

**CRITICAL ANALYSIS OF CORPORATE GOVERNANCE IMPLEMENTATION AND
CONTROL SYSTEMS WITHIN THE MUNICIPAL SECTOR IN GAUTENG
PROVINCE IN SOUTH AFRICA**

by

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DECLARATION

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ABSTRACT

By utilising the King III Report as a conceptual framework, this study sought to critically analyse corporate governance implementation and control systems within the municipal sector in the Gauteng province, South Africa. For a municipality to be trusted by and accountable to the public, it needs to implement an effective governance process. However, the absence of the municipal sector corporate governance implementation framework poses a major sector challenge for municipalities. For example, unsuccessful basic service provision and unsuccessful Operation Clean Audit (OPCA-2014) interventions have failed to correct poor governance, which gave rise to municipalities not receiving clean audit opinions from the Auditor-General of South Africa. In addition, it has become clear that the municipal board, charged with the implementation of effective governance practices, do not fully understand their governance roles. This can be evidenced by the fact that the majority of councillors need training and development in corporate governance. The ultimate aim of this study is to provide municipal boards with the skills and knowledge that will eventually translate into increased and sustainable development and good governance. The study used a combination of research approaches, where the quantitative approach was used to generate statistical data and reports, while the qualitative paradigm was used to substantiate numerical data. Data was collected by means of a questionnaire and interviews. Quantitative data was analysed through SSPSV 22 for factor analysis, descriptive and correlation analysis while qualitative data was transcribed and loaded into a qualitative data analysis software application known as NVivo. It was then coded and grouped into categories or themes. The data interpretation was done by illustrating different points with quotes, either verbatim or paraphrased. The study revealed that the challenge that municipal boards face is that they do not understand their governance role, resulting in service delivery protests as programmes are not implemented. In addition, the absence of a sector-specific framework is also a major contributor to ineffective administration and negative audit outcomes. The study proposes a model that municipalities can customise when implementing corporate governance. It concludes that by adopting and utilising the municipal corporate governance implementation framework, governance practices in municipalities can dramatically improve. As a result, the boards will be empowered and skilled in good governance. A further

empirical study on how the specific sector governance implementation framework can be incorporated into educational institutions' study programmes is highly recommended.

Key words: Municipal governance implementation, municipal sector, local government, municipal system, municipal structure, corporate governance, transparency, accountability, good governance, King III Report, public sector governance implementation, MFMA, audit reports, clean audits, Gauteng, South Africa

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PROVERBS: 16:3 & 18:15-16

The heart of the prudent acquires knowledge and
the ear of the wise seeks knowledge:

Commit your works to the LORD, and your thoughts will be established.

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LIST OF ACRONYMS AND ABBREVIATIONS

AAPAM:	African Association for Public Administration and Management
ACFE:	Association of Certified Fraud Examiners
ADR:	Alternative dispute resolution
AG:	Auditor-General (a person)
AGSA:	Auditor-General of South Africa (an institution)
ANC:	African National Congress
AO:	Accounting Office (municipal manager or city manager or chief executive officer)
BEE:	Black economic empowerment
BOD:	Board of directors (Councillors)
CAE:	Chief audit executive
CEO:	Chief executive officer
COGTA:	Cooperative Governance and Traditional Affairs
COSO:	Committee of Sponsoring Organizations of the Treadway Commission
CSR:	Corporate social responsibility
DA:	Democratic Alliance
DTI:	Department of Trade and Industry
ECA:	Economic Commission for Africa
ERM:	Enterprise Risk Management
EWRM:	Enterprise Wide Risk Management
EXCO:	Executive committee
GRAP:	Generally Recognised Accounting Practice
GRI:	Global Report Initiative
HSRC:	Human Sciences Research Council
IDP:	Integrated Development Plan
IFC:	International Finance Corporation
IIA:	Institute of Internal Auditors
IIASA:	Institute of Internal Auditors South Africa
IMFO:	Institute of Municipal Finance Officers
IOD:	Institute of Directors

IODSA:	Institute of Directors in Southern Africa
IT:	Information technology
JSE:	Johannesburg Stock Exchange
KMO:	Kaiser-Meyer-Olkin
LED:	Local Economic Development
MCGIF:	Municipal Corporate Governance Implementation Framework
MEC:	Members of the Executive Council
MFMA:	Municipal Finance Management Act
MMR:	Mixed method research
MPAC:	Municipal Public Accounts Committee
MSA:	Municipal Structures Act
NCOP:	National Council of Provinces
OECD:	Organization for Economic Co-operation and Development
OPCA:	Operation Clean Audit
PFMA:	Public Finance Management Act
PMS:	Performance management systems
PPS:	Probability proportional to size
PRC:	Public Service Commission
PSA:	Public Service Act
PSIIA:	Professional Standards of the Institute of Internal Auditors
RQ:	Research questions
RSA:	Republic of South Africa
SABC:	South African Broadcasting Corporation
SALGA:	South African Local Government Associations
SCM:	Supply Chain Management
SDBIP:	Service Delivery and Budget Implementation Plan
SPPIA:	Standards for the Professional Practice of Internal Audit
SRI:	Social responsibility investment
UK:	United Kingdom
UNDP:	United Nations Development Programme
UNESCAP:	United Nations Economic and Social Commission for Asia and the Pacific

CHAPTER ONE

INTRODUCTION AND OVERVIEW

If management is about running the business, corporate governance is about seeing that it is run properly (Tricker, 1984:1)

1.0 INTRODUCTION

The prospects of the corporate governance implementation framework and control system within any organisation cannot be overemphasised. If an organisation is to gain a competitive advantage within its operating environment, there should be systems that are geared to guiding the corporate governance implementation framework to assist the board to run businesses. This argument is echoed by KPMG (2011:31) when pointing out that the concept of the good corporate governance framework relies heavily on the board of directors, and should include its implementation and effective control processes. Local government, especially in developing countries such as South Africa, is no exception. When South Africa became a democracy in 1994, the regulatory framework of local government in the country was altered. As a result, South African citizens were freed from the shackles of an oppressive apartheid regime and experienced democratic rule. Freedom from apartheid came with promises of a better life for all and the realisation of constitutionally protected human rights (Williams, 2012:12). Therefore, South Africans expected a local government that works to satisfy the public's needs. Despite these expectations and availability of corporate governance framework that is applicable to both the private and the public sectors, municipalities in South Africa still struggle to provide services to the citizens due to a poor corporate governance implementation and control system (Ngoepe & Ngulube, 2013:150).

In South Africa, the corporate governance framework that applies to both private and public sector is known as the King III Report. This study sought to provide a critical analysis of the corporate governance implementation and control system within the municipal sector in the Gauteng province in South Africa by using the King III Report. Corporate governance is defined as the relationship between the board of directors, top management and shareholders in

determining the direction and the performance of the corporation (Whellen & Hunger, 2002:26). In Latin, the term “government” is synonymous with “administration” or “leadership”, referring to all activities within a company, within the scope of management. If the term of “governance” means leadership, then “corporate governance” evokes the idea of leading the entire organisation, because the term “corporate” comes from the word “body”, suggesting the idea of an ensemble, of the whole unit.

Effective and efficient local government demands good governance, which is based on sound principles. This is confirmed by Tricker (1984:1) in a quotation above when stating that “if management is about running the business, corporate governance is about seeing that it is run properly”. This implies that the concept of corporate governance is about separation of ownership from management (Ngoepe, 2012:48). Therefore, the responsibility of corporate governance lies with the board of directors and consists of two main functions: the direction of the company and the control of the company (Rossouw, 2006:189). It is based on the premise that modern corporations are not passively shaped by external conditions, but can play an important role in both the successes and failures of the corporation. Corporate governance is aimed at promoting efficiency and effectiveness in the administration and management of any organisation, including the local government machinery. Hendrikse and Hendrikse (2012:45) contend that since governance is the process of decision-making and the process by which decisions are implemented, an analysis of governance focuses on the formal and informal factors involved in decision-making and implementing the decisions made and the formal and informal structures that have been set in place to arrive at and implement the decision. Like other sectors, local governments need to participate in the governance processes and other factors involved in governance. In view of the above, this study provides a critical analysis of corporate governance implementation and control system within the municipal sector in the Gauteng province in South Africa.

As Rossouw (2010:1) states, the full name of the abbreviation King III Report is the King Report on Corporate Governance for South Africa, which was published in 2009 and came into effect on 1 March 2010. The third King Report became necessary due to changes in legislation, namely the Amended Companies Act of 2009, as well as changes in international governance trends. The

credit crunch and the resulting crisis among leading financial institutions in 2009 also emphasised the importance of value-based, good corporate governance practices. The King Committee was retained again under the chairmanship of Mervyn King, with nine sub-committees that included boards and directors, audit committees, risk management experts and legal advisors. The King III Report made small but significant changes in its terminology. The governance of corporations can be based on statute or a code of principles, or on a combination of both. The United States has chosen to use a “comply or else” strategy towards significant parts of its governance, but 56 countries of the Commonwealth (including South Africa) and 27 states in the European Union, have preferred a code of principles and good practices on a “comply or explain” basis. Corporate governance is essential in municipal operations, because of their public accountability and use of tax revenue. In the US, the Treadway Commission in 1987, in the UK, the Cadbury Report in 1992, and in South Africa, the initial King Code on Governance for South Africa (King I) in 1994 extended critical corporate governance initiatives beyond the financial and regulatory dimensions conventionally associated with corporate governance. By incorporating the principles of good social, ethical and environmental practice, the second King Code on Governance for South Africa (King II) (in 2002) extended this shift towards inclusive corporate governance (Ackers and Eccles, 2015:3).

The PWC report (2010:1) found that the King III Report had broadened the scope of corporate governance in South Africa by placing leadership, sustainability and corporate citizenship at the centre of governance, emphasising effective leadership. It argued that good governance is essentially about effective leadership, and that defining strategy, providing direction and establishing ethical values and principles to give guidance regarding practices and behaviour with regard to sustainability performance are some of the main responsibilities of leaders. Primary moral and economic imperatives revolve around sustainability, which is a very important source of opportunity and risk for businesses. The interactions of nature, society and business are complex and are interconnected in ways that decision-makers need to understand. A gradual movement towards sustainability is not enough as an entire change is the manner in which companies and directors act and strategize is imperative. In its move to sustainability the business would need innovation, fairness and collaboration, as these are essential for developing new ways of handling its business.

It is not easy to sustain social injustice, and fairness and collaboration are often necessary for large-scale change (Hendrikse & Hendrikse, 2012:15). Social transformation and redress are critical components of a broader move towards sustainability and achieving this in a coherent way will present greater opportunities, efficiencies and benefits to the company and to society. The King II Report emphasises the implementation of sustainability reporting as extremely important for corporate governance. Since 2002, sustainability reporting has become commonly used and South Africa is a leader in the field. However, sustainability reporting has to be revised continuously in order to respond to:

- long-standing distrust of the what big business in civil society intends to do as well as its practices; and
- concerns that the cost-effectiveness of sustainability reporting is not fulfilling their expectations.

The basic premise of this study is that a change in corporate law and corporate governance recommendations need to be matched by a change in human behaviour. In this regard, the municipal board of directors should change their mind-set in order to anticipate and prepare for good corporate governance. This mind-set change should embrace cooperation and collaboration among different stakeholders, and address and balance social, environmental and economic objectives. Ultimately, the study proposes a process of “municipal corporate governance implementation framework (MCGIF)” that requires a futures orientation, with strong capability of and capacity for strategic intent, founded on flexible and adaptable systems within a holistic governance implementation framework. The process of MCGIF will assist the directors in complying with corporate governance measures. The MCGIF provides directors with the ability to understand, interpret and respond to corporate governance’s challenges and to conceive and explore different approaches and solutions to current problems. In this regard, the MCGIF can be used to improve corporate governance practices by engaging individuals as powerful actors who feel empowered to lead their destiny by understanding the interconnectedness and the future implications of their present-day actions. It is oriented to process rather than structure, value driven, value adding, and is collaborative and innovative rather than adversarial and derivative (Ratcliffe, 2006:40).

This introductory chapter focuses on providing the background, describing the idea of corporate governance, its aims and objectives, and giving a definition of the concept of governance. It also briefly reflects on the methodology followed to provide a solution and the context in which the research development took place. It concludes by providing an overview of the content of the dissertation. For the purpose of this study, local government and municipalities will be used interchangeably.

1.1 BACKGROUND TO THE STUDY

Corporate governance offers intriguing ideas about participatory governance and its anticipated benefits have received unprecedented attention since the 1980s. The failures about corporate entities globally resulted in an increased concentration on corporate governance among professionals, academics and regulatory bodies. People in industry have raised concerns about this global trend in corporate organisation failure, and why organisations failed in implementing and practising good corporate governance. For more than a decade, corporate governance has dominated policy agenda in developed countries. However, developing countries, including South Africa, are increasingly embracing good corporate governance for its ability to impact positively on sustainable growth (Ababio, 2010:412). Since the beginning of democracy in South Africa in 1994, a number of pieces of legislation were enacted that changed the regulatory framework of local government. For example, Sections 152 and 153 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) (Constitution) have given local government a developmental mandate. To reinforce the constitutional mandate of the municipalities, the following pieces of legislation were introduced:

- Local Government: Municipal Finance Management Act 56 of 2003
- Local Government: Municipal Systems Act 32 of 2000
- Local Government: Municipal Structures Act 117 of 1998

Therefore, the Gauteng local government sector has a constitutional obligation to participate in national and provincial development programmes, and to address social, economic and infrastructural backlogs and inequalities in a stable and sustainable manner to ensure that

developmental outcomes are reached. An effective and efficient local government demands good corporate governance, which is based on sound principles.

The King Report on corporate governance was issued in South Africa in 1994 and is regarded as a strong influence on the topic in question (Jackson & Stent, 2010; Moloï & Barac, 2009/10:49), although the principles of good governance had already been adopted by organizations worldwide over many years before this. The process that initiated the King reports started in July 1992 when the Institute of Directors in South Africa asked King to chair the first official committee on corporate governance. The resulting three comprehensive reports since 1994 formed the first corporate governance code for South Africa. The reports set standards of conduct for boards and directors of listed companies, banks and certain state-owned enterprises. The reports covered not only financial and regulatory matters, but also pushed for an integrated approach embracing all stakeholders. When the Earth Summit was held in Johannesburg in 2002, King advocated a revision of the 1994 report, resulting in the King II Report, which contained new sections on sustainability, the role of the corporate board and risk management.

The King III Report (2009) was further revised to include compliance, with requirements for companies listed on the Johannesburg Stock Exchange. However, unlike the previous reports, King III applied to departments of state or national, provincial or local government administration falling under the Public Finance Management, Local Government, Municipal Finance Management Act, and public institutions or functionaries exercising power over or performing functions in terms of the Constitution, or any other legislation. It excludes courts or judicial officers. Sustainability was dealt with in a separate chapter of King III, implemented on 1 March 2010, resulting in companies reporting on it separately from other business areas. The King III Report made recommendations on integrated reporting, in accordance with the Global Reporting Initiative's Sustainability Reporting Guidelines. The King III Report made a small, but critical impact in its application, as it provides that organisations can be regulated by statute, by a code of principles or by a combination of the two. Unlike other countries, the United States of America has chosen to legislate a major part of its governance provisions on a “comply or else” basis. On the other hand, 56 countries of the Commonwealth, including South Africa, took the route of an “apply or explain” policy based on a code of principles and good governance practices.

There are several preconditions for corporate governance to be effective. Specifically, deliberative and participatory dialogue is required, which takes into account the social, political and legal decision-making contexts, attempting to transcend self-interest to find new common ground or area of agreement. Continuous review and revision of standards, rules and norms as they develop and are implemented, are required of the board of directors. These evaluation processes require transparency about questions to be resolved, a balance of authority or influence in the decision-making process, and a willingness of parties to rise above individual self-interest to achieve collective goals, (Sarra & Janis, 2011:576-602). The system of corporate governance maintains the balance of rights, relationships, roles and responsibilities of the board (Hendrikse & Hendrikse, 2012:109). A review of governance involves both the formal and informal actors involved in decision-making and implementing decisions made about management policies, strategies, structures, processes and procedures to achieve transformation and innovation. Continuous and consistent monitoring, analysis and evaluation of these policies, strategies, structures, processes and procedures are a prerequisite for meeting these constitutional requirements.

Although the above values are widely recognised, corporate governance models around the world differ with regard to whose interests the board of directors should serve. For example, South Africa uses the inclusive model whereby directors are viewed as having responsibilities to all stakeholders of the company as set out by the King III Report. The interests of shareholders are not excluded, but balanced with the interests of other stakeholders. This has resulted in an expansion of the board's responsibilities with regard to risk, expressed as the shift from singular or financial bottom-line reporting to triple bottom-line reporting. However, the voluntary nature of compliance has resulted in short-sighted companies merely striving to "tick all the boxes". The codes contain an elaborate list of everything a business should embrace to comply with corporate governance best practice, but nowhere does it urge companies to apply each recommendation and only demands that reasons for non-compliance be explained.

The problem is compounded by a corporate legal approach that merely checks whether the King Code boxes have been ticked. Should a tick be absent, companies are required to explain the

perceived oversight and are given the opportunity to rectify the situation without significant legal or monetary repercussions (Engelbrecht, 2009a:1; Naidoo, 2002:9). In the context of the above concern, this study seeks to propose a municipal corporate governance implementation framework (MCGIF) for ensuring effective corporate practices in the municipal sector.

1.2 PROBLEM STATEMENT

Although the King III Report and the Municipal Finance Management Act (MFMA) have very good intentions to improve financial management in local government, most municipalities still have difficulties with certain aspects of the implementation thereof, as indicated by the AGSA's (2014/15) reports. While the King Codes have been very successful in raising public awareness of corporate governance, it has not been widely implemented in practice and full compliance in the market remains an exception (Malherbe & Segal, 2001:51). For example, public organisations, including municipalities in South Africa, are struggling to implement the King III Report. The Auditor-General of South Africa reported that in the financial year 2014/15, only 58 out of 278 municipalities received clean audit opinions. This is despite the commitment made by all municipalities in South Africa on 14 July 2009 (operation clean audit) to achieve clean audit opinions by 2014 and to implement and maintain systems in order to sustain good quality financial statements and management information. In South Africa, there are 278 municipalities, which are divided into three constitutional categories: metropolitan municipalities, district municipalities and local municipalities. Due to failure of these municipalities to implement corporate governance, many of them face consequences such as not enough interest from investors, no credibility, increasing demands from communities for better service delivery, investigations into maladministration or unexpected change of leadership without having a succession planning system in place, as is the case in South Africa (Ngoepe, 2012:9). This is often attributed to a lack of skills by councillors and a lack of framework in municipalities to implement corporate governance. Without effective corporate governance systems, municipalities will find it difficult to learn which elements of governance to manage and how to manage them.

1.3 PURPOSE OF THE STUDY

The general purpose of this study is to provide a critical analysis of corporate governance implementation and control framework in the municipal sector in Gauteng, South Africa.

1.4 RESEARCH OBJECTIVES

In order to achieve the purpose, the objectives of this study are to;

RO 1. Examine corporate governance practices and trends within the municipal sector in Gauteng.

RO 2. Examine the relationship between municipal legislative prescripts and corporate governance.

RO 3. Develop a framework that incorporates implementation indicators for the municipal sector in South Africa.

1.5 RESEARCH QUESTIONS

The research questions pertaining to the study, as reflected in Table 1.1, were informed by the objectives. The study sought to answer the following research questions:

RQ 1. What are the trends of corporate governance in the local government sector in Gauteng, South Africa?

RQ1.1 To what extent are the principles of good governance understood and practised within the municipal sector?

RQ 2. What is the relationship between the municipal legislative prescripts and corporate governance?

RQ 3. What corporate governance implementation framework can be proposed for the municipal sector of South Africa?

Table 1.1: The correlation between research objectives and questions

Research Objectives (RO)	Research Questions	Related Data Sources	Related Questions (Appendix D)
To identify and examine the corporate governance practices and trends within the municipal sector	What are the practices and trends of corporate governance in the local government sector in Gauteng, South Africa? To what extent are the principles of good governance understood and practised within the municipalities sector?	Literature Questionnaires	Section B. 1,2,3,4,6,8, 9,11,13,14 & 23
To examine the relationship between municipal legislative prescripts and corporate governance	What is the relationship between the municipal legislative prescripts and corporate governance?	Literature Questionnaires	Section C. 1,2,3,4,5,6, 7,& 8
To develop an MCGIF that incorporates implementation indicators for the municipal sector in South Africa.	What is the suggested corporate governance implementation framework for the municipal sector in South Africa?	Literature Questionnaires	Section D. 1,2,3,5, & 6

Source: Researcher (2015)

1.6 JUSTIFICATION AND ORIGINALITY FOR THE RESEARCH

Chadwick, Bahr and Albrecht (1984:31) point out that there are more than three kinds of problems that stimulate social research: problems with policy, problems of social philosophy and problems with developing scientific disciplines. Not many studies have investigated the link between corporate governance and corporate governance implementation in the local government (Kyereboah-Coleman, Adjasi & Ababio, 2007). This study attempts to bridge that gap and make a contribution to policy development and review in the area of corporate governance implementation strategies for the local government sector, which has been characterised by corruption and service delivery protests in South Africa.

Furthermore, the study is an extension to previous studies undertaken in African countries such as South Africa (Nzimakwe, 2005; Engelbrecht, 2012), Malaysia (Kapumpa, 2009), Zambia (Mohd, Yusoff & Ibrahim, 2014) and Zimbabwe (Ndlovu, 2013). Although similar studies have been carried out, there are a relatively small number of aspects of the topic, as those studies focused more on corporate governance training and developments rather than on developing an implementation framework for a municipal sector to be used in governance practices. Therefore, this study developed and proposed an MCGIF to be implemented by municipalities. The intensive literature review was also used to integrate ideas to incorporate the formation of the new knowledge and the framework. Even though this study uses tools, techniques and theories that were previously used in other studies, the outcomes will be specific to the municipalities in South African context. In this regard, the results will be original for the best part and its potential contributions are as follows:

- a) This study broadens academic reflection in South Africa about corporate governance implementation and control strategy. The dimensions of the MCGIF will lend a long-term strategic view regarding sustainability to the municipal council for the purpose of initiating and implementing good governance practices.

- b) This study attempts to bridge the gap between practice-orientated research and academic research, in particular regarding the municipal sector. The original research will significantly contribute to the methodology for future studies in corporate governance and to making its academic findings of value to practice.
- c) This study purports to establish support for the municipal council, which could potentially lead to an improved and more appropriate corporate response translating into better corporate governance practices in South Africa.
- d) Contributions to the design of a practical educational curriculum aimed at the municipal council.

1.7 SIGNIFICANCE OF THE STUDY

Corporate governance has become a political and economic buzzword envisaging a prosperous and thriving South Africa. Quite a significant amount of literature has been written about corporate governance in the last decade. However, most of the literature has been about the Anglo-Saxon model in general, which focuses on European trends in corporate governance. Some literature has been produced by the IODSA, as well as the Corporate Governance Institute of the UKZN. Most of the South African literature on corporate governance can roughly be divided into four categories:

1. Guidelines and explanations of corporate governance reforms such as the requirements of legislation and recommendations by the King Report
2. Discussion of reports, guidelines and recommendations in view of the latest corporate scandals or issues
3. Opinion pieces and mainstream non-academic articles
4. Company-produced corporate governance documents

This study offers a framework for implementing corporate governance in municipalities. Recommendations of the study, if implemented, have the potential to help municipalities solve service delivery problems. This may equip the municipal council with the ability to understand,

interpret and respond to corporate governance challenges and to conceive and explore different approaches and solutions to current problems. The MCGIF has the potential to assist and empower the municipal board of directors in taking a holistic and strategic approach to corporate governance. It can provide them with the capability to understand, interpret and respond to current challenges, and to conceive and explore yet unimagined approaches and solutions to these problems to ensure effective, efficient and sustainable municipalities.

1.8 SCOPE AND DELIMITATIONS OF THE STUDY

The study was only conducted in the municipal sector in Gauteng. Although the municipalities in other provinces, in particular those in rural areas, are also faced with governance challenges. Some of the municipalities have their own small entities and were excluded because their inclusion could have hampered the sample size representativeness. Therefore, it was decided to limit the study to the main municipalities and not include its entities. This was because:

- they are the main decision-makers in the sector
- of sample size improvement and elimination of dilution
- corporate governance-related activities are performed at the main municipalities.

1.9 RESEARCH METHODOLOGY

This section provides brief background information on the research philosophy underpinning this study. The research philosophy justification, the sampling process, data collection, pilot testing and more will be detailed in chapter three (research design and methodology). Research is a systematic and refined technique of thinking, employing specialised tools, instruments and procedures in order to obtain a more adequate solution to a problem than would be possible under ordinary means. It starts with a problem, collects data or facts, analyses these critically and basis decisions on actual evidence. It involves original work, and not only personal opinion. It is quantitative, seeking to know not only what, but also how much; and measurement is therefore a central feature of it (Duncan,1993:256).

It is of the utmost importance to describe the methods that a researcher use is essential as it makes it possible for other researchers to replicate the methods used in the study and to test them. Furthermore, if research procedures are set out in detail and accurately, it may enable readers to see the differences in findings among studies which deal with the same research question (Ngulube, 2005:128). The most important use of the research is to develop theories and solve practical problems and questions. There may be a perception that the answer to a problem is already known; however, without conducting the research this may be fallacy. When conducting research identifying a problem, formulating a hypothesis and selecting appropriate research methods are crucial. This will then be followed by the researcher collecting and analysing the data, formulating the research finding and conclusions, and, finally, writing a research report (Emory & Cooper, 1991:91).

In order to propose an implementation framework for corporate governance and control system within the municipal sector, this study used the quantitative method, while the qualitative method was used for substantiation of numerical data. A combination of data collection tools was used in this study and a self-administered questionnaire was used as the principal instrument. Data from interviews with selected councillors were used to supplement data collected by means of the questionnaires. A sample of 140 councillors from municipalities in Gauteng was selected from a population of 278, based on 95% confidence level, and statistical power of the study was 90%. Firstly, the stratified random sampling technique was used per category of municipality that has fewer character differences. Then, from each municipality, a number of councillors were selected based on probability proportional to the size sampling technique. The questionnaire was pretested on 10 municipal councillors outside Gauteng and they were not part of the main study. This was to ensure that gaps are identified and to modify the questionnaire appropriately. Chapter Three gives a comprehensive discussion of the research methodology used in the current study.

1.10 DEFINITIONS OF KEY TERMS

For the purpose of this research, certain terms have operational definitions and are used uniformly throughout. According to Yusuf and Chell (1998:96; 2005:28) key terms in research are crucial to dispelling confusion and for better understanding, both for those who are new to the subject and

those who are familiar with the subject. It is worth mentioning that when examining the issue of governance, it is important to note that there is no single definition which is universally accepted.

1.10.1 Governance

The word “governance” is derived from the Greek word ‘kubernetes’, which means steersman. It implies the notion of setting direction, applying and implementing a key to effective governance provided that other people are willing to follow the proposed lead. Auriacombe (1999:135) maintains that the common elements in governance are the emphasis on rules and qualities of systems, cooperation to enhance legitimacy and effectiveness and the attention on new processes. Governance can be used in several contexts such as corporate governance, international governance, national governance and local governance (ESCAP, 2011). Governance relates to the way in which an organisation arranges its processes and structures so that it can make decisions, carry out its work and monitor its progress (Ngoepe & Ngulube, 2014).

1.10.2 Corporate governance

Whellen and Hunger (2002:54) define corporate governance as the relationship between the board of directors, top management and shareholders in determining the direction and the performance of the corporation. According to Richardson, Larcker, and Tuna, (2007:247-272), corporate governance refers to the rules, incentives, institutions and philosophies for coordinating, controlling and supervising behaviour impacting on social responsibility investment (SRI). The SRI sector often purports to be a mechanism of market governance, such as gaining competitive advantage and reputations if the community it serves is taken care of. It is the system or process whereby operations of an organisation are directed or controlled. Barac and Moloji (2009/10:26) describe corporate governance as the structures, processes, cultures and systems that stimulate the successful operation of organisations. It is the process by which the owners and creditors of an organisation exert control and require accountability for the resources entrusted to the organisation. For an organisation to be accountable and transparent, a number of corporate governance components such as combined assurance need to be put in place. A close working relationship between these structures can improve the effectiveness of corporate governance (Rezaee, 2010:48). However, as demonstrated in the results of this study, certain principles of governance are often omitted during implementation or completely excluded from the

components of corporate governance. Corporate governance is therefore concerned with improving the performance of an organisation for the benefit of shareholders, stakeholders and economic growth (Ngoepe, 2012:30). It refers to the process by which organisations are directed, controlled and held accountable. Good corporate governance relates to the concepts of accountability and transparency.

1.10.3 Combined assurance

King III defines combined assurance as an integration of the assurance processes in an organisation in order to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee, considering the organisation's risk appetite. Figure 1.1 illustrates the three critical lines of defence in an assurance model, with the first being operational control where management manages risks within their business unit or department on a daily basis. The second is the board's oversight function, for example, the risk management committee or audit committee or the combination of the two, which oversees the organisational management of risks and reports to the appropriate board structures. The third line of assurance providers involves internal auditors, health and safety inspectors and many more. For the purpose of this study, this aspect relates to the internal audit activity, which is also a critical corporate governance component (Nicholson, 2013:28).

Figure 1.1: Combined Assurance Model (Adapted from King III)



Source: King III Report, 2009

Combined assurance is a critical component of good corporate governance and its main aim is to help the organisation understand its levels of assurance and where it needs to improve or address these levels to manage organisational risk.

1.11 STRUCTURE OF THE THESIS

This section provides an outline of the study as detailed below.

The first chapter provides the background, motivation and objectives of the research, research approach and methods used, the framework of the chapters and the definition of key concepts. The overall theoretical context was outlined. The research philosophy and tactics were highlighted as well as the significance of the study.

The second chapter investigates the literature and critically explores the concept of governance in relation to municipal administration. It looks at the nature and characteristics, core indicators of governance, the role and rationale of governance, citizen participation in governance and the role of transparency in governance, combined assurance strategy, and the major legislation that has an impact on governance.

The third chapter considers the research methodology and research protocol for the empirical investigation in the study by presenting the procedural framework, the research framework and the research programme. The sequential phases of the research methods are discussed and the use of both the quantitative and qualitative methods is described. It also includes a description of data analysis techniques, documenting and reporting protocols, and research ethics implemented in the study.

The fourth chapter provides data analysis and presentation.

The fifth chapter provides interpretations and discussions of research findings.

The sixth chapter provides a summary of findings, conclusions and recommendations, as well as the critical implication for theory, policy and practice, possible limitations and the summary of the research contributions.

1.12 SUMMARY

This chapter provided an overview of the study. It covered introduction, background to the study, problem statement, purpose and objectives of the study, originality and justification of the study, research methodology and definition of key terms. Since corporate governance practice is a critical component of organisational strategy, all its nine principles should be fully embedded in the organisational policy and strategy implementation process, if they are to be effective and efficient. With this in mind, this research is intended to develop and recommend a municipal corporate governance implementation framework (MCGIF). The related literature can help towards the development of such a framework. It is therefore important to review the literature. The next chapter is devoted to this purpose.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The previous chapter provided the background to the study, contextual and conceptual setting, theoretical framework, problem statement, research objectives and questions, justification of the study, research methodology, and definition of key terms. This section informs the reader of previous research in this area. A literature review is an important part of any study. The term “review” describes theoretical aspects and previous research findings related to the problem of this study. The primary function of literature review is to investigate at what others have done in areas that are similar, although not necessarily identical, to one’s own area of investigation (Mouton, 2001:87). Accordingly, Mouton stated that, the following are the most critical and important aspects of conducting a literature review:

- It eliminates duplication of a previous study and increases the researcher's confidence in the topic when it is revealed that others have an interest in it.
- It enables the researcher to discover what the most recent and authoritative theorising about the subject is.
- It assists the researcher in ascertaining what the most widely accepted definitions of key concepts in the field are.
- It assists the researcher in identifying the available instrumentation that has proven validity and reliability.

In this study, three critical governance aspects are addressed, that is, the practice of corporate governance implementation in a municipality, the relationship between corporate governance and the municipal legislative prescripts, and the development of the municipal governance implementation framework and control. The literature on each of the three aspects was reviewed in chapter two and its sub-sections. In order to develop an MCGIF that is effective and adds value

to the municipal council, the following nine aspects as illustrated below should form part of that framework:

- Ethical leadership and corporate citizenship
- Boards and directors
- Audit committees
- The governance of risk
- The governance of information technology
- Compliance with laws, rules, codes and standards
- Internal auditing
- Governing stakeholder relationships
- Integrated reporting and disclosure

The ethical leadership and corporate citizenship refer to the ethical relationship between the institution and its society. For purposes of this study, it will mean the community serviced by the municipalities. The Constitution, the Public Service Act (PSA), the Public Finance Management Act (PFMA), the Municipal Systems Act and the Municipal Structures Act (MSA), set out regulations and codes related to this.

The **municipal council board and its entities' boards and directors** act in the best interest of the institution and form the centre of corporate governance with responsibilities extending to stakeholders. The King III Report states that a board should head companies, which should direct, govern and be in control of the company. As public sector institutions do not have boards of directors, their functions are performed by the executive authority or municipal council as delegated to the accounting officer. For example, the municipal councils perform many of the board's functions, such as the role and function of the board and its committees; the composition and performance evaluation of the board and its committees; the board appointment process; director development; remuneration of directors, senior executives, group boards and company secretaries; and many more.

An independent audit committee fulfils a vital role in corporate governance. The audit committee is vital, among other things, to ensure the integrity of integrated reporting and internal financial controls and to identify and manage financial risks. The board should exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the company's business (the governance of risk). Service delivery excellence drive governance of information technology , which means that provision of sustainable services of good quality in an effective and economical manner by means of the equitable distribution of resources and by means of promoting sustainable growth in which all communities live in harmony and prosperity (King III report, 2009:61). Due to this, the public sector institutions at all levels of government also face rapid, inevitable change and economic pressure to improve service delivery by means of maximising administrative and operational efficiencies. In this environment, the effective use of information technology (IT) is a key success factor that enables government agility and the ability to respond quickly to the demand for services.

Both the PFMA and the MFMA give effect to sections 213 – 219 of the Constitution, which require the public sector institutions to **comply with all applicable laws, rules, codes and standards** and are understood not only in terms of the obligations they create, but also for the rights and protection they afford. Municipalities should establish an effective and efficient **internal audit activity** that should use appropriate position risk-based auditing in order to provide the assurance to the board and its committees.

Governing stakeholder relationship entails the municipal council (board) engaging extensively with the community it serves. Effective stakeholder engagement is essential to good corporate governance. **Integrated reporting and disclosure** entails that the municipal council / leadership should ensure that appropriate systems and processes are implemented to compile report for stakeholders that gives an overview of an institution's financial and non-financial profiles holistically and reliably.

2.1 CORPORATE GOVERNANCE PRACTICES AND TRENDS

The concept of corporate governance came into existence in the 1980s because of the separation of ownership from management (Ngoepe, 2012:49). However, it has always been part of life. For example, management has always had the responsibility of operating businesses in the owners' absence. Because of this, owners realised an increasing need to monitor their financial activities for accuracy and for fraud prevention. According to Barret and Donald (2003:3), the practice of governance has been around for more than 400 years. Iskander and Chamlou (2000:v) also state that "corporate governance has only recently emerged as a discipline in its own right. Although the strands of political economy it embraces stretch back through centuries.

Corporate governance was therefore introduced to ensure that the agents of the owners of companies (directors and in the case of municipalities, the municipal manager) control their entity in ways that will serve the interests of the shareholders (owners and investors or in the case of municipalities: mayors and the public). Contemporary discussions of corporate governance focus on relations between ownership and management. As a result of the global financial crisis, various corporate failures such as the collapse of Enron and WorldCom¹, and locally in South Africa, the collapse of Saambou, Fedsure and Fidentia, as well as public concern over the apparent lack of effective boards/management, the importance of corporate governance in both the public and private sectors has been increasingly acknowledged" (Ngoepe, 2012:50). All these contributed to the fact that corporate governance became very important suddenly and the improvement of corporate governance is now receiving attention from most sectors of society (Rezaee 2010:48). In South Africa, this interest in good governance gave rise to the implementation of corporate controls such as the PFMA, the MFMA and the King III Report. In terms of the PFMA and the MFMA public entities must have accounting officers (for example, municipal manager for local government, director-general for government departments and chief executive officer for statutory bodies and parastatals) in charge of leadership and strategic

¹ The bankruptcy of WorldCom, the US telecommunications giant, was one of the biggest cases of accounting fraud in US history. Former CEO, Bernie Ebbers, was convicted of orchestrating this US\$11 billion accounting fraud and was sentenced to 25 years in prison on 13 July 2005.

direction, defining control mechanisms and reporting on stewardship and performance. As a result of the King III Report, the methods of corporate governance by which private companies are directed and controlled are also applicable to public entities (Ngoepe, 2012:49). Corporate governance is seen as a business imperative by many private and public sector organisations throughout the world (Truter 2007:1).

There are differences in practising corporate governance in the private and public sector. It is therefore necessary to understand how governance in the private sector differs from that in the public sector, as well as why the public sector needs to consider implementing governance and the dynamics between the public sector and its stakeholders. This would require incorporating existing developments and creatively designing a framework for the municipalities that can be used as a point of departure for further development. This should take into account the key principles of corporate governance.

2.1.1 Key principles of corporate governance in the municipal sector

The philosophy of the King III Report revolves around leadership, sustainability and corporate citizenship. To facilitate an understanding of the thought process, debate and changes in the Report, the following key principles of corporate governance are highlighted:

1. Good governance is essentially about effective leadership. Leaders need to rise to these challenges if there is to be any chance of effective responses. Leaders need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviour with regard to sustainability performance.

2. Sustainability is the primary moral and economic imperative for the 21st Century, and it is one of the most important sources of both opportunities and risks for businesses. Nature, society and business are interconnected in complex ways that need to be understood by decision-makers. Most importantly, current, incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves.

3. Innovation, fairness and collaboration are key aspects of any transition to sustainability – innovation provides new ways of doing things, including profitable responses to sustainability; fairness is vital because social injustice is unsustainable; and collaboration is often a prerequisite for large-scale change.

4. The legacy of apartheid is fundamentally unsustainable – social transformation and redress are therefore an important aspect and needs to be integrated within the broader transition to sustainability. Integrating sustainability and social transformation in a strategic and coherent manner will give rise to greater opportunities, efficiencies and benefits for both the company and society, than the fragmented and sometimes contradictory approach currently adopted by many companies.

A comprehensive corporate governance practices should be characterised by seven elements as indicated in Table 2.1.

Table 2.1: Seven characteristics of good corporate governance

<i>Discipline.</i> Commitment by the organisational senior management to widely accepted standards of correct and proper behaviours
<i>Transparency.</i> The ease with which an outsider can meaningfully analyse the organisation's actions and performance
<i>Independent.</i> The extent to which conflicts of interest are avoided, so that the organisation's best interest prevail at all times
<i>Accountability.</i> Addressing shareholders rights to receive, and if necessary query, information relating to the stewardship of the organisation's assets and its performance
<i>Responsibility.</i> The acceptance of all consequences of the organisation's behaviour and actions, including a commitment to improvement, where required
<i>Fairness.</i> Acknowledgement of, respect for and balance between the rights and interest of the organisations' various stakeholders
<i>Social responsibility.</i> The organisation's demonstrable commitment to ethical standards and its appreciation of the social, environmental and economic impact of its activities on the communities in which it operates

Source: Researcher (2015)

The King III Report (2009) states that the MFMA was not simply enacted to guide budget and financial management processes, but also to empower various stakeholders within the municipality around a framework of good governance. It is therefore correct to say that the Constitution, the MFMA and so forth, should be seen as a baseline for compliance rather than the complete framework for governance (IMFO Annual Conference, 2006:34).

Good governance has eight major characteristics: participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and follow the rule of law. It assures that corruption is minimised, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the

present and future needs of society, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, 2002).

2.1.2 The importance of corporate governance

Hendrikse and Hendrikse (2012:104) maintain that successful business needs more than good management to be a good corporate citizen. Good management means the business is operating effectively. Although the municipal sector is different from the public sector, with different responsibility with regard to corporate governance, there are corporate governance principles applicable to both entities, which are accountability, transparency and good governance. Based on The Cadbury Report, the UK has used this argument by stating that the most important thing in the public sector corporate governance is performance aspect. However, the conformance aspect is equally important (Mulyadi, Anwar and Iqbal, 2012:2). Tricker (1984:2.2) disagrees with this concept when asserting that the public sector corporate governance looks at two aspects of corporate governance: conformance and performance. Conformance consists of two elements – monitoring and supervising executive performance, and maintaining accountability; while performance consists of strategy formulation and policy making.

The importance of corporate governance is measured against its massive contribution to the municipality, for example, the benefit of self-regulation. However, this benefit should be exercised cautiously because there are links between governance and the municipal principles and law. The revised principles of corporate governance of OECD (2004) argue that governance is an enabler and coordinator of the relationship between shareholders, the board of directors, managers and other stakeholders and, specifically, corporate governance can be divided into: corporate governance structure and corporate governance process. Guo, Smallman and Radford (2013:3) contend that the governance structures should include ownership structure and board structure, and are intended to discipline the behaviour of corporate governance actors (owners, directors and executive management); hence, governance structures influence the effectiveness of governance process and, ultimately, the company's performance.

It is argued that the ultimate compliance officer is the company's stakeholders who will let the board know by their continued support of the company if they accept the departure from a

recommended practice and the reasons furnished for doing so. It can be argued convincingly that self-regulation, in which an organisation voluntarily monitors its own adherence to legal and ethical standards, is far preferable to having an outside agency such as government monitor and enforce those standards. This approach allows organisations to maintain control over the standards to which they are held by successful self-policing. Apart from the bureaucratic burden that would be imposed by external enforcement, the cost of setting up such a mechanism is also avoided. The practice of good corporate governance makes good business sense and the major advantage lies in the increased ability of properly managed companies to attract FDI and implement sustainable growth (Naidoo, 2002:3).

The International Finance Corporation (IFC) argued that good corporate governance measures are especially important in emerging markets, the municipal sector plays a crucial role in the development and support of the small businesses through its local economic development, (LED) initiatives, and governance can play an important role in improving access for emerging market companies to global portfolio equity (IFC, 1992:1). Klapper and Love (2002:9) state that empirical evidence indicates that well-governed companies frequently receive higher market valuations. According to the IFC Annual Report (2002:23–25), good corporate governance practices help to ensure quality decision-making, provide access to capital and enhance the long-term prosperity of companies. The improvement of corporate governance measures in South Africa has several advantages:

The poor economic conditions in South Africa has compelled the government and its municipalities to engage in a variety of programmes to boost the economy, including job creation and poverty alleviation, and this could be achieved through intervention that involve attracting foreign investors in South Africa. This view is supported by Arthur Levitt (as cited in Naidoo, 2002:4), that if a country does not have a reputation for strong corporate governance practices capital will flow elsewhere.

A study conducted at the Stanford Law School examined the relationship between a company's corporate governance behaviour and its market value. It showed that institutions considering investing in developing economies were much more likely to invest in companies with sound

corporate governance practices. A study by McKinsey & Company (2002) showed that 80 percent of shareholders in the United Kingdom are willing to pay a premium for shares in a company with good governance and regard good practices of governance by the board to be as important as financial performance.

The rationale and challenges for governance in general and good governance in particular, emanate from the following (Sing, 2012:88–89):

- Recognition that government is for citizens, by citizens and often by or through the involvement of citizens, as opposed to an older notion that saw government doing things for people
- Highly centralised, rule-bound and flexible government institutions that emphasise procedures rather than results and thereby impeding effective performance
- Information and communication revolution
- Size and reach of multinational organisations
- Trade and economic integration
- Increasing number of issues whose ultimate solutions depend on the active involvement of citizens which demand changes in attitudes, behaviour and lifestyles

The apparent success of the concept of governance seems to be that it reflects the social need for new initiatives based on the realization of growing social interdependencies, while creating an enabling environment for its citizens, establishing law and order, managing macroeconomic stability, building physical and financial infrastructures, delivering essential services and protecting the vulnerable. This is critically important for peace, stability and economic prosperity. In fact, according to the Economic Commission for Africa (ECA) Report, (1999:1) the need for a capable, effective and efficient system of governance has never been stronger than today, especially in a world characterised by increasing economic globalization and a highly complex and competitive environment.

According to Green and Hubbell (1996:41), they argued that when they talk about governance they are addressing an essentially new form of governance. Their arguments are organised around ten principles on which their new model of governance is founded. Briefly, these principles involve the following:

- Steering others rather than rowing
- Empowering customers rather than serving them
- Injecting competition into service delivery
- Organising by mission rather than by rules
- Funding results, not inputs
- Intense customer orientation
- Encouraging entrepreneurial earning rather than bureaucratic
- Focusing on prevention rather than cure
- Globalization and the weakening of traditional sovereignty
- New polities and ethnic and cultural resurgence

Table 2.2: Benefits of good governance

<ul style="list-style-type: none"> • Improves efficiency • Enhances competitive advantage • Increases the value of the organisation • Gives confidence to the market • Meets financial, legal and statutory obligations 	<ul style="list-style-type: none"> • Nurtures a spirit of enterprise • Enhances reputation of the business • Enhances empowerment of all stakeholders • Encourages innovation
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Source: Hough (2009)

Society always expects good services and products from the municipality in their region and to ensure that this expectation is met, municipalities should embrace good corporate governance in their operations and gain competitive advantage in the form of basket of benefits as highlighted in Table 2.2. Thompson, Strickland, Gamble, & Thompson, (2008:175) argue that corporate governance is the foundation of good business. This agrees with the environment in which the municipalities operate, for example, any organisation, be it private or public, foreign or local, that decides to ignore good corporate governance practices will be at the mercy of market forces to their own detriment. Hough et al. (2008:175) provide good reasons for good corporate governance in business as table below.

- It forces one to ensure that there are necessary built-in checks and balances from the top of an organisation to the bottom, not to constrain success, but to control it.
- Business governance creates an over-arching goal for all; sustainable development is achieved where there is performance with confidence.
- Governance is no guarantee of business success; however, it will over time, produce better operating results.
- It changes one's attitudes and responsibilities to business; directors become responsible to all stakeholders.
- It guides one to conduct the affairs of a business with honesty and integrity.
- Governance forms the basis for rewards based on performance and results and not based on individual.
- It leads one to be sensitive to the needs of all affected persons, including businesses, stakeholders, shareholders and society.
- It ensures that the business is under control and encourages open and transparent communication within and outside the business.
- Governance is not aimed at frustrating leadership, but at encouraging participative, performance-based leadership.
- Governance punishes those who defraud the business and holds them personally liable for their misconduct.
- Business governance encourages the business to establish high principles that drive the code of conduct, based on ethical and equitable values.

Many people are under the impression that corporate governance is about financial governance, management and accountability. While the MFMA reinforces that financial management and accountability are part of good governance, the ambit and influence of corporate governance are much wider than only financial. Good corporate governance is there to ensure that everything within the municipality is properly governed, well managed and appropriately accounted for (Soobaroyen & Mahadeo, 2012). Local government, be it democratic or autocratic, is responsible to the people that demand good governance. Local government is directly accountable for the performance of public organisations and indirectly accountable for the performance of private

organisations through the laws and regulations that it imposes. Public utilities are under pressure to deliver reliable services on electricity, water, gas and public transportation.

To deliver effective services, local governments have to define their strategies, provide direction and implement the ethics and values to influence and guide practices and behaviour with regard to sustainability performance. Sustainability is the most important sources of both opportunities and risks for businesses. According to the PWC report (2010:1), the King III Report has broadened the scope of corporate governance in South Africa with its core philosophy revolving around leadership, sustainability and corporate citizenship. The following relevant and key principles are important for corporate governance:

- Nature, society and business are interconnected in complex ways that need to be understood by decision-makers. Incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves.
- Innovation, fairness and collaboration are key aspects of any transition to sustainability. Innovation provides new ways of doing things, including profitable responses to sustainability; fairness, on the other hand, is vital because social injustice is unsustainable and collaboration is often a prerequisite for large-scale change.
- Social transformation and redress are important and need to be integrated within the broader transition to sustainability. Integrating sustainability and social transformation in a strategic and coherent manner will give rise to greater opportunities, efficiencies and benefits for both the company and society.
- The King III Report requires companies to implement sustainability reporting as a core aspect of corporate governance. Since 2002, sustainability reporting has become a widely accepted practice and South Africa is an emerging market leader in the field. However, sustainability reporting is in need of renewal in order to respond to the lingering trust deficit among civil society of the intentions and practices of big business, as well as concerns among business

decision-makers that sustainability reporting is not fulfilling their expectations in a cost-effective manner.

Accountability is a critical characteristic and attribute of good governance. For example, everybody who is responsible for something is in turn accountable to somebody for appropriate and effective discharge of that responsibility. Hendrikse and Hendrikse (2012) echo these sentiments when arguing that corporate accountability and responsibility are two sides of the same coin of corporate conduct. Van Der Waldt (2002:119), in Van Der Waldt, Van Niekerk, Doyle, Knipe and Dutiot (2002), describes accountability as an obligation to expose, explain and justify actions. Municipal accountability demands that the actions of the municipal institutions be publicised to encourage public debate and criticism. The practices of accountability, transparency and responsibility signalled good governance practices. According to UNESCAP (2002), not only municipalities should practice good accountability, transparency and responsibilities, but also the private sector and civil society organisations must be accountable to the public and to their institutional stakeholders. Who is accountable to whom varies depending on whether decisions or actions taken are internal or external to an organisation or institution. In general, an organisation or an institution is accountable to those who will be affected by its decisions or actions. It is strongly recommended that the principles of the King III Report should be embedded in the functioning of municipalities (PWC, 2010:5).

The community expects honesty and transparency from their elected leaders and service and fairness from municipal staff. They express demand for better leadership, and more trustworthy behaviour from elected and appointed officials. Voting once every five years is not sufficient to perform meaningful ethics oversight in municipal governance. However, there are challenges for transparency and accountability in municipal sectors as the current municipal officials are not held to the same standards of accountability as their counterparts in the corporate sectors. Kamla, Gallhofer and Haslam (2011:194-207) support this view and suggest that the accountability and responsibility requirements imposed on the board of directors in the corporate sector by Enterprise Risk Management (ERM) and Internal Control Frameworks outlined by COSO and the Sarbanes-Oxley Act of 2002 for the corporate sector would be useful to public officials as models

that can be adapted to fit the public sector needs. In short, the purpose of corporate governance according to Willis (2005:89) includes the following:

- Fostering ethical behaviour
- Enhancing the reputation of a business/entity
- Complying with the laws
- Making the business entity more efficient and effective
- Avoiding disaster

2.1.3 Transparency in governance

To understand transparency in governance, outside stakeholders, shareholders, investors and the public should be in a position to make a meaningful analysis of the company's transparency, which includes clarity, accuracy and disclosure of information provided. For this study, the following institutions ensure transparency and good governance in the municipal sector.

2.1.3.1 The Auditor-General

In terms of the Constitution and section 3(5)(b)(iii) of the Auditor-General Act (Act No. 12 of 1995) the president appoints the Auditor-General, and the Auditor-General has the right to investigate and inquire into any matter. According to Van der Waldt (2002a:273) this includes the efficiency and effectiveness of internal control and management measures relating to expenditure and revenue.

The Auditor-General's primary objective is to provide independent information, assurance and advice to legislatures on how government departments and other public bodies account for and use taxpayers' money. The Office of the Auditor-General audits the books of government and any institution authorised by law to receive money for a public purpose (Taylor in James & Levy, 1998:35).

The Auditor-General's principal functions and responsibilities are set out in section 188 of the Constitution, as well as in the Auditor-General Act. To ensure his or her independence, he or she is appointed for a fixed term, which is not renewable. The Auditor-General must audit and report on the accounts, financial statements and financial management of:

- all national and provincial state departments and administrations
- all municipalities
- any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General (section 188).

Du Toit and Van der Waldt (1998:160) argue that the Auditor-General is responsible for transparency and governance with regard to public finance expenditure, and it is the duty of the Auditor-General to audit and report on the accounts of government at all levels, providing that essential, independent link in the whole process of legislative control over the financial activities of the executive arm of government. The Auditor-General of South Africa (AGSA) promotes accountability and good governance. Public officials will attempt to perform their duties effectively, efficiently and ethically if they know that their actions might be investigated. They will do this to ensure that effective management principles have been taken into account so that resources are procured economically and used efficiently (Thornhill & Fourie, 2002:202).

According to the Constitution, the municipal authority operates on the basis of good governance, including transparency in all its dealings with its stakeholders. The transparent disclosure of its audited financial statements is a good indicator of good governance. The independence of external auditors, who performed the essential checks and balances on the financial statements, provides stakeholders with confidence in the reliability, accuracy and credibility of the information presented. In terms of Chapter 9 of the Constitution, the AGSA is one of the state institutions supporting constitutional democracy. The Constitution recognises the importance of the AGSA and guarantees it, and states that the AGSA must be impartial and must exercise its powers and perform its functions without fear, favour or prejudice.

The functions of the AGSA are described in section 188 of the Constitution and are further regulated in the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), which gives the AGSA the mandate to perform constitutional and other functions. Constitutional functions are those functions that the AGSA performs in order to comply with the broader mandate described in the Constitution. Section 4 of the PAA also distinguishes between mandatory audits and discretionary audits. However, the financial ineptitude of some line function ministries and departments to properly account for the monies they receive and spend needs urgent attention. The Auditor-

General frequently reports on financial irregularities, improper record-keeping, the wrong allocation of funding and fiscal or budget dumping at the end of the financial year. Despite the annual budgeting process and the medium-term budgetary framework, the spending patterns of several municipalities indicate that they spend on average only 60% of their budgets. This highlights their inability to discharge their financial commitments in terms of their committed budgets. From this, it is clear that some municipalities still do not understand, or are not prepared to embark completely on the necessary of delivery issues (AGSA, 2012:13). This is manifested in the 2013/14 audit outcomes as reflected in Table 2.3.

Table 2.3: 2013/14 municipal sector audit outcomes (AGSA 2014)

Types of audit opinions	Gauteng municipalities
Disclaimed with findings	0
Qualified with findings	2
Adverse with findings	0
Unqualified with no findings	4
Unqualified with findings	5
Total reported on	11
Total not reported on	1
Total entities	12

Source: Auditor-General, South Africa (2013/14)

The financial statements submitted to the AGSA for auditing must be free from material misstatements. Misstatements refer to incorrect or omitted information in the financial statements. Examples include the incorrect or incomplete classification of transactions, or incorrect values placed on assets, liabilities or financial obligations and commitments. The objective of an audit of financial statements is to express an audit opinion on whether the financial statements fairly present the financial position of auditees at financial year-end and the results of their operations for that financial year. In exercising good governance, the board should consider and take action regarding the following audit findings / opinions:

Clean audit outcome. The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.

Financially unqualified audit opinion. The financial statements contain no material misstatements. Unless we express a clean audit outcome, findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.

Qualified audit opinion. The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

Adverse audit opinion. The financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

Disclaimer of audit opinion. The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.

2.2 THE PUBLIC PROTECTOR

In terms of section 182 of the Constitution, the Public Protector has the power, as regulated by national legislation, to investigate any conduct in state affairs, or in the public administration in any sphere of government, that is alleged or suspected to be improper or to result in any impropriety or prejudice. Contrary to public perceptions, the Public Protector does not deal with criminal corruption. This is handled by the police (Taylor in James & Levy, 1998:34).

The Public Protector performs his /her job in the context of a public service that is perceived to be inefficient. Chapter 8 of the Constitution makes provisions for an independent Public Protector.

This public official may, on his/ her own initiative or upon receipt of a complaint, investigate any alleged:

- abuse of power or unfair, discourteous, or improper conduct by a person performing a public function
- improper or dishonest act, or corruption with respect to public money
- improper or unlawful enrichment by a person employed by the government at any level
- act or omission by an employee of the government at any level, which results in unlawful or improper prejudice to any other person (Cameron & Stone, 1995:14)
- maladministration at any level of government.

It is therefore correct to conclude that the Public Protector may also resolve disputes, refer matters before him/her to the appropriate body, make recommendations regarding actions to be taken, and advise complainants regarding appropriate steps to be taken. The Public Protector will be independent and impartial and will report annually to Parliament, and can play an important role in preventing corruption and the abuse of power. The Public Protector investigates the behaviour of the political office-bearers and public officials from an ethical, procedural and policy point of view. According to Mafunisa (in Kuye, Thornhill and Fourie, 2002:201) the fear of being exposed to the public is a factor which might discourage public functionaries from behaving unethically, inefficiently and ineffectively.

2.3 THE MUNICIPALITY AS CORPORATE CITIZEN

PriceWaterhouseCoopers (PWC) (2010) describes corporate citizenship as the implication of an ethical relationship between the institution and the society in which it operates. According to the King III Report (2009), the idea of corporate citizenship is not a new thing, but the King III Report brings it more to the fore than ever before, while still highlighting the unbroken chain that links ethical leadership, institutional strategy and sustainability. The Constitution of the Republic of South Africa, the Public Service Act, the Public Finance Management Act (PFMA), the Municipal Systems Act and the Municipal Structures Act (MSA), sets out regulations and codes directly related to this.

As the municipalities are so integral to the well-being of the communities it served, it is considered as much a citizen of the country as a natural person who has citizenship (King III Report, 2010:18). It is expected that the company will be directed to be a decent citizen. If the goals of sustainability are to be achieved, business leaders must reform, re-design and restructure their organisations to minimise negative impacts while, at the same time, implementing systems of operation in which every act is inherently sustainable and restorative. The King III Report reinforces the important role of business leaders by stating that nature, society and business are complexly interrelated and this needs to be understood by decision-makers (King III Report, 2009:12):

Leadership. In terms of section 151 of the Constitution of South Africa, the executive and legislative authority of a municipality vests in its municipal council and section 30 of the MSA gives the responsibility for the implementation, evaluation and monitoring of the Integrated Development Plan (IDP) to the executive committee (exco), the executive mayor or a committee appointed by the council. The IDP incorporates the above principles. (This can be read together with sections 21 and 53 of the MFMA). Schedule 5 of the MSA and schedules 1 and 2 the MSA provide a code of conduct for municipal councillors and staff. The King III Report supports this argument when stating that the board should ensure that the company is seen to be a responsible corporate citizen while, on the other hand, chapter 4 of the MSA talks about community participation and chapter 5 about the need for community involvement in approving amendments to the IDP (sections 23 and 34). Section 95 of the MSA provides for the provision of sound customer care and management systems.

Ethics and risk. A key risk and challenge for sustainable business practice is for leadership to make the ideas behind sustainability mainstream (King III Report, 2010:13). The leadership must integrate strategy, sustainability and control, and establish the values and ethics that underpin sustainable practices. Governance, strategy and sustainability have become inseparable and are only possible if the board embraces the notion of integrated sustainability performance and reporting. The board's role is to set the tone at the top in order for the company to achieve its

sustainability goals. Schedules 1, 2 and 5 of the MSA support this argument, when indicating that it is required to develop a code of conduct for municipal councillors and staff.

2.3.1 Practices of corporate governance and ethics

Walters (2009:1) describes the nature and concepts of ethics and good governance as concerned with what is essentially human in our nature. When a person thinks and acts in an ethical manner, he makes himself a witness to what distinguishes humans: the quest for dignity. Ethics is, therefore, not about the self in isolation, but has a social quality. According to these perspectives, an ethical judgement might need to be made about a given problem or situation (Cranston, Ehrich and Kimber, 2003:1). There is the inference that functionaries (Jennings, in Sindane, 2009:500) concur with this sentiment when describing ethics as normative, the discrimination between available courses of action based on the interpretation of shared values in an ongoing institutional practice and in a broader form of communal life. He also prescribes that good governance should include ten principles as requirements for ethical local governance. These principles are the following:

- Participation: encouraging all citizens to use their right to express their opinion in the process of making decisions concerning the public interest, both directly and indirectly
- Rule of Law: realising law enforcement, which is fair and impartial, without exception, while still honouring basic human rights and observing the values prevalent in the society
- Transparency: building mutual trust between the government and the public by providing information with guaranteed easy access to accurate and adequate information
- Equality: providing equal opportunities for all members of the society to improve their welfare
- Responsiveness: increasing the sensitivity of government administrators to the aspirations of the people
- Vision: developing the region based on a clear vision and strategy, with the participation of the citizens in all the processes of development in order for them to acquire a sense of ownership and responsibility for the progress of their regions
- Accountability: increasing the accountability of decision-makers regarding decisions in all matters involving public interest

- Oversight: increasing the efforts of supervision in the operation of government and the implementation of development by involving the private sector and the general public
- Efficiency and effectiveness: guaranteeing public service delivery by using all available resources in an optimal and responsible manner
- Professionalism: enhancing the capacity and moral disposition of government administrators in order for them to be able to provide easy, fast, accurate and affordable services.

These principles are important in the enhancement of the ethical environment for good local governance (United Nations Development Programme, 2008; Vyas-Doorgapersad, Subban & Pillay, 2008), but several types of political corruption in local government can hamper them. Some are more common than others, and some are more prevalent in local governments than in larger segments of government. It is possible that local governments may be more susceptible to corruption because communication between private individuals and officials take place at greater levels of intimacy and with more frequency at more decentralised levels. The following forms of corruption pertaining to money like bribery, extortion, embezzlement and graft are present in local government systems. Other forms of political corruption include nepotism and patronage systems (Williams. 2003:19). Because of political corruption ethical dilemmas at grass-root level exist. This has been highlighted by the former President of South Africa, Mr Thabo Mbeki, when he lamented that:

Some of the people who are competing to win nomination as our candidate for local government councillors are obviously seeking support on the basis that once they are elected to positions of power, they will have access to material resources and the possibility to dispense patronage.

Engelbrecht (2012:86) argues that there is a growing demand for good governance by international investors based on moral standards, as well as utilitarian considerations of improved market performance. In this sense, ethical business practices are an attempt to set a standard by which stakeholders make decisions through the prism of a shared set of values (Sullivan & Shkolikov, 2007:1). While ethics and ethical business culture are at the heart of the corporate governance framework, the two are approached differently. Corporate governance is mainly concerned with creation of a structure of decision-making at the board of directors and the

implementation of decisions. In this sense, it would be unrealistic to anticipate non-adherence to good corporate governance in the municipal sector. According to Ababio and Vyas-Doorgapersad (2010:411–427), the need for a code of conduct in South Africa is identified in the White Paper on the Transformation of the Public Service 1994 as an essential element to enhance high standards of ethics and good governance. The 1996 Constitution of the Republic of South Africa prescribed the values and principles of public administration and the Public Service Commission developed a Code of Conduct in 1997.

Therefore, the argument is that the legitimacy of local government is founded on the same principles of ethics and professionalism as that of the national government. According to the Batho Pele principles, each public functionary should take cognizance of the fact that there is a special duty to be open, fair and impartial when interacting with the public. The municipal sector should ensure that they lay down in a code of ethics the ethical standards and behaviour expectations of public servants, which is normally documented in rules and regulations of its operation. This document should also prescribe the behaviour that constitutes an act of misconduct that may manifest itself in various forms and at different times in the history of the municipality.

2.3.2 Evolution of corporate governance and social responsibility

Municipalities do not operate in a vacuum, but are in fact important and influential citizens of the broader society in which they exist. The concept of corporate governance and social responsibility was expanded in the King Reports with a call for companies to account, not only for their financial performance, but also in terms of social and environmental performance, also known as the triple bottom line. The municipal sector is not exempted from practising good corporate social responsibility, as it exists to accomplish the community's hopes, where the needs and dreams of all its people were most important. Similar to the private sector, the municipal is encouraged help people to experience life to its fullest, especially in times of hardship.

A study by Smith (2003:393) shows that corporate governance and corporate social responsibility are both extremely important to a company. However, it is not a natural thing to separate them if you have a well-formed corporate governance programme in place that would probably take care

of most corporate social responsibility issues. A number of scholars such as Gill (2008); Johnson and Scholes (2002:247); Luu, Trong and Tuan (2012); and Mohamed and Zairi (2007:753–770) found that corporate social responsibility is concerned with the ways in which an organisation exceeds the minimum obligations to stakeholders specified through regulation and corporate governance and as a vehicle for integrating social and environmental concerns into the business decision-making process. This would benefit not only financial investors, but also employees, customers and communities.

Sanjay, Maria and Sophia (2011:466) hold a different view, which opposes the above authors when arguing that corporate governance and corporate social responsibility have become a major priority for firms, policy makers and the general population of countries across the globe, particularly in view of the major corporate scandals that have emerged from firms in the USA, for example, Enron/Worldcom and Arthur Anderson. Distinguishing between intended fraudulent acts and corporate social responsibilities should be separated based on a person's intentions.

However, Sobczak (2006) maintains that the codes of conduct are not voluntary, given that this corporate social responsibility tool is often adopted to respond to or to prevent pressure from different stakeholder groups as in the case of corporate governance by foreign direct investors. Therefore, they claim that at least from an economic point of view, codes of conduct cannot seriously be considered as a form of voluntary regulation. However, even from a legal point of view, codes of conduct are not purely voluntary, even if socially responsible norms are usually defined as going beyond the law. The theme of corporate governance has taken on much greater significance on account of the 2007–2008 financial crisis, with “too big not to fail” casualties in the developed economies of Europe and the US rather than in emerging markets.

2.3.3 Benefits and importance for ethical practices

One of the functions of implementation and application of a code of conduct is the promotion of ethical standards in the public sector. Such regulatory practice conforms to specific norms such as the Urban Governance Toolkit Series (2004):

- **Creation:** The process of producing a code of ethics must itself be done in an ethical manner. It must intentionally involve all members of the social group that it will include and represent. This necessitates a system or process of setting out “from top to bottom”, from the sundry to the specific. It must also constitute progressive agreements in such a way that the result will be recognised as a representative of the moral and ethical character of the group.
- **Determining jurisdiction:** Municipalities must designate individuals responsible for establishing enforcement guidelines and advisory procedures and, subsequently, including the named entity within the code of ethics.
- **Disseminating the Code of Ethics:** Municipal employees and officials must understand the rules, obligations and expectations of standards they must abide by.
- **Co-coordinating inter-government support:** The relevant municipal stakeholder must strategise enforcement, communication and administrative support.
- **Establishing a library of decisions and opinions:** The transparent element of a code of ethics is best brought about by means of cogent opinions and decisions that interpret the various laws and provisions. Understanding the application of the code is an important element for transparent municipal governance.

In addition to a code of ethics, provision is also made for the conduct of public officials. Cloete (1995:187–188) points out that it is generally accepted that public officials must promote the general welfare of the public in accordance with policy set out by the legislator. According to the doctrine of democracy, officials must respect the rights and freedom of the population, whose rights and freedom can only be infringed upon directly by the legislator, when they perform their duties; the public should always be in a place where they can demand public officials to give account for their activities; in a democratic state, every member of the population has the right to insist on fair and reasonable treatment; and the activities of public officials can meet the ethical norms only if they fulfil their activities effectively without wasting the resources of the community.

2.3.4 Municipal sector governance challenges

According to the King III Report, the municipalities in South Africa have a constitutional duty (section 152) to:

- provide democratic and accountable government for local communities (King III Report, principle 1.2)
- ensure the provision of services to the communities in a sustainable manner (King III Report, principle 2.2)
- promote social and economic development
- promote a safe and healthy environment
- encourage the involvement of communities and community organisations in the matters of local government (King III Report, 2010: principle 8.1).

The MSA describes the municipal governance structure, which poses certain governance challenges, one of which is the perceived lack of independence by councillors. Councillors should be held liable and accountable for their decisions (as are directors in the private sector) to order to ensure that they make decisions which are to the financial benefit of the municipality. The council should make sure that good governance practices are followed and they should act as the focal point for, and custodian of, good governance. The council should play an active role in the strategy development process. The council should also ensure that the long-term strategy and IDP are in line with the expectations and needs of the community members and other stakeholders. Another major challenge is the absence of proper induction and skills development programmes for councillors and requires urgent attention to enable councillors to perform their duties effectively.

However, there appears to be a lack of consistent responsibility within the municipal sector. Williams (2012:12) states that during the first eight months of 2012, 79.20% of protests turned violent. There were more violent protests in the first eight months of 2012 than in the whole of 2011. There remains strong public discontent with municipal service delivery throughout South Africa. The Overview Report on the State of Local Government in South Africa, issued by the Department of Cooperative Governance and Traditional Affairs (COGTA), highlighted that

dysfunctionality and instability within municipalities create opportunities for fraud and corruption to take place. This led to the implementation of the newly formed Local Government Turnaround Strategy.

The COGTA report identified a number of deficiencies within the current structures and institutional systems of municipalities and, as such, identified the need for the review of appropriate procedures and practices to implement critical changes within local government. The following aspects are identified as root causes:

- Deployment issues and interference by political parties
- No clear distinctions between councils and the administrations
- Unclear boundaries between political representatives and the administration
- Municipal System Act code of conduct not being enforced
- Poor political management and leadership
- Insufficient application of oversight function at all levels
- Insufficient controls within the system
- No clear framework or lack of understanding of party – municipal relations
- Poor councillors skills base in many areas
- Nepotism, cronyism, poor ethics and weak accountability frameworks
- Political factionalism results in territorial economic elites
- Political factionalism undermines democratic principles.

Lack of suitably qualified candidates. According to estimations, the municipal sector will require at least 15 000 new and independent board members per year in order to comply with its governance mandates, and as per recommendation by the King III Report. According to Pillay (2012:2) the implementation of a functional internal audit unit, systems of internal control and effective operation of an audit committee are all crucial components for sound corporate governance in municipalities and the MFMA requires that these financial governance components exist within all municipalities and municipal entities. The recent audit findings highlighted serious deficiencies in governance arrangements: there is a need to improve the internal audit function and audit committees as this would contribute to changes in financial management in the majority of municipalities.

Corporate governance practices require critical skills and knowledge. However, the findings by the AGSA have alluded to deficiencies stemming from a lack of knowledge or disregard of legislation and processes by councillors and officials, a failure to appoint suitably qualified key individuals to specifically legislated tasks and an inability or disregard by municipalities to establish and maintain the appropriate control systems which provide the basis of the governance framework.

According to Bekker (2009:24), South Africa and other African countries desperately need people with accounting skills and qualifications, but even more so with regard to public finance accountability. Through improved collective oversight and specific training and education, financial public accountability will be enhanced, particularly the spending patterns of government departments. The way forward should be planned together by the private and public institutions and the Treasury Department to improve public accountability and its image, in order to improve the status of the South African financial governance, local and international public-sector governance (Bekker, 2009:19).

According to the National Treasury report, most current finance officials lack the broader skills to implement the MFMA to the full. This is the case with municipal treasuries, since they have largely been accustomed to operating within a rules-driven environment, often steeped in a bean-counting culture out of step with modern management practices. The establishment of a Budget and Treasury Office provides a one-off opportunity to break with these past practices by setting up a new structure comprising highly qualified and competent professionals and a new culture that provides the municipality with fiscal and financial leadership. For this reason, the Minister of Finance has encouraged treasury and finance officials to form a new professional body to support and develop such officials – in this respect, given the similar approach of the PFMA and the need for mobility between different spheres of government, the minister has urged the merging of current bodies into a single, new, professional body. This call will require the promotion of a new corps of public sector finance and budget professionals – going beyond current narrow qualifications, which are not adequate in modern organisations or in the public sector. However, it will also require a specific public sector approach, embracing the principles of “Batho Pele”

(People first) and selfless service delivery to the public, which differ from current public sector practices and private sector professional associations.

However, fraud and corruption require extensive minimizing mechanisms in order to promote the Batho Pele Principles.

The Department of Public Service and Administration (2002) and Vyas-Doorgapersad, (2007:286) maintain that corruption symbolises any conduct or behaviour in relation by persons entrusted with responsibilities in public office that violate their duties as public officials. The Democratic Alliance report (DA) (2010:1) reveals the following facts regarding corruption in South African municipalities:

- Illegal tendering practices, unauthorised loans to councillors and looting have become common in local government. A recent survey on local government done in Gauteng revealed that sixty percent of the residents profiled expressed concern over what they perceived as high levels of corruption in their municipality. There is a high level of rivalry in the ANC for positions in local bureaucracies and seats in councils because of the above practices after councillors have been appointed or elected.
- The inability of municipalities to comply with financial regulations set by the Auditor-General disturbing as it indicates the lack of capacity in many municipalities.
- Financial misconduct can also be seen through the failure to collect enough revenue to pay for service delivery.
- Municipalities should spend no more than 30% of their budget on salaries and the other 70% should on infrastructure and service delivery.

However, the amount paid to councillors and municipal officials in salaries exceeds spending on services by almost R10 billion – 10% of the total municipal budget. Some municipal managers earn approximately R1.2 million, although the national average is closer to R650 000, before performance bonuses. The problem with salaries and bonuses is not just the amount of money they receive, but also the fact that municipal managers are often rewarded despite their failure to run a municipality properly (Ababio & Vyas-Doorgapersad, 2010:14).

The municipal governance structures bring about certain governance challenges, such as the perceived lack of independence by councillors. Councillors should be held liable and accountable for their decisions (as well as directors in the private sector) to ensure that they make decisions that are to financial benefit of the municipality. To ensure good governance, the municipal council should act as the focal point for, and custodian of, good governance. The council should play an active role in the strategy development process. The council should also ensure that the long-term strategy and the IDP are in line with the expectations and needs of the community members and other stakeholders. Proper induction and skills development programmes for councillors are essential to ensure that they perform their duties properly and effectively.

Municipal councils and councillors should be assessed regularly in terms of performance. While self-assessment plays a role, independent performance appraisals should be considered (preferably by representatives of the community) in order to ensure honest responses. Annual performance appraisals of individual councillors, council committees and the executive mayor will be useful when it comes to ascertaining what the training requirements are.

Section 82 of the Structures Act makes it obligatory for the municipal council to appoint the municipal manager and ensure that he/she has the necessary skills and experience. The necessary framework for delegation of authority should be implemented and, councillors should not be allowed to abdicate their duties and responsibilities to the community, although the council delegates authority to the accounting officer and management.

Although the MFMA holds municipal managers, who are also the accounting officers, responsible and accountable for the performance of the municipality, other legislation and their political parties hold executive mayors responsible for certain actions. Municipal managers are the custodians of compliance, for example, supply chain management. Risk management is a crucial aspect of good governance and includes proper management of litigation risks that municipalities failed to manage. The study by Raghavan (2011:194-207) reveals that court records filed by the attorneys of municipalities and their entities in pending lawsuits show that the principal factors contributing to the crisis were: (1) poor understanding of the risks by managers; and (2) the

reluctance of high-level municipal managers and officials with governance responsibilities to ask questions for fear of exposing their ignorance.

2.3.4.1 The principles of “back-to-basics”

The King III Report describes the board’s responsibilities regarding making sustainability decisions, including an awareness of the effect of those positive and negative decisions on the economic life of the community in which it operates. However, the reasons behind the adoption of the principles of “back to basics” suggest that the delivery of basic services has increased – but so has the frequency of service delivery-related protests. Municipalities are not up to the task of effectively and efficiently meeting the needs of the community. The new “back to basics” action plan was adopted to correct poor governance practices and to commit to the following (Presidential Local Government Summit, September 2014).

- Create conditions for decent living by consistently delivering municipal services of the right quality and standard. This includes planning and delivery of infrastructure and amenities, maintenance and upkeep thereof.
- Ensure good governance and effective administration – cut wastage, spend public funds prudently, hire competent staff, ensure transparency and abide by the Declaration for LG SUMMIT for guidelines on accountability. Further, ensure that corruption is prevented and rooted out at all levels.
- Ensure sound financial management and accounting by prudently managing resources so as to sustainably deliver services and bring development to communities.
- Build and maintain sound institutional and administrative capabilities managed by dedicated and skilled personnel at all levels.
- Put people and their concerns first and ensure constant contact with communities through effective public participation platforms.
- Ensure quarterly performance monitoring and reporting on the work of municipalities as directed by the back to basics approach.
- Improve the political management of municipalities and be responsive to the needs and aspirations of local communities.

2.3.4.2 Bad governance consequences of corporate misconduct and malpractice

Many municipalities face governance challenges and are on the brink of collapsing. The root cause of this is a conflict between the objectives of the municipality and those entrusted with its management. Hendrikse and Hendrikse (2012:73) define corporate crime as acts that are the result of deliberate decision-making by those who occupy structural positions within the organisation, such as councillors and executive management. These decisions are intended to benefit themselves at the expense of the organisation. According to the Transparent International Corruption Perception Index (TCPI:2009), South Africa has been ranked 67th on the list. The corruption perceptions index measures the perceived levels of public-sector corruption in 175 countries and territories.

Table 2.4: Transparent international corruption perception index

RANK	COUNTRY	2014SCORE	2013 SCORE	2102SCORE
67	South Africa	44	42	43

Source: TICPI (2014)

The Corruption Watch is a non-profit organisation launched in January 2012 and it relies on the public to report on corruption. It investigates selected reports of alleged acts of corruption, in particular, those cases that have the most serious impact on our society, and hands its findings over to the relevant authorities to take further action, and monitor the progress of each case. While many global countries have embraced good governance for many years, believing that corruption is not a practice of good governance and is threatening economic growth for all, according to the Corruption Perception Index (2014), South Africa is at risk because of poor governance. This confirms the growth in corruption in the South African economy. Corruption Watch (2014) states that corruption fuels poor service delivery and swallows up huge amounts of money every year – the numbers may vary, but the word “billion” crops up often. In 2011, the Council for the Advancement of the South African Constitution said that an estimated 20% of the country’s annual GDP is lost to corruption. In the same year, the head of the Special Investigating Unit – mandated to “recover and prevent financial losses to the state caused by acts of corruption, fraud and maladministration” – presenting the body’s annual report, estimated that a sum of R30 billion –that was unaccounted for was “not unrealistic”. The communities often express their unhappiness

and frustration with poor service delivery, lack of access to water, maladministration and corruption through protests, which have been occurring regularly across the country. Several people have died as a result of ensuing violence, but substandard facilities have also claimed lives. If you know how local government is supposed to work, you will find it easier to identify when it is not working, or when something is wrong.

According to the King III Report (2009) the municipal board should be transparent in its dealings with all its stakeholders, including the communities it serves. However, the Corruption Perception Index found that poor management and a lack of transparency are hampering the delivery of essential services by the South African municipalities. According to a new report from Transparency International, the government needs to strengthen governance controls at both the provincial and local government levels to ensure that municipal budgets are used correctly. According to the Corruption Perception Index, South Africa is one of the many countries at the bottom and it needs to adopt radical anti-corruption measures in favour of its people. According to expert opinion from around the world, the Corruption Perception Index measures the perceived levels of public sector corruption worldwide, and it paints an alarming picture. Not one country received a perfect score and more than two-thirds scored below 50 on a scale from 0 (highly corrupt) to 100 (very clean). Corruption is a problem for all countries. A poor score is likely to be a sign of widespread bribery, lack of punishment for corruption and public institutions that do not respond to citizens' needs (TICPI, 2014).

The bad corporate governance practices are reflected in most municipalities' risk management processes. According to Raghavan (2011:194–207) court records filed by the attorneys of municipal entities in pending lawsuits show that the principal factors contributing to the crisis were: (1) poor understanding of the risks; (2) the reluctance of high-level municipal managers and (3) officials with governance responsibilities to ask questions for fear of exposing their ignorance. The primary responsibility of chapter 13 of the MFMA is to ensure that the municipalities avoid, identify and resolve financial problems themselves. However, this provision provides evidence of bad governance, by the mere fact that there is a budget available for the financially distressed municipalities indicates poor governance practices. Moringiello (2014:403-485:83) argues that chapter 13 was never intended to serve as a comprehensive scheme to solve municipal financial

problems; it was designed to complement state efforts to solve those problems. Chapter 9 does indeed anticipate restructuring governance over a municipal debtor, but in the hands of the state, not in the hands of a bankruptcy judge. Gunnar (2013:145-157) concurs with this argument when stating that the governance of municipal enterprises differs in some respects from that of state enterprises. Municipal enterprises tend to be smaller and the human and financial resources available for the professional governance of municipal enterprises are generally more limited. Consequently, municipalities need to adapt these recommendations to the local context in order to achieve the desired outcomes. This said, the basic governance issues faced by municipal enterprises are the same, and it is expected that municipality-owned enterprises comply fully with the spirit of these recommendations.

2.3.5 The municipal response to the King III codes

Engelbrecht (2012:124) contends that the development of corporate governance after the King II Report (2002) has manifested itself in a number of interesting ways. The Johannesburg Stock Exchange (JSE) has undertaken a comprehensive revision of its listing rules which made a number of recommendations of the King Report mandatory (Armstrong & Segal, 2006:23). The municipal sector underwent changes such as discussions on good governance in local government and the relevance of the King III Report. The Constitution make it clear what the responsibilities of local government are: It provides democratic and accountable government for local communities, ensuring the provision of services to the communities in a sustainable manner. The state-owned enterprises were affected by the PFMA, while the government introduced the MFMA in 2003, which imposed comprehensive governance obligations on officials and executives dealing with financial administration.

Corporate governance has also been carefully monitored by the press, as they have actively engaged themselves in the debate surrounding the conduct of directors, boards and companies. Furthermore, the Auditing Profession Act (2005) provided for the establishment of an independent regulatory board for auditors to provide for education, training and professional development of auditors (Government Gazette, 2005:1). The 2006 Corporate Law Amendment Act introduced new requirements relating to financial standards, financial reporting and auditors that included the following (South African Reserve Bank, 2009).

The new Companies Act was gazetted in April 2009 and contains regulations regarding corporate governance, transparency and accountability. The Companies Bill (2010) “promotes and encourages transparency and high standards of corporate governance – transparency will be ensured through greater director accountability and the appropriate participation of all stakeholders” (Department of Trade and Industry, 2009).

No analysis of corporate governance in South Africa would be complete without considering the role of Black Economic Empowerment (Armstrong & Segal, 2005:226). Ownership of shares by black business and individuals on the JSE has seen a significant increase after statutory intervention in the form of the Broad-based Black Economic Empowerment Act (2003) and various self-regulatory sectoral accords. However, the motives and policies behind BEE advancement are not sufficiently understood by international markets. Armstrong & Segal (2006:56) in the handbook on international corporate governance, points out that investors may see the steps taken to bring about BEE as regressive with regard to corporate governance, as “the process of building a capitalist class on the basis of artificial financing structures can easily lead to business ventures with shareholding structures that transgress the principles of good governance” (Armstrong & Segal, 2006:227). Balancing best business practice and BEE regulations is a delicate task that requires a certain level of vigilance by policy makers to ensure that important developments on black empowerment do not circumscribe the drive for good corporate governance practices.

It would be unrealistic to anticipate non-adherence to good corporate governance in the municipal sector, because the dilemma with which local government officials and political office-bearers have to deal is still: How does one balance effective service delivery, political affiliations, the need for a political party to remain in power and good governance? Lack of service delivery brings about power swings in government, while good business practice and governance may not always facilitate political mandates, such as free basic services. The common law principles bestow certain fiduciary responsibilities on members of a board, but not necessarily to municipal councillors. However, according to section 152 of the Constitution of the Republic of South, it could be said that because the council (through the decisions of councillors) has the power to

spend taxes, which is money belonging to the community, there are implied fiduciary duties. The Minister of Cooperative Governance (COGTA) recently launched “Operation Clean Audit” saying that good governance will contribute to clean audits in municipalities.

The above arguments clearly place of the job of service delivery on municipalities, which are responsible for promoting the social and economic development of the community. Practices and responses to good corporate governance necessitate that local government leadership play an effective role and the responsibility is placed on these leaders, which necessitates ethical values of responsibility, accountability, fairness and transparency as underpinning governance principles.

2.3.6 Sustainability development in corporate governance

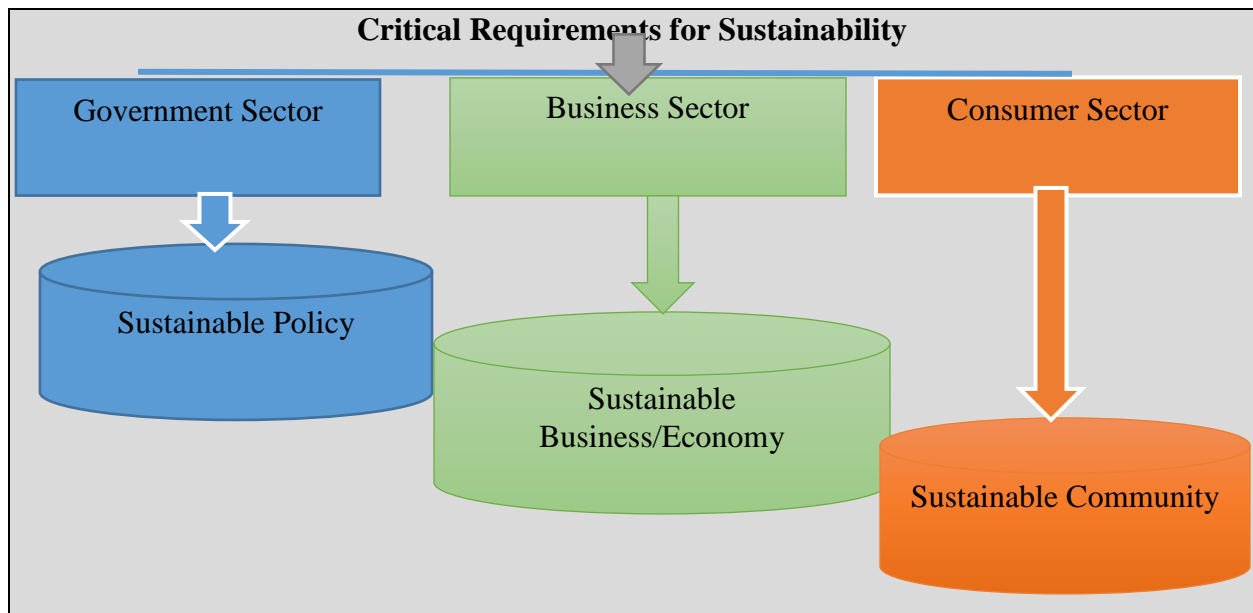
The municipal sector is in the position that it can no longer deny the reality of the environmental problems in the community in which it operates. In the business environment of the 21st century, many stakeholders regard sustainability as a vitally important business goal (Epstein & Roy, 2003; Pfeffer, 2010). The term is defined in many different ways and has often involved environmental concerns (Hoffman & Bezerman, 2007).

The municipal sector delivers value and other resources that connect communities/local governments to the best energy-related sustainability practices of other municipalities and leading organisations, consultants, financial institutions, attorneys, architects and sustainable energy-related firms that can help them move forward. This is to ensure facilitation of both economic growth and a sustainable energy future for municipalities and communities across South Africa. According to the KPMG (2012) report, the planet is facing sustainability challenges due to the insatiable appetite of nations and business which are exhausting global resources at an unprecedented rate. This is highlighted by the ten global “megatrends” which will impact the planet as the following:

- Climate change (environmental sustainability)
- Energy and fuel (economic sustainability)
- Material resource scarcity (economic sustainability)
- Water scarcity (environmental sustainability)
- Population growth (social sustainability)

- Urbanization (social sustainability)
- Wealth (economic sustainability)
- Food security (social sustainability)
- Ecosystem decline (environmental sustainability)
- Deforestation (environmental sustainability)

Figure 2.1: Sustainability model



Source: Researcher (2015)

If the local government policy is in place and business embraced and embedded the subject in strategy it would be inevitable that products and services will be sustainably made and delivered to the community it serves. This will then engender “sustainable consumption” as the “scale” of products and services that are sustainable will increase and be made available widely. This will be realistic if the consumer is informed and educated in the urgent need to exercise “personal responsibility” on how they can make a “sustainable choice” every time. Ceres (2010:4) concurs with this notion, when stating that the interests of shareholders, over time, will be best served by companies that maximise their financial performance by strategically managing their economic, social, environmental and ethical performance. Central to this thesis, is the explicit recognition that sustainability factors directly affect long-term business profitability. Most progressive and – forward-looking business leaders understand that best practice business strategy is about

leveraging sustainability challenges into increased revenue, profitability and competitive advantage. Sustainability is integrated into strategy. Success requires placing sustainability at the epicentre of business models. Environmental, social and governance issues must be seamlessly integrated into strategic planning and investment decision-making, (Fernando, 2012:579–589).

2.4 RELATIONSHIP BETWEEN MUNICIPAL LEGISLATIVE PRESCRIPTS AND CORPORATE GOVERNANCE

As Russell and Bvuma (2001:241–265) explain, the local government is the sphere of government closest to the people. Local municipalities and local ward councillors deliver many basic services as they are the politicians that are closest to communities. Organisations that play an activist and/or developmental role should understand its functions of local government and how they could influence it. The policies of the South African government clearly demand from local municipalities and councillors to be sensitive to community views and responsive to local problems. Partnerships should be established between civil society and local government to address local issues. A number of laws outline participation processes that municipalities have to use to consult the community.

2.4.1 The different aspects of local government and the mechanisms for participation and consultation that organisations can access

Booyesen (2003) argues that both rural and urban areas should have easy access to basic services delivered by South African municipalities. This argument is echoed by South Africa's Department of Cooperative Governance and Traditional Affairs (DCGTA) (2009) when indicating that communities can access the municipal sectors through the following means:

- Developmental local government
- Ward committees
- Integrated development planning
- Municipal budgets and finance
- Municipal service delivery

2.4.2 Key role players within the spheres of government

According to Akinboade, Kinck and Mokwena (2012:182–199) the government has the responsibility of making policies and laws about the rights and responsibilities of citizens and the delivery of government services. Government collects revenue (income) from taxes and uses this money to provide services and infrastructure that improve the lives of all the people in the country, particularly the poor. The Constitution lays down the rules for how government works. There are three spheres of government in South Africa:

1. National government
2. Provincial government
3. Local government

Three parts of the government spheres:

- The elected members – they represent the public and approve policies and laws.
- The cabinet or executive committee – they coordinate the making of policies and laws and oversee implementation by the government departments.
- The departments and civil servants – they are responsible for doing the work of government.

2.4.2.1 National government

Laws and policies are approved by the National Assembly (Parliament) and the National Council of Provinces (NCOP). Parliament consists of members of Parliament elected every five years. The NCOP consists of representatives of provincial legislatures and local government. The president is elected by Parliament and he/she appoints a cabinet of ministers who act as the executive committee of government. Each minister is the political head of a government department and each government department is responsible for implementing the laws and policies decided on by Parliament or the cabinet. Directors-general head government departments and these departments employ directors (managers) and civil servants (staff) to do the work of government.

Every department prepares its own budget. The Treasury (Department of Finance) combines these into one national budget which has to be approved by Parliament. The Treasury balances the income and expenditure of government in the budget and will rarely give departments everything

they ask for. Provincial or local government may not do anything that is against the laws or policies set down by national government. Provincial government obtains most of its money from the National Treasury, local government also receives grants and some loans through the Treasury and the Department of Provincial and Local Government is responsible for national coordination of provinces and municipalities.

2.4.2.2 Provincial government

There are nine provincial governments (see Figure 2.2) and legislatures in each province approve some provincial laws. The provincial legislature also passes a provincial budget every year. Provincial elections are used to elect provincial legislatures and such elections are held with national elections every five years. A premier is elected by the legislature and appoints Members of the Executive Council (MECs) to be the political heads of each provincial department. The MECs and the Premier form the provincial executive council (cabinet). Provincial departments employ directors and civil servants to do the work of government.

Figure 2.2: Provinces of South Africa (www.gov.za)

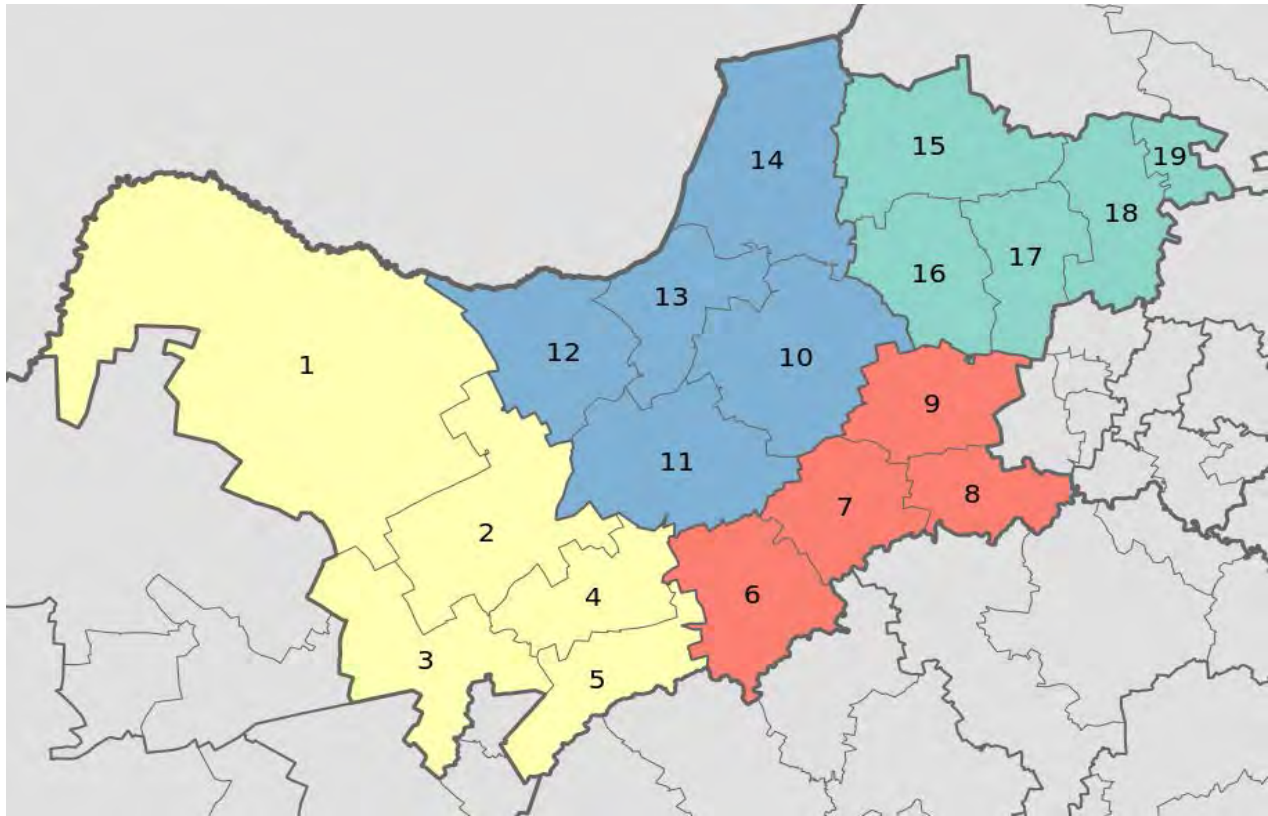


Most of the civil servants in the country resort under provincial government. The provincial MEC and Department of Local Government are responsible for coordination, monitoring and support of municipalities in each province.

2.4.2.3 Local government

Local governments have been the principal providers of public service delivery (South Africa Parliament, 2012), although they have been hampered by a limited ability to bear the associated costs, especially where population density is low and service delivery is costly or difficult. The whole of South Africa is divided into metropolitan, district and local municipalities (see Figures 2.2 and 2.3 for the municipal demarcation and map in Gauteng). Each municipality has a council where decisions are made and municipal officials and staff who do the work of the municipality. Elections for councils are held every five years, and the last election was held on 5 December 2014. There are basically two types of elections: one for metro councils and one for local councils.

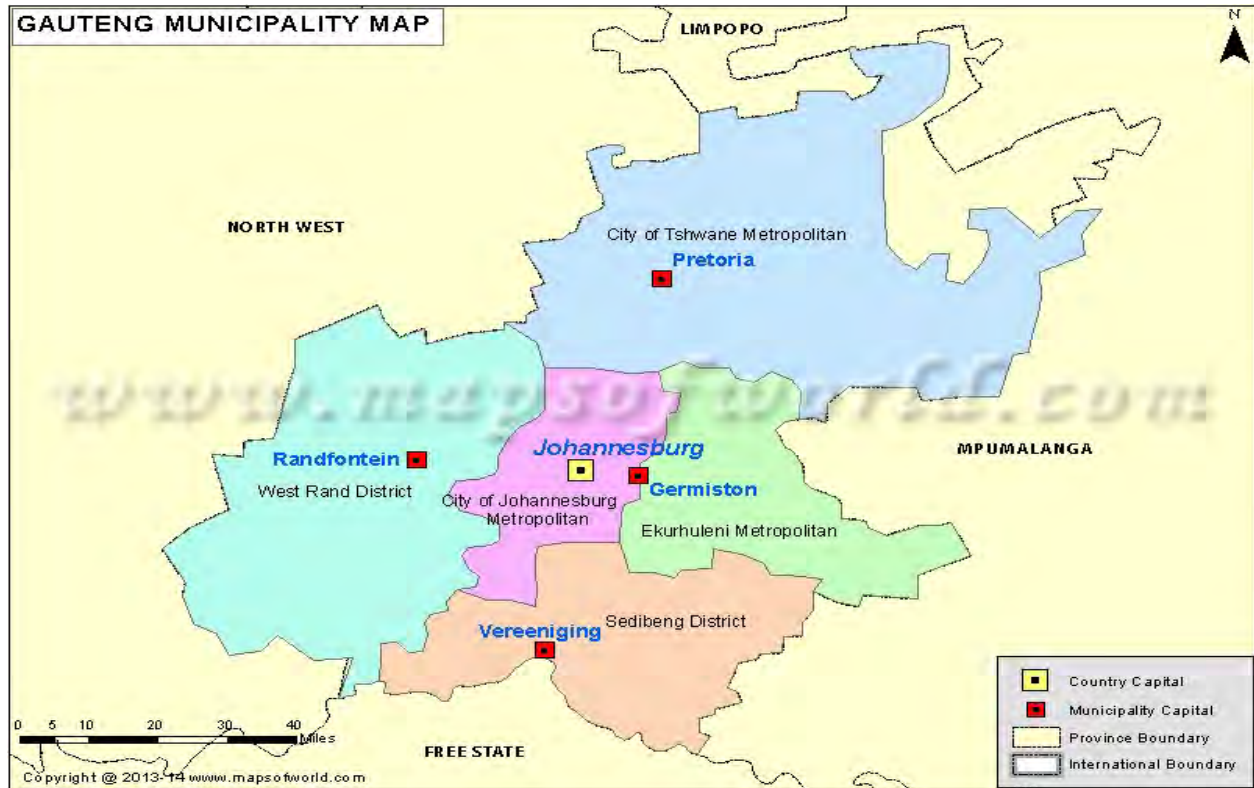
Figure 2.3: Location of the municipalities in Gauteng



Source: Researcher adapted from SALGA

The council is made up of elected members who approve policies and by-laws for their area. The council has to pass a budget for its municipality each year. They must also decide on development plans and service delivery for their municipal area. The work of the council is coordinated by a mayor who is elected by the council. The mayor is assisted by an executive or mayoral committee, made up of councillors. The mayor, together with the executive, also oversees the work of the municipal manager and department heads. The work of the municipality is done by the municipal administration that is headed by the municipal manager and other officials. This municipal manager is responsible for employing staff and coordinating them to implement all programmes approved by the council.

Figure 2.4: Gauteng municipality map



Source: Researcher adapted from SALGA

Inter-governmental relation, on the other hand, deals with the relationships between the three spheres of government. The local government is a sphere of government in its own right; it is no longer a function or administrative implementing arm of national or provincial government. Although the three spheres of government are autonomous, they have to work together on decision-making and coordinating budgets, policies and activities, particularly for those functions across the spheres. The local government is represented in the National Council of Provinces and other important institutions like the Financial and Fiscal Commission and the Budget Council.

Gauteng has more than 12.2 million people (2011 South African National Census), almost 25% of the total South African population. There are 12 municipalities that are providing essential services to the population of Gauteng. SALGA is the official representative of local government. SALGA consists of nine provincial associations, which in turn consists of their provincial association. Executive elections take place and decisions on policies and programmes are made at provincial or national general meetings. SALGA is an employers' organisation, and represents the

employer in the South African Local Government Bargaining Council. SALGA's main source of funding is membership fees payable by municipalities.

2.4.3 Legislative framework within which corporate governance process takes place

In the South Africa, the demands for greater accountability, transparency, risk management and good governance can be seen in the 1996 Constitution, the PFMA, the MFMA and the King Report III, which are applicable to both the public and private sectors. Between 1994 and 2000 various amended acts were introduced which impacted on corporate governance practices and reinforced corporate responsibility issues emphasised in the first King Report.

Table 2.5: Municipal government legislation

Year	LEGISLATION
1996	The Constitution of the Republic of South Africa
1997	Intergovernmental Fiscal Relations Act
1998	Local Government: Municipal Structures Act
1998	Local Government: Municipal Demarcation Act
1998	The White Paper on Local Government
2000	Local Government: Municipal Electoral Act
2000	Local Government: Municipal Systems Act
2003	Traditional Leadership and Governance Act
2003	Local Government: Municipal Finance Management Act
2004	Local Government: Municipal Property Act

Source: Researcher (2015)

The Public Finance Management Act (1999) introduced more rigorous standards for reporting and accountability by adopting an approach to financial management in public sector institutions that focuses on performance in service delivery and efficient deployment of state assets (Armstrong & Segal, 2005:15). In terms of the Competition Act of 1998, the South African government gave authority to the Competition Commission to investigate, control and evaluate restrictive business

practices, as well as the abuse of power and mergers (Competition Commission, 2009). Its mandate was:

- to promote the efficiency, adaptability and development of the economy
- to provide consumers with competitive prices and product choices
- to promote employment and advance the social and economic welfare of South Africans
- to expand opportunities for South African participation in world markets and recognise the role of foreign competition in the Republic.

The above initiatives are a clear indication of the South African government's commitment to ensure that international standards of best practice would be adhered to at all time by the local government institutions.

2.4.3.1 The Constitution

In terms of section 216(1)(c) of the Constitution, national legislation must prescribe measures to ensure both transparency and expenditure control in all spheres of government by introducing uniform treasury norms and standards. Good governance involves how an organisation is managed, its organisational culture, policies, strategies and the way it deals with its stakeholders. A study by Hilliard and Kemp (1999:43) shows that it is clear that the current South African government values the involvement in all spheres in the governance of the country. For example, section 152(e) of the Constitution encourages the involvement of communities and community organisations in local government matters, which signals an important practice of good corporate governance.

Section 195 of the Constitution further describes the objectives of local government as follows:

- Provision of democratic and accountable government for local communities
- Ensuring the provision of services to the communities in a sustainable manner
- Promotion of social and economic development
- Promotion of a safe and healthy environment

- Encouraging the involvement of communities and community organisations in matters of local government

The above legislation clearly places the duty of service delivery on municipalities, which are responsible for the promotion of the social and economic development of the community. Other spheres of government support them in this, but interference is strongly discouraged. The role of local government leadership and the responsibility placed on these leaders necessitate ethical values of responsibility, accountability, fairness and transparency as underpinning governance principles.

2.4.3.2 The local government finance management systems

According to the MFMA, the municipality's board should ensure that it secures a sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements in order to ensure transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities. The King III Report argues that there is always a link between good governance and law and that good governance is not something that exists separately from the law. It is entirely inappropriate to detach governance from the law. This implies that the municipal councillors and management must discharge their legal duties.

The primary reason for the existence of the municipality is to create value for its shareholders or the society it serves, for example, triple bottom line, social, economic and environmental performance. These present values should be met to ensure good governance and the provision of future needs of the society it serves. This approach recognises that a business cannot operate in an economically viable manner over a prolonged period without due regard for long-term sustainability issues. The Local Government: Municipal Finance Management Act, (Act No. 56 of 2003) provides for the comprehensive reform of municipal finance management systems and aims to regulate the budgeting process, financial accounting, auditing, reporting and borrowing. With regard to participation, this Act stipulates that a council must consult the community on the annual, tabled budget, (MFMA, 2003:40).

2.4.3.3 The Municipal Systems Act

The Municipal Systems Act is central to developing the governance framework within a municipality, clarifying and separating the roles of mayors, councillors and officials and the system of accountability and oversight. The five underlying principles (See Table 2.6) in the MFMA, which form the basis of the key reforms envisaged in the Act, are consistent with other legislation on local government. It is anticipated that these principles and the specific reforms that flow from them will encourage a stronger, better managed and more accountable local government sphere, one that is better placed to meet the emerging demands and new challenges of the different communities it serves in a more consistent and sustainable manner. The following principles are discussed:

Table 2.6: MFMA underlying governance principles

1	Promoting sound financial governance by clarifying roles
2	A more strategic approach to budgeting and financial management
3	Modernization of financial management
4	Promoting cooperative government
5	Promoting sustainability

Source: Researcher (2015)

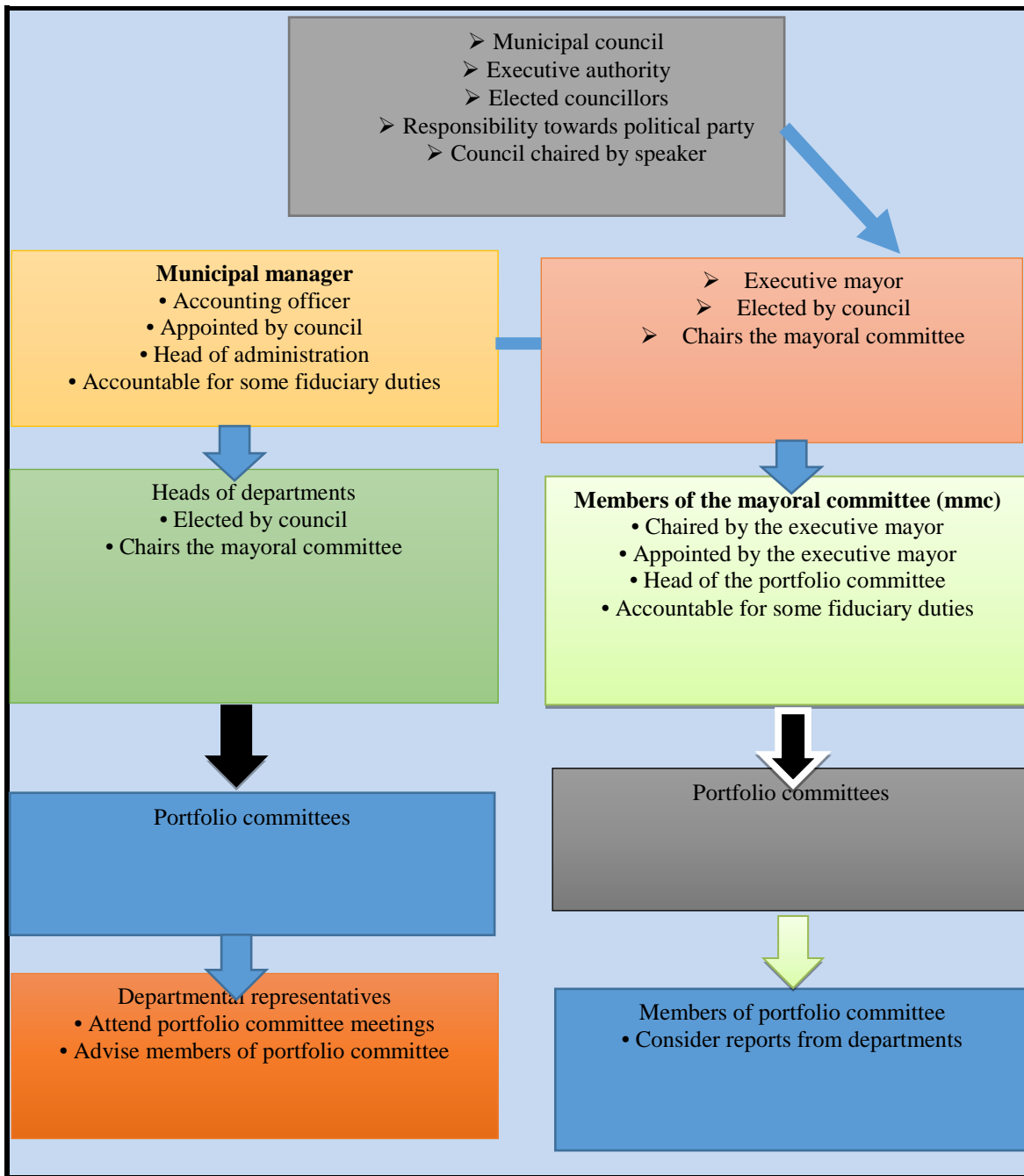
The Act also gives effect to the constitutional principle that recognises that the local sphere of government is “distinctive” and “independent”, with the power to determine its own budget and policies. It also recognises the approval and oversight role of the municipal council, as a legislature in its own right. Being a distinctive government, each municipality has the right to determine its own budget with its own priorities and to collect property taxes, municipal levies and user charges. Given that the three spheres of government are also “interrelated”, the provincial or national sphere, in terms of section 139 of the Constitution, can intervene in a municipality only when there is an executive failure or a budget or financial crisis. The MFMA brings greater responsibility, as it requires greater accountability of the municipal council and local community.

The Local Government: Municipal Systems Act (No. 32 of 2000) stipulates that local participation in municipal affairs must take place through political structures such as ward committees. This Act places emphasis on community participation, consultation and involvement in the activities and functions of municipalities, including the IDPs' performance management systems (PMS), preparation of the local budget and strategic decisions relating to services (South Africa, 2000a:30; Govender and Reddy, 2011:2). It also enables local government to establish a simple framework for planning, performance management, resource mobilization and organisational change, which lie at the centre of developmental local government and provides for legal matters pertaining to local government.

2.4.3.4 The municipal structural systems

The Local Government: Municipal Structures Act (Act No. 117 of 1998) (Figure 2.) requires municipalities to develop mechanisms to facilitate community and civic involvement in local governance. A new culture of governance that complements representative democracy through participation is being enforced (South Africa, 1998:14). This Act also provides for the establishment of ward committees, which may advise the local municipality on local matters (South Africa, 1998:36; Govender and Reddy, 2011:9).

Figure 2.5: Structures and responsibilities in municipal councils



Sources: Researcher (2015)

Other pieces of legislation as illustrated in Figure 2.5, established frameworks and regulations to regulate the internal systems and structures and to secure sound and sustainable management of the financial affairs of municipalities. Traditionally, the board of directors, board committees and

the chief executive officer (CEO) of the company, who is also an executive director, are the key role players in governance in the private sector. However, local government leadership structures are not directly comparable to that of companies.

The municipal council has the legislative and executive authority of the municipality and the members of the council are elected representatives of political parties. Therefore, council members are not independent in the same manner as directors in the private sector would be. For example, for the construction of a road in a township, an item has to be tabled in the council. Councillors are obliged to vote according to the party caucus decision as a municipal council operates under the leadership of the executive mayor who is elected by the council, while council meetings are chaired by the Speaker of the council. Executive mayors (as well as municipal councillors) are elected to represent a political party. The principle of independence does not apply and executive mayors are guided in terms of party manifestos; instead of being based on sound business principles. For functions and powers of mayors, see Table 2.7.

Table 2.7: Functions and powers of mayors

1	Identifying, reviewing and evaluating the needs of the municipality
2	Recommending strategies to address priority needs through the IDP
3	Identifying criteria for evaluation of implementation of strategies and programmes
4	Reviewing the performance of the municipality
5	Monitoring the management of the municipality
	Overseeing the provision of services

Source: Researcher (2015)

In the municipal sector, the municipal manager fulfils the role of CEO, and the municipal manager is also the accounting officer of the municipality. In terms of local government legislation, the accounting officer has several responsibilities. The municipal manager is not a member of the municipal council and may not speak at council meetings. The relevant political party assesses the powers and functions ascribed to the executive mayor in terms of section 56 of the Municipal Structures Act, while the legal accountability remains with the accounting officer.

Executive mayors and councillors are not liable for their actions in the same way as a board of directors. The current roles and responsibilities of municipal managers and executive mayors often cause conflict and unnecessary confusion.

2.5 IMPLEMENTATION FRAMEWORK OF CORPORATE GOVERNANCE

The governance-related activities are all those activities performed regularly as part of the functional application areas. They collate all those activities that can have a direct influence on the quality of governance and that are normally directly and indirectly linked to the government culture, values and principles. These activities are performed on a daily basis and have the potential to express and reflect the culture, values and principles throughout the organisation. Mostly, they are applied without considering the possible impact they have on the quality of governance.

2.5.1 Comparison between the King III report and municipal governance

The King Committee on governance issued the King Report on Governance for South Africa – 2009 (the Report) and the King Code of Governance Principles – 2009 (the Code), together referred to as ‘King III Report’ on 1 September 2009. While King II, issued in 2002, focused on the corporate sector, it is intended that the King III Report principles be applied by all entities, including municipalities (King III Report, 2009:14). The King III Report applies to all entities regardless of the manner and form of incorporation or establishment. The principles, if adhered to, will result in any entity practising good governance. For that reason, the Code does not address the application of its principles and each entity will have to consider the approach that best suits its size and complexity. Application of the Code, may, however, be mandated by law or regulation.

The terms “company”, “boards” and “directors” refer to the functional responsibility of those charged with governance in any entity and should be adapted as appropriate by reading “municipality”, “council” and “councillors”, respectively. Furthermore, certain aspects of governance are legislated in the Municipal Systems Act, and the MFMA. The responsibility for corporate governance lies with the company’s board of directors and consists of two main

functions: the direction of the company and the control of the company (Rossouw, 2006:189). The King III Report extends this claim and states the following:

All entities should apply both the principles in the code and the best practice recommendations in the report. In situations where the board or those charged with governance decide not to apply a specific principle and/or recommendation, this should be explained fully to the entity’s stakeholders. The duties of directors can be grouped into the duty of care, skill, and diligence and fiduciary duties. There is personal liability for breach of certain statutory duties. (King III Report, 2009:12)

According to the King III Report, the boards and directors, act in the best interest of the institution and form the focal point of corporate governance; its responsibilities extend to stakeholders: “Companies should be headed by a board that should direct, govern and be in effective control of the company”. Because public sector institutions do not have boards of directors, their functions are performed by the executive authority as delegated to the accounting officer. Municipal councils perform many of the board’s functions. Table 2.8 provides a comparison of the King III Report and municipal sector board responsibilities.

Table 2.8: Comparison between the King III report and municipal governance

COMPARISON BETWEEN THE KING III REPORT AND MUNICIPAL GOVERNANCE	
The King III Report	Municipal Governance
The board should act as the focal point for and custodian of corporate governance	In terms of section 30 of the MSA responsibility is delegated to the exco, the executive mayor or a committee appointed by the council for the implementation, evaluation and monitoring of the IDP, which incorporates these requirements. The frequency of such meetings is normally weekly.
The board should appreciate that strategy, risk, performance and sustainability are inseparable	In terms of section 30 of the Municipal Systems Act responsibility is delegated to the exco, the executive mayor or a committee appointed by the

	council for the implementation, evaluation and monitoring of the IDP, which incorporates these requirements. The frequency of such meetings is normally weekly.
The board should provide effective leadership based on an ethical foundation	In terms of section 151 of the Constitution of South Africa the executive and legislative authority of a municipality vests in its municipal council. Section 30 of the Municipal Systems Act makes exco, the executive mayor or a committee appointed by the council responsible for the implementation, evaluation and monitoring of the IDP.
The board should ensure that the company is and is seen to be a responsible corporate citizen	In terms of chapter 4 of the Municipal Systems Act community participation is provided for, while the need for community involvement in approving amendments to the IDP (sections 23 and 34) is stressed in chapter 5. Section 95 of the Municipal Systems Act provides for the provision of sound customer care and management systems. Schedule 5 of the Municipal Structures Act and schedules 1 and 2 of the Municipal Systems Act provide a code of conduct for municipal councillors and staff.
The board should ensure that the company has an effective and independent audit committee	Section 166 of the MFMA states that a municipality must have an independent advisory body – the audit committee – to advise the council.
The board should be responsible for the governance of risk	Section 166(2)(a)(ii) of the MFMA tasks the audit committee with advising the council on risk management and section 62(1)(c)(i) of the MFMA makes the municipal manager responsible for risk

	management.
The board should be responsible for IT governance	Section 62(1)(a) of the MFMA makes it the municipal manager's responsibility to ensure that resources are used effectively, efficiently and economically.
The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Section 55(1)(b) of the Municipal Systems Act makes the municipal manager responsible for management in accordance with legislation. Sections 65(2)(f), 73(b), 74.(2) and 171 also assign responsibilities to the municipal manager.
The board should ensure that there is an effective risk-based internal audit	In terms of section 165(2)(a) of the MFMA, internal auditors must prepare a risk-based plan.
The board should appreciate that stakeholders' perceptions affect the company's reputation	Section 130 of the MFMA stipulates that meetings of the council are to be made open to the public.
The board should ensure the integrity of the company's integrated report	Sections 121 and 129 of the MFMA provide for an annual report and an oversight report.
The board should report on the effectiveness of the company's system of internal controls	Section 166(2)(a)(i) of the MFMA tasks the audit committee with reporting to the council on internal controls.
The board and its directors should act in the best interests of the company	Schedule 1 (paragraph 7) to the Municipal Structural Act states that a declaration of interest is required annually, or where changes occur. Council rules provide for the declaration of interest at meetings.
The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the	Section 135 of the MFMA specifies that the municipality is responsible for the resolution of financial problems and must notify the MEC for Local Government.

Companies Act	
The board should elect a chairperson of the board who is an independent nonexecutive director. The CEO of the company should not also fulfil the role of chairman of the board	Section 36(1) of the Municipal Structures Act rules that the speaker chairs council meetings. This is substantially different to the principles of King III Report and the challenge is for the speaker to perform the role of the chairperson in providing governance oversight and leadership.
The board should appoint the CEO and establish a framework for the delegation of authority	The municipal council appoints the municipal manager in terms of section 30(5)(c) and section 82 of the Municipal Structures Act.
The board should comprise a balance of power, with a majority of non-executive directors. The majority of nonexecutive directors should be independent	The municipal council consists of a number of councillors elected by the local community through a system of proportional representation, as prescribed by section 20 of the Municipal Structures Act. The incumbents (mayor, speaker, exco, etc.) are elected by the elected councillors. In the case of district municipalities, some councillors are elected and others are appointed by the local municipality in terms of section 23 of the Municipal Structures Act.
Directors should be appointed through a formal process	As prescribed by section 20 of the Municipal Structures Act, a municipal council consists of a number of elected councillors, each of whom must meet defined qualification requirements.
The induction and ongoing training and development is conducted through formal processes	Section 53 of the Municipal Structures Act states that the council must define the roles and responsibilities of councillors and structures.
The board should be assisted by a competent, suitably qualified and experienced company secretary	According to section 55(1)(i) of the Municipal Structures Act, the municipal manager is appointed to advise the political structures.

<p>The evaluation of the board, its committees and the individual directors should be performed every year</p>	<p>Not applicable in the municipal environment. However, paragraph 4(2) of the Councillor’s Code of Conduct in both the Municipal Structures Act and the Municipal Structures Act, stipulates that a councillor may not be absent from three consecutive meetings.</p>
<p>The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities</p>	<p>Section 32 of the Municipal Structures Act provides that municipal councils must develop a system of delegation and may delegate to exco, an executive mayor, the speaker, sub-councils, ward/other committees, the municipal manager or other officials.</p>
<p>A governance framework should be agreed between the group and its subsidiary boards</p>	<p>The responsibility for governance remains with the municipalities. However, this may also apply to district, municipal entities (where applicable) and local municipality shared services.</p>
<p>Companies should remunerate directors and executives fairly and responsibly</p>	<p>Councillors’ salaries and allowances are determined in terms of the Remuneration of Public Office Bearers Act, in consultation with the MEC for Local Government. The salaries and allowances of the municipal manager and heads of departments are approved by the council. The salaries and allowances of other staff are approved by the SA Local Government Bargaining Council.</p>
<p>Companies should disclose the remuneration of each individual director and certain senior executives</p>	<p>The remuneration of councillors, the municipal manager and heads of departments is disclosed in the notes to the annual financial statements as mandated in section 124(1)(a) and (c) of the MFMA.</p>
<p>Shareholders should approve the</p>	<p>Councillors’ salaries and allowances are</p>

company's remuneration policy

determined in terms of the Remuneration of Public Office Bearers Act, in consultation with the MEC for Local Government. The salaries and allowances of the municipal manager and heads of departments are approved by council. The salaries and allowances of other staff are approved by the SA Local Government Bargaining Council.

Source: Researcher (2015)

The purpose of collating them is to provide an overall view and understanding of how they can be selected and combined to improve governance and guide senior managers in the municipal sector to consider adopting and incorporating this understanding into their specific management style. If approached correctly, they can improve the quality of governance within their own area of responsibility and make a meaningful contribution to the whole.

2.5.2 Components of governance practices and implementation in the municipal sector

The following aspects are an important background to the development and implementation of corporate governance:

2.5.2.1 The board and directors (council)

The governance implementation approach differs from organisation to organisation. However, according to Pandyan (2010), broader aspects of governance implementation should be considered; for the municipal sector, two main governance implementation dimension will include the board and directors and combined assurance framework. According to the King III Report, the board of directors has a dual mandate: (1) to advise management and consult with them regarding strategic and operational direction of the company, (2) to oversee by monitoring the municipal performance and reduce costs. An effective board should satisfy both functions.

The responsibilities of the board are separate and distinct from those of management. The board does not manage the company. To successfully implement municipal governance and to reach the aim of community satisfaction as its core element there needs to be multi-level approaches to change in the individual (e.g. service providers), the organisation (e.g. board) and the larger

system (e.g. the municipal system) in which individuals and organisations are embedded (Khayatzadeh, Nekoei & Parva, 2013:186–199). The aim of municipal governance is clear: to provide high-quality community-centred services. As a consequence, community satisfaction is the key principle of municipal governance, as it is used to measure quality in the municipal sector. For the corporate governance practices and implementation to be effective, key fundamentals have been covered (Hendrikse & Hendrikse, 2012:145). Table 2.9 illustrates those fundamentals of the MCGIF to enhance good corporate governance practices, namely:

Table 2.9: Municipal governance implementation indicators

MUNICIPAL GOVERNANCE IMPLEMENTATION INDICATORS	Chapter in the King III Report
COUNCILLORS AND BOARD OF DIRECTORS	
Section 30 of the MSA delegates responsibility for the implementation, evaluation and monitoring of the IDP, which includes these requirements, to exco, the executive mayor or a committee appointed by the council. The frequency of such meetings is usually weekly.	1
Section 151 of the Constitution vests in the executive and legislative authority of a municipality in its municipal council. Section 30 of the MSA gives the responsibility of the implementation, evaluation and monitoring of the IDP to exco, the executive mayor or a committee appointed by the council responsible.	2
Chapter 4 of the MSA provides for community participation, while chapter 5 stresses the need for community involvement in approving amendments to the IDP (sections 23 and 34). Section 95 of the MSA provides for the provision of sound customer care and management systems. Schedule 5 of the Municipal Structures Act and schedules 1 and 2 of the MSA provide a code of conduct for municipal councillors and staff.	2
Section 166 of the MFMA states that a municipality must have an independent advisory body – the audit committee – to advise the council.	2

Section 166(2)(a)(ii) of the MFMA tasks the audit committee with advising the council on risk management and section 62(1)(c)(i) of the MFMA tasks the municipal manager with risk management.	2
Section 62(1)(a) of the MFMA makes it the municipal manager's responsibility to ensure that resources are used effectively, efficiently and economically.	2
Section 55(1)(b) of the MSA gives the responsibility of management in accordance with legislation to the municipal manager. Sections 65(2)(f), 73(b), 74(2) and 171 of the MFMA also assign responsibilities to the municipal manager.	2
In terms of section 165(2)(a) of the MFMA, internal audit must prepare a risk-based plan.	2
Section 130 of the MFMA stipulates that meetings of council are to be made open to the public.	2
Sections 121 and 129 of the MFMA provide for an annual report and an oversight report.	2
Section 166(2)(a)(i) of the MFMA tasks the audit committee with reporting to council on internal controls.	2
Schedule 1 (paragraph 7) of the MSA states that a declaration of interest is required annually, or where changes occur. Council rules provide for the declaration of interest at meetings.	2 and 3
Section 135 of the MFMA specifies that the municipality is responsible for the resolution of financial problems and must notify the MEC for Local Government.	
Section 36(1) of the Municipal Structures Act rules that the speaker should chair council meetings. This is different from the principles of King III Report and it is a challenge for the speaker to perform the role of the chairman in providing governance oversight and leadership.	2
The municipal council appoints the municipal manager in terms of sections 30(5)(c) and 82 of the Municipal Structures Act.	2

<p>The municipal council consists of a number of councillors elected by the local community through a system of proportional representation, as prescribed by section 20 of the Municipal Structures Act. The incumbents of the positions (mayor, speaker, exco, etc.) are elected by the elected councillors. In the case of district municipalities, the local municipality appoints some councillors and others are elected in terms of section 23 of the Municipal Structures Act.</p>	2
<p>As prescribed by section 20 of the Municipal Structures Act, a municipal council consists of a number of elected councillors, who must all meet defined qualification requirements.</p>	2
<p>Section 53 of the MSA states that the council must define the roles and responsibilities of councillors and structures.</p>	2
<p>In terms of section 55(1) (i) of the MSA, the municipal manager is appointed to advise the political structures.</p>	2
<p>Included in this section is punishment for repeated absence from board meetings, which is not applicable in the municipal environment. However, paragraph 4(2) of the Councillor’s Code of Conduct in both the Municipal Structures Act and the MSA stipulates that a councillor may not be absent from three consecutive meetings.</p>	2
<p>Section 32 of the Municipal Structures Act provides that municipal councils must develop a system of delegation and may delegate functions to exco, an executive mayor, the speaker, sub-councils, ward/other committees, the municipal manager or other officials.</p>	2
<p>The responsibility of governance remains with the municipalities. However, this may also apply to shared services of district municipalities, municipal entities (where applicable) and local municipality.</p>	2
<p>Councillors’ salaries and allowances are determined in accordance with the Remuneration of Public Office Bearers Act, in consultation with the MEC for Local Government, while the salaries and allowances of the municipal manager and heads of departments are approved by the council. The salaries and allowances of other staff are approved by the SA Local Government Bargaining Council.</p>	2

<p>The remuneration of councillors, the municipal manager and heads of departments is disclosed in the notes to the annual financial statements as required in section 124(1)(a) and (c) of the MFMA.</p>	<p>2</p>
<p>Councillors' salaries and allowances are determined in terms of the Remuneration of Public Office Bearers Act, in consultation with the MEC for Local Government. The salaries and allowances of the municipal manager and heads of departments are approved by the council, those of other staff members are approved by the SA Local Government Bargaining Council and determined in terms of the Remuneration of Public Office Bearers Act in consultation with the MEC for local government and those of the municipal manager and heads of departments are approved by the council. As prescribed in chapter 6 of the Municipal Systems Act, municipalities must enforce a proper performance management system, which is subject to quarterly auditing by internal auditors in terms of the Local Government: Municipal Planning and Performance Management Regulations, 2001. Salaries are subject to annual review linked to a cost of living adjustment based on market indicators as per regulation 7(4) of the Performance Management Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006.</p> <p>Section 124(1)(c) of the MFMA requires disclosure of the remuneration of the municipal manager, chief financial officer and other section 57 employees in the financial statements. Section 58 of the Municipal Systems Act requires disclosure in the media before 31 October each year of the remuneration of the municipal manager and every manager directly accountable to the municipal manager.</p>	<p>2</p>

MUNICIPAL GOVERNANCE IMPLEMENTATION INDICATORS	Chapter in the King III Report
Combined Assurance Strategy	
Independent Audit Committee	
Section 166 of the MFMA proclaims that every municipality must have an audit committee. According to section 166(4)(b) of the MFMA, the audit committee must meet as often as is required, but at least four times a year.	3
Section 166(4)(a) of the MFMA regulates that the audit committee should consist of at least three persons with appropriate experience, the majority of whom may not be in the employ of the municipality. In addition, no councillor may be a member of the audit committee.	3
Section 166(5) of the MFMA states that the chairperson is appointed by the council.	3
Section 38(a)(ii) of the MFMA states that annual financial statements must be reviewed by the audit committee and included in the annual report. The Auditor-General presents sustainability disclosure as presented. Section 166(2)(iv) of the Act requires the audit committee to advise on the adequacy, reliability and accuracy of financial reporting and information. The MFMA does not address summarised sustainability information.	3
Section 166(2)(a)(ii) of the MFMA makes risk management the responsibility of the audit committee.	3
Although things such as internal financial control and internal audits are not addressed specifically in the MFMA, section 166(2)(a)(i) and (b) states that the audit committee has the responsibility/power to advise the council on them, as well as to review the annual financial statements to provide the council with a credible view of the financial position of the municipality, its efficiency and effectiveness. The MFMA further states that the audit committee must have access to financial records and other relevant information and may conduct investigations into the financial affairs of the municipality and perform other functions as may be prescribed.	3

In terms of section 165(2) (b) of the MFMA, internal audit must report to the audit committee.	3
Section 166(2)(a)(ii) of the MFMA makes the audit committee responsible for advising the council on risk management.	3
In terms of section 188(1)(b) of the Constitution of the Republic of South Africa and the Public Audit Act, the external audits are performed by the Auditor-General. The audit committee does not approve the terms of engagement or remuneration of the Auditor-General. The audit committee does not monitor or report on the independence of the Auditor-General.	3
The scope of the external audit is constitutionally defined in terms of the audit and it reports on accounts, financial statements and financial management (this may include performance audits, special reviews, etc.). Non-audit services are not provided for. While no specific mention is made of “reportable irregularities”, the Auditor-General reports to the council and the council may refer the matter to the audit committee. The MFMA does not specifically allow the audit committee to review the quality and effectiveness of the external audit process.	3
Section 166(2)(a) of the MFMA requires the audit committee to report to the municipal council . Section 121(3)(j) of the MFMA requires that the annual report should include any recommendations of the audit committee. There are no shareholders in municipalities; therefore, the in the public sector reference is made to stakeholders, being Parliament and the general public. The audit committee only recommends/accepts the annual financial statements and not the entire annual report. However, this responsibility may be assigned to the audit committee in terms of sections 166(2)(a)(ix) and 166(2)(e) of the MFMA and if prescribed by the Minister of Finance.	3
The board should report on the effectiveness of the company’s system of internal controls and its audit committee should be an integral component of the risk management process. In terms of section 52(d) of the MFMA, the mayor has to submit a report to the council on the implementation of the budget and	3

the financial state of affairs of the municipality, and in terms of section 166(2)(a)(i), (ii) and (iv) of the MFMA the audit committee must advise the council on internal financial control, risk management and the adequacy, reliability and accuracy of financial reporting and information.	
MUNICIPAL GOVERNANCE IMPLEMENTATION INDICATORS	Chapter in the King III Report
Independent Risk Management and Information Technology Committee	
The council may delegate this responsibility to the municipal manager , whereas the MFMA also assigns responsibility to: the audit committee to advise the council (section 166(2)(a)(ii)), the internal audit unit to advise the municipal manager and report to the audit committee (section 165(2)(b)(iv)); the municipal manager (section 62(1)(a)(i)) and all senior managers (section 78).	4
In terms of the responsibilities mentioned above, the council should determine the risk appetite in the approved risk management policy. The municipal manager with his/her management team would implement the policy.	4
The municipal manager may delegate this responsibility. According to the Treasury, there is no legal mandate to establish a risk management committee, although section 32 of the Municipal Structures Act stipulates that it can be established.	4
The municipal board should receive risk assurance as provided by the Auditor-General and internal audit to the municipal manager, the mayor and the stakeholders.	4
Section 166(4)(b) and 166(2)(a)(ii) of the MFMA requires that the accounting officer should meet and report to the council quarterly, and council meetings should be open to the public. Formal disclosure is included in the annual report (which encompasses the annual financial statements and accessible risk disclosure to stakeholders).	4
INFORMATION TECHNOLOGY GOVERNANCE	
Section 26(f) of the MSA implies that IT governance may be regarded as a responsibility of the council.	5

<p>The board should delegate the responsibility for the implementation of an IT governance framework to management. Section 32 of the Municipal Structures Act allows the council to delegate its responsibility to a subcommittee, the municipal manager or another official chief information officer (CIO).</p>	5
<p>The board should monitor and evaluate significant IT investments and expenditure. In terms of section 63(1)(a) of the MFMA, this is the responsibility of the municipal manager and would be included in the budget approved by council and reported in accordance with section 71 of MFMA and Supply Chain Management Policy. Section 62(1)(a) of the MFMA makes it the municipal manager’s responsibility to ensure that resources are used effectively, efficiently and economically. The Auditor-General (section 92 of the MFMA), the internal audit unit (section 165(2)(ii) of the MFMA), the council (section 111 of the MFMA) and SCM policy provide assurance.</p>	5
<p>IT should form an integral part of the company’s risk management. Section 62(1)(c)(i) of the MFMA makes this responsibility that of the municipal manager. In terms of section 32 of the Municipal Structures Act, this responsibility can be delegated to a subcommittee.</p>	5
<p>The board should ensure that information assets are managed effectively. Section 32 of the Municipal Structures Act allows municipal councils to delegate this responsibility to the municipal manager and also section 62.(1)(a) and 63(1)(a) of the MFMA.</p>	5
<p>The risk committee and audit committee should assist the board in performing its IT responsibilities. According to the National Treasury, there is no legal mandate to establish a risk management committee, although it can be done in terms of section 32 of the Municipal Structures Act and section 166(2)(a)(ii) and (iv) of the MFMA, which delegates the responsibility of risk management and section 62(1)(c)(i) to the audit committee and which assigns responsibility to the municipal manager.</p>	5

MUNICIPAL GOVERNANCE IMPLEMENTATION INDICATORS	Chapter in the King III Report
COMPLIANCE GOVERNANCE	
<p>The board should ensure that the municipality complies with applicable laws and considers adherence to non-binding rules, codes and standards. The responsibility of the mayor of compliance is limited to section 131 of the MFMA, although he/she must inform the MEC in situations where he/she is aware of non-compliance in terms of section 27(1) of the MFMA. Section 55(1)(1) of the MSA charges the municipal manager with responsibility and accountability for the implementation of legislation.</p>	6
<p>The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business. Section 60(b) of the MFMA requires that the municipal manager should provide guidance and advice to political structures, political office-bearers, officials and municipal entities.</p>	6
<p>Compliance should form an integral part of the municipality's risk management process. Section 62(1)(c)(i) of the MFMA places the responsibility of risk management on the municipal manager responsible.</p>	
<p>The board should delegate the implementation of an effective compliance framework and processes to management. In terms of section 11(3)(a) of the MSA the council is empowered to exercise authority by developing and adopting policies, plans, strategies and programmes. Section 61(1)(a) of the MFMA places this responsibility on the municipal manager, senior managers and other officials (section 78(1)(a). Section 125(2)(d) and (e) of the MFMA states that non-compliance, as well as material irregular, fruitless and wasteful expenditure, should be disclosed in the financial statements. This function is normally performed within legal services.</p> <p>However, the SCM regulations specifically call for the establishment of a compliance function, but limit it to SCM activities. Section 165(2)(b)(vii) of the</p>	6

<p>MFMA asserts that internal audit must advise the accounting officer and report to the audit committee on compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation.</p>	
STAKEHOLDER GOVERNANCE	
<p>Section 55(1)(o) of the MSA gives the responsibility of developing and maintaining a system that assesses community satisfaction with municipal services. Section 41(1)(c) of the MSA mandates that development priorities, objectives, key performance indicators and targets should be monitored. Section 24 of the MSA requires councils to liaise with other spheres of government.</p>	8
<p>The board should delegate the proactive handling of stakeholder relationships to management.</p> <p>In terms of section 26(d) of the MSA, these should be included in the council's IDP. Section 15 of the MSA states that a municipality should prepare a municipal code, which must be made available, and policies may be published in terms of section 21 and 21A of the MSA. Section 16 of the MSA states that a municipality should develop a culture of community participation. Council meetings should be open to the public and notice given in terms of sections 19 and 20 of the MSA. In terms of section 121(3)(i) of the MFMA, the municipality must include all relevant information in the annual report, as determined by the municipality. Due consideration should be given to this recommendation.</p>	8
<p>The board should strive to achieve the appropriate balance between its various stakeholder groups, in the best interests of the company. Section 16 of the MSA requires that the IDP be prepared by means of a formal interactive process with the community, stakeholders and the council.</p>	8
<p>Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence. Section 20 of the MSA requires council meetings to be open to the public. An annual performance report is to be published in terms of section 46 of the MSA and included in the annual report in terms of chapter 12 of the MFMA. The report should be written</p>	8

<p>in clear and understandable language and in terms of section 121(3)(i) of the MFMA the annual report should include any relevant information as determined by the municipality. The annual report should be enhanced to incorporate these disclosure requirements.</p>	
<p>Alternative dispute resolution (ADR). The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible. This is a new requirement for leadership, although dispute resolution is provided for in the MFMA: With organs of state –section 44; Debt – section 48(2)(f); Supply chain management –section 112(1)(p); and Contracts – section 116(1)(b)(ii).</p>	11
INTEGRATED REPORTING AND DISCLOSURE	
<p>The board should ensure the integrity of the company’s integrated report. Section 45 of the MSA requires that the annual report should derive much of the information disclosed from the performance management system, which is audited by internal audit and the Auditor-General. A new requirement in the public sector is that the audit committee should review performance management, the financial statements and the external audit report in terms of section 166(2)(a)(v), (b) and (c) of the MFMA.</p>	9
<p>The Performance Management Regulations require that the chairperson of the audit committee should sit on the performance evaluation panel, which puts the audit committee in a position to carry out this function. An annual performance report must be prepared every year in terms of section 46 of the MSA and an annual report in terms of section 121 of the MFMA.</p> <p>While sustainability is limited to financial information, it is discussed in detail at the municipal project level in the IDP. IDP reporting is to be enhanced to focus on substance over form.</p>	3 and 9
<p>Sustainability reporting and disclosure should be integrated into the company’s financial reporting. In terms of Generally Recognised Accounting Practice (GRAP) and Institute of Municipal Finance Officers (IMFO) standards the mayor, municipal manager and chief financial officer provide inputs into this. The municipal manager then discloses it and the Auditor-General reports on it</p>	9

<p>should he disagrees. Annual report disclosures are made in terms of the requirements of section 46 of the MSA, section 121 of the MFMA and guidelines issued by the National Treasury.</p>	
<p>MUNICIPAL GOVERNANCE IMPLEMENTATION INDICATORS</p>	<p>Chapter in the King III Report</p>
<p>Independent Internal Audit Activity</p>	
<p>The board should ensure that an effective, risk-based internal audit is done. Each municipality must have an internal audit unit in terms of section 165 of the MFMA, which is required by section 166(2)(a)(vi) of the MFMA to advise the council, political office-bearers, the municipal manager and the management staff on effective governance. The chief audit executive is the custodian of the internal audit unit. This includes ethics, although this is not specifically mentioned. The service may be outsourced or co-sourced in compliance with section 165(3) of the MFMA.</p>	<p>3 and 4</p>
<p>Internal audit should follow a risk-based approach to its plan. Section 165(2)(a) of the MFMA requires that the internal audit plan should be risk based. Internal audit must report on the implementation of the internal audit plan and the adequacy of resources and skills should be reported in terms of section 165(2)(i) of the MFMA.</p>	<p>3 and 4</p>
<p>Internal audit should give a written assessment of the effectiveness of the company's system of internal controls and risk management. They should also report on internal controls, risk and risk management as stipulated in section 165(2)(b)(ii) and (iv) of the MFMA.</p>	<p>3 and 4</p>
<p>The audit committee is responsible for overseeing internal audit. Internal audit reports to the audit committee in terms of section 165(2)(a) of the MFMA, and the audit committee liaises with internal audit in terms of section 166(3)(a). The audit committee reviews the work of internal audit by means of the internal audit reports. For in-house staff, salaries and allowances paid are in line with the stipulations of the South African Local Government Bargaining Council,</p>	<p>3 and 4</p>

except where the chief audit executive (CAE) is a section 57 employee which means that his/her remuneration is approved by the council. Fees paid to outsourced service providers must be in accordance with SCM policy.	
Internal audit should be strategically positioned to achieve its objectives. In terms of section 165(2)(a) of the MFMA, internal audit must report to the audit committee. Section 62(1)(c)(ii) of the MFMA requires internal audit to operate in accordance with prescribed norms and standards, which would imply that the Standards for the Professional Practice of Internal Audit (SPPIA) would apply.	3 and 4

Source: (Researcher, 2015)

2.5.3 The governance of combined assurance

In brief, there are seven elements of corporate governance implementation indicators, as indicated in Table 4.3. The combined assurance forms part of the table as indicated. Kerry Jenkins (2010:2-4) argued that the third King Committee Code on corporate governance has introduced a number of new concepts that will become more important in auditing over future years. Seven of those concepts introduced by the King III Report are briefly discussed below.

2.5.3.1 Independent audit committee

An independent audit committee fulfils a vital role in corporate governance. The audit committee is vital to ensuring the integrity of integrated reporting, internal financial controls, identifying and managing financial risks, and others. In order to carry out their mandate fully, audit committees should be skilled and qualified to enable them to deal with their responsibility of overseeing integrated reporting and coordinating the activities of the various assurance providers (PriceWaterhouseCoopers, 2010). The MFMA as mandated audit committees in the public sector since 2003 and the treasury regulations issued in terms of the PFMA give effect to provisions of the Act which deal with audit committees. These sentiments are supported by the King III Report, principle 3.1, when stating that a company should have an effective audit committee, and the independent audit committee fulfils a vital role in corporate governance. The audit committee is a critical component in ensuring the integrity of integrated reporting and financial controls, the proper identification and management of financial risks and the integrity of the reporting practices.

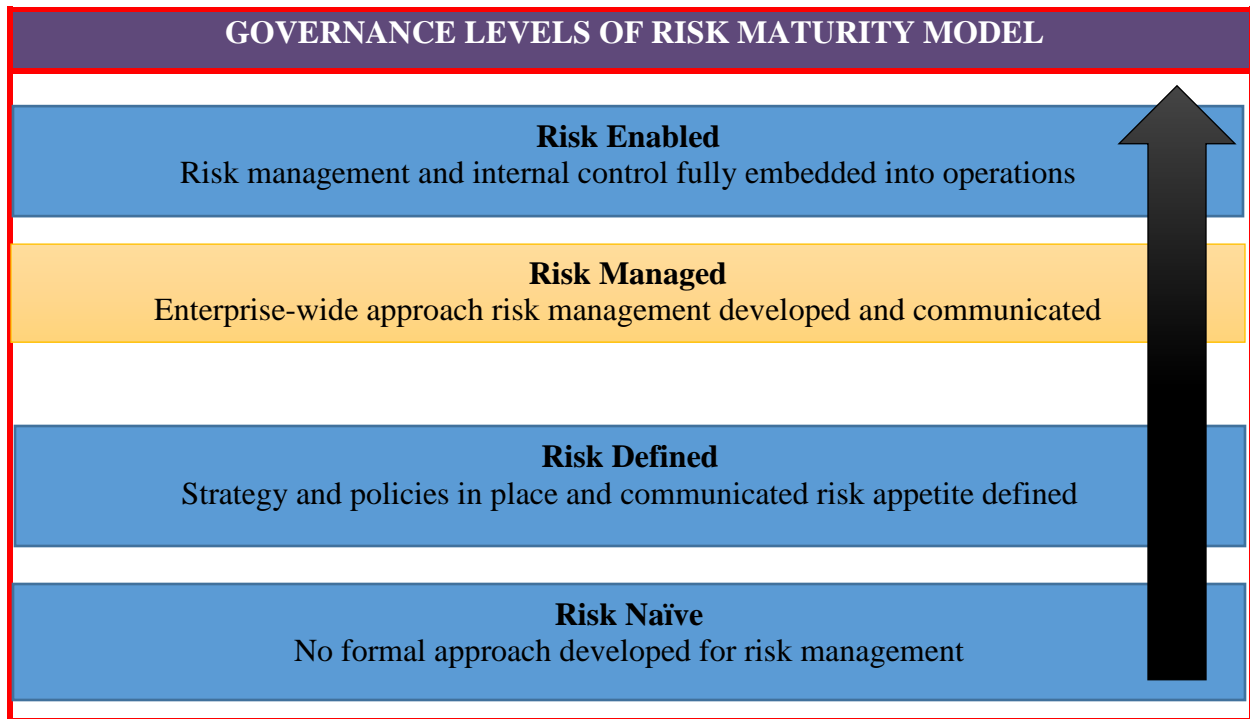
2.5.3.2 Independent risk management and information technology committee risk management governance

The essential focus of the Code is that the board should “exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the company’s business.” The King III Report states that risk as a cornerstone of governance and risk governance is very different from the requirement of implementing risk management. The accountable leadership structure is under pressure to ensure that it is satisfied with the management of risk. Both the PFMA and the MFMA clearly give the responsibility of managing risk to the accounting officer. The concept of risk is not new to the public sector and the Risk Management Framework, issued by the National Treasury, embraces the principles enshrined in the King III Report. The basis for the framework is given by the PFMA and sound risk management principles are dictated by the principles of Batho Pele, which aim to drive government’s service delivery objectives.

2.5.3.3 Risk maturity strategy

The King III Report (2009) states that the board may delegate the responsibility of risk management to a risk committee. The committee should review the risk management maturity of the company, the status of risk management activities and the significant risks facing the company. The company’s risk management arrangements should incorporate risk reporting processes, including risk trends, risk materialization, forecasting and emerging risks. According to Nicholson (2013:15), risk maturity (as illustrated in Table 2.10) is a model of the level of risk culture in an organisation and the risk culture is the prevailing attitude and approach towards risk. In order for the municipality to improve its risk management processes, a formal framework against which to benchmark their current practices will required, According to Hillson (1997:35), best practices benchmark can be defined in terms of maturity, usually reflecting increasing levels of sophistication, together with other features. The Institute of Internal Auditors (IIA, 2005) describes risk culture assessment as more or less matured.

Table 2.10: Governance levels of risk maturity model



Source: Nicholson (2013:15)

Information Technology Governance. The government has as its main goal service excellence by providing quality and sustainable services in an effective and economical manner through the equitable distribution of resources and by promoting sustainable growth in which all communities live in harmony and prosperity. Public sector institutions at all levels of government changing rapidly and inevitably, and they experience economic pressure to improve service delivery through the maximisation of administrative and operational efficiencies. In this environment, the effective use of IT is a key success factor that enables government agility and the ability to respond promptly to the demand for services.

2.5.4 Independent governance committee

The MFMA gives effect to sections 213 – 219 of the Constitution. Although institutions must comply with all applicable laws, the MFMA supersedes all other Acts as they relate to public sector institutions.. Institutions should understand these laws not only for the obligations they create, but also for the rights and protection they afford. The leadership is responsible for

monitoring the institution's compliance with applicable laws and with those non-binding rules, codes and standards the institution has to comply with. (MFMA 2003).

2.5.4.1 Governing stakeholder relationships

The stakeholder-inclusive approach to corporate governance is not a new concept in the King Reports or in the public sector environment, and effective stakeholder engagement is essential to good corporate governance. Leaders can no longer just talk about concerns such as corporate responsibility, ethical business practices and sustainability are over. The Batho Pele values establish principles to facilitate effective service delivery and mechanisms to enhance stakeholder participation and feedback in service delivery matters. Stakeholder relationships provide a platform for the leadership to communicate with the institution's stakeholders and take their concerns and objectives into account in its decision-making, as this is fundamental to the process of integrated reporting. In the public sector, the stakeholders are the public and Parliament. The King III Report provides guidance and recommendations on how stakeholder relationships should be dealt with and the Batho Pele handbook assists in identifying both direct and indirect public sector stakeholders.

2.5.4.2 Integrated reporting and disclosure

The leadership should ensure that appropriate systems and processes are put in place to produce a report to stakeholders that gives a complete picture of an institution's financial and non-financial profiles in such a way that the report is holistic and reliable. In order to comply with the recommendations of the Code, "reporting should be integrated across all areas of performance, reflecting the choices made in the strategic decisions adopted by the board, and should include reporting in the triple context of economic, social and environmental issues".

The leadership should report modern information to make it possible for stakeholders to make a more informed assessment of the economic value of the institution as opposed to its book value. To this extent, the integrated report referred to in the King III Report refers in most respects to the annual report required in the public sector (King III Report, 2009).

2.5.4.3 The independent internal audit activity

The King II Report effectively did away with the notion of compliance-based, cyclical auditing and started using risk-based auditing. As this approach has grown, the importance of positioning risk-based auditing appropriately is a central focus of the King III Report. The repositioned risk-based approach directs internal audit to address strategic, operational, financial and sustainability issues in its quest to deliver value to the institution. Value is now seen as the relevance of a function. As such, the head of internal audit needs to understand the institution's strategy and direct the function accordingly.

Governance is supported by the acceptance of accountability and responsibility for action. Accordingly, the CAE is required to provide an annual assessment of an institution's control environment. This reflects the congruence of introspection from the world of internal audit and the call for improved governance in general – highlighting calls for internal audit to rise and deliver on its contribution to effective governance.

2.5.4.4 Governance role of the Municipal Public Accounts Committee

The Municipal Public Accounts Committee (MPAC) forms an integral part of good governance and assurance provided to the organisation stakeholders. According to Kerry Jenkins (2010: 2-4), the third King Committee Code on corporate governance, has introduced a number of new concepts that will become more important in an audit in future years. According to SALGA, one of the strategic objectives of the Local Government Turnaround Strategy is to build clean, effective, efficient, responsive and accountable local government. While governance systems and structures are operational in municipalities, its quality and effectiveness are sometimes questionable. Oversight is a concept that refers primarily to the crucial role of legislatures in reviewing and monitoring the actions of the executive organs of government. In carrying out its tasks, whether by implementing legislation or policy, the executive acquires considerable power (the ability to influence or determine a person's conduct). A condition of the exercise of that power in a constitutional democracy is that the administration or executive is checked by being held accountable to an organ not related to it (the legislature). This notion is inherent in the concept of the separation of powers, which simultaneously provides for checks and balances on the exercise of executive power, making the executive more accountable to an elected legislature.

The MFMA requires a certain level of oversight by the municipality over the executive authority. This entails, among others, the annual report, which includes the financial statements, the Service Delivery and Budget Implementation, Plan (SDBIP) and the performance of the municipal manager and other section 57 employees. The MFMA also provides that a municipality, taking into account the extent of its functions and powers, the need for delegation and the resources available, may establish committees. Section 129 of the MFMA requires a municipality to prepare an oversight report over the annual report and to publish the same. However, no further formal oversight requirements are contained in the legislation. Section 129(4) of the MFMA only provides for the issuing of guidance on the manner in which municipal councils should consider annual reports and conduct public hearings, and the functioning and composition of any public accounts or oversight committees established by the council to assist it to consider an annual report.

It is against the above background that SALGA, the National Treasury and the DCOG are promoting the establishment and effective functioning of MPACs. The following table (Table 2.11) illustrates the governance function of the MPAC:

Table 2.11: MPAC governance functions

The Municipal Public Accounts Committee must interrogate the following financial aspects addressed in the MFMA:

- Unforeseen and unavoidable expenditure (section 29)
- Unauthorised, irregular or fruitless and wasteful expenditure (section 32)
- The quarterly report of the mayor on the implementation of the budget and the state of affairs of the municipality / SDBIP (section 52(d))
- Monthly budget statements (section 71)
- Mid-year budget and performance assessment (section 72)
- Mid-year budget and performance assessment of municipal entities (section 88)
- Disclosures concerning councillors, directors and officials (section 124)
- Submission and auditing of annual financial statements (section 126)
- Submission of the annual report (section 127)
- Oversight report on the annual report (section 129)
- Issues raised by the Auditor-General in audit reports (section 131)
- MPAC ensuring that operational audit committee (section 166) exists
- Disciplinary action instituted in terms of the MFMA
- Review of the IDP after elections (section 25)
- Annual review of the IDP (section 34)
- Performance management plan (section 39)
- Monitoring that the annual budget is informed by the IDP (Regulation 6 of the Local Government: Municipal Planning and Performance Management Regulations)
- Monitoring that all declaration of interest forms are completed by councillors on an annual basis (section 54, read with item 7 of schedule 1)

Source: MFMA (2003)

2.5.4.5 Governance roles in fraud prevention and deterrence

Many corporations have collapsed as a result of fraud risk. Cressey (2013:4.701) posits that fraud risk makes an organisation vulnerable, unless the organisation is capable of overcoming the elements of fraud risk. The three interrelated elements of committing fraud are *motive* that drives

a person to want to commit the fraud; the *opportunity* that enables a person to commit fraud; and, lastly, the *ability to rationalise* the fraudulent behaviour. The effective management of fraud and corruption is an integral part of good governance practices. The objective of fraud risk assessment is to help the organisation to recognise what makes it vulnerable to fraud. According to Cressey (2013:4.703), every organisation should conduct a fraud risk assessment and build procedures to keep the assessment process current and relevant. The benefits are illustrated in Table 2.12.

Table 2.12: Benefits of fraud risk assessment

- Improve communications about awareness of fraud
- Help to identify where a company is most vulnerable to fraud and what activities put it at greatest risk
- Help to know who puts the organisation at the greatest risk
- Help to develop plans to mitigate fraud risk
- It strengthens the assessment of internal control
- Direct the initiatives to develop techniques to investigate and determine if fraud has occurred in high-risk areas
- It helps to comply with regulations and professional standards

Source: Cressey, 2013

According to OECD principles of corporate governance, effective fighting of fraud requires dedicated, deliberate focus and considerations (IIA, 2009:43). According to the ACFE (2009:123) no organisation is immune to fraud. It estimates that the average organisation loses six percent (6%) of its annual revenue to fraud and abuse. The board should establish a fraud corporate governance framework as indicators of good governance, illustrated in Tables 2.13. The board's key principles for proactively establishing an environment to manage an organisation's fraud risk effectively include:

Table 2.13: COSO principles of fraud prevention and control

Principles	Fraud Risk Management Activities
<i>Principle 1:</i>	As part of an organisation's governance structure, a fraud risk management program should be in place, including a written policy (or policies) to convey the expectations of the board of directors and senior management regarding managing fraud risk.
<i>Principle 2:</i>	Fraud risk exposure should be assessed periodically by the organisation to identify specific potential schemes and events that the organisation needs to mitigate.
<i>Principle 3:</i>	Prevention techniques should be established to avoid potential key fraud risk events, where feasible, to mitigate possible impacts on the organisation.
<i>Principle 4:</i>	Detection techniques should be established to uncover fraud events when preventive measures fail or unmitigated risks are realised.
<i>Principle 5:</i>	A reporting process should be in place to solicit input on potential fraud, and a coordinated approach to investigation and corrective action should be used to help ensure potential fraud is addressed appropriately and timely.

Source: (Researcher, 2015)

2.6 SUMMARY

This chapter discussed the governance principles and its relationship to implementation. It looked at various governance terms, dimensions, concepts and processes that underpin governance. The chapter also discussed the core indicators of governance, rationale of governance, challenges and legislative factors that affect governance. Corporate governance can be well understood if one analyses both sides of governance, the present governance system and governance implementation systems. Adopting a governance system may be easy to do, while implementing it may be a complex task. Most organisations have made significant progress in adopting and implementing governance systems, while the public sector in general is still struggling with the basic concepts. The next chapter examines and provides research methodology utilised in this study and the rationale.

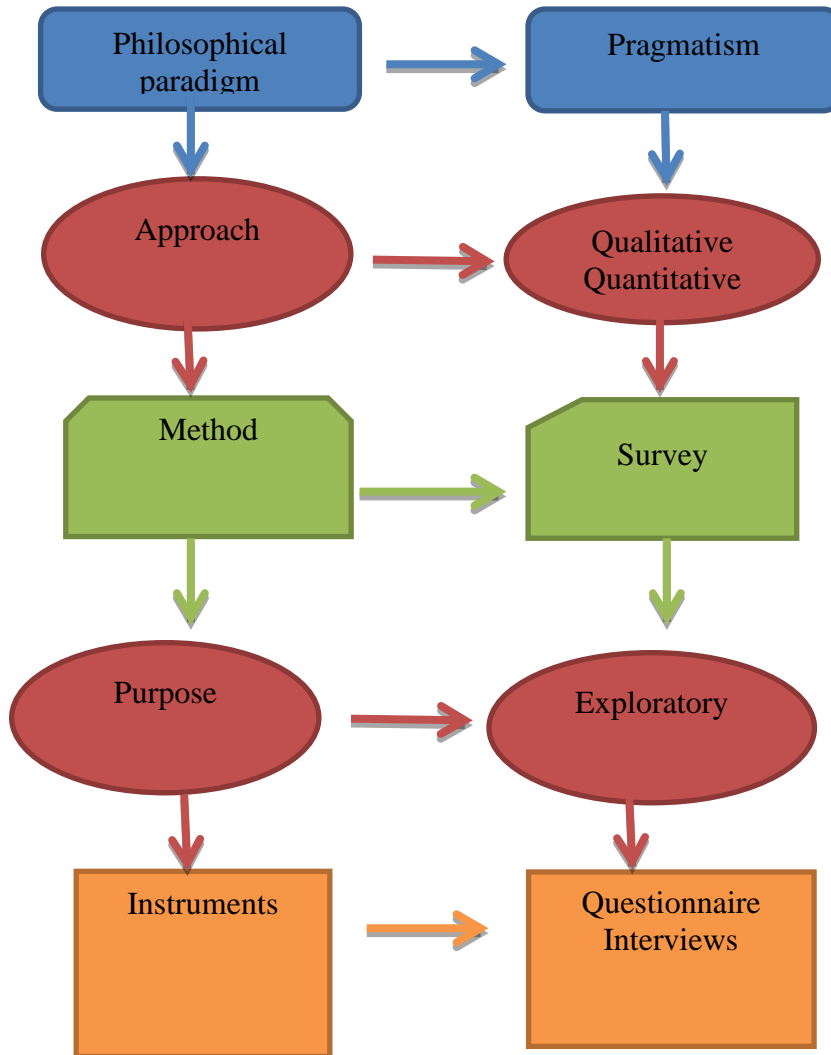
CHAPTER THREE

RESEARCH DESIGN AND RESEARCH METHODS

3.0 INTRODUCTION

The previous chapter reviewed literature regarding corporate governance implementation and control framework. In section 1.9, the choice of research methodology was discussed briefly. This chapter outlines the choice of research methodology and explains how data was collected and analysed. It is crucial to describe the methodology utilised by a researcher as it enables other researchers to replicate and test methods used in the study. As Hofstee (2006:107) states, choosing a good problem that can be tested with research design plays a critical part, as the creation of valid knowledge is dependent on the method of research used, and finally presents the framework of the research design. The purpose of this chapter is to present the research methodology selected and the data collection techniques that directed the description and interpretation of this study. The chapter covers justification of research paradigm, research approaches, population of the study, sampling method and data collection tools, which assisted in answering the research questions, evaluation of research methodology, as well as ethical issues that were considered when conducting this study. The issues of reliability and validity of data collection are also covered. Table 3.1 provides a framework of the research methodology used in this study.

Figure 3.1: Map for research methodology



3.1 PHILOSOPHICAL PARADIGMS AND RESEARCH APPROACHES

The qualitative, quantitative and mixed methods research approaches are the three major research approaches (Bryman, 2012:44). It is important to understand what each approach entails in order to select the best approach for a study. The qualitative approach is a means of exploring and understanding the meaning that individuals or groups ascribe to social or human problems. The process of research involves emerging questions and procedures, data building from particulars to

general themes which involves all non-numeric data such as words, images and sounds. In qualitative research, meanings (words) rather than frequencies and distributions (numbers) are emphasised during the collection and analysis of analysing data.

On the other hand, quantitative research is a means of testing objective theories by examining the relationship among variables. These variables in turn can be measured, typically by using instruments, so that numbered data can be analysed using statistical procedures and mathematical analysis. This type of data is the main type of data that is generated by experiments and surveys, but it can also be generated by means of other research strategies, such as observations or analysis of records. Included in this is closed survey methods and laboratory experiments and it usually ends with confirmation or disconfirmation of the hypotheses tested (Creswell, 2014:36).

The third research approach is the mixed methods approach. This is an approach to inquiry that combines or associates both qualitative and quantitative forms. It involves philosophical assumptions, using qualitative and quantitative approaches and mixing both approaches in a study, so that the overall strength of a study is greater than either qualitative or quantitative research (Creswell 2009:4).

The quantitative approach is associated with positivism which regards research as objective, without context and with outcomes that can be determined reliably and validly. Since the 19th century this view has been dominated in research thinking in many disciplines. The qualitative approach is associated with interpretivism. The upcoming of MMR as a third research approach made an end to the tensions brought about by ontologism, epistemologism and methodologism, and it ensured the fall of the divide between the qualitative and quantitative approaches. Since MMR came into existence, the concern about identity associated with qualitative and quantitative standpoints is gradually disappearing. The criticism of the contrast between the qualitative and quantitative approaches was based on the fact that research is complex and diversified and cannot be seen in terms of artificial compartmentalisation (Brannen, 2005).

As explained above, qualitative and quantitative research differs in many ways, but they can complement each other. Therefore, it would be a mistake to prescribe any methodology as the

best for any researcher, as research is understood in different ways. Should a researcher use various methods and techniques to measure the same variables and these measuring instruments yield identical results, it will lead to these instruments being perceived as reliable (Ryan, Scapens & Theobald, 2002). In line with the above arguments, this study used both quantitative and qualitative research to maximise the theoretical implications of research findings.

3.2 RESEARCH METHODS

This study used the survey research method to critically analyse the corporate governance framework implementation in municipalities in Gauteng, South Africa. Survey research uses questionnaires or interviews sent to relatively large groups of people. Irrespective of whether the survey makes use of interviews only, questionnaires only, or a combination of the two, the procedures are usually standardised for all respondents to enhance the reliability of the data. A survey is a positivist research design in which a sample is selected from a population and is studied to make inferences about the population (Welman, Kruger and Mitchell, 2005:84). In chapter one, the researcher indicated that the objective of this study is to investigate, examine, design and develop a corporate governance implementation and control framework for the South African municipal board (council). Therefore, this study used the survey research procedure.

3.3 RESEARCH PURPOSE

Welman, Kruger and Mitchell (2005:18-20) identify the three most common purposes of research as exploration, description and explanation. Neuman (2000:33) maintains that it is possible to combine the three purposes within a single research project, in the particular order given, but one will usually dominate a particular study. **Exploratory research** is conducted for a problem that has not been clearly defined. It often occurs before we know enough to make conceptual distinctions or posit an explanatory relationship. **Descriptive research is a** research study that has as its main objective the accurate portrayal of the characteristics of persons, situations or groups. Welman, Kruger and Mitchell (2005:20) define descriptive research as a non-experimental research design used to observe (and measure) a variable when little conceptual background has been developed on specific aspects of the variables under study. This approach is used to describe

variables rather than to test a predicted relationship between variables. In this study, “descriptive” refers to the descriptive aspect of phenomenology. **Explanatory research is the** third major social research approach that explains things. While descriptive studies attempt to answer the what, when, where and how; explanatory studies attempt to answer the why. This study is exploratory as the purpose is to gain new insights, discover new ideas and/or increase knowledge of corporate governance implementation within the municipal sector. The corresponding literature review was also conducted for this research and some of them was derived from the business world. **The reasons for conducting exploratory research include:**

- exploratory research tends to tackle new problems on which little or no previous research has been done
- exploratory research design does not aim to provide final and conclusive answers to research questions, but merely explores the research topic with varying levels of depth
- exploratory research is the initial research, which forms the basis of more conclusive research.

Despite the above facts which suggest that that this study is categorised as exploratory in nature, there are also elements of descriptive research, which answers the questions of what, how and when the corporate governance implementation framework can be applied in the municipal sector in South Africa.

3.4 POPULATION AND SAMPLING

This section covers the population and sample of the study.

3.4.1 Population

Babbie (2008:82) defines population for a study as that group (usually of people) about whom the researcher wants to draw inferences. Bryman (2012:714) describes a population as the universe of units from which a sample is selected. For this study, universe can be defined as all municipality councils. In this study, the population is the total number of all municipalities that meet the definition of unit analysis as articulated above. There are two elements for consideration in defining the population. Firstly, to identify the target population, for which the researcher wishes to generalise, and, secondly, the construction of the sampling frame, which is the set of source

materials from which the sample is selected. In this study, since the researcher wanted to analyse the theory and practice of governance in the Gauteng municipal sector, the sample included elements that constitute the people of Gauteng municipalities, namely the councillors. Therefore, the unit of analysis for this study will be councillors in Gauteng municipalities.

Babbie (2008:82) defines the units of analysis as units we observe and describe in order to create summary descriptions of all such units and to explain differences among them. In survey research sciences, there is no limit to what or who can be studied. If a researcher wants to explore, describe or explain how different groups of individuals behave as individuals, the units of analysis are the individuals, not the groups. Even if one tries to generalise such units of analysis, the generalisation will be a characteristic of each individual process itself. It is on this basis that one can say that individuals are the most critical unit of analysis in a research. It is therefore correct to indicate that the unit of analysis is referred to as the population or target group and the individuals consisting of the unit of observation. It is easier for the researcher to analyse and discover the individual characteristics of individuals than those of a group; for example, an individual possesses characteristics such as gender, age, expertise and experience, positions, etc. In this study, the unit of analysis is the individual municipal council.

3.4.2 Sampling

Smit (1995:16-17) states that the primary objectives of sampling are to make certain deductions and generalizations about the population and to accept or reject statistical hypotheses about the population. In order to attain the above objectives, the following three aspects must be borne in mind:

- The unambiguous definition of the population in terms of extent, content and time
- The size of the sample
- The extent to which the sample is representative of the population
- The method of sampling

Key to the sampling objective is to secure a sample that will reproduce the characteristics of the population. However, Welman, Kruger and Mitchell (2005:47) maintain that social researchers often are faced with challenges in data collections, simply because it is impossible to conduct

research on all of them. Sampling therefore becomes crucial and reliable in this regard, as it will provide an opportunity for the population representativeness.

The survey participants were the targeted population who participated in the study, namely municipal councillors. There was no discrimination in terms of gender, sex, position, qualification or experience, as everyone was allowed to participate in the research. Those who were allowed to participate were randomly selected. Bryman (2012:716) maintains that each member of the target population has the same chance of being selected for participation in the study. The biggest advantage to a simple random sample is that you achieve a good, unbiased sample fairly easily. According to Nichols (1995:59), a simple random sample will be free of bias if two conditions are met: Firstly, the sampling frame must be accurate, detailed and cover the full target population. Secondly, fieldworkers must succeed in contacting and interviewing all those selected.

3.5 DATA COLLECTION INSTRUMENTS

This study used a triangulation of qualitative and quantitative data collection techniques. Triangulation was used to integrate multi-methods with the attempt to minimise biases and limitations to the study weaknesses (Fidel 2008:265). Data was collected using the questionnaires and interviews.

3.5.1 Questionnaire

Bryman (2012:715) defines a questionnaire as a collection of questions administered to respondents. From a research perspective, this definition implies any set of questions used in research study, such as a direct interview scheduled with respondents. Mouton (2001:102) posits that a data collection instrument should be relevant to the study undertaken, as no one method is superior to any other method. Therefore, for this study, the researcher found a questionnaire to be more appropriate. A questionnaire is a research instrument that consists of questions and other prompts in order to obtain information from respondents (Kalusopa, 2011:133). This is the most common research instrument used in survey research designs and they exist in different formats; self-administered, online, postal or mail based, interviewer administered, telephonic or interview schedules (Creswell, 2004:56). Self-administered and interviewer-administered questionnaires are

used the most. Self-administered questionnaires include online questionnaires, postal questionnaires, as well as delivery and collection questionnaires.

The major considerations involved in formulating questions are their content, structure, format and sequence. Bryman and Bell (2003:187) state that selecting the questions needed to meet the research questions of the study and testing them to make sure they can be asked and answered as planned are part of the design of a good questionnaire. Statements and questions that give a researcher more flexibility in the decision of which measuring instruments to use, are typically used (Babbie & Mouton 2001:233). Two types of questions can be used: open-ended questions, where the respondent must provide his or her own answer to the question, or close-ended questions, where the respondent must select an answer from among a list provided by the researcher (Babbie & Mouton 2001:233). Most researchers prefer closed-ended questions is as they are easier to code than open-ended questions and do not discriminate unduly on the basis of how articulate the respondents are (Leedy & Ormond 2005:183). However, the major disadvantage of closed-ended questions is that they sometimes create forced choices and rule out unexpected responses. In this study, closed-ended questions had some open-ended options such as “other, specify”, “if not, why”, “if yes, why” in order to include all possible responses that might be expected. According to Babbie and Mouton (2001: 237), “the use of this alternative represents an excellent compromise between closed and open-ended responses”.

In conducting this research, the questionnaires used were administered in all parts of Gauteng by the researcher and two assistants. The aim was to ensure that the eventual results were representative of the Gauteng municipal environment. The questionnaires were written in English and distributed to the people who could read and write in the municipalities in Gauteng. However, provision was made to accommodate those who cannot read and write. The researcher selected to use a questionnaire in this study because of its many advantages as data collection instrument. Bryman (2012:93) lists the advantages of personally administered questionnaires as the following:

- A high response rate
- Less time required to collect data from large numbers of respondents
- Less expense
- The researcher can clarify any questions from respondents

There were four parts in the questionnaire, namely:

Part A: Demographic information, which provides for biographical information about municipalities and its councillors (board)

Part B: Dealt with the identification and examination of the corporate governance practices and trends within the municipal sector.

Part C: Examined the relationship between municipal legislative prescripts and corporate governance.

Part D: Dealt with the development of a framework that incorporates implementation indicators for the municipal sector in South Africa.

Part E: Dealt with any general comments in order to avoid bias.

3.5.1.1 Likert rating procedures

The Likert scale is the sum of responses to several Likert items and these items are usually displayed with a visual aid such as a series of radio buttons or a horizontal bar representing a simple scale. The Likert item is a statement that the respondent is asked to evaluate in a survey (Bryman, 2012:73-74). Likert Scale is the one of the most common techniques for measuring opinions, beliefs and attitudes. In most parts of the questionnaire (Part B-D), a five-point Likert scale was used. A good Likert item should have a multiple-indicator measure or multiple-item measure and should state the opinion, attitude, belief or other construct under study in clear terms. In this study, the Likert Rating Scale format was as follows:

1. Strongly Agree
2. Agree
3. Neutral/ I don't know
4. Disagree
5. Strongly Disagree

Bryman (2012:166) indicates that the goals of the Likert scale are to measure intensity of feelings about the area in question. It is because of this strength that the researcher has opted for a five-point Likert scale for item analysis. Bryman defines the term 'items' as the series of statements. The use of the Likert scale improves the results of research, because it measures the degree of each respondent's agreement against each item, rather just utilising the Yes or No approach.

In a Likert Scale, only those items that are implicitly positive or negative are used towards the behaviour and attitude object. The scale's strength is that various participants' opinions / attitudes can be compared between those scoring the highest in the total pool of items, with those scoring the lowest. To conclude, the researcher therefore opted for the Likert scale rating method for this study.

3.5.2 Interviews

The researcher used interviews to supplement data obtained via questionnaires. As a data collection tool, interviews make use of personal contact and interaction between an interviewer and an interviewee (respondent). There are three types of interviews: structured, semi-structured or completely open and unstructured (Creswell, 2006). Where questions are standardised for all respondents to enhance the reliability of data we call it a structured interview. In an unstructured interview, the objectives are general, the discussion wide ranging and individual questions developed spontaneously in the course of the interview. The interviewer is free to change the interview in order to exploit the special knowledge, experience or insights of respondents (Welman, Kruger and Mitchell, 2005:158-161). The above are the two extremes, and between then lies the semi-structured interview that has specific objectives, but it leaves the freedom to the interviewer to decide how he would meet them. Furthermore, the scope of the interview is limited to certain subtopics and the questions probably would be developed in advance (Mouton, 2013:105).

As a method to collect data, the interview technique has various advantages, such as more accurate responses because of contextual naturalness; a greater probability of self-generated answers; a symmetrical distribution of interactive power and greater effectiveness with complex issues (Welman, Kruger and Mitchell, 2005:158). Other advantages include better thought through responses, more accurate results owing to lower respondent workload, better response rates; appropriateness for marginalised respondents and relevance for research involving sensitive questions. On the other hand, interviews also have some disadvantages: small population coverage, time-consuming for the researcher, difficulty to meet appointments, lack of reliability,

can be misleading and require good interviewing skills (Creswell, 2004:76; Singleton and Straits, 2010:267).

Welman, Kruger and Mitchell (2005:158) proposed some rules and recommendations, which were taken into consideration interviews were conducted. The researcher ensured that the respondents understood all the questions before they responded, and he asked respondents to give more comments and suggestions. Before application, the interview schedule was pre-tested. A scheduled, structured interview used an established questionnaire consisting of a set of questions with fixed wording and a set sequence, as well as more or less definite indications of how to answer each question (Bryman, 2012:497). In this study, interviews were conducted with selected respondents from some of the municipalities, for example, 23 participants from the Westonaria Local Municipalities.

3.6 PROCEDURE FOR DATA COLLECTION

3.6.1 SALGA and municipalities' permission to conduct a study

The researcher wrote a letter requesting permission to conduct research to the Secretary of the South African Local Government Association (SALGA). It is worth noting that this request letter was accompanied by the ethical committee report and details of both the supervisors. SALGA, as an association of the municipalities ultimately granted the permission to the researcher to conduct the study. After the permission was granted, the research fieldwork commenced, where the researcher started conducting the pilot study with the individual municipality officials.

3.6.2 The pilot study

A pilot study can be regarded as a small study to test research protocols, data collection instruments, sample recruitment strategies and other research techniques in preparation for a larger study, and is very important. It is one of the important stages in a research project and is conducted to identify potential problem areas and deficiencies in the research instruments and protocol prior to implementation during the full study. It can also help members of the research team to become familiar with the procedures in the protocol, and can help them decide between

two competing study methods, such as using interviews rather than a self-administered questionnaire (Hassan & Schattner, 2006:1-4). A pilot study serves to:

- orientate a researcher towards his research field
- aid the formulation of his research problem
- plan the modus operandi
- determine the range of the investigation.

Mouton (2001:102) maintains that conducting the research by using an untested/unpiloted research questionnaire will result in wasted efforts, for example, there may be ambiguous or vague items and words that are not defined or too vague. With the above conviction in mind, the researcher piloted the questions, and during this pilot study, various aspects of this project were tested on a small scale. A few respondents possessing the same characteristics as those of the main investigation were involved in the study merely to ascertain certain trends. In this research, a preliminary set of questionnaires was distributed randomly to 15 people (ten councillors outside Gauteng municipalities and five non-councillors) to assess the suitability of a questionnaire. Upon completion of the questionnaire piloting, some minor modifications were made to the questionnaire.

3.7 DATA ANALYSIS

The main aim of this study was to analyse the municipal councillors' perceptions of the corporate governance implementation and control strategy. The objectives of the study and the method used for testing are provided in Table 3.1.

Table 3.1 Summary of the objectives for testing

Objective number	Objectives statement	Method used
1	To critically examine the corporate governance practices and trends within the municipal sector	Cronbach Alpha, Exploratory Factor Analysis
2	To examine the inter-relationship between municipal legislative prescripts and corporate governance	Cronbach Alpha, Exploratory Factor Analysis and Correlations analysis
3	To develop an efficient, effective, practical and useful framework that will incorporate implementation indicators for the municipal sector in South Africa	Cronbach Alpha, Exploratory Factor Analysis

Source: Researcher (2015)

The SPSS was used to analyse data. This system is used commonly for research data analysis and it was used on that basis, with its multiple features. On the SPSS package, the main techniques used were the following:

- Exploratory Factor Analysis
- Variables
- Descriptive Analysis
- Correlation Tests
- Cronbach's Alpha Test

3.7.1 Factor analysis

Factor analysis is completely dependent on correlations between variables and it summarises correlation structure. Loadings represent the degree to which each of the variables “correlates” with each of the factors and it ranges from -1 to 1. The first step before hypothesis testing was to assess scale structures. Since all scales were either established scales or had been tested through a pilot study, only confirmatory factor analysis was conducted on the actual data.

Steps in exploratory factor analysis:

- (1) Collect data: choose relevant variables
- (2) Extract initial factors (via principal components)
- (3) Choose number of factors to retain
- (4) Choose estimation method, estimate model
- (5) Rotate and interpret
- (6) Decide if changes need to be made (e.g. drop item(s), include item(s))
- (b) Repeat (4)-(5)
- (7) Construct scales and use in further analysis

3.7.2 Variable

A variable means any item, entity or phenomenon to be analysed. A variable is measurable for each individual or case according to rules we specify. “Variable” indicates that the values vary from case to case (Carpenter & Vasu 1978:114). In this study, tenure, experience, qualification and councillors status are used to test hypotheses.

3.7.3 Descriptive analysis

According to Wegner (2009:93), descriptive statistics are concerned with the description and/or summarization of the data obtained for a group of individuals. Inferential statistics are used to make inferences regarding the properties (e.g. the mean) of population on the basis of the results obtained for appropriately selected samples from these populations (Huysamen, 1998:4). Statisticians will point out that there are three types of average, which are collectively known as ‘measures of central tendency’. These are the mean, the median and the mode (Denscombe, 1998:193). The choice of a measure of central tendency may be limited by the nature of the measurements involved. If nominal-scale data is involved, the mode is the only measure of central tendency, which can be used sensibly. With ordinal data, the median is usually preferred, since it not only takes the frequencies of various categories into account, but also their rank. The mean is usually preferred in the case of numerical data. In the case of skewed distributions, the median may be preferred to the mean.

The median of a collection of scores is the middlemost score when the scores have been arranged in ascending or descending order (Huysamen, 1998:43). Nichols (1995:124) asserts that median is a kind of average for interval variables. The middle value is when the data is arranged in order of size. Where the set of data has an even number of values, the median is the mean of the two middle values. The median is the mid-point of a range. Calculation of the median is straightforward. Values in the data are placed in either ascending or descending order and the point that lies in the middle of the range is the median (Denscombe, 1998:194).

The following are the advantages connected with the use of the median as a measure of central tendency:

- It can be used with ordinal data as well as interval and ratio data.
- Because it is an ordinal operation, the median is not affected by extreme values, i.e. “Outliers”.
- The median works well with a low number of values.
- We have the advantage of knowing that exactly half of the values are above the median and half of the values are below the median (Denscombe, 1998:194-195).

According to Huysamen (1998:42), the mode of a collection of scores is the score value which has the highest frequency of occurrence. In an ungrouped frequency distribution, the mode is that score value which has the highest frequency. When social researchers use the mode as a measure of central tendency, they have in mind the most fashionable or popular figure. It is the most common value that is the mode. Identification of the modal value simply consists of seeing which value among a set occurs most frequently; this is the mode (Denscombe, 1998:195).

The mean (also known as the arithmetic mean or average) of a collection of scores is the sum of the scores divided by the number of scores (Huysamen, 1998:44). According to Nichols (1995:124) the mean is a kind of average for interval variables (total of the sample values divided by the number of values in the sample) one can use a guessed mean (a round number, close to the true mean) to simplify calculation of the standard deviation. The mean is what most people have in mind when, in common parlance, they think about ‘the average’. It is a measure of central tendency in the sense that it describes what would result if there were a completely equal

distribution of values – if the total amount or frequencies were spread evenly (Denscombe, 1998:193).

3.7.4 Correlation analysis

Correlation analysis is used to describe the degree of strength by which one variable is related to another. This is done by using the step-by-step procedure. For example, collect pairs of data for both dependent (Y) and independent (X) variables to label the two variables. The variable we are trying to predict, or the one that we cannot control, is labelled Y, while other variable is labelled X (Wegner, 2009:420). According to Garson (2012), a correlation test requires that the data tested has the characteristics of normally distributed data, interval level data, homoscedasticity, lack or no outliers and linear relationship between variables

3.7.5 Cronbach's Alpha Test

Cronbach's Alpha is a measure of the internal consistency or reliability items – which could be questions, rates, indicators – that form a scale. Sekaran and Bougie (2009) state that the Cronbach Alpha is a reliability coefficient that indicates how well the items in a set are positively correlated to one another. In this current study, the scale is the governance implementation indicators. Internal consistency refers to interrelatedness of a set of items (Schmitt, 1996). A scale is considered reliable if its Cronbach Alpha coefficient is at least 0.7 (Nunnaly, 1978; Nunnaly & Bernstein, 1994).

3.8 RELIABILITY AND VALIDITY

The questionnaire used for this study was subjected to reliability tests using Cronbach's Alpha to determine its appropriateness. The purpose was to eliminate questions that were found not to be reliable and valid when compared to the Cronbach's Alpha value. To test the validity of the dimensions used in the questionnaire, the table provides interpretation criteria.

Table 3.2: Interpretation of Cronbach’s Alpha Model

No.	Descriptions of Measures	Expected Outcomes
1	For a value above 0.8	Reliability is considered good.
2	For a value between 0.6 and 0.8,	Reliability is considered acceptable
3	For a value below 0.6,	Reliability is considered unacceptable (Cronbach, 1951;

Source: De Souza & Dick (2009)

In this study, reliability analysis was done to determine the reliability of the questionnaire. Internal consistency of the items or variables was measured by using Cronbach’s Alpha reliability coefficient. A high value of alpha indicates good internal consistency. Our overall results indicate a Cronbach coefficient alpha of 0.8423. According to George and Mallery (2003) and De Souza and Dick (2009), the internal consistency achieved was good, and even very good according to Nunnaly (1978), Nunnaly and Bernstein (1994) who maintained that an instrument is reliable if it has a coefficient of Cronbach alpha equivalent to or higher than 0.70, while other statisticians debated that by convention, an alpha of 0.65 to 0.80 is often considered an “adequate” scale in human dimensions research (Vaske, 2008).

Creswell (1998) suggests that the trustworthiness of qualitative research can be established by using four strategies: credibility, transferability, dependability and conformability, which are constructed parallel to the analogous quantitative criteria of internal and external validity, reliability and neutrality. Each strategy in turn uses criteria like reflexivity, triangulation and dense descriptions. The researcher takes cognizance of this argument and prefers to use the term trustworthiness as it is used by several others to cover all these. In qualitative research, reliability can be thought of as the trustworthiness of the procedures and data generated. Yin (2003) states that for any research study to be valid, it should conform to and pass certain design tests:

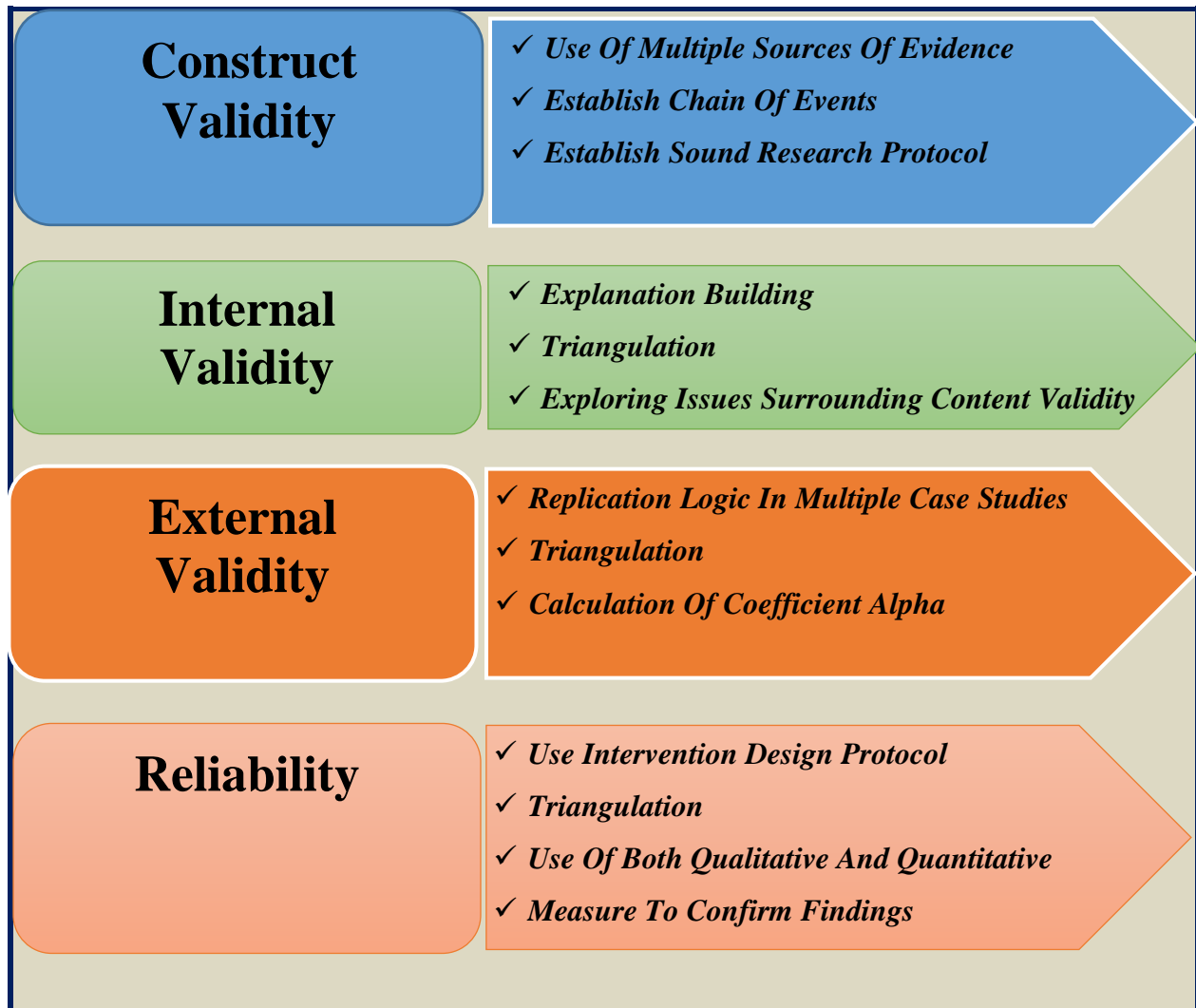
- **Construct validity:** Establishing correct operational measures for the concepts being studied.
- **Internal validity:** Establishing a causal relationship whereby certain conditions are shown to lead to other conditions.
- **External validity:** Establishing the domain to which a study’s findings can be generalised.

- **Reliability:** Demonstrating that the operations of the study or data collection can be repeated with the same result.

A potential difficulty in achieving validity in qualitative research is researcher bias, arising from selective collection and recording of data, or from interpretation based on personal perspectives. According to Cohen, Manion and Morrison (2007:87), there are several types of validity, e.g. face validity, content validity and criterion validity. Face validity is merely a subjective assessment of validity made by the researcher and/or other experts that it appears to be valid, while, on the other hand, Babbie and Rubin (2007:103) define content validity as the degree to which a measure covers the range of meanings included in the concept. Like face validity, content validity is established on the basis of judgements. Criterion-related validity is based on an external criterion (Cohen et al., 2007:89). When it is evaluated by an instrument, we select an external criterion that is believed to be another indicator or measure of the same variable. It is worth mentioning that a measure is reliable, but reliability does not ensure that it is valid. Concerns exist regarding the extent of reliability and validity in qualitative research. Babbie and Rubin (2007:106) suggest the concept of triangulation to overcome such problems. Triangulation involves using several measurement alternatives to see if they produce the same findings, that is, comparing qualitative interpretations of the data with qualitative findings.

Figure 3.2 illustrates the measures that will be implemented to ensure design test validity. Triangulation forms an important part in the validation process. Yin (2003:46) states that the fundamental notion of the triangulation technique is that qualitative and quantitative methods should be viewed as complementary rather than rivalry camps. Triangulation via multiple methods will be used in the research for two reasons. Firstly, to use quantitative methods to support qualitative research, and, secondly, to uncover formal relationships between the constructs derived from the qualitative research. As the information and data obtained will be viewed holistically, no difference is made between the relative values of the methods.

Figure 3.2: Validity and reliability in evaluating the MCGIF intervention



Source: Researcher (2015)

Lincoln and Guba (1985) posit that trustworthiness of a research study is important to evaluating its worth. Trustworthiness involves establishing (a) credibility – confidence in the “truth” of the findings, (b) transferability – showing that the findings have applicability in other contexts, (c) dependability – showing that the findings are consistent and could be repeated and (d) conformability – a degree of neutrality or the extent to which the findings of a study are shaped by the respondents and not researcher bias, motivation or interest. Schoenfeld (1992:180) suggests that a sound methodological argument must incorporate issues of trustworthiness, credibility and usefulness.

The notion of alignment is an important aspect of research validity. The validity of the study is the likelihood that the interpretations of the results accurately reflect the truth and are concerned with two additional kinds of validity: treatment validity and consequential validity (Sandoval & Bell, 2004:204). Treatment validity is the notion that the treatment that was created accurately aligns with the theories that they represent, while trustworthiness and credibility (reliability and validity) are often used to test research rigour. Barab and Squire (2004:91) argue that demonstrating the usefulness or consequentiality, is an essential criterion for determining the significance of the study. Formulation of consequential validity argues that inquiry is a social enterprise and evidence for the validity of an assertion can be gathered by examining the effects of that assertion.

3.9 ETHICAL CONSIDERATIONS

In this study, the researcher had to interact closely with the participants and the tutor, thus entering their personal domains of values, weaknesses, individual learning disabilities and the like, to collect data. Silverman (2001:201) reminds researchers that they should always remember that while they are doing their research, they are in fact entering the private space of their participants. Understandably, this raises several ethical issues that should be addressed during and after the research had been conducted. Creswell (2004) states that the researcher has an obligation to respect the rights, needs, values and desires of the informants. Miles and Huberman (1994) list several issues that researchers should consider when analysing data. They caution researchers to be aware of these and other issues before, during and after the research had been conducted. Some of the issues involve the following:

- Informed consent (Do participants have full knowledge of what is involved?)
- Harm and risk (Can the study hurt participants?)
- Honesty and trust (Is the researcher being truthful in presenting data?)
- Privacy, confidentiality and anonymity (Will the study introduce too much into group behaviours?)
- Intervention and advocacy (What should researchers do if participants display harmful or illegal behaviour?)

One of the unexpected concerns relating to ethical issues is the cultural diversity sensitiveness. Silverman (2000) argues that the relationship between the researcher and the subject during an interview needs to be considered in terms of the values of the researcher and cultural aspects. Rossouw (2006) states that professional ethics involve the principles and standards that guide members of the profession in their interactions with internal and external stakeholders. In adhering to the University of KwaZulu-Natal's ethical code regarding research, the researcher will ensure:

- that participation is completely voluntary
- informed consent: research participants are fully informed about the risks and procedures involved
- no harm to participants: participants are not placed in any position that may result in physical or psychological harm
- confidentiality and privacy: the participant's confidentiality is ensured and information obtained from the individual is not made available to anyone who is not directly involved in the study.

The following principles of the Human Sciences Research Council (HSRC) were adhered to through all phases of the interventionist design (HSRC, 2009:1):

Table 3.3: The HSRC Ethical Principles

Number	Main Principles	Principles Descriptions
A	The principle of respect and protection	Research was undertaken with, and not merely on, the identified participants. The researcher respected the autonomy and protected the welfare of all the participants. Written consent was obtained by registering on the website. Participants were given the right to refuse participation in any part of the research and to withdraw their participation at any stage. Information obtained during the course of the research that revealed the identity of the participant and company was treated as confidential. Furthermore, whenever methodologically feasible, participating individuals were allowed to respond anonymously or under a “registration number” to protect their privacy. The researcher should be constantly aware that the research might prejudice the position of research participants if measures are not taken to prevent such prejudice.
B	The principle of transparency	Participants were clearly briefed on the aims and implications, as well as the possible outcomes and benefits of the research. In the communication of all findings, the researcher subscribed to the principles of honesty, transparency and scrutiny by the public and colleagues. The researcher also informed the participants of the intention of publishing the research in academic journals.
C	The principle of academic professionalism	Researchers should at all times strive to achieve the highest possible level of scientific quality in their research and should not misuse their positions or knowledge for personal gain.
D	The principle of	The researcher ensured that a written research mandate was

	accountability	<p>available to all participants and sponsors. The researcher also recognised the right of the stakeholders to request information from the researcher at the conclusion of the research. To ensure ethical compliance, the researcher, in addition to the above, also asked participants the following questions throughout the research process:</p> <ul style="list-style-type: none"> • What moral principles are guiding my research? • What responsibilities do I have towards my research subjects? • Are there any ethical concerns regarding the conduct of my research?
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Sources: Adapted from HSRC principles (2009:1)

3.10 EVALUATION OF RESEARCH METHODOLOGY

There will always be limitations in any research undertaken and this study was no exception. The sensitive nature of the study resulted in difficulty with getting responses from the respondents, as the researcher was not allowed to be in the meeting of the municipal board. The following aspects provide some insight into the articulated limitations. In this study, difficulties were experienced during the data collection stage, as the councillors were not always available. For example, some of the councillors did not cooperate during the administration of questionnaires. Others did not fully understand the concept of governance as is practised in the province under study. Furthermore, some participants were reluctant to answer questions as they thought governance matters were only the concern of the private companies and not that of politicians.

3.11 SUMMARY

This chapter provided an overview of the research methodology, which the researcher employed in order to collect and analyse data. It presented the population of the study and it explained the choice of sampling procedure. The chapter also considered reliability and validity, as well as how

ethical issues concerning this study were considered. The research questionnaire was used to collect data from the targeted municipalities (self-administered questionnaires and interviews), and the SPSS statistical software packages were utilised to analyse quantitative data. Qualitative data were transcribed and loaded into a qualitative data analysis software application known as SPSS. It was then coded and grouped into categories or themes. The data interpretation was done by illustrating different points with quotes, either verbatim or paraphrased. The next chapter provides an analysis of the data collected from the respondents through questionnaires and interviews. In analysing data, figures, tables, graphs, charts and other forms of data display are used.

CHAPTER FOUR

ANALYSIS AND PRESENTATION OF FINDINGS

4.0 INTRODUCTION

In chapter one, the details of the research objectives were articulated as a critical analysis of the corporate governance implementation framework, within the municipal sector in Gauteng. In order for the researcher to achieve the study objectives, a structured research questionnaire was utilised for data collection. Research methodology for this study was articulated in chapter three. This chapter gives an analysis of the results and presents the results of the data obtained via questionnaires, interviews and document study. Data analysis is crucial in any research and it helps to make conclusions and generalisations of findings to a problem statement (Creswell, 2009:152). Quantitative data was analysed through the statistical analysis software, SSPS, while qualitative data was transcribed and analysed manually.

4.1 RESPONSE RATE

Welman, Kruger and Mitchell (2005:147) maintain that the lack of control over the completion of the research questionnaire may result not only in a poorly completed questionnaire, but also in a poor response rate (the percentage of questionnaires handed back / returned/posted back. The above is concerning for many researchers in terms of the percentage return rate to be achieved in a study as the response rate is an indication of the representativeness of the sample. Bryman (2012:234-237) rightly states that the higher the response rate, the smaller the chance of significant response bias than with a low response rate. Welman, Kruger and Mitchell (2005:147-148) emphasises this by saying that the more robust and rigorous the sample design, the greater the probability that the results will be representative of the true population characteristics. If the overall conclusion does not reflect all population characteristics, it could have a negative impact on the interpretation of the results. Literature states that a response rate of 50% is adequate for analysis and reporting, while 60% is good and 70% is very good (Mouton, 2001:261).

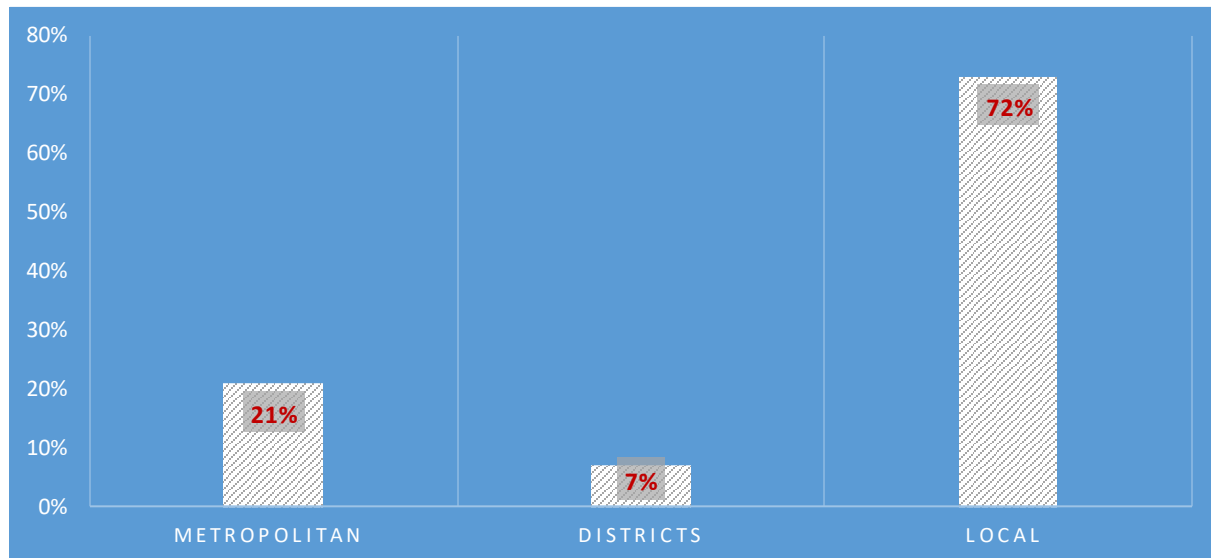
In this study, 250 questionnaires were distributed during June to September 2015 and only 140 were returned, giving a 56% response rate. Babbie and Mouton (2001:261) state that this response rate is considered adequate. The questionnaires were returned by email and physical collection and then captured on an Excel spreadsheet. Different analytical tools and computer software such as SPSS version 22 were used to analyse quantitative data obtained from the questionnaires, while qualitative data from questionnaires and results from interviews with the municipality's council members (31 participants) were analysed manually and used to substantiate numerical data.

In addition to the above, a total of 12 PFMA general reports, the National Treasury Regulations, Auditor-General, SALGA and MFMA general reports for the period 2005 to 2013 were analysed to identify the trends and practices of corporate governance in the municipal sector. The primary aim of analysing these reports was to assist the researcher to place the data obtained by means of questionnaires and establish the practices and trends of corporate governance practices. As reflected in Figure 4.1 below, 21% (29) of the 140 questionnaires received were from metropolitan municipalities, 7% (10) were from the district municipalities and 72% (101) were from local municipalities.

4.2 DEMOGRAPHICS DESCRIPTIVE ANALYSIS

According to Runeson and Host (2009), the descriptive analysis is used to better understand the data collected. This section provides demographic information about the study participants and information of the participants regarding any differences in the sizes of the municipality, schooling, age, gender and many more was used. Participants were asked about the size of their municipalities, and the results show that the majority (72%) of the councillors were from the local municipalities, 21% were from metropolitan municipalities, with the balance (7%) coming from the districts municipalities. Figure 4.1 provides the graphical presentation in this regard.

Figure 4.1: Categories of responding municipalities



Source, SALGA (2015)

The analysis in Figure 4.1 also provides information on the representativeness of the sample as it reflects that of the 140 responses, more than two-thirds (72% or 101 municipalities) were local municipal councillors, while 21% (or 29 municipalities) represented the metropolitan and 7% (or 10 municipalities) represented the districts. This reflects a fair trend of participation, since there are 12 municipalities in Gauteng, consisting of three metropolitan municipalities, two district municipalities and seven local municipalities. Despite the fact that of the 140 returned questionnaires, only 120 were found to be valid for the statistical analysis, giving us a valid response rate of 86%. The rest of the questionnaires were not used because they were incomplete.

Except for the above question about the municipality's sizes, there were other questions in this sections that related to:

- Gender
- Age
- Level of education
- Racial group
- Number of years' experience in the municipal sector
- Other board / council appointments

Table 4.1 provides information on the profile of respondents. The sector is dominated by middle-aged councillors, for example, the majority (51%) of the participants are older than 46 years. This shows that the majority of the members of the municipal board are in their late age group and succession planning is critical in this regard. Further analysis indicates that most of the respondents (55 %) were males, with 45% indicating their gender as female, which implies a male-dominant municipal board. The majority of the respondents (80%) indicated their ethnicity as black. Race has a contributing factor in this study. This indicates a skewed spread in the race population of the councillors, meaning Africans are dominant and the main drivers of corporate governance practices. There is a further indication that these research results might not be generalizable to all racial groups in the Gauteng municipalities.

All of the respondents attended primary school, with 35.8% having attended a high school. Furthermore, the majority (32.5%) are holders of either a college diploma or a certificate. What is worrying is that the board is made up of the 68.30% (35.8) holders of high school certificates and 32.5% college diploma / certificate holders. Matching the qualification levels with work experience, the majority of respondents (50.0%) indicated that they had municipal board experience, which indicates a healthy and balanced board in terms of skills transfers to the inexperienced board members. Not surprisingly, the majority of participants (72.5%) indicated that they were appointed as municipal board members at the local municipalities.

Table 4.1: Profile of respondents

Variable		Frequency	Percentage
Gender	Male	66	55%
	Female	54	45%
Age			
	18-25 years	2	1.7%
	26 -30 years	7	5.8%
	31-35 years	9	7.5%
	36-40 years	20	16.7%
	41-45 years	20	18.7%
	46 and above	62	51%
Education	Primary School	4	3.3%
	High School	43	35.8%
	College Diploma/Certificate	39	32.5%
	Technikon (Diploma/Certificate)	13	10.8%
	University Undergraduate Degree	10	8.3%
	University Postgraduate Degree	11	9.2%
Racial Group	African	96	80%
	Asian	1	.8%
	Coloured	9	7.5%
	White	13	10.8%
	Other	1	.8%
Number of Years' Experience	> 3 years	10	8.3%
	3 to 5 years	60	50%
	6 to 10 years	29	24.2%
	11 to 20 years	16	13.3%
	21 years and older	5	4.2%
Municipal Size	Metropolitan	19	15.8%
	District Municipal	7.5	7.5%
	Local Municipal	87	72.5%
	Municipal Entity	5	4.2%
Appointed at	Private Sector	1	.8%
	Public Sector	115	95.8%
	NPO	4	3.3%

Source: Researcher (2015)

4.3 DATA ANALYSIS

This section of the chapter provides empirical findings and analysis based on the data collected by the research questionnaire. It starts with the exploratory factor analysis, reliability and validity test and correlation analysis.

4.3.1 Data analysis for the first objective (i.e. critical examination of corporate governance practices and trends within the municipal sector)

The section below discusses the statistical techniques used in this study.

4.3.1.1 Exploratory factor analysis – Part A

Factor analysis is different from many other techniques, as it is regarded as data reduction techniques, or data summarising using a smaller set of factors or components. This study used an exploratory factor analysis, which is often used in the early stages of research to gather information about the inter-relationship among a set of variables. Two statistical measures are developed in order to help assess the factorability of the data. Barlett's test of Sphericity (Barlett, 1954) and the Kaiser-Meyer-Olkin (KMO) measure sampling adequacy (Kaiser, 1974). Barlett's test of Sphericity should be significant ($p < .05$) for the factor analysis to be considered appropriate, while the KMO index ranges from 0 to 1, with .6 being suggested as the minimum value for a good factor analysis (Tabachnick & Fidell, 2013).

In this study, all 11 items were subjected to the Principal Components Analysis (CPA), using SSPS, Version 22. Table 4.2 provides outcomes of the component analysis for Part A. A KMO of .775 exceeds the recommended value of .6 (Kaiser, 1970) and Barlett's test of Sphericity (Barlett, 1954), reaching statistical significance ($p = 0.000$) to support the factorability of the correlations matrix, Hair, Black, Babin, Anderson & Tatham (2006:48) maintains that an inspection of the scree plot revealed a clear break after the third component. Using Catell's (1996) screen test, the researcher decided to retain three components for further investigation in this section. Our total explained variance is therefore less than 0.000, agreeing with Barlett's test in Table 4.3, whereas our Alpha reliability and validity results were discussed in section 4.2 above. It is worth

mentioning that, prior to performing the CPA, the suitability of data for factor analysis was assessed and therefore some variables were excluded for having a factor loading less than 0.50.

Table 4.2: Principal Components Analysis (PCA)

.775	61.73	0.000	.842

Source: Field data (2015)

In Part A of this study, there were 11 research questions and three components, namely:

- (1) Governance accountability and assurance
- (2) Governance and stakeholder management
- (3) Combined assurance governance

Verimax rotation enables one to interpret the factors more adequately. Table 4.3 illustrates the factor analysis with verimax rotation. Studies have revealed that adequate sample size is partly determined by the nature of the data (Fabrigar & Petty, 1999; MacCallum, Widaman, Zhang, & Hong, 1999). In general, the stronger the data, the smaller the sample necessary for an accurate analysis. “Strong data” in factor analysis means uniformly high communalities without cross-loadings, plus several variables loading strongly on each factor. In practice, these conditions can be rare (Mulaik, 1990; Widaman, 1993). If the following problems emerge in the data, a larger sample can help determine whether the factor structure and individual items are valid. Item communalities are considered “high” if they are all .8 or greater (Velicer & Fava, 1998) – but this is unlikely to occur in real data. More common magnitudes in the social sciences are low to moderate communalities of .40 to .70. All our factor loadings are above .50 as .50 is recommended. This means, the amount of information that a given variable shares with other factors, is greater than 0.50 each.

Table 4.3: Verimax Rotated Matrix

	Component		
	1	2	3
QBQ2	.792		
QBQ13	.753		
QBQ1	.672		
QBQ23	.601		
QBQ14		.794	
QBQ4		.739	
QBQ6		.596	
QBQ3		.547	
QBQ8			.777
QBQ11			.725
QBQ9			.624

Source: Field data (2015)

Table 4.4: Distribution of the Governance Accountability and Assurance (N =120)

Variable Code	Variable Descriptions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
QBQ3	The municipal corporate governance practices have been fully aligned with the relevant municipal legislations and regulations	1.7%	5.8%	12.5%	51.7%	28.3%
QBQ4	The structures created by the legislations are enough to ensure	7.5%	7.5%	20.8%	35.0%	29.2%

	proper corporate governance implementation					
QBQ6	The absence of a specific corporate governance implementation strategy affects the manner in which the councillors / board manages the municipality	5.0%	11.7%	14.2%	37.5%	31.7%
QBQ14	The councillors / board are deriving value add from its established internal audit activity	3.3%	5.8%	20.0%	37.5%	33.3%

Source, Field data (2015)

Table 4.4 illustrates how the respondents perceived each of the dimensions. The respondents agreed that governance accountability and assurance form the integral part of good corporate governance practices in their municipality (71%), while 12.10% were not sure of the practices and 16.90% remained neutral. This means that the municipal board is not balanced in terms of skills, qualifications and expertise. The King III Report maintains that the board should be balanced. It can therefore be concluded that municipal board (council) is committed in practising good governance, despite the fact that they are balanced in terms of expertise.

Table 4.5: Distribution of Governance and Stakeholders Management (N =120)

Variable Code	Variable Descriptions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
QBQ1	Corporate governance practices is regarded as value add to your organisation	1.7%	3.3%	15.8%	45.0%	34.2%
QBQ2	There is a broad agreement that the efficient administration of a municipality is an important element of good corporate governance implementation	1.7%	5.0%	11.7%	49.2%	32.5%
QBQ13	Corporate governance implementation and practices require a high degree of political and economic participation by all	1.7%	3.3%	15.0%	47.5%	33.5%
QBQ23	The Auditor-General of South Africa enhances accountability regarding good corporate governance practices	3.3%	0.8%	12.5%	32.5%	50.8%

Source, Field data (2015)

Table 4.5 illustrates how the respondents perceived stakeholder management as good corporate governance practice. The majority (81.10%) agrees that they care about organisational stakeholder management, as part of good governance, while 13.8% are very uncertain and the rest do not agree (4.90%). This means that the municipal boards are effectively engaging with the communities on the Batho Pele principles and values in order to ensure that services are delivered in an effective way and to obtain a higher level of stakeholder participation and feedback in matters concerning service delivery. It can therefore be concluded that the practice of inclusive

stakeholder relations is essential to good corporate governance. These stakeholder relationships provide the leadership (the board) with a manner in which to take the concerns and objectives of the institution's stakeholders into consideration in its decision-making, which is crucial to the process of integrated reporting.

Table 4.6: Distribution of Combined Assurance Governance (N =120)

Variable Code	Variable Descriptions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
QBQ8	The councillors / board is ultimately responsible for the risk management process within the municipality	5.8%	4.2%	20.8%	46.7%	22.5%
QBQ9	The municipal councillors / board always sets the risk appetite and tolerances of the organisation	4.2%	10.8%	28.3%	38.3%	18.3%
QBQ11	The municipal councillors / board always aligns its information management systems to the organisational objectives	3.3%	4.2%	18.3%	48.3%	25.8%

Source, Field Data (2015)

Table 4.6 indicates that the majority (66.6%) agreed that combined assurance mechanisms are in place and working for their organisation, while 22.5% were very uncertain on this aspect and the rest did not agree (10.8%). This implies that the municipal boards (council) have in place an effective combined assurance model that effectively coordinates the efforts of management and internal and external assurance providers. If then the combined assurance is working effectively, the board should ensure that the achievements of the clean audits are maintained, and risks are managed effectively and account for the public funds spent.

4.3.1.2 Exploratory factor analysis –Part B

In part B, there were eight research questions and two components, namely:

- (1) Board governance role and function
- (2) Governance leadership, integrity and responsibility

Table 4.7 provides outcomes of the component analysis for part B. Our KMO of .824 exceeds the recommended value of .6 (Kaiser, 1970) and Barlett’s test of Sphericity (Barlett, 1954), reaching statistical significance ($p=0,000$) to support the factorability of the correlations matrix. The researcher has decided to retain two components for further investigation, as indicated above. Our total explained variance is therefore less than 0.000, agreeing with Barlett’s test in Table 4.7, whereas our Alpha reliability and validity results were discussed in section 4.2 above. It is worth mentioning that, prior to performing the CPA, the suitability of data for factor analysis was assessed and therefore some variables were excluded for having a factor loading of lower than 0.50.

Table 4.7: Principal components analysis

.824	50.017	0.000	.690
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Source: Field data (2015)

Table 4.8: Verimax Rotated Matrix

	Component	
	1	2
QCQ8	.814	.211
QCQ7	.786	-.056
QCQ1	.621	.392
QCQ6	.598	.409
QCQ9		.794
QCQ3		.724
QCQ2		.576
QCQ4		.529

Source: Field data (2015)

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.^a

a. Rotation converged into three iterations.

The participants were asked to state their current level of understanding of the following governance concepts, where 1 = I am totally not familiar with the governance concept, 2 = I have heard before about the governance concept, but not in depth 3= I have an excellent understanding and knowledge of the governance concept, 4 = I have thorough knowledge and understanding of the concept and understand its relevance and importance in the municipality.

Table 4.9: Distribution of Board Governance Role and Function (N =120)

Variable Code	Variable Descriptions	Totally Not Familiar(1)	Have heard before (2)	Excellent understanding and knowledge (3)	Thorough knowledge and understanding(4)
QCQ2	Corporate Governance Systems Implementation	11.7%	21.7%	37.5%	29.2%
QCQ3	Integrated Sustainability and Reporting	5.0%	19.2%	45.0%	30.8%
QCQ4	Corporate citizenship	7.5%	20.0%	42.5%	30.0%
QCQ9	Corporate governance principles, values and objectives	.8%	11.7%	39.2%	48.3%
Mean		6.3%	18.2%	41.05%	34.6%

Source: Field data (2015)

Table 4.9 presents results regarding the municipal board's roles and functions. The results indicated that the majority (34.6%) of the board members had a thorough knowledge and

understanding of the concept and understand its relevance and importance in the municipality, while 41.05% believed they have an excellent understanding and knowledge of the governance concept; with 18.2% who have heard about the governance concept, but not in depth and the rest (6.3%) have no knowledge. As Tricker (1984) posits, if management is about running the business, governance is about seeing that it is run properly. This analysis, therefore, means the boards is accomplishing its duties and is functioning effectively, despite the fact that some other board members are not at all familiar with their roles and function. Therefore, it can be concluded that the municipalities in South Africa are being controlled and directed properly, particularly with regard to structures and business processes associated with management, decision-making, risks and control in the municipalities.

Table 4.10: Distribution of Governance Leadership, Integrity and Responsibility (N =120)

Variable Code	Variable Descriptions	Totally Not Familiar(1)	Have heard before (2)	Excellent understanding and knowledge (3)	Thorough knowledge and understanding(4)
QCQ1	Board setting up risk appetite and tolerances	13.8%	21.7%	45,8%	19.2%
QCQ6	Integrated performance management systems	5.8%	20.0%	35.8%	38.3%
QCQ7	Fraud prevention and deterrence	7.5%	15.8%	42.5%	34.2%
QCQ8	Conflict of interest	11.7%	10.8%	40.8%	36.7%
Mean		9.7%	17.1%	41.2%	32.10%

Source: Field data (2015)

Table 4.10 indicates indifferences, because the majority (32.10%) of respondents indicated that they have an excellent understanding and knowledge of the governance concepts; 41.2% stated that they have a thorough knowledge and understanding of the concept and understand its relevance and importance in the municipality; 9.6% of respondents said they are totally unfamiliar with the governance concepts; 17.08% said they have heard about the governance concept before, but not in depth. This analysis again illustrates the same trends. In other words, the municipal boards are not balanced as recommended by the King III Report. This raises eyebrows in terms of how effectively they manage their organisations or municipalities, if, among them, there are those without knowledge of their governance responsibilities.

Despite the above imbalances between the board members, the boards are fully aware of and practising good ethical leadership, and developing organisational strategy and sustainability. This is done within the context of: the Constitution of the Republic of South Africa, read together with the Public Service Act (PSA), the Public Finance Management Act (PFMA), the Municipal Systems Act and the Municipal Structures Act, which set out regulations and codes directly related to governance of leadership, integrity and responsibility.

4.3.1.3 Respondents Analysis - Feelings about the corporate governance practices by the municipal council - For Objective 1

Participants were clear about their positive and negative feelings about how to they practice corporate governance in their day-to-day responsibilities and the challenges faced. There is an overwhelming perception that the municipal council (board) was allocated the responsibilities before they were properly capacitated. Some of the aspects analysed included:

- “All the above questions are very relevant to our day-to-day work and actually assist me to refresh and reconsider my performance and contribution as a local government practitioner.
- This questionnaire assists us to understand our responsibilities and ensure that there is accountability and efficiency in the institution. It also empowers us to grow/develop in our duties, I hope we will be able to participate well and ensure corporate governance is implemented.

- It is very important information given in this document and it revive our minds on how we should operate or work as councillors, in making sure that service delivery is adhered to.”

4.3.2 Data analysis for the second objective (i.e. to examine the relationship between municipal legislative precepts and corporate governance)

In this section, there were eight research questions, (as illustrated in Table 4.11) and two components, namely:

- (1) governance legislative prescripts
- (2) corporate governance.

Table 4.11: Verimax Rotated Matrix

	Component	
	1	2
QDQ3	.830	
QDQ1	.780	
QDQ2	.723	
QDQ5		.848
QDQ7		.798
QDQ4		.714
QDQ6		.706
QDQ8		.670

Source: Field data (2015)

4.3.2.1 Governance legislative prescripts

Table 4.11 provides the outcomes of the component analysis for this section. Our KMO of .619 exceeds the recommended value of .6 (Kaiser, 1970) and Barlett’s test of Sphericity (Barlett, 1954), reaching statistical significance (p=0,000) to support the factorability of the correlations matrix. The researcher has decided to retain two components for further investigation, as indicated above.

Table 4.12: Principal components analysis

Correlation Test	Mean	Total Variance Explained	KMO	Std Dev	Bartlett's Test	Alpha
0.01	3.93	60.728	.639	1.112	.000	.673

Source: Field data (2015)

Table 4.12 also provides correlation between legislative prescripts and corporate governance. Correlation is used to measure the relation between two or more variables. Correlation coefficients can range from -1.00 to +1.00. The value of -1.00 represents a perfect negative correlation, while a value of +1.00 represents a perfect positive correlation. A value of 0.00 represents a lack of correlation. The linear correlation presents Pearson correlation r between variables used in the questionnaire using 5% significance to support the questionnaire. However, Cohen (1988:79-81) suggested a different correlations analysis and interpretation as indicated in Table 4.13 below.

Table 4.13: Determination of correlation strength of the relationship

Number	Descriptions of values
Small	$r=.10$ to $.29$
Medium	$r=.30$ to $.49$
Large	$r=.50$ to 1.0

Source: Field data (2015)

The test results indicate a significant correlation between the municipal legislation and corporate governance (p -values < 0.01) as indicated in Table 4.15, while the strength of the relationship appears to be weak.

Table 4.14: Correlations analysis for governance legislative prescripts

		Legislative Prescripts	Corporate Governance
Legislative prescripts	Pearson	1	.252**
	Correlation		
	Sig. (2-tailed)		
	N		
Corporate governance	Pearson	.252**	1
	Correlation		
	Sig. (2-tailed)		
	N		

Source: Field data (2015)

** Correlation is significant at the 0.01 level (2-tailed).

Therefore, there appears to be a significant correlation between corporate governance practices and the legislations, and this confirms King III Report's assertions, that corporate governance is not inseparable from legislation. The corresponding factor loadings indicated that the amount of information that a given variable shares with other factors is greater than 0.50 each.

Table 4.15: Distribution of Governance Legislative Prescripts (N =120)

Variable Code	Variable Descriptions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
QDQ1	The municipalities' boards / councillors should develop a strategic approach in order to promote corporate governance and control systems	4.2%	2.5%	14.2%	43.3%	35.8%
QDQ2	Lack of a municipal specific corporate governance implementation framework hamper socio-economic development in South Africa	6.7%	6.7%	14.2%	43.3%	29.2%
QDQ3	Financial responsibility reporting: If you cannot measure it, you cannot manage it	4.2%	9.2%	20%	22.5%	44.2%

Source: Field data (2015)

Table 4.15 indicates that 72.8% of the respondents agreed that they understand and practise the relevant legislative prescripts in their municipalities, 16.10% remained uncertain, with the rest of the respondents (11.2%) disagreeing that they understand and practise the relevant legislative prescripts in their municipalities. Considering the fact that there is a strong relationship between governance and the municipality’s own legislation, despite the fact that there are those without knowledge of their governance responsibilities. However, the boards are aware that practising good governance incorporates the municipality’s own legislation and the King III Principles. These can be collaborated by the fact that the MFMA gives effect to sections 213 – 219 of the Constitution within the public sector environment. The MFMA is the Act with the highest authority in the public sector and institutions must comply with all applicable laws. The legislation creates obligations and the offer rights and protection to public institutions. The leadership must ensure that the institution complies with applicable laws and with the non-binding rules, codes and standards.

4.3.2.2 Corporate governance

Table 4.16 presents the principal components analysis results of this component .While Table 18 present the correlation between legislative prescripts and corporate governance. Of particular interest is the significant correlation ($p < 0.01$).

Table 4.16: Principal components analysis

Correlation Test	Mean	Total Variance Explained	KMO	Std Dev	Bartlett’s Test	Alpha
0.01	2.924	56.275	.785	0.8950	.000	.800

Source: Field data (2015)

Table 4.17: Correlations analysis for corporate governance

		Legislative Prescripts	Corporate Governance
Legislative prescripts	Pearson Correlation	1	.252**
	Sig. (2-tailed)		.006
	N	120	120
Corporate governance	Pearson Correlation	.252**	1
	Sig. (2-tailed)	.006	
	N	120	120

Source: Field data (2015)

** Correlation is significant at the 0.01 level (2-tailed).

Table 4.18: Distribution of Corporate Governance (N =120)

Variable Code	Variable Descriptions	Totally Not Familiar(1)	Have heard before (2)	Excellent understanding and knowledge (3)	Thorough knowledge and understanding(4)
QDQ4	Risk Maturity Framework	19.2%	30.8%	35.8%	13.3%
QDQ5	Corporate Governance Implementation Framework (For Municipal Sector)	9.2%	21.7%	43.3%	25.0%
QDQ6	Strategic leadership and Governance	0.0%	16.7%	43.3%	39.2%
QDQ7	Municipal sustainable development governance	4.2%	21.7%	39.2%	34.2%
QDQ8	Audit governance model	8.3%	20.0%	37.5%	32.5%
Mean		8.2%	22.2%	39.8%	29.8%

Source: Field data (2015)

Table 4.17 presents a significant correlation between corporate governance practices and legislation, and this confirms the King III Report's assertions that corporate governance is not inseparable from legislation. The corresponding factor loadings indicated that the amount of information that a given variable shares with other factors is greater than 0.50 each.

There appears to be a consistent trend among the municipal boards that, among them, there are those (8.2%) without knowledge of their governance responsibilities, while 22.2% have very little knowledge about corporate governance, 69.6% (39.8 + 29.8%) have a thorough knowledge and understanding (at excellent understanding and knowledge, respectively).

This means that municipalities are being managed in a transparent, accountable, responsible and sustainable manner by the boards. Key governance processes are in place and working effectively. Examples of those processes include the following: ethical leadership and corporate citizenship, boards and directors, audit committees, the governance of risk, the governance of information technology, compliance with laws, rules, codes and standards, internal audit, governing stakeholder relationships, and integrated reporting and disclosure.

4.3.2.3 Respondents Analysis - Feelings about the applicable legislations and governance for the municipal council - For Objective 2

- Councillors as members of the council are responsible for governance. They have the function of authorising any resolution brought to the council, but they do not have an understanding or knowledge to support their decisions; however, the fear of losing the benefits of a council outweighs their sense of responsibility to speak against and propose.
- It is important for the municipalities to deliver services to communities and it is important for the government to give councillors training in governance, legislation, and fraud and corruption must be never tolerated.

4.3.3 Data analysis for the third objective (i.e. to develop MCGIF that incorporate implementation indicators for the municipal sector in South Africa

In this section, there were five questions and one component as indicated in Table 4.20, that is, Municipal Corporate Governance Implementation Framework.

Table 4.19: Verimax Rotated Matrix

	Component
	1
QEQ2	.873
QEQ6	.683
QEQ3	.658
QEQ1	.657
QEQ5	.574

Source: Field data (2015)

Extraction Method: Principal Component Analysis

a. One component extracted

Table 4.19 presents the principal components analysis results of this component. The respondents' results regarding the development of the MCGIF indicated that the majority (82.7%) agreed that the framework (MCGIF) is needed for the sector, and this can be supported by the overwhelming mean of 4.204, with its corresponding standards deviation of 0.91. This suggests that respondents responded collectively.

Table 4.20: Principal components analysis

Mean	Total Variance Explained	KMO	Std Dev	Bartlett's Test	Alpha
4.204	48.481	.695	0.9130	.000	.720

Source: Field data (2015)

Table 4.21: Distribution of MCGIF (N =120)

Variable Code	Variable Descriptions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
QEQ1	The boards / councillors should adopt a performance-driven strategy to deliver quality services	2.5%	5.8%	13.3%	40.0%	38.3%
QEQ2	The municipal boards / councillors should thoroughly understand and practice the principles of good governance	.8%	4.2%	9.2%	36.7%	49.2%
QEQ3	In order to implement good governance effectively within the municipalities, the boards / councillors should be fully competent with the principles of good governance framework	2.5%	3.3%	7.5%	41.7%	45.0%
QEQ5	The MCGIF will improve the overall governance practices within the municipal.	3.3%	2.5%	20.0%	39.2%	35.0%
QEQ6	It must be compulsory for all new and existing municipal councillors to attend a basic corporate governance training programme	4.80%	2.5%	8.3%	28.3%	60.0%

Source: Field data (2015)

Table 4.21 presents very surprising results. In the above analysis, the participants indicated that they understand corporate governance. However, in this analysis, the opposite is demonstrated, that the majority (82.7%) feel that they need the sector-specific governance framework that will empower the municipal board in carrying out its duties. They indicated that they also require training and development in corporate governance. This means, in order for the municipalities to be managed properly, its boards require a variety of interventions. For example, before or after the MCGIF has been adopted as a guide, the board members should be thoroughly trained on this framework. This can be supported by the following general comments of the participants.

4.3.3.1 Respondents Analysis - Feelings about the MCGIF intervention - For Objective 3

Participants were clear about their positive and negative feelings relating to the framework. Most participants thought that the different aspects of the framework were relevant, interesting, applicable and comprehensive. Most participants commented positively on the importance of the framework. The following are some of the comments from those who were interviewed:

The research is vital hoping the final document will be used as a tool to assist our government moving forward to better and greater good corporate governance.

Let the council ensure that the councillors are taken to training on their first year in their term of office.

Workshops and causes are supposed to be done at the beginning of each term so that they are empowered and able to know what is expected from them.

As a councillor I must indicate that many of us the concept in this questionnaire are actually new and there is a serious need for more training to be given to municipal councillors so that they are able to execute their duties with distinction.

4.4 SUMMARY

Based on the above analysis, the following key issues and conclusions are raised in this chapter: The participants in this study were the municipal board, and the critical issues were identified as: the lack of the knowledge and understanding of the municipal board of their governance roles and responsibilities, which is evidenced by the municipal sector obtaining unfavourable audit opinions from the Auditor-General of South Africa, and this is largely due to poor governance practices. Furthermore, the analysis highlighted the measurement Scale Validity and Reliabilities. This reliability was assessed using SPSS Version 22 and the variability tests for all components were reported to be above the recommended levels of .70 or .80. Results were reported in Tables 4.4, 4.9, 4.12 and 4.20. The generally accepted cut-off levels of Cronbach's Alpha in the social sciences is normally .70 or higher (Nunnally, 1978); however, in some cases, levels as low as .60 or .65 were accepted, although undesirable (De Vellis, 1991).

In addition to the above, validity and reliability were also confirmed by the KMO and Bartlett's factor analysis test (KMO measures the sample adequacy, while Bartlett's measures significance

values). All items or components were entered into a factor analysis using Principal Components Analysis factoring with Rotated Component Matrix. Results yielded a more than .50 solution, which means that the amount of information that a given variable shares with other factors was greater than 0.50 each. If their factor loading was greater than 0.50 each, the variables were grouped under a specific factor. This confirms that the instrument constructed in this current study to measure MCGIF development was reliable and valid.

The reliability analysis of the indicators forming the factors of MCGIF shows which indicators are accepted to form a dimension and which are rejected. An indicator is accepted if it has a significant association with other variables. Based on reliability analysis using the KMO, Cronbach Alpha test and Bartlett tests, all the factors or components are reliable. Based on the Cronbach alpha test, which gives a coefficient of over 0.70, it can be concluded that all factors or components in the respective tables given indicate internal consistency (i.e. are reliable) to measure the same construct (i.e. analysis of corporate governance implementation framework within the municipal sector). Based on the validity analysis, the measure developed in this study is valid and its measures meet the three types of validity: predictive validity, convergent validity and concurrent validity.

Finally, this chapter states that the municipal boards regard the MCGIF as the most important tool that will assist it in delivering excellent services to the South African communities. The next chapter will report the results of the main study using the scales described above.

CHAPTER FIVE

DISCUSSION AND INTERPRETATION OF RESEARCH FINDINGS

5.0 INTRODUCTION

The previous chapter analysed and presented the results of data obtained via questionnaires and interviews. This chapter provides the interpretation and discussion of the results. The interpretation of results is crucial in any research and it helps to make conclusion from, and generalizations about, the findings related to a problem statement. “Interpretation of results” involves the researcher making conclusions based on the results received from the research questions, objectives and the wider meaning of the results (Creswell, 2009:152). According to Kothari (2007:281), when the researcher presents and interprets the results, he can expose relations and processes that underlie the findings.

In chapter 1, section 1.5, the following research objectives were highlighted: to critically examine the corporate governance practices and trends within the municipal sector, and to examine the inter-relationship between municipal legislative prescripts and corporate governance and, finally, to develop MCGIF that incorporate implementation indicators for the municipal sector in South Africa. Therefore, the results will be interpreted and discussed on the basis of these objectives:

5.1 CRITICAL EXAMINATION OF CORPORATE GOVERNANCE PRACTICES AND TRENDS WITHIN THE MUNICIPAL SECTOR

This study objective addresses the interrelated variables.

5.1.1 Governance accountability and assurance

The purpose of this study was to propose a municipal sector corporate governance implementation framework, which can assist the municipal sector in balancing and satisfying the expectation of the citizens and stakeholders and in earning trust that is supported by specific and

reliable governance practices. The research has established that implementing good governance elements will enable the sector to run and manage municipalities effectively and efficiently. Municipalities are required to exercise, in terms of the new developmental mandate, a representative function with enhanced community participation to achieve service delivery, social and economic development and a healthy environment. In terms of Section 153 of the Constitution, the local government is responsible for setting the developmental framework in their respective jurisdictions.

The analysis of the research results shows that, generally, the councillors do not understand their governance responsibilities, which is the main contributing factor to bad administration of the municipalities in South Africa. For example, Table 4.5 indicates that the absence of a specific sector governance framework affects the manner in which the municipality is managed. Seventy-one percent of the respondents agreed with this, while 12.1% did not know about the need for the specific sector framework at all.

The above argument can be supported by the fact that COGTA has to drive the back-to-basics intervention, in order to improve on the increased demand for service delivery; however, we also see the corresponding service-delivery-related protests and the frequency thereof instead. This means that the municipalities are not up to the task with the effective and efficient processes for meeting the communities' needs. The new action plan (back-to-basics) was adopted to correct poor governance practices. There are indications that most municipalities have established corporate governance initiatives. However, when the various combined assurance providers are not being provided with evidence of that fact, for example the Auditor-General's outcomes, it suggests that no evidence or not sufficient evidence has been obtained in order to express an audit opinion. This suggests that governance systems, such as audit governance are in place and are not functioning as intended. It is also evident from the empirical study that key governance principles practices are essential for good governance implementation framework. The broader municipal sector has opted to comply with the King III Report's codes, although a municipality is not subject to income tax. However, all the officials and the board are effectively trustees administering funds and assets on behalf of the community of South Africa. Consequently, the need for good public governance is as important as the need for good corporate governance as it

demonstrates significant commitment to transparency and accountability. However, Miles and Huberman (1994) posit that, to date, South Africa had the King I, II and III Reports, which yielded little or no satisfactory results in relation to the expected outcomes. Hence, a specific sector governance implementation framework is highly recommended. This will assist the municipal board in demonstrating a high level of transparency and accountability, particularly in an era where economic conditions are unfavourable and crime and corruption have increased at an alarming rate.

Being community-based organisations, the municipal sector has to achieve a considerable level of transparency and accountability in its performance in order to gain trust and confidence, particularly among its shareholders and the community at large. Without trust and confidence the municipality may collapse. Gordhan (2015:4) argues that councils should act against ill-discipline. In other words, those municipalities that eroded the principles of transparency and accountability could soon collapse because there is less satisfaction of the needs and expectations of its shareholders.

Various authors such as, Robert Monks, Nell and Minow, (2001:144) have examined how the expectations and requirements of a corporate governance code impact on how accountability is practised by company board members and they described accountability as a key concept in corporate governance. However, it is diversely understood, practised and researched. There is an incorrect perception in the minds of many that, according to the MFMA, good corporate governance is about financial governance, management and accountability. It reinforces this view while indicating that it is true that good financial management and accountability is part of good governance, the ambit and influence of corporate governance is much wider than simply financial. Good corporate governance is there to ensure that everything that is done within the municipality is properly governed, well managed and appropriately accounted for (Soobaroyen & Mahadeo, 2012).

The seven principles of good governance advocated by the OECD (2004) are applicable to both public and private organisations. The decisions, actions and performance of an organisation must reflect the fact that its employees have been imbued with these principles. The board and

management of the municipal sector, are aware that operating in a tight regulation environment requires them to be certain about the accuracy of their governance practices in order to operate at a high level of certainty in terms of decision-making, business strategies and strategic planning. Guo, Smallman and Radford (2013:3) advocate that the governance structures should include ownership structure and board structure, and are intended to regulate the behaviour of corporate governance actors (owners, directors and executive management); hence, governance structures which influence the effectiveness of the governance process and ultimately the organisations' performance. It is evident from the study that the board and the management of the municipal sector should be convinced that what is needed is good governance implementation and practices. Good governance systems should be embedded in the overall municipal business processes.

The internal audit function is critical for effective governance and it is accountable to the audit committee. This study has established that the municipal board is deriving value by establishing an internal audit function that is accountable to the audit committee. This means that the municipal councillors themselves are aware that there is still a lot to be done to improve the overall quality of the internal audit activity within their organisations. Internal audit should be seen to add value in its functioning. As such, the institution's strategy must be clear to the head of internal audit and he must direct the function accordingly. Furthermore, internal auditing is an important governance partner and assurance provider. With regard to governance roles, the internal auditors must assess and make appropriate recommendations for improving the governance process in its accomplishment of its objectives. The King II Report effectively dispensed with the notion of compliance-based, cyclical auditing and embraced risk-based auditing. As such, this approach has matured over time, and the imperative to appropriately positioning risk-based auditing is a central focus of the King III Report. This repositioning ensures that internal audit activities are guided by the risk-based approach in order for strategic, operational and financial and sustainability issues to be addressed in its attempt to deliver value to the institution.

Despite the fact that most of the municipalities have established internal audit activity, there are still areas that require effective improvements, as evidenced by Madonsela (2014:18) when pointing out that internal auditors under the control of an audit committee should strengthen their

watchful eye in order to avoid companies imploding. When internal auditors are appointed by same management auditee, the internal auditors will need courage to stand up to their leaders, instead of standing with them. Ngoepe (2012:186) concurs with Madonsela's arguments, when he states that most governmental bodies established internal audit functions merely for ceremonial and compliance purposes and this could be inflamed by internal audit reports not being made public.

This means that the municipal councillors themselves are aware that there is still a lot to be done to improve the overall quality of the internal audit activity within their organisations. For effective governance implementation, the board should establish an internal audit activity, in accordance with section 165(1) of the MFMA, of which the CAE should be the custodian. This statement is consistent with the IIA's statement that internal audit should be performed by professionals with an in-depth understanding of business culture, systems and processes. This would add value to the municipalities by improving their operations and accomplishing their objectives, through a systematic and disciplined approach of evaluating the effectiveness of risk management, control and governance processes.

On leadership, there is a clear indication that the municipal board understands how people are governed. Their behaviour must then reflect the actions of the Batho Pele principles. Various cases of poor governance in this study have demonstrated a critical lack of their fiduciary responsibilities and these are crucial elements required in order to implement good governance. Accountability is a critical characteristic and attribute of good governance. For example, everybody who is responsible for something is in turn accountable to somebody for appropriate and effective discharge of that responsibility. Hendrikse and Hendrikse (2012) echoed this sentiment when arguing that corporate accountability and responsibility are two sides of the same coin of corporate conduct. Van der Waldt (in Van Niekerk et al. 2002:119) also describes accountability as an obligation to expose, explain and justify actions. Municipal accountability demands that the actions of the municipal institutions be publicised to encourage public debate and criticism.

Accountability is also described as an informative concept that requires provision of answers, such as reporting or more obviously ‘giving an account’ to authority (Hendrikse and Hendrikse, 2012). There is an increasing demand for transparency and accountability, either political or managerial, as a society becomes more complex and global. Without reliable governance systems that are realistic, it would not be possible for an organisation to prove to its shareholders, stakeholders and the public that it has used resources responsibly and fulfilled its mandate. The public sector has to be more transparent and accountable in their operation than the private sector because in the public sector resources come mainly from taxpayers’ money.

Nevertheless, organisations need to avoid the trigger of accountability processes by being transparent. However, transparency does not guarantee a high level of trust as the truth may be massaged by irresponsible individuals, as we have seen. To this end, accountability processes such as auditing and ombudsmen have a critical role in demonstrating the transparency of audit processes as well as the transparency of audit findings (Public Audit Act No. 25 of 2004). These activities produce audit records that are crucial for the accountability of organisations. Transparency makes accountability possible by providing reliable, relevant and timely information about the organisation’s activities to the authority or public. In the context of the public service, the notion of accountability has been extended to the sense of individual responsibility, both professionally and personally, and concern for the public interest expected from public servants (Mulgan, 2000).

However, corruption and a failure of accountability indicate poor governance. An associated failure is the implementation of good governance and provision of related evidential records to that effect. For example, SALGA stated that the Auditor-General’s 2010/11 and 2011/12 reports reveal poor performance accountability by the municipal board, including lack of leadership at both political and administrative levels. This has fuelled a perception that local government is generally corrupt and unaccountable and has eroded public confidence in their municipal institutions (Business Day, 2015:5). Similar investigation into the South African Broadcasting Corporation (SABC) by the Public Protector has revealed poor accountability and this was then challenged in court (City Press, 2015:8).

Arguably, the absence of good governance practices and accountability in the public sector allowed greedy individuals with poor ethical standards to be so corrupt that they damaged the accountability of the organisation as well the local government. It is evident that governance and practices play an essential role in the accountability process as testified by the Auditor-General and the Public Protector of South Africa, who eventually disclosed the culprits.

5.1.2 Governance and stakeholders management

Governance of stakeholder's relations plays an important role in the provision of service within the municipal sector. The stakeholder-inclusive approach to corporate governance is not a new concept in the public-sector environment and effective stakeholder engagement is recognised as essential to good corporate governance. Leaders can no longer merely talk about concerns such as corporate responsibility, ethical business practices and sustainability. The Batho Pele values set principles to facilitate effective service delivery and mechanisms to enhance stakeholder participation and feedback in service delivery matters. Stakeholder relationships make it possible for the leadership to take the concerns and objectives of the institution's stakeholders into consideration in its decision-making, which is fundamental to the process of integrated reporting. In the municipal sector, the stakeholders are the public at large, including Parliament.

This study discovered that, to provide traditional municipal services, municipal boards must practice good leadership, management and plan for development. Good leadership require the municipal board to facilitate enhanced participation with communities, organisations and business to contribute to the development of the area, (stakeholder's relationship). The study results show that the municipal board has an overwhelming 81.1% of stakeholder relations, one of which is the Auditor-General of South Africa. However, chapter 2 of the literature provided a different picture in this regard. For example, the DA report (2010:1) revealed that most municipalities' inability to comply with financial regulations set by the Auditor-General is a disturbing indicator of poor governance. This argument is further echoed by Pillay (2012:2), when arguing that the implementation of a sound functional internal audit unit, systems of internal control and effective operation of an audit committee are all critical components of sound corporate governance. However, the recent audit findings highlighted serious deficiencies in governance arrangements in this regard.

In addition to the stakeholder relations, it can be argued that achieving the objectives of good leadership implies dramatic ethical change and practices. However, this study revealed that good ethical values cannot be achieved when the same people are guilty of fraud and corrupt activities. The North West municipalities provide a good example of this argument. For example, the maladministration in the Ventersdorp and Tswaing Local municipalities has resulted in the takeover of their executive functions by the provincial government; more recently, it was alleged that Ditsobotla municipal councillors and executive management attempted to procure a bribe from a service provider. This can be interpreted to mean that the municipal board was not ensuring that stakeholders are engaged in a manner that creates and maintains trust and confidence in the municipality. Furthermore, it indicated that the board has failed to exercise leadership, enterprise, integrity and judgement in directing the company so as to achieve continuing survival and prosperity for the company.

The fact that most municipalities have taken part in the Operation Clean Audit (OPCA) to address governance issues relating to the outcome of the annual audits is encouraging. It must be commented that the purpose of the OPCA initiatives is to take accountability for addressing adverse audit findings, from both internal and external auditors' perspectives. However, the establishment of OPCA yielded minimal results, in that the year 2014 was meant for all the public sector organisations to receive clean audits opinions and the results to date show the opposite. This is largely due to the fact that some of the governance processes were implemented without understanding its basic meaning and implications. If only some of the governance components were partially implemented and controlled, it is as good as not having them implemented at all, especially considering the fact that they are not fully understood, as demonstrated by this study.

5.1.3 Combined assurance governance

The municipality's board should ensure that there is alignment of its various assurance activities with its operations to ensure assurance gaps do not exist and the assurance minimises duplication of efforts and resources, but they should still manage risk consistently with the board's and management's expectations. The study reveals that 66.6% (with the mean of 3.7) of the respondents indicated that they have put in place the combined assurance systems. Combined

assurance includes aspects such as risk management, auditing, fraud risk and management, to mention only a few (these elements are called, first, second and third lines of defence (Nicholson, 2013:28). In order for the board to implement these components, the board needs to, firstly, understand them and, secondly, be able to manage them through interrogation of the management reports presented to the municipal board.

One of the key elements of combined assurance is risk management. However, the study revealed that the municipal board has too many challenges in managing risk. For example, 22.50% of the entire board does not know risk management and combined assurance, while 10.8% does not agree with the combined assurance responsibilities. This means that 33.3% of the respondents do not understand their governance responsibilities. This is particularly applicable in the public sector where risk management has been required by law for some time. The King III Report states that risk as the foundation of governance, and risk governance is different from the requirement to implement risk management. Much emphasis is placed on accountable leadership to ensure that the management of risk is satisfactory. Both the PFMA and MFMA make the accounting officer responsible for risk management to the accounting officer. It further posits that the board should be responsible for the process of risk management, which includes the board's role to set a risk appetite or risk tolerance level for the company. This should be determined according to the strategy (in this case IDP/SDBIP) adopted by the municipal company and should take into account sustainability, ethics and compliance risks. Risk is a critical component of the governance frame and inseparable from the business strategy.

In addition to the above, in view of the fact that most municipalities have established combined assurance initiatives, it is imperative that this should be supported by credible evidence. For example, the negative outcomes from the Auditor-General's audits in most of the municipalities suggest that no evidence or not sufficient evidence was obtained in order to express an audit opinion. This explains why the findings by the Auditor-General in particular are not favourable, because if you cannot count it, then you cannot manage it. This implies that if the municipal board does not understand its governance responsibilities regarding roles and responsibilities of an audit committee, they cannot manage the audit committee effectively. This argument can be evidenced by the Auditor-General's reports, which state that more than 70 municipalities out of the 278

(91%) failed to obtain a clean audit, despite the Auditor-General being encouraged by some emerging positive trends in local government audit results. However, the Auditor-General still urges that government leadership needs to intensify the drive towards total good (AGSA, 2012/13 General Report).

5.1.4 Board governance role and function

The boards and directors act in the best interest of the municipality and form the centre of corporate governance with responsibilities extending to stakeholders relations. The board's role and function are diverse and it includes governance systems implementation, integrated sustainability and reporting, corporate citizenship and governance values and principles. Respondents were requested to rate their knowledge of the governance concepts as part of their roles and responsibilities. The claimed results reveal the following: 34.6% had thorough knowledge and understanding, 41% had excellent understanding, 18.2% have heard about it, and 6.3% had no idea, giving a mean of 3.04. The King III Report states that a board should be at the head of a company and this board should direct, govern and be in control of the company. Public sector institutions do not have boards of directors, therefore, their functions are performed by the executive authority as delegated to the accounting officer. Municipal councils perform many of the board's functions. This can be confirmed by the provision of section 30 of the Municipal Systems Act, which delegates responsibility to the exco, the executive mayor or a committee appointed by the council for the implementation, evaluation and monitoring of the IDP, which incorporates these requirements.

However, it would seem from the results that many municipal boards are not balanced in terms of skills, qualifications and experience. For example, among the board members may be those who do not know their board's responsibilities (6.3%). The King III Report (2009:30) maintains that when determining the number of directors to serve on the board, the knowledge, skills and resources required to fulfil all the duties of the board should be considered.

Literature has revealed that the poor economic conditions in South Africa have compelled the government and its municipalities to engage in a variety of programmes to boost the economy, including job creation and poverty alleviation. This could be achieved through intervention,

which involves attracting foreign investors in South Africa. This view is supported by the Arthur Levitt (as cited in Naidoo, 2002:4) that if a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. This means the municipal board does not have the appropriate balance of power and authority, and some individuals are dominating the board's decision-making processes. This phenomenon of dominance is contrary to good governance, because good governance encompasses effective leadership. Leaders need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviour with regard to sustainability performance.

In addition to the above findings, the study also found that the board blames poor practices of good governance because of the lack of training and development, including an induction programme for the board. This assertion itself adds to the poor governance practices by the board, because they, who are going to direct and control the board, should have been aware initially that they should be inducted prior to taking office. In reality, that was not done. Good governance practices require that the boards itself should ascertain whether potential directors are competent to be appointed to the board and that they can contribute to the business decisions (King III Report, 2009).

In some instances, the municipal board has not evaluated its annual performance or its committee's performances, such as audit, risk committees, to mention just a few. This clearly explains why the municipalities in South Africa are being badly managed, because PMS is a critical component of good governance. They measure the board's service delivery to the community and facilitate improvements where gaps were identified. The fact that the board appoints an audit committee does not remove its responsibility of ensuring that its reports are scrutinised thoroughly, and it becomes an indicator of the annual performance review of its committees. However, in most instances, we saw the municipal board just noting the various committees' reports, including the one from the audit committee. This approach further indicates that the board has failed to govern and direct the municipality regarding its performance review, as well as its committees (King III Report, 2009:39).

5.1.5 Governance leadership, integrity and responsibility

The municipal board should ensure that the municipality acts as, and is seen to be, a responsible corporate citizen. This means, the board should not only be responsible for the municipality's financial bottom line, but also for its performance in respect of its triple bottom line and should report to its shareholders and stakeholders on the municipality's economic, social and environmental performance.

In order to effectively implement good governance, various governance elements should be considered. For example, the King III Report on leadership, Principle 1.1, maintains that the board should provide effective leadership based on an ethical foundation, while section 151 of the Constitution of South Africa vests the executive and legislative authority of a municipality in its municipal council. Section 30 of the MSA makes the exco, the executive mayor or a committee appointed by the council responsible for the implementation, evaluation and monitoring of the IDP, which incorporates these principles.

The results of the study indicated that some of the municipal board members (17.08%) had little knowledge of leadership aspects, while 41.2% indicated some excellent leadership understanding, with the balance of 32.10% having a thorough knowledge. This means that if the municipal leadership understands how people are governed, their behaviours must reflect this in their implementation of the Batho Pele principles.

However, various cases of poor governance in the study findings have demonstrated a critical lack of fiduciary responsibilities and these are crucial elements required to implement good governance. For example, the adoption of the back-to-basics campaign suggests that delivery of basic services has increased, but so has the frequency of service delivery-related protests. Municipalities are not up to the task with effective and efficient strategies in order to accomplish the community needs. For example, the new action plan (back-to-basics) was adopted to correct poor governance practices and to commit to its principles (Presidential Local Government Summit, September 2014). This augurs well with the notion that the municipal leadership should acknowledge that the community expects honesty and transparency from their elected leaders (the

board/council) and service and fairness from the municipal staff as provided for in the MSA code of conduct for municipal councillors and staff.

When the municipal board adopts its annual strategic plan, the key critical success factor needs to be outlined and managed properly. This is to increase the likelihood of achieving the organisational goals and objectives. The study has demonstrated that there is a marked lack of leadership in this regard, because one of the critical success factors of an organisation is to put in place a team that is skilled, knowledgeable and competent to deliver on its mandates. As revealed in this study, this is not always case, as demonstrated in various scenarios above. Hendrikse and Hendrikse (2012) maintain that transparency and accountability are also described as an informative concept that requires provision of answers, such as reporting or, more obviously, giving an account to authority and its demands, either political or managerial. This concept is ever increasing as society becomes more complex and global. Without implemented governance systems that are reliable and authentic, an organisation cannot proof to its shareholders, stakeholders and the public that it has used resources responsibly and has fulfilled its mandate.

The municipal board needs to avoid the trigger of accountability processes by being transparent. However, transparency does not guarantee a high level of trust as the truth may be masked by irresponsible individuals. In the various scenarios above, we have seen individual dominance in the municipal board. Accountability processes such as auditors and ombudsmen have a critical role in demonstrating the transparency of audit processes as well as the transparency of audit findings (Public Audit Act No. 25 of 2004). These activities use and produce audit records that are vital for the accountability of organisations.

It can be concluded that the municipal board will go a long way to demonstrate practices of good leadership, integrity and responsibility. For example, corruption and a failure of accountability are an indication of poor governance , an associated failure is the implementation of good governance and provision of evidential records to that effect.

5.2 TO EXAMINE THE INTER-RELATIONSHIP BETWEEN MUNICIPAL LEGISLATIVE PRESCRIPTS AND CORPORATE GOVERNANCE

This study objective addresses the interrelated variables.

5.2.1 Governance legislative prescripts

The development of a good corporate governance framework requires consideration of the various influential governance elements. This includes the examination of relevant and related legislative and other best practices, which are the foundation for the development of the sector governance framework. In developing this framework for municipal governance, the various developmental aspects were considered, for example the key role players within the spheres of government, which are national government, provincial government and local government. These are key role players with the responsibility of making policy and laws about the rights and responsibilities of the citizens and the delivery of government services.-

The development of a corporate governance framework requires the municipal board to indicate the extent to which it understands the relevant legislation and role players within the sector. The legislative framework is a key to the development of the municipal strategy and PMS, for it will result in good governance practices. These are the board's roles and responsibilities in controlling and directing the organisation. The results of the study, however, present a different view with regard to the above. For example, 11.2% of the participants disagreed with these responsibilities as board members, while 16.1% were uncertain in this regard, and the remainder (72.8%) agreed. These values are supported by the relevant statistical mean of 3.93 and correlation ($p < 0.01$). This means that corporate governance is inseparable from legislation. Furthermore, the results, surprisingly, show the same pattern of imbalance and of individuals dominating in the board when it is expected that they should all have the basic knowledge of governance principles. Collectively, the municipal board (council) has an important oversight and policy-setting role and a wide range of responsibilities that include community leadership, representing citizens and making decisions about the provision of services for the betterment of communities. Boards collectively are responsible for decisions that affect the lives and livelihoods of individuals, organisations and businesses, in terms of the Local Government Municipal Structures Act.

In addition to the above, when executing its functions and fulfilling its obligations, the municipal board should be assisted by various functions within the governance components. For example, between 1994 and 2000, various amended acts were introduced which had an impact on corporate governance practices, as illustrated in Table 2.6 of chapter 2 on literature, and it reinforced corporate responsibility issues that were emphasised in the first King Report. Furthermore, the PFMA (1999) introduced more rigorous standards for reporting and accountability by adopting an approach to financial management in public sector institutions that focuses on performance in service delivery and efficient deployment of state assets (Armstrong, Segal and Davis, 2005: 15). In terms of the Competition Act of 1998, the South African government gave authority to the Competition Tribunal.

On the strength of the above arguments, it is very important that all the municipal board members understand their governance roles and responsibilities, in particular with regard to legislation, as they have a significant influence on the governance of the municipal sector. For example, the government makes policies and laws about the rights and responsibilities of citizens and the delivery of government services. Government obtains revenue from taxes and uses this money, among other things, to provide services and infrastructure to improve the lives of all the people in the country, particularly the poor. The Constitution of South Africa sets the rules for how government works. However, no level of government is allowed do anything that is not in compliance with the law or policies laid down by national government. Provincial government receives most of its money from the National Treasury while local government also receives grants and some loans through the treasury. The Department of Provincial and Local Government is responsible for national coordination of provinces and municipalities. In conclusion, the fact that the majority of the participants (council) (82.2%) believes that they should be fully capacitated to become competent in the implementation of good governance principles suggests that all the study gaps identified above and the manner in which the municipalities are so badly administered in South Africa, are as a result of boards that are not effectively directing and controlling the organisation, due to a lack of training and development.

5.2.2 Corporate governance

Tricker (1984:1) posits that if management is about running the business, governance is about seeing that it is run properly. This means the board is responsible for seeing that the organisation is being run properly in terms of control and directing it, more specifically regarding the structure, processes associated with management, decision-making and control in the organisation. This statement implies a variety of board issues. For example, business process may include aspects such as risk management, risk maturity framework, strategic planning and governance, business sustainability governance, audit governance model and the implementation framework that incorporate all these elements.

Respondents were requested to rate their knowledge of the governance concepts as part of their roles and responsibilities, and the average results revealed the following: 29.8% had thorough a knowledge and understanding, while 39.8% had an excellent understanding, 22.13% have heard about it and 8.2% had no idea, with a mean of 2.924. It is assumed that the development of the municipal sector governance implementation framework will assist the municipal board in ensuring that the municipality is run properly as, currently, the municipality utilises the generic corporate governance framework (King III Report). However, it is evident from the results that the boards are not well equipped to run the municipality with this framework. Not surprisingly, there is a similar trend of the board members not being balanced in terms of skills, qualifications and experience. The descriptive analysis of the board members' level of education provides some interesting patterns with regard to a balanced board, for example, 32.5% of the board members hold college/diploma certificates, while 10.8% hold technikon national diplomas, with 3.3% and the majority of 35.9% holding both primary and high school certificates, respectively. A total of 8.3% and 9.2% hold university undergraduate and postgraduate degrees, respectively.

The above results came as no surprise, as pointed out by Williams (2012) on the weak municipal governance practices in that during the eight-month period in 2012, 79.20% of the municipal protests were violent. For the same period in 2011, the protests were fewer and nonviolent. If the boards had followed the practices of good governance, the strikes could have been minimal and non-violent or avoided entirely. This argument is supported by COGTA when pointing out that poor governance practices in the sector have prompted COGTA to recommend the

implementation of the newly formed Local Government Turnaround Strategy, as a result of the dysfunction and instability in the sector, which have created opportunities for fraud and corruption.

5.3 TO DEVELOP AN MCGIF THAT INCORPORATES IMPLEMENTATION INDICATORS FOR THE MUNICIPAL SECTOR IN SOUTH AFRICA

Corporate governance implementation means the manner in which direction and control of organisations are applied to the stewardship of the organisational assets – both tangible and non-tangible, and financial and non-financial – in the pursuit and delivery of the primary objectives of sustainable value creation (Hough et al., 2009:173). Hendrikse and Hendrikse (2012:144) suggested that for effective corporate governance implementation, the key elements of the King III Report should be incorporated. Therefore, in order to accomplish the recommended implementation components, the participants were asked to rate their understanding of the corporate governance implementation protocols, their competency with regard to corporate governance, as well as the related training, and, finally, their feeling about specific municipal sector governance implementation framework development.

The majority (82.70%), with the supporting mean of 4,204, indicated that a municipal-specific governance implementation framework would improve the overall management of their municipalities. However, the majority (82.7%) also indicated that they should be capacitated regarding corporate governance practices, including training and development and induction programmes. This view of the municipal board is echoed by the King III Report (2009:36) on corporate governance when it states that the board training and development of directors should be conducted through formal processes and the board should establish a formal orientation programme to familiarise incoming directors with the company's operations, its senior management and its business environment, and to introduce them to their fiduciary duties and responsibilities. An appropriate induction programme should meet the specific needs of both the company and the individual and should enable any new director to make the maximum contribution as quickly as possible.

In agreement with above view, Nel et al. (2004:6) define human resources management as the process through which an optimal fit is achieved among the employee, job, organisation and environment so that employees reach their desired level of satisfaction and performance, and the organisation meets its goals (Hall & Goodale cited in Nel et al., 2004:6). On the other hand, Van Dyk and Erasmus (1999) identify training as being task-oriented and focused on improving the learner's job performance. Development, on the other hand, is argued to be directed towards creating learning opportunities and making learning possible within an enterprise (Van Dyk and Erasmus, 1999:3). Noe, Hollenbeck, Gerhart and Wright (2006) distinguish between the concepts of training and development when stating that training is focused on helping employees' performance in their current jobs (Noe et al., 2003:376) while development is future-oriented in that it helps employees prepare "for other positions in the company and increases their ability to move into jobs that may not yet exist" (Noe et al., 2003:376). This means potential candidates for the future municipal election should be developed continuously as well as those who are already elected. The relevant municipal legislation confirms this view. For example, legislation as states that a municipal council should consist of a number of elected councillors, who each must have defined qualification requirements. This means the municipal board's attempts to practice good governance are hampered by the lack of understanding of governance core principles. Pillay (2012:35) posits that good corporate governance implementation requires critical skills and knowledge. However, the Auditor-General's findings have alluded to the fact that deficiencies in the municipal sector stem from the lack of knowledge. Furthermore, collaborative evidence by the National Treasury supports this view when stating that most current officials lack the broader skills to implement the MFMA to its full extent.

5.4 SUMMARY

This chapter has interpreted and discussed the empirical research findings. It has been established that capacitation and empowerment of the municipal board can improve the efficiencies and effectiveness of corporate governance implementation and sustainability. Furthermore, the results indicated that the Gauteng provincial municipalities are practising corporate governance; however, there are areas where significant improvement is needed. If the public is aggrieved by a local government decision affecting them, such persons have a right to know the motivation for

the decision. This means that councillors and the municipal officials must prepare themselves for a more open style of local government where their decisions are made public upon request. Good governance practices can be an enabler of effective, efficient and improved service delivery for the municipal sector. However, it must be pointed out that service delivery is not the responsibility of the municipalities alone. There are role players in the municipal service delivery value chain and the local government needs to consult these stakeholders on issues of governance. The conclusion is that the majority of respondents felt that the Gauteng provincial municipalities are practising and promoting corporate governance and with the advent of democracy, the new local government has therefore committed itself to maintaining and working with community structures. The next chapter provide the conclusion and recommendations of the study.

CHAPTER SIX

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

6.0 INTRODUCTION

The previous chapter provided data interpretation and discussion of the results. This chapter summarises, discusses and integrates the main findings and implications of this research. Firstly, a summary of the research objectives and questions is presented, next the conclusions and recommendations of the study based on data analysis and interpretation in the previous chapters are given, as well as integration of the literature review in chapter two. A proposed framework is also presented and discussed. Then implications for both theory and practice are highlighted, followed by a discussion of study limitations, both methodological and theoretical. Finally, directions and avenues for future research conclude the chapter and the study.

This thesis is set out with the aim of adding one new informative and practically relevant framework of the corporate governance practices in the municipal sector, in South Africa. Therefore, the overall research objective was to critically analyse corporate governance implementation and control systems within the municipal sector in Gauteng, South Africa. In chapter one, section 1.5, the following research objectives were highlighted: (1) to critically examine the corporate governance practices and trends within the municipal sector, (2) to examine the inter-relationship between municipal legislative prescripts and corporate governance and (3) to develop an MCGIF that incorporates implementation indicators for the municipal sector in South Africa. Chapter two provided a detailed literature review of issues regarding corporate governance practices, sustainability and developments. As Bryman (2012:388) would attest, the interpretation of results is a key component of any research and it helps in drawing inferences and generalizations of findings to a problem statement. This means that the researcher draws inferences from the results for the research questions, hypotheses and the larger meaning of the results. On the other hand, Wilkinson (1991:327) asserts that the conclusion section is the logical outgrowth of the results section, and the focus of discussion is on the interpretation of the results. He further concludes that the objective of the conclusion is to examine the results, determine

whether they solve the research question, compare them within themselves and write other results (from literature), explain and interpret them, and then draw conclusions or derive generalizations and make recommendations for applying the results or for further research. Therefore, the findings presented in the previous chapter are summarised in this chapter, as well as the introduction of the suggested MCGIF.

6.1 SUMMARY OF RESEARCH FINDINGS

The general purpose of this study was to propose a municipal sector corporate governance implementation framework, which can assist the municipal sector in balancing and satisfying the expectations of the citizens and stakeholders, and in earning a trust that is supported by a specific and reliable governance practices.

6.1.1 Critical examination of corporate governance practices and trends within the municipal sector

The research has established that implementing good governance elements will enable the sector to run and manage municipalities effectively and efficiently. Municipalities are required to exercise, in terms of the new developmental mandate, a representative function with enhanced community participation to achieve service delivery, social and economic development and a healthy environment. In terms of section 153 of the Constitution, the local government is responsible for setting the developmental framework in their respective jurisdictions.

The analysis of the overall research results shows that the municipal board is faced with significant challenges of understanding their governance responsibilities, which are the main contributors to bad administration of the municipalities in South Africa. The fact that COGTA has to come up with the back-to-basics intervention in order to improve on the increased demand for service delivery and the corresponding frequent service delivery-related protests means that the municipalities are not equipped for the task with effective and efficient processes for accomplishing the community needs.

6.1.2 Examination of the relationship between municipality legislative prescripts and corporate governance

The analysis of key governance drivers, for example the Municipal Systems Act, the structural Act, the Municipal Finance Act, the Constitution and the King III Report on corporate governance, revealed that the municipalities generally received unfavourable audit results, purely on the basis of a lack of compliance with the prescribed legislation, rules and standards. It is worth mentioning that the MFMA gives effect to sections 213 – 219 of the Constitution, and the PFMA and MFMA supersede all other Acts in the public sector as they have a bearing public sector institutions.

The responsibility of monitoring the institution's compliance with all applicable laws, rules, codes and standards lies with the leadership. However, the study reveals that compliance functions relate to effective and efficient internal control systems, which is subject to both internal and external audits under the leadership of an audit committee. In terms of section 166 of the MFMA, the board must establish an effective and efficient audit committee. However, the lack of understanding of the legislation pertaining to the roles and responsibility of an audit committee by the board, adds to the poor governance practices. For example, in most instances, the report of the audit committee is not being discussed in the council meetings, other than for minuting only. This suggests that even the matter that relates to non-compliance with all applicable laws, rules, codes and standards is being overlooked.

6.1.3 Development of the MCGIF that incorporates implementation indicators for the municipal sector in South Africa

Despite the fact that some attempts are being made to manage the municipality accordingly, the back-to-basics interventions developed by COGTA still suggest that more problems and challenges still exist. These problems and challenges are attributable to the manner in which political leaders deployed incapacitated politicians to the municipal board. For example, a councillor could be competent and capable with regard to community matters and responsibilities, and then on that basis is elected to be a municipal board member (council), without being fully capacitated in terms of corporate business operations, decision-making, to mention only a few.

The study reveals that practices of good governance involved diverse dimensions. For example, governance is about directing and controlling the municipality, especially with regard to systems, structure and processes related with management, decision-making and controls in the organisation. These imply that the board has to ensure that the following governance dimensions are in place, working as intended, monitored and reviewed periodically; boards and directors, up to date charters, corporate citizenship: leadership, integrity and responsibility; audit committees, risk management; internal audit; integrated sustainability reporting and disclosure, compliance with laws, regulations, rules and standards; and, finally, management of stakeholder relationships.

On the basis of the above, the South African municipalities should be run efficiently and effectively and the best candidates to do that are the municipal boards (council) who are ultimately responsible and accountable to shape the strategic direction towards good corporate governance, initiating and implementing it. However, this study reveals that the skills, competencies and qualifications of the sector board members are not appropriate for the task at hand. This could be confirmed by the number of protests, nationally, fraud and corruption, and findings by the Public Protector and the Auditor-General. The study findings also suggested that if not all board members understand all the above governance diverse dimensions, it means the board is not effective, and is directing and controlling the organisation in the right direction. This argument has been demonstrated in much of the literature in this study and some points in this summary.

On a positive note, attempts have been made to correct the negative audit findings through the establishment of the OPCA. However, if proper governance is practised properly there should be no need for OPCA. This argument is supported by the fact that OPCA was meant for all in the public sector to receive clean audits by 2014. Yet, it has yielded minimal results, even beyond 2014. This means the purpose for which OPCA was established was not achievable, and it is now up to the politicians to decide whether to continue having OPCAS in the municipalities, or to try other different strategies that could help the municipalities to achieve a clean audit opinion in the future. The study found that some of the indicators of OPCAS' failures were largely due to the fact that some of the governance processes have been implemented without understanding the basic meaning and implications. If some of the governance was partially implemented and

controlled, it is as good as not having them implemented, especially considering the fact that they are not fully understood as demonstrated by this study.

There are positive prospects that municipalities could improve their performance, provided those who are charged with governance responsibilities are properly capacitated and held accountable for their actions. As Hough et al. (2009) argue that, traditionally, corporate governance in the public sector is not comparable to that of a private sector. It is, however, still mandatory for the public sector to comply with primary characteristics of good governance. The MSA, which also describes the municipal structure, faces municipalities with some tasks, the most important of which is the perceived lack of independency by the council. Despite the lack of independency, the council are at all times accountable for its decisions (as are directors in the private sector), in order to ensure that decisions are made based on the best financial benefits of the municipality.

6.2 CONCLUSIONS

The conclusions of this study are interpreted and discussed based on the research objectives. The best candidates to shape the strategic direction and control towards good corporate governance practices for the municipalities in South Africa are those who are ultimately responsible and accountable for initiating and implementing it – the board of directors. The ultimate aim of the study was to analyse, design and develop a governance implementation framework that can assist South African municipal boards in taking an anticipatory approach to corporate governance practices. The features of the proposed framework were presented and discussed in chapter two. The study results provided some coherent basis for implementation dimensions, which can improve service delivery if the municipal sector can put in place. It can provide the board with the capability to understand, as well as interpret and respond to current challenges and conceive and explore yet unimagined approaches and solutions to these problems to ensure effective, efficient and sustainable municipalities. To this end, the study conclusion will be guided by its integrated objectives, as set out below.

6.2.1 Critical examination of the corporate governance practices and trends within the municipal sector

It is clear from the study that sound good governance practices require the local government to commit itself to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives. Corporate governance is very broad in nature and the effective implementation of its components requires effective systems to be in place in order to achieve the municipal objectives, because without these systems, its practices will be futile.

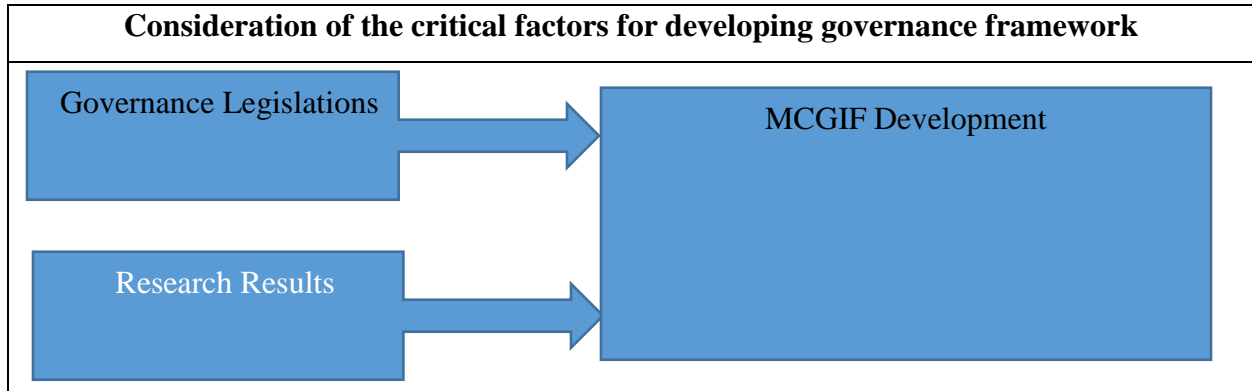
Furthermore, its implementation effectiveness requires coherent focus on service delivery, including accountability, transparency and sustainability for services. If the proposed MCGIF is adopted and properly implemented, this could improve key governance practices and enhance the eight Batho Pele principles, especially consultation, service standards and openness, and transparency, as well as the public's expectations, especially of municipalities, in terms of service delivery and stakeholder engagement. These are key principles that are embodied in the spirit of the King III Report. In conclusion, it is acknowledged that many municipalities have established governance structures and practices. However, the implementation and sustainability seems to be problematic. This might be because the municipal board lacks the basic training and development and proper induction on the governance principles.

6.2.2 Analysis of the inter-relationship between municipal legislative prescripts and corporate governance

The study has established a positive correlation between corporate governance and the legislative prescripts. For example, in South Africa, public accountability of local government is the foundation of democracy. The Constitution and related MFMA place a huge responsibility on the shoulders of the municipal board, because it is responsible for ensuring the continued success of the company. It is guided by its charter. In order to develop the sector governance implementation, the various pieces of legislation that have a direct impact on the framework become an important foundation for consideration, (as illustrated in Figure 6.1 and Table 6.2). The study demonstrated clearly that a lack of overall understanding of the municipality's own legislation among the board members necessitates the consideration of all the relevant legislation

that has an impact on the framework during its development phase, and to capacitate the board on these aspects:

Figure 6.1: Consideration of the critical factors for developing governance framework



Source: (Researcher, 2015)

Table 6.1: Critical Acts for developing governance framework

Year	Critical Acts for developing governance framework
1996	The Constitution of the Republic of South Africa
1997	Intergovernmental Fiscal Relations Act
1998	Local Government: Municipal Structures Act
1998	Local Government: Municipal Demarcation Act
1998	The White Paper on Local Government
2000	Local Government: Municipal Electoral Act
2000	Local Government: Municipal Systems Act
2003	Traditional Leadership and Governance Act
2003	Local Government: Municipal Finance Management Act
2004	Local Government: Municipal Property Act

Source: Researcher (2015)

6.2.3 The development of the MCGIF that incorporates implementation indicators for the municipal sector in South Africa

In order to develop a comprehensive governance framework, the critical components that have an impact on the framework were discussed in chapter two. Governance relates to the way organisations are directed and controlled, in particular with regard to its structure and processes that are associated with management, decision-making, control environment and the monitoring of its progress.

In conclusion, it is evident from the study that the municipal sector could improve its performance and practices of good corporate governance, if the underpinning MCGIF is adopted and implemented as a sector framework. The integration of governance elements during the development of the municipal sector (IDP) will facilitate the coherent base for good governance implementation practices. Hendrikse and Hendrikse (2012:144) highlighted several issues that relate to governance implementation, which are also suitable for the municipal sector. Section 2.9 of the literature provides details of those implementation indicators. The current King III Report on governance seems to be the most preferred governance model adopted to guide the municipalities. Despite its shortfall, the MCGIF has been identified as the most appropriate framework specifically for the sector and will facilitate the critical value and benefits.

6.3 RECOMMENDATIONS

In order to enhance the governance role in the administering of municipalities in South Africa the research results has clearly indicated that it is highly possible that the local government can improve the lives of the community by improving its governance process. To improve its governance processes, the following recommendations are made:

6.3.1 Recommendation on the critical examination of the corporate governance practices and trends within the municipal sector

For the municipal board to meet its governance responsibilities effectively, its audit committee, through its chairperson, should report to the municipal council quarterly. The council should not only note its reports, it should also sufficiently peruse the information supplied to it by the audit committee. The audit committee performs the statutory responsibilities assigned to it by the

MFMA (sections 165 and 166) and other relevant legislative prescripts and King III Report. Therefore, its responsibilities are very broad and fulfil the requirements for good governance. An example of those responsibilities includes advising the municipal board (council), the political office-bearers, the accounting officer and the management of the municipality or municipal entity on matters relating to:

- internal financial control and internal audits
- enterprise-wide risk management
- accounting policies and procedures
- the adequacy, reliability and accuracy of financial reporting and information
- performance management and information
- effective governance
- compliance with the Act, the annual Division of Revenue Act and any other applicable legislation
- review the annual financial statements of the municipality and its entity
- attend and respond to the council on any issues raised by the Auditor-General in the audit report
- forensic auditing and investigations
- oversee annual/integrated reporting
- ensure that a combined assurance model is applied
- overseeing of internal and external audit activity.

It is clear from the above why it is highly recommended that the municipal board fully understands its critical governance responsibilities and to appreciate the role of the audit committee, so that the right questions can be asked from the committee members and its reports. This will also help the council to assess the whether audit committee has effectively fulfilled its responsibilities.

The following is also recommended;

- The board should instigate and develop awareness of the importance of good governance process and management, and this should occur from the top down. This critical awareness programme of good governance process and management can enhance awareness of transparency, accountability and sustainability of the municipality at all levels. The board should ensure good governance practices is not only about developing the systems and implementing it, but also to ensure monitoring and evaluation of its value add to the municipality.
- There should be a proper separation of power between the administration of the municipality and the board (council). This will facilitate the proper delegation of authority and accountability of the municipal management to the board. This is easily achievable if the board fully understands its governance leadership roles and responsibilities, namely to sufficiently interrogate the information supplied to it by the management, various board committees, such as the audit committee, the finance committee, the municipal public accounts committee and the other council portfolio committees.

6.3.2 Recommendation on the analysis of the inter-relationship between municipal legislative prescripts and corporate governance

The critical foundation of developing good governance is through understanding the constitutional mechanisms used in developing integrated governance processes for political office-bearers and public officials and applying them: The Constitution, the MFMA, the Municipal Systems Act, the Municipal Structures Act and Chapter Nine institutions. The existence of these statutory mechanisms will lead to the creation of answerable and accountable structures to ensure that public resources are utilised efficiently and effectively. In their decision-making processes, it is highly recommended that the board should take into account these mechanisms, as the public is using them to point out the failures of local government. To be able to apply these legislative mechanisms, it is also recommended that the municipal board is adequately inducted and trained in these aspects.

In addition to the above legislative mechanism, it is highly recommended that certain aspects of the MFMA should be reviewed. For example, section 62 of the MFMA is unclear and brief with regard to risk management in the sector. Risk management activities should stand alone and be clearly defined in the legislation, in the same way as the audit committee in the MFMA. There is a huge difference between the audit committee and the risk committee. For example, upon the adoption of its annual strategic plan (IDP/SDBIP), the municipality should proactively engage in the risk management processes, including the identification, assessment and responses in the form of integrated control framework. This argument is echoed by the King III Report, principle 1.4, when it states that the board should appreciate that strategy, risk, performance and sustainability are inseparable. This means that risk management processes are proactive in nature, while audit committee activities are reactive in nature. This means that after the strategy and the related integrated controls have been implemented, the audit committee activities begin through the various assurance activities on a historical quarterly basis. For example, the Internal Audit, Auditor-General and other combined assurers to review the effectiveness and efficiencies of those controls and recommend future corrections on the adverse findings. This then means *let bygones be bygones* (reactive-nature).

6.3.3 Recommendation on the development of the MCGIF that incorporates implementation indicators for the municipal sector in South Africa

For corporate governance to be effective, the fundamental basics have to be in place and integrated in the relevant structures within the context of a municipality. This will ensure that services are rendered to communities to ensure that their general welfare and quality of life are promoted. The following, as illustrated in figure 6.2, are recommended governance systems for the municipal sector in South Africa:



Figure 6.2: MCGIF Implementation Indicators

MCGIF Implementation Indicators		
King III Report Principles	Municipal Governance Legislation	Key Implementation Indicators
Councillors, Board and Directors		
<ul style="list-style-type: none"> • Principles 2.1-2.26 • Principles 1.1-1.3 • Principles 6.1-6.4 • Principles 8.1-8.6 • Principles 9.1-9.3 	<ul style="list-style-type: none"> • Constitution, section 151 • MSA sections 19, 20, 24, 30, 41, 45, 55, 58 and 95 • MFMA sections 44, 48, 52, 62, 112, 116, 121, 124, 130, 135, 165, 166 • Municipal Structures Act, sections 30 and 32 	<ul style="list-style-type: none"> • Board roles and responsibilities • Board Composition • Board Development Programme • Board Performance Systems • Ethical Leadership and Management
Principles 3.1-3.10 Principles 4.1-4.10 Principles 5.1-5.7	<ul style="list-style-type: none"> • MFMA section 27, 60, 62, 63, 65, 121, 125, 131, 166 • Treasury Regulations 3.1 and 3.2 • Constitution section 188 • MSA sections 11, 26, 32 • SITA section 7 	<ul style="list-style-type: none"> • Independent Audit Committee • Risk Management Committee • IT Governance Committee • Governance Committee • MPAC Committee • Specific Sector Committees

Source: Researcher (2015)

6.4 CRITICAL IMPLICATION FOR THEORY, POLICY AND PRACTICE

In reviewing the study and the research results, a critical reflection on a number of implications emerges, which may be handy in influencing training and development plans, policy and practice, extended value-added framework model for director training from a strategic viewpoint with regard to corporate governance. It will also be regarded as proven intervention that may be seen to provide the board with the critical skills and knowledge it needs to fulfil its duties and responsibilities, and to add to the existing theoretical and conceptual issues in corporate governance practices. It can also be replicated into other public sectors on governance implementation. If the recommendations of the present study are taken into consideration, they could help the South African municipalities to improve the lives of the communities in which they

operate and promote the sustainability thereof. Key and critical questions have been answered by this study, to the extent that corporate governance contributes towards effective and efficient administration of the municipalities in South Africa.

The following are the summarised critical implication for theory, policy and practice:

6.4.1 Theoretical contributions

- Introduction of the inter-relationship between yet unexplored aspects such as municipal sector corporate governance and implementation framework
- Extension of current and mostly retrospective body of literature on corporate governance within the spheres of government

6.4.2 Contributions to the training and capacity-building interventions

- Proving both the public and private institutions with a framework or blueprint to develop and design educationally sound training programmes
- Proposing an integrated training assessment model for NQF-based training that can be used by private and public institutions to evaluate board training programmes

6.4.3 Contribution to practice

- Ability to facilitate strategic planning for the public sector board in South Africa towards governance approach
- Ability to provide public sector boards with the futures tools to initiate and introduce sustainable business practices in line with good corporate governance guidelines
- Ability to provide internal auditors with a tool on how to audit corporate governance activities in the public sector

6.5 AREAS FOR FURTHER RESEARCH

After a thorough analysis of this first study, it has been indicated that, up to now, no specific empirical studies on municipal sector corporate governance implementation framework have been developed to assist the municipal board. However, recent studies conducted on corporate

governance in South Africa have not focused on the link between corporate governance and its implementation. As is clear from these findings that participants struggled with some of the governance practice contents, when they should have had some basic knowledge of corporate governance and current trends in South Africa. Therefore, future studies should examine how the specific sector corporate governance programme can be incorporated into educational institutions study programmes, as illustrated in Table 6.2.

Table 6.2: Proposed Curriculum Development for MCGIF @NQF 6

Proposed Curriculum Development for MCGIF @NQF 6	
	Title of section
	Introduction to the MCGIF
1	BOARD AND DIRECTORS (COUNCIL) ROLES AND RESPONSIBILITIES: <ul style="list-style-type: none"> ▪ Strategic management process and alignment (IDP/SDBIP) ▪ Policy development ▪ Duties with power (accountability) ▪ Accounting for performance – measures ▪ Value building and sustainability ▪ Corporate leadership and management
2	GOVERNANCE DIMENSIONS IMPLEMENTATION:
2.1	Combined assurance strategy
2.1.1	Risk management (3rd line of defence) Enterprise-wide risk management processes Risk maturity strategy Benchmarking risk management process, using authoritative guides Risk appetite, tolerance and capacity Project finance risks
2.1.2	INDEPENDENT AUDIT COMMITTEE: <ul style="list-style-type: none"> ▪ Introduction ▪ What is an audit committee?

	<ul style="list-style-type: none"> ▪ Composition of the committee ▪ Roles and responsibilities ▪ Independent internal audit function ▪ Internal audit roles and responsibilities (support for audit committee) ▪ Internal audit skills, qualifications and expertise ▪ Risk management function’s integrated reporting protocols ▪ Board (council) model to measure the performance of the above governance functions
2.1.3	<ul style="list-style-type: none"> ▪ Governance committee: <ul style="list-style-type: none"> ▪ Introduction and composition <ul style="list-style-type: none"> ✓ Roles and responsibilities for: <ul style="list-style-type: none"> • IT governance • Stakeholders relations governance • Integrated reporting (annual reports) • Fraud risk management • Compliance governance

Source: Researcher (2015)

In addition to the above, it is also highly recommended that a study on the amendment of the legislation will be feasible, in particular, regarding a requirement that any new municipal board member must have completed the study course prior to being appointed as a council or a board member. This will encourage future potential municipal board members to prepare themselves for meeting the board’s prerequisite pre-elections.

6.6 FINAL CONCLUSION

This study was organised into six chapters. Chapter one set the scene by putting the study into perspective. Chapter two reviewed literature regarding the corporate governance and control framework implementation within the municipal sector. The King III Report was used as the framework for the study. Chapter three presented the research methodology. It explained the methods of the study in detail to ensure that the reader knows exactly what data has been

collected, from where and how it was collected. Chapter four presented the results of the study from data collected via questionnaires and interviews with the councillors. Chapter five provided a discussion of the findings which offers a broad interpretation of the results. Chapter six served as a synthesis, a summary of each chapter, including a summary of the results, as well as conclusions with reference to the problem postulation and aims of the study, proving that they have been honoured. Finally, in order to implement corporate governance in municipalities, several recommendations were made and a proposed framework was presented. The study also advanced its implication to theory and practice, as well as areas for further research. The study revealed that municipal boards are faced with the huge challenge of not understanding their governance role, resulting in service delivery protests as programmes are not implemented. In addition, the absence of a sector-specific framework is also a major contributor towards ineffective administration and negative audit outcomes. The study concludes that by adopting and utilising the municipal corporate governance implementation framework, governance practices in municipalities can dramatically improve.

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APPENDIX A: LIST OF MUNICIPALITIES IN GAUTENG PROVINCE

1. City of Ekurhuleni Metropolitan
2. City of Johannesburg Metropolitan
3. City of Tshwane Metropolitan
4. Sedibeng District Municipal
5. Emfuleni Local Municipal
6. Lesedi Local Municipal
7. Midvaal Local Municipal
8. West Rand District Municipal
9. Merafong City Local Municipal
10. Mogale City Local Municipal
11. Randfontein Local Municipal
12. Westonaria Local Municipal

**APPENDIX B: LIST OF CHAPTERS IN THE KING REPORT III (IODSA 2009:4) -
EXECUTIVE GUIDE TO KING III REPORT IN THE SPHERES GOVERNMENT**

1. Ethical leadership and corporate citizenship
2. Boards and directors
3. Audit committees
4. The governance of risk
5. The governance of information technology
6. Compliance with laws, rules, codes, and standards
7. Internal audit
8. Governing stakeholder relationships
9. Integrated reporting and disclosure

**APPENDIX C: LIST OF CRITICAL LEGISLATIVE FACTORS USED IN DEVELOPING
GOVERNANCE FRAMEWORK**

- 1996 The Constitution of the Republic of South Africa
- 1997 Intergovernmental Fiscal Relations Act
- 1998 Local Government: Municipal Structures Act
- 1998 Local Government: Municipal Demarcation Act
- 1998 The White Paper on Local Government
- 2000 Local Government: Municipal Electoral Act
- 2000 Local Government: Municipal Systems Act
- 2003 Traditional Leadership and Governance Act
- 2003 Local Government: Municipal Finance Management Act
- 2004 Local Government: Municipal Property Act

APPENDIX D: RESEARCH QUESTIONNAIRE USED IN THE EMPIRICAL STUDY TO COLLECT DATA

Research Information

This research questionnaire is part of my PhD research at the University of KwaZulu-Natal Graduate School of Business and Leadership and its purpose is for my academic research use only.

This questionnaire is strictly confidential and anonymous. Please do not include your personal details (your name or surname) or any contact details.

Your participation in this project is voluntary.

You may refuse to participate or withdraw from the project at any time with no negative consequences.

There will be no monetary gain from participating in this survey.

Please attempt to answer all the questions as **honestly as possible**

There are no correct or wrong answer.

Please answer all the questions to the best of your ability.

Please mark only one answer per question.

SECTION A

I am:

Male

Female

Your Age Group:

to 25 years

to 30 years

to 35 years

to 40 years

to 45 years

years and above

Level of education:

Primary School

High School

College (Diploma / Certificate)

Technicon (Diploma / Certificate)

University Undergraduate Degree

University Postgraduate

Your Racial Group:

African

Asian

Coloured

White

Other..... (Specify)

Number of Years as Non-Executive Director/Counsellor:

- < 3 years
- 3 to 5 years
- 6 to 10 years
- 11 to 20 years
- 20 years and above

Appointed as Councillor/ Non-Executive Director in the:

- Private Sector
- Public Sector, (Government, Municipality)
- Non-Profit Organisation, (NPO)
- Other..... (Specify)

Size of your Municipality:

- Metropolitan Municipality
- District Municipality
- Local Municipality
- Municipal Entity

SECTION B – PRACTICES OF CORPORATE GOVERNANCE IMPLEMENTATION

Please complete the following questionnaire.

For each statement below, state your current level of knowledge and expertise, Where 1 = I Strongly Disagree, 2 = Disagree 3 =Neutral (Don't Know) 4 = Agree 5 = Strongly Agree

1. Corporate governance practices are regarded as adding value to your organisation

1	2	3	4	5
----------	----------	----------	----------	----------

2. There is a broad agreement that efficient administration of a municipality is an important element of good corporate governance implementation

1	2	3	4	5
----------	----------	----------	----------	----------

3. The municipal corporate governance practices have been fully aligned with the relevant municipal legislation and regulations

1	2	3	4	5
----------	----------	----------	----------	----------

4. The structures created by the legislations are enough to ensure proper corporate governance implementation

1	2	3	4	5
----------	----------	----------	----------	----------

5. Discussing governance without the issue of corruption is acceptable, according to the chairperson

1	2	3	4	5
---	---	---	---	---

6. The absence of a specific corporate governance implementation strategy affects the manner in which the councillors / board manages the municipality.

1	2	3	4	5
---	---	---	---	---

7. What value are the councillors / board deriving by establishing an audit committee?

Worthwhile Value	1	No value	1
-------------------------	---	-----------------	---

Please provide a brief explanation.

.....

8. The councillors / board is ultimately responsible for risk management process within the municipality

1	2	3	4	5
---	---	---	---	---

9. The municipal councillors / board always sets the risk appetite and tolerances of the organisation

1	2	3	4	5
---	---	---	---	---

10. What value are the councillors / board deriving by establishing a risk committee?

Worthwhile Value	1	No value	1
-------------------------	----------	-----------------	----------

Please provide brief explanation.

.....

.....

.....

11. The municipal councillors / board always aligns its Information Management Systems with the organisational objectives

1	2	3	4	5
----------	----------	----------	----------	----------

12. The councillors / board have adopted zero tolerance regarding compliance management strategy

1	2	3	4	5
----------	----------	----------	----------	----------

13. Corporate governance implementation and practices requires a high degree of political and economic participation by all

1	2	3	4	5
----------	----------	----------	----------	----------

14. The councillors / board are deriving value adding from its established internal audit activity

1	2	3	4	5
---	---	---	---	---

15. The municipality does NOT have a responsibility to the local community in which it operates

1	2	3	4	5
---	---	---	---	---

16. The councillors / board is effectively responsible for Information Technology (IT) governance

1	2	3	4	5
---	---	---	---	---

17. Bribing and rigging are indicators of bad governance

1	2	3	4	5
---	---	---	---	---

18. Operating within the financial constraints is an indicators associated with good governance

1	2	3	4	5
---	---	---	---	---

19. Lack of information communication is the biggest enemy of good governance, given the fact that information is used as a base for decision-making.

1	2	3	4	5
---	---	---	---	---

20. Ethical values and practices **DO NOT** promotes good corporate governance.

1	2	3	4	5
---	---	---	---	---

21. Citizen participation in the municipal governance processes will cause protests / strikes

1	2	3	4	5
----------	----------	----------	----------	----------

22. The Public Protector of South Africa enhances good corporate governance practices

1	2	3	4	5
----------	----------	----------	----------	----------

23. The Auditor-General of South Africa enhances accountability regarding good corporate governance practices

1	2	3	4	5
----------	----------	----------	----------	----------

24. State your current level of understanding of the following governance concepts, where **1** = I am totally not familiar with the governance concept, **2** = I have heard before about the governance concept, but not in depth, **3** = I have a very excellent understanding and knowledge of the governance concept, **4** = I have thorough knowledge and understanding of the concept and understand its relevance and importance in the municipality.

No.	Descriptions	1	2	3	4
1	Board setting up risk appetite and tolerances				
2	Corporate governance systems implementation				
3	Integrated sustainability and reporting				
4	Corporate citizenship				
5	Combined assurance strategy				
6	Integrated performance management systems				

7	Fraud prevention and deterrence				
8	Conflict of interest				
9	Corporate governance principles, values and objectives				

SECTION C – DEVELOPMENT OF CORPORATE GOVERNANCE IMPLEMENTATION FRAMEWORK

1. The municipalities’ boards / councillors should develop a strategic approach in order to promote corporate governance and control systems

1	2	3	4	5
----------	----------	----------	----------	----------

2. Lack of a municipality-specific corporate governance implementation framework hampers socio-economic development in South Africa

1	2	3	4	5
----------	----------	----------	----------	----------

3. Financial responsibility reporting: If you cannot measure it, you cannot manage it

1	2	3	4	5
----------	----------	----------	----------	----------

4. State your current level of understanding of the following governance concepts, where **1** = I am totally not familiar with the governance concept, **2** = I have heard before about the governance concept, but not in depth, **3** = I have a very excellent understanding and knowledge of the governance concept, **4** = I have thorough knowledge and understanding of the concept and understand its relevance and importance in the municipality.

No	Descriptions	1	2	3	4
4.1	Risk maturity framework				
4.2	Corporate governance implementation framework (for municipal sector)				
4.3	Strategic leadership and governance				
4.4	Municipal sustainable development governance				
4.5	Audit governance model				

5. What do you think are the good corporate governance implementation elements?

.....
.....
.....

6. How effective are the municipal officials in promoting good corporate governance?

Good	1	Bad	2
------	---	-----	---

Please provide brief explanation.

.....
.....
.....

7. What is the importance of the board in determining the municipal risk tolerance and appetite?

Good Governance	1	Bad governance	2
----------------------------	----------	---------------------------	----------

Please provide brief explanation for your answer.

.....
.....
.....

8. Are disclosure and transparency a foundation of good governance accountability?

YES	1	NO	2
------------	----------	-----------	----------

Please provide brief explanation for your answer.

.....
.....
.....

9. How does the lack of financial skills affect your financial reporting responsibility?

Good	1	Badly	2
-------------	----------	--------------	----------

Please provide brief explanation for your answer.

.....
.....
.....

10. Does the Municipal Oversight Committee (MPAC) have adequate skills to deal with the municipality's financial reporting matters?

YES	1	NO	2
-----	---	----	---

Please provide brief explanation for your answer.

.....
.....
.....

SECTION D – RECOMMENDED CORPORATE GOVERNANCE BEST PRACTICES AND IMPLEMENTATION

1. The boards / councillors should adopt performance-driven strategy to deliver quality services

1	2	3	4	5
----------	----------	----------	----------	----------

2. The municipal boards / councillors should thoroughly understand and practice the principles of good governance

1	2	3	4	5
----------	----------	----------	----------	----------

3. In order to effectively implement good governance within the municipalities, the boards / councillors should be fully competent with the principles of good governance framework

1	2	3	4	5
----------	----------	----------	----------	----------

4. The King III Report often conflicts with the municipalities’ own legislation and regulations

1	2	3	4	5
----------	----------	----------	----------	----------

5. The Municipal Corporate Governance Implementation Framework (MCGIF) will improve the overall governance practices within the municipality.

1	2	3	4	5
----------	----------	----------	----------	----------

6. It must be compulsory for all new and existing municipal councillors to attend a basic corporate governance training programme.

1	2	3	4	5
---	---	---	---	---

SECTION E – GENERAL COMMENTS

.....
.....
.....
.....

Thank you for your time, cooperation and valued input.

Kindly send your reply / a completed questionnaire to Peter Masegare at the following email address, fax number or online, within ten working days after the date of receipt. pmasegare@gmail.com or Fax: 086 215 7266

QUESTIONNAIRE – END

Table All Measured Constructs

<p style="text-align: center;"><u>Main Name/Variable: Governance Accountability and Assurance (1)</u></p> <p>QBQ14 QBQ4 QBQ6 QBQ3</p>	<p style="text-align: center;"><u>Main Name/Variable: Governance and Stakeholder Management (2)</u></p> <p>QBQ1 QBQ2 QBQ13 QBQ23</p>
<p style="text-align: center;"><u>Main Name/Variable: Combined Assurance Governance (3)</u></p> <p>QBQ8 QBQ11 QBQ9</p>	<p style="text-align: center;"><u>Main Name/Variable: Board Governance Role and Function (4)</u></p> <p>QCQ9 QCQ3 QCQ2 QCQ4</p>
<p style="text-align: center;"><u>Main Name/Variable: Governance leadership, integrity and responsibility (5)</u></p> <p>QCQ1 QCQ7 QBQ8 QBQ6</p>	<p style="text-align: center;"><u>Main Name/Variable: Legislative Prescripts (6)</u></p> <p>QDQ1 QDQ2 QDQ3</p>
<p style="text-align: center;"><u>Main Name/Variable: Corporate Governance</u></p> <p>QDQ4 QDQ5 QDQ6 QDQ7 QDQ8</p>	

