MANAGING FINANCIAL FLOWS IN THE PUBLIC SECTOR THROUGH DIGITAL TRANSFORMATION

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ABSTRACT

This article analyzes digital transformation in public financial management in the digital era, focusing on challenges, strategies, and recommendations to address these changes. The method used in this research is descriptive qualitative with a historical research approach. Various strategies, such as the implementation of integrated financial information systems and e-procurement, have been developed to enhance efficiency and transparency in public financial management. However, challenges such as inadequate technological infrastructure, limited human resources, and cybersecurity risks remain key issues that need to be addressed. Recommendations for increasing investment in technological infrastructure, technical skills training, and cross-sector collaboration are suggested to ensure the successful digital transformation of public financial management in the future. It is hoped that these collective efforts will bring significant benefits in improving public financial governance, providing better services to the public, and promoting sustainable economic growth.

KEYWORDS	*Financial Flows, Public Sector, Transformasi Digital*

INTRODUCTION

The development of information and communication technology in the current digital era has transformed the way society handles many activities, including public sector financial management. According to (Yolanda et al., 2023), digital technologies such as financial information systems, big data analytics, and artificial intelligence have created new opportunities to enhance efficiency and effectiveness in managing financial flows, including public finances. (Kristiyani & Hamidah, 2020) mention that these technologies facilitate the implementation of Public Sector Accounting to produce accurate financial information. However, despite the

significant potential offered by digital transformation, there are still many challenges and obstacles to overcome in applying these technologies in the public sector.

Managing finances in the public sector is highly complex and requires extra caution (Fahlevi et al., 2022). With the pressure to achieve budget balance, reduce deficits, and improve accountability, governments worldwide increasingly need innovative and effective solutions to manage their financial flows. Digital transformation offers the potential to address some of the main challenges in public financial management, such as weaknesses in financial reporting, risks of fraud and corruption, and limited access to relevant data and information. This is reinforced by the goal of digital transformation to provide products and services that meet consumer needs or achieve customer-centric orientation services (Ngamal & Perajaka, 2022). Therefore, it is essential to explore and understand further how digital transformation can be utilized to control financial flows in the public sector, with the hope of contributing positively to achieving the desired public financial management goals.

According to previous studies by (Syafi`'i et al., 2023), it is known that the application of technologies such as data analytics and artificial intelligence can improve operational efficiency, provide deep insights for better decision-making, and lead to product and service innovation. Additionally, research by (Mohi & Botutihe, 2020) indicates that the use of digital technology has successfully increased budget management efficiency, reduced administrative costs, and enhanced transparency and accountability in public fund management, benefits also felt by the public. However, further research is needed to delve deeper into understanding the challenges and obstacles that may arise in implementing digital transformation in the public sector.

The main objective of this research is to analyze how digital transformation can control financial flows in the public sector and how this can improve efficiency, transparency, and accountability in public financial management. Additionally, this research aims to identify challenges and obstacles that need to be overcome in implementing digital technology in the public sector and provide recommendations to enhance the effectiveness of digital technology use in managing public financial flows.

RESEARCH METHOD

The method used in this research is a descriptive qualitative method with a historical research approach, focusing on the digital transformation of public sector financial control over the past 10 years. The qualitative method with a historical approach is a method in social science research that helps to understand an individual's identity and worldview by referring to the stories (narratives) they hear or tell. It can also be described as a process of critical investigation of past events that produces accurate and correct descriptions/narratives and interpretations of those events (Fadli, 2021). This method allows researchers to detail the developments and changes in public financial management and to understand the impact of digital technology in this context. Based on the focus on historical research of this transformation, the study aims to provide in-depth insights into the evolution of financial control practices and policies in the digital era

RESULT AND DISCUSSION

Digital Transformation

Digital transformation is a concept that describes the shift in work approaches through the application of information technology to enhance effectiveness and efficiency. More broadly, digital transformation encompasses an irreversible process of change towards the future, relying significantly on the use of information and communication technology to add value to organizations and corporations. Therefore, digital transformation is not just about adopting new technologies but also about changing processes, culture, and business models to better align with evolving technologies (Farhani & Chaniago, 2021).

Digital culture is a crucial element in the digital transformation process as it requires a paradigm shift to adapt to digital changes. Digital culture emphasizes a mindset shift that enables individuals and organizations to respond to, adopt, and utilize digital technologies effectively (Ayu et al., 2022). The advancement of digital culture heavily depends on the level of knowledge and technical skills possessed by the community. With increased awareness and understanding of digital technology, as well as the ability to apply it in various aspects of life, digital culture can develop and support the overall digital transformation process. Therefore, building a strong and inclusive digital culture is a critical initial step in achieving sustainable and successful change in the digital era.

Public Financial Management

A Financial Management System is a system used by organizations or companies to manage and control their finances. According to Brigham and Ehrhardt in Supri et al. (2023), this system includes various aspects such as financial planning, budget management, financial transaction recording, financial reporting, and financial analysis.

Public sector accounting, according to Bastian (2006), is an analytical accounting technique mechanism applied to managing public funds in high-level state institutions and departments under them, local governments, state-owned enterprises (BUMN), regional-owned enterprises (BUMD), NGOs, and social foundations, as well as public-private partnership projects. Based on Article 8 of Law Number 25 of 2004 on the National Development Planning System, indicators of success in public sector financial management include plan formulation, plan determination, plan implementation control, and plan implementation evaluation (Rusrina, 2020).

Digital Transformation in Public Financial Management

Over the past ten years, digital transformation has dramatically changed the way public financial management is conducted. Advances in information and communication technology have driven governments to leverage digital solutions in their financial arrangements. More integrated and efficient approaches have been adopted through the implementation of financial information systems, e-procurement, and e-budgeting. Financial information systems enable governments to manage financial data more effectively, while e-procurement accelerates the

procurement process for goods and services using digital platforms. Additionally, e-budgeting allows for more measurable and transparent budget planning through digital technology. These changes significantly enhance the efficiency, accuracy, and transparency of public financial management, demonstrating the positive impact of digital transformation in this sector.

The existence of e-budgeting in Indonesia has its roots in the implementation of e-government, which began with Presidential Instruction Number 03 of 2003 on the National Policy and Strategy for e-Government Development. This presidential instruction outlines the Indonesian government's efforts to improve public service quality by implementing e-government. Conducting state affairs using e-government is one of the main focuses of this effort (Sumardi et al., 2021). Through e-government, the government can utilize information technology to enhance efficiency, transparency, and openness in public service delivery, including in budget planning and management (e-budgeting). This reflects the Indonesian government's commitment to adopting digital technology to improve public governance and provide better services to the public.

In Indonesia, some regions that have implemented the e-Budgeting system include the city of Surabaya and the province of DKI Jakarta. One phenomenon related to regional budget fund management occurred in the Jakarta Provincial Government, particularly in the case of procuring garbage trucks in the Sanitation Department (Rahman et al., 2018). In 2014, the procurement process for sanitation trucks was conducted not through traditional bidding but through e-Catalog purchase. Through e-Catalog, the procurement process becomes more transparent and efficient, allowing service providers to offer products directly through an integrated digital platform. This reflects the Jakarta regional government's efforts to adopt digital technology to enhance efficiency and transparency in regional budget management while reducing potential corruption and abuse of power.

Currently, in managing the public sector in the digital era, there is the development of technology that includes the use of big data, e-budgeting, and various other innovations. Big data technology plays a crucial role in collecting, storing, and analyzing large and varied data volumes from various sources to gain valuable insights for decision-making. Additionally, e-budgeting is one of the technologies developed in public financial management. E-budgeting utilizes digital platforms to facilitate the planning, allocation, and monitoring of budgets more efficiently and transparently. Through e-budgeting, the government can integrate budget data from various sources, enabling real-time monitoring of budget implementation and facilitating public involvement in the budget planning process (Rahman et al., 2018).

Besides big data and e-budgeting technologies, various other innovations are also being developed in public sector management in the digital era, such as implementing integrated financial information systems, using blockchain to enhance data transparency and security, and developing mobile applications to facilitate public access to financial information. All these aim to increase efficiency, transparency, and accountability in public financial management, ensuring optimal use of public resources for the overall benefit of society.

Strategies and Challenges

One of the main strategies in managing public sector finances in the digital era is implementing an integrated financial information system. Implementing e-procurement is also a crucial strategy in optimizing electronic procurement of goods and services, minimizing corruption risks, and increasing expenditure efficiency.

The main challenges in the digital transformation of public financial management include inadequate technology infrastructure, limited human resources with technical skills, and data security and privacy issues. Additionally, resistance to change from within the government is also an obstacle in implementing digital transformation. Managing public finances in the digital era also faces new risks such as cyber security and the misuse of technology for criminal purposes. Therefore, it is important for the government to develop effective cyber security strategies and ensure adequate data protection in public financial management.

The government needs to collaborate with various stakeholders to develop policies supporting digital transformation, while the private sector can play a role in providing innovative technological solutions and supporting implementation. Meanwhile, civil society can play a role in raising awareness about the importance of digital transformation in public financial management and ensuring transparent and accountable implementation. With strong collaboration, the challenges in the digital transformation of public financial management can be overcome, and the potential of utilizing digital technology to enhance efficiency and accountability in public financial management can be realized.

CONCLUSION

Based on the discussion in this article, it can be concluded that digital transformation has had a significant impact on public financial management over the past ten years. The adoption of technologies such as integrated financial information systems and e-procurement has been a key step in enhancing efficiency and transparency. However, challenges such as inadequate technology infrastructure, limited human resources, and cyber security risks remain primary concerns that need to be addressed. Therefore, important recommendations include continuously investing in adequate technology infrastructure, improving training and development of technical skills for government personnel, and strengthening cyber security policies and measures. Additionally, cross-sector collaboration and active participation from civil society are necessary to ensure the success of digital transformation in public financial management. With these collective efforts, it is hoped that Indonesia can fully realize the benefits of digital transformation in enhancing public financial governance, providing better services to the public, and fostering sustainable economic growth.

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