

Chapter 2 Audit Approach

2.1 Audit Objectives and Scope

The objectives of the performance audit were to ascertain:

- Whether the acquisition of aircraft by the erstwhile Air India Ltd. (AIL) and Indian Airlines Ltd. (IAL) was appropriately planned and effectively implemented, with due regard to economy and efficiency and accepted norms of financial propriety;
- Whether the merger of AIL and IAL into NACIL was properly planned and effectively implemented, and the effectiveness of merged operations of the two entities;
- The impact of the liberalised policy of the GoI from 2004-05 onwards on grant of air traffic rights to other countries through Air Services Agreements (ASAs)/ “bilateral” agreements, and permitting Indian private carriers to fly on international routes;
- The main reasons for the poor financial and operational performance of the pre-merger airlines and the merged entity; and
- Whether the MoCA exercised its oversight role adequately and effectively.

2.2 Audit Criteria

The audit criteria adopted for the performance audit included:

- The reliability of the data used, reasonableness of assumptions adopted, and robustness and competitiveness of the tendering, evaluation, negotiating and contracting processes/ procedures for the acquisition of aircraft;
- The reliability of data and robustness of assumptions underlying the decision for merger of the airlines as well as the planning of the merger;
- Adequacy of the facts and information put forth to evaluating/ approving agencies for the acquisition of aircraft, approval of liberalised policy on “bilaterals”, and approval of merger of AIL and IAL; and
- Performance parameters achieved by competing national and international airlines.

2.3 Audit Methodology

Our performance audit (conducted between September 2009 and June 2011) involved scrutiny of records of MoCA and AI. The first draft of the performance audit report was issued to the MoCA on 15 November 2010; the replies of MoCA and AI received in February 2011 have been considered and duly incorporated in this report. A revised draft of the performance audit report was issued to MoCA on 11 March 2011, to which no response was received.

A further revised draft of the performance audit report (including findings arising out of additional scrutiny of records of MoCA and AI) was issued to MoCA on 6 July 2011, reply to which has been received on 3rd August 2011. Further, an exit conference to discuss the main audit findings was also held with MoCA on 3rd August 2011.

2.4 Audit Acknowledgement

We take this opportunity to acknowledge the co-operation extended by MoCA and AI in facilitating the conduct of our audit.