REPORT OF THE AUDITORS TO THE MEMBERS OF NATIONAL AVIATION COMPANY OF INDIA LIMITED

1. We have audited the attached Balance Sheet of **National Aviation Company of India Limited,** as at 31 March 2009, the Profit and Loss Account of the Company for the year ended 31 March 2009 and the Cash Flow Statement for the year ended on that date and annexed thereto. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Financial Statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 (as amended), issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, and on the basis of such checks as we considered appropriate and as per information and explanations given during the course of our audit, we annex hereto a Statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. We further report that **:**

   i. *As in the past year the useful life of fleet of New Boeing B777 / 787 and Airbus A-319 / 320 / 321 aircrafts as referred to in Note no. 9 of Schedule V acquired during the year 2008-09 has been estimated to be 20 years as against 16.96 years prescribed in Schedule XIV to the Companies Act, 1956 for which the Company has sought approval from the Ministry of Corporate Affairs under Section 211 of the Companies Act, 1956. This has resulted in higher estimated life of Assets and has resulted in the depreciation provision for the year being lower by Rs.924.00 million, thus the loss for the year is understated to the extent of Rs.924.00 million and the loss for the previous period is understated to the extent of Rs.246.30 million. Consequently, the Fixed Assets have also been overstated to the extent of Rs.1170.30 million.*

   ii. *As stated in Note no. 16 (d) of Schedule - V, as regards the confirmations of receivables and payable and its reconciliation thereof, 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 for the year is not ascertainable.*

   iii. *The Auditors were requested not to visit foreign stations of the Company. These visits were meant to audit the original records pertaining to the branches and to examine internal controls therefor. However, some of the records / documents were brought to India and our review was restricted to examination of the records produced before us for our audit review.*

   iv. *As per Accounting Policy no. F (a), Handling, servicing and incidental revenue includes Rs.770.9 million (previous year Rs.1,457.3 million) being credit given by the manufacturers of aircraft at the time of buying some aircraft which were intended to be utilized by the Company for buying spare parts or availing of other services. Since the credits have not been utilized so far, in our opinion, these credits ought not to have been taken to credit in the Profit & Loss Account but instead this credit should have been shown as a Liability to be adjusted to Profit & Loss Account. Therefore, the losses for the year are understated to the extent of Rs.770.9 million and the losses for the previous period are understated to the extent of Rs.1,457.3 million. Current liabilities are understated to the extent of Rs.1,034.5 million.*

   v. *We further report that the effect of items in the paragraphs 4(ii), above, could not be ascertainable; had the observations made by us in paragraphs 4(i) and 4(iv) been considered, the loss for the year would have been Rs. 57,177.5 million as against the reported figure of Rs.55,482.6 million. The loss for the previous period would have been Rs.23,965.2 million as against the reported figure of Rs.22,261.6 million. Fixed Assets would have been Rs.2,73,856.9 million as against the reported figure of Rs.2,75,027.2 million. Current Liabilities & Provisions would have been Rs.53,590.0 million as against the reported figure of Rs. 52,555.5 million.*

5. Attention is invited to **:**

   i) Note No. 8 of Schedule-V, regarding transfer of Capital Reserve to General Reserve and subsequent set-off of accumulated losses against General Reserve.

   ii) Note No. 32 of Schedule -V, regarding recognition of revenue and non provision for amount recoverable.

   iii) Note No. 26 of Schedule-V, regarding the justification by the management for deeming the Deferred Assets to be realized with the certainty.

iv) Note No. 15 of Schedule-V, regarding the Company having not considered free passage to employees and hotel expenditure on crew as fringe benefits and accordingly, not provided Fringe Benefit Tax thereon. The Company has provided/paid Fringe Benefit Tax on the basis of an estimate of expenses for the period.

v) Note No. 7 of Schedule-V, regarding fair value amounting to Rs. 51,295.1 million, and consequential impact on General Reserve, of Immovable Property at Vasant Vihar Housing Colony, is subject to reinstatement of the Lease Deed.

vi) Note no. 17 of Schedule-V, regarding Handling and Security Services Revenue, being recognized on the basis of quoted rates pending finalisation of agreements.

vii) As the Central Government has not notified Cess payable under Section 441 A, the Reporting requirement under Section 227(3) (g) of the Companies Act, 1956 does not arise.

viii) Note No. 33 regarding donation of simulator by the Company for which approval of Shareholders is pending.

ix) Note No. 3(a) & (b) regarding impact of consequences due to change in the accounting policies which has the impact of decreasing the loss by Rs.967.4 million.

6. Further to our comments in the Annexure referred to in para (3) above, 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.

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 these books maintained at Central Accounts Office of the Company, incorporating the information/ returns received from the stations and reports received from outsourced agencies and found to be generally adequate for the purpose of our audit.

iii) The Company being a Government Company as defined in Section 617 of the Companies Act 1956, is exempted from the applicability of the provisions of 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.

iv) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the Books of Account.

v) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this Report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 *except as stated in Para 4(i) and 4(iv) above.*

vi) In our opinion and to the best of our information and according to the explanations given to us, the said Financial Statements *subject to paragraphs 4(i) to 4(iv) above* read together with Notes thereon, give the information required by the Companies Act, 1956, 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, 2009;

b) in the case of the Profit and Loss Account, of the loss for the year ended 31st March 2009; and

c) in the case of the Cash Flow Statement, of the Cash Flows for the year ended 31st March 2009.

For and on behalf of
P. K. Chopra & Co.
Chartered Accountants

Sd/-
Subhash Kapoor
Partner
Membership No. 12781

Place : New Delhi
Dated : 17 November 2009

For and on behalf of
Thakur, Vaidyanath Aiyar & Co.
Chartered Accountants

Sd/-
Anil K. Thakur
Partner
Membership No. 088722

Place : New Delhi

For and on behalf of
Chhajed & Doshi
Chartered Accountants

Sd/-
Kiran K. Daftary
Partner
Membership No. 10279

Place : Mumbai

ANNEXURE TO AUDITOR'S REPORT

Referred to in paragraph (3) of our report of even date.

1) (a) The Company has maintained proper records showing full particulars, including quantitative details and location in respect of fixed assets *except for rotables. The Company has not updated fair value of assets in the fixed assets register at certain locations. The reconciliation of fixed asset register for aircraft rotables and other assets at certain locations with financial records is in progress.*

(b) The Company has a program of physical verification of fixed assets on a rotational basis so that every asset is verified once in every two year, which in our opinion is adequate. During the year, the management has conducted physical verification only at few locations. *In the absence of a complete reconciliation of the results of physical verification with financial records, we are unable to ascertain whether the physical verification revealed any material discrepancy.*

(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 period 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.

(b) The procedure of physical verification of inventories on a perpetual basis by the Management is reasonable. *However, considering the size of the Company and nature of its business the same needs to be strengthened with regard to the frequency. The Company has carried out physical verification of inventory during the period only at a few locations. 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 maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory, as compared to book records is being adjusted after subjecting to scrutiny by the concerned department and thereafter the same is 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.

(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, there are adequate internal control procedures 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, Staff Advances and certain intermediary accounts*. In certain cases Individual suppliers records are not being maintained. Subject to above* we have not observed any continuing failure to correct major weaknesses in internal controls.

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 provision 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 the nature of its business. In respect of wide body operations, during the year, the Internal Audit coverage was minimal. Internal Audit function needs to be strengthened for timely performance, reporting, compliance, extending the scope to the major online Stations & Central Accounts Office, emphasizing on critical areas and taking timely monitoring actions at the Head Quarter, so as to ensure effective internal controls.*

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, Service 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 to Rs. 34.0 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*. 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 as per books and as per returns filed.

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 2009 for a period of more than six months from the date they became payable.*

(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	1,677.6	Assessed Income Tax Demands - Commissioner of Income Tax (Appeals) and Income Tax Appellate Tribunal
Customs Act, 1962	616.4	Customs duty and interest - Commissioner of Customs (Appeals)
Municipal Authorities	110.5	Property Tax - Assistant Assessor and Collector
Sales Tax	67.9	Sales tax on sale of scrap, used oil and canteen sales demanded by the Sales Tax Department, Delhi.

10) The company being registered for a period less than five years the question of commenting on the accumulated losses does not rise.

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. There are no dues to debenture holders.

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 subsidiary 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 examination of the Balance Sheet and Cash Flows of the Company, we report that short term loans borrowed for working capital including fixed assets (other than Aircraft) have not 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) The Company did not issue any debentures during the period.

20) The Company has not raised any money through a public issue during the period.

21) Based on the audit procedures performed and information and explanations given by the management, we report that no major fraud on or by the Company has been noticed or reported during the year.

For and on behalf of
P. K. Chopra & Co.
Chartered Accountants

Sd/-
Subhash Kapoor
Partner
Membership No. 12781

Place : New Delhi
Dated : 17 November 2009

For and on behalf of
Thakur, Vaidyanath Aiyar & Co.
Chartered Accountants

Sd/-
Anil K. Thakur
Partner
Membership No. 088722

Place : New Delhi

For and on behalf of
Chhajed & Doshi
Chartered Accountants

Sd/-
Kiran K. Daftary
Partner
Membership No. 10279

Place : Mumbai

MANAGEMENT REPLIES TO THE AUDIT REPORT OF THE STATUTORY AUDITORS' FOR THE FINANCIAL YEAR 2008-09.

Sr. No,	Audit Observations	Management Comments
04.	We further report that :	
	i. *As in the past year the useful life of fleet of New Boeing B777 / 787 and Airbus A-319 / 320 / 321 aircrafts as referred to in Note no. 9 of Schedule V acquired during the year 2008-09 has been estimated to be 20 years as against 16.96 years prescribed in Schedule XIV to the Companies Act, 1956 for which the Company has sought approval from the Ministry of Corporate Affairs under Section 211 of the Companies Act, 1956. This has resulted in higher estimated life of Assets and has resulted in the depreciation provision for the year being lower by Rs.924.00 million, thus the loss for the year is understated to the extent of Rs.924.00 million and the loss for the previous period is understated to the extent of Rs.246.30 million. Consequently, the Fixed Assets have also been overstated to the extent of Rs.1170.30 million.*	As per Accounting Standard 6 (AS 6), the Company is entitled to determine the useful/economic life of the Asset and if the same is longer than that prescribed under the Act, the Company may choose the same. The new fleet of Boeing 777 and Airbus 320 family aircraft are new generation, state of the art new technology aircraft and accordingly the Company has considered the economic life of these aircraft as 20 years. Since as per the Design Service Objective (DSO) issued by both, the Airplane Manufacturers the aircraft would be airworthy for 30 years provided maintenance activities are carried out as per schedule. The rate of depreciation charged for these aircraft is lower than the rate prescribed in Schedule XIV of the Companies Act, 1956 and the rate of depreciation on the new fleet on Straight Line Basis would accordingly be 4.75% (95% of the cost being amortised over 20 years). The Company has made an application to the Ministry of Corporate Affairs for charging a lower rate of depreciation on the new fleet of B777 and the A320 family aircraft considering the economic life of the aircraft as 20 years and a suitable disclosure has been made in the Financial Statements.
	ii. *As stated in Note no. 16 (d) of Schedule - V, as regards confirmations of receivables and payable and its reconciliation thereof, 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 for the year is not ascertainable.*	Details of Receivables and Payables were furnished to the Statutory Auditors during Audit. In a few cases, wherever differences were noticed, on receipt of balance confirmation from parties, necessary reconciliation is under process and necessary adjustments, if any, would be carried out.
	iii. *The Auditors were requested not to visit foreign stations of the Company. These visits were meant to audit the original records pertaining to the branches and to examine internal controls therefor. However, some of the records / documents were brought to India and our review was restricted to examination of the records produced before us for our audit review.*	The foreign station records were brought to Central Accounts Office, Mumbai, (CAO) based on advice received from the Statutory Auditors who were allocated the audit of certain stations. The Accounts Managers of these stations were available for clarifications whenever the same were sought by the Auditors for queries pertaining to the stations.
	iv. *As per Accounting Policy no. F (a), Handling, servicing and incidental revenue includes Rs.770.9 million (previous year Rs.1457.3 million) being credit given by the manufacturers of aircraft at the time of buying some aircraft which were intended to be utilized by the Company for buying spare parts or availing of other services. Since the credits have not been utilized so far, in our opinion, these credits ought not to have been taken to credit in the Profit & Loss Account but instead this credit should have been shown as a Liability to be adjusted to Profit & Loss Account. Therefore, the losses for the year are understated to the extent of Rs. 770.90 million and losses for the previous period are understated to the extent of Rs.1,457.30 million. Current liabilities are understated to the extent of Rs. 1034.50 million.*	To maintain consistency in giving treatment for Manufacturers' Credits received from Aircraft / Engine Manufacturers, BFE (Buyer Furnished Equipment) and SFE (Seller Furnished Equipment) vendors, a unified Accounting Policy was drawn up for the Company stated at Para F(a) of Significant Accounting Policies. As these discounts were negotiated separately with the BFE and SFE vendors, the discounts obtained were mainly in the form of cash rebates or credit notes. Whereas the cash discounts were available for either adjustment towards future invoices or payment by way of cash, the credit notes could be adjusted against future spare support. The Company was of the view that all these cash / credit rebates should be accounted as exceptional revenue as manufacturer's credit in the year of capitalization of the

Sr. No.	Audit Observations	Management Comments
		aircraft itself and not deferred as this was an exceptional item. The treatment afforded to Manufacturers' Credit is in line with the consistent Accounting Policy being followed by the Company accordingly and there is no under statement of Loss and Current Liability.
	v. *We further report that the effect of items in the paragraphs 4(ii), above, could not be ascertainable; had the observations made by us in paragraphs 4(i) and 4(iv)been considered, the loss for the year would have been Rs. 57,177.5 million as against the reported figure of Rs. 55,482.6 million. The loss for the previous period would have been Rs.23,965.2 million as against the reported figure of Rs. 22,261.6 million. Fixed Assets would have been Rs.2,73,856.9 million as against the reported figure of Rs.2,75,027.2 million. Current Liabilities & Provisions would have been Rs.53,590.0 million as against the reported figure of Rs. 52,555.5 million.*	In view of our replies to Para 4(i) and 4(iv) there is no understatement of loss.
05.	Attention is invited to :	
	i. Note No. 8 of Schedule-V, regarding transfer of Capital Reserve to General Reserve and subsequent set-off of accumulated losses against General Reserve.	Necessary disclosures have been made in Notes to Accounts for transfer of Capital Reserve to General Reserve.
	ii. Note No. 32 of Schedule-V, regarding recognition of revenue and non provision for amount recoverable.	The Management is of the view that since the cases are being litigated in City Civil Court, Mumbai, there is a reasonable possibility of recovery of revenue. Since the matter is subjudice, the Management has not found it necessary to make provision towards the amount recoverable from various parties.
	iii. Note No. 26 of Schedule-V, regarding the justification by the management for deeming the Deferred Assets to be realized with the certainty.	The detailed justification for the treatment of deferred tax asset has been adequately disclosed in Note No. 26, Schedule V.
	iv. Note No. 15 of Schedule-V, regarding the Company having not considered free passage to employees and hotel expenditure on crew as fringe benefits and accordingly, not provided Fringe Benefit Tax thereon. The Company has provided/paid Fringe Benefit Tax on the basis of an estimate of expenses for the period.	Pending final outcome of the representation made by the Company and the Board of Airlines Representatives (India) to the Government seeking total exemption on free passages with "Zero" value availed by the employees of the Company no provision for FBT has been made. Similarly, hotel expenditure on crew is not considered as a Fringe Benefit as the employees are provided Hotel accommodation in India and abroad in the course of performance of their flying duties. This is based on the expert opinion received by the Company. As regards FBT on other applicable expenses, adequate provision exists in the books.
	v. Note No. 7 of Schedule-V, regarding fair value amounting to Rs. 51,295.1 million, and consequential impact on General Reserve, of Immovable Property at Vasant Vihar Housing Colony, is subject to reinstatement of the Lease Deed.	As mentioned in Note No. 7, necessary documents as required by Land & Development Officer (L&DO) have been submitted during August 2009 and vigorous follow-up is being made for regularization and reinstatement of the property rights to the Company.

Sr. No.	Audit Observations	Management Comments
	vi. Note no. 17 of Schedule-V, regarding Handling and Security Services Revenue, being recognized on the basis of quoted rates pending finalisation of agreements.	Adequate disclosure to this effect has been given in the Notes to Accounts.
	viii. Note No. 33 regarding, donation of simulator by the Company for which approval of Shareholders is pending.	The donation of B 747 200 Simulator to Nehru Science Centre, Mumbai will be put up for approval of the Share holders.
	ix. Note No. 3(a) and (b) regarding impact of consequences due to change in the accounting policies which has the impact of decreasing the loss by Rs.967.4 million.	Adequate disclosure to this effect has been given in the Notes to Accounts.

(ANNEXURE REFERRED TO IN PARAGRAPH (3) OF THE REPORT OF EVEN DATE OF NATIONAL AVIATION COMPANY OF INDIA LIMITED FOR THE YEAR ENDED ON 31ST MARCH 2009)

Sr. No.	Audit Observations	Management Comments
1 a.	The Company has maintained proper records showing full particulars, including quantitative details and location in respect of fixed assets *except for rotables. The Company has not updated fair value of assets in the fixed assets register at certain locations. The reconciliation of fixed asset register for aircraft rotables and other assets at certain locations with financial records is in progress.*	Particulars and quantitative details for Aircraft Rotables are available in the existing systems. However, the necessary updation in the Fixed Asset Register is under process alongwith updation of fair value of Assets at all locations.
b.	The Company has a program of physical verification of fixed assets on a rotational basis so that every asset is verified once in every two year, which in our opinion is adequate. During the year, the management has conducted physical verification only at few locations. *In the absence of a complete reconciliation of the results of physical verification with financial records, we are unable to ascertain whether the physical verification revealed any material discrepancy.*	Reconciliation of Fixed Assets wherever carried our have been adjusted in the books of accounts for the biennial period ending 31st March 2008. In respect of other locations, necessary action will be taken on completion of verification and reconciliation.
2 b.	The procedure of physical verification of inventories on a perpetual basis by the Management is reasonable. *However, considering the size of the Company and nature of its business the same needs to be strengthened with regard to the frequency. The Company has carried out physical verification of inventory during the period only at a few locations. The Company has not obtained confirmations / certificates in respect of inventory lying with outside agencies.*	Physical verification of Inventory at other locations will also be carried out and necessary action will be taken in due course. The Company is in the process of obtaining confirmations / certificates in respect of inventory lying with outside agencies.
4.	In our opinion and according to the information and explanations given to us, there are adequate internal control procedures 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, Staff Advances and certain intermediary accounts. *In certain cases Individual suppliers records are not being maintained. Subject to above* we have not observed any continuing failure to correct major weaknesses in internal controls.	Most of the subsidiary ledgers accounts have been reconciled with the General Ledger. There are no material discrepancies between the Subsidiary Ledgers and General Ledger. Although partywise records in respect of most suppliers are already there, efforts are being made to extend the same to all individual suppliers from 2009-10.
7.	*In our opinion, the internal audit function has to be made commensurate with the size of the Company and the nature of its business. In respect of wide body operations, during the year, the Internal Audit coverage was minimal. Internal Audit function needs to be strengthened for timely performance, reporting, compliance, extending the scope to the major online Stations & Central Accounts Office, emphasizing on critical areas and taking timely monitoring actions at the Head Quarter, so as to ensure effective internal controls.*	Internal Audit Department in NACIL draws a comprehensive Minimum Audit Programme (MAP) at the beginning of the year, covering all the activities and the extent of their verification. The scope of Internal Audit has been adequately defined in the MAP, which is pursued regularly by all the Internal Audit Units in various regions/ Registered Office/Hqrs. The report on the MAP is sent by all the regions to Audit Hqrs. every month. Besides the above, Internal Audit also undertakes the review of various process/performance and international/ domestic stations. During the financial year 2008-09, Internal Audit carried out review of four international and

Sr. No.	Audit Observations	Management Comments
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, Service Tax, Customs Duty, cess and other statutory dues applicable to it with the appropriate authorities *except as stated below.*	20 domestic stations. Based on the risk perception, Internal Audit also carried out 20 system/performance reviews in relation to various activities of the Company and the observations along with suggestions were submitted to the concerned departments for their necessary action.
	• 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 Company has complied with the timely payment of Statutory Dues in terms of local laws at Foreign Stations.
	• The provident fund dues pertaining to the employees of the contractors / sub-contractors aggregating to Rs. 34.0 million are kept in a separate bank account in the absence of their registration numbers.	PF dues pertaining to the employees of the Contractors/ Sub-Contractors are kept in a separate bank account since the issue of contract labour is subjudice.
	• The Company is generally regular in depositing Tax Deducted at Source. *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 has complied with TDS provisions on all ascertainable / determinable liabilities and deposited the same with the Authorities. However, a separate software is being developed for further streamlining the process of TDS Payments.
	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 2009 for a period of more than six months from the date they became payable.	To the best of our knowledge and belief there are no dues payable in respect of above for a period of more than 6 months from the date they become payable.