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**PROJECT PLAN TO
ADDRESS AUDITORS
FINDINGS**

ANNUAL REPORT 2010/11

18 OCTOBER 2011

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PROJECT PLAN TO ADDRESS CHALLENGES AND AUDITORS FINDINGS

NO	AUDIT FINDINGS	ROOT CAUSES	ACTION PLAN/ REMEDIAL ACTION	DATE TO BE COMPLETED		FINALISED		
				THIRD QUARTER	FOURTH QUARTER			
1	Predetermined objectives							
	We are required to undertake a limited assurance engagement on the 'Performance against the predetermined objectives', as set out on pages 24 and 35 of the Annual Report in the section headed 'Report on the performance of the SABC', in which the actual performance of the group for the year ended 31 March 2011 is compared with target key performance indicators (predetermined objectives), and report thereon to those charged with governance.	The Corporations review sessions of its strategies, objectives and progress on same were limited and not frequent enough for the previous fiscal. This was as a result of various organisational issues e.g. structural and leadership matters).	The Corporation is adhering to the required MTEF and relevant governance planning cycles and requirements. A comprehensive Corporate Plan for FY2011/12 has been submitted and the plan includes set performance targets. Quarterly reviews are being performed and reports submitted to the various governance structures (internally and externally).	Ongoing	Ongoing			
2	Usefulness of information							
	Findings from our limited assurance engagement are that for all objectives, between 20% and 25% of the planned and reported targets were not:							
	<ul style="list-style-type: none"> specific in clearly identifying the nature and the required level of performance; 					Monthly and quarterly basis	Monthly and quarterly basis	
	<ul style="list-style-type: none"> measurable in identifying the required performance; 					Monthly and quarterly basis	Monthly and quarterly basis	
	<ul style="list-style-type: none"> time bound in specifying the time period or deadline for delivery. 					Monthly and quarterly basis	Monthly and quarterly basis	

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	3 Compliance with laws and regulations					
	We are required to report on compliance with laws and regulations in accordance with the guidance contained in the applicable R3: Reporting Guide of the Auditor-General. We report the following material findings on non-compliance with laws and regulations on the basis set out in the Guide.					
	1. Strategic planning and performance					
	3.1 management					
	1.1. Section 51(1)(a)(i) of the PFMA, read with Treasury Regulation 27.2.1, requires the SABC to maintain an effective, efficient and transparent system of risk management. The Risk Committee was restructured at the beginning of the financial year. The risk management strategy, policy framework and risk registers were only finalised by the Risk Committee during the last quarter of the financial year. At the end of the year these documents still required Board approval. The implementation and rollout throughout the organisation can only begin after the Board approval.	There was no Risk management strategy in place to anticipate risk exposure in the organisation.	The Corporation has rolled-out the relevant risk strategy and transparent risk management system as from 1 April 2011. The SABC is complying with the relevant PFMA and Treasury Regulations. Risk registers are kept in each Division and reports are submitted to the Risk Committee of the Board on a quarterly basis.	Continuous process	Continuous process	

PROJECT PLAN TO ADDRESS CHALLENGES AND AUDITORS FINDINGS

	<p>1.2. Formal approved policies and procedures, prepared in terms of section 51(1)(a)(i) of the PFMA and describing how the entity's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, were only drafted in the last quarter of the year. These policies and procedures still need to be presented to and approved by the Board. Subsequent to the approval, the policies and procedures need to be rolled out and embedded throughout the entity.</p>	<p>The breakdown of the performance process was due to various reasons (structural deficiencies, leadership issues, etc)</p>	<p>A new performance process is underway, with Execs and Senior Management already being engaged. Over and above the Performance policy, a full Policy review process is underway. First draft is done and communicated to stakeholders. Engagement with Organised Labour will commence shortly</p>		<p>31-Mar-12</p>	
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	1. Strategic planning and performance 3.1management					
	1.3. The borrowing programme prepared and included in the corporate plan 2010/2011 in accordance with the requirements of section 52(a) of the PFMA and Treasury Regulation 29.1.3(a) does not include all of the information required by Treasury Regulation 29.1.6(a)-(j). Deficiencies in the presented information include:	In the past the SABC had been requested to include quarterly borrowing report as part of the Corporate Plan as indicated by the Auditors findings.	The SABC will include the submission as part of the new corporate plan for fiscal 2012-2015			
	Similarly, as required by Treasury Regulation 29.1.3(b), the quarterly reports on the borrowing programme submitted to National Treasury did not contain information on actual borrowings for that quarter or any update of the borrowing programme.					
					28-Feb-12	



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	3.2 Internal audit					
	Treasury Regulation 27.2.1, read with Treasury Regulation 27.2.7, requires the Internal Audit function, in consultation with the Audit Committee, to prepare a three year rolling internal audit plan. This plan should be risk based and should indicate the scope of each audit. The internal audit plan presented to the Audit Committee did not show a clear link between the top 20 risks and the internal audit scope, as well as the budgeted hours per project.	The Internal Audit plan is currently not risk based because SABC has not yet done divisional risk assessments which will form the Risk Universe to be used as a base for the SABC Top 20 risks, and the audit plan	Internal Audit will facilitate Divisional Risk Assessments in order to have the Risk Registers. This will be used to create a compliant Audit Plan in time for the next Financial Year	31st March 2012		
	Contrary to Treasury Regulation 27.2.10, the draft internal audit plan for the 2011 financial year did not include planned work relating to operations in the form of a review of performance against predetermined objectives.	The Internal Audit plan is currently not risk based because SABC has not yet done divisional risk assessments which will form the Risk Universe to be used as a base for the SABC Top 20 risks, and the audit plan	Internal Audit will facilitate Divisional Risk Assessments in order to have the Risk Registers. This will be used to create a compliant Audit Plan in time for the next Financial Year. All improvements in the Audit Plan will be effected in the next planning cycle as indicated above.	31st March 2012		
	Treasury Regulation 27.2.7(d) requires the Internal Audit function to report to the Audit Committee, detailing its performance against the internal audit plan. Internal audit reports were not consistently submitted to the Audit Committee for consideration during the period. Audit reports were not timeously issued to the Board and to those responsible for implementation and consideration of corrective action.	This was a historical issue as a result of lack of leadership in the Internal Audit department	The new Chief Audit Executive has been appointed. The first Internal Audit quarterly reports were presented to the Audit Committee on the 30th of September 2011. These reports were also submitted to Group EXCO for their consideration	The matter has now been resolved		

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3.3	Audit committees					
	Contrary to the requirements of Treasury Regulation 27.1.8 and of the Audit Committee terms of reference, the Audit Committee did not conclude on all of its responsibilities in the following areas:					
	<ul style="list-style-type: none"> Internal audit plan and charter for the 2011 financial year was not approved as these were rejected on two occasions by the committee, given the inadequacy of the plan. 	This was a historical issue as a result of lack of leadership in the Internal Audit department	The Internal Audit Charter and Audit Committee Terms of Reference were presented and approved by the Audit Committee on the 30th of September 2011.	The matter has now been resolved		
	<ul style="list-style-type: none"> The Head of Internal Audit position was filled in an acting capacity for at least two years. The delegations of authority to the acting Head of Internal Audit were withdrawn in December 2010, resulting in the position being vacant at year end. Subsequent to year end the appointment of a permanent Head of Internal Audit was finalised. The significant delays in permanently filling the position of Head of Internal audit has lead to the internal audit unit not being able to effectively deliver on its strategic objectives related to internal controls and performance objectives in the year under review. 	This was a historical issue as a result of lack of leadership in the Internal Audit department	The new Chief Audit Executive has been appointed.	The matter has now been resolved		

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3.3	<i>Audit committees</i>					
	<ul style="list-style-type: none"> The effectiveness of internal controls was not adequately monitored, as the internal audit reports were not consistently tabled at the audit committee meetings to consider the impact of the findings and corrective action. 	Poor implementation of internal controls.	The new Chief Audit Executive has been appointed. The first Internal Audit quarterly reports were presented to the Audit Committee on the 30th of September 2011. These reports were also submitted to Group EXCO for their consideration. Management must monitor the internal controls continuously.	The matter has now been resolved		
	<ul style="list-style-type: none"> Financial, compliance and performance information was not consistently evaluated by the audit committee throughout the year to assess the adequacy, reliability and accuracy of such information, which was used as a basis for strategic decisions. Quarterly financial and performance reports were not presented for consideration of the Audit Committee and the National Treasury Pack was submitted to National Treasury without review by the Audit Committee. 		A new Audit Committee has been reconstituted. The Audit Committee is currently drawing up a new meeting and monitoring plan for the year 2011-2012 in order to ensure that we address all the deficiencies mentioned by the Auditors.			Ongoing Monitoring
	<ul style="list-style-type: none"> No formal presentation on the status of the external and internal audit findings was made to the Audit Committee. Accordingly, corrective action on such audit findings was not regularly monitored by the Audit Committee. 	This was a historical issue as a result of lack of leadership in the Internal Audit department	The Audit Findings Tracking Report will be presented in the next scheduled Audit Committee meeting.	24th November 2011, and quarterly thereafter		

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3.4	Procurement and contract management					
	4.1. As required by Section 51(1)(a)(iii) of the PFMA, a Group-wide procurement policy exists and a Content Commissioning and Acquisitions Policy has been developed and was approved by the Board. The following non-compliance with the policies was identified:	The action taken by management was not always documented or actioned. Poor management of contract deliverables.	Fruitless, wasteful expenses are reported monthly to Group finance to ensure visibility. Line management is tasked to take the appropriate actions and these must be documented.		Ongoing disclosure since 30 April 2011, but actions taken must be included in the monthly submissions, the document of actions will be introduced October month-end	
	<ul style="list-style-type: none"> Instances of premature procurement (ordering taking place without the appropriate legal contracts with suppliers, or signature by the appropriate delegated authority of the SABC having been obtained); 	Non-adherence to procurement policy. End Users approaching suppliers themselves without following a proper procurement process. This is also as a result of Top Management committing the organisation without following a process, but rather stating the urgency of the need.	Disciplinary action initiated and the Audit Findings Tracking Report will be presented in the next scheduled Audit Committee meeting.	Disciplinary hearing is scheduled to take place before the end of this fiscal.		
	<ul style="list-style-type: none"> Instances where international content acquisitions could not be supported by an approved business plan or signed contracts. 	The contracts that are referred to formed part of the contracts that were committed outside of the international mandate. Some of the license were accounted in FY 2011 in line with the accounting policy and the auditors referred to the specific contract	Board has been informed about the contracts and a resolution was passed to effective payment for titles listed in the submission. A monthly review process will be implemented to track the progress on the conclusion of all these contracts.	30-Nov-11		

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	3.5 Expenditure management					
	Section 51(1)(b)(ii) of the PFMA requires the Board to take appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct and expenditure not complying with the operational policies of the SABC. The SABC currently has policies and procedures in place which would assist with the prevention of these types of expenditures and losses, however, the current system to prevent these types of expenditures and losses was not always complied with during the 2010/11 financial year, and as such was not always effective.	Non-adherence to procurement policy. End Users approaching suppliers themselves without following a proper procurement process. This is also as a result of Top Management committing the organisation without following a process, but rather stating the urgency of the need.	Disciplinary action initiated and the Audit Findings Tracking Report will be presented in the next scheduled Audit Committee meeting.			Ongoing Monitoring
	Section 57(b) of the PFMA states that officials within the SABC are responsible for the effective, efficient, economical and transparent use of financial and other resources within their particular area of responsibility. As disclosed in note 44 to the Financial Statements which indicates fruitless and wasteful expenditure, an <u>additional</u> stock impairment of R 77 690 000 was incurred, indicating the lack of effective, efficient and economical use of financial resources.	No proper needs analysis and clear scheduling plan. The stock impairment is a consequence of excess stock procured during 2006 to 2008. A number of the current impairments is a result of the license periods ending during 2011 and limited space on the current platforms to broadcast all of the titles. The delay in updating the IPM module to manage media stock across the TV division hampered the ability to effectively manage the stock process and levels.	The new purchases for the next fiscal is compliant with the following: (i) Needs analysis; (ii) Scheduling plan across the television network; (iii) Clear broadcast strategy and commencement dates. Discussion with the suppliers of content to receive credit notes for the inventory we could not utilise and re-negotiating the contract terms. Develop a detailed project plan to update the IPM system, Reconcile the annual buying plan to current commitments, Create additional slots on the schedule for content that will be expiring and revisit the accounting policies to be aligned with business needs and revenue patterns.			Ongoing monitoring since August 2011 and the system update to be completed by 28 February 2012.

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3.7	Declarations of interest					
	The company's policies require employees to disclose any and all business interests to the Group Chief Executive Officer. Numerous employees were found to have interests in companies that could not be supported by signed declaration of interest forms. The lack of a centralised register and monitoring process within the company makes it difficult to track and monitor whether all employees have declared their interests.	Employees were previously requested to declare their interest and this was recorded and submitted for approval to management.	Communication was sent through to the staff members urging them to disclose and renew their applications for doing outside work. Management will request updated information of declaration of interest from employees.			Ongoing Monitoring

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PROJECT PLAN TO ADDRESS CHALLENGES AND AUDITORS FINDINGS

3.8	Revenue management					
	Section 51(1)(b)(i) and Section 51(1)(c) of the PFMA requires the Board to have effective processes in place to collect all revenue due to the SABC:					
	<ul style="list-style-type: none"> During the course of the audit of the financial statements, a number of adjustments were required to correct Group Sales and Marketing revenue. Accordingly, such revenue may not be collected timeously. 	<p>Old contracts including the ones from data intake into SAP have not ever been closed since the implementation of SAP. This led to adjustments that were passed against revenue but not allocated to specific individual contracts. Hence these contracts are still open items on SAP system. Skills and capacity increased this problem further.</p>	<p>Detailed listing of all open items was run and segregated into three categories: Zero Balances, Balance less than R3000, and the rest of contracts. The first category was completed. We are in the process of finalising the contracts with balances less than R3000. The rest of the contracts are being investigated against the manual journals that were processed in the past as audit adjustments. These will be allocated against manual journals passed. We are currently working a system solution to enable us to address these challenges. Fill the vacancy of Sponsorship Executive Officer.</p>		31 January 2012, subject to SAP support being available.	The position of Sponsorship Executive Officer was filled on May 2011.
	<ul style="list-style-type: none"> The actual spend against agreed commitments was not evaluated on a regular basis to ensure that customers are adhering to the agreed commitments. This resulted in a lost opportunity with respect to revenue as the company did not follow up on outstanding revenue commitments. 	Insufficient governance at Group Sales in the past.	This was identified as a Turnaround Initiative. Insufficient capacity of staff in Television has partially been addressed through secondments. A formalised Governance is envisaged to manage commitments across all SABC platforms, but is depended on the finalisation of the Operating Model and consultation with Labour.		The envisaged dates for both Turnaround Initiatives have passed implementation. Implementation will follow the approval by Board.	

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NO	AUDIT FINDINGS	ROOT CAUSES	ACTION PLAN/ REMEDIAL ACTION	DATE TO BE COMPLETED	FINALISED
	3.9 Asset management			THIRD QUARTER	FOURTH QUARTER
	8.1. Section 51(1)(c) of the PFMA requires the Board of the SABC to manage and safeguard the assets of the SABC. The following contraventions were identified:				
	<ul style="list-style-type: none"> No full asset stock counts were completed for the year under review. 	The delay in the automated rights management system (IPM) resulted in the counts not taking place.	Stock count will be conducted for quarter 3 and quarter 4 based on the available stock lists at the time.	31-Mar-12	
	<ul style="list-style-type: none"> The automated programme, film and sports rights management system was not fully implemented. The programme, film and sports rights lists are currently maintained manually. A reconciliation between the manual listings and the general ledger was only performed at year-end, and various reconciling differences were identified. 	The consolidation of the stock management process was fragmented between content and TV divisions, staff are not fully trained on all processes within the process, certain procedure documents are not documented, duplicate records were created, plan values (project budgets) are not loaded consistently, TVBMS and profitability sheets had inconsistencies	Developed a detailed project plan to update the financial system. This will ensure that go a long way in addressing the issues that lead to the audit qualification	Project is ongoing and systems update is anticipated to be completed by 28 February 2012.	
	3.1 Annual Financial statements				
	Section 55 (1)(a) of the PFMA requires the accounting authority to keep full and proper records of the financial affairs of the company and the annual financial statements should fairly present the state of affairs of the company, its business, its financial results, its performance against predetermined objectives, and its financial position as at the end of the financial year concerned. <u>Material misstatements</u> were identified during the audit, certain of these were corrected by management and those that were not are included in the basis for qualified opinion paragraph.	The causes of these material misstatements were related to not performing the monthly reconciliations due to lack of staff amongst others and lack of proper performance management	As part of the ensuring we address these issues, we have started the roll out of the performance management programme. We have also appointed a new Chief Audit Executive to perform control testing. The process of embedding risk management in the Corporation is also underway		Ongoing Monitoring

PROJECT PLAN TO ADDRESS CHALLENGES AND AUDITORS FINDINGS

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				THIRD QUARTER	FOURTH QUARTER	
3.1	1 Internal control					
	We considered internal control relevant to our audit of the financial statements, and the reports on predetermined objectives and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies relating to leadership, financial and performance management and governance that resulted in the findings on the reports on predetermined objectives and compliance with laws and regulations, as included in this Report.					
	<ul style="list-style-type: none"> No effective oversight responsibility was exercised during the year regarding reporting of performance against predetermined objectives, compliance with laws and regulations and the related internal controls. This is evidenced by the number of instances of non-compliance with the PFMA and Treasury Regulations identified in this Report and the findings on the effectiveness of Internal Audit. 					
	<ul style="list-style-type: none"> Human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored was not always effective. Staff in various divisions within the company lacked capacity to perform their assigned roles and responsibilities, as monthly reconciliations were not performed timeously. In addition, delays were experienced in receiving vital audit information and, in certain instances, audit information received was erroneous. A lack of segregation of duties was noted as certain individuals prepare and review the same information or prepare and authorise the same information. 	<p>The disjoint was due to structural issues, which resulted in duplication, risk with no segregation, inefficiencies due to oversupply of staff, inappropriate skill levels for the new structure, etc</p>	<p>A new operating model and structure is in the process of being implemented. This will ensure the right skills in the right place at the right time. A detail job analysis and grading process will also be completed and a match and place will thereafter occur. The intention around the new structure is to create a more streamlined SABC with the future digital environment in mind. Skills analysis and gap identification has been done and Critical Workforce segments identified. Management Development Programme and Leadership Development Programme have been launched and is a huge success. The new structure will have the necessary governance, segregation and efficiencies built into it. Human Resources is at the forefront of this change and are in the final stages of finalising its structure.</p>	01-Apr-12		

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No	AUDIT FINDINGS	ROOT CAUSES	ACTION PLAN/ REMEDIAL ACTION	DATE TO BE COMPLETED		FINALISED
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3.11	Internal control					
	<ul style="list-style-type: none"> Regular reconciliations relating to sponsorship revenue and programme, film and sports rights to collect all revenue due and to safeguard the assets of the SABC were not performed. This is due to the lack of implementation of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available and to the lack of implementation and adherence to controls over daily and monthly processing and reconciling of transactions. 	<p>Part of the problem was due to the Old contracts including as part of the data intake from an old legacy system to the new current SAP system we are using. This led to adjustments that were passed against revenue but not allocated to specific individual contracts. Hence these contracts are still open items on SAP system. Skills and capacity increased this problem further.</p> <p>The reconciliation of programme, film and Sport rights was done only at year-end, lack of an automated system contributed to a manual reconciliation process, the lack of finance resource, no integration between TVBMS and ECC and profitability reports were not standardised.</p>	<p>Detailed listing (R42m) of all open items was run and segregated into three categories: Zero Balances, Balance less than R3000, and the rest of contracts. The first category was completed. We are in the process of finalising the contracts with balances less than R3000. The rest of the contracts are being investigated against the manual journals that were processed in the past as audit adjustments. These will be allocated against manual journals passed. SAP is unable to currently give us a report that details deviations per contract. They are currently developing the programme to address this. Fill the vacancy of Sponsorship Executive Officer. Update the IPM module to ensure that the stock is reconciled.</p>		31 January 2012, subject to SAP support being available.	<p>The position of Sponsorship Executive Officer was filled on May 2011. With regards to programme, film and sports rights we anticipate to finish the project by no later than 31 March 2012.</p>

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3.11	Internal control					
	<ul style="list-style-type: none"> • Policies and procedures to enable and support the understanding and execution of internal control objectives, 					
	<p>processes, and responsibilities were not always established and communicated. The formal approved policies and procedures to monitor and report on performance information and the risk management strategy, policy framework and risk registers were only drafted and finalised in the last quarter of the year. These policies and procedures are still to be presented to and approved by the Board.</p>					
	<ul style="list-style-type: none"> • Although compliance with certain legislation is currently managed in various divisions throughout the organisation, the SABC did not have a centralised compliance control or process in place during the year. Accordingly, the SABC did not have an effective process in place to review and monitor its overall compliance with applicable laws and regulations as required by Section 51(1)(h) of the PFMA. 					

OVERALL CORRECTIVE ACTION

The SABC is currently considering the Auditors Findings on the Annual Report.

It should be noted that most of the Audit Findings on the 2010/11 Annual Report are related to findings of the Auditor-General, and therefore historical in nature.

However, in reaffirming its commitment to restoring accountability and good corporate governance at the SABC, the Board and Management are occupied and/or considering the following action:

- **Initiation of Civil and Criminal action against individuals who have left the organisation;**
- **Disciplinary action currently underway for staff still within the SABC's employ;**
- **Continuous corrective action to put in place effective internal controls to improve the control environment.**