



SOFTENGINE WHITEPAPER SERIES

Audits In Manufacturing

Types of Audits in Manufacturing

A manufacturing audit is an examination of an existing system, product, organization, or process. Audits can be conducted internally (by someone within or hired by the company) or externally (by a separate entity like the IRS). There are several types of audits in the manufacturing industry; some of the most common include:

- Financial audits are investigations of an organization's financial reports' accuracy, comparing financial statements to real data.
 - Tax audits are a type of financial audit used to ensure that an organization reports its tax information accurately.
- Operational audits are detailed analyses of company goals, planning, processes, procedures, and results. These types of audits are typically conducted to identify areas for improvement.
 - Process audits are a type of operational audit that determines if a particular manufacturing process is working as it is intended to and how it can run better.
- Product audits are conducted after production, but before a manufactured good reaches a customer, it is another way to assure optimum quality.
- Compliance audits examine a business or department's policies and procedures to make sure they comply with internal or regulatory standards. This is especially important for manufacturing companies with strict regulations like aerospace or medical devices.

Every business is subject to various types of audits. The manufacturing industry is no exception and often needs to conduct more audits than other industries to comply with safety and product regulations. Without the tools to easily pull financial, inventory, and process-related data, audits can become time-consuming, error-prone, and expensive. Technology that integrates all your business data allows you to simplify your internal audit process and better prepare for external audits.

Why Do Manufacturing Companies Conduct Audits?

Publicly held companies require financial audits to confirm that shareholders are receiving fair and accurate information. All external financial audits performed in the United States follow the same standards called the generally accepted auditing standards (GAAS), which the Auditing Standards Board sets (ASB) of the American Institute of Certified Public Accountants (AICPA) (1). Providing up-to-date and true financial reporting is essential and can save midsize manufacturers substantial time and money for when an audit is conducted. The IRS will also need access to this data in the case of a tax audit, and you must be able to provide reporting that is up to their standards. Auditors may also request additional data or documents. Locating and reporting this information accurately on the fly is crucial to prevent an audit from derailing your daily business practices. Knowing how to perform a financial audit on your books prepares you for a potential external audit and discourages internal fraud and theft.

Besides meeting regulations and requirements, operational audits can be incredibly beneficial for manufacturers. These types of examinations ensure that everything is working as intended to uphold quality and safety, catching any issues or non-conformances at the source. Furthermore, operational audits help identify areas for improvement, uncovering opportunities for greater efficiency and cost savings. Benefits of an operational audit include greater quality and customer satisfaction; reduced waste and rework, resulting in greater profits; faster corrective actions and enhanced safety; and greater productivity. For example, layered process audits (a system of process audits conducted by multiple management levels) have been shown to reduce internal defects by as much as 73% and cut scrap costs by over 50% in less than one year (2). Internal audits are essential to reduce risk, which is paramount in the manufacturing industry. The manufacturing industry ranks third for on-the-job incidents, with an average of 400,000 non-fatal injuries a year and 3.4% reportable injury rate in 2018. Common causes of injury were contact with objects and equipment (23.5%) and falls, slips and trips (23.9%) (4). Process audits are essential to make sure that everyone is following safety protocol and reduce the rate of injury.

How Does Enterprise Resource Planning (ERP) Technology Help with Audits?

All audits, regardless of type, require full visibility into your operational procedures and accurate reporting. Financial management software that links your accounting information to your production processes, invoices, and sales orders ensures that you always have accurate and up-to-date financial information. SAP Business One automatically triggers



accounting updates as soon as a business transaction occurs. This simplifies on-the-fly reporting when auditors request a closer look into your financials and eliminates manual errors that occur when tracking financial information in spreadsheets. You can track your cash flow, budgets, inventory and compare your actual to your planned figures in real-time. You can pull a wide variety of reports to comply with industry, internal and government regulations.

Timely and accurate reporting allows manufacturers to conduct operational audits easily. Full visibility into operational processes allows you to identify exactly where a process may not be running as smoothly as it should and how productivity and safety can be improved. Furthermore, audits can be expensive, but an ERP system streamlines the process by centralizing all your operations and information. On average, public companies with centralized operations paid \$3.9 million for their annual financial statement audits, while those with decentralized operations paid \$9 million in 2013 (5). Auditor fees vary based on the time it takes to complete an audit and the complexity. Having all your financial and process data in one “single source of truth” allows for more accurate, actionable insights, so auditors do not have to waste time tracking down information in spreadsheets. Properly preparing for an audit by doing your own internal checks also allows for a faster (and cheaper) audit. For example, real-time inventory information in your ERP system makes sure you have accurate inventory counts at any point without having to pause warehouse operations..

Conclusion

Manufacturing audits are essential to ensure that your company complies with both external and internal regulations. Moreover, operational and process audits are valuable tools used to uphold employee safety, evaluate your current operations’ efficacy, and uncover opportunities for improvement. ERP technology can streamline the audit process and save you time and money.

SOURCES:

1. <https://www.ageras.com/blog/what-is-an-audit>
2. <https://www.ease.io/manufacturing-quality-control-the-difference-between-product-and-process-audits/>
3. <https://www.ishn.com/articles/111823-no-decline-in-2018-workplace-injury-rate>
4. <https://softengine.com/resources/form/success-new-economy/>
5. <https://www.accountingweb.com/practice/practice-excellence/survey-public-and-private-company-audit-fees-went-up-in-2013>
6. <https://sfmagazine.com/post-entry/december-2019-lower-the-costs-of-your-external-audit/>