



Trends in material weaknesses

KPMG 2024 Study

December 2024

About this study

2024 material weakness study

Purpose

The purpose of this study was to identify the common themes and business process areas associated with material weaknesses (MWs) reported by public companies. The statistics that follow stem from a study performed by KPMG LLP (KPMG) in the summer of 2024.



Approach

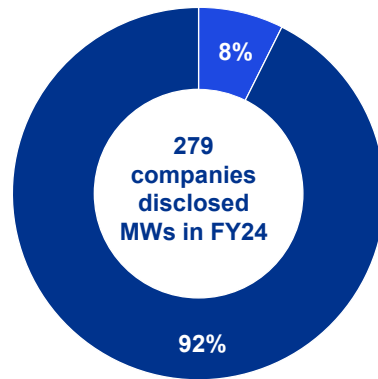
The study analyzed annual filings released by SEC-registered public companies for FY 2024. Data was reviewed from the third-party research database Audit Analytics, and all MWs reported were aggregated and then summarized based on the underlying themes and affected business processes related to the MW.

For purposes of this report, the 2024 year considers MWs reported in any public company filing that was released in 2024. The MWs reported in this year's study came from companies with year-ends through June 30, 2024. The data set underlying this study does not include S-1s for IPO companies that were first-time filers during the time period of the report, but includes all companies once they have filed a 10-K.



2020-2024 material weaknesses study – background statistics

Comparison of MWs percentages over the last five years of the study



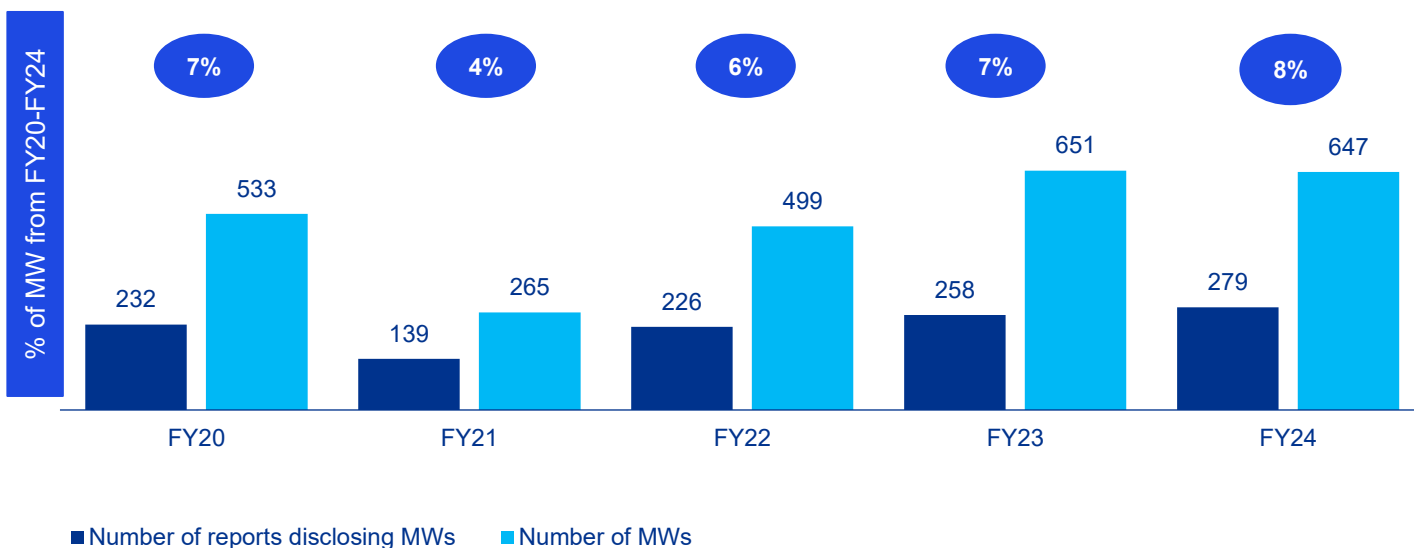
Of the **3,502 annual reports** filed in the 2023/2024 year, **279 companies (8%)** disclosed MWs in their filings

The percentage of companies disclosing MWs in 2024 increased as compared to the prior year.

There were 100 companies with MWs that were first time filers over the last five years.

Percent of companies disclosing MWs, by year^

The % of MWs is consistently in the 4% to 8% range during years covered by the study with an increase in FY24



^ % represents # of companies that disclosed MWs over the total number of filings for that year

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source(s): Audit Analytics



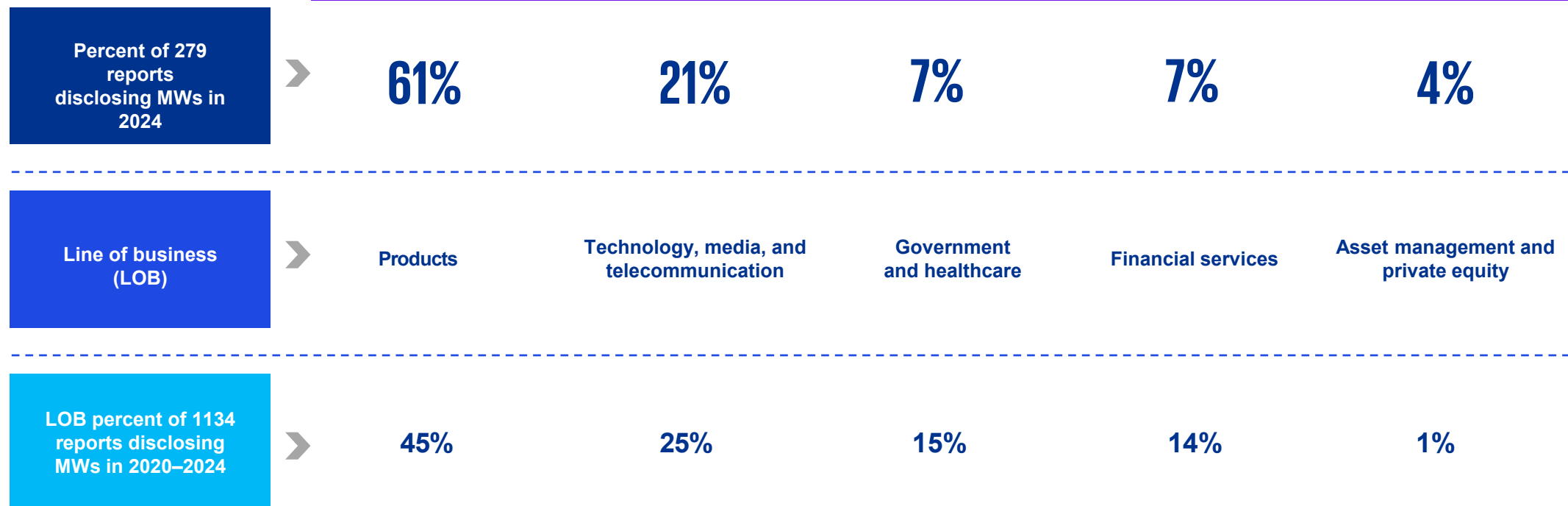
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2024 material weaknesses study – background statistics

Industry breakdown of companies that disclosed MWs in their filings in the year 2024

As a percentage of MWs reported compared to the size of the industry sector, products shows the highest incidence of MWs. These industry trend percentages are consistent with trends noted in prior years.



The categorization has been restructured since prior reports as follows: Products include Consumer & Retail, Energy, Industry Manufacturing, and Life Sciences; Healthcare covers Federal Government, Healthcare, and State & Local Education; Financial Services comprises Banking & Finance, Capital Markets, and Insurance.

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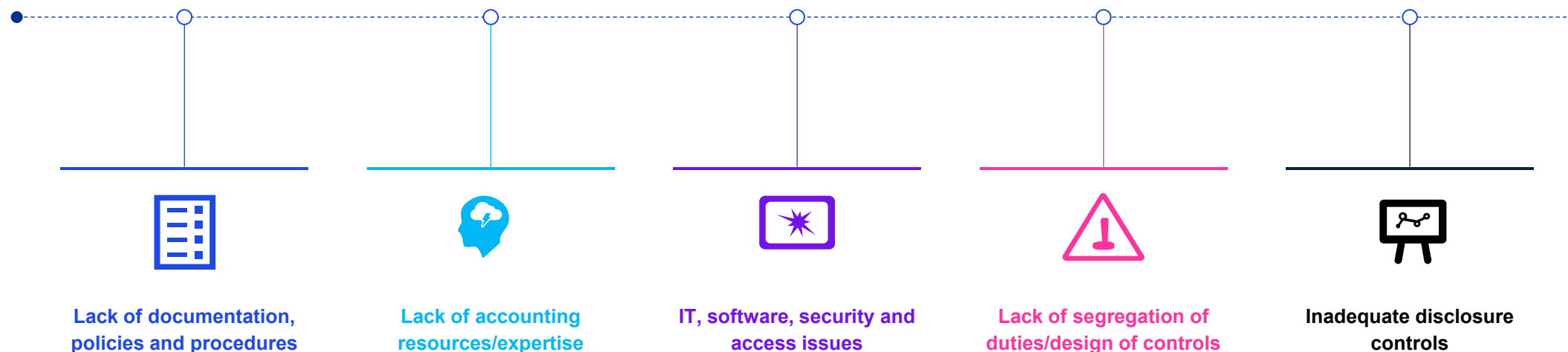
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Summary of material weakness themes reported

Issues contributing to MWs in 2024

Apart from the top five primary themes of MWs noted below, 8% of companies have reported issues related to *restatement or nonreliance of company filings*.

The five primary themes for 2024 MW root causes



The top five primary themes of MWs noted in 2024 are consistent with the top themes reported in the several previous years.

Note: Key themes are defined as those which are applied to 20% or more of companies reporting MWs.

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source(s): Audit Analytics, SEC Edgar filings



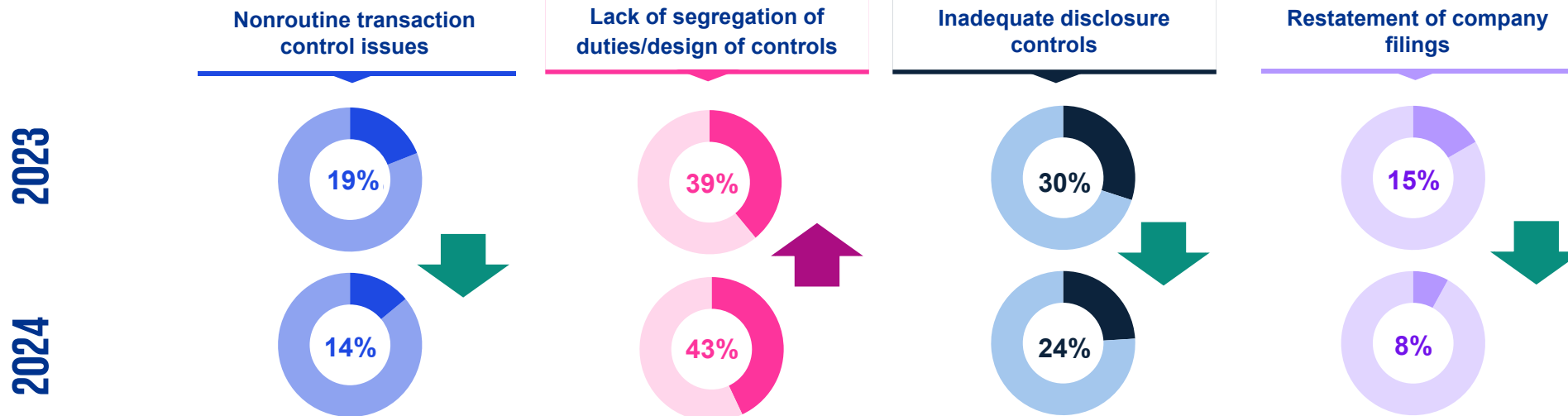
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Trends in material weakness themes reported

Notable changes between FY24 and FY23 trends in MWs

MWs related to inadequate disclosure controls decreased by 6% in FY24, which is a return to typical levels. MWs related to restatement of company filings decreased by 7% in FY24, and this is also within the typical range that's been shown over the last several years. MWs related to lack of segregation of duties increased by 4% and have been trending upward. MW themes in other areas remained consistent with the prior year, only showing a 1%–3% change in either direction.



- MWs reported were often the result of more than one overlapping issue/challenge.
- Percentages are calculated by dividing the number of companies with MWs in a category by total number of reports in the stated year. Individual companies may be reported in multiple years.

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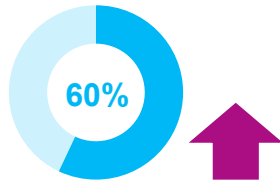
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Trends in material weakness themes reported (continued)

The following issues contributing to MWs showed notable trends over the last five years from 2020–2024, as depicted below.

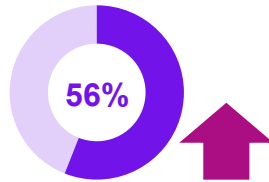
Lack of accounting resources/expertise



Steadily increased from 2021 through 2024

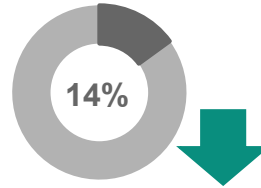
This issue was at a five year low of 34% in 2021, followed by an increase to 48% in 2022, 59% in 2023, and 60% in 2024.

Information technology, software, security & access issues



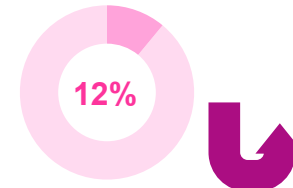
Steadily increased since 2021 from 31% to 40% in 2022, 54% in 2023, and 56% in 2024.

Nonroutine transaction control issues



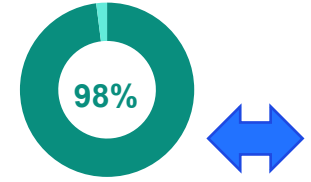
Declined to 14% in 2024 after a steady increase from 7% to 19% between 2019 and 2023.

Journal entry control issues



Increased from 2020–2021 from 9% to 12%, followed by a decrease to 9% in 2022, with an increase to 13% in 2023 followed by a decline to 12% in 2024.

Lack of accounting documentation, policy and/or procedure



Percentage has held steady around 100% for the last five years. This means that at least one of the root causes for the MW was related to lack of documentation, policies, and procedures; but additional causes may also be identified for each MW.

- MWs reported were often the result of more than one overlapping issue/challenge
- Percentages are calculated by dividing the number of companies with MWs in a category by total number of reports between 2020–2024 (1,134). Individual companies may be reported in multiple years.

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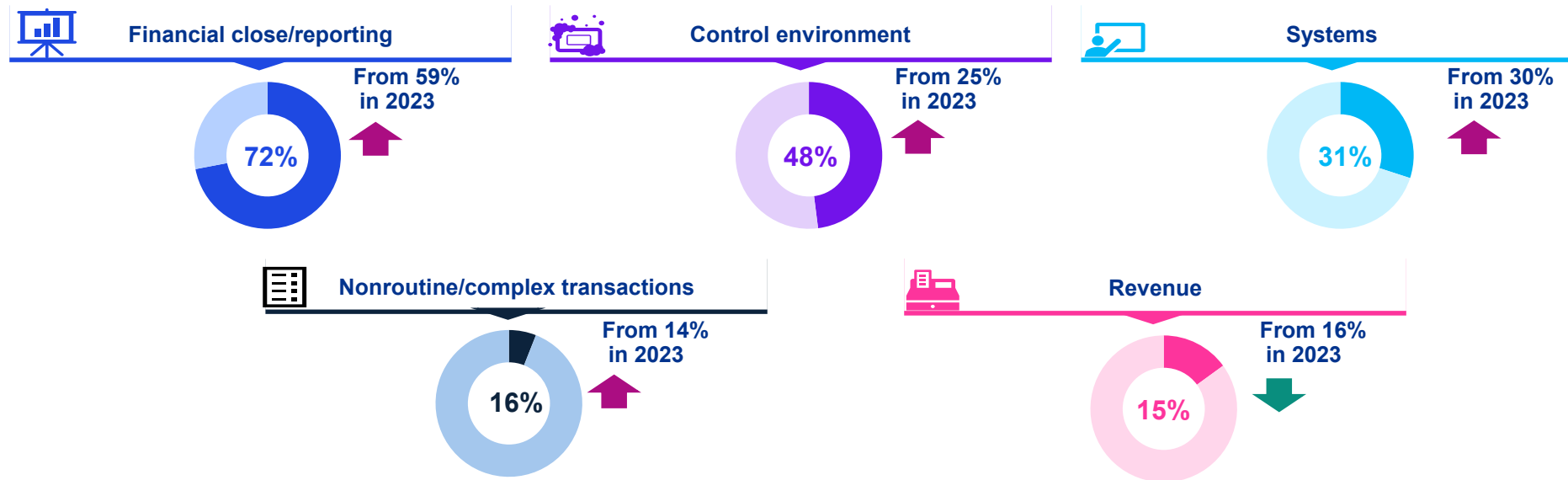
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Trends in material weakness process areas

Process areas with highest concentration of MWs in 2024

The graphs below represent the percentage of MWs by process area reported in 2024, with percentage changes from prior year indicated next to the relevant process area. The level of MWs related to systems and revenue remained nearly consistent with the prior year, while financial close, control environment, and nonroutine complex transactions related MWs increased in the current year.



- MWs reported often impacted multiple process areas
- Percentages are calculated by dividing the number of companies with MWs in a category by total number of companies that reported MWs (279) in 2024.

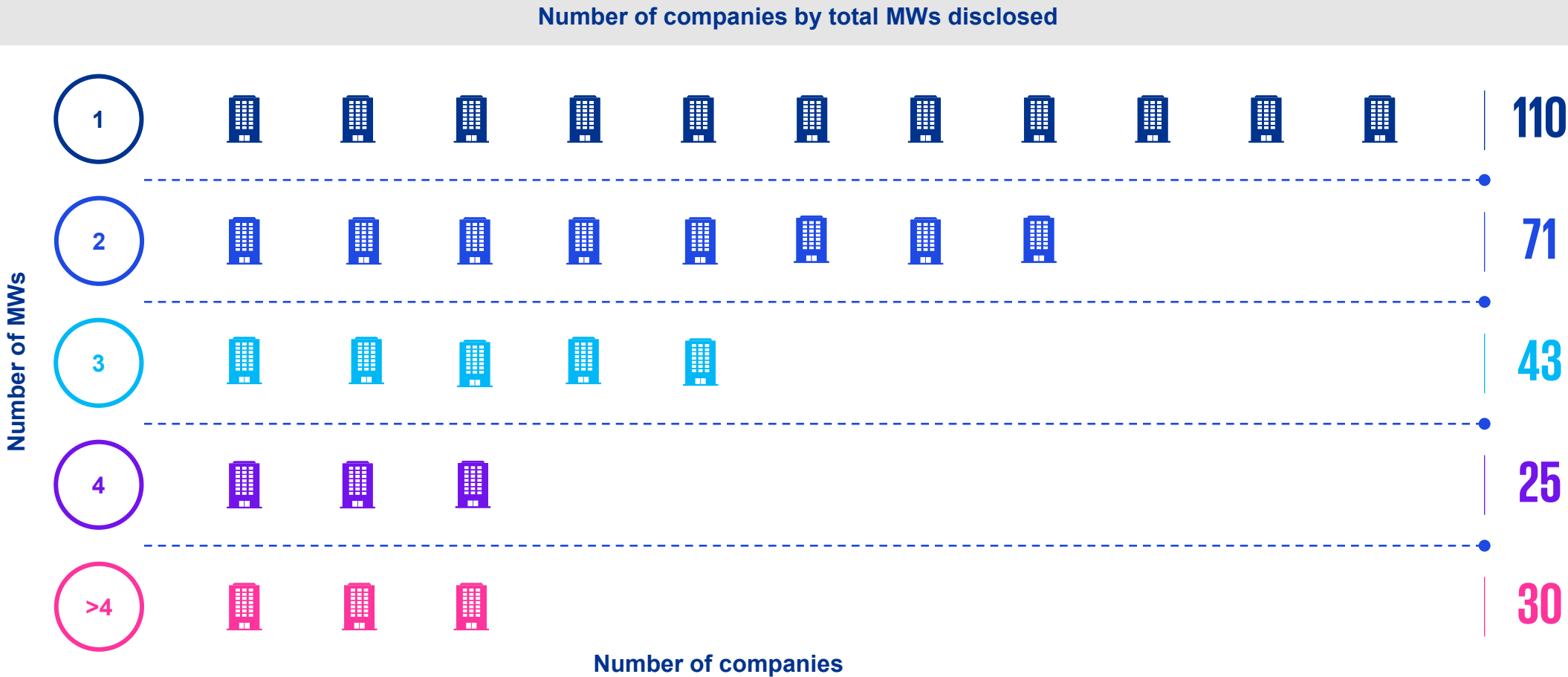
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Summary of material weaknesses reported in 2024



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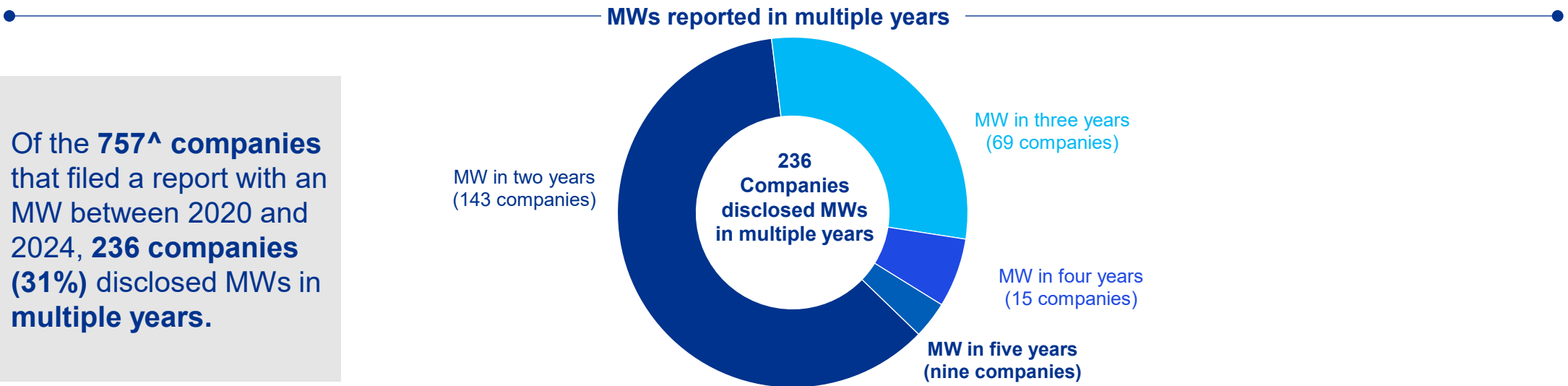


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Material weaknesses in multiple years

Trends in MWs over multiple years

Between 2020 and 2024,* there were 236 companies that reported MWs in multiple years, which represents 31% of the total companies filing a report with an MW during the time period.



* This analysis is based on the data sets included in our current and previous studies, dating back to KPMG's 2020 Material Weakness study.

^ The 757 companies reported in the table above represent the unique count of companies filing a report with an MW between 2020–2024 (i.e., excluding duplicative company counts in which there was a multiple MW reported or multiple filings in one year).

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Examples of material weaknesses

Common themes in 2024



Lack of documentation, policies and procedures

“We identified a material weakness in our internal control over financial reporting as of December 31, with respect to not retaining complete documentation as evidence for performing certain (i) business processes controls (including automated and IT-dependent manual...”



Lack of accounting resources/expertise

“The Company did not maintain sufficient technical resources to ensure that the financial statements and notes to the financial statements were presented fully in accordance with GAAP and with all required disclosures.”



IT, software, security and access issues

“... Lack of IT governance, physical safeguards and access to programs/data: We have inadequate design of IT general and application controls that could prevent the information systems from providing complete and accurate information...”



Segregation of duties/design of controls

“.. The Company had inadequate segregation of duties over the preparation, approval and posting of manual journal entries....”



Inadequate disclosure controls

“...a material weakness in internal control over financial reporting relating to the consolidation process...specifically pertaining to the Company’s design of controls to determine proper accounting for certain foreign exchange transactions...”

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Examples of material weaknesses (continued)

Top two process areas in 2024



Financial close/Reporting

“.. material weakness in internal control over financial reporting existed as of that date related to certain information technology general controls, specifically ineffective (i) user access and segregation of duty controls that restrict user and privileged access to appropriate personnel...”



Control environment

“...the Company did not effectively design and implement components of the COSO framework to address all relevant risks of material misstatement, including elements of the control environment, information and communication, control activities and monitoring activities components, relating to: (i) providing sufficient and timely management oversight and ownership over the internal control evaluation process....”



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