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Fraud in Public Procurement

Governance, Internal Supervision and Political-Economic Challenges in the Indonesian Context

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Abstract: This study aims to analyse the factors that influence fraud in government procurement in the context of the central government in Indonesia. By using a mixed method, this research uses a sequential explanatory design involving two stages: a quantitative research using 128 respondents' data on the one hand, and qualitative research with 9 informants and 132 respondents on the other hand, supported by the use of agency theory and rent-seeking theory enriched with normative studies as an approach to explain types of procurement fraud in Indonesia. Through multiple linear regression on the data of 128 respondents processed using the SPSS application, this study demonstrates that procurement governance is negatively related to procurement fraud, just as the role of effective APIP is negatively related to procurement fraud. In contrast, economic-political pressure is positively related to procurement fraud. Meanwhile, the impact of research findings on procurement regulators' issuance of related policies underscores first the relationship between law enforcement and APIP. Second, the handling of procurement objections that ensure the confidentiality of whistleblowers through APIP. Third,

a procurement clearing house to handle strategic procurement packages involving three areas of expertise: procurement, law and supervision. And fourth, procurement digitisation leading to open data platforms and the use of artificial intelligence in fraud detection.

Keywords: procurement governance, the role of effective APIP, economic-political pressure, procurement fraud

1. Introduction

Globally, public procurement fraud refers to any fraudulent act occurring throughout the government procurement cycle: from needs identification and planning to supplier selection, contract execution, and final handover. Such fraud may be perpetrated by internal procurement actors, such as Procurement Officers (PP), Procurement Selection Working Groups, Engagement Officers (PPK), Head of the Procurement Unit (UKPBJ), Authorised Budget Users (KPA) and Budget Users (PA), either individually or through intra-organisational collusion, as well as through collusion with external actors (Gottschalk, 2017; Rustiarini et al., 2019). In addition, external suppliers may also engage in procurement fraud by manipulating or undermining the procurement system through horizontal conspiracies among business actors (ACFE, 2020; Hudon & Garzón, 2016).

Opportunistic behaviour among internal and/or external procurement actors can arise due to several factors, including: 1. the existence of considerable authority supported by the power of information possessed by internal procurement agents but not accompanied by adequate transparency and accountability obligations; 2. the existence of discretionary space to regulate schedules, packages, selection mechanisms, selection of qualification criteria and procurement evaluation methods that can be adjusted to their economic interests (ADB/OECD, 2008); 3. the existence of a motive to seek maximum profits through conspiracies both inside and outside the procurement system; 4. a system of supervision, monitoring and sanctions that is less effective and does not provide a deterrent effect; 5. executive institutions, especially public procurement activities that are never free from pressure and intervention of the political elite (Knight et al., 2007).

Indeed, nearly every year, government oversight bodies such as the Supreme Audit Agency (BPK) and the Corruption Eradication Commission (KPK), along with civil society organisations like Indonesia Corruption Watch (ICW), report recurring cases of procurement fraud that result in significant state losses.

According to the 2020 Audit Report of the Supreme Audit Agency of the Republic of Indonesia (BPK RI), procurement violations included IDR 12.11 billion in work-volume discrepancies, IDR 15.49 billion in unpenalised delays and IDR 1.20 billion in fictitious expenditures. KPK data from 2004–2025 (as of 16 October 2025) further show that procurement corruption is the second most frequent offence after bribery (1,068 cases), with 428 procurement cases involving actors from the executive, legislative, law enforcement and private sectors. ICW's *Corruption Enforcement Trend Monitoring Report* for 2024 also records price markups as the third most common corruption scheme

(33 cases), but the second most damaging financially, generating losses of IDR 3.19 trillion, second only to fictitious reporting in the mining sector (IDR 272.08 trillion). Collectively, these data demonstrate that procurement fraud consistently ranks among the top three forms of corruption in Indonesia, both in frequency and financial impact.

Improvements in procurement governance are expected to prevent and reduce public procurement fraud (Silalahi et al., 2023). Strengthening the role of internal audit institutions (APIP), particularly through the adoption of advanced technologies such as big data analytics and robotic process automation, has enhanced fraud detection capabilities and operational efficiency in procurement processes (Yanuarisa et al., 2025). However, a critical question remains regarding whether reforms in procurement systems and internal supervision mechanisms are sufficient to prevent political interference in procurement decision-making.

Ware et al. (2011) underscore the persistent challenges faced by developing countries, including non-transparent planning processes, inadequate needs assessments, inconsistent cost estimations, limited oversight capacity and pervasive political interference. In Indonesia, the high costs of political campaigns have prompted certain actors to seek external funding through corporate donations, which, within a culture of reciprocity, are seldom provided without expectation of return. These dynamics foster mutual dependence among political parties seeking financial resources and political legitimacy, bureaucrats striving to expand budget allocations, and corporations pursuing economic gains through privileged access to government procurement projects. Even in advanced economies, procurement practices continue to be shaped by interdependent and mutually reinforcing relationships among bureaucrats, business actors and elected officials (Johnston, 2005; Rose-Ackerman & Palifka, 2016).

Therefore, the primary objective of this study is to develop a foundational theoretical framework and empirical research model to address the existing research gap concerning the relationship between procurement governance, internal supervision, economic-political pressures and the incidence of procurement fraud within Indonesia's central government. The conceptual and empirical propositions derived from this objective are elaborated as follows.

First, the paper examines the effect of procurement governance on reducing government procurement fraud. Then, it analyses the role of internal audit effectiveness (APIP) in mitigating government procurement fraud. Third, we investigate the influence of economic-political pressures on the incidence of government procurement fraud. And finally, the research identifies weaknesses in procurement governance and in APIP's effectiveness in controlling potential procurement fraud, and recommends corrective measures to address these issues.

This study offers a novel contribution by integrating procurement governance, APIP effectiveness and economic-political pressures into a unified analytical framework to explain government procurement fraud. While existing studies primarily examine governance and oversight in isolation, this research highlights how oversight capacity and economic-political structures interact to shape fraud risks in public procurement. Additionally, the study empirically identifies vulnerabilities within procurement reform

and internal audit practices in Indonesia’s central government, offering context-specific insights rarely documented in prior literature.

2. Conceptual analysis

2.1. Fraud in government procurement

From a principal–agent and institutional perspective, government procurement is very vulnerable and can occur in all stages of the procurement process, from preparation to handover of goods/services. This is because: 1. procurement activities involve very large government funds; 2. there is quite intense interaction between the public and private sectors in its implementation; 3. there is a discretionary space for public officials in unsupervised procurement (ADB/OECD, 2008); 4. conflict of interest and information asymmetry between suppliers and procurement officials and/or unit/work unit officials who need goods and services (Williams-Elegbe, 2012); 5. the low income of the civil servant officials will encourage their involvement in fraudulent practices. In addition, 6. the ease of setting up the procurement system, including packaging and tender requirements, arranging the selection of procurement schedules and tender announcements, and arranging the selection of assessment methods and evaluation criteria for winners.

As illustrated in Figure 1, procurement fraud may be perpetrated by either internal or external procurement agents. Such misconduct can lead to ethical, administrative and competition law violations, potentially causing state financial losses. Legal responses may involve non-litigation mechanisms, such as compensation claims by the State Loss Settlement Team or proceedings before the Business Competition Supervisory Commission (KPPU) for monopolistic or collusive practices, or litigation channels through corruption charges related to government procurement.

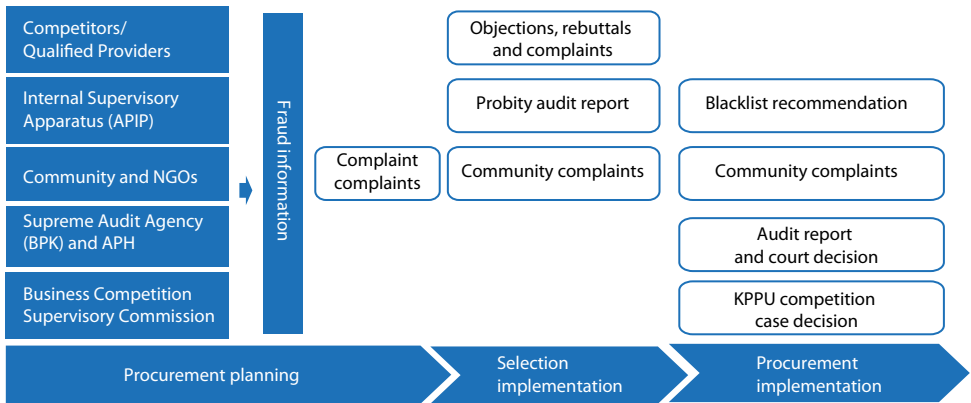


Figure 1
Information of fraud procurement

Source: Compiled by the authors.

2.2. Agency theory in government procurement

The essence of the agency problem is due to the asymmetry of information between the Principal and the Agent, where the agent always has more information than the principal because of their knowledge, proximity, expertise and work experience. An effective control mechanism is needed to control the agent’s behaviour to align with the principal’s goals (Gomez-Mejia & Wiseman, 2007). Especially in the public sector, which does not recognise the term incentive to control agent behaviour, an effective monitoring system is needed to control the opportunism of procurement agents and providers. The agency relationship in government procurement becomes complicated, complex and far from simple because it involves many related issues: 1. the contract itself is “absurd” in the form of delegation of authority which has an impact on the principal’s limited ability to punish the agent if it violates its mandate; 2. information asymmetry between internal procurement agents which is very bureaucratic; 3. organisational goals and procurement activity goals which are not only oriented towards value for money but also to maximise social welfare and public interest as well as national development; and 4. a monitoring mechanism in public sector carried out by BPK RI, APIP, Law Enforcement Officers (APH), and public officials for aligning agents which is very different from the private sector which tends to use incentive mechanisms, meanwhile, in the public sector, it is best to use digital surveillance, which has proven to have many benefits (Shi & Zhang, 2025).

As shown in Figure 2, conflicts of interest in government procurement manifest across four institutional levels: between PA/KPA and procurement officers, between the legislature and budget users, between citizens and their representatives, and between the government and business actors. At each level, agents possess discretionary authority that enables deviation, procurement officials in provider selection, budget users in program execution, legislators in budget allocation, and suppliers in contract fulfilment. These multi-layered principal–agent distortions illustrate how individual actors exploit

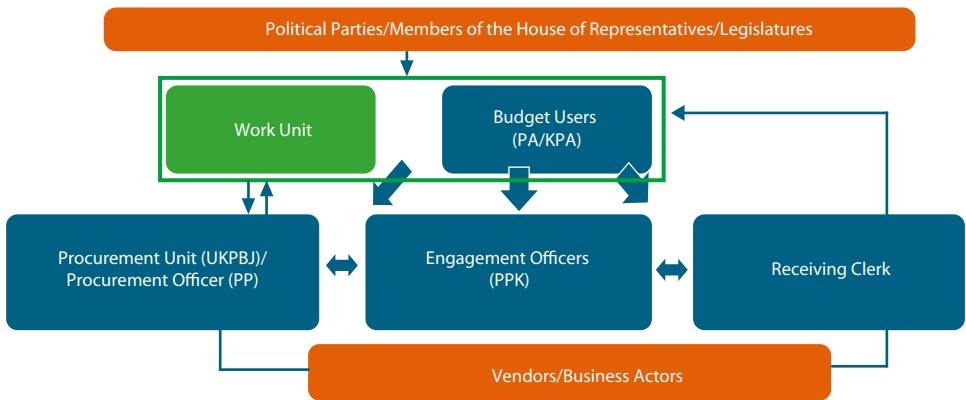


Figure 2
Conflict of interest in the procurement process
Source: Compiled by the authors.

asymmetric information and weak accountability structures to pursue private utility, thereby perpetuating systemic procurement fraud.

2.3. Rent-seeking in government procurement

The collusive relationships between business actors as providers of government goods and services and those in political or bureaucratic power illustrate what political economy scholars term *rent-seeking behaviour*. As Grindle (1989) explains, bureaucrats, politicians and societal elites often function as rent-seeking coalitions driven by short-term economic and political gains rather than by the pursuit of collective welfare or national prosperity. In this context, procurement networks become arenas for redistributive competition over public resources, where institutional capture and patronage replace efficiency and fairness as the dominant logics of governance.

In Indonesia, the nexus between economic and political power is most visible during democratic contests such as presidential, legislative and regional elections. Running for public office in Indonesia entails exceptionally high costs, no less than 500 billion IDR for presidential and vice-presidential candidates, 5–15 billion for legislative candidates, around 30 billion for regents or mayors, and about 100 billion for governors. These financial pressures drive candidates to seek external funding, while business groups provide support in exchange for potential returns, particularly through access to lucrative government procurement projects. The structural dependence of political parties on financial capital fosters alliances between political and business elites to secure electoral victories. Consequently, public budgets and procurement spending are often directed toward projects that are prone to corruption (Keefer & Khemani, 2003).

From a political-economic perspective, the enduring symbiosis between political elites, bureaucrats and business actors in Indonesia reflects a persistent form of rent-seeking and state capture. This elite network operates within an institutional environment shaped by: 1. a pragmatic and interest-driven political culture centred on personal and factional gains; 2. coalition-building motivated by *office-seeking* and short-term power maximisation; 3. legal and policy frameworks that function as political instruments to preserve elite control; 4. a hierarchical and rent-generating bureaucracy that serves as a strategic site for resource extraction; and 5. political parties and legislatures acting as *political brokers* who commodify authority and policy access for elite benefit (Azhar, 2012).

3. Hypothesis development

Research on the effectiveness of procurement governance has evolved over the years, lastly its ability to reduce opportunities for collusion and procurement corruption. The change in governance of procurement systems from paper-based to electronic-based is believed by both developed and developing countries to be effective in combating procurement corruption, such as in Portugal (Ferreira et al., 2014), Albania (Kashta, 2014), Turkey (Soyaltin, 2017), Malaysia (Azmi & Rahman, 2015), Kenya (Mutangili, 2019),

Nigeria (Adebayo, 2016; Ebong, 2020), Nepal (Neupane et al., 2012). This is due to the ability of an electronic-based procurement system to change the procurement business process to be more transparent, more accountable, easier to track if there is fraud, and easier to monitor by various stakeholders. Currently, the Indonesian Government is aggressively promoting procurement mechanisms through e-purchasing, which is believed to directly reduce the level of fraud in procurement and expand market access (Zahra et al., 2022). The latest research on digital transparency tools, particularly open data platforms, electronic procurement systems and artificial intelligence-based fraud detections shows a significant decline in corruption rates (Kotukov et al., 2025). For this reason, we formulate the following hypothesis.

H1. Procurement governance has a negative effect on government procurement fraud

Research related to the influence of APIP effectiveness on procurement fraud has not been found to the best of our knowledge. APIP effectiveness can increase the effectiveness of the internal control system through testing the procurement control system (Søreide, 2002), strengthen the enforcement of procurement governance (Meagher, 2006), and enhance governance in public procurement by fostering transparency, accountability and efficiency (Yanuarisa et al., 2025). Research that discusses APIP institutionally, both its independence and size, can be seen from the research of Asiedu and Deffor (2017), which analysed the relationship between corruption and effective internal audit functions in Ghana, showing that the size of the internal audit department significantly affects the effectiveness of the internal audit function, which has a negative impact on corruption. For this reason, we formulate the following hypothesis.

H2. The effectiveness of APIP has a negative effect on government procurement fraud

In addition to developing anti-procurement fraud programs, the government faces the threat of external factors, factors that cannot be controlled, such as the intervention of political forces (Nugroho, 2014), and also the strength of supplier associations in paralysing the procurement system. Moreover, the huge political costs in Indonesia, both as candidates for regional heads and as candidates for legislative members, are the main motive for returning election capital (Hasibuan et al., 2019). Therefore, the symbiosis of mutualism between political elites who need funds for political expenses and businessmen who are thirsty for rent-seeking is impossible to avoid. The procurement system has instead become an arena of favouritism and unfairness to build connections with the political elite and to improve the electoral performance of the ruling party (Gürakar, 2016), and this condition is very difficult to measure (Dávid-Barrett & Fazekas, 2020). The problem of procurement fraud arises when there is political pressure from certain parties (Goel & Nelson, 1998; Hessami, 2014) or from individual rationalisation (economic pressure) supported by the opportunity and ability to justify and regulate the procurement market (Pavel & Rističová, 2015). For this reason, we came to the final hypothesis.

H3. Economic-political pressure has a positive effect on government procurement fraud

4. Research methods

This research is based on a mixed-method analysis to investigate all aspects related to government procurement fraud. Given that the characteristics of fraud are very complex, diverse and difficult to uncover, in addition to using quantitative methods, we will also explore fraud more deeply with a case study approach on two ministries and agencies.

The quantitative research method uses primary data, the results of respondents' perceptions obtained from the results of filling out questionnaires cover three groups, namely 1. internal procurement actors (PA/KPA, PPK, Head/Staff of UKPBJ, Procurement Officers); 2. external procurement actors (procurement participants/suppliers); and 3. internal supervisors (APIP) on a Likert scale that will be used to answer associative research questions through a series of tests on the hypotheses with a view to testing the relationship between procurement governance, APIP effectiveness and economic-political pressure on public procurement fraud.

The questionnaire was designed after having reviewed various procurement regulations and research journals, and its design consisted of 40 questions divided into two main units. First, there are 25 questions on three independent variables, such as procurement governance (13 items), APIP effectiveness (7 items) and political-economic pressure (5 items). And second, there are 15 question items on one dependent variable: government procurement fraud. And it was reviewed by procurement experts/practitioners and senior procurement supervisors to confirm the truth of the question items as well as to obtain input/suggestions for improvement. A pilot test was conducted, following the receipt of ethical clearance and research permission, involving 15 respondents from procurement agencies via Google Forms to examine the validity and reliability of the research instrument.

Table 1
Research variables

Variable	Indicator	Scale
Procurement governance (TKP)	Procurement transparency (TRN), procurement accountability (AKT), utilisation of e-procurement (EPROC), independence of procurement units (IUP), professionalism of procurement officials (PPP), maturity level of procurement units (TMP)	Likert (1–5) level of conformity
APIP effectiveness (EAP)	APIP independence (IND), APIP size (UP), APIP capabilities (KAP)	Likert (1–5) level of conformity
Economic- political pressure (TEP)	Political pressure (TPO), economic pressure (TEK), provider concentration (KOP)	Likert (1–5) level of conformity
Government procurement fraud (FPP)	Criteria for fraud in state losses (Article 1, point 15 of Law No. 15 of 2006) Violations of procurement ethics (Article 7 of Presidential Regulation No. 16 of 2018) Procurement blacklist (Regulation of the Head of the National Procurement Agency No. 17 of 2018) Unfair competition (Article 23 of Law No. 5 of 1999)	Likert (1–5) the frequency of the occurrence

Source: Compiled by the authors.

The data was analysed using a statistical application, SPSS v.25. The tests carried out include the Classical Assumption Test to ensure that the estimation method has the property of BLUE (Best Linear Unbiased Estimator), as there are several classical assumptions that should not be violated, including: a) Multicollinearity; b) Heteroscedasticity; c) Autocorrelation. The regression equation is as follows:

$$FPP^k = \alpha + \beta_1 TKP_1 + \beta_2 EAP_2 + \beta_3 TEP_3 + \varepsilon$$

Qualitative methods are used for the purpose of proving, expanding and deepening the results of quantitative research obtained at the initial stage and need to be carried out for further research. This stage is carried out to investigate, describe, explain and find qualities or privileges of social influence that cannot be explained, measured or described through a quantitative approach. Relevant to the research topic, where procurement system reform and internal control system reform have been carried out, but there are still various cases of procurement fraud.

We have also made our best efforts to improve the trustworthiness of the analysis by way of selecting credible sources based on expertise and repeated, in-depth observation of extensive datasets across various national procurement systems (e-proc, SiRUP, Inaproc and SiUKPBJ). Also, we have enhanced transferability by providing detailed descriptions of each step in the qualitative research process; ensured dependability through a systematic audit of the study, including review and cross-checking with respondents to confirm that interpretations aligned with the contextual realities. And we have strengthened confirmability by ensuring that all findings could be traced back to field notes, survey data, documentary evidence from multiple sources, and transcripts of informant interviews.

Data collection was designated to answer the research questions and, in accordance with the research objectives, namely procurement fraud patterns according to the perspective of government supervisors, internal procurement actors and external procurement actors. The data collection techniques employed are as follows:

1. in-depth interviews/Focus Group Discussions: a) APIP; b) internal procurement actors (PPK/Chairman of UKPBJ/PP)
2. survey of internal procurement actors, external procurement actors and procurement supervisors
3. document analysis, comprising a) General Election Commission Report; b) LKPP report and BPKP report

5. Results and discussion

5.1. Quantitative results

5.1.1. Piloting test results

The questionnaire was first evaluated by eight experts, including practitioners and senior procurement supervisors from LKPP, provider companies and two ministries/institutions

involved in the study. After obtaining ethical clearance and research authorisation from the BRIN Ethics Commission for Social Humanities (Ethical Clearance Letter No. 007/KE.01/SK/01/2023, valid from January to December 2023), a small-scale distribution was conducted. The pilot test applied purposive sampling, targeting respondents with at least one year of experience as internal or external procurement actors or APIP members. Of the 19 individuals approached, 15 met the criteria and were included. Validity testing using SPSS 25, with 15 respondents (DF = 13) and a 5% significance level (two-tailed, $r\text{-table} = 0.5140$), produced the results summarised in Table 2.

Table 2
Piloting validity results

No.	Statement in variables	Validity	
		Yes	No
1	Procurement governance	10	3
2	APIP effectiveness	6	1
3	Economic-political pressure	4	1
4	Government procurement fraud	14	1

Source: Compiled by the authors.

Then the reliability test was carried out, all Cronbach's Alpha values were above 0.800, so it can be concluded that the measuring instrument in the study is considered reliable (feasible). Thus, based on the validity test, there were 6 invalid statement items which is then paraphrased via Quilbot.

5.1.2. Descriptive statistics

The number of samples obtained from the two central government ministries/institutions is 128 selected samples out of 134 respondents, because 6 samples could not be used for the following reasons: 1. two respondents were not willing to cooperate; 2. three respondents did not meet the minimum requirement of one year experience in the procurement process; and 3. one sample was not filled out correctly.

Table 3
Respondents based on their role in procurement

Element	Position	Frequency	Percent
Internal procurement actors	PPK, Head/Staff of UKPBJ, Procurement Officers, KPA	56	43.8
External procurement actors	Procurement Participants/Suppliers	10	7.8
Internal supervisors	APIP	62	48.4

Source: Compiled by the authors.

Characteristics of variables as shown in Table 4.

Table 4
Descriptive statistics

Variable	Minimum	Maximum	Mean
Procurement governance	31.00	65.00	50.4219
APIP effectiveness	10.00	35.00	25.8594
Economic-political pressure	5.00	25.00	15.0938
Government procurement Fraud	16.00	53.00	30.3984

Source: Compiled by the authors.

Respondents reported relatively high perceptions of procurement governance ($M = 50.42 > 39.00$), APIP effectiveness ($M = 25.85 > 21.00$) and economic-political pressure ($M = 15.09 > 15.00$). Conversely, the perception of government procurement fraud was lower ($M = 30.40 < 35.00$), indicating that most respondents viewed procurement fraud in their institutions as relatively low.

5.1.3. *Statistical test results*

The First Regression Equation Model was proposed to answer three research questions. Multiple linear regression analysis was used to analyse the relationship between the influence of independent variables of procurement governance (X1), APIP effectiveness (X2) and economic-political pressure (X3), partially on the dependent variable, namely government procurement fraud (Y).

Table 5 shows the following: There is a negative influence of procurement governance (TKP), APIP effectiveness (EAP) on government procurement fraud (FPP): -0.239 at a significant value of $0.003 < 0.05$ (a significance level of 1%), -0.534 at a significant value of $0.000 < 0.05$ (a significance level of 1%). This means that individually, the procurement governance variable (X1), APIP effectiveness variable (X2) has a significant effect on the government procurement fraud variable (Y). These results show that the data used in this study supports H1 and H2, which state that procurement governance and APIP effectiveness has a negative effect on government procurement fraud. In other words, improving procurement governance and APIP capability can reduce government procurement fraud.

These findings are in line with previous studies in various countries that examine the relationship between procurement governance and procurement fraud, including: Portugal (Ferreira et al., 2014), Albania (Kashta, 2014), Turkey (Soyaltin, 2017), Malaysia (Azmi & Rahman, 2015), Kenya (Mutangili, 2019), Nigeria (Adebayo, 2016; Ebong, 2020) and Nepal (Neupane et al., 2012). In Indonesia itself, since the government ratified the UNCAC in 2006 and combined bureaucratic reform, procurement reform accelerated with the national corruption prevention strategy and measured in the corruption

Table 5
Statistical test

Test	Linier Model ($FPPK^k = \alpha + \beta_1 TKP_1 + \beta_2 EAP_2 + \beta_3 TEP_3 + \varepsilon$)	
	Value	Result
Classical assumption (the classical assumption test is a statistical requirement that must be met in multiple linear regression analysis)	Normality (Kolmogorov Smirnov)	Normal distribution
	0.200 > 0.05)	No Multicollinearity
	Multicollinearity (VIF < 10)	No Heteroscedasticity occurs
	Heteroscedasticity (Spearman's Rho > 0.05)	There is no tendency of Autocorrelation
	Autocorrelation [Durbin Watson = 1.998 (du = 1.7596 dan 4- du = 2.2404)]	
Regression formula (a study of the relationships between variables)	$Y = \alpha - \beta_1 TKP_1 - \beta_2 EAP_2 + \beta_3 TEP_3 + \mu$	$Y = 41.331 - 0.239X_1 - 0.534X_2 + 0.986X_3 + \mu$
T-test	Significant scores accepted are below 0.05. The sig score of TKP (0.003 < 0.05), EAP (0.000 < 0.05), TEP (0.000) < 0.05); all variables at a significance level of 1%	There is an influence of the independent variables of procurement governance (X1), APIP effectiveness (X2) and economic-political pressure (X3), partially on the dependent variable, government procurement fraud (Y)
F-test	The calculated F-value is greater than the F-table value (75.347 > 2.68), and the significance value of 0.000 is smaller than the significance level of 0.05	All independent variables [procurement governance (X1), APIP effectiveness (X2) and economic-political pressures (X3)] simultaneously influence government procurement fraud (Y)
Coefficient determination	The R-Squared is 0.646 or 64.6 %	This means that the procurement governance variable (X1), APIP effectiveness variable (X2) and economic-political pressure variable (X3) have an influence of 64.6% on government procurement fraud, while the remaining 35.4% is influenced by other variables that are not examined in this study

Source: Compiled by the authors.

prevention action plan, procurement governance has developed not only as a means of transparency and accountability, but it has also been used to reduce the risk and occurrence of government procurement fraud.

This finding is further supported by documentary evidence indicating that the Procurement Governance Index in both agencies was assessed as *Good*. The detailed procurement governance profile is presented below.

Table 6
Procurement governance profiling

Components	Value (score)		Weight (%)
	Institution 1	Institution 2	
SIRUP	10.00	10.00	10
e-tendering	5.00	5.00	5
e-purchasing	3.92	0.00	4
Online store	1.00	1.00	1
Non e-tendering / Non e-purchasing	0.00	0.00	5
e-contract	4.76	3.85	5
Human resource qualifications and competencies in procurement	25.26	19.71	30
UKPBJ maturity level	40.00	40.00	40
Total	89.94 (Good)	79.56 (Good)	100

Source: Final ITKP 2024, <https://siukpbj.lkpp.go.id>

By improving procurement governance, the objectives of preventing procurement fraud are four. First, to reduce the space for discretion, rationalisation, personal interests and moral hazard in internal procurement actors (KPA, PPK, PP). Second, to reduce information asymmetry between internal procurement actors PA/KPA vs. UKPBJ, PPK, PP. Third, to increase the professionalism of human resources procurement, which in some cases can detect and prevent fraud committed by external procurement actors, such as detecting false documents/information and detecting collusion of providers who arrange price offers. And fourth, to open up channels for objections/complaints which can be directly monitored by LKPP and directly followed up by APIP or law enforcement.

Although there has been no research investigating the direct relationship between APIP effectiveness and government procurement fraud, various international studies, such as those from Church et al. (2001), Rezaee (2005), Nicolaescu (2013), have succeeded in confirming with confidence that internal auditors are the “first line of defence” against fraud, by enhancing governance in public procurement (Yanuarisa et al., 2025). Likewise, national research, such as Taufik (2011) or Pratomo (2016) with an internal audit locus in Riau provinces, districts/cities, (Prakoso & Zulfikar, 2018) with the audit inspectorate locus of BPKP Yogyakarta and Lorensa et al. (2018) concluded that the role of internal auditors affects fraud prevention. One of the added values of this research is to prove the influence of the determination of APIP effectiveness on government procurement fraud, which confirms that an effective APIP can reduce government procurement fraud.

These findings are also supported by documentary evidence showing that both agencies have achieved their APIP effectiveness targets. The detailed APIP effectiveness profile is presented below.

Table 7
Profiling the role of APIP effectiveness

Components	Value (score)		National target
	Institution 1	Institution 2	
Risk Management Index	3.33	3.42	3
APIP capability	3.00	3.94	3
SPIP maturity	3.29	3.44	3
Corruption Control Effectiveness Index	3.00	3.01	3

Source: Minutes of the Results of the Self-Assessment Evaluation of the Maturity of SPIP Implementation in 2024 No.PE.09.03/SP-55/D2/05/2024.

The effect of APIP’s effectiveness can be explained from APIP’s service activities on UKPBJ which always provide early warnings, especially through the insurance activities starting from need identification to post-procurement through Plan for State-Owned Goods Requirements (RK-BMN) review activities, probity audits, procurement monitoring, procurement audits and investigative audits on community complaints indicated by corruption, collusion and nepotism. It also implies consulting, as APIP can also increase the effectiveness of UKPBJ risk management, including managing entity risks, accelerate the development of internal control (anti-corruption activities) and provide input that can maintain and improve the quality of procurement governance. Thus, APIP, as the eyes and ears of the leadership (PA/KPA), can control the opportunistic behaviour of procurement management (PPK, UKPBJ, Procurement Working Group, Procurement Officials) and the opportunistic behaviour of external procurement actors (procurement participants/suppliers) in maximising profits for themselves will eventually decrease.

There was a positive effect of economic-political pressure (TKP) on government procurement fraud (FPP) of 0.986 at a significant level of 1%. The results of the SPSS calculation obtained a t-value of 9.103 > t table 1.97928 with a significant value of 0.000 < 0.05. This means that individually, the variable of political-economic pressure (X3) has a significant effect on the variable of government procurement fraud (Y). These results show that the data used in this study support H3, that is, increasing political-economic pressure can increase government procurement fraud.

Although previous findings, especially in public sector research, have only researched corrupt behaviour in expenditure allocation, such as research from Goel and Nelson (1998) or Hessami (2014) which succeeded in proving the relationship between corruption and public expenditure allocation, or Gupta et al. (2001) with respect to corruption in military expenditure. Corruption in the expenditure of the energy, construction, telecommunications and defence sectors is investigated by OECD (2007), whereas Dávid-Barrett and Fazekas (2020) demonstrated that political elites use their influence on public procurement to allocate contracts to business actors who are partisan allies. In this paper, we went further and researched those factors related to the determination of economic-political pressure, which directly affect government procurement fraud, confirming that the higher the political-economic pressure, the more it increases government procurement fraud.

This latter observation is rather evident from the practice of government procurement, which places Ministers/Heads of Institutions who come from political circles as PA/KPA, who with their authority can allocate budgets to procurement that are exposed to conflicts of interest in rent-seeking and can also influence and intervene in the procurement process, especially in the hierarchy of procurement organisations where the authority of the PA/KPA can appoint and dismiss the Head of the UKPBJ and PPK.

Meanwhile, opportunities for council members to secure funds, particularly within ministries or agencies led by political appointees, are reinforced by Article 80 (j) of the MD3 Law (Law No. 17/2014), which states that “Members of the Council have the right to propose and advocate for development programs in their electoral districts”. Considering that political parties continued to receive substantial financial donations during the 2024 legislative elections, the following section presents comparative data on political party campaign expenditures in 2024.

These conditions demonstrate that the cost of politics in Indonesia remains substantial and imply that higher campaign spending is associated with greater electoral success, which in turn heightens the likelihood of campaign financiers seeking returns through procurement packages funded by council-initiated deposits and access to state resources.

Meanwhile, the legal framework governing political party financing is set out in Article 34 of Law No. 2 of 2011 concerning Amendments to Law No. 2 of 2008 on Political Parties. The provision stipulates that “political party finances shall come from membership fees, legally valid donations, and financial assistance from the state budget (APBN) or regional budgets (APBD)”. Political parties are only prohibited from receiving donations from specific sources as stipulated in Article 339 paragraph (1) of Law No. 7 of 2017 on General Elections. These prohibited sources include: 1. foreign entities; 2. donors whose identities are unclear; 3. proceeds of criminal acts that have been proven by a court

Table 8
Comparison of campaign expenditures of political parties (in IDR)

No.	Parliamentary political party	Campaign fund report	Votes	Non-parliamentary political party	Campaign fund report	Votes
1	PDIP	430.408.187.682	25.387.279	PSI	143.997.570.245	4.260.169
2	Gerindra	388.772.751.181	20.071.708	Hanura	58.466.610.605	1.094.588
3	Golkar	359.193.182.631	23.208.654	PPP	54.629.796.439	5.878.777
4	Demokrat	328.160.565.941	11.283.160	Gelora	33.863.823.448	1.281.99
5	Nasdem	241.782.583.115	14.660.516	PBB	30.708.539.084	484.486
6	PAN	223.225.235.021	10.984.003	Perindo	21.442.223.357	1.955.154
7	PKS	211.154.451.897	12.781.353	Buruh	15.724.456.805	972.910
8	PKB	142.843.025.780	16.115.655	Ummat	11.742.044.582	642.545
9				Garuda	10.565.858.585	406.883
10				PKN	8.465.577.282	326.800
Total		2.325.539.983.248		Total	389.606.500.432	

Source: Campaign Fund Income and Expenditure, General Election Commission Report (2024).

decision with permanent legal force and/or funds intended to conceal or disguise the proceeds of criminal acts; 4. the government, local governments, state-owned enterprises (BUMN), and regional-owned enterprises (BUMD); and 5. village governments and village-owned enterprises (BUMDes).

5.1.4. Additional tests

As for the influence of procurement governance, APIP effectiveness, economic-political pressure to government procurement fraud from the perspective of 1. state losses; 2. procurement ethics violations; 3. meeting the supplier blacklist criteria; and 4. meeting the criteria for unfair business competition, is being shown in Table 9.

Table 9
Results of T-test (partial) on dependent sub variables

Variable	State loss (SL)		Procurement ethics (PE)		Blacklist (BL)		Unfair business competition (UBC)	
	B	Sig	B	Sig	B	Sig	B	Sig
Procurement governance	-0.063	0.035**	-0.124	0.005***	-0.042	0.274	-0.009	0.540
APIP efficacy	-0.135	0.004***	-0.224	0.001***	-0.129	0.031**	-0.046	0.056*
Economic-political pressure	0.326	0.000***	0.447	0.000***	0.154	0.005***	0.059	0.007***
Level of significance: *** (1%), ** (5%), * (10%)								

Source: Compiled by the authors.

These findings reinforce the notion that strong governance mechanisms and effective internal oversight serve as critical deterrents to procurement fraud. The negative relationship between procurement governance and fraud aligns with institutional theory, which posits that transparent rules and accountability structures reduce opportunities for misconduct. Similarly, the significant role of APIP effectiveness supports the view that competent internal audit functions strengthen compliance and enhance institutional integrity (Arena & Azzone, 2009). Conversely, the positive association between political-economy pressure and procurement fraud reflects the influence of rent-seeking behaviour and political patronage often embedded in public sector decision-making (Rose-Ackerman & Palifka, 2016). The absence of significant relationships between procurement governance and the dimensions of supplier blacklist and unfair business competition may suggest that governance reforms have not yet effectively addressed collusive practices or competitive fairness within procurement markets.

A brief overview of the main test results and additional test results in this study can be seen in Table 10 as follows.

Table 10
Overview of hypothesis testing results

No.	Hypothesis statement	Main test		Additional tests		
		FPP	SL	PE	BL	UBC
H1	Procurement governance has a negative effect on government procurement fraud	Proven	Proven	Proven	Unproven	Unproven
H2	The effectiveness of APIP has a negative effect on government procurement fraud	Proven	Proven	Proven	Proven	Proven
H3	Political-economic pressure has a positive effect on government procurement fraud	Proven	Proven	Proven	Proven	Proven
Description: FPP (government procurement fraud), ST (state loss), PE (procurement ethics), BL (blacklist), UBC (unfair business competition)						

Source: Compiled by the authors.

5.2. Qualitative results

The second step in this research uses qualitative data analysis sourced from the results of interviews and surveys, being carried out to achieve the final research objectives, namely identifying weaknesses in procurement governance and the role of effective APIP, and compiling recommendations to close vulnerable points in the implementation of government procurement.

Based on information from 9 informants, with characteristics of having more than 8 years of experience in processing/supervising government procurement processes (88%), L2/L4 certified (55%), government procurement supervisor (APIP) (55%), who said that there are still weaknesses in procurement governance, including:

- the use of e-procurement, especially the sectoral e-catalogue mechanism, which is considered weak due to limitations in controlling and simplification of sectoral e-catalogue procedures (Informant 1, Informant 3, Informant 4, Informant 9)
- the independence of the procurement unit (UKPBJ) is still under the coordination of the Echelon 2 Work Unit and needs to be upgraded to an independent work unit under the Head/Minister as the Budget User (Informant 1, Informant 3)
- the professionalism of procurement officials who are considered to be still subjective, especially in the assessment of qualifications and evaluation of bids in the selection of suppliers who are not professionals and need to be replaced with the use of artificial intelligence (Informant 3, Informant 4, Informant 9)

While most informants still feel several obstacles to realising effective APIP, including:

- APIP's independence, the scope of procurement supervision from planning to procurement handover, and policy and budget support that are still felt by APIP are absolute requirements that must be met to be able to increase the effectiveness of APIP (Informant 3, Informant 7)
- APIP has not been given the authority to review the budget and review packages for the procurement of goods/services entrusted to the Council that meet the interests of the political elite and the bureaucratic elite, especially the procurement of electoral regional development programs (Informant 2, Informant 3, Informant 5)

Based on interviews with nine informants and surveys of 132 respondents, six key areas of weakness were identified in the procurement system. First, regulatory issues include unclear guidelines for special specifications and imported goods, limited deterrence for blacklisted actors, and gaps in tender and e-purchasing regulations. Second, coordination between procurement actors and internal supervisors remains weak, particularly in objection mechanisms and strategic procurement requiring collaboration among UKPBJ, APIP and the Legal Bureau. Third, procurement system modernisation is needed through AI-based supplier screening, integrated data platforms, unified procurement portals and improved oversight of e-purchasing. Fourth, governance challenges relate to unclear SiRUP arrangements, limited transparency in qualification and bid evaluations, inadequate procurement staffing and competency, insufficient welfare for procurement actors, and the need to strengthen UKPBJ's institutional independence. Fifth, internal supervision requires stronger leadership support for continuous auditing, greater budget allocation, expanded probity audits, enhanced authority for supervisory reviews, and a more secure whistleblowing system, as well as strengthening cooperation with law enforcement agencies in responding to complaints that suggest the occurrence of criminal acts of corruption. Lastly, national-level reforms are needed to develop anti-fraud and anti-conflict of interest systems based on potential fraud analysis and red flag analysis.

6. Conclusion, limitation, implication and recommendation

This study provides empirical evidence that procurement governance is not the only influential factor in reducing government procurement fraud. In addition, one of the contributions of this study is to visualise the role of internal supervisors (APIP), and that political-economic pressure is still dominant and always interacts in every government procurement.

In addition, another contribution of this research is that it has developed procurement fraud parameters which are an index/combination of four procurement fraud perspectives, which are carried out by internal procurement actors and/or external procurement actors, namely: 1. state losses (State Audit Agency); 2. violations of procurement ethics;

3. fulfilling the elements of the procurement blacklist; and 4. collusion which gives rise to unfair business competition.

From the research methodology, this combination research has succeeded in exploring various weaknesses in policies and procurement practices, especially in ministries and agencies that deal with the field of natural resources and high technology, including: 1. weaknesses in regulations/standards; 2. weaknesses in the relationship between procurement actors and APIP; 3. weaknesses in the modernisation of the procurement system; 4. weaknesses in procurement governance; 5. internal supervision; and 6. national supervision.

As such, we offer several important implications for policymakers, procurement practitioners and oversight institutions. The findings indicate that strengthening procurement governance alone is insufficient to reduce procurement fraud; political-economic pressures and the role of APIP remain critical determinants. This underscores the need for a more holistic anti-fraud strategy that integrates governance reforms with stronger internal audit capacity and safeguards against political interference. Policy recommendations that can be implemented include: strengthening APIP's capacity and independence through the establishment of an audit committee; issuing specific procurement regulations for high-risk sectors in collaboration with procurement, legal and supervisory experts; modernising e-procurement systems by enhancing interoperability, analytics and automation; improving coordination in the handling of procurement fraud cases among procurement units, APIP, BPK RI, law enforcement agencies, and KPPU; ensuring accessible and responsive complaint mechanisms; and expanding oversight to local governments through a strengthened monitoring and evaluation framework.

There remain several factors influencing fraud in government procurement that were not explored in this study. Consequently, the researchers propose examining three additional influential factors: 1. assessing the effectiveness of external procurement oversight bodies, such as the Supreme Audit Agency of the Republic of Indonesia (BPK RI), law enforcement agencies, the Business Competition Supervisory Commission (KPPU), and community-based oversight; 2. evaluating the effectiveness of public procurement complaint channels; and 3. analysing the patterns and interactions between internal and external oversight institutions in combating procurement-related corruption. Finally, we recommend expanding the scope of future studies beyond central government institutions to include local government agencies as well.

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