

Corporate Governance Failures in State-Owned Enterprises: Evidence from the Aviation Sector

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Abstract

Governance weaknesses continue to persist in Country X's state-owned aviation enterprise despite the presence of robust statutory frameworks governing public financial management and corporate accountability. This study aims to examine the underlying factors that contribute to the continued failure of governance implementation and to analyze how forensic accounting mechanisms can strengthen accountability and oversight. A qualitative case study approach was employed, utilizing in-depth interviews with policymakers, external auditors, and internal control personnel. These primary data were triangulated with secondary sources, including supreme audit institution reports, internal governance documents, and relevant governance statutes such as PFM-X and PEG-X. The findings reveal three key issues underlying persistent governance failures: selective enforcement of statutory regulations, centralized oversight structures with limited effectiveness, and uneven internal control systems—strong in payment authorization but weak in procurement processes, asset management, and record-keeping practices. Furthermore, political interference and limited digital traceability exacerbate the gap between formal regulations and actual implementation. The study concludes that embedding forensic accounting tools—such as digital audit trails, trigger-based investigative reviews, and continuous auditing systems—can significantly enhance transparency, deter misconduct, and shift compliance from procedural formality to substantive enforcement. These findings highlight the strategic role of forensic accounting in improving governance quality and accountability outcomes within state-owned enterprises, particularly in complex and politically influenced sectors such as aviation.

Keywords: Accountability; Corporate Governance; SOEs; Aviation; Forensic Accounting

Introduction

In the aviation industry, where safety, procurement, and cash-flow controls are critical, state-owned enterprises (SOEs) are mandated to deliver public value through accountability, transparency, and efficiency. Despite strong frameworks, accountability remains weak because enforcement is selective and follow-through is limited. In Country X, delayed reporting and weak enforcement credibility highlight deficiencies in monitoring systems (Chigudu, 2023). These weaknesses, especially recurrent procurement irregularities, undermine oversight and accountability (Nyakurukwa & Seetharam, 2023).

Aviation is particularly vulnerable to governance lapses because of its capital-intensive procurement, safety-critical maintenance, and dependence on a limited number of vendors, which increase the impact of control failures (Dave, 2025; Jash et al., 2025; Payne, 2025). Nyakurukwa and Seetharam (2023) report that such structural features contribute to wide variations in SOE reform outcomes across sectors and national settings. In these contexts, rolling audit backlogs, poor sanction credibility, and financial reporting undermine service reliability and institutional trust. Government reforms and statutory frameworks—such as the Public Finance Management Statute (PFM-X) and the Public Entities Corporate Governance Statute (PEG-X)—have clarified roles and standards but have not ensured consistent application across entities (Mukono & Dubihlela, 2022).

The persistence of governance inefficiencies in state-owned enterprises (SOEs) is not unique to Country X. Evidence from Nigeria shows that even strong legislative frameworks often fail to ensure accountability when oversight institutions are influenced by political

interests (Ayebaenemi & Chukwu, 2024). A similar pattern is observed in Jordan, where selective enforcement undermines the effectiveness of governance reforms (Hajjat et al., 2024). Conversely, research from other contexts indicates that the institutionalization of e-governance tools can enhance financial reporting quality and transparency among state-owned enterprises (SOEs) (Chiuriri & Arshad, 2023). Overall, this study of a state-owned aviation firm underscores the role of digital forensic mechanisms as drivers of reform and situates Country X's experience within broader regional and global governance debates.

The governance challenges facing the national airline appear to be structural rather than incidental. Reform initiatives continue to be hindered by fragmented accountability mechanisms, limited autonomy of oversight institutions (Aikins et al., 2022), and inadequate technical expertise within audit and finance functions (Nyakurukwa & Seetharam, 2023). Consequently, compliance tends to be procedural rather than substantive, thereby undermining both transparency and organizational performance.

This study investigates why, despite clear statutory frameworks, governance failings continue in a politically exposed aviation SOE. It explores how inadequate enforcement, resource constraints, and conflicting mandates affect accountability outcomes and assesses how forensic accounting techniques—such as digital audit trails, continuous auditing, and trigger-based reviews—can enhance monitoring effectiveness. By triangulating interviews with both statutory and audited documents, the study provides enterprise-level qualitative evidence from Country X's national airline, illustrating how forensic accounting can operationalize formal governance frameworks into enforceable accountability mechanisms and offering practical levers for strengthening transparency and accountability in SOEs.

In sum, the analysis focuses on how organizational incentives and legal constraints interact with digital-forensic procedures to determine accountability outcomes in state-owned enterprises (SOEs), positioning the case within regional and international corporate governance discourses.

Method

This study adopted a qualitative case study design to examine how governance mechanism operates and sometimes fail within a politically exposed state-owned airline in Country X. A qualitative case study approach is grounded in Agency Theory (Jensen & Meckling) and Stakeholder Theory (Freeman, 1984), which together explain how accountability structures, power relations and incentive misalignments affect institutional behavior and decision making. The theoretical perspectives provide analytical lens for examining how political interference, capacity constraints and enforcement practices influence compliance behavior in Country X airline.

A case study approach was selected to enable a contextual and in-depth understanding of institutional processes, regulatory mechanisms, and reform implementation within their real world setting (John W. Creswell, 2018). This design is particularly appropriate for examining governance challenges in public organizations, where operational realities often diverge from formal regulatory frameworks.

Primary data were collected through semi-structured interviews with key informants occupying critical positions in audit oversight and governance. The participants included Policymaker1 with 12 years of experience in SAI oversight, a Policymaker2 with more than 15 years of experience in legislative scrutiny of SOE financial statements, an External Auditor with 20 years involved statutory audits in the aviation sector and employees at the national airline such as Employee1 who provide independence assurance on the effectiveness of internal controls, risk management and governance processes, Employee2 was in charge of PFM-X reporting and internal control implementation and Employee3 who is responsible for financial management, reporting and compliance with statutory and organizational

requirements. Consistent with the qualitative sampling principles outlined by Palinkas et al. (2015), participants were purposefully selected based on their roles in budgeting, auditing, procurement, and oversight functions, ensuring the inclusion of information-rich cases capable of providing in-depth contextual insights.

Secondary data was obtained from publicly accessible Auditor General (AGO) reports, and compliance recommendations provided under PFM-X and PEG-X statutes. Interview claims concerning delayed financial submissions, recurrent audit exceptions, irregularities in procurement, and sanction outcomes were verified using these documented sources. To determine whether instances of non-compliance were isolated or systemic, triangulation involved comparing interview narrative with documented audit findings, follow-up correspondence, and applicable legal provisions. Auditor-General's Office (AGO) reports were examined particularly in cases where participants alleged selective enforcement or halted corrective measures, to whether similar issues reappeared in subsequent audit cycles. By linking individual accounts to official records, this systematic triangulation enhanced the credibility of the findings clarified whether governance shortcomings were merely observed, formally documented, or both.

Data was analyzed reflexive thematic analysis as outlined by Braun & Clarke (2006). This approach enabled the identification and interpretation of key patterns in enforcement practices, control process and accountability dynamics. Coding was conducted iteratively, with analytical decisions and theme revisions documented through a memo trail to maintain transparency and traceability. To improve interpretive credibility, peer debriefing sessions were undertaken to review emerging themes and coding consistency (Palinkas et al., 2015).

Due to political sensitivity, a reflective stance was maintained throughout the research process to mitigate bias and ensure ethical integrity. Interview questions focused on factual and procedural issues such as reporting delays, procurement exceptions and follow-ups rather than evaluative judgements, thereby reducing social-desirability bias. Anonymity and confidentiality were maintained using pseudonyms such as "Country X" and "the airline" to present the country and the case organization respectively, while individuals were identified only by their functional roles-for example, "Policymaker1" or "Employee1"-rather than by personal names or job titles.

To reduce traceability without compromising meaning, direct quotes were slightly paraphrased. Verbal informed consent was obtained from all interview participants prior to data collection (John W. Creswell, 2018). Access to publicly available Auditor General reports complied with national disclosure and research ethics requirements. These measures ensured that the study respected participants' rights while maintaining the credibility and transparency of the research process.

The study draws on primary interview data and secondary sources. Table 1 summarizes the source, coverage, and their triangulation. All interviews are anonymized, and documentary sources are publicly accessible.

The study draws on multiple data sources to ensure comprehensive and triangulated findings. Primary data were obtained through structured interviews conducted in 2025 with six key informants, including an external auditor, two policymakers, and three employees, aimed at capturing stakeholder perspectives on governance enforcement, accountability mechanisms, and reform challenges. In addition, policy and audit documents from the 2018–2024 period were analyzed, comprising four key documents such as the Public Finance Management Statute (2015), the Public Entities Corporate Governance Statute (2018), and selected board minutes and audit reports, which served to contextualize regulatory frameworks and identify evidence of compliance and control weaknesses. To strengthen theoretical foundation and enhance triangulation, the study also utilized secondary literature published between 2020 and 2024, including more than 25 peer-reviewed articles,

government reports, and official press releases related to state-owned enterprise governance and forensic auditing.

The study aims to comprehend why governance failures persist despite clear legal frameworks and to explore how forensic accounting can strengthen accountability in state-owned enterprises (SOEs). This objective is supported by combining interview, statutory, and audit evidence. Documentary and audit sources provide verifiable records for assessing the consistency between legislation and actual practice. In contrast, interviews capture lived experiences of enforcement and control. Each data source contributes a distinct perspective. Together, they ensure that the analysis addresses both the gap between law and practice and potential role of forensic methods in improving governance effectiveness.

Results and Discussion

Governance challenges within the national airline continue to persist despite the presence of clear statutory frameworks designed to enhance accountability. Respondents indicated that the Public Finance (PFM-X) statute and Public-Entity Governance (PEG-X) statute provides clear provision for accountability and compliance. However, their implementation remains selective, leading to weak enforcement and inconsistent governance outcomes.

Evidence from interviews and documents reviews indicates that respondents consistently view the legal framework as well defined but unevenly applied. This observation aligns with of Aikins et al., (2022), who argue that selective implementation of governance statutes undermines accountability mechanisms in state owned enterprises. Similarly, supreme audit reports document recurring backlogs in addressing audit findings, limited application of sanctions and persistent delays in financial statement submissions (Auditor General, 2023). These recurring issues suggest that the statutory provisions have not yet resulted in sustained compliance.

Fragmented oversight and weak follow-up further exacerbate these gaps, allowing government failures to persist across state-owned enterprises (SOEs) in sub-Saharan Africa. Mthombeni et al. (2023) reported that limited coordination among oversight institutions allows governance failures to persist. In a related study, (Petersen et al., 2024) found that political shielding CEOs undermines accountability and discourages corrective action. Evidence from recent studies reinforces these concerns. According to Mthombeni et al. (2024) inadequate enforcement leads boards to priorities procedural rather than ethical compliance. Further Denhere (2023) highlighted that weak enforcement capacity and lack of independence limit effectiveness of governance reforms. Overall, these studies indicate that successful governance reform depends not only on clear statutory frameworks but also on the legitimacy and strength of the enforcement ecosystem.

This trend is further supported by comparative evidence from diverse contexts. In Nigeria, Ayebaenemi & Chukwu (2024) found that integrating forensic mechanisms within compliance teams in Nigeria improves the pace at which fraud is discovered and fortifies the implementation of corrective actions. Similarly, Denhere (2023) noted that incorporating forensic auditing into regular assurance cycles enhances monitoring effectiveness and fosters a more robust culture of accountability in South Africa. Collectively, these findings highlighted the need for embedding forensic accounting within statutory audit frameworks rather than applying it as a sporadic or reactive intervention.

Respondents also described the accountability farmwork's as "centralized but distant." Oversight bodies were seen as exercising control from higher levels but with little engagement on daily operations. Several interviewees indicated that management often responds to audit queries mainly to close correspondence rather than to implement corrective measures. One participant noted that responses are sometimes submitted "just one the

reminders, “while corrective actions are delayed because approval depends on authorities outside the operational unit.

This pattern is corroborated by the supreme audit reports, which document recurrent qualified opinions on previous reported issues and limited evidence of enforcement or corrective follow-up. The infrequent documentation and disclosure of sanction decisions further reinforce perceptions of selective accountability. Similarly, Mukono & Dubihlela (2022) highlighted the weak institutional capacity and lax enforcement that continue to undermine governance within Country X state owned enterprises. In the same context, Nyakurukwa & Seetharam (2023) emphasizes that inconsistent compliance outcomes largely stem from insufficient coordination between management and oversight bodies.

The internal control environment of the national airline reflects a mix of strength and persistent weaknesses. Effective mechanisms include a defined three-lines-of-defense framework, double-lock payment authorization, and CFO-monitored signatory controls. Lines were some of the procedures that worked successfully to prevent opportunistic behavior. However, weaknesses persist in payroll, asset management, and procurement processes, where control procedures are not applied consistently.

This aligns with the findings of Chuiriri & Arshad (2023), who argued that digital systems, through essential, are insufficient without strong leadership accountability and continuous capacity building. Darwin (2024) similarly emphasized that digital platforms improve auditability, but only when supported by institutional trust. In the same vein, Hajjat et al. (2024) found that sustained policy commitment is necessary for the technologies to deliver their full governance benefits.

Record-keeping deficiencies and digital gaps further weaken traceability and delay audit completion. These challenges are largely attributed to weak digital record management systems, high employee turnover, and poor control procedures. Strengthening Respondents digital infrastructure through secure backups and integrated document-management systems was viewed as essential to improve transparency and responsiveness. Respondents further emphasized that forensic audits should remain exceptional interventions, used only to identify anomalies.

Interviews and documentary analysis reveal that operational anomalies remain prevalent within state-owned enterprises. Supreme audit reports record several irregularities including mismatched asset registers and inflated expenditures (Auditor General, 2021). Subsequently findings in year 2023 report highlighted persistence of questionable high-value contracts, and overstated liabilities (Auditor General, 2023). Recurring audit exceptions across reporting cycles indicate that information bottlenecks persist, limiting institutional learning and corrective action (Mukono & Dubihlela, 2022). Participants prescribed audit engagement as largely procedural and correspondence-driven, with minimum collaboration between operational staff and oversight bodies. These patterns underscore a persistent gap between legislative requirements and actual governance practices.

Multiple barriers hinder institutionalization of forensic accounting techniques within routine assurance processes. The most prominent challenges included organizational resistance to change, shortages of specialized skills, high implementation costs of forensic technologies, and the absence of a statutory forensic-accounting mandate. Policymakers cited selective enforcement and political protection of key actors, which undermine accountability mechanisms. Similarly, external auditors emphasized leadership resistance and inadequate technical capacity as critical factors that weaken the of corrective measures. These institutional and political constraints align with observations in recent scholarship on state-owned enterprises (SOEs) in Country X (Mukono & Dubihlela, 2022).

The persistence of governance weaknesses can be interpreted through several complementary theoretical perspectives. Agency Theory (Jensen & Meckling, 1976)

explained that non-deterrant sanctions allow managers discretion, thereby undermining accountability structures. Public-Choice Theory (Buchanan & Tullock, 1962) explains how political influence in appointments distorts incentives, encouraging decisions that serve personal or partisan interests rather than goals. Resource-Dependence Theory highlighted how under-resourced, particularly within audit and ICT units, constrain the effective implementation of internal controls and timely remediation (Mutize & Tefera, 2020).

Together, these theories explain the coexistence of strong formal regulations often coexist with weak enforcement. Together, these theories explain why strong formal regulations coexist with weak enforcement in public-sector settings. This aligns with prior findings that public-sector governance frequently suffers from low sanction credibility and fragmented oversight (Novaković et al., 2022).

Despite these challenges, targeted forensic integration can bridge the gap between formal compliance and practical accountability. When applied through clearly defined triggers, forensic tools transform symbolic adherence into measurable and verifiable performance outcomes. (Ayebaenemi & Chukwu, 2024) shows that applying forensic audit procedures within performance-linked processes accelerates the detection of irregularities and strengthens accountability mechanisms. Similarly, Newman et al. (2023) discovered that structured forensic interventions improve monitoring effectiveness within public entities. Complementing these insights, Ali et al. (2024) argue that integrating forensic mechanisms into routine oversight process strengthens institutional responsiveness and control enforcement.

Within the organization, establishing protected trigger-based reviews—for example, for repeated procurement anomalies or delayed submissions—would likely increase detection certainty and reduce closure timelines. Moreover, digital audit trails established through e-procurement systems, secure document management, and shared analytics platforms can substantially enhance transparency and traceability across operations. Evidence from Novaković et al. (2022) supports this view, noting that digitalization audit improve accountability in complex sectors. Such measures are particularly critical in aviation, where procurement is capital-intensive and operational failures have systemic safety implications (Newman et al., 2023).

Practically, improving accountability in state-owned enterprises (SOEs) requires simultaneous action across incentives, enforcement protection, digital traceability, and institutional capacity. Executives' performance contracts and budget disbursements should be linked to timely reporting and audit-closure rates to strengthen incentive alignment (Aikins et al., 2022). To protect integrity of oversight mechanisms, Legal should be granted to forensic triggers, ensuring investigative processes remain insulated from political interference (Newman et al., 2023).

Digitization should focus on implementing e-procurement platforms, secure document management, and immutable audit records. Such measure reduces information hoarding and strengthens transparency in operational and financial processes (Novaković et al., 2022). Furthermore, establishing co-sourced analytics teams that bring together the Supreme Audit Institution and internal auditors can improve oversight quality. These teams could develop public audit-closure dashboards and conduct data-driven reviews by integrating information from public financial management and e-procurement systems (Aikins et al., 2022). These initiatives would not only accelerate follow-up but also institutionalize learning within oversight processes.

Overall, the findings demonstrate that governance challenges do not stem from inadequate regulations but from weak enforcement credibility, fragmented oversight, and resource-constraints. The evidence confirms a persistent law-practice gap that undermines genuine accountability and institutional performance. According to Chigudu (2023),

regulatory frameworks in many state-owned enterprises (SOEs) exist largely in form but are undermined by selective enforcement and political influence. Mthombeni et al. (2023) similarly observes that fragmented oversight and limited operational reduces the effectiveness of accountability mechanisms. Complementing these insights Nyakurukwa & Seetharam, (2023) highlight that inadequate digital evidence systems and weak sanctions credibility allow procedural compliance to replace substantive accountability. Overall, this study position is Country X's state-owned aviation (SOEs) within broader regional and global governance debates and underscores digital-forensic mechanism as critical drivers reform.

CONCLUSION

Country X's national airline exemplifies governance challenges where procedural compliance overshadows substantive accountability, despite robust legal foundations like the PFM-X and PEG-X statutes; however, selective implementation, weak sanctions, fragmented oversight, political interference, and the lack of a statutory forensic accounting mandate—compounded by resource constraints—perpetuate gaps in asset management, record-keeping, and procurement. Findings reveal that governance effectiveness hinges more on enforcement legitimacy than regulatory design, particularly in capital-intensive sectors like aviation, underscoring the need to institutionalize forensic accounting through digital audit trails, trigger-based reviews, and integrated analytics, as demonstrated by successes in Jordan and South Africa. For future research, scholars could conduct comparative longitudinal studies across multiple SOE sectors in Country X, quantifying the impact of digital forensic tools on accountability metrics using pre- and post-implementation data to inform scalable policy reforms.

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