

How to Best Utilize Your Auditor's Management Letter

Your auditor is ready to help your business succeed. An auditor will typically compile a list of internal control weaknesses and operating inefficiencies that management should review.

These are often communicated through a management letter. The AICPA standards requires auditors to communicate two types of deficiencies in writing. They are Material Weaknesses and Significant Deficiencies.

A management letter will cover three elements for each deficiency. Those elements are:

Observation: Where the auditor describes the condition, the cause, and explains why it needs improvement.

Impact: Which quantifies the potential monetary effects,

The third is Recommendations, where the auditor describes a solution or less alternative approaches as a course of action.

When your CPA delivers your audited financial statements, be sure to review the management letter to make some improvements and use the letter as a way to track results. If you're looking for audit assistance, SVA is here to help.

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