A NEW HORIZON IN INTERNAL AUDITING

2008 ANNUAL REPORT
A MESSAGE FROM THE IIA’S PRESIDENT AND CEO

We are, indeed, embarking on new horizons for internal auditing. The opportunities for The IIA and for the profession are more diverse and dramatic than we previously thought possible. And simultaneously, we are encountering the most significant challenges practitioners of my age and younger have yet confronted.
The current global economic crisis, coupled with a loss of stakeholder confidence due to risk management failures and a lack of corporate accountability, is revealing a new horizon for internal audit professionals everywhere.

In this document, we report on the accomplishments of The IIA for 2008, and there were many. But we also must acknowledge the financial challenges that brought about the necessity for downsizing to a leaner, re-engineered Global Headquarters. And although I was not at The IIA until after the year 2008 ended, I am excited about being part of the future of our organization and profession.

I personally want to thank my predecessor, Dave Richards, for his deep commitment to and hard work on behalf of The Institute and the profession throughout his tenure as IIA president, as well as for his many years as a dedicated volunteer.

As we review the year, we know the accomplishments listed would not have been possible without the involvement of many. However, we can only highlight a limited number of individuals, chapters, and institutes. We are grateful to and extremely proud of the contributions of each and every individual and group around the world who plays a part in our global effort to elevate and advance internal audit professionalism and the value internal auditors bring to their organizations everywhere.

Sincerely,

Richard F. Chambers, CIA, CGAP, CCSA
President and CEO, The Institute of Internal Auditors
A MESSAGE FROM THE IIA’S CHAIRMAN

New horizons — absolutely! New opportunities — definitely! Opportunities for internal audit practitioners to be recognized for what they know and what they do, trusted as competent professionals on whose guidance management and the board can depend, and valued as an internal resource so critical to meeting organizational goals and objectives, while protecting stakeholder interests.
Recognized. Trusted. Valued. That has been my theme as The IIA’s 2008-2009 Chairman of the Board. It will continue to be my mantra when I step aside to make way for your next chairman. It will continue to be my mindset in my own internal audit practice. And, because it represents the essence of what we all are working so hard to bring about, it will continue to be my approach to future IIA endeavors in which I may play a leadership role.

Throughout my travels in my role as chairman, I have been humbled by the deep dedication and tireless energy of our chapter and institute leaders around the globe. I have been encouraged by the progress our profession is making in developing countries. And I have been energized by the creative ideas and implementation skills of our talented Global Headquarters staff. All of these things have made me proud of The IIA and proud of the difference our profession is making throughout our global business community.

Just as risk has both an upside and a downside, the same is true for the horizons on which this report is focusing. I would be remiss if I did not mention the challenges that accompany our new opportunities. It has been a very long time since our world faced the kind of economic turmoil we currently are experiencing in both our personal and professional lives. And while The IIA and our profession remain strong and viable, we are not immune to today’s financial crisis. We must be ever vigilant to ensure that our members all around the world are working hard to identify and assess all the risks that could adversely affect the organizations they serve, and to provide assurance that things are as they should be. And The IIA must continue to provide the support and guidance so very critical to the highest levels of internal audit professionalism, knowledge, proficiency, and performance.

Let us recognize and celebrate our many achievements. Let us trust that, in spite of our challenges, we will meet our goal to elevate the profession and enhance the professionalism of our members. And let us truly value the opportunity to share with, and learn from, each other.

Sincerely,

Patricia K. Miller, CIA
2008 – 2009 IIA Chairman of the Board
THE PROFESSION, THE IIA, AND THE GLOBAL FINANCIAL CRISIS

As 2008 moved forward, so did broad repercussions of the unprecedented meltdown in global financial systems and the resulting economic recession. Staying on the leading edge of the internal audit profession, The IIA prepared to respond and provide guidance as the financial crisis emerged.
Better positioned than any other internal resource to provide assurance to the board and executive management, internal auditors bring great value to organizations and their stakeholders. Their knowledge of the culture, their independent perspective, and their ability to assess internal control effectiveness are essential to organizational leaders who want to ensure high ethical standards, strong internal controls, and exemplary risk management. The Institute has focused a great deal of attention on educating the business community, guidance bodies, and regulatory agencies about the criticality of the internal audit safety net.

Using technology to conduct membership surveys to research and compile pertinent information from all around the world, The IIA stepped forward on behalf of the internal audit profession and its members. Establishing a Web portal for global access and input, The IIA issued a clear, concise, and global message in response to the financial crisis: Internal auditing can and should be a part of the solution.

As the crisis went deeper and The IIA worked hard to support its chapters, institutes, and members around the world, IIA Global Headquarters took measures to cut its own costs and minimize losses. Like many organizations all around the globe, IIA Global would have to discontinue some initiatives and eliminate or restructure some staff positions. Even so, The IIA continued to successfully elevate the profession through effective advocacy, communications, and media relations activities; and enhance professionalism by providing myriad educational programs, certifying practitioners, and releasing guidance designed to help ensure knowledge and proficiency.

Recognizing organizations’ need to reduce their risk of fraud — especially in times like these — The Institute worked with the Association of Certified Fraud Examiners (ACFE) and the American Institute of Certified Public Accountants (AICPA) on Managing the Business Risk of Fraud: A Practical Guide. Designed to help organizations improve their fraud risk management programs, the guidance focuses on governance, risk assessment, fraud prevention and detection, investigation, and corrective action.

In spite of the difficulties confronted throughout 2008, The IIA continues to successfully leverage its knowledge capital in support of its global membership. It continues to involve internal audit thought leaders from all around the world in strategy-setting and decision-making, and looks forward to the new horizons ahead — both for the profession and for The IIA.

“The Chinese use two brush strokes to write the word ‘crisis.' One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger — but recognize the opportunity.”

John F. Kennedy
35th President of the United States
SIX YEAR STRATEGIC PLAN MOVES FORWARD

Through an approved new strategic plan, The IIA has set a path for the future that will guide the organization and the profession through 2013. Unlike previous three-year plans, it is a living document that sets future milestones and will be periodically assessed to ensure relevance and timeliness for the profession.
The new strategic plan was approved in 2007 and focuses on a vision for the profession: by 2013, internal auditing will be universally recognized as a profession. Four goals were identified to achieve this vision:

- Define the principles of the profession and ensure that the principles are available seamlessly worldwide.
- Assure adherence to professional requirements.
- Be the preferred provider in the research, development, and dissemination of knowledge to advance the profession.
- Operate and be seen by its members as one global organization.

It is understood that many initiatives will be interdependent and that many steps will be needed to bring The IIA to the ultimate goal. In 2008, The IIA identified four new initiatives to begin the journey and two continuing ones:

- **GLOBAL GOVERNANCE.** Examine our global board and committee structure and recommend changes to ensure global representation. Establish funding and service delivery models that will support the global organization and its growing membership.

- **VALUE PROPOSITION/PROFESSIONALISM.** Articulate the value proposition of internal auditors from the perspective of stakeholders, i.e., what the audit committee or governing body and senior management should expect from internal auditing.

- **EMERGING ISSUES.** Focus on a process for identifying, analyzing, and communicating emerging issues to members. Develop a chief audit executive services program.

- **RESEARCH.** Develop a global research process to meet the changing needs of the profession

- **ACADEMIC RELATIONS.** Continue the strategy of reaching out to colleges and universities. Develop global curricula for internal auditing.

- **ADVOCACY.** Continue the strategy of working with targeted organizations to elevate recognition of the internal audit profession and expand knowledge and adoption of IIA standards.

“The future holds incredible prospects for the profession and for The IIA,” says IIA Senior Vice Chairman of the Board Rod Winters, CIA, CPA. "I am very excited about these opportunities as we begin to implement the strategic plan. We all play an important role in the future success of our profession, and I foresee a new horizon for internal auditing that combines the best of our tradition, and offers hope and promise.”

“This strategic direction had significant involvement from leaders and staff around the world,” Winters continues. “Everyone worked to make sure that all local, regional, and global needs, expectations, and challenges were understood and considered.”

“A dream is the bearer of a new possibility, the enlarged horizon, the great hope.”

Howard Thurman
Influential American author, philosopher, theologian, educator, and civil rights leader.
TURNING KNOWLEDGE INTO VALUE

Knowing you are skilled in your profession is important, and demonstrating your skills to your manager and peers is one way to advance in your career. Today, potential employers not only consider college degrees and experience, but they also look for that candidate with something extra. Candidates holding certifications have that extra advantage and provide assurance to employers that they are up-to-date on the latest professional standards and technical skills.
Since the 1974 origination of the Certified Internal Auditor (CIA) program, more than 77,000 professionals have gained an edge in their professional careers by earning the CIA designation. Candidates pursuing one of The IIA’s specialty certifications — Certified Government Auditing Professional (CGAP), Certified Financial Services Auditor (CFSA), and Certification in Control Self-Assessment (CCSA) — are also on the rise with more than 9,800 practitioners holding one of these certifications. Click here for more details on the certification programs.

**IIA’S COMPUTER-BASED TESTING LAUNCHED IN MAY**

In 2008, The IIA implemented a significant improvement to its certification exams by converting them from paper-and-pencil to computer-based testing (CBT). Candidates now take their certification exams at any of the 500+ available testing centers around the world, in their choice of 16 languages, whenever it is convenient. Year-round CBT provides individuals with the opportunity to complete their certification process more quickly, rather than waiting for biannual, inflexible, pre-established exam dates. Another benefit of CBT is immediate exam results. And to further enhance the CBT process, The IIA contracted with an industry-leading software vendor to deliver a high-quality registration and application process. Click here for more information on the registration launch for the CIA exam. Click here for more information on the registration launch of the specialty exams.

**EDUCATE OTHERS. TAKE ACTION. SET AN EXAMPLE.**

While the profession has grown and evolved and the global demand for certifications has increased, IIA-Japan is an example of an institute who has responded to every challenge. Established in 1957, IIA-Japan administered their first CIA exam in Japanese in November 1999, and at the end of that year, there were only 25 Japanese CIAs. In 2008, 4,210 exams were delivered to IIA-Japan candidates (approximately 19 percent of the exams delivered worldwide) and the total number of Japanese CIAs became 3,695 at the end of 2008.

“Some of the increase in demand can be attributed to the passing of the Corporation Law in 2005, which stipulates that large companies [capital 500 million yen or more or liability of 20 billion yen or more] should establish and maintain sound internal control systems,” says Yukinao Kanda, the chief staff officer of IIA-Japan. “In addition, our country recently implemented a Sarbanes-Oxley-type requirement (J-SOX) for Internal Controls over Financial Reporting for its public companies.”

IIA-Japan carefully examined the demand issue and proactively solved its capacity challenge by contracting with The IIA’s vendor to create additional local exam sites. The institute’s ongoing work to promote certification has not been easy, but it has been well worth the effort. The number of exams delivered in 2007/2008 grew by 65 percent compared to 2005/2006.

Effective communication, commitment, and education are crucial components of a successful certification program at a chapter or institute level. In 2008, IIA-Japan set the bar for other chapters and institutes and was persistent in its efforts to promote the benefits of certification and help its members enrich their professional lives.
THE DIFFERENCE “I” CAN MAKE
THE NEW INTERNATIONAL PROFESSIONAL PRACTICES FRAMEWORK OFFERS TRANSPARENCY, CLARITY, TIMELINESS

The idea to review and revise The IIA’s Professional Practices Framework (PPF) arose in 2005 when The IIA’s Executive Committee commissioned a global steering committee and task force to review the PPF and its guidance structure and related processes.
The work of these groups culminated in 2008 with the release of the new International Professional Practices Framework (IPPF) and a re-engineered Professional Practices Advisory Council, the body that supports the IPPF. “One of the hallmarks of a profession is the standards that guide it,” says IIA Vice President Professional Practices Susan Lione, CIA, CCSA, CGAP, CFSA. “The new IPPF is the authoritative guidance on the internal audit profession, presenting internationally consistent, mandatory, and strongly recommended guidance for our profession anywhere in the world. It was created with the intent of ensuring the internal audit profession has, on an ongoing basis, an authoritative blueprint for professional practice and performance.”

This process enhancement was critical to ensure the framework was flexible enough to accommodate the future development of guidance. Now the framework will not need to change every time new guidance emerges. In moving from the PPF to the IPPF, all of the changes were concentrated in the areas of the framework’s scope and structure. Enhancements were made to the processes for developing and maintaining guidance. The revisions are intended to recognize that internal audit activities are performed in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by people within or outside the organization.

Although the difference between the current PPF and the IPPF was primarily structural, there were some changes to the content. Six new standards were added to the International Standards for the Professional Practice of Internal Auditing, and interpretations of select standards were provided. In addition, the current Practice Advisories are being retooled and reviewed for relevancy. Some Position Papers are now part of the IPPF, and all of the existing Global Technology Audit Guides (GTAGs) and the Guides to Assessment of IT Risks (GAIT) principles and methodology are included as Practices Guides.

The new IPPF features improved clarity, increased transparency, measurable accountability, and a defined review cycle for all guidance. “This more accessible and comprehensive framework provides practitioners around the world a basis from which to build their careers and strengthen the internal audit profession,” Lione says.
The word is out — internal auditing is a career in demand. So it comes as no surprise that the profession is attracting a growing number of students from a variety of backgrounds and interests. And for those teaching in the profession of internal auditing, preparing the next generation of professionals is not only a passion — it’s a priority.
The IIA’s Academic Relations department works with colleges and universities to develop and offer internal audit-specific curricula. It also encourages schools to participate in the Internal Auditing Education Partnership (IAEP) program, which recognizes expanded internal audit curricula that equip students with the skills and knowledge they need to enter the internal audit profession. In 2008 the IAEP program’s accomplishments included:

- An Academic/Practitioner track at The IIA’s International Conference. Consisting of seven sessions, one with Cynthia Cooper who is best known for her role in uncovering fraud at WorldCom.

- The second annual IAEP Leadership and Network Conference, an invitation-only gathering of academia, employers, and soon-to-be graduates. It was an opportunity to connect university professors and some of the brightest students with decision-makers from internal audit departments at high-profile organizations.

- Three new schools in the IAEP program, bringing the total number of participating schools to 40:
  - California State University at Fullerton.
  - University of Houston.
  - University of Nevada at Las Vegas.

Renee Rasmussen, an accounting graduate student at the University of Texas at Dallas (UT Dallas), decided to study at the school’s Center for Internal Auditing Excellence after meeting Mark Salamasick.

“Mark is the director of the IAEP program in the School of Management, and you couldn’t meet someone more enthusiastic about internal auditing,” said Rasmussen. “I never even knew this program or the profession existed, but after meeting with Mark, he convinced me that my people skills and my background would make me a perfect candidate for the program. I have never regretted my decision.”

Rasmussen, who holds a bachelor’s degree in history, advises other internal audit students to get involved as much as possible in their local IIA chapter and student chapter. “The IIA-Dallas chapter played a big role in my career development and the UT Dallas student chapter now has 125 members,” she added. “The opportunities in this profession are endless, and being involved makes your transition from a student into a practitioner much easier.”

**GIVING BACK TO THE PROFESSION BY INVESTING IN ITS FUTURE**

Recognizing the struggle around the world to identify qualified internal audit candidates who are ready to add value on their first day of employment, The IIA created the Internal Auditing Academic Advancement Fund (IAAAF). Through donations from organizations, individuals, and foundations, the IAAF is supporting internal audit education programs at colleges and universities around the world. Schools that meet specific criteria are eligible to receive funding to grow and sustain their IAEP programs. In 2008 the IAAF:

- Received major donations from Chevron, Deloitte, KPMG, Southwest Airlines, and the Dallas, Detroit, Atlanta, Greater Boston, and Las Vegas IIA chapters; and as well as from IIA Headquarters staff (a full listing of donors is available here).

- Received more than US $425,000 in donations, year-to-date, for a total of almost US $770,000. The IIA believes that internal audit education is so critical to the long-term success of the profession that it is matching donations to the IAAF up to a total of US $1 million. The matching will expire June 30, 2009.

- Approved grants totaling US $193,000 to advance IAEP programs, with a total of US $479,000 approved since the IAAF’s inception in 2006.

- Provided an internal audit resource library to three new schools accepted into the IAEP program. This book collection includes many of the latest books on internal auditing and serves as a unique resource for students as well as for faculty, practitioners, and the community.
GLOBAL NETWORKING AND KNOWLEDGE EXCHANGE

The IIA’s global membership boasts chapters and institutes in more than 100 countries. One of the advantages of this global presence is the opportunity to share best practices and new tools and techniques of the growing profession. Two of The IIA’s most prestigious global events held each year are the International Conference for members and the Global Council for IIA Institute leaders.
Internal auditors from around the world gathered in San Francisco at The IIA’s 67th Annual International Conference to learn from world-renowned leaders in the profession, network with colleagues from all parts of the globe, and deepen their knowledge and understanding of the profession.

The conference was an unprecedented success in the history of The IIA’s International Conferences and delivered on its promise of a vibrant forum and a powerful professional development experience in one of the world’s most extraordinary cities. Six general sessions and more than 100 concurrent sessions in 14 program tracks were offered. They included a wide range of topics and an impressive roster of international speakers who informed, impressed, and entertained the more than 2,800 attendees representing 101 countries.

“When we select the location for The IIA’s International Conference we look for a number of things that will make it successful,” says Wayne Rose, chairman of The IIA’s International Conference Committee. “First, we need a venue that will be attractive to our global membership and, second, a chapter or institute that has the ability to pull everything together and execute an extraordinary conference experience,” he says. “We were very fortunate to have great volunteer leadership in the chapters located in the San Francisco area who stepped up to the plate and planned a world-class conference.”

“It was my pleasure to chair the conference,” says Lawrence de Berry, president of the IIA-San Francisco chapter. “Our team worked very hard to provide a conference with top-notch speakers, informative sessions, and ample opportunities to network with internal auditors from all over the world. This was the largest International Conference that The IIA has ever put together, and the level of cooperation and partnership between our host committee and The IIA’s Global Headquarters is what I think made it so successful.”

2008 GLOBAL COUNCIL
April 23-26, 2008, San José, Costa Rica

One-hundred and twenty delegates, senior IIA volunteer leaders, and IIA staff from 62 countries or territories attended the fourth annual Global Council meeting in Costa Rica. The event was established to ensure that institute leaders from around the world have input into the issues impacting their global institute and the future direction of their profession. Representatives came together to learn about IIA strategic initiatives, provide input on key issues, and share best practices. This was the first time that the Global Council was held separately from the International Conference, and attendees enjoyed the additional time for networking, in-depth discussions and exchange of ideas, and opportunities to visit Costa Rica’s diverse and beautiful attractions.

“Knowledge must continually be renewed by ceaseless effort, if it is not to be lost.”
Albert Einstein
a German-born theoretical physicist
ENHANCING NORTH AMERICAN SERVICES

Although the profession around the world is served primarily through national institutes, the Global Headquarters in Altamonte Springs, Fla., has served a dual role as global secretariat for the worldwide membership and developer and deliverer of services to members in the United States, Canada, and the Caribbean.
In 2002, The IIA established a separate North American Board (NAB) to better oversee the activities and needs of North America. In 2007, the NAB commissioned a North American Institute Task Force (NAITF) to evaluate the need to establish a separate North American Institute within The IIA. In March 2008, the NAITF made a formal recommendation to NAB that The IIA proceed down the path to establish a separate North American Institute. Since that time, a new task force was established and the following recommendations initiated:

- A virtual North American organization will be established within IIA Headquarters by January 2009 that will focus primarily on North American needs and priorities.
- A financial model will be developed in 2009 that clearly separates North America and Global revenues and expenses.
- NAB will assume a greater oversight and fiduciary role for strategic direction, operational performance, and financial management of North American interests.

The North American Institute initiative is closely aligned with the Global Governance initiative above to ensure synchronization of timelines and activities and to ensure the global organization remains vibrant and stable. No decision to establish a separate North American Institute will be made before 2011.

“Never look down to test the ground before taking your next step; only he who keeps his eye fixed on the far horizon will find the right road.”

Dag Hammarskjold
Swedish diplomat and the second Secretary-General of the United Nations
NEW HORIZONS IN INTERNAL AUDITING
A YEAR IN REVIEW OF THE GLOBAL HEADQUARTERS OF THE INSTITUTE OF INTERNAL AUDITORS

Since its founding in 1941, The IIA has filled the guidance, information, training, and advocacy needs of internal auditors around the world. Today’s internal auditor must possess an ever-expanding set of skills and competencies to perform a job that is always changing. The IIA responded to this opportunity in a variety of ways in 2008.
The U.S. Public Company Accounting Oversight Board appointed two IIA board members to its Standing Advisory Group. Doug Anderson, CIA, and Paul Sobel, CIA, joined the 34-member group in November, and will be working with former IIA board member Warren Malmquist, CIA, who was appointed in 2007, to ensure that the voice of internal auditing is heard on issues that are important to the profession.

Discussions began with the International Organization of Supreme Audit Institutions (INTOSAI) on the joint development of two white papers: The Importance of Internal Auditor Independence in the Public Sector and The Importance of Cooperation Between Internal and External Auditing in the Public Sector. Dr. Josef Moser, INTOSAI secretary general, spoke to The IIA’s Board of Directors at its meeting following The IIA’s International Conference in San Francisco, suggesting additional areas of cooperation.

The Institute continued to communicate with its members around the globe through its Web site, www.theiia.org. During 2008, the site received more than 7.5 million visits and had more than 54 million page views. Sixty-two percent of visits were from North America followed by visits from Asia and Western Europe. The most downloaded document was Managing the Business Risk of Fraud: A Practical Guide, followed by The IIA’s Certification Handbook, and The IIA’s Practice Guide, Sarbanes-Oxley Section 404: A Guide for Management by Internal Controls Practitioners.

The IIA’s publications and Web operations teams launched www.internalauditoronline.org as a supplement to Internal Auditor magazine, providing additional content on a timely basis. The Web site provides another way for subscribers to access practitioner-oriented news, commentary, and insight. Features of the new Web site include a blog section that allows subject-matter experts to interact with readers and a separate online discussion board that lets visitors share their views with peers and comment on a variety of audit-related topics. There also is a section dedicated to industry-specific content. The IIA’s Communications Advisory Committee was integral in the development of the Web site. The committee established the site concept and served as a sounding board for ideas. In addition, the site’s content is written primarily by volunteer authors.

Institute membership continued to grow. At the close of 2008, the global IIA membership exceeded 160,000, equating to a 6.5 percent overall increase and an 82 percent overall retention rate. Membership outside North America showed the largest gain with a 10 percent increase in net members. The IIA’s North American Financial Service Auditor (FSA) specialty membership group had a substantial increase, almost doubling in size. This group was created to help internal auditors and their organizations navigate through the maze of regulations and requirements.
Member Exchange (ME), a networking tool for IIA members, experienced a 37 percent increase in the total number of registered users. In 2008, the ME platform was redesigned to allow the user to create groups and to submit whitepapers and documents in a resources section, and a new dashboard, and a marketing/advertising section were added.

The Institute’s North American educational conferences and seminars, including Technology Based Learning (webinars and virtual offerings), experienced solid participation in 2008, with more than 14,000 registrants.

The IIA took a new step in educational offerings in 2008 with the addition of real-time virtual seminars. Written and developed by practitioners, the 2008 virtual seminars included sessions such as Value-added Business Controls: The Right Way to Manage Risk and Enterprise Risk Management: What’s New? What’s Next?

After a competitive process, The IIA formed an educational alliance with Deloitte to develop and deliver a nine-course curriculum to help organizations understand and implement new corporate governance regulations and audit standards dealing with combating fraud. The IIA chose Deloitte to help develop the curriculum and teach the courses based on the knowledge of Deloitte’s fraud and internal audit specialists who are also experienced instructors.

The Institute released two new Global Technology Audit Guides (GTAGs). The guides have been a source of information for internal auditors worldwide since 2005. In 2008, the technology audit guides included:

- **Business Continuity Management.** Designed to enable business leaders to manage the level of risk an organization could encounter if a natural or man-made disruptive event were to occur.
- **Developing the IT Audit Plan.** Developed to help CAEs and internal auditors understand their organization, how IT supports it, and how to define the IT environment.

Responding to organizations’ need for guidance on assessing IT controls, The Institute issued two new documents in its Guide to the Assessment of IT Risk (GAIT) series. The two new guides — GAIT for IT General Control Deficiency Assessments and GAIT for Business and IT Risk — address updates and reviews to regulations, as well as the needs of organizations to link IT controls to critical business needs.

The Institute’s Internal Audit Competency Framework was issued, outlining the minimum level of knowledge and skills needed to effectively operate and maintain an internal audit function. The framework specifies skills needed at different staffing levels of audit groups and is considered a starting point to meet the expectations of professionalism.

The Institute tapped Richard Chambers, CIA, to assume the president’s position, succeeding David Richards, who retired after serving as president since 2004. Chambers brings more than 33 years of internal audit, accounting, and financial management leadership to his new post and has served in various leadership roles at The IIA since 1994.
AWARDS

Individuals, chapters, institutes, and organizations play an increasingly important role in advancing the profession of internal auditing and helping set direction for The IIA. Whether it’s writing an article for one of The IIA’s publications, instructing or speaking at a seminar or conference, conducting research, or serving on committees at local, regional and international levels, the contributions and dedication of the IIA membership is unsurpassed. In 2008, The IIA recognized several contributors for outstanding achievements.

Three outstanding individuals were recognized with The IIA’s most prestigious awards:

- William Taylor, CPA, CGFM, was awarded the Lifetime Achievement Award, which is given to a member who has shown extraordinary leadership and dedication over a lifetime of service to the global profession of internal auditing and The IIA. Taylor has been a member of The IIA for 26 years, serving at the local and international levels. He served three terms as the president of the IIA-District of Columbia Chapter, was chairman of the board of the Global IIA, and was chairman of several initiatives such as The IIA’s International Conference and The IIA Research Foundation’s (IIARF) Common Body of Knowledge (CBOK) study.

- Joannes (Hans) Nieuwlands, CIA, CCSA, CGAP, was awarded the Victor Z. Brink Award for Distinguished Service, which recognizes an IIA member who has made extraordinary global contributions to the internal audit profession through exemplary IIA involvement and service. Nieuwlands was honored for his 20 years as a dedicated IIA volunteer. His leadership in Europe has resulted in extraordinary growth and recognition for the profession.

- James Roth, PhD, CIA, CCSA, received the Bradford Cadmus Memorial Award, which recognizes outstanding individuals who have contributed to the profession of internal auditing through research, academic involvement, article and book publication, and other thought-leading pursuits. Roth has 30 years of internal audit and teaching experience, and is the founder of AuditTrends LLC, which promotes best practices in internal auditing.

Other awards included:

- Scott D. White, CIA, CFSA, received The John B. Thurston Award for Literary Excellence for his article “The Auditor as Internal Consultant,” (Internal Auditor, February 2007). The award is presented to the author(s) of the most outstanding article published by Internal Auditor in the previous year.

- Presented annually to authors of articles published in Internal Auditor in the previous year, the John B. Thurston Outstanding Contributor awards went to: Susan S. Lightle, Benjamin Cutting, and Joseph F. Castellano for “Assessing the Control Environment”; James P. Roth, PhD, CIA, CCSA, for “Myth vs. Reality; Sarbanes-Oxley and ERM”; Lawrence B. de Berry, CPA, CISA, for “A Kinder, Gentler Audit”; Linda M. Lister for “A Practical Approach to Fraud Risk”; and Rachel Jacobs and Richard Chambers, CIA, CCSA, CGAP for “Assessing Political Risk.”

- The IIA-Heartland-Iowa Chapter received the Global Institute Membership Award for its innovative techniques to recruit and retain members. IIA-Alaska was awarded second place, and the IIA-Central Jersey Chapter received the third-place award.
The International Mastering Advocacy Program (IMAP) award was presented to IIA-Lebanon and IIA-Philippines. Advocacy is a critical component of the institute’s action plan and framework. This prestigious award is presented annually to chapters and institutes who are engaged in advocacy campaigns to promote the profession. IIA-Lebanon was selected for its advocacy activities with key stakeholders in its region, despite working in a turbulent political environment. IIA-Philippines was recognized for its work in elevating the profession through communications and education, and by partnering wherever possible.

The William S. Smith Gold Medal Award was presented to Elisheba Etabaq Manzano and Ryan Gilbert Khu Chua, both representing IIA-Philippines. The William S. Smith Student Highest Achievement Award recipients were Dajie Yang, a graduate of Duke University, representing the IIA-Raleigh-Durham Chapter, and Trista Rachelle Sanders, a student at the Louisiana State University Center for Internal Auditing, representing the IIA-Baton Rouge Chapter. The awards honor the top scoring candidates from each exam cycle and full time students with the highest score for their exam cycle on their first attempt at taking the exam. The Smith awards are named in honor of The IIA’s first chairman of the Board of Regents who was a driving force behind the development of the CIA program.
NEW HORIZONS IN INTERNAL AUDITING AROUND THE WORLD

The IIA is committed to developing and sustaining globalization through appropriate infrastructure, coordination, support, and communication. Highlights of this work include:

- The IIA’s Global Footprint survey, implemented in 2008, was designed to collect comprehensive data from IIA institutes in one consolidated questionnaire. Survey participants were asked more than 50 questions about their activities, including: “Do you have a strategic plan?” and “What are your major challenges and opportunities?” They also were asked to supply membership data, including industries where their members work. Key findings from the Global Footprint include:
  - Institutes performed 108 Quality Assessment Reviews (QARs) in 2008, with IIA-Australia leading the way, completing 30 in its country.
  - Thirty-five institutes reported that they influenced the issuance of legislation or regulations in their country in 2008.
  - Internal auditors are required to have a professional certification in geographic regions served by 22 institutes.
  - There are 56 colleges or universities, in areas served by The IIA’s institutes, which offer courses in internal auditing.

- IIA-Serbia was accepted as an Institute-in-formation.

- The IIA’s Global Capacity Development (GCD) is a strategy to develop infrastructure to expand the internal audit profession in developing economies. It partners with funding organizations and works with current initiatives of key institutes. Major accomplishments in 2008 included:
  - Translating four training courses — Audit Report Writing, Instructor Development, Global Tools and Techniques, and CGAP review — into Spanish.
  - With the help of The World Bank, adopting the Capacity Maturity Model for use in public sector financial reforms.
  - Training 30 professionals in Eastern Africa to be qualified IIA instructors.
  - Assisting nineteen countries in Eastern Europe which are working together to develop capacity and share reform experiences with other countries in Central Asia and Central and Eastern Europe.
  - Training a dozen practitioners in Central America to be qualified IIA instructors and signed Memorandums of Understanding (MOUs) with Costa Rica, Mexico, and Columbia for the adoption of the CGAP exam.

- “Global Capacity Development takes patience and understanding, as changes do not happen overnight,” says GCD champion and former Chairman of the Board Tom Warga, CIA. “But it is most rewarding to see the advancement of the profession and recognition of The Institute in developing countries. We have made great strides over the past two years to sustain capacity development by strengthening IIA institutes within these countries and encouraging them to take the lead in raising the professionalism of internal auditors through training and dissemination of knowledge.”
A MESSAGE FROM THE IIA RESEARCH FOUNDATION PRESIDENT

At the IIA Research Foundation (IIARF), we recognize that we have the opportunity — and the challenge — to understand, shape, and advance the global profession of internal auditing by gathering and providing timely and innovative research.
Because internal auditing is so well-positioned to understand many different aspects of an organization, it finds itself in the middle of tremendous change and opportunity. The way we as a profession respond will determine our destiny for years to come. To meet this challenge, we must know where the profession has been, where it is now, and where it is headed.

I’m delighted to share with you that 2008 was another outstanding year for the IIARF, highlighted by significant achievements that will guide the future of the profession.

In 2008, we reviewed our strategic priorities to ensure they align with The IIA’s new strategic plan, took key steps to enhance our operations, and conducted new research, thus establishing a solid foundation for the profession’s growth. The success of the 2006 CBOK study paved the way for the next iteration of CBOK so we can continue to raise questions about the profession in the future and take full advantage of opportunities as they arise.

I’m grateful to be a part of the IIARF, and I am thankful for the Board of Trustees, the Board of Research and Education Advisors, our researchers, our generous donors, and the tremendous commitment and hard work of the research staff at Global Headquarters.

The following pages summarize why 2008 was such a positive year and demonstrate why we’re so well-positioned for continued growth in the years ahead.

Paul J. Sobel, CIA
President, IIA Research Foundation
THE INSTITUTE OF INTERNAL AUDITORS RESEARCH FOUNDATION (IIARF)
UNDERSTAND, SHAPE, ADVANCE
IIARF 2008 YEAR-END HIGHLIGHTS

- The new IIARF Bookstore e-commerce Web site launched in 2008, greatly improving the customer experience and ease of navigation through the bookstore.
- The Global Audit Information Network (GAIN) joined The Foundation as part of the Foundation’s mission to be the primary resource for leading-edge research, benchmarking services, and knowledge sharing.
- To help members interpret and use data from its CBOK study, the IIARF produced a series of articles titled “CBOK of the Month” throughout 2008. With the completion of the 2006 study, and integration efforts during 2008, the groundwork began to launch the CBOK 2010 study.
- As part of the ongoing translations program, the IIARF published Evaluacion Eficaz del Sistema de Control Interno (Evaluating the System of Internal Controls). Additionally, in coordination with The IIA’s Institute Relations Department, Certifications Department, and the chief staff officers of Spain, Argentina, and Mexico, the IIARF worked to translate and produce IIA certifications study guides.
- The third International IT Audit Research Symposium was organized by the IIARF and The IIA’s Advanced Technology Committee. The purpose of the symposium was to discuss challenging IT audit issues and to create a pipeline for research on valuable IT audit topics.
- A fundraising task force was established, comprising IIA leaders with an interest in research. The task force helped implement the fund development plan through peer-to-peer contacts, educating members about The Foundation, and helping to build support for its programs.
- The IIARF partnered with the IAAAF in 2008 to launch an auction in conjunction with the North American Destination Leadership Conference. The auction raised US $21,641, which is being used to support internal audit education and research initiatives.

NEW RESEARCH FOUNDATION PUBLICATIONS

- Core materials for the professional practice of internal auditing continued to be a focus for The Foundation. Research completed in 2008 included:
  - An Evaluation of Internal Auditor Responsibility for Fraud Detection (online report)
  - Co-sourcing and External Auditors’ Reliance on the Internal Audit Function (online report)
  - Honest, Competent Government: The Promise of Performance Auditing
  - Internal Audit Reporting Lines, Fraud Risk Decomposition, and Assessments of Fraud Risk (online report)
  - Leveraging IT Controls To Improve IT Operating Performance (online report)
  - Then and Now: Expectations and Reality of Sarbanes-Oxley
  - Using Nonfinancial Measures to Detect Fraud (online report)
Educational products added to The Bookstore in 2008 were:

- Auditing the Procurement Function
- Essentials: Internal Auditing Operations Manual
- Global Technology Audit Guide 10: Business Continuity Management
- Global Technology Audit Guide 11: Developing the IT Audit Plan
- Evaluacion Eficaz del Sistema de Control Interna
- THREAT! Managing Risk in a Hostile World
- Twenty-one third-party products were added to the Bookstore’s inventory in 2008, covering topical areas such as certifications review and study guides, risk and control, audit management and tools, ethics and fraud, and information technology.

Other research and educational products under development during 2008 focused on risk and control, audit essentials and tools, the public sector, quality assessment, ethics and fraud, and information technology.

GLOBAL AUDIT INFORMATION NETWORK (GAIN)

In the second quarter of 2008, GAIN became part of the IIARF. This move enabled The Foundation to increase its capacity to leverage and expand the use of knowledge capital, enhance the delivery of products and services, manage the pipeline of products, and enhance quick-turn services and product conversion timeframes.

In addition, more than 1,700 CAEs around the world were involved in the network, representing a more than 13 percent growth in participation over 2007. Also, 627 organizations participated in the Annual Benchmarking Study, representing a nearly 10 percent growth. And GAIN published its first annual Internal Audit Compensation Study — the most comprehensive study available on compensation for internal auditors.

Other GAIN highlights include:

- More than 100 Flash Surveys were performed for CAEs and on behalf of departments at IIA Global Headquarters.
- The IIA and GAIN launched a new compensation study — the most comprehensive report on salaries in the internal audit profession.
- GAIN made steps toward developing a “Knowledge Center” that will encompass existing products and services and introduce a resource library with timely papers and reports.
THE COMMON BODY OF KNOWLEDGE (CBOK) STUDY

CBOK 2006 was designed to provide The IIA and its members with comprehensive information on how internal auditing is practiced around the world and a better understanding of global trends. The results provided insight into the current knowledge of internal auditors, the skills needed to practice in the profession, the various responsibilities of practitioners, the structure of internal audit functions, the relationships internal auditors have with their audit committees, the value of certification, and the various laws and regulatory environments that affect internal auditing. Approximately 9,300 responses were received from 98 IIA institutes around the world and 145 IIA chapters in North America.

There are numerous examples of how the information from CBOK 2006 has helped to elevate the profession. Using the results of the study in IIA initiatives helps ensure the profession remains vibrant and expands The IIA’s ability to be effective, relevant, and responsive to the needs of the profession. CBOK has helped institutes learn about gaps that exist between IIA guidance and practitioner usage. CBOK has been integrated into The IIA’s conference and seminar curricula to enhance the professional development of practitioners. It also is helping drive priorities for research and educational content that will shape the future of the profession globally. The regional data collected from CBOK 2006 has been used by a number of institutes to perform their own local analysis. For instance, IIA-France has used the data from survey respondents in its country to publish a region-specific internal audit research report.

SCHOLARSHIPS AND AWARDS

The IIA Research Foundation presented the 2008 Esther R. Sawyer Research Award to University of Pretoria student Marianze Roux for her paper, “Advocating the Internal Audit Profession.” The award is presented annually to a college student studying internal auditing at an IAEP school, based on submission of the most compelling manuscript on a topic relating to modern internal auditing. It was funded by a grant from the Sawyer family in memory of the wife of Lawrence B. Sawyer, who is recognized as the “father of modern internal auditing.”

The Foundation presented the Donald E. Ricketts Research Award to IIA-St. Louis (first place) for its paper, “Increasing Meeting Effectiveness for Internal Auditors,” and to IIA-Dallas (second place) for “Confirmation Bias — Risk Perception Among Auditors in the Dallas/Ft. Worth Area.”

IN APPRECIATION OF 2008 CONTRIBUTORS

Contributions help The IIARF stay on the cutting edge of knowledge. Without this financial support the IIARF could not undertake the important research projects that have and will continue to help define the profession. The IIARF appreciates its loyal supporters — individual, corporate, and affiliate contributors; Master Key and Heritage Circle members; and IIA staff and volunteers. A listing of 2008 donors is available here.
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INDEPENDENT AUDITORS’ REPORT

The Board of Directors
The Institute of Internal Auditors, Inc.
Altamonte Springs, Florida

We have audited the accompanying consolidating statements of financial position of The Institute of Internal Auditors, Inc. ("the Institute") and Affiliates as of December 31, 2008, and the related consolidating statements of activities and cash flows for the year then ended. We have also audited the consolidated statement of financial position of The Institute of Internal Auditors, Inc. and Affiliates as of December 31, 2007, and the related consolidated statements of activities and cash flows for the year then ended. These consolidating and consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 2008 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, 2008, 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. Also, in our opinion, the 2007 consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Institute of Internal Auditors, Inc. and Affiliates as of December 31, 2007, the consolidated changes in their net assets and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Batts, Morrison, Wales & Lee, P.A.
Batts, Morrison, Wales & Lee, P.A.
Orlando, Florida
April 29, 2009
# Consolidating and Consolidated Statements of Financial Position

**For the Years Ended December 31, 2008**

<table>
<thead>
<tr>
<th></th>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 1,501,776</td>
<td>$ 35,127</td>
<td>$ 730,495</td>
<td>—</td>
<td>$ 2,267,398</td>
<td>$ 2,266,727</td>
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<tr>
<td>Restricted investments</td>
<td>—</td>
<td>179,386</td>
<td>—</td>
<td>—</td>
<td>179,386</td>
<td>179,386</td>
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<tr>
<td>Investments</td>
<td>9,541,322</td>
<td>1,120,676</td>
<td>—</td>
<td>—</td>
<td>10,661,998</td>
<td>16,509,147</td>
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<tr>
<td>Due from affiliates, net</td>
<td>111,480</td>
<td>—</td>
<td>431,538</td>
<td>(543,018)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>2,314,729</td>
<td>195,401</td>
<td>—</td>
<td>—</td>
<td>2,510,130</td>
<td>2,398,779</td>
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<tr>
<td>Inventories</td>
<td>—</td>
<td>299,040</td>
<td>—</td>
<td>—</td>
<td>299,040</td>
<td>318,633</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>1,675,514</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,675,514</td>
<td>1,600,156</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>7,105,616</td>
<td>150,484</td>
<td>—</td>
<td>—</td>
<td>7,256,100</td>
<td>5,622,816</td>
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<tr>
<td>Deferred project costs, net</td>
<td>1,481,709</td>
<td>180,344</td>
<td>—</td>
<td>—</td>
<td>1,662,053</td>
<td>1,272,448</td>
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<tr>
<td>Employee savings plan</td>
<td>678,285</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>678,285</td>
<td>1,247,539</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$ 24,410,431</strong></td>
<td><strong>$ 2,160,458</strong></td>
<td><strong>$ 1,162,033</strong></td>
<td><strong>(543,018)</strong></td>
<td><strong>$ 27,189,904</strong></td>
<td><strong>$ 31,415,631</strong></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$5,713,305</td>
<td>$172,427</td>
<td>—</td>
<td>—</td>
<td>5,885,732</td>
<td>3,993,379</td>
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<tr>
<td>Due to affiliates, net</td>
<td>431,538</td>
<td>111,480</td>
<td>—</td>
<td>(543,018)</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Deferred revenue</td>
<td>5,719,023</td>
<td>14,656</td>
<td>—</td>
<td>—</td>
<td>5,733,679</td>
<td>5,192,389</td>
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<td>Note payable</td>
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<td>—</td>
<td>—</td>
<td>4,579,012</td>
<td>—</td>
</tr>
<tr>
<td>Deferred employee compensation</td>
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<td>—</td>
<td>—</td>
<td>—</td>
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<td>1,247,539</td>
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<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>$ 17,121,163</strong></td>
<td><strong>$ 298,563</strong></td>
<td>—</td>
<td>(543,018)</td>
<td><strong>$ 16,876,708</strong></td>
<td><strong>$ 10,433,307</strong></td>
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<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$ 7,289,268</td>
<td>$ 1,309,866</td>
<td>$ 969,905</td>
<td>—</td>
<td>9,569,039</td>
<td>20,438,066</td>
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<td>Temporarily restricted</td>
<td>—</td>
<td>372,643</td>
<td>192,128</td>
<td>—</td>
<td>564,771</td>
<td>364,872</td>
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<tr>
<td>Permanently restricted</td>
<td>—</td>
<td>179,386</td>
<td>—</td>
<td>—</td>
<td>179,386</td>
<td>179,386</td>
</tr>
<tr>
<td><strong>TOTAL NET ASSETS</strong></td>
<td><strong>$ 7,289,268</strong></td>
<td><strong>$ 1,861,895</strong></td>
<td><strong>$ 1,162,033</strong></td>
<td>—</td>
<td><strong>$ 10,313,196</strong></td>
<td><strong>$ 20,982,324</strong></td>
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<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td><strong>$ 24,410,431</strong></td>
<td><strong>$ 2,160,458</strong></td>
<td><strong>$ 1,162,033</strong></td>
<td><strong>(543,018)</strong></td>
<td><strong>$ 27,189,904</strong></td>
<td><strong>$ 31,415,631</strong></td>
</tr>
</tbody>
</table>
## Consolidating and Consolidated Statements of Activities

**For the Years Ended December 31, 2008**

<table>
<thead>
<tr>
<th>Description</th>
<th>Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in Unrestricted Net Assets from Operations Revenues</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Seminars</td>
<td>$ 12,754,662</td>
<td>$ —</td>
<td>$ —</td>
<td>—</td>
<td>$ 12,754,662</td>
<td>$ 11,928,261</td>
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<tr>
<td>Relationship management</td>
<td>7,059,648</td>
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<td>—</td>
<td></td>
<td>7,059,648</td>
<td>6,932,331</td>
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<td>Conferences</td>
<td>3,478,169</td>
<td>—</td>
<td>—</td>
<td></td>
<td>3,478,169</td>
<td>3,849,549</td>
</tr>
<tr>
<td>Certification</td>
<td>3,340,585</td>
<td>—</td>
<td>—</td>
<td></td>
<td>3,340,585</td>
<td>5,849,214</td>
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<tr>
<td>Publishing</td>
<td>1,515,967</td>
<td>—</td>
<td>—</td>
<td></td>
<td>1,515,967</td>
<td>1,676,949</td>
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<tr>
<td>Quality assessment</td>
<td>1,127,718</td>
<td>—</td>
<td>—</td>
<td></td>
<td>1,127,718</td>
<td>1,556,547</td>
</tr>
<tr>
<td>Other program revenue</td>
<td>2,170,467</td>
<td>—</td>
<td>—</td>
<td></td>
<td>2,170,467</td>
<td>1,685,272</td>
</tr>
<tr>
<td>Publication sales</td>
<td>—</td>
<td>2,408,126</td>
<td>—</td>
<td>(42,278)</td>
<td>2,365,848</td>
<td>2,174,252</td>
</tr>
<tr>
<td>Contributions</td>
<td>328,319</td>
<td>384,064</td>
<td>619,412</td>
<td>(423,681)</td>
<td>908,114</td>
<td>324,821</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td>633,429</td>
<td>72,982</td>
<td>—</td>
<td></td>
<td>706,411</td>
<td>1,259,926</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$ 32,408,964</td>
<td>$ 2,865,172</td>
<td>$ 619,412</td>
<td>(465,959)</td>
<td>$ 35,427,589</td>
<td>$ 37,237,122</td>
</tr>
<tr>
<td><strong>Net assets released from restrictions</strong></td>
<td>90,310</td>
<td>37,022</td>
<td>102,450</td>
<td>—</td>
<td>229,782</td>
<td>359,036</td>
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<tr>
<td><strong>Total Revenues and Net Assets Released from Restrictions</strong></td>
<td>$ 32,499,274</td>
<td>$ 2,902,194</td>
<td>$ 721,862</td>
<td>(465,959)</td>
<td>$ 35,657,371</td>
<td>$ 37,596,158</td>
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<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seminars</td>
<td>$ 10,338,392</td>
<td>$ —</td>
<td>$ —</td>
<td>(25,366)</td>
<td>$ 10,313,026</td>
<td>$ 9,473,655</td>
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<tr>
<td>Relationship management</td>
<td>4,678,888</td>
<td>—</td>
<td>—</td>
<td>(4,228)</td>
<td>4,674,660</td>
<td>4,945,966</td>
</tr>
<tr>
<td>Certification</td>
<td>3,684,690</td>
<td>—</td>
<td>—</td>
<td>(4,228)</td>
<td>3,680,462</td>
<td>2,383,606</td>
</tr>
<tr>
<td>Conferences</td>
<td>2,597,975</td>
<td>—</td>
<td>—</td>
<td>(4,228)</td>
<td>2,597,975</td>
<td>2,343,406</td>
</tr>
<tr>
<td>Quality assessment</td>
<td>1,151,889</td>
<td>—</td>
<td>—</td>
<td>(8,456)</td>
<td>1,143,433</td>
<td>1,269,313</td>
</tr>
<tr>
<td>Publishing</td>
<td>498,882</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>498,882</td>
<td>596,983</td>
</tr>
<tr>
<td>Other program expenses</td>
<td>3,225,230</td>
<td>—</td>
<td>71,397</td>
<td>—</td>
<td>3,296,627</td>
<td>3,427,825</td>
</tr>
<tr>
<td>Educational products</td>
<td>—</td>
<td>1,875,775</td>
<td>—</td>
<td>—</td>
<td>1,875,775</td>
<td>2,160,155</td>
</tr>
<tr>
<td>Research projects</td>
<td>—</td>
<td>272,327</td>
<td>—</td>
<td>—</td>
<td>272,327</td>
<td>397,301</td>
</tr>
<tr>
<td>Academic programs</td>
<td>—</td>
<td>17,441</td>
<td>—</td>
<td>—</td>
<td>17,441</td>
<td>17,179</td>
</tr>
<tr>
<td>Grants</td>
<td>—</td>
<td>—</td>
<td>142,000</td>
<td>—</td>
<td>142,000</td>
<td>119,018</td>
</tr>
<tr>
<td>General and administrative spending</td>
<td>10,931,344</td>
<td>914,041</td>
<td>—</td>
<td>(573,681)</td>
<td>11,271,704</td>
<td>10,063,042</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$ 37,107,290</td>
<td>$ 3,079,584</td>
<td>$ 213,397</td>
<td>(615,959)</td>
<td>$ 39,784,312</td>
<td>$ 38,097,449</td>
</tr>
<tr>
<td><strong>Change in Unrestricted Net Assets from Operations</strong></td>
<td>$ (4,608,016)</td>
<td>$ (177,390)</td>
<td>$ 508,465</td>
<td>$ 150,000</td>
<td>$ (4,126,941)</td>
<td>$ (501,291)</td>
</tr>
</tbody>
</table>
## The Institute of Internal Auditors, Inc. and Affiliates Consolidating and Consolidated Statements of Activities (Continued)

### For the Years Ended December 31, 2008

<table>
<thead>
<tr>
<th>Change in Temporarily Restricted Net Assets From Operations</th>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$ —</td>
<td>$ 189,290</td>
<td>$ 227,950</td>
<td>$ (150,000)</td>
<td>$ 267,240</td>
<td>$ 184,247</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td>—</td>
<td>12,441</td>
<td>—</td>
<td>—</td>
<td>12,441</td>
<td>9,573</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>(90,310)</td>
<td>(37,022)</td>
<td>(102,450)</td>
<td>—</td>
<td>(229,782)</td>
<td>(359,036)</td>
</tr>
</tbody>
</table>

| Change in Temporarily Restricted Net Assets From Operations | $ (90,310) | $ 164,709 | $ 125,500 | $ (150,000) | $ 49,899 | $ (165,216) |

| Change in Permanently Restricted Net Assets From Operations | $ — | $ — | $ — | $ — | $ — | $ 44,386 |

### Non-Operating Activities

| Non-Operating Activities | $ (6,089,039) | $ (503,047) | $ — | $ — | $ (6,592,086) | $ 919,268 |

### Change in Net Assets

| Change in Net Assets | $ (10,787,365) | $ (515,728) | $ 633,965 | $ — | $ (10,668,128) | $ 297,147 |

### Net Assets – Beginning of Year

| $ 18,076,633 | $ 2,377,623 | $ 528,068 | $ — | $ 20,982,324 | $ 20,685,177 |

### Net Assets – End of Year

| $ 7,289,268 | $ 1,861,895 | $ 1,162,033 | $ — | $ 10,313,196 | $ 20,982,324 |
## Consolidating and Consolidated Statements of Cash Flows

**For the Years Ended December 31, 2008**

<table>
<thead>
<tr>
<th>Description</th>
<th>Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows from Operating Activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in Net Assets</td>
<td>$(10,787,365)</td>
<td>$(515,728)</td>
<td>$633,965</td>
<td>$—</td>
<td>$(10,669,128)</td>
<td>$297,147</td>
<td></td>
</tr>
<tr>
<td>Adjustments to Reconcile Change in Net Assets to Net Cash Flows from Operating Activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>756,253</td>
<td>32,901</td>
<td>$—</td>
<td>$—</td>
<td>789,154</td>
<td>620,009</td>
<td></td>
</tr>
<tr>
<td>Amortization of deferred project costs</td>
<td>325,286</td>
<td>104,251</td>
<td>$—</td>
<td>$—</td>
<td>429,537</td>
<td>234,713</td>
<td></td>
</tr>
<tr>
<td>Net (gain)/loss on investments</td>
<td>4,154,386</td>
<td>503,047</td>
<td>$—</td>
<td>$—</td>
<td>4,657,433</td>
<td>(919,268)</td>
<td></td>
</tr>
<tr>
<td>Allowance for recoverability of construction expenditures</td>
<td>1,934,653</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>1,934,653</td>
<td>$—</td>
<td></td>
</tr>
<tr>
<td>Change in restricted investments</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>(44,386)</td>
<td></td>
</tr>
<tr>
<td>Change in due to/from affiliates, net</td>
<td>136,637</td>
<td>77,828</td>
<td>$(214,465)</td>
<td>$—</td>
<td>$(111,351)</td>
<td>(355,897)</td>
<td></td>
</tr>
<tr>
<td>Change in accounts receivable, net</td>
<td>102,051</td>
<td>20,835</td>
<td>11,535</td>
<td>$—</td>
<td>$(111,351)</td>
<td>(355,897)</td>
<td></td>
</tr>
<tr>
<td>Change in inventories</td>
<td>$—</td>
<td>19,593</td>
<td>$—</td>
<td>$—</td>
<td>19,593</td>
<td>28,192</td>
<td></td>
</tr>
<tr>
<td>Change in prepaid expenses and other assets</td>
<td>75,358</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>75,358</td>
<td>(543,134)</td>
<td></td>
</tr>
<tr>
<td>Change in accounts payable and accrued expenses</td>
<td>2,002,299</td>
<td>46,371</td>
<td>$(35,791)</td>
<td>$—</td>
<td>2,012,879</td>
<td>(90,093)</td>
<td></td>
</tr>
<tr>
<td>Change in deferred revenue</td>
<td>560,758</td>
<td>(19,468)</td>
<td>$—</td>
<td>$—</td>
<td>541,290</td>
<td>(420,571)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Adjustments</strong></td>
<td>$9,692,863</td>
<td>$743,688</td>
<td>$(238,721)</td>
<td>$—</td>
<td>$10,197,830</td>
<td>$(1,490,435)</td>
<td></td>
</tr>
<tr>
<td><strong>Net Cash Flows from Operating Activities</strong></td>
<td>$(1,094,502)</td>
<td>$227,960</td>
<td>$395,244</td>
<td>$—</td>
<td>$(471,298)</td>
<td>$1,193,288</td>
<td></td>
</tr>
<tr>
<td><strong>Cash Flows from Investing Activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sales of investments</td>
<td>$2,000,000</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$2,000,000</td>
<td>$2,001,169</td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>$(726,729)</td>
<td>$(83,555)</td>
<td>$—</td>
<td>$—</td>
<td>$(810,284)</td>
<td>(1,147,334)</td>
<td></td>
</tr>
<tr>
<td>Purchases of and improvements to property and equipment</td>
<td>$(4,319,303)</td>
<td>$(158,314)</td>
<td>$—</td>
<td>$—</td>
<td>$(4,477,617)</td>
<td>(1,019,342)</td>
<td></td>
</tr>
<tr>
<td>Expenditures for deferred projects</td>
<td>$(676,627)</td>
<td>$(142,515)</td>
<td>$—</td>
<td>$—</td>
<td>$(819,142)</td>
<td>(1,108,363)</td>
<td></td>
</tr>
<tr>
<td><strong>Net Cash Flows from Investing Activities</strong></td>
<td>$(3,722,659)</td>
<td>$(384,384)</td>
<td>$—</td>
<td>$—</td>
<td>$(4,107,043)</td>
<td>$(1,273,870)</td>
<td></td>
</tr>
<tr>
<td><strong>Cash Flows from Financing Activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>$4,579,012</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$4,579,012</td>
<td>$—</td>
<td></td>
</tr>
<tr>
<td><strong>Net Cash Flows from Financing Activities</strong></td>
<td>$4,579,012</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$4,579,012</td>
<td>$—</td>
<td></td>
</tr>
<tr>
<td><strong>Net Change in Cash and Cash Equivalents</strong></td>
<td>$(238,149)</td>
<td>$(156,424)</td>
<td>$395,244</td>
<td>$—</td>
<td>$395,244</td>
<td>$(2,467,158)</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents – Beginning of Year</strong></td>
<td>$1,739,925</td>
<td>$191,551</td>
<td>$335,251</td>
<td>$—</td>
<td>$2,266,727</td>
<td>$4,733,885</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents – End of Year</strong></td>
<td>$1,501,776</td>
<td>$35,127</td>
<td>$730,495</td>
<td>$—</td>
<td>$2,267,398</td>
<td>$2,266,727</td>
<td></td>
</tr>
</tbody>
</table>

**Supplemental Disclosure:** Interest paid during 2008 and 2007 amounted to approximately $1,000 (net of interest capitalized of approximately $35,000) and $0, respectively.
THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES NOTES TO FINANCIAL STATEMENTS

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

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

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

Canadian Institute of Internal Auditors (“the Canadian Institute”) is a not-for-profit Canadian corporation formed to cultivate, promote and disseminate knowledge and information concerning internal auditing and related subjects in Canada. The Institute controls the Canadian Institute by virtue of provisions contained in the Canadian Institute’s governing documents. Accordingly, in conformity with Statement of Position 94-3, issued by the American Institute of Certified Public Accountants, 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 with 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 Statement of Position 94-3, issued by the American Institute of Certified Public Accountants, 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 with 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 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 ratable 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 taken. Exam registration fees are nonrefundable and are recognized as income when received. Expenses include the direct costs of conducting exams.

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

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

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.

During 2008 and 2007, 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 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 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 estimated fair value as determined by quoted market prices.

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

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

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

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

Restrictions on net assets
Temporarily restricted net assets consist primarily of amounts 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. “Net assets released from restrictions” for the Institute for 2008 consists of funds expended related to an initiative to develop certain educational curriculum.

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

Use of estimates
Management uses estimates and assumptions in preparing 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 financial statements include those used in determining the useful lives of property and equipment and assessing the collectibility of accounts receivable. Actual results could differ from the estimates.

NOTE C – CONCENTRATION OF CREDIT RISK
The Institute, the Foundation and the Fund maintain their cash and cash equivalents in deposit accounts and money market funds which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Institute, the Foundation and the Fund have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk related to cash and cash equivalents.
Note D – Investments
Investments consist of mutual funds. The Institute considers all dividends and interest from investments as operating revenues for purposes of the accompanying statements of activities. Gains and losses related to investments are considered to be nonoperating activities for purposes of the accompanying statements of activities.

Net gain/(loss) on investments (included in “Non-Operating Activities” in the accompanying statements of activities) consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>FOR THE YEARS ENDED DECEMBER 31, 2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Institute</td>
<td>The Foundation</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$(4,154,386)</td>
<td>$ (503,047)</td>
</tr>
</tbody>
</table>

Estimated fair value of assets measured on a recurring basis at December 31, 2008 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Estimated Fair Value</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MUTUAL FUNDS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Institute</td>
<td>$ 9,541,322</td>
<td>$ 9,541,322</td>
<td>$ —</td>
<td>$ —</td>
</tr>
<tr>
<td>The Foundation</td>
<td>1,120,676</td>
<td>1,120,676</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$ 10,661,998</td>
<td>$ 10,661,998</td>
<td>$ —</td>
<td>$ —</td>
</tr>
</tbody>
</table>

Financial assets with estimated values determined using Level 1 inputs are based on unadjusted quoted market prices within active markets.

Property and equipment consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>FOR THE YEARS ENDED DECEMBER 31, 2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Institute</td>
<td>The Foundation</td>
</tr>
<tr>
<td><strong>CATEGORY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$ 2,230,567</td>
<td>$ —</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>4,139,672</td>
<td>$ —</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>3,948,628</td>
<td>202,849</td>
</tr>
<tr>
<td>Construction in progress, net</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>TOTAL PROPERTY AND EQUIPMENT</strong></td>
<td>$10,318,867</td>
<td>202,849</td>
</tr>
<tr>
<td><strong>LESS: ACCUMULATED DEPRECIATION</strong></td>
<td>(3,213,251)</td>
<td>(52,365)</td>
</tr>
<tr>
<td><strong>NET PROPERTY AND EQUIPMENT</strong></td>
<td>$7,105,616</td>
<td>$150,484</td>
</tr>
</tbody>
</table>

Note E – Property and Equipment
Depreciation expense for the Institute amounted to approximately $756,000 and $612,000 for 2008 and 2007, respectively. Depreciation expense for the Foundation amounted to approximately $33,000 and $8,000 for 2008 and 2007, respectively. “Land” includes property held for possible future development. See Note F.
NOTE F – NOTE PAYABLE
The Institute’s note payable is a revolving line of credit payable to a financial institution in an amount up to $6,660,015 for purposes approved by the financial institution. The note is payable in monthly installments of interest only at 6.08% through the maturity date of August 1, 2010 and 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 (and related agreements) contain various financial and other covenants and cross-default provisions related to the construction loan agreement described below. Interest expense incurred during 2008 was approximately $1,000.

In connection with its potential relocation, the Institute entered into a construction loan agreement in an amount up to $9,500,000 for the construction of an 85,000 square foot facility located in Lake Mary, Florida. The construction loan agreement contains various financial and other covenants and cross-default provisions related to the note payable described above. The construction loan agreement was amended during December 2008 to temporarily suspend financing available under the agreement. As of December 31, 2008, no amounts were payable by the Institute in connection with the construction loan agreement.

The Institute also entered into a Development Management Agreement with an unrelated organization to manage the construction and development of the facility. 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.

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

<table>
<thead>
<tr>
<th></th>
<th>FOR THE YEARS ENDED DECEMBER 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Total rent expense related to the above leases and additional amounts for short-term rentals and related charges amounted to approximately $849,000 and $1,087,000 for 2008 and 2007, respectively.</td>
<td>$157,000</td>
</tr>
</tbody>
</table>

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.

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 2008 and 2007, the Institute contributed approximately $996,000 and $934,000, 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 $678,000 and $1,248,000 in the plan as of December 31, 2008 and 2007, respectively, which is reflected in the accompanying statements of financial position under “employee savings plan” and “deferred employee compensation.” Contributions to the plan were terminated effective December 31, 2001.

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 $392,000 as of December 31, 2008.

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 $26,176,000 and $25,395,000 of program expenses, $10,923,000 and $10,027,000 of supporting expenses, and $8,000 of fund-raising expenses per year for 2008 and 2007, respectively.

During 2008 and 2007, the Foundation incurred approximately $66,000 and $39,000 respectively, of fund-raising expenses. Such amounts are included in “general and administrative” expense in the accompanying financial statements.
NOTE K — NON-OPERATING ACTIVITIES
Following is a recap of the amounts included in “Non-Operating Activities” in the accompanying statements of activities:

<table>
<thead>
<tr>
<th>FOR THE YEARS ENDED DECEMBER 31, 2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Institute</td>
</tr>
<tr>
<td>Net gain/(loss) on investments</td>
<td>$ (4,154,386)</td>
</tr>
<tr>
<td>Provision for impairment of construction-related expenditures</td>
<td>(1,934,653)</td>
</tr>
<tr>
<td><strong>TOTAL NON-OPERATING ACTIVITIES</strong></td>
<td><strong>$ (6,089,039)</strong></td>
</tr>
</tbody>
</table>

NOTE L — RELATED PARTY TRANSACTIONS
As of December 31, 2008, 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 — 2008</th>
<th>PAYMENTS — 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Behavioral Dimensions of Internal Auditing”</td>
<td>$ —</td>
<td>$ 122</td>
</tr>
<tr>
<td>“Internal Assurance and Consulting Services Textbook”</td>
<td>$ 8,386</td>
<td>$ 14,536</td>
</tr>
</tbody>
</table>