POSITIONED FOR SUCCESS
The Institute of Internal Auditors, now in the midst of celebrating its rich 70-year history as the leader of the internal audit profession, worked determinedly and successfully throughout 2010 to reassess, enhance and reposition itself to meet its members’ rapidly growing and evolving needs. The IIA has long pioneered inventive approaches to solving the problems facing internal auditors worldwide. This year, we demonstrated how innovation can make the difference between merely discovering the future and actually defining its success.

Directors and senior executives of businesses, governments, and even not-for-profit organizations around the globe continue, even now, to labor at the task of reinvigorating their organizations in the aftermath of the deepest, most pervasive recession in seven decades. Many still are unnerved by the financial crisis of late 2008 and remain unsure about the safety and soundness of their strategies and operating plans for renewing financial growth.

Not surprisingly, these principal stakeholders of internal auditing have heightened their expectations of our profession. They have made it clear to chief audit executives and to The IIA – which advocates the value of leading-edge internal auditing – that they now need and expect insightful and objective assurance over risk management, grounded in a deep understanding of the organization, its industry, and its business objectives.

Meeting those stakeholder expectations can be an ongoing challenge for internal auditors, but thanks to the responsiveness and thought leadership of The IIA, it is not one they need to undertake alone.
On behalf of The IIA’s Board of Directors and Global Headquarters staff, it is my privilege to introduce the 2010 Annual Report, marking the beginning of another decade of IIA service to and leadership of the internal audit profession.

When looking back at a full year’s accomplishments, I am always reminded of the extraordinary efforts required of so many to fulfill The IIA’s mission and accommodate the complex needs of our ever-growing membership. When reviewing 2010’s achievements, I am especially proud of the member-service enhancements IIA volunteers and staff brought to fruition. These achievements have set the stage for exciting prospects throughout 2011 and beyond. Following the difficult recessionary years of 2008 and 2009, the excellent financial results of 2010 will provide the stability and wherewithal The Institute needs to achieve even more substantial success in the future as we pursue our strategic goals and continue to grow and support the profession worldwide.

Ending the year with a remarkable net contribution of US$3.5 million indicates not only that our strategies are strong and our initiatives are solid, but also that our diligence and commitment are unwavering. I offer my heartfelt appreciation to each and every individual who played a role — regardless of size — in making 2010 such a banner year for The IIA and its global membership.

Among our many 2010 accomplishments is the successful launch and growth of the Audit Executive Center. We strongly believe that the stronger the CAE is, the better the internal audit activity will be. Empowering and connecting CAEs and ensuring relevancy, this Center was born out of the growing need for unique services and programs for those at the top of the internal audit ladder.

The pages that follow provide more about the Center, as well as an overview of the many other IIA initiatives undertaken and milestones reached during the year. After reading this report, I am sure you will agree with me that, indeed, 2010 was a very good year.

Richard F. Chambers, CIA, CCSA, CGAP
President & CEO
IIA Global Headquarters
A MESSAGE FROM GÜNTHER MEGGENEDER, THE IIA’S CHAIRMAN OF THE BOARD

The IIA’s Global Board of Directors and I, as your chairman, are so very proud of having had an opportunity to serve The IIA’s global membership and help shape the future, while confronting both challenges and opportunities throughout 2010. We are proud of the manner in which IIA volunteers and staff pulled together with innovation and creativity to support the profession as the global economy struggled to recover. And we are extremely pleased by the results of the efforts chronicled in this Annual Report.

On a personal note, 2010 has been a highlight of my professional career as an internal auditor. My “Shape the Future” theme has served as a reminder of the responsibility each of us carries to advance and advocate for our profession, model integrity, produce the highest quality of work, conform to our Standards, maintain our certifications, live up to our Code of Ethics, and meet and surpass the expectations of stakeholders. This theme also supports The IIA’s work as the profession’s leader, standard-setter, and guiding light. When IIA members and leaders individually and collectively do these things, we lay the groundwork — and literally shape the future — for those who will follow.

I am so proud of the many accomplishments The IIA made throughout 2010 and applaud each and every person who worked so hard to help achieve our goals. Your commitment to and enthusiasm about our profession made my job so enjoyable.

As you review this Annual Report, I hope you will gain a new appreciation for how far we, as an organization, have come and where we are headed for the future. I also hope that you will be filled with pride, as I am, for a job well done.

Günther Meggeneder, CIA
2010-2011 IIA Chairman of the Board
IIA headquarters, guided and supported by its experienced and dedicated volunteer leaders and affiliated institutes worldwide, last year conceived and began implementing a five-year headquarters strategy that has already demonstrated immense value and outstanding results.

The plans for repositioning The IIA’s standards and guidance, certifications, thought leadership, professional development opportunities, and other products and services complement and extend the larger global IIA 2010-2014 strategic plan formulated and overseen by The Institute’s global board of directors.

The five-year headquarters strategy aims to advance the profession of internal auditing through the development and delivery of premier products and services that are relevant, timely, and focused on the needs and expectations of members and other stakeholders. To accomplish this, IIA management commits to running operations characterized by strong business acumen, a focus on developing and retaining outstanding talent, and alignment with The IIA’s Strategic Plan. The headquarters business strategy comprised seven key goals:

- Restore fiscal position of The Institute.
- Design and implement a comprehensive IT strategy to drive efficiencies and enhance service to members.
- Develop a business intelligence process that can be proactively used to improve operating effectiveness, including market strategies.
Enhance The IIA’s relevance, and position ourselves as a premier source of insight to corporate CAEs.

Design and implement a human resources strategy that will foster the acquisition, retention and development of outstanding professional talent.

Ensure that Global and North American Operations are sustainable and their activities are defined by 2012.

Foster achievement of the Global IIA Strategic Plan.

“Members already are enthusiastically embracing strategies for repositioning The IIA as the go-to resource for internal auditing professionals in the years ahead,” says IIA President and CEO Richard Chambers. This support was demonstrated in part last year by a record-high membership renewal rate in North America and substantially larger than expected attendance at The Institute’s International Conference in Atlanta. Members also showed a strong commitment to professionalism in 2010 by contracting with The Institute to perform a much larger than forecasted number of quality assurance reviews and independent validations of their internal audit quality self-assessments.

“This outpouring of member support, as well as aggressive cost-containment efforts by The IIA throughout 2010, enabled us to achieve a record-setting positive net contribution of US$3.5 million – far above the forecast contribution of US$1.2 million,” adds Chambers. This strong financial result already has enabled IIA Inc. to retire early a real estate-related debt it incurred at the onset of the recession in 2008, rebuild its investment reserve to approximately half of its pre-recession level, and accelerate plans to roll out many of the products and services envisioned under its comprehensive strategies for providing exceptional support and service to members in 165 countries around the world.

Even while focusing on new strategic initiatives, however, The IIA continued working vigorously on the volunteer-commissioned exercise of separating The Institute into virtual separate global and North American organizations. This undertaking, in substantial part, comprises developing a financial reporting methodology that accurately and transparently presents the revenues and costs accruing from global and North American operations. The overarching goal of this long-term undertaking is enabling the Global and North American boards of directors and senior headquarters staff to make informed and responsible business decisions. This thereby ensures the ongoing viability and self-sufficiency of The IIA in North America and elsewhere around the world.

GLOBAL IIA 2010 – 2014 STRATEGIC PLAN

By 2014:

I. Internal auditing is universally recognized as a profession.

To accomplish this, The IIA:

II. Defines the principles of the profession and assures that the principles are available seamlessly worldwide.

III. Assures adherence to professional requirements.

IV. Is the preferred provider in the research development and dissemination of knowledge to advance the profession.

V. Is seen by its members and operates as one global organization.

VI. Ensures long-term financial viability as an organization.

US$3,479,922

2010 Audited Net Contribution
Among The Institute’s most important and far-reaching new initiatives last year was envisioning and beginning to put in place a comprehensive strategy for The IIA’s dated information technology (IT) infrastructure. Tactically focused IT processes were no longer meeting the organization’s needs and a comprehensive plan to take The IIA in new directions was lacking.

“This new strategy is based on creating an integrated system of business applications linked together to form a user-friendly and highly efficient technology platform for our members,” explains Charles Redding, who in 2010 became The Institute’s first-ever chief information officer. Underpinning the strategy, he says, is harnessing the power of robust technology solutions (notably Microsoft SharePoint) to provide information users with a single window into all the information maintained by The Institute.

This approach – which will be completed in 2013 – will provide IIA members with a far more personalized IT experience. Based on their customizable profile, web content will be matched to their individual benefits, interactions, and communication preferences. The new IT infrastructure will also provide The Institute’s North American chapter leaders with long-sought enhancements to administrative and reporting tools and other resources, which in turn will enable them to improve local service to IIA members.

Work also began last year, Redding notes, on a new global website. This site, scheduled for a late 2011 launch, will be separate and distinct from The IIA’s current website, which has strived to serve both global and North American audiences.
At the outset of the financial crisis – even before stakeholder expectations of internal audit began heightening dramatically – many chief audit executives began looking to The IIA for a conveniently accessible suite of information, resources, and services that would empower them to be more successful.

“Two years ago our member survey data was showing us that more and more CAEs were becoming disconnected from The IIA and that perhaps we were not providing as much value to them as we should. At that time, the Audit Executive Center was merely a dream shared by those CAEs, then-new IIA President and CEO Richard Chambers, and some of our key volunteer leaders,” recalls Kevin Mayeux, The Institute’s senior vice president and chief officer, North American operations. “In 2010, this dream became a highly successful reality.”

Key staff and volunteers spent most of last year envisioning what the Center should comprise, building robust IT infrastructure support, and developing the initial content. By year-end, the barely two-month-old Center already had attracted more than 200 CAEs. Members are empowered by a web-based knowledge portal, as well as direct access to resources such as benchmarking and other relevant survey data, thought-leadership papers and timely news publications, cutting-edge topical research, and reports that identify and analyze emerging risks. Center members are also connected via their participation in webinars, online peer-to-peer knowledge sharing, and attendance at roundtables and other exclusive in-person networking events. Information gleaned from the Center, in turn, made its members more relevant to their key stakeholders and internal audit staff. The IIA currently is exploring ways to leverage its investment in the Center to underpin comparable services to CAEs outside of North America.
The Institute’s strategy to reposition itself also facilitated the introduction of the “Membership Means More” initiative that allowed it to significantly enhance its services to North America (NA).

Partly supported by an NA member dues increase, The IIA began implementing a host of exclusive member privileges including a new members-only publication called IIA Today, a revised and more user-friendly website, a “member gift” program providing deep discounts and complimentary products, and increased North American advocacy efforts. Members responded with a record-high membership renewal of 84 percent.

One of the most popular value-added membership enhancements was the addition of free monthly member-only webinars on timely topics important to the profession. Some 52,000 member interactions accrued from these opportunities to earn continuing professional education credits cost-free, and twice that number of interactions is anticipated in 2011.

The IIA also leveraged its investment in online delivery technology to conduct special-purpose webinars. These included eight briefings to members on newly released professional guidance, and three to chapter leaders on how to better service their members through a suite of presentations, materials, and resources available to them for member development.

The Institute’s flagship publication, Internal Auditor magazine, continued to be widely acclaimed in both state and national quality competitions. “Internal Auditor continues to be independently verified as a national caliber magazine whose content quality is competitive with publications put out by some of the largest and most successful associations in the country,” Mayeux says.

Internal Auditor also remained highly popular among member readers last year. The online version of the magazine, which was expanded in content and refreshed in appearance in 2010, had a record level of more than 620,000 page views during the year and its blogs were read more than 145,000 times.
During 2010, The IIA reorganized and revitalized its educational programs function to capture numerous marketplace opportunities.

“Through IIA research, we knew that as organizations contained costs during the recession, training and travel budgets took deep cuts,” Mayeux reflects. “We had to look for ways to ensure that our professional development opportunities provided tangible benefits to our customers. We had to make it convenient and of the highest value for dollar spent. And so we engaged not only staff, but also key members of our relevant volunteer committees, advisory boards, and the North American Board to analyze what makes IIA education unique, where The Institute envisions itself in the long term, and how to measure success,” he says.

The analysis resulted in more efficient and effective internal processes for delivering

THE IIA TEAM DEVELOPED FIVE LEARNING SOLUTIONS STRATEGIC GOALS

1. Increasing attendance and program contribution by delivering relevant, innovative, and value-added products to members.

2. Establishing data-driven, member-centric internal processes with a focus on continuous improvement, consistency, and efficiency.

3. Aligning talent to task to ensure employee, instructor, and developer satisfaction and effectiveness.

4. Designing a structure to support achieving The IIA’s overall goals and objectives.

5. Proactively engaging key stakeholders to provide input and gain buy-in for shared educational priorities.
traditional and new educational offerings in accordance with a “member-centric” mission and vision.

Although this initiative was slated for deployment in 2011, some outcomes of the impending strategic shift were immediately recognized in both live and virtual learning. For example, significant updates were made to several classroom offerings, and new virtual courses were added including Audit Report Writing and the CIA Learning System Part III Review. For the remainder of 2011 and 2012, refreshing existing curriculum offerings will be a major point of focus. This includes new course development on emerging topics such as cloud computing and social media, updates to our most popular existing courses including the Tools & Techniques series, and development of a new fee-based webinar series product line.

“We know that people learn in different ways, and when resources are constrained we have to offer more cost-effective learning opportunities. While face-to-face training is useful and one of the best ways to absorb knowledge, our membership is telling us that virtual learning can also be effective,” Mayeux explains.

The Institute’s ongoing investments in The IIA’s CIA Learning System – a multi-media study preparation product aimed at preparing internal auditors sitting for the Certified Internal Auditor (CIA) Exam – were strongly validated. A record number of 12,000 units were sold in 2010, equating to a 12 percent increase in the System’s revenues over the prior year. Marketing partnerships between IIA Inc. and 30 of its institutes around the world resulted in the product’s increased global population with purchases from customers in 150 countries. In addition to the self-study platform, The IIA’s CIA Learning System is offered as an instructor-led course through more than 50 live and virtual classroom offerings annually. In 2010, Version 3.0 of The IIA’s CIA Learning System was released including a French translation of the materials.
Although much was accomplished during 2010 in support of The IIA’s North American members, much also was achieved on behalf of nearly 170,000 IIA members around the entire world. To reach milestones identified in the strategic plan that assure the profession’s principles are defined, available, and adhered to, The IIA continued to develop globally its certifications, Standards, and guidance.

In addition to continuing to enhance the transition of its certification exams to a computer-based format – which began taking place the year prior – and ensuring it is a seamless experience for test candidates, The IIA’s certifications division focused much of 2010 on positioning its certification for long-term relevance. Groundwork was laid to undertake a formal job analysis to validate the current knowledge, skills, and abilities needed to perform the work of a professional internal auditor. The study, which was launched the following February of 2011, will result in the most up-to-date certification exam content for the next five years.

The reporting procedure by which Certified Internal Auditors verify they are adhering to Continuing Professional Education (CPE) requirements, also received a great deal of focus by The IIA certifications team. Streamlining and automating the process has provided more efficiency and allows The IIA to ensure that those who have achieved such a high degree of competency through certification are continuing to maintain and expand their skill set. It also protects the value and brand of the only globally acknowledged certification for internal auditing.

“Getting certified is not the conclusion to exhibiting professionalism. It’s a continuous journey” says IIA Vice President of Certifications Cyndi Plamondon, CIA, CFSA, CGAP, CCSA. “It’s critical that professional internal auditors continue to stay current on emerging issues and enhance their knowledge, and it’s required for those putting those letters after their names. To quote Sir Winston Churchill, ‘Now this is not the end… But is, perhaps, the end of the beginning.””
The global nature of IIA certifications was further demonstrated as the 2,000th person to earn the Certified Government Audit Professional (CGAP) designation resided in Indonesia.

In no service realm was The IIA's dedication to the global internal audit profession more evident than in the development of professional standards and guidance. IIA staff and volunteer members of the Internal Audit Standards Board worked feverishly through the end of the year to complete the process of soliciting member and stakeholder comments on and making corresponding refinements to a comprehensive set of revisions to the Standards exposed in draft form late in 2009. These changes, approved last fall by the Standards Board, comprise three new standards, 15 modified standards, two standards deletions, and modifications to six definitions in the Standards glossary.

As part of The IIA's strategic plan that "internal auditing be seen universally as a profession," a special IIA task force was commissioned in April 2008 to develop a value proposition that articulates what internal auditing's stakeholders (executive management and governing bodies such as boards of directors and audit committees) should expect from an effective internal audit function. Members from eight countries participated on the task force. Input was sought worldwide at the 2009 Global Council meeting and through communications with all IIA institute leaders and international committee members. The project's completion in 2010 resulted in numerous communication materials developed for internal auditors to use as a basis for discussion about how internal auditors provide “assurance, insight, and objectivity.”

During the year IIA staff and supporting member volunteers also published 12 new practice advisories, five practice guides, and two Global Technology Audit Guides. This highly recommended guidance was downloaded by members more than 40,000 times during 2010.
IIA chapters and Institutes around the world are The IIA’s essential partners in serving members and representing the internal audit profession worldwide.

IIA Institutes are the internal audit profession’s go-to resources for knowledge, guidance, training, and involvement in the profession at local, regional, national, and international levels. IIA Global Headquarters provides core services including the provision of global standards, technical guidance, advocacy efforts, governance activities, and exclusive access to intellectual property of The IIA. Certification programs and The IIA’s International Conference provide additional benefits to internal auditors globally.

One of the most successful global initiatives of 2010 was the International Conference held July 6 – 9 in Atlanta, Ga., USA. Drawing an attendance of more than 2,700, the conference earned a net contribution of almost US$1 million (US$985,000). Keynote speakers from internationally recognized companies such as Home Depot, Bank of America, Telekam Malaysia Berhad, Coca-Cola, and World Bank attracted internal auditors to the event from 98 countries. The high marks given in the conference evaluations clearly indicated that it succeeded in providing world-class professional development.
The IIA also continued to expand its footprint – especially on the African continent – with new Institutes forming in Swaziland and Lesotho. Representatives from nine IIA Institutes in Africa joined forces to form the African Federation of Institutes of Internal Auditors (AFIIA), and signed a partnership agreement with The IIA to coordinate activities, promote continuity, and explore mutually beneficial relationships. Similar associated IIA organizations around the world who have agreements with The IIA include the Asian Confederation of Institutes of Internal Auditors (ACIIA), the European Confederation of Institutes of Internal Auditing (ECIIA), the Federación Latinoamericana de Auditores Internos (FLAI), and the Union Francophone de l’Audit Interne (UFAI).

At a first-ever Middle East regional workshop – held in Abu Dhabi, United Arab Emirates (UAE) – IIA Institute leaders from Egypt, Oman, Qatar, Saudi Arabia, Tunisia, the UAE, and IIA Global Headquarters entered into a “Pact of Partnership and Co-operation” in support of shared interests in advocacy, research, professional development and creating sustained relationships. Regional workshops provide an opportunity for The IIA to update local leaders about key developments and strategies, discuss local and regional needs and opportunities, and exchange information about other important IIA global and regional initiatives. The IIA also held regional workshops in Lima, Peru; Warsaw, Poland; and Madrid, Spain. Additionally, The IIA held its 2010 annual Global Council event in Atlanta, where Institute representatives from 59 countries around the world gathered to give input and direction to the global IIA board and committees.

“In addition to issuing global guidance, providing worldwide certification programs, and advocating the profession with key global organizations, the most valued service we provide IIA Institutes is the participation of The IIA’s key global leaders in national and regional events hosted by them. Through these visits we have a unique opportunity to directly affect IIA members and interact with key internal audit stakeholders in every corner of the globe,” says Sylvia Gonner, vice president of global relations and development.

Representatives from several Institutes attended the first Middle East IIA Leaders Workshop.
Arguably the most significant and enduring guidance and advocacy-related accomplishment last year was forming a global external body to oversee and make recommendations to The IIA’s Global Board of Directors for improvements to The Institute’s due-process procedures for setting the Standards and other elements of the International Professional Practices Framework (IPPF).

“Stakeholders are demanding that standard-setters be subject to oversight,” says Jim Sylph, chairman of the new IPPF Oversight Council and executive director of professional standards for the International Federation of Accountants (IFAC). Other highly respected organizations currently represented on the Oversight Council are the International Organization of Supreme Audit Institutions (INTOSAI), the Organization for Economic Cooperation and Development (OECD), the National Association of Corporate Directors (NACD), and Chairman Emeritus of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

The Council’s oversight adds an additional layer of rigor to The IIA’s existing standard-setting process, which includes the active involvement of multiple IIA international committees of internal auditors. As such, the Council will evaluate the due-process procedures for setting standards and guidance, review the charters of The Institute’s standards-setting committees, and make recommendations for process improvements.

In addition to the organizations represented on the Oversight Council, The Institute maintained strong advocacy relations in the United States throughout 2010 with organizations such as the Public Company Accounting Oversight Board (PCAOB), the Government Accountability Office (GAO), and the Center for Audit Quality. This advocacy comprised far more than merely attending meetings. For example, IIA President and CEO Richard Chambers served on a blue-ribbon commission constituted by the NACD that last fall issued an extensive report on the emerging roles of audit committees. IIA staff and volunteers also collaboratively responded to a host of exposure drafts by the PCAOB, GAO, SEC, and the European Union.

In other global advocacy activities, The IIA worked closely with IFAC by serving on the Advisory Group to their Standards Board, and continued to assist in updating IFAC standard 610 – Using the Work of Internal Auditors. The IIA also continues to advise INTOSAI’s Professional Standards Committee.

“This is by far one of the most significant undertakings of our advocacy efforts. It’s part of a new evolution in our organization,” says IIA Executive Vice President and Chief Financial Officer David Polanksy. “The strategic importance of this outside group helps validate and drive the work we’re doing to have the Standards recognized globally.”
The year 2010 also was an extraordinarily successful one for The IIA Research Foundation, as measured by volunteer-led fundraising, products sold at retail, and new books and other cutting-edge materials published.

For example, new to The Foundation’s Bookstore in 2010 were Auditing Human Resources; Best Practices: Auditing the Corporate Culture; Planning, Performing and Presenting IT Audits, and many others.

“Last year’s Foundation outputs are much more user-friendly than usual, as many were written by practitioners from a practitioner’s view, rather than an academic’s,” says Pat Scipio, President of the Research Foundation.

The 2010 highlight of The Research Foundation was the successful completion of an ambitious two-year effort to collect and analyze the survey responses of more than 13,000 practitioners in 22 languages and more than 107 countries. The resulting five-volume Global Internal Audit Survey, a component of The IIARF’s ongoing Common Body of Knowledge (CBOK) study, is the most exhaustive study ever of the practice of internal auditing around the world. ”This study, published early in 2011, represents the most comprehensive and valuable insight into the global practice of internal auditing that has ever been assembled. The researchers did a terrific job in synthesizing the results and providing key data for a blueprint for The IIA to better serve the profession,” says Scipio.

The Global Internal Audit Survey "provides an empirical demonstration of the dramatic shift we’ve seen take place since the financial crisis.
Organizations are recognizing the harmful impact of inadequate corporate governance and the significant risk it poses to the effectiveness of the risk management function. Internal auditors are naturally following the risks and aligning their coverage in response to their stakeholders’ changing expectations,” Scipio observes.

Of special interest was a CBOK-related report, A Call to Action: Stakeholders’ Perspective on Internal Auditing, grounded in a separate Foundation survey of and follow-up interviews with 200 directors, audit committee chairs and members, and senior executives of U.S. companies. The report documents what these key internal auditing stakeholders think is going well and where there may be a need for improvement in the profession’s current offerings. This was the first time The IIA had formally studied the “demand-side” perspectives of the internal audit profession.

When assessing the professional talent positioned to lead the profession’s future, The IIA’s academic relations efforts were again fruitful. The IIA approved four new schools for the Internal Auditing Education Partnership (IAEP) program, which now comprises 41 schools in 10 countries. In October, sixty-four students attended the Fourth Annual IAEP Leadership and Networking Retreat in Orlando, Fla., USA, forty of whom were able to leverage the experience to schedule internship and job interviews.

The Internal Auditing Academic Advancement Fund (IAAAF) raised approximately $200,000 to enhance programs at IAEP schools, and approved grants totaling approximately $185,000. Thanks to the generosity of committed donors and grants from The IIA, the IAAAF has dispersed almost $1 million to colleges and universities around the world since it was established in 2006. The Fund is sustained by donations from individuals, groups, and organizations. Joining IIA Dallas, which is already a Platinum Chapter donor ($25,000+), IIA Houston set the 2010 bar for chapter donations with a $50,000 contribution.

“It is critically important that the next generation of internal auditors is educationally prepared to take its place in tomorrow’s business arena,” says IIA Senior Vice Chairman and IAAAF Chairman Denny Beran, CIA, “and The IIA’s academic relations programs are designed to make sure that happens.”

To read the full annual reports for The IIARF and IAAAF, log onto The IIA’s global website at www.theiia.org.
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ALTAMONTE SPRINGS, FLORIDA

We have audited the accompanying consolidating statement of financial position of The Institute of Internal Auditors, Inc. ("the Institute") and Affiliates as of December 31, 2010, and the related consolidating statements of activities and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 consolidating financial statement presentation. We believe that our audit provides 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, 2010, the consolidating changes in their net assets and their consolidating cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BATT'S MORRISON WALES & LEE, P.A.

Orlando, Florida
May 17, 2011
## CONSOLIDATING AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### December 31, 2010

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<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>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 3,034,065</td>
<td>$ 614,520</td>
<td>$ 522,170</td>
<td>—</td>
<td>$ 4,170,755</td>
</tr>
<tr>
<td>Investments</td>
<td>11,351,062</td>
<td>1,701,122</td>
<td>151,767</td>
<td>—</td>
<td>13,203,951</td>
</tr>
<tr>
<td>Due from affiliates, net</td>
<td>57,284</td>
<td>—</td>
<td>642,424</td>
<td>(699,708)</td>
<td>—</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>2,362,555</td>
<td>178,217</td>
<td>3,396</td>
<td>—</td>
<td>2,544,168</td>
</tr>
<tr>
<td>Inventories</td>
<td>—</td>
<td>188,154</td>
<td>—</td>
<td>—</td>
<td>188,154</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>850,586</td>
<td>39,632</td>
<td>—</td>
<td>—</td>
<td>890,218</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>4,945,534</td>
<td>1,458</td>
<td>—</td>
<td>—</td>
<td>4,946,992</td>
</tr>
<tr>
<td>Deferred project costs, net</td>
<td>927,404</td>
<td>149,400</td>
<td>—</td>
<td>—</td>
<td>1,076,804</td>
</tr>
<tr>
<td>Employee savings plan</td>
<td>941,797</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>941,797</td>
</tr>
<tr>
<td>Restricted investments</td>
<td>—</td>
<td>135,000</td>
<td>—</td>
<td>—</td>
<td>135,000</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>24,470,287</td>
<td>3,007,503</td>
<td>1,319,757</td>
<td>(699,708)</td>
<td>28,097,839</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>3,340,458</td>
<td>43,493</td>
<td>709</td>
<td>—</td>
<td>3,484,660</td>
</tr>
<tr>
<td>Due to affiliates, net</td>
<td>642,424</td>
<td>57,284</td>
<td>—</td>
<td>(699,708)</td>
<td>—</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>7,555,727</td>
<td>27,043</td>
<td>—</td>
<td>—</td>
<td>7,582,770</td>
</tr>
<tr>
<td>Deferred employee compensation</td>
<td>941,797</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>941,797</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>12,480,406</td>
<td>227,820</td>
<td>709</td>
<td>(699,708)</td>
<td>12,009,227</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>11,975,031</td>
<td>2,173,383</td>
<td>1,165,273</td>
<td>—</td>
<td>15,313,687</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>14,850</td>
<td>471,300</td>
<td>153,775</td>
<td>—</td>
<td>639,925</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>—</td>
<td>135,000</td>
<td>—</td>
<td>—</td>
<td>135,000</td>
</tr>
<tr>
<td><strong>TOTAL NET ASSETS</strong></td>
<td>11,989,881</td>
<td>2,778,683</td>
<td>1,319,048</td>
<td>—</td>
<td>16,088,612</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td>$ 24,470,287</td>
<td>$ 3,007,503</td>
<td>$ 1,319,757</td>
<td>(699,708)</td>
<td>$ 28,097,839</td>
</tr>
</tbody>
</table>

THE INSTITUTE OF INTERNAL AUDITORS / 2010 ANNUAL REPORT / 21
### The Institute of Internal Auditors, Inc. and Affiliates

#### Consolidating Statement of Activities

**For The Year Ended December 31, 2010**

<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>Eliminations</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seminars</td>
<td>$ 8,519,846</td>
<td>$ —</td>
<td>$ —</td>
<td>$ 8,519,846</td>
</tr>
<tr>
<td>Membership</td>
<td>8,674,174</td>
<td>—</td>
<td>—</td>
<td>8,674,174</td>
</tr>
<tr>
<td>Certification</td>
<td>5,571,688</td>
<td>—</td>
<td>—</td>
<td>5,571,688</td>
</tr>
<tr>
<td>Conferences</td>
<td>3,269,733</td>
<td>—</td>
<td>—</td>
<td>3,269,733</td>
</tr>
<tr>
<td>Publishing</td>
<td>1,554,438</td>
<td>2,521,867</td>
<td>(82,384)</td>
<td>3,993,921</td>
</tr>
<tr>
<td>Quality assessment</td>
<td>1,197,247</td>
<td>—</td>
<td>—</td>
<td>1,197,247</td>
</tr>
<tr>
<td>Other program revenue</td>
<td>956,158</td>
<td>—</td>
<td>—</td>
<td>956,158</td>
</tr>
<tr>
<td>Technology based learning</td>
<td>652,138</td>
<td>—</td>
<td>—</td>
<td>652,138</td>
</tr>
<tr>
<td>North American services</td>
<td>298,326</td>
<td>—</td>
<td>—</td>
<td>298,326</td>
</tr>
<tr>
<td>Contributions</td>
<td>—</td>
<td>247,734</td>
<td>85,940</td>
<td>317,089</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td>550,250</td>
<td>77,718</td>
<td>3,563</td>
<td>631,531</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>31,243,998</td>
<td>2,847,319</td>
<td>89,503</td>
<td>34,081,851</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seminars</td>
<td>8,457,770</td>
<td>—</td>
<td>—</td>
<td>8,457,770</td>
</tr>
<tr>
<td>Certification</td>
<td>5,571,885</td>
<td>—</td>
<td>—</td>
<td>5,571,885</td>
</tr>
<tr>
<td>Membership</td>
<td>5,220,565</td>
<td>—</td>
<td>—</td>
<td>5,220,565</td>
</tr>
<tr>
<td>Other</td>
<td>2,492,989</td>
<td>482,183</td>
<td>54,694</td>
<td>2,938,281</td>
</tr>
<tr>
<td>Conferences</td>
<td>2,128,396</td>
<td>—</td>
<td>—</td>
<td>2,128,396</td>
</tr>
<tr>
<td>North American services</td>
<td>1,318,372</td>
<td>—</td>
<td>—</td>
<td>1,318,372</td>
</tr>
<tr>
<td>Technology based learning</td>
<td>999,099</td>
<td>—</td>
<td>—</td>
<td>999,099</td>
</tr>
<tr>
<td>Quality assessment</td>
<td>906,754</td>
<td>—</td>
<td>—</td>
<td>906,754</td>
</tr>
<tr>
<td>Publishing</td>
<td>806,992</td>
<td>—</td>
<td>(82,384)</td>
<td>724,608</td>
</tr>
<tr>
<td>Educational products</td>
<td>—</td>
<td>2,106,129</td>
<td>—</td>
<td>2,106,129</td>
</tr>
<tr>
<td>Research projects</td>
<td>—</td>
<td>155,375</td>
<td>—</td>
<td>155,375</td>
</tr>
<tr>
<td>Academic programs</td>
<td>—</td>
<td>17,114</td>
<td>—</td>
<td>17,114</td>
</tr>
<tr>
<td>Grants</td>
<td>—</td>
<td>180,018</td>
<td>—</td>
<td>180,018</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>27,302,822</td>
<td>2,760,801</td>
<td>234,712</td>
<td>30,724,366</td>
</tr>
<tr>
<td><strong>Change in unrestricted net assets from operations</strong></td>
<td>3,341,176</td>
<td>234,687</td>
<td>(27,995)</td>
<td>75,000</td>
</tr>
<tr>
<td><strong>Change in temporarily restricted net assets from operations</strong></td>
<td>14,850</td>
<td>139,810</td>
<td>113,400</td>
<td>(75,000)</td>
</tr>
<tr>
<td>Contributions</td>
<td>14,850</td>
<td>139,810</td>
<td>113,400</td>
<td>(75,000)</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td>—</td>
<td>8,947</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Reclassification</td>
<td>—</td>
<td>44,386</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net assets released from use restrictions</td>
<td>—</td>
<td>(148,169)</td>
<td>(117,214)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Change in temporarily restricted net assets from operations</strong></td>
<td>14,850</td>
<td>44,974</td>
<td>(3,814)</td>
<td>(75,000)</td>
</tr>
<tr>
<td><strong>Change in permanently restricted net assets from operations</strong></td>
<td>—</td>
<td>(44,386)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Non-operating activities</strong></td>
<td>183,148</td>
<td>103,578</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>change in net assets</strong></td>
<td>3,172,878</td>
<td>338,853</td>
<td>(31,809)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net assets—Beginning of year</strong></td>
<td>8,817,003</td>
<td>2,440,830</td>
<td>1,350,857</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net assets—End of year</strong></td>
<td>$ 11,989,881</td>
<td>$ 2,779,683</td>
<td>$ 1,319,048</td>
<td>—</td>
</tr>
</tbody>
</table>
## CONSOLIDATING STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2010

<table>
<thead>
<tr>
<th>OPERATING CASH FLOWS</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>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$ 3,172,878</td>
<td>$ 338,853</td>
<td>$(31,809)</td>
<td>$ —</td>
<td>$ 3,479,922</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net operating cash flows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>677,130</td>
<td>23,702</td>
<td>—</td>
<td>—</td>
<td>700,832</td>
</tr>
<tr>
<td>Amortization of deferred project costs</td>
<td>459,849</td>
<td>159,222</td>
<td>—</td>
<td>—</td>
<td>619,071</td>
</tr>
<tr>
<td>Change in restricted investments</td>
<td>—</td>
<td>44,386</td>
<td>—</td>
<td>—</td>
<td>44,386</td>
</tr>
<tr>
<td>Net gain on investments</td>
<td>(583,316)</td>
<td>(103,578)</td>
<td>—</td>
<td>—</td>
<td>(686,894)</td>
</tr>
<tr>
<td>Provision for impairment of land carrying value</td>
<td>766,464</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>766,464</td>
</tr>
<tr>
<td>Change in due to/from affiliates, net</td>
<td>(26,324)</td>
<td>25,531</td>
<td>793</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Change in accounts receivable, net</td>
<td>(396,435)</td>
<td>48,837</td>
<td>(3,396)</td>
<td>—</td>
<td>(350,994)</td>
</tr>
<tr>
<td>Change in inventories</td>
<td>—</td>
<td>65,371</td>
<td>—</td>
<td>—</td>
<td>65,371</td>
</tr>
<tr>
<td>Change in prepaid expenses and other assets</td>
<td>184,382</td>
<td>(39,632)</td>
<td>296</td>
<td>—</td>
<td>145,046</td>
</tr>
<tr>
<td>Change in accounts payable and accrued expenses</td>
<td>138,231</td>
<td>(14,593)</td>
<td>709</td>
<td>—</td>
<td>124,347</td>
</tr>
<tr>
<td>Change in deferred revenue</td>
<td>1,530,880</td>
<td>11,250</td>
<td>—</td>
<td>—</td>
<td>1,542,130</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>2,750,861</td>
<td>220,496</td>
<td>(1,598)</td>
<td>—</td>
<td>2,969,759</td>
</tr>
<tr>
<td>Net operating cash flows</td>
<td>5,923,739</td>
<td>558,349</td>
<td>(33,407)</td>
<td>—</td>
<td>6,449,681</td>
</tr>
</tbody>
</table>

### INVESTING CASH FLOWS

| INVESTING CASH FLOWS | | | | |
| Proceeds from sales of investments | 2,000,000 | — | — | — | 2,000,000 |
| Purchases of investments | (617,554) | (131,053) | (151,767) | — | (900,374) |
| Purchases of and improvements to property and equipment | (58,364) | — | — | — | (58,364) |
| Expenditures for deferred projects | (315,242) | (34,631) | — | — | (349,873) |
| Net investing cash flows | 1,008,840 | (165,684) | (151,767) | — | 691,389 |

### FINANCING CASH FLOWS

| FINANCING CASH FLOWS | | | |
| Repayments of notes payable | (5,555,953) | — | — | — | (5,555,953) |
| Net financing cash flows | (5,555,953) | — | — | — | (5,555,953) |

### CHANGE IN CASH AND CASH EQUIVALENTS

| CHANGE IN CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 1,657,439 | 220,855 | 707,344 | — | 2,585,638 |
| End of year | $ 3,034,065 | $ 614,520 | $ 522,170 | $ — | $ 4,170,755 |

**Supplemental Disclosure:** Interest paid during 2010 amounted to approximately $155,000.
## 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 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 accounting principles generally accepted in the United States of America, the Institute's consolidating financial statements include the accounts of the Foundation. 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 controls the Canadian Institute by virtue of provisions contained in the Canadian Institute's governing documents. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Institute's financial statements include the accounts of the Canadian Institute. Due to the immateriality of the amounts involved, the activities and balances of the Canadian Institute are included in the financial statements of the Institute.

IIA Properties, LLC ("IIA Properties") is a Florida limited liability company organized on May 20, 2008. IIA Properties was formed for the purpose of owning real property and carrying on various real estate-related transactions. The Institute is the sole member of IIA Properties. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Institute's financial statements include the accounts of IIA Properties. Due to the immateriality of the amounts involved, the activities and balances of IIA Properties are included in the financial statements 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 accompanying consolidating statement 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 and indirect costs of conducting seminars and conferences.

#### Membership

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 and indirect costs of delivering member benefits, as well as costs associated with recruiting new members and servicing and retaining existing members worldwide.

#### 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 and indirect costs of conducting exams.

#### Publishing

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 and indirect costs of producing and delivering publications, as well as website maintenance. Advertising costs are expensed as incurred.

#### 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 and indirect costs of conducting quality assessments.

#### Technology based learning

Webinar revenue is recognized as income in the period in which the webinar is completed, or ratably throughout the year for annual subscriptions to certain online offerings. Expenses include the direct and indirect costs of creating and conducting the webinars.

#### North American services

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 Institute. Audit Executive Center ("AEC") membership dues are recognized ratably throughout the year. Membership application fees are nonrefundable and are recognized as income when received. Expenses include the direct and indirect costs of delivering member benefits, as well as costs associated with recruiting new members and servicing and retaining existing members worldwide.

#### Other activities

During 2010, 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. Overhead costs of the Fund are not material to the accompanying consolidating financial statements and are paid by the Institute. Reimbursement is not required.
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Revenue received in advance of the recognition period is included in "deferred revenue" in the accompanying consolidating statement 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.

**Investments**
Investments are carried at estimated fair value as determined by quoted market prices. The Fund's investments consist of a certificate of deposit which has a one year maturity and bears interest at 1.4% per annum.

**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.

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

**Restrictions on net assets**
Temporarily restricted net assets consist primarily of amounts held by the Institute for technological developments, amounts held by the Foundation restricted for the William G. Bishop Memorial Fund and amounts held by the Fund restricted for educational activities. Permanently restricted net assets consist of an endowment fund held by the Foundation, 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. The Institute, the Foundation and the Fund have not taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America.

**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 the accompanying consolidating financial statements include those used in assessing the collectibility of accounts receivable and determining the useful lives of property and equipment. Actual results could differ from the estimates.

**Subsequent events**
The Institute, the Foundation and the Fund have evaluated for possible financial reporting and disclosure subsequent events through May 17, 2011, the date as of which the consolidating financial statements were available to be issued.

NOTE C – CONCENTRATIONS

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 and a certificate of deposit. The Institute, the Foundation and the Fund consider all dividends and interest from investments as operating revenues for purposes of the accompanying consolidating statement of activities. Gains and losses related to investments are considered to be nonoperating activities for purposes of the accompanying consolidating statement of activities.

Net gain on investments (included in "Non-Operating Activities" in the accompanying consolidating statement of activities) consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>The Institute</th>
<th>The Foundation</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$583,316</td>
<td>$103,578</td>
<td>$686,894</td>
</tr>
</tbody>
</table>

In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), fair value is defined as the price that an entity would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. U.S. GAAP establishes a hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and establishes classification of fair value measurements for disclosure purposes. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Following is a description of each of the three levels of input within the fair value hierarchy:

In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), fair value is defined as the price that an entity would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. U.S. GAAP establishes a hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and establishes classification of fair value measurements for disclosure purposes. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Following is a description of each of the three levels of input within the fair value hierarchy:
data and minimize the use of unobservable inputs, and establishes classification of fair value measurements for disclosure purposes. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Following is a description of each of the three levels of input within the fair value hierarchy:

Level 1 – quoted prices in active markets for identical assets

Level 2 – other significant observable inputs (such as quoted prices for similar assets)

Level 3 – significant unobservable inputs

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Estimated fair value of assets (including restricted assets) measured on a recurring basis at December 31, 2010 are as follows:

<table>
<thead>
<tr>
<th>Estimated Fair Value Measurements at Reporting Date Using</th>
<th>Quoted Prices In Active Markets for Identical Assets (Level 1)</th>
<th>Other Significant Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual funds —</td>
<td>$11,351,062</td>
<td>$11,351,062</td>
<td>$—</td>
</tr>
<tr>
<td>The Institute</td>
<td>1,836,122</td>
<td>1,836,122</td>
<td>$—</td>
</tr>
<tr>
<td>Total</td>
<td>$13,187,184</td>
<td>$13,187,184</td>
<td>$—</td>
</tr>
</tbody>
</table>

### NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>The Institute</th>
<th>The Foundation</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$1,514,103</td>
<td>$—</td>
<td>$1,514,103</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>3,827,759</td>
<td>$—</td>
<td>3,827,759</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>4,038,652</td>
<td>43,394</td>
<td>4,082,046</td>
</tr>
<tr>
<td>Construction in progress, net</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Total property and equipment</td>
<td>9,380,514</td>
<td>43,394</td>
<td>9,423,908</td>
</tr>
</tbody>
</table>

Less Accumulated depreciation:

<table>
<thead>
<tr>
<th></th>
<th>The Institute</th>
<th>The Foundation</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,945,534</td>
<td>(4,434,980)</td>
<td>(41,936)</td>
<td>(4,476,916)</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>$4,945,534</td>
<td>$1,458</td>
<td>$4,946,992</td>
</tr>
</tbody>
</table>

Depreciation expense for the Institute amounted to $677,130 for 2010. Depreciation expense for the Foundation amounted to $23,702 for 2010. “Land” includes property with a book value of $1,400,000 which was previously held for possible future development and is now held for sale. See Note F.

### NOTE F – NOTE PAYABLE

The Institute has available a revolving line of credit note payable to a financial institution in an amount up to $6,766,015 for such purposes as approved by the financial institution. The revolving line of credit bears interest at 5.85% per annum with a maturity date of August 1, 2011. The revolving line of credit is secured by a Real Estate Mortgage, Assignment of Rents and Security Agreement and is further collateralized by a portion of the Institute’s securities accounts held by other third parties. The note contains various financial and other covenants. Interest expense incurred during 2010 was approximately $155,000. As of December 31, 2010, no balance was outstanding under the revolving line of credit.

### Relocation project

In connection with its potential relocation to Lake Mary, Florida, the Institute previously entered into a construction loan agreement (which was canceled during 2010). In addition, the Institute entered into a Development Management Agreement with an unrelated organization to manage construction and development activities. The Development Management Agreement was amended during December 2008 to delay the effective date of certain provisions of the Development Management Agreement in return for certain payments.

The Institute also entered into a Right of Repurchase Agreement with the original sellers of the Lake Mary, Florida property allowing the sellers to repurchase the property should the Institute not meet certain provisions contained in the Right of Repurchase Agreement. The Right of Repurchase Agreement was amended during December 2008 to allow the Institute to defer certain provisions of the agreement until certain future dates in return for payments which will become due and payable at those future dates.

Due to management’s uncertainty regarding the Institute’s ability to move forward under the terms of the agreements described above, the Institute has established an allowance for impairment equal to the entire amount of construction and related expenditures incurred to date (approximately $2,000,000). The Institute did not incur significant construction-related expenditures during 2010. The allowance is subject to future adjustment based on the Institute’s intent and ability to honor the related commitments. Recovery of any portion of the allowance is not assured.

The Institute is currently seeking a buyer for the Lake Mary, Florida property. During 2010, the Institute wrote-down the carrying value of the land to $1,400,000. Accordingly, an impairment loss of $766,464 was recognized during 2010 and is included in “Non-Operating Activities” in the accompanying consolidated statement of activities.

### NOTE G – OPERATING LEASES

The Institute leases office space and office equipment under operating leases expiring through 2014. Approximate future lease payments are as follows:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$215,000</td>
</tr>
<tr>
<td>2012</td>
<td>217,000</td>
</tr>
<tr>
<td>2013</td>
<td>159,000</td>
</tr>
<tr>
<td>2014</td>
<td>101,000</td>
</tr>
<tr>
<td>Total</td>
<td>$692,000</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 $481,000 for 2010.
NOTE H – 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. During 2010, the Institute contributed approximately $652,000 to this retirement plan.

The Institute maintains two Section 457 deferred compensation plans for the benefit of certain employees. Under the provisions of one of the plans, employees may elect to have a portion of their salary contributed to the plan. Employer contributions to this plan were $54,000 during 2010. Contributions to the other plan were terminated effective December 31, 2001. The Institute held $941,797 in the plans as of December 31, 2010, which is reflected in the accompanying consolidating statement of financial position under “employee savings plans” and “deferred employee compensation.”

NOTE I – 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 $202,000 as of December 31, 2010.

The Institute delivers 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 J – EXPENSE ALLOCATIONS
Total expenses for the Institute include approximately $20,250,000 of program expenses, $7,645,000 of supporting expenses, and $8,000 of fund-raising expenses for 2010.

Total expenses for the Foundation include approximately $2,279,000 of program expenses, $450,000 of supporting expenses, and $32,000 of fund-raising expenses for 2010.

Total expenses for the Fund include approximately $235,000 of program expenses for 2010.

NOTE K – NON-OPERATING ACTIVITIES
Following is a recap of the amounts included in “Non-Operating Activities” in the accompanying consolidating statement of activities:

<table>
<thead>
<tr>
<th>Provision for impairment of land carrying value</th>
<th>The Institute</th>
<th>The Foundation</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net gain on investments</td>
<td>583,316</td>
<td>103,578</td>
<td>686,894</td>
</tr>
<tr>
<td>Total non-operating activities</td>
<td>$(183,148)</td>
<td>$103,578</td>
<td>$(79,570)</td>
</tr>
</tbody>
</table>

NOTE L – RELATED PARTY TRANSACTIONS
During 2010, the Institute was a party to certain contracts for research and educational projects and other services with various third parties which included certain members of the Institute’s Board. Payments to Institute Board members (including companies in which Board members have an ownership interest) during 2010 totaled $96,750.
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, 2010, 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 12/31/2010.
- 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.

Richard F. Chambers, CIA, CGAP, CCSA
President and Chief Executive Officer

David Polansky
Executive Vice President and Chief Financial Officer