



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIR INDIA LIMITED

REPORT ON THE STANDALONE FINANCIAL STATEMENTS

We have audited the accompanying standalone financial statements of **Air India Limited** ("the Company"), which comprise the Balance Sheet as at 31st March, 2017, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE STANDALONE FINANCIAL STATEMENTS

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone 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 principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended). This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility, is to express an opinion on these standalone financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we, the Auditors comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the standalone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures made in the financial statements. The procedures selected depend on our (i.e. 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, we (the auditors) consider internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, 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 audit opinion on the standalone financial statements.

BASIS FOR QUALIFIED OPINION

1. The Company has not complied with the provisions of certain accounting standards as stated below.
 - i) AS 10- "Property, Plant & Equipment" to the extent that flats in respect of which possession have been handed over/allotment letters issued in earlier years, have been carried as fixed assets of the



company (and depreciated) and advances received for sale of such flats have been carried as Other non-current liabilities [Refer Note No 29 (b)]. The effect of necessary adjustments in this regard is not ascertainable.

- ii) AS 13- “ Accounting for Investments” to the extent of non-provision of diminution other than temporary in the value of non-current investment in a subsidiary viz. Hotel Corporation of India Limited amounting to Rs 1106.0 million. [Refer Note No.44(a)];
- iii) AS 15 – “Employee Benefits” to the extent that the provision towards liability for post-retirement medical benefits has been made on adhoc basis, [refer Note No- 46(D)] and in respect of non-provision of additional liability towards gratuity and leave encashment of certain category of employees. [Refer Note No.26]. The effect of the same is not ascertainable.

2. The impact of the following are not ascertained:

- a) Non- reconciliation/non-confirmation of certain receivables, payables (including certain staff related accounts) and statutory dues. Refer Note No.36.
- b) Disputed amounts included under differences in balances with subsidiaries and Joint Controlled Entity (Refer Note No 44 (b)).
- c) Interest claims from airport operators pending determination of actual liability. (Refer Note No 25 A (a)).

We further report that in view of the observations made by us in the Paragraph 1 & 2 above and considering the impact to the extent quantifiable: (a) Loss for the year is understated by Rs. 1106.0 million with consequential impact on EPS, (b) accumulated losses are understated by Rs. 1106.0 million, and total Assets are overstated by the same amount.

QUALIFIED OPINION

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the standalone financial statements give the information , (except for the information mentioned in Para v of Emphasis of Matter Paragraph) , 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, of the standalone state of affairs of the Company as at 31st March, 2017 and its loss and its cash flows for the year ended on that date.

EMPHASIS OF MATTER

We draw attention in respect of;

- I) The contingent liability referred to in Note No. 25 A (b) regarding waiver of Differential Guarantee Fee in respect of Working Capital Loans, including additional guarantee fee, of Rs. 14250.4 million in respect of which approval from Government of India is yet to be received.
- ii) Non execution of lease deed in respect of a leasehold land for which advance of Rs.24.6 million has been given. (Refer Note No 29(c));
- iii) The possibility of non-recoverability of advance to a subsidiary company viz. Hotel Corporation of India, amounting to Rs 1724.6 million including interest accrued thereon (Refer Note No 44(b & c), in view of the fact that the Net Worth of the Subsidiary is not positive.



- iv) Provision made towards liability for revised pay structure on the basis of recommendation of Justice Dharmadhikari Committee amounting to Rs.12981.6 million. (Refer Note No.26);
- v) Non-Disclosure of certain requirement as required by Schedule-III of the Companies Act 2013 due to the reasons stated against each:
 - a) Terms of repayment of Loan (*Refer foot Note No-4(2)(a) of Note No 4*)
 - b) Nature of Security separately for each Loan (*Refer Foot Note No- 4(2)(a) of Note No 4*)
 - c) Period and amount of continuing default in repayment of Loans and Interest thereon. Refer foot note of Note No. 5 & Note No 7
 - d) Foreign Currency Fluctuation under Finance Cost. Refer Note No- 19 (a)
 - e) Information of dues/payments to MSME, if any, included in Trade Payable. Refer Note No -49.
- vi) The contention of the management, regarding the ability of the Company to continue as a going concern and the in-principle approval for strategic disinvestment of the company. Refer Note No.51 and 28;
- vii) Change in the estimated useful life of aircrafts from 20 to 25 years resulting in a decrease in depreciation for the year by Rs.3228.6 million and consequent effect on the loss for the year. Refer Note No.30;

Our Opinion is not modified in respect of the matters stated in Para (i) to (vii) above.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Government of India in terms of sub-section (11) of section 143 of the Act, and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the **Annexure 1**, a statement on the matters specified in the paragraphs 3 and 4 of the said Order.
2. As required by Section 143 (3) of the Act, we report that:
 - (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit except as stated in Para No 1(i) & (iii) and Para No 2 of Basis of Qualified Opinion.
 - (b) 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 and returns adequate for the purposes of our audit.
 - (c) With respect to those foreign stations not visited by us, we have relied upon the summary reports made available to us for the verification of transactions related to such foreign stations, which have been properly dealt by us in preparing this report.
 - (d) 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 account.
 - (e) Except for the effects of the matter described in Para No 1 of "Basis for Qualified Opinion" above, in our opinion, the aforesaid Standalone Financial Statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.



- (f) The Going Concern matter described in sub paragraph No- (vi) under “Emphasis of Matter” paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- (g) Section 164(2) of the Companies Act, 2013 is not applicable to a Government Company.
- (h) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.
- (l) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate reports in **Annexure-2**.
- (j) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, (as amended) in our opinion and to the best of our information and according to the explanations given to us:
- a) The Company has disclosed the impact of pending litigations on its Financial position in its Financial Statements – Refer Note No 25 to the Financial Statements;
- b) The Company has made provisions, as required under the applicable laws or Accounting Standards, for material foreseeable losses, if any, on long-term contracts, including derivative contracts that have been entered into by the Company.
- c) There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.
- d) The Company has provided disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. Refer Note No.53. However, we are unable to obtain sufficient and appropriate audit evidence to report on whether the disclosures are in accordance with books of account maintained by the Company as produced to us by the Management.
3. We are enclosing our report in terms of Section 143 (5) of the Act, on the directions and sub-directions issued by the Comptroller and Auditor General of India on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, in the **Annexure- 3**.

For and on Behalf of
Thakur, Vaidyanath Aiyar & Co
Chartered Accountants
FRN: 000038N

For and on Behalf of
Sarda and Pareek
Chartered Accountants
FRN: 109262W

For and on Behalf of
Varma & Varma
Chartered Accountants
FRN: 004532S

V. Rajaraman
Partner
M.No.2705

Sitaram Pareek
Partner
M.No.016617

P R Prasanna Varma
Partner
M.No. 025854

Place : New Delhi
Date : 29.12.2017



“ANNEXURE – 1” REFERRED TO IN PARAGRAPH 5(1) UNDER THE HEADING REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS OF EVEN DATE.

1. Fixed Assets:

- (a) The Fixed Assets 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 identified.
- (b) The Company has a programme of verification of fixed assets to cover all the items over a biennial period which, in our opinion, is reasonable having regard to the size of the Company and the nature of its Assets. According to information and explanations given to us, physical verification of major fixed assets has been conducted by the Management during the year and no major discrepancies were found. In this connection attention is drawn to Note No 32(a) regarding Physical Verification of Assets other than the major items.
- (c) Based on records and confirmations provided by the company, the title/ lease deeds of the immovable properties are held in the name of the Company except for the assets mentioned below (Refer Note No.29 (a));

Sr No.	Type	Areas (in sq.mtrs)	Net Block (Rs. in million)
A	Vacant Land	142658	11217.1
B	Land & Buildings	131271	51323.6

2. Inventories :

The Company has a programme of physical verification of inventory to cover all the items over a biennial period which, in our opinion, is reasonable having regard to the size of the Company and the nature of its Inventory. As explained to us, Physical Verification of Inventories for the biennial period 2014-16 has been completed, except in respect of items lying with third parties; and the impact of the discrepancies has been provided for during the year. We are informed that the physical verification for biennial period 2016-18 is still under progress [Refer Note No. 32(b)].

3. Transactions with parties u/s 189 of the Companies Act, 2013

According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured, during the year, to any companies, firms, limited liability partnerships or other parties covered in register maintained under Section 189 of the Companies Act, 2013. In view of above, the clauses 3 (iii)(a), 3 (iii)(b) and 3 (iii)(c) of the Order are not applicable.

4. Loans, Investments, Guaranties & Securities etc. covered u/s 185 and 186 of the Act.

As per information and explanations given to us, Company has not granted any loans or given any guarantee and security covered under section 185 of the Companies Act 2013.

Further, Company, being a Government Company, is exempted from the provisions of section 186 as it is engaged in the business of providing infrastructure facilities as stated in Schedule-VI of the Companies Act'2013.

**5. Deposits**

On the basis of the examination of the books of accounts, the Company has not accepted Deposits under the provisions of Section 73 to 76 or any other provisions of Companies Act, 2013 and the Rules framed thereunder.

6. Cost Records

The maintenance of cost records has not been prescribed by the Central Government of India under sub-section (1) of Section 148 of the Companies Act, 2013, in respect of the Company which falls under the category of Service Industry.

7. Statutory Dues

- a) According to the information and explanations given to us and on the basis of our examinations of the Books of Account, undisputed Statutory dues, including Provident Fund, Employees State Insurance Fund, Custom Duty, Excise Duty, Wealth Tax, Sales Tax, Value Added Tax, Cess and any other material Statutory Dues, as applicable, have generally been deposited with the appropriate authorities within the due dates except in the case of Income Tax, Service Tax and contributions to Provident Fund.

As per the information and explanations, undisputed statutory liabilities outstanding for more than 6 months as on March 31, 2017 are as under :

Sr No.	Particulars	Amount Outstanding (Rs. in million)
1	Income Tax including TDS	50.5
2	Interest on PF	121.5

- b) According to the information and explanations given to us and as per the books of accounts, there are no dues outstanding of Sales tax, Wealth Tax, Custom Duty, Excise Duty, Value Added Tax, Service Tax and Cess which have not been deposited as on 31st March 2017 by the company, on account of any dispute, except for the following:

SL.No	Name of Statute	Amount Outstanding (Rs. In million)	Nature of Dues	Year	Forum where dispute is pending
1	Indian Customs Act 1962	222.61	Custom Duty	2001 to 2016	Commissioner of Central Excise
2	Indian Customs Act 1962	95.18	Custom Duty	2000 to 2014	CESTAT
3	Indian Customs Act 1962	101.66	Custom Duty	2003 to 2007	Commissioner of Custom (A)
4	Indian Customs Act 1962	608.40	Custom Duty	2002 to 2010	Commissioner of Custom (A)
5	Indian Customs Act 1962	16.29	Custom Duty	2014-2016	Commissioner of Custom



SL.No	Name of Statute	Amount Outstanding (Rs. In million)	Nature of Dues	Year	Forum where dispute is pending
6	Indian Customs Act 1962	14.43	Custom Duty	2005-2006	Supreme Court
7	Indian Customs Act 1962	16.56	Custom Duty	1997 to 2004	Central Board of Excise and Custom
8	Finance Act, 1994	203.56	Service Tax	2007 to 2011	Commissioner of Service Tax
9	Finance Act, 1994	6071.73	Service Tax	2003 to 2014	CESTAT
10	Finance Act, 1994	4.34	Service Tax	2007 to 2011	Commissioner of Appeals
11	Finance Act, 1994	2.75	Service Tax	2013 to 2015	Service Tax Dept.
12	Income Tax Act, 1961	423	Income Tax	2001 to 2007	Income Tax Tribunal
13	Other Statutes	141.94	Others	2000 to 2011	Concerned Department.

8. Term Loans from Banks & Financial Institutions:

According to the information and explanations given to us, the Company has delayed in repayment of dues to Financial Institutions/ Banks/ Government and there is an overdue Interest on Loans of Rs.403.1million outstanding for payment as at the year end. The period and amount of default including lender wise details for the same has not been provided to us in view of the reasons stated in the Footnote of Note No.4, 5 and 7 of the Financial Statements.

9. Public Offer & Loans:

The Company has not raised any money by way of initial public offer or further public offer (including debts instruments) and hence the application of such money for the specified purposes is not applicable.

The Company has applied the Term Loans for the purpose for which the Loans were obtained.

10. Fraud:

We have not come across any instances of material fraud by the company or on the company by its officers or employees which has been, noticed or reported during the year, except for certain other irregularities, disclosed in Note 37 to the Financial Statements.;

11. Managerial Remuneration:

As informed, the provisions of Section 197 relating to managerial remuneration are not applicable to the Company, being a Government Company, in terms of MCA Notification no. G.S.R. 463 (E) dated 5th June 2015.

**12. Nidhi Company**

The company is not a Nidhi Company and hence the clause is not applicable.

13. Related Parties Transactions:

In our opinion and according to the information and explanations given to us, all transactions during the year with the related parties were approved by the Audit Committee and are in compliance with sections 177 of the Companies Act, 2013 where applicable and the provisions of section 188 of the Companies Act, 2013 are not applicable. The details of Related Party Transactions have been disclosed in the Financial Statements, as required by the applicable Accounting Standards; Refer Note 42.

14. Preferential allotment or Private placement of shares:

The company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review as such the clause is not applicable to the company.

15. Non Cash transactions with Directors:

As per the records of the company and information and explanation provided to us, the company has not entered into any non-cash transactions with directors or persons connected with them and hence the clause is not applicable.

16. Registration u/s 45-IA of RBI Act.

The company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934.

For and on Behalf of
Thakur, Vaidyanath Aiyar & Co
Chartered Accountants
FRN: 000038N

For and on Behalf of
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Chartered Accountants
FRN: 109262W

For and on Behalf of
Varma & Varma
Chartered Accountants
FRN: 004532S

V. Rajaraman
Partner
M.No.2705

Sitaram Pareek
Partner
M.No.016617

P R Prasanna Varma
Partner
M.No. 025854

Place : New Delhi
Date : 29.12.2017



“ANNEXURE- 2” TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF AIR INDIA LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)

We have audited the internal financial controls over financial reporting of Air India Limited (“the Company”) as of March 31, 2017 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls ;

The Company's management is responsible for establishing and maintaining internal financial controls based on “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India”. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditor's Responsibility;

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls, and both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls over Financial Reporting :

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that



- (1) pertains to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting :

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Qualified Opinion

According to the information and explanations given to us and based on our audit, the following material weaknesses have been identified as at March 31, 2017:

- (i) The company did not have an effective interface between various functional software relating to Sales/Revenue and Inventory Management with the accounting software resulting in accounting entries being made manually on periodical basis.
- (ii) The company did not have an appropriate internal control system for reconciliation of Control Accounts in relation to the Sales / Revenue, Inventory and Payroll.
- (iii) The company did not have an appropriate internal control system for deduction, timely deposit and reconciliation of statutory dues.
- (iv) The company did not have effective internal audit system commensurate with the size, nature and complexities of the business.
- (v) The company did not have an appropriate internal control system for obtaining confirmation of balances on a periodic basis and reconciliation of unmatched Receivables and Payables.
- (vi) The Company did not have an effective Information system audit to evaluate and test the IT general controls, which may affect the completeness, accuracy and reliability of the reports generated from IT System.
- (vii) The company did not have an effective system for timely accounting of entries & approval thereof in IT System.

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.



In our opinion, except for the effects/possible effects of the material weakness described above on the achievement of the objectives of the control criteria, the Company has maintained, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as of March 31, 2017, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

We have, to the extent possible, considered the material weakness identified and reported above in determining the nature, timing, and extent of audit tests applied in our audit of the March 31, 2017 standalone financial statements of the Company, and these material weaknesses are not likely to affect our opinion on the standalone financial statements of the Company.

For and on Behalf of

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P R Prasanna Varma
Partner
M.No. 025854

Place : New Delhi
Date : 29.12.2017



ANNEXURE- 3 TO THE INDEPENDENT AUDITORS' REPORT

S.No	Directions under section 143(5) of Companies Act 2013	Auditor's Comment														
1.	Whether the Company has clear title / lease deeds free hold and lease hold respectively? If not, please state the area of free hold and lease hold land for which title / lease deeds are not available?	The details provided by the Management are enclosed in Annexure-I of Independent Auditors' Report – CARO, Sr. No.1(c) and Note No.29(a) forming part of Financial Statements.														
2.	Whether there are any cases of waiver/ write off of debts/loans/interest etc., if yes, the reasons there for and the amount involved.	There is no write-off being done by the management during the year.														
3.	Whether proper records are maintained for inventories lying with third parties & assets received as gift/ grants from Govt. or other authorities.	<p>Records are maintained by the company in respect of inventories lying with third parties. However, since confirmation in respect of such inventories have not been provided to us we are unable to verify the completeness of the same.</p> <p>We are informed that there are no gifts and grants from govt. and other authorities received during the year and accordingly there are no records in respect of such items.</p>														
4.	To ascertain and quantify the impact of															
	(a) Pending reconciliation of receivables and payables particularly with airport operators, subsidiaries, JVs and oil companies.	Refer Note No 36 and 44 (b) read with Para 2 of Basis of Qualification.														
	(b) Claims lodged, settled, pending and rejected in the case of aviation and non aviation insurance.	<p>The Data as given below are based on the information provided by the company; (Rs in Million)</p> <table border="1" data-bbox="836 1438 1500 1923"> <thead> <tr> <th data-bbox="836 1438 1149 1556">Particulars</th> <th data-bbox="1149 1438 1318 1556">Non Aviation Claims</th> <th data-bbox="1318 1438 1500 1556">Aviation Claims</th> </tr> </thead> <tbody> <tr> <td data-bbox="836 1556 1149 1627">Claim Lodged</td> <td data-bbox="1149 1556 1318 1627">34.72</td> <td data-bbox="1318 1556 1500 1627">569.45</td> </tr> <tr> <td data-bbox="836 1627 1149 1759">Claim Rejected/ Withdrawn during the year 2016-17</td> <td data-bbox="1149 1627 1318 1759">-</td> <td data-bbox="1318 1627 1500 1759">-</td> </tr> <tr> <td data-bbox="836 1759 1149 1923">Claim Settled during the year 2016-17</td> <td data-bbox="1149 1759 1318 1923">7.50</td> <td data-bbox="1318 1759 1500 1923">453.65</td> </tr> </tbody> </table>			Particulars	Non Aviation Claims	Aviation Claims	Claim Lodged	34.72	569.45	Claim Rejected/ Withdrawn during the year 2016-17	-	-	Claim Settled during the year 2016-17	7.50	453.65
Particulars	Non Aviation Claims	Aviation Claims														
Claim Lodged	34.72	569.45														
Claim Rejected/ Withdrawn during the year 2016-17	-	-														
Claim Settled during the year 2016-17	7.50	453.65														



S.No	Directions under section 143(5) of Companies Act 2013	Auditor's Comment		
		Particulars	Non Aviation Claims	Aviation Claims
		Policy amount deducted from Claim	-	91.54
		Claims Pending as on 31st March 2017	27.22	24.27
	(c) With reference to inter-company transactions adjustment in the CFS of AIL for 2015-16, the impact of the same in the standalone accounts of AIL for 2016-17 may be looked into.	<p>*The above data excludes, those claims for which amount is yet to be ascertained.</p> <p>The difference with the subsidiaries as on 31.03.2016 was Rs.1491.8 million against which Rs.222.1 million is pending adjustments as at 31.03.2017. We are informed that such differences will be identified and adjusted in the respective books in the due course.</p>		

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M.No. 025854

Place : New Delhi
Date : 29.12.2017



**MANAGEMENT REPLIES TO THE INDEPENDENT AUDITORS' REPORT ON
THE FINANCIAL STATEMENTS OF AIR INDIA LTD FOR THE FINANCIAL YEAR 2016-17**

Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
	<p>Report on the Standalone Financial Statements</p> <p>We have audited the accompanying standalone financial statements of Air India Limited ("the Company"), which comprise the Balance Sheet as at 31st March, 2017, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.</p>	<p>This is a statement of fact.</p>
	<p>Management's Responsibility for the Standalone Financial Statements.</p> <p>The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone 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 principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014(as amended). This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.</p>	<p>This is a statement of fact.</p>
	<p>Auditor's Responsibility</p> <p>Our responsibility, is to express an opinion on these standalone financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.</p>	<p>This is a statement of fact.</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
	<p>We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we, the Auditors comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the standalone financial statements are free from material misstatement.</p> <p>An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures made in the financial statements. The procedures selected depend on our (i.e. 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, we (the auditors) consider internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, 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 audit opinion on the standalone financial statements</p>	
1.	<p>Basis for Qualified Opinion</p> <p>The Company has not complied with the provisions of certain accounting standards as stated below :</p>	
I)	<p>AS 10- "Property, Plant & Equipment" to the extent that flats in respect of which possession have been handed over/allotment letters issued in earlier years, have been carried as fixed assets of the company (and depreciated) and advances received for sale of such flats have been carried as Other non-current liabilities [Refer Note No 29 (b)]. The effect of necessary adjustments in this regard is not ascertainable</p>	<p>The sale in respect of properties in the land owned by AI at Nerul is not yet completed since the title in the property has not yet been passed on to the proposed society/association formed by the employees for administering the property sold to them. It is also understood that these societies are not yet registered pending the completion of certain documentation. Due to this the sale proceeds received from the employees have also not been adjusted in the books of accounts and the properties continue to be owned by AI. Depreciation is therefore being charged on these properties and subject to the</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		completion of these formalities in FY 2017-18 necessary accounting action will be taken.
ii)	AS 13- "Accounting for Investments" to the extent of non-provision of diminution other than temporary in the value of non-current investment in a subsidiary viz. Hotel Corporation of India Limited amounting to Rs 1106.0 million. [Refer Note No.44(a)];	<p>Various initiatives are being taken by HCI for improving the operational performance of the company and increasing the revenues to improve its operational and financial performance/ Net Worth such as:</p> <ul style="list-style-type: none">● Equity Infusion of Rs270 million from the Govt of India upto 31.3.2017.● The renovation of 80 guest rooms and other allied works at Centaur Hotel Delhi has been completed in the quarter ended June 2017, augmenting the revenue.● HCI has appointed a Consultant for upgradation and refurbishment of 75 guest rooms and allied works at Centaur Hotel Srinagar.● The holding company, AI, has converted Rs 70 crores of advances to the Company as Equity Capital.● HCI has reduced the retirement age for its employees from 60 to 58. <p>It may also be stated that the value of the properties owned by HCI at Delhi Airport, Srinagar and Chefair in Mumbai are substantial in value. Further, the company is a going concern and is carrying out its normal activities of inflight catering and providing hotel accommodation to passengers and others.</p> <p>However, it may be mentioned that in the event of DIAL requiring additional land for a fourth runway, the Centaur</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		<p>Hotel, as per the terms of agreement of AAI and DIAL (OMDA) has to surrender this land to DIAL for which the compensation has to be determined.</p> <p>Similarly, due to litigation in the Srinagar property, HCI is unable to give it on long term Management Contract.</p> <p>But for these factors, in view of measures taken by HCI as well as AI to improve the operational/financial performance of HCI, Air India Ltd is hopeful that HCI in future will be able to sustain its requirements from its own revenues. As regards its investment in HCI, Air India is confident that it would retrieve its investment in the property as well as the loans given to HCI in the event of the closure/sale of HCI.</p> <p>Accordingly, no provision has been considered for the investment made by the company in HCI.</p>
iii)	<p>AS 15 – “Employee Benefits” to the extent that the provision towards liability for post-retirement medical benefits has been made on adhoc basis, [refer Note No-46(C.)(a)] and in respect of non- provision of additional liability towards gratuity and leave encashment of certain category of employees. [Refer Note No.26]. The effect of the same is not ascertainable.</p>	<p>It may be noted that an adhoc provision of Rs500.0 million has been made towards Post Retirement Medical Benefits for the year 2016-17 as against the provision of Rs 350.0 million made in FY 2015-16.</p> <p>This provision has been made as the relevant statistical data could not be gathered on account of the amendment of the Scheme i.e. for enhanced Contribution for Medical Benefits. The Management is of the opinion that the provision of Rs.500.0 million is adequate. However, once the relevant statistics are collected and actuarial valuation thereof is carried out after giving effect to the transfer of employees to the hived off subsidiary companies namely AIESL and AIATSL, the necessary accounting treatment would be carried out in 2017-18. The same has been adequately disclosed in Note No 46(D)(i).</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		<p>Moreover due to the ongoing divestment of AI the future liability of medical benefits of retired personnel can be actually determined once the terms are settled with the Strategic Investor</p>
<p>2.</p> <p>a)</p>	<p>The impact of the followings are not ascertained:</p> <p>Non- reconciliation/non-confirmation of certain receivables, payables (including certain staff related accounts) and statutory dues. Refer Note No.36</p>	<p>The company has reconciled a substantial percentage of receivables and payables in SAP. However, in respect of the remaining accounts necessary action will be taken to reconcile the unmatched receivables and payables in SAP in FY 2017-18.</p> <p>The company has hired an external firm of Chartered Accountants to reconcile the statutory dues with the returns filed/statutory records maintained. The company would give effect to any adjustments as and when these reconciliations are completed.</p>
<p>b)</p>	<p>Disputed amounts included under differences in balances with subsidiaries and joint venture Controlled Entity.</p> <p>Refer Note No 44 (b)</p>	<p>This is a statement of fact. However, we are in the process of reconciling these differences and accounting action, if any, will be taken in 2017-18.</p>
<p>c)</p>	<p>Interest claims from airport operators pending determination of actual liability. Refer Note no 25A(a)</p>	<p>The company has continuously contested its liability of payment of Interest on its dues to Airport Operators. This was based on the ground that the interest charged them is at a very high rate of interest and totally disproportionate to the market in terms of rates/losses suffered by them, if any.</p> <p>AI has not accepted their claims and shown their claims as Contingent Liability. The methodology of calculating interest has also been contested by the company. More recently an independent auditor has been appointed to assess the liability, if any in this regard.</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
	<p>We further report that in view of the observations made by us in the paragraph 1 & 2 above and considering the impact to the extent quantifiable: (a) Loss for the year is understated by Rs. 1106.0 Million with consequential impact on EPS, (b) accumulated losses are understated by Rs. 1106.0 Million, and total Assets overstated by the same amount.</p>	
	<p>Qualified Opinion</p> <p>In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the standalone financial statements give the information, (except for the information mentioned in Para v of Emphasis of Matter Paragraph), 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, of the standalone state of affairs of the Company as at 31st March, 2017 and its loss and its cash flows for the year ended on that date.</p>	
	<p>Emphasis of Matter</p> <p>We draw attention in respect of;</p>	
I)	<p>The contingent liability referred to in Note No. 25 A (b) regarding waiver of Differential Guarantee Fee in respect of Working Capital Loans, including additional guarantee fee, Rs. 14250.4 Million in respect of which approval from Government of India is yet to be received.</p>	<p>The company has provided for Guarantee Fee @ 0.5% on all aircraft loans and working capital loans guaranteed by the Govt. The company has taken up the issue for waiver of Guarantee Fees over and above 0.5% in respect of working capital and ECB loans with the Ministry of Civil Aviation/Finance. This subject was also discussed and highlighted during TAP and FRP Oversight Committee Meetings.</p> <p>Accordingly, the Guarantee Fee over and above 0.5% amounting to Rs3594.4 million has been disclosed as Contingent. Further, the additional liability on account of the delayed payment amounting to Rs10,656.0 million has also been shown as Contingent.</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		<p>This issue has been taken up with the Ministry of Finance through the Ministry of Civil Aviation through a Cabinet note. The company is confident that the Ministry of Finance will favorably consider the proposal of the MOCA since the company is under a Financial Restructuring Plan wherein the Govt. is actively infusing Equity into the company and divestment plans have been announced for the Company.</p> <p>The Company has also given the option to Ministry of Finance of adjusting the VVIP dues owing from the Govt against the Guarantee fee (normal fee of 0.5%) payable to the Government.</p> <p>Moreover, the entire facts relating to the Govt Guarantees has been duly disclosed vide Note No 25 (A)(b).</p>
ii)	Non execution of lease deed in respect of a leasehold land for which advance of Rs.24.6 Million has been given. Refer Note no 29(c).	This is a Statement of fact.
iii)	Recoverability of advance to a subsidiary company viz. Hotel Corporation of India, amounting to Rs1724.6 million including interest accrued thereon. Refer Note 44(b&c);	Already replied to in Para No 1(ii) above.
iv)	Provision made towards liability for revised pay structure on the basis of recommendation of Justice Dharmadhikari Committee amounting to Rs.12981.6 million. Refer Note No.26;	<p>Based on Justice Dharmadhikari Committee (JDC) recommendations, the Revised Basic Pay (RBP) had been implemented for most of the categories of the employees from different dates.</p> <p>Upto last year the JDC recommendations were not implemented for categories comprising of the Pilots of the Wide Body aircraft (Non-Executive) and Cabin Crew (Non Managerial) due to ongoing litigations which are still pending in the Supreme Court. However, provision amounting to Rs 12981.6 million for all employees (including for the above said categories also) has been made during the year as</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		<p>Exceptional Item on the basis of certification made by an independent firm of Chartered Accountants.</p> <p>In the opinion of the company this provision will substantially cover all liabilities originating out of the implementation of JDC recommendations except impact on provision for Gratuity and Leave Encashment for above said two categories of employees.</p> <p>Adequate disclosure for the same has been made vide Note No 26.</p>
v)	<p>Non-Disclosure of certain requirement as required by Schedule-III of the Companies Act 2013 due to the reasons stated against each:</p> <ul style="list-style-type: none"> - Terms of repayment of Loan (<i>Refer foot Note No-4(2)(a) of Note No 4</i>) - Nature of Security separately for each case of Loans (<i>Refer Foot Note No- 4(2)(a) of Note No 4</i>) - Period and amount of continuing default in repayment of Loans and Interest thereon. Refer foot note of Note No. 4 & Note No 7 - Foreign Currency Fluctuation under Finance Cost. Refer Note No- 19 (a). - Information of dues/payments to MSME, if any, included in Trade Payable. Refer Note No -49. 	<p>This is a statement of fact. Due to the confidential nature of the agreements entered into with the consortium of banks wherein the terms of payments, rates of interest, the nature of security has been clearly specified, it has not been disclosed. However, the same is available with the company, the important extracts of which are already disclosed in the accounts.</p>
vi)	<p>The contention of the management, regarding the ability of the Company to continue as a going concern and in-principle approval for strategic disinvestment of the company. Refer Note No.51 and 28;</p>	<p>This is a Statement of fact.</p>
vii)	<p>Change in the estimated useful life of aircrafts from 20 to 25 years resulting in decrease in depreciation by Rs.3228.6 million and consequent effect on the loss for the year. Refer Note No.30;</p>	<p>This is a Statement of fact. The life of the new aircraft in A 320 family and B 777 aircraft, acquired after FY 2006-07 has been increased from 20 to 25 years in line with industry practice and the past history/experience of utilization of these aircraft in the fleet.</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		The same has been adequately disclosed vide Note No 30.
	Our Opinion is not modified in respect of above matters	
	Report on Other Legal and Regulatory Requirements	
1.	As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Government of India in terms of sub-section (11) of section 143 of the Act, and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure 1 , a statement on the matters specified in the paragraphs 3 and 4 of the said Order	
2.	As required by Section 143 (3) of the Act, we report that:	This is a statement of fact.
(a)	We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit except as stated in Para No 1(i & ii) and Para No 2 of Basis of Qualified Opinion.	
(b)	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 and returns adequate for the purposes of our audit.	
(c)	With respect to those foreign stations not visited by us, we have relied upon the summary reports made available to us for the verification of transactions related to such foreign stations, which have been properly dealt by us in preparing this report.	
(d)	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 account	
(e)	Except for the effects of the matter described in Para No - 1 of "Basis for Qualified Opinion" above, in our opinion, the aforesaid Standalone Financial Statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.	



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
(f)	The Going Concern matter described in sub paragraph No-(vi) under “Emphasis of Matter” paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.	
(g)	Section 164(2) of the Companies Act, 2013 is not applicable to a Government Company.	
(h)	The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.	
(I)	With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate reports in Annexure-2 .	
(j)	With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, (as amended) in our opinion and to the best of our information and according to the explanations given to us:	
	a) The Company has disclosed the impact of pending litigations on its Financial position in its Financial Statements – Refer Note 25 to the Financial Statements;	
	b) The Company has made provisions, as required under the applicable laws or Accounting Standards, for material foreseeable losses, if any, on long-term contracts derivative contracts have been entered into by the Company.	
	c) There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.	
	d) The Company has provided disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. Refer Note No.53. However, we are unable to obtain sufficient and appropriate audit evidence to report on whether the disclosures are in accordance with books of account maintained by the Company and as produced to us by the Management.	Consequent upon the directions of the Govt, the Company had maintained records of the receipts/payments of the Specified Bank Notes (SBNs) accepted/ received at all Airports/Booking Offices of the company towards the sale of Air Tickets during the period of 10 th November to 31 st December 2016.



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		<p>The disclosure of the information on SBNs transacted during the above notified period has been compiled from the inputs received/collected from all base stations/Booking Offices of the company. Further, the counterfoils of the bank deposit slips towards deposit of all cash, including SBNs are also available at these Airports/Booking Offices to substantiate the SBN Disclosure made vide Note No 53.</p>
3.	<p>We are enclosing our report in terms of Section 143 (5) of the Act, on the directions and sub-directions issued by the Comptroller and Auditor General of India on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, in the Annexure-3.</p>	



“ANNEXURE – 1” REFERRED TO IN PARAGRAPH 5(1) UNDER THE HEADING REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS OF EVEN DATE.

Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS												
1.	Fixed Assets :													
(a)	The Fixed Assets 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 identified.	The Company has a regular procedure for the physical verification of all aircraft, APUs and other related equipment which constitutes nearly 91% of the total value of the assets which are tallied with the Assets Register maintained.												
(b)	The Company has a programme of verification of fixed assets to cover all the items over a biennial period which, in our opinion, is reasonable having regard to the size of the Company and the nature of its Assets. According to information and explanations given to us, physical verification of major fixed assets has been conducted by the Management during the year and no major discrepancies were found. In this connection attention is drawn to Note No 32(a) regarding Physical Verification of Assets other than the major items.	<p>As regards the remaining assets, the Company has already implemented the Fixed Assets module which streamlines the data on Fixed Assets including the details of location and quantitative details on the SAP system.</p> <p>All requests for the acquisition of fixed assets are processed through the FA Module in the SAP wherein the actual expenditure is compared with the budgets available and thereby incorporating proper internal controls for the monitoring and verification of the assets.</p>												
(C)	<p>Based on records and confirmations provided by the company, the title/ lease deeds of the immovable properties are held in the name of the Company except for the (refer Note No.29 (a)); assets mentioned below :</p> <table border="1" data-bbox="199 1438 959 1696"> <thead> <tr> <th data-bbox="199 1438 284 1476">Sr No</th> <th data-bbox="284 1438 511 1476">Type</th> <th data-bbox="511 1438 699 1514">Areas (in sq.mtr)</th> <th data-bbox="699 1438 959 1541">Net Block (Rs. in million)</th> </tr> </thead> <tbody> <tr> <td data-bbox="199 1556 284 1614">A</td> <td data-bbox="284 1556 511 1614">Vacant Land</td> <td data-bbox="511 1556 699 1614">142658</td> <td data-bbox="699 1556 959 1614">11217.1</td> </tr> <tr> <td data-bbox="199 1614 284 1673">B</td> <td data-bbox="284 1614 511 1673">Land & Buildings</td> <td data-bbox="511 1614 699 1673">131271</td> <td data-bbox="699 1614 959 1673">51323.6</td> </tr> </tbody> </table>	Sr No	Type	Areas (in sq.mtr)	Net Block (Rs. in million)	A	Vacant Land	142658	11217.1	B	Land & Buildings	131271	51323.6	<p>This matter is being pursued actively with the Ministry of Urban Development through the Ministry of Civil Aviation and other authorities and the Company is hopeful of reinstatement of the title deeds in the future.</p> <p>Moreover, as a part of the Disinvestment process of AI, the physical possession of two of the major unregistered properties namely Vasant Vihar Housing Colony (Rs 51295.1 million) and Baba Kharag Singh Marg Land (Rs 4770.7 million), have been handed over to the Ministry of Urban Development (MoUD).</p> <p>The MoUD has been entrusted with the overall responsibility of development</p>
Sr No	Type	Areas (in sq.mtr)	Net Block (Rs. in million)											
A	Vacant Land	142658	11217.1											
B	Land & Buildings	131271	51323.6											



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		<p>and sale of these two properties by the Govt. The sale proceeds from these two properties shall be utilized in liquidating Air India debts. These properties have been offered as security against working capital loans taken from various banks.</p> <p>Adequate disclosure for the same has been made vide Note No 29 (a).</p>
2.	<p>Inventories :</p> <p>The Company has a programme of physical verification of inventory to cover all the items over a biennial period which, in our opinion, is reasonable having regard to the size of the Company and the nature of its Inventory. As explained to us, Physical Verification of Inventories for the biennial period 2014-16 has been completed, except in respect of items lying with third parties; and the impact of the discrepancies has been provided for during the year. We are informed that the physical verification for biennial period 2016-18 is still under progress [Refer Note No 32(b)].</p>	<p>The exercise of Physical Verification of Inventories for the biennial period 2014-16 has been completed by independent firms of Chartered Accountants. However, necessary accounting action of the discrepancies found on such physical verification will be carried out after obtaining confirmation from Materials Management Department (MMD).</p> <p>However a suitable provision has been made in the books of accounts to take care of shortages observed in the biennial period 2014-16.</p> <p>In addition, streamlining of the physical verification process would be further strengthened along-with the up-gradation of the 5.7 RAMCO System.</p>
3.	<p>Transactions with parties u/s 189 of the Companies Act, 2013</p> <p>According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured, during the year, to any companies, firms, limited liability partnerships or other parties covered in register maintained under Section 189 of the Companies Act, 2013. In view of above, the clauses 3 (iii)(a), 3 (iii)(b) and 3 (iii)(c) of the Order are not applicable.</p>	<p>This is a statement of fact.</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
4.	<p>Loans, Investments, Guaranties & Securities etc. covered u/s 185 and 186 of the Act.</p> <p>As per information and explanations given to us, Company has not granted any loans or given any guarantee and security covered under section 185 of the Companies Act 2013.</p> <p>Further, Company, being a Government Company, is exempted from the provisions of section 186 as it is engaged in the business of providing infrastructure facilities as stated in Schedule-VI of the Companies Act'2013.</p>	This is a statement of fact.
5.	<p>Deposits</p> <p>On the basis of the examination of the books of accounts, the Company has not accepted Deposits under the provisions of Section 73 to 76 or any other provisions of Companies Act, 2013 and the Rules framed thereunder.</p>	This is a statement of fact.
6.	<p>Cost Records</p> <p>The maintenance of cost records has not been prescribed by the Central Government of India under sub-section (I) of Section 148 of the Companies Act, 2013, in respect of the Company which falls under the category of Service Industry.</p>	This is a statement of fact.
7.	<p>Statutory Dues</p> <p>According to the information and explanations given to us and on the basis of our examinations of the Books of Account, undisputed Statutory dues, including Provident Fund, Employees State Insurance Fund, Custom Duty, Excise Duty, Wealth Tax, Sales Tax, Value Added Tax, Cess and any other material Statutory Dues, as applicable, have generally been deposited with the appropriate authorities within the due dates except in the case of Income Tax Service Tax and contributions to Provident Fund.</p> <p>As per the information and explanations, undisputed statutory liabilities outstanding for more than 6 months as on March 31, 2017 are as under :</p>	This is a statement of fact.



Sr. No.	AUDIT OBSERVATIONS			MANAGEMENT COMMENTS		
	Sr No.	Particulars	Amount Outstanding (Rs. In Millions)			
	1.	Income Tax including TDS	50.5			
	2	Interest on PF	121.5			
a)	According to the information and explanations given to us and as per the books of accounts , there are no dues outstanding of Sales tax, Wealth Tax, Custom Duty, Excise Duty, Value Added Tax, Service Tax and Cess which have not been deposited as on 31 st March 2017 by the company, on account of any dispute, except for the following:			This is a statement of fact.		
No	Name of Statute	Amount Outstanding (Rs. In Million)	Nature of Dues	Year	Forum where dispute is pending	
1	Indian Customs Act 1962	222.61	Custom Duty	2001 to 2016	Commissioner of Central Excise	
2	Indian Customs Act 1962	95.18	Custom Duty	2000 to 2014	CESTAT	
3	Indian Customs Act 1962	101.66	Custom Duty	2003 to 2007	Commissioner of Custom (A)	
4	Indian Customs Act 1962	608.40	Custom Duty	2002 to 2010	Commissioner of Custom (A)	
5	Indian Customs Act 1962	16.29	Custom Duty	2014-2016	Commissioner of Custom	
6	Indian Customs Act 1962	14.43	Custom Duty	2005-2006	Supreme Court	
7	Indian Customs Act 1962	16.56	Custom Duty	1997 to 2004	Central Board of Excise and Custom	
8	Finance Act, 1994	203.56	Service Tax	2007 to 2011	Commissioner of Service Tax	
9	Finance Act, 1994	6071.73	Service Tax	2003 to 2014	CESTAT	
10	Finance Act, 1994	4.34	Service Tax	2007 to 2011	Commissioner of Appeals	
11	Finance Act, 1994	2.75	Service Tax	2013 to 2015	Service Tax Dept.	
12	Income Tax Act, 1961	423	Income Tax	2001 to 2007	Income Tax Tribunal	
13	Other Statute	141.94	Others	2000 to 2011	Concerned Department.	



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
8.	Term Loans from Banks & Financial Institutions:	
	According to the information and explanations given to us, the Company has delayed in repayment of dues to Financial Institutions/ Banks/ Government and there is an overdue Interest on Loans of Rs.403.1 Million outstanding for payment as at the year end. The period and amount of default including lender wise details for the same has not been provided to us in view of the reasons stated in the Footnote of Note No.4, 5 and 7 of the Financial Statements.	Due to the liquidity position faced by the company, there have been certain delays in the payment of Interest. However, the same have been paid subsequently. Certain banks have levied penalties for such delayed payments which have been taken up with the respective banks for waiver.
9.	Public Offer & Loans:	
	<p>The Company has not raised any money by way of initial public offer or further public offer (including debts instruments) and hence the application of such money for the specified purposes is not applicable.</p> <p>The Company has applied the Term Loans for the purpose for which the Loans were obtained.</p>	This is a statement of fact.
10.	Fraud :	
	We have not come across any instances of material fraud by the company or on the company by its officers or employees which has been, noticed or reported during the year, except for certain other irregularities, disclosed in Note 37 to the Financial Statements.;	These matters are already being investigated and depending on the findings necessary corrective action will be taken in order to avoid the recurrence of such incidents.
11.	Managerial Remuneration :	
	As informed, the provisions of Section 197 relating to managerial remuneration are not applicable to the Company, being a Government Company, in terms of MCA Notification no. G.S.R. 463 (E) dated 5th June 2015.	This is a statement of fact.
12.	Nidhi Company	
	The company is not a Nidhi Company and hence the clause is not applicable.	This is a statement of fact.
13.	Related Parties Transactions:	
	In our opinion and according to the information and explanations given to us, all transactions during the year with the related parties were approved by the Audit Committee and are in compliance with sections 177 of the	This is a statement of fact.



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
	Companies Act, 2013 where applicable and the provisions of section 188 of the Companies Act, 2013 are not applicable. The details of Related Party Transactions have been disclosed in the Financial Statements, as required by the applicable Accounting Standards; Refer Note 42	
14.	Preferential allotment or Private placement of shares	
	The company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review as such the clause is not applicable to the company.	This is a statement of fact.
15.	Non Cash transactions with Directors:	
	As per the records of the company and information and explanation provided to us, the company has not entered into any non-cash transactions with directors or persons connected with them and hence the clause is not applicable.	This is a statement of fact.
16.	Registration u/s 45-IA of RBI Act.	
	The company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934.	This is a statement of fact.



**“ANNEXURE- 2” TO THE INDEPENDENT AUDITORS’ REPORT OF EVEN DATE ON THE
STANDALONE FINANCIAL STATEMENTS OF AIR INDIA LIMITED**

Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
	Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)	
	We have audited the internal financial controls over financial reporting of Air India Limited (“the Company”) as of March 31, 2017 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.	
	Management's Responsibility for Internal Financial Controls ;	
	The Company's management is responsible for establishing and maintaining internal financial controls based on “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India”. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.	This is a statement of fact.
	Auditor's Responsibility;	
	Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls, and both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and	



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
	<p>perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.</p> <p>Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. 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.</p> <p>We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system over financial reporting.</p>	
	Meaning of Internal Financial Controls over Financial Reporting :	
	<p>A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that</p> <ol style="list-style-type: none">1) pertains to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and	This is a statement of fact.



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
	3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.	
	Inherent Limitations of Internal Financial Controls over Financial Reporting :	
	Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.	
	Qualified Opinion	
	According to the information and explanations given to us and based on our audit, the following material weaknesses have been identified as at March 31, 2017:	
	(i) The company did not have an interface between various functional software relating to Sales/ Revenue and Inventory Management with the accounting software resulting in accounting entries being made manually on periodical basis.	<p>Answer to (i) and (ii)</p> <p>In airline industry, sales are booked as a liability and get converted to revenue only on the completion of travel by the pax. Hence, sales processing and revenue processing are two independent activities.</p>
	(ii) The company did not have an appropriate internal control system for reconciliation of Control Accounts in relation to the Sales / Revenue, Inventory and Payroll.	<p>Regarding sales, 85-90% of sales are generated through BSP (ARC in USA) and data in respect of these sales are received electronically, on a daily basis directly from IATA. Only the balance 15% (sales made at airport/booking office/GSA office and through Web) are received from SITA, in a similar manner. For all sales made at a particular station, there are BSP reports available for sales through agents, and SOR, that is, sales report from SITA for booking office sales. The station records the cash sales or</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		<p>receivables based on these reports. The same data is processed by the third part vendor (Accelya) to create the liability. The receivables booked by the station and the liability created by Accelya should normally be the same. Rather than one party booking the receivables and creating the liability, this two way process is mainly for internal financial controls, through the intermediary accounts, to ensure that they match. There is a reconciliation statement which is generated for every office, on a monthly basis, which also gives the reasons for discrepancies.</p> <p>It is observed that the differences arise, mainly due to time overlap, incorrect reflection of currency, incorrect form of payment (mostly due to ticketing errors), which are subsequently investigated and rectified. The stations do check these reports, after which, either a receivable is created, if they have made any error, or Accelya is informed, if they need to make any correction. It may be pointed out that differences if any, do not affect the P and L account and remain in assets /liabilities.</p> <p>A substantial amount has been identified, reconciled from the balances outstanding in the intermediary accounts as on 31.03.2017. These reconciliations have been shown to auditors, and adjustment entries have already been passed in 2016-17. Revenue processing is a separate activity. This liability created through sales processing, then gets converted to revenue, based on the flown data received from SITA system, again on a daily basis, for all uplifts made at all airports.</p> <p>It is relevant to point out that any ticket which is uplifted, for which there is no sale that is processed, is immediately</p>



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		<p>captured as unreported sales, and debits are raised on the agents instantly.</p> <p>Further, the Revenue Reports generated by the outside agency have been linked to SAP System during 2017-18.</p>
(iii)	The company did not have an appropriate internal control system for deduction, deposit and reconciliation of statutory dues.	The company has hired an external firm of Chartered Accountants to reconcile the statutory dues with the deductions/returns filed/statutory records maintained. The company would give effect to any adjustments as and when the reconciliations are completed. However the Company has taken all steps to ensure that TDS provisions has been properly captured and remitted. In respect of Service tax the existing system is being further examined to ensure that all CENVAT credits are taken on a timely basis.
(iv)	The company did not have effective internal audit system commensurate with the size, nature and complexities of the business.	External Internal Auditors were appointed during the year 2016-17 to strengthen and enhance the scope of Internal audit in several areas of the company's business. With the assistance of these auditors and strengthening of the in house internal audit team the company intends to strengthen the scope and coverage of internal audit commensurate with the size and nature of the company's business.
(v)	The company did not have an appropriate internal control system for obtaining confirmation of balances on a periodic basis and reconciliation of unmatched Receivables and Payables.	The company has confirmed the balances with the major vendors, banks and financial institutions to whom the company owes the money. This constitutes a majority of creditors of the company. Similarly, in respect of receivables/payables from the Agents/ GSA/Vendors the company will strengthen the system of obtaining balance confirmation on periodic basis.



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
		<p>Further, in respect of reconciliation of unmatched receivables and payables it is stated that the company has reconciled a substantial percentage of receivables and payables in SAP. However, in respect of the remaining accounts necessary action will be taken to reconcile the unmatched receivables and payables in SAP in FY 2017-18</p> <p>The Management is of the view that considering the multitude of vendors with which it has to deal with in the ordinary course of its business, it may not be possible to obtain a complete confirmation of balances from the all the vendors. Based on the confirmation received from the banks, financial institutions and other major vendors the Management is of the view that the balances reflected in the financial statement reflect a true and fair view of the amount owed/owing to/from various vendors/parties.</p>
	(vi) The Company did not have an effective Information system audit to evaluate and test the IT general controls, which may affect the completeness, accuracy and reliability of the reports generated from IT System.	The Company has an effective ERP-SAP System in place and IBM has been appointed to implement and hand hold AI upto 2023. Several Computer related applications are checked for accuracy and control by the Service Providers. The reliability of Reports are also checked.
	(vii) The company did not have an effective system for timely accounting of entries & approval hereof in IT System.	ERP-SAP has been introduced and implemented at all online stations and an effective system has been put in place for the timely accounting and approval of entries.
	A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.	



Sr. No.	AUDIT OBSERVATIONS	MANAGEMENT COMMENTS
	<p>In our opinion, except for the effects/possible effects of the material weakness described above on the achievement of the objectives of the control criteria, the Company has maintained, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as of March 31, 2017, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.</p>	
	<p>We have, to the extent possible, considered the material weakness identified and reported above in determining the nature, timing, and extent of audit tests applied in our audit of the March 31, 2017 standalone financial statements of the Company, and these material weaknesses are not likely to affect our opinion on the standalone financial statements of the Company.</p>	



ANNEXURE- 3 TO THE INDEPENDENT AUDITORS' REPORT

Sr. No.	Directions under section 143(5) of Companies Act 2013	Auditor's Comment																				
1.	Whether the Company has clear title / lease deeds free hold and lease hold respectively? If not, please state the area of free hold and lease hold land for which title / lease deeds are not available?	The details provided by the Management are enclosed in Annexure-I of Independent Auditors' Report – CARO, Sr. No.1(c) and Note No.29(a) forming part of Financial Statements.																				
2.	Whether there are any cases of waiver/ write off of debts/loans/interest etc., if yes, the reasons there for and the amount involved.	There are no write-offs of debts/loans/interest during the year.																				
3.	Whether proper records are maintained for inventories lying with third parties & assets received as gift/ grants from Govt. or other authorities.	<p>Records are maintained by the company in respect of inventories lying with third parties. However, since confirmation in respect of such inventories have not been provided to us we are unable to verify the completeness of the same.</p> <p>We are informed that there are no gifts and grants from govt. and other authorities received during the year and accordingly no such records are maintained.</p>																				
4.	To ascertain and quantify the impact of																					
	(a) Pending reconciliation of receivables and payables particularly with airport operators, subsidiaries, JVs and oil companies.	Refer Para 2 of Basis of qualification.																				
	(b) Claims lodged, settled, pending and rejected in the case of aviation and non aviation insurance.	<p>The Data as given below are based on the information provided by the company;</p> <p style="text-align: right;">(Rs in Million)</p> <table border="1" data-bbox="777 1417 1498 1925"> <thead> <tr> <th data-bbox="777 1417 1122 1528">Particulars</th> <th data-bbox="1122 1417 1292 1528">Non Aviation Claims</th> <th data-bbox="1292 1417 1498 1528">Aviation Claims</th> </tr> </thead> <tbody> <tr> <td data-bbox="777 1528 1122 1581">Claim Lodged</td> <td data-bbox="1122 1528 1292 1581">34.72</td> <td data-bbox="1292 1528 1498 1581">569.45</td> </tr> <tr> <td data-bbox="777 1581 1122 1692">Claim Rejected/ Withdrawn during the year 2016-17</td> <td data-bbox="1122 1581 1292 1692">-</td> <td data-bbox="1292 1581 1498 1692">-</td> </tr> <tr> <td data-bbox="777 1692 1122 1776">Claim Settled during the year 2016-17</td> <td data-bbox="1122 1692 1292 1776">7.50</td> <td data-bbox="1292 1692 1498 1776">453.65</td> </tr> <tr> <td data-bbox="777 1776 1122 1860">Policy amount deducted from Claim</td> <td data-bbox="1122 1776 1292 1860">-</td> <td data-bbox="1292 1776 1498 1860">91.54</td> </tr> <tr> <td data-bbox="777 1860 1122 1925">Claims Pending as on 31st March 2017</td> <td data-bbox="1122 1860 1292 1925">27.22</td> <td data-bbox="1292 1860 1498 1925">24.27</td> </tr> </tbody> </table>			Particulars	Non Aviation Claims	Aviation Claims	Claim Lodged	34.72	569.45	Claim Rejected/ Withdrawn during the year 2016-17	-	-	Claim Settled during the year 2016-17	7.50	453.65	Policy amount deducted from Claim	-	91.54	Claims Pending as on 31st March 2017	27.22	24.27
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Policy amount deducted from Claim	-	91.54																				
Claims Pending as on 31st March 2017	27.22	24.27																				



Sr. No.	Directions under section 143(5) of Companies Act 2013	Auditor's Comment
		*The above data excludes, amount of those claims for which amounts is yet to be ascertained.
	(c) With reference to inter-company transactions adjustment in the CFS of AIL for 2015-16, the impact of the same in the standalone accounts of AIL for 2016-17 may be looked into.	The difference with the subsidiaries as on 31.03.2016 was Rs.1491.8 million against which Rs.222.1 million is pending adjustments as at 31.03.2017. We are informed that such differences will be identified and adjusted in the respective books in the due course.