

[Date]

To: [Recipient Name/Title]

From: [Your Name/Audit Department]

Subject: Internal Control Advisory - Deferred Revenue Amortization Schedules

Dear [Name],

During our recent review of the organization's revenue recognition processes, we identified specific areas for improvement regarding the maintenance and reconciliation of deferred revenue amortization schedules. This advisory letter outlines our findings and provides recommendations to strengthen internal controls.

### **Observation**

Our review noted inconsistencies between the subsidiary deferred revenue schedules and the general ledger. Specifically, we identified manual entry errors in the amortization spreadsheets, including incorrect service period dates and formula errors that resulted in premature revenue recognition.

### **Risk**

Inaccurate amortization schedules may lead to material misstatements in the financial statements, specifically the overstatement or understatement of reported revenue and liabilities for a given period.

### **Recommendations**

- **Automated Systems:** Evaluate the feasibility of using an automated revenue recognition module within the ERP system to reduce reliance on manual spreadsheets.
- **Formal Reconciliation:** Implement a mandatory month-end reconciliation process where the total of the amortization schedules is balanced against the general ledger control account, documented by a preparer and a reviewer.
- **Standardized Templates:** Utilize locked spreadsheet templates with protected formulas to prevent accidental calculation errors.
- **Periodic Validation:** Conduct quarterly spot checks on a sample of contracts to ensure the amortization period aligns strictly with the performance obligations stated in the customer agreements.

We recommend implementing these controls to ensure the integrity of financial reporting. Please provide a formal response regarding your planned corrective actions by [Date].

Sincerely,

[Your Signature]

[Your Title]