

[Date]

[Management Name]

[Title]

[Company Name]

[Company Address]

Subject: Management Letter - Observations on Accounts Receivable Aging and Allowance Deficiencies

Dear [Management Name],

In connection with our audit of the financial statements of [Company Name] for the period ended [Date], we identified certain internal control deficiencies regarding the management of Accounts Receivable (AR) and the estimation of the Allowance for Doubtful Accounts.

1. Observation: Accounts Receivable Aging Accuracy

During our review, we noted that the AR aging report contained several inaccuracies, including long-outstanding balances that were not correctly categorized into the appropriate aging buckets. This appears to be due to [Manual Entry Errors / System Configuration Issues]. Inaccurate aging reports increase the risk of misstating the liquidity of assets.

Recommendation:

We recommend that management performs a monthly reconciliation of the AR sub-ledger to the aging report. Furthermore, a formal review process should be implemented to ensure that credit memos and payments are applied to specific invoices in a timely manner to maintain report integrity.

2. Observation: Deficiency in Allowance for Doubtful Accounts Methodology

The current methodology for calculating the Allowance for Doubtful Accounts does not sufficiently incorporate historical loss rates or forward-looking economic indicators. We observed that the allowance remains static despite an increase in the "Over 90 Days" category, suggesting that the reserve may be understated.

Recommendation:

Management should update its allowance policy to include a formal analysis of historical collection trends and specific risk assessments for high-value delinquent accounts. This methodology should be documented and reviewed quarterly to ensure compliance with [GAAP / IFRS] standards.

Management's Response:

[Insert Management's Response Here]

This communication is intended solely for the information and use of management and those charged with governance. We would like to thank your staff for their cooperation during this process.

Sincerely,

[Your Name/Firm Name]

[Title]