

# Is Government Internal Control System Effective to Prevent Corruption Today?

Anindita Primastuti<sup>1</sup>, Afni Nooraini<sup>2</sup>, Alma'arif<sup>3</sup>

<sup>1</sup>Institut Pemerintahan Dalam Negeri (IPDN), Indonesia

<sup>2</sup>Post Graduate Regional Government Administration, Institut Pemerintahan Dalam Negeri (IPDN), Indonesia

<sup>3</sup>Post Graduate Public Administration, University of Indonesia

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## Abstract:

Based on the corruption perception index data reported by the Corruption Eradication Commission (KPK), the level of corruption in Indonesia is still quite high, even experiencing an increase from 2000 to 2018, whereas since 2008 the government has ratified government regulation number 60 regarding the government agency control system (SPIP) which is focused on strengthening the system internal control at government agencies. The internal control system in government agencies in Indonesia is intended to achieve effectiveness and efficiency in achieving the objectives of the implementation of state government, reliability of financial reporting, the security of state assets, and compliance with laws and regulations. In general, the internal control system has been able to improve financial performance of government agencies, however, the effectiveness of the government's internal control system is still questionable because it has not been able to significantly reduce the number of corruption in Indonesia even though the act of corruption is an act that violates the laws and regulations and causes loss of state assets.

**Keywords:** Corruption, Internal Control System, Supervision.

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## I. INTRODUCTION

A country will become a developed country if the government as a public servant can carry out its main duties and functions properly and professionally. The government needs to play all its roles as regulators, facilitators, planners, receptors, executors, and evaluators properly to optimize the limitations of all available economic resources, to create effective and efficient governance and lead to the realization of equitable public welfare. The sustainability of a country is determined, one of which, by government policy in managing the country's finances. Effective, efficient, transparent

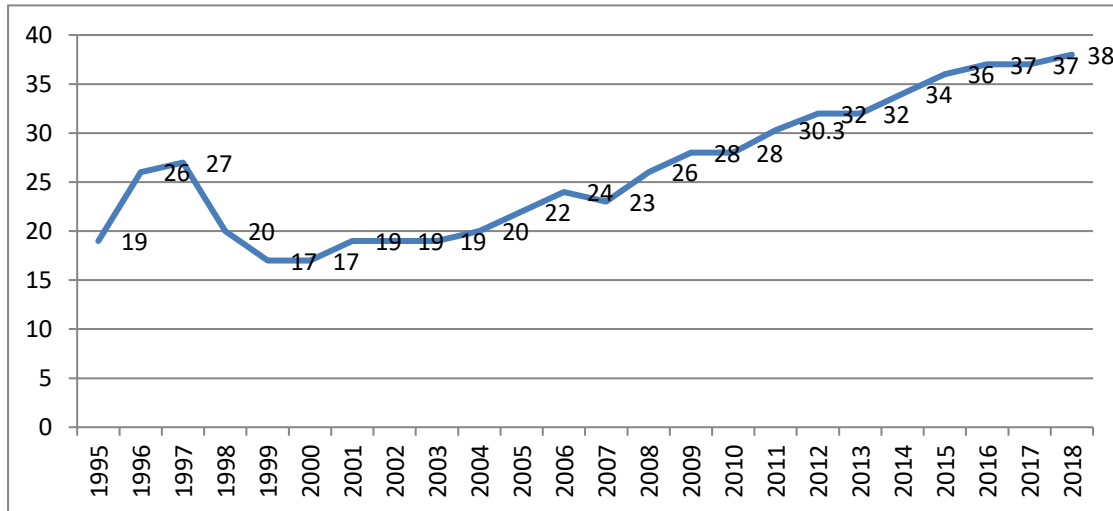
and accountable management of state finances can be carried out if the Ministers / Heads of institutions, Governors, and Regents / Mayors carry out their obligations properly, namely controlling or supervising the implementation of government activities by prioritizing the principle of objectivity.

The principle of state financial management above has been carried out by the Indonesian government as an effort to fulfill the mandate of the 1945 Constitution. However, in reality, the mandate has been betrayed in particular in article 33 point 3, namely the Earth and water and natural resources contained therein controlled by the state and is used

for the greatest prosperity of the people. This is evidenced by the high number of criminal acts of corruption in Indonesia, both at the central

government level and at the regional government level.

**Graph 1 Indonesian Corruption Perception Index 1995-2018**



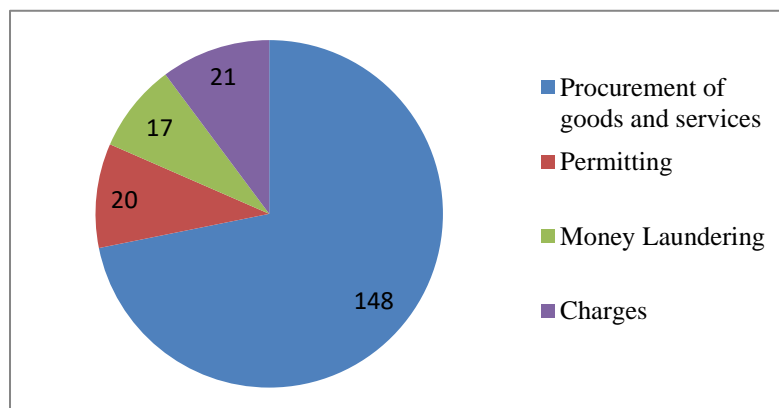
Source: Transparency International, 2018

The Corruption Perception Index (CPI) score of Indonesia from 1995 to 2018 has been fluctuating, although it has experienced an upward trend especially in 2014 to 2018, the Indonesian Corruption Perception Index is still relatively low, namely 2018 with a score of 38, Indonesia ranked 89th out of 180 countries[1]. This was stated at the launch of the results of the Corruption Perception Index 2019 by Transparency International Indonesia (TII)[2]. Corruption Eradication Commission (KPK) Supervisory Board member said that corruption in Indonesia occurs in the vortex of political parties. According to him the current Indonesian political party system still

facilitates the flourishing of corrupt politics. This can be seen in the election and election system. There is no real commitment from the state to build a good system[3]. The current system still opens opportunities for ongoing corruption. There must be intense efforts to reform the political party governance system. The public continues to increase its supervision of the government for mutual progress[4].

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**Graph 2 Number of Corruption Cases in 2004-2016**



Source: KPKs' Annual Report

From the graph above, most corruption was 72% in the case of procurement of goods and services, then 10.1% in the levies sector, 9.7% in the permit sector and the lowest in 8.2% in money laundering cases. In 2017, the KPK held Operation Catching Hands (OTT) 19 times by establishing 72 suspects consisting of law enforcement officers, legislative members, regional heads and the private sector. The category of handling cases throughout 2017 consisted of 93 bribery cases, 15 cases of procurement of goods and services, and 5 cases of money laundering crimes.[5]. Besides, based on a survey of potential conflicts of interest in the 2018 local election funding in the 2018 KPK Annual Report which was conducted to 198 candidates for losing heads/deputy regional heads. Mahar must be paid by regional head candidates: 50-500 million / seat in the DPRD, depending on the party, the bigger the party, the more expensive dowry. The case had indeed been predicted that corruption in a country could result in the degradation of economic, institutional and political conditions [6][7]. Besides, state officials who are exposed to corruption cases are caused by political transactions in every political process. [8] and one of the consequences of democracy that is difficult to control [9].

Indonesia in 2002 also established the Corruption Eradication Commission (KPK) based on the Law of the Republic of Indonesia Number 30 of 2002 concerning the Corruption Eradication Commission. The KPK is a state institution that in carrying out its duties and authorities are independent and free from the influence of any power. The establishment of the Corruption Eradication Commission is aimed at increasing the effectiveness and effectiveness of efforts to eradicate corruption. The KPK has also made various efforts in the framework of preventing these criminal acts of corruption, namely carrying out character building; system improvements, namely developing JAGA applications (JAGA School, JAGA Health, JAGA Desa and JAGA Licensing), launching e-LHKPN to facilitate compulsory

reporting, anti-corruption education in schools, public participation and strengthening governance. These applications are made to minimize the occurrence of criminal acts of corruption and make it easier for the public to oversee the administration of the state.

The important thing in eradicating corruption is not only providing penalties when acts of corruption occur, but also efforts to prevent corruption from happening. In connection with these efforts, the Indonesian government has enacted Government Regulation No. 60 of 2008 concerning the Government Agency Control System (SPIP) which is an internal control system in effect on all government agencies. SPIP aims to provide adequate confidence in the achievement of effectiveness and efficiency in achieving the objectives of the implementation of state government, reliability of financial reporting, the security of state assets, and compliance with laws and regulations[10]. SPIP consists of elements of: (a) the control environment; (b) risk assessment; (c) control activities; (d) information and communication and (e) internal control monitoring.

To strengthen and support the effectiveness of the Internal Control System, internal control is carried out by the Government Internal Control Apparatus (APIP)[10]. Thus the main work of APIP based on the PP No. 60/2008 concept is to carry out internal supervision. [10]. The Government Internal Control Apparatus (APIP) consists of: (a) BPKP, (b) Inspectorate General or other names that functionally carry out internal supervision, (c) Provincial Inspectorate and (d) Regency/City Inspectorate[10]. However, even though SPIP has already been enacted and APIP has been established the number of corruption in Indonesia has not shown a significant decline. Then what is wrong in implementing SPIP in Indonesia? Is Government Internal Control System Effective To Prevent Corruption Today?

## II. METHOD

A quantitative paradigm with a post-positivist approach is used in this study. Therefore, the technique of collecting data is done qualitatively, namely by interviewing guidelines. The informants were determined using the Criterion based Selection technique and the snowball technique. Field data is processed starting with data collection, data encoding, and data synthesis. Data validity using data source triangulation and method triangulation.

## III. RESULT AND DISCUSSION

### 4.1 Weaknesses of SPIP and APIP

Even though it was already implemented 12 years ago, in practice the implementation of the internal control system of government agencies still has some weaknesses. The first weakness is related to leadership where there are still many regional heads/agency heads who do not understand their responsibilities and authority in building an internal control system in their institutions. What currently applies as if the role of internal control only needs to be carried out by the government's internal supervisory apparatus (APIP). Whereas building the system should be the responsibility of the head of the agency, while the task of APIP is only to audit and review the implementation of the system.

APIP was formed to strengthen and support the effectiveness of the Internal Control System through internal supervision. Thus the main work of APIP based on the PP No. 60/2008 concept is to carry out internal supervision. Internal Control is defined as the entire process of auditing, reviewing, evaluating, monitoring, and other supervisory activities in carrying out the tasks and functions of the organization to provide adequate assurance that the activities have been carried out by the benchmarks that have been set effectively and efficiently for the interests of the leadership in realize good governance[10].

Although building a government internal control system is the responsibility of the head of the agency, the spearhead of implementing effective internal control is in the hands of APIP. Some forms of internal control carried out by APIP are:

1. Audit: the process of identifying problems, analyzing, and evaluating evidence conducted independently, objectively and professionally based on audit standards, to assess the truth, accuracy, credibility, effectiveness, efficiency, and reliability of the information on the implementation of the tasks and functions of government agencies;
2. Review: review the evidence of activity to ensure that the activity has been carried out by the provisions, standards, plans, or norms that have been set;
3. Evaluation: a series of activities comparing the results or achievements of activity with the standard plan, or norms that have been set, and determining the factors that influence the success or failure of activity in achieving its objectives;
4. Monitoring: the process of evaluating the progress of a program or activity in achieving the stated goals;
5. Other supervisory activities: among others are socialization of supervision, supervision education and training, guidance and consultation, management of supervision results, and presentation of supervision results[10].

Besides having a supervisory function, APIP also has a role as an internal auditor from a government agency. However, in carrying out its role as an APIP internal auditor, it cannot be optimally caused by several obstacles, namely related to the position of APIP, APIP's competence, and the auditor's old paradigm. Problems related to APIP's position are very clear especially if we look at regional APIP (provincial / district/city Inspectorate). The position of the Regional APIP is generally under the regional secretary. This means that the intervention of the regional secretary or even the highest



regional leader is very high on the results of APIP's supervision. The intervention that often occurs is in the case of appointment or transfer of officials or employees in the internal audit unit to weaken supervision. The ease with which an employee is transferred to and from the internal audit unit certainly makes the audit unit unstable and gives fear and the shadow of being transferred to employees of the internal audit unit if it does something that makes the head of the relevant agency or supervisor not comfortable.

The second problem is the capability of APIP. Even when an APIP has separate and independent units, the capability is still a major problem. One way to measure internal audit capacity is through the Internal Audit Capability Model (IACM) index. The model was developed by The Institute of Internal Auditor Research Foundation (IIARF) which is a research institute of the Internal Auditor Association (IIA) and describes the capabilities of internal auditors on a scale of five (1 to 5, with level 5 being the highest). The model was adopted by BPKP, as the supervisor of APIP Indonesia, to measure the capability level of APIP.

The minimum standard targeted by BPKP for the capabilities of APIP is at a minimum at level 3. BPKP data up to the second quarter of 2018 indicates that most of the APIP is still at levels 1 and 2. Then the strategy that must be carried out is to encourage an increase in the IACM level for all APIPs at least at level 3. Each APIP has different weaknesses, identification of weaknesses and how to overcome them is certainly needed by each APIP. Providing incentives to stimulate APIP's enthusiasm to improve itself can be done through, for example, granting special credit numbers to auditors whose APIP has reached level 3, 4, or 5.

The third problem is the paradigm adopted by internal auditors. The old paradigm is that auditors are *watchdogs* who react reactively to a problem. This paradigm often does not see the real root of the problem and only focuses on finding findings. This paradigm must be changed, auditors are currently

required to not only be able to provide guarantees that government functions are functioning well but must also be able to act proactively and preventively to prevent the same problems from recurring and prevent potential problems that might arise.

#### 4.2 Can SPIP prevent corruption?

Internal control and audit framework aim at improving financial and administrative management capacity by limiting fiscal behavior that results in waste, misallocation, and corruption [11]. The most difficult challenge for SPIP and APIP is the detection and prevention of fraud in supervised agencies [12]. The axiom of fraud states that fraud is something hidden. In general, fraud will not be easily detected through regular audits. It takes auditor sharpness and information from various parties outside the auditor to be able to detect fraud. Information from outside APIP will be easier to obtain if the relevant APIP implements a whistleblowing system that has not been applied by all APIPs. To overcome this, the strategy that can be done is to create a reliable and reliable whistleblowing system, to socialize the system to the wider community and employees, and to manage complaints properly and appropriately so that those who make complaints do not feel afraid or get intimidated.

Cooperation with the KPK and other law enforcement officials is also necessary for the handling of further fraud. Another strategy is through prevention by minimizing the causes of fraud, namely opportunity, pressure, and rationalization. The methods that can be done by APIP include ensuring that the existing Internal Control System is sufficient to prevent fraud including limiting access and authority, assigning tasks, setting rules and proper SOPs, and utilizing information technology and ensuring officials/employees have the same enthusiasm same to eradicate fraud including launching agencies as corruption-free Areas (CFA).

One form of fraud is bribery, the 2018 KPK Annual report provides data that in 2018, a total of 121 suspects out of 30 OTT with a total of Rp. 24.47 Billion / USD14,110 / SGD310,100 the details are as follows:

1. 4 January 2018, Bribe for the Construction of Damanhuri Regional Hospital (Regent of Hulu Sungai Tengah, South Kalimantan), Rp.1.6 Billion of evidence and 6 luxury cars;
2. February 3, 2018, Bribery of licensing and placement of positions (Jombang Regent), evidence of Rp.25.5 million and USD9,500;
3. February 28, 2018, Procurement of goods and services (Kendari Mayor), evidence of Rp. 1.5 Billion;
4. June 8, 2018, Bribe project work Blitar (Mayor of Blitar), evidence Rp.2,5 billion;
5. July 20, 2018, Bribery of Sukamiskin Kalapas (Kalapas Sukamiskin), evidence of Rp.282 million + USD1,410 + 2 cars;
6. August 28, 2018, Bribery of Medan District Court (Medan District Court Judge), evidence of SGD150,000;
7. 15 October 2018, Bribery in Meikarta Licensing (Regent of Bekasi Regency), evidence of SGD90,000 + Rp.513 million + 2 cars;
8. 28 November 2018, Bribery Judge of South Jakarta District Court (Chair of the Panel of Judges), evidence of SGD 47,000;
9. 19 December 2018, Bribe government assistance for KONI (Deputy IV of the Ministry of Youth and Sports), evidence of Rp.7.3 billion + 1 car;
10. 30 December 2018, Bribe drinking water supply system (Head of Work Unit at the Ministry of PUPR), evidence of Rp.3,36 Billion + SGD23,100 + USD3,200;
11. And 20 other corruption cases.

Bribery is the final road often taken if the lobbying process is deadlocked. So to smooth their intentions, they gave bribes to government officials and political institutions. According to Harstad and Svensson lobby is different from corruption.

Lobbying consists of seeking influence with policymakers (non-administrative) while corruption consists of seeking influence with policy enforces and bureaucrats[13]. Campos in his paper concluded that lobbying is a more effective way of generating political influence than corruption[7], while we found out that most of the lobbying processes in Indonesia are followed by bribery, making it difficult to distinguish between lobbying and corruption. Lobbying is done to benefit those who give bribes because their objectives are achieved and for government officials, as recipients of bribery their actions are included in acts of corruption. Understanding corruption according to Law No. 20 of 2001 is an act against the law to enrich oneself, others, or corruption which results in detrimental to the country or the country's economy. However, SPIP can only be used in administrative control so that a motive for corruption can be obtained. While lobbying cannot be detected by SPIP and APIP because there is no administration and the bribery process usually occurs outside institutions and is not their authority. This practice does not only occur in government institutions but also political institutions.

The various cases above show that corruption occurs not only at the local level but also at the central government level. This is due to the weak internal government oversight and central government oversight of local governments. Central government oversight of local governments is not effective in preventing corruption at the local level[14]. Not much different from the Scanlan and Kotska research that took the case in China, for the case of Indonesia, there are still many ministries and local governments that are still experiencing difficulties in building an effective and adequate SPIP. This is caused by the relationship between the central government and regional governments in terms of perceptions of implementing regulations that are difficult to put together [15]. Moreover, if supervision is carried out by the central government only regularly, namely once a year, it is very ineffective to prevent corrupt behavior at the local

level. This is where the role of SPIP and APIP should play an important role at the local level.

Another problem that causes corruption in Indonesia often occurs in government institutions is because corruption is carried out in a systemic (collective) meaning that the head of the agency or regional head who is supposed to be responsible for building an adequate SPIP is involved in the process of corruption, some cases even involve APIP itself. This is in line with Persson's findings that while contemporary anti-corruption reform is based on the conceptualization of corruption as a matter of primary agents, in a truly corrupt arrangement, corruption is more like a matter of collective action. This, in turn, leads to a breakdown of any anti-corruption reform that builds on the principal-agent framework, taking the existence of non-corruptible so-called principals for granted [14].

#### IV. CONCLUSION

The government internal control system (SPIP) and the Government Internal Supervisory Apparatus (APIP) are an inseparable unit in the internal control process at government agencies. Weaknesses in SPIP will affect APIP and vice versa. We found that the main weakness of SPIP was caused by the leadership of the institution both at the central and regional governments as the party responsible for developing SPIP which in many cases is still confused in building adequate SPI and the government's internal supervisory apparatus (APIP) which has the role of conducting audits and reviewing the implementation of SPIP. Some of the weaknesses are due to the lack of APIP independence so that it is easily intervened, APIP capabilities are inadequate, and APIP's work methods are more of a repair rather than preventive nature. Regarding intervention issues, several strategies that can be carried out are separating the government's internal audit function into a unit that is directly responsible to the supreme leader of the agency, forming an independent Audit Committee,

and improving the pattern of appointment and mutation of officials/employees in the internal audit unit. The appointment or replacement of APIP leadership is carried out by the leadership of the agency with the approval of the Audit Committee, APIP employees are dedicated to the APIP unit, thereby reducing the intervention of regional leaders to transfer employees. Another strategy that can be applied about the appointment/transfer of employees is to establish the authority to appoint/transfer internal auditors to be carried out by officials of a higher level than the regional leader.

Related to efforts to increase the capabilities of APIP is to increase the ability of auditors through the mastery of technology and the ability to audit information technology. The use of technology as an auditing aid is also needed, including the use of electronic audit systems that are paperless and can be accessed anywhere (eg electronic paperwork) and the use of computer-assisted audit techniques. In the future, the auditor's task of checking can be reduced and the auditor can develop and utilize artificial intelligence to help carry out digital and real-time surveillance so that efforts to identify risks and prevent fraud can be done more effectively.

Concerning corruption prevention, SPIP and APIP can easily detect corruption if it is related to the administration process. Meanwhile, activities that do not go through administrative processes, such as the lobbying process, which are often followed by acts of giving bribes to government officials and politicians, make it difficult to detect and prevent corruption. Besides, the characteristics of corruption that are often carried out collectively and systematically will make corruption difficult to prevent by SPIP, especially if the regional head and APIP are involved in the corruption process.

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## Abbreviations:

APIP	: Aparat Pengawas Internal Pemerintah (Government Internal Supervisory Apparatus)
SPIP	: Sistem Pengawasan Internal Pemerintah (Government Internal Control System)
OTT	: Operasi Tangkap Tangan (Live Arrest)
PP	: Peraturan Pemerintah (Government Regulation)
BPKP	: Badan Pengawasan Keuangan dan Pembangunan (Financial and Development Supervisory Agency)
LHKPN	: Laporan Harta Kekayaan Penyelenggara Negara (Reports of State Organizers' Assets)
KPK	: Komisi Pemberantasan Korupsi (Corruption Eradication Commission)