

Aspects Related to the Fraud in Procurement

Iskandar Ahmaddien

Fungsional PBJ Ahli Muda BPS Provinsi Jawa Barat
e-mail: iskandar.ahmaddien@usbypkp.ac.id

Abstract

This study intended to examine the effect of the variables of committee quality in procurement, provider quality in procurement, systems and procedures, ethics, environment, and risk assessment of fraud in procurement of goods or services at the Central Bureau of Statistics (CBS). This study utilized a survey method by distributing questionnaires at the Directorate of Asset Management and Maintenance in CBS by involving Commitment Making officials (CMO). Subsequently, collected information was analyzed by using multiple regression in the Lisrel application. The results of this study showed that the quality of the committee, the quality of provider and the environment in procurement provides a significant influence on fraud in the procurement of goods and services, while systems and procedures, ethics and risk assessments do not contribute significantly on fraud in procurement of goods or services.

Keywords: Quality of the committee, Quality of provider, Systems and procedures, Ethics, Environment, Risk assessment, Fraud.

1. Introduction

Fraud has emerged as the most largely discussed issue in Indonesia, specifically in the public sector. This certainly may contribute to any disadvantages, including a bad image of the government which subsequently can be very detrimental to the poor. Fraud is definitely included in the category of acts that violate the law in Indonesia, but the issue of fraud has always existed among the public and has also developed in various aspects, one of which is in procurement of goods and services to public institutions. Based on data from the Corruption Eradication Commission (CEC) as of October 31, 2014, corruption in the type of bribery and procurement of goods/services emerged with the highest number of cases in Indonesia in 2014. Out of 16 cases as of October 31, 2014, corruption in the procurement of goods/services was found as many as 13 cases, Money Laundering was amounted to 5 cases, levies was amounted to 5 cases, licensing was amounted to 4 cases, misuse of the budget was amounted to 4 cases and had obstructed the CEC process in 2 cases (Arifianti et al., 2016). Referring to this specific matter, the Corruption Eradication Commission (CEC) consequently implemented regulations and practices in the procurement of goods and services to public institutions. According to (Arifianti et al., 2016), Fraud occurs when a procurement official provided with powers and authorities based on laws and regulations has or is suspected of having a personal interest in any use of his/her authority and may subsequently affect the actual quality and performance.

One of the factors causing fraud in the procurement of goods and services in public institutions is the quality of the human resources involved. The absence of internal control does not affect the emergence of individuals with high moral principles to commit accounting fraud. Conversely, individuals with low moral levels tend to commit fraud when internal controls are not certainly enforced (Puspasari & Suwardi, 2016). This significantly indicates whether the supervision from the CEC or laws and regulations have been stipulated to avoid fraudulent acts. If the individual does not have a high moral value, fraud will always be found both in government and private agencies.

The issue of fraud is also related to systems and procedures. Good systems and procedures will not provide opportunities for a group of individuals to commit fraudulent acts, and vice versa. Thus, the government is highly expected to stipulate Laws that not only provide benefits to certain groups. In regards to a study conducted by (Kafela et al., 2011), it is stated that the Government is the executor of authority, politics, economy, administration that manages State resources. This matter indicates that the government is recognized as the maker of systems and procedures as accountabilities and policies, and to address problems in accordance with legal provisions. According to the World Bank, fraud occurs as a result of acts arising from individuals, groups, or companies in both the public and private sectors influencing the formation of laws, regulations, decisions and other government policies for their own benefit by providing prohibited personal benefits and do not contribute any transparency to public officials (Obuah, 2013).

Another aspect that relates to the issue of fraud is the ethics of an individual or group of individuals. When someone has good or professional ethics at work, that individual will not act detrimentally only for personal gain. According to Razzaque and Hwee in (Nisa Nurharjanti, 2017), fraudulent behavior can be evaluated by observing the ethical aspects of a person viewed from the side of individual differences, inter personal level factors, organizational level factors and perceptions of dilemmas.

Risk assessment is also considered to be a factor capable of suppressing any fraud actions. Based on the results of previous study, risk assessment is able to provide an influence on fraud. Regarding to the study conducted by (Nisa Nurharjanti, 2017), the quality of the committee, suppliers, systems and procedures, and risk assessment in procurement contributed to a negative effect on fraudulent acts in the procurement of goods/services. Whereas, ethics and a procurement framework do not provide any influence on fraud in the procurement of goods/services.

The emergence of good quality committees and providers supported by good morals and ethics as well as good risk assessment will consequently be able to create a good environment, so that it can reduce the occurrence of fraud. In accordance with the study conducted by (Jatiningtyas & Kiswara, 2012), which is supported by (Khi V. Thai, 2001), it is stated that one of the factors that influence success of the procurement of goods/services is the environment in the procurement.

However, not all of the above factors are supported by all studies, such as a study conducted by (Jatiningtyas & Kiswara, 2012), which stated that the quality of the committee, systems and procedures as well as ethics does not have a significant effect on fraud. The study conducted by (Sartono, 2006) also revealed that ethics does not provide a significant effect on fraud.

This present study was conducted at the Central Bureau of Statistics due to the background of the cases which led to the discovery of corrupt practices as described in the previous paragraph regarding the use of state funds sourced from the people. Furthermore, there was a reporting of an activity carried out by a public institution that should be responsible to the ministerial directorate. Therefore, this present study was intended to examine the functions of executive committee, quality, systems and procedures, ethics, environment in the procurement of goods or services, as well as risk evaluation in the procurement of goods or services, so that the process in the procurement of goods or services is able to be carried out properly and is not affected by symptoms of fraud.

2. Literature Review

Fraud in Procurement of Goods/Services

According to Tuanakotta in (Nisa Nurharjanti, 2017), trigger of fraud is caused by need, by greed and by opportunity. If fraud is to be eliminated, the aspect of fraud triggers also needs to be eliminated. If an agency is open in the process of resolving fraud, then that institution may also share information openly linked to fraudulent activities taking place within the institution when several symptoms of fraud are found. In this case, the deterrent effect should also be determined, and individuals should also be able to consider several things when they would like to carry out the fraud actions. Tuanokota in (Nisa Nurharjanti, 2017) explained that fraud prevention can be done by activating internal controls.

Fraud activities, which are mainly found in the process of goods or services procurement, are due to a discrepancy between the goods or services agreed in the contract with the needs of the institution and the community, either in terms of the type, quality or quantity of the goods or services themselves. Some of the discrepancies that are largely encountered consist of the discrepancy between the technical specifications of goods or services that have been completed by the actors in the procurement of goods or services with the technical specifications that have been formalized in the agreement or contract, the discrepancy between the volume of goods or services that has been completed regarding to the appropriate amount, the discrepancy of the price of goods or services agreed in the agreement or contract, the delay in completing work from the time agenda that has been formalized in the agreement or contract (Presidential Decree Number 54 of 2010).

Committee in Procurement of Goods/Services

Jatiningtyas and Kiswara (2012) which is supported by (Khi V. Thai, 2001) stated that the experience or quality of the committee in procurement is considered to be an aspect that provides any influence on the success of a system of in the procurement of goods or services in terms of achieving the goals that have been formalized. However, the things described previously are inversely proportional to the study conducted by (Heljapri, 2015), which reported that the quality in the procurement of goods or services does not have an influence on the tendency of fraud actions. However, regarding to the information contained in (Worldbank, 2001), that one aspect in the procurement of government goods or services system in Indonesia which is not functioning properly will be certainly able to contribute to the impact caused by the lack of expertise from the operational staff, members of the auction committee and the other parties who authorize provisioning activities.

Provider in Procurement of Goods/Services

The results of the study conducted by (Jatiningtyas & Kiswara, 2012) indicated that the emergence of one aspect that contributes to the success of a system in the procurement of goods or services is a quality involved in the procurement of goods or services itself. However, these results are inversely proportional to the study implemented by (Heljapri, 2015), which stated that the quality in the procurement of goods or services does not have any influence on the tendency of fraud actions. According to the legal basis of Presidential Decree No. 54 of 2010, specifically in article 19, it is stated that the committee in the procurement of goods or services must meet the applicable criteria until the fraud in the procurement of goods or services is reduced. Based on the previously described statement, the high quality of goods or service providers is able to reduce the symptoms of fraud in the procurement of goods or services.

Systems and Procedures in the Procurement of Goods/Services

Other factors or aspects that contribute to the mechanism in the procurement of goods or services are the terms and procedures in the procurement of these goods or services. The terms and procedures in the procurement have an influence on the success of a system in the procurement of government goods or services which are closely related to the achievement of the objectives that have been formalized (Khi V. Thai, 2001). (Yanavia, 2014) explained that the mechanisms and procedures in the procurement are capable of reducing fraud in the procurement of goods or services. According to Jourdain and Balgobin as reported in a study by (Jatiningtyas & Kiswara, 2012), the mechanisms and procedures in the procurement of quality government goods or services have several characteristics, including: transparency, economy, efficiency and timeliness, fairness and equity. The system and procedures in the procurement are also required to have a feedback mechanism, so that the revision effort required becomes subsequently permitted.

Ethics in the Procurement of Goods/Services

The ethics in the procurement of goods or services is also recognized as one of the significant aspects in the success of the goods or services procurement in fair government public institutions. Ethics in procurement relates to common matters in an effort to produce a fair competition mechanism. Ethics in the procurement of goods or services should avoid misappropriation of authority/position and collusion for individual interests that may cause losses to the state.

Ethics in the procurement of goods or services are highly needed to avoid any collusion or corruption in the procurement of government goods or services. Tang et al. in (Nisa Nurharjanti, 2017) described some unethical attitudes in public institutions. These attitudes consist of attitudes that abuse position, abuse power, abuse resources, and attitudes with no action.

Jatiningtyas and Kiswara (2012) explained that indicators of ethical attitudes in the procurement of goods or services include: consumers, facilitators, and linked parties who do not accept, promote, and promise to give gifts or rewards of any kind to anyone linked to the procurement of goods or services. On the other hand (Yanavia, 2014) stated that good ethics need to be formed to avoid any collusion and corruption in the activities of goods or services procurement.

Environment in Procurement of Goods/Services

The mechanism and procedures in the procurement always relate to the area or environment where the mechanism is implemented. Area is considered as one of the aspects that provide an influence on the expertise of a mechanism in the procurement of goods or services to achieve predetermined goals (Khi V. Thai, 2001). This is contrary to the study conducted by (Heljapri, 2015), which stated that the environment in the procurement of goods or services does not contribute to any impact on fraud in the procurement. Furthermore, several other indications were also found that played an important role in encouraging the process of goods or services procurement to be carried out professionally, specifically creating honesty, fostering motivation or encouragement, thus being able to reduce CCN actions. However, (Jatiningtyas & Kiswara, 2012) supported by (Khi V. Thai, 2001) detected that there is one other aspect that affects the success in the procurement of goods or services. Based on the previous statement, a good environment can reduce the symptoms of fraud actions in the procurement of goods or services.

Risk Assessment

Tuanokota in (Nisa Nurharjanti, 2017) explained that one of the efforts to avoid any fraud actions can be done by practicing internal regulation in various components through risk assessment. The risk assessment applied is expected to create strong fortresses and cannot be violated by those who would like to carry out fraudulent acts in the procurement of goods or services. Risk assessment in the procurement of goods or services requires technology that is reliable, has a high risk, and uses specially designed equipment. This matter is based on the study conducted by (García Reyes, 2013), which stated that there is a risk assessment carried out by the party in procurement by identifying and carrying out securities analysis so as to minimize the appearance of any fraud actions.

3. Methods

Model of the Study

Based on the theory described in the previous chapter, the model in this study is presented as follows:

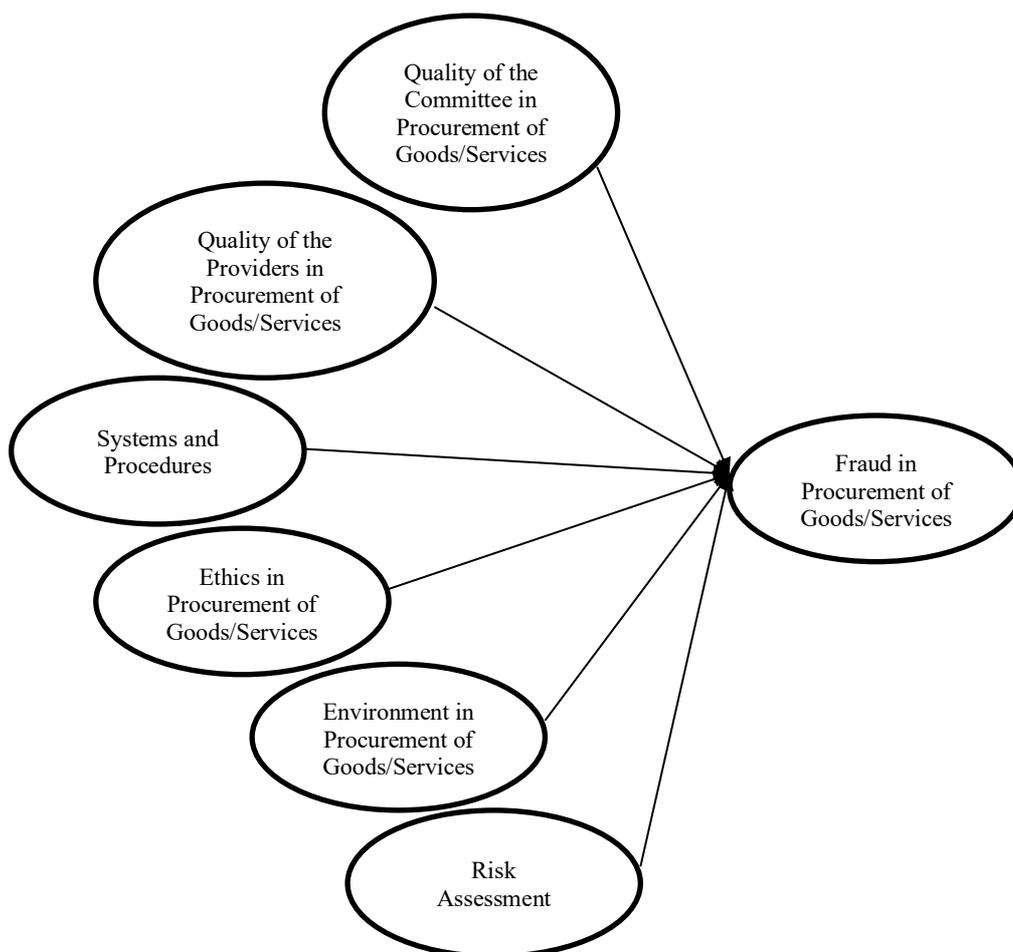


Figure 1. Model of the Study

Population and Sample

The population involved in this study was the committee in the procurement of goods/services in the Bandung Central Bureau of Statistics which was also designated as the study location, with a total of 105 people. Furthermore, the sample is considered as part of the population. This study used a total sampling technique (census), where the respondents involved in this study were all parties involved in the process of goods/services procurement.

Types and Sources of Data

Design of the study used was carried out by means of a survey method by distributing questionnaires to respondents. The questionnaire distribution process was used to collect information in order to support the validity of the data obtained in this study. The data used in this study consisted of primary data obtained from the results of a survey conducted on the commitment maker, the procurement committee, the inspection committee for the work results. The data was collected using a survey through distributing questionnaires.

Instruments and Measurement Scale of Data of the Study

In quantitative study, researchers use instruments to collect the data needed in the study. This instrument is used to measure the value of the variable under study. Thus, the instruments used in this study were questionnaires containing question items that refer to the indicators of the constructs of the study variables. Because the study instruments are used to apply measurements to produce accurate quantitative data, a scale is required for every instrument used.

This study used a Likert scale. The Likert scale is used to measure attitudes, opinions and perceptions of individuals or groups about social phenomena (Sugiyono, 2012). In using the Likert scale, the variables to be measured are outlined into variable indicators. Then the indicator is used as a starting point for arranging instrument items which can be in the form of statements or questions. The instruments in this study are presented in Table 1. From the questions in Table 1, the respondents' answers will be judged by the rules; SA (Strongly Agree) with a score of 5; A (Agree) with a score of 4; N (Neither agree nor disagree) with a score of 3; D (Disagree) with a score of 2; SD (Strongly Disagree) with a score of 1.

4. Results and Discussion

Validity and Reliability Test

The results of the validity test on the exogenous performance variables showed that the loading factor (λ) value for each manifest variable was greater than 0.5. This means that each manifest variable is declared valid in forming exogenous constructs. The calculation results showed that the value of CR (construct reliability) above 0.7 and VE (variance extracted) above 0.5 had been successfully fulfilled, so that it can be concluded that all exogenous constructs contribute to good construct reliability.

Structural Model Analysis

SEM analysis in this study utilized the Lisrel software. The results of structural modeling can be seen in the following figure:

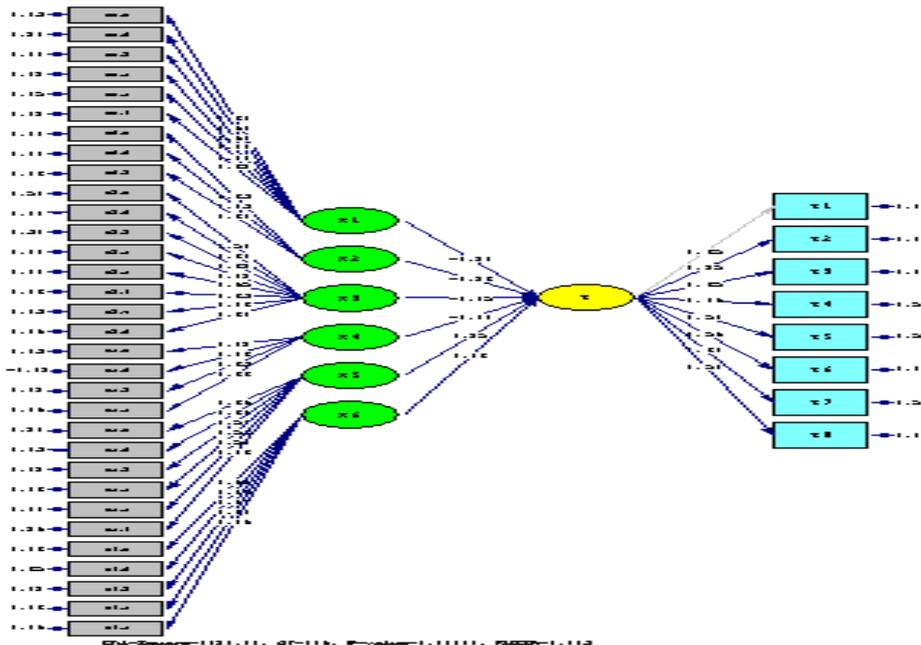


Figure 2 Path Diagram for a Structural Model

Goodness of Fit

The Goodness of fit criteria of the structural equation model above are presented in the following table:

Table 1. Goodness of Fit of Study Model Testing

Good of Fit Index	Result	Critical value	Conclusion
Cisquare/DF	1.56	$2 < X^2/df < 5$	Bad Fit
CFI	0.92	$\geq 0,9$	Good Fit
GFI	0.65	$\geq 0,9$	Bad Fit
AGFI	0.60	$\geq 0,9$	Bad Fit
RMSEA	0.073	≤ 0.08	Good Fit
RMR	0.087	≤ 0.05	Bad Fit

If there are two Goodness of fit criteria that reach the criteria, the model is declared good or feasible (Solimun, 2006). In the table above, the results of the fit model test indicates the values of Cisquare/DF, CFI, GFI, AGFI, RMSEA and RMR. This study had met the criteria, because the value tested for 2 out of 6 values had been considered good, so that the model is declared feasible for further processing.

Hypothesis Testing

The following is the Loading Factor generated by the structural model, where if the T count value is greater than the T table value, it is considered significant:

Equation

$$Y = -0.27*X1 - 0.26*X2 - 0.049*X3 - 0.015*X4 + 0.25*X5 + 0.16*X6, \text{Errorvar.} = 0.80, R^2 = 0.20$$

(0.13)	(0.10)	(0.13)	(0.091)	(0.11)	(0.095)	(0.24)
-2.16	-2.57	-0.39	-0.16	2.40	1.65	3.40

From the results above, it can be seen that the coefficient of the exogenous latent variable of committee quality on the endogenous latent variable of fraud was amounted to 0.27, which indicated a negative relationship between committee quality and fraud, meaning that when the committee quality increases, fraud will consequently decrease. The t count value was amounted to -2.16, which was smaller than the specified critical limit of ± 1.96 , so that H_0 is rejected, which means that there is an effect of committee quality on the endogenous latent variable of fraud.

The coefficient of the exogenous latent variable of provider quality on the endogenous latent variable of fraud was amounted to 0.26, which indicated a negative relationship between provider quality and fraud, meaning that when the quality of the committee increases, fraud will consequently decrease. The t count value was amounted to -2.57, which was smaller than the specified critical limit of ± 1.96 , so that H_0 is rejected, which means that there is an effect of provider quality on the endogenous latent variable of fraud.

The coefficient of exogenous latent variable of systems and procedures on the endogenous latent variable of fraud was amounted to 0.049, which indicated a negative relationship between systems and procedures, and fraud, meaning that when the quality of the committee increases, fraud will consequently decrease. The t count value was amounted to -0.039, which was greater than the specified critical limit of ± 1.96 , so that H_0 is accepted, which means that there is no effect of systems and procedures on the endogenous latent variable of fraud.

The coefficient of the exogenous latent variable of ethics on the endogenous latent variable of fraud was amounted to 0.015, which indicated a negative relationship between ethics and fraud, meaning that when the quality of the committee increases, fraud will consequently decrease. The t count value was amounted to -0.16, which was greater than the specified critical limit of ± 1.96 , so that H_0 is accepted, which means that there is no ethical effect on the endogenous latent variable of fraud.

The coefficient of exogenous latent variable of environment on the endogenous latent variable of fraud was amounted to 0.25, which indicated a positive relationship between environment and fraud, meaning that when the quality of the committee increases, fraud will consequently increase. The t count value was amounted to 2.40, which was greater than the specified critical limit of ± 1.96 , so H_0 is rejected, which means that there is an environmental influence on the endogenous latent variable of fraud.

The coefficient of the exogenous latent variable of risk assessment on the endogenous latent variable of fraud was amounted to 0.15, which indicated a positive relationship between risk assessment and fraud, meaning that when risk assessment increases, fraud will consequently increase. The t count value was amounted to 1.65, which was smaller than the critical limit set at ± 1.96 , so that H_0 is accepted, which means that there is no effect of risk assessment on the endogenous latent variable of fraud.

The value of committee quality, provider quality, systems and procedures, ethics, environment and risk assessment of the latent variable fraud is indicated by the value of R square (R^2). The value of R square in the amount of 0.20 showed the contribution/influence of committee quality, provider quality, systems and procedures, ethics, environment and risk assessment of fraud by 20.0%, the remaining 80.0% was influenced by other factors.

5. Conclusion

The results of this study indicated that the committee quality and the provider quality in procurement of goods/services contributes to a significant negative effect on fraud in the procurement of goods/services, and the environment in procurement of goods/services provides a positive and significant impact on fraud in procurement of goods/services, while ethics and risk assessment in procurement of goods/services do not contribute to a significant effect on fraud in the procurement of goods/services. This is caused by unethical actions which tend to be difficult to understand and predict.

The findings of this study have implications for maintaining the committee and provider quality in procurement of goods/services. This aims to minimize any fraud actions in the procurement. This study has several limitations which can then serve as input for future researchers who are interested in conducting studies on similar topics. First, this study was only conducted in one location, specifically at the Central Bureau of Statistics in Bandung. Therefore, from a generalization perspective, it is still considered weak. Moreover, further researchers are expected to add more study objects, both public and private, so that the study results can be generalized more broadly. Second, this study only used a questionnaire model. In this matter, a major bias might be found when respondents answer the questionnaire. Therefore, future studies should be able to develop study models with other methods, such as experimental or investigative method.

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