



Foundation Controversy as a Tool for Misuse of Loopholes Funds in Foundation Settings in Indonesia

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ABSTRACT

This study analyses the use of foundations as mechanisms for financial diversion and highlights the legal shortcomings in the regulation of foundations in Indonesia, leading to insufficient oversight and public accountability. Recent incidents, including the Aksi Cepat Tanggap Foundation (ACT) and the PPATK's disclosures regarding 176 philanthropic institutions, suggest that certain foundations function as front organisations to conceal or misdirect funds from unclear sources. This study utilises a normative juridical methodology, employing statutory, conceptual, and case approaches. It focusses on examining Law Number 28 of 2004 concerning Foundations, its derivative laws, and the management practices of social funds in charitable organisations. The findings of the study reveal that foundation supervision in Indonesia is insufficient, as the supervisory body provides guidance without audit authority, and external oversight by the Ministry of Law and Human Rights and the Ministry of Social Affairs is restricted to administrative functions lacking substantive audits. Agency fragmentation, insufficient consequences, and the lack of public disclosure requirements increase the likelihood of legal form misuse. The supervisory system necessitates reform via the alteration of foundational rules, the implementation of digital public audits, and the strengthening of fiduciary obligations and good governance principles within positive law. This research highlights the necessity of integrating legal standards with social norms to establish governance defined by transparency, accountability, and integrity, thereby restoring public trust in non-profit organisations in Indonesia.

Keywords: Foundation, Misuse of Funds, Legal Loopholes, Supervision, Fiduciary Duty, Good Governance.

ABSTRAK

Penelitian ini menganalisis fenomena penyalahgunaan yayasan sebagai alat pengalihan dana (fund diversion vehicle) dan mengidentifikasi celah hukum (loopholes) dalam pengaturan yayasan di Indonesia yang menyebabkan lemahnya mekanisme pengawasan serta akuntabilitas publik. Dalam beberapa tahun terakhir, berbagai kasus seperti Yayasan Aksi Cepat Tanggap (ACT) dan temuan PPATK terhadap 176 lembaga filantropi menunjukkan bahwa banyak yayasan berfungsi sebagai front organization untuk menyamarkan atau mengalihkan dana dari sumber yang tidak jelas. Penelitian ini menggunakan metode yuridis normatif dengan pendekatan statute, conceptual, dan case

approach, berfokus pada analisis Undang-Undang Nomor 28 Tahun 2004 tentang Yayasan, peraturan turunannya, serta praktik pengelolaan dana sosial di lembaga filantropi. Hasil penelitian menunjukkan bahwa pengawasan yayasan di Indonesia masih lemah karena organ pengawas hanya berperan memberikan nasihat tanpa kewenangan audit, sementara pengawasan eksternal oleh Kemenkumham dan Kemensos bersifat administratif tanpa audit substantif. Fragmentasi antarinstansi, ketiadaan sanksi tegas, dan absennya kewajiban keterbukaan publik memperbesar risiko abuse of legal form. Reformulasi sistem pengawasan diperlukan melalui revisi regulasi yayasan, penerapan audit publik berbasis digital, dan penguatan prinsip fiduciary duty serta good governance dalam hukum positif. Penelitian ini menegaskan bahwa integrasi antara norma hukum dan norma sosial menjadi kunci dalam membangun tata kelola yayasan yang transparan, akuntabel, dan berintegritas, guna memulihkan kepercayaan publik terhadap lembaga nirlaba di Indonesia.

Kata kunci: Yayasan, Penyalahgunaan Dana, Loopholes Hukum, Pengawasan, Fiduciary Duty, Good Governance

INTRODUCTION

In recent years, there have been several cases of foundation misuse in Indonesia. These examples involve the repurposing of non-profit institutions into mechanisms for fund diversion by the foundation's founders, management, or persons who have access to the foundation's financial assets (Jenniviera et al., 2023). Institutions intended to embody social service and charity are frequently exploited as mechanisms for money laundering, tax evasion, and the allocation of funding to illicit activities that contravene their foundational objectives. This tendency indicates a transition from social idealism to economic and power motivations, resulting in the foundation's loss of its essence as a non-profit organisation dedicated to public, social, religious, and humanitarian purposes (Aulia & Istyawan, 2025).

A notable case is the purported misappropriation of community funding by the Aksi Cepat Tanggap Foundation (ACT) in 2022. This case reveals that the handling of public finances in philanthropic institutions in Indonesia significantly deviates from the standards of transparency and accountability (*These are the Facts of the ACT Case's Journey to Higher Officials Becoming Suspects | Tempo.Co*, n.d.). According to a report by the Financial Transaction Reporting and Analysis Centre (PPATK), in addition to ACT, there are 176 other philanthropic organisations suspected of misappropriating public donation funds in a comparable manner, specifically by collecting public funds without proper distribution or diverting them to private entities without transparency (*PPATK Finds 176 ACT-Like Philanthropic Foundations That Misappropriated Donation Money | tempo.co*, 2022). PPATK subsequently forwarded the data concerning these institutions to the Criminal Investigation Branch of the National Police for further inquiry, while also collaborating with the Ministry of Social Affairs of the Republic of Indonesia (Kemensos) to establish a task force responsible for tracking the institutions that collect monetary and material contributions (PUB) and enhancing the implementation of accountability principles and governance of social funds

(PPATK: *Not Only ACT, 176 Philanthropic Institutions Suspected of Misappropriating Funds*, n.d.)

Irregularities are not exclusive to the charity sector; they also manifest in the administration of religious donations at the provincial level. The audit conducted by the Audit Board of the Financial Audit Agency (BPK) on religious grant monies in Tasikmalaya Regency indicated that some grant recipient institutions failed to submit proper accountability reports regarding the utilisation of funds. There are evidence that grant monies are allocated to institutions that are either inactive or nonexistent. The findings reveal a deficient administrative verification system and lack of responsibility among grant beneficiaries, alongside highlighting deficiencies in the local government's supervision mechanisms for religious groups structured as foundations (Media, 2025).

The legal framework governing foundations in Indonesia is articulated in Law Number 28 of 2004, which amends Law Number 16 of 2001. This legislation normatively delineates the fundamental principles of foundation management, emphasising non-profit orientation, transparency, and accountability as outlined in Articles 5, 7, and 52. However, in fact, these provisions are frequently not executed consistently. Numerous foundations engage in commercial activities via business organisations without sufficient oversight from the foundation's governing bodies, specifically trustees, administrators, and supervisors. The organisational structure of a foundation frequently serves merely as a formality, with a particular individual exercising authority over assets and financial choices. The situation is aggravated by inadequate external oversight from the Ministry of Law and Human Rights, along with technical agencies like the Ministry of Religion and the Ministry of Social Affairs, which have prioritised administrative functions (endorsement and reporting) over substantive audits of the foundation's financial performance and activities.

The external oversight of foundations in Indonesia has structural deficiencies, as the supervisory bodies established by the Foundation Law are limited to advisory roles and lack an effective control mechanism to prevent potential misappropriation of foundation funds. This state renders supervision more passive and formalistic, so inhibiting its capacity to identify or avert improper practices at the operational level. In practice, numerous foundations engage in business activities or obtain funding without sufficient accountability reports, and there exists a conflict of interest between trustees and administrators who exploit legal loopholes for personal gain. Consequently, the implementation of fiduciary duty and sound governance principles, encompassing transparency, accountability, independence, and ethical responsibility of management, serves as the legal and ethical framework for the effective management of a robust foundation. The implementation of these principles is regarded as a preventive measure against the misuse of power and enhances the foundation's governance to align with its social aims (Yasin, 2023).

The aforementioned description indicates the existence of legal loopholes in the regulation of foundations in Indonesia, particularly with oversight procedures,

limitations on corporate operations, and financial transparency. The loophole enables foundations to be exploited as instruments for the misappropriation of cash under the guise of social or religious activities. A thorough and critical legal analysis is required to pinpoint deficiencies in foundation regulation and propose a model of supervisory reform that is responsive to the evolution of contemporary charitable practices. This research is urgent not just academically but also practically, as it pertains to maintaining public faith in social institutions and enhancing the credibility of national law in overseeing the charitable sector and non-profit organisations in Indonesia.

Problem formulation: (1) What are the manifestations of foundation misuse as a mechanism for money diversion in Indonesia, and what circumstances facilitate this occurrence? How do the legislative loopholes in the regulation of foundations in Indonesia result in inadequate supervisory procedures, and how may the regulations be restructured to avert future misuse of funds?

METHODS

This study employs a normative legal research methodology to analyse the positive legislative standards regulating foundations and the deficiencies in their application within the supervision and management of non-profit institutions in Indonesia. This research is doctrinal, analysing the principles, norms, and legal doctrines using a legislative approach, a conceptual approach, and a case law method (Ali, 2021). The case approach is employed to investigate the misappropriation of funds, exemplified by the Aksi Cepat Tanggap Foundation (ACT), the findings of PPATK regarding 176 philanthropic institutions (2022), and the outcomes of the BPK audit on religious grants in Tasikmalaya (2025), serving as the foundation for an empirical analysis of deficiencies in Foundation Regulations.

The sources of legal materials comprise primary legal materials (Law No. 28 of 2004 regarding Foundations, Government Regulation No. 63 of 2008, and regulations pertaining to the reporting of non-profit institutions), secondary legal materials (scholarly literature, legal journals, and articles such as Muhammad Yasin in Hukumonline, 2023), and tertiary legal materials (legal dictionaries and encyclopaedias). The compilation of legal information is conducted via a literature review, examining rules, reports from state organisations (PPATK, BPK), and pertinent academic sources to get a thorough grasp of the foundation's oversight and accountability mechanisms. The examination of legal materials is conducted in a descriptive-analytical and interpretive-critical approach to delineate objective conditions and evaluate the efficacy of current arrangements (Amirudin & Zainal Asikin, 2004). This research utilises the theory of fiduciary responsibility and good governance as the primary analytical framework to develop a model of supervision grounded in transparency, accountability, and integrity, aimed at preventing the abuse of power and enhancing public trust in philanthropic institutions in Indonesia.

RESULTS AND DISCUSSION

Abuse of Foundations as Instruments of Fund Diversion: Forms, Modes, and Causal Factors in Indonesia

The misuse of foundations in Indonesia has developed into a systemic issue that obscures the distinction between social activity and personal interests. Numerous foundations have ceased to operate only as non-profit entities, instead functioning as front organisations or legal vessels to conceal, obfuscate, and redirect monies from ambiguous origins (*Legal Protection for Foundations Against Misuse of Social Donations by Recipients | Legal Bridge: Study of Law, Social and State Administration*, n.d.). This issue is seen in the emergence of philanthropic institutions that gather public funds without formal authorisation, utilise personal accounts for gift collection, and allocate social monies to corporate firms owned by administrators or related persons (Kristianti, 2021). Commonly observed modes of abuse include: (a) soliciting public donations without the requisite Collection of Money or Goods (PUB) permit; (b) utilising the Foundation's account for personal transactions; (c) transferring funds to business entities owned by management; (d) inflating costs associated with social activities; and (e) employing foundation structures for tax evasion and money laundering (Ghozali & Faridah, 2023).

The 2022 case of the Aksi Cepat Tanggap Foundation (ACT) established a significant precedent, illuminating the complexities surrounding the misappropriation of donor cash within philanthropic organisations. According to a report from the Financial Transaction Reporting and Analysis Centre (PPATK), in addition to ACT, there are 176 other charity organisations accused of misappropriating public monies in a comparable manner. The prevailing trend is consistent: public monies allocated for social objectives are misappropriated for extravagant operational expenditures, substantial honorariums, or endeavours beyond the foundation's scope (Khairunnisa et al., 2024). This affirms that abnormalities are not isolated occurrences, but rather systemic manifestations resulting from inadequate governance, insufficient internal oversight, and the lack of a transparent public audit mechanism.

The deficiencies in foundation governance in Indonesia arise from a multitude of interconnected structural and institutional problems that undermine the supervisory system. Firstly, Law Number 28 of 2004 regarding Foundations does not confer substantial authority to supervisory bodies to execute financial control functions efficiently (Brahmantya, 2021). The supervisor role serves solely as an administrative counsellor to the trustees and administrators, lacking the legal authority to perform audits or apply penalties for infractions. The role of internal oversight is predominantly symbolic rather than substantive, hence creating a significant opportunity for the misappropriation of foundation assets. Secondly, external oversight by the Ministry of Law and Human Rights and the Ministry of Social Affairs remains confined to administrative matters, including the ratification of the establishment deed and the issuance of a permit for the Collection of Money or Goods (PUB), lacking a substantive auditing mechanism for cash flows, funding sources, and the financial utilisation of foundations. This circumstance engenders

a vacuum of accountability, when governmental entities assume a formal role yet fail to address the fundamental issues of the institution's financial integrity. Third, there is a discernible duality between social and business functions, since numerous foundations establish company organisations to facilitate operational activities yet do not adequately segregate social and commercial finances. This duality leads to fund diversion, wherein the profits of the business entity are appropriated for the personal gain of management or are classified as "operational costs" that remain unaccounted for.

Fourth, there exist conflicts of interest or internal conflicts among the supervisory bodies, administrators, and supervisors. In practice, a human frequently holds multiple structural positions or has familial connections to other entities. This leads to the notion of checks and balances being ineffective, as oversight is conducted by parties who are either hierarchically or personally dependent (Kariem, 2021). The lack of public transparency exacerbates the situation. The majority of foundations do not publicly disclose activities and financial reports, so depriving the public of the ability to exert social oversight. The Audit Board's findings corroborate this—numerous regional grantee foundations neglect to produce authentic accountability reports, and even fabricated grant recipients are discovered to lack operational activity. These deficiencies collectively indicate the presence of vulnerabilities in the foundation's legal framework, which facilitates the misuse of its legal structure for objectives that contravene non-profit ideals.

The structural deficiencies are inextricably linked to cultural and social elements, particularly the prevailing trust-based giving culture in Indonesian society. Donors often allocate help based on their faith in public or religious figures, neglecting to verify the legitimacy of the recipient organisation, thereby weakening the social control mechanism. Fundraising conducted outside the formal system and devoid of public audits significantly heightens the risk of exploitation. This pattern is observable in several instances of private fundraising initially designated for humanitarian purposes, which were subsequently redirected to benefit the recipient's family. This behaviour undermines transparency and erodes the ethical foundation of donation as a means of social solidarity.

From a favourable legal standpoint, the misappropriation of funds via foundations or personal accounts without official authorisation constitutes a breach of Law Number 9 of 1961 regarding the Collection of Money or Goods and Government Regulation No. 29 of 1980 concerning its execution, which explicitly mandates that all public fund collections be conducted by a legal entity obligated to report financial accountability to the state. Moreover, the misappropriation of social funds for personal gain may be prosecuted under Article 372 of the Criminal Code pertaining to embezzlement or Article 378 concerning fraud, as it involves an element of breach of trust and deviation from the intended purpose of the funds. Within the context of civil law, the relationship between the donor and the fund management entails an implicit agreement as per Article 1313 of the Civil Code;

thus, the misappropriation of funds may be classified as Default due to their utilisation contrary to the stipulated purpose (Afta, 2023)

The social ramifications of this behaviour are extensive and significant. The misappropriation of philanthropic contributions results in financial losses and undermines public trust in social institutions and religious organisations. Public trust is, in fact, the primary social capital essential for sustaining the philanthropy ecosystem in Indonesia. A decline in public faith in the responsibility of social institutions will significantly reduce public engagement in humanitarian initiatives. This domino effect directly affects vulnerable groups, which are the primary recipients of help. Consequently, foundation monitoring transcends mere administrative concerns, encompassing public legal integrity and the moral legitimacy of the state in safeguarding social funds. Consequently, it is imperative to redesign a supervisory policy that adheres to the tenets of fiduciary duty and sound governance—encompassing transparency, accountability, and audit independence—to establish a framework that mitigates abuse and reinstates public confidence in philanthropic institutions and social foundations in Indonesia (Athifah et al., 2018).

Legal Gaps in Foundation Arrangements and Directions for the Reformulation of the Supervisory System in Indonesia

The legal framework regulating foundations in Indonesia, as outlined in Law No. 28 of 2004 amending Law No. 16 of 2001 on Foundations, primarily seeks to guarantee that non-profit entities function in alignment with the principles of non-profitability, transparency, and public accountability. Nonetheless, the regulation's execution reveals certain legal gaps that affect inadequate supervisory systems. Consequently, numerous foundations engage in social activities in a formal yet substantial manner to redirect funds, evade taxes, and potentially facilitate money laundering. The inadequate integration of legal norms and administrative frameworks hinders the identification and rectification of foundation wealth misuse, whether through internal or external oversight.

Law Number 28 of 2004 possesses many deficiencies that underlie the issue of inadequate oversight. The statute does not confer substantial authority to the foundation's internal monitoring bodies. Articles 52–54 mandate the management to prepare yearly reports; nevertheless, they lack a robust legal foundation for the auditing of these reports by an independent entity or for their public disclosure. The internal supervisor's role is thus passive and restricted to offering administrative counsel to the trustee, lacking the power to do an audit of financial discrepancies. The law does not clearly govern the mechanism of public accountability (public disclosure), hence the publication of the annual report is not mandated. This discrepancy contradicts the notion of responsibility, which is fundamental to organisations.

Moreover, the fragmentation of regulations among governmental entities undermines the supervisory framework. The Ministry of Law and Human Rights is solely responsible for legal-formal matters, including the ratification of

establishment, amendment, and dissolution deeds of foundations, whereas the Ministry of Social Affairs oversees permits for the collection of money or goods (PUB) without possessing audit authority over the utilisation of funds. A coordinating framework for data interchange among the Ministry of Law and Human Rights, the Ministry of Social Affairs, and other institutions such as the BPK, OJK, or PPATK is absent. This jurisdictional vacuum between institutions is exploited by certain foundations to misappropriate cash or obscure the source of donations. Furthermore, there is no stipulation that explicitly forbids foundation administrators from simultaneously occupying roles in corporate enterprises owned by the foundation, so creating a potential conflict of interest. The absence of a digital reporting and online audit system exacerbates this issue, rendering oversight manual and reactive rather than preventive.

The existence of legal loopholes in foundation regulations directly affects the inadequate oversight mechanisms, both internally and externally. The lack of an independent audit process renders the foundation's financial statements merely a formality. Numerous foundations produce yearly reports just to fulfil administrative obligations, without undergoing a professional audit to verify the accuracy of financial data. The lack of stringent sanctions—administrative, civil, and criminal—for breaches of reporting responsibilities leads to minimal compliance by foundations. Many foundations fail to file activity and financial reports punctually, and the government lacks effective mechanisms to address these violations. The lack of a public accountability mechanism hinders effective social oversight by the community. Non-profit organisations that are expected to be transparent to the public are, in fact, opaque regarding their financial reporting and activities.

This situation engenders an asymmetry of accountability, wherein the foundation operates under private law yet administers public funds without sufficient public oversight. This imbalance is the primary source of the misuse of legal form, since the legal structure of a non-profit organisation is used for commercial motives and personal interests. This behaviour diminishes public trust and obscures the legal status of foundations inside the Indonesian legal framework, blurring the distinction between social legal entities and economic entities. Due to inadequate state oversight, the supervisory mechanism transitioned from a preventive role to a reactive one, addressing violations solely after incidents of loss or public scandal, exemplified by the Aksi Cepat Tanggap Foundation (ACT) and the PPATK's findings regarding 176 problematic philanthropic institutions in 2022 (Sholikhah, 2021).

To address the aforementioned legal flaws, it is essential to restructure the foundation's oversight mechanism to prioritise transparency, independence, and public accountability. The amendment of the Foundation Law must establish the authority of internal supervisors to encompass not only administrative roles but also investigative and financial auditing functions. Supervisory bodies must be mandated to present audit findings to pertinent state entities, including the Ministry of Law and Human Rights and the Ministry of Social Affairs, which can

take action if discrepancies are identified. Secondly, it is imperative to create a national coordinating agency – such as the National Oversight Body for Non-Profit Organizations – that consolidates the roles of the Ministry of Law and Human Rights, the Ministry of Social Affairs, PPATK, and BPK to guarantee comprehensive oversight of the financial operations of philanthropic institutions and foundations. This institution can function as a national data centre and a public accountability authority.

Third, it is imperative to implement the public disclosure clause, which mandates that each foundation disclose financial accounts and annual activities online via a national information system accessible to the public, donors, and public auditors. This technology will function as a tool for social auditing and enhancing public oversight of philanthropic groups. The fourth premise mandates that fiduciary obligation and good governance must be enshrined in positive law rather than only existing as ethical norms (Arifin & Sodikin, 2025). This indicates that the foundation administration has a legal obligation of care and loyalty, requiring that all financial decisions be made in the public interest rather than for personal benefit. This idea can incorporate best practices from Dutch law (Burgerlijk Wetboek 2) and OECD standards regarding the governance of non-profit organisations. The government must implement regular external audit requirements conducted by independent auditors registered with BPKP or OJK, and impose stringent penalties – such as licence suspensions, revocation of legal entity status, or criminal charges – on administrators found guilty of misappropriating social funds.

Reform of foundational law in Indonesia must transition from an administrative paradigm to one centred on integrity-based public accountability. The legislative framework must not only govern the procedures for founding and legitimising foundations but also guarantee public accountability in all fund management activities. These measures aim to avoid future financial misappropriation and to restore public trust in social institutions and philanthropy, which are fundamental to national social solidarity (Heriyanti & Daulay, 2024). The regulation reform aims to combine the foundation's autonomy as a private legal entity with its social obligation to the public. The reconfiguration of the supervisory framework grounded in fiduciary responsibility and sound governance would establish a transparent, professional, and integrity-driven ecosystem, aligning with the national law objectives of attaining equitable and accountable nonprofit governance.

The misuse of foundations to syphon donations indicates a transfer of authority from formal institutions to individual personalities in contemporary philanthropic practices. The prominence of a prominent figure or influencer is frequently seen as "social capital," deemed adequate to supplant the legal validity of official institutions. In this setting, public trust is now conferred upon persons with a recognised moral reputation rather than on organisations that are legal entities governed by state legislation. This transition is especially perilous, as it exacerbates the disparity between statutory law and its practical application. In

accordance with Eugen Ehrlich's idea of living law, societal laws do not always align with state laws; society often follows norms deemed important and practical, regardless of their formal legal status (Ehrlich & Ziegert, 2017). Within the realm of foundations and philanthropic organisations, social norms, particularly trust in public personalities, frequently supplant legislative standards that necessitate institutional transparency and accountability.

In other terms, Figure Carismatics establish a façade of legitimacy – one that the public accepts without scrutinising its legal authenticity. This elucidates why fundraisers led by prominent individuals acquire public trust more rapidly than official institutions bound by stringent regulations (Manullang, 2021). However, when misuse transpires, the individual lacks the legal or institutional mechanisms to account for the managed assets. This phenomena distinctly illustrates the presence of Anomalies of Legal Authority, wherein social legitimacy supplants legal legitimacy. our event represents a concrete manifestation of flaws within the context of our investigation. In the context of foundation establishment, rules have failed to address the rapidly expanding personality-driven fundraising model prevalent in the digital age. Indeed, when such activities lead to abuse, the state lacks a sufficiently robust legal mechanism to ensure accountability.

If this condition remains unaddressed, philanthropic practices in Indonesia will progressively transition from institutions grounded in legal accountability to those reliant on personality-driven fundraising, which are highly vulnerable to manipulation and challenging to oversee. Consequently, legislative reform must focus on broadening the parameters of foundation oversight and individual philanthropic endeavours. All fundraising activities, regardless of whether conducted by an institution or a public figure, must adhere to same accountability measures, which include a prohibition on the use of personal accounts, a requirement for transparent financial reporting, and regular audits by independent entities. It is essential to amend and align the regulations of the Foundation Law, Law No. 9 of 1961 regarding the Collection of Money or Goods, and Government Regulation No. 29 of 1980, to effectively govern contemporary philanthropic practices occurring on social media and digital platforms.

Moreover, the legal redefinition of foundations must be supported by a restructuring of the community's legal culture. Public legal education is essential to cultivate the understanding that donations and social activities are legal relationships that generate rights and obligations, rather than just acts of virtue or personal charity. Donors has the right to request transparency, whilst the receiver or fund management is required to utilise the funds in alignment with the established objectives. This comprehension aligns with the notion of fiduciary obligation, wherein fund administrators bear complete legal and ethical responsibility for the interests of beneficiaries. By enhancing the synergy between formal legal norms and social norms, living law can align with statutory law – no longer in conflict, but mutually supportive in establishing a philanthropic and foundation management system that is robust, accountable, and principled.

CONCLUSION

The analysis indicates that the misuse of foundations for diversion or misappropriation of funds stems from inadequate legislative governance and institutional oversight of non-profit organisations in Indonesia. In reality, numerous foundations have evolved into front organisations that facilitate the concealment and misdirection of assets by soliciting donations without authorisation, utilising personal accounts, and reallocating social funding to business firms controlled by management. This state is intensified by structural reasons, including the feeble authority of internal supervisory bodies, inadequate external administrative oversight, and the lack of a clear public auditing mechanism. Cultural elements, including a trust-based giving culture and an overreliance on public people, generate pseudo-legitimacy that separates philanthropic practices from established legal norms.

Legally, the deficiencies in Law Number 28 of 2004 regarding Foundations and its subsequent regulations result in the potential for the misuse of legal structures, wherein the foundation's legal form is used for objectives that contravene the principle of non-profitability. The lack of reporting requirements, stringent penalties, and interagency collaboration has resulted in minimal public accountability and insufficient legal safeguards for donors. Consequently, it is imperative to restructure the foundation's supervisory framework by amending the legislation to enhance the powers of internal audits, instituting a digital public disclosure system, and creating a cohesive supervisory body comprising the Ministry of Law and Human Rights, the Ministry of Social Affairs, PPATK, and BPK. The ideas of fiduciary duty and good governance should normatively underpin the revision of rules and management practices of foundations. Enhancing legal integrity must be harmonised with the elevation of public legal literacy to foster understanding of legal considerations in donations and charity. The interplay between formal legal standards and social norms might advance Indonesia's philanthropic system towards greater transparency, professionalism, and accountability, thereby reinstating public trust in foundations as humanitarian entities grounded in legal integrity.

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