A UNIQUE PERSPECTIVE

The architectural style of a window often can reflect the spirit of a country and its culture by the nature of its public façade. And although the stability of a structure is dependent upon the strength of its foundation and the bricks and mortar or other materials used to form its walls, the windows are what allow a glimpse into the structure’s inner world. Windows also are a gateway to the outer world and can broaden one’s frame of reference and awareness of what’s beyond the confines of the structure’s walls.

Just as a window is integral to a structure and its purpose is consistent regardless of the environment or cultural mores, internal auditors all around the world serve a consistent function within their organizations because of the value and unique perspective they bring. They provide an inner view of operations, ethics, and culture and — by the nature and importance of their work — contribute to the way the organization is viewed by the outside world.
As the acknowledged leader, recognized authority, and global voice of the internal audit profession, The Institute of Internal Auditors (IIA) is much more than the international headquarters building, located in Altamonte Springs, Fla., USA. The reach of The IIA and its 246 chapters and affiliates is far beyond the boundaries of a physical space. Dedicated to advancing the internal audit profession and enhancing the professionalism of internal audit practitioners everywhere, it shares a global message of limitless potential. The IIA continually tells the world about the value internal auditing brings to an organization’s process of achieving effective and ethical business practices.

At the core of The IIA’s message is its clear focus on strong advocacy efforts, globalization, and exceptional service. Every IIA goal set and activity carried out in 2006 was grounded in these strategies.
Greetings from The IIA’s global headquarters. I invite you to read, and hope that you’ll enjoy this global review of 2006.

As I reflect on our accomplishments this past year, my thoughts wander to 1941, when the original 24 members of The IIA were laying the groundwork for what is now a formidable professional association. I imagine they felt pretty confident – there was genuine excitement about the profession of internal auditing, the potential for membership growth was soaring, and the field of technology was in its infancy. I am truly grateful to those original leaders, whose beliefs and efforts have had such a lasting impact on our profession and on The IIA.

I’m pleased to report that today The IIA is a robust, global organization that serves more than 130,000 members representing 165 countries. Over the past year, we demonstrated strong financial performance and solid business execution, and our potential for continued growth and success makes me very optimistic about our future. As the internal audit profession continues to attract more attention and visibility, the next decade will present a world of opportunities for The IIA, our members, our stakeholders, and our profession.

I am proud to be part of such an accomplished organization. I invite you to share in that pride as we celebrate the past and look to the future with high expectations of great things for our profession and The IIA.

Sincerely,

David A. Richards, CIA, CPA
As we review 2006, I can speak on behalf of the entire IIA Board of Directors when I say that it was a year of unprecedented accomplishments for our global organization.

It is all people of The IIA – staff and volunteers – who develop our strategies, build our partnerships around the world, advocate for the profession, volunteer to serve on committees, implement new technologies, and address key issues – to whom we dedicate this year’s annual report.

I also would like to thank our business partners for their valuable collaborations, and all of our members throughout the world for the honor to serve as your chairman.

It’s an exciting time to be an internal auditor and as The IIA continues to provide the guidance, service, and education we need to keep up with our profession’s growth, that excitement is sure to continue. But it is up to us to be our own best advocates — to tell the world about our value and role in effective governance, risk management, and internal controls; to tell the world about the importance of our strong professional standards, certifications, professional development, and quality; and finally, to tell the world how IIA membership enables us to build a stronger future for ourselves, our organizations, and our profession.

It was my belief in the importance of this that led me to choose “Tell the World” as my chairman’s theme. I, along with many other volunteer leaders and IIA staff, have traveled far and wide over the past year to spread the story of the important work of our profession.

And now, as I conclude my IIA chairmanship, I will continue to work very hard with The IIA to ensure we remain on a successful course as strong advocates for our profession and provide fine global services for our membership.

Sincerely,

Stephen D. Goepfert, CIA
Advocacy
Advocacy strategies have long been part of campaigns to build support for a particular cause or struggle. History books are filled with concrete examples of advocacy initiatives through the ages. Successful advocates have inspired and motivated others to take action in support of specific causes, and at times, have brought about transformation. Even in our own times, the powerful persuasion of advocacy has resulted in policy changes that have altered the world as we had previously known it. And sometimes, even the work of one person can make a world of difference!

A review of The IIA’s past and present reveals many stories about dedicated people all over the world, who work, either individually or in groups, to advocate for the profession of internal auditing. This is one such story…

In South Africa, the business community has started to realize and understand the enormous contribution of the internal audit profession. Through the unrelenting and passionate advocacy of IIA South Africa and its Chief Executive Officer Veronica du Preez, CIA, the advances the profession currently enjoys in South Africa were made possible.

South Africa has experienced a significantly different evolution from other nations and the legacy of apartheid has presented unique challenges in building the profession, particularly in skills development and advocating the internal audit message. Veronica recognized that there would be challenges as she made the commitment to be an advocate for The IIA and the profession.

“I saw an enormous need to let people know about the value of our profession. And although I knew my efforts would have some initial challenges because of some of my country’s history, my philosophy about advocacy was and remains very simple – it’s about building relationships,” said Veronica.

An internal auditor by profession, Veronica had established a powerful network as a result of serving in various capacities, including holding a management position at the Institute of Chartered Accountants. Veronica’s strategy was to influence major decision-makers by helping them understand the value that internal auditing brings to organizations – and to convert them to advocates for the profession. “I turned everyone I knew into an advocate and used all of my connections to make sure that they heard about internal auditing.
THE POWER OF ONE

I was always asking myself, “How can I get the message out?” I knew that, together, we all could have a larger advocacy impact.

IIA South Africa is the world's third-largest IIA affiliate, growing from just over 1,000 members to now almost 5,000. Veronica personally sent invitations to every African IIA leader to attend the affiliate’s 2006 annual conference, which attracted more than 1,200 delegates. In addition, Veronica initiated and is organizing an integrated governance conference with three major professional organizations – the Institute of Directors, the Institute of Risk Management, and the South Africa Institute of Chartered Accountants – as a networking platform for all key players and decision makers in the country.

The idea to identify common ground and then partner with public sector organizations, governance groups, and other professional organizations has evolved into a sophisticated strategy that positions IIA South Africa as an exemplary advocate for internal auditing around the world. As IIA campaigns all around the world demonstrate the commitment and initiative that has worked so well in South Africa and other leading affiliates, advocacy will increasingly become a natural part of our global language and strategies. While we reflect on and celebrate our achievements, it is important to acknowledge that a great deal of work remains ahead.

As long as one business head anywhere in the world fails to recognize the need for internal auditing, one legislator or regulator in any country on the map fails to understand internal auditing’s role in effective governance, or one audit customer anywhere on the planet is ambivalent about internal auditing’s value, we still have work to do. And those gaps in recognizing, understanding, and acknowledging internal auditing’s great value and potential for good will define our advocacy efforts for tomorrow and years to come.

“IT has been wonderful to see the results of efforts around the globe to promote the profession to key stakeholders. The advocacy programs that are being implemented by affiliates throughout the world in concert with IIA headquarters are elevating the profession to a level never before achieved. This clearly is a global initiative, and we are so very proud of the ownership our affiliates are taking to make a long-term difference in the profession and its visibility.”

Dominique Vincenti, CIA
IIA Chief Advocacy Officer

IIA South Africa staff from left to right: Claudelle von Eck, chief operations officer; Veronica du Preez, chief executive officer; Vuyo Mqalo, bookstore administrator; Maria Trappous, services manager.
Advocacy

The IIA's advocacy efforts focus on speaking out on behalf of the internal audit profession and reaching out to increase internal auditing's acceptance and recognition by stakeholder groups that can impact the profession globally. The primary advocacy outreach efforts target major rule-making organizations, like-minded global professional associations, and the general public through awareness, public relations, and media relations efforts.

In 2006:

- A "maturity model" was developed to help IIA affiliates, all around the world, identify and quantify advocacy efforts.
- A global Guidance Web site Repository was established to leverage and share advocacy activities, results, and successes. The repository contains more than 60 advocacy tools with a matrix highlighting the advocacy efforts of almost 50 IIA affiliates.
- The IIA responded three times to the U.S. Securities and Exchange Commission's request for input on matters related to the U.S. Sarbanes-Oxley Act of 2002 implementation.
- The "Vision for the Future" task force began to map out the steps to begin the process for restructuring the Professional Practices Framework (PPF).
- The Knowledge Management team issued 17 new pieces of authoritative guidance to meet the needs of the profession around the world. Topics included "Auditor's Responsibilities Relating to Fraud Risk Assessment, Prevention, and Detection," and "The Role of Auditing in Public Sector Governance."
- IIA Chairman Steve Goepfert, along with other IIA staff members, met with Mexico's Secretary of the Public Sector Mr. Eduardo Romero. During the meeting, Mr. Romero proposed the creation of a joint institutional committee to review the standards that internal auditors use in Mexico and compare them to The IIA's International Standards for the Professional Practice of Internal Auditing (Standards).
- IIA President Dave Richards met with Dr. Josef Moser, secretary general of the International Organization of Supreme Audit Institutions (INTOSAI) to determine areas of common interest and how we can support each other.
- Since the 1974 inception of the Certified Internal Auditor® (CIA®) program, more than 65,000 professionals have earned their CIA designation. The exam now takes place twice a year in 91 countries, in 17 languages. In addition, internal auditors can demonstrate their competency by earning specialty designations. These designations include Certification in Control Self-Assessment® (CCSA®); Certified Financial Services Auditor® (CFSA®); and Certified Government Auditing Professional® (CGAP®).
- For an internal audit department to be in compliance with the Standards, it must undergo an external quality assessment (QA) every five years. The IIA's Quality Department executed a communications plan to make everyone aware of this Standard and to offer their assistance along with resources and tools to prepare for an external QA. In 2006, The IIA also performed 101 QAs in North America, a 78 percent increase over the 57 performed in 2005.
- Advocacy can take shape in many forms. The changing face of a technology-driven society is presenting opportunities to IIA headquarters, chapters, and affiliates to deliver our messages through a multitude of communication channels. This can now take place at any time of the day, all around the world. At IIA headquarters the efforts to increase the visibility
of The IIA and the internal audit profession in the media have resulted in interviews with national, international, and trade publications. A July 2006 story in the New York Times quoting Dave Richards about the newest COSO guidance was evidence that The IIA is recognized by the media as an authority in our field.

- The IIA’s Global Audit Information Network (GAIN) continued to be successful, with 688 GAIN participants. Also, there were 96 flash surveys, powered by upgraded software that allows for more effective surveys and enhanced analysis and reporting.

- The principles and methodology for the Guide to the Assessment of IT General Controls Scope Based on Risk (GAIT) were validated at the GAIT summit in November. This IIA guidance supports the information technology-related controls identified by COSO, and helps management and auditors identify key IT general controls by a top-down, risk-based approach.

- The IIA was also instrumental in COSO’s rollout of guidance for small businesses.

- Howard Johnson, CIA, The IIA’s 1999-2000 chairman of the board, was selected to serve on the United States Public Company Accounting Oversight’s Standing Advisory Group (PCAOB-SAG). Johnson joined IIA representative Kimberly Gavaletz, CIA, from Lockheed Martin, who was appointed in 2005.

- The IIA issued three Global Technology Audit Guides (GTAG): Management of IT Auditing, Managing and Auditing Privacy Risks, and Managing and Auditing IT Vulnerabilities. The GTAG series addresses timely global issues related to information technology management, control, or security; and is developed by The IIA in cooperation with audit and security experts, board members, chief executives, financial executives, technology providers, and information technology and security executives.

- Designed to promote the value of internal auditing to top management, boards of directors, and audit committees, The IIA’s corporate governance newsletter Tone at the Top continued to be in high demand. The 2006 editions focused on the audit committee’s reliance on internal auditing, enterprise risk management, CEO buy-in, and IT vulnerability.

- The IIA launched The Internal Auditing Education Partnership (IAEP) to ensure the next generation of internal auditors will be well-schooled in internal audit theories and techniques. And in December, Deloitte & Touche presented the IAEP with a check for US $100,000 to assist select universities with improving the quality of their internal audit curriculum, and to increase the number of qualified internal audit candidates who graduate to the workplace.

- In May, during International Internal Audit Awareness Month, IIA President Dave Richards and IIA Chairman Steve Goepfert each taught a Junior Achievement (JA) high school class as a part of a global agreement between The IIA and JA Worldwide. The IIA provided numerous other resources to help affiliates promote and elevate the profession throughout the month.

- IIA China served as a consultant with China Central Television (CCTV) on a television drama series featuring an internal auditor as one of the main characters.
Globalization
MANY CULTURES — ONE PURPOSE

Globalization

Most individuals feel a need to be unique, yet still belong to a group, through which they can form relationships that provide a sense of fulfillment.

For many, this need to identify is linked to their country of origin, language, customs, and culture. Members of some groups are identified by the way they dress. For others, it is their stage of life that connects them — single or married, younger or older, at an entry or senior level in their professional career.

Through The IIA, the internal audit profession brings together people with a common purpose. With travels and meetings around the world, The IIA enables us to grow and learn from each other, as we discuss experiences and points of view about internal auditing with other professionals from diverse countries. And as a result, in spite of differences in culture and differing opinions, we all share a connection that comes from our collective commitment to the profession and professionalism.

“The best thing about my job,” says Sunil Saluja, an affiliate relations manager at The IIA, “is the opportunity I have to guide and expose professionals in my geographic areas of responsibility to our Standards.”

Sunil’s region includes some countries that are experiencing political unrest or facing other challenges far beyond the affiliates’ control. Still, his travels over the past year revealed great progress. “All of the affiliates I visited share the common bond of passion for internal auditing! And this passion is what is propelling the profession forward throughout the region.”

Denis Bergevin, another affiliate relations manager, considers his face-to-face visits with affiliate leaders to be the most important aspect of his IIA work. “When I sit down, meet with people in person, and learn about their goals, activities, and challenges, I can share my knowledge and experiences. I can help ensure their growth includes aligning adherence to their laws with compliance with The IIA’s Standards,” Denis explains.
“For example, I try to visit IIA Haiti at least once a year. From my visit in 2005 to the time I visited in 2006, their membership numbers grew from 30 to more than 130. As their official link to The IIA’s global headquarters, I was able to provide personal attention, guidance, and support that helped them advance the profession in their country. This could not have been accomplished with a telephone call!”

A visit to Latin America demonstrated to Affiliate Relations Manager Victor Garcia the real power of personal involvement and advocacy. “Having only been approved as an affiliate in 2005, IIA Guatemala already has grown from 34 members to more than 120, gained approval to serve as a CIA exam site, and has their very first Certified Internal Auditor! They also have negotiated with a local radio station to promote the profession in exchange for some complimentary training sessions,” explained Victor. “It is exciting to explore ways to leverage our professional commonalities, in spite of the differences among our countries and cultures.”

How can strangers from diverse countries build knowledge and understanding that can bridge their cultural, racial, age, and gender differences? With representation in more than 160 countries, The IIA serves as a catalyst for this lofty objective. By seeing the world through the eyes of internal audit professionals around the world, we can leverage the viewpoints of other professionals to broaden our own perspectives. We also can share personal experiences and celebrate successes along the way toward achieving our common goal of enhanced professionalism all around the globe.
A STORY THAT SPANS THE GLOBE

To succeed in globalization, an organization must do much more than conduct its business around the world. Truly global organizations enjoy harmony among diverse cultures, as resources and materials move seamlessly across different countries. The IIA is committed to developing and sustaining globalization through appropriate infrastructure, coordination, support, and communication.

- At the close of 2006, the global IIA membership exceeded 135,000, equating to an 18.2 percent increase and an 88 percent retention rate. The government membership category increased by 23 percent. There are 96 IIA affiliates around the world and 155 chapters in North America. More than 50 percent of The IIA’s membership is outside North America.

- In October, The IIA established a Canadian Council, a group of 18 IIA members from throughout Canada to address issues specific to Canadian internal auditors. Additionally, The IIA established a Canadian office and hired an executive director.

- IIA Ottawa hosted the Northeast Regional Conference in September with record-breaking attendance. For the first time, a track offered concurrent sessions in French and English.

- Croatia, Sri Lanka, and Tanzania became IIA affiliates, and Vanuatu (Pacific), Mauritius (Africa), and Mozambique were given approval as prospective affiliates.

- A chief staff officer (CSO) is an employee in a leadership role at an IIA affiliate. The CSOs support The IIA in the execution and operation of approved global directives and initiatives. During 2006, the CSOs were involved in programs and strategies, such as computer-based testing (CBT) and assessing the operational aspects of the CIA review course, that will benefit all of our members. They also provided support and advice on the global features of the Technology-based Learning (TBL) initiative and GAIN (Global Audit Information Network).

- The IIA held its 2006 International Conference in Houston, Texas, with record-breaking attendance.

- Dr. Urton Anderson, CIA, and Dr. Glenn E. Sumners, CIA, were awarded The IIA’s Bradford Cadmus Memorial Award for their outstanding contributions to the internal audit profession.

- Carman LaPointe-Young, CIA, received The IIA’s Victor Z. Brink Award for Distinguished Service. The award recognizes individual IIA members who have made extraordinary contributions to the global profession through their consistent and exemplary IIA involvement and service.

- The authors of “Getting a Leg Up,” published in The IIA’s Internal Auditor magazine, received the prestigious John B. Thurston Award for literary excellence for their article.

- The IIA Ottawa Chapter was the recipient of the Ted Keys Roundtable Award for its article, “Of Mice and Money,” which was published in the “Roundtable” department of Internal Auditor magazine.

- The IIA’s Global Council, leaders from IIA affiliates from around the world, met during the International Conference to provide input to The IIA’s Board of Directors and international committees on strategic initiatives. The Global Council allows the participants, a representative from each affiliate, to interact with their colleagues and to discuss issues impacting internal auditing and their respective affiliates. IIA board members also attend Global Council but do not have voting privileges unless they represent an affiliate. The North American Board designates the representatives from the chapters in the United States, Canada, and Caribbean.

- The IIA Research Foundation conducted the Common Body of Knowledge (CBOK) survey, designed to capture the state of the internal audit profession around the world.
Service
Help Desks. Customer Service. Support Center. Service Department. It might be referred to in different terms, but at many organizations, this function provides the first point of contact with a customer. And the effectiveness and satisfaction of that first contact often can mean the difference between a one-time caller and a loyal, ongoing customer.

Providing positive customer service is a strategic objective at The IIA. This means that the Customer Service Department is the primary knowledge resource on issues impacting the internal audit profession, and is dedicated to ensuring that all members receive the full value of their IIA membership.

“I’ve always said that when you love what you do and have fun doing it, your customers pick up on that good energy!” says IIA Director of Customer Service Ken Brown. “One of my goals is to put a smile on all our customers’ faces and make sure that they have an enjoyable experience each and every time they call.”

The IIA’s Customer Service Department was very busy in 2006, with almost 100,000 queries from customers seeking information, guidance, training, and assistance. And through a brand-new initiative, customer service representatives took their knowledge to IIA conferences and seminars to provide face-to-face, personalized on-site service to attendees.

Shawn LeTang, a senior customer service representative, views his job as an opportunity to represent The IIA in a positive and professional manner. He has helped numerous members through the on-site program, and recalls one customer in particular. “A new member expressed to me her interest in becoming active in a local chapter,” says Shawn. “She needed to find out how to get in touch with the chapter. She also wanted to sit for her CIA exam and was looking for study materials.” While she was in the seminar, Shawn conducted the needed research, and when she returned during the break, he was able to provide everything she had asked for, including local chapter contact names and numbers. He also referred her to The IIA Bookstore for CIA exam preparation materials.

For The IIA’s Customer Service Department, this encounter represents business as usual. “We place great value on developing a long-term relationship with each and every customer,” says Ken, “and we achieve that by going beyond what is expected, each and every time.”
In addition to providing leading-edge professional development opportunities for internal audit practitioners, The IIA is dedicated to supporting the day-to-day needs of its members, as well as anticipating and preparing for the needs of tomorrow’s profession. In 2006, The IIA made great strides in all of these areas.

- Two new member newsletters were developed. GAP News is a quarterly newsletter for government audit professionals, and IIA Insight keeps North American members up to date on membership benefits and IIA initiatives.

- New telephone call center software was installed to enhance the call-management capabilities of The IIA’s Customer Service Center, ensuring better service to our members and other customers. The Customer Service Center responded to more than 45,000 calls and received 45,000 e-mails during 2006.

- The IIA introduced a new networking tool, Member Exchange™ (ME™), which allows members to make connections globally. During 2006 more than 5,000 people from 103 countries connected in 39 different languages.

- The IIA’s Board of Directors approved a Technology-based Learning (TBL) project, designed to make our learning opportunities more flexible and global. With a click of the mouse, members can expand their knowledge and earn CPE credits, 24 hours a day, seven days a week. The IIA hosted 10 webcasts during 2006, including topics such as “Quality Assessment,” “Embedding ERM in the Internal Audit Plan,” and “Linking IT Controls to Business Objectives.”

- The IIA’s Web site is a critical means of communication, and during 2006, Web traffic increased by 34 percent with more than seven million people visiting www.theiia.org. There were more than 46 million page views, and the most popular sections visited were IT Audit, IIA chapters/affiliates, certification, training, members, and guidance. Throughout 2006, the Web Operations and Information Services teams worked behind the scenes to create a robust new Web site. The goal was to enhance the experience of the users with an updated design, more intuitive navigation, and improved functionality.

- The IIA’s International Relations Committee and the Translation Task Force were charged with the development of a comprehensive translation strategy to address the needs and resources of affiliates and other stakeholders. In 2006, the Board of Directors approved the proposed translation strategy including funding for translation of key products in key languages and necessary staff resources.

- The IIA’s online newsletters featured a look with a consistent format. There are seven online newsletters to meet the growing and diverse needs of our membership. They are CSA Sentinel, CAE Bulletin, FSA Times, GAP News, IT Audit, The Gaming Auditorium, and The IIARF Research Report (also available in print).

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

- More than 225 people attended The IIA’s North American Leadership Conference in May. This popular conference is designed for incoming chapter leaders and offers training and leadership development.

- The IIA’s educational conferences and seminars had solid North American attendance in 2006 and had an increase of 10 percent over 2005 participation. The General Audit Management (GAM) conference, held in Palm Springs, Calif., sold out for the third consecutive year. The 2nd Annual All Star Conference in Las Vegas, Nev., featured the highest rated speakers and sessions from 2006 for an encore presentation. Attendance at other IIA conferences around the world attracted thousands of participants.

- Vision University continued to provide training to chief audit executives in 2006, attracting more than 300 participants to its in-depth programs since its inception in 1998.
Research Foundation
The mission of The Institute of Internal Auditors Research Foundation (IIARF) is to expand knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally.

Staying on the cutting edge of knowledge and understanding our profession is what The Institute of Internal Auditors Research Foundation is all about. Through our ongoing research efforts, we endeavor to understand our profession today and what tomorrow may bring. We then make that understanding available to help guide the practice of internal auditing. And knowing how quickly the environment can change, we aim to shape the profession to ensure practitioners can adapt and continue to add value to their organizations.

Celebrating its 30th anniversary in 2006, The Research Foundation worked diligently and made a number of significant contributions to the profession.

A MESSAGE FROM THE PRESIDENT

Over the past 30 years The IIARF has played an integral role in shaping the profession of internal auditing. We have accomplished so much and I am grateful to all of the people who have been involved in making this year such a success. The saying, “We must become the change we want to see” best reflects the efforts of The IIARF during 2006. We are on the move, taking the leadership role in professional audit research and education to expand the knowledge and understanding of internal auditing. And 2006 was a milestone year for The IIARF as it celebrated its 30th anniversary and conducted the Common Body of Knowledge (CBOK) study — a comprehensive, global survey designed to answer an important question, “How is internal auditing practiced around the world today?”

Thirty years strong and growing stronger, The IIARF looks forward to the future as we fashion solutions for tomorrow’s challenges and continue our efforts in helping to understand, guide, and shape the internal audit profession on a global basis.

Sincerely,

Roderick M. Winters, CIA
THE INSTITUTE OF INTERNAL AUDITORS RESEARCH FOUNDATION
Understanding, Guiding, Shaping

2006 YEAR-END HIGHLIGHTS
During 2006, The Foundation continued its restructuring process, aligning the staff and departmental processes to ensure the support of operational imperatives and the ability to develop new initiatives. The addition of new staff providing in-house research capability emphasized The Foundation’s commitment to providing timely, relevant research to IIA members. Highlights during this year included:

- Organizing activities surrounding the 30th anniversary celebration, increasing awareness of the importance of research and the role of The IIARF.
- Conducting an audit research symposium in coordination with the Advanced Technology Committee, bringing together more than 30 audit professionals for purposes of evaluating IT audit research, creating a pipeline and portfolio of IT audit topics, and promoting emerging IT audit research projects that will serve as a springboard for future IIA technology initiatives and increase interest in IT audit topics among researchers.
- Launching the Sabbatical Opportunity for Academic Researchers (SOAR), designed to partner with top researchers in the field and rapidly produce reports and materials on emerging issues to better help practitioners in their job as well as career.
- Partnering with affiliates and other organizations to fund pertinent research studies.
- Initiating a translations program to translate a number of publications into other languages, as well as from other languages into English.
- Continuing to coordinate the 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 continue to be a focus for The Foundation.

- Research completed included:
  - XBRL: Potential Opportunities and Issues for Internal Auditors
  - Managing Strategic Alliance Risk: Survey Evidence of Control Practices in Collaborative Inter-Organizational Settings (online report)
  - The Role of Internal Audit in Sensitive Communications (online report)
  - Academic research in the following topical areas: enterprise risk management, fraud, corporate governance, and mergers and acquisitions.
- Educational products added to The Bookstore were:
  - Professional Practice Guide for Internal Audit
  - Certified Financial Services Auditor Study Guide
  - Global Technology Audit Guide 4: Management of IT Auditing
  - Implementing the Professional Practices Framework, 2nd Edition
  - Sarbanes-Oxley Section 404: A Guide for Management by Internal Control Practitioners
  - Sustainability and Internal Auditing
- Twenty-six third-party products were added to The Bookstore’s inventory, covering topical areas of certifications review and study guides, risk and control, audit management and tools, ethics and fraud, information technology, and Sarbanes-Oxley compliance.

Other research and educational products under development included topical areas of risk and control, audit essentials and tools, public sector, quality assessment, ethics and fraud, and information technology.
The Common Body of Knowledge (CBOK)

In 2006, The IIARF conducted a comprehensive, global survey to answer an important question, “How is internal auditing practiced around the world today?” The survey was translated into 15 languages and almost 12,000 responses were received. With the completion of this portion of the project, The Foundation is committed to a continued exploration of the knowledge gained through the CBOK survey and updating the information on a regular basis. CBOK was funded by the William G. Bishop III, CIA, Memorial Fund. The Fund was established in 2004 in memory of The IIA’s former president, Bill Bishop, and has received contributions of more than a half million US dollars.

Scholarships and Awards

The IIARF presented the 2006 Esther R. Sawyer Scholarship Award to the University of Texas at Dallas student Tiffany Daykin for her paper on “The Role of Internal Auditing in Sustainable Development and Corporate Social Reporting.”

In July, The Foundation presented the Donald E. Ricketts Chapter Research Award to IIA Dallas (first place) for its paper on “Whistleblower Mechanisms: A Study of the Perceptions of ‘Users’ and ‘Responders’” and to IIA Austin (second place) for its “Survey on Ethics and Governance: A Research Project.”

In Appreciation of 2006 Contributors

Contributions help The Foundation stay on the cutting edge of knowledge and understanding our profession. Without this financial support we would not be able to undertake the important research projects that have and will continue to help define our profession. The Foundation appreciates its loyal supporters – individual, corporate, and affiliate contributors; Master Key and Heritage Circle members; and IIA staff and volunteers. A listing of donors can be found at www.theiia.org/research.
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8. IIA Bolivia
9. IIA Botswana
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74. IIA Qatar
75. IIA Romania
76. IIA Senegal
77. IIA Singapore
78. IIA Slovenia
79. IIA South Africa
80. IIA Spain
81. IIA Sri Lanka
82. IIA Sweden
83. IIA Switzerland
84. IIA Chinese Taiwan
85. IIA Tanzania
86. IIA Thailand
87. IIA Tunisia
88. IIA Turkey
89. IIA Uganda
90. IIA Ukraine
91. IIA United Arab Emirates
92. IIA United Kingdom & Ireland
93. IIA Uruguay
94. IIA Zambia
95. IIA Zimbabwe
96. IIA Zimbabwe

NOTE: The North American Board oversees the activities of 355 IIA Chapters in the United States, Canada, and the Caribbean.

ON ANY GIVEN DAY

Experience on any given day the life of IIA executives and volunteer leaders as they travel the world to tell the story about the value of our profession and about our professionalism. This list is a small sample of the numerous trips that happen all year long.

January 2006
- Tom Warga visits the IIA Greece Affiliate for their 10th anniversary.

February 2006
- Tom Warga visits Milan, Italy for an affiliate visit.
- Dave Richards attends the All India Conference in honor of their 30th anniversary.
- Ali Holzinger, Dave Richards, and Dominique Vincenti attend the CSO Meeting in Kuala Lumpur.

March 2006
- Dave Richards visits the Florida West Coast Chapter in honor of their 40th anniversary.

April 2006
- Tom Warga attends the Chicago, IL IIA Annual Conference.
- Tom Warga visits the IIA Hong Kong, China Affiliate and attends the Chinese Taiwan Conference in IIA Taipei, Taiwan.

May 2006
- Tom Warga attends the CIA IDF Grant Workshop in Internal Audit in New Delhi, India.
- Dave Richards attends the FLAI Regional Conference in Lima, Peru.

June 2006
- Gerry Cox visits the IIA Denmark Affiliate.
**July 2006**
- Steve Goepfert visits IIA China affiliates.

**August 2006**
- Steve Goepfert attends The IIA South Africa Conference in Johannesburg, SA.
- Margie Poposky and Mary Ratley attend The IIA Malawi Conference.

**September 2006**
- Bob McDonald and Jean-Pierre Garitte attend the ACIIA Conference in Jeju Island, Korea.
- Steve Goepfert, Dominique Vincenti, and Gerry Cox attend the ECIIA Conference in Helsinki, Finland.
- Dave Richards attends The IIA Australia Public Sector Forum in Sydney, Canberra and Melbourne, Australia.
- Patty Miller attends The IIA Malaysia 2006 National Conference.
- Steve Goepfert visits The IIA UK and Ireland.
- Isabel Vemeer visits the Central Penn Chapter in honor of their 40th Anniversary.
- Bob McDonald visits The IIA Singapore in honor of their 30th Anniversary.

**October 2006**
- Steve Goepfert and Marjorie Poposky visit IIA Mexico.
- Dave Richards visits IIA Bulgaria and IIA Luxembourg. He honors Luxembourg on their 10th anniversary.
- Steve Goepfert and Al Holzheimer attend the FLAI Regional Conference in Buenos Aires.

**November 2006**
- Tom Warga attends The IIA Brazil Annual Conference.
- Dave Richards and Dominique Vincenti attend the IFAC World Congress of Accountants meeting in Istanbul, Turkey.
- Susan Lione visits The IIA New Zealand Affiliate in honor of their 20th Anniversary.
- Dominique Vincenti and Denis Bergevin attend the UFAI (Francophone) Regional Conference in Bamako, Mali.

**December 2006**
- Steve Goepfert visits the New York Chapter for the NYSE Conference.
- Judy Burke attends the RIAS/O (UN) Meeting in Nairobi, Kenya.
- Patty Miller visits the Albuquerque Chapter in honor of their 30th Anniversary.
THE INSTITUTE OF INTERNAL AUDITORS
EXECUTIVE COMMITTEE 2006-2007

Chairman of the Board
Stephen D. Goepfert, CIA
Staff Vice President,
Internal Audit and
Chief Auditing Executive
Continental Airlines, Inc.

Senior Vice Chairman
Gerald D. Cox, MIA
Head of Internal Audit
Partnership
South West Audit Partners

Vice Chairman –
Professional Development
Warren E. Malmquist, CIA
Vice President Audit & Ethics
Molson Coors Brewing
Company

Vice Chairman –
Professional Practices
Gunther Meggeneder, CIA
Chief Audit Executive
Agrarmarkt Austria

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

Vice Chairman –
Professional Services
Patricia K. Miller, CIA
Partner, Deloitte & Touche LLP

Vice Chairman –
Research
Roderick M. Winters, CIA
General Auditor
Microsoft Corporation

International Treasurer
Frank M. O’Brien, CIA
Director
Financial and
Operational Audits
Olin Corporation

International Secretary
Laurie A. Murray, CIA,
CCSA, CGAP
Corporate Auditor
Canada Post

Past Chairman of the Board
Thomas J. Warga, CIA
Senior Vice President & General
Auditor
New York Life Insurance
Company

Past Chairman of the Board
Betty L. McPhilimy, CIA
Assistant Vice President for
Audit & Compliance
Northwestern University
INDEPENDENT AUDITORS’ REPORT

We have audited the accompanying consolidating statements of financial position of The Institute of Internal Auditors, Inc. (“The Institute”) as of December 31, 2006 and 2005, 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 consolidating financial position of The Institute of Internal Auditors, Inc. as of December 31, 2006 and 2005, the consolidating changes in its net assets and its 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.
### THE INSTITUTE OF INTERNAL AUDITORS, INC.
#### CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

**December 31**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Institute</strong></td>
<td><strong>Institute of</strong></td>
<td><strong>Internal</strong></td>
</tr>
<tr>
<td><strong>of Internal</strong></td>
<td><strong>Auditors -</strong></td>
<td><strong>Auditing</strong></td>
</tr>
<tr>
<td><strong>Auditors, Inc.</strong></td>
<td><strong>Research</strong></td>
<td><strong>Academic</strong></td>
</tr>
<tr>
<td><strong>Foundation, Inc.</strong></td>
<td><strong>Advancement</strong></td>
<td><strong>Eliminations</strong></td>
</tr>
<tr>
<td><strong>Fund, Inc.</strong></td>
<td><strong>Consolidated</strong></td>
<td><strong>Consolidated</strong></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$3,936,683</td>
<td>$676,929</td>
</tr>
<tr>
<td>Restricted investments</td>
<td>135,000</td>
<td>—</td>
</tr>
<tr>
<td>Investments</td>
<td>15,063,696</td>
<td>1,380,018</td>
</tr>
<tr>
<td>Due from affiliate, net</td>
<td>217,076</td>
<td>—</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>1,915,675</td>
<td>127,207</td>
</tr>
<tr>
<td>Inventories</td>
<td>—</td>
<td>346,825</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>1,057,022</td>
<td>—</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>5,205,910</td>
<td>17,573</td>
</tr>
<tr>
<td>Deferred project costs, net</td>
<td>276,347</td>
<td>122,451</td>
</tr>
<tr>
<td>Employee savings plan</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$28,870,008</td>
<td>$2,806,003</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$3,960,566</td>
<td>$122,906</td>
</tr>
<tr>
<td>Due to affiliate, net</td>
<td>124,327</td>
<td>217,076</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>5,606,175</td>
<td>6,785</td>
</tr>
<tr>
<td>Deferred employee compensation</td>
<td>1,197,599</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>10,888,667</td>
<td>346,767</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>17,891,031</td>
<td>2,055,458</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>90,310</td>
<td>268,778</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>—</td>
<td>135,000</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>17,981,341</td>
<td>2,459,236</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$28,870,008</td>
<td>$2,806,003</td>
</tr>
</tbody>
</table>
### THE INSTITUTE OF INTERNAL AUDITORS, INC.
#### CONSOLIDATING STATEMENTS OF ACTIVITIES

For The Years Ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Institute of Internal Auditors, Inc.</td>
<td>Institute of Internal Auditing</td>
</tr>
<tr>
<td><strong>Change in Unrestricted Net Assets from Operations Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seminars</td>
<td>$10,612,065</td>
<td>$—</td>
</tr>
<tr>
<td>Relationship management</td>
<td>6,083,277</td>
<td>$—</td>
</tr>
<tr>
<td>Certification</td>
<td>4,966,412</td>
<td>$—</td>
</tr>
<tr>
<td>Conferences</td>
<td>3,796,656</td>
<td>$—</td>
</tr>
<tr>
<td>Quality assessment</td>
<td>1,807,512</td>
<td>$—</td>
</tr>
<tr>
<td>Other program revenue</td>
<td>1,798,740</td>
<td>$—</td>
</tr>
<tr>
<td>Publishing</td>
<td>1,622,073</td>
<td>$—</td>
</tr>
<tr>
<td>Contributions</td>
<td>$—</td>
<td>$244,433</td>
</tr>
<tr>
<td>Publication sales</td>
<td>$—</td>
<td>$2,330,172</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td>$860,296</td>
<td>$81,349</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>31,547,031</strong></td>
<td><strong>2,655,954</strong></td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>$—</td>
<td>$249,098</td>
</tr>
<tr>
<td><strong>Total revenues and net assets released from restrictions</strong></td>
<td><strong>31,547,031</strong></td>
<td><strong>2,905,052</strong></td>
</tr>
</tbody>
</table>

*continues overleaf*
## THE INSTITUTE OF INTERNAL AUDITORS, INC.
### CONSOLIDATING STATEMENTS OF ACTIVITIES

For The Years Ended December 31, 2006

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th>Institute of Internal Auditors - Research Foundation, Inc.</th>
<th>Institute of Internal Auditing - Academic Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seminars</td>
<td>8,280,875</td>
<td>—</td>
<td>(66,228)</td>
<td>8,214,647</td>
<td>7,106,989</td>
</tr>
<tr>
<td>Relationship management</td>
<td>4,398,736</td>
<td>—</td>
<td>(11,038)</td>
<td>4,387,698</td>
<td>3,039,281</td>
</tr>
<tr>
<td>Certification</td>
<td>1,937,870</td>
<td>—</td>
<td>(11,038)</td>
<td>1,926,832</td>
<td>1,500,770</td>
</tr>
<tr>
<td>Conferences</td>
<td>2,555,339</td>
<td>—</td>
<td>—</td>
<td>2,555,339</td>
<td>1,884,042</td>
</tr>
<tr>
<td>Quality assessment</td>
<td>1,357,166</td>
<td>—</td>
<td>(22,076)</td>
<td>1,335,090</td>
<td>1,055,996</td>
</tr>
<tr>
<td>Other program expenses</td>
<td>2,646,059</td>
<td>—</td>
<td>—</td>
<td>2,646,059</td>
<td>2,615,992</td>
</tr>
<tr>
<td>Publishing</td>
<td>791,299</td>
<td>—</td>
<td>—</td>
<td>791,299</td>
<td>759,316</td>
</tr>
<tr>
<td>Educational products</td>
<td>—</td>
<td>2,044,834</td>
<td>—</td>
<td>2,044,834</td>
<td>1,897,100</td>
</tr>
<tr>
<td>Research projects</td>
<td>—</td>
<td>389,519</td>
<td>—</td>
<td>389,519</td>
<td>249,715</td>
</tr>
<tr>
<td>Academic programs</td>
<td>—</td>
<td>22,204</td>
<td>—</td>
<td>22,204</td>
<td>18,588</td>
</tr>
<tr>
<td>Academic relations</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,504</td>
</tr>
<tr>
<td>General and administrative</td>
<td>8,437,705</td>
<td>310,796</td>
<td>(272,300)</td>
<td>8,476,201</td>
<td>6,146,466</td>
</tr>
<tr>
<td>Total expenses</td>
<td>30,405,049</td>
<td>2,767,353</td>
<td>(382,680)</td>
<td>32,789,722</td>
<td>26,275,759</td>
</tr>
<tr>
<td>Change in unrestricted net assets from operations</td>
<td>1,141,982</td>
<td>137,699</td>
<td>223,600</td>
<td>1,500,000</td>
<td>1,653,281</td>
</tr>
</tbody>
</table>

### CHANGE IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATIONS

| Contributions | 90,310 | 179,877 | 21,000 | (150,000) | 141,187 | 211,831 |
| Dividend and interest income | — | 8,850 | — | — | 8,850 | 5,070 |
| Net assets released from restrictions | — | (249,098) | — | — | (249,098) | (10,976) |
| Change in temporarily restricted net assets from operations | 90,310 | (60,371) | 21,000 | (150,000) | (99,061) | 205,925 |

### NET GAIN ON INVESTMENTS

| 597,856 | 72,065 | — | — | — | 669,921 | 449,296 |

### CHANGE IN NET ASSETS

| 1,830,148 | 149,393 | 244,600 | — | 2,224,141 | 4,222,586 |

### NET ASSETS – Beginning of year

| 16,151,193 | 2,309,843 | — | — | — | 18,461,036 | 14,238,450 |

### NET ASSETS – End of year

| 17,981,341 | 2,459,236 | 244,600 | — | — | 20,685,177 | 18,461,036 |
## The Institute of Internal Auditors, Inc.
### Consolidating Statements of Cash Flows

For The Years Ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Institute of Internal</td>
<td>Institute Auditing</td>
</tr>
<tr>
<td></td>
<td>Auditors - Research</td>
<td>Academic Fund, Inc.</td>
</tr>
<tr>
<td></td>
<td>Auditors, Inc.</td>
<td>Eliminations</td>
</tr>
<tr>
<td></td>
<td>Foundation, Inc.</td>
<td>Total</td>
</tr>
<tr>
<td>CASH FLOWS FROM OPERATING ACTIVITIES</td>
<td>$ 1,830,148</td>
<td>$ 149,393</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ 1,830,148</td>
<td>$ 149,393</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>485,118</td>
<td>5,699</td>
</tr>
<tr>
<td>Amortization of deferred project costs</td>
<td>69,421</td>
<td>35,152</td>
</tr>
<tr>
<td>Net gain on investments</td>
<td>(597,856)</td>
<td>(72,065)</td>
</tr>
<tr>
<td>Net (gain)/loss on sales of property and equipment</td>
<td>1,264</td>
<td>—</td>
</tr>
<tr>
<td>Change in due/to/from affiliate, net</td>
<td>57,601</td>
<td>66,726</td>
</tr>
<tr>
<td>Change in accounts receivable, net</td>
<td>259,098</td>
<td>34,429</td>
</tr>
<tr>
<td>Change in inventories</td>
<td>(113,015)</td>
<td>—</td>
</tr>
<tr>
<td>Change in prepaid expenses and other assets</td>
<td>(438,363)</td>
<td>—</td>
</tr>
<tr>
<td>Change in accounts payable and accrued expenses</td>
<td>735,220</td>
<td>41,624</td>
</tr>
<tr>
<td>Change in deferred revenue</td>
<td>945,312</td>
<td>(1,222)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>1,516,815</td>
<td>(2,672)</td>
</tr>
<tr>
<td>Net cash flows from operating activities</td>
<td>3,346,963</td>
<td>146,721</td>
</tr>
<tr>
<td>CASH FLOWS FROM INVESTING ACTIVITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sales of investments</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(3,308,525)</td>
<td>(85,671)</td>
</tr>
<tr>
<td>Proceeds from sales of property and equipment</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Purchases of and improvements to property and equipment</td>
<td>(532,933)</td>
<td>—</td>
</tr>
<tr>
<td>Expenditures for deferred projects</td>
<td>(258,328)</td>
<td>(125,015)</td>
</tr>
<tr>
<td>Net cash flows from investing activities</td>
<td>(4,099,786)</td>
<td>(210,686)</td>
</tr>
<tr>
<td>NET CHANGE IN CASH AND CASH EQUivalents</td>
<td>(752,823)</td>
<td>(63,965)</td>
</tr>
<tr>
<td>CASH AND CASH EQUivalents – Beginning of year</td>
<td>$ 4,689,506</td>
<td>$ 740,894</td>
</tr>
<tr>
<td>CASH AND CASH EQUivalents – End of year</td>
<td>$ 3,936,683</td>
<td>$ 676,929</td>
</tr>
</tbody>
</table>
NOTE A – NATURE OF ACTIVITIES
The Institute of Internal Auditors, Inc. (“The Institute”) was formed in 1941 and is a not-for-profit corporation organized 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 Fund. 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 audit, establish standards for internal audit 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.

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. 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.
CERTIFICATION
Certification fees are recognized as income in the period in which the exams are given. 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. Web site 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 Web site 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.

During 2006 and 2005, 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, Web site 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, Web site 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 is exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3) and from state income tax pursuant to state law. The Foundation has not incurred unrelated business income taxes. The Fund has applied for exemption from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). The Fund has 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.

RECLASSIFICATIONS
Certain amounts included in the 2005 consolidated financial statements were reclassified to conform with classifications adopted during 2006. The reclassifications had no material effect on the accompanying consolidating financial statements.

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
During 2005, the Institute and the Foundation liquidated their investment portfolios and invested the proceeds in 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>Year Ending December 31,</th>
<th>2007 $295,000</th>
<th>2008 $253,000</th>
<th>2009 $110,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Institute</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Foundation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Unrestricted              | $597,856      | $72,065       | $669,921      |
| Temporarily restricted    | —             | —             | 2,415         |
| Total net gain on investments | $597,856      | $72,065       | $669,921      |

**NOTE E – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

<table>
<thead>
<tr>
<th>December 31,</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Institute</td>
<td>Foundation</td>
</tr>
<tr>
<td></td>
<td>Consolidated</td>
<td>Total</td>
</tr>
<tr>
<td>Category</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$114,103</td>
<td>$ —</td>
</tr>
<tr>
<td>Buildings and building</td>
<td>4,127,066</td>
<td>—</td>
</tr>
<tr>
<td>improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>2,601,325</td>
<td>28,497</td>
</tr>
<tr>
<td>Total property and</td>
<td>6,842,494</td>
<td>28,497</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Accumulated</td>
<td>(1,636,584)</td>
<td>(10,924)</td>
</tr>
<tr>
<td>depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net property and</td>
<td>5,205,910</td>
<td>$17,573</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Depreciation expense for the Institute amounted to approximately $485,000 and $362,000 for 2006 and 2005, respectively. Depreciation expense for the Foundation amounted to approximately $6,000 and $5,000 for 2006 and 2005, respectively.

**NOTE F – OPERATING LEASES**

The Institute leases office space and office equipment under operating leases expiring through May 2009. Approximate future lease payments are as follows:

<table>
<thead>
<tr>
<th>Year Ending December 31,</th>
<th>2007 $295,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 $253,000</td>
<td></td>
</tr>
<tr>
<td>2009 $110,000</td>
<td></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 $852,000 and $626,000 for 2006 and 2005, respectively.

**NOTE G – RETIREMENT PLANS**

The Institute maintains a Section 401(k) retirement plan. The Institute contributes a certain percent 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 2006 and 2005, the Institute contributed approximately $701,000 and $642,000, respectively, to its retirement plans.

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 $1,198,000 and $1,163,000 in the plan as of December 31, 2006 and 2005, 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 $531,000 as of December 31, 2006.

NOTE I – EXPENSE ALLOCATIONS
Total expenses for the Institute include approximately $21,967,000 and $16,824,000 of program expenses, $8,430,000 and $6,981,000 of supporting expenses, and $8,000 and $5,000 of fund-raising expenses for 2006 and 2005, respectively.

During each of 2006 and 2005, the Foundation incurred approximately $20,000 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, 2006, 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 – 2006</th>
<th>Payments – 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Taking it to the Next Level: Sarbanes-Oxley and COSO ERM”</td>
<td>$ —</td>
<td>$ 15,000</td>
</tr>
<tr>
<td>“Behavioral Dimensions of Internal Auditing”</td>
<td>$ 2,642</td>
<td>$ 2,972</td>
</tr>
<tr>
<td>“Internal Assurance and Consulting Services Textbook”</td>
<td>$ 4,800</td>
<td>$ 1,821</td>
</tr>
<tr>
<td>“Sustainable Development”</td>
<td>$ 3,000</td>
<td>$ 3,000</td>
</tr>
</tbody>
</table>
MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of The Institute of Internal Auditors (IIA) is responsible for the preparation, integrity, and fair presentation of the accompanying financial statements. The 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 IIA’s 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 of The Institute’s 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.

The IIA maintains a system of internal control, which is designed to provide reasonable assurance to management and to the Board of Directors regarding: 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 IIA, an internal audit function reporting to the audit committee of the board of directors, and the careful selection, training, and development of our people.

The IIA 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. The Institute has documented and tested the key processes used to record the activities of The IIA and prepare its financial statements.

For the annual report as of, and for the year ending, December 31, 2006, 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 of The IIA 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 relating to The IIA is made known to us by others within The IIA; Management has concluded that the system of internal control over financial reporting was effective as of 12/31/2006;

• Disclosures of any change in The IIA’s 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 IIA’s internal control over financial reporting are included in this report.

David A. Richards, CIA, President

David Polansky, Chief Administrative Officer