


EFFECT OF E-PROCUREMENT, INTERNAL CONTROL EFFECTIVENESS, GOOD GOVERNANCE, ON FRAUD PREVENTION WITH ORGANIZATIONAL ETHICAL CULTURE AS MODERATING VARIABLE (STUDY ON LOCAL GOVERNMENT IN EAST JAVA PROVINCE)

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Article Info	ABSTRACT
<p>Article history: Received Feb 21, 2024 Revised Mar 16, 2024 Accepted Apr 17, 2024</p> <p>Keywords: E-Procurement, Effectivity Internal Control, Good Governance, Fraud Prevention, Organizational Ethical Culture.</p>	<p>This study proves and analyzes the influence of each e-procurement, the effectivity of internal control, and good governance on fraud prevention with the organization's ethical culture as a moderation variable. This study used the ULP Working Group (Procurement Service Unit Working Group) in the Sidoarjo Regency Government, Pasuruan Regency, and Pasuruan City as its population, comprising 66 people. Samples were selected using the random sampling method. This study used a quantitative approach with research data collected using a Likert scale and tested using smartPLS partial last square program data processing. The calculation results show that e-procurement, effectivity internal control, and good governance directly influence fraud prevention. Other results also show that e-procurement, effectivity internal control, and good governance indirectly influence fraud prevention, which is influenced by another variable, namely the organization's ethical culture.</p> <p>This is an open-access article under the CC-BY 4.0 license.</p> 

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INTRODUCTION

The realization of development in Indonesia can be supported by one very important operational activity: government agencies' procurement of goods/services. The need for equipment and services that can support the optimal performance of a government in carrying out a function of a government agency. However, the increasing number of frauds occurring in the government sector soon hampered the proper implementation of public services. The Government Goods and Services Procurement Policy Agency or LKPP has acknowledged that corruption cases in the procurement of government goods and services occupy the second position in cases handled by the Corruption Eradication Commission. Therefore, LKPP will continue to prevent corruption in the public sector in the procurement of goods and services (News, 2019). E-procurement is a tool for procuring goods and services online that government agencies in Indonesia control government spending.

E-procurement has principles that must be practiced in its application: efficiency, effectiveness, transparency, and neutrality. To create or achieve good governance, government agencies can use e-procurement. The goods/services procurement system with e-procurement will minimize the occurrence of meetings or face-to-face meetings because almost all procurement/service processes are carried out through internet. Reducing face-to-face meetings will reduce fraud in procuring goods and services because it risk bribery, extortion, or anything that benefits one of the parties. Apart from e-procurement, there is also internal control as a solution to prevent fraud as one of the initial efforts to prevent fraud. The most widely implemented internal control is active internal control. It can be said to be active; if the internal control is weak, the possibility of fraud will be very large. On the contrary, fraud can be minimized if internal control is firm. Besides internal control, there are two other important concepts in fraud prevention, namely instilling awareness about the existence of fraud (fraud awareness) and efforts to assess the risk of fraud (fraud risk assessment) (Sofianingsih, 2014). The quality of the relationship between the community and the government that is served and protected, the private sector or the business, and the community is a general understanding of good governance. According to Heriawati (2018), Public Sector Accounting can be defined as a process of good governance, using stakeholders for various economic, social and political activities and various economic, social and political activities or processes, and the use of various resources such as natural resources, finance, and HR for the needs of the people which is carried out by adhering to the principles of justice, equity, equality, efficiency, transparency, and accountability. In addition to e-procurement, internal control effectiveness, and good governance, other factors influence fraud prevention, namely, the organization's ethical culture. Each individual in an organization certainly has a system of values, norms, and beliefs that understand the organization's ethical culture. To create highly ethical actors, an ethical culture can influence the way of work and the behavior of members of the organization. Through an organizational ethical culture, it is hoped that it can counteract actions that can trigger losses for the organization; no less important are efforts to prevent employees from engaging in fraudulent practices (Akbar et al., 2019).

The phenomenon of fraud in government procurement of goods/services can be seen through the process of procuring goods/services for local governments, as well as the case with the governments of Sidoarjo Regency, Pasuruan Regency, and Pasuruan City. Local governments in Sidoarjo Regency, Pasuruan Regency, and Pasuruan City concentrate their economic activities on the goods/services procurement sector. The area of Sidoarjo Regency, Pasuruan Regency, and Pasuruan is one of the developing districts/cities in East Java Province. This causes procuring goods/services for the government of Sidoarjo Regency, Pasuruan Regency, and Pasuruan City to be inseparable from various kinds of fraud in the problems that arise. Problems with procuring goods/services in Sidoarjo Regency, corruption of Rp. 16.5 billion civil servants at the Sidoarjo Food Service were detained. Lukman Saleh (Former Civil Servant (PNS) of the Food and Agriculture Service of the Sidoarjo Regency, was detained for allegedly committing corruption in the 2015 State Budget Jitid Jides project package worth Rp. The project was divided into 63 direct appointment project packages (PL) distributed to around 30 partners. This process violated Presidential Decree No. 54, which regulates the procurement of goods and services, said Adi Harsanto (Head of the Special Crimes Section of the Sidoarjo Attorney General's Office) (merdeka.com, 2017). Early 2020, the

Corruption Eradication Commission (KPK) enforcement team carried out a hand-catching operation (OTT) in Sidoarjo Regency, East Java on Tuesday (7/1) evening. This silent operation helped secure the Regent of Sidoarjo, Saiful ILLlah. KPK chairman Firli Bahuri said the silent operation was carried out in connection with an alleged case of procurement of goods and services in Sidoarjo Regency. Dozens of people were also questioned at the East Java Regional Police Headquarters on Tuesday (7/1) evening. (JawaPos.com, 2020). Meanwhile, in Pasuruan City, there was a case of procuring goods/services at the Pasuruan City Government. Setiyono (Mayor of Pasuruan City) was examined by KPK investigators as a suspect in an alleged bribery case related to the procurement of goods and services in the Pasuruan City Government for the 2018 fiscal year, who had received bribes worth IDR 115 million. (antaranews.com, 2019).

The number of cases that occurred in the government, the issuance of laws governing the procurement of goods/services, namely the Presidential Regulation Number 54 of 2010 regarding the procurement of government goods/ services as there have been several changes, the last with Regulation Number 4 of 2015 concerning the Fourth Amendment. on Presidential Regulation Number 54 of 2010 concerning Government Procurement of Goods/Services there are still deficiencies and have not accommodated the development of the needs required by the government regarding the regulation of good Procurement of Goods/Services. Electronic procurement of goods/services or e-procurement is made to minimize fraud in the goods/services procurement sector.

Based on previous research conducted by Heriawati (2018), e-procurement and good governance simultaneously and partially affect the performance of goods/services procurement. Research results from Mahardani (2014) show the effect of internal control on fraud prevention. Another study conducted by Oktaviani (2017) states that several factors in e-procurement do not affect fraud prevention. This research replicates previous studies with different years, locations, and gaps in previous studies. This study aimed to determine the effect of e-procurement, internal control effectiveness, and good governance on fraud prevention with organizational ethical culture as a moderating variable.

THEORETICAL FRAMEWORK AND HYPOTHESES

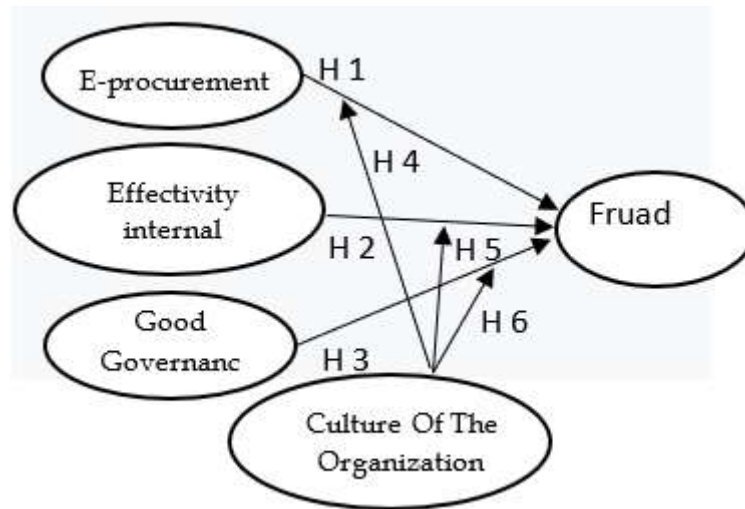


Figure 1. Conceptual framework

HYPOTHESES

1. E-procurement affects fraud prevention.
2. Effectivity of internal control affects fraud prevention.
3. Good governance affects fraud prevention.
4. E-procurement affects fraud prevention, with the organization's ethical culture as a moderating variable.
5. The effectiveness of internal control affects fraud prevention with the organization's ethical culture as a moderating variable.
6. Good governance affects fraud prevention with the organization's ethical culture as a moderating variable.

METHODS

The approach in this study is a quantitative method because it examined samples using data in the form of numbers, which aimed to test the hypotheses that have been determined and used the primary data collection tool in the form of questionnaires distributed to the ULP Working Group—those who procure goods/services. Based on the above understanding, the population in this study is the ULP Working Group (Procurement Service Unit Working Group), with 66 people from goods/services procurement agencies in the Sidoarjo Regency, Pasuruan Regency, and Pasuruan City governments.

The data collection technique used in this study was questionnaires and surveys directly to the field to obtain valid and appropriate data information. The data was obtained by distributing questionnaires directly to the ULP Working Group respondents in charge of procuring goods and services in the Sidoarjo Regency, Pasuruan Regency, and Pasuruan

City. Questionnaires are an efficient data collection technique if researchers know the variables to be measured and understand what can be expected from respondents (Sugiyono, 2018: 142). The types of questionnaires distributed were measured using a Likert scale. The measured variables were translated into a variable indicator used as a starting point in the preparation of several questions and provided in the form of a number or score. The Likert scale used by researchers in this study is the level consisting of:

Table 1. Questionnaire Scoring

Keterangan	Skor
Sangat Tidak Setuju (STS)	1
Tidak Setuju (TS)	2
Netral (N)	3
Setuju (S)	4
Sangat Setuju (SS)	5

A. Evaluation of the Measurement Model (Outer Model)

Evaluation of the Measurement Model (Outer Model) is a data quality test that tests validity and reliability. An outer Model analysis is carried out to ensure that the measurement is carried out to ensure that it is feasible to be used as a measurement (valid and reliable).

a. Validity test

Convergent or convergent validity is the outer loading value on the latent variable with its indicators. With the expected value of > 0.7 , it can be said that the indicators used are valid in measuring variables.

b. Reliability Test

A reliability test is used in measuring the internal consistency of measuring instruments. Reliability measurements in this study used Composite Reliability and Cronbach's Alpha. With Composite Reliability values > 0.7 and Cronbach's Alpha > 0.6 , it can be concluded that all construct indicators are reliable or fulfill the reliability test.

Table 2. Skore Construct Reliability & Validity

Indikator	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Budaya Etis Organisasi	0.846	0.845	0.890	0.619
E-Procurement	0.964	0.964	0.968	0.755
Effectivity Internal Control	0.848	0.851	0.892	0.624
Good Governance	0.858	0.858	0.899	0.640
Moderating Effect (EIC*BEO)	1.000	1.000	1.000	1.000
Moderating Effect (EP*BEO)	1.000	1.000	1.000	1.000
Moderating Effect (GG*BEO)	1.000	1.000	1.000	1.000

Pencegahan Fraud	0.813	0.814	0.870	0.572
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B. Hypothesis Testing

Testing the hypothesis in this study can be seen from the R-Square value and the Path Coefficient value. R-square (R²) measures the degree of change of the independent variable to the dependent variable. The higher the R-square value (R²), the better the prediction model proposed in the study. This Path Coefficient is used to measure the support of the hypothesis and test whether there is an effect of the independent latent variable on the latent dependent variable through the moderating variable. The size of the support of the T-table and T-statistic values. This test can be seen from the value of the T-statistic. If the T-statistic value is > 1.96, it can be concluded that there is an influence between these variables.

RESULTS AND DISCUSSION

Structural model testing in PLS is carried out with the help of SmartPLS software. The structural equation model in this study is described as follows :

The construct reliability and validity test is used to measure each construct's reliability and validity level. Three (3) types of tests were conducted, namely the composite reliability test, the average variance extracted (AVE) test, and the Cronbach alpha test. The composite reliability test is used to determine each indicator's reliability level in measuring its latent variables. The recommended value for measuring the

reliability of indicators on their latent variables is greater than 0.7. The average variance extracted (AVE) test measures the amount of variance that can be captured by constructs (latent variables and their indicators) compared to the amount of variance caused by measurement errors. The recommended value for the average variance extracted (AVE) test is greater than 0.5.

In contrast, the Cronbach alpha test is used to strengthen the reliability test of each construct. The recommended value for the Cronbach alpha test is greater than 0.6. Table 5 shows that the value (AVE) has good discriminant validity because all values are above 0.50, and the Composite Reliability value for all constructs is greater than 0.70. Thus, all the estimated model constructs have fulfilled the internal consistency reliability requirements. Likewise, Cronbach's alpha value for all variables exceeds 0.70, meeting the requirements.

Discussion

1. The effect of e-procurement on fraud prevention

Table 2 shows that e-procurement affects fraud prevention because the statistical value of the direct relationship between e-procurement (X1) and the fraud prevention variable (Y) is 3.740 greater than 1.96 (statistics > table), and the p-value between e-procurement (X1) and fraud prevention variable (Y) of 0.000 is less than 0.05. It can be concluded that e-procurement significantly affects fraud prevention in the Regional Government of East Java Province, and H1 is accepted.

2. Effect of internal control effectiveness on fraud prevention

Table 2 also shows that the effectiveness of internal control affects fraud prevention because the statistical value of the direct relationship between the effectiveness of internal control (X2) and the fraud prevention variable (Y) is 3.892, greater than 1.96 (statistics > table). The p-value between the effectiveness of internal control (X2) and the fraud prevention variable (Y) of 0.000 is less than 0.05, so it can be concluded that the effectiveness of internal control has a significant effect on fraud prevention in the Regional Government of East Java Province and H2 is accepted.

3. The effect of good governance on fraud prevention

It can be seen from Table 2 that good governance affects fraud prevention because the statistical value of the direct relationship between good governance (X3) and the fraud prevention variable (Y) is 2.763 greater than 1.96 (t-statistics > t-table), and the p-value is between good governance (X3) and fraud prevention variable (Y) of 0.006 less than 0.05, so it can be concluded that good governance has a significant effect on fraud prevention in the Regional Government of East Java Province and H3 is accepted.

4. The effect of e-procurement on fraud prevention with the ethical culture of the organization as a moderating variable

It can be seen from Table 2 that e-procurement has an effect on fraud prevention with organizational ethical culture as a moderating variable because the statistical value of the direct relationship between e-procurement (X1) and fraud prevention variable (Y) is influenced by organizational ethical culture variable (Z) as the moderating variable is 2.242 which is greater than 1.96 (t-statistic > t-table). The p-value between e-procurement (X1) and the fraud prevention variable (Y) is influenced by the organizational ethical culture variable (Z) as a moderating variable of 0.025 or smaller than 0.05. It can be concluded that e-procurement significantly affects fraud prevention with organizational ethical culture as a moderating variable in the Regional Government of East Java Province, and H5 is accepted.

5. Effect of internal control effectiveness on fraud prevention with organizational ethical culture as a moderating variable

Table 2 shows the effectiveness of internal control on fraud prevention with organizational ethical culture as a moderating variable because the statistical value of the direct relationship between the effectiveness of internal control (X2) and the fraud prevention variable (Y) is influenced by the organizational ethical culture variable (Z) as a variable moderating value of 2.735, is greater than 1.96 (t-statistic > t-table), and the p-value between internal effectiveness control (X2) and fraud prevention variable (Y) is influenced by organizational ethical culture variable (Z) as a moderating variable of 0.006 smaller of 0.05, so it can be concluded that the effectiveness of internal control has a significant effect on fraud prevention with organizational ethical culture as a moderating variable in the Regional Government of East Java Province and H6 is accepted.

6. The effect of good governance on fraud prevention with organizational ethical culture as a moderating variable

Table 2 shows that good governance on fraud prevention with organizational ethical culture is a moderating variable because the statistical value of the direct relationship between good governance (X3) and fraud prevention variable (Y) is influenced by the organizational ethical culture variable (Z) as a moderating variable of 0.610 is less than 1.96 (t-statistic > t-table). The p-value between good governance (X3) and fraud prevention variable (Y) is influenced by organizational ethical culture variable (Z) as a moderating variable of 0.542 greater than 0.05 so that it can be concluded that good governance has no significant effect on fraud prevention with organizational ethical culture as a moderating variable in the Regional Government of East Java Province and H7 is rejected.

CONCLUSION

This study focuses on implementing e-procurement, internal control effectiveness, and good governance toward fraud prevention with organizational ethical culture as a moderating variable. This research was conducted at ULP Working Groups in charge of procuring goods/services in Sidoarjo Regency, Pasuruan Regency, and Pasuruan City. Overall the findings in this study explain that e-procurement, internal effectiveness control, and good governance play an important role in overcoming various frauds in the procurement process. In addition, the organization's ethical culture has proven capable of strengthening existing systems to prevent fraud in the procurement of goods/services. This can explain that the results of these findings can be used as a reference and consideration for the government as a basis for implementing written rules regarding applying an ethical and honest culture to achieve fraud-free procurement implementation.

This study has several limitations and suggestions that can be used as input for future researchers interested in conducting similar research. First, the indicators selected

are only based on the availability of the information obtained. Still, not all of them are presented due to the limited space for researchers to gather information on implementing a broad local government system. For this reason, it is recommended for further researchers to specify the sample to be studied, for example, in regional governments where there have been cases of fraud in the procurement of goods/services. Second, the research was only conducted on local governments close to their domiciles, without referring to a case of fraud that occurred in another regional government. Suggestions for future researchers adding research objects to more than one district/city so the research can be generalized. Third, this study has not been able to maximize the indicators of organizational ethical culture variables due to limited data on aspects of real assessment in the government system at the Regional Government. Future researchers are expected to be able to dig up information about whether there is an employee performance appraisal in the scope of the Regional Government

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