

[Date]

To the Board of Directors and Management

[Company Name]

[Company Address]

**Subject: Management Letter Regarding Internal Control Deficiencies Over Related Party Transactions**

Dear Board of Directors and Management,

In connection with our audit of the financial statements of [Company Name] for the year ended [Year End Date], we considered the company's internal control over financial reporting. During our audit, we identified certain deficiencies in internal control specifically related to Related Party Transactions (RPT) that we believe merit your attention.

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### **1. Absence of a Formal Related Party Policy**

**Observation:** It was noted that the Company does not currently have a written policy governing the identification, approval, and documentation of transactions with related parties.

**Risk:** Without a formal policy, there is an increased risk that transactions may not be conducted at arm's length or may occur without proper authorization, leading to financial misstatement or regulatory non-compliance.

**Recommendation:** We recommend that Management develop and implement a formal RPT Policy that defines "related parties," establishes materiality thresholds, and outlines the required approval process by the Board or Audit Committee.

### **2. Incomplete Identification of Related Parties**

**Observation:** The master list of related parties was found to be outdated and did not include several newly formed affiliates or immediate family members of key management personnel.

**Risk:** Undisclosed related party transactions may lead to inaccurate financial reporting and failure to meet disclosure requirements under [Applicable Accounting Standards, e.g., GAAP/IFRS].

**Recommendation:** Management should perform an annual "Related Party Questionnaire" for all directors and key officers to ensure the master list is updated and circulated to the accounting department.

### **3. Lack of Independent Review of Terms**

**Observation:** We identified instances where transactions with related entities were executed without a comparative analysis to market rates or independent benchmarking.

**Risk:** The Company may be overpaying for services or underselling assets, resulting in a transfer of value that is detrimental to minority shareholders or the Company's tax position.

**Recommendation:** All material RPTs should be supported by documentation demonstrating that the terms are equivalent to those that would prevail in an arm's length transaction.

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This communication is intended solely for the information and use of Management and the Board of Directors and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to thank your staff for their cooperation during our audit. We are available to discuss these comments and recommendations at your convenience.

Sincerely,

[Partner Name]  
[Audit Firm Name]