

**COMMITTEE ON PUBLIC  
UNDERTAKINGS  
(1980-81)**

**(SEVENTH LOK SABHA)**

**SECOND REPORT**

**[Action taken by Government on the recommendations contained in the Fifty - fifth Report of the Committee on Public Undertakings (Sixth Lok Sabha)]**

**ON  
APPOINTMENT OF AUDITORS IN  
GOVERNMENT COMPANIES**

*Presented to Lok Sabha and  
Laid in Rajya Sabha on*



**LOK SABHA SECRETARIAT  
NEW DELHI**

*December, 1980/Agrahayana, 1902 (Saka)*

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SECOND REPORT OF THE COMMITTEE ON PUBLIC  
UNDERTAKINGS (SEVENTH LOK SABHA)

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**COMMITTEE ON PUBLIC UNDERTAKINGS**  
(1980-81)

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**Shri Bansi Lal**

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2. Shri Gulam Nabi Azad
3. Shri Niren Ghosh
4. Shri Harikesh Bahadur
5. Shri Arif Mohammad Khan
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20. Shri Harisinh Bhagubava Mahida
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22. Shri Sunder Singh Bhandari

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\* Ceased to be a Member of the Committee on his appointment as a Deputy Minister w.e.f. 31-10-1980.

**SECRETARIAT**

1. Shri H. G. Paranjpe—*Joint Secretary*
2. Shri T. R. Krishnamachari—*Chief Financial Committee Officer.*
3. Shri S. C. Gupta—*Senior Financial Committee Officer.*

**SUB-COMMITTEE ON ACTION TAKEN OF THE COMMITTEE  
ON PUBLIC UNDERTAKINGS**

**(1980-81)**

1. Shri Bansi Lal—*Chairman*
2. Shri R. R. Morarka—*Convener*
3. Shri Gulam Nabi Azad
4. Shri Swami Dinesh Chandra
5. Shri S. M. Krishna
6. Shrimati Geeta Mukherjee
7. Shri B. K. Nair

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 2nd Report on Action Taken by Government on the recommendations contained in the 55th Report of the Committee on Public Undertakings (Sixth Lok Sabha) on Appointment of Auditors in Government Companies.

2. The 55th Report of the Committee on Public Undertakings was presented to Lok Sabha on 30 April, 1979. Replies of Government to all the recommendations contained in the Report were received on 29 December, 1979. Further information called for in respect of 1 recommendation was furnished by the Ministry on 17 June, 1980. The Replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 14 November, 1980. The Report was finally adopted by the Committee on Public Undertakings on 18 November, 1980.

3. An analysis of the Action Taken by Government on the recommendations contained in the 55th Report (1978-79) of the Committee is given in Appendix.

NEW DELHI;  
November 24, 1980  
Agrahayana 3, 1902 (Saka)

BANSI LAL,  
Chairman,  
Committee on Public Undertakings.



## CHAPTER I

### REPORT

This Report of the Committee deals with the Action Taken by Government on the recommendations contained in the Fifty Fifth Report of the Committee on Public Undertakings (1978-79) on "Appointment of Auditors in Government Companies" which was presented to Lok Sabha on the 30 April, 1979.

2 Action Taken notes have been received from Government in respect of all the eight recommendations contained in the said Report. These have been categorised as follows:—

(i) *Recommendations/Observations that have been accepted by the Government.*

Serial No. 2, 3 & 6.

(ii) *Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies.*

Serial No. 4, 5(1), 5(2) & 7.

(iii) *Recommendation/Observation in respect of which the replies of Government have not been accepted by the Committee.*

Serial No. NIL

(iv) *Recommendation/Observation in respect of which final replies of Government are still awaited.*

Serial No. 1.

3. The Committee will now deal with the action taken by Government on the recommendation at S. No. 1.

### APPOINTMENT OF AUDITORS

#### Recommendation No. 1 (Paragraph No. 19—20)

4. The Committee noted that under the provisions of the Companies Act, 1956, in the case of Government Companies audit is conducted by professional auditors appointed by the Company Law Board on the advise of the C&AG of India. The High Powered Expert Committee on Companies and MRTTP Acts (Sachar Committee) suggested that whereas, the panels of auditors should be

maintained by the C&AG, appointment of auditors from out of these panels might be made by the public sector undertakings themselves. The Committee were, however, of the view that it was totally undesirable that a government company should have the choice of auditors (though from a panel maintained by C&AG) and there is no warrant to change or modify the existing wholesome provision in the Companies Act.

5. In their reply the Ministry of Law, Justice and Company Affairs has stated as follows:

“The Sachar Committee’s recommendation in this regard is still under consideration of the government. The views of the Committee on Public Undertakings as stated in para 20 of its 55th Report will be kept in view when a final decision is taken by the government on the said recommendation of the Sachar Committee”.

6. Although Government could have considered the point raised by this Committee and made known their views, pending consideration of the Sachar Committee’s recommendation as a whole, it is regrettable that it was not done. The committee therefore wish to reiterate that there is no warrant to change or modify the existing wholesome provision in the Companies Act, 1956 in regard to appointment of Auditors of Government companies.

## CHAPTER II

### RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### **Recommendation (Serial Nos. 2 and 3, Paragraphs 21—24)**

The Committee note that out of a total of about 10,000 practising Chartered Accountants, 6,735 have applied for registration in C & A.G.'s Office for being appointed as auditors of Government Companies. Thus, the field of choice for choosing auditors for Government Companies by the C&AG on whole advice the Company Law Board appoints is, indeed, very wide.

Admittedly, the selection of auditors for Government Companies, in which huge public funds have been invested will have to be done with great care and circumspection.

The C & AG's Office has laid down certain criteria for selection of auditors. Partnership firms are preferred to proprietary firms (except in States where such firms are not in sufficient number) and even among the partnership firms weightage is given to firms where at least two of the partners do not have independent practice outside the partnership or are not employed elsewhere. The other considerations are based on location of the undertakings and the auditor firm, the nature and complexities of the Company to be audited, the fee for the audit, the organisational strength of the auditor firm, its records of work and experience etc.

While the Committee are in general agreement with the above criteria laid down by the C&AG, they would like to point out that considering, the large number of practising Chartered accountants, the policy should be to allot audit of the public sector companies to firms which have not so far been assigned such audit provided they satisfy the criteria.

#### **Reply of Government**

The policy aspect suggested by the Committee is kept in view by the C & AG in selecting auditors for Public Sector Enterprises.

[Ministry of Law, Justice & Company Affairs  
O.M. No. 3/14/79-IGC, dated 29-12-79]

**Recommendation Serial No. 6 Paragraph No. 27**

The Committee also observe that in the case of 22 Government Companies auditors are yet to be appointed for 1978-79 or for earlier years. Of these 22 Govt. Companies.

The Committee also observe that in the case of 22 Government Companies auditors are yet to be appointed for 1978-79 or for earlier years. Of these 22 Companies, Accounts for the year 1977-78 or earlier years of as many as 7 Companies are in arrears resulting in non-appointment of auditors. The Committee regret to note that the accounts of such undertakings like Eastern Coal-fields and Coal India are in arrears for the past three financial years. The Committee would like to be informed of the reasons for accounts of these 7 Companies running into arrears and the steps taken to ensure that such a situation does not arise in future.

*Statement showing reasons leading to errors in accounts finalisation of seven companies and steps taken to prevent recurrence of such situations reported by the Companies concerned to their Administrative Ministers*

Sl. No.	Enterprises	Annual Accounts in arrears	Reasons for the arrears	Steps taken to prevent recurrence
1	2	3	4	5

1 Coal India Ltd.

1976-77  
1977-78  
1978-79

1. After nationalisation of all non-cooking collieries in 1973, individual accounts of 711 collieries had to be prepared and audited upto the period 30-6-75.

The company has already prepared their accounts for 1976-77 and 1977-78 and Auditors for these two years have also been appointed. It is expected that the 1976-77 and 1977-78 accounts of company could be adopted by March, 1980 & July 1980 respectively.

2. Reorganization of nationalized coal industry was done in November, 1975. At that time, it was thought that Coal India/CMA would prepare accounts for 19 months ending 31-12-75. As it require amendment of Act ultimately two accounts were prepared for 12 months ending 31-3-75 and 7 months thereafter ending 31-10-75. This took long time.

To prevent recurrence of arrears, the company have recruited qualified personnel, developed standard formats and accounts manuals.

3. 1975-76 accounts got delayed for above reasons and it was ultimately adopted in July, 1979.

4. About 23 auditors are appointed for different areas of the company. Coordination among so many auditors and ultimate consolidation of accounting also take a long time.

## 2 Eastern Coalfields

Same as for Coal India

1976-77  
1977-78  
1978-79

(i) Appointment of Auditors for 1976-77 has already been made in this company. The appointment for subsequent years will be made on receipt of C&AG's recommendations, after audit of account for the earlier years is completed.

(ii) To prevent recurrence of arrears, action as indicated in the case of Coal India Ltd. is being taken in respect of this Company also.

## 3 Western Coalfields

Same as for Coal India

1976-77  
1977-78  
1978-79

Statutory audit of 1976-77 accounts has been completed in August 1979 and C&AG audit started. 1977-78 accounts have also been completed and auditors appointed. It is expected that 1978-79 accounts could be compiled by November/December, 1979.

## 4 Central Mine Planning &amp; Design Institute.

Same as for Coal India

1976-77  
1977-78  
1978-79

Same as for Coal India. 1976-77 and 1977-78 accounts have been already completed. 1976-77 accounts are being audited by the C&AG by Statutory Auditors and 1977-78 accounts are under audit. As soon as these accounts are audited, 1977-78 accounts could also be furnished to the statutory auditor. It is expected that 1976-77 and 1977-78 accounts could be finally adopted by February, 1980.

5 Burn Standard

1977-78  
1978-79

This company was incorporated on 1-12-76 accruing the assets and liabilities of two nationalised companies viz. Burn & Co. and Indian Standard Wagon Co. These were managed by the Govt. till 30-11-76 opening balance as on 1-12-76 could be obtained from the audited account of two companies for the period ending 30-11-1976 as late as end of 1978. This delayed compilation of audit of 1976-77 account and consequently for it the subsequent years.

Statutory auditors have already completed audit of 1977-78 accounts and C & AG's audit is in its progress. The account of 1978-79 have also been compiled and would be given over to statutory auditors as soon as they are appointed. It is expected that statutory audit of 1978-79 accounts would also be completed by the end of this year.

6 Punjab Maize Products.

1976-77  
1977-78  
1978-79.

The company was incorporated on 7-8-1975. The Project Manager and the Secretary of the company were, however, appointed by the company in September, 1977, and September, 1978, respectively. Thereafter on receipt of full particulars, information from the company and on the advice of the C & AG (received on 15-3-1979), the Auditors for the year 1975-76 were appointed on 31st March, 1979. Since then, appointment of Auditors for the subsequent years 1976-77 and 1977-78 has already been made.

Auditors for the year 1978-79 will be appointed on receipt of C & A 'G's recommendation after the audit of accounts of the company for the earlier year is completed.

7 National Textiles Corpn.  
(West Bengal), Bihar,  
Assam & Orissa)

1977-78  
1978-79,

After nationalisation of Sick textile undertakings in September, 1974 with retrospective effect from 1-4-74, 18 Mills were transferred to this company in December, 1974. In the absence of opening balances of erstwhile autonomous Mills as on 1-4-74 and also non-availability of financial accounts for earlier period in respect of all the Mills the finalisation of 1974-75 accounts of the company got delayed. However, this 1974-75 accounts was ultimately adopted on 16-12-1977. For expediting audit of the subsequent years' accounts the Company Law Board in consultation with C&AG had agreed that as soon as the accounts of the previous years are audited by statutory auditors and copies of the certified accounts are received by the C&A G, the auditors for the succeeding year will be appointed disponding with the requirement of preceding

The company has been steps to expedite arrears audit of its accounts starting from 1974-75 and some special dispensation regarding appointment of auditors has been also granted to the company by Company Law Board in consultation with C&AG as a result of which it has been possible to complete the audit of all years upto 1976-77 and 1977-78 audit, is in progress. As soon as the 1977-78 audit will be over, Auditors for 1978-79 would be forthwith appointed.

1

2

3

4

5

accounts having been adopted in the annual General Meeting. Accordingly, Auditors for 1975-76 have been appointed on 9-2-76. Auditors for the year 1976-77 were then appointed on 18-1-79 and the 1976-77 accounts were adopted on 10-5-79. Auditors for 1977-78 have also been appointed who are currently auditing and it is expected that the auditing of 1977-78 accounts will be completed by September 1979.



## CHAPTER III

### RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

#### Recommendation (Serial No. 4, Paragraph 25)

The Committee understand that there have been a number of cases where audit of more than two companies has been entrusted to an auditor at the same time. The Committee are unable to appreciate the logic or necessity of an auditor firm being entrusted the audit of more than two Government Companies at a time. The Committee consider that undertaking of audit of more than two Government companies at a time could lead to concentration and casualness in audit which is bound to result in deterioration in quality. The Committee, therefore, strongly recommend that not more than two Government companies should be assigned to a firm of auditors at the same time as statutory auditors or Branch auditors. They also recommend that for Branch audit, only the up and coming audit firms should be given preference. The Committee do not foresee any difficulty in the adoption of this principle as there is no dearth of auditors satisfying the criteria laid down by the C & AG to undertake Government company audit.

#### Reply of Government

The Comptroller and Auditor-General has stated in this regard that at present generally, except in certain regions, the number of audit with a single firm at a time ranges from 3 to 4 except in certain exceptional circumstances depending upon the fees etc. In States, like, Orissa, Jammu & Kashmir, Kerala and northern eastern States, however, the number of Chartered Accountants firms is limited, audits are small and for these reasons, it has not been practicable to restrict the number. Even in such cases, they do not exceed 6 to 7 and the total audit fees do not generally exceed fifteen to twenty thousands rupees. The location of audit firms, with reference to location of the companies concerned, is an important criteria and without adding to avoidable travelling costs, it would not be practicable to give audits to faraway firms. Thus, taking all things into consideration, it will not be practicable to

limit the number of audits to each firm to any specific figure, though an attempt is being made to gradually reduce the number to a reasonable figure of 3 or 4 depending upon the circumstances. Laying down any rigid number will not be workable, though efforts would continue to be made to further reduce the audits with each firm. In the above circumstances, it may not be advisable to fix specific number.

[Ministry of Law, Justice & Company Affairs  
O.M. No. 3/14/79-IGC, dated 29-12-79]

**Recommendation (Serial No. 5(1), Paragraph 26)**

At present, a firm appointed for auditing a Government Company is generally re-appointed for two more years. The Committee suggest that the auditor should be considered for re-appointment for more than one year.

**Reply of Government**

An Auditor takes some time to acquire familiarity with the operational features of any enterprise. To frequent changes of auditors may impair or affect the effectiveness of audit. As such, it would not be desirable to fix rigid ceilings of two years' tenure only, for an auditor. The present practice of continuing the same auditor in the same firm for a period of three years, subject to satisfactory performance of the auditor, is fair and reasonable and may continue. Indeed, in a highly sophisticated industry involving specialised technology and production processes, even a longer period might have to be considered.

[Ministry of Law, Justice & Company Affairs  
O.M. No. 3/14/79-IGC, dated 29-12-79]

**Recommendation (Serial No. 5(2), Paragraph 27)**

The Committee recommend that when the question of re-appointment of a firm comes up, very strict scrutiny of its performance during the previous year must be made and the recommendation for its re-appointment should be done, with the specific approval of the C & AG of India.

**Reply of Government**

The need for ensuring high standard in the audit of public sector undertakings is always kept in view and performance of the auditors are carefully scrutinised before their reappointment.

Reappointment is authorised by Chairman, Audit Board in exercise of power conferred on him by C & AG.

[Ministry of Law, Justice & Company Affairs  
O.M. No. 3/14/79-IGC, dated 29-12-79]

**Recommendation Serial No. 7, Paragraphs 31—33)**

Committee find from a perusal of the comments of the C & AG of India on some of the statutory auditors' Report of Government Companies that even within the limited scope of statutory audit, there have been cases where the company auditors have failed to bring to light the defects in the accounts and later had to be pointed out by the C & AG in his comments. The Committee have no doubt that if the auditors' performance were to be subjected to a detailed scrutiny by the C&AG of India many cases would be found where irregularities would have been detected by a diligent auditor but had gone unnoticed by the statutory auditor.

The Committee feel that the statutory auditor's responsibility needs to be more clearly identified with a view to not only ensuring a thorough scrutiny of the accounts of the Company but also to fix responsibility on the statutory auditor for defects in the accounts which could have been detected with due care and caution by the auditor but had not been so noticed by him.

Considering all these factors, the Committee feel that there is an urgent need for review of the working and performance of the statutory auditors.

**Reply of Government**

The responsibilities of statutory auditors have been laid down in Section 227 of the Companies Act. Moreover, under provision of Section 619 (3), C&AG also issues directions to the statutory auditors regarding the manner in which the companies' accounts should be audited and this provision provides sufficient flexibility for audit of Government companies. The performance of the auditors are also keenly scrutinised at the time of their reappointment by the Audit Board. This arrangement is giving satisfactory result.

[Ministry of Law, Justice & Company Affairs  
O.M. No. 3/14/79-IGC, dated 29-12-79]

**CHAPTER IV**

**RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF  
GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE  
COMMITTEE.**

**NIL**

## CHAPTER V

### RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

#### Recommendation (Serial No. 1, Paragraphs 19-20)

The Committee note that under the provisions of the Companies Act, 1956, in the case of Government Companies, audit is conducted by professional auditors appointed by the Company Law Board on the advice of the Comptroller and Auditor-General of India. The C&AG is also authorised to conduct supplementary or test audit. C&AG has also the power to direct the manner in which the Company's accounts shall be audited by the auditor appointed and to give such auditor instructions in regard to matters relating to the performance of his functions as such.

The Committee note in this connection, a recommendation made by the Sachar Committee suggesting that whereas, the panels of auditors should be maintained by the C&AG, appointment of auditors from out of these panels may be made by the public sector undertakings themselves. The Committee are unable to understand why this freedom of selection of auditors should be in the hands of the Companies themselves. The Committee consider that auditing is not a routing requirement. The public whose money has been invested in these Companies has to be satisfied of the proper management of the financiers of the Company. This is why the Companies Act has very rightly assigned the responsibility of proper conduct of audit of Government Companies to the C&AG and has granted him the necessary powers. The Committee are of the view that it is totally undesirable that a Government Company should have the choice of the auditor (though from a panel maintained by the C&AG) and there is no warrant to change or modify the existing wholesome provision in the Companies Act.

#### Reply of Government

The Sachar Committee's recommendation in this regard is still under consideration of the Government.

The views of the Committee on Public Undertakings as stated in para 20 of its 55th Report will be kept in view when a final decision is taken by the Government on the said recommendation of the Sachar Committee.

[Ministry of Law, Justice & Company Affairs  
O.M. No. 3/14/79-IGC, dated 29-12-79]

#### **Further Information called for by the Committee**

Whether any final decision has been taken by the Government on the Sachar Committee's recommendations regarding appointment of auditors in Government Companies. If so, please furnish details.

[LSS O.M. No. 301(6)-PU/79, dated 6 June, 1980]

#### **Further Reply of the Government**

The report of the Sachar Committee is under consideration of the new Government. No decision has yet been taken on the recommendations contained therein regarding the appointment of auditors in Government Companies.

[Ministry of Law, Justice & Company Affairs  
O.M. No. 3/14/79-IGC, dated 17 June, 1980]

#### **Comments of the Committee**

(Please see Paragraph 6 of Chapter I of the Report)

NEW DELHI;  
November 24, 1980

BANSI LAL,  
Chairman,

Agrahayana 3, 1902 (Saka) Committee on Public Undertakings.

## APPENDIX

(Vide Para 3 of Introduction)

*Analysis of action taken by Government on the recommendations contained in the Fifty-Fifth Report of the Committee on Public undertakings (Sixth Lok Sabha).*

	PAGE
I. Total number of recommendations made . . . . .	8
II. Recommendations that have been accepted by Government ( <i>vide</i> recommendations at S. Nos. 2, 3 & 6). . . . .	3
Percentage to total . . . . .	37.5%
III. Recommendations which the Committee do not desire to pursue in View of Government's reply ( <i>vide</i> recommendations at S. Nos. 4, 5 (1), 5(2) and 7) . . . . .	4
Percentage to total . . . . .	50%
IV. Recommendations in respect of which replies of Government have not been accepted by the Committee. . . . .	NIL
Percentage to total; . . . . .	NIL
V. Recommendations in respect of which final replies of Government are still awaited ( <i>vide</i> recommendation at S. No. 1) . . . . .	1
Percentage to total . . . . .	12.5%