset Monetization program, upgradation of IT systems in terms of network planning and Hub control, induction of 787 aircraft on various international and domestic routes and grounding of old fleet, rationalization of Pay Structure as per DPE norms, etc. These measures have resulted in reduction of cash losses to the extent of Rs. 22,373.1 Million in the period April to March 2013 vis-à-vis corresponding period last year. GOI has inducted Rs. 60000 Million in FY 2012-13 and Rs. 50,000.0 Million during the F.Y. 2013-14 and has so far infused Rs. 12,2000 Million from the period 2011-12 until 20 December 2013. GOI's commitment to infuse equity as per the TAP/FRP, has already been communicated to the Company by the MoCA provided certain specified milestones are met.</p> <p>As a result of these measures, the Company is confident of achieving the targets set in the TAP, and return to cash positive in 2018 and Profit After Tax (PAT) in 2020.</p> <p>The management is therefore confident of utilizing the net deferred tax asset to the extent of Rs. 28,425.2 million already recognized during the initial 2 years of merger i.e. 2007-08, 2008-09 against future tax liability. As a prudent measure the company has ceased to recognize the excess of Deferred Tax Asset (DTA) over Deferred Tax Liability (DTL) wef 2009-10 and DTA is recognized only to the extent of DTL.</p>



Sr. No.	Audit Observations	Management Comments
3	<p><i>As stated in Note No. 28, the financial statements dealt with by this report are prepared based on SAP-ERP data base implemented during the year. The process of migration audit at document level is yet to be completed and certain observations as observed in the migration audit are remaining to be complied with. The balances as contained in the SAP data base have been relied upon pending completion of the audit and rectification of observations. Impact thereof has not been ascertained.</i></p>	<p>Due to various initiatives which have been taken to improve operational and financial efficiencies which are at various stages of implementation, (supported by the GOI and the Regulator) the Company plans to have a sustainable profit in the near future to set off against the carry forward losses.</p> <p>This is a statement of fact. The Company would continue to engage independent auditors for completing the migration audit at document level in order to match all the records for year FY 2012-13 and subsequent period FY 2013-14.</p>
4.	<p><i>As stated in Note no.29, 55 to 57, 63 to 71 and 73, regarding confirmations and reconciliation including matching of debits/credits in various balances in subsidiary/ other assets /liabilities /income / expenditure accounts at certain locations and pending reconciliation of intermediary/transitory accounts. The accounts of various inventory related vendors and other accounts are also pending reconciliation with New System data base and stock records which are not in New System are being compiled and reconciled with the legacy/SAP data. The year end balances of inventory items as well as consumption during the year have been accounted based on reports generated out of New System, which are to be reconciled with the accounts. We are unable to comment on the impact of adjustments arising out of reconciliation/confirmation of such balances, on the Financial Statements. The impact of the same on the Financial Statements is not ascertainable.</i></p>	<p>The Company is in the process of streamlining the system on matching debits / credits with various balances in subsidiary / other ledgers. As this is the first year of migration to SAP, company faced several challenges in reconciling certain intermediary / transitory accounts.</p> <p>Company is confident that it would overcome this during the current FY 2013-14 and adjustments if any, will be carried out on completion of the reconciliation with SAP /ERP database and RAMCO.</p> <p>The confirmation and reconciliation including matching of debits/credits in various balance in subsidiaries/ other Assets / liabilities / Income/ Expenditure accounts at various locations is a continuous process. On the migration of legacy balances into SAP/ERP systems an attempt has been made to reconcile the balances in the individual ledgers with the GL in the various regions. However, since this was the first year of migration into SAP ERP the employees trained on the operation of the system were limited and there were certain teething problems resulting in delays.</p> <p>However with the passage of time and employees becoming more familiar with the system it would be possible to correct such un-reconciled balances over a period of time. Similarly the employees are getting trained on the RAMCO system which would enable the company to access information on a real time basis in order to optimize inventory carrying costs as well as reconcile inventory related vendors with the data available on SAP after the interface is complete.</p>
5	<p><i>As stated in Note No. 41, the company is yet to conduct the impairment assessment in accordance with the requirements of AS-28 and the exchange differences amounting to Rs.28,179.50 million have been capitalized pending impairment assessment of</i></p>	<p>Though the company has not conducted an impairment assessment in accordance with AS-28, the aircraft being used are all in flying condition generating revenue streams and have been stated at historical cost plus exchange differences minus the accumulated</p>



Sr. No.	Audit Observations	Management Comments
	<p><i>the Air craft fleet. As stated in Note No.45, certain aircrafts have been sold subsequent to the Balance sheet date but the assessment of impairment loss has not been conducted. The overall impact due to impairment loss has remained unascertained and therefore cannot be commented upon.</i></p>	<p>depreciation. In respect of certain class of assets, which have been grounded or aged these have been transferred to a separate account under "Surplus Assets."</p> <p>The company also decided to sell a part of its operating fleet of 5 B777-200 LR to an airline in DEC13 following a tender process. The title of these aircraft have not yet been transferred to the airlines to whom the aircraft have been sold except for one aircraft in January 2014. Company does not consider it necessary to provide for any diminution in value of these assets as of the balance sheet date as these assets were in active flying condition utilized for 12-14 hrs in a day for international long haul operations. Decision to sell a portion of this fleet mainly arose with a view to reduce losses sustained as a result of operating a fleet which is less fuel efficient than its competitors.</p> <p>The induction of 787 on many routes has also reduced the utilization of the 777-200 LRs. The actual impact of any losses sustained as a result of such sale following a title transfer would be accounted for in the Financial Year of the sale.</p>
6	<p><i>As stated in Note No. 55(g) the amount paid to Star Alliance towards joining fee Rs.639.4 million which was provided for in earlier years, has been written back by credit to the "Provision No longer Required Account" while the process of reintegration has only commenced and the right or entitlement to become a member is yet to be established. The balance appearing under "Loans and Advances" therefore, needs to be provided for.</i></p>	<p>The process of reintegration with Star Alliance began in 2011-12 with the assistance of the Ministry of Civil Aviation. Pursuant to the continuous follow up and improvement in Operating and financial performance the STAR alliance Board officially invited Air India to be reintegrated by meeting the minimum joining requirements. Towards this a Safety Audit is also being conducted by a team of independent consultants appointed by Star. Since Ai now appears to be on the threshold of joining the alliance as a full member shortly the provision which was already made towards the Star Alliance membership fees paid in the past is now written back / Reinstated.</p>
7	<p><i>As stated in Note 47 manufacturer and supplier credits entitlements received at the time of delivery of aircrafts amounting to Rs.1,155.2 million has been recognized as Incidental revenue instead of adjusting to the cost of assets as required under the provisions of AS-10 on Fixed Assets. Loss for the year is understated to that extent. The precise impact on depreciation charged during the year has not been computed and is therefore unascertained. The accounting policy stated at Note No. 1(C)(5) is also not in compliance with AS-10.</i></p>	<p>The company has been consistently following the practice of accounting manufacturers and suppliers credits as revenue instead of adjusting to the cost of assets. These credits are from Suppliers of Buyers' furnished equipment and supplier furnished equipment installed on the aircraft. The credits accrue for adjustments against future purchases of spares or received as cash on taking the delivery of the aircraft. However, Credit notes which are received from aircraft / engine manufacturers are adjusted to the cost of the assets.</p>
8	<p><i>No provision has been made in the accounts for the following :</i></p> <p>a. <i>Guarantee Fee amounting to Rs. 350.7 million on the NCDs issued during the year (Refer Note No. 31);</i></p>	<p>The company has already made an application to the Ministry of Finance (MoF) through the Ministry of Civil Aviation (MoCA) for waiver of guarantee fee for FY12-13 and FY13-14 and up to the period FY16-17 i.e. till the company returns to profitability under the FRP</p>



Sr. No.	Audit Observations	Management Comments
	<p>b. <i>Differential value in respect of the property at Baba Kharag Singh Marg New Delhi out of the 4 acres land valued at Rs.5390.6 million and being carried in the books of account pending registration formalities, while the revised allotment letter for 3.54 acres of land has since been accepted by the company but the accounting treatment is pending. The precise amounts in this regard are not ascertainable at this stage. (Refer Note No. 33(a)).</i></p> <p>c. <i>Estimated expenditure of Rs.56.6 million towards regularisation of Housing Colony at Vasant Vihar, New Delhi which has already been approved by the Board of the company, while any further financial impact on account of unearned increase if any payable is not ascertainable. (Refer Note 33(b)).</i></p> <p>d. <i>Advance outstanding for purchase of Nerul Land Rs. 24.6 million where execution of lease deed, hand over of possession is pending and the plot is subject to encroachments. (Refer Note No. 35);</i></p> <p>e. <i>Penalty and interest (amount unascertained) payable, for delayed payment of service tax, since the accounts are under reconciliation. (Refer Note 57(e));</i></p>	<p>approved by the GOI. MoF has communicated that a detailed cabinet note needs to be submitted for waiver of such fees by the competent authority. The note is in the process of submission by the MoCA to CCEA through a process of consultation with the respective Ministries and pending this the company has shown the Guarantee fee under contingent liability.</p> <p>Efforts to complete registration formalities in the name of company in respect of this plot of land have been started at the highest level. Ministry of Urban Development vide their letter dated 07 June 2013 have issued the revised allotment letter for an area of 3.54 acres against 4 acres with the same terms & conditions of 1983 allotment letter which has been since accepted by company and possession obtained on 26 June 2013. As per revised allotment letter issued differential amount towards acquisition of land would be adjusted and accounting treatment given at the time of monetization of the assets, since this is one of the assets targeted for monetization.</p> <p>An independent consultant has been appointed to commence the process of reinstating the title of this property in the name of the company. In this respect, during the year series of meetings were held with the technical cell of L & DO for regularization of this property and company has since received approval of the plan from the Municipal Corporation of Delhi which has been submitted to the office of the L&DO. The Company is therefore hopeful of reinstatement of lease and regularization of property rights. The company has also appointed a global real estate consultant M/s. DTZ property consultant for the purpose, to register and reinstate the property right of the company in respect of such properties where the title deeds are defective or cancelled. The Consultants will also assist the company in regularization of such properties deeds by monetization of such assets through a subsequent sale / disposal or entering into a joint venture for marketing of these properties.</p> <p>The Company is confident of getting the lease deed executed in due course in consultation with CIDCO. The Company is in the process of discussing with CIDCO avenues for monetizing the property including buy back at 50% of the existing market rates.</p> <p>The company has made provision for interest for any delayed payment of service tax liability. Penalty, if any is not ascertainable.</p> <p>The delay in making certain mandatory payments are due to delays in equity infusion and liquidity crisis faced by company. As result thereof, the company has certain arrears of service tax liability which it</p>



Sr. No.	Audit Observations	Management Comments
9	<p>f. <i>Short provision of Post retirement medical benefit in terms of actuary's report (Refer Note(80-D)).</i></p> <p><i>As stated in Note No. 84, regarding disclosure requirements under revised Schedule VI, while the exemption from the MCA for such non disclosure has not been received. Further the requirements of revised schedule VI have been complied with to the extent possible and classification of current/ non-current assets/liabilities is as arrived at by the management. The impact of pending compliances can therefore not be commented upon.</i></p>	<p>is hopeful of discharging as and when the equity is received from GOI or earlier. Pending this, Company has discharged its regular monthly service tax liability in a timely manner or with certain marginal delays</p> <p>The Company has changed the post retirement medical benefit scheme during the year. The precise financial impact of actuarial liability determined by the actuary due to such change is yet to be ascertained.</p> <p>This is a statement of fact</p>
10	<p><i>We invite attention to the disclosures in following Notes forming part of accounts for which precise financial impact on accounts has remained unascertained :</i></p> <p>a. <i>Note No. 33 regarding pending registration formalities and title deeds being obtained in respect of certain properties, Note No.37 regarding various fixed assets data not migrated to SAP and classification of certain fixed assets to be aligned and the data pending reconciliation, Note No. 40(b)& (c) regarding reworking of residual life and the depreciation on certain assets, the financial impact of these have remained unascertained.</i></p> <p>b. <i>Note No. 34 regarding additional premium payable to CIDCO towards non development of surplus land being capitalized.</i></p> <p>c. <i>Note No.36, 53 & 56, regarding strengthening of internal audit process and improvements required with regard to physical verification of cash in hand at the year end as well as physical verification of fixed assets and inventories in accordance with the accounting policies and pending reconciliation of cash in hand and Bank accounts.</i></p> <p>d. <i>Assets retired from active use and held for disposal are also being identified as stated in Note No. 43. Compliance of AS-10 is pending.</i></p>	<p>The registration formalities and title deeds in respect of certain properties are being continuously reviewed by M/s. DTZ property consultant who have been appointed to monetize properties. Registration formalities would be completed as soon as defects in title deeds are rectified.</p> <p>As regards fixed assets to be aligned and data pending reconciliation, since this is first year of migration of fixed assets into SAP which involves a voluminous exercise and necessary reworking is yet to be done. Financial effect of the same would be ascertained and accounted for after due reconciliation of records. In the opinion of management impact of this is not considered to be material.</p> <p>This is a statement of fact.</p> <p>The internal audit process is being expanded by internal audit department to cover various areas of activity of the Company.</p> <p>M/s. KPMG have also been recently appointed in order to supplement the internal audit function in sensitive areas such as revenue management and accounting, fuel/inventory control and catering management. Progressively the Management plans to expand the scope of internal audit to other areas in order to improve its effectiveness as well as to bench mark the company against international practices and parameters. This would also assist the company in its smooth integration with Star Alliance on various minimum joining requirements.</p>



Sr. No.	Audit Observations	Management Comments
	<p>e. <i>Note No. 44 regarding, amount of Rs.7,416.8 million, recognized as extraordinary items towards “Duty Credit Entitlements under Serve from India Scheme” and an amount of Rs.7369.09 million has been carried under “Loans and advances” to be adjusted against utilization during its extended validity. The realisability of this amount being contingent upon the extension of the validity of scrips which can not be commented upon. The amount utilized up-to the year end and remaining to be accounted for Rs. 24.1 million as per the confirmation from custom authorities needs to be provided for. Loss for the year is understated to that extent.</i></p>	<p>During the year the Company was issued duty credit scrips amounting to Rs.7416.8 Mill in respect of FY 09-10 and FY10-11 under the Served from India Scheme (SFIS). These scrips are permitted for payment of customs duty of any capital goods including spares office equipment as well as consumables such as Aviation Turbine Fuel (ATF). Moreover as per policy these scrips are also permitted to be used by Associate Companies including subsidiary companies. The Company has also obtained clarification from DGFT that the scrips can be utilized for payment of excise duty on ATF procured from domestic sources and Public Sector Oil Marketing Companies have also agreed to allow the company . to utilize the SFIS scrips for payment of excise duty of ATF as per the agreement entered into with them. The modalities towards utilization of SFIS scrips for payment of duty against ATF purchase are being worked out by the Duty Draw Back Division of MoF after which this process will be implemented. The company will utilize these scrips during the next few years towards the payment of aforesaid liabilities.</p> <p>The Company is also confident as per past experience, of getting extension beyond the expiry of scrips from policy relaxation committee of DGFT which will enable the company to utilize the scrips in full.</p> <p>The Ministry of Civil Aviation has also taken up the issue of the extension of the validity of the scrips for the airline industry with the Revenue Secretary.</p> <p>The company has therefore credited the entire value of duty scrips of Rs. 7,416.8 million to the P&L as an extraordinary item.</p>
	<p>f. <i>Note No. 48(i) (c), regarding exchange differences arising on short term borrowings, as long term monetary items, Note No. 48(ii) regarding certain closing balances not stated at FEDAI rates at the year end, Note No. 49 regarding Exchange Differences arising on settlement or reporting of certain transactions, not disclosed separately and para 48(i) (b) regarding treatment of exchange differences regarded as adjustments to interest cost in relation to periods up-to March 31,2011,which is not in compliance with the requirements of AS-16on Borrowing cost / AS-11 on Effects of Changes in Foreign Exchange Rates.</i></p>	<p>This is a statement of fact.</p>



Sr. No.	Audit Observations	Management Comments
g.	<i>Note No. 50; regarding Financial impact, if any, arising out of the pending merger of Vayudoot Ltd.;</i>	The merger of Vayudoot with the parent company would be completed in FY 2013-14 and the impact would be provided in the year of the merger. However, all known liabilities have already been provided for in the accounts of the holding company
h.	<i>Note No. 51 & 52 regarding strengthening of internal controls at certain locations/stations and maintenance of adequate records.</i>	Company has migrated to SAP ERP system effective January 13 which would provide for better integrity of data and checks and balances at various locations / stations. M/s. IBM who are our Implementation Partner have been asked to develop controls at various stages in SAP ERP system to ensure compliance of accounting policies at various stages. This will also be achieved through the Governance Risk Compliance (GRC) module in Phase III implementation.
i.	<i>Note No. 54 regarding certain items being accounted for on cash basis.</i>	When it is not possible to reasonably estimate the accrual of certain items the same is being accounted on cash basis.
j.	<i>Note No. 57(j) regarding ad-hoc provision made towards certain expenditures in the absence of bills;</i>	This is a statement of fact.
k.	<i>Note No.59 regarding pending accounting adjustments arising out of the fraudulent transactions;</i>	Company is already investigating incidents of misappropriation of company funds by an employee at Kolkata. Since investigations are still in progress no accounting treatment has been given for the amount involved
l.	<i>Note No. 61(d) regarding revenue share from Air India Charter Limited accounted based on provisional data.;</i>	AICL Accounts are still under audit and the revenue share has been accounted on the provisional data.
m.	<i>Note No. 63 regarding pending reconciliation of nonaircraft inventory and ascertainment of non moving inventory in respect thereof.;</i>	This is a statement of fact.
n.	<i>Note No.65, regarding spares meant for modification of aircrafts (amount unascertained) are continued to have been included as inventory which is not in accordance with AS-2 read with AS-10.</i>	Spares meant for aircraft modification are being treated as inventory until they are fitted on the aircraft. The company has been following this treatment consistently over the years.
o.	<i>Note No. 76 and 77 regarding non-cognizance of losses incurred by the subsidiary companies and, consequently not providing for diminution in the value of Investments to be in compliance with AS-13 on "Accounting for Investments" and non provision of Advances outstanding with these subsidiary companies where net-worth has completely eroded and these companies are in continuous losses. The recovery of these dues is subject to turnaround of these companies and the precise impact of the same has remained unascertained.;</i>	The subsidiary companies have accumulated losses and net worth of these has been eroded as at 31.03.13. However, in view of the ongoing TAP as well as FRP in place, in the opinion of the Management, there is no diminution in the value of assets and as such no provision in respect of such losses has been recognized in books. Information regarding accumulated losses of the company is given in the statement attached as required under section 212 of the Companies Act 1956. Management is also confident that going forward, it would be able to realize its equity value in subsidiary companies either through divestment of Equity to a Strategic Partner or through increase in market share of these entities, or by a revenue share in its turnover



Sr. No.	Audit Observations	Management Comments
11	<p>p. Note No.79 (a)&(e) regarding adhoc provision for wage arrears and pending accounting of dues of employees.</p> <p>We further Report that in view of the observations made by us in the paragraphs 1 to 10 above, considering the impact to the extent quantifiable, Loss for the year excluding Prior period adjustments is understated by Rs.13,027.2 million and Prior Period Adjustments are understated by Rs.28,425.2 million with cumulative effect on loss after tax for the year carried to Balance sheet being understated by Rs.41,452.4 million, Accumulated losses are understated by Rs.41,452.4 million, inventories are overstated by Rs.10,294.6 million and with consequential impact on loss for the year being not determined precisely, current liabilities are understated by Rs. 889.3 million, Fixed Assets are overstated by Rs.1,155.2 million, Current Assets, Loans and Advances are overstated by Rs. 688.2 million and Deferred Tax Asset would have been Rs. Nil. The earning per share as computed in Note No. 82 is subject to our observations contained herein.</p> <p>QUALIFIED OPINION In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give the information required by the Act in the manner so required and give a true and fair view, in conformity with the accounting principles generally accepted in India:</p> <p>a. in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2013;</p> <p>b. in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date and</p> <p>c. in the case of cash flow statement, of the cash flows for the year ended on that date.</p> <p>EMPHASIS OF MATTER</p> <p>i. As stated in Note No.79 (c), the company has paid to the employee, 75% of the allowances payable to various categories effective July 2012, pending the implementation of Dharmadikari Committee Report, which is under sub-judice. The unpaid allowances amounting to Rs. 2361.4 million have been shown as contingent liability.</p>	<p>This is a statement of fact.</p> <p>Audit Observation noted.</p> <p>Audit Observations noted.</p> <p>The company has made an ad hoc deduction of 25% on the various allowances payable to the category of employees pending implementation of Dharmadikari Committee. Mumbai High Court has in its order dated 28 January 2014 stated that the status quo in respect of salary and allowances should continue and referred the dispute relating to the change in working conditions for a reference under section 9A under the Industrial Dispute Act. Management is of the view that pending</p>



Sr. No.	Audit Observations	Management Comments
	<p>ii. As stated in Note No. 60, during the year certain selected foreign and domestic stations of the company were visited by us. These Visits were meant to review the original records maintained at these stations/branches and to examine internal control thereof. These visits were conducted as per the schedule finalised by the management. Accounts of the other unaudited stations have been incorporated in the consolidated accounts of the company as per the data submitted by the respective stations.</p> <p>iii. As stated in Note No. 73, 76, 77 and in other cases wherever the company has undertaken transactions with subsidiary companies/group companies/Joint ventures, the existence of arm's length relationship in such transactions has not been determined.</p> <p>iv. Attention is further drawn to the following disclosures in Notes forming part of accounts :</p> <p>1. Note No.88 regarding the financial statements of the Company having been prepared on a going concern basis, notwithstanding the fact that its net worth is completely eroded. The appropriateness of the said basis is interalia dependent on Company's ability to obtain equity from the Government for meeting its obligations, improved operational/financial performance and the successful implementation of Turn Around Plan approved by the Govt.</p>	<p>rationalization of the wage structure of its employees the said amount may be shown as a contingent liability and the impact may be recognized in the year of final implementation.</p> <p>This is a statement of fact.</p> <p>The subsidiary companies have accumulated losses and net worth of these has been eroded as at 31.03.13. However, in view of the ongoing TAP as well as FRP in place, in the opinion of the Management, there is no diminution in the value of assets and as such no provision in respect of such losses has been recognized in books. Information regarding accumulated losses of the company is given in the statement attached as required under section 212 of the Companies Act 1956. Management is also confident that going forward, it would be able to realize its equity value in subsidiary companies either through divestment of Equity to a Strategic Partner or through increase in market share of these entities, or by a revenue share in its turnover.</p> <p>The company has implemented its Financial Restructuring Plan (FRP) effective 1 October 2011 to realign its working capital borrowings. This FRP combined with Turnaround Plan (TAP) would enable the company to improve its financial and operating performance. The company also has received Equity from the Government to the extent to INR 122,000 Million upto December 2013 from the time of commencement of FRP in FY11-12. GOI has also supported the company by providing guarantees for NCDs issued to the extent of 74,000 Million in order to repay the short term working capital loans of the banks. GOI has also committed that it would infuse equity in the company in the future, ie. upto FY 20-21 in order to enable the company to pay government guaranteed loans as well as interest on NCDs. In view of the above, the company expects operational and financial performance to continuously improve in the future years</p>



Sr. No.	Audit Observations	Management Comments
	<p>2. Note No. 57 (d) regarding Delayed Payment charges paid/payable to Oil companies amounting to Rs. 3,038.3 million and interest on delayed payment of TDS/service tax Rs. 659.3 million, have been included under "Finance Cost" as against "other Expenses" in earlier years and disclosures relating to previous year have been regrouped accordingly.</p> <p>3. Note No.83 regarding dues to MSME which are remaining to be identified and interest payable, if any in respect thereof.</p> <p>Our opinion is not qualified in respect of these matters.</p> <p>REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS</p> <p>1. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the annexure a statement on the matters specified in Paragraphs 4 and 5 of the Order.</p> <p>2. As required by Section 227(3) of the Act, we report that:</p> <p>i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit <i>except for the matter described in the basis for qualified opinion paragraph;</i></p> <p>ii) In our opinion, proper Books of Account as required by law have been kept by the Company, so far as appears from our examination of those books of accounts maintained at the Central Accounts Office/Registered Office of the Company, incorporating the information/returns received from the business areas/stations/locations including those not audited by us.</p>	<p>and barring exceptional circumstances or factors beyond control, the company is expected to be cash positive in the year 2018 and PAT positive in the year 2020. Due to the support of GOI, as well as various measures taken by company to improve its operational performance, it is expected that the financial condition of the company would continuously improve in future and therefore the accounts are prepared on the "going concern basis".</p> <p>This is a statement of fact as finance costs payable to Oil Companies represent their cost of working capital passed on to us which is more in the nature of reimbursement of interest and hence taken as Finance Cost.</p> <p>This is a statement of fact. However, payments to such undertakings covered under MSME to the extent identified have been made within prescribed time limit / date agreed upon with the supplier and hence no interest is payable on delayed payments.</p> <p>Audit Observations noted.</p>



Sr. No.	Audit Observations	Management Comments
	<p>iii) The Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this Report are in agreement with the Books of Accounts and with the returns received from stations/locations not visited by us;</p> <p>iv) Except for the effects of the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act;</p> <p>v) The Company, being a Government Company as defined in Section 617 of the Act, is exempted from the applicability of the provisions of the Section 274 (1) (g) of the said Act vide Circular No. 2/5/2001/ CV.V General Circular No. 8/2002 dated March 22, 2002 issued by Ministry of Law, Justice and Company Affairs;</p> <p>vi) Since the Central government has not issued any notification as to the rate at which the Cess is to be paid under Section 441(A) of the Act nor has it issued any rules under the said Section, prescribing the manner in which such Cess is to be paid, no Cess is due and payable by the Company.</p>	



ANNEXURE TO INDEPENDENT AUDITORS' REPORT

Referred to in paragraph (1) under Report on Other Legal and Regulatory Requirements
of our Audit Report of even date

Sr. No.	Audit Observations	Management Comments
1	<p>(a) <i>The records relating to fixed assets including rotables maintained by the company are stated to be in the process of updation with reference to full particulars, quantitative details and location thereof. The Company has not yet updated fair value of assets in the Fixed Assets Register at certain locations and it is informed that the same is in process. The reconciliation of Fixed Asset Register for aircraft rotables and other fixed assets with financial records is stated to be in progress.</i></p> <p>(b) <i>The Company has a policy of physical verification of Fixed Assets on a rotational basis so that every asset is verified once in every two years. It is observed that during the year, the physical verification has been conducted only at few locations. The physical verification process is stated to be under streamlining and as such every asset is not physically verified as required under the laid down procedure. The discrepancies noticed during the biennial period 2010-2012 are also under accounting action in certain cases. In the absence of compliance of the accounting policy and a complete reconciliation of the results of physical verification with financial records, we are unable to ascertain whether the physical verification has been conducted and to the extent conducted revealed any material discrepancy. (Refer Note No.36)</i></p> <p>(c) <i>In our opinion and according to the information and explanations given to us, the Company has not disposed off substantial part of Fixed Assets during the year affecting the going concern assumption.</i></p>	<p>The Company is in the process of implementing the Fixed Assets module which would streamline the data on Fixed Assets including the details of location and quantitative details on the SAP ERP system</p> <p>Physical verification is an ongoing process and no material discrepancies were observed between the books of accounts and physical inventory of fixed assets. Discrepancies as and when observed during the migration of fixed assets data in the new SAP system will be adjusted in the books after due process/procedure.</p> <p>This is a statement of fact.</p>
2.	<p>(a) <i>The Company has a procedure of conducting physical verification of Inventory at-least once in a block of two years, on a perpetual basis. However in practice the same has not been followed and only a portion of inventory is being physically verified.</i></p> <p>(b) <i>The procedure of physical verification of inventories on a perpetual basis by the Management needs to be in line with the accounting policy declared by the company. The physical verification conducted during the year is minimal and needs to be considerably enlarged. Considering the size of the</i></p>	<p>This is a statement of fact.</p> <p>Audit Observation noted.</p>



Sr. No.	Audit Observations	Management Comments
3.	<p><i>Company and nature of its business the process of physical verification of inventories needs to be strengthened with regard to the coverage and frequency. The Company has not obtained confirmations / certificates in respect of Inventory lying with outside agencies.</i></p> <p>(c) <i>On the basis of our examination of the Inventory records, in our opinion, the Company is to update and correct the records of aircraft related Inventory in New system in terms of values migrated and source of quantities items and in case of non aircraft stores, these are to be reconciled with the financial records. The centralized records relating to inventory and consumption maintained at stores need to be fully reconciled with the financial records. (Refer Note No. 62 & 63)</i></p> <p><i>The discrepancies noticed on physical verification of Inventory, as compared to book records are in the process of reconciliation and adjustment subjecting to scrutiny by the concerned Department and thereafter the same are properly dealt with in the Books of Accounts.</i></p> <p>(a) The Company has not granted any Loans, Secured or Unsecured to Companies, Firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956. except interest free advances to subsidiary companies which is in the nature of running account and where no terms of repayments have been specified.</p> <p>(b) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans granted being prejudicial to the interests of the Company, receipt of regular principal and interest and reasonable steps taken for recovery of principal and interest does not arise except in the case of subsidiary companies, where it can not be commented upon.</p> <p>(c) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans granted being prejudicial to the interests of the Company, receipt of regular principal and interest and reasonable steps taken for recovery of principal and interest does not arise.</p>	<p>The new inventory MRO package would address these issues of the movement of inventory between various locations as well as sufficient data relating to inputs like receipts, issue, stocks and stores with regard to itemized details. With the interface with SAP ERP system, the RAMCO system would provide online and real-time information on availability of aircraft spares at various locations, consumption details and reconciliation with the financial records.</p> <p>This is a statement of fact.</p> <p>This is a statement of fact.</p> <p>This is a statement of fact.</p>



Sr. No.	Audit Observations	Management Comments
4	<p>(d) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the Register maintained under Section 301 of the Act.</p> <p>(e) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans taken being prejudicial to the interests of the Company and payment of regular principal and interest does not arise.</p> <p><i>In our opinion and according to the information and explanations given to us, the internal control procedures needs to be followed as prescribed and be strengthened to be commensurate with the size of the Company and the nature of its business, for the purchases of Inventory, Fixed Assets and sale of goods and services. The Company is in the process of reconciling sub-ledgers with the general ledger in respect of Inventory, Sundry Debtors/creditors, staff advances and certain intermediary accounts, etc. (Refer Note No. 29). The management needs to take corrective action on continuing failure to improve the weakness in internal control system.</i></p>	<p>This is a statement of fact.</p> <p>This is a statement of fact.</p> <p>The Company is in the continuous process of strengthening its internal controls in order to make it commensurate with the size and the nature of its business. The IT systems are also continuously upgraded in order to synchronize with complexities of the business. With the implementation of SAP ERP and fixed assets module, the Company's assets are recorded on systematic basis after due authorizations. Since, this is a first year of SAP accounting, there are bound to be certain reconciliation and migration issues which would be sorted out in the following years. The process of identification of unmatched items and accounts which have been migrated to SAP at block level is being carried out by an independent firm of Chartered Accounts and remedial action will be taken based on their reports.</p>
5	<p>(a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that there are no particulars of contracts and arrangements referred to in Section 301 of the Companies Act, 1956 that need to be entered into the Register required to be maintained under that Section.</p> <p>(b) Hence, the question of commenting whether the transactions made in pursuance of such contracts or arrangements, were made at prices which are reasonable having regard to prevailing market prices at the relevant time does not arise.</p>	<p>This is a statement of fact.</p> <p>This is a statement of fact.</p>
6	<p>In our opinion and according to the information and explanations given to us, the Company has not accepted any Deposits from the public and hence the provisions of Section 58A, 58AA or any other provisions of the Companies Act, 1956, read with the rules framed there under are not applicable.</p>	<p>This is a statement of fact.</p>
7	<p><i>In our opinion, the internal audit function has to be made commensurate with the size of the Company and nature of its business. The Internal Audit coverage during the year was minimal. Internal Audit function</i></p>	<p>Internal Audit department draws a comprehensive minimum audit programme covering all the activities and the extent of their verification includes in India and abroad. The scope of internal audit has been adequately</p>



Sr. No.	Audit Observations	Management Comments
	<p><i>needs to be strengthened for timely performance, reporting, compliance, extending the scope to the major online Stations & regional head quarters, registered office and Central Accounts Office, emphasizing on critical areas and taking timely monitoring action, so as to ensure effective internal controls. The closing balances as appearing in the books are required to be reviewed through internal audit.</i></p>	<p>defined in the MAP and pursued by all internal audit units in various units / registered office /Headquarters. The scope of internal audit has been extended during the year to cover wide body operation apart from enhancing internal audit for narrow body operation. Internal audit is also being strengthened by outsourcing certain key activities in order to make it commensurate with the size and nature of business.</p>
8	<p>As per the information and explanations given to us, the maintenance of Cost Records has not been prescribed by the Central Government under Section 209(1)(d) of the Companies Act, 1956.</p>	<p>This is a statement of fact.</p>
9	<p>(a) <i>According to the information and explanations given to us and on the basis of our examination of the Books of Account, during the year the Company has been generally regular in depositing undisputed Statutory Dues, including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs Duty, Cess and other statutory dues applicable to it with the appropriate authorities except as stated below:</i></p> <ul style="list-style-type: none"> • <i>In respect of foreign stations, since the records are kept at the stations, we are unable to comment whether the dues are timely deposited.</i> • <i>The Provident Fund dues pertaining to the employees of the contractors / sub-contractors aggregating Rs. 34.5 million are kept in a separate bank account in the absence of their registration numbers.</i> • <i>The Company is generally regular in depositing Tax Deducted at Source except in case of TDS on delayed payment charges to oil companies which has not been deducted. (Refer Note No. 57(d). However, at certain locations, the Company has not reconciled Tax deducted at Source and payable as at year end. The Company has not deducted tax on certain provisions made at the year end.</i> • <i>The Company is in the process of reconciliation of Service Tax recoverable and Service Tax payable.</i> • <i>The Service Tax including Input credit to be availed and TDS, EPF, ESIS, Profession tax and airport tax accounts are being reconciled. There have been</i> 	<p>This is a statement of fact.</p> <p>This is a statement of fact.</p> <p>This is a statement of fact.</p> <p>This is a statement of fact.</p> <p>This is a statement of fact.</p>



Sr. No.	Audit Observations	Management Comments												
	<p><i>certain delays in depositing of statutory dues at different locations.</i></p> <ul style="list-style-type: none"> <i>As on 31/03/2013, there are undisputed service tax dues amounting to Rs. 691.7 million and income tax dues of Rs. 229.9 million .outstanding for more than six months.</i> <p><i>As stated above, in the absence of reconciliation, we are unable to determine whether there are any other undisputed dues payable in respect of above as at 31st March, 2013 for a period of more than six months from the date they became payable.(Refer Note 57 & 58)</i></p> <p>(b) According to the information and explanations given to us, there are no dues outstanding of Sales Tax, Income Tax, Customs Duty, Wealth Tax, Service Tax, Excise Duty or cess on account of any dispute other than mentioned below:</p> <table border="1" data-bbox="274 1002 887 1448"> <thead> <tr> <th>Name of Statute</th> <th>Amount (Rs. in Million)</th> <th>Nature and Forum where dispute is pending</th> </tr> </thead> <tbody> <tr> <td>Income Tax Act, 1961</td> <td>424.3</td> <td>Demand Notices received by the Company which are under Appeal.</td> </tr> <tr> <td>Customs Duty and Service Tax</td> <td>4313.0</td> <td>Customs Duty and Service Tax demanded by the Tax Authorities</td> </tr> <tr> <td>Municipal Taxes / House Tax / Octroi</td> <td>23.1</td> <td>Property Taxes / House Tax / Octroi demanded by Municipal Authorities</td> </tr> </tbody> </table>	Name of Statute	Amount (Rs. in Million)	Nature and Forum where dispute is pending	Income Tax Act, 1961	424.3	Demand Notices received by the Company which are under Appeal.	Customs Duty and Service Tax	4313.0	Customs Duty and Service Tax demanded by the Tax Authorities	Municipal Taxes / House Tax / Octroi	23.1	Property Taxes / House Tax / Octroi demanded by Municipal Authorities	<p>This is a statement of fact.</p> <p>Due to the liquidity position faced by the company, there have been delays in the payment of certain statutory dues. However, the same has been paid subsequently.</p> <p>This is a statement of fact.</p>
Name of Statute	Amount (Rs. in Million)	Nature and Forum where dispute is pending												
Income Tax Act, 1961	424.3	Demand Notices received by the Company which are under Appeal.												
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Municipal Taxes / House Tax / Octroi	23.1	Property Taxes / House Tax / Octroi demanded by Municipal Authorities												
10	<p><i>The accumulated losses are more than the net worth of the Company and Cash Losses have been incurred in the current and previous financial years. However, the accounts of the Company have been prepared on going concern basis based on the assumption that the company is going to turn around and have improved financial performance in future. (Refer Note No. 88).</i></p>	<p>This is a statement of fact. Refer to Note 88 on Going Concern.</p>												
11	<p><i>According to the information and explanations given to us and based on the documents and records produced to us, the Company has not defaulted in repayment of dues to banks and financial institutions. However as on the date of the Balance Sheet, there were overdue loans of Rs. 178.1 million and interest on loans Rs. 298.4 million outstanding for payment. It was also observed that there were delays in repayment of interest and principal during the year.</i></p>	<p>This is a statement of fact.</p>												



Sr. No.	Audit Observations	Management Comments
12	According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.	This is a statement of fact.
13	In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi / mutual benefit fund/ societies.	This is a statement of fact.
14	The Company does not deal in shares, securities, debentures and other investments.	This is a statement of fact.
15	According to the information and explanations given to us, the Company has given guarantees for loans taken by its subsidiaries from banks. The terms of such guarantee are not prima facie prejudicial to the interests of the Company.	This is a statement of fact.
16	According to the information and explanations given to us, the Term Loans were applied for the purpose for which the loans were obtained.	This is a statement of fact.
17	According to the information and explanations given to us and on an overall review of the Balance Sheet and Cash Flow of the Company, we report that nothing has come to our notice that causes us to believe that Short Term Loans have been used for long term purposes.	This is a statement of fact.
18	The Company has not made any preferential allotment of shares to parties or Companies covered in the Register maintained under Section 301 of the Companies Act, 1956.	This is a statement of fact.
19	Non convertible Debentures for an amount of Rs. 74,000 million are issued during the year which are guaranteed by the Government of India.	The NCDs of Rs.74,000.0 million were issued during the year to partly repay the short term loans taken from banks. These NCDs were placed with LIC and EPFO at a coupon rate of 9.08% payable semi annually.
20	The Company has not raised any money through public issue during the year.	This is a statement of fact.
21	During the course of our examination of the books and records of the Company during the year, carried out in accordance with the generally accepted auditing practices in India, we have neither come across any instances of material fraud being noticed or reported on or by the company nor we have been informed of any such instances by the management.	This is a statement of fact.