Date: [Date]

To: [Management Name/Audit Committee]
From: [Internal Audit Department / Auditor Name]
Subject: Notice of Internal Control Deficiency - Revenue Recognition (ASC 606)

1. Observation
During the review of the revenue cycle for the period ending [Date], a deficiency was identified regarding the application of ASC 606 (Revenue from Contracts with Customers). Specifically, the control over [identify specific step: e.g., identifying performance obligations / determining transaction price / allocating price to obligations] was not operating effectively.

2. Criteria
ASC 606 requires that revenue be recognized when control of the promised goods or services is transferred to customers. Internal controls must ensure that [specific policy requirement] is documented and reviewed for all material contracts.

3. Condition
The following gaps were noted:
- [Description of specific error or missing documentation]
- [Description of failure in review or approval process]

4. Cause
The deficiency appears to be caused by [e.g., lack of technical training / turnover in accounting staff / insufficient automated system configurations].

5. Potential Effect
Failure to properly apply ASC 606 policies could result in a material misstatement of revenue and deferred revenue in the financial statements, leading to incorrect financial reporting.

6. Recommendation
We recommend that management:
- Implement a formal contract review checklist mapped to the five-step model of ASC 606.
- Conduct mandatory training for the accounting and sales teams on revenue recognition criteria.
- Perform a retrospective review of contracts signed in the current fiscal year to ensure compliance.

7. Management Response
[Space for Management to provide action plan and estimated completion date]

Signature:
____
[Name/Title]