



The \$8M Wake-Up Call:

Using Intercompany Governance to Unlock Value and Mitigate Risk

BlackLine conducted research across 20+ years of publicly traded company information and identified the top five reasons for material weaknesses. By leveraging sound intercompany practices, businesses can help avoid these material weaknesses, saving an average of \$8M per occurrence.





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Strengthening compliance and avoiding material weaknesses through dedicated holistic technology



1. Executive Summary

BlackLine uses Audit Analytics, an audit and compliance research platform, for due diligence and risk insights.

As part of our research, BlackLine analyzed 20+ years of material weakness and restatement data of publicly traded companies as reported on their financial statements. The analysis covered a variety of company sizes and industries and 20 categories of material weakness findings. The results show that when it comes to compliance issues, there are clear leaders that a majority of material weaknesses fall into:

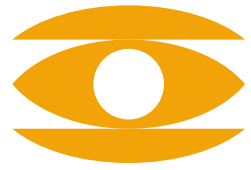
- **99%** related to **accounting documentation, policy, and procedure**
- **60%** related to **accounting personnel resources, competency, and training**
- **54%** related to **IT, software, and security issues**
- **40%** related to **segregation of duties, design of controls, and personnel**
- **25%** related to **inadequate disclosure controls (timeliness, accuracy, completeness)**

As a global process, intercompany is inherently woven into many processes across the Office of the CFO. As such, intercompany can be an asset or a liability to internal controls. Improperly managed intercompany operations can increase the risk of compliance issues, which, in turn, can impact the items the CFO cares about most: profitability, growth, and control.

As a baseline for strengthening governance, companies should look to intercompany to help reduce or prevent potential compliance issues, which could lead to material weaknesses or misstatements, and could cost as much as \$8M per occurrence¹.

This paper focuses on the cost of compliance and each of the five material weakness categories listed above. It includes examples of how to leverage best practices and cutting-edge technology, including BlackLine's Intercompany solutions, which can help prevent material weaknesses from occurring while improving financial performance.

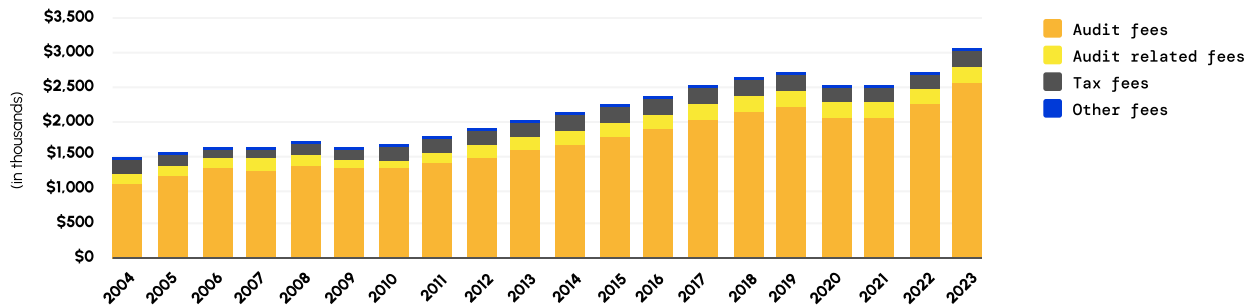
¹ <https://www.zuora.com/glossary/material-weakness/>



2. The Direct Cost of Compliance - Audit Fees

Public companies face a litany of compliance obligations and shareholder requirements they must fulfill, all of which come at a cost. Meeting shareholder needs is only part of the equation. Businesses must obtain a clean opinion on their annual audit to stay publicly listed, which is where the audit firms come in. Public companies can spend millions of dollars annually on audit fees alone to ensure their financial statements are accurate and fairly stated. This trend has increased steadily for the last 20 years, with audit fees nearly doubling since 2010.

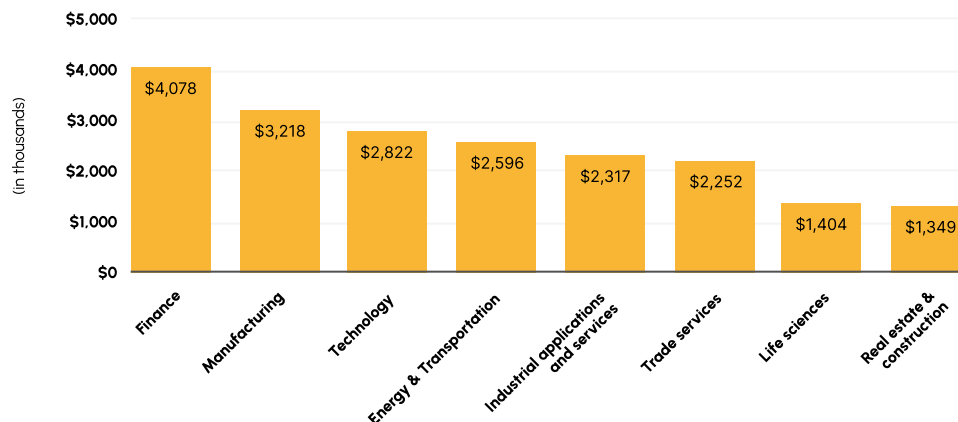
Average Fees



Average audit fees paid by SEC registrants, Audit Analytics, Audit Fees trend report 2024

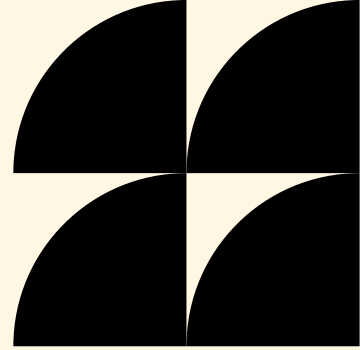
But not all industries are treated equally. The audit fees paid across industries can vary significantly from an average of \$1.3M for real estate businesses to over \$4M for financial services. These fees cover the end-to-end audit services obtained, which include planning and risk assessments, internal control and substantive testing, audit documentation and reporting, and overhead and other services. Factors that can impact fees typically relate to company size, risk profile, timing, and complexity.

Average audit fees by industry: FY2023



Average Audit fees paid by industry 2023, Audit Analytics, Audit Fees trend report 2024

While this variance is reflective of the challenges that each industry faces, it's evident across all industries that audit costs are significant for any business.



3. Material Weaknesses

The Public Company Accounting Oversight Board (PCAOB) defines a material weakness as “a deficiency, or a combination of deficiencies, in a company’s internal control over financial reporting (ICFR) such that there is a reasonable possibility that a material misstatement of the company’s financial statements will not be prevented or detected in a timely manner.”

Material weaknesses (MW) indicate broader governance issues across the organization, with the burden of proof to resolve them lying squarely on the Office of the CFO. Material weakness findings are defined by whether they cause a material error, which is an error or misstatement in the financial statements that is big enough that it could influence the decisions of someone relying on those statements. The severity of a material weakness determines how it’s handled.



If the material weakness causes a material error:

The company must file a Reissuance Restatement, which is the most serious type of restatement and can significantly impact investor confidence. This process involves issuing an 8-K under Item 4.02, notifying the public of non-reliance on prior financial statements. The 8-K must be filed within five business days of determining that a restatement is necessary. Additionally, the company must restate the affected financial statements and disclose the nature of the material weakness along with any remediation plans.

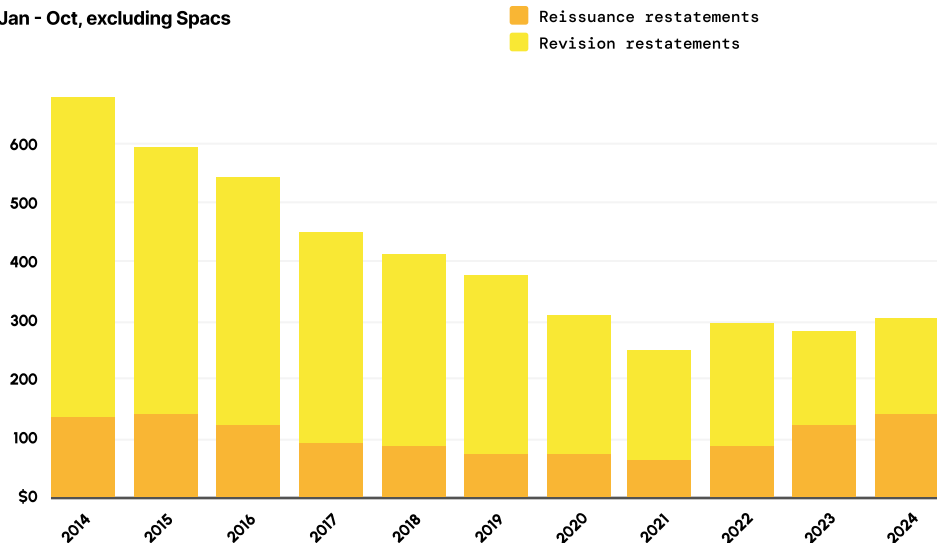
If the material weakness exists but doesn't cause a material error:

A Revision Restatement may be sufficient in some cases. In a revision restatement, errors are corrected in the current filing, such as a 10-K or 10-Q, rather than requiring a full reissuance. The company must include a note explaining the existence of the material weakness, the reasons why the identified errors were not considered material to prior financial statements, and the steps being taken to remediate the underlying control deficiency.

Over the last 10 years, the number of total restatements has dropped by nearly 50%, while the number of reissuance restatements remains near a 10-year high. In fact, reissuance restatements have risen dramatically since 2021.

Total number of financial restatements by US companies

Jan - Oct, excluding Spacs



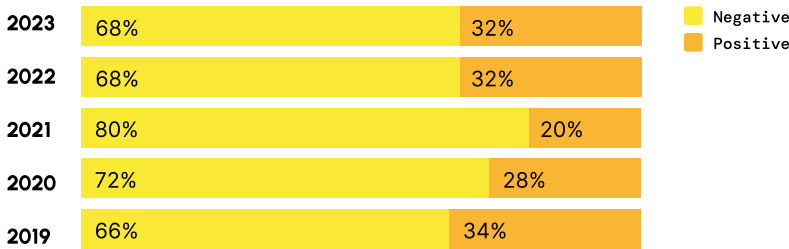
Source: Ideagen Audit Analytics



Material weaknesses and associated restatements are costly to organizations in many ways, including impacts to credibility, stock price impacts, increased regulatory scrutiny, and the cost of fixing the weakness itself (\$8M per occurrence!) The discovery of material weaknesses often leads to:

- **Higher Audit Fees:** Additional scrutiny and extended audit procedures can increase audit costs until remediation and testing are proven. Firms disclosing material weaknesses experienced audit fees that were, in some cases, **43% higher** than those without such disclosures (AAA Publications).
- **Remediation Expenses:** Implementing corrective measures to address control deficiencies incurs additional costs. These can include a host of expenses, from hiring additional staff and consultants to process redesign and technology purchases. On average, companies spent approximately **\$7.8 million** to remediate each material weakness (Zuora).
- **Reputational Damage:** Disclosure of material weaknesses can erode investor confidence, potentially impacting stock prices and increasing the cost of capital. This can occur even when the impact on financial results is positive, as it shows a lack of management control of the business. For example, a publicly traded rental company saw its stock **drop by 40%** over 12 months following a material weakness finding.
- **Stock Price Volatility:** Companies with material weaknesses were **12–48% more likely** to experience future stock price declines compared to firms with effective internal controls (Zuora).
- **Prolonged Financial Impact:** Increased audit fees and associated costs often persist for years, even after the material weaknesses are addressed.

Impact on Net Income



Impact of Restatements on Net Income, Financial Restatements June 2024, Audit Analytics

Between 2014 and 2024, companies that disclosed material weaknesses in their financial statements faced significant financial repercussions. While exact costs varied based on company size, industry, and the nature of the weakness, several studies and reports provide insight into the average expenses incurred.



Estimated impact per cost category



Remediation per weakness

~\$7.8 million



Audit fee increase

+43% compared to firms without weaknesses



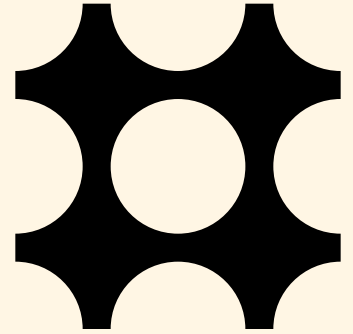
Stock price crash risk

12-48% higher likelihood



Duration of cost impact

Multi-year (even post-remediation)



4. Significant Findings and Intercompany

BlackLine analyzed over 20 years of Audit Analytics data, looking at material weaknesses. The top 5 categories of MW are below.

- **99%** related to **accounting documentation, policy, and procedure**
- **60%** related to **accounting personnel resources, competency, and training**
- **54%** related to **IT, software, and security issues**
- **40%** related to **segregation of duties, design of controls, and personnel**
- **25%** related to **inadequate disclosure controls (timeliness, accuracy, completeness)**

It's no surprise that accounting documentation was the number one category, appearing in nearly every material weakness finding. Documentation is the basis of record for all financial transactions, and the largest area for errors, from both a human and systems standpoint. Policies and procedures are the benchmark for processes, and without them, it's up to subjective interpretation to guide operations.



Between 2004 and 2024, issues related to IT and disclosure controls **rose by more than 75%**. It's worth noting this surge correlates with broader market trends during that period, including increased M&A activity, the growing role of technology in the Office of the CFO, and accelerated globalization. Together, these shifts have introduced a complex web of disconnected IT and finance systems, making it increasingly difficult for organizations to deliver complete, accurate, and timely financial disclosures.

Material Weaknesses in Major Internal Controls Categories



Consistent

Documentation issues



7%

Increase in personnel issues



75%

Increase in IT issues



7%

Decrease in SOD issues



77%

Increase in disclosure issues

The following section will highlight examples of each of the major Internal Controls categories, show how intercompany applies to them, and give suggested recommendations for how your businesses can avoid costly material weaknesses.

1. Accounting Documentation, Policy, and Procedure

A material weakness in intercompany processes can arise when a company lacks standardized and documented policies for recording and reconciling intercompany transactions. Without clear procedures for initiating entries, determining pricing, or ensuring timely reconciliations, transactions may be recorded inconsistently across entities, leading to unreconciled balances, manual adjustments, and insufficient audit support. This lack of documentation and control increases the risk of material misstatements in the consolidated financial statements.

Having documented intercompany policies, including defined intercompany trading agreements outlining parties, scope, pricing, delivery, and payment and dispute terms, can significantly reduce the chance of accounting documentation errors.

2. Accounting Personnel Resources, Competency, and Training

An intercompany control failure can occur when accounting personnel lack the necessary training or expertise to properly manage intercompany transactions.

For example, staff at certain subsidiaries may not fully understand intercompany accounting principles, resulting in errors like incorrect classifications, misapplied transfer pricing, or failure to eliminate intercompany balances during consolidation.

These errors may go undetected due to inadequate review processes or limited understanding of the financial reporting impact. This issue can also be compounded by globally shrinking pools of qualified finance and accounting talent, as intercompany processes become more complex.

Using a system that tracks transfer pricing and flags imbalances for investigation and resolution can reduce the risk of human error.



3. IT, Software, and Security Issues

A breakdown in intercompany processes can stem from IT, software, and security issues when systems used by different entities are not properly integrated or controlled.

For instance, if subsidiaries use separate ERP systems that do not communicate effectively, intercompany transactions may not be automatically matched or reconciled, leading to data integrity issues and manual errors. Additionally, lack of proper access controls or audit trails in the systems may allow unauthorized changes to intercompany entries, compromising financial accuracy, integrity, and oversight. Consolidation tools often lack visibility into transaction details, making effective intercompany resolutions more difficult with only high-level data to work with.

A practical solution is to use an ERP-agnostic application that works with data across multiple financial systems, with proper user access controls and a global subledger for detailed transactional data views.

4. Segregation of Duties, Design of Controls, and Personnel

Material weakness in intercompany can arise from poor segregation of duties or flawed control design, where the same individual is responsible for initiating, approving, and recording intercompany transactions.

For example, if one employee can create an intercompany invoice, approve it, and post it to the general ledger without independent review, this lack of checks and balances increases the risk of errors or fraud going undetected. Additionally, if personnel roles are not clearly defined or there are insufficient resources to enforce proper segregation of duties, control effectiveness is significantly weakened.

Avoiding manual approvals and using a dedicated system with proper controls and defined user roles is essential to ensuring that transactions entered are legitimate, valid, and approved, and that segregation of duties can be monitored accurately.

5. Inadequate Disclosure Controls (timeliness, accuracy, completeness)

A material weakness in intercompany related to inadequate disclosure controls can occur when there is no formal process to ensure timely, accurate, and complete reporting of intercompany balances and eliminations during period-end close.

For example, if intercompany transactions and reconciliations are not finalized before financial reporting deadlines, the company may disclose incomplete or inaccurate information in its consolidated financial statements. This can lead to misstated disclosures around related-party transactions or unresolved intercompany balances.

Processes and technology around the review and reporting of all intercompany reconciliations should be in place, allowing management to see the status of reconciliations, post appropriate and timely journal entries, and ensure balances are aligned before the books are closed.





5. BlackLine Intercompany Solutions: Strengthening Compliance

Manual processes and disconnected systems significantly elevate the risk of material weaknesses. By taking an end-to-end technology approach to intercompany operations, organizations can strengthen compliance and reduce risk through automated transaction matching, standardized workflows, and timely entity-level reconciliations.

BlackLine's Intercompany solutions are designed to automate and streamline the entire intercompany transaction lifecycle—from initiation to settlement—while ensuring compliance, control, and global consistency. It replaces manual, error-prone processes with standardized workflows, embedded rules, and real-time visibility, reducing risk and accelerating close cycles.

By integrating seamlessly with existing ERPs and supporting transfer pricing, audit documentation, and dynamic approval routing, BlackLine enables finance and accounting teams to improve accuracy and transparency, reduce cost, and scale intercompany operations across the enterprise.

Here's how [BlackLine's Intercompany solutions](#) can help mitigate risk and avoid costly material weaknesses for your organization:

Streamlined Compliance and Audit Readiness

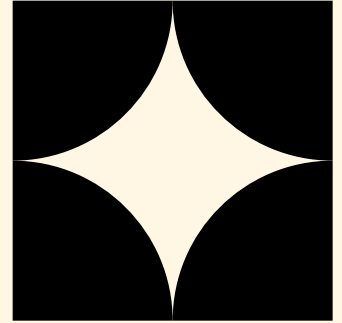
By embedding rules-driven transaction processing and attaching supporting intercompany agreements and transfer pricing policies, the solutions ensure consistent global compliance. It maintains aligned workpapers and invoices, facilitating faster and more confident audits. Features like limited auditor access, comprehensive audit trails, and real-time visibility into task assignments further reduce audit complexity and on-site time while enhancing transparency and control.

Process Automation and Operational Efficiency

Eliminate manual, low-value tasks through robust automation, reducing staff burnout and freeing capacity for higher-value work. Configurable templates and end-to-end automation promote consistency and accuracy, while continuous processing allows real-time transaction handling, eliminating late adjustments and improving reporting timeliness. This collectively enables streamlined operations and faster, more reliable results.

Scalability, Knowledge Retention, and Workforce Optimization

Built for growth, BlackLine's solutions standardize global processes and support scalability. By capturing institutional knowledge and automating key workflows, it mitigates the risk of disruption from staff changes. These process efficiencies help organizations overcome talent shortages and retain valuable employees by reducing burnout and increasing job satisfaction.



“Getting rid of a material weakness requires a strategy, proper remedial action planning, and adequate time to demonstrate sustained operational effectiveness (typically a minimum of 3 months)”

CENTRI CONSULTING,
10 STEPS TO REMEDIATE
MATERIAL WEAKNESSES, 2023

“Intercompany imbalances have plummeted to near zero.”

KraftHeinz

[Learn How](#)



Dynamic Workflows and Real-Time Data Accessibility

Automated, risk and materiality-based workflows ensure that the right people review and approve tasks, minimizing missed steps and delays. Real-time data access empowers stakeholders with timely insights, streamlining close cycles and enhancing decision-making across the organization.

[See how streamlining intercompany can shave days off your close.](#)

Secure, Cloud-Based Technology with Granular Controls

The cloud-hosted environment ensures users always work with the latest tools without IT delays. Robust administrative controls manage user access and data security, while Single Sign-On (SSO), role-based access controls, and embedded segregation of duties prevent unauthorized activity and support compliance. Real-time monitoring and alerts further enhance governance by enabling immediate identification and resolution of access conflicts.

Intercompany Impact

As a global process, intercompany touches nearly every corner of the Office of the CFO, making it globally relevant to sound internal controls. When poorly managed, it can lead to compliance issues and material misstatements, and it can impact what matters most—profitability, growth, control, and consistency.

BlackLine Intercompany solutions transform this complexity into a strength by delivering automated compliance, reducing manual work, improving accuracy, and increasing visibility. By enabling scalable, standardized processes, preserving institutional knowledge, and strengthening internal controls, BlackLine helps finance teams mitigate risk, ensure consistency, and support sustainable growth, and potentially save millions of dollars by helping to avoid costly material weaknesses.

[Learn more about BlackLine Intercompany solutions.](#)

About BlackLine

Finance and accounting teams come to BlackLine because their increasing and competing priorities have become unmanageable, and successful transformation is imperative. We help them realize future-ready financial operations by enabling unified and accurate data, streamlined and optimized processes, and real-time insight through visibility, automation, and AI.

More than 4,400 companies across multiple industries choose BlackLine's experience, partnership, and leading practices to power their people and businesses on the way forward. For more information, visit blackline.com.

