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SURVEY OF BUSINESS PRACTICES— COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION

Committee of Sponsoring Organizations of the Treadway Commission

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Committee of Sponsoring Organizations of the Treadway Commission

1211 Avenue of the Americas, 6th Floor, New York, NY 10036-8775 Telephone (212) 575-6656

June 22, 1988

Dear Chief Executive:

The National Commission on Fraudulent Financial Reporting—usually referred to as the Treadway Commission—published its final Report in October 1987. The Report identifies causal factors that can lead to fraudulent financial reporting and makes recommendations to reduce its incidence.

The Commission was a private-sector initiative, jointly funded by the five sponsoring organizations identified on this letterhead. **The Commission's recommendations are only the first step in a broad-based private-sector effort to demonstrate to the public our commitment to provide reliable and useful financial information.**

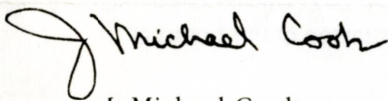
The sponsoring organizations are monitoring progress in the implementation of the recommendations and will report periodically on that progress. **Your leadership is needed to implement the recommendations. And we need your support to be able to demonstrate the effect of that leadership.**

At this time we need key baseline information from you which will enable us to report in a comprehensive and accurate manner on the progress made in implementing the recommendations. The accompanying questionnaire is designed to gather that information. Please take a few moments now to complete it.

Please note that we are not asking you to identify yourself or your company in your response, so **complete confidentiality** is assured. Moreover, only aggregated data will be included in a summary of the survey's findings published in the journals of the sponsoring organizations.

Since we will not be able to identify respondents to this mailing, we will be unable to send second requests. Therefore, it is essential that you **return the completed questionnaire to us as soon as possible** in the enclosed postage-paid envelope.

Sincerely,



J. Michael Cook
Chairman

SURVEY OF BUSINESS PRACTICES— COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION

I. Code of Corporate Conduct

- | | <u>Yes</u> | <u>No</u> |
|--|----------------------------|----------------------------|
| 1. Does your company have a written code of corporate conduct?
(If yes go to question 2, otherwise skip to question 5) | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> |
| 2. Has the company adopted a set of procedures designed to monitor and enforce compliance with the code? | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> |
| 3. Does the code protect employees from reprisal if they make allegations of fraudulent financial reporting or other misconduct? | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> |
| 4. How long has your company had a written code of corporate conduct? | | |
| 1 <input type="checkbox"/> Less than one year | | |
| 2 <input type="checkbox"/> From one to four years | | |
| 3 <input type="checkbox"/> Over four years | | |
| 5. If your company does not have a written code of corporate conduct, please check the appropriate box: | | |
| 1 <input type="checkbox"/> We are developing a written code | | |
| 2 <input type="checkbox"/> We plan to develop a written code | | |
| 3 <input type="checkbox"/> We have no present plans to develop a written code | | |

II. Internal Audit Function

6. Does your company have a separate internal audit function? 1 Yes 2 No
(If yes go to question 7, otherwise skip to question 9)
7. To whom within the corporate organization does the person responsible for internal auditing report?
(Check only one)
- 1 Chief executive officer
- 2 Chief financial officer
- 3 Chief accounting officer
- 4 Treasurer
- 5 Other _____
(Specify)
8. Does the person responsible for internal auditing have private access to the audit committee of the board of directors?
- 1 Yes (If yes, go to question 10)
- 2 No (If no, go to question 10)
- 3 We do not have an audit committee
(If your company does not have an audit committee, skip to question 16)
9. Please indicate why your company does not have a separate internal audit function. (Check all that apply)
- 1 Our company is too small or inactive to keep a separate internal audit function busy
- 2 Other employees spend part of their time carrying out internal audit functions
- 3 We believe it would be too expensive
- 4 We rely on our independent auditors
- 5 We do not have a separate internal audit function because: _____
- _____
- _____

III. Audit Committee

- | | <u>Yes</u> | <u>No</u> |
|---|----------------------------|----------------------------|
| 10. Has your company's board of directors established an audit committee?
(If yes go to question 11, otherwise skip to question 16) | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> |
| 11. Are all the members of the audit committee independent directors who are not former officers of the company or any of its subsidiaries? (If yes, skip to question 14) | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> |
| 12. Is the chairman of the audit committee an independent director who is not a former officer of the company or any of its subsidiaries? | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> |
| 13. Do independent directors who are not former officers of the company or any of its subsidiaries represent a majority of the audit committee? | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> |
| 14. Does the audit committee review compliance with the company's written code of corporate conduct? (Please check here <input type="checkbox"/> if the company does not have a written code) | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> |
| 15. Does the audit committee conduct its activities following a written charter or other similar document? (Please skip to question 17) | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> |
| 16. Please indicate why your company does not have an audit committee. (Check all that apply) | | |
| 1 <input type="checkbox"/> Board of Directors carries out that function | | |
| 2 <input type="checkbox"/> Our company has no independent directors | | |
| 3 <input type="checkbox"/> We cannot attract independent directors to our Board | | |
| 4 <input type="checkbox"/> Independent directors cost too much | | |
| 5 <input type="checkbox"/> We do not have an audit committee because: _____ | | |
| _____ | | |
| _____ | | |
| _____ | | |

IV. Other Matters

- | | <u>Yes</u> | <u>No</u> | | <u>Don't know</u> |
|---|----------------------------|----------------------------|---|--------------------------|
| 17. Does the company include in its annual report to stockholders a management report dealing with management's responsibility for the financial statements and the system of internal control? (If no, skip to question 19) | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> | 3 | <input type="checkbox"/> |
| 18. Does the report also include management's assessment of the effectiveness of the system of internal control? | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> | 3 | <input type="checkbox"/> |
| 19. Do your company's independent auditors review the quarterly financial data before they are released to the public? | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> | 3 | <input type="checkbox"/> |
| 20. Have your company's independent auditors had a peer review by the AICPA Division for CPA Firms? | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> | 3 | <input type="checkbox"/> |
| 21. Has your company received a copy of the Treadway Commission report? | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> | 3 | <input type="checkbox"/> |
| 22. Has your company initiated a self-assessment of its policies and practices in relation to the recommendations in the Treadway Commission report? | 1 <input type="checkbox"/> | 2 <input type="checkbox"/> | 3 | <input type="checkbox"/> |

V. Demographics

23. Which of the following most closely describes your position in your company? (Check only one)

- 1 President/CEO/Chief Operating Officer
- 2 Chief Financial Officer/Controller
- 3 Director, Internal Auditing
- 4 Other _____
(Specify)

24. In what industry is your company primarily engaged? (Check only one)

- 1 Manufacturing
- 2 Services
- 3 Finance, insurance or real estate
- 4 Retail trade
- 5 Transportation or public utilities
- 6 Other _____
(Specify)

25. What is the total number of employees in your company?

- 1 10,000 and over
- 2 5,000, but under 10,000
- 3 1,000, but under 5,000
- 4 250, but under 1,000
- 5 100, but under 250
- 6 Under 100

26. What are the total assets of your company?

- 1 \$100 million and over
- 2 \$50 million, but under \$100 million
- 3 \$25 million, but under \$50 million
- 4 \$10 million, but under \$25 million
- 5 \$1 million, but under \$10 million
- 6 Under \$1 million

27. What are the total revenues of your company?

- 1 \$500 million and over
- 2 \$200 million, but under \$500 million
- 3 \$100 million, but under \$200 million
- 4 \$50 million, but under \$100 million
- 5 \$10 million, but under \$50 million
- 6 Under \$10 million

28. How are your company's securities traded? (Check only one)

- 1 On the New York Stock Exchange
- 2 On the American Stock Exchange
- 3 On the NASDAQ National Over the Counter Market
- 4 Using the NASDAQ "Pink Sheets"
- 5 Other _____
(Specify)

THANK YOU VERY MUCH FOR YOUR COOPERATION

June 1988