Date: [Insert Date]

To: [Management Name/Board of Directors]
From: [Internal Audit/External Audit Team]
Subject: Management Letter: Review of Allowance for Doubtful Accounts (AFDA) Methodology

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1. Objective
The purpose of this review was to evaluate the adequacy, consistency, and accuracy of the methodology used to calculate the Allowance for Doubtful Accounts for the period ending [Insert Period].

2. Observations

A. Methodology Consistency
[Describe whether the current policy aligns with accounting standards, such as GAAP or IFRS. Note any deviations from the established internal policy.]

B. Aging Analysis and Data Integrity
[Detail findings regarding the accuracy of the accounts receivable aging report. Note if specific high-risk accounts were appropriately identified or if data entry errors were discovered.]

C. Historical Loss Rates
[Explain if the historical loss percentages used in the calculation are outdated or if they accurately reflect recent collection trends.]

D. Management Estimates and Judgments
[Comment on the reasonableness of management's qualitative overlays or adjustments for current economic conditions.]

3. Identified Risks
[List risks, e.g., potential overstatement of assets, insufficient bad debt expense recognition, or lack of segregation of duties in the write-off process.]

4. Recommendations

- [Recommendation 1: e.g., Update historical loss rates annually.]
- [Recommendation 2: e.g., Implement a formal monthly review of aging categories over 90 days.]
- [Recommendation 3: e.g., Enhance documentation for manual adjustments to the AFDA balance.]

5. Management Response
[Space for management to provide their action plan, responsible parties, and expected completion dates.]

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[Signature]
[Name/Title]