

Governance and its role in the public sector

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Abstract---Corporate governance is obviously a matter of global concern and has gained tremendous importance in recent years in the context of globalization of economies and financial markets. Public sector governance refers to the systems, processes, and structures that ensure public resources are managed effectively, efficiently, and ethically to achieve desired outcomes while upholding public interest. It encompasses accountability, transparency, and responsiveness in government operations and service delivery. Study Problem: There is widespread corruption in the public sector, creating economic, social, and cultural obstacles, increasing unemployment and crime rates, declining per capita income, and declining levels of services, including health, education, and food. Study objective: The primary objective of this study is to identify the role and impact of governance in reducing certain corrupt practices in public sector institutions. Study Methodology: To study this topic, the researcher used the descriptive analytical approach, which is relevant to the subject of the study. The aim was to describe and explain the study, identify its causes and controlling factors, and draw conclusions for generalization. Palavras-chave: Governance, Public sector, public interest, service delivery, transparência, responsabilidade.

Keywords---governance, public sector, public interest, service delivery, transparency, responsibility.

Introduction: The global crisis in 2008 has drawn further attention to SOEs as governments considered their impact on budgets and financial sector stability. Even where SOE performance is good or equivalent to the private sector, governments seek better performance by further adjusting governance practices. State-owned enterprises are an essential part of socio-economic activity in emerging countries. Most state-owned enterprises (SOEs) were established to fulfill the social objectives of the state rather than to maximize profits. The presence of SOEs in sectors like energy, utilities and

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infrastructure show, the governance of these SOEs is critical to ensure a positive contribution to a country's overall economic efficiency and competitiveness. This is because large sections of the population and business community depend on their services and product deliverables.

Definition of Sound Public Governance¹

Sound public governance consists of the formal and informal rules, procedures, practices and interactions within the State, and between the State, non-state institutions and citizens, that frame the exercise of public authority and decision-making in the public interest.

Sound public governance constitutes a sine qua non condition for pluralist democracies to give effect to the respect for the rule of law and human rights, with efficient democratic institutions lying at the core of sound public governance.

Definitions of Key Concepts

This practice guide uses the following definitions for governance and governance-related terms:

Control: Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives will be achieved (Standards).

Governance involves the set of relationships among the organization's stakeholders, interest groups, citizens, board, and management. These relationships are framed by laws, rules, and requirements, and provide the structure through which the objectives of the organization are set, the strategies to achieve those objectives are defined, operating plans are prepared, performance is monitored, and information is communicated transparently among the parties.²

Public Sector : In general terms, the public sector consists of governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver public programs, goods, or services. Public sector governance includes two domains: public governance and organizational governance.

Public Sector³

The Public Sector consists of businesses that are owned and controlled by the government of a country. The ownership and control of the central or state governments in these organizations are either complete or partial. But it still holds a majority stake and makes every single decision regarding running the entity. These organizations include government agencies, state-owned enterprises, municipalities, local government authorities and other public service institutions.

Public Governance⁴

The philosophy behind the emergence of governance concept is as a result of the change in the role of government, because of certain factors such as the evolution of information and the importance for redistribution of roles among all stakeholders. Besides that, the transformation of central systems to decentralized systems and the transition from representative democratic systems to participating democratic systems. Thus, turn the country into a developed country in which the private sector plays the largest role. Public Governance has become a tool to deliver a new agenda for development after it has ensured that financial and technical assistance will achieve its objectives only through the application of governance principles such as transparency, accountability, and integrity. As stated by Australian national audit office "ANAO" (2014), the nature of public sector as being diverse and dynamic requires government agencies to use proven management practices, provide reliable services and flexibility to achieve maximum efficiency as well as innovation to provide new and different services.

¹ Policy Framework on Sound Public Governance , RpC

² For a more detailed discussion of governance context in the public sector, see The IIA's The Role of Auditing in Public Sector Governance and the International Federation of Accountants' (IFAC's) Governance in the Public Sector: A Governing Body Perspective.

³ <https://byjus.com/commerce/difference-between-public-and-private-sector/>

⁴ Amal Abdulla Alqooti, Public Governance in the Public Sector: Literature review, International Journal of Business Ethics and Governance (IJBEG), Online ISSN: 2717-9923

Public governance practice

Applying good practices to public sector governance:

The reassessment of the role of government in their societies and the rising demand for accountability, transparency and integrity cause the emergence of public governance.

IFAC (2001). Consequently, public sector governance has become one of the most important and current issues on the global and regional level. Therefore, different international institutes worked in developing frameworks for public governance including the guidelines and principles to be followed by public entities. Examples of existing frameworks are as follows:

- a) framework developed by IFAC in 2001
- b) “The good practice guide on public governance” (2011) developed in Singapore for the Asia-Pacific Economic Cooperation (APEC) .
- c) Supplemental guidance “The role of Auditing in public sector governance” published by the institute of Internal Auditors (IIA) in Jan 2012.
- d) “Public sector governance – the best practice guide” issued in June 2014 by ANAO.
- e) “The international framework: Good governance in the public sector” issued in July 2014 by the IFAC and CIPFA.

The most common principles that should be included in the framework are:

- a) **Rule of law:** related to the existing of regulation, legal frameworks, independent judiciary. It means that the law is fairly applied to everyone ignoring his position
- b) **Transparency and openness:** refer to the right of public citizens to access to all information about the process of public entities and its performance
- c) **Accountability:** refer to the process that all stakeholder in public entity are responsible to their actions and decision and to the role of law to imposed sanctions for violators of good management practices.
- d) **Public sector ethics and probity:** refer to the adherence to moral principles and to act with honesty and integrity.
- e) **Stewardship:** refer to the management of resources in the benefit of public interest.
- f) **Leadership:** refer to the role of leaders in public entity in supporting the principle of good public governance

2. Key Principles of Good Governance in the Public Sector⁵

2.1. The function of good governance in the public sector is to ensure that entities act in the public interest at all times.

2.2. Acting in the public interest requires:

- A. Strong commitment to integrity, ethical values, and the rule of law; and
- B. Openness and comprehensive stakeholder engagement.

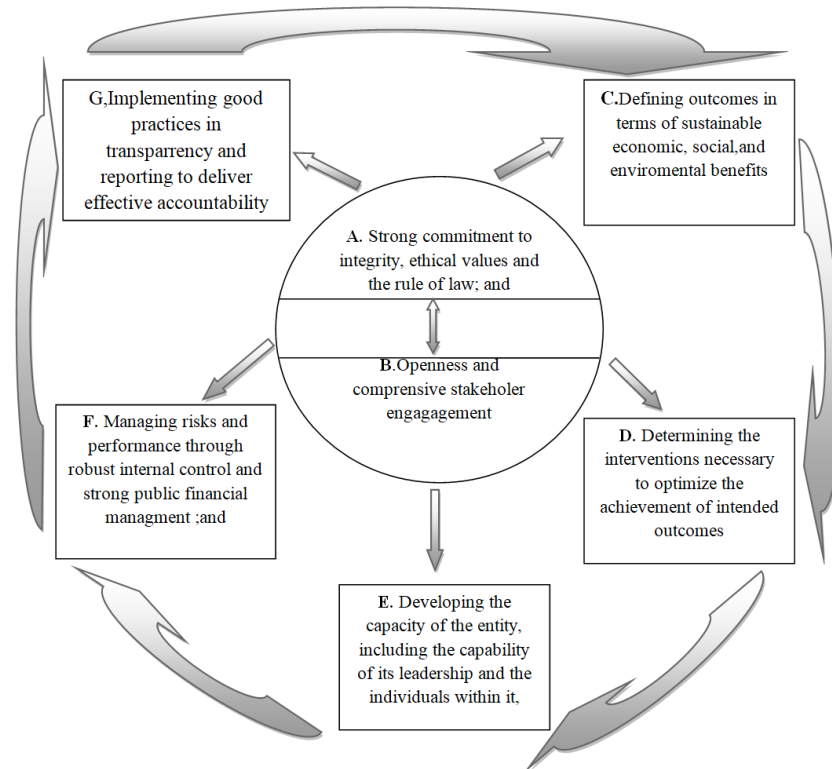
2.3. In addition to the requirements for acting in the public interest, achieving good governance in the public sector also requires:

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimize the achievement of intended outcomes;
- E. Developing the capacity of the entity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency and reporting to deliver effective accountability.

Figure 1 illustrates how the various principles for good governance in the public sector relate to each other.

⁵ Good Governance in the Public Sector— Consultation Draft for an International Framework, Consultation Draft June 2013 Comments due: September 17, 2013, https://www.ifac.org/_flysystem/azure-private/publications/files/Good-Governance-in-the-Public-Sector.pdf.

Figure 1: Relationships between the Principles of Good Governance in the Public Sector



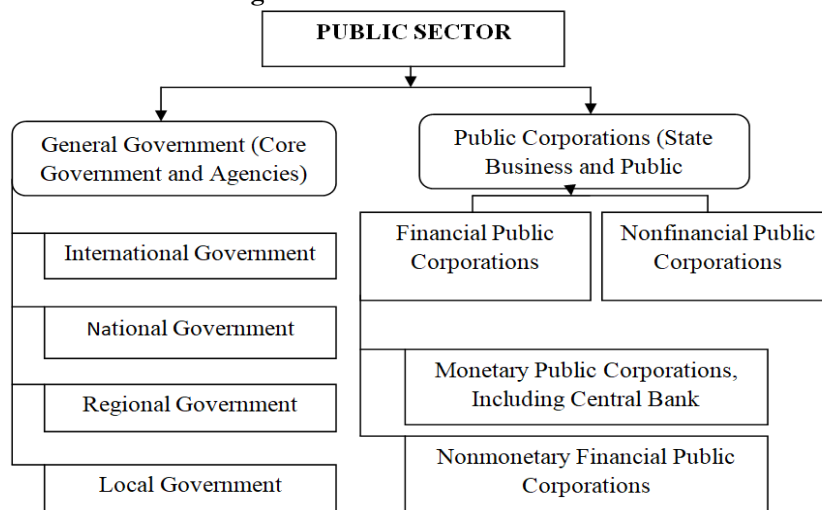
The core principles for good governance in the public sector set out above are high level and bring together a number of concepts. The following section provides an explanation of the underlying rationale, together with supporting commentary, for the key elements of each principle, and supporting sub-principle. Each principle section is followed by examples and questions for entities to consider in assessing how they live up to the International Framework as well as in developing action plans to make necessary improvements.

Public Sector Structure ⁶

The public sector structure includes the general government (core government and agencies), and public corporations (state businesses and enterprises). This practice guide is intended to be fully applicable to general government public sector entities. Public corporations' objectives and conformations lie somewhere between the public and private sectors. Therefore, auditors in public corporations should refer to this practice guide in conjunction with the practice guide, *Assessing Organizational Governance in the Private Sector*, to potentially develop a hybrid approach for assessing governance. Figure 1 depicts a representative public sector structure.

⁶ ASSESSING ORGANIZATIONAL GOVERNANCE IN THE PUBLIC SECTOR, Practice Guide, > OCTOBER 2014, <https://iiaabrazil.org.br/korbilload/upl/ippf/downloads/assessingorgani-ippf-00000001-24012018104556.pdf>

Figure 2– Public Sector Structure



ship and senior management should ensure that governance policies, procedures, and programs exist and are followed, and that there is compliance with applicable laws, regulations, and codes.

Table 1: Public vs. Private Sector Organizational Characteristics

ORGANIZATIONAL CHARACTERISTIC	PUBLIC SECTOR	PRIVATE SECTOR
Main Purpose	Protect/Serve Public Interest	Maximize Shareholder Value
Creation	Law	Incorporation Acts
Governance Structure	Governing Board/Audit Committee/Senior Official	Shareholders/Board of Directors/Audit Committee
Finance	Taxes/Revenues	Ownership/Debt/Revenues
Operational Rules	Formal/Rigid/Law	Formal/Flexible/Informal
Accountability	Citizenry/Legislature	Shareholders/Stakeholders/Regulators
Outside Communication	Open/Public	Present/Potential Shareholders, Stakeholders, and Regulators
Control Systems	Rigid	Flexible

The Values of Sound Public Governance⁷

Governance is about meeting the needs of, and improving outcomes for, people. To this end, the OECD suggests building a values-based culture of public governance. While noting that governance values are shaped by a country's specific cultural traditions, the Framework highlights baseline practices in OECD countries that can generate a new culture of governance and orient public decision-making towards the common interest. The OECD pays special attention to:

- Public sector integrity as a critical component to prevent corruption, safeguard democratic institutions and guarantee the rule of law.

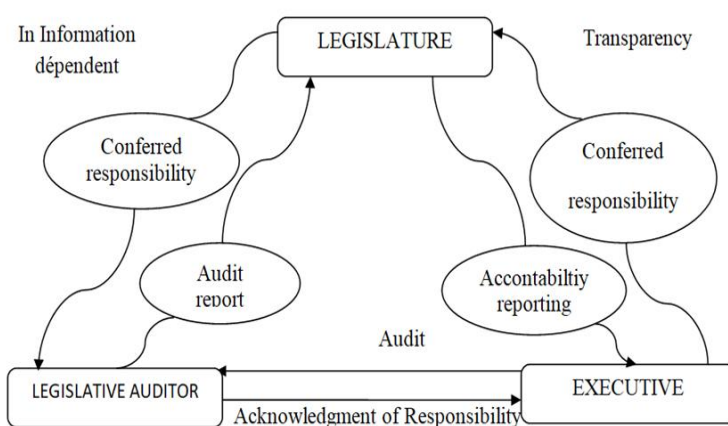
⁷ Policy Framework on Sound Public Governance, BASELINE FEATURES OF GOVERNMENTS THAT WORK WELL. https://www.oecd.org/content/dam/oecd/en/publications/reports/2020/12/policy-framework-on-sound-public-governance_931b05fc/c03e01b3-en.pdf

- Openness and transparency policies, as key ingredients to build accountability and trust, which include the accessibility of public information, the proactive disclosure of information and data, and a strategic approach to public communications.
- Inclusiveness, participation, gender equality and diversity, which contribute to the quality of democracy and help empower marginalized, disadvantaged and/or vulnerable groups.
- Accountability and the respect for the rule of law, which help ensure the efficiency and effectiveness of governments and public institutions, and strengthen citizens' trust. This includes effective and efficient justice systems.

Public Sector Accountability⁸

Assessing governance structure and practices requires an understanding of public sector accountability. Public sector accountability is summarized in Figure 2.

Figure 3 Example of overall accountability Process in the Public sector



In democratic governments, the executive function is responsible for planning, directing, and controlling daily operations, while the legislature is responsible for authorizing the executive budget and government expenditures. The legislative auditor audits and reports on the performance of the executive branch.

In many national governments, legislative auditors are established as supreme audit institutions (i.e., independent government external auditors).

In regional and local governments, auditors may play a dual role — helping to improve the government (i.e., an audit function role), and providing the legislature with timely and relevant reports for control purposes (i.e., an external assurance provider role).

In this particular accountability environment, it is important that public sector auditors recognize the importance of effective communication channels with legislative external assurance providers.

Management-approved communication between audit function and external assurance providers helps to ensure public accountability.

The audit committee is one of the main mechanisms to help facilitate this communication.

Senior management should ensure that governance policies, procedures, and programs exist and are followed, and that there is compliance with applicable laws, regulations, and codes.

⁸ Office of the Auditor General of Canada training material. Reproduced with the permission of the Minister of Public Works and Government Services, 2014

Corporate Governance and OECD Guidelines⁹

Challenges to the SOEs persist in spite of the corporate governance reforms of state owned enterprises in many countries. This is because the principal-agent relationships exist in multi-layers in SOEs. According to Jedenastik (2013) the complex nature of corporate governance in SOEs is because of four types of principal-agent relationships involved in SOEs ranging from government, ministries, boards, senior management and other major stakeholders. The complications are intensified with the interference of government. For instance, Muller (2002) shows how political parties intervene in the chain of delegation in parliamentary democracies. The study of Meyer & Hinrik (2006) on the ministerial bureaucracy reveals that the passing of public administration reforms has not provided an effective constraint against politicization of the ministerial bureaucracy which has increased over time in terms of extent, intensity and scope in enhancing their political control over the formulation and implementation of public policies. Mwaura.K (2007), 8 argues that the initiatives undertaken to make parastatals (SOEs) more efficient are inadequate and will not realize the intended objectives unless the chief executives of parastatals are hired on a competitive basis, given more autonomy and the government is committed not only to designing performance contracts that set realistic standards, but also enforcing them strictly. According to Osamu Koike (2013), the goal of achieving efficient and workable public administration is attained when political leaders builds the rational legal bureaucracy through reduced patronage influence, creates networking governance, allows engagement with civil society, and fosters high employee motivation for achieving efficient and accountable government.

The concerns relating to corporate governance and performance are manifested in various forms, like: under-performance, corporate collapse, corporate corruption and so on. For instance, the top three Indian SOEs⁹, namely: Bharat Sanchar Nigam Ltd, Air India Ltd and Mahanagar Telephone Nigam Ltd alone incurred a loss equal to 74.35% of the total loss of all SOEs in 2011-2012. These companies were incurring losses consecutively, since 2009 onwards.

The Aviation sector in India is a case in point. It is cash strapped sector with issues ranging from increasing debt burden to cascading effect of taxes¹⁰, which are identified as key cost drivers and the aviation turbine fuel (ATF) price accounting for 40 % of the airlines' operating cost (Hindustan Times, 2012). The planning commission proposed a projected total outlay for the sector at over Rs. 547.43b for the entire plan period of 2012-17, including Rs. 329.6367b for Air India and Rs. 175b for the Airports Authority of India (Hindustan Times, 2012). Half of the "huge debt burden" of \$20b in 2011-12 was aircraft-related and the rest for working capital loans and payments to airport operators and fuel companies. The risk taking behaviour of the SOEs becomes an issue in the market driven economy (Locke and Duppati, 2013).

Likewise, the collapse of Solid Energy, a state owned enterprise in New Zealand in 2012 indicates the challenges involved in the corporate governance of SOEs. Solid Energy is a case of corporate board's failure (Its borrowings soar from just \$15 million in 2007 to nearly \$400 million IN 2013¹¹ and impairment charge of \$149 million in 2012. Who is to blame? Is it the Government shareholder, the board of directors or Don Elder, CEO and his management team? The Prime Minister John Key was blaming Trevor Mallard and the previous Labour Government because they encouraged state-owned-enterprises to expand in 2007).

It is therefore, evident that the corporate governance is a major challenge in many economies. In the absence of the International benchmarking practices of corporate governance, the OECD guideline provides a concrete suggestion to resolve various corporate governance issues and dilemmas. To remain competitive and to conduct the business that delivers results, it is vital for SOEs to have good corporate governance system in practice. Since OECD guidelines are developed from the best practices of

⁹ Frank Scrimgeour, CORPORATE GOVERNANCE IN THE PUBLIC SECTOR: DIMENSIONS; GUIDELINES AND PRACTICE IN INDIA AND NEW ZEALAND, Corporate Ownership & Control / Volume 11, Issue 2, 2014, Continued – 4, <https://virtusinterpress.org/IMG/pdf/10-22495cocv11i2c4p2.pdf>

successful corporate experiences, it is suggested to compare the New Zealand and Indian practices with OECD guidelines. The OECD guidelines are developed based on the challenges of corporate governance in SOEs which are included in the OECD Framework presented below:

Figure4. Challenges of Corporate Governance in SOEs

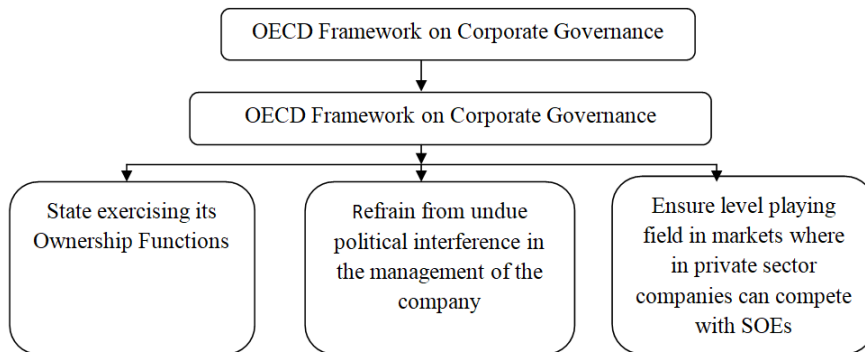


Figure 3.2 RECOMMENDATIONS ON GOVERNANCE IN THE PUBLIC SECTOR¹⁰

<p>Standards of Behavior</p> <ul style="list-style-type: none"> • Leadership • Codes of Conduct <p>⇒ Probity and Propriety</p> <p>⇒ Objectivity, Integrity and Honesty</p> <p>⇒ Relationships</p>			
<p>Organizational Structures and Processes</p> <ul style="list-style-type: none"> • Statutory Accountability • Accountability for Public Money • Communication with Stakeholders • Roles and Responsibilities <p>⇒ Balance of Power and Authority</p> <p>⇒ The Governing Body</p> <p>⇒ The Chairperson</p> <p>⇒ Non-Executive Governing Body Members</p> <p>⇒ Executive Management</p> <p>⇒ Remuneration Policy</p>		<p>Control</p> <ul style="list-style-type: none"> • Risk Management • Internal Audit • Audit Committees • Internal Control • Budgeting • Financial Management • Staff Training 	
		<p>External Reporting</p> <ul style="list-style-type: none"> • Annual Reporting • Use of Appropriate Accounting Standards • Performance Measures • External Audit 	

¹⁰ International Public Sector Study, Governance in the Public Sector: A Governing Body Perspective, Issued by The International Federation of Accountants, August 2001
https://www.ifac.org/_flysystem/azure-private/publications/files/study-13-governance-in-th.pdf

Conclusion:

- Governance in public sector institutions must stem from a comprehensive vision for political decision-making in the country.
- Enact the necessary legislation that obligates all public administration units to adhere to the principles of governance in managing their affairs, in their relationship with the public, and in all decisions and actions they take. This will have a significant impact on achieving rational and effective management, while also ensuring the provision of financial and human resources to build the necessary expertise.
- Creating a sound and robust environment for managing corruption risks and strengthening the internal control environment in public sector institutions.
- Shifting from traditional administrative methods based on centralized decision-making to contemporary administrative methods, primarily governance, which is based on participatory decision-making and planning, accountability and transparency, and mitigating government procedures and bureaucratic complexity.
- Implementing governance mechanisms requires disseminating a culture of governance throughout society, through the media and civil society organizations, to achieve a society fully aware that governance is the first line of defense against corruption.
- Working to enhance the efficiency of the state's oversight and judicial bodies and granting them sufficient powers to enable them to: develop strategic plans that incorporate transparency and accountability standards, activate investigation procedures, and prosecute those accused of corruption in an effective and expeditious manner.
- Systematic coordination with external parties involved in governance issues, with the aim of establishing international cooperation agreements and benefiting from distinguished local, regional, and international experiences that have successfully implemented governance.
- Spreading intellectual, economic, social, and religious awareness, with the aim of raising the level of civilization in society and considering the fight against financial and administrative corruption a national mission in which everyone participates, each from their own position, because society contributes effectively to reducing this phenomenon.
- The necessity of adopting scientific methods based on studies and scientific research in designing action plans and strategies, and providing the necessary financial budgets.
- The necessity of focusing on building an information and communications technology infrastructure in public sector institutions, which is considered one of the most important requirements for achieving good governance.
- Working to raise the level of protection for whistleblowers, particularly job protection.
- Activating community accountability sessions for public sector institutions and involving civil society organizations and media outlets.
- Strengthening and increasing citizens' trust in public sector institutions by involving them in policy-making and working to improve the level of services provided to them.
- The need to activate the websites of all public sector institutions by publishing decisions, plans, agreements, and the possibility of providing services remotely.
- Raising the minimum wage for public employees to protect them from corruption.

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