COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF AIR INDIA LIMITED FOR THE YEAR ENDED 31 MARCH 2017.

The preparation of financial statements of Air India Limited for the year ended 31 March 2017 in accordance with the financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the company. The statutory auditor/auditors appointed by the Comptroller and Auditor General of India under section 139(5) of the Act are responsible for expressing opinion on the financial statements under section 143 of the Act based on independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. This is stated to have been done by them vide their Audit Report dated 29 December 2017.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 143(6)(a) of the Act of the financial statements of Air India Limited for the year ended 31 March 2017. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matters under section 143(6)(b) of the Act which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related audit report:

COMMENTS ON PROFITABILITY

Revenue
Other Income: ₹ 3180.7 million (Note 16)

Air India Limited, has debited a sum of ₹1364.10 million as interest towards the delayed payment by AASL. Since AASL is incurring losses since inception and has a negative net worth, recognition of interest as income in the book of accounts is not in line with requirement of provisions of AS-9. Recognizing the interest receivable from a loss making subsidiary with negative networth resulted in understatement of losses and overstatement of other income by ₹1364.10 million.

Finance Cost (Note No. 19):
Other Borrowing Costs ₹ 3009.9 million

The above includes an amount of ₹ 249.9 million charged by AIATSL towards interest on outstanding dues from AIL for the year 2014-15 and 2015-16. As the amount pertains to previous years the same should have been charged to Prior Period Expenses. Inclusion of the amount in Financial charges has resulted in an Understatement of Prior Period Expenses and Overstatement of Finance Cost to that extent.

COMMENTS ON FINANCIAL POSITION

Fixed Assets (Note 8)
Other Fixed Assets
Object D Art ₹ Nil

Air India is in possession of precious paintings, wooden carvings, bronzes, textiles, pichhwaies, kalmkaries, murals, clocks, books, photographs, prints, water colour paintings, glass paintings and embroidered textiles etc.. Till Financial Year 2015-16, these items were grouped under furniture and fixtures. During F.Y. 2016-17 the Company regrouped these items under Other Fixed Assets, with a separate nomenclature "Object D Art" and disclosed in the Financial Statement at Nil Value as on 31st March 2017. Management intimated that pending stock taking and valuation of these items, they are shown at NIL value. However, for disclosing these items at

Nil value, this has not been disclosed in the notes forming part of accounts thus the note to the Accounts are deficient to that extent.

Non Current Investment (Note 9):- ₹ 16717.7 million

Accounting Standard-13 "Accounting of Investments" states that provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Further, where there is a decline, other than temporary, in the carrying amounts of long term investments, the resultant reduction in the carrying amount is charged to the profit and loss statement." However it was observed that:

I. The Company has made an investment of ₹ 4022.5 million in equity capital of Airline Allied Services Ltd. (AASL). As on 31st March 2017 the company has incurred losses ₹ 2827.2 million with negative net worth of ₹13440 million. However, the Company has not provided for the diminution in the value of investment as required under AS-13. Non-provision of the same has resulted in understatement of provision as well loss for the year by ₹ 4022.5 million.

ii. The Company has made an investment of ₹1666.7million in equity capital of Airline India Engineering Services Ltd. (AIESL). The accumulated losses of the company as on 31.03.2017 was of ₹13060 million against the share capital of ₹1666.7 million, infused by the company. The company has not recognised any diminution in the value of the investment in equity capital of AIESL. This has resulted in understatement of provision and loss for the year by ₹1666.7 million.

Deferred tax Assets (Note 47): ₹ 28425.2 million.

Accounting Standard-22 which states that the deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets which should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

The company had recognized an amount of ₹ 28425.2 million as Deferred Tax Assets during the years 2007-08 and 2008-09 in its books of accounts. Though, the company has not recognized the available Deferred Tax Assets with effect from FY 2009-10, Deferred Tax Assets carried forward from the years 2007-08 and 2008-09 has not been written off by the Company.

Accordingly, carrying forward such deferred tax assets has resulted in overstatement of deferred tax assets and understatement of losses by ₹ 28425.2 million.

Current Assets
Inventories (Note No. 13): ₹ 12767 million

(i) As per significant accounting policy on Inventories (Note 1© (4) (ii)), "Expendables/consumables are charged off at the time of initial issue except those meant for repairs of repairable items which are expensed when the work order is closed on the completion of repair work.

The Company has not provided for an amount of ₹ 324.37 million towards expendable issued for work orders which have already completed Non-provision for the expendables issued has resulted in understatement of Loss for the year by ₹ 324.37 million and overstatement of Inventories by the same amount.

(ii) In absence of item wise details supporting the Inventory balances (appearing in respective GL), grouped in Inventory amounting to ₹12723.31 million, could not be vouched safe.

COMMENTS ON SIGNIFICANT ACCOUNTING POLICIES

Fixed Assets Para (a)(I) (b)

(i) As per above Note, Rotables/Repairables are shown as Fixed Assets. However it is observed that Repairables have also been treated as Inventory as on 31 March 2017 which is not in line with the Accounting Policies of the Company.

Inventories Para (I)

(ii) As per this Note, Inventories are valued at weighted average cost. However, as per AS-2, Inventories should be valued at cost or net realizable value whichever is lower. Hence, Inventory policy is in contravention to AS-2.

OTHER COMMENTS

Note No. 43 B (a).
Operating Lease

A reference is invited to Note No. 43, B, (a) (i) stating that the Company has acquired 31 aircraft on non-cancelable operating lease. As per contractual obligation, the Company has to redeliver the 31 aircraft to the lessor at the end of the lease term, in stipulated technical condition. This would entail cost for technical inspection, maintenance checks, repainting cost etc. prior to its redelivery. Since a reliable estimate of, of the cost to be incurred for these works may not be possible , the liability for the same should have been disclosed as Contingent liabilities.

Note No.-51
Going Concern

A reference is invited to note number 51 of notes forming part of accounts wherein it has been disclosed that "*the company has shown an all-round improvement in the operational/ financial performance such as improvement in the seat factor, pax carriages, aircraft utilization etc., Barring unforeseen circumstances the company hopes to return to Cash Positive Status earlier than contemplated under the TAP".*

Under Turnaround Plan (TAP)/ Financial Restructuring Plan (FRP), the company was expected to earn positive earnings before Interest Taxes Depreciation and Amortization (EBITDA) from the financial year 2012-13 and cash surplus from financial year 2017-18. However, as per the latest Proposed Financials under Financial Restructuring Plan, the company is now likely to become Cash Positive from FY 2018-19 onwards. Therefore, the disclosure that "Barring unforeseen circumstances the company hopes to return to Cash Positive Status earlier than contemplated under the TAP" is incorrect to that extent.

Independent Auditors Report
Annexure 1 (Para 1): Fixed Assets

The Independent Auditors has reported that the Fixed Asset Register has been maintained by the Company, which is under the process of updation in respect of certain individual items including those which have been migrated to SAP on a block level as one line item and the components items**.**

The above reporting is not in line with Clause 3 (i) (a) of CARO 2016 and para number 34 of Guidance note on the Companies (Auditor's Report) Order, 2016 which mandates reporting whether the company is maintaining proper records showing full particulars including quantitative details and situation of fixed asset.

It has been noticed from Inventory certificate produced to audit that Repairables amounting to ₹ 3948.97 are maintained outside RAMCO and their current location was not available and were not physically verified. This fact has not been reported by Independent Auditors.

Hence as regards Fixed Assets the reporting by the independent auditor is not in line with the requirements of CARO 2016.

Non-reconciliation of Migration control accounts

(i) Migration Control Account created during transfer of data from Legacy System to SAP-ERP System are still in existence without the total balance in these accounts reduced to zero.

Name of Migration Control A/c	Amount (in million)
MM	773.2
AP	47425.4
AR Migration Control A/c	45658.9
FA Migration Control A/c	346619.4
GL	254308.2

Though the net effect is zero, each account migration control account has not been reconciled and nullified.

(ii) 18404 Assets, including 89 assets comprising of Land and Buildings, existing in the SAP-ERP system of the Company are displayed at zero Acquisition value. Out of these 18404 assets, 781 assets were procured during the current financial year 2016-17. The reflection of these 89 assets comprising Land and Buildings at zero value. This is not in line with the requirements of Accounting Standard 10, according to which the gross book value of a fixed asset should be either historical cost or a revaluation amount computed in accordance with the standard.

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

Sd/-
Tanuja Mittal
Principal Director of Commercial Audit &
ex-officio Member Audit Board-II, Mumbai

Place : Mumbai
Date : 7 March 2018

Management Replies to the comments of the Comptroller and Auditor General of India under section 143(6)(b) of the Companies Act, 2013 on the Financial Statements of Air India Limited for the year ended 31st March 2017

CAG Observation	Management Comments
COMMENTS ON PROFITABILITY **Revenue** **Other Income: Rs 3180.7 million (Note 16)** Air India Limited, has debited a sum of Rs 1364.10 million as interest towards the delayed payment by AASL. Since AASL is incurring losses since inception and has a negative net worth, recognition of interest as income in the book of accounts is not in line with requirement of provisions of AS-9. Recognizing the interest receivable from a loss making subsidiary with negative networth resulted in understatement of losses and overstatement of other income by Rs 1364.10 million.	Air India (AI) is under FRP, and hence can borrow to meet its own working capital requirements only. However, Air India has provided funds to its subsidiary companies against their working capital requirements and hence was forced to borrow more than the amount required for its own Working Capital resulting in additional interest costs. AASL would have to necessarily borrow funds for conducting their own business and hence would have incurred interest expense. In this case AI has provided funds to meet their requirements. Therefore, it was decided by AI to apportion and recover the interest to the extent of amount disbursed to subsidiary companies for their fund requirements from FY 2013-14 onwards. Accordingly, during the year the company has debited an amount of Rs.1364.1 million to AASL towards the reimbursement/sharing of the interest cost on the outstanding dues receivable from them as on 31 March 2017. As per AS-9, recognition of revenue should be postponed when there is no reasonable certainty of ultimate collection. AASL is under FRP approved by GOI and is expected to turnaround in the near future as indicated in the succeeding paragraph. Hence, the company does not anticipate any uncertainty in recovery of interest charged and the recognition of interest income is thus in line with AS-9. Accordingly, AS-9 has been complied with, as there is certainty of recoverability of the amount from AASL. Therefore, neither the loss has been understated nor the Income has been overstated.

CAG Observation	Management Comments
Finance Cost (Note No. 19): **Other Borrowing Costs Rs. 3009.9 million** The above includes an amount of Rs249.9 million charged by AIATSL towards interest on outstanding dues from AIL for the year 2014-15 and 2015-16. As the amount pertains to previous years the same should have been charged to Prior Period Expenses. Inclusion of the amount in Financial charges has resulted in an Understatement of Prior Period Expenses and Overstatement of Finance Cost to that extent.	Following the same principle as stated above, AIATSL had charged interest on the outstanding dues payable by AI to AIATSL which has been shown under "Finance Costs". The amount involved is not material and it is only a matter of classification of Account Head and hence inclusion of the interest amount under Finance Costs instead of Prior Period Expenses does not have any impact on the profit for the year.
COMMENTS ON FINANCIAL POSITION **Fixed Assets (Note 8)** **Other Fixed Assets** **Object D Art Rs Nil** Air India is in possession of precious paintings, wooden carvings, bronzes, textiles, pichhwaies, kalmkaries, murals, clocks, books, photographs, prints, water colour paintings, glass paintings and embroidered textiles etc.. Till Financial Year 2015-16, these items were grouped under furniture and fixtures. During F.Y. 2016-17 the Company regrouped these items under Other Fixed Assets, with a separate nomenclature "Object D Art" and disclosed in the Financial Statement at Nil Value as on 31st March 2017. Management intimated that pending stock taking and valuation of these items, they are shown at NIL value. However, for disclosing these items at Nil value, this has not been disclosed in the notes forming part of accounts thus the note to the Accounts are deficient to that extent.	As regards Object D'Art, it may be stated that AI is in possession of precious paintings, wooden carvings, bronzes, textiles, kalamkaries, murals, etc., and most of them have been received as gifts in earlier years and have not been valued. The items so received have been accounted for in the books of accounts at historical cost. Accordingly, the gross book value of the same amounting to Rs.0.6 million has been shown in the books of accounts in the Fixed Assets Schedule of the Financial Statements as a separate line item. As per assurance given to the Govt Audit at the time of finalization of previous year accounts, the Object D'Art have been shown separately in Fixed Assets schedule of FY 2016-17 with Gross block value Rs 0.6 million and Accumulated depreciation of Rs 0.6 million. Since the same has been shown as a separate line item in the Financial Statements there is no need to repeat the same in the Notes to Accounts. Further, the Accounting Policy for fixed assets of Air India clearly states that these assets are carried in the books at historical cost, which in this case is Rs.0.6 million. As all adequate disclosures mandated by Accounting Standards and Companies Act have been made, separate Note is not required to be given.

CAG Observation	Management Comments
Non Current Investment (Note 9):- **Rs 16717.7 million** Accounting Standard-13 "Accounting of Investments" states that provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Further, where there is a decline, other than temporary, in the carrying amounts of long term investments, the resultant reduction in the carrying amount is charged to the profit and loss statement." However it was observed that:	
I. The Company has made an investment of Rs4022.5 million in equity capital of Airline Allied Services Ltd. (AASL). As on 31st March 2017 the company has incurred losses Rs2827.2 million with negative net worth of Rs13440 million. However, the Company has not provided for the diminution in the value of investment as required under AS-13. Non-provision of the same has resulted in understatement of provision as well loss for the year by Rs 4022.5 million.	AASL is a regional connectivity carrier and has been inducting in a phased manner additional ATR 72 aircraft on lease for 12 year term with a view to provide connectivity to unserved and underserved airports as per the Government of India UDAN scheme. Accordingly, a number of new aircraft have been inducted during 2016-17 taking the total fleet of aircraft of AASL to 16 as at the end of February 2018. AASL revenues have been increasing (37% increase in 2016-17 over 2015-16) and the entity is expected to perform better in coming years with potential target of self-sustainability through such regional network routes in addition to providing feeder support to AI network all over the world. Hence, the decline in the Net Worth is likely to be temporary. As per TAP, the Company is expected to Break Even/ post Cash Profit in the near future. Hence, the diminution in value of investment is not considered permanent at this stage as disclosed in the Notes to Accounts. It may also be noted that the investment in AASL is expected to realize a higher value than the investment in Equity capital of the airline. Hence, there is no reason to conclude that the investment of AI in AASL is considered as depleted. Hence there is no understatement of provision or loss for the year.

CAG Observation	Management Comments
ii. The Company has made an investment of Rs1666.7million in equity capital of Airline India Engineering Services Ltd. (AIESL). The accumulated losses of the company as on 31.03.2017 was of Rs13060 million against the share capital of Rs1666.7 million, infused by the company. The company has not recognised any diminution in the value of the investment in equity capital of AIESL. This has resulted in understatement of provision and loss for the year by Rs 1666.7 million.	AIESL is in the field of MRO business support and is still under gestation period and expected to generate revenues from the captive growing market of several airline operators within India in addition to AI especially once its MRO infrastructure at Nagpur becomes fully functional. In the coming years, AIESL is expected to get additional business, resulting in expected improvements in financials. Hence, the decline in the Net Worth is likely to be temporary. AIESL has been operationalised with effect from Jan 2015 only and being a highly capital intensive industry it takes long gestation period to become profitable. As per TAP, the Company is expected to Break Even/ post Cash Profit in the near future. Hence, the diminution in value of investment is not considered permanent at this stage as disclosed in the Notes to Accounts. It may also be noted that the investment in AIESL is expected to realize a higher value than the investment in equity capital of AIESL. Hence, there is no reason to conclude that the investment of AI in AIESL is considered as depleted. Hence, there is no understatement of provision or loss for the year.
Deferred tax Assets (Note 47): Rs 28425.2 million. Accounting Standard-22 which states that the deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets which should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. The company had recognized an amount of Rs 28425.2 million as Deferred Tax Assets during the years 2007-08 and 2008-09 in its books of accounts. Though, the company has not recognized the available Deferred Tax Assets with	In this regard the following is stated: • The company had in terms of AS-22 recognized Deferred Tax Assets on Depreciation loss to the tune of Rs 28425.2 million during the years 2007-08 and 2008-09 in its books of accounts. • Depreciation loss can be recognized for DTA in case of reasonable certainty in its utilization. • From FY 2009-10 onwards, no further asset has been recognized as a matter of prudence. Hence, the Net Deferred Tax Assets remain at Rs 28425.2 million as on 31 March 2017 also. This fact has also been consistently disclosed in the Notes to Accounts each year.

CAG Observation	Management Comments
effect from FY 2009-10, Deferred Tax Assets carried forward from the years 2007-08 and 2008-09 has not been written off by the Company. Accordingly, carrying forward such deferred tax assets has resulted in overstatement of deferred tax assets and understatement of losses by Rs28425.2 million.	• In terms of TAP AI is expected to be profitable with more than reasonable certainty. Hence, the Deferred Tax has been carried forward since the amount is most likely to be capable of being absorbed by future permissible profits as per Income Tax Act and this is perfectly in order with the clarification given by the Institute of Chartered Accountants of India with regard to this AS. Hence the question of reversal of the same is not appropriate. Hence, neither the Deferred Tax Assets have been overstated nor the loss has been understated.
Current Assets **Inventories (Note No. 13): Rs 12767 million** (i) As per significant accounting policy on Inventories (Note 1© (4) (ii)), "Expendables/ consumables are charged off at the time of initial issue except those meant for repairs of repairable items which are expensed when the work order is closed on the completion of repair work. The Company has not provided for an amount of Rs324.37 million towards expendable issued for work orders which have already completed Non-provision for the expendables issued has resulted in understatement of Loss for the year by Rs.324.37 million and overstatement of Inventories by the same amount.	As regards non provision of Rs.324.37 million towards expendables, it may be stated that the value of these items were included in the Work in Progress of inventories, since as per procedure consumption entry to this effect will be accounted for, only when the Work Orders are closed and work in progress is completed. Hence, neither the loss has been understated nor inventory has been overstated.
(ii) In absence of item wise details supporting the Inventory balances (appearing in respective GL), grouped in Inventory amounting to Rs12723.31 million, could not be vouched safe.	AI had provided to the Government Audit the Inventory certificate with inventory balances which are matching with the total GL balances.
COMMENTS ON SIGNIFICANT ACCOUNTING POLICIES **Fixed Assets Para (a)(I) (b)** (I) As per above Note, Rotables/Repairables are shown as Fixed Assets. However it is observed that Repairables have also been treated as Inventory as on 31 March 2017 which is not in line with the Accounting	Repairables have been treated as fixed assets and this policy has been consistently followed for the last 5 years. Repairables are shown as fixed assets and depreciation is provided on the same since they have an extended life. On the other hand inventory related

CAG Observation	Management Comments
Policies of the Company.	to Repairables which do not have an extended life have been classified as Inventory. The word "Repairable" appearing in the accounting policies is regarding Fixed Assets only and relates to Components of fixed assets which could be repaired and reused. The above treatment afforded in respect of Repairables has been consistently followed over the years and are in line with the Accounting Policy of the Company.
Inventories Para (I) (ii) As per this Note, Inventories are valued at weighted average cost. However, as per AS-2, Inventories should be valued at cost or net realizable value whichever is lower. Hence, Inventory policy is in contravention to AS-2.	According to Para 3.2 of AS-2, Net Realizable Value has been defined as "Net Realizable Value is the estimated selling price in ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale". It would be seen from the definition that the "inventory to have a net realizable value should be intended to be sold in the ordinary course of business". However, in the case of Air India, inventory mainly consists of aircraft parts, consumables and expendables which are not meant for or intended for sale in the ordinary course of business but are meant for internal consumption only and hence, have been valued at weighted price . Since the inventory does not contain any inventory like 'finished goods' for sale, the words 'realisable value' has been omitted. The question of valuation at lower of cost or net realizable value is likely to occur only when the total inventories consist of goods meant for sale. Also, attention is invited to Para 24 of AS 2 as per which "Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost." The material held by the company is not intended to be converted to finished goods and/ or sold and hence, the question of consideration of NRV for valuation is not relevant.

<table>
<tr><th>CAG Observation</th><th>Management Comments</th></tr>
<tr><td></td><td>Hence the policy of valuation of inventory has been appropriately stated that “Inventories are valued at weighted average cost and market value is not considered as the company is not carrying any inventory meant for sale”.</td></tr>
<tr><td>OTHER COMMENTS</td><td></td></tr>
<tr><td>Note No. 43 B (a).
Operating Lease

A reference is invited to Note No. 43, B, (a) (i) stating that the Company has acquired 31 aircraft on non-cancelable operating lease. As per contractual obligation, the Company has to redeliver the 31 aircraft to the lessor at the end of the lease term, in stipulated technical condition. This would entail cost for technical inspection, maintenance checks, repainting cost etc. prior to its redelivery. Since a reliable estimate of, of the cost to be incurred for these works may not be possible , the liability for the same should have been disclosed as Contingent liabilities.</td><td>Any amount payable towards re delivery costs or receivable under the Upside Sharing arrangements are uncertain and cannot be considered for booking of the same in the P & L Account.

Further, Government Audit has stated in the Para that “Since a reliable estimate of the cost to be incurred for these works may not be possible” it will not be possible to work out the amount payable or receivable at the time of re delivery of these Aircraft.

Hence an amount which cannot be quantifiable, can neither be provided as firm liability nor contingent liability.</td></tr>
<tr><td>Note No.-51
Going Concern

A reference is invited to note number 51 of notes forming part of accounts wherein it has been disclosed that “the company has shown an all-round improvement in the operational/ financial performance such as improvement in the seat factor, pax carriages, aircraft utilization etc., Barring unforeseen circumstances the company hopes to return to Cash Positive Status earlier than contemplated under the TAP”.

Under Turnaround Plan (TAP)/ Financial Restructuring Plan (FRP), the company was expected to earn positive earnings before Interest Taxes Depreciation and Amortization (EBITDA) from the financial year 2012-13 and cash surplus from financial year 2017-18. However, as per the latest Proposed Financials under Financial Restructuring Plan, the company is now likely to become Cash Positive from FY 2018-19 onwards.</td><td>The company has been constantly improving its overall financial as well as operational performance since the implementation of TAP/FRP. The same can be seen from the following:
(Rs in Crs)
<table>
<tr><th>Particulars</th><th>2013-14</th><th>2014-15</th><th>2015-16</th><th>2016-17</th></tr>
<tr><td>Total Revenue</td><td>20140.59</td><td>20606.27</td><td>20524.56</td><td>20032.29</td></tr>
<tr><td>Total Expenditure</td><td>26420.19</td><td>26466.18</td><td>24361.33</td><td>25797.40</td></tr>
<tr><td>Net Profit/ (Loss) Before Extraordinary Items</td><td>(6939.45)</td><td>(5853.02)</td><td>(3835.21)</td><td>(3619.72)</td></tr>
<tr><td>Net Profit/ (Loss) after Tax</td><td>(6279.60)</td><td>(5859.91)</td><td>(3836.77)</td><td>(5765.11)</td></tr>
</table></td></tr>
</table>

CAG Observation	Management Comments
Therefore, the disclosure that "Barring unforeseen circumstances the company hopes to return to Cash Positive Status earlier than contemplated under the TAP" is incorrect to that extent.	It can be seen that the Net Loss (before Extraordinary/Exceptional Items) has consistently come down over the past few years. Even in 2016-17, the Net Loss has increased mainly on account of Exceptional/Extra-Ordinary Provision of Rs 2145.39 crores towards JDC Recommendations for Pay Structure rationalization amounting to Rs 1298.16 crores and write off of Rs 847.23 crores towards SFIS Scrips Revenue. The company has also been EBITDA Positive since FY 2012-13 as contemplated in TAP. Govt is also committed to the TAP/FRP and has been constantly infusing funds into AI as per the recommendations of TAP/FRP. Further, the company has also made an all round improvement in Operational Parameters such as Passenger Load Factor, aSKMs/RPKMs, No of Revenue Pax carried etc. Continuing this improved performance, and going forward, as per TAP projections the company is expected to become Cash Positive in FY 2018-19, and the company has been striving to achieve this target.
Independent Auditors Report **Annexure 1 (Para 1): Fixed Assets** The Independent Auditors has reported that the Fixed Asset Register has been maintained by the Company, which is under the process of updation in respect of certain individual items including those which have been migrated to SAP on a block level as one line item and the components items. The above reporting is not in line with Clause 3 (i) (a) of CARO 2016 and para number 34 of Guidance note on the Companies (Auditor's Report) Order, 2016 which mandates reporting whether the company is maintaining proper records showing full particulars including quantitative details and situation of fixed asset. It has been noticed from Inventory certificate produced to audit that Repairables amounting to	AI has been maintaining the Fixed Assets Register (FAR) in the SAP system (which complies with requirement contemplated to be reported by the Auditors in their report) and full particulars were migrated from the previous Oracle system including the quantitative details and situation of fixed asset. FAR has been updated item wise in respect of Aircraft, Building and Vehicles which consist of more than 95% of the value of assets. Most of the remaining assets have been migrated line item wise into SAP except certain assets which are migrated block wise for which line item details are under process of updation.

<table>
<tr><th>CAG Observation</th><th>Management Comments</th></tr>
<tr><td>Rs3948.97 are maintained outside RAMCO and their current location was not available and were not physically verified. This fact has not been reported by Independent Auditors.

Hence as regards Fixed Assets the reporting by the independent auditor is not in line with the requirements of CARO 2016.</td><td>Hence, the wordings used in the audit report state the fact that the process of updation is still in the process.

Accordingly, the reporting requirement under CARO has been duly complied with.</td></tr>
<tr><td>Non-reconciliation of Migration control accounts

Migration Control Account created during transfer of data from Legacy System to SAP-ERP System are still in existence without the total balance in these accounts reduced to zero.

<table><tr><th>Name of Migration Control A/c</th><th>Amount (in million)</th></tr><tr><td>MM</td><td>773.2</td></tr><tr><td>Ap</td><td>47425.4</td></tr><tr><td>AR Migration Control A/c</td><td>45658.9</td></tr><tr><td>FA Migration Control A/c</td><td>346619.4</td></tr><tr><td>GL</td><td>254308.2</td></tr></table>
Though the net effect is zero, each account migration control account has not been reconciled and nullified.</td><td>This is to clarify that the overall migration account total is zero. During migration, the process was split according to sources to ensure controls and hence there were 5 migration control accounts created and are fully reconciled and the net effect of which is zero. Further, this has no impact on the profit of the year.</td></tr>
<tr><td>(ii) 18404 Assets, including 89 assets comprising of Land and Buildings, existing in the SAP-ERP system of the Company are displayed at zero Acquisition value. Out of these 18404 assets, 781 assets were procured during the current financial year 2016-17. The reflection of these 89 assets comprising Land and Buildings at zero value. This is not in line with the requirements of Accounting Standard 10, according to which the gross book value of a fixed asset should be either historical cost or a revaluation amount computed in accordance with the standard.</td><td>In this regard it may be stated that there were many assets which were fully depreciated in the books of the erstwhile companies and hence transferred with zero value on the effective date of merger in 2007.

Further, the items highlighted by Audit represents the Assets showing Zero acquisition value in the SAP mainly on account of the following reasons:

a) Fully depreciated Assets migrated at the time of merger of erstwhile IAL and AIL.

b) Assets transferred to the newly formed Subsidiary Companies, AIESL and AIATSL.</td></tr>
</table>

CAG Observation	Management Comments
	c) Assets carrying less than Rs 5000 value which were fully depreciated in the year of addition. d) Certain Assets for which Asset No. is created in SAP on the approval of the Competent Authority but procurement action is still to be taken as at the close of the year. It may be stated that in order to have an Internal Control over such assets the historical cost of these assets are maintained in the SAP at Zero Value. Hence, the value at which these assets are carried in books is the historical cost and is as per AS-10.