Transformation of Financial Transaction Patterns in the Era of Digital Society: Challenges and Implications for Public Financial Management Regulations

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***Abstract*- This modernization demand is in line with society's demands for bureaucratic transparency and accountability. These factors encourage the government to create mechanisms to introduce a more modern transaction system in line with current developments. The financial governance system is regulated by several laws and derivative regulations, in its implementation, obstacles are still found, especially in terms of adapting to the current era of modern societal transactions. The aim of this research is to provide stimulus in the form of recommendations for the government and agencies to create regulations regarding good and progressive government financial governance. The research methodology employs a normative juridical approach, which involves a thorough analysis of the legal principles and rules that regulate the management of public finances. The results of this research show that there are differences between the central government accounting system and regional government accounting systems because the system is not yet integrated, so reports are often prepared manually. digital infrastructure, digital divide, data security, and system integration. In preparing regulations regarding state financial management, the government will need to pay attention to: uniformity in central and regional government accounting systems and policies; availability of digital infrastructure; and the still-existing digital gaps in the regions. Data security issues. System integration needs to be improved, especially integration with private information systems such as e-commerce and so on.**

***Keywords*- Transformation, Financial Transaction Patterns, Digital Society, Public Financial Management, and Regulation**

I. INTRODUCTION

Modernizing state financial management in the industrial era 4.0 is a necessity, where the management of state expenditure and state revenues is required to be able to adapt to technology in order to obtain greater added value (value for money). This demand for modernization is in line with society's demands for a transparent and

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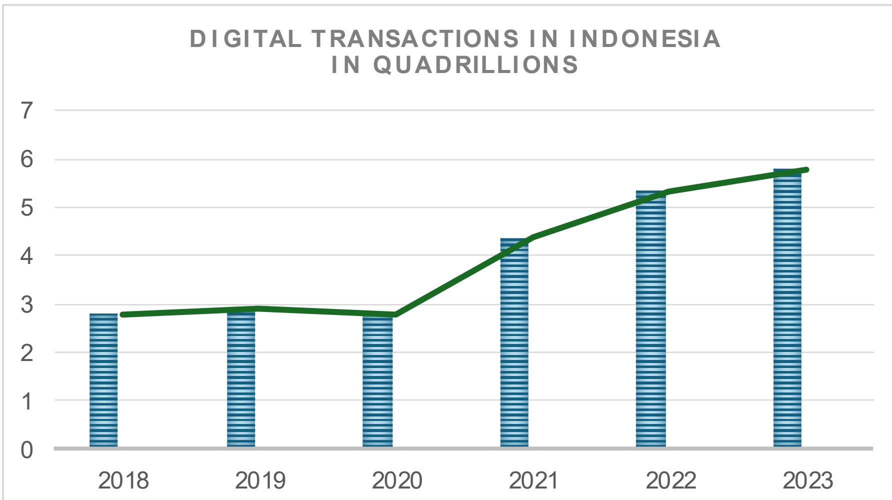
accountable bureaucracy [1]. These factors encourage the government to create a mechanism for implementing a cashless government system in an effort to modernize state financial management [2].

The non-cash transaction system is an important part of state financial governance to encourage efforts to reform public sector administration. The implementation of the non-cash transaction system in government spending is expected to be a strategic measure to achieve flexible, transparent, secure, efficient, and responsible state financial management, with the goal of reducing instances of corruption. [3]. Within the scope of larger goals, the system is anticipated to yield advantages by promoting economic expansion and enhancing communal well-being. The utilization and maximization of the non-cash transaction system is important, in addition to having the aim of realizing flexible, transparent, safe, effective and accountable state financial governance, it is also a form of state response to the development of Indonesian people's transaction patterns in the digital era. This can be seen through statistical data on digital transactions in Indonesia released by Bank Indonesia in 2024 [4]:



Source: Bank Indonesia Annual Report 2024 (https://www.bi.go.id/)

Fig. 1. Digital Transactions in Indonesia 2018 – 2023

The rise in digital transactions year over year indicates how far Indonesia's digital transaction era has come, and it is imperative that the state, through governance, keep up with these advancements to avoid being accused of being outdated. Law Number 17 of 2003 about State Finances, Law Number 1 of 2004 concerning State Treasury, and Law Number 15 of 2004 concerning Management and Accountability Audits are the laws that govern state financial governance. Responding to State Finance has been a driving force for Indonesia's state financial system improvement. [5].

The endeavor to enhance openness in the handling of state finances has emerged as a significant concern for all of us. In order to enhance transparency and accountability in the management of state finances, both the central government and regional governments are obligated to produce accountability reports in the form of financial reports, as stipulated by Law Number 1 of 2004 regarding State Treasury [6].

According to Law Number 17 of 2003 concerning State Finance, professional, transparent, and responsible state financial management is necessary to enable the fulfillment of good governance. In addition, Law Number 1 of 2004 concerning State Treasury highlights that the government must create financial accountability reports that are prepared in accordance with government accounting standards in order to achieve transparency and accountability in the administration of state finances. The Central Government Financial Report (LKPP), which is produced by the central government, and the Regional Government Financial Report (LKPD), which is generated by the regional government, are financial reports created as a means of government accountability [7].

Apart from regulating the obligation to prepare financial reports, Law Number 1 of 2004 also mandates that government financial reports must be able to produce financial statistics that refer to the government's financial statistics manual so that they can meet the needs for analysis of fiscal policies and conditions, management and comparative analysis between countries (cross country studies), government activities, and presentation of government financial statistics [8]. This mandate was then outlined in Government Regulation Number 71 of 2010 concerning Government Accounting Standards which regulates the need to prepare consolidated reports.

There are two sorts of consolidation, according to Government Regulation Number 71 of 2010's article 6: fiscal consolidation and consolidation of government financial information. The process of creating Consolidated Government Financial Reports (LKPK) in compliance with accounting principles and regulations with reference to PSAP Number 11 involves combining Central Government Financial Reports (LKPP) and Regional

Government Financial Reports (LKPD). The requirement of legislative rules is not the only justification for creating a LKPK. Government financial reports must be combined because the financial reports generated by each government reporting body are insufficient to provide an overview of government operations..

At both the national and regional levels, the consolidation of government financial reports is being implemented. The constituent units of the Regional Office of the Directorate General of Treasury (Kanwil DJPb) are responsible for implementing the consolidated government financial reporting system at the regional level. The DJPb Regional Office's production of the Regional Level LKPK (LKPK-TW) is a tangible example of the role of the vertical office of the Directorate General of Treasury as the Regional Chief Economist (RCE). Nonetheless, a number of LKPK-TW compilers continue to indicate that there are still challenges with getting the LKPK-TW ready. In addition to other challenges, the central and regional governments' accounting systems and regulations differ, the regional governments' data submissions are of poor quality and timeliness, and SPAN and SIKD are not integrated, resulting in the manual preparation of reports. [5].

A Minister of Finance Regulation oversees the central government's Government Accounting System. While regional governments' government accounting systems are governed by Regional Head Regulations, which make reference to the General Guidelines for Government Accounting Systems (PUSAP), the most recent regulation pertaining to the Ministry of Finance is PMK No. 62 of 2023 concerning Budget Planning, Budget Implementation, and Accounting and Financial Reporting.

Because of this, there are variations between the accounting systems used by the central and regional governments. These variations begin with the accounting policies, journals, and procedures used in the preparation of financial reports, and they eventually affect how the information is presented in those reports. The end result of these discrepancies is that challenges emerge when attempting to combine regional and central government financial data, as well as when attempting to combine regional and central government financial reports.

It cannot be denied that nowadays information technology has become an important part of the business world, including in the field of accounting and government financial reporting [9]. However, this often becomes a challenge for agencies/ministries or regions in carrying out financial reporting. Good reporting standardization is the opinion given by the BPK on the results of financial reports. One of the criteria set by the BPK in providing opinions on financial reports is compliance with statutory regulations. Here, it is not uncommon to find overlapping policies between the government's enthusiasm for utilizing technology with as little manual transactions as possible and switching to a cashless system, but on the other hand, with the spirit of accountability and transparency, the BPK often asks for proof of financial reports which are no longer relevant in today's era of digitalization. just like asking for proof of receipt when shopping online.

The problem of managing state finances is a challenge for the government to create regulations that not only prioritize good governance and financial governance that is transparent, safe, effective, accountable and flexible but also pay attention to developments in the current era and digital technology. Therefore, it is hoped that this research will provide stimulus in the form of recommendations for the government/agencies to create regulations regarding good and progressive government financial governance.

II. LITERATURE REVIEW

A. Good Governance in State Financial Management

According to the General Explanation of Law Number 17 of 2003 concerning State Finance, State financial management must be conducted professionally, transparently, and responsibly in compliance with the fundamental guidelines outlined in the Republic of Indonesia 1945 Constitution in order to support the realization of good governance in State administration. Additionally, it is stressed in the General Explanation of Law Number 1 of 2004 concerning the State Treasury that attempts to apply financial management concepts that have, up until now, primarily been applied in the business world to the management of government finances are not meant to equalize financial management in the private sector.

The State is primarily a governmental institution. The public legal order is responsible for governing the State. The State endeavors to ensure the well-being of the population through various government initiatives (welfare state). However, due to the historical dominance of a state-centric approach in public sector financial management, professionals no longer see government employees active in this field as part of the management profession. [10]. Therefore, it is necessary to realign government financial management by applying the principles of good governance in accordance with the government environment [11].

The goal of implementing performance-based budgeting, as outlined in Law Number 17 of 2003 concerning State Finance, is to facilitate the attainment of good governance in the public sector budget preparation process. The goal of implementing good governance is to seek for and achieve good governance as a government norm. Initially, neither administrative law nor constitutional law, nor even political science, understood the notion of good government [12]. This concept originated within the United Nations, stemming from the Organization for the Economic Cooperation and Development (OECD).

A common interpretation of good governance is the definition of it. Good governance, according to the World Bank, involves implementing responsible and effective management practices that follow democratic and efficient market principles. This includes avoiding the improper allocation of investment funds, preventing corruption in administrative and political processes, maintaining budgetary discipline, and creating the necessary political and legal framework for the growth of commercial activities. Applying the concepts of good governance to state financial management aims to ensure the wellbeing of the populace (welfare state) [13]. General welfare can be defined as the collective set of social requirements that facilitate or enhance human development and the realization of individual, family, and community well-being. It encompasses all the necessary conditions for individuals and groups to achieve their full potential and progress more efficiently [14]. Based on this description, the management of State finances using a systematic performance-based budget which is realized in the APBN/APBD, which is implemented by applying the principles of good governance will be beneficial for the people, namely to improve people's welfare.

B. Principles of State Financial Management

A clean, accountable, and transparent government is necessary for the management of state finances. Transparency refers to giving the public access to honest and transparent financial information while maintaining the public's right to know in full and open how the government is holding itself accountable for the resources entrusted to it and how it is adhering to legal requirements. [15]. Accountability refers to the act of assuming responsibility for managing resources and implementing policies that have been assigned to the reporting organization. This duty is crucial in order to achieve the goals that have been set at regular intervals [16].

In order to enhance accountability and transparency in the management of state finances, the government has formulated a set of state financial laws, which include Law (UU) number 17 of 2003 on State Finance, Law number 01 of 2004 on State Treasury, and Law number 15 of 2004 on Audit of State Financial Management and Responsibility. According to Article 31 paragraph (1) of Law number 17 of 2003, the Governor, Regent, or Mayor is required to submit draft regional regulations (perda) to the Regional People's Representative Council (DPRD) within six months after the fiscal year ends. These regulations should address the accountability of the regional income and expenditure budget (APBD) and should be in the form of audited financial reports conducted by the BPK. The financial reports consist of balance sheets, APBD realization reports (LRA), and CALK. These reports are associated with the financial reports of neighboring firms and other organizations. As to Article 56 of Law Number 1 of 2004 about State Treasury, Governors, regents, and mayors must submit their financial reports to the BPK within three months after the fiscal year ends.

The Law on State Finances must elucidate the fundamental regulations outlined in the 1945 Constitution by establishing overarching principles, including those that have been traditionally recognized in the administration of State finances, such as: The Annual Principles dictate that the state budget must be prepared and approved by the legislative body (DPR) on a yearly basis. The Universality Principle imposes a restriction that prohibits the commingling of public earnings with state expenditure. The Unity Principle, which entails retaining full control over budgetary decisions by the council, mandates that all expenses must be accounted for in the budget. Hence, the budget is a comprehensive budget, wherein the recorded amount represents the gross value. The Specialty Principle mandates that different types of expenses be categorized into specific budget items and executed consistently in terms of quality and quantity. Quantitatively, this implies that the allocated amount for a specific budget item serves as the uppermost threshold and should not be surpassed. Essentially, this means that the budget should only be used for the specific items that have been selected.

Apart from that, there are new principles in managing state finances. as a reflection of the application of best practices, namely: Results-oriented accountability, which means that every budget user is obliged to answer and explain the organization's performance regarding the success or failure of a program for which they are responsible [17]. Professionalism necessitates the delegation of state financial management to a team of skilled professionals. The allocation of funding is done proportionally to the functions of ministries/institutions based on their level of priority and the objectives to be accomplished. Transparency in the administration of government funds necessitates transparency in deliberations, decisions, and budgetary calculations, as well as in the outcomes of oversight conducted by autonomous audit agencies. [18]. Financial audits by independent and independent audit bodies give greater authority to the Financial Audit Agency to carry out audits of state financial management objectively and independently.

These concepts are necessary to guarantee the execution of regional governance principles. The incorporation of these principles into the State Finance law serves as both a guide for reforming state financial management and as a means to reinforce the groundwork for implementing decentralization and regional autonomy in the Unitary State of the Republic of Indonesia.

C. State Financial Report

Financial reporting is crucial for communicating information about the financial state of an organization. Government financial reporting is crucial in the realm of government as it allows for the documentation of how the government effectively utilizes its limited resources to deliver public services. Government financial reports are an essential element of government reporting in general [5].

Government financial reports are the main tool used to ensure that the government is answerable to its representatives in parliament or other relevant institutions, as well as the general public. As per the Governmental Accounting Standards Board (GASB) in Concept Statement Number 1, financial reporting is founded on the notion of accountability, as specified in the Objectives of Financial Reporting [19].

In Indonesia, the government use the entire accrual-based accounting approach to create comprehensive financial reporting. The reports consist of the Budget Realization Report (LRA), Report on Changes in Excess Budget Balance (SAL Change Report), Balance Sheet, Operational Report (LO), Cash Flow Report (LAK), Report Changes in Equity (LPE), and Notes to Financial Statements (CaLK). The relevant information can be located in Appendix I of Government Regulation Number 71 of 2010, which specifically addresses Government Accounting Standards [7].

As of the implementation of the 2014 budget, LKPP continues to follow the Cash-Toward-Accrual (CTA) basis. This means that income, expenditure, and financing are recorded in the Budget Realization Report based on cash transactions, while assets, liabilities, and equity funds are recorded in the balance sheet based on accruals. Implementation of accrual-based financial reporting in government bodies commenced with the execution of the 2015 budget..

D. Regulations on State Financial Management in Indonesia

The regulations pertaining to financial management in Indonesia are outlined in three laws: Law Number 17 of 2003 on State Finances, Law Number 1 of 2004 on State Treasury, and Law Number 15 of 2004 on Examination of State Financial Management and Responsibility. Improvement of the fiscal system in Indonesia. The pursuit of increasing transparency in the management of government funds has become a major issue for everyone. To promote transparency and accountability in the administration of state finances, both the central government and regional governments are required to generate financial reports as accountability reports, as mandated by Law Number 1 of 2004 on State Treasury [17].

Apart from regulating the obligation to prepare financial reports, Law Number 1 of 2004 also mandates that government financial reports must be able to produce financial statistics that refer to the government's financial statistics manual so that they can meet the needs for analysis of fiscal policies and conditions, management and comparative analysis between countries (cross country studies), government activities, and presentation of government financial statistics. The requirement to submit consolidated reports was subsequently specified in Government Regulation Number 71 of 2010, titled "Government Accounting Standards". Article 6 of Government Regulation Number 71 of 2010 specifies two types of consolidation: budgetary consolidation and consolidation of government financial statistics [5].

The most recent regulations regarding derivative technical instructions for state financial governance are outlined in Minister of Finance Regulation Number 62 of 2023. This regulation focuses on budget planning, budget implementation, and accounting and financial reporting. It introduces enhancements to previous regulations in this area. This regulation annuls Minister of Finance Regulation Number 210 of 2022, which was earlier issued on Payment Procedures in the implementation of the State Revenue and Expenditure Budget [20].

The issuance of Minister of Finance Regulation Number 62 of 2023 was motivated by the need for synergy regarding substantive regulations related to planning, budget implementation and budget accountability. Apart from that, it is also due to the need to adjust technical provisions, as a follow-up to the enactment of PP Number 6 of 2023 concerning the Preparation of RKA, the need to improve regulations so that business processes are in line with the dynamics of government spending and developments in information technology, as well as the need to simplify financial governance to create efficiency and effectiveness in planning, implementation, accounting, and reporting.

III. METHOD

The research technique employs a normative legal framework. Normative legal study is a type of research that examines the interdependent connection between law and social realities. This type of research is sometimes referred to as doctrinal legal research, which involves the analysis of qualitative evidence. This research approach operates under the assumption that law is a result of social interaction. Therefore, if society undergoes changes, the law must also undergo changes [21]. This research will conduct a thorough analysis of the legislative principles and laws that regulate the management of state finances. The findings will then be compared with the contemporary social realities. This approach involves a systematic analysis of laws, doctrines, regulations (excluding laws), and other relevant rules. Its purpose is to propose legal adjustments and offer important insights to inform the development of relevant regulations based on field-specific requirements. The laws and regulations under analysis are Law Number 17 of 2003 concerning State Finances, Law Number 1 of 2004 concerning State Treasury, Law Number 15 of 2004 concerning Examination of Management and Responsibility of State Finances, Government Regulation Number 71 of 2010 concerning Government Accounting Standards, and Minister of Finance Regulation Number 62 of 2023 concerning Budget Planning, Budget Implementation, and Financial

Accounting and Reporting. The aim of this research is to provide suggestions to the government and related authorities for creating legislation regarding efficient and innovative financial management by the government.
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IV. RESULT AND DISCUSSION

A. Utilization of Modern Technology in Financial Reporting

Information technology (IT) is an integral part of technology. The rapid advancement of information technology is currently being extensively utilized in several domains, including accounting and government financial reporting. Information technology greatly enhances accounting systems utilized by government institutions, and computerized Accounting Information Systems (AIS) can foster the advancement of government performance [9].

Information technology enhances the efficiency and effectiveness of information flow, hence bolstering management decision-making. This will increase the ability of government entities to achieve the goals they wish to achieve. However, information technology is sometimes applied imperfectly. So selecting a suitable (compatible) system is a crucial thing that must be done. One important thing that must also be considered is that advances in information technology do not necessarily replace the role of humans in the accounting system as a whole [1].

Implementing suitable information technology in each state ministry or institution is anticipated to eradicate any obstacles encountered by these entities in the preparation of financial reports, which serve as a means of accountability to stakeholders. This, in turn, has the potential to enhance the quality of the government's financial management reports [3]. The expectation is that the proper and suitable utilization of information technology can enhance the caliber of government financial management reports while not substituting the involvement of humans in the overall accounting system.

Apart from reporting, the government should also adjust state financial management laws or derivative regulations so that they also pay attention to technological developments, especially in terms of completeness of reporting administration. Despite the issuance of the latest financial governance regulations by the government, specifically Minister of Finance Regulation Number 62 of 2023 regarding Budget Planning, Budget Implementation, and Accounting and Financial Reporting, it is necessary for the government to modify existing regulations to adapt to the rapid technological advancements and the era of digitalization.

B. Compliance with Financial Reporting Regulations

An indicator that signifies the quality of financial management reports is the evaluation provided by the Financial Audit Agency (BPK) regarding the reports in question. The opinion of the Financial Audit Agency (BPK) is determined by various criteria, including adherence to legislative restrictions. The State Financial Audit Standards (SPKN) mandate auditors to develop audits that can sufficiently detect significant errors resulting from non-compliance with statutory regulations that directly and significantly impact the presentation of financial statements. The compliance report includes instances of non-compliance with legislative provisions identified during financial audits [5].

If the auditor issues a report regarding adherence to legal requirements, then the audit report on the financial statements must include a section referencing the report [8]. The many findings in financial management reports related to non-compliance with statutory regulations indicate that there are still many state ministry/institution entities that cannot guarantee that the entities they manage comply with the applicable laws and regulations for all their activities, and in this case the state ministry/institution entities nor can it guarantee that the internal control implemented has provided adequate confidence that the entity complies with these laws and regulations.

This compliance is important considering that it serves as standardization of state financial management. The basis and reference is the state financial management law and its enactments. Therefore, it is important as a reference for compliance, these rules should also accommodate modern transaction patterns in the current era of digitalization..

C. Financial Reporting Problems and Problem Solving and Recommendations

The Government Accounting System in the central government is overseen by a Minister of Finance Regulation, while the government accounting system in regional governments is regulated by a Regional Head Regulation that follows the General Guidelines for Government Accounting Systems [5]. Differences exist between the central government accounting system and regional government accounting systems. These differences encompass accounting policies, journals, and procedures for preparing financial reports. Ultimately, these variations also affect the presentation of information in financial reports.

The final impact of these differences is that difficulties arise in the consolidation process between regional government financial reports and difficulties in consolidating regional government financial reports and central government financial reports. The obstacles faced include, among other things, differences in central and regional government accounting systems and policies, low quality and timeliness of regional government data submission, and because the system is not yet integrated, so reports are often prepared manually, as well as other obstacles. Another obstacle is that the time frame for preparing the Consolidated Regional Government Financial Report (LKPDK) is not the same as the time frame for preparing the Regional Government Financial Report (LKPD). This causes the data submitted from the regional government to the DJPb Regional Office to be data that is not final.

The government, represented by the Minister of Finance, has recently released new regulations on financial governance. These regulations, known as Minister of Finance Regulation Number 62 of 2023, pertain to budget planning, budget implementation, and financial accounting and reporting. They introduce various changes and updates compared to previous regulations, particularly in certain aspects:

1) Refinement of Spending Principles: the government pays attention to quality spending principles, which include fulfilling basic allocations and limiting certain spending allocations1.

2) Budget Tagging: Introduced budget tagging to increase transparency and accountability in budget management.

3) Sharpening Programs and Activities: with this regulation sharpening programs, activities and outputs expected from the use of the budget, so that they can be more focused and effective1.

4) Budget Synchronization: There are synchronization efforts between central government spending and transfers to regions to ensure harmony and efficient use of the budget

However, Ministerial Regulation Number 62 of 2023 still needs special attention, especially in terms of digital infrastructure, digital divide, data security and system integration [5]. Based on several problems regarding the implementation of these financial management regulations, the government in drafting laws or regulations regarding state financial management needs to pay attention to the following things.:

1) The need for uniformity in central and regional government accounting systems and policies.

2) Availability of digital infrastructure, availability and adequate quality of digital infrastructure is the key to supporting budget planning systems, budget implementation, as well as efficient accounting and financial reporting. These challenges include ensuring fast and integrated internet access throughout the region.

3) Paying attention to the still existence of the digital divide, gaps in access and ability to use digital technology between regions and between community groups can influence the effectiveness of implementing regulations in the digital era.

4) Data security, with increasing digital transactions and financial reporting, data security is a major concern to prevent the risk of information leaks and cyber attacks.

5) System integration, integration of existing financial information systems with new standards and procedures, some of which have already been accommodated by Minister of Finance Regulation Number 62 of 2023 but need to be improved, especially integration with privately owned information systems such as e-commerce and so on.

By paying attention to the aspects mentioned above, it is hoped that the government will be more transparent, accountable and flexible in the management of state finances amidst the transformation of financial transaction patterns in the era of digital society.

V. CONCLUSION

State financial management must be implemented with a flexible, transparent, secure, efficient, and accountable system, in addition to prioritizing good governance. The government must also pay attention to changes in social behavior in society, namely the era of digital society, which prioritizes efficiency by using digital transaction systems. that are mutually integrated. Therefore, state financial governance should also pay attention to this digitalization aspect. The main challenge in implementing state financial governance rules stems from disparities between the central government accounting system and regional government accounting systems. These disparities have a direct effect on the presentation of financial information in reports. Other contributing factors include variations in accounting systems and policies between central and regional governments, the low quality and delayed submission of local government data, and the absence of an integrated system, which necessitates manual preparation of reports. The government, represented by the minister of finance, has recently released a new regulation called Minister of Finance Regulation Number 62 of 2023. This regulation focuses on financial governance, specifically budget planning and implementation. However, it is crucial to pay special attention to certain areas such as digital infrastructure, the digital divide, data security, and system integration.

The problem with the implementation of these financial management rules is that the government, in drafting laws or regulations regarding state financial management, will need to pay attention to: uniformity in central and regional government accounting systems and policies; availability of digital infrastructure, including ensuring fast and integrated internet access throughout the region.; Noting that there is still a digital divide and the ability to use digital technology between regions. Data security is a major concern to prevent the risk of information leaks and cyberattacks. System integration needs to be improved, especially integration with private information systems such as e-commerce and so on. By paying attention to the aspects mentioned above, it is hoped that the government will be more transparent, accountable, and flexible in the governance of state finances..

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