

# Legal Accountability in Cases of Financial Report Manipulation in Business Entities

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## ABSTRACT

Financial statement manipulation within the corporate environment is a crucial issue in the modern corporate legal system, impacting corporate integrity and market confidence. This study aims to analyze the forms and modes of financial statement manipulation in Indonesia and internationally, examine the application of fiduciary duty and good corporate governance (GCG) principles in preventing it, and explain the legal consequences and impact of manipulation on minority shareholders, investors, and other stakeholders. The research method used is normative with a legislative, conceptual, and case study approach. The results reveal various modes of manipulation such as revenue overstatement, understatement of liabilities, dummy transactions, and window dressing, which are detrimental to the economy and give rise to criminal, civil, and administrative legal consequences. The implementation of fiduciary duty and GCG has proven effective as a preventive measure to maintain transparency and accountability in financial statements. Financial statement manipulation not only harms investors and minority shareholders but also undermines corporate credibility and capital market stability. Therefore, strengthening internal oversight, audit committees, and strict law enforcement are essential to prevent manipulation practices and maintain public trust.

**Keywords:** Manipulation of financial reports, Fiduciary duty, Good corporate governance, Business entity management, Legal consequences.

## INTRODUCTION

In the modern corporate legal system, financial statements hold a vital position as the primary means of transparency, accountability, and protection of stakeholder interests. Honesty in financial statements is a manifestation of the principle of fiduciary duty, namely the obligation of directors and commissioners to act in good faith, with due care, and loyalty to the interests of the company. Furthermore, the application of good corporate governance (GCG) principles such as accountability, transparency, and responsibility is a key element in ensuring that financial statements are prepared fairly and reliably. Honesty in the preparation and presentation of financial statements is not only a moral obligation but also a legal obligation expressly stipulated in various laws and regulations, such as Law Number 40 of 2007 concerning Limited Liability Companies and Law Number 8 of 1995 concerning Capital Markets. Deviations from this principle of honesty, in the form of manipulation of financial

statements, not only have the potential to damage the integrity of the corporation itself but can also undermine the capital market order and public trust in the business world.

In recent years, various business entities have faced a surge in cases of financial report manipulation by their management, indicating weak internal oversight, non-compliance with fiduciary principles, and a failure to implement good corporate governance. This phenomenon not only results in significant economic losses but also has serious legal implications, including corporate criminal liability.

Various real-life examples can be found in a number of cases analyzed in the scientific journals referenced in this research. For example, in the case of PT Tiga Pilar Sejahtera Food Tbk (AISA), described by Tionardi (2022), significant overstatement of receivables was found, aimed at beautifying financial reports to maintain market confidence. In the case of PT Garuda Indonesia Tbk, a 2023 study identified the practice of premature revenue recognition, where the company recorded revenue before complying with generally accepted accounting principles, making the financial statements appear more profitable than they actually were. Meanwhile, the case of PT Asabri (Persero), according to Ritonga and Budhiawan (2024), revealed manipulation of investment value through setting share prices outside market fairness, resulting in massive financial losses and impacting the state.

These cases illustrate the crucial issue of financial statement manipulation in the context of corporate law within business entities. Such manipulation not only violates the civil law provisions on good faith in the Civil Code, but also potentially violates the criminal provisions of the Corruption Law and the Law on the Prevention and Eradication of Money Laundering.

Therefore, a thorough analysis of the legal liability of corporate managers for financial statement manipulation is crucial. This analysis is not only useful for understanding the legal consequences but also for encouraging the implementation of stricter accountability standards in the future. To provide a clear direction for this research, the following section will formulate several key issues that will be further explored in this paper.

Based on the background that has been described previously, the problems that will be studied in this paper can be formulated as follows: 1. What are the forms and modes of financial report manipulation carried out by business entity managers in Indonesia?, 2. How are the principles of fiduciary duty and good corporate governance applied in preventing financial report

manipulation in a business entity?, 3. What are the legal consequences and impacts of financial report manipulation on minority shareholders, investors, and other stakeholders?

The objectives of this research are: 1. To analyze the forms and modes of financial statement manipulation carried out by business entity managers in Indonesia and internationally. 2. To examine the application of the principles of fiduciary duty and good corporate governance in efforts to prevent financial statement manipulation in a business entity. 3. To explain the legal consequences and impact of financial statement manipulation on minority shareholders, investors, and other stakeholders.

## **METHODS**

This paper uses a normative legal research method. This research aims to examine applicable legal principles, norms, and regulations, as well as their application in practice, particularly regarding legal accountability for financial statement manipulation in Indonesia.

The approaches used include:

1. Statutory Approach Reviewing relevant laws and regulations, including Law Number 40 of 2007 concerning Limited Liability Companies, Law Number 8 of 1995 concerning Capital Markets, the Civil Code (KUHPperdata), the Criminal Code (KUHP), and regulations related to the prevention and eradication of corruption and money laundering.
2. Conceptual Approach Analyzes the concepts of fiduciary duty, good corporate governance, financial report manipulation, and corporate legal accountability.
3. Case Approach Examining concrete cases that have occurred, such as the cases of PT Tiga Pilar Sejahtera Food Tbk (AISA), PT Garuda Indonesia Tbk, and PT Asabri (Persero), based on data and analysis available in relevant scientific journals.

The sources of legal materials used consist of:

1. Primary legal materials, namely statutory regulations.
2. Secondary legal materials, namely books, journals, scientific articles and related documents.
3. Tertiary legal materials, namely legal dictionaries and legal encyclopedias.

The technique for collecting legal materials is carried out through library research, while the technique for analyzing legal materials is carried out in a descriptive-analytical manner, namely describing the legal materials obtained, then analyzing them systematically to answer the problem formulation that has been determined.

## **RESULTS AND DISCUSSION**

### **Forms and Modes of Financial Report Manipulation in the Business Environment.**

Financial statement manipulation is a serious form of corporate misconduct that significantly impacts a company's financial integrity and investor confidence. Various methods are used by corporate managers to manipulate financial statements, whether to meet profit targets, maintain share prices, or attract new investment. Understanding these forms of manipulation is crucial for detecting and preventing similar violations in the future.

One common method is revenue overstatement. Revenue overstatement is the act of overstating revenue in financial statements, often by recording fictitious transactions or recognizing revenue prematurely. The case of PT Garuda Indonesia Tbk is a concrete example, where the company prematurely recognized revenue from a collaboration with Mahata Aero Teknologi, even though payment had not yet been received according to accounting standards (Abdillah, Ludmilla, Ridwan, & Madewi, 2023).

Another method is understatement of liabilities, where management reduces the company's liabilities to make the balance sheet appear healthier. The case of PT Asabri (Persero) illustrates how the stock portfolio was improperly invested, resulting in the company's liabilities not being accurately reflected in the financial statements (Ritonga & Budhiawan, 2024).

Furthermore, dummy transactions, or fictitious transactions, are also frequently used, creating fake transactions with third parties to inflate revenue or asset figures. This practice was demonstrated in the case of PT Tiga Pilar Sejahtera Food Tbk (AISA), where the recording of accounts receivable was not fully supported by real transactions (Tionardi, 2022).

In an international context, the Enron Corporation case revealed the aggressive use of mark-to-market methods to record unrealized profits. Mark-to-market manipulation was carried out by valuing assets based on optimistic and unrealistic estimates of future market prices, thus creating the illusion of good financial performance (Healy & Palepu, 2003).

Equally important, the practice of window dressing, the manipulation of financial statements near the end of an accounting period, is also frequently found. At PT Asabri, investment reports were structured to conceal significant investment losses that should have been recognized in the annual report (Ritonga & Budhiawan, 2024).

Various methods of financial report manipulation are employed with the primary goal of illegitimately improving the appearance of financial performance. The cases above demonstrate that manipulation occurs not solely through a single technique, but often through a combination of several methods. Understanding these variations is crucial for building an effective internal control system.

In comparing the patterns and intensity of manipulation, it can be observed that in Indonesian cases such as AISA, Garuda Indonesia, and Asabri, the dominant methods are revenue overstatement and window dressing. Meanwhile, in foreign cases such as Enron, the manipulation is more complex with the use of special purpose entities and mark-to-market manipulation (Healy & Palepu, 2003). The intensity of manipulation in Indonesia tends to be related to the pressure to maintain financial performance amidst business competition and the need to maintain market confidence, while in foreign countries, additional motivations such as personal gain and more complex financial structure manipulation are also very prominent.

### **Application of the Principles of Fiduciary Duty and Good Corporate Governance in Preventing Manipulation of Financial Reports in a Business Entity**

The application of fiduciary duty and good corporate governance (GCG) principles is the main foundation for managing a company transparently, accountably, and responsibly. The application of these two principles is a crucial tool for preventing financial statement manipulation that could harm shareholders, investors, and other stakeholders.

*Fiduciary duty* refers to the legal and moral obligations of company management, especially directors and commissioners, to act in good faith, with due care (duty of care), and loyalty to the company's interests (duty of loyalty). In this context, the board of directors, as a company organ, has primary responsibility for managing the company and submitting financial reports, which must be carried out honestly and not misleadingly as part of its fiduciary obligations (Tionardi, 2022). In the context of financial reporting, fiduciary duty requires management to present financial reports honestly and accurately, conduct internal oversight of the financial reporting process, and reject practices that lead to manipulation or presentation of misleading

financial information. Failure to carry out fiduciary duty can result in legal liability, both civil and criminal, in accordance with the provisions of Law Number 40 of 2007 concerning Limited Liability Companies and the Civil Code.

Failure to fulfill fiduciary duties has been shown to be a major cause of the collapse of large companies like Enron. A study of Enron's downfall stated that directors had a fiduciary duty to protect the value of shareholders' investments, and failure to fulfill this obligation was a crucial factor in the company's collapse (Khan et al., 2023).

*Good Corporate Governance*(GCG) is a set of principles aimed at improving company performance through good governance. According to Hasan et al. (2023), the basic principles of GCG include transparency, accountability, responsibility, independence, fairness, protection of shareholder rights, fair treatment of all shareholders, the role of stakeholders, transparency of financial information, and accountability of the board of commissioners. These principles serve as guidelines for the preparation and presentation of reliable financial reports.

Furthermore, the implementation of GCG in the ASEAN region, including Indonesia, also refers to the ASEAN Corporate Governance Scorecard, which assesses five main components: shareholder ownership, righteous handling of shareholders, the role of stakeholders, disclosure and transparency, and board responsibilities (Hasan et al., 2023). GCG implementation aims to enable companies to build transparency, accountability, responsibility, independence, and fairness in every aspect of their operations. Effective GCG implementation has been proven to increase company competitiveness, strengthen relationships with stakeholders, and prevent corruption, collusion, and nepotism (KKN). This aligns with findings in the same journal, which explain that the implementation of good corporate governance can increase company value in the long term because stakeholders feel confident in the fairness and accountability of financial reports (Hasan et al., 2023).

Implementation of GCG to prevent financial report manipulation can be achieved through transparency in providing complete, clear, and timely financial information to all stakeholders, as well as accountability through a clear organizational structure, including the role of the board of commissioners and audit committee in overseeing financial reporting. Furthermore, the independence of internal and external auditors must be maintained to prevent interference, and strengthening internal controls is necessary to detect and prevent irregularities in the preparation of financial reports.

The case of PT Garuda Indonesia Tbk demonstrates the importance of implementing GCG, where weak oversight by the board of commissioners and suboptimal internal audit functions contributed to premature revenue recognition (Abdillah et al., 2023).

Thus, implementing the principles of fiduciary duty and good corporate governance is a crucial preventive measure in maintaining the integrity of a business entity's financial statements. By consistently fulfilling fiduciary duty and effectively implementing GCG principles, the risk of financial statement manipulation can be significantly reduced, while simultaneously strengthening investor and public confidence in the business world.

### **Legal Consequences and Impact of Financial Report Manipulation on Minority Shareholders, Investors, and Other Stakeholders.**

Financial statement manipulation is a serious form of irregularity that not only violates accounting and corporate governance principles but also has far-reaching legal consequences, as well as economic and social impacts on various stakeholders. In the context of a business entity, financial statements are not merely documentation tools but also representations of financial position and performance, which are used as a basis for decision-making by investors, creditors, and regulators.

From a legal perspective, the act of manipulating financial statements can give rise to criminal, civil, and administrative liability. Criminally, perpetrators can be prosecuted under the provisions of the Criminal Code (KUHP) and Law Number 8 of 1995 concerning Capital Markets. From an economic criminal law perspective, Utami and Yusuf (2024) explain that corporations can also be held criminally liable for actions taken by individuals acting on behalf of the company. As long as the elements of mens rea and actus reus are met, corporations as legal subjects can be subject to criminal sanctions. However, they also highlight that criminal law enforcement against corporations still faces challenges in Indonesia, primarily due to the lack of uniformity in the theory of liability and the weak effectiveness of law enforcement. One concrete case is the tax manipulation by PT AAG, which demonstrates how corporations can become perpetrators of criminal acts and be subject to legal sanctions if proven to have manipulated financial statements to avoid tax obligations. For example, Article 90 of the Capital Market Law states that any party who intentionally submits false or misleading reports may be subject to criminal sanctions. Market manipulation perpetrators, both individuals and groups, may be subject to three types of legal sanctions, namely administrative sanctions

(written warnings, fines, termination of business activities), criminal sanctions (Article 104 of the Capital Market Law), and civil sanctions in the form of an obligation to compensate the injured party (Nandayani & Mayasari, 2024). In addition, acts of manipulation can also be considered a criminal act of fraud (Article 378 of the Criminal Code) if they fulfill the elements of conveying false information that is detrimental to another party.

In the civil realm, minority shareholders and investors who are harmed by manipulated financial statements have the right to file a lawsuit for damages against the directors or commissioners, as stipulated in Articles 97 and 114 of the Limited Liability Company Law. In this context, Tionardi (2022) explains that in the case of PT AISA, the directors who overstated the financial statements acted beyond their authority (*ultra vires*) and violated their fiduciary duty. These actions are subject to liability under the doctrine of piercing the corporate veil and are subject to criminal penalties under Article 104 of the Capital Market Law, with imprisonment of up to 10 years and a maximum fine of 15 billion rupiah. Directors who negligently or intentionally engage in manipulative actions can be held personally liable for the losses incurred. This is in line with the principle of fiduciary duty, which binds company organs to act in the best interests of the company and its shareholders.

The impact of financial statement manipulation is not limited to legal aspects but also has systemic impacts on investor confidence and capital market stability. Minority shareholders are often the most disadvantaged because they lack direct control over the company's decision-making process. This is clearly illustrated in the E-Fishery case, where the company reportedly submitted an unrealistic annual profit report, while actually experiencing significant losses. This fraud was carried out to obtain funds from investors, and ultimately, investors bore the greatest losses due to the exposure of this practice (Alexander et al., 2025). According to Ritonga and Budhiawan (2024), financial statement fraud refers to actions taken by management in presenting financial statements in a manner that is inaccurate, significantly affecting investors and creditors. In their research, Ritonga and Budhiawan (2024) revealed that the PT Asabri case demonstrates how changes to financial statement data were used to cover up losses and create illegal profits, which constitutes a form of abuse of power for personal gain. Drastic stock price declines, asset liquidation, and even bankruptcy are potential consequences if the financial information presented does not reflect the company's true condition. In the case of PT Asabri, financial statement manipulation not only caused state losses but was also closely linked to money laundering. The shares manipulated by the

perpetrators were then retraded to create the impression of liquidity and high value, demonstrating how financial manipulation can be used as a means of money laundering in the capital market (Ritonga & Budhiawan, 2024). This crime is specifically regulated in Law Number 8 of 2010 concerning the Prevention and Eradication of Money Laundering, which stipulates criminal sanctions for anyone who knows or reasonably suspects that assets originate from criminal proceeds and continues to transact with them.

Furthermore, manipulation practices can also undermine a company's credibility in the eyes of business partners, financial institutions, and regulators. A tarnished reputation makes it difficult to access external funding, lowers credit ratings, and ultimately impacts business continuity. Such practices also have dire consequences for the accounting profession, with auditors involved found to have violated ethics by recording company profits up to seven times higher than the actual financial figures, creating a crisis of confidence in the profession, as explained by Ritonga and Budhiawan (2024).

In the long term, manipulative practices can create market distortions and reduce economic efficiency. Therefore, strengthening internal oversight mechanisms, an active role for audit committees, and imposing strict legal sanctions are crucial elements in preventing and addressing financial statement manipulation practices within businesses. Financial statement fraud has even been called the most damaging type of fraud globally, as the losses incurred exceed those of corruption or asset embezzlement, according to the ACFE report (Alexander et al., 2025).

## **CONCLUSION**

Financial statement manipulation is a serious violation that not only undermines the integrity of a company's reporting system but also has legal consequences and widespread losses for investors, minority shareholders, and various other stakeholders. Based on the discussion in this paper, it can be concluded that forms and methods of financial statement manipulation, such as revenue overstatement, profit inflation, and asset manipulation, are real practices that have significantly impacted public trust and market stability.

Under Indonesian law, financial statement manipulation is subject to criminal, civil, and administrative liability. Legal instruments such as the Criminal Code, Law No. 8 of 1995 concerning Capital Markets, Law No. 40 of 2007 concerning Limited Liability Companies, and Law No. 8 of 2010 concerning Money Laundering serve as the basis for prosecuting

perpetrators. Legal liability applies not only to individual perpetrators but also to corporations as legal subjects based on the principle of corporate criminal liability.

Various cases, such as those involving Garuda Indonesia, PT AISA, and PT Asabri, demonstrate that financial statement manipulation is not merely a theoretical issue but a real occurrence within Indonesian businesses. These cases demonstrate weak internal oversight, violations of fiduciary duty principles, and the minimal deterrent effect of existing legal sanctions. Furthermore, the impact of financial statement manipulation not only results in financial losses but also triggers further criminal activity, such as money laundering.

Therefore, there is a need to strengthen the oversight system and make it more effective, including reinforcing the role of supervisory authorities such as the Financial Services Authority (OJK) and independent auditors. Instilling the values of integrity and accountability in all company organs, particularly directors and commissioners, is crucial to preventing the recurrence of financial statement manipulation. This will ensure legal protection for investors and the stability of the national financial system.

## **SUGGESTION**

As a preventative and corrective measure against financial statement manipulation practices, comprehensive strengthening of legal mechanisms and corporate governance is necessary. The government, along with supervisory authorities such as the Financial Services Authority (OJK), must ensure stricter law enforcement against perpetrators of manipulation, both individuals and corporations. Regulatory strengthening must be accompanied by improvements in companies' internal oversight capacity, including more independent and transparent internal audits.

Companies must also strengthen a culture of integrity and accountability by providing regular education to all levels of management on the importance of fiduciary duty and good corporate governance (GCG) principles. Furthermore, legal protection mechanisms for investors and minority shareholders must be clarified and consistently enforced to maintain public trust in the capital markets and corporate sector.

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