Date: [Insert Date]

To: [Insert Name of Management/Board of Directors]
Company: [Insert Company Name]

Subject: Notification of Debt Covenant Breach and Audit Impact

Dear [Insert Name],

During the course of our audit of the financial statements for the period ended [Insert Date], we have identified a breach of certain financial covenants associated with your credit facility with [Insert Lender Name].

Description of Breach:
Based on our calculations, the [Insert Specific Covenant Name, e.g., Debt-to-Equity Ratio] as of [Date] was [Insert Actual Value], which exceeds the maximum limit of [Insert Required Value] stipulated in the loan agreement dated [Insert Agreement Date].

Audit and Financial Reporting Implications:

- **Classification of Debt:** Due to the breach, the lender currently has the right to call the loan. In accordance with accounting standards, the non-current portion of this debt must be reclassified as a current liability unless a formal waiver is obtained.
- **Going Concern Assessment:** This breach requires management to perform a formal assessment of the company's ability to continue as a going concern.
- **Disclosure:** The nature of the breach and the status of any negotiations with the lender must be fully disclosed in the notes to the financial statements.

Required Actions:
We request that management provide us with the following documentation as soon as possible:

1. A formal waiver from [Insert Lender Name] covering a period of at least 12 months from the balance sheet date.
2. An updated cash flow forecast demonstrating the company's liquidity position.
3. Management's written plan to remediate the breach or refinance the debt.

Please note that failure to obtain a waiver or provide a viable remediation plan may result in a modification of our audit opinion.

We are available to discuss this matter and its impact on the audit timeline at your earliest convenience.

Sincerely,

[Your Name/Signature]
[Your Title/Audit Firm Name]