



An investigation of corporate governance practices at selected TVET colleges

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DEDICATION

Dedicated to all people who are never frightened to take on a challenge, to my son Atleha Sifisokuhle may you never be frighten to take on a challenge, you are forever in my heart. To my family for their undying support all my life

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The Department of Higher Education, TVET Branch for allowing us to work with the sampled colleges

Refilwe-Masego Motlhatlhedhi my managers, other managers and my colleagues for their support during the studies.

Kini nonkhe ngiyabonga, ngato totimbili.

ABSTRACT

A number of studies have been conducted in South Africa in relation to the phenomena of corporate governance, in particular to large State entities and enterprise. The study explored practices of corporate governance in the public Technical and Vocational Education and Training (TVET) Colleges sector.

The aim of the study was to understand the legislative and regulatory requirements applicable to TVET Colleges regarding corporate governance, understand the systems and structures of governance in the TVET Colleges. Investigate whether the systems of corporate governance at public TVET Colleges are aligned to legislative requirements and the King Codes as well as to investigate whether TVET Colleges are disclosing corporate governance processes in their annual reports.

Employing a qualitative research approach, the researcher conducted interviews with Council Chairpersons and also collected semi-structured questionnaires with college principals from the sampled TVET Colleges. The study found that there was a general understanding of the roles of both council and principals in managing a public TVET college, colleges were not fully constituted with outstanding appointments in terms of section 10(6) of the CET Act, colleges have functional Council committees with a balanced composition and blend of internal versus external and that meet regularly and colleges are yet to implement King IV requirements relating to disclosure the application of the principles in terms of the “apply and explain”.

Recommendations were made to the Department of Higher Education and Training as well as college Councils with regards the findings emanating from the study.

Keywords: Corporate governance; councils; committees; colleges; governing body; oversight; administration; risk management ; internal audit.

TABLE OF CONTENTS

DEDICATIONS.....	i
ACKNOWLEDGEMENTS	ii
ABSTRACT.....	iii
1 CHAPTER 1: SCOPE AND NATURE OF THE STUDY	1
1.1 INTRODUCTION	1
1.2 BACKGROUND TO THE STUDY	1
1.3 PROBLEM STATEMENT	3
1.4 RESEARCH QUESTION	5
1.5 RESEARCH OBJECTIVES.....	5
1.5.1 Primary objective.....	5
1.5.2 Secondary objectives.....	6
1.6 DELIMITATIONS AND ASSUMPTIONS	6
1.6.1 DELIMITATIONS	6
1.7 RESEARCH METHODOLOGY	6
1.7.1 LITERATURE REVIEW	6
1.7.2 THE OVERALL RESEARCH DESIGN	13
1.7.3 POPULATION.....	13
1.7.4 DATA COLLECTION.....	15
1.7.5 DATA ANALYSIS.....	15
1.7.6 THE QUALITY AND RIGOUR OF THE PROPOSED RESEARCH DESIGN	16
1.8 RESEARCH ETHICS	17
1.9 EXPECTED CONTRIBUTION OF THE STUDY	17
1.10 STUDY LAYOUT	17
1.11 KEYWORDS	18
2 CHAPTER 2: LITERATURE REVIEW.....	19
2.1 CONCEPT OF CORPORATE GOVERNANCE	19
2.1.1 Impact of corporate governance.....	22
2.1.2 Corporate governance in public entities.....	24
2.2 OVERVIEW AND PERFORMANCE OF THE PUBLIC TVET COLLEGE SECTOR.....	26
2.2.1 South African TVET colleges	27
2.2.2 Student enrolment and performance	27
2.2.3 Audit outcomes.....	28
2.2.4 Governance and administration of TVET colleges.....	30
2.3 PRINCIPLES OF GOOD CORPORATE GOVERNANCE	30
2.4 THE COMPOSITION OF STRUCTURES OF GOVERNANCE	34

2.5	THE ROLE AND FUNCTION OF THE GOVERNING BODY AND STRUCTURES.....	36
2.6	SYSTEMS OF INTERNAL CONTROL, RISKS MANAGEMENT AND INTERNAL AUDIT FUNCTION.....	37
2.6.1	Internal Audit Function.....	37
2.6.2	Risk Management Function.....	38
2.7	COMMITTEES OF THE GOVERNING BODIES OR STRUCTURE	39
2.7.1	Audit Committee	40
2.7.2	Risk governance committee	42
2.7.3	Remuneration Committee	43
2.7.4	Nomination Committee	43
2.7.5	Social and Ethics Committee.....	44
2.8	CORPORATE GOVERNANCE DISCLOSURES AND STAKEHOLDER REPORTING	44
2.9	CHAPTER SUMMARY	46
3	CHAPTER 3: EMPIRICAL INVESTIGATION.....	48
3.1	INTRODUCTION	48
3.2	RESEARCH METHODOLOGY	48
3.2.1	Research design	48
3.2.2	The qualitative methodology	49
3.2.3	Data collection.....	50
3.2.4	Target population.....	52
3.2.5	Sampling.....	55
3.2.6	Data analysis	56
3.3	THE QUALITY AND RIGOUR OF THE RESEARCH.....	59
3.4	RESEARCH ETHICS	60
3.5	STUDY LIMITATIONS.....	60
3.6	CHAPTER SUMMARY	61
4	CHAPTER 4: PRESENTATION AND INTERPRETION THE RESULTS OF THE EMPIRICAL INVESTIGATION.....	62
4.1	INTRODUCTION	62
4.2	SAMPLING AND RESPONSE RATE.....	62
4.3	QUALITATIVE STUDY DATA ANALYSIS	63
4.4	INTERPRETATION OF RESEARCH RESULTS.....	64
4.4.1	Theme 1: Responsibilities of council.....	64
4.4.2	Theme 2: Composition of council	66
4.4.3	Theme 3: Committees of council	67
4.4.4	Theme 4: Functionality of audit and risk committees	69
4.4.5	Theme 5: Existence and functionality of internal audit and risk management.....	71
4.4.6	Theme 6: Corporate governance disclosures	72
4.4.7	Theme 7: Benefits and shortcomings of the current system of governance	74
4.4.8	Theme 8: King IV principles and the responsibilities of councils	75

4.5	CHAPTER SUMMARY	76
5	CHAPTER 5: CONCLUSION AND RECOMMENDATION	78
5.1	INTRODUCTION	78
5.1.1	Research objectives	78
5.2	MAIN FINDINGS FROM THE STUDY	79
5.2.1	Objective one: to understand the legislative and regulatory requirements applicable to TVET colleges regarding corporate governance	79
5.2.2	Objective two: To understand the systems and structures of governance in the TVET colleges.....	80
5.2.3	Objective three: to investigate whether systems of corporate governance at public TVET public colleges are aligned to legislative requirements and King codes	81
	The role and function of the governing body and structures	82
5.2.4	Objective four: To investigate whether TVET colleges are disclosing corporate governance processes in their annual reports	85
5.3	CONTRIBUTION OF THE STUDY	86
5.4	CONCLUDING REMARKS	86
5.5	RECOMMENDATIONS	87
5.5.1	Council autonomy and independence	87
5.5.2	Information and asymmetry and integrity risk	87
5.5.3	Corporate governance codes.....	87
5.5.4	Council performance assessment	88
5.6	FURTHER RESEARCH RECOMMEDATION	88
5.7	LIST OF REFERENCES	89

LIST OF FIGURE

Chapter 1	
Figure 1.1: Governance structure of the TVET colleges.....	2
Chapter 2	
Figure 2.1: Number of colleges per province.....	28
Figure 2.2: Audit outcomes of TVET colleges.....	29
Figure 2.3: Governance structure of the TVET colleges.....	30
Chapter 3	
Figure 3.1: Map of public of TVET colleges in South Africa.....	53
Chapter 4	
Figure 4.1: Legislative composition of college council.....	66
Figure 4.2: Types of committees and frequency of mention.....	68
Chapter 5	
Figure 5.1: TVET college governance structure.....	80

LIST OF TABLES

Chapter 1

Table 1.1: List of relevant keywords.....	2
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Chapter 2

Table 2.1: Enrolment figures for TVET colleges.....	27
Table 2.2: Percentage of student who wrote and completed (passed) exams.....	28

Chapter 3

Table 3.1: Public of TVET colleges in provinces.....	54
Table 3.2; Deductive analysis themes.....	57

Chapter 4

Table 4.1: Data collection and response rate.....	66
Table 4.2: Types of annual reports disclosures.....	68

APPENDICES

APPENDIX A: Data collection instruments.....	94
APPENDIX B: Ethical clearance approval.....	99
APPENDIX C: Approval to conduct research.....	101

1 CHAPTER 1: SCOPE AND NATURE OF THE STUDY

1.1 INTRODUCTION

The governance and administration of technical and vocational education and training (TVET) college is provided in the Continuing Education and Training (CET) Act. Section 10 of the CET Act says the council of a public college must perform all the functions, including the development of a college statute, which are necessary to govern the public college, subject to the CET Act and any applicable national or provincial law. In terms of Section 13 of the CET Act (Act 16 of 2006), the principal of a public college is responsible for the management and administration of the college.

In terms of Section 19 of the CET Act (Act 16 of 2006), the principal must report and be accountable to the council in respect of matters and functions allocated to them by the council in terms of the CET Act and must report to the Department of Higher Education and Training (DHET) in terms of his/her performance agreement. The study intends to investigate how councils entrusted with responsibilities of ensuring proper oversight are implementing corporate governance best practises and the corporate governance mechanisms in place at public TVET colleges to assist councils in their oversight responsibility.

The study will explore corporate governance systems in public TVET colleges. The proposal will firstly, discuss the problem statement, the primary and secondary objectives of the study as well as the research methodology. Secondly, the literature review will unpack the history of corporate governance, the impact of corporate governance as well as the importance of corporate governance disclosures to stakeholders as the foundation to the study. Lastly, a furthermore outlines the chapters to be followed.

1.2 BACKGROUND TO THE STUDY

In 2009, the President of the Republic of South Africa, President JG Zuma issued a proclamation in terms of Section 97 of the Constitution (1996). The proclamation resulted in separating the then national Department of Education (DoE) in to two new departments, namely, Basic Education and Higher Education and Training (DHET). At that time, TVET colleges known as further education

and training (FET) colleges were a competence of provincial education departments (PEDs) and the national DoE responsible for funding and developing norms and policies according to the FET Act of 2006.

The 2009 proclamation subsequently resulted in the migration of public TVET colleges from PEDs to DHET. The migration was followed by some administrative and governance changes within the colleges. In the previous model, MECs appointed external members to serve in the council of a public TVET college together with the other internal members as provided in the FET Act of 2006. The council collective will be responsible for the governance of a college and reporting to the respective MEC for Education in each province. The principals/chief executive officers were responsible for the management of the college. Principals were employed by the PED and the rest of the staff by the college.

TVET colleges were official transferred administratively to the DHET in April 2015. In terms of the changes, councils are still responsible for the governance of the colleges and the DHET currently plays a significant role in the administration of the colleges, including human resources. The staff in the ministerial approved qualification are appointed, disciplined and dismissed by the DHET through a model where the staff is seconded to colleges by the DHET.

The following is an illustration of the governance structure of the TVET Colleges based on the CET Act and good corporate governance.

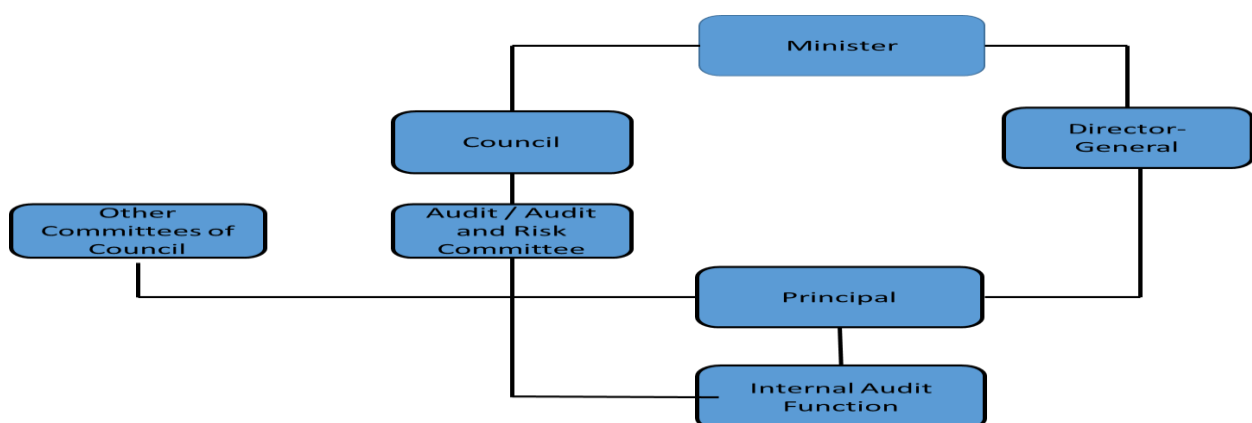


Figure 1.1: Governance structure of the TVET colleges

(Source: own compilation)

In terms of Section 9 and 10 of the CET Act (16 of 2006), TVET colleges are governed by a council. Section 13 of the CET Act (16 of 2006) entrusts a principal with the management and administration of a college reporting to the DHET and accountable to the council in respect of matters and functions allocated to them by the council.

1.3 PROBLEM STATEMENT

Some colleges have faced administrative and governance challenges since the migration of TVET colleges from PEDs to DHET. The challenges will be presented in detail in the following chapter. An analysis of the colleges reveals that while other colleges are performing well in their mandate, some colleges continue to have sustained challenges of poor student performance.

The DHET (2018:43) reported a throughput of 33.47% for NCV level in the 2017/18 financial year, negative audit outcomes, maladministration and suspected corruption. In September 2017, the Auditor General of South Africa (AGSA) reported the following after it completed audits for 42 of the 50 TVET colleges: 10 colleges had received disclaimer audit opinion with only nine receiving clean audits. The AGSA further reported the following numbers of colleges needing intervention with matters relating to:

- oversight (10)
- risk management (15)
- internal audit functions (13)
- audit committees (13).

Disclaimer audit opinions reflected an institution that does not have audit evidence to support financial reports. Disclaimers make it difficult to attract investors because of lack of trust, loss of credibility, as well as maladministration and leadership instability (Masegare & Ngoepe, 2018:356). While public TVET colleges receive a significant portion of their funds from the states, colleges manage funds on behalf of other institutions like NSFAS, Skills Education and Training Authorities (SETAs) and other Public Private Partnerships (PPPs). It is important that proper systems of corporate governance are put in place for public TVET colleges to account to relevant stakeholders. The AGSA further found that:

- councils were not constituted in terms of the CET Act

- annual budgets and plans were not approved by council
- colleges did not submit annual financial statements on time to the AGSA and failed to submit audited financial statements to the DHET.

These findings by the AGSA against colleges illustrate elements of weak governance and oversight.

TVET colleges have in post-apartheid South Africa experienced changes including structural and governance reforms, (Wedekind, 2010:302). Wedekind(2010:302) further argues that the reforms have seen colleges directly managed by government departments to a devolved and stakeholder governance model where councils have the powers to develop strategy and policy, as well as outline mission statements. According to Barac *et al.*, (2011:318) argues that the governance reforms have given education institutions new responsibilities that require stronger governance systems and management that is effective and efficient.

According to councils chairperson of colleges, the governance reforms of the colleges created oversight problems for the councils since some of their responsibilities and powers were retained by the DHET, including the appointment, discipline and dismissal of the principal who is the CEO; and the signing of performance agreement with the principal, (Wedekind, 2010:310) . Principals that were interviewed by Wedekind (2010:310) raised similar challenges, including that council members were infringing on corporate governance by interfering with the day to day management of the colleges and that some of the councillors were appointed to college councils on the basis of proximity to political parties rather than necessary skills to serve in the college council.

Barac and Marx (2012:356) note some of the governance changes that higher education institutions have gone through in recent years, including government giving institutions more authority, devolution of powers and accountability. Traditionally, education institutions, including TVET colleges, have been managed from a collegial model which exemplify self-governance by academics with little or no direct control from the state. In recent years, the environment in which the institutions operate has transformed institutions to business corporations. And according to Barac *et al.*, (2011:318), this has added new responsibilities to higher education institutions that require sound management, effective leadership and strong governance structures for effective and efficient management.

The following studies on corporate governance were conducted in TVET colleges. In 2008, Coetzer conducted a study on the role of the college council of public FET colleges in Gauteng. The study focused on clearly identifying the role and responsibilities of the college council of public FET colleges in Gauteng. Coetzer (2008:198) found that while members of councils were fully aware of their oversight role, most councils were not properly trained to perform their roles.

Wedekind investigated the coherence in FET governance in the post-apartheid South Africa. The study focused on the governance changes that public TVET colleges had undergone in post-apartheid South Africa. Wedekind (2010:311,312) found that while colleges had undergone governance reforms, including decentralisation, colleges were not properly capacitated to deal with the reforms. This had a serious impact on the operations the college.

Mothapo (2014) conducted a study on the principles for effective governance of further education and training (FET) colleges in South Africa. The aim of the study was to formulate strategies to ensure the effective functioning of FET college councils in executing their statutory obligations. Mothapo (2014:130) found that while councils of public colleges were properly constituted in terms of the Act, some of the college council members lacked knowledge and skills regarding the implementation of the principles of effective and good governance.

This study will investigate the corporate governance systems in the public TVET colleges. It will investigate how colleges are incorporating the requirements of the CET Act, the Public Finance Management Act (PFMA) and the King Code regarding implementing principles and practices of good corporate governance through its compositions, committees and reporting to stakeholders.

1.4 RESEARCH QUESTION

Are public TVET colleges implementing the principles of good corporate governance in accordance with relevant legislations and the King Code?

1.5 RESEARCH OBJECTIVES

The research objectives are divided into a general objective and specific objectives.

1.5.1 Primary objective

The general objective of this research is to investigate the corporate governance systems in the public TVET colleges.

1.5.2 Secondary objectives

The specific objectives of this research are:

- To understand the legislative and regulatory requirements applicable to TVET Colleges regarding corporate governance.
- To understand the systems and structures of governance in the TVET colleges.
- To investigate whether the systems of corporate governance at public TVET colleges are aligned to legislative requirements and the King Codes.
- To investigate whether TVET colleges are disclosing corporate governance processes in their annual reports.

1.6 DELIMITATIONS AND ASSUMPTIONS

1.6.1 DELIMITATIONS

The scope of the study is limited to the current systems of corporate governance as required by the relevant legislation and the King Codes within the TVET colleges. The study will not assess the effectiveness of the systems that are implemented. Instead, it will compare them with legislative requirements and the King Codes corporate governance principles.

1.7 RESEARCH METHODOLOGY

1.7.1 LITERATURE REVIEW

The following aspects will be looked at in relation to the research focus, the concept and history of corporate governance; the impact of corporate governance in institutions; the governance and administration of TVET colleges, as well as the importance of corporate governance disclosures.

History and concept of corporate governance

The concept of corporate governance is not static, it continues to evolve owing to changes in business conduct, government regulations and stakeholder relations to name a few of the properties that influence it. Corporate governance can be traced as far back as the 16th century when individuals began to have financial interest in others' businesses and joint ventures through chartered companies.

Mekwe (2015:9) explains that it was the East India Company which established the model for corporate governance where members of the joint venture would elect some of their own officers to manage the day to day operations and reporting to a governing body. It was necessitated by a need to separate, ownership, control and management of institutions and to build trust between the owners and stewards.

Corporate governance, as a concept not a term, can also be traced to the agency theory, which is one of the theories that influence corporate governance. As corporations grew, owners went in to the financial markets and appointed professional managers to run the institutions, which resulted in the agency conflict (Gary, 2007:477). The theory is based on the primacy that corporate managers as agents who act on behalf shareholders or stakeholders who are principals, cannot fully act in the best interest of the principal at all time (Grant, 2003:925). According to Jensen and Meckling (cited by (Ntim *et al.*, 2012:85), the fundamental purpose of corporate governance is to reduce the conflict of interest between the agent and the principal.

The protocol on corporate governance in the public sector, issued by the Department of Public Enterprises (DPE, 2002:3), says corporate governance represents the processes and systems which are put in place to direct and control corporate enterprises and as well as to hold accountable those entrusted with the responsibility over the enterprises. The Organisation for Economic Cooperation and Development (OECD) (2015:9) says corporate governance defines set corporate interactions between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

Significant to the concept of corporate governance is how power is delegated from shareholders/ stakeholders to boards and executive management; and how systems or structures are put in place to provide accountability, responsibility and transparency in pursuing organisational objectives. Madhani (2017:7) says the concept of corporate governance primarily centres on the relationship between the management of an institution and the board and the roles that each should play in the institution.

Masegare and Ngoepe (2018:584) say corporate governance encompasses a process of control and monitoring on an institution by the owners and stakeholders and the outlined systems of accountability by those who have been assigned the management of resources. The argument is further supported by Naidoo (2016:4) who says corporate governance encompasses the structures, processes and practices that the board uses to direct and manage the operations of a company to determine how authority is exercised, how decisions are taken, how stakeholders have their say and decision-makers are held to account.

The King IV report on corporate governance for South Africa 2016 (King IV) places this responsibility of delegating power and setting systems to the board (the governing body) through exercising system of leadership, which is both ethical and effective (IoDSA 2016:20).

Internationally, there are two approaches to corporate governance. The mandatory approach: where governments and lawmakers through legislation require companies and corporate entities to adhere to certain legislative requirements in terms of board compositions, financial reporting and other corporate disclosures. The United States (US) Sarbanes-Oxley Act of 2002 is an example of a mandatory approach.

Another approach is the recommended best practise approach where corporate entities are encouraged to adopt recommended principles of corporate governance developed by governance boards and securities and stock exchange boards. The Canadian voluntary standards developed by The Toronto Stock Exchange, and the UK Corporate Governance Code released with the Cadbury report in 1992 through the comply or explain principle are examples of voluntary practises. Another important international body in matters of corporate governance is the Organisation for Economic Co-operation and Development (OECD) which has developed recommended corporate governance principles for adoption by governments.

In South Africa, corporate governance reforms can be traced to the 1994 democratic reforms. Afolabi (2015:12) argues that during apartheid, South African companies were not pressured to uphold the best governance practises and international practises because of apartheid sanctions and the country forced to a closed economy. It was until 1994 that South Africa became a democratic country and subsequently reintegrated to the global economy.

South African companies needed to undergo some corporate reforms in order to compete and attract investors at the international stage which resulted in the first report on corporate governance, named after the chairman of the committee Judge Mervyn King, King I issued by the Institution of Directors in Southern Africa (IoDSA) in 1994. Subsequent versions of the reports have been released and the scope widened. The King Codes are self-regularity guidelines and recommended best practises. Other reforms are the amendments to the Companies Act and listing requirements for companies to list in Johannesburg Stocks Exchange (JSE).

Judge Mervyn King and the IoDSA published the first King report in 1994. The initial report focused on listed companies in the JSE. The focus has expanded since 1994 with the latest version of the report King IV adding sector supplements for organisations like small, micro and medium enterprises (SMMEs), non-profit organisations (NPOs), state-owned entities (SoEs), municipalities and retirement funds. The King codes are voluntary for application but a legal requirement for companies listed in the JSE. The King reports are a blueprint of corporate governance in South Africa where regulations, self-regulations and best practises have been developed, including amendments to the Companies Act, JSE listing requirements, the Public Finance Management Act and the protocol on corporate governance in the public sector issued by the Department of Public Enterprises (DPE).

An effective governing body should conduct constant review of the effectiveness of the governance systems and structures to ensure that executive management maintains accountability in the organisation (OECD, 2015:47). This implies that public TVET colleges through their councils need to put in place systems of governance, including having appropriate and functional committees like audit and risk committees, assurances providers like risk management and internal audit functions, as well as external auditors reporting to the council. Such structures are critical for strong oversight and accountability to stakeholders. According to Ntim *et al.*, (2015:94), board of directors or governing bodies play an essential role in the governance of institutions. Zalata and Robert (2016:52) say good corporate governance is exemplified by a strong governing body and audit committee to improve the information asymmetry risk and self-interest behaviour by management.

Effective or good corporate governance should be driven by a sound legal, regulatory and institutional framework that market participants can rely on. This indicates that countries and their necessary policy makers should provide, through legislation and recommended practises, a corporate governance framework underpinned by the promotion of ethical, responsible and transparent

corporate governance practices. According to OECD (2015:13), the corporate governance framework typically comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practices that are the result of a country's specific circumstances, history and tradition.

Impact of corporate governance

Recent history has demonstrated the devastating effects of poor corporate governance in the world. Internationally, we have seen the collapse of big corporations like the Bank of Credit and Commerce International (BCCI), Enron, WorldCom, and Lehman Brothers. The BCCI, valued at over \$4 billion in 1980 and with branches over 46 countries, collapsed in 1991. Various investigations pointed to lax corporate governance, including poor risk management and a board that allowed the founder and CEO to run the bank without oversight. After being regarded as the most innovative companies in world, Enron collapsed in 2001 and filed for bankruptcy. Enron was found to have manipulated financial reports, which also resulted in the fall of a big five audit firm called Arthur Anderson who had audited Enron.

South Africa is currently witnessing its own share of corporate governance scandals in both the public and the private sector. Companies like Steinhoff, Venda Bank Society (VBS) Bank, and KPMG have been in the media because of corporate governance failures. Steinhoff, a furniture and retail conglomerate of international listing and reach, collapsed in a matter of days – wiping out billions of investments due to forging financial records. Steinhoff had a skilled board of directors who some were chartered accountants but were “mislead” by the executive and the external auditors.

VBS, a community society bank which kept savings of the rural community, collapsed amid scandal of executives who ran the bank amok by bribing politicians, non-executive directors, government officials and auditors. In the public sector, a number of SoEs are in the brink of collapsed due bankruptcy, maladministration and raising debt. SoEs like Eskom, Denel, the SABC and Transnet suffer from high turnover of board members and executives, political interference by political principals in board and management issues and executives who are not accountable to the boards.

Weak governance within state institutions impacts not only on national fiscus, but also on the development responsibilities that state institutions need to achieve. Assessing the state of SoEs in South Africa, Mekwe (2015:32) argues that limited autonomy, political interference, diluting accountability and undermining financial discipline are part of the reasons that account to poor corporate governance in SoEs. Mekwe (2015:13) further alludes that poor corporate governance within SoEs pose significant risk to public costs and consequences with possible broader macro-economic implications. Public or state institutions turn to employ weak structures of governance which results in institutions that cannot perform and in constant need of government bailouts. Institutions like Eskom, the SABC, SAA, and Denel are a case in point in recent current affairs.

Tshikovhi, (2017:6) argues that SoEs are vulnerable to poor administrative and financial performance because of poor accountability systems, the guarantees that government will bail them out and failure to hold executive accountable. As public entities, TVET colleges are vulnerable to the same pitfalls if the appropriate systems and structures are not put in place. Mothapo (2014:23) argues that good corporate governance will assist colleges' institutional performance, representivity, democracy, accountability and compliance with relevant policies and legislations.

According to Irvine (cited by Mothapo, 2014:54), outcomes of an effective governing body within a college will include, among other things, achievement; institutional strategic plans; financial health and sustainability; accountability and legal/regulatory compliance; defined quality levels in academic and service provision and student experience; effective management of risk and the optimal support for innovation; enhanced institutional reputation and competitiveness; as well as improved institutional leadership.

Mothapo (2014:23) recognises good corporate governance should not be limited to the traditional oversight or watchdog approach where governors focus on whether management is applying legislation, but provide and advocate for strategic governance where governors contribute to strategy and performance of the institutions as required by King IV. The contribution of the governing body is not limited to the oversight and monitoring of executives but also provides the institution access to networks of resources (Ntim *et al.*, 2015:195)

Radebe (2017:274) provides the following as benefits of good corporate governance in an entity:

- a) Excellent management – due to transparent governance processes, entities will attract and retain untainted individuals.
- b) High level of transparency – systems of good corporate governance encourage a high level of openness to stakeholders.
- c) Stakeholder benefit – institutions who uphold best practices of corporate governance tend to put the interest of its stakeholders.
- d) Reputation and recognition – trust from investors and stakeholders.
- e) Reduced wastage – when employees are trained by ethical business practices they will be cautious on the use of resources.
- f) Reduced risks, mismanagement and corruption – the high level of transparency reduces the risks and corruption.
- g) Economic benefit – because of trust from the stakeholders, an institution will have long-term economic impact.

Good corporate governance is a condition for a well-functioning and financially sound institution (Koma, 2009:452) and any organisation that wants to lead the competition must implement systems that align to the corporate governance framework (Masegare & Ngoepe, 2018:581).

Importance of corporate governance disclosures and stakeholder reporting

The purpose of the disclosure is to provide transparency and to allow relevant stakeholders to assess the corporate governance process in place in the organisation. According to King IV, the governing body should decide when the necessary disclosures should be made (IDoSA, 2016:38). It is the oversight duty of the governing body to ensure the integrity of external reports and to oversee that information relating to corporate disclosures, integrated reports and annual financial statements are available to stakeholders through relevant platform (IDoSA, 2016:48). King IV requires that organisations should, through their governing bodies, disclosure the application of the principles in terms of the “apply and explain” (IDoSA, 2016:37).

The OECD recommends that a corporate governance framework covering the institutions must disclosure timely and accurately all information material so the stakeholders can make informed assessments on the institution, including financial, performance, ownership and governance issues (OECD, 2015:37a). The principle of disclosure and transparency should not impose unnecessary

administrative and costly requirements for institutions as well as required companies to disclosure market sensitive information (OECD, 2015:37b).

The OECD argues that disclosures by institutions help the public and relevant stakeholders to make an informed understanding of how the institution functions, including its policies, performance, as well as environmental and ethical standards (OECD, 2015:38). In terms of the protocol issued by the DPE (2002:23), the audit committee should disclose in the annual report whether or not the audit committee has adopted formal terms of reference, and that whether for the reporting year the committee has carried its responsibilities as per the requirements of the terms of reference.

1.7.2 THE OVERALL RESEARCH DESIGN

The study has adopted a qualitative research approach. The aim of the approach is to get an understanding of the concept of corporate governance and the experience of the participants that can be understood through the context of their experience and worldview (Castleberry and Nolen, 2018:807). Qualitative research is characterised by exploratory and open-ended questions and is not depended on prior hypothesis (Mann & Ramani, 2016:457). The research is an open study of a phenomenon of corporate governance in TVET colleges by investigate legislative requirements governing TVET colleges, recommended principles of corporate governance and an assessment on whether TVET colleges are incorporating principles of good governance.

The data collection approach and the knowledge to be gained in a qualitative study plays a critical role in the research design (Mann & Ramani, 2016:456). The data will primarily be collected through interviews and questionnaires and secondary data from applicable legislations, regulations, research papers, internet sources and annual reports from the sampled colleges. The study will be cross-sectional as data will be collected through structured interviews and questionnaires at a single point in time and no pre- or post-observation will be carried out on the subjects (Creswell, 2014:203).

1.7.3 POPULATION

The study population embodies the total units of data sources with the legitimacy or characteristics to respond to the research questions (Robinson, 2014:26, Rijnsoever, 2017:4). The population in the study comprises of the 50 public TVET colleges in the nine provinces of South Africa. Gauteng has

eight, Mpumalanga has three, the North West has three, Limpopo has seven, the Northern Cape has two, the Eastern Cape has eight, and the Western Cape six. The sources of data in the study are the council chairpersons, college principals and annual reports.

According to Robinson (Robinson, 2014:29), theory and practical considerations (time, resources etc.) have a significant influence over the size of a sample. The following 12 colleges are selected from the population: Central Johannesburg, Ekurhuleni East, Ekurhuleni West, Sedibeng, Western College, South West Gauteng, Tshwane North, Tshwane South, Orbit, Nkangala, Capricorn and Waterberg College. The sample is based on a non-probability convenience sampling strategy where units of analyses are conveniently and non-randomly selected and influenced by certain practical criteria. Accessibility, geographical proximity and time are factors that influence the sample selection (Etikan *et al.*, 2016:2; Yu and Teddie, 2007:78).

The sample selected represents 24% of the population size. The population selected to respond to the research questions is homogeneous and it is anticipated biases will be minimum and findings general. The adequacy of the sample size is important in terms of its ability to provide enough data for purposes of analysis in order to strengthen the rigour of the study, (Robinson, 2014:38). Robinson (2014:31) further highlights that it is important that the researcher monitors and assesses the data collection progress in order to adjust the sample size when necessary.

From the sampled colleges, the chairpersons of councils and the principals will be selected as respondents to interviews and questionnaires respectively. The council chairperson and the principals are purposively sampled as they are legislatively entrusted with matters of corporate governance at the colleges and thus will be more relevant to respond to questions. Purposive sampling entails selecting from individuals or groups of individuals who have specific characteristics or knowledge about the study (Palinkas *et al.*, 2013; Teddlie, 2007:77 Ramani & Mann, 2016: 458, Rijnsoever, 2017:2).

Council chairperson representing the governing body and principals will be interviewed. In terms of Section 10 of the CET Act (16 of 2006), councils are entrusted with governing responsibility of the TVET colleges and, therefore, ultimately responsible for putting in place systems of corporate governance and setting an ethical governance tone as required by King IV. College principals are, in terms of Section 13 of the CET Act (16 of 2006), entrusted with the day to day management and

administration of the colleges and the implementation of the governing body's strategic direction and are accountable to the council in terms of Section 19(2) of the CET Act (16 of 2006).

1.7.4 DATA COLLECTION

The data will be primarily collected through questionnaires, semi-structured interviews and annual reports. The benefit of semi or unstructured interviews allows the participant to divagate and expand on questions posed by the researcher and the researcher manages the process and ensure that relevant topics are covered (Zahle, 2018:146, Ramani & Mann, 2016:459). The questionnaires and the interview questions are formulated based on the current legislation and King codes requirements. College principals will be requested to complete a questionnaire that will be sent electronically on e-mail through Survey monkey.

Council chairperson will be requested to an interview; the interview will be face-to-face or telephonic, depending on the availability of the intended respondents. The interviews will be semi-structured; respondents will answer the same questions and in the same order as other interviews. The responses will be recorded and code-named in order to protect the identity of the respondents and the confidentiality of the information. Respondents will be advised on their rights during the interview, including the right to withdraw their participation.

The data collection process will be divided in two phases. During phase one, the council chairperson will be contacted to secure an interview. Questionnaires will be sent electronically to prepare for the interview. A consent to record the interview will be requested from the respondents and notes will be taken during the interview. In phase two, principals will be contacted, requested to complete the questionnaires and share their annual reports for the last two years.

1.7.5 DATA ANALYSIS

The analysis will take a deductive instead of an inductive approach. Bengtsson (2016:10) says in deductive reasoning, the researcher analyses collected against established principles to establish a finding. The data will be analysed through a process of content analysis. Content analysis is defined as a research technique that involves seeks meaning texts or written data by interfering with context of the data use (Bengtsson, 2016:9). Castleberry and Nolen (2018:812) provide five steps to follow in analysing qualitative data. The five steps are compiling, which can involve transcribing data from

to another source; disassembling through a process of coding to divide the raw data to usable categories or labels; reassembling using the codes or categories to formulate themes; interpreting the themes based on the research question and aims; the final step is to reach a conclusion based on the responses to the research question.

The data will be transcribed and organised through the Atlas TI software. The researcher will further analyse the data by labeling and categorising it through a process of coding (Bryman and Bell, 2017:336). Then coded data will be analysed by comparing themes with the theory and searching similarities and differences, missing information, and possible questions that respondents did not respond to. The corporate governance theoretical framework established in the literature review will be used as a hypothesis to compare with the collected data. The researcher will be guided by the research question and the aims throughout the process (Erlingsson & Brysiewicz, 2017:95).

Erlingsson and Brysiewicz (2017:95) warn that in order to minimise the prospects of biased analysis, the researcher needs to be cautious of one's assumption, opinions and personal beliefs due to pre-understanding of aspects of the study. Bengtsson (2016:8) says that the notion of pre-understanding can be an advantage to the research if it does not affect how the research approaches the participant or the interpretation of the data.

1.7.6 THE QUALITY AND RIGOUR OF THE PROPOSED RESEARCH DESIGN

According to Robinson (2014:38), elements of sampling such as the relationship between a sample and population, the sampling strategy and how the sample fit the research question, play a critical role in strengthening the quality and rigour of the design.

The researcher will adhere to principles of the research design and ensure throughout the study that the sample size is adequate and representative of the population and the data collection, analysis and the report is guided by the research question.

The quality and rigour will also be managed through the collected data. The interviews with the council chairpersons will be the primary data. The surveys completed by the principals and annual reports will be used as a form of data triangulation. Joslin and Muller (2016:1045) say that data triangulation involves using several sources of data to minimise biases, increase validity and

strengthen the study. The researcher will request secondary data from the DHET to collaborate the data were necessary.

1.8 RESEARCH ETHICS

Forms requesting to conduct a research will be sent to the DHET. Upon approval, consent to participate in the research will be sought from the sampled colleges through the chairpersons and principals. During the interview process, the participant will be requested to complete an ethical informed consent form indicating that their participation is voluntary, identity protected and they have every right to withdraw their consent to participate in the study. No vulnerable persons will be the subject of the study. The study will be conducted based the ethical approval from the university ethics committee and any complains about the researcher can be sent to the university.

1.9 EXPECTED CONTRIBUTION OF THE STUDY

The study is expected to contribute to the body of knowledge of corporate governance within TVET colleges and will assist councils and management of TVET colleges to measure the implementation of governance according legislation and in terms recommended corporate governance codes in the sector. It will also assist the DHET to strengthen oversight of TVET colleges where necessary.

1.10 STUDY LAYOUT

The study is divided in to five chapters.

Chapter 1: the scope and nature of the study. This chapter outlines the background to and the scope of the study. The chapter also discusses the problem statement and the research objectives, the significance of the research as well as the research.

Chapter 2: Literature review. The chapter contains the review of literature and provides the overview of principles of corporate governance, how governance structures should be constituted, the establishment of committees of oversight, as well as the importance of corporate governance disclosures and reporting to stakeholders.

Chapter 3: The empirical investigation. This chapter focuses on the detailed report on the empirical study based on research design, how data was collected and findings in order to investigate the systems of corporate governance within public TVET colleges and how the data collected will be analysed in order to answer the research question.

Chapter 4: Research results and findings. The chapter presents the findings from the data collected on whether public TVET colleges are implementing principles of corporate governance as required by the CET Act and guided by the King IV codes.

Chapter 5: Conclusions and recommendations. This chapter covers the conclusions drawn from the research findings and provides recommendations emanating from the findings. The chapter further outlines the limitations of the research.

1.11 KEYWORDS

Table 1.1: List relevant keywords.

Abbreviation	Meaning
TVET	Technical and Vocational Education and Training
DHET	Department of Higher Education and Training
IoDSA	Institute of Directors of Southern Africa
PEDs	Provincial Education Departments
PFMA	Public Finance Management Act
JSE	Johannesburg Stock Exchange
FET	Further Education and Training
OECD	Organisation for Economic Cooperation and Development
DPE	Department of Public Enterprise
NCV	National Certificate Vocational

2 CHAPTER 2: LITERATURE REVIEW

The preceding chapter, Chapter One, outlined the background to and the scope of the study and deliberated the problem statement and the research objectives, as well as the significance of the study on corporate practices within selected public TVET colleges. Chapter two engages on literature on the concept of good corporate governance; the principles of good corporate governances; corporate governance within public entities; composition of the governing body; the role and functions of the governing body; committees of the governing body; and corporate governance disclosures.

2.1 CONCEPT OF CORPORATE GOVERNANCE

The concept of corporate governance is not static, it continues to evolve owing to ongoing changes in the business environment and conduct, government regulations and stakeholder relations as some of the elements that influence corporate governance. Corporate governance can be traced as far back as the 16th century when individuals begun to have financial interest in others' business and joint ventures through chartered companies. Mekwe (2015:9) explains that it was the East India Company which established the model for corporate governance were members of the joint venture will elect some of their own officers to manage the day to day operations and reporting to a governing body. It was necessitated by a need to separate, ownership, control and management of institutions and to build trust between the owners and stewards.

Corporate governance as a concept and not a term can also be traced to the agency theory, which is one of the theories that influence corporate governance. As corporations grew, owners went in to the financial markets and appointed professional managers to run the institutions, which resulted in the agency conflict, (Glinkowska & Kaczmarek, 2015:89). The theory is based on the primacy that corporate managers as agents who act on behalf shareholders or stakeholders who are principals, cannot fully act in the best interest of the principal at all time, (Grant, 2003:925; Styhre, 2016:273). According to Jensen and Meckling (cited by Ntim *et al.*, 2012:85) the fundamental purpose of corporate governance is to reduce the conflict of interest between the interest of the agent and the principal.

Significant to the concept of corporate governance is delegation of power from shareholders/ stakeholders to boards and executive management and how systems or structures are put in place provide accountability, responsibility and transparency in pursuing organisational objectives.

Madhani (2017:7) says that the concept of corporate governance primarily centres on the relationship between the management of an institution and the board and the roles that each should play in the institution. Masegare and Ngoepe (2018:584) say corporate governance encompass a process of control and monitoring on an institution by the owners and stakeholders and the outlined systems of accountability by those who have been assigned the management of resources. The argument is further supported by Naidoo (2016:4) who says corporate governance encompasses the structures, processes and practices that the board uses to direct and manage the operations of a company, which determine how authority is exercised, how decisions are taken, how stakeholders have their say and decision-makers are held to account. The King IV report on corporate governance for South Africa 2016 (King IV) places this responsibility of delegating power and setting systems to the board (the governing body) through exercising system of leadership which is both ethical and effective, (IoDSA 2016:20).

The protocol on corporate governance in the public sector, issued by the Department of Public Enterprise (DPE, 2002:3) says corporate governance represent the processes and systems which are put in place to direct and control corporate enterprises and as well as to hold accountable those entrusted with the responsibility over the enterprises. The Organisation for Economic Cooperation and Development (OECD) (2015:9) defines corporate governance as set corporate interactions between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. It is the cooperative participation, accountability and transparency in the use of appropriate power, respect for the rule of law, adherence to sound financial management and financial accountability (Khanna, 2017:22).

Internationally, there are two approaches to corporate governance: mandatory approach in which the state or government of a country will through legislation require companies and corporate entities to adhere to certain legislative requirements in terms of board compositions, financial reporting and other corporate disclosures. The United States (US) Sarbanes-Oxley Act of 2002 is an example of a mandatory approach. Another approach is the recommended best practise approach where corporate

entities are encouraged to adopt recommended principles of corporate governance developed by governance boards and securities and stock exchange boards. The Canadian voluntary standards developed by The Toronto Stock Exchange, as well as the United Kingdom Corporate Governance Code released with the Cadbury report in 1992 through comply or explain principle are examples of voluntary practises.

In South Africa, corporate governance reforms can be traced to the 1994 democratic reforms. Afolabi (2015:12) argues that during apartheid, South African companies were not pressured to uphold the best governance practises and international practises because of apartheid sanctions and the country forced to a closed economy. It was until 1994 that South Africa became a democratic country and subsequently reintegrated to the global economy. South African companies needed to undergo some corporate reforms in order to compete and attract investors at the international stage. The call for corporate reform resulted in the first report on corporate governance, named after the chairman of the committee Judge Mervyn King, King I issued by the Institution of Directors in Southern Africa (IoDSA) in 1994. Subsequent versions of the reports have been released and scope the widened, the King Codes are self-regularity guidelines and recommended best practices.

Judge Mervyn King and the IoDSA published the first King report in 1994. The initial report focused on listed companies in the JSE. The focus of it has expended since 1994 with the latest version of the report King IV adding sector supplements for organisations like small and medium enterprise, non-profit organisations, state-owned entities, municipalities and retirement funds. The King codes are voluntary for application but a legal requirement for companies listed in the JSE. The King reports are a blueprint of corporate governance in South Africa, were regulations, self-regulations and best practises have been developed, including amendments to the Companies Act, JSE listing requirements, the Public Finance Management Act and the protocol on corporate governance in the public sector issued by the Department of Public Enterprises (DPE).

Effective or good corporate governance should be driven by a sound legal, regulatory and institutional framework that market participants can rely on. This indicates that countries and their necessary policy makers should provide, through both legislation and recommended practises, a corporate governance framework underpinned by the promotion of ethical, responsible and transparent corporate governance practices. According to OECD (2015:13), the corporate governance framework

typically comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practices that are the result of a country's specific circumstances, history and tradition.

2.1.1 Impact of corporate governance

The recent history has demonstrated the devastating effects of poor corporate governance. Internationally, we have seen the collapse of big corporations like the Bank of Credit and Commerce International (BCCI), Enron, WorldCom and Lehman Brothers. The BCCI was valued at over \$4 billion in 1980 and with branches over 46 countries. The bank collapsed in 1991 and various investigations pointing to lax corporate governance, including poor risk management and a board that allowed the founder and CEO to run the bank without oversight. After being regarded as the most innovative companies in world, Enron also collapsed and filed for bankruptcy, Enron was found to have manipulated financial reports which also resulted in the fall of a big five audit firm called Arthur Anderson who had audited Enron.

South Africa is currently witnessing its own share of corporate governance scandals in both the public and the private sector. Companies like Steinhoff, Venda Bank Society, Tongaat Mills and auditors and KPMG have been in the media because of corporate governance failures and manipulating financial reports. Steinhoff, a furniture and retail conglomerate of international listing and reach, collapsed in a matter of days, wiping out billions of investments due to forging financial records. Steinhoff had a skilled board of directors whom some were chartered accountants but were "mislead" by the executive and the external auditors. Venda Bank Society (VBS), a community mutual bank that kept savings of the rural community, collapsed amid scandal of executives who run the bank amok by bribing politicians, non-executive directors, government officials and auditors. In the public sector, a number of state-owned enterprises (SoEs) are in the brink of collapsed due to bankruptcy, maladministration and raising debt. SoEs like Eskom, Denel, SABC and Transnet suffer from high turnover of board members and executives, political interference by political principals in the board, management issues and executives who are not accountable to the boards.

Weak governance within state institutions affects not only the national fiscus but also the development responsibilities that state institutions need to achieve. Mekwe (2015:32) in his study on the state of SOEs in South Africa argues that elements such as limited autonomy, political interference, diluting accountability and undermining financial discipline are part of the reasons that

account to poor corporate governance in SOEs. The study further alludes that poor corporate governance within SOEs pose significant risk to public costs and consequences with possible broader macro-economic implications (Mekwe, 2015:13). Public or state institutions turn to employ weak structures of governance that results to institutions that cannot perform and in constant need of government bailouts, institutions like Eskom, SABC, SAA, and Denel, as a case in point in recent current affairs.

Tshikovhi, (2017:6) argues that SOEs are vulnerable to poor administrative and financial performance because of poor accountability systems, the guarantees that government will bail them out and failure to hold executive accountable. As public entities, TVET colleges are vulnerable to the same pitfalls if the appropriate systems and structures are not put in place. Mothapo (2014:23) argues that good corporate governance will assist colleges' institutional performance, representivity, democracy, accountability and compliance with relevant policies and legislations.

According to Irvine (cited by Mothapo, 2014:54), outcomes of an effective governing body within a college include, among other things, institutional strategic plans, financial health and sustainability, accountability and legal/regulatory compliance, defined quality levels in academic and service provision and the student experience, effective management of risk and the optimal support for innovation and enhanced institutional reputation and competitiveness, as well as enhanced institutional leadership.

Mothapo (2014:23) recognises good corporate governance should not be limited to the traditional oversight or watchdog approach where governors focus on whether management is applying legislation, but provide and advocate for strategic governance where governors contribute to strategy and performance of the institutions as required by King IV. The contribution of the governing body is not limited to the oversight and monitoring of executives but also providing the institution access to networks of resources, (James & Joseph, 2015:118; Ntim *et al.*, 2015:195). Radebe (2017:274) provides the following as benefits of good corporate governance in an entity:

- a) Excellent management – due to transparent governance processes, entities will attract and retain untainted individuals.
- b) High level of transparency – systems of good corporate governance encourage a high level of openness to stakeholders.

- c) Stakeholder benefit – institutions who uphold best practices of corporate governance tend to put the interest of its stakeholders first.
- d) Reputation and recognition – trust from investors and stakeholders.
- e) Reduced wastage – employees who are trained by ethical business practices will be cautious on the use of resources.
- f) Reduced risks, mismanagement and corruption – the high level of transparency reduces the risks and corruption.
- g) Economic benefit – because of trust from the stakeholders, an institution will have long-term economic impact.

The World Bank cited by Mashamaite & Raseala (2019:129) by outlining some positive effects and benefits of good corporate governance which include:

- Improved strategic direction and performance, through better distribution of resources and efficiency
- Reduced risk of corporate scandal and bankruptcy
- Healthier stakeholder management
- Reducing corruption and enhanced transparency.

Weak corporate governance can lead to waste, poor performance, mismanagement and corruption (Mashamaite & Raseala, 2019:130). Good corporate governance is a condition for a well-functioning and financially sound institution (Koma, 2009:452) and any organisation that wants to lead in the industry must implement systems that align to the corporate governance framework, (Masegare & Ngoepe, 2018:581).

2.1.2 Corporate governance in public entities

In the South African public sector context, matters of corporate governance are legislatively directed by the National Treasury through the Public Financial Management Act (PFMA). Treasury regulations provide for the establishment and functions of various public entities like government departments, municipalities, SOEs, schools, universities, as well as TVET Colleges as examples. The role of National Treasury is to determine which state entities should be classified as public entities regulated by the PFMA. Public TVET colleges are regulated by the Continuing Education and Training (CET) Act, Act no 16 of 2006.

While corporate governance has its roots on the private sector, corporate governance is not only restricted to private sector entities as a means to protect shareholder interest. It is required that public sector organisations implement systems that promote good corporate governance with the aim to improve efficiency, effectiveness, accountability and reputation. Public sector entities have in recent time seen an increase in embracing principles of good corporate governance (Koma, 2009:451).

Barac (2001:1) notes the complexity of the public sector in relation to implementation of systems of corporate governance; Barac argues that because public sector entities operate from different legislation with different sizes, shapes and mandate, it is not possible to develop one set of recommendations for corporate governance that will be applicable to all public entities. Corrigan, cited by (Mashamaite & Raseala, 2019:125) identify some of the challenges facing public entities, which include unformed regulatory systems, political board appointments, weak management accountability, maladministration as well as inadequate systems of monitoring and accountability. These challenges can also be attributed to the public TVET college sector.

The Department of Public Enterprises issued in 2002 the protocol to corporate governance for public entities as a guiding document in matters of corporate governance. According to the protocol, the governing body must retain effective control over the SoE and monitor management closely in implementing governing body's plans and strategies. It further entrusts the governing body of an entity to ensure that an entity complies with applicable laws, regulations, government policies and codes of business practises (DPE, 2002:10). It is the responsibility of the governing body or the board to develop a corporate strategy, risk policy, approve annual budgets and key performance indicators (DPE, 2002:11). The responsibilities as contained in the protocol are supported by King IV. according to King IV, the governing body should understand the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development as joint elements of the value creation process (IoDSA, 2016:47).

The protocol provides important guidelines for public entities in terms of governance structures and their roles in the entities. It should be noted that the protocol is only applicable to major public entities like Eskom, SABC, Denel, SAA Transnet, and other national public entities as entities classified under schedules two and three of the PFMA. The protocol on corporate governance issued by the DPE does not replace the corporate governance principles as articulated by the various King reports but rather strengthen the King codes. There is a suspected danger with the exclusion of other entities from the protocol, other public institution like TVET colleges can view this important guidelines as

not important and in the absence of a proper guiding document, these institutions may choose not to adopt the principles and any other recommended best practises in relation to corporate governance.

2.2 OVERVIEW AND PERFORMANCE OF THE PUBLIC TVET COLLEGE SECTOR

TVET colleges have gone through major structural and governance in post-apartheid South Africa (Wedekind, 2010:302). Wedekind argues that the reforms have seen colleges were previously directly managed by government department being given autonomy to a devolved and stakeholder governance model where councils have the powers to develop strategy and policy and outline mission statements (Wedekind, 2010:306). Marx et al argue that the governance reforms have given education institutions new responsibilities that requires stronger governance systems and management that is effective and efficient, (Marx *et al*, 2011:318). Hall, Symes and Luescher, cited by Barac *et al.*, (2011:318), say that governments in recent years have tried through legislation to align accountability and control of higher education institutions through decentralisation and increased autonomy and accountability to institutions. This has added new responsibilities to higher education institutions that require sound management, effective leadership, and strong governance structures for effective and efficient management.

Barac and Marx (2012:352,356) note some of the governance changes that higher education institutions have gone through and some reforms in recent years, including governments giving institutions more authority, devolution of powers and accountability. Traditionally, education institutions including TVET colleges have been managed from a collegial model which exemplifies self-governance by academics with little or no direct control from the state. However, in recent years, the environment that the institutions operate has transformed institutions to business corporations. This transformation requires colleges to be supported by good practices of corporate governance that go beyond checking compliance with legislation.

2.2.1 South African TVET colleges

Fifty (50) public (Technical and Vocational Education and Training) TVET colleges with 252 campuses are spread all over the nine (9) provinces of the country (DHET, 2018:31).

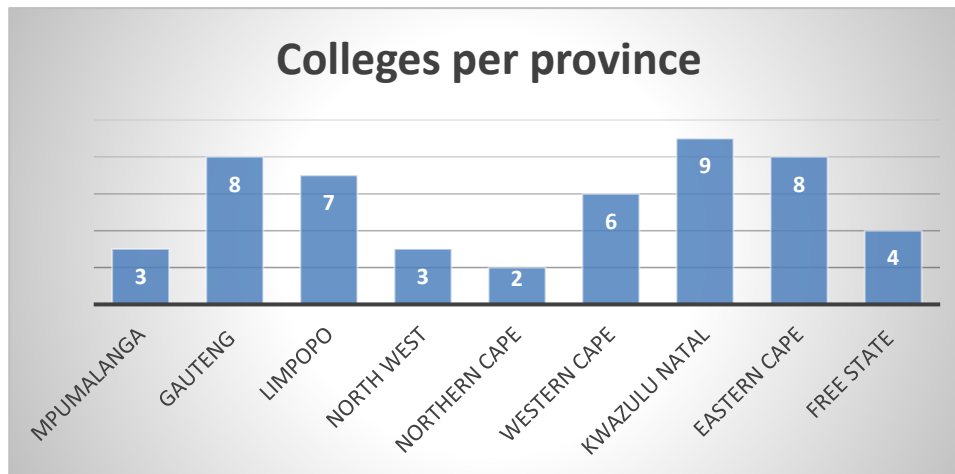


Figure 2.1: No of colleges per province

(Source: own compilation)

Figure 2.1 above indicates that KwaZulu-Natal has more colleges compared to other provinces with nine (9), followed by Gauteng and the Eastern Cape with eight (8) respectively. The province with the least number of colleges is the Northern Cape with only two (2).

2.2.2 Student enrolment and performance

According to the Post School Education and Training (PSET) statistics, Public TVET colleges had 688 028 students registered across the different qualifications programmes offered in 2017 (DHET, 2018:32). The table below indicates the academic performance of the students registered at the colleges between the year 2014 and 2017.

Table 2.1: Enrolment figures for TVET colleges

	NCV	Nated	Occupational qualifications	Other	Total enrolment
2014	166 433	486 933	19 825	29 192	702 383
2015	165 459	519 464	20 533	32 424	737 880
2016	177 261	492 026	13 642	22 468	705 397
2017	142 373	510 153	10 969	24 533	688 028

(Source: DHET PSET Statistics report)

The National Development Plan (NDP) had an enrolment target of 1,238 million enrolments by 2019 (POA, 2019). The certification rate was targeted at 65% for national certificate vocational [NC (V)], Nated (N) 3 and 6 respectively. The enrolment targets have been revised down over the years due to underfunding from government. The DHET reported a throughput rate of 33.47% in the 2017/18 annual report (DHET, 2018:43).

Table 2.2: Percentage of students who wrote and completed (passed) exams.

	NC(V) LEVEL 4	Nated N3	Nated N6
2014	34.5	47.9	42.3
2015	40	48.7	59.4
2016	41.5	59.4	64.8
2017	-	-	-

(Source: DHET)

According to the Statistics on Post-School Education and Training in South Africa (2018:41) issued by the DHET on the Post School and Education Sector (PSET), TVET colleges have not been meeting the target at set out in the NDP. The table above, Table 2.2.2.2, indicates the percentage completion of students who wrote and passed the exams. While the sector is showing under performance regarding the NDP, it has revealed a steady improvement from 2014 until 2016.

2.2.3 Audit outcomes

In terms of the CET Act 16 of 2006, TVET colleges are required at the end of each financial year to prepare financial statements and submit them to the Auditor General of South Africa (AGSA) for audit before the colleges can submit the financial statements to the DHET. Financial statements present the financial performance and position of an organisation. It can be assumed that when an organisation receives clean or unqualified audit opinions it indicates proper financial management and reporting.

The AGSA provides for five possible audit outcomes, which are defined as:

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

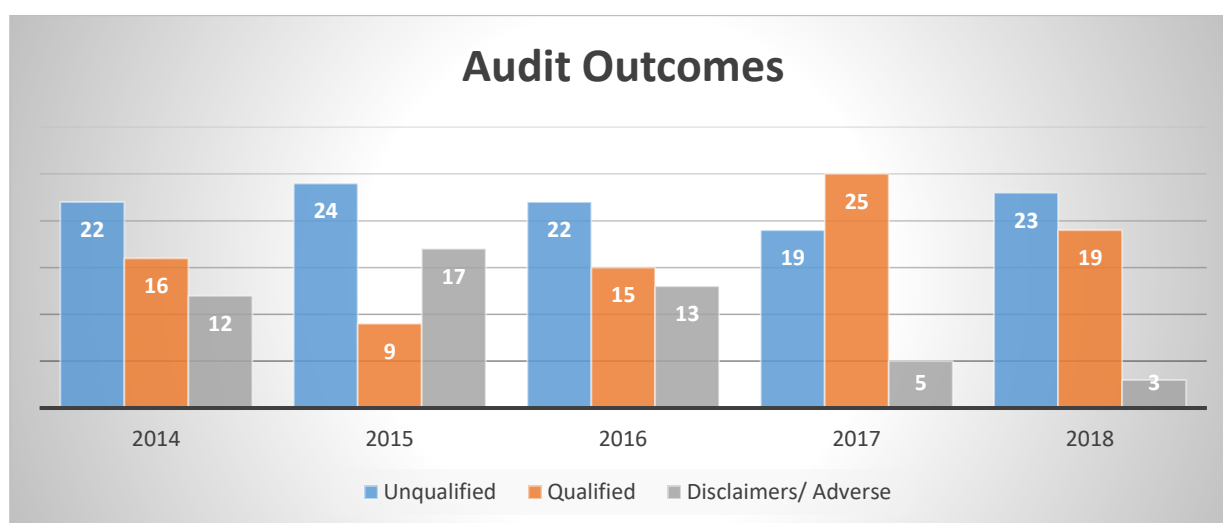


Figure 2.2: Audit outcomes of TVET colleges

(Source: DHET and AGSA reports)

The graph above indicates that between 2014 and 2017, less than 44% of the colleges received clean or unqualified audit opinions in 2014 and the number regressed to 38% in 2017. The trend has been regressing over the period. A positive observation from the graph indicates that over the years there seems to be a regression from disclaimer/adverse from 12 colleges in 2014 and five colleges in 2017 which is 59% improvement over the period.

2.2.4 Governance and administration of TVET colleges

The following is an illustration of the governance structure of the TVET Colleges based on the CET Act and good corporate governance.

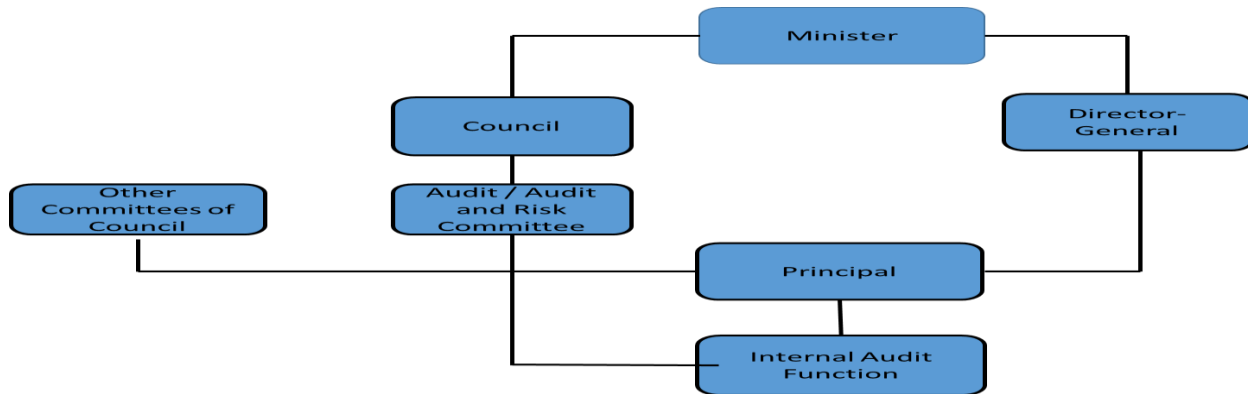


Figure 2.3: Governance structure of the TVET colleges.

(Source: own compilation)

The governance and administration of TVET college is provided in the Continuing Education and Training (CET) Act. Section 10 of the CET Act says the council of a public college must perform all the functions, including the development of a college statute, which are necessary to govern the public college, subject to the CET Act and any applicable national or provincial law. In terms of Section 13 of the CET Act, the principal of a public college is responsible for the management and administration of the college. In terms of Section 19, the principal must report and be accountable to the council in respect of matters and functions allocated to them by the council in terms of the CET Act and must report to the DHET in terms of his or her performance agreement.

2.3 PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Good corporate governance is the synthesis of compliance with relevant legislations, as well as adherence to recommended best practices and principles. The 1992 Cadbury report on corporate governance issued in the United Kingdom (UK), recommended the following three foundational principles to companies listed in the UK Stock Exchange as cited by (Matei & Drumasu, 2015:497).

1. Openness, which relates to the level of trust that must exist between an institution and its interested stakeholder.

2. Integrity encompass the integrity or trust in those who provide information on the state of the institution and the reports.
3. Accountability, the systems in place for the governing body to provide quality information to shareholders and stakeholders.

Section 195(1) of the Constitution of the Republic of South Africa requires public administration to be governed by the democratic values and principles enshrined in the Constitution, including among other things, the following principles which underpin good corporate governance:

- Maintaining a high standard of professional ethics.
- Promoting efficient, economic and effective use of resources
- Accountable public administration.
- Transparency must be fostered by providing the public with timely, accessible and accurate information.

These principles derived from the Constitution and the founding principles by the Cadbury report (Matei & Drumasu, 2015:497) are supported by the international standards for public sector entities, (Barac, 2001:1), cites the following principles issued by the International Federation of Accountants (IFAC);

1. Openness – to ensure that stakeholders have confidence in the decision-making processes and the actions undertaken by public sector institutions.
2. Integrity – to ensure honesty, objectivity, and high standards of honesty in managing public funds and resources.
3. Accountability – to ensure that public sector institutions and individual decision makers are accountable and responsible for the decisions and actions and submit to appropriate external scrutiny.

The IDoSA has been in the forefront of advocating for good corporate governance in South Africa by developing and issuing recommended corporate governance codes through the King Committee, the first report King I was issued in 1994, King II issued in 2002, King III issued in 2009 and the latest version King IV released in 2016. King IV further recommends that the governing body must individually and collectively cultivate and demonstrate the characteristics of ethical and effective leadership in their conduct (IDoSA, 2016:43).

The characteristics are:

- a) Integrity: members of the governing body must act in good faith and perform their duties.
- b) Ethics: beyond what is legally required by law and in the best interest of the organisation.
- c) Competence: members of the governing body ensure that they have sufficient working knowledge of the organisation including relevant legislations, codes and standards applicable to the organisation.
- d) Responsibility: members of the governing body should take collective responsibility setting the strategic direction of the organisation, approving policies and plans and ensuring accountability for organisational performance.
- e) Accountability: members of the governing body should be willing to answer for their responsibilities.
- f) Fairness: members of the governing body should adopt a stakeholder-inclusive approach in their role as governance including social responsibility.
- g) Transparency: members of the governing body should be transparent in the manner they exercise their governance role and responsibilities.

King IV provides 17 principles recommended for good corporate governance. And according to the IoDSA, the following 11 principles are selected for the purpose of the study:

- The governing body should lead ethically and effectively.
- The governing body should appreciate that the organisation's core purpose, its risk and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation.
- The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.
- The governing body should serve as the focal point and custodian of corporate governance in the organisation.
- The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.
- The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and effective discharge of its duties.

- The governing body should ensure that the evaluation of its own performance and of its committees, its chair and individual members, support continued improvements in its performance and effectiveness.
- The governing body should ensure that the appointment of, and delegation to, management contribute to the role clarity and the effective exercise of authority and responsibilities.
- The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.
- The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.
- The governing body should ensure that assurance services and functions enable effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

The 2002 King II took a “apply or explain” approach where all organisations regardless of their form of incorporation were required to apply or explain why if not applied the principles. The 2016 Code, King IV continue to aspire adoption across all sectors with a new principle of “apply and explain” where organisations must apply the principles and explain how they have applied them, (IDoSA, 2016:35). The King IV codes and principles remain recommended best practises and voluntary in terms of its application, except where they have been legislated in certain legislations and as requirements for listing in the Johannesburg Stocks Exchange (JSE) for listed companies.

King IV cautions that good corporate governance does not exist outside the law, and while the principles are voluntary, a court of law may find against directors of an organisation if they fail to apply vigorous and sound structures and process of oversight in the absence of applying best practises, (IDoSA, 2016:35). King IV further warns that application of the corporate governance codes should not be implemented without proper thinking as that will result in corporate governance becoming a compliance burden, where institutions focuses on “box ticking” without espousing the values of the principles (IDoSA, 2016:36).

According to the IFAC, cited Mashamaite and Raseala (2019:128), to achieve good corporate governance, an organisation must, firstly, explain sustainability benefits including economic, social and environment, secondly, grow organisational capacity and leadership, and thirdly, implement vigorous internal controls for risk management and financial management and ensure accountability through practices of transparency and reporting.

An effective governing body should conduct constant review of the effectiveness of the governance systems and structures to ensure that executive management remains accountability in the organisation, (OECD, 2015:47). This implies that public TVET colleges through their councils need to put in place systems of governance, including appropriate and functional committees like audit and risk committees, assurances providers like risk management and internal audit functions, and external auditors reporting to the council. Such structures are critical for strong oversight and accountability to stakeholders. According to Ntim *et al.*, (2015:94) board of directors or governing bodies play an essential role in the governance of institutions.

2.4 THE COMPOSITION OF STRUCTURES OF GOVERNANCE

It is important that a governing body is properly constituted in order to provide oversight and strategic direction on the entities that it presides over. King IV requires that the governing body comprises of the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively (IDoSA, 2016:50). Objectivity relates to unbiasedness and effectively means to achieve results and objectives.

Scholtz and Kieviet (2018:116) suggest that there seems to be a correlations between an institution's performance and governing body member's level of education. For the governing body to be able to effectively discharge its legislative and fiduciary duties, it needs to comprise of a majority of non-executive members as well as the executive management and to be strategically positioned with the mixture of individuals with relevant skills and experience (Glinkowska & Kaczmarek, 2015:86) (Tshikovho 2017:36). The presence of independent members on a governing body has the potential to have a positive impact on the oversight responsibility of the body (Samaha *et al.*, 2015:1486).

The manner in which a board or governing body is comprised is a critical element of quality and good corporate governance, (Sekome & Lemma, 2014:650). John and Senbet cited by Sekome and Lemma say composition is important in measuring the effectiveness of the governing body through the establishment of certain committees with special focus that will have a positive effect on the work of the governing body, (Sekome and Lemma, 2014:650). Vintila and Moscu (2015:90) say the governing body should ensure balance between executive and non-executive members, and in order to ensure that the members do not dominate each other in terms of making decisions, it is important that the composition allows for the appointment of independent members to the governing body.

The protocol on public entities says that the governing body should preferably comprise of a majority non-executive directors, who are not responsible for the day to day running of the entity and limited to a maximum of three years' term. The protocol entrusts an adds responsibility on the non-executive directors to provide a wider, objective and independent view in the oversight responsibilities of the collective governing body, (DPE, 2002:17).

In terms of the CET Act, the TVET College Council consists of the following members: the principal; five external persons appointed by the minister; one member of the academic governing body elected by the academic governing body; one external member representing donors; one lecturer of a public college elected by the lecturers of the college; one member of the support staff of a public college elected by the support staff; and two students of a public college elected by the student representative council of a public college. The composition structure of the college reflects a stakeholder model to corporate governance. Different members of the board or governing board are elected and selected at different constituencies to represent their interests in the governing body.

In terms of section 10(6), the council must, in consultation with the minister, appoint four additional external persons with financial, human resources and legal skills as members of the council. Based on the requirements of the Act, the majority of the council members will be external members that will provide a good balance in terms of the recommendation of King IV if the requirements of the CET Act are implemented.

2.5 THE ROLE AND FUNCTION OF THE GOVERNING BODY AND STRUCTURES

In corporate governance, the individual who serves in the structures of oversight and governance is required in terms of common law and the fiduciary duties to act in good faith, honesty, to exercise reasonable care and skill, (Ramatabana, 2017:25). The framework of functioning corporate governance outlines the following as the responsibilities of the governing body: strategic direction of an institution, effective monitoring and oversight of the management as well as accountability to the stakeholders, (Matei & Drumasu, 2015:498). Madhani (2017:10) identifies four overarching responsibilities of the governing body which are linked to monitoring and oversight of operations, supporting and leading the executive in achieving set organisational goals as well as the resource provision responsibility, which relates to providing the institution with relevant access and networks to resources and stakeholders.

King IV identifies four primary roles and responsibilities of the governing body, which are leadership and strategic direction, approving policy and planning, overseeing and monitoring of implementation and execution by management and accountability, reporting and disclosures, (IDoSA, 2016:49). James and Joseph identify three primary roles of the governing body, which are; monitoring/control, providing advice and counsel as the second role and also resource dependence (James & Joseph, 2015:118).

King IV requires the governing body in these responsibilities to govern the ethics of the organisation by developing and approving codes of conduct and ethics policies, (IDoSA, 2016:44). The governing body should steer the strategic direction of the organisation by taking responsibility for the organisation's strategy and performance, and approving management policies and plans, including targets and performance measures (IDoSA, 2016:46). To set wide direction and develop overall organisational strategies, monitor and oversee operational performance, draw up organisational policies relevant for the achievement strategic objectives (Khanna, 2017:26), the governing body must supervise management strategy and ensure adequate resources are allocated to achieve objectives (Shahzad *et al.*, 2016:102).

The protocol on corporate governance outlines the following in terms of the role of the governing body: absolute responsibility for the performance of the entity and full accountability to the shareholder (minister) for such performance; provide strategic direction to the entity; must retain full

and effective control over the entity and monitor management closely; formulate, monitor and review corporate strategy and major plans of action; risk policy; approve annual budgets and business plans; monitor and manage potential conflict of interest of management, governing body members and the shareholder and ensure that financial statements are prepared for each year (DPE, 2002:10-11).

2.6 SYSTEMS OF INTERNAL CONTROL, RISKS MANAGEMENT AND INTERNAL AUDIT FUNCTION

According to Matei and Drumasu (2015:498), among the important characteristics of effective corporate governance system, are the existence of corporate governance code, a risk management system, internal audit, audit committee and external audit. Barac (2001:2) argues that the governing body or accounting authority should in its responsibilities ensure that a framework of internal control is established and implemented in practice. It must contain effective systems of risk management and carry out an effective internal audit function. The accounting officer will be responsible for the implementation and the maintenance of the internal control, as well as the effective system of risk management, which will be assessed by the internal audit function regularly.

2.6.1 Internal Audit Function

The role of internal audit is to consult and guide management regarding the sound systems of risk management and internal control (Matei & Drumasu, 2015:500). The internal audit function assists the institution to achieve its objectives through a system to evaluate and improve the effective risk management, control and governance processes, (Tshikovho, 2017:41). Mbewu and Barac (2017:18) place an even greater responsibility to the internal auditors, not only to detect deficiencies but to also ensure such deficiencies are corrected by ensuring the chief audit executive (CAE) follows up on the implementation of correction plans.

The protocol by DPE defines internal audit as a process which tests whether established procedures are being followed and whether internal controls are operating properly (DPE, 2002:46). The protocol further requires the governing body to oversee that the institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control, (DPE,

2002:47). The internal audit function is a present-day instrument for corporate governance (Mbewu & Barac, 2017:15).

According to the OECD, the internal audit function plays a critical role as a system for the governing body to monitor the executive. The internal auditors must report to an independent governing body, to protect the independence of the internal audit function (OECD, 2015:49). The Institute of Internal Auditors identifies the following fundamentals as critical for effective internal audit in the public sector. They are organisational independence, a formal mandate, unlimited scope, adequate funding, skilled and proficient leadership, backing relevant stakeholders as well as professional audit standards (Mbewu & Barac, 2017:17).

2.6.2 Risk Management Function

The governing body should implement systems of sound risk management. Sound risk management system should develop risk journals, analysis and evaluation of internal control system (Matei & Drumasu, 2015:501). Tshikovho says that applying a risk-based internal audit, allows internal auditors to address strategic, operational and financial and sustainability issues, as well as enhanced value for the institution (Tshikovho, 2017:42).

Moloi (2016:59) identify the following risks attributed to higher education institutions:

1. Planning and strategy risks
2. Governance risks
3. Administration risks
4. Academic risks.

King III advocates for a risk-based internal audit instead of a compliance approach. According to King III, a risk-based approach is more beneficial and adds value because it allows the internal auditors to assess whether controls are adequate for the risks that arise from both the strategic and operational direction of an organisations. As the governing body needs to report on the adequacy of the internal controls, the internal audit should provide the audit committee with the annual report on the assessment of the adequacy of internal controls and the audit committee report to the governing body (IDoSA, 2009:17).

In reference to the matters relating to internal audit and risk management, treasury regulations, regulation 27.2 says:

- The accounting authority (governing body) must facilitate a risk assessment to determine the material risks to which the entity may be exposed and to evaluate the strategy for managing these risks.
- The strategy must be used to direct the internal audit effort and priority, and to determine the skills required for managing these risks.
- The accounting authority must establish an internal audit unit.
- The internal audit unit must, in consultation with the audit committee, prepare:
 - a rolling three-year strategic internal audit plan based on its assessment of key areas of risk for the public entity, having regard to its current operations, the operations proposed in its corporate or strategic plan and its risk management strategy
 - an internal audit plan for the first year of the rolling plan;
 - plans indicating the scope of each audit in the annual internal audit plan
 - a modus operandi, with management inputs, to guide the audit relationship
 - reports to the audit committee detailing its performance against the plan, to allow effective monitoring and intervention when necessary.
- The internal audit unit must be independent, with no limitation on its access to information.

Section 25(1) (c) of the CET Act requires the council of a public TVET college to implement internal audit and risk management systems that are not inferior to the Public Finance Management Act. Moloi (2016:68) further found that higher institutions in South Africa did not properly disclosure information to the identified categories; this brings reservation on whether the institutions are implementing sound risks management strategies.

2.7 COMMITTEES OF THE GOVERNING BODIES OR STRUCTURE

Boards committees are an important contemporary corporate governance mechanism. Committees are an extension of the governing body and derived their authority from the governing body where they report (Upadhyay *et al.*, 2014:1487). De Andres *et al.*, citing various studies, confirms the wide held view by proponents of governing body committees, that governing body committees play a critical role in the overall responsibilities of the governing body by coordinating better communication and reducing information asymmetry and improving the monitoring of the executive,

(De Andres *et al*, 2017:180). De Andres further argues that principal governing body committees like the audit, nomination and remuneration committees improve the quality of their work, when they comprise of independent members. According to Upadhyay *et al.*, (2014:1487), committees can reduce poor attendance of meetings as members can focus on specific tasks and are able to foster accountability from management.

The proper composition of governing bodies is also supported by Madi *et al.*, (2014:487) that presence of independent directors or members as special in audit outcomes provides for effective monitoring and oversight since independent members will have no economic or personal relationship management. Effective monitoring is enhanced when the independent members of the board are deployed in more board committees (Upadhyay *et al.*, 2014:1487).

While the establishment of board committees and delegation of duties by the board to its committees have been accepted as effective by legislations and corporate governance best practices, opposing views continue to emerge. According to some views, when governing bodies greatly rely on committees, it may increase information asymmetry between governing body members who sit on certain committees than those who do not sit on those committees. Another disadvantage is the additional administrative costs that come from establishing these committees (De Andres *et al.*, 2017:184). King IV (IoDSA, 2016:54) says that the governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and effective discharge of its duties. It recommends the establishment of an audit committee; nomination committee; risk governance committee; remuneration committee; and a social and ethics committee.

The CET Act does not prescribe which committees a governing body must establish; Section 12 of the Act gives powers to the council to establish committees to assist the council in executing its responsibilities. The section allows for the appointment of individuals to these committees who are not members of the council but the chairperson of the committee must be a member of the council.

2.7.1 Audit Committee

Audit committees are regarded as one of the important and persuasive elements of corporate governance in helping the governing body in its oversight responsibility of management oversight and assisting in reducing information asymmetry between the governing body and management as

well as improving the practice of financial reporting, (Madi *et al.*, 2014:486-487). In terms of the composition of the audit committee, Hamza and Mselmi emphasise that it is crucial that the committee comprise of independent members who will be able to effectively supervise matters like financial statements reports, (Hamza & Mselmi, 2017:154). Hamza and Mselmi (2017:156) further argue that an independent audit committee contributes to improvement in the quality of information shared between the executive and the governing body and that the highest level of an effective audit committee is the complete independence of the committee.

According to Bennie *et al* (2015:728)., audit committees increase the capacity of the governing body and its non-executive members to perform independent oversight of financial statements. Audit committees are a corporate governance mechanism with the overall responsibility of ensuring the integrity of financial reports; coordinating with external auditors; providing strategic direction and managing risks and internal controls (Bennie *et al.*, 2015:729). Zalata and Robert (2016:52) say good corporate governance is exemplified by a strong governing body and audit committee to improve the information asymmetry risk and self-interest behaviour by management.

The protocol on corporate governance calls on the governing body to establish an audit committee. The committee should have at least two independent non-executive directors with the chairperson who is not the same person as the chairperson of the governing body (DPE, 2002:22). In terms of the composition of the audit committee, a minimum of three non-executive members of the governing body with adequate competence and experience to guide and monitor the accounting, the audit, the responsibility, ethical values as well as governance arrangements. Matei and Drumasu (2015:500) further outline that the responsibilities of the audit committee are to provide the supervision of the corporate governance processes. The committee must ensure that management of the institution has the necessary competence to implement systems of effective risk management and internal control within the institution. Audit committees are corporate governance instrument to lead ethical practices within an organisation (Othman *et al.*, 2014:331).

Bennie *et al.*, notes the recent transformation in the role of an audit committee from focusing on compliance to taking a strategic role in driving organisational governance as well as performance (Bennie *et al.*, 2015:731). Olijnyk supports the view by Bennie. Olijnyk argues that audit committees are moving from what she terms “tick the boxes” approach and the regulatory role liaising with external auditors, overseeing the integrity and signing off on financial statements, but are taking a

lead in risk management processes (Olijnyk, 2015:33). A study by Abbott *et al.*, cited by Othman *et al.*, (2014:333) found that there exists a negative relationship between audit committee independence and fraud financial reports and accounting misstatements. Audit committee independence, size, regularity of meetings and skills proficiency are important elements of ensuring an effective audit committee (Othman *et al.*, 2014, 331).

2.7.2 Risk governance committee

Key to the governing body's corporate strategy drive is the governing body's ability to provide oversight of the institution's risk management processes and to ensure that the executive pursue objectives within the desired risk profile (OECD, 2015:47). In light of recent corporate failures, Sekome and Lemma question the traditional effectiveness of the audit committees in overseeing the management of risk with an institution. Citing various studies, Sekome and Lemma argue that risk management has become beyond the abilities of the audit committee because of the time available to the audit committees and the additional responsibilities imposed on audit committees by legislations, regulations as well as corporate governance codes. Hence, the recent studies and corporate governance codes which are calling for governing bodies to consider the establishment of risk management committees that are separate from the audit committees (Sekome and Lemma, 2015:650).

In terms of its composition, the committee may have both executive and non-executive members; King IV further recommends that when the committees for risk and audit are separate, the governing body should consider having one or more members having joint membership of both committees (IDoSA, 2016:57). The current practice within corporate governance is to have a single committee responsible for risk governance and assurance oversight in the form of audit and risk committees. King IV recommended that if the governing body delegates risk governance to the audit committee, the audit committee should satisfy that it provides for adequate attention to matters relating to risk governance (IDoSA, 2016:55).

2.7.3 Remuneration Committee

The OECD recommends that governing bodies must consider establishing a remuneration committee to look into the remuneration policy, the remuneration of key executive and governing body contracts. According to the OECD, the committee should consist of completely or the majority of independent non-executive members (OECD, 2015:48).

The protocol issued by the DPE also emphasises that the remuneration committee must consist of non-executive members and the work of the committee should look into the remuneration of the executive to ensure that commensurate remuneration is paid to individuals based on the level of skills and responsibilities (DPE, 2002:24). The committee is responsible for duties defined in the remuneration policy with reference remuneration of the executive, by advice, review and monitoring payment of remuneration, bonuses and other incentives (Vintila and Moscu, 2015:93).

2.7.4 Nomination Committee

According to the OECD, the governing body together with the nomination committee must ensure that transparent processes and procedures are established that guide the selection and appointment of individuals to serve in the governing body (OECD, 2015:48). The responsibilities of the committee is to primarily process the selection of individuals to serve in the governing body (Vintila & Moscu, 2015:93). The protocol on corporate governance says, the role of the committee is to ensure that the best suitable individuals to serve in the governing body are recommended to the governing body (DPE, 2002:24). The nomination committee safeguards that the qualified individuals are appointed by the board and the committee also serves as a critical instrument to improve board selection processes (Appiah & Chizema, 2016:76).

The executive authority should establish the nomination committee, the function of the committee is to ensure that the best qualified people for each SOEs governing body positions are recommended to the executive. In terms of the protocol, this committee is not a governing body committee but an advisory committee to the executive authority who might be the minister responsible (DPE, 2002:24).

King IV recommends that a dedicated nomination committee should be put in place with special focus on matters relating to processing nominations, electing and appointing members of the governing body, succession planning for governing body members, as well as the evaluation of the performance

of the governing body (IDoSA, 2016:56). Appiah and Chizema (2016:79) conducted a study of the impact of board quality and nomination committees on corporate bankruptcy. They found that nomination committees improve effective monitoring and oversight duties of the governing body.

2.7.5 Social and Ethics Committee

Not all institutions are required by regulations to have a committee responsible for social and ethics matters. King IV recognises the importance of the function and recommends that governing bodies consider a committee responsible for the oversight of and reporting on matters relating to organisational ethics, corporate citizenship, sustainability and stakeholder relationships, (IDoSA, 2016:57).

It is important that the governing body or the council of a TVET college constitute committees of the governing body to assist in its duties. The challenge facing many, if not all governing bodies, is that the majority of the members should be non-executive and yet they need to monitor and oversee people who run the entity daily. In many cases, the non-executive depends on the information provided by the executives to make appropriate decisions. Committees then play a critical role in shedding the workload of the body and processing information to the body.

2.8 CORPORATE GOVERNANCE DISCLOSURES AND STAKEHOLDER REPORTING

It is the oversight duty of the governing body to ensure the integrity of external reports and to oversee that information relating to corporate disclosures, integrated reports and annual financial statements are available to stakeholders through the relevant platform (IDoSA, 2016:48). King IV requires that organisations through their governing bodies should disclose the application of the principles in terms of the “apply and explain” (IDoSA, 2016:37). The purpose of the disclosure is to provide transparency and to allow relevant stakeholders to assess the corporate governance process in place in the organisation. According to King IV, the governing body should decide the necessary disclosures to be made (IDoSA, 2016:38).

According to Ntim, *et al.*, corporate governance disclosures aim to improve the independence as well as the oversight of governing bodies through organisations providing greater transparency regarding their corporate governance practises, (Ntim *et al.*, 2012:86). Transparency means information about

all aspects of the organisation is available to the relevant people and accountability is the ability for one to make a demand for provision of information or justification of action (Khanna, 2017:27).

In relation to the importance of corporate disclosures, Ntim *et al.*, identify the benefits that can be derived from corporate disclosures. These include efficient allocation of scarce resources, as well as a more transparent process which will reduce assurance costs to external stakeholders and close the gap information between managers, governors and stakeholders (Ntim *et al.*, 2012:85). Ntim *et al.*, citing Freeman and Associates, argues that in a stakeholder environment full disclosures reduce political costs by giving legitimacy to operations and provide greater access to resources (Ntim *et al.*, 2012:85).

Salterio and Luo (2014:460) argue that when organisations are required to provide corporate governance disclosures in a “apply and explain” rule, the rule allows organisations to tailor-make the practices based on their needs and consideration to the costs that is associated with the disclosures. Ponnu and Ramthadin, cited by Marx *et al.*(2011:318), say that the disclosure of corporate governance practices by the governing body on the annual report is important to investors and extended stakeholders in making informed decisions about the organisations.

According to Wiseman, Bartlett and Chandler, cited by Moloi, annual reports are broadly accepted as a principal tool for organisations to report to relevant stakeholders (Moloi, 2015:2). Moloi further argues that annual reports are important stakeholder documents and any organisation committed to good corporate governance will communicate their corporate governance practices through the annual report (Moloi, 2015:3). Treasury regulations 3.1.9 require departments to include corporate governance disclosures in the annual report in relation to whether the audit committee has fulfilled its responsibilities as per charter during the year. Corporate governance disclosures assist stakeholders in decision-making and eliminate uncertainties and promotes transparency and accountability (Moloi & Adelowotan, 2019:115). Moloi and Adelowotan (2019:120) conducted a study disclosures of risk the annual report by TVET colleges, they found that colleges were not yet implementing risks disclosures in their annual reports.

The purpose of the disclosure is to provide transparency and allow relevant stakeholders to assess the corporate governance process in place in the organisation. According to King IV, the governing body should decide which necessary disclosures should be made (IDoSA, 2016:38). It is the oversight duty

of the governing body to ensure the integrity of external reports and to oversee that information relating to corporate disclosures, integrated reports and annual financial statements are available to stakeholders through relevant platforms (IDoSA, 2016:48). King IV requires that organisations through their governing bodies should disclose the application of the principles in terms of the “apply and explain” (IDoSA, 2016:37). In terms of the protocol issued by the DPE, the audit committee should disclose in the annual report whether or not the audit committee has adopted formal terms of reference and that whether for the reporting year the committee has carried its responsibilities as per the requirements of the terms of reference (DPE, 2002:23).

The OECD recommends that a countries must develop corporate governance framework that ensures that corporate institution’s disclosure all information material in the stakeholders. Assisting stakeholders to making informed assessments on the institution, including financial, performance, and ownership and governance information timely and accurately (OECD, 2015:37). The principle of disclosure and transparency should not impose unnecessary administrative and costly requirements for institutions as well as required companies to disclose market-sensitive information (OECD, 2015:37b). The OECD argues that disclosures by institutions helps the public and relevant stakeholders to make an informed understanding of how the institution functions, including its policies, performance as well as environmental and ethical standards (OECD, 2015:38).

In terms of the protocol issued by the DPE (2002:23), the audit committee should disclose in the annual report whether or not the audit committee has adopted formal terms of reference and that whether for the reporting year the committee has carried its responsibilities as per the requirements of the terms of reference.

2.9 CHAPTER SUMMARY

The reviewed literature identifies good corporate governance is a system that promotes transparency, ethical corporate behaviour, fairness to stakeholders and integrity corporation information. The composition of the body in terms of balance between the executive and non-executive members as well as skills mix plays a critical role in the ability of the governing body to execute its monitoring and oversight responsibilities.

To promote trust and integrity, the board should establish functions and committees including an internal audit and risk management function, as well as an independent audit committee to assist the board. Based on what the writer deemed relevant literature and the writer's view of the facts presented on the corporate governance study and other disciplines linked to the subject, the foundation of the research has been set. The subsequent chapter, Chapter Three, focuses on the empirical study based on research design, how data was collected and findings in order to investigate the practices of corporate governance within public TVET colleges and how the data collected will be analysed in order to answer the research question.

3 CHAPTER 3: EMPIRICAL INVESTIGATION

3.1 INTRODUCTION

Chapter One drew the background to and the scope of the study and deliberated the problem statement and the research objectives, significance of the study on corporate practices within selected public TVET Colleges. Chapter Two presented literature on the concept of good corporate governance; the principles of good corporate governances; corporate governance within public entities; the composition of the governing body; the role and functions of the governing body; committees of the governing body and corporate governance disclosures.

The current chapter, Chapter Three, focuses on the empirical study based on the research design; the framework to the qualitative approach to the study; the sampling techniques; the data collection and analysis method to investigate the practises of corporate governance within public TVET colleges. The chapter further outlines the ethical considerations during the study as well as limitations emanating in the study.

3.2 RESEARCH METHODOLOGY

3.2.1 Research design

According to Omair (2015:153), one of the elementary considerations in conducting a research study is to determine first the appropriate study design for achieving the set aim and objectives of the proposed research question. The research design is a strategy for research that outlines detailed procedures of data collection, analysis, and interpretation. The research design is the procedures of the inquiry based on the nature of the research problem (Creswell, 2013:31). It is a tool on which the reliability of research findings hinges on (Saxena *et al.*, 2013:334).

Creswell (2013:31) advances three major approaches to conduct a research. They are qualitative research, quantitative research and mixed research.

- Qualitative research depends on the collection of qualitative data. It includes observations, interviews and focus groups. The process of qualitative research includes emerging questions

and procedures, data typically collected in the participant's setting, inductive data analysis by starting from particulars to general themes, and the researcher making interpretations of the meaning of the data.

- Quantitative research depends mainly on the collection of quantitative data. It is a method for testing objective theories or models by examining the correlation between variables.
- Mixed research, also known as hybrid, is the combination of both quantitative and qualitative methods. It integrates the two forms of data using distinct designs that may involve scientific assumptions and theoretical frameworks.

3.2.2 The qualitative methodology

The researcher adopted a qualitative research method to conduct the study based on the research question and the research objectives. The study was exploratory in nature and used a set of questions for interview purposes and semi-structure questionnaires as qualitative data collection tools to respond to the research question whether public TVET colleges are implementing the principles of good corporate governance in accordance with relevant legislations and King Code. The qualitative research methodology allows for exploration of a scientific phenomenon through the experience of the participants and worldview (Castleberry and Nolen, 2018:807).

Qualitative research is not limited to the development of new theory, but also clarifying existing theory (Nowell & Albrecht, 2019:350). According to McIntosh & Morse (2015:1), when conducting semi-structured interviews and questionnaires, participants are permitted to respond to these open-ended questions as they desire, and the researcher may probe these responses. This structure and choice of the responses constitute the semi-structured aspect of this method. For the purpose of the study, the data collection instruments developed based on the research question and through semi-structured questions allow participants a certain level of freedom to respond to questions without choosing a set of predetermined responses. The primary objective is the study of participants' experiences, understanding and interpretations of their experiences within the context (Ramani & Mann, 2016: 456).

The study will follow a deductive approach by testing prior theory with the aim to answer the research question and achieving the objectives. In general, quantitative involves the testing of hypotheses deductively. Ateino (2010:14) argues that quantitative research can be exploratory as much as qualitative research can be used to test specific deductive hypotheses. Ateino (2010:14) further argues that all qualitative data can be quantitatively coded and assigned numerical meaning.

3.2.3 Data collection

Data collection is a key aspect of every research. Inaccurate data collection can affect the results of a study and ultimately lead to invalid results (Hashemnezhad, 2015:58). Qualitative data can be collected through many platforms depending on the objectives of the study. Collection can include observation, individual or focus group interviews, field notes, audio or video recordings and analysis documents individually (Ramani & Mann, 2016: 459).

When a researcher decides to use interviews as a method of data collection, the researcher must decide to the structure of the interview based on the study objectives (Ramani & Mann, 2016: 459). At a primary level, the study aims to investigate the corporate governance systems in the public TVET colleges. The secondary objectives are to understand the legislative and regulatory requirements applicable to TVET colleges regarding corporate governance to understand the systems and structures of governance in the colleges; to investigate whether the systems of corporate governance at public TVET colleges are aligned to legislative requirements and King Codes; and lastly to investigate whether TVET colleges are disclosing corporate governance processes in their annual reports.

Interviews can be structured as follows (Ramani & Mann, 2016: 459):

- **Unstructured interviews** are open-ended, where the researcher introduces a topic, but participants have the freedom to choose the direction and guide the conversation.
- **Structured interviews** use a fixed set of questions to allow the researcher to guide the discussion in a specific direction. This is mostly common in quantitative surveys.
- **Semi-structured interviews** use a list of questions as a framework, but participants have the freedom to direct the conversation.

Semi-structured interviews are used when the research would benefit from an open framework. They are also used when more information that is useful can be obtained from focused yet conversational two-way communication with the participants. In a structured interview, the interviews were semi-structured, all participants answered the same questions and in the same order as other interviews (Pathak & Intratat, 2012:4).

Surveys are commonly used tools in the collection of both quantitative and qualitative data. The data is collected using statistical items or scores for quantitative research; using open-ended questions in qualitative exploration or a mix of both (Maymone *et al.*, 2018:1457). The benefit of semi-structured questionnaire allows the participant to divagate and expand on questions posed by the researcher and the researcher manages the process and ensures that relevant topics are covered (Ramani & Mann, 2016:146; Zahle, 2018).

Hazel *et al.*, further argues that a survey research is appropriate for understanding participants thoughts about particular issues such as the current study (Hazel *et al.*, 2016:113) . For each questionnaire, all targeted respondents answered the same questions, and in the same order.

The research uses three methods of collecting data for the purpose of the study:

- Web-based semi-questionnaires
- Semi-structured interviews
- Collection of annual reports.

The questionnaires and the interview questions were framed based on current legislation governing the public TVET colleges, primarily the CET Act and the King Codes requirements. Before being distributed, they were piloted with a principal and chairperson of the council. Piloting can contribute in ensuring the sufficiency of the questions, arrangement of the questions as well as the completeness of the content. It further helps to test that instructions are understandable and sufficient (Regmi *et al.*, 2016:642). The final versions that were administered for data collection did not have major changes for the pre-piloted version as few questions were removed or merged.

College principals were sent e-mails with the attached permission letter from the DHET, ethical clearance letter and a link to an online survey (<https://www.surveymonkey.com/r/ZHC39QL>). The e-mail requested them to complete a questionnaire through survey monkey. The benefits of web-based questionnaires through platforms like survey monkey are that they allow for quick development and administration of the surveys, data is collected and they have built-in tools for analysis, they are low cost and have fewer errors compared to manual data collection. The disadvantages are increased potential for low response rates, demographic biases and the lack of internet access (Maymone *et al.*, 2018:1456).

Council chairpersons were sent e-mail requests attached with the letter of permission from the DHET, ethical clearance and questions to be asked during the interviews. The e-mails requested the council chairpersons to the interviews, which were conducted face-to-face and over the telephone, depending on the availability of participants. Two council chairpersons lamented unavailability and requested to respond to the sent questions in writing and the submission were included in the data collection.

The data collection process was conducted in two phases. In phase one, principals were contacted, requested to complete questionnaires and to share their annual reports for the last two years. During phase two, council chairpersons were then sent the questionnaires electronically to for them to prepare for the interview. Telephone follow-ups were made to secure interview dates. During data collections, challenges were experienced with low responses and cancelation of appointments, which resulted in not being able to follow the data collection phases completely.

3.2.4 Target population

The population represents the individuals with the capacity to respond to the questions and to whom the outcomes of the study apply (Robinson, 2014:26). It also represents the total components of data sources with the legitimacy or characteristics to respond to the research questions (Rijinsoever, 2017:4). The more clearly a population is defined, the more valid and transparent any generalisation can be (Robinson, 2014:28).

The population in the study comprises of the 50 public TVET colleges in the nine provinces of South Africa: Gauteng (8); Mpumalanga (3); the North West (3); Limpopo (7); the Northern Cape (2), KwaZulu-Natal (9); Eastern Cape (8); the Free State (4); and the Western Cape (6) see figure and table 3.1:

MAP OF FET COLLEGES IN SOUTH AFRICA

LIMPOPO

- 1 Capricorn FET College, Polokwane
- 2 Lephalela FET College, Lephalela
- 3 Letaba FET College, Tzaneen
- 4 Mopani FET College, Phalaborwa
- 5 Sekhukhune FET College, Sekhukhune
- 6 Vhembe FET College, Sticks
- 7 Waterberg FET College, Mokopane

MPUMALANGA

- 1 Gert Steyn FET College, Standerton/Emale
- 2 Ehlanzeni FET College, Nelspruit
- 3 Nkangala FET College, Witbank

NORTH WEST

- 1 Orbi FET College, Rustenburg
- 2 Tlokweng FET College, Mmabatho
- 3 Vuwelwa FET College, Klerksdorp

GAUTENG

- 1 Central JHB College, Parktown
- 2 Ekurhuleni East FET College, Springs
- 3 Ekurhuleni West FET College, Germiston
- 4 Sediberg FET College, Vereeniging
- 5 South West FET College, Soweto
- 6 Tlhwane North FET College, Pretoria
- 7 Tlhwane South FET College, Pretoria
- 8 Western FET College, Randfontein

WESTERN CAPE

- 1 Boland FET College, Stellenbosch
- 2 College of Cape Town FET College, Cape Town
- 3 False Bay FET College, Westlake
- 4 Northlink FET College, Paarl
- 5 South Cape FET College, George
- 6 West Coast FET College, Malmesbury

KWAZULU NATAL

- 1 Coastal FET College, Kwa Makhutha
- 2 Blangeni FET College, Pinetown
- 3 Esayini FET College, Port Shepstone
- 4 Mquba FET College, New Castle
- 5 Mnkambithi FET College, Ladysmith
- 6 Mthasana FET College, Vryheid
- 7 Thekwini FET College, Asherville
- 8 Umfolosi FET College, Richards Bay
- 9 UMgungundlovu FET College, Pietermaritzburg

FREE STATE

- 1 Varkus FET College, Sasolburg
- 2 Goldfields FET College, Welkom
- 3 Matuli FET College, QwaQwa
- 4 Mafesha FET College, Bloemfontein

EASTERN CAPE

- 1 Buffalo City FET College, East London
- 2 East Cape Midlands FET College, Uitenhage
- 3 Khala FET College, Queenstown
- 4 Ingwe FET College, Mount Fere
- 5 King Hintsa FET College, Butterworth
- 6 King Sabata Dalindyebo FET College, Cico
- 7 Lovedale FET College, King Williams Town
- 8 Port Elizabeth FET College, Central Port Elizabeth

NORTHERN CAPE

- 1 Northern Cape Rural FET College, Upington
- 2 Northern Cape Urban FET College, Kimberley

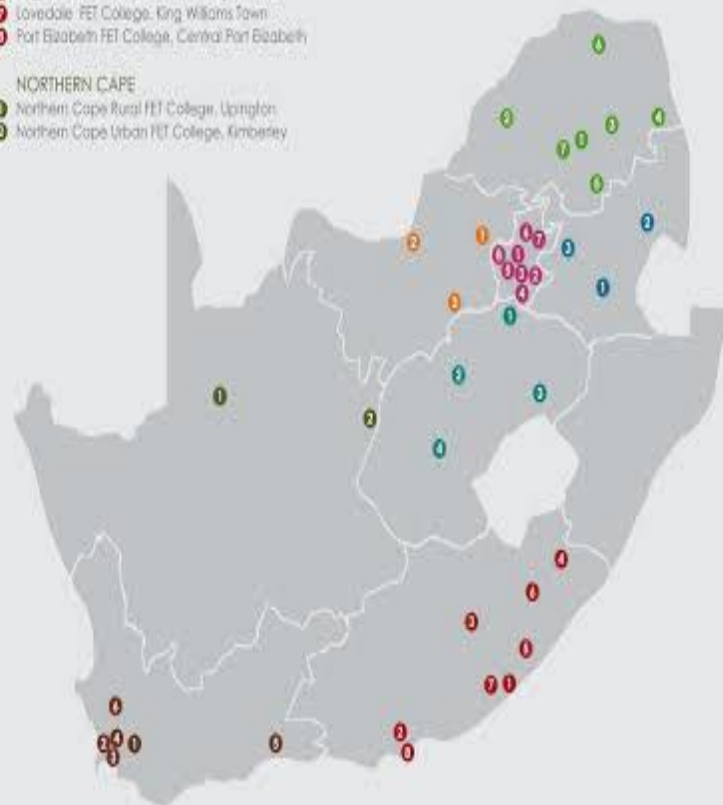


Figure 3.1: Map of public TVET colleges in South Africa

Source: (SASSA, <http://www.studentservices.org.za/programmes-services/map-of-universities/>)

Table 3.1: Public TVET Colleges in Provinces.

Province and Name of College	Province and Name of College	Province and Name of College
Eastern Cape Province	Gauteng Province	KwaZulu Natal
Buffalo City	Central Johannesburg	Coastal
Eastcape Midlands	Ekurhuleni East	Elangeni
Ikhala	Ekurhuleni West	Esayidi
Ingwe	Sedibeng	Majuba
King Hintsa	South West Gauteng	Mnambithi
King Sabata	Tshwane North	Mthashana
Lovedale	Tshwane South	Thekwini
Free State Province	Western College	Umfoloji
Flavius Mareka	Limpopo Province	Umgungundlovu
Goldfields	Capricorn	Western Cape Province
Maluti	Lephalale	Boland
Motheo	Letaba	College of CT
Mpumalanga Province	Mopani	False Bay
Ehlanzeni	Sekhukhune	Northlink
Gert Sibande	Limpopo Province	Western Cape
Nkangala	Vhembe	South Cape
	Waterberg	West Coast
North West	Northern Cape	
Orbit	Northern Cape Rural	
Taletso	Northern Cape Urban	
Vuselela		

(Source: own compilation)

Within the defined population, the researcher selected the following sub-population or sources of information. According to Rijnsoever (2017:3), a sub-population is the subset of information sources that are theoretically appropriate to answering the research question.

- Council chairperson representing the governing body. In terms Section 10 of the CET Act (16 of 2006), councils are entrusted with the governing responsibility of the TVET colleges and, therefore, ultimately responsible for putting systems of corporate governance and setting an ethical governance tone as required by King IV.

- College principals are in terms of Section 13 of the CET Act (16 of 2006) entrusted with the day-to-day management and administration of the colleges and implementing the governing body's strategic direction and accountable to the council in terms of Section 19(2) of the CET Act (16 of 2006).
- Annual reports of the public TVET colleges for 2017 and 2018.

3.2.5 Sampling

When the population and sources of information are clearly defined, the next step is for the researcher to decide on the size of the sample as well as the sampling strategy. Rijinsoever (2017:31) gives three possible sampling strategies:

- **Random sampling strategies** involve selecting a sample from a list of all (or most) cases within the sample defined population using some kind of random selection method.
- **Convenient sampling strategies** involve selecting a sample from people who are convenient in their proximity and willingness to participate. Conveniently and non-random selected influenced by certain practical criteria, such as accessibility, geographical proximity and time are factors that influence the sample selection (Etikan *et al.*, 2016:2).
- **Purposive sampling strategies** are non-random ways of ensuring that particular categories of sources of information within a defined population are represented in the final sample of a project. Purposive sampling strategies are selected subject to whether information is needed from a group or a group representative of required characteristics needed to respond to questions (Ramani & Mann, 2016: 458).

The researcher chose a combination of convenience and purposive sampling strategies in the selected the sample because of the geographical proximity to the researcher and the participants being relevant sources of information.. It is common in qualitative research to employ convenience and purposive sampling strategies (Ramani & Mann, 2016:458b). From the defined population of 50 public TVET colleges, the following 12 colleges were sampled based on convenience of close geographical proximity to the researcher, namely: Central Johannesburg, Ekurhuleni East, Ekurhuleni West, Sedibeng, Western College, South West Gauteng, Tshwane North, Tshwane South, Orbit, Nkangala, Capricorn and Waterberg College.

In the college structures, the council chairperson and the principals were purposively sampled as they are legislatively entrusted with matters of corporate governance at the colleges and thus will be more relevant to respond to questions.

Purposive sampling entails selecting from individuals or groups of individuals that have specific characteristics or knowledge about the study (Palinkas *et al.*, 2013; Teddlie, 2007:77 Ramani & Mann, 2016: 458, Rijnsoever, 2017:2). According to Mason and Trost, cited by Robison (2016:32), the logic for using a purposive strategy is that the researcher assumes that the participants will, based on their theoretical understanding of the topic being studied, deem that certain categories may have a distinctive and essential view on the phenomenon in question.

- In terms Section 10 of the CET Act (16 of 2006), council chairperson representing the governing body are entrusted with the governing responsibility of the TVET Colleges and therefore ultimately responsible for putting systems of corporate governance and setting an ethical governance tone as required by King IV.
- College principals are in terms of Section 13 of the CET Act (16 of 2006) entrusted with the day-to-day management and administration of the colleges, as well as with implementing the governing body's strategic direction and are accountable to the council in terms of Section 19(2) of the CET Act (16 of 2006).

Purposive sampling aims to choose information-rich sources whose study will illuminate the questions under study. Purposive sampling strategies are designed to enhance understandings of selected individuals or groups' experience(s) or for developing theories, (Rijnsoever, 2017:2).

3.2.6 Data analysis

Data analysis in qualitative research will continue simultaneously with other parts of developing the qualitative study, including the data gathering and the write-up of findings (Creswell, 2013:245). Castleberry and Nolen (2018:812) provides five steps to follow in analysing qualitative data. The five steps are compiling, which can involve:

- Transcribing data from to another source
- Disassembling through a process of coding to divide the raw data to usable categories or labels
- Reassembling using the codes or categories to formulate themes

- Interpreting the themes based on the research question and aims
- Reaching a conclusion of the responses to the research question.

The study employed a content analysis method to analyse and interpret the data. Content analysis is defined as a research technique that involves seeks meaning texts or written data by interfering with the context of the data use (Bengtsson, 2016:9). It is the methodical, objective and quantitative analysis of text content (Nueendorf, 2018:215). Content analysis is a research method that interprets the content of text data through the systematic classification process of coding and identifying themes or patterns (Hashemnezhad, 2015:58).

The analysis will take a deductive instead of an inductive approach. Bengtsson (2016:10) says in deductive reasoning, the researcher analyses collected data against established principles to establish a finding. Marvasti (2019:32) citing Ball and Smith outlines the steps to follow in content analysis:

- Define the research problem.
- Decide on the suitable source of data.
- Identify categories that the study will focus on.
- Sample documents from the sources previously defined.
- Measure the occurrence of the pre-established categories or themes.

From the research question and objectives, the following categories or themes were developed based on the questions posed in the interviews and questionnaires. The themes are outlined below in table 3.2:

Table 3.2: Deductive analysis themes

Prior theme	Meaning
Responsibilities of council	Council and principal understanding of the responsibilities of council.
Composition of council	Adherence to legislative requirements.
Committees of council	The number, names and compositions of the committees.
Functionality of audit and risk committees	Does the audit committee functions? Has it adopted a charter and disclosure in the annual report?

Prior theme	Meaning
Existence and functionality of internal audit and risk	Are the functions existing and operational?
Corporate governance disclosures	Are King IV corporate disclosures included in the annual reports?
Benefits of the current system of governance	Are there any benefits from the current governance system?
Shortcomings of the current system of governance	Are there any shortcomings to the system?

(Source: own compilation)

The interviews were recorded and uploaded on the Atlas.Ti programme, including the typed submissions by the two council chairperson. From the data uploaded on Atlas.TI, the researcher listened to the recording audio tapes, including the written word submissions. Through open coding, the data was labeled and categorised based on the prior theme analysed by comparing themes with the theory and searching similarities and differences, as well as missing information; and responses were tabulated according to themes and quantitated where necessary. The questionnaires were transferred from survey monkey, converted to word document and analysed using content analysis triangulated against the interview data tabulated. The contents of the annual reports were studied and corporate governance disclosures were looked at.

Erlignsson and Brysiewicz (2017:95) warn that in order to minimise the prospects of biased analysis, the researcher needs to be cautious of one's assumption, opinions and personal beliefs due to pre-understanding of aspects of the study.

Bengtsson (2016:8) says that the notion of pre-understanding can be an advantage to the research as long as it does not affect how the research approaches the participant or the interpretation of the data.

3.3 THE QUALITY AND RIGOUR OF THE RESEARCH

In order to ensure data quality and credibility of findings, the research design should be correctly managed at all phases of the research. It must be ensured that the sample is a representation of the population, all data collection protocols are followed, all data analysed and whether the findings can be generalised across the defined population (Nowell & Albrecht, 2018:355). Qualitative researchers should take into consideration matters such as reliability and validity while designing a study, analysing results, and judging the quality of the study (Cypress, 2017:256). Cypress (2017:256b) further cites Morse and colleagues that to achieve reliability and validity, the qualitative process must from the beginning put strategies to safeguard rigour and must and not to be proclaimed only at the end of the inquiry.

The rigour is the correct implementation of the research method (Nowell & Albrecht, 2018:352). In qualitative research, validity entails whether the tools, processes and data analysed are suitable and whether the research question is valid to achieve the set objectives (Leung, 2015:5). Leung (2015:6) further argues that reliability in qualitative research lies with consistency. Such can be achieved, among other things, through constant data comparison, comprehensive data use, extracting data from original sources and triangulation.

The following three strategies were used to manage the quality and rigour, as well as to ensure reliability and validity:

Sampling strategy - According to Robinson (2014:38), the elements of sampling such as the relationship between sample and population, the sampling strategy and how the sample fit the research question, play a critical role in strengthening the quality and rigour of the design. The study employed purposive sampling.

Data collection and triangulation - Joslin and Muller (2016:1045) say data triangulation involves using several sources of data to minimise biases, increase validity and strengthen the study. Triangulation of the research findings used multiple data sources to ensure rigour (Nowell & Albrecht, 2018:355b). The research findings were compared from the different data sets interviews, questionnaires and annual reports to validate the results.

Prior thematic saturation - Since the data was deductively analysed, the rigour of the study was achieved through prior thematic saturation, which is achieved when the identified codes and themes are shown in the data (Saunders *et al*, 2017:1897). The data was managed by ensuring that the pre-established themes are sufficiently represented in the data.

3.4 RESEARCH ETHICS

Researchers need to anticipate the ethical issues that may arise during the course of the study and should be considered through the research process (Creswell, 2013:132). Creswell further argues that ethics are to be observed at all the phases of the study:

- Prior to conducting the study: which include ethical clearance for the university and securing permission from the organisation and participants.
- Beginning of the study: not coercing or pressurising participants or being insensitive to vulnerable populations.
- Collecting data: not deceiving participants and treating participants equally.
- Analysing data: respecting the privacy and confidentiality of participants.
- Reporting, sharing, and storing data: managing the data safely and not falsifying research findings.

Prior to conducting the study, the researcher applied and secured ethical clearance from the faculty ethics committee. Forms requesting to conduct the research were sent to the DHET and the request was approved. The researcher requested further permission from each participant and advised participation is voluntary, including the right to confidentiality and to withdraw from the study at any time. None of the participants were coerced or forced to participate.

All colleges names were been coded alphabetically and the identities of the participants protected during data analysis and in communicating the findings. No vulnerable persons were subject of the study.

3.5 STUDY LIMITATIONS

According to Anderson (2010), some of the limitations prevalent in conducting a qualitative study includes the skills of the researcher or personal biases, subjective responses to the questions, the value of data to analysis and interpretation. The study was significantly limited by the low response from the councils chairpersons. The majority of the sampled colleges had interim councils who had not been fully constituted and the interim chairpersons were not willing to participate in the study. Time

constraints did not allow the sample to be increased or to replace the participants because it required an approval from the DHET.

3.6 CHAPTER SUMMARY

Chapter Three focused on the empirical study based on the research design and outlined the qualitative approach to the study. It showed the utilisation of purposive and convenient sampling in the TVET college defined population, how data was collected and analysed using content analysis. The chapter further highlighted the limitation of the study. The next chapter, chapter Four, will present the findings from the data collected on whether Public TVET colleges are implementing principles of corporate governance as required by the CET Act and guided by the King IV codes.

4 CHAPTER 4: PRESENTATION AND INTERPRETION THE RESULTS OF THE EMPIRICAL INVESTIGATION

4.1 INTRODUCTION

The previous chapter, Chapter Four, focused on the empirical study design. The chapter outlined the decision to employ a qualitative approach, how data was collected and analysed to investigate the practises of corporate governance within public TVET colleges. The chapter further presented the ethical considerations as well as limitations that proceeded in the study.

The purpose of this chapter is to present and discuss the results of the empirical study. The chapter will present the findings from the data collected on whether public TVET colleges are implementing principles of corporate governance as required by the CET Act and recommended by King IV.

4.2 SAMPLING AND RESPONSE RATE

The primary aim of the sample selection is to gather participants who are representative of the defined study population (Maymone *et al.*, 2018:1457). From the defined population of 50 public TVET colleges, 12 colleges were sampled based on convenience of close geographical proximity to the researcher, namely: Central Johannesburg, Ekurhuleni East, Ekurhuleni West, Sedibeng, Western College, South West Gauteng, Tshwane North, Tshwane South, Orbit, Nkangala, Capricorn and Waterberg College.

During data collection, it was discovered that one of the colleges had been recently put under administration and without a council and principal. The researcher removed the college from the sample and did not replace it because of time and logistical limits.

The final sample was 11 colleges accounting for 22% of the population size. According Robinson (2014:38), the adequacy of the sample size is critical in providing enough data for purposes of analysis and to strengthen the rigour of the study. Robinson (2014:31) further highlights that it is important that the researcher monitors and assesses the data collection process in order to adjust the sample size when necessary. Below are the number and categories of respondents:

Table 4.1. Data collection and response rate

Data collection instrument	Respondent	Response rate(%)
Online survey	Principals	8 (73%)
Interviews	Council Chairpersons	5 (45%)
Annual reports	Annual reports	8 (73%)
Average		81%

(Source: own compilation)

Table 4.1 illustrate the average response rate of all the source of data was 81%. 8 out of 11 principals completed the online survey, 8 annual reports we collected and analysed. The lowest response rate was from the councils chairperson with only 5 out of 11 interviewed, this was due to most councils not fully constituted during the study.

4.3 QUALITATIVE STUDY DATA ANALYSIS

The study employed a content analysis method to analyse and interpret the data. Content analysis is defined as a research technique that involves seeks meaning texts or written data by interfering with context of the data use (Bengtsson, 2016:9). It is the methodical, objective and quantitative analysis of text content (Nueendorf, 2018:215). Content analysis is a research method that interprets the content of text data through the systematic classification process of coding and identifying themes or patterns (Hashemnezhad, 2015:58).

The data was analysed using a deductive analysis approach. Bengtsson (2016:10) says in deductive reasoning, the researcher analyses collected information against established principles to establish a finding. Marvasti (2019:32) citing Ball and Smith outlines the steps to follow in content analysis:

- Define the research problem.
- Decide on the suitable source of data.
- Identify categories that the study will focus on.
- Sample documents from the sources previously defined.
- Measure the occurrence of the pre-established categories or theme.

The interviews were recorded and uploaded on the Atlas.Ti programme, including the typed submissions by the two council chairpersons. The researcher listened to the recording audio tapes and read the written word submission. Through open coding facility in the Atlas.Ti. A code is graphic theory developed by the researcher to capture the main root of the data (Theron, 2015: 4). The data was then labeled and categorised according to the prior theme. Data analysed by comparing themes with the theory and searching similarities and differences, missing information, and responses were tabulated according to themes and quantitated where necessary. The questionnaires were transferred from survey monkey, converted to word document and were analysed using content analysis triangulated against the interview data tabulated. The content of the annual reports was studied and corporate governance disclosures were looked at.

4.4 INTERPRETATION OF RESEARCH RESULTS

4.4.1 Theme 1: Responsibilities of council

King IV identifies four primary roles and responsibilities of the governing body, which are leadership and strategic direction, approving policy and planning, overseeing and monitoring of implementation and execution by management and accountability, as well as reporting and disclosures (IDoSA, 2016:49).

King IV requires the governing body in these responsibilities to govern the ethics of the organisation by developing and approving codes of conduct and ethics policies (IDoSA, 2016:44). The governing body should steer the strategic direction of the organisation by taking responsibility for the organisation's strategy and performance, and approve management policies and plans including targets and performance measures (IDoSA, 2016:46). The governing body should also set wide direction and develop overall organisational strategies, monitor and oversee operational performance, draw up organisational policies relevant for the achievement strategic objectives (Khanna, 2017:26). It must supervise management strategy and ensure adequate resources are allocated to achieve objectives (Shahzad *et al.*, 2016:102).

Section 10 (1) of the CET Act outlines the duties of a TVET college council. The Act requires the council of a public college to perform all the functions, including the development of a college statute, which are necessary to govern the public college subject to this Act and any applicable national or provincial law.

In order to understand the role of the council and management in the running of a college, the following questions were posed to the council chairpersons and principals:

- What role does the council and management play in the day-to-day running of the college?
- What is the role of the college council in the development of strategy formulation and policy development at your institution?

According to the principals, the council is responsible for drafting strategic plans, approving policies and playing oversight in the management of the college. One principal indicated that the council has no role in the management of the college. Some of the key words provided by principals in explaining the role of council are “guidance”, “oversight”, and “giving guidance and approving strategic plans and policies”.

Principal A: *“The council plays a crucial role in the college. However, its role is that of an oversight while the executive management (CEO, deputy principals) plays the one of managing the day-to-day operations of the college.”*

Principal A: *“Council remains the custodian of all policy formulations and amendments. The council plays the oversight role in the college. The council plays the vital role in the policy development e.g. statute, HR, SCM, etc.”*

According to the council chairperson, council is responsible for governance, developing strategic plan, and checking compliance with legislation. Some of the key words provided by chairpersons in explaining the role of the council includes “oversight”, “giving guidance” and “checking compliance”.

Council Chairperson A: *“The day-to-day running of the college is the responsibility of management. As council, we are a very strategic body. The council is responsible for the strategic direction; we have just concluded our five-year strategic plan developed together with management. Our job is to monitor the implementation of that plan and [to ensure that] goals are achieved.”*

Council Chairperson B: *“Remember the role of council is just to oversee processes. We do not run them. Which is the responsibility of the management of the college. We are only responsible for governance and oversight – to see that the college is compliant with the legislation.”*

Council Chairperson C: *“The involvement of the council must be 200% to assist the college in terms of strategic planning, like now we have done it with management for two days; we set and developed a five-year plan.”*

The respondents and participants views confirm that there is a general understanding of the roles of both council and principals in managing a public TVET college. Councils are responsible for developing strategic direction and policies, as well as oversight. Principals, as executives, are responsible for the implementation of the strategic direction and the day-to-day management of the college.

4.4.2 Theme 2: Composition of council

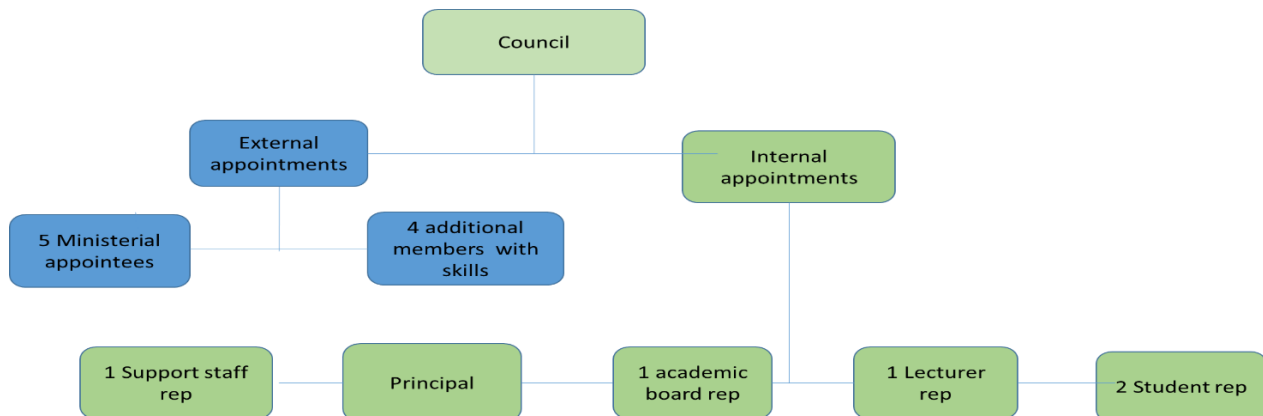


Figure 4.1: Legislative composition of college council
(Source: own compilation)

In terms of the CET Act, the council of the TVET college consists of the following members: the principal; five external persons appointed by the minister; one member of the academic governing body elected by the academic governing body; one external member representing donors; one lecturer of the public college elected by the lecturers of the college; one member of the support staff of the public college elected by the support staff; and two students of the public college elected by the student representative council of the public college.

In terms of Section 10(6), the council must, in consultation with the minister, appoint four additional external persons with financial, human resources and legal skills as members of the council. Based on the requirements of the Act, the majority of the council members will be external members who will provide a good balance in terms of the recommendation of King IV if the requirements of the CET Act are implemented.

The following questions were posed to council chairpersons in order to understand the composition of the council:

- What is the standing of your council at your college? Please tell us about the following:

- The composition of the council in terms of Section 10(4) of the CET Act.
- On a scale of one to five, one being “not functional” and five “very functional”, how would you rate the functionality of the council in terms of the contribution, attendance and skills of councilors

- Has the council appointed additional members in terms of Section 10(6) of the CET Act?

The DHET had recently reconstituted college councils in 2019 after the previous councils’ terms of office expired in October 2018. All councils in the sector are new. From the sampled colleges, all 11 colleges had only five external members appointed by the minister in terms of Section 10(4) of the CET Act. Three council chairpersons indicated that their councils were barely functional because they had not appointed additional external members in terms of Section 10(6) of the CET Act due to delays from the DHET after councils were shortlisted and recommend to the department. Only three colleges indicated that they had a full complement of council members as the rest were interim councils because of the delay in the appointment of additional skills in terms of Section 10(6). This indicate that selected colleges were not fully constituted and under capacitated to perform their oversight responsibilities.

4.4.3 Theme 3: Committees of council

King IV (IoDSA, 2016:54) says that the governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and effective discharge of its duties. It recommends the establishment of an audit committee; nomination committee; risk governance committee; remuneration committee and a social and ethics committee.

The CET Act does not prescribe which committees a governing body must establish; Section 12 of the Act gives powers to the council to establish committees to assist the council in executing its responsibilities. The section allows for the appointment of individuals to these committees who are not members of the council but the chairperson of the committee must be a member of the council.

In order to understand the composition and functionality of council committees, the following questions were posed to the council chairpersons and principals:

- What is the status of your sub-committees of council? Please tell us about the following:
 - number and names of sub-committees?

- composition (internal and external members)?
- how regularly do they meet versus minimum requirements?
- On a scale of one to five, one being “not functional” and five “very functional” – how would you rate the functionality of the council in terms of contribution, attendance, competence and impact?

According to the principals, the following council committees exist within the colleges: Human resources (6), Finance (5), Audit and Risk (6), Marketing, Facilities, Planning and Resources (3), Information and Communication Technology (ICT), Remuneration, Industry Liaison, Academic Board (2), Governance and Partnership and Exco (2).

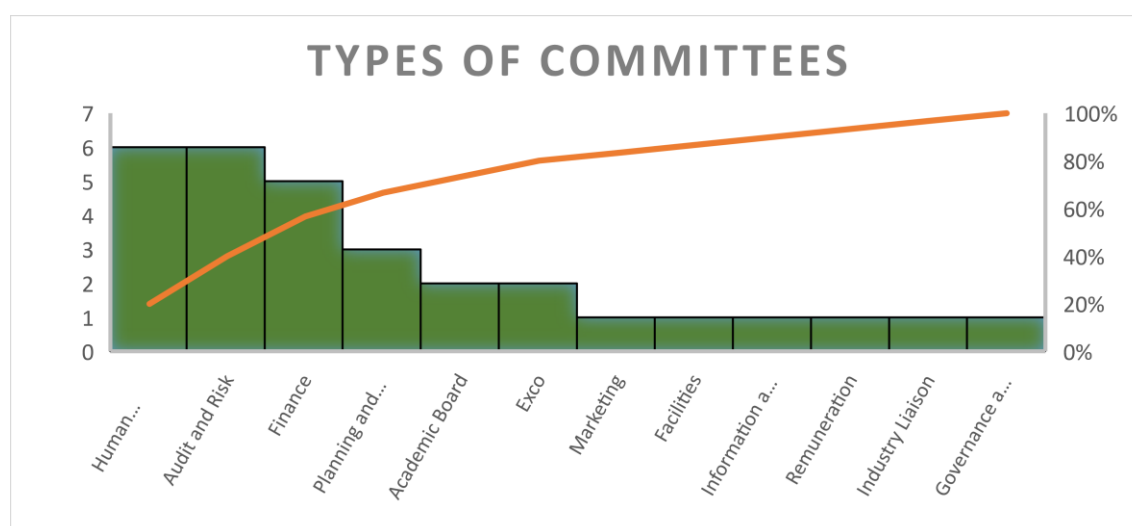


Figure 4.2: Types of Committees and frequency of mention

(Source: own compilation)

The council chairpersons responded that due to the delay in the appointment of additional skills in terms of Section 10(6), council committees were not formed yet. The council chairperson reported the existence of the following committees: Infrastructure and Resource Planning, Finance, Human Resource, Audit and Risk committee.

In terms of the composition, Section 12(2) of the CET Act says the chairperson of a committee must be a member of the council. Sub-section 4 of the Section 12 further empowers councils to: determine the composition of a committee; functions of a committee; procedure at meetings; and dissolution of a committee. The proper composition of governing bodies is also supported by Madi *et al.*, (2014:487) that the presence of independent directors or members as special in audit outcomes provides for effective monitoring and oversight since independent members will have no economic or personal

relationship with management. Effective monitoring is enhanced when the independent members of the board are deployed in more board committees, (Upadhyay *et al.*, 2014:1487).

The results from the data indicates that colleges have a balanced composition and blend of internal versus external, with the ratio between 50/50 and 40/60 across committees. Other colleges reported the appointment of independent members to form part of the audit and risk committees. The researcher further studied the contents of the annual reports of the sampled colleges. The reports contained a section of the governance and the established committees of councils, including the number of meetings attended for the reporting year. The exercise was able to triangulate as supplement the data collected from the council chairpersons and principals.

Regarding the principles of good corporate governance, King IV recommends the establishment of an audit committee; nomination committee; risk governance committee; remuneration committee and a social and ethics committee to assist the governing body with the balance of power and effective discharge of its duties. Colleges or councils have established the recommended committees except for the nomination committee and the social and ethics committee.

4.4.4 Theme 4: Functionality of audit and risk committees

Audit committees are regarded as important and persuasive elements of corporate governance in helping the governing body in its oversight responsibility of management oversight and assisting in reducing information asymmetry between the governing body and management, as well as improving the practice of financial reporting (Madi *et al.*, 2014:486-487). The protocol on corporate governance calls on the governing body to establish an audit committee. The committee should have at least two independent non-executive directors with the chairperson who is not the same person as the chairperson of the governing body (DPE, 2002:22).

The audit committee should have a minimum of three non-executive members of the governing body with adequate competence and experience to guide and monitor the accounting, the audit, the responsibility, ethical values as well as governance arrangements.

Key to the governing body's corporate strategy drive is the governing body's ability to provide oversight of the institutions risk management processes and ensure that the executive pursues objectives within the desired risk profile (OECD, 2015:47). In terms of its composition, the committee may have both executive and non-executive members; King IV recommends that when the

committees for risk and audit are separate, the governing body should consider having one or more members having joint membership of both committees (IDoSA, 2016:57).

The following questions were posed to the survey respondents and interview participants regarding the status of the audit and/or risk committee:

- Does the council have an audit committee and a risk committee?
- What is the composition of the committees regarding the split between internal and external members?

From the respondents, two colleges had a combined audit and risk committee, three had a separate audit and risk committees and two respondents did not answer the question relating to audit committees. In terms of composition, several respondents indicated that the audit committees are a blend of internal and external members with the majority being external council members or independent individuals with skills co-opted outside the council.

The results indicate that the audit and risk committees structurally possess the necessary independence to play that critical role of oversight. Regarding to functionality, one respondent indicated that the audit committee was not functional because the external members did not possess the experience. Five respondents indicated that the audit and risk committees were functionally motivated by reasons such as committees being able to hold meetings, members being knowledgeable and highly competent in issues of governance, understanding their roles and responsibilities and playing a very functional oversight role.

According to the council chairpersons, three had combined audit and risk committee, two had separate risk and audit committees. The committees were functional and had the necessary skills to perform its oversight responsibilities.

Council Chairperson A: *“Yes, we have on committee for both audit and risk, audit and risk committee that is very functional, it was 1 independent member and 3 external council members”*

Council Chairperson B: *“the term of the audit and risk committee expired with the previous council’s term of office, we are currently have the 5 ministerial appointees and we are waiting for the department to appoint them other members so that the committee can function, we are currently stretched .”*

The researcher further analysed the annual reports of the sampled colleges to verify the functionality and the number of meetings held. According to the annual reports, most of the colleges held the minimum of four meetings. Three colleges held additional two special seating which resulting in six meetings held. The chairpersons indicated that all audit committees have adopted formal charters.

On the overall indication of the results for the survey responses, the interview participation by council chairpersons and the analysis of the annual report reveals that will some colleges may not have functional committees due to the delay in the appointment of additional skills to councils. The audit and risk committees are independently composed with an adequate blend of internal and external members. In line with good governance practices, audit committees include a good number of independent members who are able to contribute to the independence and functionality of the audit and risk committees.

4.4.5 Theme 5: Existence and functionality of internal audit and risk management

The role of internal audit is to consult and guide management regarding the sound systems of risk management and internal control (Matei & Drumasu, 2015:500). The internal audit function assists the institution to achieve its objectives through a system to evaluate and improve the effective risk management, control and governance processes (Tshikovho, 2017:41). Mbewu & Barac (2017:18) place an even greater responsibility on the internal auditors, not to only detect deficiencies but to also ensure such deficiencies are corrected by ensuring the chief audit executive (CAE) follows up on the implementation of correction plans.

Section 25(1) (c) of the CET Act requires the council of a public TVET college to implement internal audit and risk management systems that are not inferior to the Public Finance Management Act. Moloi (2016:68) found that higher intuitions in South Africa did not properly disclosure information to the identified categories; this brings reservation on whether the institutions are implementing sound risks management strategies.

The following question were probed from the survey respondents and interview participants regarding the existence of the internal audit and risk functions.

- Does the college have a functional internal audit function and risk management function?

Seven of the respondents indicated the existence of the internal audit function, five indicated the existence of a risk management function and two did not have a risk management function.

The council chairpersons reported that the colleges had an internal audit function. The general compliant was that the internal audit function was not fully capacitated enough in terms of human resources. In most colleges, the function is held by one individual who is responsible for coordinating the work administratively as the functional responsibilities are outsourced to private audit firms.

Chairperson A: *“Yes we have an internal auditor, there not enough warm bodies. So the work is done by private consultants because we are above the budget requirements and cannot hire staff according to the Department.”*

Chairperson B: *“we do not have risk management function, the internal auditor assist with matters of risk management, we are not fully capacitated”*

Chairperson C: *“Yes, we have functional internal audit function as well as risk management, so work is done internally and other services outsourced were we don’t have skills”*

The overall results indicate that colleges have internal audit and risk functions as systems of good corporate governance. The results further indicate that the functions are not adequately capacitated and the internal audit work is outsourced to private firms. In terms of risk management, a commendable finding was that a college disclosed strategic risks identified and information relating to risk management at the college. This indicates the college is paying attention to matters of risk management and disclosure.

4.4.6 Theme 6: Corporate governance disclosures

The purpose of the disclosure is to provide transparency and to allow relevant stakeholders to assess the corporate governance process in place in the organisation. According to King IV, the governing body should decide on the necessary disclosures (IDoSA, 2016:38). It is the oversight duty of the governing body to ensure the integrity of external reports and to oversee that information relating to corporate disclosures, integrated reports and annual financial statements are available to stakeholders through relevant platforms (IDoSA, 2016:48).

King IV requires that organisations, through their governing bodies, should disclosure the application of the principles in terms of the “apply and explain” (IDoSA, 2016:37). In terms of the protocol issued by the DPE, the audit committee should disclose in the annual report whether or not the audit

committee has adopted formal terms of reference and that whether for the reporting year the committee has carried its responsibilities as per the requirements of the terms of reference (DPE, 2002:23).

In 2015, the DHET issued annual reports technical guidelines for TVET colleges. The guidelines require for colleges to disclose governance matters related to names of council chairperson and members, as well as their designated functions; appointments made in the year in terms of Sections 10(4) and 10(6) of the CET Act; the number of meetings held and for what reasons; and performance in terms of its statutory functions explained in Section 10(1)-(3) of the CET Act (DHET: 2015:12). The guidelines further require disclosures about the management of risk management including fraud and disclosure reports of council committees (DHET, 2015:13).

The results analysed the annual reports of the sampled colleges in order to investigate whether TVET colleges are disclosing corporate governance processes in their annual reports. From the annual reports at a general level, colleges are disclosing governance processes as required by the DHET. It was also found that colleges are not disclosing adequate risk management information; most colleges provided information at high and academic level without detailed information.

The table below indicates the positive disclosures relating to different governance processes that align to principles of corporate governance.

Table 4.2: Type of annual reports disclosures

Type of disclosures / information	No colleges disclosing
Detailed risk management, including identified risks and assessments.	One
Resolutions of council and committees.	Three
DHET disclosure requirements: number of meetings held; reasons; and names of committee members.	Eight
Audit committee terms of references.	One

(Source: own compilation)

The table and the analyses of the reports indicate that colleges are disclosing corporate governance processes based on the minimum recommendation of the DHET. College are yet to implement King IV requirement relating to the disclosure of the application of the principles in terms of the “apply and explain” (IDoSA, 2016:37).

4.4.7 Theme 7: Benefits and shortcomings of the current system of governance

The survey respondents and interview participants were asked to indicate the biggest shortcomings / disadvantages of the current corporate governance practices at TVET colleges.

According to the principals, four of the respondents indicated that there were currently no shortcoming in relation to the current governance practices. The other respondents raised shortcomings such as inadequate training and induction of council members, the lack of autonomy from the DHET and the growing sector not being able to cope with the demanding corporate governance changes.

Principal A: *“It is that the corporate governance practices are wide and constantly changing. The sector is growing very fast and we have to cope with the changes.”*

Council chairpersons complained about the autonomy or powers of council versus those of the department. The statements concur with some of the shortcomings raised by the principals about autonomy and bureaucratic structures of the department that affect prompt decision-making.

Chairperson A: *“The challenges with filling of vacancies like principals and deputy principals... Councils should have full control from the department to take such decisions. Some council decisions must first be approved by DHET, that delays processes.”*

Chairperson B: *“You find that certain powers which we believe should belong to council are still done by the department. I don’t know whether the department is doubting the maturity of the councils. One good example is the evaluation of the principal’s performance not being done by council and the effect is that these guys will ignore council.”*

Chairperson C: *“The council does not have a secretary and relies on the principal’s secretary for information. There are no proper mechanisms to ensure that information is correct and sometimes the principals will not share DHET circulars with councils.”*

Regarding the benefits or advantages that emanate from the current governance systems, participants noted the following: the systems provide for clear roles as both council and management are aware of their responsibilities, development policies, good internal controls, compliance and ethical leadership. There are good stakeholder relations between the governing partners in the college. One principal indicated that there was no benefit or advantage from the current system.

Council chairperson A: *“For now, I cannot say there are any advantages with the current system. We will evaluate that when the council is fully constituted.”*

Council Chairperson B: *“I appreciate the current model. First of all, the constitution of the council has got ministerial appointees and additional skills. I assume the community is represented and the business community (donors), the model accommodates different stakeholders.”*

4.4.8 Theme 8: King IV principles and the responsibilities of councils

During the interviews with council chairpersons, the following five questions were asked from councils based on the recommendation of King IV on the duties of governing bodies.

1. What leadership role does the council play in setting an ethical culture within the college leadership?

Council chairperson A: *“I don’t know from which perspective I should answer but in the current council, we don’t have yet. In another college where I served before, we had processes, including an ethics committee.”*

Chairperson B: *“Last month I attended an ethics training. I am going to be certified as an ethics practitioner. At the college we do not have that but I have told them that we need to comply.”*

2. How does the council consult with stakeholders and report to stakeholders on the work of the college?

Chairperson A: *“That is another challenge. When we started, I told them we needed to have a stakeholder relations committee and we are busy with the terms of references and we plan to have this committees per campus.”*

Chairperson B: *“We do not have. But our biggest stakeholder is the students whom we consult through the SRC.”*

Chairperson C: “We do not have clear processes as yet.”

3. What mechanisms does the council have in evaluating the performance of council, its committees, chairperson and executive management? (do the mechanisms have impact?)

Chairperson A: “We are waiting for the appointment of additional skill but we do have templates. It is something we look to introduce.”

4. Apart from compliance governance, has the council adopted any codes and standards to support its role as a crucial point and custodian of corporate governance in the college?

Chairperson: “Yes we do, council has a code of conduct that every member must adhere to.”

5. What mechanisms does the council have to ensure the integrity of information for internal decision-making and external reporting? Is the information supplied by management reliable?

Chairperson: “It’s a challenge. Currently we are using the services of the principal’s secretary and we rely on her for information, which is riskier as she might side with the principal. The person responsible for council administration went on pension and we are working to fill the vacancy.”

The responds from the participants indicate that colleges or councils were not adhering to the recommended good corporate governance from the King IV. These can further be attributed to the fact that the majority of the councils are recent appointments and not all councils have been fully constituted. These has had an impact on the setting up of systems in place. The current appointment system does not consider retention strategies that will ensure that councils do not start from beginning every five years with new appointments.

4.5 CHAPTER SUMMARY

This chapter presented and interpreted the results of the empirical study. The data interpreted was collected qualitatively through semi-structured questionnaires completed by college principals, interviews conducted with the council chairperson and the content analysis of 2017 and 2018 annual reports received from colleges. The data was analysed and categorised into themes and the findings indicate that:

- There is a general understanding of the roles of both council and principals in managing a public TVET college.

- The TVET colleges were not full constituted with outstanding appointments in terms of section 10(6) of the CET Act.
- Colleges have functional council committees with a balanced composition and blend of internal versus external, with the ratio between 50/50 and 40/60 across committees.
- Colleges have functional audit and risk committees that meet regularly.
- Internal audit and risk management is under-resourced and most of the work is conducted by private providers.
- Colleges are disclosing corporate governance processes based on the minimum recommendation of the DHET. College are yet to implement King IV requirements relating to disclosure the application of the principles in terms of the “apply and explain”.
- Councils do not have mechanism to lead matters of ethics and ethical culture.

The last chapter (five) will focus on the conclusions drawn from the research findings and further provides recommendations emanating from the findings, as well as limitations of the study to corporate governance practices within selected TVET colleges.

5 CHAPTER 5: CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

The previous chapter outlined and deliberated on the results of the study, as well as the analysis of these results. The focus of this chapter is to provide a summary of the study by proving the objectives articulated in Chapter One, if they have been achieved and to draw conclusions from the research findings.

The following primary and secondary research objectives were presented in the first chapter:

5.1.1 Research objectives

- **Primary objective**

The general objective of this research is investigate the corporate governance systems in the public TVET colleges.

- **Secondary objectives**

The specific objectives of this research are:

- To understand the legislative and regulatory requirements applicable to TVET colleges regarding corporate governance.
- To understand the systems and structures of governance in the TVET colleges.
- To investigate whether the systems of corporate governance at public TVET colleges are aligned to legislative requirements and King codes.
- To investigate whether TVET colleges are disclosing corporate governance processes in their annual reports.

Previous studies (Coetzer, 2008; Moloi & Adelowotan, 2019; Mothapo, 2014; Wedekind, 2010) outlined some of the corporate governance challenges that TVET colleges have recently being experiencing. In 2017, after completion of the 2016 regularity audit, the AGSA reported the following findings: 10 colleges had received disclaimer audit opinion with only nine receiving clean audits in 2016. The AGSA further reported the following colleges that needing intervention with matters relating to:

- oversight (10)
- risk management (15)
- internal audit functions (13)
- audit committees (13).

From the above background, it was perceived that public TVET colleges might be experiencing corporate governance challenges.

5.2 MAIN FINDINGS FROM THE STUDY

Findings are based on the literature study and the empirical research. The literature established in Chapter Two and empirical findings in Chapter Four are used to demonstrate the achievement of specific objectives formulated in Chapter One.

5.2.1 Objective one: to understand the legislative and regulatory requirements applicable to TVET colleges regarding corporate governance

As articulated in section 2.4 and 4.4.2 of the study, the governance and administration of TVET college is provided in the Continuing Education and Training (CET) Act. Section 10 of the CET Act says the council of a public college must perform all the functions, including the development of a college statute, which are necessary to govern a public college, subject to the CET Act and any applicable national or provincial law. In terms of Section 13 of the CET Act, the principal of a public college is responsible for the management and administration of the college. In terms of Section 19, the principal must report and be accountable to the council in respect of matters and functions allocated to them by the council in terms of the CET Act and must report to the DHET in terms of his or her performance agreement.

Section 195(1) of the Constitution of the Republic of South Africa requires the governance of public administration by the democratic values and principles enshrined in the Constitution, including among other things, the following principles that underpin good corporate governance:

- Maintaining a high standard of professional ethics.
- Promoting efficient, economic and effective use of resources.
- Accountable public administration.

- Transparency must be fostered by providing the public with timely, accessible and accurate information.

In terms of the CET Act, Section 10 (4), the TVET college council consists of the following members: the principal; five external persons appointed by the minister; one member of the academic governing body elected by the academic governing body; one external member representing donors; one lecturer of a public college elected by the lecturers of the college; one member of the support staff of a public college elected by the support staff; and two students of a public college elected by the student representative council of a public college.

In terms of Section 10(6), the council must, in consultation with the minister, appoint four additional external persons with financial, human resources and legal skills as members of the council. Section 12 of the CET Act gives powers to the council to establish committees to assist the council in executing its responsibilities. The section allows for the appointment of individuals to these committees who are not members of the council but the chairperson of the committee must be a member of the council.

5.2.2 Objective two: To understand the systems and structures of governance in the TVET colleges

According to the respondents, councils are responsible for developing strategic direction, policies and oversight; and principals, as executives, are responsible for the implementation of the strategic direction and day-to-day management of the college. The council is responsible for governance and oversight while college management is responsible for the day-to-day running of the colleges. The CET Act, Section 10 (1) outlines the duties of a TVET college council. The Act requires the council of a public college to perform all the functions, including the development of a college statute, which are necessary to govern the public college, subject to this Act and any applicable national or provincial law. In terms of Section 13 of the CET Act, the principal of a public college is responsible for the management and administration of the college. In terms of Section 19, the principal must report and be accountable to the council in respect of matters and functions allocated to them by the council in terms of the CET Act and must report to the DHET in terms of his or her performance agreement.

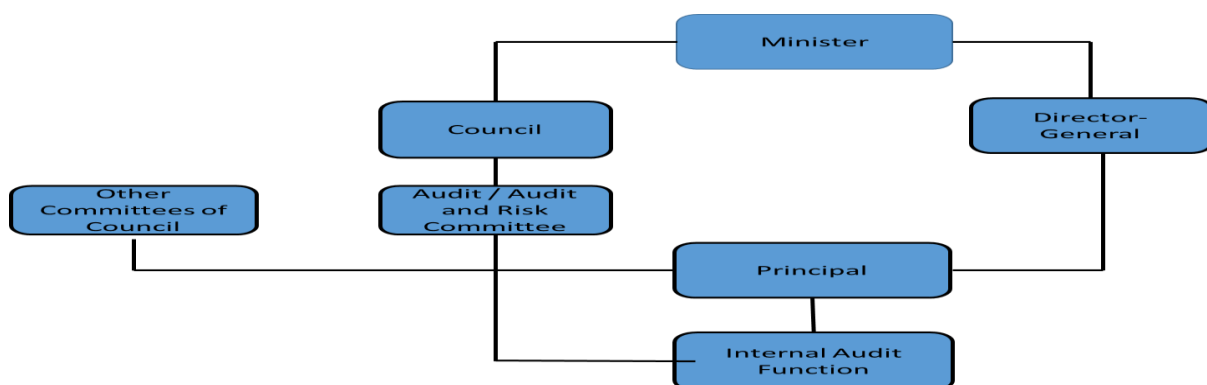


Figure 5.1: TVET college governance structure

(Source: own compilation)

According to figure 5.3.2, which demonstrates the administration and governance structures as stipulated in the CET Act, the Minister of Higher Education is the executive authority of all public TVET colleges. The Director General of Higher Education is the accounting authority to whom principals report administratively. Councils are responsible for governance and oversight over the administration and reporting to the Minister of Higher Education and principals are accounting officers of TVET colleges reporting to the Director General administratively or functionally and to the council on matters of oversight.

Section 25(1) (c) of the CET Act requires the council of a public TVET college to implement internal audit and risk management systems that are not inferior to the Public Finance Management Act. The overall results indicate that colleges have internal audit and risk functions as systems of good corporate governance.

5.2.3 Objective three: to investigate whether systems of corporate governance at public TVET public colleges are aligned to legislative requirements and King codes

In order to address objective three, the following four themes are discussed in line with legislative requirements and King codes. They are; composition of the structure of governance; the role and function of the governing body; committees of the governing body; and systems of internal audit and risk management.

The composition of structures of governance

The composition of the college governance structures are articulated in the CET Act. According to Section 10(4) , the college council consists of the following members: the principal; five external persons appointed by the minister; one member of the academic governing body elected by the academic governing body; one external member representing donors; one lecturer of a public college elected by the lecturers of the college; one member of the support staff of a public college elected by the support staff; and two students of a public college elected by the student representative council of a public college.

Section 10(6) further provides for councils in consultation with the minister to appoint four additional members with skills in financial, human resources and legal. According to the Act, a fully constituted council will have 16 members with 10 external members who constitute a majority of external or non-executive.

According to King IV, a governing body must comprise of the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively (IDoSA, 2016:50). This indicates that in general, councils' compositions are aligned to the recommendation of King code and correctly positioned to provide independent, objective and effective functions. See 4.4.2 of the study.

The role and function of the governing body and structures

Section 10 (2) of the CET Act gives councils the following responsibilities:

1. The council of a public college must perform all the functions, including the development of a college statute, which are necessary to govern the public college, subject to this Act and any applicable national or provincial law.
2. The council must, with the concurrence of the academic board:
 - a. develop a strategic plan for the public college which must:
 - i. incorporate the mission, vision, goals and planning for funding of the college
 - ii. address past imbalances and gender and disability matters
 - iii. include safety measures for a safe learning environment for students, lecturers and support staff
 - iv. be approved by the member of the executive council.
 - b. determine the language policy of the public college, subject to the approval of the member of the executive council

- c. ensure that the public college complies with accreditation requirements necessary to provide learning programmes in terms of standards and qualifications as registered on the National Qualifications Framework.

King IV identifies four primary roles and responsibilities of the governing body, which are: leadership and strategic direction; approving policy and planning; overseeing and monitoring of implementation and execution by management and accountability; reporting and disclosures (IDoSA, 2016:49). King IV requires the governing body in these responsibilities to govern the ethics of the organisation by developing and approving codes of conduct and ethics policies (IDoSA, 2016:44). The governing body should steer the strategic direction of the organisation by taking responsibility for the organisation's strategy and performance, and approving management policies and plans, including targets and performance measures (IDoSA, 2016:46).

The results (see section 4.4.1) of the study indicated that councils have limitations in exercising full corporate governance, the current role of councils is more on compliance governance because of limitation of powers and autonomy from the DHET.

Committees of the governing bodies or structure

Section 12 of the CET Act gives powers to the council to establish committees to assist the council in executing its responsibilities. The section allows for the appointment of individuals to these committees who are not members of the council, but the chairperson of the committee must be a member of council. King IV (IoDSA, 2016:54) says that the governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and effective discharge of its duties. It recommends the establishment of an audit committee; nomination committee; risk governance committee; remuneration committee; and a social and ethics committee.

In terms of its composition, the committee may have both executive and non-executive members. King IV further recommends that when the committees for risk and audit are separate, the governing body should consider having one or more members having joint membership of both committees (IDoSA, 2016:57). The current practice within corporate governance is to have a single committee responsible for risk governance and assurance oversight in the form of audit and risk committees. King IV recommended that if the governing body delegates risk governance to the audit committee,

the audit committee should satisfy that it provides for adequate attention to matters relating to risk governance (IDoSA, 2016:55).

The results (see section 4.4.3) indicated the existence of the following committees names and the number of times the committees have been mentioned: Human Resources (6), Finance (5), Audit and Risk (6), Marketing, Facilities, Planning and Resources (3), Information and Communication Technology (ICT), Remuneration, Industry Liaison, Academic Board (2), Governance and Partnership and Executive committees (2).

The results further indicated that colleges have a balanced composition and blend of internal versus external, with the ratio between 50/50 and 40/60 across committees. Other colleges reported the appointment of independent members to form part of the audit and risk committees. The structuring of the committees are in line with the recommendation of King IV.

Systems of internal audit and risk management

According to the OECD, the internal audit function plays a critical role as a system for the governing body to monitor the executive. The internal auditors must report to an independent governing body to protect the independence of the internal audit function (OECD, 2015:49). King III advocates for a risk-based internal audit instead of a compliance approach. According to King III, a risk-based approach is more beneficial and adds value because it allows the internal auditors to assess whether controls are adequate for the risks that arise from both the strategic and operational direction of organisations. As the governing body needs to report on the adequacy of the internal controls, the internal audit should provide the audit committee with the annual report on the assessment of the adequacy of internal controls and the audit committee report to the governing body (IDoSA, 2009:17).

Section 25(1) (c) of the CET Act requires the council of a public TVET college to implement internal audit and risk management systems that are not inferior to the Public Finance Management Act (PFMA). The Treasury regulations of the PFMA, in reference to the matters relating to internal audit and risk management, treasury regulations, regulation 27.2 say:

- The accounting authority (governing body) must facilitate a risk assessment to determine the material risks to which the entity may be exposed and to evaluate the strategy for managing these risks.
- The strategy must be used to direct the internal audit effort and priority, and to determine the skills required for managing these risks.

- The accounting authority must establish an internal audit unit.
- The internal audit unit must be independent, with no limitation on its access to information.

The results indicated the existence of the internal audit and risk management functions. It was further found the functions are not properly capacitated in terms of human resources and the work is mainly outsourced to private service providers. The inadequate capacitation of the functions may be a hindrance to implementing effective systems as required by both the CETA and PFMA.

5.2.4 Objective four: To investigate whether TVET colleges are disclosing corporate governance processes in their annual reports

It is the oversight duty of the governing body to ensure the integrity of external reports and to oversee that information relating to corporate disclosures, integrated reports and annual financial statements are available to stakeholders through the relevant platform (IDoSA, 2016:48). King IV requires that organisations through their governing bodies should disclose the application of the principles in terms of the “apply and explain” (IDoSA, 2016:37).

The purpose of the disclosure is to provide transparency and to allow relevant stakeholders to assess the corporate governance process in place in the organisation. According to King IV, the governing body should decide the necessary disclosures to be made (IDoSA, 2016:38).

It is the oversight duty of the governing body to ensure the integrity of external reports and to oversee that information relating to corporate disclosures, integrated reports and annual financial statements are available to stakeholders through relevant platforms (IDoSA, 2016:48).

The findings from the analysed annual reports indicates that generally, colleges are disclosing governance processes as required by the DHET. As discussed previously, DHET (2015:12-13) requires college to disclose governance matters related to:

- names of council chairperson and members as well as their designated functions
- appointments made in the year in terms of Sections 10(4) and 10(6) of the CET Act
- number of meetings held and for what reasons; and performance in terms of its statutory functions, explained in Section 10(1)-(3) of the CET Act
- disclosures about the management of risk management, including fraud and disclosure reports of council committees.

Based on the requirements of King IV, colleges are reporting adequate information to stakeholders in terms of the governance of the college and the functionality of councils. The annual report of colleges include information of performance, annual financial statements, and independent audit reports. College are yet to implement King IV requirements relating to disclosure the application of the principles in terms of the “apply and explain” on the application of King IV principles of corporate governance (IDoSA, 2016:37).

5.3 CONTRIBUTION OF THE STUDY

The study was expected to contribute to the body of knowledge of corporate governance within TVET colleges as well as assist councils and management of TVET colleges to measure the implementation of governance according legislation and in terms recommended corporate governance codes in the sector. As outlined in section 5.2, the study has provided an understanding of corporate governance practices within the public TVET college sector. Relevant legislation requirements were identified from the CET Act and PFMA that regulates corporate governance in public TVET colleges. The study further outlined corporate governance practices existing within the sector and assessed their alignment with King code.

5.4 CONCLUDING REMARKS

The purpose of the study was to investigate the corporate governance systems in the public TVET colleges. The qualitative research method and exploratory approach were used, data was collected through semi-structured questionnaires and interviews, as well as annual reports of selected colleges. The data was deductively analysed using prior themes and the findings are as follows:

1. There is a general understanding of the roles of both the council and principals in managing a public TVET college.
2. The TVET colleges were not full constituted with outstanding appointments in terms of section 10(6) of the CET Act.
3. Colleges have functional council committees with a balanced composition and blend of internal versus external, with the ratio between 50/50 and 40/60 across committees.
4. Colleges have functional audit and risk committees that meet regularly.
5. Internal audit and risk management is under resourced and most of the work is conducted by private providers.

6. Colleges are disclosing corporate governance processes based on the minimum recommendation of the DHET. College are yet to implement King IV requirements relating to disclosure the application of the principles in terms of the “apply and explain”.
7. Councils do not have mechanism to lead matters of ethics and ethical culture.

The primary and research objectives presented in the first chapter have been achieved.

5.5 RECOMMENDATIONS

Based on the findings in chapter four and the conclusions in the current chapter, the following recommendations are made.

5.5.1 Council autonomy and independence

The current governance system of TVET colleges, where the principals’ dual report to the department and their respective councils has a potential to undermine good corporate governance. The department should consider developing regulations in line with the CET Act that exemplify the roles of councils and the department in the college, including the performance assessment of principals.

5.5.2 Information and asymmetry and integrity risk

Councils are required to ensure that management information is reliable for decision-making purposes and reporting to stakeholders. Current councils do not have adequate controls to mitigate the risk. The following recommendations are made considering the above:

- Strengthen the capacity of council committees with the appropriate skills and resources to process management information at sub-committee level before reports are tabled to councils.
- Capacitate the internal audit function with necessary independence to perform their function and report to the audit committee.
- Nominate or regular invitation of other members of management in council committees and to council meetings.

5.5.3 Corporate governance codes

The findings indicate that councils are more focused on compliance governance as required by legislation. In order to add more value in the TVET college sector, councils must consider training in King codes and other codes to contribute to matters such as strategy formulation, risk management, performance monitoring and ethics or adoption of King corporate governance principles.

5.5.4 Council performance assessment

The findings indicates that councils do not currently have mechanisms in place to evaluate the performance of the council and its committees. The councils should designate a committee or the nomination committee to manage the assessment of the council, the chairperson, as well as the committees of council. King IV recommends that a dedicated nomination committee should be put in place with special focus on matters relating to processing nominations, electing and appointing members of the governing body, succession planning for governing body members, as well as the evaluation of the performance of the governing body (IDoSA, 2016:56).

5.6 FURTHER RESEARCH RECOMMEDATION

The focus on the study was on the corporate governance practices as required by relevant legislation and King Codes within the TVET colleges. It is recommended that further study be conducted on the following areas:

- Are corporate governance practices contributing to the performance of public TVET colleges?
- The effectiveness of stakeholder governance model in providing oversight at public TVET colleges.

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APPENDIX A
- Data collection instruments -

INTERVIEW QUESTIONS CHAIRPERSON OF COUNCIL

Legislative requirements

1. What role does council and management play in the day-to-day running of the college?
2. What is the role of the college Council in the development of strategy formulation and policy development at your institution?
3. What is the standing of your council at your College? Please tell us about the following:
 - a. Composition of council in terms of **section 10(4)** of the **CET Act**
 - b. On a scale of 1 to 5, 1 being “not functional” and 5 “very functional”, how will you rate the functionality of the Council in terms of contribution, attendance and skills of councilors (Please motivate for your answer)
4. Has council appointed of additional skills in in terms of **section 10(6)** of the **CET Act**
5. What is the status of your sub committees of Council? Please tell us about the following:
 - a) Number and names of sub committees
 - b) Composition (internal and external members)
 - c) How regular do they meet vs minimum requirements
 - d) On a scale of 1 to 5, 1 being “not functional” and 5 “very functional” How will you rate the functionality of the Council in terms of contribution, attendance, competence and impact? (Please motivate your answer)
6. Does the Council have an independent audit committee in terms of reporting to Council?
 - Current composition (number of members, internal vs external members)
 - On a scale of 1 to 5, 1 being “not functional” and 5 “very functional” how will you rate the functionality of the committee in terms of contribution, attendance, competence and impact (Please motivate for your answer)
7. Does the Council have a risk committee?
 - Current composition (number of members, internal vs external members)
 - On a scale of 1 to 5, 1 being “not functional” and 5 “very functional” how will you rate the functionality of the committee in terms of contribution, attendance, competence and impact, (Please motivate for your answer)
8. Does the college have a functional internal audit function and risk management function?

9. Is the internal audit function reporting to the audit committee in terms of **sections 76 and 77 of the PFMA**?

King IV Principles of Corporate Governance

6. What leadership role does the Council play in setting an ethical culture within the college leadership?
7. How does the council consult with stakeholder and reporting to stakeholders on the work of the college?
8. What mechanisms does the Council have in evaluating the performance of Council, its committees, chairperson and executive management? (do the mechanisms have and actual impact)
9. Apart from compliance governance, has the Council adopted any codes and standards to support its role as a crucial point and custodian of corporate governance in the college?
10. What mechanisms does the Council have to ensure the integrity of information for internal decision-making and external reporting, information supplied by management is reliable?
11. Has the audit committee adopted an audit committee charter?
12. Does the audit committee disclose in the annual report whether or not the audit committee has adopted formal terms of reference?
13. Does the college provide corporate disclosures to stakeholders in their annual reports or other platform?
14. What is the biggest benefit/ advantage of the current corporate governance practises for the TVET colleges? (explain)
15. Are the shortcomings/ disadvantages of the current corporate governance practices at the TVET colleges? (explain)

SEMI-STRUCTURED QUESTIONNAIRES COLLEGE PRINCIPALS

1. What is the role of council in the day to day running of the college?
2. What is the role of the college Council in the development of strategic plan and policies at your institution?
3. What is the status of your sub committees of Council? Please tell us about the following:
 - Number and names of sub committees
 - Composition (internal and external members)
 - How regular do they meet vs minimum requirements
 - On a scale of 1 to 5, 1 being “not functional” and 5 “very functional” How will you rate the functionality of the Council in terms of contribution, attendance, competence and impact? (Please motivate your answer)
4. Does the Council have an independent audit committee in terms of **section 77** of the **PFMA**?
 - Current composition (number of members, internal vs external members)
 - On a scale of 1 to 5, 1 being “not functional” and 5 “very functional” how will you rate the functionality of the committee in terms of contribution, attendance, competence and impact (Please motivate for your answer)
5. Does the Council have a risk committee?
 - Current composition (number of members, internal vs external members)
 - On a scale of 1 to 5, 1 being “not functional” and 5 “very functional” how will you rate the functionality of the committee in terms of contribution, attendance, competence and impact, (Please motivate for your answer)
6. What influence does the sub-committees of Council have on the operation of various departments of the college?
7. Does the college have a functional internal audit function and risk management function?
8. Kindly explain the role of the Council and Department of Higher Education and Training in relation to oversight and management of the college?
9. What is the biggest benefit/ advantage of the current corporate governance practises for the TVET colleges?
10. Are the shortcomings/ disadvantages of the current corporate governance practices at the TVET colleges?

APPENDIX B
- Ethical clearance approval -



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31 May 2019

Prof R Lotriet
Per e-mail

Dear Prof Lotriet,

**FEEDBACK – ETHICS APPLICATION 31052019 – S A Mokoena
(30662494)(NWU-00739-19-A4) MBA – Prof R Lotriet**

Your ethics application on *An investigation of corporate governance practices at selected TVET colleges that served on the EMS-REC meeting of 31 May 2019* refers.

Outcome:

Approved as a minimal risk study. A number NWU-00739-19-A4 is given for three years of ethics clearance. Kindly forward the Permission letter from the institution before the study is conducted via round-robin.

Kind regards,

Prof Mark Rathbone
Deputy Chairperson: Economic and Management Sciences Research Ethics Committee (EMS-REC)Potchefstroom

APPENDIX C
- Approval to conduct research -



higher education & training

Department:
Higher Education and Training
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Mr Sifiso Mokoena
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By e-mail: Mokoena.S@dhet.gov.za

Dear Mr Mokoena

REQUEST FOR PERMISSION TO CONDUCT RESEARCH AT TECHNICAL AND VOCATIONAL EDUCATION AND TRAINING COLLEGES: AN INVESTIGATION TO CORPORATE GOVERNANCE WITHIN SELECTED PUBLIC TVET COLLEGES IN SOUTH AFRICA

I acknowledge receipt of your request for permission to conduct research at twelve (12) Technical and Vocational Education and Training (TVET) Colleges on the topic: *"An investigation to corporate governance within selected public TVET Colleges in South Africa"*

The Department of Higher Education and Training has evaluated your request and it is my pleasure to inform you that your request for permission to undertake the above research has been granted. As part of your research, it is noted that you will collect data by distributing questionnaires to twelve (12) TVET College Principals, and conduct one-on-one interviews with twelve (12) Council Chairpersons.

You are advised to obtain further permission from participants before commencing with your study.

Higher Education and Training • Hoër Onderwys en Opleiding • Imfundo Laphakane Nokuqeqeshisa • Ifundo Iphakamisa Nokuqeqeshisa
Ifundo Ephakeme Nokugqeqeshisa • Ifundo ePhakamileyo noGqeqesho • Oyoqondisa ka Hlonipha ka Voketeri • Ifundo ye Njini ne Ntshingisel
Thuto ye Godini le Thuto • Thuto e Phakamileyo le Thuto • Thuto e Ngqolwane le Thuto

The topic of your research is of great interest to the Department. It will therefore be appreciated if you could share the findings of your research with the Department upon completion of your research.

I wish you all of the best in your research study.

Yours sincerely



Dr Hersheela Narsee

Acting Deputy Director-General: Planning, Policy and Strategy

Date: 24 / 10 / 2019