It takes good people to make a good organization; and good organizations can accomplish great things.

The involvement of a broad range of talented and knowledgeable people has long been a great source of pride to The Institute of Internal Auditors (IIA). It is a genuine love for and dedication to the profession of internal auditing that joins all of these people in a global commitment to elevate the profession and enhance professionalism. This document — The Institute’s 2007 Annual Report — is dedicated to the people of The IIA, who have made The Institute and the global internal audit profession what they are today and what they are sure to become in the future.
Dear Colleague,

It is important not only to focus on where we are going but also to celebrate where we have been and what we have accomplished. Throughout 2007, The Institute of Internal Auditors continued to manifest its mission to provide dynamic leadership for the global profession of internal auditing. I am pleased to share our 2007 Annual Report, which chronicles the year and celebrates the achievements of the many “people of The IIA.”

Remarkable things were accomplished during 2007, thanks to our outstanding volunteers who provided guidance for meeting critical challenges, to those who put in countless hours of work at their chapters or institutes, to our members and advocates who are so passionate about the profession, and to our dedicated professional staff. Every day, around the world, people wake up to the challenge of elevating our profession and enhancing professionalism. They also demonstrate their commitment to internal auditing’s future. That’s a huge responsibility but I know that we have good people who can accomplish great things. To keep it all in perspective, I asked some of the people of The IIA, to express, in their own words, what has made them the proudest. You will find their stories throughout this document.

This is truly an exciting time at The IIA and as I look at our accomplishments, I am both humbled and thrilled to be a part of this profession. As you turn the pages of this report, I hope you’ll feel that same pride in being one of the people of The IIA.

Sincerely,

David A. Richards, CIA
“It is every man’s obligation to put back into the world at least the equivalent of what he takes out of it.”

– Albert Einstein

RAISE

THE BAR
Dear Colleague,

The year 2007 was an amazing time for The IIA, during which we took the profession to the next level. Throughout the year we focused intensely on helping the membership see The IIA as one global organization. We took key steps to develop a structure and economic model designed to sustain The IIA globally, and moved toward establishing seamless knowledge-sharing among the institutes and between them and Global Headquarters.

But it is our people around the world who helped make this year so remarkable. They developed our strategies, built our partnerships, implemented new technologies, worked hard with management to find solutions, and advocated for the profession. It is this human energy that this year’s annual report celebrates. It is the heart of The IIA and it will continue to drive us to raise the bar and take internal audit practice to a much higher level of professionalism.

When I began my yearlong journey as chairman of the board, I pledged to enlist the hallmarks of open and honest communication. My years of experience as an internal auditor have taught me that listening is just as important a communication skill as is speaking. For this reason I traveled around the world, not only to publicly speak on behalf of internal auditing and its value, but also to listen to professionals talk about challenges they are facing and opportunities that are ahead.

Thank you for your continued support and for joining me this past year to raise the bar!

Sincerely,

Gerald D. Cox, CIA, MIIA
“I first became involved with The IIA at the chapter level in Chicago,” said Betty McPhilimy, CIA, a former chairman of the board and the current chair of the Advocacy Advisory Group. “I really understood how much of a global impact I could make as a volunteer when I met with the auditor general in Taiwan. He wanted to elevate government auditors in his country and I worked with him and headquarters staff to bring The IIA’s CGAP exam to Taiwan. What a great feeling it was when that all came together!” said Betty.

The IIA has 21 international committees that are charged with specific missions and work to enable The Institute to meet the changing needs of the profession. These committees assist The IIA in the decision-making process by providing information, recommending courses of action, and undertaking specific projects or tasks. Approximately 400 members provide guidance and direction through their participation on these committees.

In addition, another 3,000 IIA members around the globe are discovering that giving back nurtures both the person and the profession. These volunteers donate their time every day to keep their chapters and institutes running smoothly, recruit new members, write articles for newsletters, and participate in research projects.
One of the great things about giving back is that it is a win/win situation for everyone involved. There are many different ways to donate your time and talent to The IIA.

- The IIA’s Governance Report was developed in 2007 to provide clear communication about volunteer committee decisions and actions. This twice-yearly online communication supplements existing efforts to provide information about committee decisions and actions. It reports on The IIA’s Midyear Meetings that take place in November and the committee meetings that follow The IIA’s International Conference each year.

- More than 300 members representing 138 chapters attended The IIA’s North American Leadership Conference in May in Orlando, Fla., USA. This popular conference is designed for incoming chapter leaders and officers and offers training and leadership development.

- Many influential professionals at the top of our field are responsible for helping make internal auditing what it is today. Two outstanding individuals were recognized in 2007 with The IIA’s most prestigious awards:
  
  **Archie Thomas, CIA**, received the Victor Z. Brink Award for Distinguished Service. This award recognizes a member who has made extraordinary global contributions to the internal audit profession through consistent and exemplary IIA involvement and service.

  James Kaplan, CIA, was awarded the Bradford Cadmus Memorial Award, which recognizes internal audit practitioners for research, academic involvement, article and book publication, and other thought-leading pursuits.

- The IIA’s Advocacy Advisory Group held its first meeting during the 2007 International Conference committee meetings. The group is dedicated exclusively to the subject of advocacy and includes volunteer representatives from large global organizations such as The World Bank, the Inter-American Development Bank, the Organization for Economic Cooperation and Development, and the Organization for Security and Cooperation.

- The Volunteer Structure Task Force recommended the need for a formal committee to continuously focus on the issues of global governance in the areas of board structure and composition, board operations and effectiveness, and utilization of our global volunteers.
As a result, in 2007, the board of directors approved a new Governance Committee that will report to the Senior Vice Chairman of the Board.

The IIA’s Board of Directors approved a new strategic plan which will guide The Institute through 2013 in setting priorities and developing and implementing new programs. The strategic planning process began in March with input from The IIA’s Executive Committee, key volunteers, Global Council, and Chief Staff Officers (CSOs). A Strategic Planning Steering Group was formed under the leadership of Patty Miller, CIA, senior vice chairman of the board. The new strategic plan has five preferred milestones:

1. Internal auditing is universally recognized as a profession.
2. The IIA will define principles of the profession and will ensure that the principles are available seamlessly worldwide.
3. The IIA will ensure adherence to professional requirements.
4. The IIA will be the preferred provider in the research, development, and dissemination of knowledge to advance the profession.
5. The IIA will operate and be seen by its members as one global organization.

Prepared by The IIA, Global Technology Audit Guides (GTAGs®) are written in straightforward business language to address timely issues related to information technology (IT) management, control, and security. The IIA issued three GTAGs in 2007: IT Outsourcing, Auditing Application Controls, and Identity and Access Management.

The impact of giving back to the profession is powerfully evident in the production of each GTAG. As many as ten key contributors can dedicate more than a year of writing to develop one GTAG. In addition, more than 20 volunteers review each edition to ensure its accuracy and providers of technology products and services are invited to collaborate with The IIA on GTAGs.

Promoting the profession is good for internal auditing, good for internal auditors, and good for The IIA. That’s why the month of May has been designated as International Internal Audit Awareness Month. The IIA encourages leaders from its chapters and institutes to participate in this important annual celebration to promote the profession and to “talk it up” to audit customers, executive management, and boards of directors, as well as to the media and throughout their local community.

In North America, Georgia Governor Sonny Perdue proclaimed May 6 – 12, 2007, “Internal Audit Awareness Week.”

“The best way to find yourself, is to lose yourself in the service of others.”

– Ghandi
“I’m part of this because I want to make a difference for the profession,” says Mike Joyce, CIA, a member of The IIA’s Professional Seminars Committee. “One of the things I bring to my volunteer leader role with The IIA is my professional expertise in ethics and anti-fraud. I have been able to provide content for seminars and make contact with potential speakers because of my connections in my full-time job.”
“When I was invited to become a member of The IIA’s International Relations Committee, I was encouraged that my involvement would help elevate the profession and show its value in my country. Now, five years later, I am happy to report my participation helped build awareness in Brazil of how certification exemplifies professionalism and thereby strengthens our profession,” said Oswaldo Basile, CIA, president of IIA-Brazil. “Last year more than 600 people took the CIA exam in Brazil as a result of a growing understanding that this designation will help sustain the long-term success of our profession.”

One of the most dynamic professions in today’s marketplace, internal auditing is fast-paced and ever evolving. The one thing that remains constant all around the world is the tremendous opportunity we have to learn from one another about issues that impact everyone in the profession.
The results of The IIA Research Foundation’s 2006 Common Body of Knowledge (CBOK) study show a healthy, maturing global profession with consistent core tenets. Results point to a vibrant, dynamic profession that is valued by its clients and is responding well to organizational challenges. And most internal audit shops around the world are heading in the same direction, even if some are farther down the road than others.

- In order to replace outdated agreements and rules for IIA institutes, a new Institute Agreement was approved by The IIA’s Board of Directors. The core agreement is supplemented with an optional services plan that allows institutes to select services based on need. The new core agreement is based on four basic principles that govern the relationship between institutes and Global Headquarters: service to members, global and local development, transparency and accountability, and progress through sharing.

- The International Mastering Advocacy Program (IMAP) award recognizes the efforts of IIA chapters and institutes who advocate on behalf of the profession, build awareness of the value of internal auditing, and promote internal audit professionalism and best practices.

In 2007, IIA-Malaysia and IIA-Turkey were chosen as IMAP winners for their successes in building relationships with key stakeholders, increasing media exposure and visibility on internal audit issues, positioning the profession as an ideal career choice, and publicizing the role internal auditing plays in effective organizational governance.

- IIA-Kazakhstan, IIA-Mozambique, IIA-Slovakia, and IIA-El Salvador were approved as Institutes-in-Formation; and a new chapter was formed in Turks and Caicos.

- To strengthen advocacy in Canada, The IIA created an 18-member Canadian Council and hired Luc Lavoie, BAA, MBA, CGA, as executive director of the newly established IIA-Canada. Luc works with the Council to raise awareness and professionalism of internal auditing in Canada.

- The IIA held its 66th Annual International Conference in 2007 in Amsterdam, The Netherlands, with record-breaking attendance of more than 2,100 registrants. The event took years of preparation and thousands of hours of work from volunteer planning committees. Staff and volunteers at IIA-Netherlands worked closely with IIA Global Headquarters staff and members of the International Conference Committee on every detail to ensure that attendees received great value from the experience, obtained the most up-to-date information available on key issues facing our profession, and enjoyed a variety of social and networking events.
“I first became involved with The IIA in 1996,” says NG Shankar, “through the Delhi chapter of IIA-India, and in 2004 I was nominated to The IIA’s Professional Issues Committee. I have tremendous pride in having served my local community and having worked on the international level to educate practitioners about issues related to internal auditing. There has never been a better time to be an internal auditor. Serving as a volunteer for The IIA allows me to contribute to the long-term success of our profession.”

During 2007 The IIA’s Board of Directors awarded IIA-Atlanta the 2010 IIA International Conference. IIA-Malaysia and IIA-China were awarded the 2011 and 2015 International Conferences respectively.

One of the highest honors a person can receive is the “key to the city.” During the Latin American Federation of Internal Auditors Annual Conference in Ecuador, IIA President Dave Richards was presented the key to the city of Quito. The honor was bestowed by the mayor of Quito, General Paco Moncayo, on behalf of all internal auditors in the region.

As a member of the ASX Corporate Governance Council, IIA-Australia played a key role in the Australian Securities Exchange’s (ASX’s) Revised Corporate Governance Principles and Recommendations. The Council delivered a framework for effective corporate governance in Australia, which will act as a practical guide for listed companies, investors, the wider market, and the Australian community.

The North American Board launched a feasibility study about the creation of a separate North American Institute. A steering committee and a task force were formed to present a staffing model and cost estimates to The IIA’s Executive Committee in 2008.

Steve Morgan, CIA, was selected chairman of the North American Board.

IIA-Malaysia’s 2007 National Conference on “Internal Auditing: A Defining Moment: From Good to Great” had a record-setting attendance of 620 participants.
IIA-Malaysia used the conference as a platform to encourage Malaysia’s publicly listed companies to adopt The Institute of Internal Auditors’ International Professional Practices Framework (IPPF). The conference received significant media coverage from print, radio, and television.

Engaging with stakeholders is a key strategy for successful advocacy for the profession.

IIA-Mali involves local authorities at all levels of government in everything they do. “Everyone in the business world in Mali knows about The Institute,” said Denis Bergevin, an institute relations manager for The Institute of Internal Auditors. “I visited 24 institutes during the year, and I was very impressed by IIA-Mali’s passion for the profession and how hard they work to develop strong relationships.”

Chapters and institutes around the world are at varying levels of maturity and capacity, but the diligence of an institute like IIA-Azerbaijan demonstrates that a small group of people can make a great difference.

“Although a small institute with only 150 members, IIA-Azerbaijan and its members were influential in getting the ‘Internal Audit Service Law’ passed in June, 2007,” said Institute Relations Manager Sunil Saluja. “When I visit IIA-Azerbaijan, I am always pleased to see their accomplishments in promoting the profession.”

Thanks to the efforts of IIA-Spain, internal auditors are enjoying the profession’s increased national prominence and prestige.

“The higher profile that has been brought to the profession in Spain is directly related to the efforts and hard work of IIA-Spain’s staff and volunteers there,” said Institute Relations Manager Victor García. “Their efforts in translation, quality assessments, Certified Internal Auditor® (CIA®) software development, and communication all add to the enhancement of the profession. Clearly, IIA-Spain is a shining star and key player in moving the profession forward.”

“You make a living by what you get. You make a life by what you give.”

– Winston Churchill
Our Global Headquarters:
Enhancing Professionalism

It was a banner year for The IIA with a 13 percent rise in membership, record-setting participation in certification exams, new relationships with high-profile stakeholders around the world, and a new strategic plan to guide The IIA and the profession through 2013.
Integral to the vision of enhancing professionalism is our Global Headquarters’ commitment to champion many initiatives, and to meet the ever-changing and growing needs of our membership and of the profession. The rising demand for more and better products and services is met consistently by staff and volunteers who are the backbone of The IIA.

- The IIA’s Board of Directors approved the International Professional Practices Framework (IPPF) under the oversight of The IIA’s Professional Practices Council. To be rolled out in January of 2009, in The IIA’s three key languages—English, Spanish, and French—the IPPF’s new structure and associated processes will ensure that all authoritative guidance is current, relevant, and internationally consistent.

- With the transition to computer-based testing (CBT) for certification, The IIA purchased an upgrade to its certification management system (CCMS). The new CCMS system provides numerous benefits, including increased reporting functionality, uploading of registrations for certification-agreement institutes, and self-service availability of candidate history and results. To further enhance the CBT process, The IIA’s Internal Audit Standards Board (IASB) voted to make certification testing available on a year-round basis beginning in May of 2008. This means that certification candidates can take full advantage of computer-based testing anytime throughout the year in multiple languages.

- The IIA had a record-setting year for the Certified Internal Auditor exam and the three other specialty exams. More than 53,000 candidates took more than 113,000 parts equating to an overall 18 percent increase over 2006. There are now more than 74,000 CIAs worldwide.

- The IIA signed a Memorandum of Understanding (MoU) with The Professional Standards Committee (PSC) of the International Organization of Supreme Audit Institutions (INTOSAI). The MoU outlines plans for cooperation in a variety of areas, including mutual support on strategic directives and sharing knowledge when developing professional practice frameworks.

- The IIA was instrumental in the release of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) discussion document: Guidance on Monitoring Internal Control Systems. The guidance is designed to help organizations monitor the quality of their internal control systems and is appropriate for organizations of any size or structure, but especially helps those dealing with the reporting requirements under the U.S. Sarbanes-Oxley Act of 2002, Section 404.
COSO is a voluntary private-sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. COSO comprises the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), the Institute of Management Accountants (IMA), and The IIA.

The Guide to the Assessment of IT General Controls Scope Based on Risk (GAIT) was released after 18 months of work by 30 information technology audit experts, chief audit executives, and others from a broad cross-section of industries and companies. The guidance will help organizations and their auditors be more efficient and could result in a reduction of compliance costs, such as those associated with Section 404. A free video Web event attracted more than 1,600 viewers who learned about GAIT’s top-down, risk-based approach, principles and methodology, practical tips and techniques for using the guidance, and effective GAIT implementation.

The IIA’s Global Audit Information Network (GAIN) continued to be successful, with more than 1,500 CAEs around the world participating. Some group participants include the Department of Energy, the Federal Reserve, G10 Central Banks, and Real Estate Investment Trusts (REIT) group. A contract was signed with the Association of College and University Auditors (ACUA) to become a group participant in 2008.

“The habit of giving only enhances the desire to give.”

– Walt Whitman
OTHER GAIN HIGHLIGHTS INCLUDED:

The Annual Benchmarking Survey had 571 submissions.

Six compilation studies were completed on topics such as controls over pension investments, risk assessments, and internal auditing’s role in mergers and acquisitions.

More than 100 surveys were performed for CAEs and on behalf of departments at IIA Global Headquarters.

The IIA understands that learning has the power to help internal auditors achieve their full potential. In 2007, The IIA introduced the Global Education Audit Resource (GEAR). GEAR takes the guesswork out of finding timely and relevant training, and offers 24-hour access, seven days a week, to every IIA web cast and more than 800 e-mail learning courses. Additionally, The IIA hosted 10 Web casts in 2007 with more than 6,300 participants.

The IIA and Junior Achievement Worldwide (JA) continued to work together as part of a global agreement in support of good governance and strong ethics in the business community. During 2007 many of our chapter and institute members shared their time and knowledge by participating as a JA volunteer.

VOLUNTEERING IN LOCAL CLASSROOMS IS ONE OF THE WAYS THAT IIA GLOBAL HEADQUARTERS STAFF CHOOSES TO GIVE BACK IN THEIR LOCAL COMMUNITY. PICTURED BELOW ARE STAFF MEMBERS WHO HAVE VOLUNTEERED THEIR TIME WITH JUNIOR ACHIEVEMENT OF ORLANDO.
The Internal Auditing Education Partnership (IAEP) program was developed to respond to the growing interest in the profession at institutions of higher learning. The IIA’s Academic Relations Committee (ARC) and the Academic Relations Department oversee the IAEP program. The ARC is an international volunteer committee made up of educators and practitioners.
Students, educators, and colleges participating in the IAEP program as a Center for Internal Auditing Excellence or Partner school were invited to a three-day event held in October 2007, Orlando, Florida, USA. Internal audit professionals gathered with some of the world’s brightest minds studying internal auditing from universities in the United States, China, Thailand, The Netherlands, and South Africa to discuss how to capitalize on the growing field of internal auditing.

The Academic Relations Committee is responsible for approving and ensuring high quality programs in the 40 IAEP schools around the world. IAEP schools are located in China, France, Italy, Malaysia, South Africa, the United Kingdom, and the United States of America. A full listing of the schools can be found on The IIA’s Web site at www.theiia.org/academic.

The Internal Auditing Academic Advancement Fund (Academic Fund) was developed to benefit internal audit education programs at institutions of higher learning worldwide. The IIA holds so strongly to the belief that internal audit education is critical to the long-term success of the profession that it will match donations to the Academic Fund, up to a total of US $1,000,000. Major donors to the Fund in 2007 were: Deloitte; KPMG; IIA-Dallas; IIA-Chicago; Grant Thornton; and IIA-Headquarters staff. Including the IIA’s matching donation, the IAAAF raised $690,000 in 2007. A listing of donors can be found on The IIA’s Web site at www.theiia.org/academic.

The IAEP program at the University of Texas at Dallas is one of the world’s premier institutions for internal audit education. For the third consecutive year, The IAEP at UT Dallas and the IIA-Dallas (Texas) chapter have sponsored a Fraud Summit with all proceeds donated to the Fund. “The purpose of the conference is twofold,” said Mark Salamasick, director of the School of Management’s IAEP program. “We want to discuss the most critical issues facing internal audit professionals and help them gain insights from industry experts and we want to raise money for the IAEP program. The profit of US $40,000 from our 2007 conference along with a US $10,000 donation from IIA-Dallas will help us get more students into our program and prepare them for a dynamic career,” said Mark.

“Today’s demand for internal auditors is surpassing the supply, and corporations are looking to colleges and universities to develop individuals well-schooled in internal audit theory and best practice. That’s why my employer, Deloitte, speaks to CAE’s, academics and students about the benefits of the IAEP and supports the IAAAF with monetary contributions that benefit internal audit education programs at institutions of higher learning all around the world. And that’s why I devote time and energy to my role as a volunteer member of The IIA’s Academic Relations Committee,” said Tony DeVincenzo, CIA.
Since its founding in 1941, The IIA has filled the guidance, information, training, and advocacy needs of internal auditors around the world. Today’s internal auditor must possess an ever-expanding set of skills and competencies to perform a job that is always changing. The IIA responded to this opportunity in a variety of ways during 2007:

“...” said Karen Brady, CIA, Professional Conference Committee member.

Facts & Figures

OUR HIGHLIGHTS:
As a global organization, the IIA considers the Web a critical means of communication to its stakeholders. In 2007 the IIA premiered a new Web site with an updated design, more intuitive navigation, and improved functionality.

Web traffic increased 17 percent over 2006, 31 percent of which was from outside North America. The Web received 8.5 million visits in 2007, and more than 23,000 visits each day.

The most popular topics were chapters and institutes, certification, membership, guidance, and training.

Video and audio players were added, allowing visitors to either stream or download video and audio files.

At the close of 2007, the global IIA membership exceeded 150,000, equating to a 13.8 percent overall increase with membership outside North American growing by almost 20 percent.

Financial Services Audit Group and the Gaming Audit Group had the largest increases in membership of specialty industry groups, posting a 183 percent and a 38 percent increase respectively.

The IIA’s educational conferences and seminars had solid North American participation in 2007 with seminar attendance increasing by almost four percent. On-site training had solid attendance with 503 training days and more than 5,600 participants.

Member Exchange, a networking member service, had 8,334 members participating. They represented 127 different countries and 53 primary languages.

For an internal audit department to be in compliance with the International Standards for the Professional Practice of Internal Auditing (Standards), it must undergo an external quality assessment (QA) at least every five years. The IIA’s Quality Department performed 83 QAs in 2007, and also provided online tools and resources to help internal audit shops prepare for a QA.

A team of more than 20 representatives began work on an anti-fraud document in conjunction with The IIA, the American Institute of Certified Public Accountants (AICPA) and the Association of Certified Fraud Examiners (ACFE). “Managing the Business Risk of Fraud” is planned to be released in 2008.

The IIA issued four Practice Advisories (PAs) on quality assessments and one PA on resource management.

The IIA responded 10 times with professional input to organizations such as the U.S. Securities and Exchange Commission (SEC), the International Federation of Accountants (IFAC), and the Public Company Accounting Oversight Board (PCAOB).
Awards

- The Florida Magazine Association (FMA) honored The IIA’s publication, Internal Auditor, with nine Charlie Awards including recognition for best cover and best feature design. Joanne Hodges, The IIA’s vice president of educational materials, was inducted into the FMA Hall of Fame for her career achievements and excellence within the publishing industry.

- The IIA’s global headquarters in Florida was selected for the fourth consecutive year as one of the Orlando Sentinel’s Top 100 Companies for Working Families.

- Paul J. Sobel, CIA, Joseph Wells, Larry E. Rittenberg, CIA, Anita L. Helpert, CIA, Daniel B. Langer, CIA, CCSA, and Tony Popanz, received the John B. Thurston Outstanding Contributor Awards for their articles published in Internal Auditor. Their articles were judged to be the best by The IIA’s Communications Advisory Committee.

- An article titled “How Secure Is Your Wireless Network?” won the John B. Thurston Award for Literacy Excellence. This award for the most outstanding article published by Internal Auditor was presented to authors Bryce H. Peterson, William G. Heninger, PhD, CPA, Craig J. Lindstrom, and Marshall B. Romney, PhD, CPA, CFE.

- IIA-Salem Chapter (Oregon) received first place in the Global Affiliate Membership Award for its innovative techniques to recruit and retain members. IIA-Beach Cities Chapter (California) received second place and IIA-Denver Chapter (Colorado) was awarded third place.

- The William S. Smith Gold Medal Award and the William S. Smith Student Highest Achievement Awards are presented to the highest scoring candidates for each Certified Internal Auditor exam cycle.

- **MAY 2007 WINNERS:**
  - William S. Smith Gold Medal Award - Elisheba Etabag Manzano – IIA-Philippines
  - William S. Smith Student Highest Achievement Award - Dajie Yang – IIA-Raleigh-Durham (North Carolina)

- **NOVEMBER 2007 WINNERS:**
  - William S. Smith Gold Medal Award - Ryan Gilbert Khu Chua – IIA-Philippines
  - William S. Smith Student Highest Achievement Award - Trista Rachelle Sanders – IIA-Baton Rouge (Louisiana)

- The IIA was honored with three awards recognizing its achievements in financial compliance and ethics.

  - The IIA was recognized for its strong commitment to business ethics by the Orlando Regional Chapter of the Public Relations Society of America with the 2007 Frank R. Stansberry Ethics Award.
  - The Society of Corporate Compliance and Ethics presented The IIA with its Compliance and Ethics Award for actively promoting financial compliance and financial standards around the world.
  - The Open Compliance and Ethics Group recognized The IIA with an award “Driving Principled Performance,” which honors organizations that embody two core virtues: creating “value” and creating that value within a well-understood, clearly defined framework.
“The height of your accomplishments will equal the depth of your convictions.”

– William F. Scolavino
Our Research: Understand, Guide, Shape

The IIA Research Foundation (IIARF) maintains a strong commitment to researching and publishing reports that aid internal audit practitioners and the profession. It serves as the research arm of The IIA and its efforts and aspirations would not be possible without the support of IIA members. It is The Foundation’s mission to expand the knowledge and understanding of internal auditing around the world.

For more than 30 years, The IIARF has provided research that looks far beyond the surface at topics of concern to internal audit practitioners. Now, as the profession is attracting more attention and visibility, The IIARF is responding to a clear opportunity to elevate the profession and advance internal audit professionalism to even higher levels.
A MESSAGE FROM THE
IIA RESEARCH FOUNDATION PRESIDENT

Dear Colleague,

People who know little about The IIA Research Foundation sometimes approach me and ask “Exactly what is The IIA Research Foundation?” or “What does it do for The IIA?” The questions can be answered in any number of long and complicated ways but I prefer to use three words in my explanations… understanding, guiding, and shaping.

These words capture the essence of The IIARF’s work as it provides and expands research and education for the benefit of internal auditors and the internal audit profession. Through ongoing research efforts, we endeavor to understand our profession today and what tomorrow may bring, to build upon that understanding to help guide the practice of internal auditing; and to use the knowledge gained to shape the profession, ensuring practitioners add value to their organizations.

The opportunity to make a difference in my profession is what led me to become involved with The IIARF. Seeing first-hand what a difference our research has made is what keeps me energized about the possibilities that lie ahead. Our focus is always on the future, a future of limitless possibilities for our profession and the difference we make around the world.

I want to thank our strong board of trustees and the talented staff for ensuring that The Foundation is well managed. Through their collaborative efforts, the good work of our researchers, and the generous contributions of our donors, I am happy to say, that without a doubt, 2007 was a year of unprecedented success for our Foundation.

Sincerely,

Roderick M. Winters, CIA
During 2007, The IIAF continued to focus its efforts on providing relevant research and educational products to advance the profession on a global basis. Staying on the cutting edge of knowledge and understanding the internal audit profession are what The IIAF is all about. Two milestone projects completed in 2007 — A Global Summary of the Common Body of Knowledge 2006, and Internal Auditing: Assurance and Consulting Services — exemplify how The IIAF continues to fulfill its mission and live up to its guiding principles.

- Published CBOK. The report was made available to IIA members as a free download in 2007 and was made available for hard-copy purchase in 2008, from The IIAF Bookstore.
- Continued coordination of CBOK integration throughout The IIA to ensure appropriate use of the information revealed by the CBOK study across IIA staff, boards/committees, chapters and institutes. (See related article on page 28).
- Published Internal Auditing: Assurance and Consulting Services, a comprehensive internal audit textbook and resource. (See related article on page 29).
- As part of an ongoing translation program, published Public Internal Financial Control in English, adapted from the original French publication.
- Organized the second International IT Audit Research Symposium with the Advanced Technology Committee. Held in July in Amsterdam, The Netherlands, six research teams were selected for presentation and discussion of their projects with more than 60 attendees from all over the world.
- Designed a fund development plan with a focus on stewardship to support programs within The IIA's and the IIAF’s Strategic Plans.
- Continued outreach to IIA chapters, institutes, and other organizations to develop and fund pertinent research studies.
- Provided a resource kit to IIA chapters and institutes to encourage research at the local level.
- Coordinated ongoing development of research and educational products with other areas of The IIA.
New Research Foundation Publications

Core materials for the professional practice of internal auditing continued to be a focus for The Foundation.

- Research completed in 2007:
  - A Global Summary of the Common Body of Knowledge
  - Four Approaches to Enterprise Risk Management…and Opportunities in Sarbanes-Oxley Compliance
  - IIA Standard 1312 – External Quality Assessments: Results, Tools, Techniques, and Lessons Learned (online report)
  - The Role of Internal Auditing During Mergers & Acquisitions: The European Union Experience (online report)

- Educational products added to The IIARF Bookstore in 2007:
  - Auditing Human Resources
  - Certification in Control Self-Assessment® Study Guide on CD
  - Certified Financial Services Auditor® Study Guide on CD
  - Certified Government Auditing Professional® Study Guide on CD
  - Conflict Management and Negotiation Skills for Internal Auditors
  - Ethics and Compliance: Challenges for Internal Auditing
  - Global Technology Audit Guide® 7: IT Outsourcing
  - Global Technology Audit Guide 8: Auditing Application Controls
  - Global Technology Audit Guide 9: Identity and Access Management
  - Intellectual Property: Auditing the Process
  - Internal Auditing: Assurance and Consulting Services
  - Professional Practices Framework, March 2007 (also on CD-ROM)
  - Public Internal Financial Control: A New Framework for Public Sector Management

- Twenty-five third-party products were added to The IIARF Bookstore’s inventory in 2007, covering topics such as certification review and study guides, risk and control, audit management and tools, ethics and fraud, information technology, and Sarbanes-Oxley.

- Other topics studied during 2007 include risk and control, audit essentials and tools, public sector, quality assessment, ethics and fraud, and information technology.

“When I made the decision to help the profession advance by donating to The IIA Research Foundation, I was reminded how we all can help in some way to make our profession better,” said IIA-Barbados member Patricia Belgrave. “For internal auditing to grow and develop into a valued profession, it is essential for people to recognize how improvements can be achieved,” said Patricia, who has contributed for seven consecutive years to The IIARF.
The Common Body of Knowledge

Released in 2007, the Common Body of Knowledge 2006 study is the most comprehensive global study ever conducted on the internal audit profession. The CBOK study has produced a rich database of information on how the profession is being practiced worldwide and the IIA is committed to sharing this knowledge with the global internal audit community. A major initiative of the plan included free download availability of A Global Summary of the Common Body of Knowledge 2006 to IIA members.

In addition, the results of the study stimulated the development of research reports in many countries including Belgium, France, Italy, and Canada. The IIAR is further working to integrate CBOK data into IIA programs, products, and services to enhance our offerings and respond to the findings of the survey. The IIAR is dedicated to continuing the effort to integrate and share the results of this groundbreaking study in order to globally guide and shape our profession.

Grants and Awards

The IIARF presented the 2007 Esther R. Sawyer Research Award to the University of Texas at Dallas student John Hall for his paper on “Internal Auditing and ERM: Fitting in and Adding Value.” The award is presented annually to a college student studying internal auditing at an IAEP school and is based on submission of the most compelling manuscript on a topic relating to modern internal auditing. It was funded by a grant from the Lawrence B. Sawyer family in memory of Esther R. Sawyer.

In July, The Foundation presented the Donald E. Ricketts Chapter Research Award to IIA-Dallas Chapter (first place) for its paper on “Insider Trading from the Internal Auditor’s Perspective” and to IIA-Austin Chapter (second place) for its “Survey on Audit Committee Relationships: A Research Project.”
Internal Auditing: Assurance and Consulting Services

Internal Auditing: Assurance and Consulting Services is a collaborative effort by educators and practitioners which provides the essential information to succeed as an entry-level internal audit professional. Marrying theory and practice, this is the first textbook of its kind encompassing internal audit theory, concepts, and applications. It includes discussions about governance, risk management, and internal control, and integration of information technology, fraud risks, and control activities.

Six authors collaborated on this textbook – three practitioners and three academics (all CIAs) and represented a unique skill set for this project (a real-life approach combined with academic theory). Written with a global mindset, this textbook is endorsed by the Internal Auditing Education Partnership. It is a valuable resource for any internal audit department. In addition to classroom use, it is appropriate for in-house training, custom seminars, and IIA chapter and institute programs.

In Appreciation of 2007 Contributors

Contributions help The IIARF stay in the lead on knowledge and analysis. Without this financial support, The IIARF would not be able to undertake important research projects on behalf of our profession. The Foundation appreciates its loyal supporters—individual, corporate, and institute contributors; Master Key and Heritage Circle members; and IIA staff and volunteers. A listing of donors is posted on The IIA’s Web site.
OUR LEADERSHIP TEAM 2007 - 2008

EXECUTIVE COMMITTEE

CHAIRMAN OF THE BOARD
Gerald D. Cox, CIA, MIIA
Head of Internal Audit Partnership
South West Audit Partners

SENIOR VICE CHAIRMAN OF THE BOARD
Patricia K. Miller, CIA
Partner
Deloitte & Touche

VICE CHAIRMAN, PROFESSIONAL DEVELOPMENT
Warren E. Malmquist, CIA
General Auditor
Molson Coors Brewing Company

VICE CHAIRMAN, PROFESSIONAL PRACTICES
Gunther Meggeneder, CIA
Senior Internal Audit Manager
agens consulting

VICE CHAIRMAN, PROFESSIONAL SERVICES
Rob Newsome, CIA
Partner/Director
PricewaterhouseCoopers LLC

VICE CHAIRMAN, RESEARCH FOUNDATION
Roderick M. Winters, CIA
President, IIA Research Foundation
General Auditor
Microsoft Corporation

SECRETARY
Naohiro Mouri, CIA
Managing Director
Asia Pacific Auditor
JP Morgan

PAST CHAIRMAN
Stephen D. Goepfert, CIA
Staff Vice President Internal Audit
Continental Airlines, Inc.

PAST CHAIRMAN
Thomas J. Warga, CIA
Senior Vice President & General Auditor
New York Life Insurance Company

DIRECTORS-AT-LARGE AND EX-OFFICIO DIRECTORS

Frank Alvern, CIA, CCSA
Head of Business Support,
Group Internal Audit
Nordea Bank Norge ASA

Michael J. Head, CIA
Managing Director of Corporate Audit
TD Ameritrade Holding Corporation

Billy Stephens Machuki Mwencha, CIA
Internal Audit General
Government of Kenya

David A. Richards, CIA
President
The Institute of Internal Auditors

Urton L. Anderson, CIA, CCSA, CGAP
Associate Dean Undergraduate Programs
University of Texas at Austin

Armando Villacorta Cavero, CIA
CEO
Varka Consulting Plus SA
Lima Peru

Natarajan Girija Shankar, CIA
Joint Executive President Corporate Audit
Aditya Birla Group

INSTITUTE DIRECTORS

Fatimah Abu Bakar, CIA, CCSA
Malaysia
General Manager
Pengurusan Danaharta Nasional Berhad

William Middleton, CIA
Australia
Director of Audit
NSW Department of Education

Bernd Schartmann, CIA
Germany
Head of Corporate Audit and Security
Deutsche Post World Net

Anton Van Wyk, CIA
South Africa
Partner
PricewaterhouseCoopers LLP

Tai-Jiunn Chou, CIA, CCSA
Chinese Taiwan
Financial Advisor
Chanyun Enterprise Company, Ltd.

Carolyn Dittmeier, CIA
Italy
Director of Internal Audit
Poste Italiane

Sakiko Sakai, CIA, CCSA
Japan
Department Vice President Internal Audit
Prudential Financial

TREASURER
Anne M. Mercer, CIA, CFSA
Senior Vice President of Internal Audit
Universal American Financial Corporation

SECRETARY
Naohiro Mouri, CIA
Managing Director
Asia Pacific Auditor
JP Morgan

PAST CHAIRMAN
Stephen D. Goepfert, CIA
Staff Vice President Internal Audit
Continental Airlines, Inc.

PAST CHAIRMAN
Thomas J. Warga, CIA
Senior Vice President & General Auditor
New York Life Insurance Company

DIRECTORS-AT-LARGE AND EX-OFFICIO DIRECTORS

Frank Alvern, CIA, CCSA
Head of Business Support,
Group Internal Audit
Nordea Bank Norge ASA

Michael J. Head, CIA
Managing Director of Corporate Audit
TD Ameritrade Holding Corporation

Billy Stephens Machuki Mwencha, CIA
Internal Audit General
Government of Kenya

David A. Richards, CIA
President
The Institute of Internal Auditors

Urton L. Anderson, CIA, CCSA, CGAP
Associate Dean Undergraduate Programs
University of Texas at Austin

Armando Villacorta Cavero, CIA
CEO
Varka Consulting Plus SA
Lima Peru

Natarajan Girija Shankar, CIA
Joint Executive President Corporate Audit
Aditya Birla Group

INSTITUTE DIRECTORS

Fatimah Abu Bakar, CIA, CCSA
Malaysia
General Manager
Pengurusan Danaharta Nasional Berhad

William Middleton, CIA
Australia
Director of Audit
NSW Department of Education

Bernd Schartmann, CIA
Germany
Head of Corporate Audit and Security
Deutsche Post World Net

Anton Van Wyk, CIA
South Africa
Partner
PricewaterhouseCoopers LLP

Tai-Jiunn Chou, CIA, CCSA
Chinese Taiwan
Financial Advisor
Chanyun Enterprise Company, Ltd.

Carolyn Dittmeier, CIA
Italy
Director of Internal Audit
Poste Italiane

Sakiko Sakai, CIA, CCSA
Japan
Department Vice President Internal Audit
Prudential Financial

TREASURER
Anne M. Mercer, CIA, CFSA
Senior Vice President of Internal Audit
Universal American Financial Corporation
North American Directors

Stephen L. Morgan, CIA, CGAP
City Auditor
Austin Office of the City Auditor

Paul J. Sobel, CIA
Vice President Internal Audit
Mirant Corporation

Gilbert T. Radford, CIA
Director Audit Services
Verizon Wireless

Brian G. Brown, CIA
Vice President, Internal Audit
The Great-West Life Assurance Company

Richard Chambers, CIA, CCSA, CGAP
Managing Director
PricewaterhouseCoopers LLP

Basil R. Woller, CIA
Managing Director
Protiviti, Inc.

Edward M. Dudley, CIA
Retired Vice President & General Auditor
ABB Americas

Michael J. Moody, CIA
Director of Compliance
Northwestern University

Kimberly Parker-Gavaletz, CIA
Vice President & Deputy, Global Sustainment
Lockheed Martin Aeronautics

Alan N. Siegfried, CIA, CCSA, CFSA, CGAP
Auditor General
Inter-American Development Bank
INDEPENDENT AUDITORS’ REPORT

We have audited the accompanying consolidating statements of financial position of The Institute of Internal Auditors, Inc. (“the Institute”) and affiliates as of December 31, 2007 and 2006, and the related consolidating statements of activities and cash flows for the years then ended. These consolidating financial statements are the responsibility of the Institute’s management. Our responsibility is to express an opinion on these consolidating financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial positions of The Institute of Internal Auditors, Inc. and affiliates as of December 31, 2007 and 2006, the consolidating changes in their net assets and their consolidating cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Batts, Morrison, Wales & Lee, P.A.

Batts, Morrison, Wales & Lee, P.A.
### CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

For the Years Ended December 31, 2007

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,739,925</td>
<td>$191,551</td>
<td>$335,251</td>
<td>$—</td>
<td>$2,266,727</td>
<td>$4,733,885</td>
</tr>
<tr>
<td>Restricted investments</td>
<td>—</td>
<td>179,386</td>
<td>—</td>
<td>—</td>
<td>179,386</td>
<td>155,000</td>
</tr>
<tr>
<td>Investments</td>
<td>14,968,979</td>
<td>1,540,168</td>
<td>—</td>
<td>—</td>
<td>16,509,147</td>
<td>16,443,714</td>
</tr>
<tr>
<td>Due from affiliate, net</td>
<td>33,652</td>
<td>—</td>
<td>217,073</td>
<td>(250,725)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>2,212,678</td>
<td>174,566</td>
<td>11,535</td>
<td>—</td>
<td>2,398,779</td>
<td>2,042,882</td>
</tr>
<tr>
<td>Inventories</td>
<td>—</td>
<td>318,633</td>
<td>—</td>
<td>—</td>
<td>318,633</td>
<td>346,825</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>1,600,156</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,600,156</td>
<td>1,057,022</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>5,597,745</td>
<td>25,071</td>
<td>—</td>
<td>—</td>
<td>5,622,816</td>
<td>5,223,483</td>
</tr>
<tr>
<td>Deferred project costs, net</td>
<td>1,130,368</td>
<td>142,080</td>
<td>—</td>
<td>—</td>
<td>1,272,448</td>
<td>398,798</td>
</tr>
<tr>
<td>Employee savings plan</td>
<td>1,247,539</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,247,539</td>
<td>1,197,599</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>28,531,042</strong></td>
<td><strong>2,571,455</strong></td>
<td><strong>563,859</strong></td>
<td><strong>(250,725)</strong></td>
<td><strong>31,415,631</strong></td>
<td><strong>31,579,208</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$3,831,532</td>
<td>$126,056</td>
<td>$35,791</td>
<td>$—</td>
<td>3,993,379</td>
<td>4,083,472</td>
</tr>
<tr>
<td>Due to affiliate, net</td>
<td>217,073</td>
<td>33,652</td>
<td>—</td>
<td>(250,725)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>5,158,265</td>
<td>34,124</td>
<td>—</td>
<td>—</td>
<td>5,192,389</td>
<td>5,612,960</td>
</tr>
<tr>
<td>Deferred employee compensation</td>
<td>1,247,539</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,247,539</td>
<td>1,197,599</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>10,454,409</strong></td>
<td><strong>193,832</strong></td>
<td><strong>35,791</strong></td>
<td><strong>(250,725)</strong></td>
<td><strong>10,433,307</strong></td>
<td><strong>10,894,031</strong></td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>17,986,323</td>
<td>1,990,303</td>
<td>461,440</td>
<td>—</td>
<td>20,438,066</td>
<td>20,170,089</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>90,310</td>
<td>207,934</td>
<td>66,628</td>
<td>—</td>
<td>364,872</td>
<td>380,088</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>—</td>
<td>179,386</td>
<td>—</td>
<td>—</td>
<td>179,386</td>
<td>155,000</td>
</tr>
<tr>
<td><strong>TOTAL NET ASSETS</strong></td>
<td><strong>18,076,633</strong></td>
<td><strong>2,377,623</strong></td>
<td><strong>528,068</strong></td>
<td>—</td>
<td><strong>20,982,324</strong></td>
<td><strong>20,685,177</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td><strong>28,531,042</strong></td>
<td><strong>2,571,455</strong></td>
<td><strong>563,859</strong></td>
<td><strong>(250,725)</strong></td>
<td><strong>31,415,631</strong></td>
<td><strong>31,579,208</strong></td>
</tr>
</tbody>
</table>
# CONSOLIDATING STATEMENTS OF ACTIVITIES

## For the Years Ended December 31, 2007

<table>
<thead>
<tr>
<th>Description</th>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seminars</td>
<td>$11,928,261</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$11,928,261</td>
<td>$10,612,065</td>
</tr>
<tr>
<td>Relationship management</td>
<td>6,932,331</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>6,932,331</td>
<td>6,083,277</td>
</tr>
<tr>
<td>Certification</td>
<td>5,849,214</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>5,849,214</td>
<td>4,966,412</td>
</tr>
<tr>
<td>Conferences</td>
<td>3,849,549</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3,849,549</td>
<td>3,796,656</td>
</tr>
<tr>
<td>Quality assessment</td>
<td>1,556,547</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,556,547</td>
<td>1,807,512</td>
</tr>
<tr>
<td>Publishing</td>
<td>1,676,949</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,676,949</td>
<td>1,622,073</td>
</tr>
<tr>
<td>Other program revenue</td>
<td>1,685,272</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,685,272</td>
<td>1,798,740</td>
</tr>
<tr>
<td>Contributions</td>
<td>—</td>
<td>200,417</td>
<td>347,064</td>
<td>(222,660)</td>
<td>324,821</td>
<td>345,733</td>
</tr>
<tr>
<td>Publication sales</td>
<td>—</td>
<td>2,270,831</td>
<td>—</td>
<td>(96,579)</td>
<td>2,174,252</td>
<td>2,219,792</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td>1,140,970</td>
<td>118,956</td>
<td>—</td>
<td>—</td>
<td>1,259,926</td>
<td>941,645</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>34,619,093</td>
<td>2,590,204</td>
<td>347,064</td>
<td>(319,239)</td>
<td>37,237,122</td>
<td>34,193,905</td>
</tr>
<tr>
<td><strong>Net assets released from restrictions</strong></td>
<td>78,614</td>
<td>227,944</td>
<td>52,478</td>
<td>—</td>
<td>359,036</td>
<td>249,098</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS</strong></td>
<td>34,697,707</td>
<td>2,818,148</td>
<td>399,542</td>
<td>(319,239)</td>
<td>37,596,158</td>
<td>34,443,003</td>
</tr>
</tbody>
</table>

## EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seminars</td>
<td>9,531,602</td>
<td>—</td>
<td>(57,947)</td>
<td>9,473,655</td>
<td>8,214,647</td>
<td></td>
</tr>
<tr>
<td>Relationship management</td>
<td>4,955,624</td>
<td>—</td>
<td>(9,658)</td>
<td>4,945,966</td>
<td>4,387,698</td>
<td></td>
</tr>
<tr>
<td>Certification</td>
<td>2,393,264</td>
<td>—</td>
<td>(9,658)</td>
<td>2,383,606</td>
<td>1,926,832</td>
<td></td>
</tr>
<tr>
<td>Quality assessment</td>
<td>1,288,629</td>
<td>—</td>
<td>(19,316)</td>
<td>1,269,313</td>
<td>1,335,090</td>
<td></td>
</tr>
<tr>
<td>Publishing</td>
<td>596,983</td>
<td>—</td>
<td>—</td>
<td>596,983</td>
<td>791,299</td>
<td></td>
</tr>
<tr>
<td>Other program expenses</td>
<td>3,385,141</td>
<td>42,684</td>
<td>—</td>
<td>3,427,825</td>
<td>2,646,059</td>
<td></td>
</tr>
<tr>
<td>Research projects</td>
<td>—</td>
<td>397,301</td>
<td>—</td>
<td>397,301</td>
<td>351,519</td>
<td></td>
</tr>
<tr>
<td>Academic programs</td>
<td>—</td>
<td>17,179</td>
<td>—</td>
<td>17,179</td>
<td>22,204</td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>—</td>
<td>119,018</td>
<td>—</td>
<td>119,018</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>10,035,061</td>
<td>400,641</td>
<td>(372,660)</td>
<td>10,663,042</td>
<td>8,476,201</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>35,429,710</td>
<td>2,975,276</td>
<td>161,702</td>
<td>(469,239)</td>
<td>38,097,449</td>
<td>32,789,722</td>
</tr>
</tbody>
</table>

Change in unrestricted net assets from operations: 

<table>
<thead>
<tr>
<th>Description</th>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(732,003)</td>
<td>(157,128)</td>
<td>237,840</td>
<td>150,000</td>
<td>(501,291)</td>
<td>1,653,281</td>
<td></td>
</tr>
</tbody>
</table>
## CONSOLIDATING STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended December 31, 2007

<table>
<thead>
<tr>
<th></th>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>78,614</td>
<td>157,527</td>
<td>98,106</td>
<td>(150,000)</td>
<td>184,247</td>
<td>141,187</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td></td>
<td>9,573</td>
<td></td>
<td></td>
<td>9,573</td>
<td>8,850</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>(78,614)</td>
<td>(227,944)</td>
<td>(52,478)</td>
<td></td>
<td>(359,036)</td>
<td>(249,098)</td>
</tr>
<tr>
<td>Change in temporarily restricted net assets from operations</td>
<td></td>
<td>(60,844)</td>
<td>45,628</td>
<td>(150,000)</td>
<td>(165,216)</td>
<td>(99,061)</td>
</tr>
</tbody>
</table>

| **CHANGE IN PERMANENTLY RESTRICTED NET ASSETS FROM OPERATIONS** |                                          |                                                             |                                                 |              |                   |                   |
| Contributions                  |                                         | 44,386                                                      |                                                 |              | 44,386            | —                 |
| Change in permanently restricted net assets from operations |                                         | 44,386                                                      |                                                 |              | 44,386            | —                 |

| **NET GAIN ON INVESTMENTS**  | 827,295                                  | 91,973                                                      |                                                 |              | 919,268           | 669,921           |

| **CHANGE IN NET ASSETS**     | 95,292                                   | (81,613)                                                   | 283,468                                         |              | 297,147           | 2,224,141         |

| **NET ASSETS – Beginning of year** | 17,981,341                              | 2,459,236                                                  | 244,600                                         |              | 20,685,177        | 18,461,036        |

| **NET ASSETS – END OF YEAR**  | $18,076,633                              | $2,377,623                                                 | $528,068                                        |              | $20,982,324       | $20,685,177       |
The Institute of Internal Auditors, Inc. and Affiliates

Consolidating Statements of Cash Flows

For the Years Ended December 31, 2007

<table>
<thead>
<tr>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH FLOWS FROM OPERATING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ 95,292</td>
<td>$ (81,613)</td>
<td>$ 283,468</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash flows from operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>611,468</td>
<td>8,541</td>
<td>—</td>
</tr>
<tr>
<td>Amortization of deferred project costs</td>
<td>152,350</td>
<td>82,363</td>
<td>—</td>
</tr>
<tr>
<td>Net gain on investments</td>
<td>(827,295)</td>
<td>(91,973)</td>
<td>—</td>
</tr>
<tr>
<td>Net (gain)/loss on sales of property and equipment</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Change in restricted investments</td>
<td>—</td>
<td>(44,386)</td>
<td>—</td>
</tr>
<tr>
<td>Change in inventories</td>
<td>276,170</td>
<td>(183,424)</td>
<td>(92,746)</td>
</tr>
<tr>
<td>Change in accounts receivable, net</td>
<td>(297,003)</td>
<td>(47,359)</td>
<td>(11,535)</td>
</tr>
<tr>
<td>Change in inventories</td>
<td>—</td>
<td>28,192</td>
<td>—</td>
</tr>
<tr>
<td>Change in prepaid expenses and other assets</td>
<td>(543,134)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Change in accounts payable and accrued expenses</td>
<td>(129,094)</td>
<td>3,150</td>
<td>35,791</td>
</tr>
<tr>
<td>Change in deferred revenue</td>
<td>(447,910)</td>
<td>27,339</td>
<td>—</td>
</tr>
<tr>
<td>TOTAL ADJUSTMENTS</td>
<td>(1,204,388)</td>
<td>(217,557)</td>
<td>(68,490)</td>
</tr>
<tr>
<td>NET CASH FLOWS FROM OPERATING ACTIVITIES</td>
<td>(1,109,096)</td>
<td>(299,170)</td>
<td>214,978</td>
</tr>
<tr>
<td>CASH FLOWS FROM INVESTING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sales of investments</td>
<td>2,000,000</td>
<td>1,169</td>
<td>—</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(1,077,988)</td>
<td>(69,346)</td>
<td>—</td>
</tr>
<tr>
<td>Purchases of and improvements to property and equipment</td>
<td>(1,003,303)</td>
<td>(16,039)</td>
<td>—</td>
</tr>
<tr>
<td>Expenditures for deferred projects</td>
<td>(1,006,371)</td>
<td>(101,992)</td>
<td>—</td>
</tr>
<tr>
<td>NET CASH FLOWS FROM INVESTING ACTIVITIES</td>
<td>(1,087,662)</td>
<td>(186,208)</td>
<td>—</td>
</tr>
<tr>
<td>NET CHANGE IN CASH AND CASH EQUIVALENTS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>3,936,683</td>
<td>676,929</td>
<td>120,273</td>
</tr>
<tr>
<td>END OF YEAR</td>
<td>$ 1,739,925</td>
<td>$ 191,551</td>
<td>$ 335,251</td>
</tr>
</tbody>
</table>
THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES

The Institute of Internal Auditors, Inc. (“the Institute”) was formed in 1941 and is a not-for-profit corporation formed to cultivate, promote and disseminate knowledge and information concerning internal auditing and related subjects. The Institute’s primary program activities include conducting seminars and conferences to educate and train internal auditors; publishing and selling periodicals and materials which inform internal auditors and members of the Institute of current professional issues, standards and practices; offering examinations and certifications to internal auditors; and evaluating the performance of internal audit departments.

Institute of Internal Auditors - Research Foundation, Inc. (“the Foundation”) is a not-for-profit corporation formed to expand knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally. The Institute’s Board of Directors appoints the Foundation’s Board of Trustees. Additionally, the Foundation is a supporting organization of the Institute. Accordingly, in conformity with Statement of Position 94-3, issued by the American Institute of Certified Public Accountants, the Institute’s consolidating financial statements include the accounts of the Foundation. All significant interorganization transactions and balances have been eliminated.

Internal Auditing Academic Advancement Fund, Inc. (“the Fund”) is a not-for-profit corporation formed to support the teaching of internal auditing, establish standards for internal auditing education at post-secondary educational institutions, and other related purposes. Certain of the Institute’s employees and board members serve as ex-officio directors and corporate officers of the Fund. Additionally, the Fund is a supporting organization of the Institute. Accordingly, in conformity with Statement of Position 94-3, issued by the American Institute of Certified Public Accountants, the Institute’s consolidating financial statements include the accounts of the Fund. All significant interorganization transactions and balances have been eliminated.

Canadian Institute of Internal Auditors (“the Canadian Institute”) is a not-for-profit Canadian corporation formed to cultivate, promote and disseminate knowledge and information concerning internal auditing and related subjects in Canada. The Institute became the founding member of the Canadian Institute during 2007 pursuant to actions taken by each organization’s governing bodies. Due to the immateriality of the amounts involved, the Canadian Institute is reported in these consolidating financial statements as a department of the Institute.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted and unrestricted revenue and support
Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statements of activities as “net assets released from restrictions.”

Revenue recognition and operating activities
The Institute recognizes revenue and incurs expenses in its operation of the following activities:

Seminars and conferences
Seminar and conference fees are recognized as income in the period in which the event is completed. Expenses include the direct costs of conducting seminars and conferences.

Relationship management
Membership dues are recognized as income ratably throughout the year. Membership application fees are nonrefundable and are recognized as income when received. Expenses include the direct costs of delivering member benefits, as well as costs associated with recruiting new members and servicing and retaining existing members worldwide.
Revenue recognition and operating activities (continued)

Certification
Certification fees are recognized as income in the period in which the exams are taken. Exam registration fees are nonrefundable and are recognized as income when received. Expenses include the direct costs of conducting exams.

Quality assessment
Quality assessment service fees are recognized as income as the related service is provided based on the percentage of the engagement completed. Expenses include the direct costs of conducting quality assessments.

Publishing and publication sales
Subscriptions and print advertising revenue are recognized as income in the period in which the related publications are issued. Website advertising revenue is recognized as income ratably over the length of the advertising contract. Educational product sales are recognized as income when the related inventory is shipped. Expenses include the direct costs of producing and delivering publications, as well as website maintenance. Advertising costs are expensed as incurred.

Global Auditing Information Network (“GAIN”) subscription fees are recognized as income when the product is shipped. Expenses include fulfillment of GAIN subscriptions. GAIN is a knowledge exchange forum available to member organizations of the IIA.

During 2007 and 2006, the Foundation reimbursed the Institute for certain personnel-related costs and certain shared costs. Such reimbursements are reflected as expenses of the Foundation based on the nature of the specific expenses. Additionally, the Institute absorbs certain overhead costs of the Foundation for which reimbursement is not required. Expenses of the Fund are not material to the accompanying consolidating financial statements and are paid by the Institute. Reimbursement is not required.

Revenue received in advance of the recognition period is included in “deferred revenue” in the accompanying consolidating statements of financial position.

Cash and cash equivalents
The Institute, the Foundation and the Fund consider all investment instruments purchased with original maturities of three months or less to be cash equivalents.

Restricted investments
Restricted investments consist of endowment funds given to the Foundation, the investment income from which is to be used for scholarships for internal auditing students.

Investments
Investments are carried at fair market value as determined by quoted market prices.

Allowance for doubtful accounts
Accounts receivable are stated net of an allowance for doubtful accounts. The Institute, the Foundation and the Fund estimate the allowance for doubtful accounts based on an analysis of specific accounts, taking into consideration the age of the past due account and an assessment of the client’s ability to pay. Accounts are considered past due when payments are not made in accordance with specified terms. Accounts are written off when management determines the amounts are uncollectible.

Inventories
Inventories consist of publications and are carried at the lower of cost or market value using the first-in, first-out (FIFO) cost flow method.
Property and equipment

Property and equipment are stated at cost. The Institute and the Foundation use the straight-line method of depreciating property and equipment over estimated useful lives.

Deferred project costs

Costs related to seminars, website development and design, and educational product development or revision are deferred until the related projects are completed. Seminar costs are amortized over three or four years using the straight-line method, website costs over three years using the straight-line method, and educational product development or revision costs over three years at 60% the first year, 30% the second year, and 10% the third year.

Restrictions on net assets

Temporarily restricted net assets consist primarily of amounts restricted for the William G. Bishop Memorial Fund. Permanently restricted net assets consist of an endowment fund, the investment income from which is to be used for scholarships for internal auditing students.

Income taxes

The Institute is exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(6) and from state income tax pursuant to state law. The Institute engages in certain activities which are “unrelated business activities” as defined by the Internal Revenue Code, and which are subject to taxation. Income taxes on unrelated business income are recognized as expenses as incurred. The Foundation and the Fund are exempt from federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(3) and from state income tax pursuant to state law. The Foundation and the Fund have not incurred unrelated business income taxes.

Use of estimates

Management uses estimates and assumptions in preparing consolidating financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these consolidating financial statements include those used in determining the useful lives of property and equipment and assessing the collectibility of accounts receivable. Actual results could differ from the estimates.

NOTE C – CONCENTRATION OF CREDIT RISK

The Institute, the Foundation and the Fund maintain their cash and cash equivalents in deposit accounts and money market funds which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Institute, the Foundation and the Fund have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk related to cash and cash equivalents.

NOTE D – INVESTMENTS

Investments consist of mutual funds. The Institute considers all dividends and interest from investments as operating revenues for purposes of the consolidating statements of activities. Gains and losses related to investments are considered to be nonoperating activities for purposes of the consolidating statements of activities.

Net gain on investments consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>For The Years Ended December 31, 2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Institute</td>
<td>The Foundation</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$ 827,295</td>
<td>$ 91,973</td>
</tr>
</tbody>
</table>
NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Institute</td>
<td>The Foundation</td>
</tr>
<tr>
<td>Land</td>
<td>$114,103</td>
<td>$—</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>4,151,759</td>
<td>$—</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>3,700,462</td>
<td>44,536</td>
</tr>
<tr>
<td><strong>TOTAL PROPERTY AND EQUIPMENT</strong></td>
<td><strong>7,966,324</strong></td>
<td><strong>44,536</strong></td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>(2,368,579)</td>
<td>(19,465)</td>
</tr>
<tr>
<td><strong>NET PROPERTY AND EQUIPMENT</strong></td>
<td><strong>$5,597,745</strong></td>
<td><strong>$25,071</strong></td>
</tr>
</tbody>
</table>

Depreciation expense for the Institute amounted to approximately $611,000 and $485,000 for 2007 and 2006, respectively. Depreciation expense for the Foundation amounted to approximately $8,000 and $6,000 for 2007 and 2006, respectively.

NOTE F – OPERATING LEASES

The Institute leases office space and office equipment under operating leases expiring through July 2010. Approximate future lease payments are as follows:

<table>
<thead>
<tr>
<th>Year Ending December 31,</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$299,000</td>
<td>157,000</td>
<td>21,000</td>
<td>$477,000</td>
</tr>
</tbody>
</table>

Total rent expense related to the above leases and additional amounts for short-term rentals and related charges amounted to approximately $1,087,000 and $852,000 for 2007 and 2006, respectively.

NOTE G – RETIREMENT PLANS

The Institute maintains a Section 401(k) retirement plan. The Institute contributes a certain percentage of the total salary of eligible employees to the plan.

The Institute previously maintained a money purchase pension plan. The Institute contributed a discretionary amount of the total salary of eligible employees to the money purchase pension plan. During 2006, the assets of the money purchase pension plan were merged into the Section 401(k) retirement plan described above.

During 2007 and 2006, the Institute contributed approximately $934,000 and $701,000, respectively, to its retirement plans.
NOTE G – RETIREMENT PLANS (Continued)

The Institute maintains a Section 457 deferred compensation plan for the benefit of certain employees. Under the provisions of the plan, employees could elect to have a portion of their salary contributed to the plan. The Institute held approximately $1,248,000 and $1,198,000 in the plan as of December 31, 2007 and 2006, respectively, which is reflected in the accompanying consolidating statements of financial position under “employee savings plan” and “deferred employee compensation.” Contributions to the plan were terminated effective December 31, 2001.

NOTE H – COMMITMENTS

The Foundation has entered into contracts and agreements with various parties for research projects. Unpaid commitments related to these contracts and agreements totaled approximately $227,000 as of December 31, 2007.

During 2008, the Institute expects to deliver certain of its examinations in a computer-based testing environment (referred to by the Institute as the “CBT” initiative). In connection with CBT, the Institute entered into an agreement with a third-party (“the hosting service”) which licenses application software for the management, operation and administration of testing, certification and licensure programs and maintains database functions related to such programs, all of which are offered as a hosted service. In connection with the agreement, the Institute agrees to pay the hosting service an annual license fee of $103,000 plus certain incremental fees based on actual volume as described in the agreement. In connection with CBT, the Institute has also entered into a test delivery services agreement with another third-party (“the test provider”). Pursuant to the terms of the agreement, the test provider is responsible for various tasks related to administering tests to participants. The test provider will be paid per test fees and various other fees pursuant to the terms of the agreement. The initial term of the agreement expires during 2013.

NOTE I – EXPENSE ALLOCATIONS

Total expenses for the Institute include approximately $25,395,000 and $21,967,000 of program expenses, $10,027,000 and $8,430,000 of supporting expenses, and $8,000 of fund-raising expenses for each of 2007 and 2006.

During 2007 and 2006, the Foundation incurred approximately $39,000 and $20,000 respectively, of fund-raising expenses. Such amounts are included in “general and administrative” expense in the accompanying consolidating financial statements.

NOTE J – RELATED PARTY TRANSACTIONS

As of December 31, 2007, the Foundation was a party to certain contracts for research and educational projects with various third parties which include certain members of the Foundation’s Board. The following table summarizes payments made by the Foundation to Board members in connection with these contracts:

<table>
<thead>
<tr>
<th>PROJECT NAME</th>
<th>Payments –</th>
<th>Payments –</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2006</td>
</tr>
<tr>
<td>“Behavioral Dimensions of Internal Auditing”</td>
<td>$122</td>
<td>$2,642</td>
</tr>
<tr>
<td>“Internal Assurance and Consulting Services Textbook”</td>
<td>$14,536</td>
<td>$4,800</td>
</tr>
<tr>
<td>“Sustainable Development”</td>
<td>$—</td>
<td>$3,000</td>
</tr>
</tbody>
</table>
MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the preparation, integrity, and fair presentation of the accompanying financial statements. The accompanying statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis and are not affected by material fraud or error. The financial statements include amounts that are based on management’s best estimates and judgments.

Management also prepared the supplemental information in the annual report and is responsible for its accuracy and consistency with the financial statements. The financial statements have been audited by Batts, Morrison, Wales & Lee, P.A., independent certified public accountants, elected by the Board of Directors. Management has made available to Batts, Morrison, Wales & Lee, P.A. all financial records and related data as well as the minutes of the Board of Directors’ meetings. Management believes that all representations made to Batts, Morrison, Wales & Lee, P.A. during its audit were valid and appropriate.

Management maintains a system of internal control, which is designed to provide reasonable assurance as to: the preparation and publication of reliable and accurate financial statements; safeguarding of assets against unauthorized acquisition, use or disposition; and compliance with applicable laws and regulations. The system includes a documented organizational structure and division of responsibility, established policies and procedures that are communicated throughout the organization, an internal audit function reporting to the audit committee of the board of directors, and the careful selection, training, and development of our people.

Management has voluntarily elected to evaluate its system of internal control in accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the COSO framework and has documented and tested the key processes used to record activities and prepare the appropriate financial statements.

For the annual report as of, and for the year ending, December 31, 2007, we certify that to the best of our knowledge:

☐ This annual report does not contain any untrue statements of a material nature or omit to state a material fact necessary to make the statements misleading with respect to the period covered by the annual statement;

☐ The financial information included in this annual report fairly present in all material respects the financial condition, results of operations, and cash flows as of and for the periods presented in the annual report;

☐ An adequate system for disclosing controls and procedures exists to ensure that material information is made known to us by others within the organization; Management has concluded that the system of internal control over financial reporting was effective as of 12/31/2007.

☐ Disclosures of any change in the internal control over financial reporting that occurred during the most recent fiscal quarter and has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting are included in this report.

David A. Richards, CIA
President

David Polansky
Chief Administrative Officer