

# The Effect of Management and Internal Audit Inspectorate on the Effectiveness of Internal Controls on the Procurement of Goods and Services for the Government of West Papua Province

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## Abstract

This study aims to analyze the influence of management and internal audit inspectorate partially and simultaneously on the effectiveness of internal control over the procurement of goods and services of the Government of West Papua Province. This study uses a quantitative approach, a sample of 40 people with a saturated sample technique, data collection by questionnaire, and using multiple linear regression analysis.

The results showed that the management and internal audit inspectorate had a positive and significant partial and simultaneous effect on the effectiveness of internal control over the procurement of goods and services in West Papua Province. Calculation of the coefficient of determination ( $R^2$ ) results in 0.607, which means that 60.7% of the dependent variable (effectiveness of internal control) can be explained by the independent variable (management and internal audit inspectorate), while the remaining 39.3% is explained by other variables outside the research model. this.

**Keywords:** *Management, Internal Audit, Control Effectiveness, Goods and Services.*

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## PRELIMINARY

Procurement of goods and services by the government is a routine activity carried out to meet the needs of the government to run the wheels of government and carry out development. Routine activities like this are carried out all the time. Procurement of goods and services by the government can be carried out by the central government or by local governments. All government activities, especially those related to spending money from the state treasury, both from the APBD and APBN, must be carried out carefully and with full prudence. The principle of prudence in the process of procuring goods and services by the government is very important considering that this uses state finances which incidentally is public money.

The use of public money must meet the requirements of transparency and high accountability. This is very important considering that the use of public funds must be accountable before the law. If this procurement suffers from intentional or unintentional defects, it can be fatal in the form of allegations of corruption which of

course has fatal consequences in the form of arrest and imprisonment of employees appointed to carry out the procurement of goods and services.

According to the general provisions of Article 1 of Presidential Regulation 16 of 2018, it is stated that the procurement of goods/services is an activity to obtain goods/services by Ministries/Institutions/Regional Apparatus Work Units/other institutions whose process starts from planning needs until completion of all activities to obtain goods/services. The activities for the procurement of goods/services are financed by the APBN/APBD, both carried out self-managed and by providers of goods/services. Based on Presidential Decree No. 16 of 2018, the government procurement of goods/services applies the following principles: efficient, effective, transparent, competitive, fair/non-discriminatory, and accountable. The benefits of these basic principles are (a) encouraging good procurement practices, (b) reducing budget leakage (clean governance).

Procurement of goods/services is essentially an effort by the user to obtain or realize the goods/services they need, by using certain methods and processes in order to reach an agreement on specifications, prices, times, and other agreements. In order for the purpose of the procurement of goods/services to be carried out as well as possible, both parties, namely the User and the Provider, must always adhere to the philosophy of the procurement of goods/services, comply with the ethics and norms of the procurement of goods/services in force, follow the principles, standard methods and processes for the procurement of goods and services.

The procurement of goods and services cannot be separated from the basic concept of business, which involves many interrelated parties, both in terms of the producer-supplier-consumer flow. Not only that, in the field of strategy and management, the procurement of goods and services is also based on management concepts commonly applied in business. This statement is in line with the opinion of Kotler et al (2010) that the business process includes all things that are interrelated and related to the process of procuring goods and services which initially starts from the summary of the entrepreneur to meet consumer demand, which then begins with the production process, followed by the production process. with the process of introducing goods to consumers which will usually start by establishing brand awareness.

In relation to the procurement of goods and services in the regions, the role of the Inspector as an agency in charge of implementing internal control becomes very important and strategic. Internal audit according to Hery (207) is an "assessment function that is developed freely within the organization to test and evaluate activities as a form of service to the company's organization. Internal audit carries out independent appraisal activities within an organization to review activities in accounting, finance and other fields of operation as a basis for providing services to management.

Various irregularities that often occur so far in the procurement of goods and services, among others: (1) Procurement of fictitious goods, (2) Mark-up prices for procurement of goods, (3) Taxes/PNBP in connection with the procurement of goods are not collected and/or not deposited, (4) the quantity/ volume of the procurement of goods is reduced, (5) the quality of the results of the procurement of goods is lowered, (6) the delay in the completion of the procurement of goods, (7) the results of the procurement of goods are not useful/not utilized (eg excessive, not as needed, low

quality, damaged), (8) Violation of provisions/regulations on procurement of goods with indications of KKN practice.

The amount of information about cases of fraud or fraud in the corporate and government environment that involves many parties is an illustration of how fraudulent acts have reached an alarming level. This condition becomes difficult if these cases involve external parties and individuals from within an organization. One of these causes is the weak management and internal control system of an organization. To avoid various frauds that may occur in the procurement of government goods and services, the management and internal audit aspects of the regional inspectorate are very important and need to be improved in order to be able to minimize various frauds.

In this context, the internal control system is important for all local governments. Because without good internal control, management will not know and feel sure whether what they have done has been as expected (Dinapoli, 2010). All levels of management must work together to create an integrated framework that reduces risk to an acceptable level and assists the organization in achieving its goals and objectives (Dinapoli, 2010).

To ensure that the organization's objectives are carried out economically, efficiently, and effectively, an effective control system is needed. The function of an internal auditor is to ensure that the internal control system in an organization is good and to ensure that the company or organization uses its resources effectively and efficiently. The importance of internal control is stated by Widyaningsih (2010) in his research on the effect of internal audit on the effectiveness of internal control over production costs, concluding that the implementation of internal audit has a high influence on the effectiveness of internal control of production costs.

This research was inspired by several previous studies, both in the context of the government's internal control system and the context of the procurement of goods and services. Purwanto and Setiawa (2015) research, found that the five elements of SPIP have been implemented in accordance with PP 60/2008, but there are still weaknesses that occur in the elements of sub control activities. elements of human resource development, namely the limited number of employees who can participate in technical guidance on the procurement of goods and services held by the Bogor City BKPP. The research of Arasy et al (2019), found that the implementation of eprocurement and SPIP has a role in overcoming various frauds in the procurement process. The research of Tiara Timuriana et al (2013) found that the internal control system has not been able to encourage the effectiveness of laboratory equipment procurement activities because the equipment procurement is not carried out in accordance with Article 3 of Presidential Decree No. 8 of 2003, that the procurement of goods/services must be in accordance with the specified needs and provide the maximum benefit according to the set targets.

The importance of management and internal audit as preventive action to minimize the occurrence of irregularities in the procurement of goods and services, this raises a problem, namely whether the procurement of goods and services in the West Papua Province environment has been effective as expected. Based on this description, this research is important to be carried out, with the formulation of the problem: How is the influence of management and internal audit inspectorate on the effectiveness of internal control over the procurement of goods and services in West

Papua Province.

Effectiveness basically shows the level of achievement of results, often or always associated with the notion of efficiency, even though there are actually differences between the two. Effectiveness emphasizes the results achieved, while efficiency looks more at how to achieve the results achieved by comparing the inputs and outputs (Siagian, 2010).

According to Othenk (2009), effectiveness is utilization of resources, facilities and infrastructure in a certain amount that is consciously determined beforehand to produce a number of goods for the services it carries out. Effectiveness shows success in terms of whether or not the targets have been achieved. If the results of the activity are closer to the target, it means the higher the effectiveness. In line with this opinion, Abdurahmat in Othenk (2009), effectiveness is the use of resources, facilities and infrastructure in a certain amount that is consciously determined beforehand to produce a number of jobs on time. According to Hidayat (2010), effectiveness is a measure that states how far targets (quantity, quality and time) that have been achieved. The greater the percentage of targets achieved, the higher the level of effectiveness.

According to Marshall and Paul (2014), internal control is "internal control (internal control) is an organizational plan and business methods used to safeguard assets, provide accurate and reliable information, encourage and improve the efficiency of the organization's operations, and encourage conformity with policies that have been established. set. Internal control (internal control) is an organizational plan and business method used to safeguard assets, provide accurate and reliable information, encourage and improve the efficiency of the organization's operations, and encourage conformity with established policies (Marshall and Paul, 2014)). According to Romney and Steinbart (2003), internal control is "Internal Control is the plan of organizations and the method of business use to safeguard assets, provide accurate and reliable information, promote and improve operational efficiency, and encourage adherence to prescribe managerial policies.

According to Williams (2011), "Management is working through others to accomplish tasks that help fulfill organizational objectives as efficiently as possible." According to Robbins and Coulter (2012), Management involves coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively." "Management involves coordinating and supervising the work activities of others so that their activities are completed efficiently and effectively."

Management is a planning process, organizational process, coordination process, and control process of resources to achieve goals effectively and efficiently. Effective means that goals can be achieved according to plan, while efficient means that tasks are carried out correctly, organized, and completed on schedule (Ricky W. Griffin, 2009). According to James AF Stoner (2009), management is a process of planning, organizing, leadership, and controlling the efforts of members of the organization and the use of available resources in the organization to achieve predetermined goals.

According to Mary Parker Follet (2010), management is the art of getting things done through other people. In other words, a manager is in charge of organizing and directing others to achieve the goals of an organization. According to George Robert Terry (2010), management is a typical process consisting of several actions; planning, organizing, mobilizing, and controlling. All that is done to determine and achieve the targets to be achieved by utilizing all resources.

Thus management is a process carried out by each individual of an organization that is carried out continuously to achieve the goals that have been set efficiently and effectively. Management has activities to lead, organize, manage, control, and develop. The art of management consists in the ability to see the totality in the separate parts of a unified picture of the vision, the ability to communicate that vision.

agoes(2009) defines internal audit as an examination carried out by the company's internal audit department, both on the company's financial statements and accounting records, as well as compliance with predetermined top management policies and compliance with government regulations and the provisions of applicable professional ties. According to Mardiasmo (2009) internal audit is an audit conducted by an audit unit which is part of a supervised organization. According to Sawyer (in Mardiasmo, 2009), internal audit acts as an independent assessor to review the company's operations by measuring and evaluating the adequacy of controls as well as the efficiency and effectiveness of the company's performance.

Internal audit according to Mulyadi (2014) is an independent assessment activity contained within the organization, which is carried out by examining financial accounting and other activities to provide services for management in carrying out their responsibilities by presenting assessment analysis, recommendations and important comments on activities. management. In this contest, management has a very important role and influence in building the effectiveness of good internal control in the organization it leads. So, internal audit is an examination conducted by the audit unit in an organization that acts independently to review the organization's operations, by measuring and evaluating the control and performance of the organization with the aim of efficiency and effectiveness.

Then the research hypothesis is formulated as follows: Management and audit of the regional inspectorate have a positive and significant effect on the effectiveness of internal control partially and simultaneously in the Provincial Government of West Papua.

## METHODOLOGY

According to the method, this type of research is survey research (*survey research*) quantitative, in the form of explanatory research and hypothesis testing (*explanatory*). In the survey, information was obtained using a questionnaire whose data was collected from 40 respondents who became the research sample. Based on the level of explanation and position, the variables of this study were included in the comparative research group. Comparative research is research that has a causal relationship, because this study explains how the relationship and influence of a variable on other variables, in this case the management variable and regional audit inspector (independent variable) and the effectiveness of internal control (dependent variable). The study was conducted at the Inspectorate of West Papua Province, using a saturated sample, and multiple linear regression analysis.



## RESULTS AND DISCUSSION

### Partial Regression Test Results (t Test)

Table 1. Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Beta	t	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
(Constant) <sup>1</sup>	16,408	5.029		3.262	.002		
Management	.614	.188	.476	3.265	.002	.475	2.107
ID audit	.560	.217	.376	2,576	.014	.475	2.107

a. Dependent Variable: PI

Source: SPSS Output, 2019

The table above shows the t value  $> 2$  and the significance level for the management variable is  $0.002 < 0.05$  (5%). The management variable has a significant effect on the effectiveness of internal control over the procurement of goods/services. For the regional inspectorate audit variable, the value of  $t > 2$  and a significance level of  $0.014 < 0.05$  (5%). Thus, regional inspectorate audits have a significant effect on internal control over the procurement of goods/services.

### Simultaneous Regression Test Results (F Test)

The results of the simultaneous regression test (F test) are presented in the following table.

Table 2. ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1241,955	2	620,977	31.064	.000b
Total	739,645	37	19,990		
Residual	1981,600	39			

i. Dependent Variable: PI

ii. Predictors: (Constant),

The table above shows the value of  $F > 4$  and at a significance level of 0.000 where it is below the 5% significance level. If the probability value is  $< 0.05$  (5%), then  $H_0$  is rejected or  $H_a$  is accepted, this means that all independent variables have a simultaneous effect on the dependent variable. So it is stated that the management and audit of the regional inspectorate have a simultaneous effect on the effectiveness of internal control.

### Coefficient of Determination Test Results

The results of the coefficient of determination test can be seen in the following table.

Table 3. Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.792a	.627	.607	4.471

a. Predictors: (Constant), ID, PM

### b. Dependent Variable: PI

In the table above, the Adjusted R2 value is 0.607. The closer the R2 value is to 1 (one), it means that the independent variable almost provides all the information needed to predict the dependent variable. Because the value of R2 is 0.607, the independent variable in this study is able to explain the dependent variable well by 60.7% and the rest is influenced by other variables outside the research model.

## DISCUSSION

### 1. The Effect of Management (X1) on the Effectiveness of Internal Control (Y)

The results of hypothesis testing indicate that management has a positive and significant effect on internal control over the procurement of goods and services of the West Papua Provincial Government, with a significance value of  $0.002 < 0.05$ . The results of this study support the research of Arifuzzaman (2011) that management has a significant influence on internal control. Management plays a role in internal control over the procurement of goods and services. The better the implementation of management, the better the internal control.

All management activities starting from the planning, organizing, leading, to controlling stages related to the procurement of goods/services have been carried out in accordance with established procedures in accordance with established regulations such as Presidential Decree No. 61 of 2004, Presidential Regulation No. 70 of 2012, and guidelines for the procurement of goods/services from the Government Goods/Services Procurement Policy Institute (LKPP).

Most of the respondents answered that management always carries out government procurement activities in accordance with the provisions that have been set. The better the implementation of goods and services procurement activities in accordance with applicable regulations, the better the control at the control activity stage as well as information and communication. Thus, management plays a role in internal control over the procurement of goods/services. The better the implementation of management (planning, organizing, leading, and controlling), the better the internal control over the procurement of goods/services in West Papua Province.

### 2. The Effect of Internal Audit Inspectorate (X2) on the Effectiveness of Internal Control (Y)

The results of hypothesis testing indicate that the Regional Inspectorate audit has a positive and significant effect on the effectiveness of internal control over the procurement of goods/services, with a significance value of  $0.014 < 0.00$  (5%). The results of this study are the same as those conducted by Widyaningsih (2010) and Dityatama (2012) that internal audit has a significant influence on the effectiveness of internal control. In this test, the regional inspectorate audit is less influential than management, judging by the internal audit significance value, which is  $0.014 > 0.002$ .

The Regional Inspectorate is an internal part of the regional government. In contrast to companies, internal auditors in government do not work in the same place as their auditees. Internal audit employees only carry out 2 (two) inspections in 1 (one) year. Usually done every 6 (six) months. The internal auditor will audit all parts of the

local government work unit. One of them is to carry out inspections in the general section which is the executor of goods/services procurement activities.

Based on respondents' answers obtained from employees of the West Papua Provincial Inspectorate, regional inspectorate auditors often carry out these activities. Inspection activities in terms of procurement, such as inspecting physical evidence of purchased goods, are also often carried out. When conducting an internal audit, the internal auditor always evaluates the procurement of goods and services in accordance with the established rules and procedures, ensuring compliance with the applicable provisions, regulations, policies.

If there is an error, the auditor often provides suggestions to correct the error. In addition, the regional inspectorate auditors provide recommendations/suggestions that will be useful in the short term regarding internal control. Thus, the better the role of the regional inspectorate in the implementation of its internal audit, the better the internal control in West Papua Province will be.

### **3. Effect of Simultaneous Management (X1) and Internal Audit Inspectorate (X2) on the Effectiveness of Internal Control (Y)**

The results of hypothesis testing in this study indicate that the management and audit inspectorate have a simultaneous positive and significant effect on the effectiveness of internal control of the procurement of goods and services in West Papua Province, with the F test results having a significance value of  $0.000 < 0.05$  significance level. The management process and the implementation of the inspectorate's internal audit if carried out more frequently, the organization's internal control will also increase. Internal Audit (internal audit) is an examination carried out by the company's internal audit department, on the company's financial statements and accounting records as well as compliance with predetermined top management policies and compliance with government regulations and the provisions of the applicable professional ties (Sukrino Agoes (Sukrino Agoes) 2017).

Leaders, employees and internal auditors must jointly supervise or monitor the internal control system in each unit. If an error occurs, the internal auditor can assist employees to correct the error by providing appropriate suggestions/recommendations so that they can immediately act to correct it. When the regional inspectorate auditor conducts an inspection, the leadership and general staff at the Regional Secretariat of West Papua Province will assist by providing the necessary documents so that the inspection can run smoothly.

The inspectorate's internal audit activity does not only examine financial statements, but also ensures that employees of the West Papua Provincial Government in carrying out goods/services procurement activities are in accordance with applicable procedures, provisions, and standards. In addition, internal audit activities must also provide confidence to employees that they have carried out their activities with economic, efficient, and effective principles.

## **CONCLUSION**

1) Management has a positive and significant effect on internal control over the procurement of goods & services. The results of this study support the results of Arifuzzaman's research (2011), that the better the implementation of management, in the OPD, the better the internal control, 2) the Regional Inspectorate Audit has a positive and significant effect on internal control over the procurement of goods/services. The results of this study support the results of research by Fathurrachman (2008), Permana (2009), and Widyaningsih (2010). The better the



implementation of the internal audit carried out by the regional inspectorate of Barru Regency, the better the organization's internal control, 3) Management and audit of the regional inspectorate have a positive and significant simultaneous effect on internal control over the procurement of goods/services.

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