

**Date:** [Insert Date]

**To:** [Insert Name of Management/Board of Directors]

**From:** [Insert Auditor/Department Name]

**Subject:** Management Letter Observation: Inaccurate Accrual and Deferral Tracking

**Observation:**

During our review of the financial closing process, we identified inconsistencies in the tracking and recording of accruals and deferrals. Specifically, several expenses pertaining to the current period were not appropriately accrued, and certain prepayments were not correctly deferred to future periods. This indicates a weakness in the cutoff procedures at year-end.

**Risk:**

Inaccurate tracking of accruals and deferrals leads to a material misstatement of the financial statements. This may result in the overstatement or understatement of both net income and the company's current liability/asset positions, potentially misleading stakeholders regarding the organization's actual financial performance.

**Recommendation:**

We recommend that management implements a robust monthly reconciliation process for all accrual and deferral accounts. This should include:

- The use of a standardized "Cutoff Checklist" during month-end and year-end closing.
- Periodic reviews of subsequent bank statements to identify unrecorded liabilities.
- Enhanced training for accounting staff on the application of the matching principle.

**Management Response:**

[Insert Management Response Here]

Sincerely,

[Insert Signature/Name]