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Disclosure of Ethical Breaches in Annual Financial Reports

Introduction

With a rise in integrated reporting, more demand for corporate social responsibility (CSR), and prior malfeasance of companies, disclosures about ethical issues are becoming increasingly common and important. CSR reports are not audited however, so it was valuable to look at required reports which are audited.

Objectives

- Determine how many companies disclose ethical breaches
- Analyze how and where companies disclose breaches
- Explore connections between a lack of disclosure and the auditor of the report

Methods and Procedures

- Looked through google for 30 corporate scandals that were the most newsworthy. 30 companies were chosen as it provided the optimal balance between significance and time efficiency. It was important that each company was publicly traded because they have mandatory reporting.
- For each company, the report that was combed through was either in the year the scandal happened, or the following year.
- Collected information regarding whether or not the disclosure happened, how much detail they went into and where they placed it, and who the auditor was.

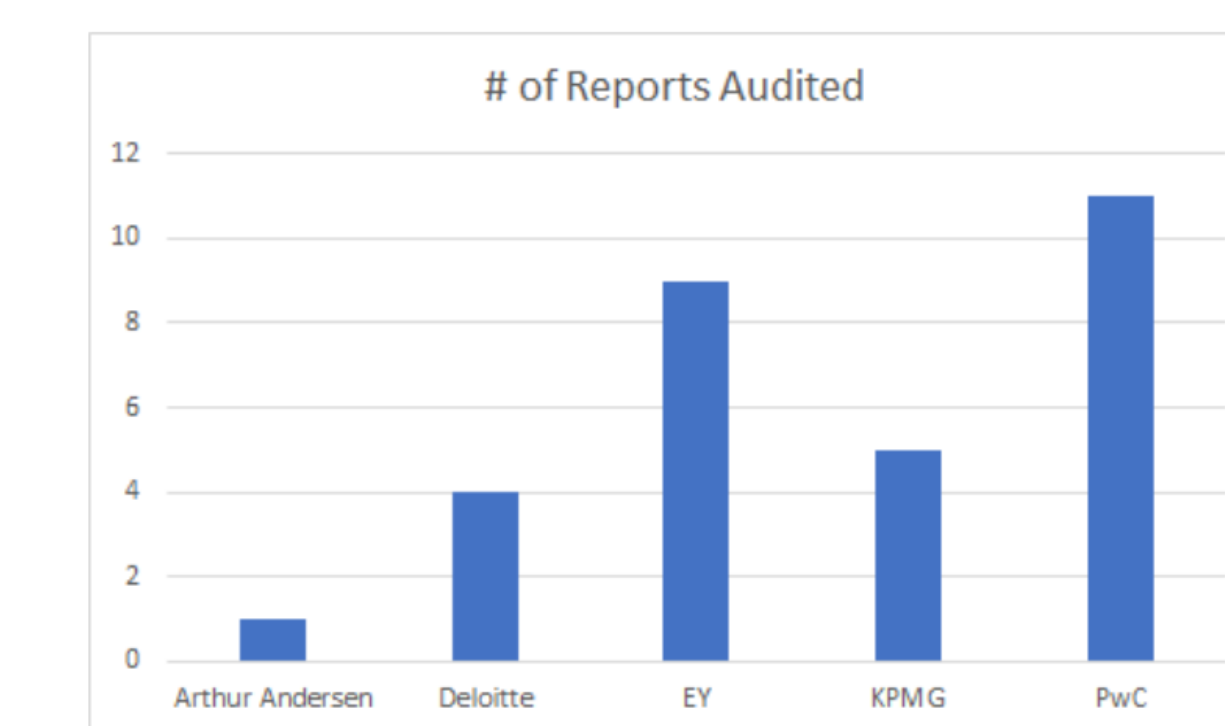
Results

21st Century Fox	Harassment	Yes	EY
Adidas	Sweatshops	No	KPMG
AIG	Fraud	Yes	PwC
Apple	Slowing phones down	No	EY
CBS	Sexual Misconduct	Yes	PwC
Chevrolet	Ignition Defect	Yes	Deloitte
Comcast	Sexual Misconduct	No	Deloitte
CVS	Bribery	Yes	EY
Dish	Robocalls	Yes	KPMG
Equifax	Data breach	Yes	EY
Exxon	Misleading about Climate Change	Yes	PwC
Facebook	Data Breach	Yes	EY
Gap	Child Labor	No	Deloitte
H&M	Building Collapse	No	EY
HealthSouth	Accounting Fraud	Yes	PwC
Johnson & Johnson	Bribery	Yes	PwC
Merck	Vioxx Drug issues	Yes	Deloitte
Nike	Child Labor	No	PwC
Ovest	Accounting Fraud	Yes	KPMG
Samsung	Bribery	No	PwC
Siemens	Bribery	Yes	KPMG
Tesla	False and Misleading Statements	Yes	PwC
The Limited	Child Labor	No	EY
Toshiba	Accounting Fraud	Yes	EY
Toyota	Defects	Yes	PwC
Uber	Sexual Harassment	Yes	PwC
United Airlines	Dragged Customer	No	EY
Volkswagen	Emissions cheating	Yes	PwC
Waste Management	Fraud	Yes	Arthur Andersen
Wells Fargo	Account Fraud	Yes	KPMG

Table 1: Details of Each Company Related to Disclosure

Results

- 21 of the 30 companies did disclose their information
- Nearly every disclosure was made in either Litigation, Legal Proceedings, or Risks sections
- PwC and EY audited the most reports, with 11 and 9, respectively.
- PwC and EY both had nearly a 50% non disclosure rate



Graph1: Number of Annual Reports Audited by Each Auditor

Conclusions

- Companies will disclose as long as there is a legal requirement. If the ethical issue is accusation of unethical behavior, or there are no lawsuits present, then the company will be significantly less likely to disclose.
- None of the clothing companies disclosed, but most of their breaches were accusations of unethical labor practices.
- No significant variation in where companies disclose, but some disclosed much more than others, i.e., one took out an entire page to apologize.
- EY and PwC were the least likely to have a company disclose