



Trends in material weaknesses

KPMG LLP 2025 study

About this study

2025 material weaknesses study

A graphic of a target with a red arrow hitting the bullseye, set against a dark blue background with faint circular patterns.

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 summer of 2025.

A graphic showing a hand pointing to a line graph with red data points and a blue trend line, set against a dark blue background.

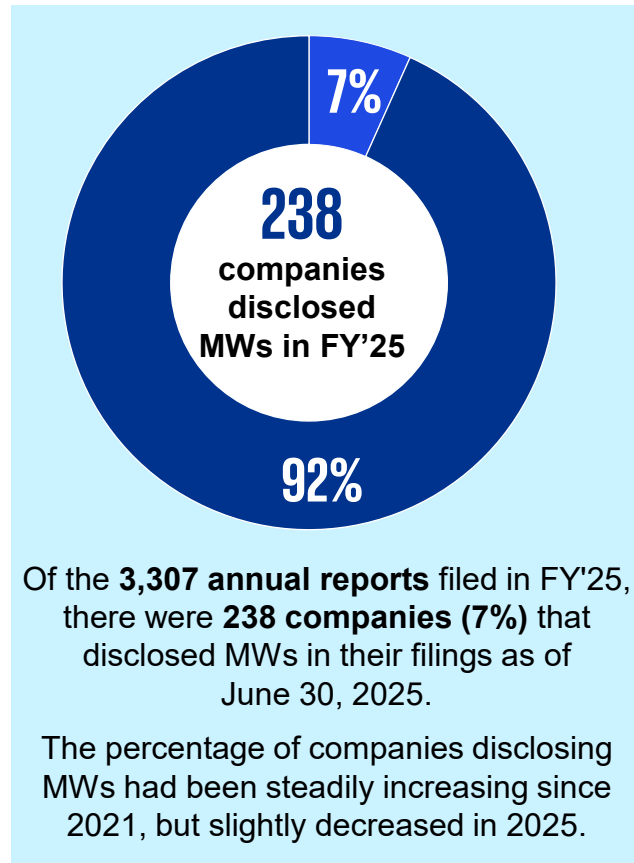
Approach

The study analyzed annual filings released by public companies registered with the Securities and Exchange Commission (SEC) for Fiscal Year 2025 (FY'25). 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 FY'25 year considers MWs reported in any public company filing that was released in Fiscal Year 2024 (FY'24). The MWs reported in this year's study came from companies with year-ends through June 30, 2025. KPMG notes that the dataset underlying this study does not include S-1s for initial public offering (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. Applicable filing types included 10-K, 10-K/A, 20-F, 20-F/A, 40-F, 40-F/A, 6-K, and 8-K.

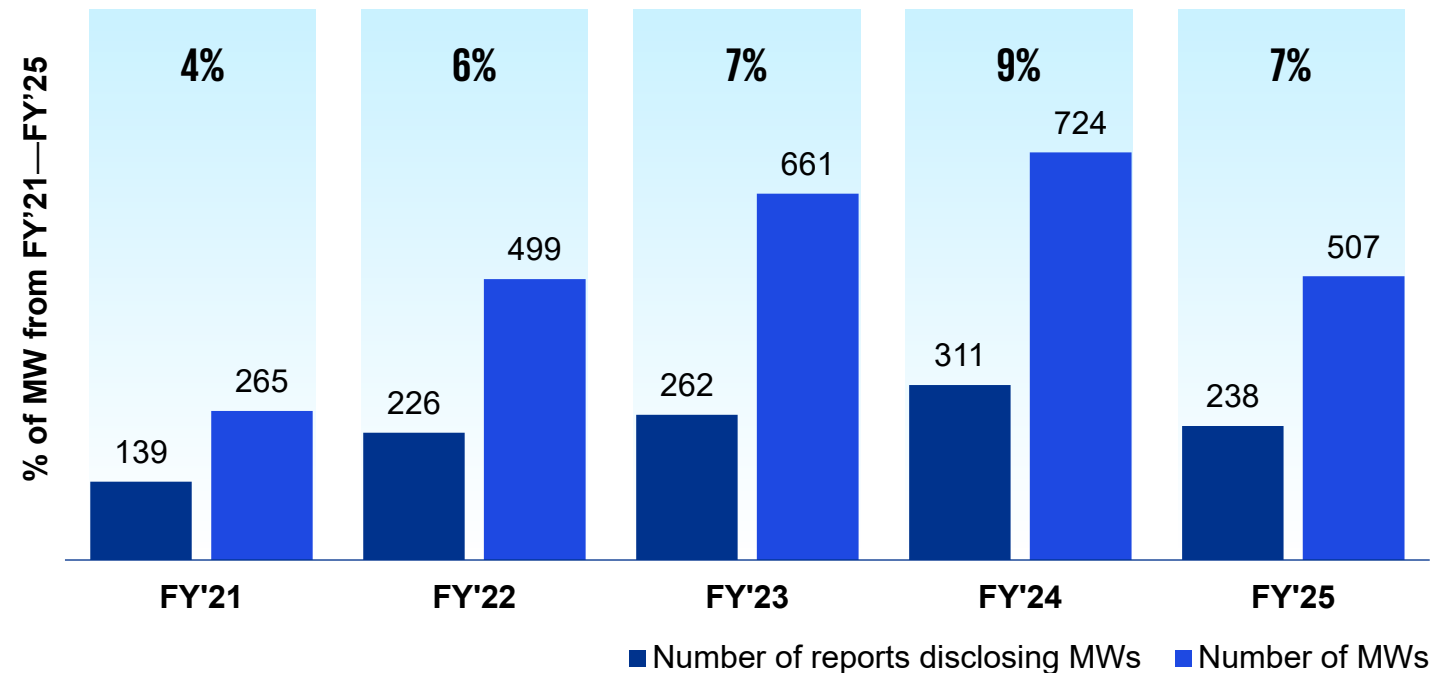
2021—2025 material weaknesses study – Background statistics

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



Percentage of companies disclosing MWs, by year[^]

The percentage of MWs is consistently in the 4% to 9% range during years covered by the study, with a decrease in FY'25



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

Provided by KPMG US Market Intelligence
Source(s): Audit Analytics, SEC Edgar filings



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2025 material weaknesses study – Background statistics

Industry breakdown of companies that disclosed MWs in their filings in FY'25

As a percentage of MWs reported compared to the size of the industry sector, Products shows the highest incidence of MWs, and Government and Healthcare shows the lowest incidence. These percentages are consistent with the trend noted in prior years.

Percentage of 238 reports disclosing MWs in 2025	63%	23%	10%	3%	2%
Line of business (LOB)	Products	Technology, Media, and Telecommunications	Financial Services	Asset Management and Private Equity	Government and Healthcare
LOB percentage of 1,176 reports disclosing MWs in 2021-2025	49%	25%	13%	2%	11%

Starting in 2024, the categorization has been restructured as follows:

Products includes consumer and retail, energy, industrial manufacturing, and life sciences; government and healthcare covers federal government, healthcare, and state and local education; financial services comprises banking & finance, capital markets, and insurance.

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Industry insights

Companies in Products, like life sciences, automotive, chemicals, and mining companies, have been forced into rapid, tactical supply chain reshuffling, placing strain on the control environment, especially around inventory and cost of sales controls. In addition, the high volume of nonroutine transactions in the Products sector often outpaces the technical expertise of lean accounting teams, who are simultaneously undergoing large enterprise resource planning (ERP) upgrades to support artificial intelligence (AI) integration.

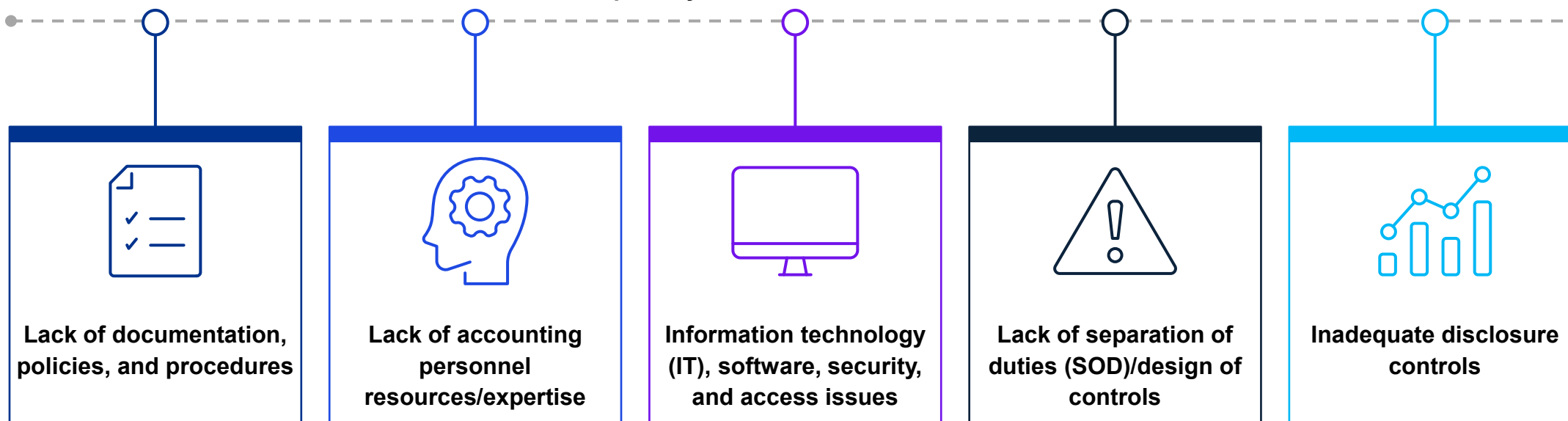
Lower incidence of MWs in government and healthcare points to entities operating under a more rigid reporting framework. These sectors faced a peak of reporting challenges during the COVID-19 period in 2021—2022 and have entered a remediation plateau with more stable control environments.

Summary of material weaknesses themes reported

Issues contributing to MWs in 2025

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

The five primary themes for 2025 MW root causes



The top five primary themes of MWs noted in 2025 are consistent with the top themes reported in the several previous years.

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

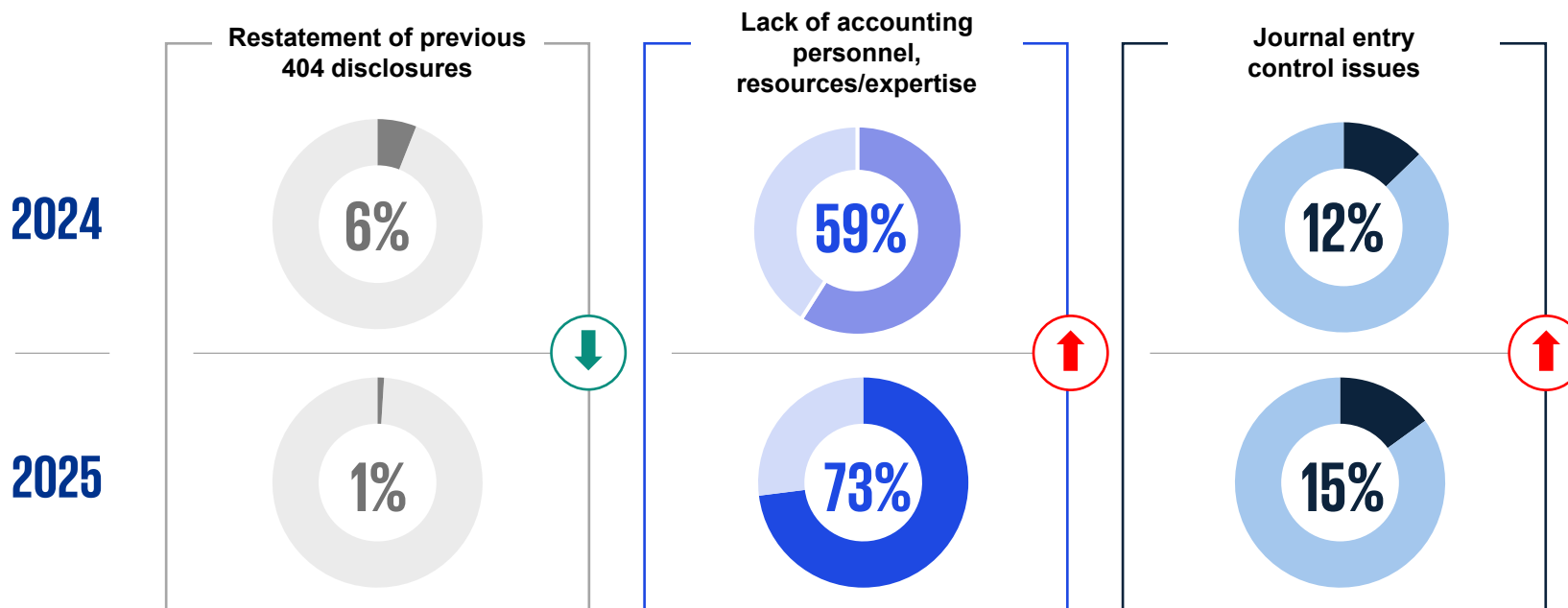
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Source(s): Audit Analytics, SEC Edgar filings

Trends in material weakness themes reported

Notable changes between FY'25 and FY'24 trends in MWs

While MWs related to the restatement of previous 404 disclosures decreased by 5% in FY'25, they remain within the typical range observed over the last several years as 2024 was a spike year for this theme. MWs related to inadequate accounting resources increased by 14% in FY'25 compared with FY'24, and MWs related to journey entry controls increased by 3%. MW themes in other areas remained consistent with the prior year, showing less than a 5% 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 material weaknesses in a category by total number of reports in the stated year. Individual companies may be reported in multiple years.

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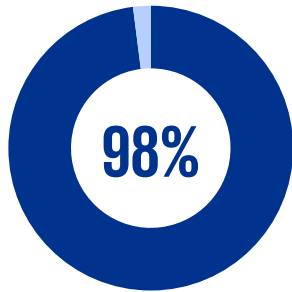
Trend insights

Companies are feeling the effects of several contributing factors to the spike in MWs related to lack of accounting resources/expertise. The “Pipeline Problem” continues to grow as the decline in accounting graduates meets a rise in CPAs reaching retirement age. There’s also been regulatory scope creep that has increased workloads with new mandates. In addition, the surge of companies going public in 2021—2022 with lean back offices are now hitting their Sarbanes-Oxley (SOX) 404(b) attestation deadlines and are being flagged with insufficient technical accounting strength, especially as companies move toward heavier AI usage requiring technical and IT knowledge around controls.

Trends in material weaknesses themes reported (continued)

The following issues contributing to MWs showed notable trends over the last five years from 2021 to 2025, as depicted below.

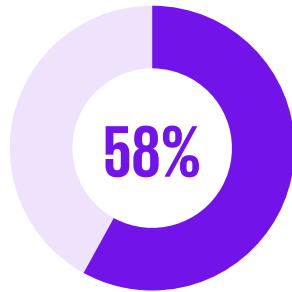
Lack of accounting documentation, policy, and/or procedure



The percentage has held steady between 98% and 100% for four of the last five years (82% in FY'23). This means that for nearly every MW reported, at least one root cause was related to lack of documentation, policies, and procedures.



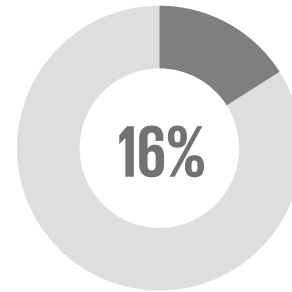
IT, software, security, and access issues



Steadily increased from 31% in 2021 to 40% in 2022, then to 52% in 2023, 54% in 2024, and 58% in 2025. This rise in IT-related MW is partly due to a similar steady rise in the number of in-scope IT systems year over year.



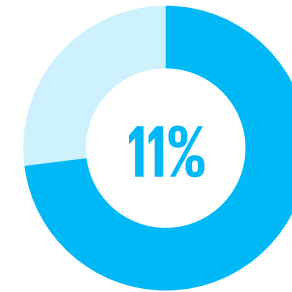
Nonroutine transaction control issues



Steadily increased over the last five years from 8% in 2021 to 12% in 2022, reaching 15% in 2023, 16% by 2024, and remains 16% in 2025. This increase is attributable to ever-increasing business complexity around merger and acquisition integration, asset impairments, complex revenue contracts, and specialized tax issues—along with an increased focus on management review controls and auditing of these accounting estimates.



Untimely or inadequate account reconciliations



Steadily increased from 2021 through 2025. This issue was at 11% in 2020, then dropped to 7% in 2021 and has steadily increased back to 11% in 2025.



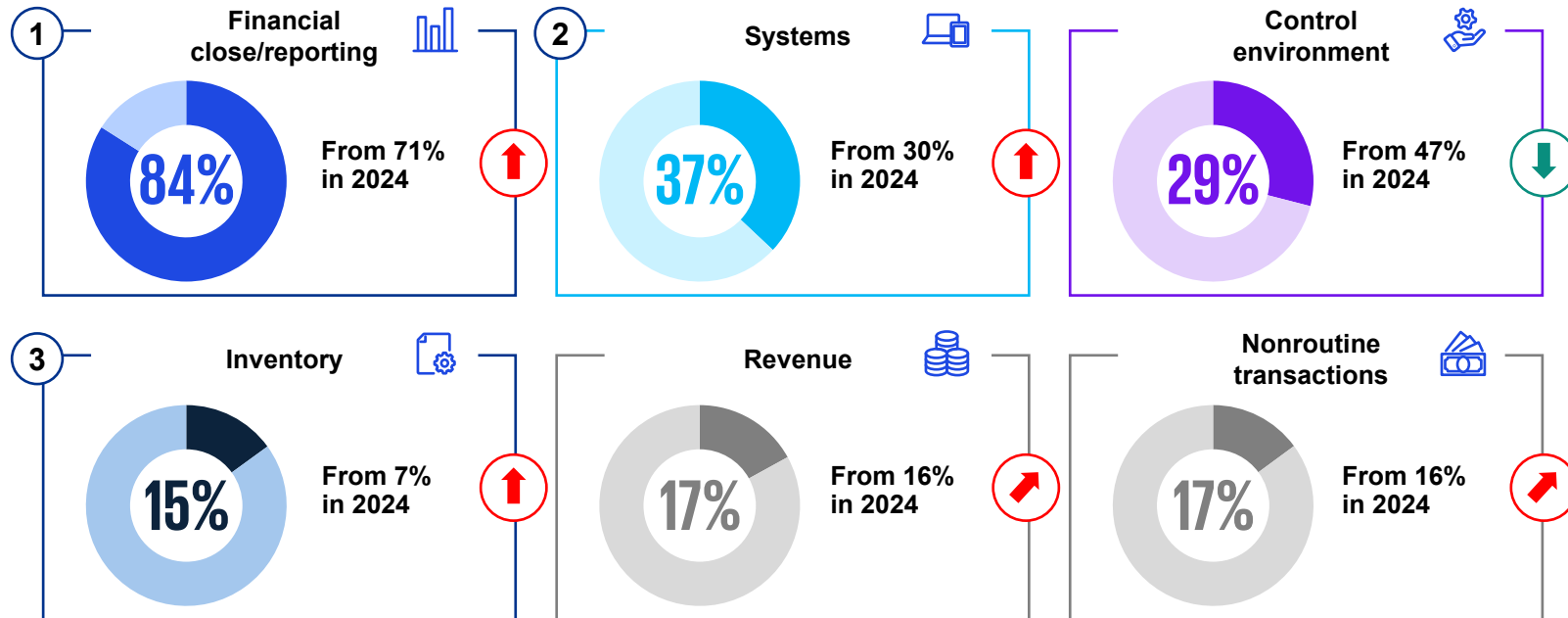
- MWs reported were often the result of more than one overlapping issue/challenge.
- Percentages are calculated by dividing the number of companies with MWs in a category by total number of reports between 2021 and 2025 (1,176). Individual companies may be reported in multiple years.

Provided by KPMG US Market Intelligence
Source(s): Audit Analytics, SEC Edgar filings

Trends in material weaknesses process areas

Process areas with highest concentration of MWs in 2025

The graphs below represent the percentage of MWs by process area reported in 2025, with percentage changes from the prior year indicated next to each process area. The level of MWs related to the control environment and business combinations declined compared to the prior year, while MWs related to financial close, inventory, and systems increased in the current year.



- 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 (238) in 2025.

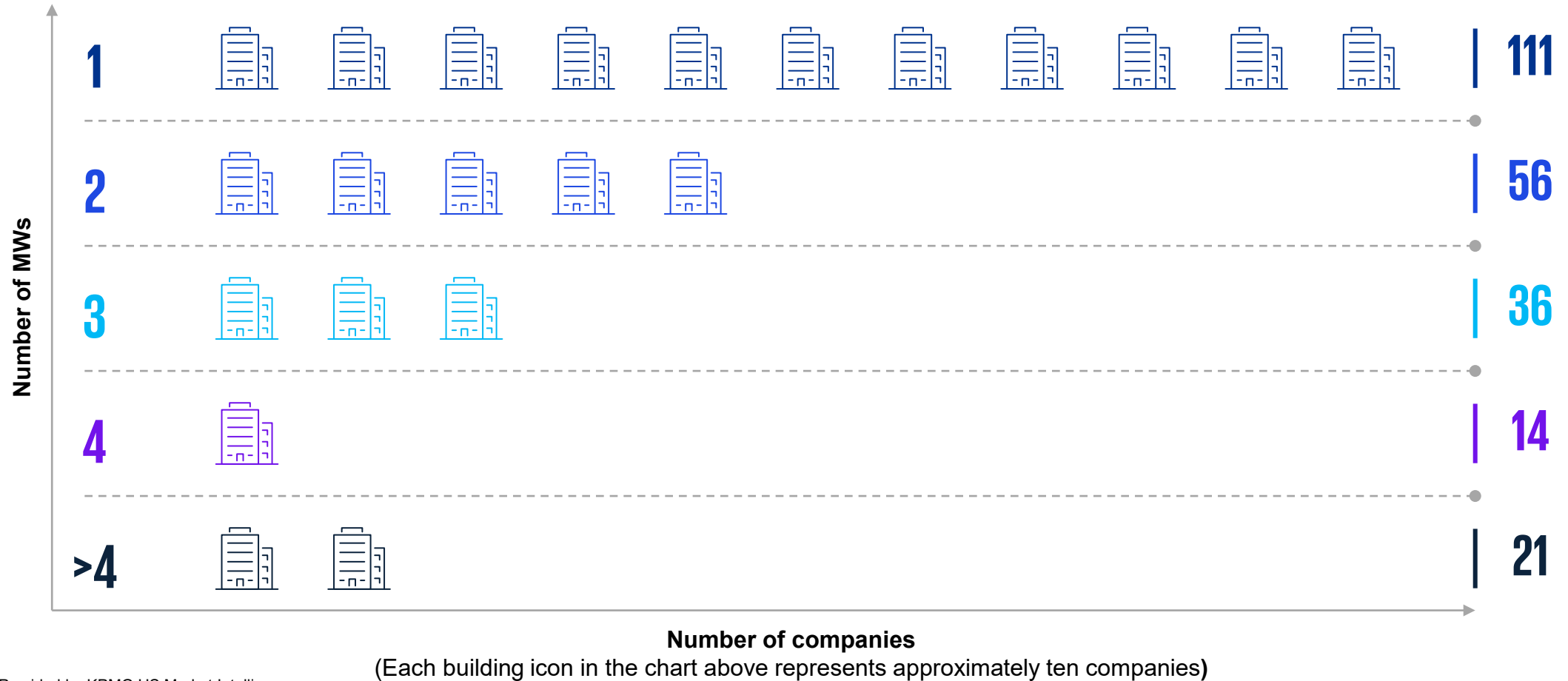
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Source(s): Audit Analytics, SEC Edgar filings

Trend insights

- 1 The most frequently cited issue related to **financial close/reporting** was related to lack of precision, timeliness, and adequate oversight of management review controls. Failures were also noted around proper handling of nonroutine transactions, applying technical standards correctly and developing reliable accounting estimates. SOD and proper documentation of completeness and accuracy of Information Produced by the Entity (IPE) were cited, along with weaknesses in the review of journal entries and account reconciliations.
- 2 The most frequently cited issue related to **systems** concentrated around IT general controls. A vast majority reported issues in managing user access, including inappropriate access rights, failure to timely manage terminated users, and inadequate access reviews. Failures were also noted related to inadequate overall IT risk assessment, change management controls, lack of enforcement of proper SOD.
- 3 The most frequently cited issue related to **inventory** was valuation and costing, including issues with calculating reserves, applying correct costing methods, and assessing net realizable value. Ineffective cycle count programs, user access to inventory systems, and completeness and accuracy of underlying data in inventory-related calculations were also reported.

Summary of material weaknesses reported in 2025

Number of companies by total material weaknesses disclosed



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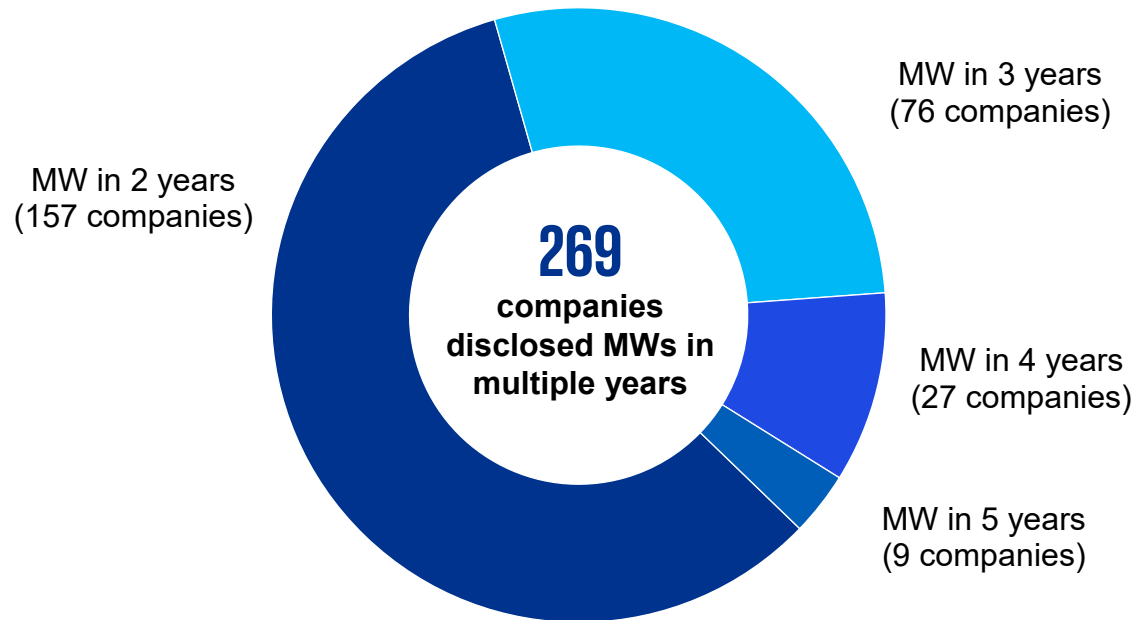
Material weaknesses in multiple years

Trends in MWs over multiple years

Between 2021 and 2025, **269 companies** reported MWs in multiple years, representing **36%** of all companies that filed a report with an MW during this period.

MWs reported in multiple years

Between 2021 and 2025, of the **740[^] companies** that filed a report with an MW, **269 companies (36%)** disclosed MWs in **multiple years**.




* This analysis is based on the datasets included in our current and previous studies, dating back to the KPMG 2021 Material Weakness Study.

[^] The 740 companies reported in the table above represent the unique count of companies filing a report with an MW between 2021 and 2025 (i.e., excluding duplicative company counts in which there were multiple MWs reported or multiple filings in one year).

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Source(s): Audit Analytics, SEC Edgar filings


Examples of material weaknesses

Common themes in 2025




Lack of documentation, policies, and procedures

Our management has identified the following material weaknesses in our internal control over financial reporting: (i) We did not have appropriate policies and procedures in place to evaluate the proper accounting and disclosures of key documents and agreements...




Lack of accounting resources/expertise

Insufficient technical accounting resources with an appropriate level of accounting knowledge, experience, and training commensurate within the Company's structure and financial reporting requirements to appropriately analyze, record, and disclose accounting matters...




IT, software, security, and access issues

The identified material weaknesses pertain to: (i) IT general controls for certain IT systems that support the Company's financial reporting process were not appropriately identified, designed, or implemented...



SOD/design of controls

.. the Company did not implement effective controls over the separation of duties and certain IT general controls including user access and monitoring of service organizations...



Inadequate disclosure controls

...we identified a material weakness related to our inability to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information...

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Examples of material weaknesses (continued)

Top process areas in 2025



Financial close/reporting

“.. These material weaknesses resulted from a failure to design and maintain effective controls over certain aspects of the period-end financial reporting process, including the review and execution of certain balance sheet account reconciliations, and we did not design and maintain effective controls over the classification and presentation of general ledger accounts in the appropriate financial statement line items within the consolidated financial statements.”



IT systems

Management has identified a material weakness related to the design and operation of certain automated controls (including related IT general controls) for certain tools or applications involved in the transformation and ingestion of third-party processors' data in the Company's control environment. Consequently, automated controls and IT-dependent manual business process controls that rely upon information from the affected financial applications and processes were also deemed ineffective.



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