A framework for incorporating implementation indicators of corporate governance for municipalities in South Africa

Peter Masegare and Mpho Ngoepe

Abstract

Purpose – *This paper aims to develop a framework for incorporating implementation indicators of corporate governance for municipalities in South Africa. In South Africa, there is a corporate governance framework (King III report) that is regarded as a seminal work applicable to both the public and private sectors. Despite its existence, municipalities still struggle to provide services to the citizens due to poor implementation. The poor corporate governance implementation in municipalities led to several issues such as loss of credibility for local government, little interests from investors to invest in municipalities, service delivery protests from communities, maladministration and unexpected change of leadership in municipalities without succession planning in South Africa.*

Design/methodology/approach – *The study conducted literature review to demonstrate the need for a framework to implement corporate governance in South Africa.*

Findings – *It is evident from the study that the municipal sector could improve its performance and practices of corporate governance, if the underpinning framework is adopted and implemented as a sector framework. The integration of governance elements during the development of the municipal sector integrated development plan (IDP) will facilitate a coherent base for good governance implementation practices.*

Research limitations/implications – *This research would go a long way in bringing out the anomalies that paralyse municipalities, the root causes of inefficiency and possible ways to rectify them.*

Practical implications – *This study offers a framework that can help the local government sector to improve on service delivery. Implementation of the framework can also assist municipalities in obtaining clean audits from the supreme audit institutions in their respective countries.*

Social implications – *The study has a huge social impact as it would help municipal officials take notice of the issues raised and act accordingly thus improving the life of citizenry.*

Originality/value – *This study adds value to the existing theoretical and conceptual issues that form the ongoing discourse on the implementation of corporate governance in local government, especially in South Africa, as the country is characteristic by corruption and maladministration.*

Keywords *Board of directors, Risk management, Corporate governance, Audit committees*

Paper type *Conceptual paper*

Peter Masegare is based at the Graduate School of Business and Leadership, University of KwaZulu-Natal, Westville Campus Westville, Durban, South Africa.
Mpho Ngoepe is Associate Professor at the Department of Information Science, University of South Africa, Pretoria, South Africa.

Introduction and background

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 towards guiding the corporate governance implementation framework to assist the board in running the business. This sentiment is echoed by KPMG (2011, p. 31) when pointing out that the concept of the good corporate governance framework relies heavily on

Received 16 November 2016
Revised 15 July 2017
Accepted 3 February 2018

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 experienced the freedom through the democratic government and taken out of the bondage of apartheid regime. The new government promised the citizens a "better life for all and the realisation of constitutionally protected human rights" (Williams, 2012, p. 12). Therefore, South Africans expected a local government that works to satisfy the public's needs. Despite these expectations and the availability of a 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, partly due to a poor corporate governance implementation and control system (Ngoepe and Ngulube, 2013, p. 150). As a result, municipalities have been receiving disclaimed audit opinions from the office of the Auditor-General of South Africa (AGSA). Ngoepe (2014) contends that "organisations receiving disclaimed opinions face consequential implications such as a lack of interest from investors, loss of credibility, impatience from communities for better service delivery, investigations for maladministration or unexpected change of leadership without succession planning, as is the case in South Africa". "Municipalities are at the coalface of service delivery and this trend of financial qualifications" (Ngoepe, 2012) requires the leadership to implement corporate governance to address the challenges. In South Africa, the corporate governance framework that applies to both private and public sector is known as the King III report. However, the fourth update of the framework is underway.

The first King report was issued in South Africa in 1994 and is regarded as a strong influence on the topic of corporate governance (Ngoepe, 2012), although the principles of good governance had already been adopted by organisations worldwide over many years before this. For example, Cuomo *et al.* (2016, p. 223) report that by the end of 2014, 20 countries issued corporate codes targeted at investors and financial institutions. The process that initiated the King reports started in July 1992 when the Institute of Directors in Southern Africa (2009) requested Judge Mervin 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 South Africa hosted the Earth Summit in 2002, the King committee advocated a revision of the 1994 report, resulting in the King II report, which contained new additions on sustainability and the role of the board on risk management (Ngoepe, 2012).

The King II report was further revised to include compliance, with requirements for companies listed on the Johannesburg Stock Exchange, culminating in the King III report. However, unlike the previous reports, the King III report applied to departments of state or national, provincial or local government administration resorting under the Public Finance Management Act (PFMA) or Municipal Finance Management Act (MFMA), and public institutions or functionaries exercising power over or performing functions in terms of the Constitution or any other legislation (Ngoepe, 2012). The only exclusions are courts or judicial officers. Sustainability was dealt with in a separate chapter of the King III report, which was implemented on 1 March 2010, resulting in companies reporting on it separate from other business areas. The King III report made recommendations on integrated reporting, in accordance with the Global Reporting Initiative's Sustainability Reporting Guidelines (Jackson and Stent, 2010). The King III report has a small, but critical impact in its application, as it provides that organisations can be regulated by statute, by a code of values or by a combination of the two. Unlike other countries, the USA 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 (Cuomo *et al.*, 2016, p. 223).

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 areas 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, 2011, pp. 576-602). The system of corporate governance maintains the balance of rights, relationships, roles and responsibilities of the board (Hendrikse and Hendrikse, 2012, p. 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 that the board of directors should serve. For example, South Africa uses the inclusive model whereby directors are regarded 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, 2012; Naidoo, 2002, p. 9). In the context of the above concerns, this study seeks to propose a municipal corporate governance implementation framework (MCGIF) for ensuring effective corporate practices in the municipal sector in South Africa.

Problem statement

Although the King III report has intends to improve financial management in public and private sectors, the majority of municipalities in South Africa still have difficulties with certain aspects of the implementation thereof. 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 in the local government (Malherbe and Segal, 2001, p. 51). The AGSA reported that in the 2014/2015 financial year, only 58 of 278 municipalities received clean audit opinions. This is despite all municipalities in South Africa making a commitment to operation clean audit on 14 July 2009, to achieve clean audit opinions by 2014, as well as to implement and maintain systems 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 (SALGA, 2016). Due to failure of these municipalities to implement corporate governance, many of them face consequences such as "loss of credibility, little interests from investors to invest in municipalities, service delivery protests from communities, maladministration and unexpected change of leadership in municipalities without succession planning in South Africa" (Ngoepe, 2012, p. 9). This is often attributable 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.

Definition of key terms

According to Yusuf and Chell (1998, p. 96; Yusuf and Chell, 2005, p. 28), key terms in research are crucial to dispelling misunderstanding to give contexts to the way they are used. 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. The two key terms identified are governance and corporate governance.

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, p. 135) maintains that the common elements in governance are the emphasis on rules and qualities of systems, cooperation to enhance legitimacy and effectiveness and attention to new processes. According to Economic and Social Commission for Asia and the Pacific (2011), "governance can be used in several contexts such as corporate governance, international governance, national governance and local governance". In the context of this study, it relates to corporate governance. Ngoepe and Ngulube (2014) relate governance 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".

Corporate governance

Wheelen and Hunger (2002, p. 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 *et al.* (2007, pp. 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" (Ngoepe, 2012). Moloi and Barac (2009/2010, p. 26) describe corporate governance as "the structures, processes, cultures and systems that stimulate the successful operation of organisations". In this process, the owners and stakeholders of an organisation exercise control over and require accountability for the resources entrusted to people who run the organisation. In the case of municipalities in South Africa, the council comprising of councillors, mayor and municipal manager exert such control. There are several corporate governance components such as risk management, auditing, information governance and combined assurance that need to be in place for an organisation such as municipality to be accountable and transparent (Ngoepe, 2012). According to Rezaee (2010), a "close working relationship between these structures can improve the effectiveness of corporate governance in organisations". However, as demonstrated in 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, p. 30). In other words, this is the process by which entities are ran and held accountable. 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 (Thompson, Strickland and Gamble, 2007, p. 73).

Corporate governance implementation

Ngoepe (2014) suggests that for effective corporate governance implementation, the key elements of the King III report should be incorporated: audit committee, risk management, information technology (IT), auditing, stakeholder relations, reporting and disclosure. Hendrikse and Hendrikse (2012, p. 144) highlight several issues that relate to governance implementation, which are also suitable for the municipal sector.

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. 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 (PriceWaterhouseCooper, 2010). The MFMA has mandated audit committees in the public sector since 2003 (Ngoepe, 2012). These sentiments are supported by the King III report, principle 3.1, where it states that "a company should have an effective audit committee, and the independent audit committee fulfils a vital role in corporate governance". Moloi and Barac (2009/2010, p. 26) contend that "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".

Risk management and information technology 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" (Institute of Directors in Southern Africa, 2009). The King III report puts the leadership structure of organisations under pressure to ensure that it is satisfied with the management of risk. On the other hand, both the PFMA and the MFMA explicitly place the responsibility of managing risk on the accounting officer, who is the administrative head of the organisation. In case of municipalities, the municipal manager would by default be the accounting officer. The concept of risk is not new to the public sector and the Risk Management Framework, issued by the National Treasury in South Africa, embraces the principles enshrined in the King III report. The basis for the framework is given by the MFMA and sound risk management principles are dictated by the principles of Batho Pele[1], which aim to drive government's service delivery objectives (Institute of Directors in Southern Africa, 2009).

Risk maturity strategy

The King III report states that "the board may delegate the responsibility of risk management to a risk committee". In other words, "the committee should review the risk management maturity of the company, the status of risk management activities and the significant risks the company is facing" (Institute of Directors in Southern Africa, 2009). The company's risk management arrangements should incorporate risk reporting processes, including risk trends, risk materialisation, forecasting and emerging risks. According to Nicholson and Baker (2013, p. 15), risk maturity (as illustrated in Figure 1) is a model of the level of risk culture in an organisation, and the risk culture is the prevailing attitude and approach towards risk. For the municipality to improve its risk management processes, a formal framework against which to benchmark their current practices will be required. According to Hillson (1997, p. 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) (2009) describes risk culture assessment as more or less matured.

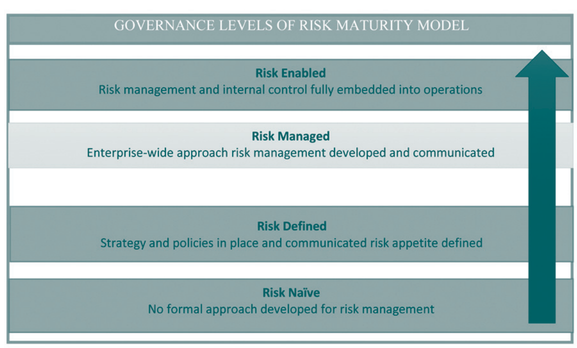
Information technology governance

One of the components of the King III report is IT governance. The shortcoming of this component according to Ngoepe (2012) is that it treats IT as an umbrella term for information management. Instead, IT should just be an element of information management. 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. 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 where all communities live in harmony and prosperity" (Institute of Directors in Southern Africa, 2009). Public sector institutions at all levels of government change rapidly and inevitably, and they experience economic pressure to improve service delivery through the maximisation of administrative and operational efficiencies.

Stakeholder relationships

The King III reports recommend stakeholder-inclusive approach to the management of organisations. This approach to corporate governance is not a new concept in the King reports or in the public sector environment, as effective stakeholder engagement has always been essential to good corporate governance. Leaders can no longer just talk about concerns such as corporate responsibility, ethical business practices and sustainability. This is also emphasised in Batho Pele principles which 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

Figure 1 Governance levels of risk maturity model



Source: Nicholson and Baker (2013, *p.* 15) 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 (Institute of Directors in Southern Africa, 2009).

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 (Institute of Directors in Southern Africa, 2009). 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" (Ngoepe, 2012). 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 in most respects refers to the annual report required in the public sector.

Internal audit activity

The King III 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 (Institute of Directors in Southern Africa, 2009). 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 (Ngoepe, 2012). 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 (Institute of Directors in Southern Africa, 2009).

Challenges of corporate governance implementation in municipalities

Some of the challenges identified that municipalities face in implementing corporate governance were a lack of skills by councillors and ineffective municipal governance structure. The Municipal System Act in South Africa 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) in order to ensure that they make decisions that are to the financial benefit of the municipality (SALGA, 2016). 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 integrated development plan (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, which requires urgent attention to enable councillors to perform their duties effectively (SALGA, 2016).

However, there appears to be a lack of consistent responsibility within the municipal sector. Williams (2012, p. 12) states that, during the first eight months of 2012, 79.20 per cent 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 (Powell, 2012). 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 (Powell, 2012). The following aspects were identified as root causes:

- deployment issues and interference by political parties;
- no clear distinctions between councils and 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; and
- political factionalism undermines democratic principles.

Therefore, Powell (2012) identifies the need for the review of procedures and practices to implement corporate governance in local government in South Africa. According to estimations, the municipal sector will require at least 15,000 new and independent board members per year to comply with its governance mandate and as per recommendation by the King III report. According to Pillay (2012, p. 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 should exist within all municipalities and municipal entities".

Corporate governance practices require critical skills and knowledge. However, the findings by the Department of Cooperative Governance and Traditional Affairs (2016) 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, p. 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 private and public institutions and the Treasury Department should plan the way forward to improve public accountability and its image, to improve the status of the South African financial governance, local and international public-sector governance (Bekker, 2009, p. 19).

According to the National Treasury report (2004), the majority of finance officials in South Africa lack the broader skills to implement the MFMA to the full. The AGSA reported the same trend in 2015/2016 audit outcomes. This is the case with municipal treasuries, as they have largely been accustomed to operating within a rules-driven environment, often steeped in a bean-counting culture which is 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 (National Treasury, 2004). 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 and selfless service delivery to the public, which differ from current public sector practices and private sector professional associations (National Treasury, 2004).

Proposed framework for corporate governance implementation in municipalities

This study sought to propose a MCGIF for ensuring effective corporate practices in the municipal sector in South Africa. It is hoped that the proposed framework will help municipalities in South Africa and elsewhere to implement corporate governance properly to be able to provide service delivery to the citizens. Implementing a framework within the municipal sector can be a lengthy and difficult process, which might encounter a level of resistance. The proposed framework in Figure 2 is not intended to be prescriptive, but to assist local governments in implementing corporate governance, as South Africa is characterised by poor service delivery.

The corporate governance implementation approach differs from organisation to organisation. However, according to Pandyan and Kannabiran (2010), broader aspects of governance implementation should be considered for the municipal sector, i.e. two main governance implementation dimension will include the board and directors and the 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; and
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 implement municipal governance successfully 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-Mahani *et al.*, 2013, pp. 186-199). The aim of municipal governance is clear: to provide high-quality community-centred services. Therefore, 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

Figure 2 MCGIF implementation indicators

MCGIF Implementation Indicators		
King III Report Principles	**Municipal Governance Legislation**	**Key Implementation Indicators**
Councillors, Board and Directors		
• 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	• 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	• 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	• 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	• Independent Audit Committee • Risk Management Committee • IT Governance Committee • Governance Committee • MPAC Committee • Specific Sector Committees

implementation to be effective, key fundamentals have been covered (Hendrikse and Hendrikse, 2012, p. 145) as per the Figure 2.

Despite the fact that some attempts are being made to manage the municipality accordingly, the back-to-basics interventions developed by CoGTA 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 will be elected on that basis to be a municipal board member (council), without being fully capacitated in terms of corporate business operations and decision-making, to mention only a few.

As the purpose of this framework was to incorporate the implementation indicators of corporate governance for municipalities in South Africa, it has both the dimensions of the King III reports and all other legislative sections that talk to each other. If it is adopted, it can help the municipal sector to improve service delivery, as well as the audit opinions issued by the AGSA. It is highly recommended that to ensure that corporate governance is 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 so that that their general welfare and quality of life are promoted.

The framework can also contribute in influencing training and development plans, policy and practice, and the extended value-added framework model for director training from a strategic point of view with regard to corporate governance. It will also be regarded as proven intervention that can 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 framework is taken into consideration, it could help the South African municipalities to improve the lives of the communities in which they operate and promote the sustainability thereof.

Conclusion

It is clear from the study that 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 to ensure that they make decisions that are to the financial benefit of the municipality. The framework proposed in this study may go a long way in influencing policy and practice in the area of corporate governance. 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.

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. In this way, the council would 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. The current study contributes to the existing theoretical and conceptual issues that form the ongoing discourse on the implementation of corporate governance in local government, as it has presented a framework that may be used for implementation in the municipal sector. Implementation of the suggested framework in municipalities would lead to a change in attitude, values and the empowerment of the councilors with regard to directorial duties and good corporate governance practices that in turn would contribute to an increased awareness of sustainable development, and the need for future-orientated anticipatory approach to corporate governance. This may go a long way in alleviating service delivery problems engulfing municipalities in South Africa. The framework provides indicators and identifies areas for refinement and improvement by councilors such as auditing, information management, stakeholder relations and risk management. It is hoped that this would help municipalities to take notice of the issues identified and act accordingly thus improve the life of citizens. A further quantitative study on corporate governance framework covering all the sectors in South Africa is recommended.

Note

1. Batho Pele (People First) is a South African political initiative introduced on 1 October 1997 to stand for the better delivery of goods and services to the public. It has eight principles, i.e. consultation, service standards, access, courtesy, information, openness and transparency, redress and value for money.

References

Auriacombe, C. (1999), "Reflections on the new public management", *Journal of Public Administration*, Vol. 34 No. 2, pp. 124-136.

Bekker, H.J. (2009), "Public sector governance - accountability in the State. CIS corporate governance conference", 10-11 September, available at: www.chartsec.co.za/documents/speakerPres/HennieBekker/BekkerPublicSectorGovernance7.pdf (accessed 15 June 2016).

Cuomo, F., Mallin, C. and Zattoni, A. (2016), "Corporate governance codes: a review and research agenda", *Corporate Governance: An International Review*, Vol. 24 No. 3, pp. 222-241, available at: http://onlinelibrary.wiley.com/doi/10.1111/corg.12148/pdf (accessed 16 June 2016).

Department of Cooperative Governance and Traditional Affairs (2016), “Back to basics: to build a responsive, caring and accountable local government”, available at: www.cogta.gov.za/cgta_2016/wp-content/uploads/2016/06/The-Presidential-Local-Government-Summit.pdf (accessed 3 October 2016).

Economic and Social Commission for Asia and the Pacific (2011), “What is governance?”, available at: www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp (accessed 10 July 2016).

Engelbrecht, M.E. (2012), “The art of shapeshifting: facilitating strategic foresight to independent non-executive directors - a strategic approach to corporate governance in SA”, Unpublished doctoral thesis, University of Stellenbosch, Cape Town.

Hendrikse, J.W. and Hendrikse, L.H. (2012), *Corporate Governance Handbook: Principles and Practices*, 2nd ed., Juta and Company, Johannesburg.

Hillson, D.A. (1997), “Towards a risk maturity model”, *The International Journal of Project and Business Risk Management*, Vol. 1, pp. 35-45.

Institute of Directors in Southern Africa (2009), *King Report on Corporate Governance for South Africa*, IODSA, Sandton.

Institute of Internal Auditors (IIA) (2009), “A new level of audit committee involvement”, *Tone at the Top*, Vol. 44.

Jackson, R.D.C. and Stent, W.J. (2010), *Auditing Notes for South African Students*, LexisNexis, Durban.

Khayatzadeh-Mahani, A., Nekoei-Moghadam, M., Esfandiari, A., Ramezani, F. and Parva, S. (2013), “Clinical governance implementation: a developing country perspective”, *Clinical Governance: An International Journal*, Vol. 18 No. 3, pp. 186-199.

KPMG (2011), “International survey of corporate responsibility reporting 2011”, available at: www.kpmg.com/PT/pt/IssuesAndInsights/. . ./corporate-responsibility2011.pdf (accessed 24 October 2015).

Malherbe, S. and Segal, N. (2001), “Corporate governance in South Africa”, OECD Development Centre Discussion Paper.

Moloi, T. and Barac, K. (2009/2010), “Corporate governance compliance reporting in the annual reports of listed South African companies”, *Auditing SA*, pp. 49-51.

Naidoo, R. (2002), *Corporate Governance: An Essential Guide for South African Companies*, LexisNexis, Johannesburg.

National Treasury (2004), “Modernising financial governance: implementing the municipal finance management act, 2003”, available at: www.treasury.gov.za/publications/igfr/2011/lg/01.%20Chapter%20summaries%20-%202011%20Review%20-%2016%20Sept%202011.pdf (accessed 16 May 2016).

Ngoepe, M. (2014), “The role of records management as a tool to identify risks in the public sector in South Africa”, *SA Journal of Information Management*, Vol. 16 No. 1, available at: www.sajim.co.za/index.php/SAJIM/article/view/615 (accessed 10 May 2016).

Ngoepe, M.S. (2012), “Fostering a framework to embed records management into the auditing process in the South African public sector”, Unpublished doctoral thesis, University of South Africa, Pretoria.

Ngoepe, M. and Ngulube, P. (2013), “An exploration of the role of records management in corporate governance in South Africa”, *SA Journal of Information Management*, Vol. 15 No. 2, available at: www.sajim.co.za/index.php/SAJIM/rt/printerFriendly/575/661 (accessed 15 June 2016).

Ngoepe, M. and Ngulube, P. (2014), “The need for records management in the auditing process in the public sector in South Africa”, *African Journal of Library, Archives and Information Science*, Vol. 24 No. 2, pp. 135-150.

Nicholson, F. and Baker, C. (2013), *Certification in Risk Management Assurance*, Institute of Internal Auditors Research Foundation, FL.

Pandyan, C. and Kannabiran, G. (2010), “Enabling role of governance in strategizing and implementing KM”, *Journal of Knowledge Management*, Vol. 14 No. 3, pp. 335-347.

Pillay, T.V. (2012), “MFMA implementation”, available at: mfma.treasury.gov.za/. . ./SCM%20Circular%20Local%20Production%20 (accessed 24 December 2015).

Powell, D. (2012), “Imperfect transition-local government reform in South Africa 1994-2012”, available at: http://repository.uwc.ac.za/xmlui/bitstream/handle/10566/551/PowellLocalGovernment2012.pdf (accessed 1 October 2012).

PriceWaterhouseCooper (2010), *Being A Director: Duties and Responsibilities*, Corporate Governance Series, Johannesburg.

Rezaee, Z. (2010), "The importance of internal audit opinions", Internal Auditors, April, pp. 47-50.

Richardson, S., Larcker, D. and Tuna, I. (2007), "Corporate governance, accounting outcomes, and organizational performance", *The Accounting Review*, Vol. 82 No. 4, pp. 963-1008.

SALGA (2016), "About municipalities", available at: www.salga.org.za/Municipalities%20AM.html (accessed 16 May 2016).

Sarra, J. (2011), "New governance, old norms, and the potential for corporate governance reform", *Academic Journal, Law & Policy*, Vol. 33 No. 4, pp. 576-602.

Thompson, A., Strickland, A.J. and Gamble, J.E. (2007), *Crafting and Executing Strategy - Concepts and Cases*, 15th ed., Irwin McGraw - Hill.JE, Boston.

Wheelen, T.L. and Hunger, J. (2002), *Strategic Management and Business Policy*, 8th ed., N.J Prentice Hall, Upper Saddle River, NJ.

Williams, E.N. (2012), "Improving political oversight in municipalities: examining the law and practice surrounding oversight by the council over the municipal executive and the municipal administration", Unpublished doctoral thesis, University of the Western Cape, Cape Town.

Yusuf, Z.M. and Chell, R.W. (2005), *Issues in Records Management*, Penerbit Universiti, Bangi.

Yusuf, Z.M. and Chell, R.W. (1998), "Records management education and training world-wide: a general overview of the current situation", *Records Management Journal*, Vol. 8 No. 1, pp. 25-54.

Corresponding author

Mpho Ngoepe can be contacted at: ngoepms@unisa.ac.za