



Fraud Prevention in Government Procurement of Goods and Services

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Abstract. This study explores the prevention of government procurement fraud in Palembang city, which is thought to be related to the competency of the government apparatus and Internal Control System (SPI). This research was conducted empirically by involving 50 government units with an analysis of procurement actors (budget user powers, commitment-making officials, procurement officials, and election working groups). The data were analyzed by multiple regression techniques. The result, prevention of procurement fraud was influenced by the competency of government apparatus and SPI. Partially, the competency of the government apparatus did not influence the prevention of fraud.

Keywords: Fraud · Prevention · Goods and Services · Government

1 Introduction

One of the government's crucial roles is to ensure the availability of good facilities and infrastructures in fulfilling the community's needs. The government carries out goods and services procurement activities (PBJ) both at the central and regional levels with APBN/APBD funding and grants. At the regional level, the government holds goods and services through regional devices (OPD) ranging from planning, implementation, and reporting until goods can be utilized. A regulation related to the PBJ in Indonesia is [1], an update from [2].

Data Anti-Corruption Agency (KPK) until mid-2021 shows that the number of corruption cases in the procurement ranks the highest in bribery. According to KPK's report, in 2021 the most corruption cases occurred in the South Sumatra region with 30 cases [3]. The findings [4] indicated that PBJ related to Covid-19 in Indonesian handling was not performed in detail from the perspective of the budgeting aspect as well as its utilization. This condition didn't rule out the possibility of fraud.

Fraud as a global phenomenon universally has penetrated both the private as well as public sectors and no country that justifies this action [5]. Someone commits fraud to make a profit in various illegal ways including many kinds of intentional irregularities [6]. This has an impact on economic, legal, and human values aspects [7]. The number

of fraud cases in the PBJ process surely indicates that internal control is very necessary to be conducted. Aside from that, the competency of government apparatus also holds a crucial role in preventing fraud.

Internal control has an important role in preventing fraud. This is as stated in [8], SPI is a process carried out by a group of people in an entity designed to provide adequate confidence. An effective SPI can prevent and complicate fraud. Examples are in the form of policies, personnel, planning, and procedures while soft control is in the form of integrity and ethical values. In the study result [9], a weak SPI can cause fraud. A better SPI for the government will make it easier to detect the occurrence of fraud. This study focuses on SPI and the competency of local apparatus in fraud prevention. This study is conducted in all local government agencies of Palembang city with the consideration that all local government agencies anywhere are involved in the procurement implementation.

2 Literature Review and Research Hypotheses

According to Basel Committee on Banking Supervision [7], fraud consists of internal and external fraud. Internal fraud happens when employees commit fraud in their organization. External fraud involves various schemes, including vendors, customers, or theft by the third-party [10.] Fraud prevention is an effort to reduce the chances of fraud occurring, decrease the opportunity for the occurrence of fraud, reduce pressure on the employees so that they can fulfill their needs, and remove excuses that justify or rationalize fraud being committed [11]. Furthermore, [11] defined fraud as an integrated effort to suppress the occurrence of factors that cause fraud, which is an opportunity, encouragement, and rationalization. Therefore, fraud prevention generally is a preventive effort performed intensively and integrated to prevent and minimize factors that may cause fraud. The fraud triangle [12], is stated that fraud occurs due to pressure, opportunity, and rationalization.

Fraud just like corruption in Indonesia has reached a critical point and this condition places Indonesia in a low position with a corruption perception index. Procurement fraud in the government may lower the public trust in the government. Fraud in procurement has spread widely all over the world, especially in developing countries [13, 14] Procurement by the government forces of the economy. Budget absorption through procurement is an important matter and is an area prone to corruption.

SPI is an approach aiming to ensure that the intended objective, goal, and mission are achieved for an organization [15]. Structured policies and actions are involved in ensuring the transactions are conducted correctly without loss, theft, or damage. Internal control ensures that the policy set by the management will improve data completeness and accuracy. In [16], it is stated that there are control environment, risk assessment, control activities, information, and communication, to monitoring activities.

SPI prevents/reduces occurrence of fraud in government procurement. SPI is a basic requirement that must be considered by every procurement entity in its management structure. The conducted studies [17] internal control has a positive correlation with fraud prevention. [18] concludes, fight fraud activities, presence of control is necessary. However, it is different from the results of the studies conducted by [19] and [20] that show SPI doesn't affect fraud prevention. Fraud happens because of the presence of opportunities.

Internal control ensures that the procurement process is carried out by following established rules [21]. Therefore, fraud prevention can be performed by minimizing the risk of fraud loss, through internal control design for someone who has the potential to commit fraud. Fraud cannot be entirely prevented but it can be detected in certain cases by implementing internal control.

H₁: SPI influences fraud prevention in the procurement

[22] stated that competency is an individual who knows (education, experience, skill) and ethical behavior in a creation. The competency of government apparatus and fraud prevention is based on the stewardship theory approach. This theory explains the interrelation between manager and owner (society), who trusted the public service manager to have good integrity; trusted, responsible, and honest. This theory views government as managers that possess the ability are ready to act, and the best function to provide the society's needs.

The concept in this theory is the trust an authorized party so that the government (steward) in an entity act as a good steward [23]. In this case, the government as the procurement agent will do its best to not commit any fraud in the procurement, thus resulting in procurements that are honest, fair, transparent, and free from fraud. As mandated in [24], competency is the ability of everyone's effort which includes: knowledge, skill, and attitude to work according to the set standard. The competency of government apparatus according to the [1] is that procurement officials, commitment officials, and selection working groups should have a certification (certified).

The competency of government apparatus becomes a vital component considering the ability of someone is the internal factor in performance achievement. Therefore, procurement requires skill or accountability of the government in managing the finances according to the mandate given to them. Government procurement agents are expected to be capable of handling their job, being honest, and not abusing their position.

H₂: The competency of government apparatus influences fraud prevention in procurement.

3 Research Methodology

The study population is all regional devices in the Palembang city government totaling 51 regional devices. This study used a saturated sample technique. However, the data that can be processed (complete) is only 50 regional devices for analysis. The observation units are the powers of budget users, commitment-making officials, procurement officials, and election working groups.

The independent variable consists of the SPI and competency of the government apparatus. Dependent variable: fraud prevention. The competency of government apparatus consists of three dimensions: knowledge, experience, and skill [22]. Dimensions for SPI refer to [16] which consists of five components.

Fraud prevention dimensions include a legal framework, a transparent procedure in opening a tender, and evaluation in offering delegation of authority referring to the concept from [25]. This research uses an "ordinal" measurement scale with a 5-points

Table 1. Multiple Correlation Between SPI and Competency of Government Apparatus

Model Summary ^b				
Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	.353 ^a	.125	.087	2.00154

Likert scale. The Likert scale uses assessment which is summarized in “the interval data category” [26].

The result of multiple linear regression equation ICS and competency of government apparatus on fraud prevention:

$$Y = 12.146 + .541SPI + .038CGA$$

Y = Fraud Prevention (FP)

CGA = Competency of government apparatus

SPI = Internal Control System

α = Constant

β_1, β_2 = Regression coefficient of each variable that influences fraud prevention

ε = Other factors that are not studied.

4 Result and Discussion

From the result of the questionnaire distribution to 50 local agencies in the government of Palembang city, 229 respondents participated in this research. The age of the respondents was an age of 40–50 years (38.9%), with the last education averaging S₁ (58%). Length of work in the procurement field 3–4 years (30.13%).

The result of the multiple correlation coefficient between SPI and the competency of government apparatus simultaneously on fraud prevention in the procurement government is as follows (Table 1).

Multiple correlations (R) in Table 1 show the low relationship (0.353) between SPI and competency of government apparatus simultaneously on fraud prevention in the procurement. The results of SPSS versus 25 assisted data processing (multiple regression):

Referring to Table 2, the regression equation form of the variable SPI and competency of government apparatus on fraud prevention is as follows:

$$Y = 12.146 + .541SPI + .038CGA$$

The results of the F test showed $(3.349) > (3.20)$ in the F table with an α of 5%, SPI and competence together had a significant effect (0.044) with a positive direction towards fraud prevention.

After the test, the result of multiple correlations between SPI and competency of government apparatus simultaneously on fraud prevention is shown in Table 1. R value

Table 2. The Result of Multiple Regression Analysis

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	12.146	5.426		2.239	.030
T.SPI	.541	.210	.359	2.579	.013
T.CGA	.038	.130	.041	.296	.768

of SPI and competency of government apparatus simultaneously on fraud prevention are 0.353. The determination coefficient of 12.5% indicates that SPI and the competency of the government apparatus simultaneously give a 12.5% effect on fraud prevention, while the rest of 87.5% is the effect of other factors aside from SPI and the competency of the government apparatus. The value is 2.01174 obtained from table t where $\alpha = 0.05$ with 47, df is for two-way testing. Testing criteria used: if the absolute value of t count $>$ t table then H_0 is rejected. If the absolute value of t count \leq t table, then H_0 is accepted.

T count the influence of SPI on fraud prevention in the procurement is 2.579, a significance of 0.13. Value t table is 2.01174, thus in an $\alpha = 5\%$ it is decided to accept H_a so that H_0 is rejected. The result of the t-test for the competency of government apparatus on fraud prevention is 0.296 with a significance of 0.768. T count $<$ t table, then an $\alpha 5\%$, is decided to accept H_0 so that H_a is rejected. It can be concluded that the competency does not influence fraud prevention.

a. The Effect of SPI and Competency of Local Government Apparatus, on Fraud Prevention

Simultaneously, SPI and competency of government apparatus contribute to fraud prevention in The procurement in Palembang city government with a percentage of 12.5%. Hypotheses testing shows a value (3.349) $>$ (3.20). Therefore, simultaneously two components above significantly influence fraud prevention. However, the contribution of the SPI and the competence of the government apparatus is a low relationship with the interval of the correlation coefficient of 2%-39.9% being in a low category.

b. The Effect of SPI on Fraud Prevention

Test result (table 3) shows a value of t count SPI on fraud prevention (2.579) $>$ t table (2.01174). At α of 5%, it was decided to accept H_a . These results, SPI has a positive effect on fraud prevention. SPI with a grand mean of 3.568 means that the SPI for the procurement supports efforts to prevent fraud. The most dominant dimension of SPI is information and communication as well as the dimension of the control environment.

The result of answer categorization shows that respondents answer high in the dimension of control environment with 64%, and very high 4%. On the dimension of information and communication, respondents' answers on the scale of high are 72%.

It proves the dominance of a controlled environment, information, and communication are strong dimensions. The result of this study is the same as the statement of [9], that if internal control is weak, it can cause fraud. The result of this study also by following the previous study [17], internal control has a positive and significant correlation with fraud prevention.

c. Effect of Competency of Government Apparatus on Fraud Prevention

The testing result (table 3) that the value t count competency of government apparatus on fraud prevention in the procurement of goods and services (0.296) lower than the t-table (2.01174) with a significance of 0.768. The result of this test shows that the competency of local government apparatus does not give a effect on fraud prevention. The competency of apparatus does not give an effect. Knowledge, experience, and skill of an individual does not reduce the occurrence of fraud. This is in line with a theory [12] that fraud is committed due to the presence of pressure, opportunity, as well as rationalization. The Bad condition of ethica culture can trigger the occurrence of fraud. The competency of individuals does not prevent them from fraud.

5 Conclusion

The SPI and competency of the local government apparatus are proven to give a influence on fraud prevention in the procurement in the Palembang city government. The result of this study contributes to the policymaker so that fraud in the procurement (legal framework, transparent procedure, opening tender documents, evaluation of an offer, a delegation of authority) can be anticipated as soon as possible. The procurement agents as government apparatus are expected to carry out their duty and function honestly, be sensitive to a community issue, and be responsible for the trust given by the public. The competency of local government apparatus needs to be improved in prioritizing ethical culture and implementation of culture from the aspects of assessment activities (policy and procedure) and information as well as communication (design in the performed operation).

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