

Supplemental Guidance: **PUBLIC SECTOR DEFINITION**

Release Date: Dec. 2011



**The Institute of
Internal Auditors**

Global

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Table of Contents

Introduction.....	3
Definition.....	3
Types of Public Sector Organizations	3
Diagram of Public Sector Organizations	5
Definitional Criteria.....	6
Conclusion	6
Authors and Reviewers	6

Introduction

This guidance is intended to clarify what is meant by the term *public* sector, which can sometimes be ambiguous. After reading this guidance, IIA members will be able to identify specific criteria to appropriately classify organizations around the world as being in the public sector.

Definition

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. It is not, however, always clear whether any particular organization should be included under that umbrella. Therefore, it is necessary to identify specific criteria to help define the boundaries.

The concept of public sector is broader than simply that of core government and may overlap with the not-for-profit or private sectors. For the purposes of this guidance, the public sector consists of an expanding ring of organizations, with core government at the center, followed by agencies and public enterprises. Around this ring is a gray zone consisting of publicly funded contractors and publicly owned businesses, which may be, but for the most part are not, part of the public sector.

Types of Public Sector Organizations

Public sector organizations may exist at any of four levels:

- ☐ International (multistate entities or partnerships).
- ☐ National (an independent state).
- ☐ Regional (a province/state within a national state).
- ☐ Local (a municipal-level body such as a city or county).

At any of these levels, the public sector generally consists of at least three types of organizations.

Core government consists of a governing body with a defined territorial authority. Core governments include all departments, ministries, or branches of the government that are integral parts of the structure, and are accountable to and report directly to the central authority — the legislature, council, cabinet, or executive head.

Agencies consist of public organizations that are clearly a part of the government and deliver public programs, goods, or services, but that exist as separate organizations in their own right — possibly as legal entities — and operate with a partial degree of operational independence. They often, but not necessarily, are headed by a board of directors, commission, or other appointed body.

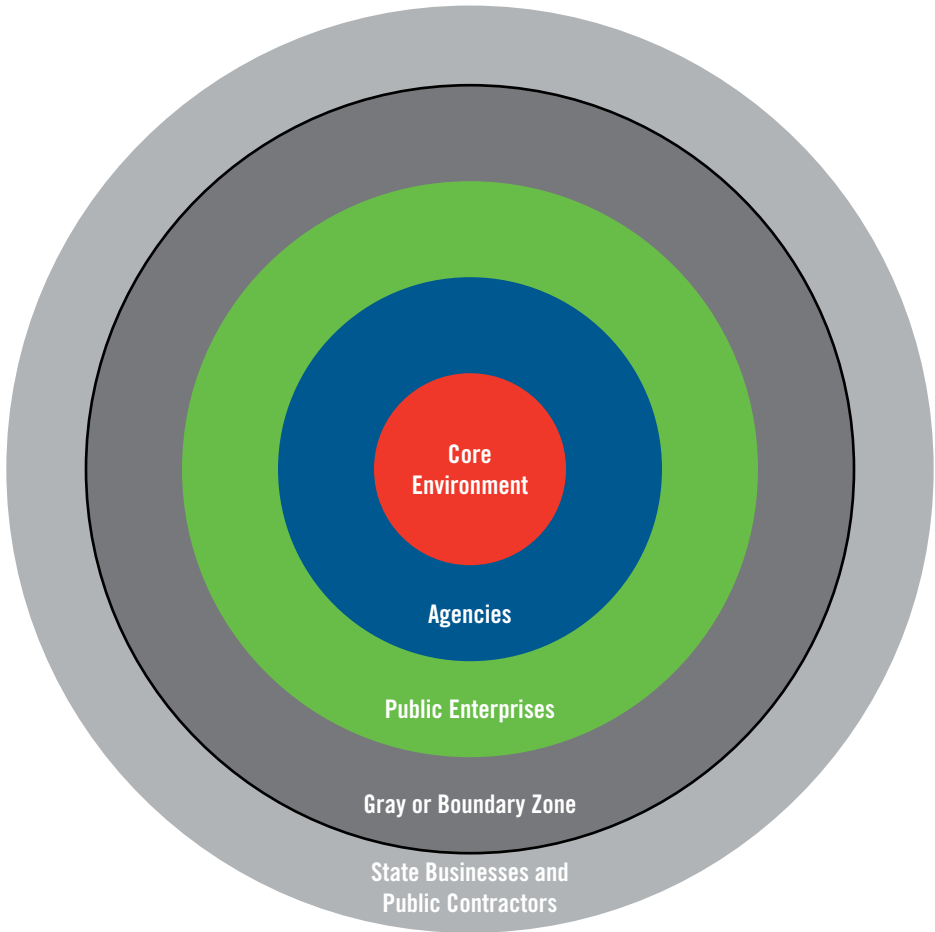
Public enterprises are agencies that deliver public programs, goods, or services, but operate independently of government and often have their own sources of revenue in addition to direct public funding. They also may compete in private markets and may make profits. However, in most cases the government is the major shareholder, and these enterprises partly follow the acts and regulations that govern the core government.

Outside this clear public sector area is a gray zone, or boundary zone, with two types of organizations that might or might not be part of the public sector.

State businesses are government owned and controlled businesses that sell goods or services for profit in the private market. Although they do not deliver what would be considered public programs, goods, or services, they might be considered part of the public sector.

Public contractors are legally independent entities outside government that receive public funding — under contract or agreement — to deliver public programs, goods, or services as their primary business. Due primarily to their limited public control, these organizations usually would be classified as not-for-profit or private sector entities.

Diagram of Public Sector Organizations



Definitional Criteria

Several criteria can be applied to determine whether a particular organization, in any political jurisdiction, belongs within the public sector in one of the rings depicted in the diagram. If it does not, then it remains outside the public sector boundary.

Positive answers to most of the criteria listed below will place an organization within the boundary. In many cases, some judgment may be required, as the complexity of modern governmental structures does not always provide for clear and precise decisions.

1. Does the organization deliver programs, goods, or services that can be considered a public good or that are established by government policy?
2. Is substantially all of the organization's funding provided by government or determined by government policy?
3. Is the organization accountable to, and does it report directly to government, including a government department or agency, or a minister of government?
4. If the organization has a board of directors, commission, or similar appointed body, does government control a majority of appointments?
5. If the organization has share capital, is government the majority shareholder?
6. Are the organization's employees members of the public service, subject to public service rules, and receiving public service benefits?
7. Overall, does government control, directly or indirectly, the organization's policies, operations, administration, or service delivery?
8. Is there a legislative requirement for the organization to be audited by the government auditor or supreme audit organization?

Conclusion

This definition and related criteria should serve as a guide for determining whether particular organizations should be considered public sector organizations and, as a corollary, whether their auditors should be considered public sector auditors.

Authors and Reviewers

Authors:

Sikhungo Dube
Daniela Danescu, CIA, CGAP

Reviewer:

Gregory Hollyman, CIA, CCSA, CFSA,
CGAP

About The Institute

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

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Global

GLOBAL HEADQUARTERS

247 Maitland Ave.

Altamonte Springs, FL 32701 USA

T: +1-407-937-1111

F: +1-407-937-1101

W: www.theiia.org