



Trends in material weaknesses

Non-IPO Companies

KPMG 2021 Study

August 2021



About this study

2020 material weakness study (non-IPO companies)

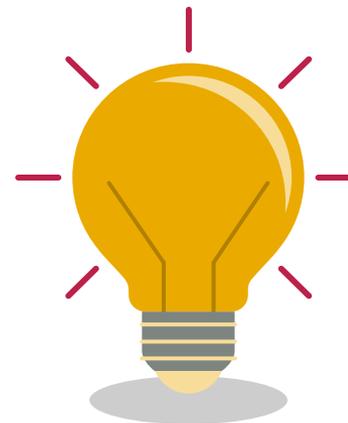
Purpose

- 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.



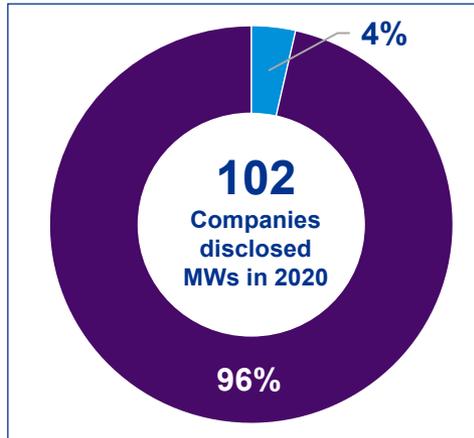
Approach

- 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.
- For purposes of this report, the 2020 year considers MWs reported between November 2020 and June 2021.



2016–2020 material weakness overview

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

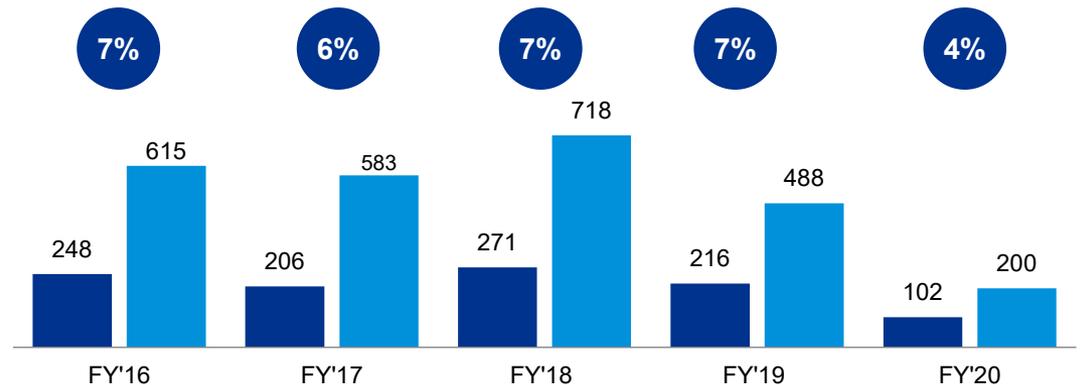


Of the **2,887 annual reports** filed in 2020, **102 companies (4%)** disclosed MWs in their filings as of June 30.

The number of companies that had filed their annual report by June 30, 2021 decreased compared to prior years. This is largely due to (1) companies taking advantage of SEC relief to delay their filings, and (2) delays in filing due to the SPAC warrant statement issued by the SEC. Only three companies cited COVID-19 as an underlying reason for a MW.

Percent of companies disclosing MWs, by year[^]

The % of MWs is consistently in the 6% - 7% range during years covered by the study with a decline in FY'20



FY'16 – FY'19 periods cover Nov – Oct each year

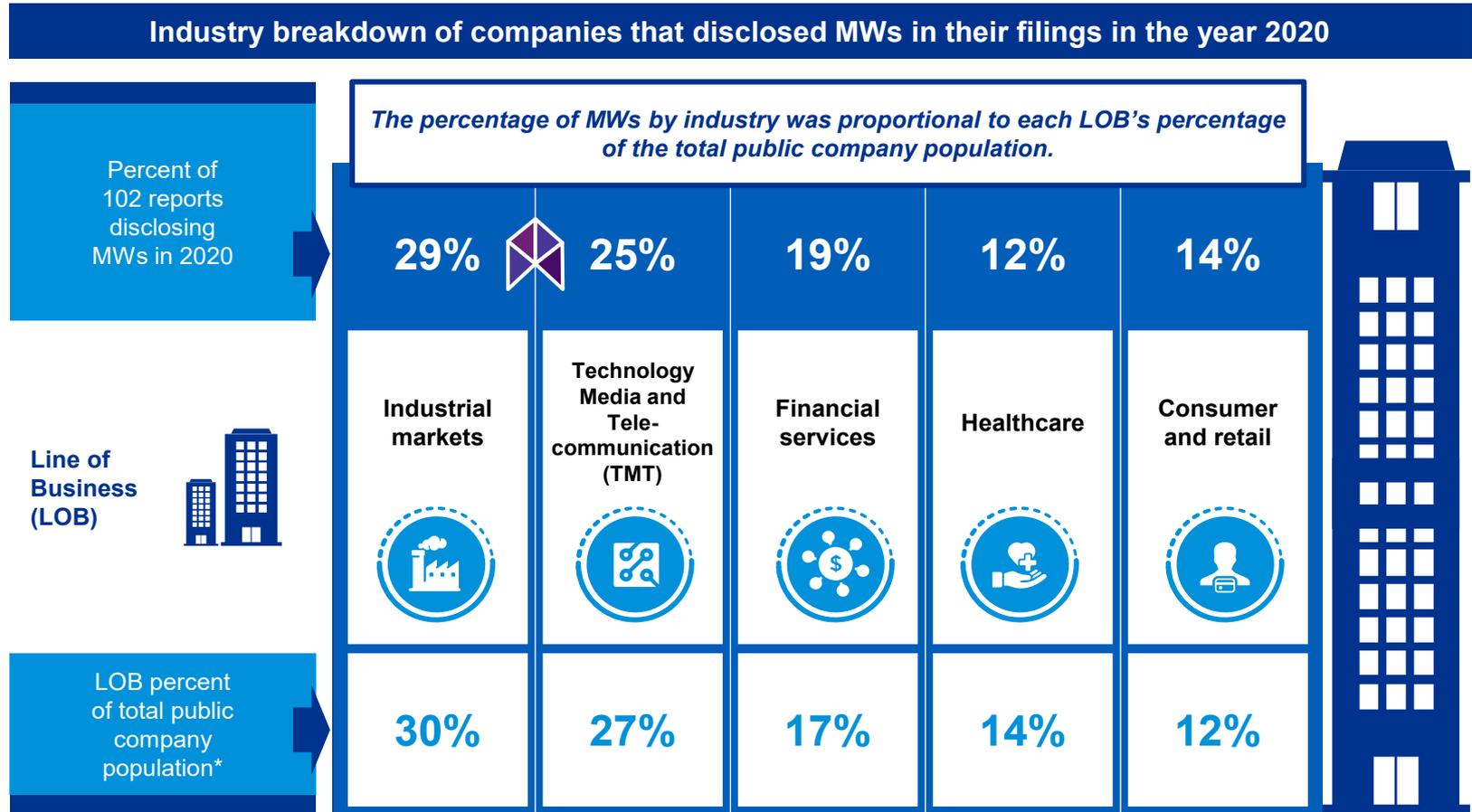
FY'20 data through June 2021, not a full year.

■ Number of reports disclosing MWs

■ Number of MWs

[^] % represents # of companies that disclosed material weaknesses over the total number of filings

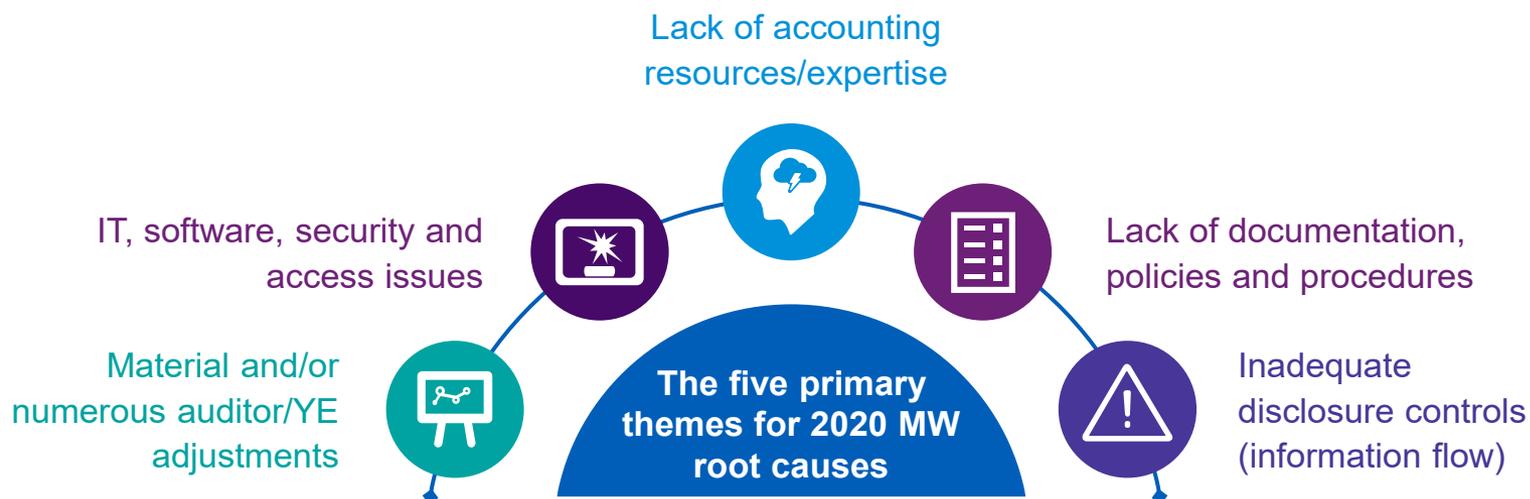
2020 study background statistics



* % 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*.

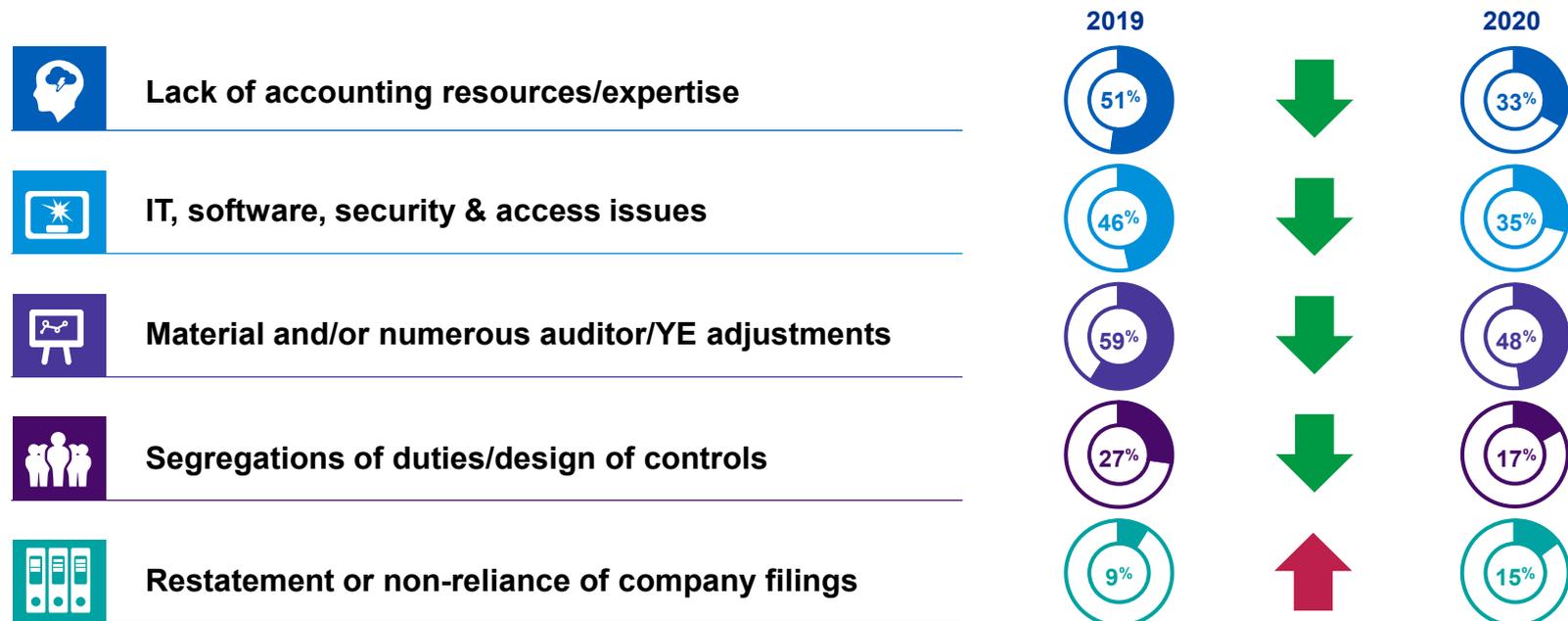
Note: Key themes are defined as those which applied to 20% or more of companies reporting MWs.

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.

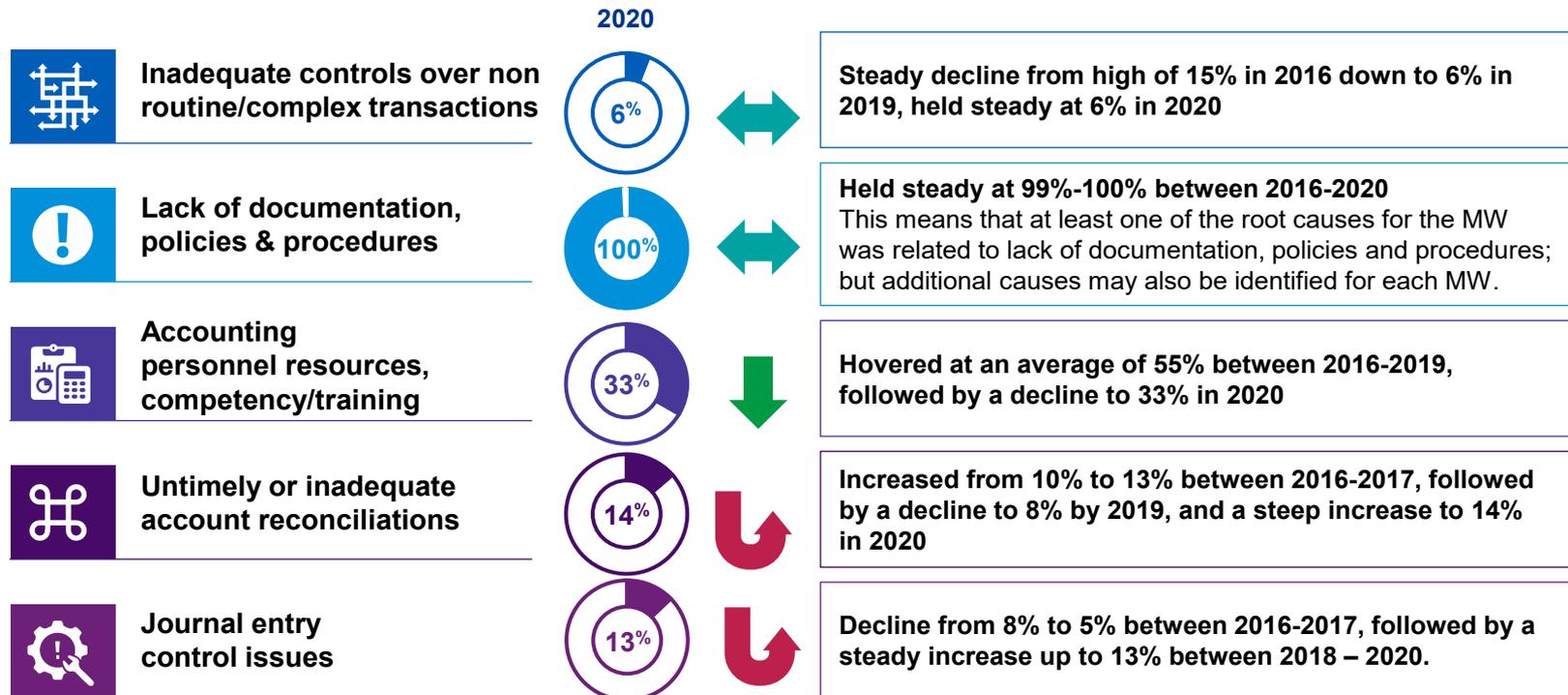


- Material weaknesses reported were often the result of more than one overlapping issue/challenge
- Percentages are calculated by dividing the number of companies with material weaknesses in a category by total number of reports in the stated year. Individual companies may be reported in multiple years.

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.

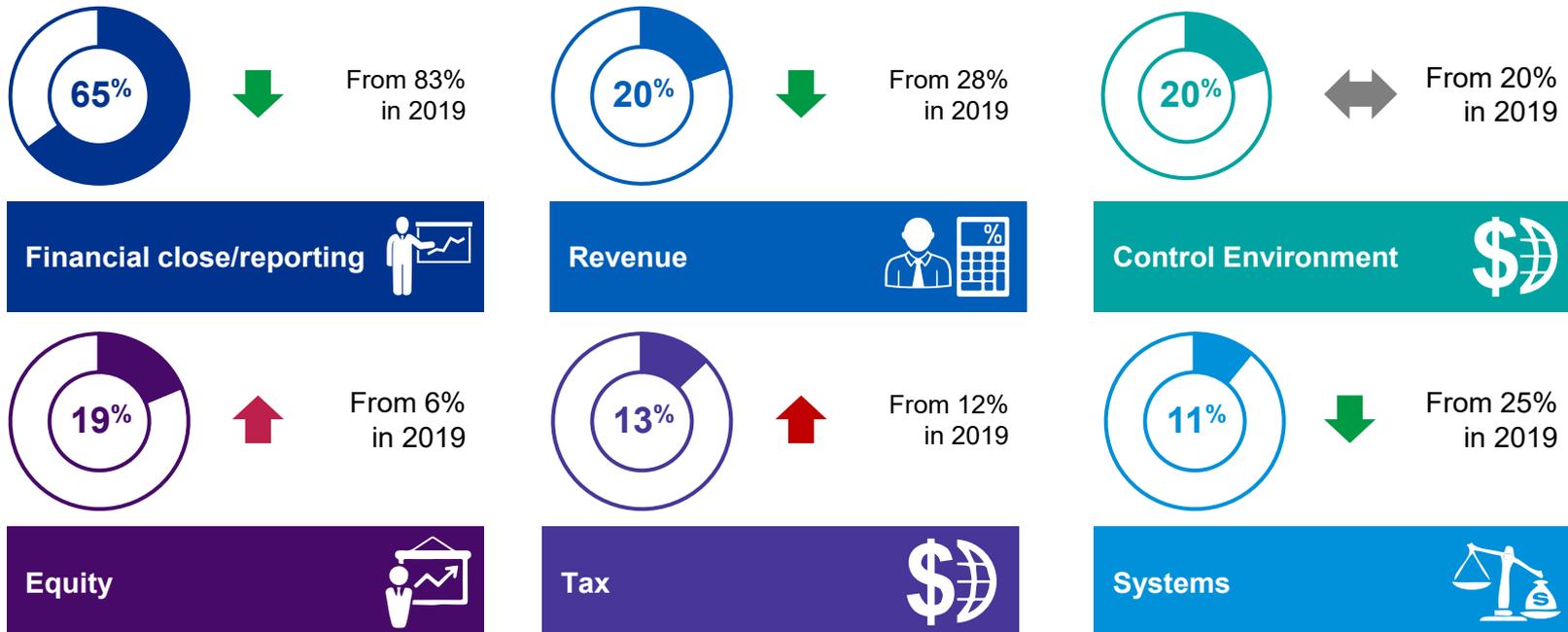


- Material weaknesses reported were often the result of more than one overlapping issue/challenge
- Percentages are calculated by dividing the number of companies with material weaknesses in a category by total number of reports between 2016-2020 (1,043). Individual companies may be reported in multiple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

Trends in material weakness process areas

Process areas with highest concentration of MWs in 2020

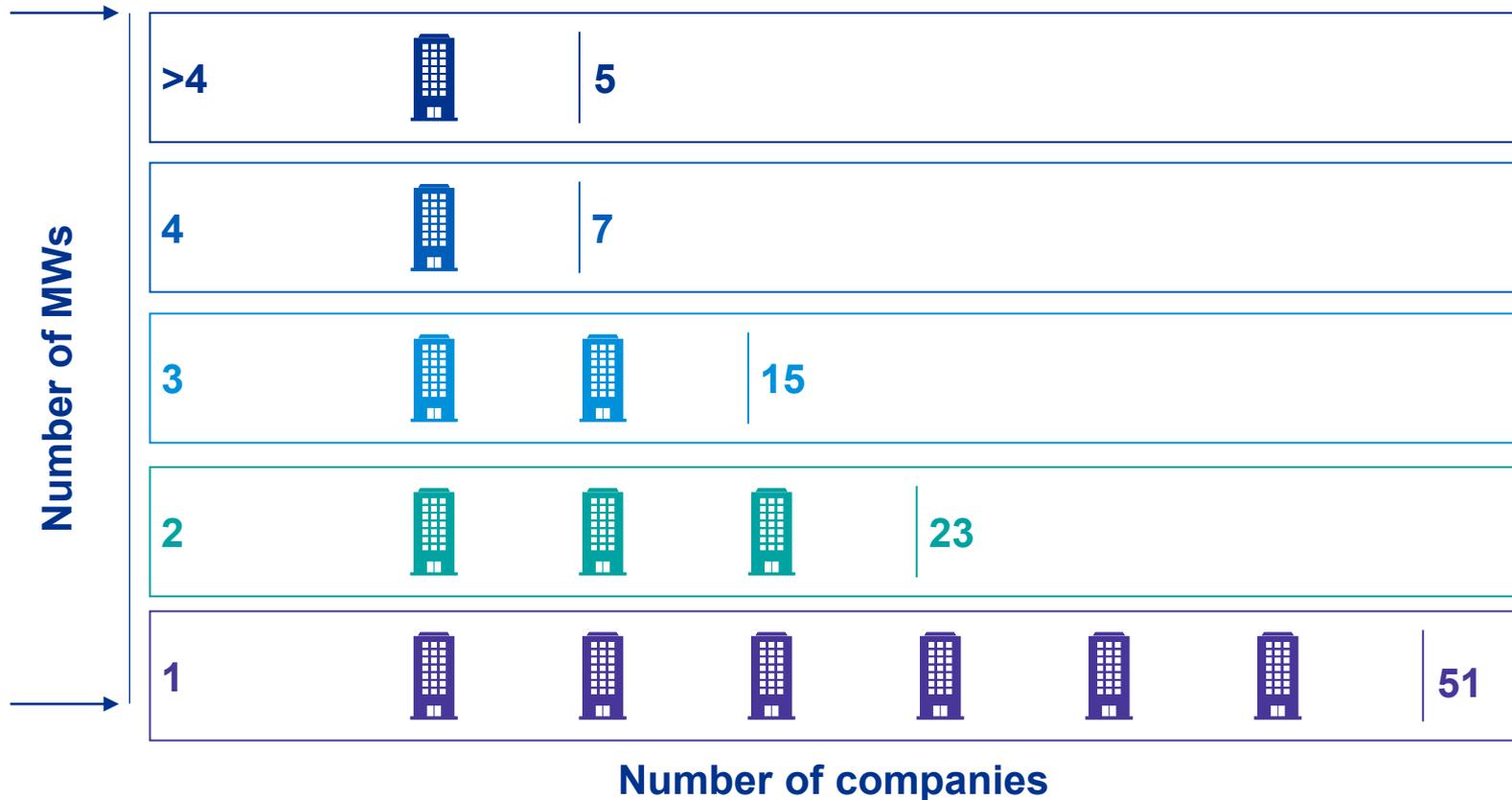
Systems and Control Environment were added as top process areas in 2020, while Inventory was removed as a top process area as compared to 2019. The graphs below represent the percentage by process area reported in 2020, with notable percentage changes indicated next to the relevant process area.



- 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



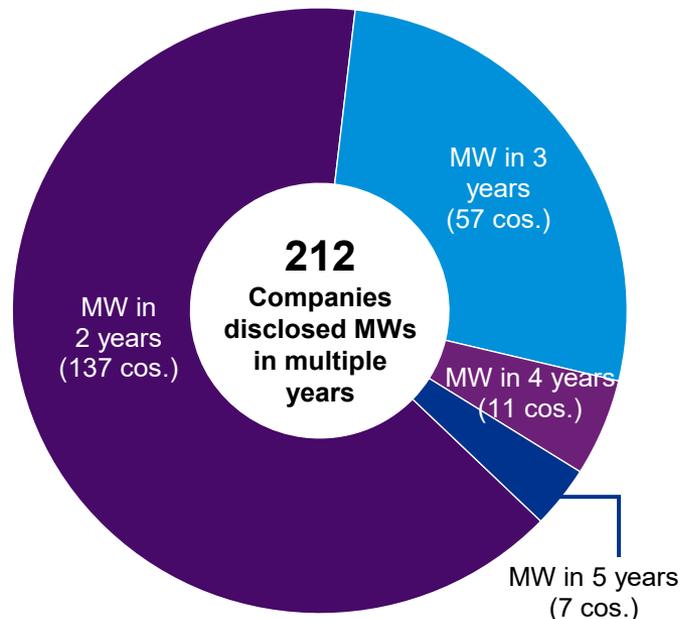
Material weaknesses in multiple years

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

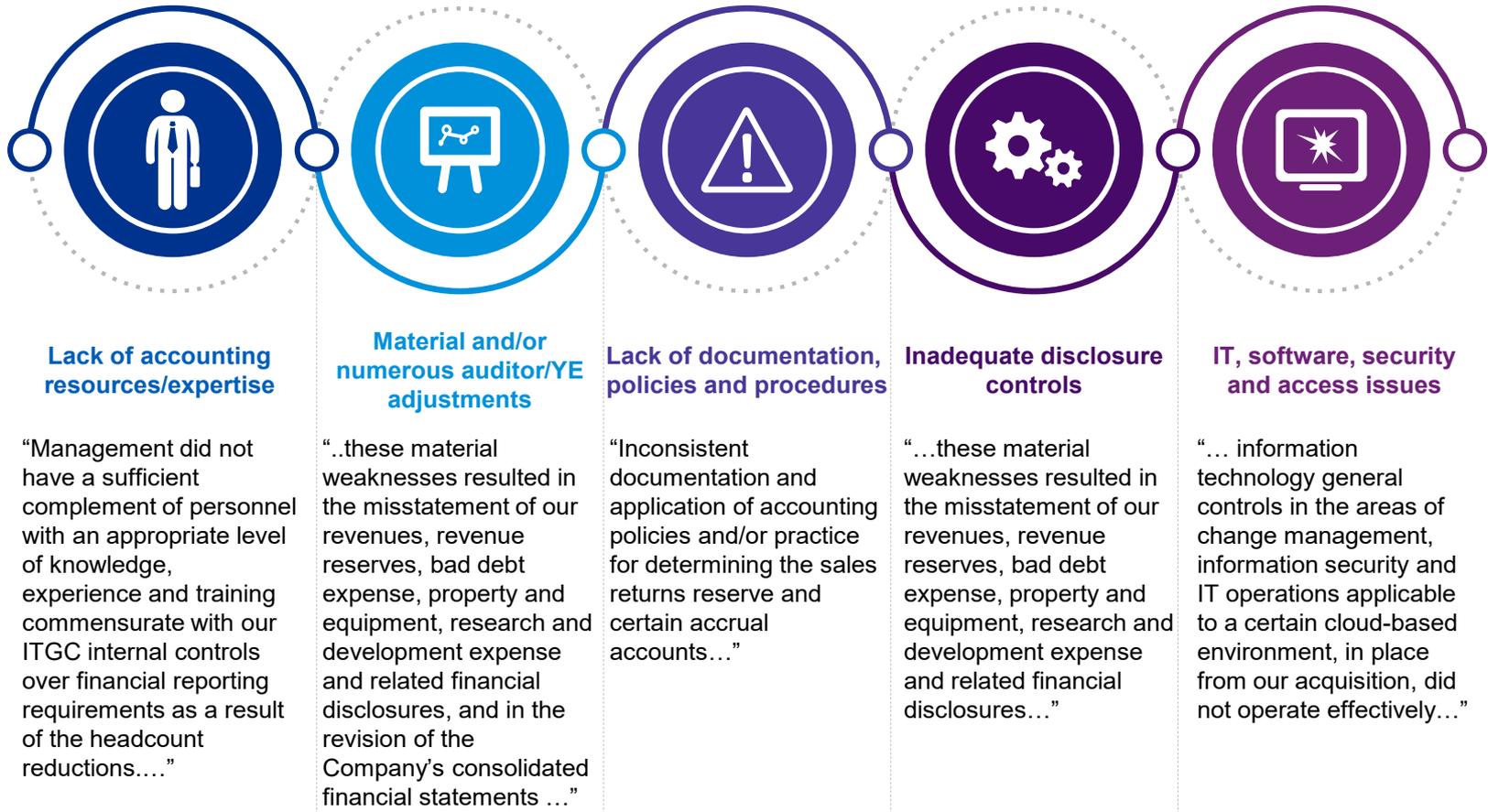
Of the 700[^] companies that filed a report between 2016-2020, 212 companies (30%) disclosed MWs in multiple years



- * This analysis is based on the data sets included in our current and previous studies, dating back to KPMG’s 2016 Material Weakness study.
- ^ The 700 companies reported in the table above represent the unique count of companies filing a report with a MW between 2016-2020 (i.e. excluding duplicative company counts in which there was a multiple MW reported or multiple filings in one year).

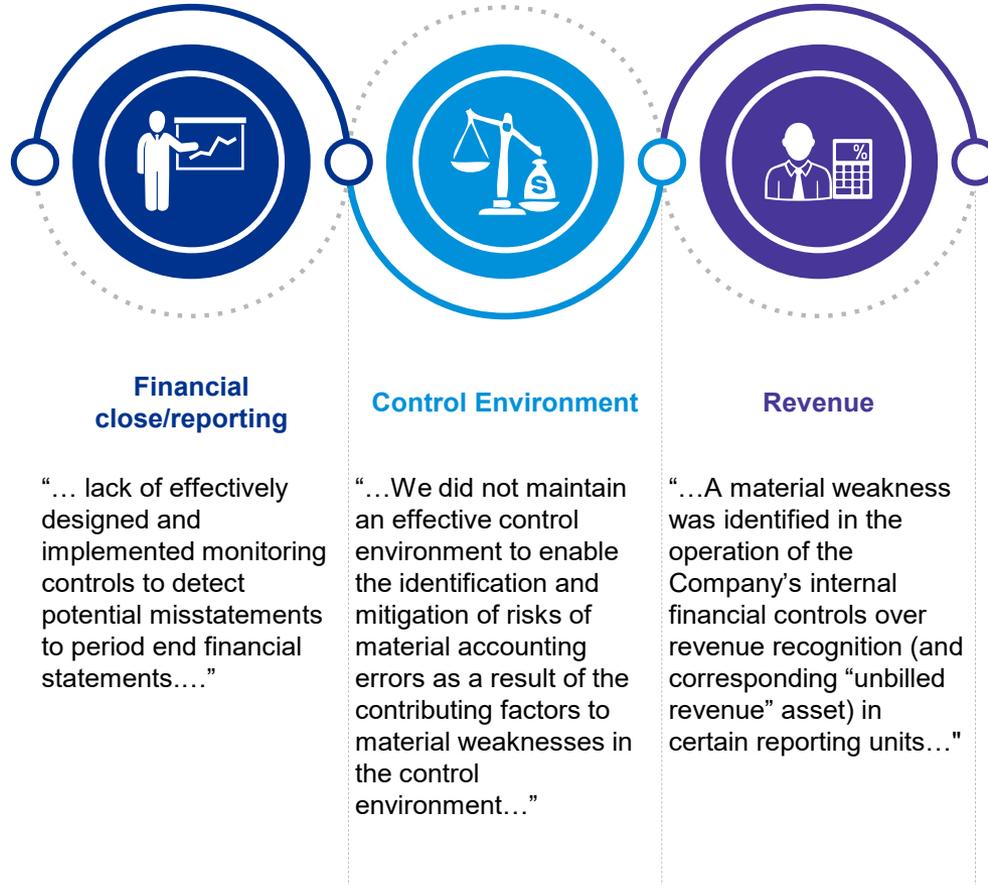
Examples of material weaknesses

Common themes in 2020



Examples of material weaknesses (continued)

Top three process areas in 2020





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