THE EFFECT OF IMPLEMENTING SUSTAINABLE DEVELOPMENT GOALS AND EFFECTIVENESS OF INTERNAL CONTROLS TOWARDS FRAUD PREVENTION

UNDERGRADUATE THESIS

This Thesis is Submitted to Partially Fulfill The Requirements to Obtain a Bachelor of Accounting Degree

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UNIVERSITAS ISLAM MALANG

FAKULTAS EKONOMI DAN BISNIS

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ABSTRAK

Penelitian ini bertujuan untuk mengetahui pengaruh implementasi tujuan pembangunan berkelanjutan terhadap pencegahan fraud melalui efektivitas pengendalian internal. Menggunakan perusahaan "A" di Brunei sebagai studi kasus, ia melibatkan metode deskriptif kualitatif melalui wawancara semi-terstruktur dengan informan kunci. Prinsip-prinsip SDG menekankan transparansi, inklusivitas, dan keberlanjutan dan dapat mendorong praktik etis yang pada gilirannya dapat menciptakan iklim untuk mencegah penipuan. Kontrol internal yang kuat—mendorong format akuntabilitas, struktur pelatihan, dan fleksibilitas—juga membuat organisasi lebih tangguh. Makalah ini berkontribusi pada pemahaman tentang bagaimana nilai-nilai etika dan perlindungan teknis berinteraksi untuk meningkatkan pencegahan penipuan di UKM di negara berkembang. Penelitian ini menyimpulkan bahwa penerapan prinsip-prinsip SDG dan adanya pengendalian internal yang kuat berdampak positif terhadap pencegahan penipuan. Kombinasi fungsinya membawa efektivitas yang lebih besar daripada ketika digunakan secara mandiri, khususnya wujud UKM sebagai Perusahaan "A".

Kata kunci: Tujuan pembangunan berkelanjutan, pengendalian internal, pencegahan penipuan, tata kelola etis, Brunei, UKM

ABSTRACT

This research aims to determine the influence of implementing sustainable development goals towards fraud prevention through the effectiveness of internal controls. Using company “A” in Brunei as a case study, it engages qualitative descriptive methods through semi-structured interviews with key informants. SDG principles emphasize transparency, inclusivity, and sustainability and can encourage ethical practices which in turn can create a climate for discouraging fraud. Robust internal controls—fostering accountability formats, training structures, and flexibility—also make organizations more resilient. This paper contributes to an understanding of how ethical values and technical safeguards interact to enhance fraud prevention in SMEs in developing countries. This study concludes that the application of SDG principles and the existence of strong internal controls have a positive impact on fraud prevention. The combination of their functions brings greater effectiveness than when used independently, particularly manifestation of SME as Company “A”.

Keywords: Sustainable development goals, internal controls, fraud prevention, ethical governance, Brunei, SMEs

CHAPTER 1

INTRODUCTION

1.1 Background

Fraud, a widespread and complex problem that affects many areas of society, causing serious issues for people, companies, and governments around the world. It involves intentional deception or lying to gain money or benefits unfairly, often harming others. Fraud can take many forms, such as corporate wrongdoing, financial crimes, identity theft, and online scams. The reasons behind fraud are varied and include personal motivations, weaknesses in organizations, societal norms, economic conditions, laws and regulations, advances in technology, and human psychology. All these factors contribute to why fraud is so common and difficult to control (KPMG,2021)

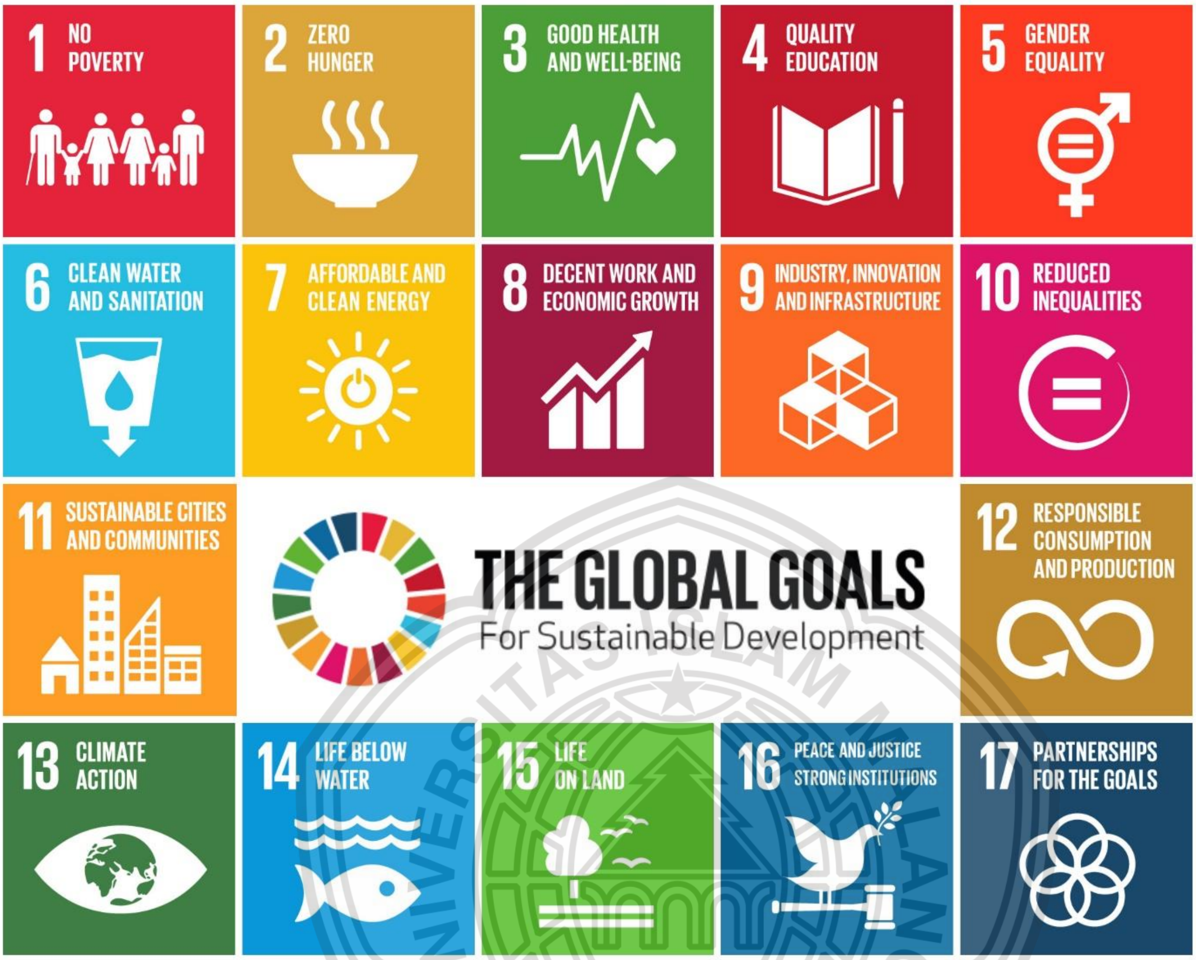
The International Standards for the Professional Practice of Internal Auditing, established by the Institute of Internal Auditors, defines fraud as: "…..any unlawful act characterized by concealment or breach of trust. These actions do not rely on threats of violence or physical force. Fraud is perpetrated by individuals and organizations to obtain money, property, or services; to evade payment or loss of service; or to achieve personal or business gains (IIA's, 2017) ".

Extensive ramifications, not solely confined to monetary losses but also entailing erosion of trust, tarnished reputations, and destabilization of financial markets and institutions. Furthermore, the emergence of digital platforms has widened the scope for perpetrating fraud, intensifying existing challenges and necessitating innovative strategies for detection and prevention. Understanding the details of fraud—its causes, methods, impacts, and how well prevention measures work—is crucial for policymakers, law enforcement, businesses, and individuals.

Fraud has far-reaching consequences that extend well beyond financial losses, significantly impacting society on multiple levels. Productivity and morale suffer as fraud instills feelings of hopelessness, frustration, and low morale among the public, undermining the overall functioning and well-being of society (Josphat K., 2024). The emotional and psychological toll on victims is profound, often leading to long-term trauma, anxiety, depression, and even suicidal thoughts, exacerbating existing vulnerabilities and inequalities (Natalie Low, 2024) (International Public Sector Fraud Forum (IPSFF), 2024). Fraud also hampers government effectiveness, diverting resources from intended beneficiaries and resulting in program failures and lost opportunities for individuals and businesses. The reputational damage caused by unaddressed fraud erodes public trust in government, industries, and institutions, negatively affecting their international reputation and economic standing. Additionally, fraud undermines social cohesion and trust in services, spreading through communities and fostering other criminal activities and environmental damage (Ochoa Hernandez, R., Simpson, A., & Gill, G. (2021)). Addressing fraud requires a comprehensive understanding of these multifaceted impacts to mitigate its detrimental effects on individuals, communities, and society as a whole.

The Sustainable Development Goals (SDGs) consist of 17 interconnected global objectives set by the United Nations in 2015. These goals are intended to address the most pressing and significant challenges facing our planet today. They are part of the 2030 Agenda for Sustainable Development, which outlines a comprehensive plan to eradicate poverty in all its forms and dimensions. Additionally, the agenda emphasizes the importance of promoting sustainable and inclusive economic growth, enhancing social inclusion, and ensuring the protection of the environment (UN, 2023)

Figure 1 1 SUSTAINABILITY DEVELOPMENT GOALS



The SDGs build upon the achievements and knowledge gained from the Millennium Development Goals (MDGs), broadening its range and aspirations to guarantee that every individual is included and not excluded. Each goal consists of precise targets and indicators that serve as a framework for nations to synchronize their policies and properly monitor progress. The SDGs' universality highlights its pertinence to all nations, irrespective of their developmental stage, promoting a sense of worldwide unity and collaborative effort. The SDGs represent a holistic approach to sustainable development, addressing social, economic, and environmental dimensions. They focus on challenges such as poverty, hunger, health, education, gender equality, access to clean water and sanitation, affordable and clean energy, decent employment, and economic growth. (UN, 2023).

The implementation of the Sustainable Development Goals (SDGs) offers a comprehensive approach to addressing global challenges, including fraud. Through coordinated efforts across sectors, SDGs foster transparency, accountability, and ethical practices in governance, business, and society (World Economic Forum, 2020). Specifically, in fraud prevention, SDG initiatives aim to strengthen institutions, promote collaboration, and enact policies that combat corruption and illicit financial activities. By integrating anti-fraud measures into broader development strategies, the SDGs contribute to building resilient, equitable, and sustainable communities worldwide (Transparency.org, 2017). Additionally, aligning operations with the SDGs enhances internal control systems, fostering a culture of trust and compliance within organizations. This alignment supports high-quality financial reporting and investor protection, improving risk management, stakeholder engagement, and overall organizational performance and reputation (UNODC, 2021).

The incorporation of Sustainable Development Goals (SDGs) and the implementation of strong internal control mechanisms are essential tactics in today's business environment that promote moral behavior, openness, and responsibility. The Sustainable Development Goals (SDGs) are a comprehensive set of goals that the United Nations has established to tackle major worldwide issues like social justice, environmental sustainability, and economic inequality (UNODC, 2021). At the same time, internal control systems are crucial for guaranteeing that financial reports are accurate, protecting resources, and stopping fraud. Even with the extensive frameworks that the Sustainable Development Goals and internal controls offer, fraud is still a major threat in many different industries (UNODC, 2021). This begs important issues concerning the fundamental causes influencing these metrics' efficacy. The personal traits of organizational members stand out as one of the most important determinants among these aspects. Integrity, moral principles, risk tolerance, and dedication to company values are examples of personal qualities that can have a significant impact on how well SDGs and internal controls are implemented in terms of reducing fraudulent activity (OECD, 2020) (World Bank Publication, 2021).

Management's commitment to ethical values is crucial in establishing a tone at the top that promotes effective internal controls and sustainable practices. Leaders who exemplify integrity and prioritize anti-fraud measures create a positive impact on the organizational culture, setting a standard for ethical behavior throughout the company (Bhat,2023). The training and development of employees, particularly those in top managerial positions, are essential strategies for enhancing the effectiveness of internal controls. By providing comprehensive training on fraud prevention, ethical conduct, and the principles of sustainable development, organizations can empower individuals to contribute actively to these goals (Mendes de Oliveira, D.K, 2022).

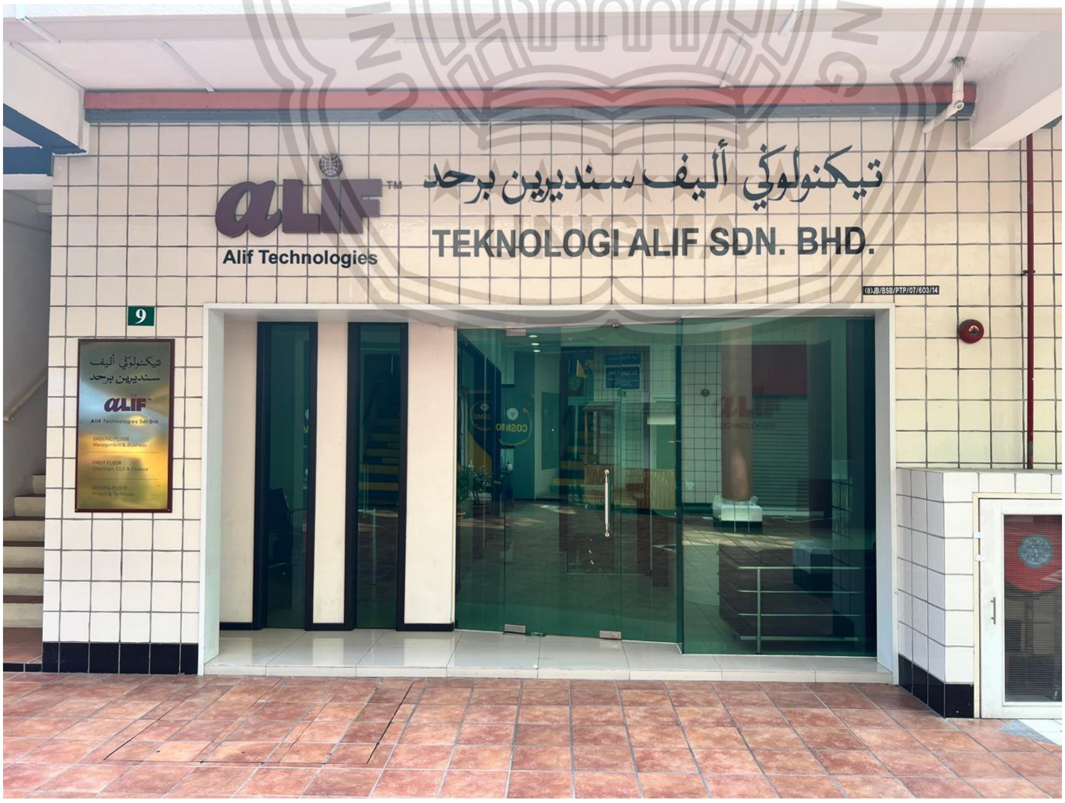
Monitoring activities and continuous assessment of internal controls are also critical components. These processes, often supported by internal and external auditors, ensure that all levels of the organization remain aware of the importance of compliance. Regular monitoring and feedback mechanisms reinforce the connection between internal controls, SDGs, and fraud prevention, helping to maintain a high standard of accountability (KPMG. 2016).

Individual attitudes, behaviors, and feedback are integral to fostering a culture of integrity and accountability within organizations. This culture not only supports the effective implementation of internal controls and fraud prevention measures but also aligns with sustainable development goals, enhancing the organization’s public image as a responsible and trustworthy entity (Treviño et al. (2006). Encouraging ethical behavior and open feedback is essential for organizations aiming to achieve long-term success and sustainability. These controls consist of the general control environment, risk analyses, targeted control actions, unambiguous communication, and continuous observation. To make sure the internal control system continues to be successful, management and the board must evaluate it on a regular basis. Stronger reputations, regulatory compliance, and improved financial performance are all correlated with well-designed controls. They can enhance decision-making, financial accuracy, and operational efficiency, for instance. They also encourage trust in financial information, good governance, and openness.

On the island of Borneo, Brunei Darussalam is a small but affluent country renowned for its substantial oil and gas reserves, rich cultural legacy, and unwavering dedication to social and economic progress. Brunei has incorporated the United Nations' Sustainable Development Goals (SDGs) into its national agenda, aiming to foster sustainable growth and development while ensuring accountability, transparency, and ethical governance. However, like many other nations, Brunei faces challenges related to fraud in the corporate sector. Although it is a small jurisdiction with relatively low risks of domestic and transnational crime, Brunei's geographic proximity to areas in the ASEAN region with higher risks of money laundering and terrorist financing (ML/TF) makes it susceptible to foreign illicit financial flows, which in turn creates internal vulnerabilities and risks related to ML/TF. The country encounters various domestic and cross-border risks stemming from crimes that generate proceeds and associated money laundering, particularly in areas such as theft, fraud, corruption, bribery, and smuggling. The banking, remittance, and money exchange sectors are identified as higher-risk areas, with some concerns also noted in the lending sector and the small but growing virtual assets service providers (VASP) sector. (APG,2023). The nation's dedication to openness and sound governance has resulted in the creation of organizations such as the Anti-Corruption Bureau (ACB), which is essential in looking into and reducing fraudulent activity. This essay examines how Brunei's efforts to accomplish the SDGs interact with the internal fraud prevention measures.

Alif Technologies, a leading Information and Communications Technology (ICT) company based in Bandar Seri Begawan, Brunei Darussalam, is recognized for its innovative solutions in system integration, software development, eGovernance, biometrics and smart cards, eLearning, and paperless solutions. and ICT infrastructure. Established in 2002, the company has a strong commitment to delivering world-class services while maintaining a customer-centric approach. Although Alif Technologies does not explicitly align its operations with the Sustainable Development Goals (SDGs), the principles of sustainability, ethical governance, and social responsibility are inherently embedded in its work ethics and operational practices. Alif Technologies fundamental goals align with the Sustainable Development Goals (SDGs) by promoting economic growth, sustainable industrialization and resilient infrastructure, particularly in line with Brunei's effort to diversify its economy and improve technology, accessibility and connectivity. With a commitment to delivering cost-effective, world-class solutions, Alif Technologies has expanded its reach internationally, operating a subsidiary in India. The company has a proven track record of providing ICT-related services to Fortune 500 companies, offering cutting-edge solutions in software development, workforce management, and high-end security.

Figure 1 2 2 ALIF TECHNOLOGIES SDN BHD



In alignment with the United Nations' Sustainable Development Goals (SDGs), Alif Technologies indirectly integrates several key SDGs into its operations through its innovative ICT solutions and commitment to ethical practices. **SDG 3: Good Health and Well-being**, **SDG 4: Quality Education**, **SDG 5: Gender Equality**, **SDG 6: Clean Water and Sanitation**, **SDG 7: Affordable and Clean**. The company primarily contributes to **SDG 9: Industry, Innovation, and Infrastructure** by developing resilient ICT systems and promoting sustainable industrialization through cutting-edge technologies like eGovernance and biometrics. Additionally, Alif Technologies supports **SDG 8: Decent Work and Economic Growth** by fostering economic development through job creation, workforce training, and technological advancements, which enhance productivity and inclusivity. The company's efforts in designing paperless solutions and efficient ICT infrastructure align with **SDG 12: Responsible Consumption and Production** by reducing environmental impact and promoting sustainable resource use. Moreover, Alif Technologies plays a pivotal role in strengthening institutions and promoting ethical governance (**SDG 16: Peace, Justice, and Strong Institutions**) through secure, transparent, and accountable digital systems. While not explicitly aligning with the SDGs, Alif Technologies exemplifies how organizations can embed sustainable development principles within their work ethics and operational frameworks, fostering a balance between economic, social, and environmental priorities.

Alif Technologies has achieved significant accomplishments since its establishment in 2002, solidifying its position as a leading ICT solutions provider in Brunei and beyond. The company has been instrumental in modernizing technological infrastructure through its innovative solutions, including eGovernance systems, biometrics, and paperless technologies, which have enhanced operational efficiency and digital transformation for its clients. Alif's commitment to providing cutting-edge solutions has not only strengthened the ICT landscape in Brunei but also expanded its reach to international markets through its subsidiary in India.

The company's dedication to ethical practices and sustainable innovation has bolstered its reputation as a key contributor to economic growth and technological advancement in the region. By integrating energy-efficient technologies and promoting responsible resource use, Alif Technologies exemplifies how businesses can balance economic progress with sustainability, positioning itself as a leader in both corporate responsibility and sustainable development.

While previous research on fraud prevention has primarily focused on the direct relationship between internal controls and fraud mitigation, often neglecting broader organizational strategies and ethical considerations, this research uniquely integrates organizational practices that align with Sustainable Development Goals (SDGs) and the effectiveness of internal controls. Unlike traditional studies that compartmentalize technical controls and ethical culture, this approach offers a holistic perspective by examining how values and practices reflecting SDG principles can enhance the overall effectiveness of fraud prevention measures (Treviño et al., 2006; Dorminey et al., 2012). This comprehensive approach not only aims to strengthen fraud prevention but also promotes sustainable and ethical organizational practices, providing a more nuanced understanding of the factors that influence fraud prevention in contemporary settings.

1.2 Research Problem Formulation

1. How do organizational practices and values that indirectly reflect Sustainable Development Goals (SDGs) influence fraud prevention within organizations?
2. To what extent do effective internal controls contribute to the prevention of fraudulent activities in organizations?
3. How do organizational practices aligned with SDG principles and the effectiveness of internal controls together influence fraud prevention within organizations?

4. What is the relative importance of implementing SDGs compared to effective internal controls in reducing fraud in organizations?

1.3 Research Objectives and Benefits

1.3.1 Research Objectives

1. To analyze the impact of organizational practices and values that align with Sustainable Development Goals (SDGs) on fraud prevention within organizations.

Objective: This objective seeks to explore how Alif Technologies' ethical work culture and operational practices, which align with SDG principles, contribute to creating an environment resistant to fraud. The focus will be on examining practices such as promoting inclusivity, sustainability, and accountability, which indirectly reflect SDGs like Quality Education (SDG 4) and Responsible Consumption and Production (SDG 12), to assess their role in mitigating fraudulent behavior.

2. To assess the effectiveness of internal controls in mitigating fraud within organizations.

Objective: This objective focuses on evaluating the design, implementation, and monitoring of internal control systems, such as segregation of duties, authorization protocols, and audit mechanisms. It seeks to identify which control measures are most effective in preventing, detecting, and deterring fraud, and how these measures can be enhanced to better safeguard organizational assets and integrity.

3. To investigate the interaction between organizational practices aligned with SDG principles and the effectiveness of internal controls in influencing fraud prevention.

Objective: This objective aims to determine how Alif Technologies' alignment with SDG principles, such as environmental sustainability and ethical governance, interacts with its internal control systems to enhance fraud prevention. The goal is to identify synergies between these elements and how their integration strengthens the organization's overall anti-fraud framework.

4. To evaluate the comparative effectiveness of organizational practices aligned with SDG principles versus effective internal controls in reducing fraud in organizations.

Objective: This objective analyzes the relative influence of Alif Technologies' work ethics and values reflecting SDG principles compared to its internal control systems in mitigating fraud risks. It will assess whether one approach is more impactful or if their combined application yields better outcomes in fraud prevention.

1.3.2 Research Benefits

Practical Benefits

1. Enhancing Organizational Fraud Prevention Strategies:

This research provides valuable insights into how organizational practices aligned with SDG principles and robust internal controls can strengthen fraud prevention strategies. For Alif Technologies, this could mean leveraging its existing ethical culture and operational practices to build a more resilient and fraud-resistant organizational environment.

2. Improving Internal Control Systems:

The findings will highlight how Alif Technologies can refine its internal controls to better detect and prevent fraudulent activities. By linking these controls with its ethical work culture and SDG-aligned practices, the company can enhance its fraud prevention mechanisms while maintaining operational efficiency and stakeholder trust.

3. Policy and Regulatory Implications:

This research could inform policymakers, regulators, and business leaders about the benefits of incorporating SDG-aligned practices and strong internal controls in fraud prevention strategies. For Alif Technologies, this means contributing to industry standards that emphasize ethical practices and sustainability without the need for formal SDG implementation.

4. Guiding Small and Medium Enterprises (SMEs):

The research provides actionable insights for SMEs like Alif Technologies, showing how they can effectively integrate ethical practices and robust internal controls to prevent fraud, even without formally adopting SDG frameworks.

Theoretical Benefits

1. Contributing to Academic Literature:

This research will add valuable knowledge to the academic field by exploring the interplay between sustainable development goals, internal controls, and fraud prevention. It will fill gaps in existing literature and provide a comprehensive framework for future studies on the integration of ethical practices, corporate governance, and fraud management. This contribution will be beneficial for researchers, academics, and practitioners interested in understanding the complex dynamics of organizational fraud prevention.

2. Understanding the Interaction between SDGs and Internal Controls:

By examining how organizational practices that reflect SDG principles interact with internal controls, this research helps organizations like Alif Technologies align these elements for optimal impact. This understanding is particularly useful for enhancing transparency, accountability, and governance, which are critical to fraud prevention

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

This study explored the relationship between Sustainable Development Goals (SDGs), internal controls, and fraud prevention at Alif Technologies. The findings reveal that while the company does not formally integrate SDGs into its policies, its operational practices and work ethics strongly align with several key SDGs. Alif Technologies demonstrates its commitment to ethical governance and sustainability through practices such as fostering inclusivity, promoting lifelong learning, and adopting sustainable resource management.

The company's alignment with SDGs 3, 4, 5, 6, 7, 8, 9, 12, and 16 reflects a holistic approach to creating a transparent and accountable organization. For instance, promoting gender equality (SDG 5) and inclusive hiring reduces workplace conflicts and builds trust, which discourages unethical practices. Similarly, digital transformation efforts, aligned with SDG 12, enhance operational efficiency and reduce the risk of document fraud. These initiatives contribute to a culture where fraud risks are minimized, and ethical behavior is reinforced.

The internal control framework at Alif Technologies plays a pivotal role in preventing fraud and maintaining operational integrity. Built on principles from Corporate Governance Theory, Fraud Triangle Theory, and Ethical Climate Theory, the company's controls include segregation of duties, regular audits, and employee training. These measures, paired with a culture of transparency and accountability, ensure that fraud risks are effectively managed while promoting trust among stakeholders.

Furthermore, the interplay between SDG-aligned practices and internal controls amplifies their effectiveness. For example, employee training initiatives tied to SDG 4 not only enhance professional skills but also raise awareness about fraud prevention. Similarly, sustainability initiatives improve transparency, reinforcing the company's governance framework. However, challenges such as resource constraints and the complexity of formal SDG adoption remain, underscoring the need for strategic planning and incremental implementation.

5.2 Conclusion

The findings of this study highlight how Alif Technologies successfully integrates sustainability and governance principles into its operations, creating a robust framework for fraud prevention. By aligning with SDGs informally and implementing strong internal controls, the company achieves a balance between ethical governance and operational efficiency.

SDG-aligned practices at Alif Technologies foster a work culture that emphasizes inclusivity, transparency, and accountability. These values are not only essential for ethical operations but also instrumental in reducing fraud risks. For instance, promoting workplace diversity (SDG 5) and ensuring ethical governance (SDG 16) create an environment where employees feel valued and motivated to act with integrity. Additionally, the adoption of sustainable practices, such as paperless workflows and resource optimization, reduces opportunities for fraud while contributing to broader sustainability goals.

The company's internal controls reinforce its commitment to ethical governance. Mechanisms such as layered approval processes and regular management reviews ensure that fraud risks are identified and mitigated. These practices align with principles from Fraud Deterrence Theory, emphasizing the importance of creating an environment where fraud is difficult to commit and easily detected.

While challenges such as cost implications and resource limitations pose barriers to formal SDG adoption, they also present opportunities for growth. Formalizing SDG practices could enhance Alif Technologies' reputation, strengthen stakeholder trust, and align with Brunei's **Wawasan 2035** vision. By strategically integrating these goals, the company could position itself as a leader in sustainable ICT solutions, demonstrating how SMEs can contribute meaningfully to global and national sustainability efforts.

5.3 Recommendation

For Alif Technologies, the path forward involves formalizing its alignment with SDG principles and enhancing its internal controls. To achieve this, the company could begin by conducting a sustainability audit to identify areas where it already excels, such as resource optimization and ethical governance. This audit could serve as a foundation for a phased strategy to formally integrate SDGs like SDG 12 (Responsible Consumption) and SDG 16 (Peace, Justice, and Strong Institutions). Partnerships with external organizations could provide the technical expertise and funding necessary to overcome resource constraints, ensuring a smooth transition toward formal SDG adoption.

Employee training should also be expanded to deepen awareness of fraud prevention and the relevance of SDGs to daily operations. By incorporating scenario-based learning and ethical decision-making workshops, Alif Technologies can empower employees to proactively address risks while fostering a culture of transparency and accountability. Furthermore, internal control policies should be regularly updated to address emerging risks and leverage advanced tools, such as data analytics, to enhance fraud detection capabilities.

Aligning with Brunei's **Wawasan 2035** vision represents a significant opportunity for Alif Technologies to position itself as a leader in sustainable ICT solutions. By emphasizing its commitment to innovation and sustainability, the company can attract international clients, secure funding, and strengthen its competitive edge.

For policymakers and industry stakeholders, encouraging SMEs to adopt SDG-aligned practices is essential. Financial incentives, such as grants or tax benefits, could alleviate the resource constraints that often hinder formal integration. Establishing knowledge-sharing platforms where SMEs can exchange best practices would also foster industry-wide collaboration, driving collective progress toward sustainability and ethical governance.

Future research should explore the comparative effectiveness of formal versus informal SDG practices in fraud prevention across different sectors. Additionally, examining the role of emerging technologies, such as AI and blockchain, in enhancing governance and sustainability could provide valuable insights for organizations like Alif Technologies.

5.4 Limitations

This study recognizes several limitations that could impact the generalizability of its results. First, the focus on a single organization limits the scope of analysis, making it difficult to apply the results to other industries or regions. Second, the qualitative nature of the research, while providing rich insights, does not capture quantitative measurements of the impact of SDG-aligned practices or internal controls on fraud prevention. Lastly, resource constraints restricted access to proprietary and financial data at Alif Technologies, which may have limited the depth of analysis in certain areas.

Despite these limitations, the findings provide a robust foundation for understanding the role of SDG-aligned practices and internal controls in fraud prevention, offering valuable insights for SMEs, policymakers, and researchers alike.

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