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Business Ethics Violations in Accounting Practices: a Case Study of Financial Statement Manipulation at PT Garuda Indonesia

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***Abstract**. This study examines the breach of business ethics in accounting practices in the case of PT Garuda Indonesia, where the company manipulated its financial statements for the 2018 fiscal year. The manipulation involved recognizing unrealized revenue, which contravened generally accepted accounting principles and financial reporting standards applied by the Financial Accounting Standards (SAK) in Indonesia. This research explores the impact of these manipulative actions on the company's integrity, stakeholder trust, and market reputation. Additionally, the study discusses the business ethics principles violated in this case, such as integrity, transparency, and professional responsibility, while proposing recommendations to improve accounting practices and ethical oversight in corporate financial reporting. The findings of this research are expected to provide insights for other companies in implementing high ethical standards and preventing similar violations in the future*

***Keywords** : Business Ethics, Accounting Practices, Financial Statements.*

1. INTRODUCTION

The development of technology has undergone significant transformation over time, starting with the invention of the steam engine introduced by James Watt in the late 18th century. This was one of the major innovations that marked the Industrial Revolution (Andriyana and Trisnaningsih 2022). As time progressed, technology continued to rapidly evolve with new discoveries such as electricity, the telephone, computers, and the internet, further accelerating global communication and information access.

However, alongside the great benefits brought by technology, negative impacts have emerged, including changes in human thinking and behavior. The advancement of information and communication technology has created opportunities for fraudulent practices, such as data manipulation, the spread of false information, and cybercrime. In the world of business and accounting, technology has facilitated the processing and manipulation of financial data, enabling individuals or companies to commit fraud for short-term financial gain (Oktaviana Dewi et al. 2023). Therefore, the application of ethical behavior is crucial in accounting practices

Ethical accounting practices are a vital foundation for maintaining the integrity and transparency of corporate financial reports (Stanwick and Stanwick 2020). In the context of increasingly complex capital markets, ethical behavior in accounting becomes critical to ensure stakeholder trust and market stability. However, violations of accounting ethics principles can have significant impacts on a company's reputation, investor confidence, and financial market stability. The case of financial

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statement manipulation at PT Garuda Indonesia is a concrete example of the serious implications of unethical behavior in accounting.

In 2019, PT Garuda Indonesia was involved in a serious controversy related to financial statement manipulation. This manipulation was carried out by recognizing revenue from transactions that had not yet been fully realized, which violated the applicable accounting standards (Andriyana and Trisnaningsih 2022). The case attracted public and regulatory attention as it revealed non-compliance with accounting ethics principles and its impact on various stakeholders. This case underscores the importance of ethical behavior in accounting and identifies the risks associated with non-compliance with accounting standards.

This study aims to analyze how ethical violations affect accounting practices at PT Garuda Indonesia, focusing on financial statement manipulation, assessing the impact of ethical violations on the company's reputation and stakeholder trust, identifying corrective actions that can be taken to address ethical violations and prevent similar incidents in the future, and providing recommendations to companies and regulators on how to improve compliance with accounting ethics principles.

This research will make an important contribution to the accounting literature by offering a concrete case study of ethical violations. The findings from this study are expected to provide guidance for academics, practitioners, and policymakers in understanding the ethical implications of accounting fraud and applying better accounting practices in the future.

2. LITERATURE REVIEW

Theory Stakeholder

This theory was introduced by R. Edward Freeman. He introduced and popularized this concept through his book titled *"Strategic Management: A Stakeholder Approach,"* published in 1984. Freeman argued that companies have responsibilities to various stakeholders, including shareholders, employees, customers, suppliers, the community, and the government (Freeman and McVea 2005). The focus is on how companies manage their relationships with these stakeholders to create long-term value.

The relevance of this theory to the case of Garuda Indonesia is that by manipulating financial reports, Garuda Indonesia disregarded its responsibilities to stakeholders. This theory can be used to assess the impact of such actions on stakeholder trust, the company's reputation, and its long-term stability.

Theory Utilitarianism

Bentham was an English philosopher who first systematically developed the theory of utilitarianism in his book "An Introduction to the Principles of Morals and Legislation" (1789). Later, Mill, an English philosopher and economist, further developed and modified Bentham's utilitarianism.

In his book "Utilitarianism" (1863), the theory focuses on the consequences of actions, with the main principle being that the right action is the one that produces "the greatest happiness for the greatest number" (Mill, 2017) di dalam (Ridwansyah, 2024).

In relevance to the Garuda Indonesia case from a utilitarian perspective, the manipulation of Garuda Indonesia's financial statements caused significant losses to many stakeholders, including investors and the public, who rely on honest financial information. This action decreased the happiness and well-being of many people, and is therefore considered unethical.

Ethics Business

The concept of business ethics involves two elements: "ethics," which focuses on the standards and rules that guide individuals to act in ways that are morally valued by society. Ethics involves critical reflection on how one should act in various situations, considering the consequences of those actions and the moral obligations one has toward others (Nurhalim, 2023). Then, "business" refers to the context in which these ethical principles are applied to ensure that economic activities are conducted in a responsible and fair manner (C.H Pingkan &Trisnaningsih, 2024). Business ethics is the application of ethical principles within the business context. It involves decision-making that considers the moral impact of business actions on various stakeholders, including employees, customers, suppliers, investors, and the wider community.

The principles of business ethics in financial accounting include integrity, objectivity, compliance with accounting standards, transparency, professional responsibility, and honesty in reporting (Perkasa & Paramadina, 2024). Business ethics aims to build and maintain trust between a company and its stakeholders. By practicing good ethics, companies can enhance their reputation as reliable and trustworthy organizations. Business ethics also aims to ensure the well-being of employees and other stakeholders by treating them fairly and with respect. This includes ensuring safe working conditions, fair wages, and avoiding discrimination or harassment (Surajiyo, 2023).

Companies that implement strong business ethics tend to create a positive work environment where employees feel valued and treated fairly. This can increase motivation, job satisfaction, and employee loyalty, which in turn can boost productivity and reduce turnover.

Accounting Practies

Accounting practices encompass various procedures, policies, and principles used to record, analyze, and report a company's financial information (Hermanto, 2021). These practices aim to provide relevant, reliable, and understandable information to stakeholders such as management, investors, creditors, and regulators. In recent decades, accounting practices have rapidly evolved due to changes in regulations, technology, and the globalization of financial markets.

This literature review will discuss several key aspects of accounting practices, including accounting standards, financial reporting practices, and the influence of technological advancements.

Report finance

Financial statements, according to PSAK, are prepared based on generally accepted accounting principles to ensure that the information presented is relevant, reliable, and comparable. According to research by Khikmah et al. (2024), financial reporting is an essential part of accounting practices that involves the preparation of financial statements such as the balance sheet, income statement, cash flow statement, and notes to the financial statements. Financial reporting practices not only reflect the company's financial performance but also provide information about its financial health and potential risks.

The requirements of good financial statements are characteristics that ensure the information presented is useful for decision-makers. According to accounting standards, especially in PSAK and international accounting frameworks like the IASB (International Accounting Standards Board), these requirements include:

a. Relevance
b. Reliability
c. Comparability
d. Understandability

e. Fair Presentation

(Khikmah et al., 2024)

3. METHODS

This research is a case study utilizing secondary literature observation, such as academic books, scientific articles, and other relevant publications (Zuniawan, et.al, 2020). The researcher uses various academic databases, including Google Scholar, Scopus, and Springer, to find relevant and up-to-date literature. This study employs a non-empirical qualitative approach, where the data analyzed comes from literature reviews relevant to the research topic.

4. RESULTS AND DISCUSSION

The Process and Parties Involved in the Financial Report Manipulation of PT Garuda Indonesia

In 2019, PT Garuda Indonesia, Indonesia's state-owned airline, was found to have manipulated its 2018 financial statements. This discovery emerged after the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) conducted an in-depth audit and examination of the company's financial statements.

The manipulation involved PT Garuda Indonesia recognizing revenue of USD 239 million from a contract with PT Mahata Aero Teknologi, which was not yet appropriate for recognition according to Financial Accounting Standards (SAK). This contract was related to a partnership for the installation of in-flight WiFi services on Garuda flights.

At that time, Ari Askhara served as the CEO of PT Garuda Indonesia. As CEO, Ari Askhara was responsible for the overall operations of the company, including financial reporting. His involvement in the financial statement manipulation was indicated by the authorities as the manipulated financial report was signed by him. Another party involved was Fuad Rizal, who held the position of Chief Financial Officer (CFO). As CFO, Fuad Rizal was directly responsible for the accuracy and integrity of the company's financial statements. He also signed the manipulated financial statements, indicating that he at least approved or was aware of the improper revenue recognition. Additionally, some other members of the board of directors may have played a role in approving the manipulated financial statements, considering that this decision likely required collective approval or at least awareness from several members of the board of directors.

The method used by PT Garuda Indonesia to manipulate its financial statements involved recognizing the revenue as income for 2018, even though payments related to the contract had not been received and did not meet the revenue recognition criteria under applicable accounting standards (PSAK). This revenue should not have been recognized as it did not meet the criteria, such as uncertainty regarding payment. As a result of the manipulation, by including revenue that should not have been recognized, PT Garuda Indonesia reported a net profit of USD 809,000 for 2018. Without the improper revenue recognition, in reality, PT Garuda Indonesia would have posted a loss of approximately USD 175 million.

The incident was revealed when the Financial Services Authority (OJK) and the Stock Exchange Indonesia (BEI) find irregularities in financial statements PT Garuda Indonesia after conducting an in-depth audit and investigation.

They concluded that Garuda Indonesia has violate rule accountancy with confess income Which speckle realized. As for the sanctions and actions from the regulator that must be carried out by PT Garuda Indonesia is a Fine Sanction, OJK and BEI imposes fine on Garuda Indonesia and two directors responsible for financial reporting, namely Director Principal and Finance Director. Then OJK and BEI require the company revise the 2018 financial statements to comply with applicable accounting standards. This revision requires companies to delete revenue recognition Which No legitimate, which ultimately shows the actual loss.

Finally, the Dismissal was carried out Directors in the Extraordinary General Meeting of Shareholders (EGMS), several members directors, including Ari Ashara as Director Main and Fuad Rizal as Director Finance, dismissed from his position due to involvement they are in scandal This. From the problem above, if seen from the principles of business ethics in financial accounting, there are amount principle Which violated that is:

1. **Integrity**

   Violation : Manipulation of financial reports shows a lack of honesty and transparency in presenting actual financial conditions to stakeholders interest, including investors And regulator.

2. **Objectivity**

   Violation : The decision to recognize revenue that did not meet the revenue recognition criteria indicates bias and a potential conflict of interest in financial reporting. In the case of Garuda Indonesia, the decision to recognize unrealized revenue shows a deliberate bias to present better financial results than the reality. This indicates that objectivity in the preparation of financial statements was not maintained.

3. **Compliance with Standard Accountancy**

   Violation : This violation involves non-compliance with Accounting Standards. Finance (SAK), designed to ensure fair financial reporting, transparent, And can reliable.

4. **Transparency**

   Violation : Transparency require accountant For provide information clear, accurate and complete to stakeholders. Report manipulation finance with method confess income Which Not yet accepted create report Which No transparent, misleading investors And stakeholders interest other about condition finance Which Actually.

5. **Professional Responsibility**

   Violation : The principle of professional responsibility demands that accountants act in a manner that not only complies with the law but also enhances the reputation of the accounting profession. In the case of Garuda Indonesia, the violation of professional responsibility occurred because the decision to manipulate financial statements undermined trust in financial reporting and the accounting profession in general.

6. **Honesty in Reporting**

   Violation : This principle requires accountants to report financial information honestly without falsifying or concealing important information that may affect stakeholders' decisions. The improper recognition of revenue is a form of dishonesty because it presents incorrect information about the company's financial condition.

Impact Faced by PT Garuda Indonesia

The impacts of the scandal include Reputation Loss. This scandal severely damaged investor and market confidence in Garuda Indonesia. Public trust, along with that of other stakeholders, drastically decreased, affecting business relationships and future revenue potential. Another impact is Financial or Performance Loss**.** The actual losses should have been recognized in the financial statements, further worsening the company's financial situation and potentially affecting stock prices and liquidity. Lastly, there are Regulatory Impacts, as stricter oversight will likely be imposed. This case has triggered increased monitoring and regulations in the financial sector, particularly for public companies, to prevent similar incidents in the future.

Remedial Steps to Address Ethical Violations

For overcome violation ethics like Which happen on case PT Garuda Indonesia, steps repair Which must taken by company can shared into several main categories: improving corporate governance, strengthening corporate culture ethics, improving procedures and policies, and increasing transparency and accountability. As for exposure the explanation as following:

a. **Enchancing Corporate Governance :** Replacing or recruiting board members and management with individuals who have a proven track record and high integrity is essential to ensure the company is led by those committed to upholding high ethical standards.
b. **Strengthening Ethical Culture : Reporting and Whistleblowing Culture,** Creating a safe environment for employees to report ethical violations without fear of retaliation is crucial. Providing confidential reporting channels and ensuring that reports are handled fairly and transparently is important (Fatmawati & Hidayah, 2024).
c. **Improving Procedures and Policies :** A thorough review of the company's accounting policies and practices should be conducted to ensure compliance with the Financial Accounting Standards (SAK) and other regulations. This includes improving revenue recognition procedures and other financial controls to prevent future manipulation.
d. **Increasing Transparency And Accountability** , through:
   i. **More Frequent and Independen External Audits**
      Ensuring that external audits are conducted regularly and by truly independent parties is necessary to verify the accuracy of financial statements and prevent manipulation or non-compliance with accounting standards.
   ii. **Transparent Financial Reporting**
      Preparing financial reports with full transparency, reflecting the true financial condition without distortion or manipulation, and ensuring that these reports

adhere to generally accepted accounting principles and meet international reporting standards.

e. Implementation Sanctions And Incentive

i. Strict Sanctions For Ethical Violation

Implementing clear and firm sanctions for any ethical violations, including those related to financial reporting. Sanctions may include dismissal, demotion, or legal action, depending on the severity of the violation.

ii. Incentive For Behavior Ethical

Creating incentives to encourage ethical behavior, such as recognizing employees who demonstrate integrity and adherence to high ethical standards, or providing bonuses tied to compliance and contributions to good governance.

The recommended steps aim to address the ethical violations that occurred at PT Garuda Indonesia and prevent similar incidents in the future. By improving corporate governance, strengthening ethical culture, refining procedures and policies, and enhancing transparency and accountability, PT Garuda Indonesia can rebuild stakeholder trust and restore its reputation as a responsible and highly ethical company.

5. CONCLUSION

The 2019 financial statement manipulation scandal at PT Garuda Indonesia represents a severe breach of business ethics and accounting standards. This study found that Garuda Indonesia's management actions to recognize unrealized revenue in the 2018 financial statements not only violated applicable accounting regulations (PSAK) but also undermined the integrity, objectivity, and transparency that should be the foundation of business ethics. To prevent similar ethical violations in the future, it is recommended that the company strengthen its corporate governance, implement comprehensive ethics training programs, reinforce internal controls, and ensure full transparency in financial reporting. The role of regulators is also critical in enforcing rules and maintaining the integrity of financial markets.

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