



# 2018 Material Weakness Study (non-IPO companies)

September 2019



# About this study

## 2018 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 2019.



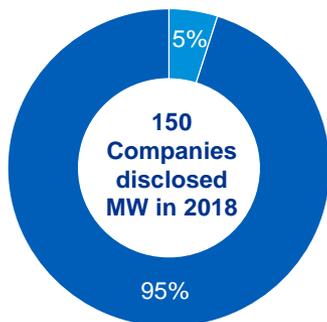
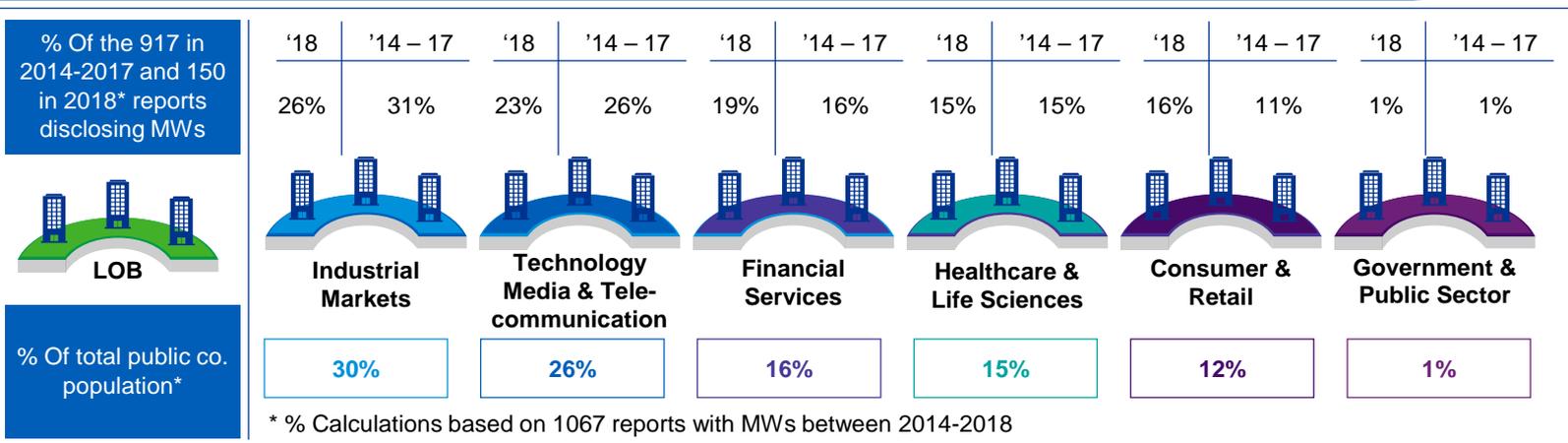
### Approach

The study analyzed annual filings released by SEC registered public companies between November 2014 and May 2019. 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 2018 year considers MWs reported between November 2018 and May 2019. MW data from prior years was not updated if there was a change made subsequent to initial reporting.

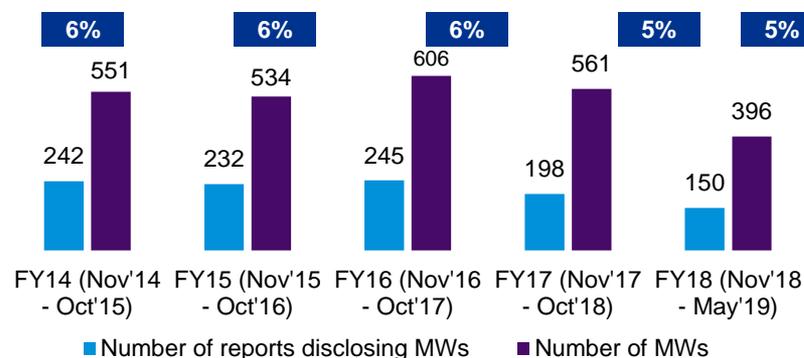
# 2014-2018 Study - background statistics

## Industry breakdown of companies that disclosed MWs in their filings between 2014 - 2018



Of the 3,078 annual reports filed in 2018, 150 companies (5%) disclosed MWs in their filings

### Percent of companies disclosing MWs, by year<sup>^</sup>



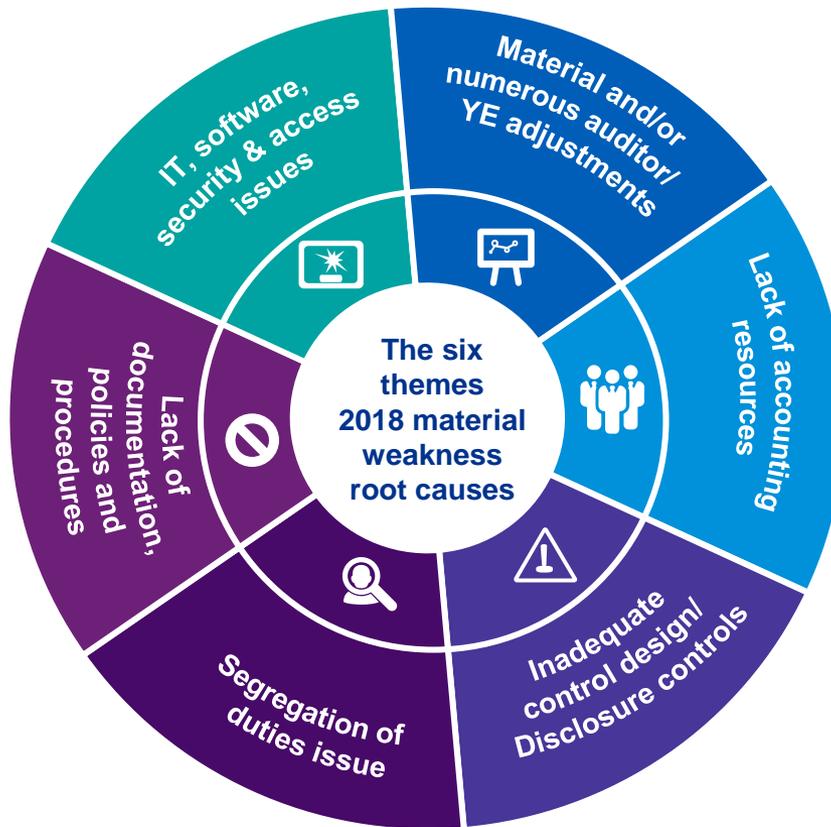
<sup>^</sup> % represents # of companies that disclosed material weaknesses over the total number of filings

### Total number of filings by year

- 2018: 3,078
- 2017: 3,726
- 2016: 3,778
- 2015: 3,925
- 2014: 3,977

# Summary of material weakness themes reported

## Issues contributing to MWs in 2018

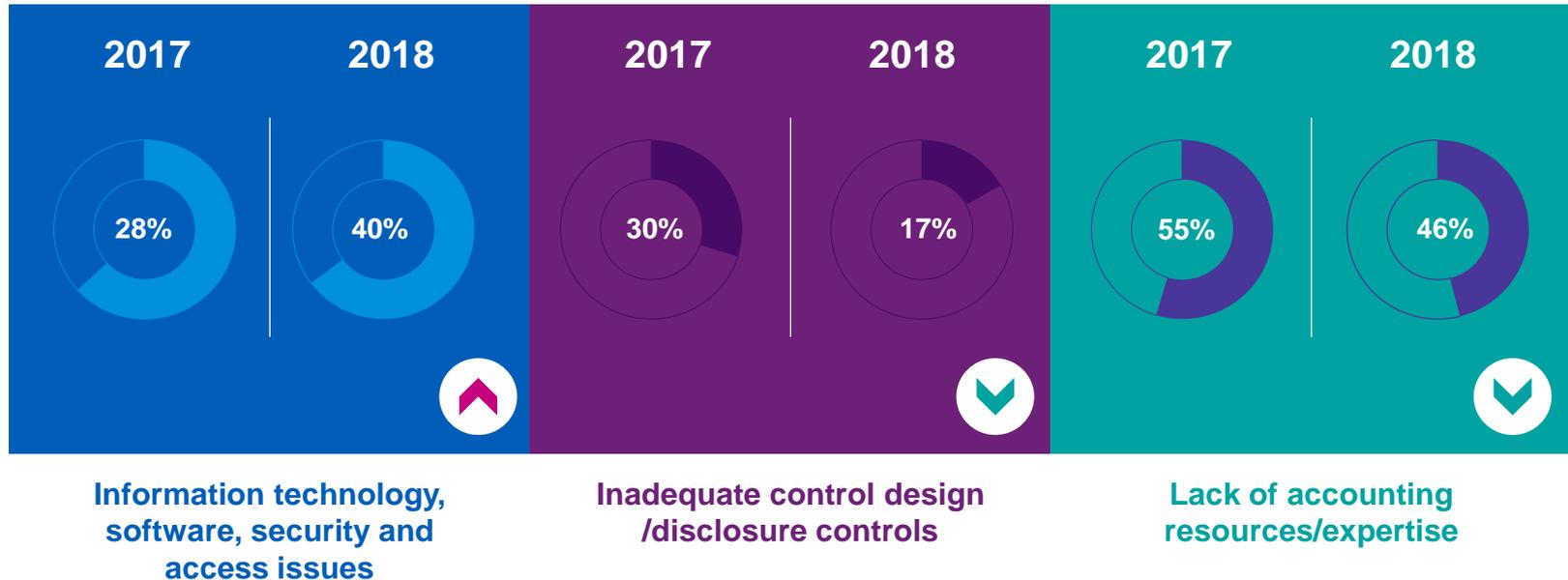


These themes are consistent with those noted in previous years' studies. Apart from the top six themes of material weaknesses, **9%** of companies have reported issues related to **restatement of company filings**.

# Trends in material weakness themes reported

## Trends in issues contributing to MWs

The following issues contributing to MWs showed notable changes between 2017 and 2018 filings, as depicted below.



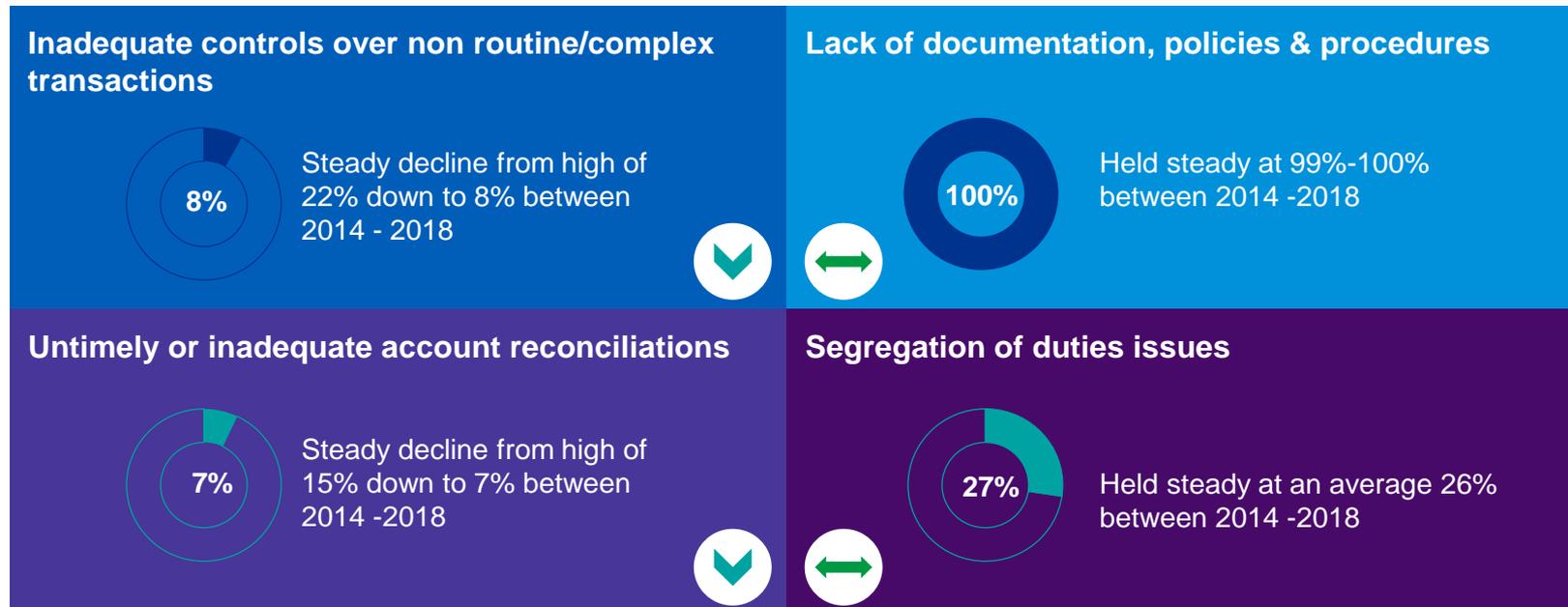
- Material weaknesses reported were often the result of more than one overlapping issue/challenge.
- Percentages are calculated by dividing the # of companies with material weaknesses in a category by total number of MW reports in the stated year. Individual companies may be reported in multiple years.

# Trends in material weakness themes reported (continued)

## Trends in issues contributing to MWs

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

### 2018

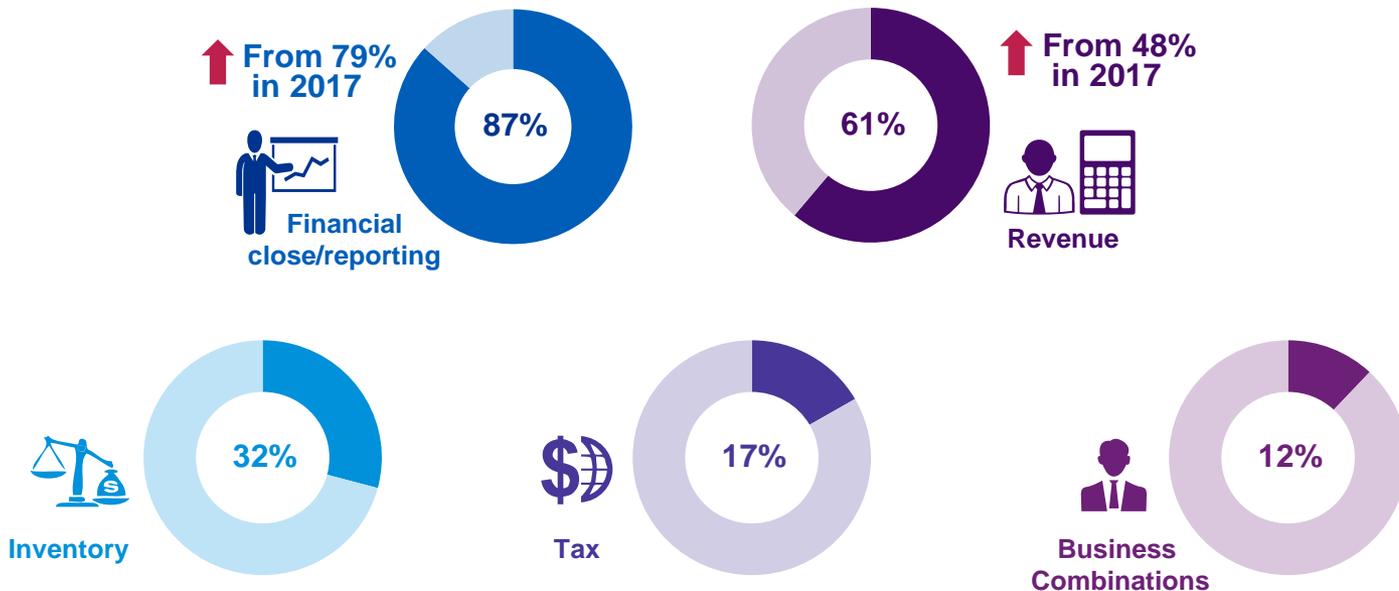


- Material weaknesses reported were often the result of more than one overlapping issue/challenge.
- Percentages are calculated by dividing the # of companies with material weaknesses in a category by total number of MW reports in the stated year. Individual companies may be reported in multiple years.

# Trends in material weakness process areas

## Process Areas with highest concentration of MWs in 2018

The graphs below represent the percentage by process area reported in 2018, with notable percentage changes noted beneath the relevant process area.

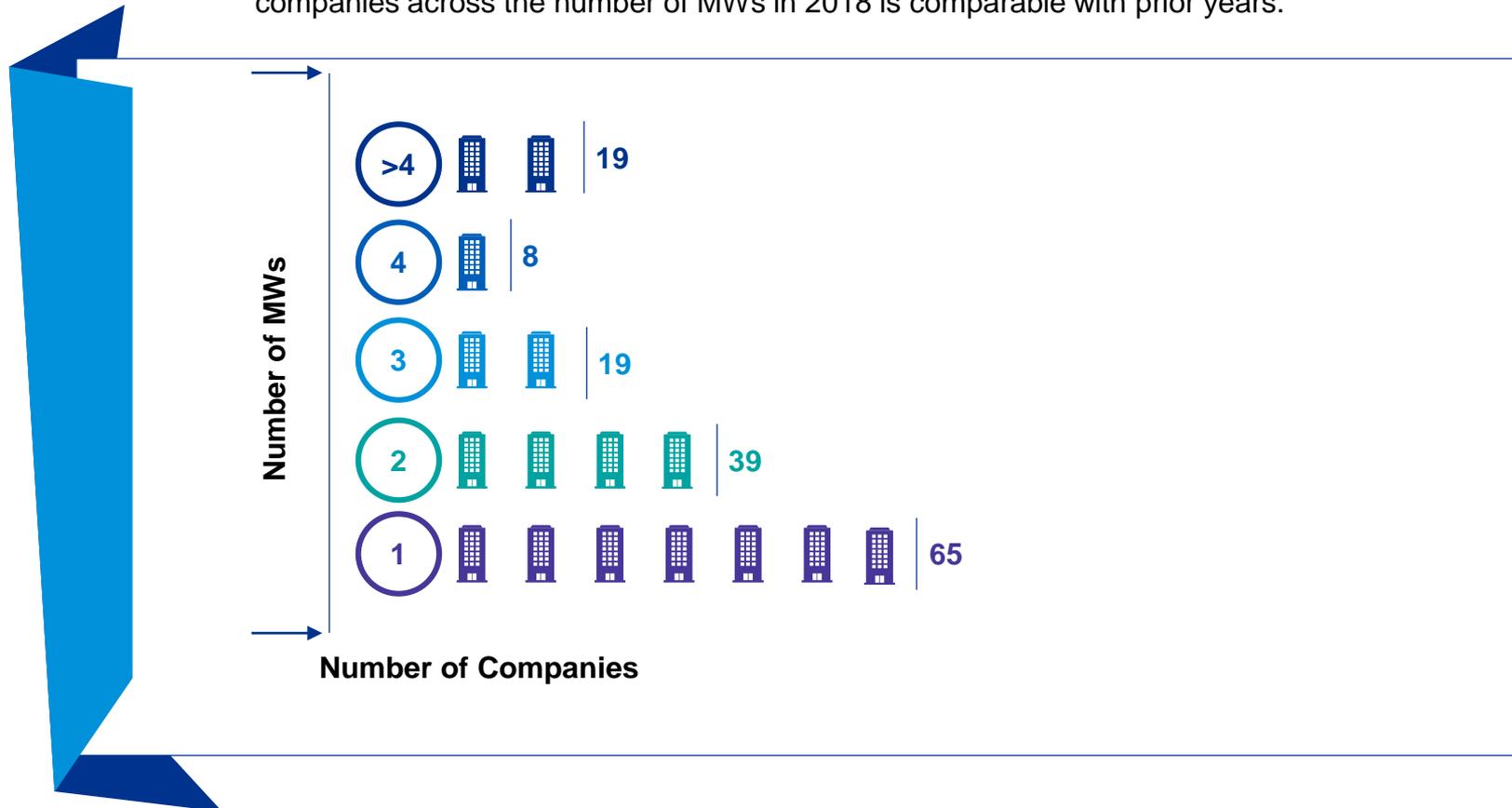


- Material weaknesses reported often impacted multiple process areas.
- Percentages are calculated by dividing the # of companies with material weaknesses in a category by total number of companies that reported (150) for 2018.

# Summary of material weaknesses reported in 2018

## Number of companies by total material weaknesses disclosed

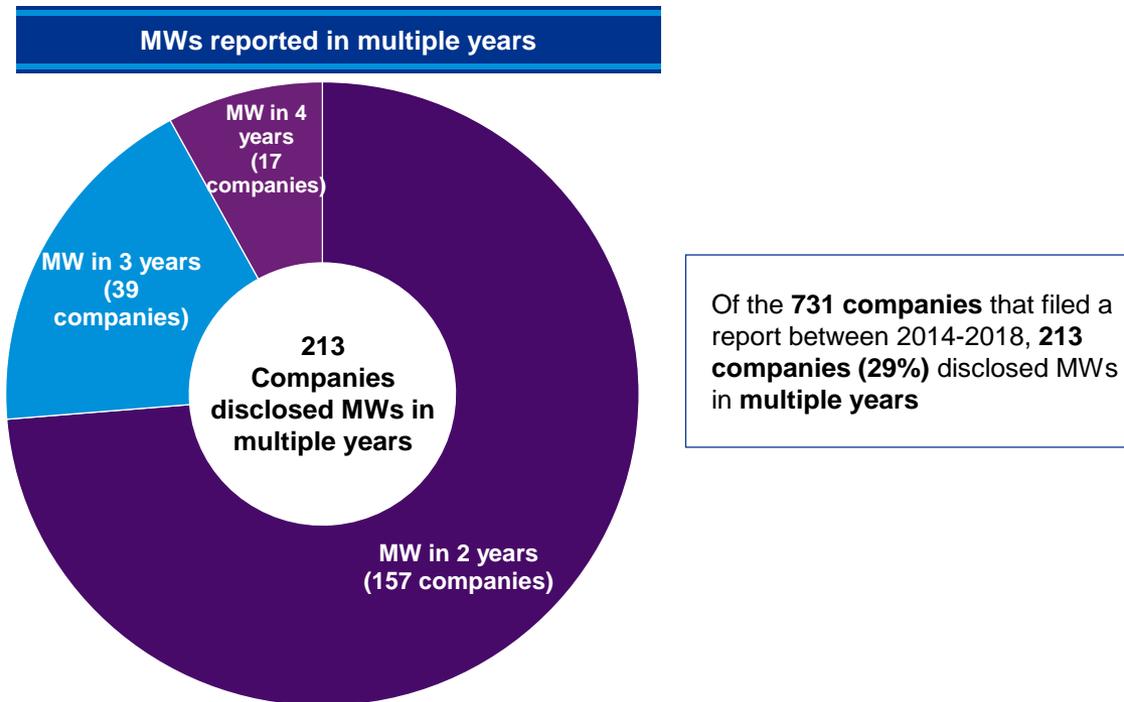
The chart below shows the number of companies disclosing multiple MWs. The percentage spread of companies across the number of MWs in 2018 is comparable with prior years.



# Material weaknesses in multiple years

## Trends in MWs over multiple years

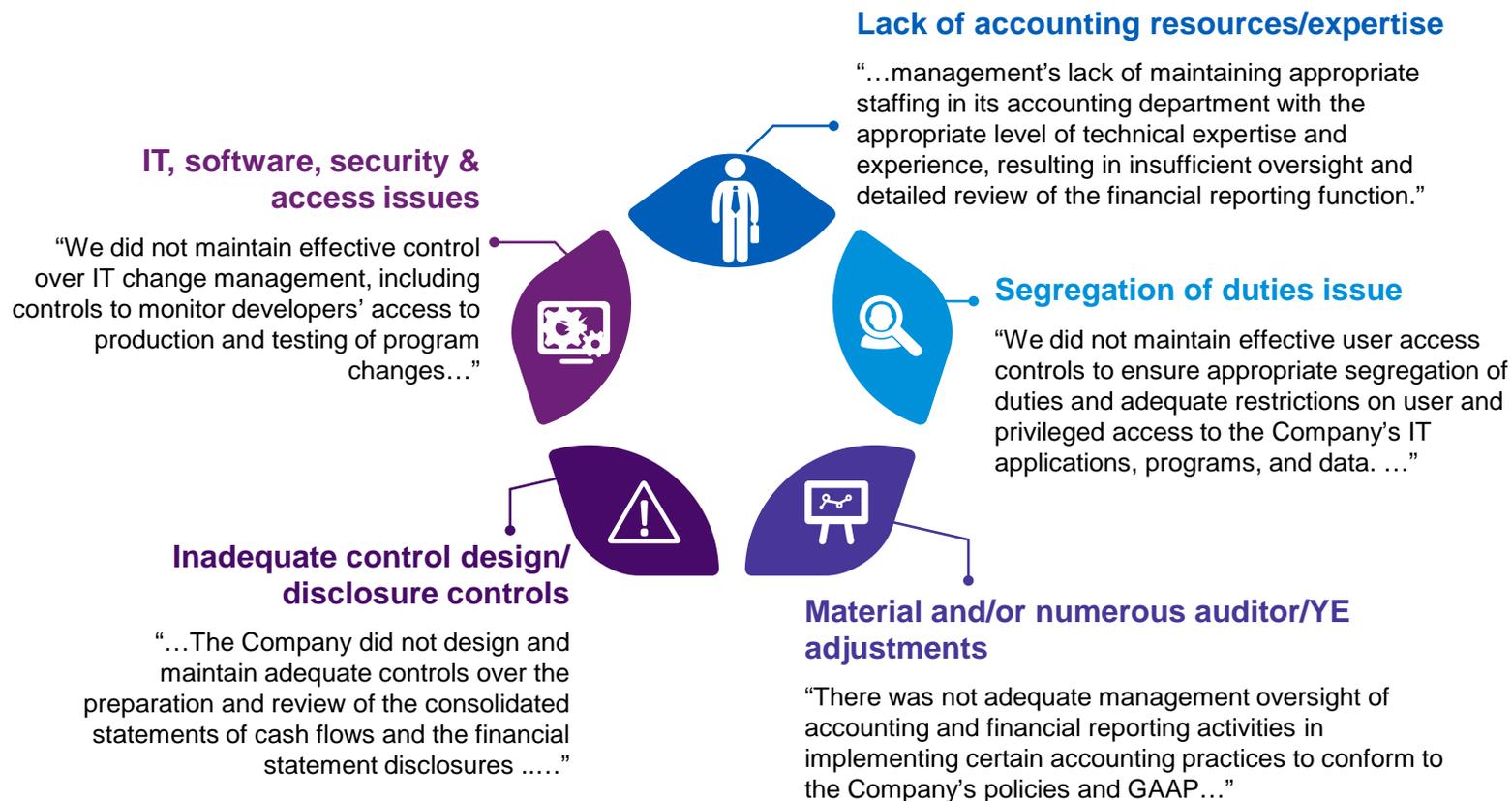
Between 2014 – 2018\*, there were 213 companies that reported MWs in multiple years, which represents 29% of the total companies filing a report during the time period.



\* KPMG's Material Weakness study began in 2014. As such, this analysis is based on the data sets included in our current and previous studies.

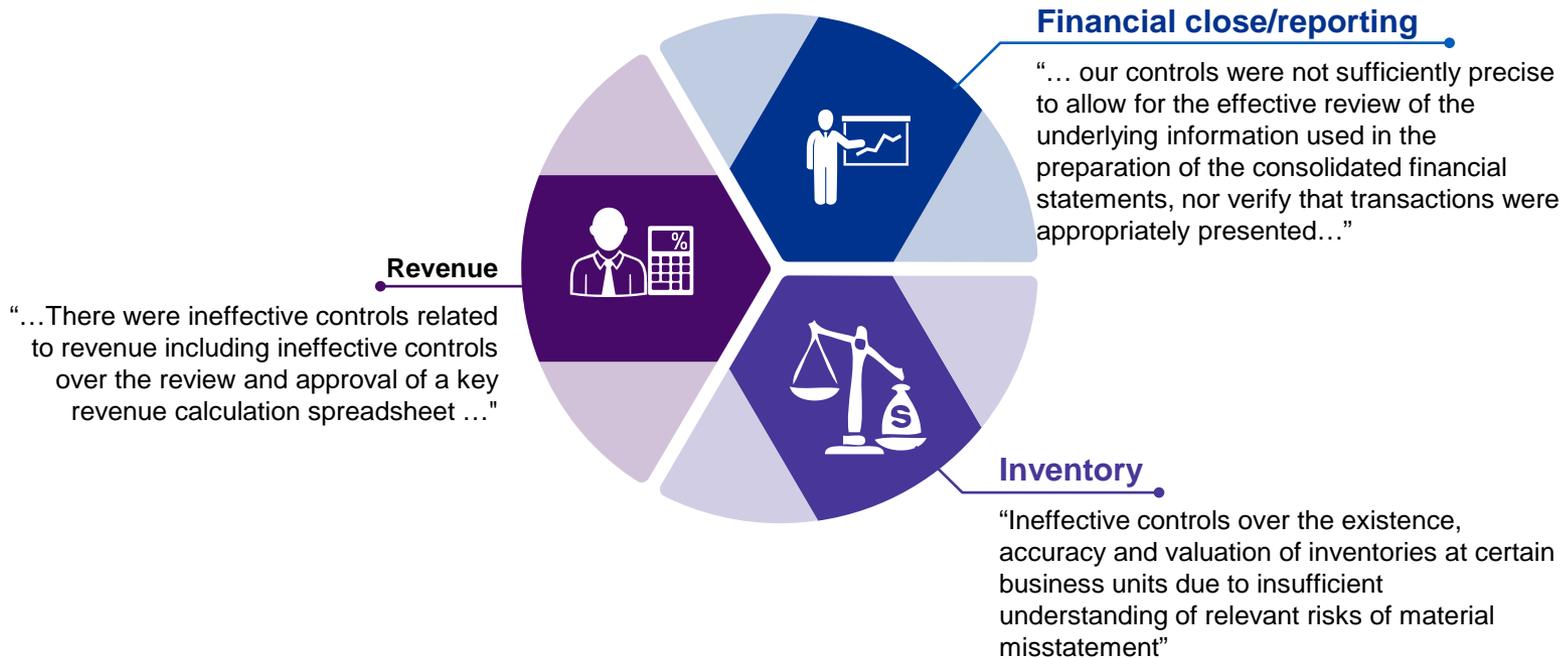
# Examples of material weaknesses

## Common themes



# Examples of material weaknesses (Cont'd)

## Top 3 process areas





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