To: [Name of Department Head/Process Owner]

From: [Your Name/Audit Department]

Date: [Insert Date]

Subject: Audit Observation: Delayed Fixed Asset Capitalization

Observation:

During the review of the fixed asset register and project completion reports for the period [Insert Period], it was observed that several assets were not capitalized in a timely manner. Specifically, assets that were "ready for intended use" remained in the Capital Work-in-Progress (CWIP) account for an extended period ranging from [Number] to [Number] months after project completion.

Criteria:

According to [Insert Accounting Standard, e.g., IAS 16 or Company Policy], depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Root Cause:

- Lack of formal notification from the operations/project team to the finance department upon project completion.
- Delays in receiving final invoices from vendors.
- Absence of a monthly reconciliation process for Capital Work-in-Progress accounts.

Risk / Impact:

- Understatement of depreciation expenses and overstatement of net income.
- Overstatement of Fixed Assets (CWIP) and potential inaccuracies in financial reporting.
- Non-compliance with internal accounting policies and statutory reporting standards.

Recommendation:

We recommend that management implements a formal "Project Completion Certificate" process to trigger immediate capitalization. Furthermore, the finance department should conduct monthly reviews of the CWIP account to identify projects that have been operational but not yet transferred to the fixed asset ledger.

Management Response:

[Insert Management Comments and Target Implementation Date]