

## **Board Oversight of Corporate Ethics Programs and Changes in Financial Disclosure Credibility**

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Felo (2000) reports a positive association between financial disclosure credibility and ethics programs overseen by Boards. This paper builds on this result by investigating changes in the credibility of firm disclosures in 10Ks, annual reports, and proxy statements and ethics programs overseen by Boards. My evidence indicates that in 2001, firms having ethics programs overseen by their Boards disclosed more credible financial information than did firms not having ethics programs overseen by their Boards. My evidence also shows that firms adding ethics programs overseen by their Boards between 1995 and 2001 were more likely to increase their financial disclosure credibility than were firms that did not have ethics programs overseen by their Boards in 1995 and 2001. These results indicate that extending an ethics code throughout an organization and having the Board oversee its development, implementation, and maintenance may result in a stronger internal control environment, which could lead to a more forthcoming attitude concerning financial disclosures. In addition, these results indicate that forensic accountants should consider whether a firm has an ethics program overseen by its Board when assessing the quality and integrity of a firm's financial reporting system.

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### **INTRODUCTION**

The Sarbanes-Oxley Act of 2002 (hereafter referred to as SOX) contains a provision requiring publicly traded firms to disclose whether they have adopted codes of ethics for their senior financial officers and if not, why they have chosen not to do so (Section 406, Subsection A). The Act defines codes of ethics in terms of promoting "... the ethical handling of actual or apparent conflicts of interest between personal and professional relationships" (Section 406, Subsection C, point 1) and "full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the issuer" (Section 406, Subsection C, point 2). An implicit assumption of SOX is that ethics codes will help firms develop a more forthcoming attitude concerning their financial disclosures. This view is consistent with the conclusion of the National Commission on Fraudulent Financial Reporting ("Treadway