

THE EFFECT OF GOVERNMENT’S INTERNAL CONTROL SYSTEM IMPLEMENTATION EFFECTIVENESS AND HUMAN RESOURCE COMPETENCY TOWARDS FRAUD PREVENTION IN PUBLIC PROCUREMENT OF GOOD/SERVICES (EMPIRICAL STUDY AT LOCAL GOVERNMENT IN INDONESIA)

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ABSTRACT

This research expects to examine the effect of government’s internal control system implementation effectiveness and human resources competency towards the fraud prevention in public procurement of goods/services. The sample consists of 33 regional apparatus organizations located in the area of the Tasikmalaya City Local Government - Indonesia. Respondends are Pejabat Pengadaan and Pejabat Pembuat Komitmen. The type of this research is quantitative approach and the data is processed by the SPSS software version 25. There are 66 questionnaires have been distributed, and total of 60 questionnaires have been returned. The contribution of this research is to provide an overview about every aspect that could be prevent a fraud on the public procurement of good/services. The results of this research revealed that the effectiveness of government’s internal control system implementation and human resources competency is partially and simultaneously affect the fraud prevention in public procurement of goods/services.

Keywords: internal control system, human resource competency, fraud, public procurement of good/services

INTRODUCTION

Presidential regulation No.12 of 2021 concerning amendments to Presidential Regulation No.16 of 2018 concerning Government Procurement of Goods/Services is a legal aspect in the implementation of procurement of goods/services in Indonesia.

Procurement of goods/services in the government sector has been found to be fraudulent. This is the following data on various cases based on the types of cases handled by the Komisi Pemberantasan Korupsi (2015-2020).

Table 1.1 Criminal Acts of Corruption Based On The Type of Cases in Indonesia

Cases	2015	2016	2017	2018	2019	2020	Total
Procurement of goods and services	14	14	15	17	18	27	105
Permission Problem	1	1	2	1	0	0	5
Bribery	38	79	93	168	119	55	552
Extortion	1	1	0	4	1	0	7
Budget Abuse	2	1	1	0	2	6	12
TPPU	1	3	8	6	5	3	26
Hinder the KPK Process	0	0	2	3	0	0	5
Total	57	99	121	199	145	91	712

Source : www.kpk.go.id

A findings also released by Indonesia Corruption Watch/ICW. The results of his study showed as many as 174 cases in 2019 and the county suffered a loss of Rp 957.34 billion. That findings are based on cases handled by three state agencies, namely Komisi Pemberantasan Korupsi, Kejaksaan, and Polisi. The findings are presented in the tabel 1.2 below :

Table 1.2 The Case of Corruption in Procurement of Goods and Services of 2019 in Indonesia

No	Cases	Total
1	Mark-up	40
2	Bribery	25
3	Embezzlement	24
4	Budget Abuse	23
5	Fictitious Projects	22
6	Fictitious Reports	18
7	Abuse of Authority	16
8	Extortion	2
9	Gratification	2
10	Budget Cuts	1
11	Illegal fees	1
Total		174

Source : Indonesia Corruption Watch (www.antikorupsi.org)

The fraud cases related to public procurement of goods and services in Indonesia also ever occurred in the local government area. This is occurred in the Dinas Pendidikan of Tasikmalaya City. The cases is about the procurement of teaching aids for fiscal year 2012 with a budget value of Rp 4.7 billion. This incident involved two suspects who were found guilty in 2015. The panel of judges assessed that the project did not reach 100%. So for their actions, in 2015 they were sentenced to 1 year in prison by the judges of the Pengadilan Tipikor Bandung. The country suffered a loss of Rp. 624 million. Then, the defendants returned Rp550 million (bappeda.jabarprov.go.id, 2015).

Another case of fraud that ever occurred in Government of Tasikmalaya City is Jalur Lingkar Utara Project. According to jabar.tribunnews.com, the former clerk of the Tasikmalaya city district court, Rd Darmi Setiani, was found guilty of consignment money corruption for the Jalur Lingkar Utara project. In 2019 she was sentenced to 7 years 6 months and a fine of Rp 200 million (jabar.tribunnews.com, 2019)

In supporting efforts to prevent fraud related to the public procurement of goods and services, one of the aspect that could be implemented is by strengthen the implementation of the internal control systems in the government sectors (SPIP). Internal control is an effective way to prevent fraud, but the implementation of the control must be with a strong design along with healthy practices in its implementation (Karyono, 2016). Unfortunately, according to BPKP, the maturity level of internal control system in Tasikmalaya City local government is still level 2 for 2020.

The second important aspect to prevent a fraud in public procurement is human resource competency. Competence is very important in the every job, including in public procurement. Employees who have a high level of competence are expected to be able to know a work procedures and prevent a various of fraud.

Based on the background of reseach above, there are any question of this study : 1)Does the government’s internal control system implementation effectiveness have an impact on the fraud prevention in public procurement of good/service? 2)Does the human resource competency have an impact on the fraud prevention in public procurement of good/service? 3)Does the government’s internal control system implementation effectiveness and the human resource competency have an impact on the fraud prevention in public procurement of good/service?

LITERATURE REVIEW

The definition of fraud according to Albrecht et al (2012) is :

“Fraud is a generic term, and embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual, to get an advantage over another by false representations. No definite and invariable rule can be laid down as a general proposition in defining fraud, as it includes surprise, trickery, cunning and unfair ways by which another is cheated. The only boundaries defining it are those which limit human knavery”

Fraud can be occur in public procurement of good/services. According to Presidential regulation No.12 of 2021 concerning Amendments to Presidential regulation No.16 of 2018, procurement of good/services is an activity of procurement of goods/services by the ministry/institution/regional apparatus, which is financed by APBN/APBD.

Thus, it is necessary to have an effective way against fraud. Fraud prevention is a method to prevent fraud and it is the most cost-effective method. Adapted from ACFE, fraud can be prevented by carrying out various activities, namely: anti-fraud training, effective fraud reporting mechanism, the honesty and integrity of management tone at the top, existense of internal audit, hiring policy, and employee support programs (ACFE, 2010).

The aspects that are believed to be able to preventing fraud is the effectiveness of internal control systems. According to COSO (2012), internal control is :

“Internal control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance”

Specifically, according to Indonesia Government Regulation No. 60 of 2008 concerning Government Internal Control System/SPIP article 1 paragraph 1, internal control means:

“Internal control is an integral process of actions and activities carried out continuously by the leader and all employees to provide adequate assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations.”

Then further explained in article 1 paragraph 2, government internal control system means :

“Internal Control System which is implemented thoroughly within the central government and local government”

The implemented of internal control system has to be effective and strong. Effective relates to the success level of achieving an organization goals. According to Rai (2008) effectiveness refers to the relationship between the output and the goals set. An organization, a program, or an activity is effective if the output can meet the goals that have been set. Beside that, internal control has to be implemented strongly and healthy, according to Karyono (2016) strong design and healthy implementation of internal control is effective to prevent fraud.

If we associated the aspect of effectiveness and government internal control systems/SPIP, we can conclude that the effectiveness means the level of success related to strongly/healthy implementation of SPIP in supporting the organization goals. Based on Government Regulation Number 60/2008 in terms of the implementation of SPIP, the minister/head of institution, governor, and regent or mayor are responsible for the effectiveness of the implementation of SPIP in their respective workplaces. SPIP in this study is measured by control environment, control activities, risk assessment, information and communication, and monitoring. The scope of internal control in this reseach is limited only pejabat pengadaan and pejabat pembuat komitmen perspectives or related to the procurement process only.

Based on that explanation above, the hypotesis is formulated below :

H₁ : Government’s internal control system implementation effectiveness has an effect on the fraud prevention in public procurement of goods/services in the Tasikmalaya city local government

Other aspect that could be prevent fraud in public procurement of good/services is human resources competency. According to Spencer & Spencer (1993) competency is :

“a competency is an underlying characteristic of an individual that is causally related to criterion-referenced effective and/or superior performance in a job or situation”. Adapted from Spencer & Spencer (1993) there are five characteristics of competence which is used as indicators in this reseach are : motives, traits, self-concept, knowledge, and skills.

Procurement of good/service is managed by human resouces. The development of procurement activities, requires them to have good competency values. It is hoped that the process will run well. According to Ardiyanti et al (2019) the higher level of competence, it is the higher possibility to not commit fraud. Competent employees have good knowledge and understanding of how to prevent a fraud.

The measurement of competency in this reseach is limited to the people who work in the procurement of good/services area, are pejabat pengadaan and pejabat pembuat komitmen.

Based on that explanation above, a hypotesis is formulated bellow :

H₂ : Human Resources Competency has an effect on the fraud prevention in public procurement of goods/services in the Tasikmalaya City Local Government

H₃ : Government's internal control system implementation effectiveness and human resources competency has an effect on the fraud prevention in public procurement of good/services in the Tasikmalaya City Local Government

METHODOLOGY

The type of study is a quantitative approach. Quantitative research has numerical data and using statistical analysis (Sugiyono, 2013). There are test of data quality (validity and reliability), test of classical assumption (multicolinearity, heteroskedasticity, and normality), and test of hypotesis (t test and f test). The statistical tool that has been used is the SPSS software version 25. There are three variables analyzed in this study, namely (1) Government's internal control system implementation effectiveness is measured by the indicator adapted from Indonesia Government Regulations No 60 Year 2008 regarding SPIP, (2) Human resources competency is measured by the indicator adapted from Spencer & Spencer (1993), and (3) Fraud prevention in public procurement of goods/services is measured by the indicator adapted from ACFE Organization (2010).

The sample consist 33 of Regional Apparatus Organizations in the Tasikmalaya City of Local Government selected based on purposive sampling. The respondents consist 66 employes, are Pejabat Pembuat Komitmen and Pejabat Pengadaan in each Regional Apparatus Organization. The data were obtained by the researcher through a questionnaire is using 5 likert scale distributed to the respondents.

FINDING

Test of validity

Here is the table of test validity :

Table 4.1 Test of validity

Variables	Statement	P Value	Decision
Government's Internal Control System Implementation Effectiveness	1 - 18	0.0000	Valid
Human Resources Competency	1 - 11	0.0000	Valid
Fraud Prevention In Public Procurement of Good/Services	1 - 7 8 9 - 14	0.0000 0.4200 0.0000	Valid Valid Valid

Source : Primary Data Processed, 2021

Test of reliability

Here is the table of reliability test below :

Table 4.2 Test of reliability

Var.	Cronbach's Alpha	N	Decision
Gov. Internal Control Sys. Implementation Effectiveness	0.912	18	Reliable
Human Resources Competency	0.855	11	Reliable
Fraud Prevention In Public Procurement of good/services	0.878	14	Reliable

Source : Primary Data Processed, 2021

Testing of multicollinearity, heteroskedasticity, and normality (test of classical assumption) has been carried out. The test results have met the requirement.

Partial test / t Test

Here is the result of partial test below :

Table 4.3 Partial t Test

	Unstandardized Coefficients		Stdzed Coefficients	t	Sig.
	B	Std. Error	Beta		
	4.784	3.211		1.49	0.142
Gov. Internal Control Sys. Implementation Effectiveness	0.274	0.082	0.347	3.331	0.002
Human Resources Competency	0.711	0.133	0.557	5.35	0

Source : Primary Data Processed, 2021

Simultaneous test / F Test

Here is the result of F Test table below :

Table 4.4 F Test

		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2355.548	2	1177.774	70.446	.000b
	Residual	952.979	57	16.719		
	Total	3308.527	59			

Source : Primary Data Processed, 2021

DISCUSSION

The effect of government’s internal control system implementation effectiveness on the fraud prevention in public procurement of good/services

According to the table 4.3 above, the sig. value of government’s internal control system implementation effectiveness is less than 0.05 this result proves that government’s internal control system implementation effectiveness has an effect to the prevention of fraud in the procurement of goods/service. From this result, it can be conclude that H₁ is accepted.

According to the results of questionnaire analysis, the effectiveness of internal control system implementation that related to the procurement process has a very good/effective score in local government of Tasikmalaya city. SPIP measurement in this study is only measured by perception of pejabat pengadaan and pejabat pembuat komitmen. Five elements of SPIP, namely control environment, control activities, risk assessment, information and communication, and monitoring has a good score/effective. The procurement process is also monitoring by KPK. KPK prevents corruption through MCP Korsupgah in government sectors including in the Tasikmalaya City. Than, Inspektorat also monitoring the process of procurement. Based on the statistical test above, it can be conclude that an effective implementation of SPIP will further strenghten the value of fraud prevention related to the procurement in government area of Tasikmalaya city. This results is supported by a literature. According to Karyono (2016) strong design and healthy implementation of internal control is effective to prevent fraud

This results was supported with research conducted by Romaissah et all (2020), Primastiwi et all (2020), Huda et all (2018) who founded that government internal control system has an affect to the prevention of fraud in public procurement of good/service.

The effect of human resources competency on the fraud prevention in public procurement of good/services

According to the table 4.3 above, the sig. value of human resources competency is 0.000 or less than 0.05. This result proves that human resources competency has an effect on the prevention of fraud in the procurement of goods/service. From this result, we can also conclude that H₂ is accepted.

Competent employees are an important aspect in various lines of work, including on the public procurement of good/services. Basically, it is the employees who are responsible for each work of project. Based on the results of the questionnaire analysis, pejabat pengadaan and pejabat pembuat komitmen indicates a good level of competence. On average, they have more than 4 years of work experience. It is also influenced by the regulations, on the Presidential Regulation No.16 of 2018 article 88 it said that pejabat pengadaan, pejabat pembuat komitmen, and pokja pemilihan must have a certificate of competence in public procurement of good/services.

Based on the statistical test above, it can be conclude that a high competence possessed by both pejabat pengadaan and pejabat pembuat komitmen who work in the Tasikmalaya City office, will further strenghten the value of fraud prevention related to the procurement. This results is supported by a literature. According to Ardiyanti et al (2019) the higher level of competence, it is the higher possibility to not commit fraud. Competent employees have good knowledge and understanding of how to prevent a fraud.

The result of this results was in line with study conducted by Lezimat (2018) who founded that human resources competency has an effect on the prevention of fraud in public procurement of good/services.

The effect of government’s internal control system implementation effectiveness and human resources competency on the fraud prevention in the public procurement of good/service

According to table 4.4 above, the Sig. Value of F Test is less than 0.05. From this result we can conclude that H₃ is accepted. From this results prove that an effective implementation of SPIP and a high human resource competency will further strenghten the value of fraud prevention related to the procurement in government area.

These results indicates that an organization that implemented the internal control system (SPIP) effectively/strongly, and also procurement process that managed by a competent employees possessed by pejabat pengadaan and pejabat pembuat komitmen who work in the Tasikmalaya City office local government, it will be strengten the prevention of fraud in public procurement. These two independents variables are expected to complement each other both in terms of systems and in terms of humans/employees.

CONCLUSION

Based on statistical analysis, all of the hypotesis is accepted. Prevention of fraud in public sector procurement of good/service in Tasikmalaya city local government is affected partially and simultaneously by both effectiveness of the government internal control system implementation and human resource competency. An effective internal control system/SPIP that implemented by the organization and a high competence possessed by pejabat pembuat komitmen and pejabat pengadaan who work in the Tasikmalaya City office will further strengthen the value of fraud prevention related to the government procurement.

RESEARCH CONTRIBUTION

The expected contribution of this research especially for the local government of Tasikmalaya City is to provide an overview about every aspect that could be prevent a fraud on the public procurement of good/services. That aspect is effectiveness of government's internal control system implementation and human resource competency which must be maintained and continuously improved in support of effort to prevent procurement fraud.

RESEARCH LIMITATION AND SUGGESTION

There are any limitations in this study. The Covid-19 pandemic has caused several obstacles including difficulties in mobilizing and distributing questionnaire.

There are any suggestions for future researcher are add and explore other factors that can affect to the fraud prevention in public procurement of good/services such as integrity, leadership, organizational culture, and others.

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