



# Trends in material weaknesses

Non-IPO Companies

KPMG 2021 Study

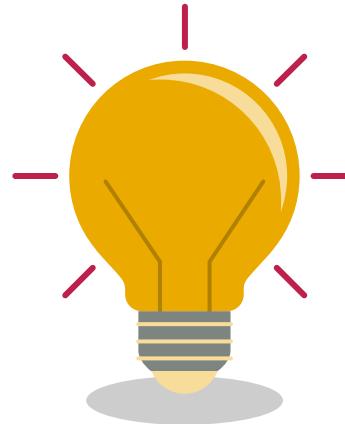
August 2021



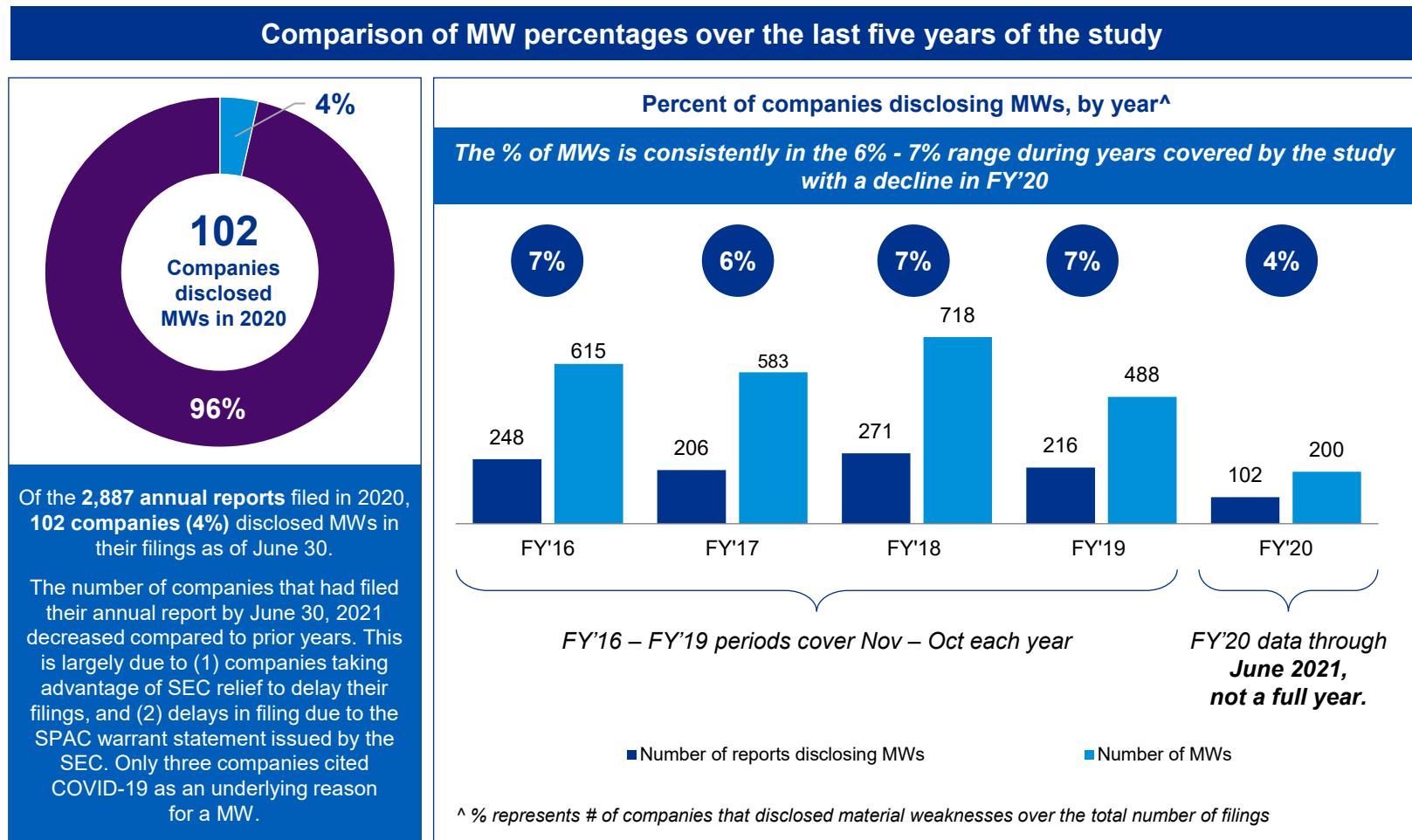
# About this study

## 2020 material weakness study (non-IPO companies)

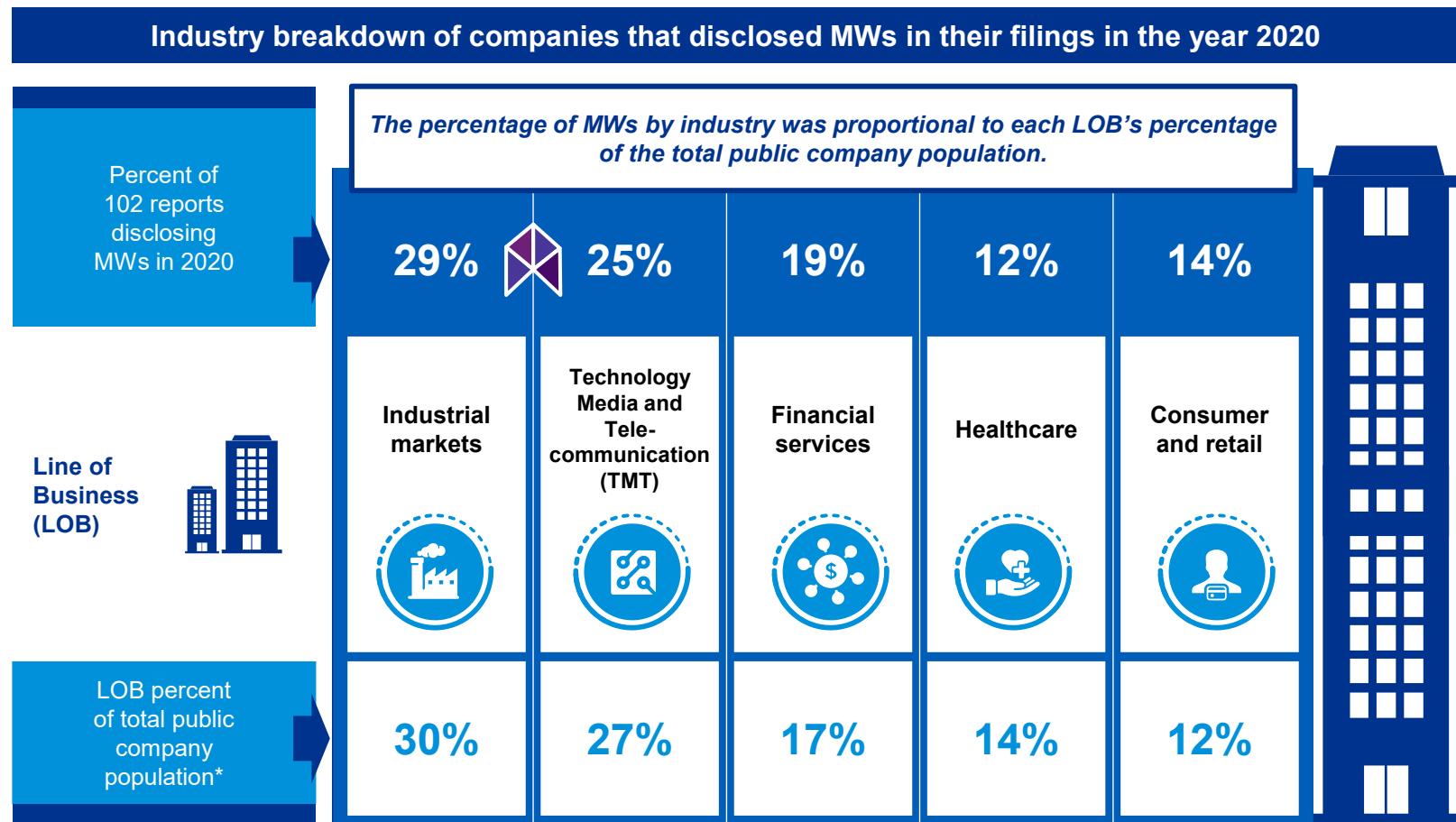
Purpose	Approach
<ul style="list-style-type: none"><li>The purpose of this study was to identify the common themes and business process areas associated with material weaknesses (MW) reported by public companies. The statistics that follow stem from a study performed by KPMG in the spring of 2021.</li></ul>	<ul style="list-style-type: none"><li>The study analyzed annual filings released by all SEC-registered public companies between November 2016 and June 2021. 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.</li><li>For purposes of this report, the 2020 year considers MWs reported between November 2020 and June 2021.</li></ul>



# 2016–2020 material weakness overview



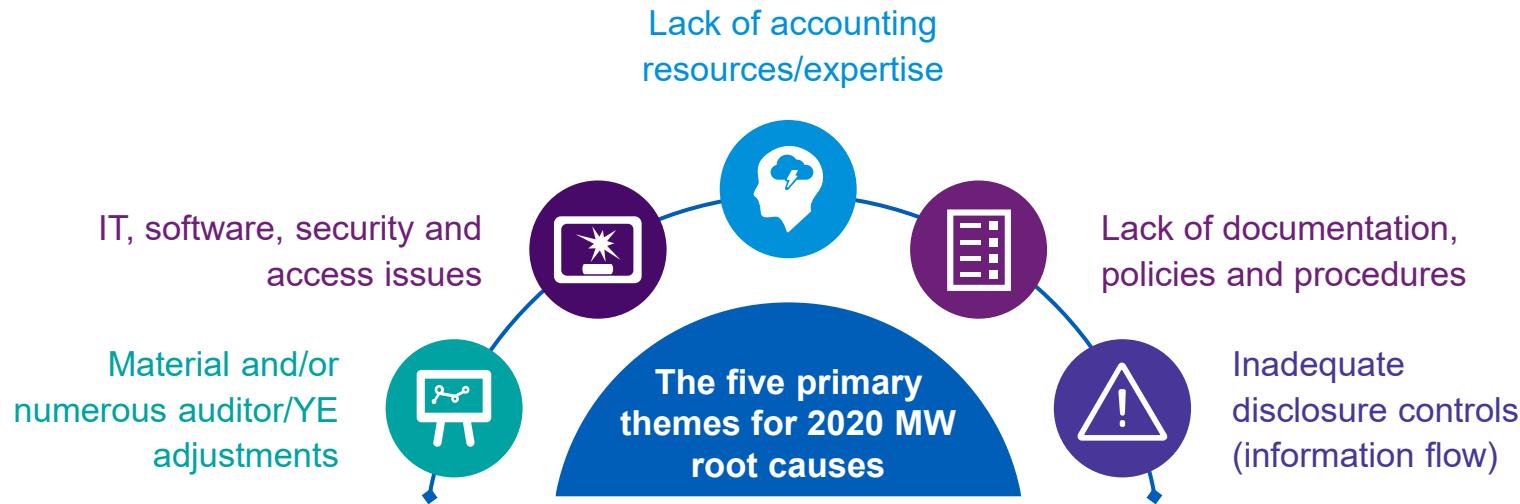
# 2020 study background statistics



\* % Calculations based on 1,043 reports with MWs between 2016-2020

# Summary of material weakness themes reported

## Issues contributing to MWs in 2020



Apart from the top five primary themes of material weaknesses noted above, **15%** of companies have reported issues related to ***restatement of company filings***.

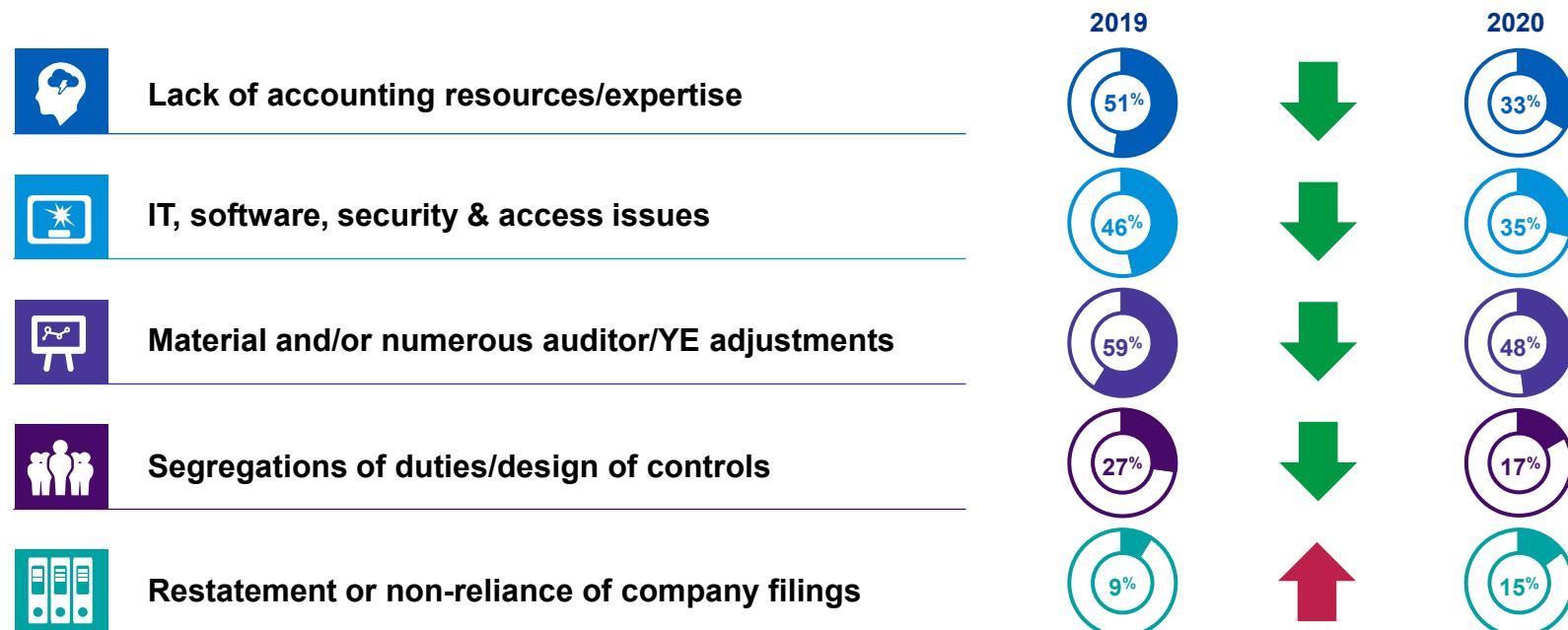
Note: Key themes are defined as those which applied to 20% or more of companies reporting MWs.

# Trends in material weakness themes reported

## Notable changes between FY'20 and FY'19 trends in MWs

The following issues contributing to MWs showed notable changes between 2019 and 2020 filings, as depicted below.

**Lack of accounting resources, IT/software/security and Material and/or numerous auditor /YE adjustments showed decreases from 2019 to 2020; however, they remained primary MW themes in 2020. Segregation of duties showed a notable decrease from 2019 and was not a primary MW theme for 2020. Restatements increased from 2019 to 2020.**

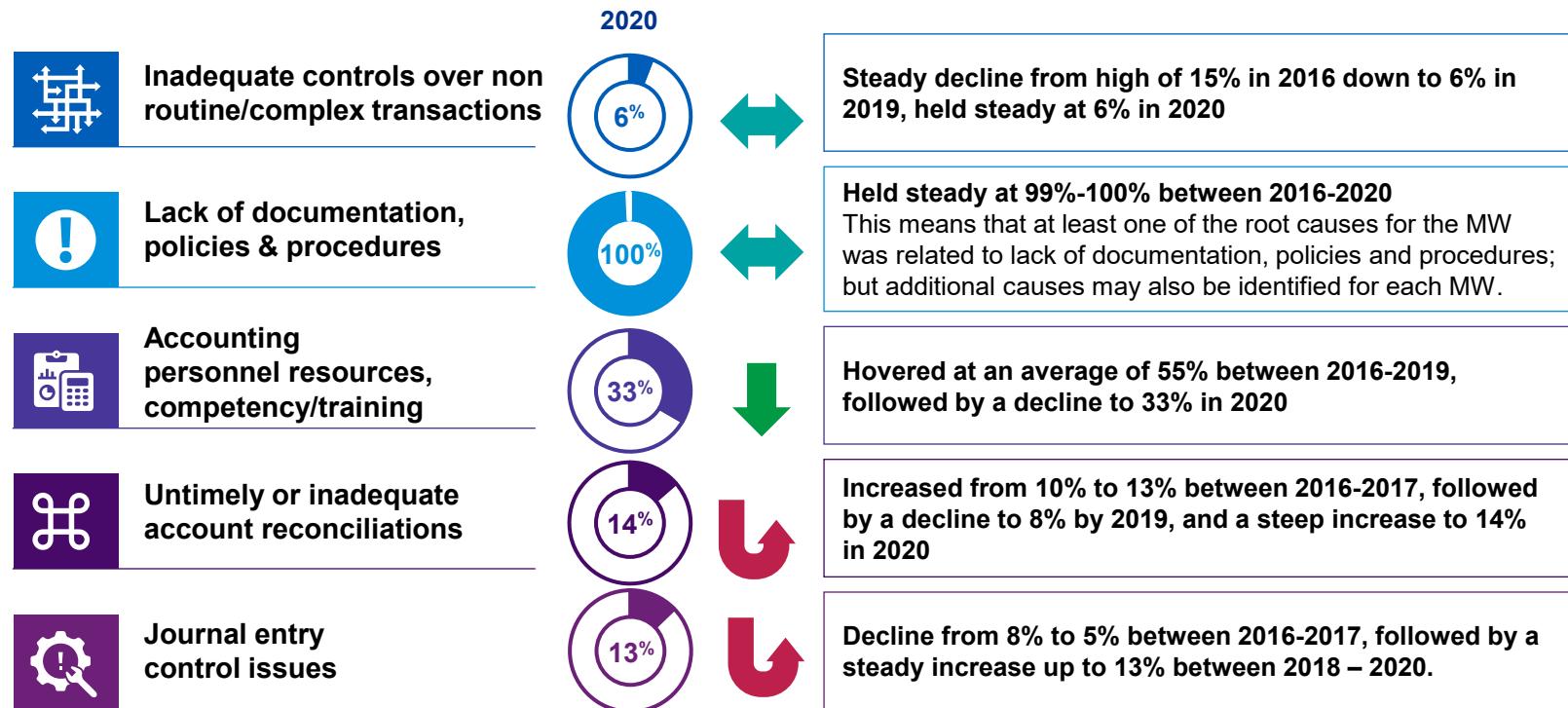


- Material weaknesses reported were often the result of more than one overlapping issue/challenge
- Percentages are calculated by dividing the number of companies with material weaknesses in a category by total number of reports in the stated year. Individual companies may be reported in multiple years.

# Trends in material weakness themes reported (continued)

## Notable trends in issues contributing to MWs over the last 5 years

The following issues contributing to MWs showed notable trends over the last several years, as depicted below.

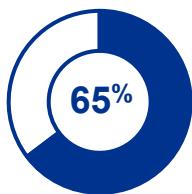


- Material weaknesses reported were often the result of more than one overlapping issue/challenge
- Percentages are calculated by dividing the number of companies with material weaknesses in a category by total number of reports between 2016-2020 (1,043). Individual companies may be reported in multiple years.

# Trends in material weakness process areas

## Process areas with highest concentration of MWs in 2020

Systems and Control Environment were added as top process areas in 2020, while Inventory was removed as a top process area as compared to 2019. The graphs below represent the percentage by process area reported in 2020, with notable percentage changes indicated next to the relevant process area.



From 83%  
in 2019



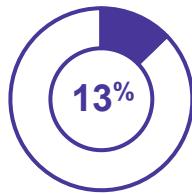
From 28%  
in 2019



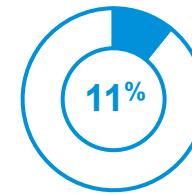
From 20%  
in 2019



From 6%  
in 2019



From 12%  
in 2019



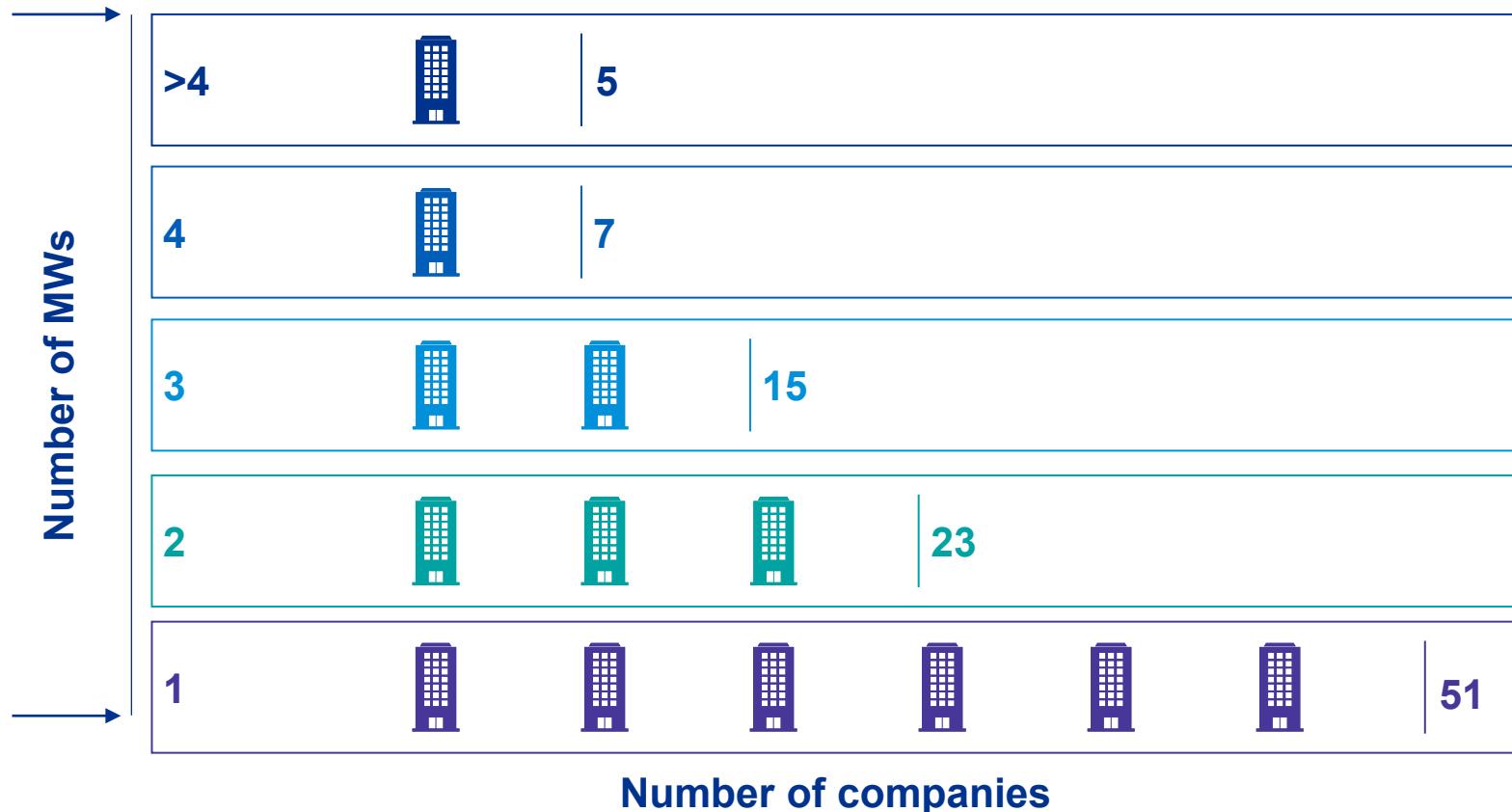
From 25%  
in 2019



- Material weaknesses reported often impacted multiple process areas
- Percentages are calculated by dividing the number of companies with material weaknesses in a category by total number of companies that reported MWs (102) for 2020.

# Summary of material weaknesses reported in 2020

## Number of companies by total material weaknesses disclosed

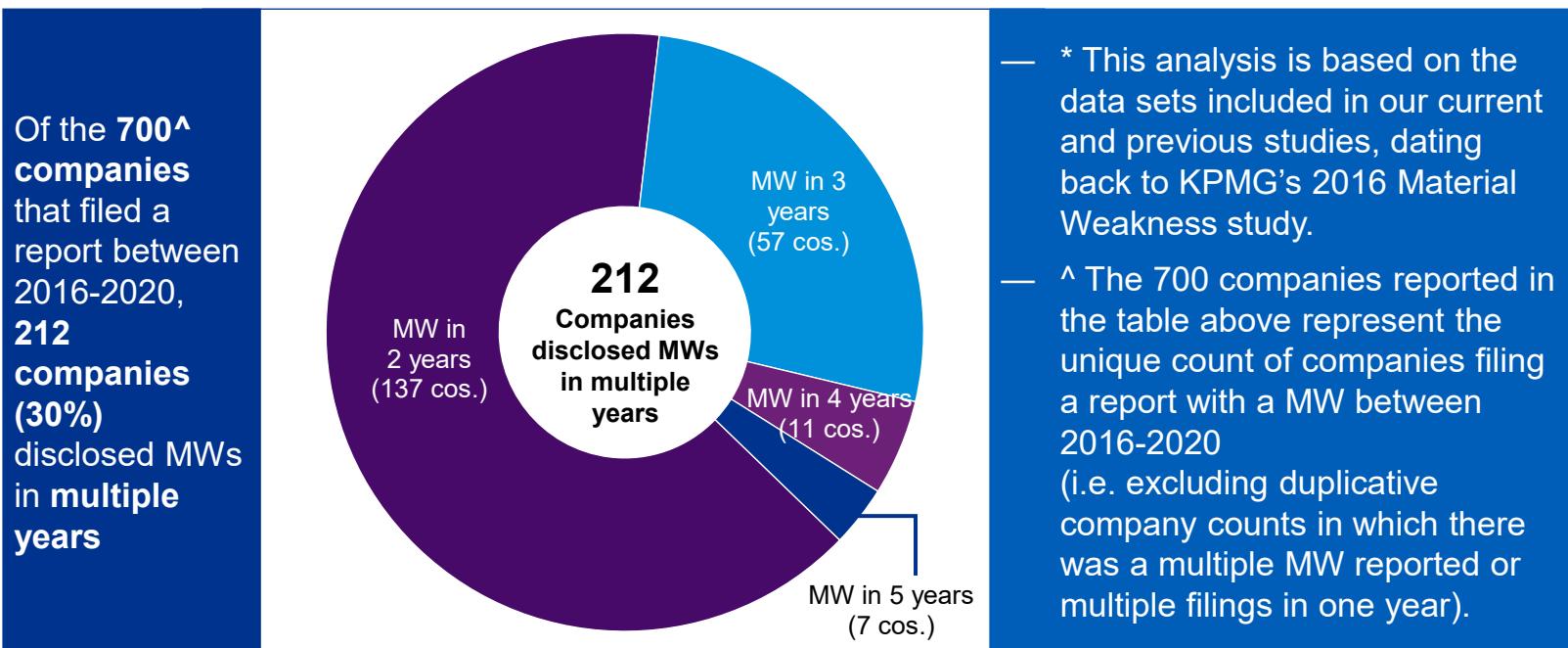


# Material weaknesses in multiple years

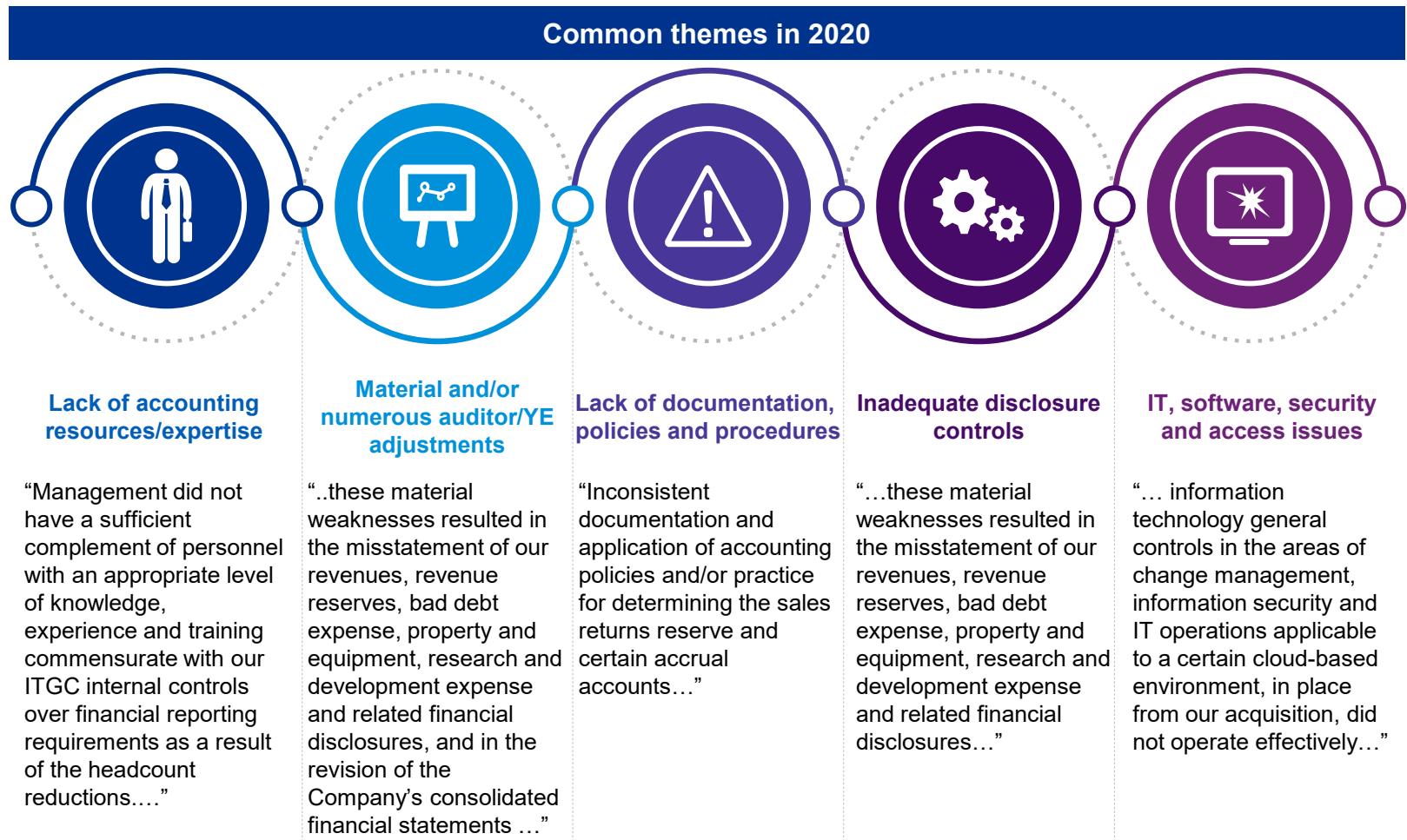
## Trends in MWs over multiple years

Between 2016–2020\*, there were 212 companies that reported MWs in multiple years, which represents 30% of the total companies filing a report during the time period.

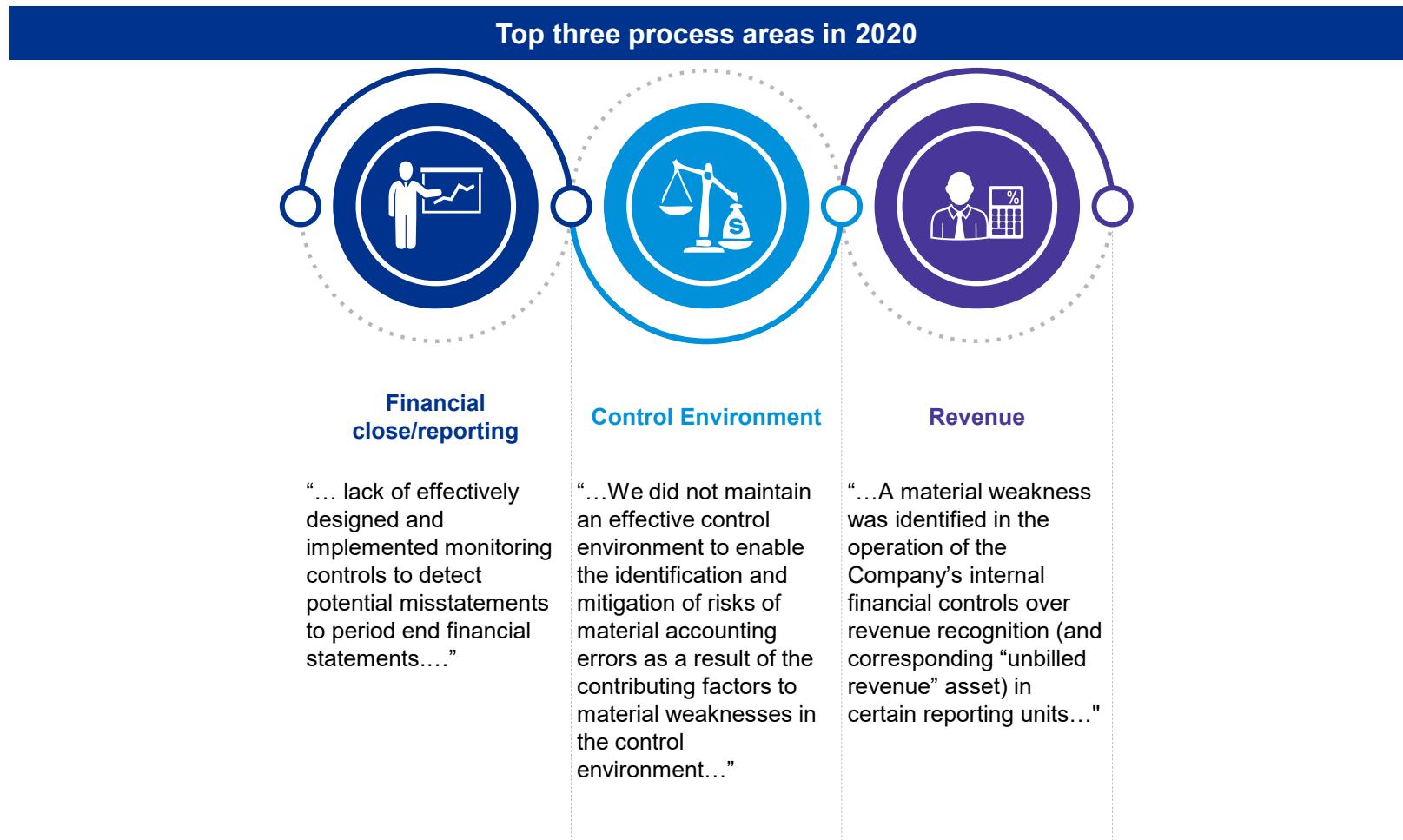
### MWs reported in multiple years



# Examples of material weaknesses



# Examples of material weaknesses (continued)





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