

The Effect of SOEs Supervisory Organs on the Improvement of Internal Control in Public Sector Companies

Supervisory Organs
Effect on SOE
Internal Control

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1701

ABSTRACT

Weak internal control in public sector companies often leads to fraud, such as asset misappropriation and corruption, threatening the management of state assets. This study aims to examine the effectiveness of the board of commissioners or supervisory board and the audit committee in improving internal control within Indonesian state-owned enterprises. A quantitative descriptive approach was used, collecting primary data through questionnaires distributed to 60 state-owned enterprises selected via purposive sampling. Data were analyzed using path analysis to measure the influence of these supervisory bodies. The findings show that the board of commissioners or supervisory board and the audit committee, individually and together, positively impact internal control, contributing 53.34% to its improvement, with the board having a stronger effect (32.31%) than the audit committee (6.20%). These efforts enhance operational efficiency, financial reporting reliability, and regulatory compliance, reducing fraud risks. In conclusion, effective oversight by these bodies strengthens internal control systems, but challenges like political affiliations require further attention. This study highlights the need for improved coordination and independence to enhance governance and prevent fraud in state-owned enterprises.

Keywords: Audit Committee, Board of Commissioners, Fraud Prevention, Good Corporate Governance, Internal Control, Public Sector Accountability.

ABSTRAK

Pengendalian internal yang lemah pada perusahaan sektor publik sering kali memicu terjadinya kecurangan, seperti penyalahgunaan aset dan korupsi, yang mengancam pengelolaan aset negara. Penelitian ini bertujuan untuk menguji efektivitas dewan komisaris atau dewan pengawas serta komite audit dalam meningkatkan pengendalian internal pada BUMN di Indonesia. Penelitian ini menggunakan pendekatan deskriptif kuantitatif dengan pengumpulan data primer melalui kuesioner yang disebar kepada 60 BUMN yang dipilih menggunakan metode purposive sampling. Analisis data dilakukan dengan menggunakan analisis jalur untuk mengukur pengaruh masing-masing organ pengawasan tersebut. Hasil penelitian menunjukkan bahwa dewan komisaris atau dewan pengawas dan komite audit, baik secara parsial maupun simultan, berpengaruh positif terhadap pengendalian internal, dengan kontribusi sebesar 53.34% terhadap peningkatannya. Dewan komisaris atau dewan pengawas memiliki pengaruh yang lebih besar (32.31%) dibandingkan dengan komite audit (6.20%). Peran pengawasan ini mampu meningkatkan efisiensi operasional, keandalan pelaporan keuangan, serta kepatuhan terhadap peraturan, sehingga dapat menurunkan risiko terjadinya kecurangan. Pengawasan yang efektif oleh dewan komisaris atau dewan pengawas dan komite audit dapat memperkuat sistem pengendalian internal. Namun demikian, masih terdapat tantangan, seperti adanya afiliasi politik, yang perlu mendapatkan perhatian lebih lanjut. Penelitian ini menekankan pentingnya peningkatan koordinasi dan independensi untuk memperkuat tata kelola perusahaan dan mencegah kecurangan pada BUMN.

Kata kunci: Komite Audit, Dewan Komisaris, Pencegahan Kecurangan, Good Corporate Governance, Pengendalian Internal, Akuntabilitas Sektor Publik.

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INTRODUCTION

In accordance with the Regulation of the Minister of State-Owned Enterprises Number PER-14/MBU/2012, the internal control system in Indonesian State-Owned Enterprises (SOEs) aims to ensure efficient and effective operations, reliable financial reporting, safeguarding of state assets, and compliance with laws and regulations (Kementrian BUMN, 2012b). This aligns with the Committee of Sponsoring Organizations (COSO) framework, which defines internal control as a process to achieve operational efficiency, financial reporting reliability, and regulatory compliance (COSO, 1994). Effective internal control is critical for SOEs, as they manage significant public assets and contribute to Indonesia's economy. However, weak internal controls often lead to fraudulent activities, such as asset misappropriation, corruption, and fraudulent financial reporting. According to the Association of Certified Fraud Examiners (ACFE), 80% of fraudulent acts in organizations stem from inadequate internal controls and poor management practices (ACFE, 2022). This highlights the urgent need to strengthen oversight mechanisms in SOEs to prevent fraud and protect state investments.

The board of commissioners in *Persero* (limited liability SOEs) and the Supervisory board in *Perum* (fully state-owned SOEs) are tasked with supervising and advising the Board of Directors to ensure proper management, as mandated by Article 1 of the Law of the Republic of Indonesia Number 19 of 2003. These supervisory organs, supported by the audit committee, play a vital role in ensuring that SOEs operate transparently and adhere to Good Corporate Governance (GCG) principles (Prasetyo, 2014; Hendra & Erinos, 2020). The audit committee, as a supporting body, assists in monitoring accounting practices, internal controls, and auditing processes, as outlined in the Decree of the Minister of State-Owned Enterprises Number KEP-117/M-MBU/2002 (Kementrian BUMN, 2002). Despite these regulations, challenges such as limited access to information and political affiliations often hinder the effectiveness of these supervisory bodies. For instance, Siagian et al. (2023) noted that the board of commissioners' limited access to information compared to management reduces their oversight effectiveness, while Khan and Sukarno (2023) argued that political affiliations among independent commissioners create conflicts of interest, limiting their independence.

Despite numerous studies on corporate governance in SOEs, there remains a research gap in quantitatively assessing the combined impact of the board of commissioners/supervisory board and the audit committee on improving internal control systems in Indonesian SOEs. According to Jiang and Li (2021), the experience and composition of supervisory boards significantly influence corporate governance effectiveness, yet few studies have explored this in the context of Indonesian SOEs. Similarly, Namakavarani et al. (2021) and Saputri et al. (2025) found that political affiliations weaken the role of independent commissioners, but their study focused on firm value rather than internal control. This study addresses this gap by examining how the supervisory roles of the board of commissioners/supervisory board and the audit committee collectively enhance internal control to prevent fraud in Indonesian SOEs.

The purpose of this study is to investigate the influence of the board of commissioners/supervisory board and the audit committee, both individually and collectively, on improving internal control systems in Indonesian SOEs. By using a quantitative approach, this research aims to provide empirical evidence on how effective oversight can strengthen internal controls and reduce fraudulent activities. This study also seeks to offer practical recommendations for SOE management and policymakers to enhance governance practices and safeguard public assets. Through this focus, the research contributes to the ongoing efforts to improve transparency and accountability in Indonesia's public sector companies.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Board of Commissioners or the Supervisory Board and Internal Control

Internal control is a vital process for achieving organizational objectives, particularly in safeguarding assets, ensuring reliable financial reporting, and maintaining regulatory

compliance. COSO (1994) defines internal control through five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring. These components are highly relevant to Indonesian State-Owned Enterprises (SOEs), which are entrusted with managing public assets and preventing fraud (Novatiani et al., 2022; Saikhu et al., 2025; Tantar, 2025). Similarly, Mulyadi (2011) emphasizes that internal control is a process driven by the board of commissioners and management to ensure operational efficiency and compliance. The implementation of Good Corporate Governance as stipulated in the Decree of the Minister of State-Owned Enterprises Number KEP-117/M-MBU/2002, reinforces internal control through principles of transparency, accountability, responsibility, and independence (Kementrian BUMN, 2002). Agency theory further explains the need for strong oversight mechanisms to align managerial actions with stakeholder interests, especially in SOEs where public funds are involved (Jensen & Meckling, 1976).

The board of commissioners in *Persero* and the supervisory board in *Perum* play a crucial role in overseeing SOE management, as mandated by Law Number 19 of 2003. Research shows that board size and composition influence internal control disclosure and governance quality (Rudi et al., 2015). Experienced commissioners provide more effective strategic oversight, thereby strengthening internal control systems (Ferdiana & Sugiyarto, 2020). However, challenges such as limited access to information and political affiliations may reduce independence and oversight effectiveness (Siagian et al., 2023; Khan & Sukarno, 2023). Despite these constraints, frequent meetings and active board involvement enhance compliance with GCG principles and internal control practices (Rita, 2014; Mai et al., 2023). In the context of Indonesian SOEs, board competence, independence, and commitment are essential for preventing fraud, including financial misstatements and asset misappropriation (Charmaine et al., 2024; Permana & Fadjarenie, 2024; Sari et al., 2025).

H1: The board of commissioners or the supervisory board has a positive influence on the improvement of internal control.

The Effect of the Audit Committee on Internal Control

The audit committee supports the board of commissioners or supervisory board in overseeing internal control and auditing processes, as stipulated by Government Regulation Number 45/2005 and the Regulation of the Minister of State-Owned Enterprises Number PER-12/MBU/2012 (Kementrian BUMN, 2012a; Sutarti et al., 2025). According to Pari and Tatok (2018), the expertise and independence of the audit committee significantly influence internal control disclosure, reducing the risk of fraud. The committee's duties include assessing audit results, ensuring effective internal controls, and providing recommendations to improve management systems (Sawyer et al., 2005; Tumwebaze et al., 2022; Bananuka & Nkundabanyanga, 2023). Gusnardi (2009) found that an effective audit committee reduces fraud by strengthening internal controls in public sector organizations.

However, newly appointed audit committees may lack institutional knowledge, limiting their effectiveness, as noted by Lisdiono et al. (2023). Their independence from management is crucial to avoid conflicts of interest and ensure objective oversight (Akpan et al., 2023). In SOEs, the audit committee's role in monitoring financial reporting and compliance is vital to prevent fraudulent acts like corruption (Gusnardi, 2008). This study argues that a competent and independent audit committee enhances internal control by improving transparency and audit quality. Therefore, the second hypothesis is proposed:

H2: The audit committee has a positive influence on the improvement of internal control.

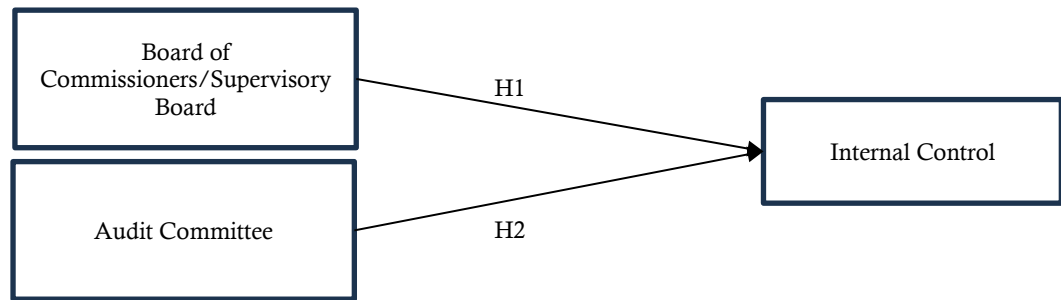


Figure 1. Research Framework

The research framework in Figure 1 integrates the roles of the board of commissioners/supervisory board and the audit committee in improving internal control within Indonesian SOEs. According to Jiang and Li (2021), a balanced mix of experienced commissioners and audit committee members optimizes corporate governance, which supports internal control effectiveness. This study examines two independent variables: the role of the board of commissioners/supervisory board (X1) and the audit committee (X2), with internal control improvement (Y) as the dependent variable. The framework posits that both organs, individually and collectively, enhance internal control by ensuring operational efficiency, reliable financial reporting, and regulatory compliance, as per COSO (1994). The board's oversight and the audit committee's support are interconnected, with their effectiveness depending on independence, competence, and communication (Moeller & Witt, 2005). The framework also considers external factors, such as political affiliations, that may weaken oversight, as highlighted by Rios (2016) and Onyango (2020). This study's framework, illustrated in Figure 1, shows the direct influence of X1 and X2 on Y and their interrelationship, aiming to reduce fraud in SOEs. By testing these relationships, the study provides empirical evidence on how supervisory organs contribute to internal control and fraud prevention in Indonesia's public sector.

RESEARCH METHODS

This study employs a quantitative descriptive approach using a survey method to examine the influence of supervisory organs on internal control in Indonesian State-Owned Enterprises (SOEs). The research focuses on two independent variables: the role of the board of commissioners or supervisory board (X1) and the audit committee (X2), with internal control improvement (Y) as the dependent variable. The variable X1 is measured through dimensions of role understanding (competence, expertise, independence, business knowledge) and courage to act (dedication, integrity, attendance, conflict resolution). The variable X2 is assessed via independence (e.g., no business or family ties with management), competence and experience (e.g., educational background, expertise), and transparency and communication (e.g., regular meetings, audit coordination). The dependent variable Y includes effectiveness and efficiency of activities, reliability of financial reports, and compliance with laws, with indicators such as resource protection, data system reliability, and policy adherence (COSO, 1994). All variables are measured using an ordinal scale based on a five-point Likert scale (1 = strongly disagree, 5 = strongly agree) to capture respondents' perceptions accurately.

The population consists of 141 SOEs in Indonesia, as registered with the Ministry of State-Owned Enterprises in 2023. A purposive sampling technique was used to select 60 SOEs, focusing on those with established boards of commissioners/supervisory boards and audit committees. Primary data were collected through questionnaires distributed to board members and audit committee members, with items designed using the Likert scale. The sample size ensures representation across various SOE sectors, including manufacturing, finance, and infrastructure, enhancing the study's applicability. Validity testing was conducted using the Pearson product-moment correlation coefficient, with a threshold of $r > 0.30$ to confirm item validity (Sugiyono, 2013). Reliability was assessed

using the split-half correlation technique with the Spearman-Brown formula, requiring a coefficient ≥ 0.70 to ensure reliable instruments.

Data analysis utilized the path analysis method to examine causal relationships between X1, X2, and Y, both directly and indirectly. Path analysis was chosen because it effectively models the direct and indirect effects of multiple independent variables on a dependent variable, suitable for testing the combined influence of supervisory organs on internal control (Sugiyono, 2013). This method allows the study to quantify the contribution of each variable and its interrelationship, providing robust evidence for hypothesis testing. The analysis was performed using SPSS software to ensure accurate statistical processing. This approach supports the study's goal of providing empirical insights into improving internal control systems in Indonesian SOEs to prevent fraud. The following is the equation in this study:

$$Y = P_{YX1}X_1 + P_{YX2}X_2 + \varepsilon$$

Description:

X1 : Role of the Board of Commissioners/Supervisory Board

X2 : Role of the Audit Committee

Y : Improvement of Internal Control

PYXi: Path coefficient of variable X1

ε : Influence of other factors

RESULTS

This study investigates the influence of the board of commissioners/supervisory board and the audit committee on improving internal control systems in Indonesian State-Owned Enterprises (SOEs). The results, derived from a survey of 60 SOEs using a quantitative descriptive approach, provide insights into the effectiveness of these supervisory organs in preventing fraud. Data were analyzed using path analysis to assess the direct and indirect relationships between the variables. The following sections detail these results, offering both statistical and practical interpretations to clarify their implications for SOE governance.

Table 1. Descriptive Analysis

Variable	Dimensions	Actual Score (%)	Category
Role of the Board of Commissioners / Supervisory Board (X1)	Role Understanding	82.00	Good
	Courage to Act	78.00	Good
	Average Score of Variable X1	79.94	Good
Role of the Audit Committee (X2)	Independence	83.00	Good
	Competence and Experience	79.00	Good
	Transparency and Communication	80.00	Good
	Average Score of Variable X2	80.70	Good
Internal Control (Y)	Effectiveness and Efficiency of Activities	76.00	Good
	Reliability of Financial Reporting	79.00	Good
	Compliance with Laws and Regulations	77.00	Good
	Average Score of Variable Y	77.26	Good

The descriptive analysis in Table 1 shows that the board of commissioners/supervisory board (X1) revealed an actual score of 79.94%, derived from the dimensions of role

understanding (82%) and courage to act (78%). This score falls within the range of 68.01%–84.00%, categorized as good according to the assessment criteria. This indicates that board members demonstrate a solid understanding of their supervisory responsibilities and exhibit competence, integrity, and dedication in their actions. For instance, their ability to resolve conflicts and maintain attendance reflects active engagement in oversight. However, the slightly lower score for courage to act suggests that some commissioners may face challenges in taking decisive actions, possibly due to external pressures like political affiliations, as noted by Khan and Sukarno (2023). This aligns with the need for independent and proactive supervision to strengthen internal control systems in SOEs.

The descriptive analysis of the audit committee (X2) showed an actual score of 80.70%, based on the dimensions of independence (83%), competence and experience (79%), and transparency and communication (80%). This score also falls within the good category (68.01%–84.00%). The high independence score suggests that audit committee members are generally free from management influence, enabling objective oversight, as emphasized by Sawyer et al. (2005). Their competence and experience contribute to effective monitoring of financial reporting and auditing processes. The transparency and communication score indicates regular coordination with internal and external auditors, which is crucial for identifying discrepancies early. These findings suggest that the audit committee plays a supportive yet significant role in enhancing internal control, complementing the board’s supervisory efforts.

The descriptive analysis of internal control improvement (Y) yielded an actual score of 77.26%, derived from effectiveness and efficiency of activities (76%), reliability of financial reports (79%), and compliance with applicable laws and regulations (77%). This score indicates good performance within the 68.01%–84.00% range. The results reflect that SOEs achieve operational efficiency through competent human resources, robust resource protection, and management support, aligning with COSO’s internal control objectives (COSO, 1994). The reliability of financial reports is supported by standardized data processing and timely reporting, while compliance is enhanced through clear policy communication and reward systems. However, the slightly lower score for effectiveness and efficiency suggests room for improvement in risk analysis and resource utilization, which supervisory organs can address through stronger oversight.

Table 2. Validity and Reliability Test

Variable	R-count	Reliability Coefficient (Spearman-Brown)	Decision
Board of Commissioners/Supervisory Board	0.582 – 0.788	0.926	Valid & Reliable
Audit Committee	0.578 – 0.868	0.947	Valid & Reliable
Internal Control	0.610 – 0.819	0.945	Valid & Reliable

The validity and reliability tests confirmed the quality of the data for the variables: the role of the board of commissioners/supervisory board (X1), the role of the audit committee (X2), and internal control improvement (Y), illustrated in Table 2. The Pearson Product-Moment Correlation Coefficient showed that all statement items had correlation values exceeding the threshold of 0.30, indicating validity (Sugiyono, 2013). The reliability test, using the split-half correlation technique with the Spearman-Brown formula, was all above the minimum threshold of 0.70, confirming reliable instruments. These results suggest that the questionnaire items accurately and consistently measured the intended constructs, providing a strong foundation for the subsequent analysis of supervisory roles in enhancing internal control.

Analysis of the relationship between the role of the Board of Commissioners/Supervisory Board (X1) and the Audit Committee (X2) in achieving company goals, as shown in Figure 2.

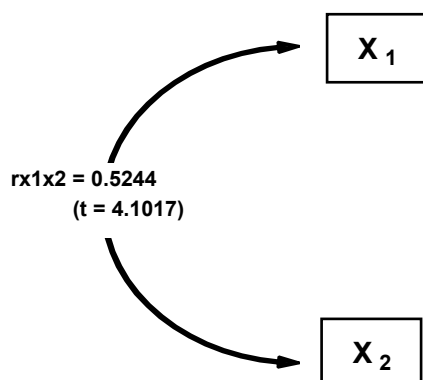


Figure 2. Relationship between the Board of Commissioners/Supervisory Board and The Audit Committee

Table 3. Relationship Test between the Audit Committee and the Board of Commissioners

Statistics	Value
Correlation Coefficient	0.5244
t-statistic	4.1017
t-table (db:79)	1.990
Ho ₁	Rejected
Ha ₁	Accepted

The relationship between the board of commissioners/supervisory board (X1) and the audit committee (X2) is positive, with a correlation coefficient of 52.44%, categorized as moderate, as shown in Table 3. The statistical test yielded a t-value of 4.1017, exceeding the t-table value of 1.990, indicating a significant relationship. This moderate correlation suggests that while the board and audit committee collaborate effectively, their coordination could be improved to maximize oversight impact. Communication between these organs is essential to avoid conflicts of interest and ensure alignment with SOE goals, as noted by Arens et al. (2008). For instance, regular joint meetings could enhance their ability to address internal control weaknesses promptly, reducing the risk of fraud.

The results of data processing testing the research hypothesis using the path analysis method to see the influence of the role of the board of commissioners/supervisory board and audit committee on improving internal control can be seen in Figure 3.

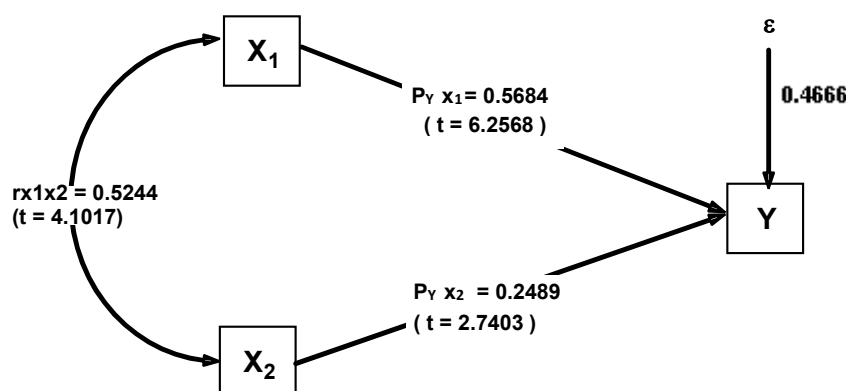


Figure 3. Path Diagram

The path analysis results, illustrated in Figure 3. Path diagram of the influence of the role of the board of commissioners/supervisory board and audit committee on improving

internal control, show the causal relationships between X1, X2, and Y. The structural equation is $Y = 0.5684X1 + 0.2489X2 + e = 0.4666$, with an R^2 of 0.5334. This indicates that the board of commissioners/supervisory board and audit committee together contribute 53.34% to internal control improvement, with 46.66% influenced by other factors, such as corporate culture or political affiliations (Pramono & Bustaman, 2025). The significant contribution highlights the importance of supervisory organs, but the remaining variance suggests external challenges that need addressing.

Table 4. Test Results of the Influence of the Role of the Board of Commissioners/Supervisory Board on Improving Internal Control.

Statistics	Value
Path Coefficient	0.5684
Direct Influence	32.31%
t-statistic	6.2568
t-table (db:79)	1.991
H ₀₁	Rejected
H _{a1}	Accepted

The influence of the board of commissioners/supervisory board (X1) on internal control improvement (Y) was tested with the hypothesis: H₀₁: The role of the board has no effect on internal control; H_{a1}: The role of the board has an effect. Table 4 shows a path coefficient of 0.5684, with a direct contribution of 32.31%. The t-statistic of 6.2568 exceeds the t-table value of 1.991, rejecting H₀₁ and confirming H_{a1}. This significant influence suggests that a competent and proactive board can enhance operational efficiency and compliance, reducing fraud risks. These findings align with Rudi et al. (2015), who noted the board's impact on internal control disclosure.

Table 5. Test Results of the Effect of the Audit Committee's Role on Improving Internal Control

Statistics	Value
Path Coefficient	0.2489
Direct Influence	6.20%
t-statistic	2.7403
t-table (db:79)	1.991
H ₀₂	Rejected
H _{a2}	Accepted

Table 5 shows a path coefficient of 0.2489, with a direct contribution of 6.20%. The t-value of 2.7403 exceeds the t-table value of 1.991, rejecting H₀₂ and confirming H_{a2}. This indicates that the audit committee's expertise and independence significantly support internal control, though its contribution is smaller than the board's, reflecting its supportive role (Gusnardi, 2009). For example, the committee's audit assessments help ensure reliable financial reporting.

Table 6. Results of the Simultaneous Effect

Statistics	Value
R ²	0.5334
F-statistic	4.583
F-table (db: 2;78)	3.1138
H ₀₃	Rejected
H _{a3}	Accepted

Table 6 shows an F-statistic of 4.583, exceeding the F-table value of 3.1138, rejecting H₀₃ and confirming H_{a3}. The joint contribution of 53.34% underscores the combined importance of these organs in strengthening internal control, though external factors like political affiliations may limit their effectiveness (Pramono & Bustaman, 2025). These results suggest that coordinated efforts between the board and audit committee are essential for robust governance in SOEs.

The findings provide practical insights for SOE management. The board's stronger influence (32.31%) compared to the audit committee (6.20%) reflects its primary supervisory role, while the audit committee's supportive role enhances oversight quality. The moderate correlation between X1 and X2 indicates a need for better collaboration to maximize their impact. Challenges such as political affiliations or limited information access, as noted by Siagian et al. (2023), may explain the 46.66% influence from other factors. These results emphasize the need for SOEs to strengthen board independence and audit committee coordination to prevent fraud effectively.

DISCUSSION

This study confirms that the board of commissioners or supervisory board and the audit committee significantly influence internal control improvement in Indonesian State-Owned Enterprises (SOEs), both individually and collectively, contributing 53.34% to the outcome, as shown in the path analysis results. According to Rudi et al. (2015), the size of the board of commissioners enhances internal control disclosure, which aligns with this study's finding of a 32.31% direct contribution from the board. The board's role in ensuring operational efficiency and compliance with regulations is critical, as it sets the tone for governance practices. The audit committee, with a 6.20% direct contribution, supports this oversight by providing expertise in auditing and financial reporting, as emphasized by Gusnardi (2009). The moderate correlation (52.44%) between the board and audit committee suggests room for improved coordination, which could further strengthen internal control systems. These findings highlight the complementary roles of these supervisory organs in preventing fraud, such as asset misappropriation and corruption, which the Association of Certified Fraud Examiners (ACFE, 2022) identifies as prevalent due to weak internal controls in 80% of fraud cases.

The board's stronger influence compared to the audit committee reflects its primary supervisory role, as mandated by the Law of the Republic of Indonesia Number 19 of 2003. However, the audit committee's supportive role is vital, particularly in ensuring reliable financial reporting and audit quality, as noted by Sawyer et al. (2005). According to Pari and Tatok (2018), the expertise and independence of the audit committee significantly reduce fraud risks, which supports this study's findings. The lower contribution of the audit committee may be due to its dependence on the board for authority and information, as well as challenges like limited institutional knowledge among newly appointed members (Lisdiono et al., 2023). Additionally, external factors, such as political affiliations, limit the effectiveness of both organs, as highlighted by Krasner and Weinstein (2014) and Willis (2014). For instance, political influences can create conflicts of interest, reducing the board's independence and delaying fraud detection.

The remaining 46.66% influence from other factors suggests that internal control improvement in SOEs is affected by broader issues, such as corporate culture and leadership. According to Siagian et al. (2023), limited access to information hampers the board's oversight, while Lisic et al. (2019) emphasize the importance of communication between the board and audit committee to address control weaknesses promptly. Ineffective communication and concurrent positions held by board members in other companies further weaken oversight, contributing to persistent fraud in SOEs. For example, delayed responses to internal audit findings, as observed in this study, indicate a need for stronger accountability mechanisms to ensure timely action by management.

The practical implications of these findings are significant for SOE governance. To enhance internal control, SOEs should prioritize training programs to improve the competence and independence of board and audit committee members, addressing gaps in institutional knowledge. Regular joint meetings between the board and audit committee can strengthen coordination, reducing the risk of conflicts of interest. Additionally, policies to limit political affiliations, such as stricter selection criteria for independent commissioners, can enhance oversight effectiveness. Implementing clear

accountability mechanisms, such as mandatory follow-ups on audit recommendations, can ensure timely fraud prevention.

CONCLUSION

This study shows that the board of commissioners/supervisory board and the audit committee have a positive and significant impact on improving internal control systems in Indonesian State-Owned Enterprises (SOEs), both individually and together. The board plays a stronger role, contributing 32.31% to internal control improvement, while the audit committee adds 6.20%, together accounting for 53.34% of the effect. These findings highlight that effective supervision, driven by competent and dedicated board members and a skilled audit committee, helps ensure operational efficiency, reliable financial reporting, and compliance with regulations. Strong internal controls reduce the risk of fraud, such as asset misappropriation and corruption, which are major concerns in SOEs. However, the remaining 46.66% influence from other factors suggests that challenges like political affiliations and weak communication still hinder optimal governance.

The practical implications of these findings are clear for SOE management and policymakers. To strengthen internal control, SOEs should enhance board and audit committee independence through stricter selection processes and regular training to boost technical skills. Improving coordination between these organs through frequent joint meetings can address communication gaps and ensure timely action on audit findings. However, this study has limitations, as it focuses only on Indonesian SOEs, which may limit its applicability to other countries with different governance structures. The reliance on questionnaire data may also introduce response biases. For future research, exploring the role of corporate culture or leadership styles in internal control could provide deeper insights. Additionally, studies comparing SOEs with private firms or examining specific fraud cases could offer practical solutions to enhance governance and fraud prevention in the public sector.

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1712
