



June 2026

MATERIAL WEAKNESSES THEMES

Internal Controls over
Financial Reporting (ICFR)



Reported by
U.S. SEC Filers



Analysis of 1,000 U.S. Public
Companies Across 2025
and 2026

2026 Research Report

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Objective & Approach



Objective

This study analyzes material weaknesses reported by U.S. SEC filers to identify prevalent control deficiencies, emerging risk areas, and evolving trends in Internal Control over Financial Reporting (ICFR). The analysis provides insights into the challenges organizations continue to face in maintaining effective internal controls and highlights how the material weakness landscape is evolving over time.



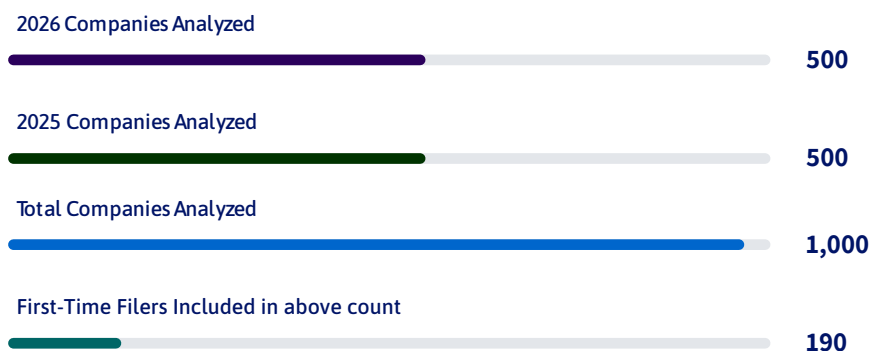
Approach

This report presents an analysis of material weaknesses disclosed by U.S. SEC filers during 2025 and 2026, based on filings submitted between January and March of each respective year.

The study reviewed material weakness disclosures from 500 companies in 2026 and 500 companies in 2025 that reported one or more material weaknesses in ICFR. The population analyzed includes 91 first-time filers in 2026 and 99 first-time filers in 2025, providing insights across both established public companies and newly listed entities.

Material weakness disclosures were reviewed and categorized into key thematic areas to identify recurring control deficiencies, emerging patterns, and year-over-year trends.

Population Analyzed



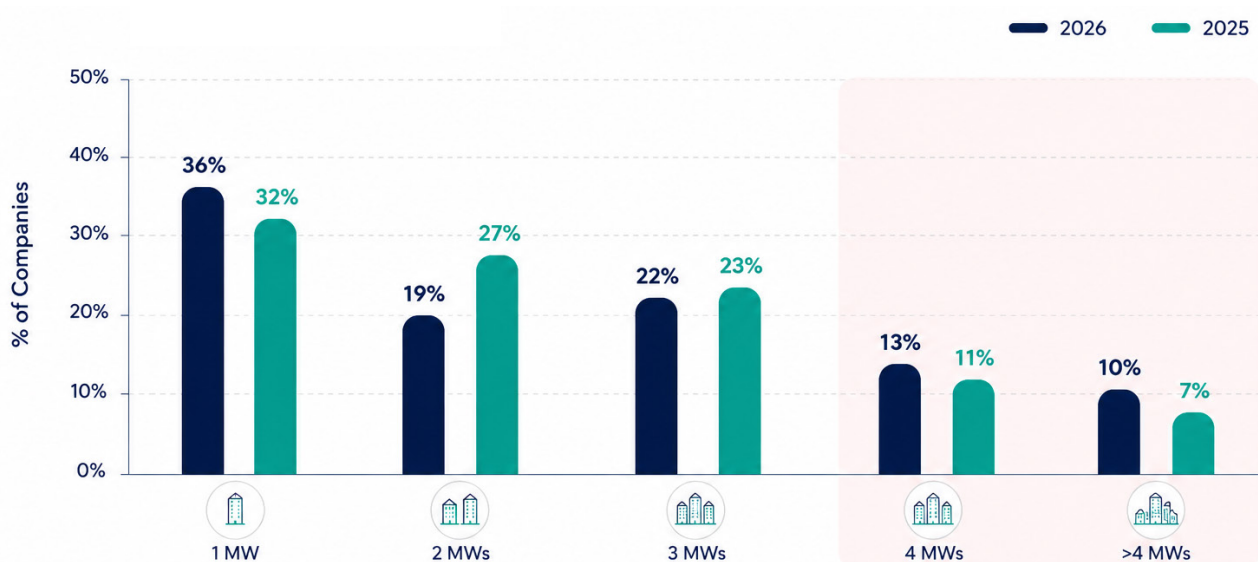
Count of Material Weaknesses Reported by Companies



The analysis indicates that a majority of companies continue to report a limited number of material weaknesses, with 55% of companies in FY 2026 disclosing one or two MWs, compared to 59% in FY 2025. As highlighted in the analysis above, In many cases, these deficiencies are interconnected and often stem from a common underlying issue, such as inadequate resourcing, ineffective segregation of duties, or immature control environments.



Count of MWs reported per company - 2026 filings

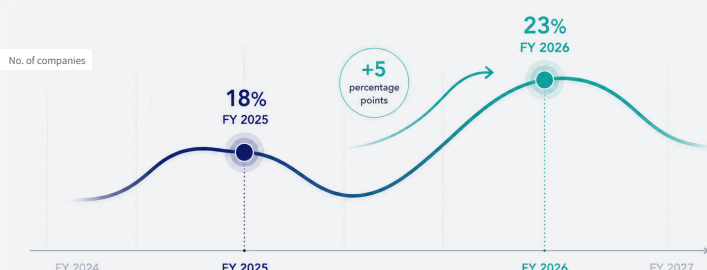


The proportion of companies reporting four or more MWs increased from **18%** in FY 2025 to **23%** in FY 2026.

Companies reporting four or more material weaknesses often exhibit broader governance, operational, and financial reporting challenges rather than isolated control failures.

Such organizations typically face longer remediation timelines, increased auditor scrutiny, and heightened regulatory and investor attention.

The presence of multiple weaknesses may indicate systemic deficiencies across finance, IT, and operational processes, requiring coordinated remediation efforts and strong executive oversight.



Top Material Weakness Themes

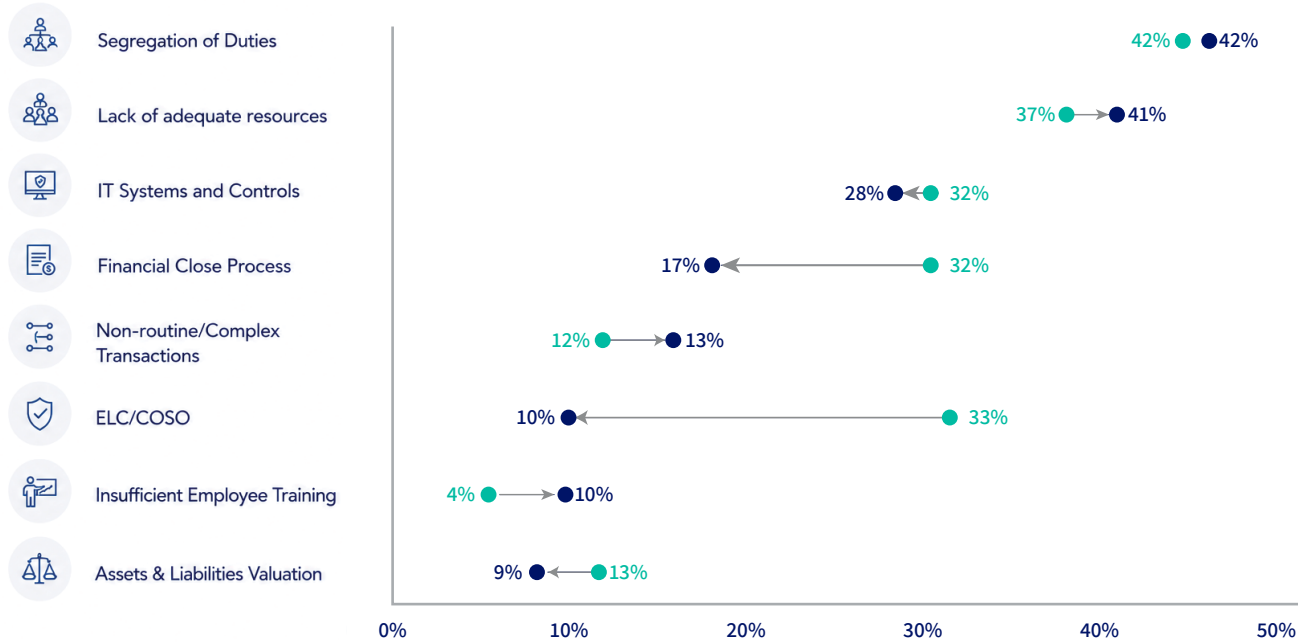


Segregation of Duties and Lack of Adequate Resources remained the two most prevalent material weakness themes in both 2025 and 2026, collectively representing the most reported material weaknesses across the companies analyzed. While the leading themes remained unchanged, their relative prevalence shifted, with resource-related deficiencies increasing from 37% to 41%, reflecting continued staffing, competency, and operational challenges.



Material Weakness Themes – 2025 vs. 2026

● Filed in 2026
● Filed in 2025



KEY IMPROVEMENTS

- 01 IT Systems & Controls decreased from **32% to 28%**
- 02 Financial Close Process decreased from **32% to 17%**
- 03 ELC/COSO deficiencies decreased from **33% to 10%**

EMERGING CONCERNS

- 01 Resource constraints increased from **37% to 41%**
- 02 Employee training deficiencies increased from **4% to 10%**
- 03 Complex transaction-related weaknesses remain elevated at **13%**

Interconnection Among Material Weakness Themes



Companies rarely report a single isolated weakness. Material weaknesses often reflect interconnected control environment challenges rather than standalone control failures. Deficiencies across multiple areas frequently occur together, pointing to broader governance, resource, process, and capability gaps within an organization. Understanding these relationships provides deeper insight into the underlying drivers of material weaknesses and highlights areas where targeted remediation efforts can have the greatest impact.



Overlapping Material Weakness Trends (2026)

99 companies report both
**Segregation of Duties +
Lack of Resources**

47% of SoD filers also cite Resource gaps

85 companies report both
**Segregation of Duties +
IT Controls**

41% of SoD filers also cite IT Control gaps

37 companies report all three
**SoD + Resources +
IT Controls**

Multiple foundational control weaknesses reported together

34 companies report both
**Lack of training +
Lack of resources**

Training deficiencies are commonly reported alongside resource-related concerns

Among companies reporting Segregation of Duties (“SoD”) deficiencies, 99 companies also reported inadequate resourcing issues, representing approximately 47% of all SoD filers. This overlap highlights the extent to which staffing limitations and insufficient personnel capacity continue to impair organizations’ ability to establish and maintain appropriate segregation within key financial and operational processes.












Similarly, 85 companies reported both SoD and IT control deficiencies, indicating a significant correlation between access management, system governance, and control segregation challenges. The trend reflects the increasing dependence on technology-driven control environments, where ineffective IT controls often amplify broader process-level weaknesses. Notably, 37 companies reported a combination of all three themes — SoD deficiencies, lack of adequate resources, and IT control weaknesses.

The analysis further shows that 34 companies reporting employee training-related material weaknesses also disclosed inadequate resourcing concerns. This suggests that training deficiencies are often indicative of broader capacity constraints, where organizations may lack sufficient time, personnel, or specialized expertise to effectively support evolving accounting, compliance, and control requirements.

Industry Analysis of Material Weakness Disclosures



Material Weakness Themes by Industry (2026)

% of companies in each industry reporting MW (2026 filings)	 SoD	 Resources	 IT Controls	 Close Process	 Valuation
 Healthcare (109)	50%	40%	27%	13%	8%
 Technology (88)	49%	50%	36%	14%	6%
 Financial Services (33)	24%	24%	9%	21%	24%
 Energy (32)	41%	31%	28%	19%	12%
 Investment (25)	31%	27%	12%	27%	15%
 Consumer Goods (21)	38%	33%	38%	33%	10%

The analysis highlights distinct material weakness patterns across industries, reflecting differences in operating models, regulatory requirements and business complexity. While Segregation of Duties and resource-related deficiencies remain prevalent across most sectors, the relative significance of specific weakness themes varies considerably by industry.

Healthcare and Technology companies exhibited elevated levels of Segregation of Duties, resource, and IT control deficiencies, suggesting ongoing challenges in maintaining effective control environments amid operational complexity, growth, and evolving regulatory demands. In contrast, Financial Services and Investment companies reported a higher concentration of valuation and financial close process weaknesses, reflecting the judgment-intensive nature of financial reporting, valuation methodologies, and accounting estimates.

Consumer Goods companies demonstrated relatively broad-based control challenges across multiple themes, including Segregation of Duties, IT controls, and financial close processes. Energy companies continued to report notable control environment and resource-related deficiencies, highlighting the operational complexities associated with managing geographically dispersed and asset-intensive operations. Overall, the findings indicate that while foundational control environment challenges remain common across industries, the underlying drivers of material weaknesses often differ, underlining the need for industry-specific remediation strategies and control enhancement initiatives.

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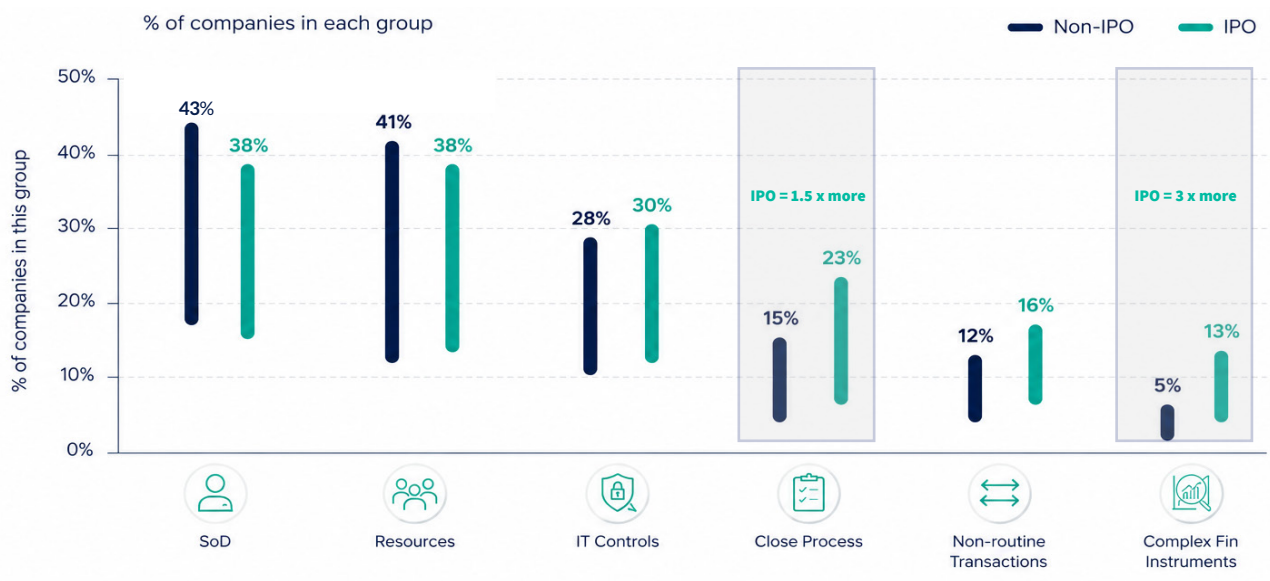
IPO vs. Non-IPO Filers: Comparing Material Weaknesses



A comparison of IPO and Non-IPO filers reveals notable differences in the nature of material weaknesses reported. While foundational control challenges such as Segregation of Duties, resource constraints, and IT control deficiencies were broadly consistent across both groups, IPO filers reported significantly higher levels of transaction- and reporting-related weaknesses.



Material Weaknesses: IPO vs. Non-IPO



While foundational control deficiencies remain common across both IPO and Non-IPO filers, IPO companies exhibit a greater concentration of weaknesses associated with financial reporting complexity. Financial Close process deficiencies were reported by 23% of IPO filers compared to 15% of Non-IPO filers, while weaknesses relating to complex financial instruments were reported nearly three times as frequently (13% vs. 5%). IPO filers also reported higher levels of non-routine and complex transaction-related weaknesses.

These findings suggest that organizations preparing for public listing often face challenges not only in establishing sustainable control environments but also in managing the technical accounting, valuation, reporting, and disclosure requirements associated with significant transactions and accelerated reporting timelines.

The results highlight the importance of early IPO readiness planning, including investments in technical accounting expertise, financial reporting processes, and scalable internal control frameworks.

Conclusion



The analysis of material weakness disclosures across 1,000 U.S. public companies indicates that while the nature and prevalence of specific weaknesses may vary across industries and filer types, several control themes continue to recur consistently across the reporting population.

The findings demonstrate that material weaknesses often extend beyond isolated control deficiencies and should be evaluated within the broader context of an organization's control environment. The prevalence of recurring themes across the study population highlights the importance of maintaining effective governance structures, adequate resources, and robust financial reporting processes.

The study also illustrates that material weakness profiles can differ significantly based on organizational circumstances. Variations observed across industries and between IPO and Non-IPO filers reinforce the need for organizations to evaluate control risks within the context of their specific operating environment, reporting requirements, and business activities.

Effective remediation requires more than addressing individual control gaps. Organizations that adopt a holistic approach to evaluating their control environment, identifying underlying causes, and prioritizing remediation efforts are likely to achieve more sustainable improvements in Internal Control over Financial Reporting (ICFR) and strengthen overall financial reporting reliability.

Key Considerations for Management and Audit Committees:



Focus on identifying and addressing underlying causes rather than individual control deficiencies



Evaluate whether multiple reported weaknesses indicate broader control environment concerns



Consider the interdependencies between finance, IT, governance, and operational controls when designing remediation plans



Periodically assess the adequacy of resources, expertise, and oversight mechanisms supporting the control environment



Prioritize sustainable remediation efforts that strengthen overall control effectiveness rather than addressing deficiencies in isolation





ABOUT US

Pierag Consulting was founded in February 2021 by Abhishek Gupta, Thomas Raffa and Pierian Services as a unique business model to serve clients globally by blending domestic proficiency with global expertise.

Since then, we have been serving prominent clients across the US, SEA, India and UK in the field of Accounting Advisory, Business Risk, Technology Risk, Assurance, ESG & Sustainability, Deals Advisory, Tax and Digital.

With highly skilled team members, we are fueled by our purpose of 'Inspiring people to do things that inspires them' and our values of 'Excellence, Equity & Empathy'.

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