

[Date]

To the Board of Directors and Management

[Company Name]

[Company Address]

**Subject: Management Letter regarding Material Weakness in Internal Control over Related Party Transaction Identification**

Dear Management,

In planning and performing our audit of the financial statements of [Company Name] as of and for the year ended [Date], we considered the Company's internal control over financial reporting. During our audit, we identified a deficiency in internal control that we consider to be a material weakness.

**Observation: Material Weakness in Identification of Related Party Transactions**

During our testing, we noted that the Company does not have a formal, consistently applied process to identify, document, and disclose all related party relationships and transactions. Specifically, the Company lacks a centralized master list of related parties and failed to perform periodic reconciliations between executive disclosures and the general ledger.

**Impact**

The failure to accurately identify and track related party transactions creates a material risk that financial statements may be misstated and that required disclosures under the applicable financial reporting framework (e.g., GAAP/IFRS) are incomplete or omitted. This could result in undetected conflicts of interest or non-arm's length transactions.

**Recommendation**

We recommend that Management implement the following controls:

- Establish a formal Related Party Policy requiring annual and quarterly conflict-of-interest disclosures from all directors and key management personnel.
- Maintain a comprehensive Related Party Master File and integrate it into the accounting system to flag transactions with these entities automatically.
- Implement a secondary review process by the CFO or Controller to verify the completeness of related party disclosures prior to the issuance of financial statements.

**Management's Response**

[Space for Management to provide their corrective action plan]

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.

Sincerely,

[Auditor Name/Firm Name]

[Title]