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The Urgency of Preventive Supervision to Prevent Corruption in Indonesian State-Owned Enterprises

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Abstract

This study aims to present the urgency of preventive supervision based on good corporate governance (GCG) as a strategy for preventing corruption in Indonesian State-Owned Enterprises (SOEs). This research method uses a normative juridical approach, and the type of research carried out is a qualitative approach to produce descriptive data. Data collection techniques are carried out by collecting secondary data through library research, documents in the form of scientific contributions that have been published in research academic databases, and applicable laws and regulations. The dimension of the research problem starts from the fact that there is a lot of mismanagement in Indonesian state-owned companies, and they even go bankrupt. The findings of the research conclude that the strategy for preventing corruption in Indonesian SOEs must be supported by a corporate governance system consisting of governance structures, governance processes, and governance outcomes. In this context, the role of the board of commissioners is expected to be optimal to ensure and supervise the directors related to the corporate governance system in accordance with the principles of GCG in Indonesian SOEs. This has been regulated by several laws and regulations in force in Indonesia. Therefore, it is hoped that the credibility and effectiveness of Indonesian SOEs can be achieved, and have a positive impact on creating value for stakeholders, the economy, and people's welfare. Thus, this study is interesting for companies and other stakeholders to improve the performance of the company in Indonesian SOEs through the creation of better business processes.

Keywords

Preventive Supervision, Good Corporate Governance, State-Owned Enterprises, Corporate Governance System, Indonesia

1. Introduction

The global economy as well as the national economy is still overshadowed by various risks, mainly due to the war between Russia and Ukraine in the post-Covid-19 pandemic. This war started on Thursday (24/2/2022). President Vladimir Putin officially announced the military operation, and until now there has been no sign of ending it (Sorongan, 2022a). Currently, Russia and Ukraine are still at the war stage, and until now there has been no sign of it ending (Sergei, 2022). The Russia-Ukraine war is having an outsized impact on the global supply chain, impeding the flow of goods, fueling dramatic cost increases and product shortages, and creating catastrophic food shortages around the world (Stackpole, 2022). According to Sri Mulyani in Intan (2022), the implications of this war are still very dynamic, including the very increased prices for energy, food and fertilizer, thus driving up inflation in many countries, worsening energy and food inflation, moderating fiscal and monetary policies as well as supply chain and investment disruptions (Kacaribu, 2022).

Furthermore, Kacaribu (2022) states that the dynamics of the national economy, namely the national economy or the domestic economy are still maintained when viewed from various indicators on the consumption side, such as people's mobility, the shopping index and the retail sales index which are growing strongly amidst the dynamics of efforts to recover the world economy after the dealing with the Covid-19 pandemic. The Covid-19 pandemic had a significant impact on the national economy. The national gross domestic product experienced a negative growth contract in the second and third quarters of 2020 compared to the previous year (y-on-y) respectively, of −5.32% and −3.47% (Suryana et al., 2020).

According to Kacaribu (2022), the recovery of the national economy continues to show a strengthening trend marked by economic growth. The Ministry of Finance of the Republic of Indonesia (https://www.kemenkeu.go.id) released that national economic growth in the third quarter of 2022 was recorded at 5.72% (yoy). The strengthening of the economic recovery is shown by economic growth in Q3 2022 compared to Q2 2022 of 1.8% (qtq), and at this growth rate, the cumulative level of national GDP in Q3/2022 is 6.6% above cumulative levels I-III 2019. The positive growth trend of the national economy amid global economic and political uncertainty, as well as the impact of Covid-19 proves that the Indonesian government has implemented several solutions (https://www.kemenkeu.go.id).

In this context, the Government of Indonesia has carried out various programs to overcome the economic impact of the COVID-19 pandemic as follows: providing economic stimulus for entrepreneurs or MSMEs, providing income tax incentives (PPh) borne by the government; providing low interest credit for workers in the formal sector; social safety net programs and others (Hanifa et al., 2021). Regarding the Indonesian State-Owned Enterprises (BUMN), the government is encouraging Indonesian BUMNs to increase their role so that the business world can rotate in order to maintain national economic stability. Indonesian SOEs are business entities owned by the Government. SOEs act as agents of value creators and agents of development (Sasongko, 2020).

According to Sasongko (2020), as agents of value creators, BUMN are expected to be able to contribute profits to the country, and as agents of development, BUMN are expected to contribute to national development including in economic recovery. Therefore, some concrete actions are related to strengthening the real role of SOEs in Indonesia. The government strengthens BUMN capital (Sasongko, 2020), and seeks to increase the supply and demand for raw materials, and increase employment (Nainggolan, 2022).

This is in line with UNODC (2017) which states that SOEs play an important role in the global economy. In this context, Indonesian SOEs have a very large role in the life of the national economy (Saeed & Thohir, 2022) in order to meet the primary needs of society both in the form of goods and services. In general, Sorongan (2022a) states that SOEs are formed for the purpose of public service obligation (PSO), providing basic services in various sectors, including electricity, transportation, telecommunications for people and companies, as well as loans for business (IMF, 2020; Böwer, 2017; UNODC, 2017).

According to the IMF (2020), SOEs are among the largest companies in low-income developing countries, emerging markets, and developed economies with variety, variation in size, sector of operation, complexity, sophistication, and levels of government ownership and control. Then, if viewed from the aspect of ownership, basically SOEs (BUMN) is owned by the government but there is also a mixed ownership, public and private owners where the emphasis on commercial focus is greater (IMF, 2020). State ownership is defined as a minimum share of 50.1 percent and varies by country and sector (Böwer, 2017). According to Böwer (2017), in several countries and sectors, SOEs are very losers. Huge debt has accumulated in the energy and transport sectors, but also in the telecommunications, financial services and real estate sectors.

According to experts at the IMF (2020), many governments struggle to manage SOEs effectively due to widespread concerns, many SOEs are inefficient, involve significant risks to government budgets, and are channels of corruption. In Indonesia, the total number of SOEs in 2019 was 108, and will be 41 in 2024, and have assets of $600 billion (Saeed & Thohir, 2022). This is equivalent to more than half of Indonesia's annual gross domestic product and thus plays a key role in a variety of important industries—including electricity, pharmaceuticals, air navigation services, food distribution and logistics (Saeed & Thohir, 2022).

According to Thohir (2020) in a Press Release Number PR-41/S.MBU.33/6/2020 Concerning Erick Thohir's Continued SOE Efficiency, stated that the reduced number of BUMNs is none other than the birth of consolidation which aims to strengthen industry independence and increase product availability, including the pharmaceutical and insurance sectors as well as to increase productivity, competitiveness, and efficiency (Annur, 2022). Toto Pranoto in Putra (2021) states that the problems of Indonesian SOEs are related to productivity, efficiency and the ability to manage profits, so Indonesian SOEs need to make structural improvements to the management of SOEs in order to spur better performance going forward.

However, the problem with Indonesian SOEs is that there has been a lot of mismanagement or mismanagement, and some state-owned companies have even gone bankrupt, and have gone bankrupt (Sorongan, 2022b). BUMN observer from the University of Indonesia Toto Pranoto in Wareza (2021) states that the problems of Indonesian BUMNs are related to the poor performance of Indonesian BUMNs caused by mismanagement, unproductive investment, and low agility facing the dynamics of external change (globalization) and the impact of the Covid-19 pandemic.

Furthermore, the influence of globalization is marked by the development of an increasingly open and competitive world economy. In the era of globalization, countries in the world are required to be able to implement new systems and paradigms in business management. According to Purwantini (2008) in Widhianningrum & Amah (2012), business activities must be carried out based on corporate governance, good corporate principles as a system used to direct and control company activities, including regulating the division of tasks, rights and obligations of those with an interest. to the life of the company including shareholders, board of directors, managers and all members, non-shareholder stakeholders.

According to Sudarmanto et al. (2021) in Sari (2022) state that corporate governance is intended to regulate the relationship between various interested parties such as the relationship between shareholders, the board of commissioners and the board of directors for the achievement of organizational goals; to prevent significant errors in corporate strategy; and to ensure that errors that occur can be corrected promptly. In this context, corporate governance can be interpreted as a principle in terms of controlling the behavior of company managers to take actions so as not only to benefit themselves but also the owners of the company. In principle, corporate governance concerns the interests of shareholders, the role of all stakeholders in corporate governance, as well as the roles of the Board of Commissioners and the Audit Committee (Sutedi, 2011).

Indonesian SOEs need to foster a corporate culture and professionalism, among others, by improving their management and supervision which must be carried out based on the principles of good corporate governance (UU No.19/2003). Therefore the application of the principles of good corporate governance is very much needed in Indonesian SOEs. This is because the management of these BUMNs tends to be unprofessional, not transparent, and not accountable so the implications of this problem are significant state losses where these BUMN companies should be able to generate dividends for state revenues.

Several Indonesian state-owned companies experienced substantial losses which ultimately led to bankruptcy due to mismanagement (Sorongan, 2022b), According to Sorongan (2022b) some of these Indonesian state-owned companies include: PT Istaka Karya (Persero), PT Merpati Nusantara Airlines (Persero), PT Industri Sandang Nusantara (Persero), PT Iglas (Persero), PT Kertas Kraft Aceh (Persero). Then, Indonesian SOEs that were mismanaged and included in the category of mega corruption scandal cases were PT Garuda Indonesia (Persero), PT. ASABRI (Persero), and PT. Jiwasraya (Persero). PT Garuda Indonesia (Persero) is an airline of national pride but for the last two years, it has faced a financial storm due to past mismanagement which has caused the company's debt to swell to more than Rp. 140 trillion (Kurmala, 2022). Meanwhile, PT ASABRI (Persero), a state-owned insurance company with savings and pension credit loan services. This insurance company is actually devoted to TNI soldiers, members of the National Police and Civil Servants of the Ministry of Defense of the Republic of Indonesia.

According to the Supreme Audit Agency (BPK) of the Republic of Indonesia, the value of state losses in the corruption case in the management of investment and financial funds of PT ASABRI (Persero) reached Rp 22.78 trillion (Persero). Then, PT. Jiwasraya (Persero), a Pension Fund which is engaged in the insurance business that is detrimental to state finances and money laundering in financial management and Investment Funds in mutual funds (Kamil, 2021). The Supreme Audit Agency (*Badan Pemeriksa Keuangan Republik Indonesia* or BPK RI) in Sidik (2020) stated that the potential state losses reached Rp. 16.8 trillion, which came from investigations of files for 10 years, from 2008 to 2018 with the following details: 1) Losses from investment in shares of Rp 4.65 trillion, and 2) State losses due to investment in mutual funds Rp 12.16 trillion.

Referring to the various problems related to corruption cases that have occurred in Indonesian BUMNs, this should receive serious attention and become a critical issue for stakeholders. Corruption cases that have occurred in Indonesia show that the principles of Good Corporate Governance (GCG) have not been optimally achieved (Aslam, 2022; Sitinjak, 2022). Therefore, the urgency of preventive oversight based on the principles of good corporate governance as a strategy for preventing corruption in Indonesian SOEs is a must. The World Bank in Handoyo and Fitriyah (2018), defines corruption as the abuse of public power for personal gain, and corruption is one of the biggest obstacles to economic and social development. In this case, the principles of good corporate governance are needed to overcome the issue of corruption in Indonesian SOEs. The application of GCG principles should be carried out consistently and continuously so that the objectives of establishing SOEs can be achieved.

SOEs (BUMN) is a business entity owned or controlled by the government that produces or provides goods or services to the public (Trebilcock, 2022). Thus, there are 2 (two) main reasons why corruption in BUMN should be a concern for stakeholders, namely as follows:

First, SOEs must be a benchmark or benchmark for others in terms of preventing corruption;

Second, SOEs do not only carry out business processes to gain profits but are also part of the strategic service function for the needs of the general public. For example, PT Kereta Api Indonesia (KAI), serves rail transportation for the community; PT Pelabuhan Indonesia (Persero) or Pelindo, serves the needs of efficient and effective ports, and other Indonesian SOEs.

Based on the various descriptions above, the problem related to this research is that Indonesian SOEs should be able to apply the principles of good corporate governance. In this case, the important role of top leadership, leadership in the context of developing behavioral conducts is very important. According to Fuller (2022), professional behavior is a form of etiquette in the workplace that leads to ethics and dedication consisting of: 1) Integrity, acting ethically and doing the right thing at all times; 2) Company Objectives, having an understanding of the company's mission, goals, and objectives and the roles performed to achieve them; 3) Accountability,responsible for work and actions; 4) Commitment, dedication and positive action towards the role in the organization so that others are inspired to make extra efforts; and others.

In this context, the role of the top leadership will be seen from the management actions taken in the form of management capabilities that can manage regularity, smooth organizational processes, compliance of company members to policies where the system designed is focused on implementing the principles of good corporate governance. Therefore, this research becomes interesting and has significance so that Indonesian SOEs can implement strategies to prevent corruption or fraud through preventive supervision based on good corporate governance (GCG). On the other hand, Indonesian SOEs are expected to implement risk management consistently and continuously. Therefore, the formulation of the research problem is as follows:

1) What and How are the laws and regulations regarding preventive supervision based on GCG in Indonesian SOEs?

2) Does the application of GCG affects to prevent corruption in Indonesian SOEs ?

3) What is the urgency of preventive supervision based on the application of GCG in Indonesian SOEs?

4) What is the strategy for preventing corruption or fraud through preventive supervision based on the implementation of GCG in Indonesian SOEs?

Thus, this research is entitled as follows: "*The Urgency of Preventive Supervision to Prevent Corruption in Indonesian State-Owned Enterprises*". Furthermore, this article sequentially discusses related to the 3 (three) main questions posed in the formulation of the research problem, and ends with conclusions and suggestions to reposition Indonesian SOEs as professional companies and are expected to make a positive contribution to the national economy as described in **Figure 1** below as follows:

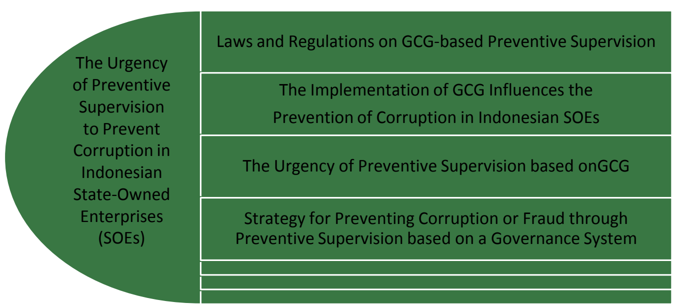

Figure 1. The urgency of preventive supervision to prevent corruption in Indonesian State-Owned Enterprises (SOEs).

2. Literature Review

Kafi (2013) states that the term governance means a source or reference that forms the basis of organizational governance in the form of a set of laws, regulations and decisions aimed at achieving quality and performance excellence by choosing appropriate and effective methods to achieve company plans and goals or institution. International Financial Corporation (IFC) (2010), corporate governance is defined as the structure and process to direct and control the company. According to Marciano et al. (2018), the definition of good corporate governance (GCG) is as a set of rules related to the company's control process that involves all stakeholders to ensure the implementation of the company's performance in achieving the organization's vision and mission. Good Corporate Governance (GCG) is a unified system consisting of substance, structure, and legal culture (Prastika, 2020). This opinion is in line with Chen (2022) who stated that corporate governance is a system of rules, practices, and processes by which companies are directed and controlled.

According to SIG (2020), the company applies the principles of good governance with the aim of ensuring optimal results as follows: 1) Improving the Company's performance through the creation of a better decision-making process, increasing the Company's operational efficiency and providing services to stakeholders; 2) Increasing the value of the company through improving financial performance and minimizing investment risks that contain conflicts of interest; 3) Increasing guarantees for investors; 4) Achieving stakeholder satisfaction by increasing the value of the company and dividends of the Company; 5) Directing and controlling the relationship of the Company's Organs; 6) Increasing the accountability of the Company's management to the Shareholders while still paying attention to the interests of the stakeholders; and 7) Encourage and support business development, effective management of resources and risks so as to increase the value of the Company.

The term corruption is only known juridically in the realm of national legislation because the Criminal Code (*Kitab Undang = undang Hukum Pidana* or KUHP) is no longer able to handle the spread of corruption (Syauket, 2021). Corruption is classified as an extraordinary crime, because it destroys the order of life (Mahzaniar & Elisa, 2017). Deniozos et al. (2018) define corruption as a configuration of economic crimes that causes global security problems related to economic and social development. The opinion of Deniozos et al. (2018) is in line with the opinion of Manor et al. (2021) which defines corruption as a complex and widespread phenomenon with harmful economic and social influences. According to Ackerman (2006), corruption in the economic dimension is described as a symptom of state maladministration, and the institutions that are supposed to regulate the relationship between the state and its citizens are used for their benefit. In the cultural dimension, corruption is interpreted as a tradition of giving bribes and gifts which others refer to as corruption (Ackerman, 2006).

Bullock and Jenkins (2020) cite Transparency International's definition of corruption as the abuse of entrusted power for personal gain. The terms abuse, entrusted power, and personal gain refer to the abuse or ill-treatment of the authority given by a person to benefit oneself or others (financially, materially, politically, or socially) at the expense of society at large (Bullock & Jenkins, 2020). According to experts in Mistree & Dibley (2018), defining the term corruption, one of which is an event that occurs when someone seeks illegal profits from an institution in a way that can endanger public trust in the institution. According to Wahab and Ramadani (2021), acts of corruption can occur in various sectors, and classify corruption according to the Corruption Eradication Law in Indonesia into seven groups, namely:

1) Detrimental to state finances (enriching oneself or abusing authority to harm state finances);

2) Bribe;

3) Gratuities;

4) Embezzlement of office;

5) Extortion;

6) Fraudulent acts; and

7) Conflict of interest.

Therefore, the UN Global Compact in UNIDO and UNODC (2007) has recommended tools for preventing corruption by promoting efficiency, transparency, merit-based recruitment, code of ethics, as well as transparency and accountability in public finances and so on. Acts of corruption can occur in various sectors, and also in State-Owned Enterprises (SOEs or BUMN). Therefore, a strategy for preventing corruption or fraud is needed through preventive supervision based on the implementation of good corporate governance (GCG). According to Zhen et al. (2017) in Shui-li et al. (2021) stated that in the current gradual transformation environment, the state-owned sector is controlled by the government on the one hand, and on the other hand faces increasingly strong competition from the non-SOEs sector., making it difficult for a single regulatory system to adapt to the heterogeneity of SOEs. Meanwhile, Wei (2017) in Shui-li et al. (2021) states that monitoring models, assessment mechanisms and policy designs need to be classified and implemented in stages according to the company's specific situation.

Therefore, preventive supervision focuses on maintaining and increasing value, with the principle of ensuring the operational autonomy of competitive SOEs and increasing the company's internal efficiency (Shui-li et al., 2021; Inclusive Development International, 2023). Thus, the development, management and supervision of SOEs, the administration of state-owned assets attached to SOEs and limited liability companies needs to be regulated by regulations and legislation in the form of Government Regulations carried out directly by the Ministry of BUMN (Sitinjak, 2022).

3. Materials and Methodology

The approach method used in this research is using a normative juridical method, taking secondary data through a literature study on the applicable laws and regulations (Supranto, 2003). The type of research carried out is a qualitative approach to produce descriptive data (Sunggono, 2003), According to Bogdan and Biklen (2016), qualitative research is one of the research procedures that produces descriptive data to understand phenomena about what is experienced by research subjects such as behavior, actions, and others which are holistically described in the form of words and language (Moleong, 2017). By using the normative juridical method, the data collection technique is carried out by means of a legal study of literature in the form of secondary data as the basis for research by conducting a search on regulations and literature related to theoretical and application problems (Supranto, 2003) related to the urgency of supervision. Preventive measures based on good corporate governance (GCG) as a strategy to prevent corruption in Indonesian State-Owned Enterprises (BUMN). The research material used is in the form of legislation (Diantha, 2016) which is in accordance with the research focus. Furthermore, the research data has been analyzed using the analytical method approach of Huberman and Miles (1984) which includes the stages of data collection activities, data reduction, data presentation, and drawing conclusions.

4. Discussion

4.1. Laws and Regulations on GCG-Based Preventive Supervision

Currently, companies must pay attention to all decisions related to all operational activities so that companies need the concept of good corporate governance (GCG) to achieve company targets (KNKG, 2006). According to (KNKG, 2006), good corporate governance (GCG) is one of the pillars of the market economy system that is closely related to trust in both the companies that implement it and the business climate in a country. The implementation of GCG encourages the creation of healthy competition and a conducive business climate, and the implementation of GCG is very important to support sustainable economic growth and stability (KNKG, 2006).

Therefore, the implementation of GCG is also expected to encourage and support business development, management of company resources and risk management more effectively so as to increase company value. GCG principles aim to guide companies to generate added value for shareholders in the long term, while still paying attention to the interests of stakeholders in the company (Abdullah & Nugroho, 2011). There are two things emphasized in the GCG concept as follows: *first* is the importance of the shareholder's right to obtain accurate and well-timed information; and *second* is the company's obligation to accurately, timely, and transparently disclose all information in related to the company's performance, ownership, and stakeholders (Nawawi & Herawati, 2017). According to Aghnia (2009) in Taman and Nugroho (2011) states that concretely, the application of the principles of good corporate governance (GCG) has the following objectives:

1) Encouraging the achievement of corporate sustainability through management based on the principles of transparency, accountability, responsibility, independence as well as equality and fairness.

2) Encouraging the empowerment of the function and independence of each company organ, namely the Board of Commissioners, the Board of Directors, and the General Meeting of Shareholders.

3) Encouraging shareholders, members of the Board of Commissioners, and members of the Board of Directors to make and carry out their actions based on high moral values and compliance with laws and regulations.

4) Encouraging the emergence of awareness and corporate social responsibility towards the community and environmental sustainability, especially around the company.

5) Optimizing the value of the company for shareholders while still paying attention to other stakeholders.

6) Increasing the competitiveness of companies nationally and internationally, so as to be able to increase market confidence that can encourage investment flows and sustainable national economic growth.

In Indonesia, historically, GCG has been regulated since the beginning of 2002 with the Decree of the Minister of BUMN of the Republic of Indonesia No. 117 of 2002 concerning the Implementation of Good Corporate Governance Practices in State-Owned Enterprises (SOEs or BUMN) or SK Menteri Negara BUMN Republik Indonesia No.117 tahun 2002 tentang Penerapan Praktek Good Corporate Governance Pada Badan Usaha Milik Negara (SK Minister of BUMN No. 17/2002). According to the Decree of the Minister of State-Owned Enterprises No. 17/2002), that: a) the principles of good corporate governance are the rules, norms or corporate guidelines needed in a sound BUMN management system; b) that the principles of good corporate governance have not been fully implemented within BUMN; c) that in order to further enhance the performance of SOEs, it is necessary to further optimize the implementation of the principles of good corporate governance; d) whereas bearing in mind the matters mentioned above, it is deemed necessary to reaffirm the application of the principles of good corporate governance in SOEs through a decree of the Minister of State-Owned Enterprises.

The following are several laws and regulations regarding preventive supervision based on good company management as presented in **Table 1** below.

Referring to **Table 1** below, it can be interpreted that the Commissioners and the Supervisory Board as the organs of managing the Persero have the authority and responsibility to supervise the Company, and provide advice to the Directors of SOEs (BUMN), and Indonesian SOEs businesses related to the management of the Persero as regulated by as regulated in the Law No. 10/2007, UU No. 19/2003, and PER-5/MBU/09/2022. Then, the Board of Commissioners must be able to enforce a system of openness (transparency) when the Directors carry out company action plans related to making public policies, public policy programs, and public decision-making processes, as well as the reasons for making a public decision. The various powers possessed by the Board of Commissioners are regulated in Financial Services Authority Regulation No. 21/POJK.04/2015 of 2015 concerning Guidelines for Public Company Governance.

Regarding internal control based on good company management, it is specifically regulated in the Financial Services Authority Circular Letter No. 32/SEOJK.04/2015 of 2015 concerning Guidelines for Public Company Governance, and also regulated in the Regulation of the State Minister of BUMN Number PER-09/MBU /2012 concerning Amendments to the Regulation of the State Minister for State-Owned Enterprises Number PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises. Furthermore, the Board of Commissioners has the authority to measure the level of implementation of GCG practices in Indonesian SOEs as stipulated in PER-01/MBU/2011.

Table 1. Laws and regulations on good corporate governance-based preventive supervision.

No	Legislation	Article	Explanation
1	Law No. 19 of 2003 concerning Indonesian State-Owned Enterprises (Law No. 19/2003) or *Undang-Undang Nomor 19 Tahun 2003 tentang Badan Usaha Milik Negara Indonesia* (*UU No. 19/2003*)	Article 70 Paragraphs 1), 2), and 3)	Article 70 Paragraph 1): In order to realize effective supervision in the implementation of their duties, the Board of Commissioners and the Supervisory Board need to be assisted by the Audit Committee in charge of assessing the implementation of activities and results of audits carried out by the internal control unit and external auditors, providing recommendations regarding the improvement of the control system, management and implementation, ensuring that there is a satisfactory review procedure for all information issued by SOEs, identifying matters that require the attention of the Commissioners and the Supervisory Board as well as the duties of the Commissioners and the Supervisory Board. Paragraph 2) The chairman of the audit committee is an independent member of the Board of Commissioners, who is appointed by the Commissioner. Paragraph 3) Other committees referred to here include, among others, the remuneration committee and the nomination committee
2	Law Number 40 of 2007 concerning Limited Liability Companies (Law No. 10/2007) or *Undang-Undang Nomor 40 tahun 2007 tentang Perseroan Terbatas* (*UUPT No. 10/2007*)	Article 114 paragraph 1), 2), 3), and 4)	Article 114: 1) The Board of Commissioners is responsible for the supervision of the Company as referred to in Article 108 paragraph 1) Article 114 paragraph 2) Each member of the Board of Commissioners is obliged with good faith, prudence, and responsibility in carrying out supervisory duties and providing advice to the Board of Directors as referred to in the interest of the Company and in accordance with the purposes and objectives of the Company; Article 114 paragraph 3) Each member of the Board of Commissioners is personally responsible for the loss of the Company if the person concerned is guilty or negligent in carrying out his duties as referred to in paragraph 2); and Article 114 paragraph 4) In the event that the Board of Commissioners consists of 2 (two) members of the Board of Commissioners or more, the responsibilities as referred to in paragraph 3) apply jointly and severally to each member of the Board of Commissioners.
3	Regulation of the Minister of SOEs of the Republic of Indonesia Number 5 of 2022 concerning the Implementation of Risk Management (PER-5/MBU/09/2022) or *Peraturan Menteri BUMN Republik Indonesia Nomor 5 Tahun 2022 tentang Penerapan Manajemen Resiko* (*PER-5/MBU/09/2022*)	Article 14. paragraph 1), and 4)	Article 14 paragraph 1): The board of commissioners or the Supervisory Board as the managing organ, has the authority, duties and responsibilities: to carry out supervision of the implementation of other Risk Management functions in accordance with the provisions of laws and regulations, articles of association and/or decisions of the General Meeting of Shareholders /Equity Owner (.GMS); and Article 14 paragraph 4) In implementing the Integrated Governance function as referred to in paragraph 1) letter c, the Board of Commissioners or the Supervisory Board has the authority, duty and responsibility to oversee the implementation of Integrated Governance in Subsidiaries so that it is in line with the Risk Management policy. Parent BUMN.

Continued

4	Regulation of the Minister of State-Owned Enterprises Number PER-09/MBU/2012 concerning Amendments to Regulation of the Minister of State for State-Owned Enterprises Number PER -01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises or *Peraturan Menteri Negara BUMN Nomor PER-09/MBU/2012 tentang Perubahan Atas Peraturan Menteri Negara Badan Usaha Milik Negara Nomor PER-01/MBU/2011 tentang Penerapan Tata Kelola Perusahaan Yang Baik Pada Badan Usaha Milik Negara.*	Article 12 paragraph 1) to paragraph 9)	Article 12 paragraph: 1) In carrying out their duties, the Board of Commissioners/Supervisory Board must comply with the provisions of laws and/or the articles of association. 2) The Board of Commissioners/Supervisory Board is responsible and authorized to supervise management policies, the general management of both BUMN and BUMN businesses and provide advice to the Directors. 3) Supervision and giving advice as referred to in paragraph 2) is carried out for the benefit of BUMN and in accordance with the aims and objectives of BUMN, and is not intended for the benefit of certain parties or groups. 4) The Board of Commissioners/Supervisory Board makes division of tasks which are regulated by themselves. 5) The Board of Commissioners/Supervisory Board is required to prepare an annual work plan and budget. The Board of Commissioners/Supervisory Board which is an integral part of the RKAP. 6) The Board of Commissioners/Supervisory Board is required to submit a report on the supervisory duties carried out during the past financial year to the GMS/Minister. 7) The Board of Commissioners/Supervisory Board must monitor and ensure that GCG has been implemented effectively and sustainably. 8) The Board of Commissioners/Supervisory Board must ensure that the BUMN Annual Report contains information regarding identity, main jobs, positions of the Board of Commissioners/Supervisory Board in other companies, including meetings held in one financial year (internal and external meetings). joint meeting with the Board of Directors), as well as honorarium, facilities and/or other allowances received from the BUMN concerned. 9) The Board of Commissioners/Supervisory Board is obliged to report to the BUMN concerning its and/or family's share ownership in the BUMN concerned and other companies, including any changes thereto.
5	Decree of the Secretary of the Ministry of SOEs No. SK-16/S.MBU/2012 of 2012 concerning Indicators/Parameters of the Implementation of Good Corporate Governance in SOEs or *Keputusan Sekretaris Kementerian BUMN No.SK-16/S.MBU/2012 Tahun 2012 tentang Indikator/ Parameter Pelaksanaan Good Corporate Governance di BUMN.*	-	Implementation of GCG Practices with the aim of measuring the level of implementation of GCG practices as well as getting feedback for future improvements. The method of assessing the implementation of GCG refers to the measuring instrument (score card) stated in the Decree of the Secretary of the Ministry of SOEs No. SK-16/S.MBU/2012 dated June 6, 2012 concerning Indicators/Parameters for Assessment and Evaluation of the Implementation of Good Corporate Governance in State-Owned Enterprises.
6	Peraturan Otoritas Jasa Keuangan Nomor 55/POJK.04/2015 Tahun 2015 tentang Pembentukan dan Pedoman Pelaksanaan Kerja Komite Audit or Financial Services Authority Regulation Number 55/POJK.04/2015 Year 2015 concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee	Article 3, and Article 11	Article 3 Members of the Audit Committee are appointed and dismissed by the Board of Commissioners; and Article 11 In carrying out its duties, the Audit Committee has the following authorities: a) access documents, data, and information of the Issuer or Public Company regarding the necessary employees, funds, assets, and company resources; b) communicate directly with employees, including the Board of Directors and those who carry out the functions of internal audit, risk management, and accountants regarding the duties and responsibilities of the Audit Committee; c) involving independent parties other than members of the Audit Committee as needed to assist in carrying out their duties (if needed); and d) perform other authorities given by the Board of Commissioners

Continued

7	Financial Services Authority Regulation No. 21/POJK.04/2015 Year 2015 concerning Guidelines for the Governance of Public Companies or *Peraturan Otoritas Jasa Keuangan No. 21/POJK.04/2015 Tahun 2015 tentang Pedoman Tata Kelola Perusahaan Terbuka*	Article 15 paragraph 1)	Disclosure of Information at the General Meeting of Shareholders (GMS) - Article 15 paragraph 1) A Public Company that increases capital by granting Pre-emptive Rights (HMETD) to shareholders is required to announce information regarding the plan to increase capital by granting Rights to shareholders at least not later than the announcement of the GMS by complying with the principle of transparency.
8	Financial Services Authority Circular Letter No. 32/SEOJK.04/2015 Year 2015 concerning Guidelines for the Governance of Public Companies or *Surat Edaran Otoritas Jasa Keuangan No. 32/SEOJK.04/2015 Tahun 2015 tentang Pedoman Tata Kelola Perusahaan Terbuka*	-	The Governance Guidelines as referred to in number 1 cover 5 (five) aspects of implementing the principles of good corporate governance, as listed in the Appendix which is an integral part of this Financial Services Authority Circular Letter. Five aspects of Public Company Governance as follows: a) Public Company Relations with Shareholders in Ensuring the Rights of Shareholders; b) Functions and Roles of the Board of Commissioners; c) Functions and Roles of the Board of Directors; d) Stakeholder Participation; and e) Information Disclosure. 4. The principles of good corporate governance in the Governance Guidelines are the basic concepts of good corporate governance, in accordance with international exemplary practices.

Source: Laws and Regulations on Good Corporate Governance-based Preventive Supervision (processed).

Meanwhile, the Indicators/Parameters for the Implementation of Good Corporate Governance in SOEs are regulated in the Decree of the Secretary of the Ministry of SOEs No. SK-16/S.MBU/2012 of 2012 concerning Indicators/Parameters for the Implementation of Good Corporate Governance in SOEs. On the other hand, the Financial Services Authority Regulation No. 21/POJK.04/2015 of 2015 concerning Guidelines for Governance of Public Companies (POJK No. 21/POJK.04/2015 of 2015). POJK No. 21/POJK.04/2015 of 2015 stipulates that the Board of Commissioners has the authority to appoint and dismiss members of the Audit Committee.

Based on the various descriptions above, and referring to several applicable laws and regulations, the Board of Commissioners has the authority, duties and responsibilities to carry out preventive supervision based on good corporate management in Indonesian SOEs and the implementation of other Risk Management functions. Then, the Board of Commissioners has the duty and responsibility to monitor and ensure that the principles of good corporate governance (GCG) have been applied effectively and sustainably to Indonesian SOEs.

Thus, several prevailing laws and regulations authorize the Board of Commissioners to carry out preventive supervision based on good corporate governance (GCG) in Indonesian SOEs. Then, the authority of the other Board of Commissioners is to ensure that good corporate governance (GCG)-based internal supervision has been applied to Indonesian SOEs. Therefore, the position of the Board of Commissioners is very strategic to encourage, supervise and advise the

Board of Directors in running the business wheels of Indonesian SOEs in order to remain compliant with Good Corporate Governance (GCG).

4.2. Implementation of GCG Influences the Prevention of Corruption in Indonesian

Corruption is broadly defined as the abuse of public office for personal gain (Mistree & Dibley, 2018). Corruption harms business for all types of companies—large and small, multinational and local (UNIDO & UNODC, 2007). Therefore, corruption prevention is an important agenda in good corporate governance. Cood corporate governance (GCG) provides the rules of the game, clear checks and balances that can help reduce company costs (for capital and production) and increase economic output (OECD, 2004). According to the results of Prastika's research (2020) that Good Corporate Governance (GCG) can effectively prevent corruption in PT Kereta Api Indonesia (Persero) m and it is proven that there are no criminal acts of corruption involving all elements of the company for the last three years

According to the OECD (2004), the application of good corporate governance (GCG) is very necessary because it is beneficial, and useful for all sectors and types of companies whether they are multinational, state-owned companies, domestic companies, small businesses, or family-owned operations. A strong corporate governance system is an important component of companies' efforts to strengthen incentives and appropriate practices and to address the corrupt practices they face (Transparency International, 2009). According to Wu (2005) in Transparency International (2009), empirical evidence has shown, without a good corporate governance system, the overall impact of anti-corruption initiatives is reduced and the growth of companies, and the countries in which they operate, is undermined.

The implementation of good corporate governance (GCG) in terms of preventive supervision is a system that focuses on controlling the company's performance system (Rahayu & Kartika, 2021). According to experts in Fernandez (2016) that agency theory provides reasons for possible conflicts that can develop between principals (shareholders) and agents (management). Jensen and Meckling (1976) stated that the agency relationship is the relationship between the owner of the company (principal) and the agent, with the delegation of decision-making authority to the agent. Furthermore, experts in Fernandez (2016) stated that related to the issue of control or supervision of the owner over management and the available mechanisms to exercise this control, it is known as good corporate governance (GCG) which has the following objectives:

1) GCG is a specific governance mechanism, such as the board of directors, playing a relevant role in disciplining and advising management in making the most appropriate decisions at all times and for each organization;

2) The board of directors must ensure the long-term viability of the company by maximizing profitability for shareholders;

3) Aligning company interests with group interests; and

4) Decisions taken by the board will lead to different levels of financial performance.

Furthermore, the implementation of good corporate governance (GCG) related to corruption prevention strategies is to establish steps to manage and reduce financial and operational risks by building integrity, transparency, and accountability of company management to various actors at various levels within the company: board members, managers, employees, and shareholders (OECD, 2004; The UK Corporate Governance Code, 2016). This is closely related to the objectives of corporate governance, to facilitate effective management, entrepreneurship and prudence that can provide the company's long-term success (The UK Corporate Governance Code, 2016).

State-Owned Enterprises (BUMN) have a very important role in the network sector, such as energy, transportation, and water management (Böwer, 2017). According to Cuervo-Cazurra et al. (2014) in the IMF (2020), several SOEs have been operating abroad for decades, especially in the natural resources sector, the cross-border activities of SOEs have diversified and increased in this century. The increasing internationalization of SOEs has fueled concerns about the potential for pursuing non-commercial goals or unfair competition as they often benefit from government support, including subsidies or cheaper IMF financing (2020). According to Kurmala (2022), the approach of accountability, transparency, and anti-corruption must continue to be applied to build a prosperous SOEs (BUMN).

The UK Corporate Governance Code (2016) states that good corporate governance (GCG) is a guide to a number of key components of effective board practice. It is based on the principles that underlie all good governance: accountability, transparency, honesty, and a focus on the sustainable success of an entity over the long term (The UK Corporate Governance Code, 2016). According to the OECD (2004), the principles of good corporate governance (GCG) published in 1999 and revised in 2004 as guidelines for good corporate governance have four core values as follows:

1) Fairness—The corporate governance framework must protect the rights of shareholders and ensure fair treatment for all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violations of their rights.

2) Responsibilities—The corporate governance framework should recognize stakeholder rights as defined by law, and encourage active cooperation between companies and stakeholders in creating wealth, jobs and the sustainability of financially sound companies.

3) Transparency—The corporate governance framework must ensure that timely and accurate disclosure is made on all material matters concerning the company, including its financial situation, governance structure, performance and ownership.

4) Accountability—The corporate governance framework should ensure the strategic guidance of the company, effective management monitoring by the Board, and the accountability of the Board to the company and shareholders.

Sutedi (2011) defines good corporate governance (GCG) as a system that regulates and controls the company to create added value for all stakeholders. Good Corporate Governance (GCG) requires good corporate governance, with 5 (five) principles; transparency, accountability, accountability, independence and fairness are applied as benchmarks (Prasinta, 2012; Yuliastuti & Tandio, 2020). Therefore, good corporate governance is a description of how the management's efforts to manage assets and capital well. According to Chen (2022), corporate governance basically involves balancing the interests of many company stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, government, and society. In this context, Maier (2005) illustrates that good corporate governance (GCG) is a framework within which companies are directed and controlled.

Furthermore, the implementation of the principles of good corporate governance (GCG) in Indonesian SOEs has been regulated through the Decree of the Minister of SOEs No. 117/M-BU/2002 dated July 31, 2002 concerning the Implementation of GCG Practices in SOEs which was later refined through the Minister of SOE Regulation No. 01/MBU/2011 concerning the Implementation of Good Corporate Governance (GCG). The principles of good corporate governance as regulated in the Regulation of the Minister of State-Owned Enterprises Number PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises Chapter II article 3 are described as follows:

1) Transparency is openness in the decision-making process and openness in disclosing material and relevant information about the company;

2) Responsibility is the conformity of the Company's management to the prevailing laws and regulations and sound corporate principles;

3) Independence—That is a situation where the Company is managed professionally without conflict of interest and influence/pressure from any party that is not in accordance with the applicable laws and regulations and sound corporate principles;

4) Fairness—A situation where the Company is managed professionally without conflict of interest and influence/pressure from any party that is not in accordance with the prevailing laws and regulations and sound corporate principles, several laws and regulations.

Based on the various descriptions above, the implementation of GCG is one solution that can be used in order to improve the performance and competitiveness of government-owned companies, Indonesian SOEs and other private companies. In this case, the Board of Commissioners of Indonesian SOEs can encourage and supervise the board of directors to be consistent in applying the principles of GCG. GCG is rooted in ethical behavior and business principles, with the aim of creating long-term value and sustainability for all stakeholders. On the other hand, the Board of Directors also plays a very important role in making decisions in running the company's business, by considering various aspects as follows:

1) Environmental aspects,
2) Economic aspects,
3) Social aspects,
4) Regulatory aspects,
5) Market aspects, and
6) Other aspects.

Furthermore, the board of directors plays a key role in obtaining important resources for the company, such as financial resources that can later be allocated for investment and socially responsible actions (Fernandez, 2016).

Thus, the implementation of GCG is a must in various companies (partners) in Indonesian SOEs in order to achieve healthy corporate performance in line with the vision, mission, and goals of Indonesian SOEs. national economy based on economic democracy in order to realize public welfare (Consideration of Law Number 19 of 2003 concerning Indonesian State-Owned Enterprises points a) and b) Therefore, the purpose of implementing GCG is to reduce the opportunistic behavior of managers, and can increase the value or performance of the company (Putri, 2012). Therefore, setting corporate goals and monitoring performance against goals based on the implementation of good corporate governance (GCG) is absolutely necessary for an organization (Maier, 2005).

4.3. The Urgency of Preventive Supervision Based on GCG

According to the Governance Institute of Australia (2022), the notion of governance is the system by which an organization is controlled and operates, and the mechanism by which that organization, and its people, are held accountable. In this context, preventive supervision can be interpreted as follows: 1) Supervision through process control; and 2) Surveillance is for prevention, not for finding fault and then punishing. According to CIMA and the International Federation of Accountants (2004), good corporate governance is a set of responsibilities and practices undertaken by boards and executive management with the aim of providing strategic direction, ensuring that objectives are achieved, ensuring that risks are appropriately managed, and verifying that organizational resources are used responsibly

GCG requires a good governance system that can help build shareholder trust and ensure that all stakeholders are treated equally (Mahrani & Soewarno, 2018). According to Mahrani and Soewarno (2018), a good system will provide effective protection to shareholders to recover their investment fairly, appropriately, and efficiently, and ensure that management acts in the interests of the company. According to the OECD (2015), the goal of good corporate governance (GCG) is to help build the environment of trust, transparency and accountability necessary to promote long-term investment, financial stability and business integrity, thereby supporting stronger growth and a more inclusive society. .

While Maier (2005) states that good corporate governance aims to provide incentives for the board and management or agents (Mahrani & Soewarno, 2018) to pursue goals that are in the interests of the company and its shareholders. According to Cadbury (2000) in Fernandez (2016) states that corporate governance arises as a result of the separation between owners (principals) and management (agents), and their control in response to the system in which the company is directed and controlled.

Transparency International (2009) defines the owner or principal to include any group or individual who holds equity shares in a business, usually in the form of shares. While the understanding of the manager is made up of all the people who have been given the right to run the business on behalf of the owner. These people can be company executives or members of the board of directors, who are appointed or elected to their positions (Transparency International, 2009).

Based on the various descriptions above, corporate governance is the overall framework of organizational accountability in the form of dimensions of corporate governance that must be implemented in balance, suitability and performance. In this case,, theexecutive board acts within the limits of legal authority, and each authority in making decisions must obtain approval and confirmation from the board of commissioners in accordance with the provisions in force, for example: related to the use of public funds (Single Source Regulations Office/SSRO, 2023). Conformity can be interpreted as corporate governance which includes issues such as the structure and role of the executive board. This has had significant scope in recent years following various corporate governance scandals at Indonesian SOEs.

Therefore, the application of the concept of good corporate governance (GCG) as preventive supervision in Indonesian SOEs is a dimension related to compliance that must be carried out by the board and executive management in the context of guarantees/operational audits of the company in the form of an audit committee. Article 1 point 1 of the Financial Services Authority Regulation Number 55/POJK.04/2015 of 2015 concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee (OJK Regulation 55/2015), the Audit Committee is a committee established by and responsible to the Board of Commissioners in assisting in implementing duties and functions of the Board of Commissioners.

According to Single Source Regulations Office/SSRO (2023), the board of directors must be consistent with the overall strategic direction of the State-Owned Enterprises, especially in terms of policies and resources so that they can be implemented with careful and effective control and there must be risk assessment and management, including: 1). Financial and human; 2). Review management performance; 3). Ascertain and review financial and management information; 4). Ensure that the Board of Commissioners is always informed about any changes that are likely to have an impact on the strategic direction or on the achievement of targets as stipulated in statutory or administrative requirements.

Thus, the preventive supervision mechanism in Indonesian SOEs that can be used by the commissioners to supervise the directors is through the audit committee instrument. According to the explanation of Article 121 paragraph 1) of Law Number 40 of 2007 concerning Limited Liability Companies (UUPT No. 40/2007), the audit committee is one type of committee formed by the Board of Commissioners. This instrument includes supervision related to the performance of the board of directors in terms of making, determining and implementing management policies and the course of management. According to CIMA and International Federation of Accountants (2004), compliance subject to assurance/audit is an established oversight mechanism for boards to use to ensure that good corporate governance processes are effective, eg audit committees to ensure that good corporate governance processes are effective.

4.4. Strategy for Preventing Corruption or Fraud through Preventive Supervision Based on a Governance System

According to the Indonesian Institute of Certified Public Accountants or *Institut Akuntan Publik Indonesia* or IAPI (2013), fraud is defined as an intentional act by one or more individuals in management or those charged with governance, employees, and third parties that involves the use of deception to obtain an overall advantage, unfair or unlawful. Fraud occurs because of pressure, opportunity, rationalization, and arrogance (Horwath, 2011), and fraudulent acts in financial reporting are called fraud financial reporting (Wardhana & Usman, 2022). According to experts in Wardhana and Usman (2022), fraud financial reporting (FFR) is defined as an intentional misstatement of the company's financial statement reporting, the condition of misstatement or omission of financial information or disclosure of financial information aims to obscure financial statement users in making decisions.

Experts in Wardhana and Usman (2022) state that information discrepancies can cause significant losses for companies, damage the credibility of the accounting profession and decrease public confidence in financial statements. The problem of fraud that occurs in Indonesian BUMN companies as described in this research problem is inseparable from agency theory. Messier et al. (2006) in Mahesarani & Chariri (2016) states that the agency relationship raises two problems: 1) The occurrence of asymmetric information, namely management generally has more information than the owner; and 2) There is a conflict of interest due to unequal goals, where management does not always act in the interests of the owner.

According to Razali and Arshad (2014), Good Corporate Governance (GCG) is one way to reduce conflicts of interest and opportunistic attitudes from management and can inhibit actions that cause fraud in the company's financial statements. Therefore, the principles of GCG can be applied as a strategy to prevent corruption or fraud through preventive supervision in terms of how regulations are produced, and in terms of how regulations are being implemented (Mitsilegas, 2022). The results of research conducted by Saputra (2017) prove that the implementation of Good Corporate Governance has an effect on banking fraud as follows:

1) The results of statistical tests show that the regression coefficient value of the Good Corporate Governance variable is −0.336. This value is significant at the 0.05 significance level with a p_{value} of 0.003. This result is supported by the results of calculating t_{count} 3.022 > from the value of t Table 1.657; and

2) This shows that Good Corporate Governance has a negative and significant effect on banking fraud. The influence of the implementation of Good Corporate Governance (GCG) on Fraud in this study partially amounted to 33.6%.

In this context, the findings of a quantitative research conducted by Saputra (2017) found that the implementation of Good Corporate Governance (GCG) has a negative and significant effect on fraud (Fraud) so that this system is also a good system implemented by banks to achieve the vision and optimal corporate mission According to the OECD (2015), corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders.The implementation of Good Corporate Governance (GCG) culture as a preventive policy and practice against fraud has been successfully tried in one of the Indonesian BUMNs, PT Pos Indonesia (Persero).

According to the research results of Rustandy et al. (2020), it shows that organizational culture, good corporate governance and internal control simultaneously and partially have a significant and positive effect on fraud prevention at PT Pos Indonesia (Persero). That is, the better the implementation of organizational culture, good corporate governance and internal control, the higher the level of fraud prevention at PT Pos Indonesia (Rustandy et al., 2020).

According to the Economic Review Magazine in Embu (2017), several Indonesian BUMN companies that have successfully implemented GCG practices include PT. Aneka Tambang (Persero), Tbk; PT. Garuda Indonesia (Persero), Tbk; PT. Timah (Persero), Tbk; PT. Semen Indonesia (Persero), Tbk; PT. Adhi Karya (Persero) Tbk; PT. Wijaya Karya (Persero), Tbk; PT. PGN (Persero), Tbk; PT. Kimia Farma (Persero), Tbk; PT. Bukit Asam (Persero), Tbk; and PT. Semen Baturaja (Persero), Tbk. But ironically, after a few years you can apply GCG and then apply it inconsistently. As a result of inconsistencies in applying GCG, PT Garuda Indonesia (Persero) as a national airline under the auspices of the Indonesian BUMN has faced financial problems, namely mismanagement over the past two years, which caused the company's debt to swell to more than IDR 140 trillion (Kurmala, 2022).

According to the OECD (2015), corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides a structure within which corporate objectives are set, and the means for achieving these objectives and monitoring performance are determined (OECD, 2015). In general, preventive supervision includes matters related to:

1) The authority to approve the board of commissioners as a means of controlling on behalf of the interests of shareholders,

2) Clear limitation of authority between the Board of Commissioners and the Board of Directors between the supervisory and operational areas, ensuring that the Board of Directors and Board of Commissioners do not cross the line of authority,

3) Provide advice and supervise the strictness of the procedure but there is discretionary space,

4) Assistance by internal audit on activities that have a high risk of fraud such as procurement of goods at a certain value,

5) Quality inspection, namely precision both by method and choice of object of examination with precise findings,

6) Certainty Follow-up findings with monitoring and reporting by the board of commissioners, and

7) Conducting an assessment as well as advice on improving the internal control system.

Article 1 Number 21 Regulation of the Minister of SOEs of the Republic of Indonesia Number 5 of 2022 concerning the Implementation of Risk Management in State-Owned Enterprises (PER-5/MBU/09/2022) dated September 1, 2022 regulates the Internal Control System or *Sistem Pengendalian Intern* (SPI). According to Article 1 Number 21 PER-5/MBU/09/2022, the Internal Control System is a monitoring mechanism established by the Board of Directors of SOEs on an ongoing basis.

According to Chen (2022), the benefits of good corporate governance are as follows:

1) Create transparent rules and controls, provide guidance to leadership, and align the interests of shareholders, directors, management, and employees;

2) Help build trust with investors, the community and public officials;

3) Give investors and stakeholders a clear idea of the direction and integrity of the company's business; and

4) Promote survival, opportunity, and long-term financial returns including Good Corporate Governance (GCG) can facilitate capital increase, and can be translated into stock price increases, GCG can reduce potential financial losses, waste, risk, and corruption as well as GCG is a business action plan for the resilience and success of the organization/company in the long term.

According to Transparency International (2009), companies must publicly report on their corporate governance structures and anti-corruption systems, including their operations and overall performance. Therefore, corruption prevention measures in both the public and private sectors, including Indonesian SOEs are carried out through preventive policies and practices to combat corruption. Preventive policies and practices to combat corruption include safeguards that encourage efficiency, transparency, and merit-based recruitment; code of Ethics;

increasing transparency and accountability in public finances to prevent and detect malpractice (UNIDO and UNODC, 2007).

For this reason, corruption prevention measures through the implementation of good corporate governance in Indonesian SOEs are very necessary. According to UNIDO and UNODC (2007), corruption prevention measures are related to the maintenance of books and records, disclosure of financial statements, and accounting and auditing standards, to prohibit the following actions:

1) Establishment of an account outside the books;

2) Making transactions outside the books or not adequately identified;

3) Recording of non-existent expenses;

4) Entry of obligations with wrong object identification;

5) Use of fake documents;

6) Intentional destruction of bookkeeping documents earlier than the law requires;

7) Prohibiting tax deductions on expenses that constitute bribes and, if necessary, other expenses arising as a continuation of acts of corruption; and

8) Enforce effective, proportionate and obstructive civil, administrative or criminal penalties shall be applied for failure to comply with these standards.

According to the preamble to Law No. 19 of 2003 concerning Indonesian State-Owned Enterprises (UU No.19/2003) that Indonesian State-Owned Enterprises (*Badan Usaha Milik Negara* or BUMN) are one of the actors in economic activities in the national economy based on economic democracy (point a); and State-Owned Enterprises have an important role in the implementation of the national economy in order to realize public welfare (point b). Given the strategic position of Indonesian SOEs, several laws and regulations have been established in order to achieve the goals and objectives of their establishment. In this context, the urgency of preventive supervision based on Good Corporate Governance as a strategy to prevent corruption in Indonesian State-Owned Enterprises is absolutely necessary to be applied by the Commissioner to the Board of Directors.

Then, related to the supervision of the directors of state-owned enterprises in Indonesia, it has been regulated in several laws and regulations. For example, the authority of the Commissioner is regulated in Article 31 of Law No. 19/2003. According to Article 31 of Law No. 19/2003 that the Commissioner is in charge of supervising the Board of Directors in carrying out the management of the Company and providing advice to the Board of Directors. Then, Article 32 Article 32 of Law No. 19/2003 stipulates as follows: a) granting authority to the Commissioner to give approval to the Board of Directors in carrying out certain legal actions; and b) Based on the articles of association or the decision of the General Meeting of Shareholders (GMS), the Commissioner can take actions to manage the Company under certain conditions for a certain period of time.

Referring to Article 31 and Article 32 paragraph 1) and paragraph 2) of Law No. 19/2003 that the Commissioner has the authority to supervise the Board of

Directors in carrying out the management of the Company and provide advice to the Board of Directors. Then, the authority of the commissioner according to article 108 paragraph 1 of Law Number 40 of 2007 concerning Limited Liability Companies is to supervise the management policy, the general management of both the company and the company's business and provide advice to the directors regarding the implementation of a comprehensive and sustainable governance system. The governance system is a strategy to prevent corruption or fraud through preventive supervision based on the implementation of GCG, in Indonesian SOEs. The governance system can be described in **Figure 2** as follows:

Referring to **Figure 2**, the governance system consists of governance structures, governance processes, and governance outcomes. The governance structure refers to the project management framework, especially regarding rules, procedures, roles and division of responsibilities in the entire decision-making process (Dryś, 2020). Meanwhile, organizational structure can be interpreted as the relationship and role of individuals working towards collective goals (Garson, & Khosrow-Pour, 2008). In this case, the governance structure is structural adequacy, for example: the Board of Commissioners, Directors, Committees and SOE work units. In this case, what is meant by infrastructure are policies and procedures, management information systems, as well as the main duties and functions of each organizational structure. Therefore, the structure and infrastructure of the corporate governance system produces results that are in line with stakeholder expectations.

The governance structure is expected to have implications for output that is in accordance with the expectations of the principal, Indonesian SOE stakeholders. Meanwhile, the process of governance can be interpreted as the effectiveness of the process of implementing GCG in Indonesian SOEs. The governance process is related to how companies consolidate and standardize their management, tasks and services to ensure that each project is executed properly and in accordance with what is expected, namely implementing standard practices, processes and rules throughout the business (Kantata Blog, 2019).

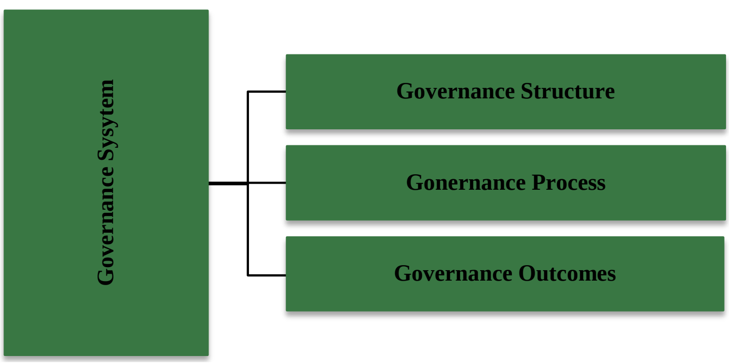

Figure 2. The governance system as a strategy for preventing corruption or fraud through preventive supervision based on the implementation of GCG in Indonesian SOEs.

With the governance process through the internal control system (ICP), the Board of Commissioners is expected to be able to support the implementation of the duties of the Board of Directors of Indonesian SOEs related to financial management and budget execution in an orderly manner, complying with laws and regulations, efficient, effective, transparent and responsible with due regard for fairness and decency. According to Affandhi (2015) in Wibisana (2022), that the Directors of Indonesian SOEs in terms of making decisions to run the wheels of the company with the aim of gaining profits, so that the decision contains business implications and legal implications.

Paim & Flexa (2011) stated that the governance process model is aligned with business strategy, as well as better business process management and organizational structure to improve the quality of work life in the work environment (Hamid & Wibisana, 2022) including in Indonesian SOEs. This will enable coordination and communication among process initiatives through roles, responsibilities, structures, and metrics by which processes within the organization can be carried out, measured and corrected (Paim & Flexa, 2011). Furthermore, the results of governance are the result of the governance process and the support of the governance structure. The urgency of preventive oversight based on Good Corporate Governance (GCG) as a strategy for preventing corruption in Indonesian.

State-Owned Enterprises (SOEs) must be supported by an adequate Corporate Governance structure and infrastructure to produce results in accordance with the expectations of Indonesian SOEs' stakeholders. Implementation and enforcement of governance is realized in the form of achieving the credibility of Indonesian SOEs to provide confidence to the public about the policies pursued so that policy effectiveness can be achieved. Achievement of the credibility of Indonesian SOEs must be maintained and enhanced to have a positive impact on value creation for stakeholders, the economy, and people's welfare. This is done through improving the quality of policy communication in addition to strengthening policy mechanisms, frameworks and decision-making processes in each central bank policy setting. In order to measure the level of implementation and enforcement of the governance system in Indonesian SOEs, periodic governance assessments should be carried out by external experts.

Assessments are carried out on all aspects of the governance framework both in terms of policy (design) and management practices (practice) that refer to the best practices of national and international institutions/corporations. Based on the results of the latest assessment, Indonesian SOEs have reached the enhanced level, the highest level in the governance assessment. Therefore, the board of commissioners at Indonesian SOEs consistently and continuously encourages the board of directors to be able to apply the principles of good corporate governance (GCG) in running the company's operations. To achieve the effectiveness of implementing good corporate governance-based preventive supervision as a strategy for preventing corruption in Indonesian State-Owned Enterprises, a good corporate governance system is absolutely necessary.

Furthermore, the implementation of GCG is expected to encourage the creation of fair competition and a conducive business climate so that it will lead to sustainable national economic growth and stability. Indonesian SOEs are expected to apply the principles of good corporate governance. In general, the principles of good corporate governance systems, governance processes, and corporate governance processes. The effectiveness of implementing preventive supervision based on good corporate governance as a strategy for preventing corruption in Indonesian State-Owned Enterprises is related to the development of 2 (two) aspects, hardware aspects and software aspects. Borrowing the term information technology, the terms hardware and software are the two main elements that make up a computing system (Pan et al., 2018).

In this context, hardware aspects and software aspects are the two main elements that make up the governance system as follows: 1). Hardware aspects, technical formation or change of organizational system structure; and 2). Aspects of software, including paradigm shifts include vision, mission, ethical values, and attitudes. Therefore, Indonesian SOEs engaged in the business world sector are expected to be able to follow, update the arrangement of systems, procedures and the establishment of an organizational system according to the needs of the development of the business world.

Based on the various descriptions above, the governance system can be fully implemented, as a strategy for preventing corruption or fraud through preventive supervision based on the implementation of good corporate governance (GCG) in Indonesian BUMNs. This starts from the principles of transparency, accountability, responsibility, independence and fairness, all of which are interrelated and must be implemented optimally, not just provisions that must be fulfilled as an obligation. The implementation of good corporate governance (GCG) in Indonesian SOEs has been regulated in various laws and regulations, including: Law No.19/2003, Law No.10/2007, PER-09/MBU/2012, PER-5/MBU/09/2022, SK-16/S.MBU/2012, Decree of the Secretary of the Ministry of BUMN No.SK-16/S.MBU/2012 of 2012, Financial Services Authority Regulation Number 55/POJK.04/2015, and Financial Services Authority Regulation No. 21/POJK.04/2015. Therefore, the implementation of the governance system has adequate legal standing so that the GCG principles should absolutely be applied as a necessity, as a strategy for preventing corruption or fraud in Indonesian SOEs.

Thus, the purpose of GCG is basically for the good of the company. Therefore, the governance system should be fully applicable to Indonesian SOEs as a strategy for preventing corruption or fraud through preventive supervision based on the implementation of good corporate governance. GCG is the principle of good, clean and transparent corporate governance, which is built to create principal trust in the company. This principle is a best practice in a market economy system to encourage fair competition and a conducive business climate. The strategy for preventing corruption or fraud through preventive supervision based on the implementation of GCG can be applied to Indonesian BUMNs in order to maximize corporate value, improve company performance and contribution, and maintain corporate sustainability as a whole long-term. Governance elements include ethics, risk management, compliance and administration (Governance Institute of Australia, 2022).

5. Conclusion

The strategy for preventing corruption or fraud through preventive supervision of Indonesian BUMNs is that in fact some of the existing statutory regulations tend to be quite adequate, including: 1) Article 108 paragraph 1 of Law Number 40 of 2007 concerning Limited Liability Companies; 2) Article 31 and Article 32 paragraph 1) and paragraph 2) of Law Number 19 of 2003 concerning Indonesian State-Owned Enterprises that the Commissioner has the authority to supervise the Board of Directors in carrying out the management of the Persero and provide advice to the Board of Directors; 3). Article 1 Number 21 Regulation of the Minister of SOEs of the Republic of Indonesia Number 5 of 2022 concerning the Application of Risk Management in State-Owned Enterprises (PER-5/MBU/09/2022) dated 01 September 2022 regulates the Internal Control System (SPI); and 4). SOEs Minister Regulation No. 1 of 2011 concerning supervisory duties by the board of commissioners.

Some of these laws and regulations are considered sufficient to become a legal basis that encourages state-owned companies to build a corruption prevention system. These regulations must be followed up with the adequacy of system policies and procedures that are more detailed in each state-owned company. Therefore, the board of commissioners must ensure that systems and procedures have been made by the directors. In addition, the procedural system is continuously monitored and evaluated for its effectiveness by the board of commissioners. These systems and procedures are the key to closing opportunities for acts of corruption. The regulations and system procedures mentioned above must be followed with integrity and commitment as well as the ability of human resources to comply with regulations and system procedures.

This compliance is the key to the effectiveness of regulation. Regulations, systems and procedures can only work if the control environment or control environment is effective. The control environment can be effective if there is strong leadership. The control environment is the initial stage in the internal control structure. The essence of the supervisory duties of the board of commissioners is to ensure that the internal control structure or internal control is running effectively. To ensure that the internal control structure is effective, the board of commissioners must take the following steps: First, monitor and evaluate whether aspects of the internal control structure, control environment, control measures, information communication and evaluation monitoring have been running effectively; and Second, making suggestions for improvements to the internal control structure or internal control and also monitoring the certainty of improvements by the directors.

State of the Art

The strategy for preventing corruption or fraud through preventive supervision based on the principles of Good Corporate Governance (GCG) in Indonesian SOEs is absolutely necessary to be fully implemented by the Board of Commissioners as stipulated in several laws and regulations that apply in Indonesia.

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Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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