CELEBRATING SUCCESSES

EMBRACING CHALLENGES

2016 ANNUAL REPORT
In 2016, staff and management at The Institute of Internal Auditors’ global headquarters collaborated to adopt a new set of Core Values to guide employee interaction with each other, members, customers, vendors, and others. These four Core Values – put members first, do the right thing, commit to shared success, and work smart – focus on serving the best interests of our stakeholders, earning trust, and using resources thoughtfully. They encourage working as a team, performing ethically, valuing inclusivity, and communicating effectively. And they call for embracing challenges and constructive feedback, learning from missteps, displaying courage and passion, and seeking innovation.

For The IIA, this means delivering benefits to our professional community. We believe that everyone — members, customers, chapters, affiliates, the business community, and society at large — benefits when the internal audit workforce is highly educated, respected for its contribution to business success, and equipped with tools to do the job effectively. Consequently, as an organization, we focus our efforts on providing value in three ways:

- Emphasize the importance of the International Standards for the Professional Practice of Internal Auditing and, through guidance, tools, and resources, help organizations to improve their performance and reach business objectives.
- Empower IIA members to perform their jobs effectively and expand their professional knowledge and skills with globally recognized certification, training, thought leadership, and other value-driven services.
- Target stakeholders and key influencers to raise global awareness of and appreciation for the contributions of the internal audit profession as a steward for good governance.

Of course, these concepts are interconnected; what supports one area tends to support another. A well-trained member brings value to his or her business and, in turn, contributes to the reputation of the profession. Or, as the saying goes, “A rising tide lifts all boats.”

The IIA’s achievements of 2016 show evidence of a very high tide indeed.
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When I look back on 2016, a concept comes to mind: showcasing success. We had much to celebrate last year, many milestones, and several new products and services. Surely a high point was celebration of our 75th anniversary and the ringing of the opening bell at the New York Stock Exchange. We also published a new Global Advocacy Platform and committed to U.S. advocacy efforts by establishing a permanent office in Washington, D.C. We revised our Standards, added OnDemand training, upgraded the member portal, launched an ambitious development initiative in Africa, and passed a notable landmark: more than 190,000 members worldwide and growing.

But success does not exist only in the moment; it also shows up in a constant focus on “what’s next.” We took several steps we believe will position us favorably in the future, among them consolidation of our headquarters staff, enhancements to our customer-service system, and initiation of a study into the way The IIA is governed.

Successful organizations do not experience only wins. We face challenges as well, but a success-oriented mindset leads us to embrace and overcome any obstacle. In 2016, The IIA confronted a number of converging risks, including financial and market challenges, such as the stronger U.S. dollar. We recognized those risks and accommodated them through a dedication to finding new efficiencies, an effort that continues in 2017.

We are undaunted by the challenges, and we look forward to the future with great excitement. We have a membership that is replete with top-notch professionals, subject matter experts, and individuals who are well on their way to becoming trusted advisors. We have committed members and a dedicated core of volunteer leaders who possess vast experience and profound insights and who represent an immeasurable asset for our organization. We have students and emerging leaders who represent the next generation of professionals who will carry these efforts forward. And we have a staff who perform every day with energy, enthusiasm, and a laser focus on exceeding expectations.

The IIA is committed to continuing the success we enjoyed in 2016 and investing in further enhancements as we continue to deliver benefit for our members and for the internal audit profession. Thank you for your support as we embark on our next 75 years.

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA
President and CEO
Global Chairman
Message

About a year ago, I developed a theme for my term as Chair of The IIA Global Board of Directors: “Audit Never Sleeps.” It was appropriate to me, given the 24/7, “always on” society in which we live. In our personal lives and in our professional careers, there appear to be few or no “off hours.” Our devices are always connected and rapid response seems to be the standard expectation.

Stakeholder expectations of internal auditors have increased, as well. We must seek innovative ways to anticipate emerging risks and proactive ways to address them. We have to capitalize on every opportunity, without ever appearing to blur ethical lines to reach a desired outcome. We must demonstrate that we are as future-focused as the businesses in which we work; if we do not, we risk losing trust, becoming irrelevant, and being perceived as more of a bottleneck to the business, rather than an enabler.

It is not unusual, then, that we should expect the same from our professional organization. When I started my term, I affirmed my belief that The IIA needed to focus on its responsibility to the profession by developing timely knowledge and guidance, advocating, serving as the voice of the profession, and generating sustainable value for members through appropriate financial and business models. As you read this annual report, I believe you will find ample examples of each of these areas of focus.

During my chairmanship, I had the opportunity to talk to members around the world about the challenges our businesses face and what they need from us, the skills we require to fill those needs, and what we expect from our professional organization. I have found that our concerns and aspirations are much the same, regardless of our location, industry, or position. We want to help our companies meet their goals. We want to be seen as valuable contributors to the business and as trusted advisors. And we recognize that, as individuals and as a profession, we have room to grow in all these areas.

That is the future blueprint of The IIA — helping us attain those professional goals. It is a big task, but our incoming Global Chairman, J. Michael Peppers, is eminently capable of leading us there. I look forward to doing what I can to help him accomplish his objectives.

It was an honor to serve in this capacity, one I would never have anticipated in 2009, when I first served on the Board of Directors of IIA-Austria. I am grateful to Richard Chambers and to the dedicated staff at IIA headquarters for their constant guidance and support. In today’s environment, it is comforting to know that The IIA has a global retinue of members, volunteer leaders, and staff always ready to respond.

Angela Witzany, CIA, QIAL, CRMA
Chairman of the Global Board, 2016–17
Standardizing the Profession

Many definitions exist for what constitutes a profession, but most address mastery of a specific body of knowledge, practices, and behaviors, including ethics. The International Standards for the Professional Practice of Internal Auditing (Standards), issued in 36 languages, is The IIA’s answer to those professional requirements.

Given the importance of the Standards to the profession, The IIA is diligent in ensuring that they are updated regularly to reflect the current practices and behaviors required of internal auditors. The most recent update occurred in 2016. More than 1,140 responses to exposure of the updates, representing 76 IIA affiliates, were received and reviewed by the IIA Standards Board. The final version was released in October 2016 and became effective on Jan. 1, 2017.

New standards address the role and responsibilities of chief audit executives (CAEs) extending beyond traditional internal auditing. Among the updates are clarification of the relationship between the new Core Principles and the Standards; the quality assessment and improvement program; and communications among the CAE, board, and senior management. The Glossary and Introduction to the Standards received updates, as well.

Each of the 52 standards is now supported by Implementation Guides, which offer guidance on getting started and considerations for implementation and demonstration of conformance.

The IIA believes that conformance with the Standards makes internal audit a more valuable and effective function by helping practitioners contribute to their organization’s efforts to achieve objectives and serve stakeholders. Conformance will be a future focus for The IIA, not only to help internal auditors perform their work but also to help stakeholders understand the value of the internal audit function and why conformance to the Standards is something they should expect of their internal auditors.

In addition to a strong commitment to its own Standards, The IIA supported other profession-defining activities in 2016, notably an update of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management — Integrated Framework. As a member of the COSO governing board, The IIA provided input into the update and will be offering IIA members OnDemand courses on the new framework.

Other IIA-COSO activity in 2016 included launch of a certificate designed to demonstrate expertise in using COSO’s Internal Control — Integrated Framework. Recognizing a demand for CAEs, boards, and audit committees to have a way to recognize internal control experience, The IIA began offering both relevant OnDemand and face-to-face courses, followed by an online exam. Earning the COSO Internal Control Certificate is a way for internal auditors to differentiate themselves and prove their skill, knowledge, and commitment to the profession.

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<th>Country</th>
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<tr>
<td>USA</td>
<td>27%</td>
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<td>India</td>
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<td>Brazil</td>
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Perhaps in no area is the interplay among serving the business, the individual, and the profession as clear as in the general topic of education, in its many forms. Education improves the individual; the individual’s enhanced skills improve the business; and the individual’s consistent contribution builds credibility for the profession.

To contribute to that natural progression, The IIA provides our members opportunities to earn continuing professional education (CPE) credits in a variety of formats: online, in-person, via conferences, and on-site. The flexibility of the offerings means that anyone who wishes to add to his or her skills with IIA-related CPEs can find a convenient and cost-effective way to do so.

TRAINING IS DELIVERED IN A VARIETY OF WAYS:

1. Public seminars, which enable individuals to get away from the office, immerse themselves in the topic, and engage with peers and trainers, generally consist of individual modules that can be leveraged in single- or multiple-day packages. In a typical year, approximately 2,500 experience an IIA seminar. In 2016, 186 individual seminars and 24 presentations were offered in 21 cities.

2. The 53 offerings of online seminars (eSeminars) are attended by 800 to 900 people each year, and consist of presentations and interactive activities, such as break-out sessions and polling to enhance the learning experience. In other online training, member-only webinars are offered monthly and are enthusiastically received by IIA members — during 2016, participation topped 40,000.

3. The self-study (OnDemand) program launched in August 2016 and offers individual learners the opportunity to access education in brief, flexible segments. Ideal for the person who desires to acquire new knowledge in a limited period of time, the OnDemand program is continuing to develop and expand its course catalog.

Additional education is available through Vision University (VU). Presented three times a year (2017 will include a fourth offering with the first VU program in Canada), it is a face-to-face program that is tailored for the new CAE, typically in the first year in the role, who requires a deeper dive on IIA Standards and is looking to develop an effective strategy for the department. Even CAEs with some experience are likely to find in VU new ideas, techniques, and peer-to-peer networking that contribute to greater success.

In 2016, a business arrangement resumed with IIA-Canada in which The IIA manages on-site training courses held in Canada. This is just one manifestation of a stronger collaboration involving IIA-Canada, intended to focus more directly on serving members and exchanging information.

Companies, too, can access education by scheduling on-site training — seminars offered at customer sites (and, in some cases, online), customized to the company’s materials, issues, and processes. Especially well-suited for enterprises with five or more internal auditors, on-site training offers the benefits of break-out sessions, group exercises, peer interaction, and other participation activities.
CONFERENCES, WITH THEIR MIX OF EDUCATION, MOTIVATION, NETWORKING, AND SOCIAL ACTIVITY, REMAIN AN EXTREMELY POPULAR TRAINING VENUE FOR IIA MEMBERS AND OTHERS.

INTERNATIONAL CONFERENCE, always a major annual event and premier training offering for the profession globally, was especially festive in 2016 in that it encompassed the celebration of The IIA’s 75th anniversary in the organization’s birthplace, New York City. A special highlight of the conference was the awarding of the Lifetime Achievement Award to 2008-09 Global Chair Patricia Miller, CIA, QIAL, CRMA. The award recognizes individuals who have impacted the practice of internal auditing, advanced awareness of The IIA, and inspired practitioners around the world to make a difference in the profession and organization. Miller’s three decades in the profession include service in the private sector (Deloitte and Pacific Telesis), in academia (University of Nevada–Reno), and as an author.

THE GENERAL AUDIT MANAGEMENT (GAM) CONFERENCE is the largest IIA conference in North America. Attendance averages 1,300 to 1,500, and most are executives in internal audit. GAM’s goal is to provide advanced education, practical strategies, and tools related to internal management. Invited speakers address highly topical issues; in 2016, those included IT risk, leadership, building effective teams, and strategic auditing.

GOVERNANCE, RISK, AND CONTROL (GRC) CONFERENCE, an annual collaboration with ISACA, offers education on best practices, leading tools, and strategies that include IT auditing.

ALL STAR CONFERENCE, the final conference of the year, features the “best of the best” — presentations from speakers whose presentations at events earlier in the year were especially well received and highly rated.

NICHE-BASED CONFERENCES are offered by the Specialty Audit Centers (for example, the Financial Services Audit Center and the new Environmental, Health & Safety Audit Center).
PAID ATTENDANCE FOR THE 2016 INTERNATIONAL CONFERENCE IN NEW YORK CITY WAS THE SECOND LARGEST ON RECORD.

2,300 REPRESENTING A RECORD-BREAKING 100 COUNTRIES AND TERRITORIES.
Earning Professional Credentials

Certification is tangible proof of the combination of an individual’s education, knowledge, expertise, and experience. Our flagship certification, the Certified Internal Auditor (CIA), recognizes a competent, trusted professional who can demonstrate mastery of and ability to apply the Standards. The CIA is undergoing a job analysis study to ensure it reflects current daily activities of internal auditors. The new content is expected to be reflected in exams offered in 2018.

At the end of 2016, more than 143,000 individuals, in eight geographic regions, had received CIAs. The IIA’s other certifications and designations – Certification in Control Self-Assessment (7,207), Certification in Risk Management Assurance (14,722), Certified Financial Services Auditor (6,656), Certified Government Auditing Professional (4,829), Internal Audit Practitioner (328) and Qualification in Internal Audit Leadership (536) – enjoyed successful years, as well. CFSA and CGAP are expected to debut new content based on an updated job analysis in 2018.

The IIA’s certification coverage expanded significantly with the merger of The IIA and the Auditing Roundtable, which became official in July 2016. The union brought two environmental, health, and safety certifications – Certified Professional Environmental Auditor (CPEA) and Certified Process Safety Auditor (CPSA) – to the IIA’s portfolio. The second half of the year was focused on onboarding these programs into the existing IIA certification structure and arranging for exam delivery through test centers.

Also in 2016, The IIA partnered with the Institute of Singapore Chartered Accounts (ISCA) and IIA-Singapore to offer a challenge exam. The challenge exam tested items that appear in the CIA syllabus but not in the ISCA syllabus, an exercise that raised awareness of and interest in the CIA certification.

**OTHER EXAM UPDATES AND ENHANCEMENTS COMPLETED IN 2016 INCLUDE:**

- The first full year of computer-based training in mainland China.
- A tip line and dedicated web pages for reporting exam-related issues, concerns, and security incidents.
- Practice-test availability in five languages: English, Spanish, French, German, and simplified Chinese.
Building Professional Knowledge

Becoming a thought leader in a professional field means knowing the trends, issues, challenges, opportunities, practices, and emerging threats better than anyone else. It means being the go-to entity when a question arises about the profession. The IIA has long held that position for internal auditing, and, thanks to publication releases and specialty focus, that continued to be the case in 2016.

Deeply understanding a profession is akin to keeping a “finger on its pulse” — an analogy The IIA embodies through its Global and North American Pulse of Internal Audit surveys. The results from 2016’s North American Pulse indicated a need for internal audit to move out of its comfort zone, to take a fresh look at some areas in which the profession has perhaps become too comfortable. The Global Pulse study recognized that, though internal audit leaders are taking strides in the pursuit of excellence, certain globally emerging trends — such as keeping up with technology and achieving trusted advisor status — need more proactive attention.

Another way The IIA demonstrates its profound understanding of the internal audit profession is through its Common Body of Knowledge (CBOK) study, completed every five years.

The Global Pulse was issued as one edition of the Global Perspectives and Insights series, a publication that addresses member demand for timely, powerful, relevant, and topical thought leadership that responds to global geopolitical and economic influences. Other issues of Global Perspectives and Insights in 2016 included a focus on auditing culture and the role of internal audit as a trusted cyber advisor. The publications were offered in nine languages and were downloaded from The IIA Global and North American websites 5,000 times collectively, not including downloads from IIA affiliates’ sites.

The study is a two-pronged effort comprising practitioner and stakeholder surveys. The practitioner survey asked a global audience of practitioners to describe what they are doing in their daily work, how it is perceived, and what challenges they face. Many of The IIA’s affiliates assist in translating the survey. The stakeholder survey, conducted in partnership with Protiviti and with the assistance of 23 IIA affiliates, was issued to chief executive officers, chief financial officers, and audit committee members and chairs, and was supported by more than 100 interviews. Participants were asked to convey their opinions of internal audit as it is practiced today and to suggest opportunities for growth. Activity in 2016 focused on the Internal Audit Foundation’s issuance of 30 reports built from the data gathered. More are planned for release in 2017.
Certain areas within internal audit require additional focus because of the specialized nature of the subject matter or the environment, or the amount and complexity of related regulation. To serve those needs, The IIA in 2016 established or expanded Centers that offer exclusive content to help internal auditors understand the pertinent risks and deliver the right level of assurance to stakeholders.

THE IIA CURRENTLY SUPPORTS FOUR SUCH CENTERS:

**AUDIT EXECUTIVE CENTER (AEC).** Targeted to chief audit executives and other senior audit leaders, the AEC retained 79 percent of members from 2015 to 2016. Those members were presented with 34 unique thought leadership pieces during the year. Much of 2016 also was spent querying members regarding their needs and wants, in preparation for a 2017 refresh of the center. In 2016, the AEC counted more than 700 corporate members, further emphasizing its relevance and value contribution to leaders in internal audit.

**AMERICAN CENTER FOR GOVERNMENT AUDITING (ACGA).** In 2016, the ACGA boasted 11,852 members, an increase of 22 percent since the center was formed in 2014. More than 2,000 members participated in a center-sponsored eLearning offering, and 19 public-sector thought leadership pieces were published.

**ENVIRONMENTAL, HEALTH & SAFETY AUDIT CENTER (EHSAC).** The IIA’s newest center was formed in April 2016 and saw a healthy growth rate. In its first nine months, the center published 18 documents or articles on environmental, health, and safety topics, and more than 4,500 individuals participated in eLearning.

**FINANCIAL SERVICES AUDIT CENTER (FSAC).** The FSAC concluded its first full year of existence in 2016. By December 2016, 3,950 financial services internal auditors had joined, more than 7,200 had taken part in an eLearning course, and 25 thought leadership pieces had been posted for member use.
Local chapters and affiliates are supported in their efforts to serve internal audit professionals through an array of tips, techniques, and networking offered during Leadership Academy in North America and Global Council. Held in New York City as part of the 75th Anniversary celebration, Global Council in 2016 attracted representatives of 100 affiliates — the largest attendance ever — giving them an opportunity to interact with The IIA’s global leaders and staff to discuss upcoming trends and challenges for the profession and for the organization, as well as major IIA strategies and initiatives. The constituents also provided input about the future of the profession, shared updates from their areas, and discussed best practices. An indicator of the usefulness of Global Council is that more than 60 percent of 2016 attendees had attended multiple previous offerings of the event; 14 percent had attended more than five.
Serving the Professional

As a membership organization, the most direct way The IIA serves individuals in the profession is through membership connections. Benefits flow from the organization to its members, and, in return, the number of members grows. The many products and services help The IIA support and grow membership, resulting in a stronger profession.

While the organization does its part serving members in North America and globally directly from IIA Headquarters, much of the hands-on effort occurs at the local level among chapters and affiliates. The IIA was delighted to welcome four new affiliates in 2016 – Afghanistan, Kuwait, Jordan, and Rwanda.

Many of the activities discussed in this report exist to serve members, but two are noteworthy in their intent to enable members to engage with The IIA in a more streamlined manner:

- Members in North America can establish a “My IIA” presence within the newly upgraded member portal, which allows them to update their records, provide demographic details about themselves, and indicate the topics or products for which they have special interest. More than 87,000 “My IIA” sessions were held between February and November 2016.
- Concierge service is an extra level of service provided to North America-based enterprises. The IIA has a dedicated staff to provide personal support with member renewals and other administrative tasks and also advises about training, certification, and other IIA products and services that can enable the enterprise to capitalize on The IIA’s full value proposition. Some of this work, especially the administrative items, will be transitioned to a group portal, which will launch in 2017.

Consistently among the most highly rated and widely recognized member benefits is Internal Auditor magazine, an award-winning publication that covers topics of professional and career interest to internal auditors. The magazine, which is offered in print, in a digital edition, and via a mobile app (more than 43,000 downloads as of December 2016), focuses on providing members and its over 80,000 subscribers practical information they need to do their jobs. The dedicated journalistic focus of the magazine is reflected in the satisfaction ratings of the members. In the 2016 readership survey, 93 percent characterized the credibility of the articles and authors as good or excellent. The quality and readability of the content were rated at 90 percent and 89 percent, respectively.

AMONG THE MILESTONES ACHIEVED IN 2016:

- **75k** Members in North America by the 75th anniversary.
- **84%** Maintaining a consistent retention rate in North America
- **190k** Members worldwide
The Institute of Internal Auditors has a strong commitment to making society aware of the value and credibility of the profession of internal auditing. This objective requires a lot of “opening doors” activities — in countries and territories, with governments, and in the marketplace.

The launch of the African Development Initiative, a program designed to elevate the capacity of the internal audit profession across the continent of Africa, occurred in 2016. A highlight of the initiative was the first African Leadership Academy, held in Nairobi, Kenya, which brought together more than 50 leaders of The IIA’s African affiliates. Over the two-day event, attendees discussed best practices for association management, such as governance, membership recruitment and retention, using volunteers wisely, planning programs, and leveraging technology. Professional topics, such as the future of internal auditing, organizational culture, and raising awareness of the profession, were covered, as well.

OTHER ACTIVITIES UNDERTAKEN AS PART OF THE AFRICAN DEVELOPMENT INITIATIVE INCLUDED:

- Partnering with the World Bank to conduct research on 11 sub-Saharan English-speaking countries. As a result of this research, The IIA has a better understanding of the challenges and opportunities in each country, which will enable deployment of initiatives that are more likely to be successful. An additional outcome of the research is the creation of an Internal Audit National Maturity Model, an evolutionary path in developing effective internal auditing to meet local stakeholders’ needs and expectations.
- Meeting in Paris, France, to enhance the strategy to support French-speaking affiliates in Africa.
- Developing websites for African affiliates that had lacked a presence on the internet, an activity that increased the percentage of African affiliates with web pages from a little more than half to 85 percent.

Africa was not the only geographic area in which The IIA advocated for the profession in 2016. In Vietnam, local laws hinder the ability to establish an official IIA presence, but there are roughly 85 members there on an at-large basis. The IIA made its first official visit to the country in 2016, holding events in Hanoi with members, CIA students, and local partners. So unique was the visit that it was covered by local newspapers and television news. Plans are underway to set up a local platform there (in compliance with local laws) beginning in mid-2017.

The IIA’s advocacy efforts were enhanced by the finalization in 2016 of a Global Advocacy Platform, a statement of internal auditing’s value and its vital role in sound risk management and governance. The platform lays out six pillars of good governance that address the importance of governance to organizational success and the essential role internal audit plays in governance. The pillars further discuss what internal audit delivers, what it needs to be effective, how it creates maximum value, and why it needs to remain independent and free of influence.

The IIA actively seeks to raise awareness of internal auditing through relationships with like-minded organizations and opportunities to partner on projects that support strong governance, internal controls, and risk management. One such example is a project begun with the International Federation of Accountants (IFAC) in 2016 to develop a paper that clarifies the crucial roles of accountants and internal auditors in organizational governance. Another collaborative project begun in 2016, with the International Integrated Reporting Council (IIRC), focuses on internal audit’s role in integrated thinking and reporting.

Within the United States, advocacy efforts reached a new level with the establishment of The IIA’s first-ever official staff presence in Washington, D.C. Prior to this, The IIA had used the services of a law firm to build its advocacy and government relations efforts. The primary goals of having a permanent staff presence are to continue to build on relationships with regulatory bodies (especially significant given The IIA’s specialty centers in financial services and EHS), meet with congressional staff, and gain an understanding of the regulatory environment under the new administration.
Sometimes raising the profile of internal audit cannot be done in a day, or even a week. It takes a whole month, which is why each May is designated International Internal Audit Awareness Month. The IIA, its chapters, and affiliates undertake a variety of special activities each year to make people aware of the role of internal audit and why it matters to businesses worldwide.

For something to merit the creation of a museum in its honor, it must have a long and distinguished history of significant impact or importance. So, it was that the Museum of Internal Auditing came to be as part of the 75th anniversary celebration. Supported by generous contributions from The IIA’s founding chapter, IIA-New York, and thousands of hours of work by many people, the museum, located within IIA Headquarters and officially dedicated in early 2017, is intended to enlighten and educate the public about the internal audit profession and The IIA. Exhibits explain how much internal auditing impacts almost every aspect of the modern world.

And, finally, The IIA’s 2016 activities to raise awareness of internal audit reached a peak on June 30, when The IIA had the opportunity to engage in a tradition that’s synonymous with business success: ringing the opening bell on the floor of the New York Stock Exchange (NYSE). IIA President and CEO Richard F. Chambers and 2011-12 Global Chairman Denny Beran were joined by headquarters staff and members and leaders from the New York area for this rare privilege. The NYSE is the only U.S. stock exchange that currently requires listed companies to have an internal audit function.
Operating Professionally

No organization can create value-added outcomes without maintaining a sharp eye on its own internal operations. The IIA is no exception, and the organization took several steps in 2016 to ensure that its functions are streamlined, efficient, and effective.

Possibly the highest-profile activity in this area in 2016 was consolidation of The IIA’s Global Headquarters, previously split between two locations. This brought together more than 200 employees and enabled the organization to more effectively serve members and customers by providing space and flexibility to align departments, services, and workflow. As part of the move, The IIA moved its data center offsite, resulting in cost savings, better security, and increased power.

A commitment to customer service that was a driving consideration in consolidating Headquarters operations was further manifested by a 2016 upgrade in technology. As a result, the average time to resolve queries from members has been reduced by half, with 80 percent resolved within 24 hours. Customer satisfaction, meanwhile, has increased 8 percent.

Businesses worldwide are increasingly aware of the need for and value of business intelligence. The IIA has expanded its efforts in this area, as well. An enhanced business intelligence team supports multiple business efforts, providing market research and insights so operations can take the information into account when setting goals. Included among the areas where business intelligence has been applied are member needs and satisfaction, departmental dashboards, and customer profiles and finances related to Learning Solutions.

Operational excellence depends on governance efficiency. In 2016, The IIA initiated an in-depth study of its governance structure to determine how it can best perform its responsibilities. Resulting recommendations will be exposed in the second half of 2017. IIA Headquarters itself initiated a realignment in 2016 to elevate the level of service to all constituencies, address key risks and concerns of North American leaders, and achieve fiscal sustainability for Global operations. A small number of staff positions also were eliminated.
Laying the Foundation for the Profession: The Internal Audit Foundation

Much of The IIA’s leadership in the internal audit profession is based on knowledge and a future focus. Both are addressed in the newly named Internal Audit Foundation, which celebrated its 40th anniversary in 2016. Previously The IIA Research Foundation, the Internal Audit Foundation combines two foundation-related activities — research and academia — under one roof.

Along with the name change, staff was restructured, new processes were developed, and a new e-commerce platform and website were implemented. However, the mission remains the same: the education, engagement, and empowerment of internal auditors, from students to seasoned professionals, through delivery of knowledge and insights, educational products, and tools and research. With a focus on timely and relevant topics, alternative delivery models, and sustaining business models, the Foundation seeks to ensure a well-educated pipeline of new talent into the profession.

The Foundation’s commitment to research was in evidence in 2016 with the distribution of a variety of reports based on the results of the CBOK studies. The Foundation’s work is funded by donations.

OTHER FOUNDATION PROJECTS IN 2016 INCLUDED:

- A publication on data analytics, in partnership with Grant Thornton.
- A set of case studies on adding value with COSO.
- An update of the Essentials of Internal Auditing — a database of customizable documents such as audit reports, job descriptions, and checklists that internal auditors can use to build their own documentation.
- Books on collaborative auditing and The IIA’s 75th anniversary.

The Foundation’s future focus is carried out through its work in academia, with a goal of helping to create “job-ready students.” In 2016, the annual Internal Auditing Educational Partnership (IAEP) Leadership & Networking Conference enabled practitioners and donors to meet with students and academics. The event offered educators the chance to learn from each other and from practitioners about how they should be preparing their students. For their part, students could query practitioners about job possibilities and internships, resulting in 82 interviews conducted with 42 students.

The IAEP advocates for the profession to the next generation of internal auditors, reaching more than 5,000 students and educators annually. IIA chapters and affiliates are equipped with materials to help them make the local connection to universities and student groups, and universities are provided a curriculum consisting of five core courses that give students a better understanding of the Standards and the profession.

Various levels of involvement, based on teaching of the curriculum and other criteria, are required of universities wishing to be part of the IAEP program. In 2016, there were 49 IAEP universities in 12 countries and territories. Universities that are IAEP-approved have a competitive advantage in the marketplace and enjoy the benefits of The IIA’s tools and its endorsement as a good location for job recruiters to find well-qualified candidates.

Financial support is also available to IAEP universities through the Internal Audit Foundation — more than $100,000 was granted in 2016 to support curriculum development, teaching assistants, mentorship opportunities, and more. Students and professors at IAEP universities are also eligible for scholarship funds through the Esther Sawyer Award and the Michael J. Barret Doctoral Dissertation Grant.
Conclusion

The challenges and opportunities facing businesses, members, and the profession are growing, and The IIA is committed to leading, serving, and facilitating within the internal audit community. That commitment comes with many promises.

WE WILL:

CONTINUE TO SCAN the environment to monitor emerging trends that may involve new and significant risk.

INVITE MEMBERS to describe the tools, information, and techniques they need to address their work-related issues.

MISS NO OPPORTUNITY to advocate for the profession and raise its profile so internal auditors’ contributions to business and society are appropriately appreciated.

MAINTAIN OUR EFFORTS to transform our products, keeping the subject matter fresh, timely, and relevant.

LEVERAGE INNOVATION and technology to capitalize on new delivery methods.

CONTINUE TO BE DILIGENT stewards of the organization’s resources.

WE CELEBRATE THE SUCCESSES OF 2016 AND WE EMBRACE CHALLENGES WITH CONFIDENCE IN OUR ABILITY TO DELIVER ON OUR PROMISES.

THE IIA IS PROUD TO BE A PART OF THE VALUED AND TIME-TESTED PROFESSION OF INTERNAL AUDITING, AND WE ARE HONORED TO SERVE THE MOTIVATED AND DEDICATED PROFESSIONALS WHO DO SO MUCH TO HELP THEIR BUSINESSES MEET THEIR STRATEGIC OBJECTIVES.
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Sparkassen Versicherung AG, Austria

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Botswana

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Infinity Consulting
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China Unionpay Merchant Services
China

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USA
2016 Financial Results

2016 Financial Discussion and Analysis

As the Institute of Internal Auditors reviews its 2016 fiscal position, it is pleased to outline the financial performance that supported the aforementioned achievements.

For the 12-month period ending Dec. 31, 2016, total revenue was $59.5 million for The Institute of Internal Auditors, Inc., and related entities (IIA). That represented an increase of $3.7 million (6.5 percent) from 2015. Change in Net Assets (net contribution) was $5.5 million in 2016, an increase of $2.6 million (91.7 percent) from 2015.

In 2016, The IIA experienced revenue growth in all major operating areas, highlighted by a 14.9 percent increase in Educational Programs revenue, a 4.8 percent increase in Certification revenue and a 1.4 percent increase in Membership revenue.

Growth in Educational Program revenue is attributed mainly to the International Conference held in New York City in 2016 that also celebrated the 75th Anniversary of The IIA. The International Conference generated revenue of $5.7 million before operating expenses.

The IIA also tracks revenue, expenses, and net contribution by geographic segment between North American Operations and Global Operations. For the 12-month period ending Dec. 31, 2016, total revenue for North American Operations was $36.2 million, while net contribution was $3.7 million. For Global Operations, total revenue was $21.8 million, while net contribution was $2.1 million.

As a result of the strong financial performance and the sale of its Headquarters building, The IIA ended 2016 with $18.4 million in cash and cash equivalents. That represented a year-over-year increase of $4.5 million (32.0 percent). During 2016, $2.0 million in excess daily operating cash was moved into long-term investments, bringing the two-year (2015-16) total to $7.0 million of excess daily operating cash moved to long-term investments.

During 2016, The IIA continued its practice to reinvest prior year net contribution into improving the product and services offered to its members. In 2016, The IIA invested $1.9 million into capital-related projects, bringing the two-year (2015-16) total investment to $3.1 million.

The IIA’s investment portfolio in 2016 increased from $37.9 million to $42.2 million as a result of $2.0 million moved from excess daily operating cash, $2.1 million investment interest, dividend income and capital gains received, and the recording of a gain of $46,000 in mark-to-market adjustment. Overall, the investment portfolio has performed consistent with expectations given the more conservative nature of an investment policy implemented in 2011.

Total net assets in 2016 for The IIA were $49.3 million, compared with $43.7 million in 2015.

(All monetary figures represent U.S. dollars.)
REPORT OF INDEPENDENT AUDITOR

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

REPORT ON THE FINANCIAL STATEMENTS
We have audited the accompanying consolidating financial statements of The Institute of Internal Auditors, Inc. and Affiliates, which comprise the consolidating statement of financial position as of December 31, 2016, and the related consolidating statements of activities and cash flows for the year then ended, and the related notes to the financial statements. We have also audited the accompanying consolidated financial statements of The Institute of Internal Auditors, Inc. and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION
In our opinion, the 2016 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, 2016, the changes in their net assets, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2015 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, 2015, the changes in their net assets, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Batts Morrison Wales & Lee, P.A.
Orlando, Florida
May 11, 2017
## THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES

### CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2016

(With Comparative Consolidated Totals as of December 31, 2015)

<table>
<thead>
<tr>
<th>December 31,</th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Institute of Internal Auditors, Inc.</td>
<td>Internal Audit Foundation</td>
<td>IIA Quality Services, LLC</td>
<td>Eliminations</td>
<td>Consolidated Total</td>
<td>Consolidated Total</td>
</tr>
<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>$15,633,580</td>
<td>$1,619,783</td>
<td>$1,143,799</td>
<td>$ –</td>
<td>$18,397,162</td>
<td>$13,940,226</td>
</tr>
<tr>
<td>Investments</td>
<td>39,767,175</td>
<td>2,426,745</td>
<td>–</td>
<td>–</td>
<td>42,193,920</td>
<td>37,867,370</td>
</tr>
<tr>
<td>Due from affiliates, net</td>
<td>1,699,055</td>
<td>–</td>
<td>–</td>
<td>(1,699,055)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>1,721,440</td>
<td>180,464</td>
<td>516,715</td>
<td>–</td>
<td>2,418,619</td>
<td>2,316,507</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>2,501,167</td>
<td>144,837</td>
<td>–</td>
<td>–</td>
<td>2,646,004</td>
<td>1,964,160</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>3,031,933</td>
<td>75,913</td>
<td>–</td>
<td>–</td>
<td>3,107,846</td>
<td>4,881,081</td>
</tr>
<tr>
<td>Deferred project costs, net</td>
<td>820,677</td>
<td>96,853</td>
<td>–</td>
<td>–</td>
<td>917,530</td>
<td>1,185,642</td>
</tr>
<tr>
<td>Employee savings plans</td>
<td>1,842,622</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,842,622</td>
<td>1,659,353</td>
</tr>
<tr>
<td>Restricted investments</td>
<td>–</td>
<td>135,000</td>
<td>–</td>
<td>–</td>
<td>135,000</td>
<td>135,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$67,017,649</td>
<td>$4,679,595</td>
<td>$1,660,514</td>
<td>$(1,699,055)</td>
<td>$71,658,703</td>
<td>$63,949,339</td>
</tr>
</tbody>
</table>

| **LIABILITIES** |  |  |  |  |  |  |
| Accounts payable and accrued expenses | $7,941,965 | $115,552 | $98,020 | – | $8,155,537 | $6,782,554 |
| Due to affiliates, net | – | 345,531 | 1,353,524 | (1,699,055) | – | – |
| Deferred revenue | 11,276,799 | 36,796 | – | – | 11,313,595 | 10,728,637 |
| Deferred employee compensation | 1,842,622 | – | – | – | 1,842,622 | 1,659,353 |
| Other liabilities | 1,085,649 | – | – | – | 1,085,649 | 1,037,816 |
| **Total liabilities** | $22,147,035 | $497,879 | $1,451,544 | $(1,699,055) | $22,397,403 | $20,208,360 |

| **NET ASSETS** |  |  |  |  |  |  |
| Unrestricted | 44,842,624 | 3,558,709 | 208,970 | – | 48,609,493 | 43,000,922 |
| Temporarily restricted | 28,350 | 488,007 | – | – | 516,357 | 605,057 |
| Permanently restricted | – | 135,000 | – | – | 135,000 | 135,000 |
| **Total net assets** | $44,870,614 | $4,181,716 | $208,970 | – | $49,261,300 | $43,740,979 |
| **Total liabilities and net assets** | $67,017,649 | $4,679,595 | $1,660,514 | $(1,699,055) | $71,658,703 | $63,949,339 |

The Accompanying Notes are an Integral Part of These Consolidating Financial Statements.
### THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES

**CONSOLIDATING STATEMENT OF ACTIVITIES**

For The Year Ended December 31, 2016
(With Comparative Consolidated Totals For The Year Ended December 31, 2015)

<table>
<thead>
<tr>
<th></th>
<th>For The Years Ended December 31,</th>
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<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
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<tr>
<td><strong>The Institute</strong></td>
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<tr>
<td>of Internal</td>
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<tr>
<td>Auditors, Inc.</td>
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<tr>
<td><strong>Internal Audit</strong></td>
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<td>Foundation</td>
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<tr>
<td><strong>Internal Auditing</strong></td>
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<tr>
<td>Academic Advancement</td>
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<tr>
<td>Fund, Inc.</td>
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<tr>
<td><strong>IIA Quality</strong></td>
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<tr>
<td>Services, LLC</td>
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<tr>
<td><strong>Eliminations</strong></td>
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<tr>
<td><strong>Consolidated</strong></td>
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<tr>
<td><strong>Total</strong></td>
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</tbody>
</table>

#### CHANGE IN UNRESTRICTED NET ASSETS

**REVENUES**

<table>
<thead>
<tr>
<th>Activity</th>
<th>2016</th>
<th>2015</th>
<th></th>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship management</td>
<td>$ 14,559,790</td>
<td>$ —</td>
<td></td>
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<tr>
<td>Certification</td>
<td>13,913,805</td>
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<tr>
<td>Conferences</td>
<td>10,909,197</td>
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<tr>
<td>Seminars</td>
<td>9,178,935</td>
<td>—</td>
<td></td>
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<tr>
<td>Publishing</td>
<td>1,205,968</td>
<td>1,600,676</td>
<td></td>
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<tr>
<td>Dividend and interest income</td>
<td>1,828,560</td>
<td>106,232</td>
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<td></td>
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<tr>
<td>Quality assessment</td>
<td>—</td>
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</tr>
<tr>
<td>Other program revenue</td>
<td>1,672,104</td>
<td>—</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>North American services</td>
<td>1,443,585</td>
<td>—</td>
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<td></td>
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<tr>
<td>Technology based learning</td>
<td>931,272</td>
<td>—</td>
<td></td>
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<tr>
<td>Contributions</td>
<td>—</td>
<td>371,424</td>
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<td></td>
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<td>Grant from affiliates</td>
<td>—</td>
<td>1,303,417</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>55,643,216</td>
<td>3,381,749</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net assets released from use restrictions</strong></td>
<td>55,643,216</td>
<td>3,710,374</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

#### EXPENSES

**PROGRAM ACTIVITIES**

<table>
<thead>
<tr>
<th>Activity</th>
<th>2016</th>
<th>2015</th>
<th></th>
<th></th>
<th></th>
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<th></th>
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<th></th>
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<tbody>
<tr>
<td>Conferences</td>
<td>8,140,977</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certification</td>
<td>8,054,919</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Seminars</td>
<td>6,922,969</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationship management</td>
<td>6,615,851</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North American services</td>
<td>2,631,761</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational products</td>
<td>—</td>
<td>1,540,634</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1,111,972</td>
<td>112,754</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality assessment</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional practices</td>
<td>1,175,638</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Accompanying Notes are an Integral Part of These Consolidating Financial Statements
### THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES

**CONSOLIDATING STATEMENT OF ACTIVITIES (continued)**

For The Year Ended December 31, 2016

(With Comparative Consolidated Totals For The Year Ended December 31, 2015)

The Accompanying Notes are an Integral Part of These Consolidating Financial Statements

<table>
<thead>
<tr>
<th></th>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Internal Audit Foundation</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>IIA Quality Services, LLC</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPENSES (continued)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology based learning</td>
<td>557,728</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>557,728</td>
<td>856,368</td>
</tr>
<tr>
<td>Publishing</td>
<td>350,529</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>276,517</td>
<td>298,895</td>
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<tr>
<td>Research projects</td>
<td>146,027</td>
<td>84,600</td>
<td></td>
<td></td>
<td></td>
<td>142,214</td>
<td>195,906</td>
</tr>
<tr>
<td>Grants</td>
<td>24,353</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24,353</td>
<td>12,796</td>
</tr>
<tr>
<td>Grant to affiliates</td>
<td>564,120</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,378,417)</td>
<td></td>
</tr>
<tr>
<td><strong>Total program activities</strong></td>
<td>36,126,464</td>
<td>1,908,368</td>
<td>814,297</td>
<td>1,231,869</td>
<td></td>
<td>(1,479,133)</td>
<td>38,601,865</td>
</tr>
<tr>
<td><strong>SUPPORTING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>15,794,308</td>
<td>1,164,236</td>
<td></td>
<td></td>
<td></td>
<td>17,434,041</td>
<td>14,659,244</td>
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<tr>
<td>Fundraising</td>
<td>18,874</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18,874</td>
<td>27,405</td>
</tr>
<tr>
<td><strong>Total supporting activities</strong></td>
<td>15,794,308</td>
<td>1,183,110</td>
<td></td>
<td></td>
<td></td>
<td>17,452,915</td>
<td>14,686,649</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>51,920,772</td>
<td>3,091,478</td>
<td>814,297</td>
<td>1,707,366</td>
<td></td>
<td>(1,479,133)</td>
<td>56,054,780</td>
</tr>
<tr>
<td><strong>OTHER</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain (loss) on investments</td>
<td>192,935</td>
<td>8,293</td>
<td></td>
<td></td>
<td></td>
<td>201,228</td>
<td>(1,438,769)</td>
</tr>
<tr>
<td>Gain on sale of property</td>
<td>1,664,262</td>
<td>12,229</td>
<td></td>
<td></td>
<td></td>
<td>1,664,262</td>
<td></td>
</tr>
<tr>
<td><strong>Total other</strong></td>
<td>1,857,197</td>
<td>8,293</td>
<td></td>
<td></td>
<td></td>
<td>1,865,490</td>
<td>(1,438,769)</td>
</tr>
<tr>
<td><strong>Change in unrestricted net assets</strong></td>
<td>5,579,641</td>
<td>627,189</td>
<td>(814,297)</td>
<td>216,488</td>
<td></td>
<td>75,000</td>
<td>5,684,021</td>
</tr>
<tr>
<td><strong>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>–</td>
<td>152,696</td>
<td></td>
<td></td>
<td></td>
<td>152,696</td>
<td>185,855</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td>–</td>
<td>12,229</td>
<td></td>
<td></td>
<td></td>
<td>12,229</td>
<td>14,540</td>
</tr>
<tr>
<td>Grant to/from affiliates</td>
<td>–</td>
<td>135,842</td>
<td>(60,842)</td>
<td>(75,000)</td>
<td></td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net assets released from use restrictions</td>
<td>–</td>
<td>(328,625)</td>
<td></td>
<td></td>
<td></td>
<td>(328,625)</td>
<td>(316,319)</td>
</tr>
<tr>
<td><strong>Change in temporarily restricted net assets</strong></td>
<td>–</td>
<td>(27,858)</td>
<td>(60,842)</td>
<td>(75,000)</td>
<td></td>
<td>(163,700)</td>
<td>(115,924)</td>
</tr>
<tr>
<td><strong>CHANGE IN NET ASSETS</strong></td>
<td>5,579,641</td>
<td>599,331</td>
<td>(875,139)</td>
<td>216,488</td>
<td></td>
<td>5,520,321</td>
<td>2,880,122</td>
</tr>
<tr>
<td><strong>NET ASSETS – Beginning of year</strong></td>
<td>39,290,973</td>
<td>3,582,385</td>
<td>875,139</td>
<td>(7,518)</td>
<td></td>
<td>43,740,979</td>
<td>40,860,857</td>
</tr>
<tr>
<td><strong>NET ASSETS – End of year</strong></td>
<td>$44,870,614</td>
<td>$4,181,716</td>
<td>$208,970</td>
<td></td>
<td></td>
<td>$49,261,300</td>
<td>$43,740,979</td>
</tr>
</tbody>
</table>

The Institute of Internal Auditors | 2016 Annual Report
## THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES

### CONSOLIDATING STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2016  
(With Comparative Consolidated Totals For The Year Ended December 31, 2015)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Institute of Internal Auditors, Inc.</strong></td>
<td>$54,189,503</td>
<td>$2,125,217</td>
<td>—</td>
<td>$1,783,881</td>
<td>$58,098,601</td>
</tr>
<tr>
<td><strong>Internal Audit Foundation</strong></td>
<td>$2,125,217</td>
<td>$2,172,902</td>
<td>—</td>
<td>(1,192,580)</td>
<td>(54,259,930)</td>
</tr>
<tr>
<td><strong>Internal Auditing Academic Advancement Fund, Inc.</strong></td>
<td>—</td>
<td>(875,525)</td>
<td>—</td>
<td>—</td>
<td>(54,259,930)</td>
</tr>
<tr>
<td><strong>IIA Quality Services, LLC</strong></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Eliminations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Consolidated Total</strong></td>
<td>$5,785,692</td>
<td>$8,206,849</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### OPERATING CASH FLOWS

- **Cash received from members and customers**: $54,189,503
- **Cash paid for operating activities and costs**: $(50,894,448)
- **Cash granted to/from affiliates**: $(75,000)
- **Investment income received**: $1,828,560

**Net operating cash flows**: $5,048,615

### INVESTING CASH FLOWS

- **Proceeds from sales of investments**: $4,426,418
- **Purchases of investments**: $(3,728,769)
- **Purchases of and improvements to property and equipment**: $(1,375,561)
- **Expenditures for deferred projects**: $(365,448)

**Net investing cash flows**: $(1,043,360)

### CHANGE IN CASH AND CASH EQUIVALENTS

**Change in cash and cash equivalents**: $4,005,255

**Cash and cash equivalents—Beginning of year**: $11,628,325

**Cash and cash equivalents—End of year**: $15,633,580

The Accompanying Notes are an Integral Part of These Consolidating Financial Statements
## THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES
### CONSOLIDATING STATEMENT OF CASH FLOWS (continued)
For The Year Ended December 31, 2016
(With Comparative Consolidated Totals For The Year Ended December 31, 2015)

### RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$5,579,641</td>
<td>$599,331</td>
</tr>
<tr>
<td></td>
<td>($875,139)</td>
<td>($216,488)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net operating cash flows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>840,298</td>
<td>56,976</td>
</tr>
<tr>
<td>Amortization of deferred project costs</td>
<td>139,367</td>
<td>161,648</td>
</tr>
<tr>
<td>Net gain on disposals of property and equipment</td>
<td>(1,664,262)</td>
<td>(8,293)</td>
</tr>
<tr>
<td>Net (gain) loss on investments</td>
<td>(192,935)</td>
<td>(52,635)</td>
</tr>
<tr>
<td>Change in due from/to affiliates, net</td>
<td>(727,411)</td>
<td>(201,228)</td>
</tr>
<tr>
<td>Change in accounts receivable, net</td>
<td>34,621</td>
<td>3,240</td>
</tr>
<tr>
<td>Change in prepaid expenses and other assets</td>
<td>(965,886)</td>
<td>(139,973)</td>
</tr>
<tr>
<td>Change in accounts payable and accrued expenses</td>
<td>1,411,587</td>
<td>(929,075)</td>
</tr>
<tr>
<td>Change in deferred revenue</td>
<td>545,762</td>
<td>75,727</td>
</tr>
<tr>
<td>Change in other liabilities</td>
<td>47,833</td>
<td>(1,024,596)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>(531,026)</td>
<td>(305,516)</td>
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<tr>
<td><strong>Net operating cash flows</strong></td>
<td><strong>$5,048,615</strong></td>
<td><strong>$5,785,692</strong></td>
</tr>
</tbody>
</table>

The Accompanying Notes are an Integral Part of These Consolidating Financial Statements
NOTE A - NATURE OF ACTIVITIES

The Institute of Internal Auditors, Inc. (“the Institute”) was formed in 1941 as 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.

In conformity with accounting principles generally accepted in the United States of America (“GAAP”), the Institute’s consolidated financial statements include the accounts of the following organizations, which are separate legal entities:

- **Internal Audit Foundation (“the Foundation”),** 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 has the authority to appoint the members of the Foundation’s governing body.

- **Internal Auditing Academic Advancement Fund, Inc. (“the Fund”),** 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 served as ex-officio directors and corporate officers of the Fund. Additionally, the Fund is a supporting organization of the Institute. During 2016, the Fund was dissolved and all assets, liabilities, and net assets of the Fund were transferred to the Foundation at the time of dissolution.

- **IIA Quality Services, LLC (“Quality Services”),** a Florida limited liability company organized for the purpose of conducting external quality assessments and related activities. The Institute is the sole member of Quality Services.

- **Canadian Institute of Internal Auditors (“the Canadian Institute”),** 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. Due to the immateriality of the amounts involved, the activities and balances of the Canadian Institute are included in the financial statements of the Institute.

- **IIA Properties, LLC (“IIA Properties”),** a Florida limited liability company 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. Due to the immateriality of the amounts involved, the activities and balances of IIA Properties are included in the financial statements of the Institute. During 2016, IIA Properties was dissolved.

- **The Board of Environmental, Health & Safety Auditor Certifications (“BEAC”),** a Virginia not-for-profit corporation formed for the purpose of issuing professional certifications relating to environmental, health, and safety auditing and related activities. The Institute’s Board of Directors has the authority to appoint the members of BEAC’s governing body. Due to the immateriality of the amounts involved, the activities and balances of BEAC are included in the financial statements of the Institute.

All significant interorganization balances and transactions have been eliminated in consolidation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION AND OPERATING ACTIVITIES

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

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

Conferences and seminars
Conference and seminar fees are recognized as income in the period in which the event is completed. Expenses include the direct costs of conducting conferences and seminars.

Publishing and educational products
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 and educational products, as well as website maintenance. Advertising costs are expensed as incurred.

Quality assessment
Quality assessment service fees are recognized as income in the period in which the engagement is completed. Expenses include the direct costs of conducting quality assessments.

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

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

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

Professional practices
Expenses include the direct costs of creating and maintaining authoritative guidance organized in the International Professional Practices Framework.

Other activities
During 2016 and 2015, 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 and the Fund, for which reimbursement is not required. Further, during 2015, the Foundation provided certain personnel-related costs to the Fund, for which reimbursement was not required. These activities are reflected within "grants to/from affiliates" in the accompanying consolidating statement of activities.

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

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 use restrictions."

CASH AND CASH EQUIVALENTS
Investment instruments purchased with original maturities of three months or less are considered to be cash equivalents.

INVESTMENTS
Investments are carried at estimated fair value.

ALLOWANCE FOR DOUBTFUL ACCOUNTS
Accounts receivable are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on an analysis of specific accounts, taking into consideration the age of the past due account and an assessment of the member’s or customer’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.

PROPERTY AND EQUIPMENT
Property and equipment are stated at cost and are depreciated using the straight-line method.
DEFERRED PROJECT COSTS
Costs related to seminars, website development and design, technology improvements, trademark registration, and educational product development or revision are deferred until the related projects are completed. Seminar costs are amortized over three or four years using the straight-line method, website costs over three years using the straight-line method, and educational product development or revision costs over three years at 60% the first year, 30% the second year, and 10% the third year.

RESTRICTED INVESTMENTS
Restricted investments consist of mutual funds held for an endowment fund of the Foundation, the distributions from which are to be used for scholarships for internal auditing students.

RESTRICTIONS ON NET ASSETS
Temporarily restricted net assets consist primarily of amounts held by the Institute restricted for technological developments and amounts held by the Foundation restricted for educational activities and the William G. Bishop Memorial Fund to be used for the Common Body of Knowledge program. Permanently restricted net assets consist of an endowment fund held by the Foundation, the distributions from which are to be used for scholarships for internal auditing students.

INCOME TAXES
The Institute and BEAC are exempt from federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(6) and from state income tax pursuant to state law. 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. Quality Services and IIA Properties are treated as disregarded entities for federal tax purposes. The Canadian Institute is exempt from taxation under applicable Canadian law. The Institute and Foundation engage 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 Fund, Quality Services, IIA Properties, and BEAC have not incurred unrelated business income taxes. None of the organizations have taken any material uncertain tax positions for which the associated tax benefits may not be recognized under GAAP.

USE OF ESTIMATES
Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing the accompanying financial statements include those used in estimating the fair value of investments, assessing the collectibility of accounts receivable, and determining the useful lives of property and equipment. Actual results could differ from the estimates.

RECLASSIFICATIONS
Certain amounts included in the 2015 financial statements have been reclassified to conform to classifications adopted during 2016. The reclassifications had no material effect on the accompanying financial statements.

SUBSEQUENT EVENTS
The organizations have evaluated for possible financial reporting and disclosure subsequent events through May 11, 2017, the date as of which the financial statements were available to be issued.

NOTE C – CONCENTRATION OF CREDIT RISK
Each organization maintains its 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 organizations 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 – FAIR VALUE MEASUREMENTS
GAAP defines fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of “inputs” an organization may use in determining or estimating fair value. The inputs are categorized into “levels” that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical items (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.
Following is a description of each of the three levels of input within the fair value hierarchy:

**Level 1** – unadjusted quoted market prices in active markets for identical items

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

**Level 3** – significant unobservable inputs

Estimated fair value of investments measured on a recurring basis at December 31, 2016, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>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>$33,058,097</td>
<td>$33,058,097</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>The Foundation</td>
<td>2,561,745</td>
<td>2,561,745</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total mutual funds</td>
<td>35,619,842</td>
<td>35,619,842</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Institute - corporate bonds</td>
<td>3,475,772</td>
<td>3,475,772</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total fixed income</td>
<td>6,709,078</td>
<td>6,709,078</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>$42,328,920</td>
<td>$42,328,920</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Estimated fair value of investments measured on a recurring basis at December 31, 2015, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>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>$29,064,214</td>
<td>$29,064,214</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>The Foundation</td>
<td>2,434,991</td>
<td>2,434,991</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total mutual funds</td>
<td>31,499,205</td>
<td>31,499,205</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Institute - corporate bonds</td>
<td>4,217,29</td>
<td>4,217,29</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>The Institute - government securities</td>
<td>2,285,874</td>
<td>2,285,874</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total fixed income</td>
<td>6,503,165</td>
<td>6,503,165</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>$38,002,370</td>
<td>$38,002,370</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

**NOTE E – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td></td>
<td>The Institute</td>
</tr>
<tr>
<td>Land</td>
<td>–</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>1,723,028</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>7,390,191</td>
</tr>
<tr>
<td>Total property and equipment</td>
<td>9,113,219</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>(6,081,286)</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>$3,031,933</td>
</tr>
</tbody>
</table>
Depreciation expense for 2016 for the Institute and the Foundation amounted to $840,298 and $56,976, respectively. Depreciation expense for 2015 amounted to $808,247. During 2016, the Institute sold its previous headquarters for approximately $4,700,000, resulting in a gain of $1,664,262 which is reflected as “gain on sale of property” in the statement of results. During 2015, the Institute sold certain land for $1,200,000 which was previously held for possible future development.

NOTE F – OPERATING LEASES

The Institute leases office space and office equipment under operating leases expiring through 2027. Approximate future lease payments related to such leases are as follows:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,054,000</td>
</tr>
<tr>
<td>2018</td>
<td>1,331,000</td>
</tr>
<tr>
<td>2019</td>
<td>1,303,000</td>
</tr>
<tr>
<td>2020</td>
<td>1,287,000</td>
</tr>
<tr>
<td>2021</td>
<td>1,316,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>7,503,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13,794,000</strong></td>
</tr>
</tbody>
</table>

Total rent expense related to all leases and additional amounts for short-term rentals and related charges amounted to approximately $2,369,000 and $1,614,000 for 2016 and 2015, respectively.

NOTE G – RETIREMENT PLANS

The Institute maintains a Section 401(k) retirement plan. The Institute contributes a certain percentage of the total salary of eligible employees to the plan. During 2016 and 2015, the Institute contributed approximately $1,518,000 and $1,318,000, respectively, to this retirement plan.

The Institute maintains Section 457 deferred compensation plans for the benefit of certain employees. One plan permits employee salary deferral contributions, while another plan permits discretionary employer contributions. Employer contributions were $316,000 and $375,000 during 2016 and 2015, respectively. The Institute held $1,842,622 and $1,659,353 in the plans as of December 31, 2016 and 2015, respectively, which is reflected in the statements of financial position as “employee savings plans” and “deferred employee compensation.”

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 $188,000 as of December 31, 2016.

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 agreement expires during 2018, unless terminated earlier by one of the parties subject to the terms of the agreement. The test provider was paid approximately $2,247,000 and $1,969,000 during 2016 and 2015, respectively.
MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

For the annual report as of, and for the year ending, Dec. 31, 2016, 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 not misleading with respect to the period covered by the annual statement;
- The financial information included in this annual report fairly presents in all material respects the financial condition, results of operations, and cash flows as of and for the periods presented in the annual report;
- An adequate system for disclosing controls and procedures exists to ensure that material information is made known to us by others within the organization;
- Management has concluded that the system of internal control over financial reporting was effective as of Dec. 31, 2016.
- Disclosures of any change in the internal control over financial reporting that occurred during the most recent fiscal quarter and has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting are included in this report.

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

Ann S. Cohen, CPA, CGMA
Senior Vice President and Chief Financial Officer
THE IIA: THE FIRST 75 YEARS

1941
The Institute is officially established on November 17.

1944
Internal Auditor magazine is launched. In its December issue, the magazine references a course in internal auditing offered by the University of Richmond in cooperation with the U.S. Office of Education.

1947
Bradford Camus is hired as The IIA’s first managing director.

1947
The IIA grows to 78 chapters in 24 countries.

1955
“Progress Through Sharing” becomes The Institute’s official motto.

1966
The IIA Research Foundation (now Internal Audit Foundation) is founded.

1974
The first CIA exam is given to 654 candidates in 41 locations.

1976
California becomes the first state to require all state and local government internal auditors to abide by the Standards set forth by The Institute.

1982
Carman Lapointe of Canada is elected as the first female chairman of the board.

1994
Membership in The IIA is equally balanced between inside and outside North America.

2000
The Certified Internal Auditor (CIA) exam becomes computer-automated.

2001
IIA reaches 100,000 members.

2008
The International Professional Practices Framework (IPPF) is released.

2009
Carman Lapointe of Canada is elected as the first female chairman of the board.

2014
IIA membership tops 190,000.