

[Date]

To: [Name of Senior Manager/Board of Directors]

From: [Name of Auditor/Internal Controller]

Subject: Management Letter - Internal Control Weaknesses in Payroll Administration

Dear [Recipient Name],

In connection with our recent review of the payroll cycle for the period ending [Date], we identified a significant internal control weakness regarding the Segregation of Duties (SoD) within the payroll department.

Observation

We noted that the same employee is currently responsible for the following functions:

- Adding and updating employee master data (new hires, salary changes, bank details).
- Processing and calculating monthly payroll runs.
- Distributing paychecks or initiating electronic funds transfers.

Risk

The lack of segregation of duties creates a risk that unauthorized changes could be made to payroll records, or that "ghost employees" could be added to the system without detection. Without independent oversight, errors or fraudulent activities could lead to significant financial loss and inaccurate financial reporting.

Recommendation

We recommend that the following duties be assigned to different individuals:

- **Authorization:** Personnel changes (hiring, termination, and pay raises) should be handled exclusively by the Human Resources department.
- **Execution:** The payroll officer should process data but should not have access to modify employee master files.
- **Review:** A manager independent of the payroll process should review and sign off on the final payroll register before payments are released.
- **Reconciliation:** Bank reconciliations for the payroll account should be performed by someone not involved in the payroll entry or distribution process.

Management Response

[Space for Management to provide their action plan and implementation date]

Sincerely,

[Signature]

[Printed Name]

[Title]