IOWA STATE UNIVERSITY

College Of Business Honors Program

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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.

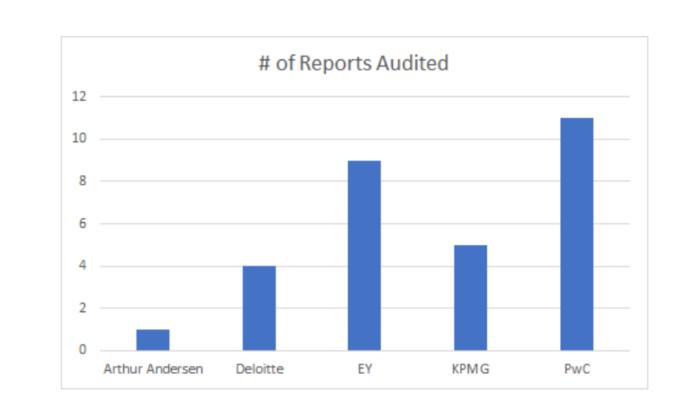
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The Limited Child Labor No EY
Toshiba Accounting Fraud Yes EY
Toyota Defects Yes PwC
Uber Sexual Harassment Yes PwC
United Airlines Dragged Customer No EY
Volkswagen Emissions cheating Yes PwC
Waste Management Yes Arthur Andersen
Wells Fargo Account 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

Conclustions

- 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