Monthly Article
Internal Audit Unit
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# Operation Economy

## 1. Definition of Operational Management

Operations refer to all activities focused on the production of goods or services. The operational function includes the process of transforming raw materials into finished products.

In a general sense, operations refer to any process or activity that an organization carries out in order to achieve a specific result.

***The key functions of operations include:***

1. *Monitoring and supervising the performance of officers responsible for carrying out work*
2. *Transmitting instructions and decisions from leadership to officers responsible for carrying out work*
3. *Quality assurance*
4. *Risk reduction*

## 2. Costs of Operational Management

When an organization puts an operation into action, it always requires expenditure on managing that operation. The costs of operational management are divided into two types:

### A. Direct Costs

Direct costs refer to expenditures that directly support the organization's operations, including costs for organizational structure, staff salaries, costs for establishing a monitoring system, costs for implementing any activity, equipment and material costs, and costs for fuel, electricity, and water.

### B. Opportunity Costs

Opportunity costs refer to expenditures on other alternatives or opportunities that must be sacrificed in order to choose or implement a particular operation. Every operation that is put into action always carries an opportunity cost. If the organization does not implement a chosen operation, it could use the resources that would have been spent on another operation instead.

## 3. Economy

### 3.1. Definition

**Economy** is the minimization of the cost of resources, where the resources used should be of appropriate quality and quantity within a defined period of time, and at a reasonable price.

The perspective on economy clearly explains that operating with economy is essential for all public institutions. A frequent and difficult challenge for public institutions is how to use public funds in an economical manner.

Resources refer to financial resources, materials, human resources, and various assets that the organization needs to use in order to support its operations.

### 3.1. Economy in Financial Resources

This means using the budget to a minimum and economically, while still achieving the set goals. In particular, the organization shall consider whether to spend on purchasing goods or services at a lower price, or only

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when the organization genuinely needs those resources for use.

*Example: An organization may choose to conduct procurement in order to obtain goods or services at a reasonable price and good quality.*

**3.2. Economy in Non-Financial Resources**

This involves selecting the right human resources or material resources to support the operational needs of the organization.

*Example: An organization can economize on human resources through:*

- **Right selection** — recruiting officers whose competencies match the organization's requirements
- **Right training** — organizing appropriate capacity-building programs for officers
- **Right utilization** — assigning roles and responsibilities to officers according to their expertise, qualifications, and experience
- **Right retention** — motivating officers through the provision of benefits and appointments to positions in line with their competency and seniority, avoiding the loss of experienced and capable officers, and minimizing the need to recruit new officers who would require additional training


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**Reference:**

**1.The Excellence of Operation Management by Internal Audit Unit of F.S.A.**
**2.Perfomance Audit Guideline**
**3.Guidelines on performance Auditing of Internal Audit Units**
**4.Vision of the Ministry of Economy and Finance for the Year 2030**