

Internal Audit: Strengthening Manufacturing Processes and Controls



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Manufacturers operate across a complex network of processes—from procurement and inventory management to production, technology, payroll, and financial reporting. When those processes work well, they support efficiency and informed decision-making. When they don't, the impact can extend well beyond one department.

A financial statement audit provides assurance over the financial statements, but it doesn't necessarily tell leadership how effectively the underlying processes operate or where risks may exist.

That's where **internal audit** can provide another layer of insight.

A risk-based internal audit approach can help manufacturers identify control gaps, uncover inefficiencies, evaluate operational risks, and better understand where processes can be strengthened.

Where Can Internal Audit Add Value?

For manufacturers, an internal audit can provide an objective look at areas such as:

- **Inventory and costing:** Are inventory controls effective, and are materials, labor, and overhead being captured accurately?
- **Procurement and vendors:** Are purchasing approvals, vendor controls, and payment processes appropriately designed?
- **Production:** Are controls around labor, materials, scrap, downtime, and production data working as intended?
- **Technology:** Are ERP systems, user access, system changes, and data integrations appropriately controlled?
- **Fraud and internal controls:** Are controls keeping pace with changes in the business and addressing areas of heightened risk?

Because these processes are closely connected, a weakness in one area can create risk elsewhere. An effective internal audit looks across those connections, helping leadership understand not just **what** is happening, but **why**.

Take a Risk-Based Approach

Internal audit doesn't mean auditing everything, all the time. A risk-based approach allows manufacturers to focus on the areas that matter most to the organization.

That could mean a targeted review of inventory controls, ERP implementation, procurement processes, fraud risk, or a broader internal audit plan. Priorities can also evolve as the business grows, acquires another company, adds facilities, or adopts new technology.

Internal audit also supports the monitoring component of the COSO internal control framework. COSO recognizes that effective internal control depends on five interconnected components: the control environment, risk assessment, control activities, information and communication, and monitoring. Through objective evaluations and control testing, internal audit helps management determine whether those components continue to work together as intended and whether identified issues are communicated and addressed.

The right approach depends on the organization's goals, operations, systems, and areas of risk.

Turn Findings into Action

An effective internal audit should do more than identify weaknesses. It should help leadership understand the potential impact and determine practical ways to address it and establish a process for monitoring corrective action. Management remains responsible for designing, operating, and improving controls, while internal audit provides independent assurance that the overall control environment is functioning as intended.

Recommendations might include strengthening control, simplifying a manual process, clarifying ownership, improving system access, or adding monitoring to identify issues earlier.

This is where bringing multiple perspectives to the table can be particularly valuable. Financial, operational, technology, and risk considerations often overlap in a manufacturing environment. Looking at them together can provide a more complete picture than evaluating any one process in isolation.

Manufacturers also don't necessarily need to build a large internal audit function in-house. Depending on their needs, internal audit can be outsourced, co-sourced, or structured around targeted projects, providing access to specialized expertise as needed.

A Clearer View of Risk

Internal audit can provide manufacturers with more than just another review of the numbers. By examining the processes and controls behind those numbers, organizations can gain greater visibility into risk, identify opportunities to improve efficiency, and strengthen the way the business operates.

At Dean Dorton, that work can bring together perspectives from accounting and finance, business advisory, technology, and operations to help manufacturers address the specific risks and challenges they face.

The goal isn't to add unnecessary layers of process. It's to help ensure controls and processes supporting the business keep pace with its risks, technology, and growth, and that leadership has ongoing visibility into whether those controls continue to work effectively.