One of the most rewarding careers, as it has the potential and leverage to survive in the current complex business environment.

Greater automation and machine learning are changing the industry. IA professionals can and should be part of system design discussion, which will require some re-training.

Excellent opportunities are lying ahead for internal auditors.

I agree with Mr. Chambers, Governance implies more than cybersecurity.

More and more a trusted advisor role for board of directors, audit committees, general management.

The internal audit function needs to be in the C-suite office.

Stronger focus on auditing governance and change.

Success of IA depends on how marketing takes on risk management of the organization.

More activity adding value through consultations to the business. Fewer useless reports.

More objective focused, with greater emphasis on technology and analytics.

The IIA asked its Facebook, Twitter, and LinkedIn followers: What does the future of internal audit look like to you? These are some of the responses:

What does the future of internal audit look like?
In her 1980 book, The Aquarian Conspiracy: Personal and Social Transformation in Our Time, Marilyn Ferguson wrote, “The difference between transformation by accident and transformation by a system is like the difference between lightning and a lamp. Both give illumination, but one is dangerous and unreliable, while the other is relatively safe, directed, available.”

For The Institute of Internal Auditors (IIA), 2017 was a year of laying the groundwork for transformation, of envisioning all the ways to provide better service, tools, and resources to its members in a way that is, yes, directed and available.

Though it may be universally understood that nonprofit associations exist to benefit their members, The IIA’s more than 190,000 members spanning the globe can rest assured that their organization is intensely focused on its core value to put members first. After all, it is only by delivering effective solutions that empower practitioners to make a difference in their organizations that The IIA is able to earn the trust of members, chapters and affiliates, customers, and other key stakeholders.

Even as doors opened early in the year on a consolidated headquarters operation in Lake Mary, Florida, USA, initial expectations were that 2017 would be a challenging year. But, as is the nature of the profession, any challenges were met head-on by The IIA, its chapters, and affiliates. The IIA recognized key risks early, adapted when and where necessary, and, in the final analysis, excelled, as demonstrated by the strong financial showing for the year. And, for the 13th year, The IIA ranked as a best workplace in the region.

With support from its vast global volunteer base, The IIA made significant strides in 2017 across all platforms — membership, standards, certifications, and training – as it continued to elevate the profession through global initiatives and advocacy efforts and through the delivery of expanded educational and development opportunities, Standards and accompanying guidance, and certification programs.

Transformation took center stage as an unprecedented level of investment was dedicated to initiatives designed to move The IIA giant steps forward, with no looking back. Those initiatives most notably include a digital transformation that will enhance member interaction with The IIA in myriad ways.

Indeed, 2017 was a year of drafting blueprints for the extraordinary transformation that will begin to unfold over the next couple of years and that will position The IIA for boldly stepping into the future. In the words of President and CEO Richard F. Chambers, “We took the opportunity to take stock of where we were and started to orient ourselves to the decade ahead.”

Won’t you step into the future with The IIA?
President & CEO's Message

There are many factors that go into creating a successful organization, but there are three that may be considered essential: (1) fostering sustainability by mitigating risks, establishing effective internal structures, and handling the finances wisely; (2) delivering on existing objectives; and (3) planning for a future characterized by a changing environment and shifting stakeholder needs. The IIA made significant progress on all three this year.

Achieving the first factor necessitated addressing the risks that faced us as 2017 began — increasingly competitive markets and limited professional development spending resulted in weak outlooks in training, conferences, and certifications that indicated potential budget shortfalls. Instead of “bowing to the inevitable,” we focused our energies and resources to regroup, reprioritize, and reinvest, ensuring year-end results that not only outperformed our initial forecast and budget, but also extended our string of annual positive net contribution to nine consecutive years.

The second success factor — delivering on existing objectives — involved planning and successfully executing Global Council (Rome), as well as delivering successful programs for the IAM Conference in Orlando, Florida, USA, and International Conference in Sydney, Australia; issuing thought leadership on a wide variety of topics expected to greatly impact the profession, such as artificial intelligence and blockchain; releasing new practice guidance; and expanding The IIA’s global footprint in Kazakhstan, Pakistan, and Vietnam — bringing to 12 the number of new affiliates that have been established since 2015.

While accomplishing current objectives is important to success, it is even more critical to address the third factor: recognizing that the future will be different. The IIA’s 2017 plans focused on two areas that are integral to any organization’s progress: governance and technology. The first was addressed through the work of the Global Governance Task Force, which put forth recommendations (subsequently approved by the Global Board and to be presented to members for a vote in 2018) to transition our governance structure from a 38-member Board with an Executive Committee to a 17-member (managing) Board. Our ambitious technology plans center on a digital strategy that will position The IIA to better serve its members and customers through a greatly enhanced association management system, certification candidate management system, e-commerce system, and a new digital platform.

December 2017 marked 22 consecutive months of membership exceeding 190,000, and The IIA is well-positioned to continue its success in 2018 and beyond. I am grateful for the support of members, leaders, volunteers, subject matter experts, sponsors, donors, staff, and all those who contributed to our achievements, and I look forward to exciting things to come.

Richard F. Chambers
CIA, QIAL, CGAP, CISA, CRMA
President and CEO

Global Chairman’s Message

Over the past year, I have become extremely familiar with hashtags — particularly the one in my theme, #PurposeServiceImpact. When I introduced it, I explained that the hashtag was included because of its implicit encouragement to “pay attention,” “join in the discussion,” and “pass it along.”

As I have traveled to six continents and spoken with thousands of IIA members, I have come to realize these are lessons to apply in my own life, as well. I doubt I am alone in this. Being passive is not an option. We need to pay close and engaged attention to what others say. We need to invest ourselves in the discussion. And we need to share what we care about, pass along what we have learned.

I have attended many IIA meetings this year, during which I have visited with as many members as possible — at lunch, in the hallways, in the car to and from the airport. I have asked them to tell me about something they have done, something they consider impactful. It has been inspiring to hear the amazing array of accomplishments, both personal and professional, our members have achieved, from revising an audit services delivery model in Finland to teaching internal auditing students in South Africa.

Members that energetic and passionate deserve an association that is the same, and I believe The IIA stepped up to the challenge in 2017. We remained true to our #purpose — and, in fact, further defined it — through the continued work on our strategic plan, which will be shared with members in mid-2018. We continued to provide valuable #service to members, as you will see in this annual report, through expanded training and certification opportunities and the commencement of a digital transformation project that will dramatically raise the bar on how we process and present information, internally and externally. And, as for #impact, our efforts in the global advocacy space, including work on new position papers, an updated Global Advocacy Platform, and meetings with executives and organizations around the world, speak for themselves.

I am so grateful for the tremendous opportunity to serve The IIA’s more than 190,000 members as Chairman. I look forward to working with Naohiro Mouri, the 2018–19 Chairman-elect, and with the members, volunteer leaders, and staff of The IIA and the Internal Audit Foundation as we continue to pursue our purpose, deliver service, and make a positive impact.

J. Michael Peppers
CIA, QIAL, CRMA
Chairman of the Global Board, 2017–18
STANDARDS

For some, “setting the standard” is just an expression. At The Institute of Internal Auditors (IIA), that expression is at the center of all The IIA does to advance the internal audit profession and support the professionals who serve it. Indeed, The IIA’s globally recognized International Standards for the Professional Practice of Internal Auditing (Standards) are the bedrock upon which successful careers in internal audit are built. Conforming to the Standards is considered essential in the practice of internal auditing and baseline in delivering on internal audit’s charge to enhance and protect organizational value.

Evolving. As wisely stated decades ago by Victor Z. Brink, a founding father of The IIA, the Standards should always be evolving to reflect the changing nature of the profession and the evolving needs of the professionals in it. And evolve they did. Revisions to the Standards went into effect on January 1, 2017, and included the addition of two new standards (1112 and 1130.A3), greater alignment of the Standards with the Core Principles, and updates to existing standards. The 2017 Edition of the International Professional Practices Framework (IPPF) was released in February.

Assessing. Quality assessment is one way to demonstrate knowledge and implementation of the Standards. To that end, IIA Quality Services helps practitioners conduct assessments focused on the internal audit activity’s conformance with the Standards.

Guiding. A significant investment has been made in updating and developing new Implementation Guides (IGs), which now exist in a consistent format to supplement each of the 52 standards. Because they are designed to help internal auditors apply the Standards, IGs aligned with each of the standards are tools to help increase conformance, which continues to be a key strategic focus for the organization.

Committed to developing supplemental guidance that will serve specific industry sectors, The IIA released the first IPPF Practice Guide specifically for internal auditors in the financial services sector in December 2017, “Auditing Liquidity Risk: An Overview,” in addition to other guidance releases earlier in the year serving all sectors.

Elevating. Indeed, elevating the Standards is an integral part of The IIA’s strategic goal to raise the profile of and the demand for the internal audit profession. Whether it be through additional guidance, an update of the Red Book, or IPPF Oversight Council efforts, at the heart of it all is the belief that internal audit makes organizations stronger and, in doing so, elevates the profession.

Providing the foundation for high-quality internal audits that help ensure complete, accurate, and reliable information flows to the board is the Standards’ raison d’etre.

Tellie Madzivhandila

Tellie Madzivhandila is an internal auditor for the University of Pretoria in South Africa. Having served as a committee member and also as the regional chair for the Pretoria region of IIA-South Africa, Tellie says being an IIA member is important to her because, “It means I have a place to go when I need guidance on the profession, and on trending and emerging topics.” Tellie also values the opportunities membership gives her to network with other internal auditors and to share knowledge.

Addressing the importance of conforming to the Standards, Tellie had this to say: “The Standards and conformance to them, is very important because just like in sports, there are rules that are for the benefit of the players and the supporters. Similarly, the Standards provide guidance to internal auditors but also ensure that the organizations that services are being rendered to are protected and that they understand the role of the internal auditors.”

What does her future in internal audit look like? “Five years from now, I hope to be heading up an internal audit function or to be a director at one of the Big 4 audit firms.”

Volunteer SPOTLIGHT

Members Speak Out: On Standards
**CERTIFICATIONS**

CIA update. Regardless of profession, certification is effective only when it tests is up to date and reflects current practices. To ensure the Certified Internal Auditor (CIA) credential enables its holders to meet the evolving expectations of the profession, The IIA conducted a global job analysis of the CIA syllabi content in 2017. Input was collected from more than 3,000 subject matter experts from around the world. Based on what the job analysis revealed about the knowledge, skills, and abilities most applicable to today’s internal audit practice, the CIA syllabi were updated and a new three-part exam will launch in English in January 2019. Additional languages will appear throughout 2019. The CIA syllabi update resulted in greater balance, clarity, and uniformity, minimizing duplication between the three exam parts, aligning with the updated International Standards for the Professional Practice of Internal Auditing, and emphasizing the need for inclusion of business acumen and technology. As it has always done, the CIA will continue to reflect the knowledge, skills, and abilities required of competent and capable internal auditors.

Certification strategy. In 2017, after a comprehensive review of existing certifications, The IIA developed a multiyear certification strategy to establish a clearly defined suite of global certifications that supports internal auditors as they progress through their careers. Look for a defined suite of global certifications that supports internal auditing, International Standards for the Professional Practice of Internal Auditing, and emphasizing the need for inclusion of business acumen and technology. As it has always done, the CIA will continue to reflect the knowledge, skills, and abilities required of competent and capable internal auditors.

By the numbers. Through the end of 2017, 183,985 IIA credentials had been awarded worldwide, of which approximately 80 percent were the CIA. The remainder were distributed among the Certification in Risk Management Assurance (CRMA), Certification in Control Self-Assessment (CCSA), Certified Government Auditing Professional (CGAP), Certified Financial Services Auditor (CFSAs), and QIAL, with the CRMA showing a noteworthy upward trend. Almost two-thirds of the certifications and qualifications were held by individuals residing outside North America, predominantly in the Asia-Pacific region and in Europe, but increasingly in the Middle East, as well.

CPE ethics and policy. Remaining current on skills and techniques requires lifelong learning. To ensure that IIA credential holders sustain a mastery of their professional body of knowledge, Administrative Directive No. 4 was updated in 2017 and is now referred to as the CPE (Continuing Professional Education) Policy. The revision accomplished three major goals: It simplified the language of the policy, formalized the ethics requirement, and included provisions for additional eligible CPE activities. The revised policy became effective at the beginning of 2018.

**TOTAL CERTIFICATIONS BY REGION**

<table>
<thead>
<tr>
<th>Region</th>
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<tbody>
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<td>75,786</td>
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<tr>
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<td>21,072</td>
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<tr>
<td>Caribbean</td>
<td>21,143</td>
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<tr>
<td>Central/South America</td>
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<tr>
<td>Europe</td>
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<tr>
<td>Middle East</td>
<td>8,519</td>
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<tr>
<td>Other</td>
<td>95</td>
</tr>
<tr>
<td>North America</td>
<td>52,484</td>
</tr>
</tbody>
</table>

**Grand Total:** 183,985

In support of its mission, to provide dynamic leadership for the global internal audit profession as it relates to research and development, dissemination, and promotion of knowledge about the role and value of internal audit, The IIA prioritized closer collaboration and sharing of efforts across the organization as part of its Content Strategy.

**THE GOAL:**

- Create a better user experience in using content.
- Efficiently and effectively manage content development.
- Enhance member benefits and value.
- Improve coordination of content creation across the global network.

**THE STRATEGY:**

- Develop a structured, but adaptable content development model that supports the creation and consistent delivery of relevant, timely, personalized, and engaging information that will promote IIA members’ professional growth and use of best practices. To that end, The IIA has set priorities to:

**THE STRATEGY:**

- Deploy a content strategy that holistically serves IIA members, be it the Chief Audit Executive/Head of Audit in search of insightful information supporting effective leadership of internal audit functions and relationships with key stakeholders, the newly minted Certified Internal Auditor seeking guidance and other resources ensuring their success, or other practitioners at various stages of their career.
Goals. Continued focus on and investment in one’s professional development is critical for any profession, and internal auditors recognize the benefits of staying up to date on their skills to build the needed competencies to do their jobs. With The IIA, they have many options to find appropriate training and professional development opportunities. It is The IIA’s goal to be the preferred source for the profession, a goal it addresses by focusing on the needs of the profession and the individual and how those needs can best be met — in person, online, or on demand. In a fast, complex, and competitive environment, The IIA helps members succeed by providing quality material when and as needed.

Curriculum development. A major capital investment ($1.1 million over three years) focusing on the development and, in some cases, the redevelopment, of The IIA’s curriculum kicked off in 2017. One outcome is the complete overhaul and refresh of the core curriculum, beginning with Tools & Techniques I, II, and III, all of which rolled out in 2017. The work continues in 2018 with the development of dynamic and engaging courses for internal auditors at all stages of their careers, with particular attention on cyber resilience, information technology, financial services, the public sector, management, and leadership skills.

A focus on convenience. Knowing the fast-paced demands of the business environment, The IIA places a high priority on bolstering its on-demand portfolio, which enables members to access training when it is needed, and in a flexible, convenient manner. Curriculum development efforts are focused on expanding the variety of topics covered to build out the offerings beyond core courses. As a result, the on-demand program grew rapidly from a modest launch in August 2016 with only 12 courses to ending 2017 with 39 courses and more than 1,759 customers.

Training the world. Serving a global audience requires the targeted use of technology, such as that behind the on-demand program, which provides members with content that is self-selected to address their current questions/challenges and delivered on a flexible, convenient, as-needed basis. Several IIA affiliates worldwide host their own on-demand platforms, but many others, notably the smaller affiliates, do not have such a capacity. To meet the need and demand, IIA Headquarters staff is working closely with affiliates that currently host platforms to launch a global on-demand service so that members can enjoy convenient access to relevant content. Future plans also include enabling larger affiliates to host their own content on the global platform, resulting in a global training marketplace, hosted by IIA Global and supported by our global network of affiliates to better serve our global members.

Ready for launch. In anticipation of the revisions to the CIA syllabus, together with a desire for continued innovation and enhancement, a new version of The CIA Learning System was prepared for launch in April 2018 for those ready to begin studying for the new 2019 exams. The new materials fully reflect the demands of the 2019 syllabus as well as current Standards and guidance and other key source materials. The exam question bank has been expanded significantly and the web-based platform upgraded for an altogether enhanced user experience. Overall, The CIA Learning System is even more tightly focused on what candidates need to succeed with their professional certification.

Volunteer SPOTLIGHT

Members Speak Out: On Training

Robin Brown
Robin Brown, Manager of Risk Advisory Services at Dixon Hughes Goodman LLP in Atlanta, Georgia, USA, was named an IIA Emerging Leader in 2016. Robin’s volunteer participation includes current service on the North American Board’s Publications Advisory Committee and as a member of The IIA’s Young Professionals Task Force. She’s also on the Academic Relations Committee of The IIA’s Atlanta chapter.

“Membership in The IIA has undoubtedly shaped the trajectory of my career and inspired an internal passion for the profession,” Robin says. “Through the various learning opportunities, professional development initiatives, and technical resources, I am proud to be a member of an organization charged with pushing our profession forward.”

Addressing the importance of training offered by The IIA, Robin had this to share: “The IIA course offerings are hands down the most important benefit of being an IIA member. Specifically, I enjoy attending the various conferences throughout the year. The All Star Conference is my favorite, as the courses included in the conference are the best of the best of the year across multiple learning tracks.”

What does her future in internal audit look like? “In the next five years, I hope to be either a partner within DHG’s Risk Advisory practice, or a Chief Audit Executive of a Fortune 500 company.”
There is a good reason that “Put Our Members First” occupies the top spot on the list of IIA Core Values, which were refreshed and expanded in 2017. With more than 190,000 members in more than 170 countries and territories around the globe, The Institute of Internal Auditors (IIA) takes seriously its role to serve its members as the profession’s most widely recognized advocate, educator, and provider of global Standards, guidance, and certifications.

Providing exceptional service to a growing membership, after all, means offering members the resources and opportunities they need to grow as professionals. These resources take many forms, from expanded learning and delivery systems to conferences that draw thousands of attendees, from evolving relevant content to advocating globally to spread the message of internal audit’s value. Indeed, this intense focus on members helped propel The IIA to yet another year of growth in 2017. Notably, North American membership efforts reaped success, adding nearly 300 new group organizations, resulting in more than 10,000 members new to The IIA in 2017. Groups, whose members number from three to 1,100, account for 72 percent of the membership base.

The Centers

The IIA’s Specialty Audit Centers continued to serve members with an increasingly vast network of resources, including exclusive publications, peer knowledge sharing, and professional development dedicated to preparing internal auditors for the unique challenges they face.

Audit Executive Center. Along with enhancing its member-benefit structure to better meet the needs of Chief Audit Executives in 2017, the AEC also launched its dynamic new website. The site features, among a host of other offerings, exclusive resources such as the Audit Intelligence Suite, which offers CAEs powerful tools for benchmarking, assessing, and surveying. Additionally, the AEC’s member-created surveys help all ASC members gain critical insight on such topical issues as ethics, reporting relationships, and fraud investigations governance. The AEC finished 2017 with 685 members.

American Center for Government Auditing. The ACGA expanded its Advisory Committee to 12 members to ensure representation from all levels and sectors of the public internal audit community, and now includes members from federal, state, city, county, and local government agencies, as well as school boards, colleges, and universities. Thought leadership disseminated by the ACGA focused on a variety of issues impacting the public sector, including organizational knowledge management, public/private partnerships, and crisis resilience. The center expects to host its first Virtual Symposium in 2018.

Financial Services Audit Center. The FSAC hosted a record number of attendees, 434, at its third annual Financial Services Exchange in Washington, D.C., USA. The two-day event brought to the forefront topics and challenges facing financial services internal auditors. Blockchain, reimagining audit in the digital world, and effective communications with stakeholders were among the subjects addressed. The FSAC also released several whitepapers in 2017, including a 2017 North American Pulse of Internal Audit supplement focusing on financial services and a report mapping the heightened standards guidance from the Office of the Comptroller of the Currency to The IIA’s Standards.

Financial Services Audit Center. Additionally, more than 3,750 members attended online learning events, including webinars and workshops. FSAC membership topped 4,300 in 2017.

Environmental, Health & Safety Audit Center. Webinars offered through the EHSAC, which launched in 2016, have logged more than 4,300 e-learning participants. Six specialty EHS Audit Training Courses were offered via public seminars and on-site customized training. In addition, 14 unique thought leadership pieces were generated on topics ranging from “Internal Audit Tips for Sustainability Reporting” to “The EPA’s Future Under President Trump: Perspectives on the Potential Impact of the New Administration.” Two Environmental, Health & Safety Audits addressed such topics as environmental compliance and process safety. Membership at the end of 2017 was 533.
Advocating the Value of Internal Audit

Globally, advocacy for the internal audit profession spans the globe, with international affiliates large and small engaging members and stakeholders through compelling outreach programs, from IIA—South Africa’s fifth annual Corporate Governance Index, produced in collaboration with the University of Johannesburg School of Accounting; to IIA—Australia’s work with the Australian Stock Exchange Corporate Governance Council to include the IPPF in its Principles and Recommendations; to insightful thought leadership from IIA—Netherlands, most recently with its release of “Moral Courage and Internal Auditors,” based in part on a study conducted in 2017 by Nyenrode Business University.

Members and affiliates were provided crucial support with the introduction of the Global Advocacy Platform and Toolkit in February 2017 at Global Council in Rome. Designed to serve as the foundational document for advocacy efforts, the platform — available in eight languages — identifies six Pillars of Good Governance, which plainly express the central role internal auditing plays in helping organizations achieve their goals. By year’s end, affiliate members had downloaded the platform and toolkit components more than 230 times. The Global Advocacy Committee, an international group of internal audit leaders, also supported The IIA toward development of two new Position Papers — one focusing on the value of conformance to the Standards and the other on internal audit’s role in good corporate governance — and the revision of three others.

In North America, North American Advocacy representatives continued to meet with members of the U.S. Congress and the U.S. Securities and Exchange Commission (SEC) to move the discussion forward on restoring investor trust in corporate America. Because existing laws, regulations, and other mostly self-governing rules have proved insufficient, it is The IIA’s position that concrete steps must be taken to protect investors and stakeholders by improving governance in publicly traded companies. The IIA submitted comments to the SEC for congressional hearings and potential legislation, advocating for a public disclosure requirement of whether publicly traded companies have an (independent) internal audit function. In this pursuit, IIA staff, members, and President and CEO Richard F. Chambers have held more than 150 meetings with congressional representatives, their staff, federal agencies, and other stakeholders to advocate for a stronger public disclosure requirement. This effort continues in 2018.

Additionally, The IIA continues to build on its long-term relationship with the National Association of Corporate Directors (NACD) to ensure that internal audit is recognized by boards and audit committees as an essential resource for effective governance, risk management, and control. Efforts have included participating in NACD’s Global Board Leaders’ Summit as well as the Audit Board Committee Forum and several roundtable events for CASs and directors at local chapter events.

IIA—Canada’s advocacy highlights in 2017 included partnering with the Institute of Corporate Directors to lead training on internal auditing and corporate oversight roles, as well as serving as a lead partner on the municipal research project in partnership with CPA and the Canadian Audit and Accountability Foundation. Multiple meetings with public sector audit leaders were held at the federal, provincial, and municipal levels of government. IIA—Canada also partnered with the Quebec Chapters in an effort to enhance advocacy with the Quebec provincial government.

The Institute of Internal Auditors 2017 Annual Report

Collaborating on Important Issues

Continuing its commitment to the important work of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), The IIA played a key role in supporting and promoting the highly anticipated rollout of the updated Enterprise Risk Management framework, “2017 Enterprise Risk Management — Integrating with Strategy and Performance.” The IIA Bookstore sold out its first order of 500 copies in less than a month.

As an organizing member of the Anti-Fraud Collaboration, The IIA continued to promote the group’s mission to deter and detect financial reporting fraud. In 2017, The IIA co-hosted a webinar, “Oversight of Corporate Culture,” focusing on leading practices for assessing and strengthening a company’s corporate culture. The webinar can be viewed via the Collaboration’s website, www.antifraudcollaboration.org. The Collaboration also released a report, “Encouraging the Reporting of Misconduct,” which provided recommendations for creating and maintaining a retaliation-free environment.

Connecting with Future Leaders

Emerging leaders. Internal Auditor magazine’s Emerging Leaders program offers up-and-coming internal audit professionals the opportunity to shine. As it has since launching the feature in 2015, Internal Auditor continues to spotlight 15 to 20 young practitioners annually in a special cover story. The 15 leaders chosen in 2017 focused on the importance of technology and internal audit’s need to keep up and evolve with it. To help showcase the voice of The IIA’s young professionals, emerging leaders are asked to participate in various IIA initiatives, including writing for the magazine and InternalAuditor.org, creating videos for AuditChannel, and participating on The IIA’s Young Professionals Task Force. Many also go on to serve on IIA committees and boards.

Young professionals. Deepening its commitment to engaging future leaders in internal audit, The IIA’s Young Professionals Task Force was chartered in 2017 by the North American Board. The mission of the task force, which began with 30 volunteer members, is “to connect, retain, and serve young internal audit professionals in North America through engagement, opportunity, and advocacy.” In addition, the task force serves as a sounding board and counsel to the North American Board and The IIA on issues impacting this demographic and opportunities to better serve our future leaders.

The next generation. Working to ensure a bright future for internal audit, the Internal Auditing Education Partnership (IAEP) program engages with students at 50 universities in 14 countries and territories to advocate for the profession to the next generation of internal auditors. The Academic Relations team hosted its annual IAEP Leadership and Networking Conference in Orlando, Florida, USA, which attracted 86 students, 36 educators, and 30 Academic Relations chairs from eight countries.

In support of this essential student-based program, the Internal Audit Foundation awarded $149,258 in grants to IAEP universities in 2017. Students and doctoral candidates at IAEP universities also have the opportunity to vie for scholarships and grants through the Esther Sawyer Award and the Michael J. Barrett Doctoral Dissertation Grant.

Global Membership

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<td>2008</td>
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In Translation:

**Tone at the Top**
- English, French, Spanish, Turkish

**Global Perspectives and Insights**
- 9 languages (may vary)

**Academic Relations Manual**
- English, Arabic, Turkish, French, Portuguese, Spanish

**IIA Resources Guide**
- French, Spanish

**COSO Certificate Training Course**
- French, Spanish

**Collaborating on Important Issues**

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In support of this essential student-based program, the Internal Audit Foundation awarded $149,258 in grants to IAEP universities in 2017. Students and doctoral candidates at IAEP universities also have the opportunity to vie for scholarships and grants through the Esther Sawyer Award and the Michael J. Barrett Doctoral Dissertation Grant.
Connecting Globally

The African Initiative. The IIA continued its work to enhance the capacity of the internal audit profession in Africa, partnering with The World Bank to conduct research with 11 sub-Saharan, English-speaking countries. The results of the African research project will inform the planning and delivery of future capacity building in Africa. IIA–Ghana and IIA–Kenya were selected to receive customized support in 2018 for local capacity building. As part of the research initiative, The IIA developed an Internal Audit National Maturity Model, which is designed to provide an evolutionary path in developing effective internal auditing that meets local stakeholders’ needs and expectations.

In other developments, more than 30 delegates representing 20 African affiliates attended the 2017 African Leadership Academy in Ghana, and an African CEOs & Administrators Group was established and held its first roundtable discussion. Members of the group will hold monthly conference calls to discuss trending topics on association management.

Global Council. Jointly hosted by The IIA and IIA–Italy, Global Council got the year off to a rolling start in Rome, bringing together 160 IIA leaders representing 80 affiliates from around the world. Joining The IIA’s Executive Committee and staff, leaders gathered to learn about key global initiatives and share knowledge with one another in discussions that focused on global strategic planning and included a session titled, “Responding to the Voice of Internal Audit Stakeholders.”

Global Strategic Plan. The IIA conducted five regional strategic planning sessions in every corner of the globe, gathering insights on strengths, weaknesses, opportunities, and threats facing the internal audit profession and The IIA. These insights will be used to inform The IIA’s 2019–23 Global Strategic Plan, which identifies strategic objectives and outlines activities to achieve those objectives.

New additions. Expanding The IIA’s global footprint in 2017, Kazakhstan, Pakistan, and Vietnam brought to 12 the number of affiliates added since 2015.

Globally speaking. Closing out the year was the launch in December of The IIA’s Global Speaker Database. Affiliate-provided recommendations helped build a base of 150 speakers, representing eight languages, 15 areas of expertise, and six regions of the globe. A goal in the 2015–20 Global Strategic Plan, the database is intended to address the needs of IIA affiliates in sourcing speakers for local events and to encourage resource sharing among leaders.

Global Council in Rome brought together 160 IIA leaders representing 80 affiliates.

Mapping Successes

Annual conferences and events offer attendees an unrivaled opportunity to network with peers while gaining a greater understanding of emerging issues and leading practices in internal auditing.

Among the highlights in 2017:

GAM. The IIA’s General Audit Management Conference in March, with almost 1,200 paid registrants, was a record for an Orlando-based GAM, and provided an environment rich with information and networking opportunities. Emerging risks, stakeholders’ professional expectations, and effective strategies for leading in an era of volatility and uncertainty were among the topics presented. A number of white papers were also released in conjunction with the conference, including The IIA’s Audit Executive Center’s 2017 North American Pulse of Internal Audit.

Leadership Academy. Also in Orlando, the 43rd annual Leadership Academy was attended by more than 350 leaders representing 150 chapters in the United States, Canada, and parts of the Caribbean. Counted among event successes was a sold-out exhibit hall, with the Internal Audit Foundation and Bookstore achieving the highest revenue gain in Leadership Academy history. Engaging keynote speakers and breakout sessions covering key chapter issues and best practices also energized the event.

International Conference. The IIA’s 2017 International Conference in Sydney, Australia, surpassed initial registration targets, hitting 1,525 paid attendees. More than 80 countries and territories were represented at this premier event, featuring keynote speakers and international presenters on a wide array of topics of interest to practitioners worldwide.

Women in Leadership/Financial Services Exchange. Getting rave reviews in its debut year, the Women in Leadership Forum attracted more than 160 participants to its two events, one held in May in conjunction with Vision University in Boston, Massachusetts, and another with the Financial Services Exchange in September in Washington, D.C. The FSE turned in a record-breaking performance as well, with more than 530 attendees, speakers, and exhibitors.

Engaging members. In an effort to expand its membership connection, The IIA hosted first-time attendee and new-member breakfasts at the All Star Conference in Las Vegas, Nevada. The Diversity Luncheon continued to be popular, hosting 200 attendees at GAM and 67 at All Star. In addition, The IIA hosted its first Emerging Leaders Forum for young professionals in internal audit.

New tools. An event management tool, which substantially elevates member service to chapters with its delivery of the automated events registration module, had been adopted by 140 of the 161 North American Chapters through 2017, setting the stage for the broad-based rollout of the Chapter Portal automation tool expected to launch in 2018.
"Service to our members is a global journey. There are no shortcuts."

— Richard F. Chambers, President and CEO

01
STANDARDS

• **Revised** IPPF Released
• 52 New Implementation Guides
• 5 Pieces of Supplemental Guidance

02
CERTIFICATIONS

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Certification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>3,624</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>67,393</td>
</tr>
<tr>
<td>Caribbean</td>
<td>66</td>
</tr>
<tr>
<td>Central/South America</td>
<td>1,528</td>
</tr>
<tr>
<td>Europe</td>
<td>15,944</td>
</tr>
<tr>
<td>Middle East</td>
<td>3,601</td>
</tr>
<tr>
<td>North America</td>
<td>51,854</td>
</tr>
<tr>
<td>Other</td>
<td>5,068</td>
</tr>
</tbody>
</table>

**Total:** 149,083

03
TRAINING

- **379.25** Days of Training
- **205** Unique Events
- **4,561** Participants
- **66,491.5** CPE Hours Granted

04
MEMBERSHIP BY REGION

- **1%** International Members
- **4%** Middle East
- **7%** Latin America
- **7%** Africa
- **18%** Asia Pacific
- **38%** Europe
- **38%** North America

Percentages exceed 100 due to rounding

190,000+
Members Globally

ITALY — Global Council, February
USA — North American Leadership Academy, April
GHANA — African Leaders Forum, May
AUSTRALIA — Asian/Pacific Leaders Forum, July
SWITZERLAND — European Leaders Forum, September
ARGENTINA — Latin American Leaders Forum, October
Educating and Engaging

The Foundation. Guided by a global content strategy, the Internal Audit Foundation, a separate 501(c)(3), continued to make strides in educating, engaging, and empowering internal auditors through delivery of educational products, tools, and research. Wholly supported by donations from members, chapters, affiliates, sponsors, IIA staff, and The IIA, along with proceeds from IIA Bookstore sales, the Foundation spent much of 2017 focused on publishing core products, which accounted for 80 percent of Bookstore revenue. The Foundation also continued to grow its list of impactful research and other peer-reviewed books.

New releases. Among the 13 new offerings showcased in the Bookstore’s 2017 catalog were these core products: the revised International Professional Practices Framework (IPPF); the fourth edition of the textbook, Internal Auditing: Assurance & Advisory Services; and the Quality Assessment Manual. Data from the Common Body of Knowledge (CBOK) stakeholder survey continues to be leveraged into topical reports, such as Stakeholders’ Advice to the Chief Audit Executive, released in 2017, as well as two additional hybrid reports scheduled for release in 2018. Also hitting Bookstore shelves in 2017 was the award-winning Trusted Advisors: Key Attributes of Outstanding Internal Auditors by Richard F. Chambers, IIA President and CEO. Translations are available in Spanish, Japanese, and Chinese Simplified.

A debt of gratitude. The generosity of corporate sponsors, donors, and chapters is the backbone that helps sustain the Foundation. Additional support comes from the Leadership Society, which evolved from the 75th Anniversary Society formed in 2016 to celebrate The IIA’s milestone anniversary. At year’s end, the Leadership Society, which requires an annual gift of $1,000, had grown by 21 percent to 63 members.

The Shape of Things to Come

In order to create efficiencies in The IIA’s volunteer governance structure that ensure and, indeed, encourage, productivity and sustainability, the Board of Directors approved a proposal in December 2017 to reduce the size of the Board. The desired outcome of the project, begun in 2016 under the auspices of the Global Governance Task Force, will be a modern, efficient, informed, and relevant governance body able to respond quickly to global developments. Among the recommendations, subject to final approval of members at the Annual Business Meeting in May 2018:

- The Board of Directors, the main governing body, be reduced from 38 to 17 members, permitting a limited number of non-CIAs and non-IIA members to serve on the Board.
- The Executive Committee be eliminated as the primary managing/decision-making body.
- A six-member Supervisory Committee be established with delegated responsibilities to serve as advisor to the CEO and to monitor staff compensation matters.
- Global Council be renamed Global Assembly with expanded responsibilities and a formal designee from each affiliate.
- The new governance structure is designed to provide maximum value to members while continuing to ensure nimble yet vigilant oversight of IIA activities.

Online Bookstore visits by country

- United States - 56,447
- Canada - 8,347
- India - 5,874
- South Africa - 5,585
- United Kingdom - 3,209
- United Arab Emirates - 2,815
- Saudi Arabia - 2,779
- Brazil - 2,624
- Philippines - 2,540
- Indonesia - 2,425
2017–18 IIA Global Board of Directors
Executive Committee

CHAIRMAN OF THE BOARD
J. Michael Peppers, CIA, QIAL, CRMA
Chief Audit Executive
University of Texas System
USA

SENIOR VICE CHAIRMAN OF THE BOARD
Naohiro Mouri, CIA
Executive Vice President and Chief Auditor
American International Group
Japan

VICE CHAIRMAN - PROFESSIONAL PRACTICES
Jenitha John, CIA, QIAL
Chief Audit Executive FirstRand Bank
South Africa

EXECUTIVE COMMITTEE
2017–18 IIA Global Board of Directors

VICE CHAIRMAN - GLOBAL SERVICES
Kareem Toufic Obeid, CIA, CCISA, CRMA
Chief Audit Executive
Tawazun Economic Council
United Arab Emirates

VICE CHAIRMAN - RESEARCH
Michael J. Fucilli, CIA, QIAL, CCSA, CRMA
Chief Audit Executive
Metropolitan Transportation Authority
New York

PAST CHAIRMAN OF THE BOARD
Lawrence J. Harrington, CIA, QIAL, CRMA
Vice President, Internal Audit
Raytheon Company
USA

PAST CHAIRMAN OF THE BOARD
Charlotta Löfstrand Hjelm, CIA, QIAL
Chief Internal Auditor LFAB
Länstrafik瑞ger AB
Sweden

IMMEDIATE PAST CHAIRMAN OF THE BOARD
Angela Witzany, CIA, QIAL, CRMA
Head of Internal Audit
Sparkassenversicherung AG
Austria

IMMEDIATE PAST CHAIRMAN OF THE BOARD
Lesedi Leasediw, CIA, QIAL, CRMA
Director of Internal Audit
Botswana College of Distance and Open Learning
Botswana

IMMEDIATE PAST CHAIRMAN OF THE BOARD
Ranjit Singh Taram Singh, CIA, CRMA
Group Executive Director
Acelia Inc.
Malaysia

IMMEDIATE PAST CHAIRMAN OF THE BOARD
Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA
President and CEO
The Institute of Internal Auditors
USA

DIRECTORS-AT-LARGE AND EX-OFFICIO DIRECTORS

Mark Carawan, CIA, QIAL, CRMA
Citi Chief Compliance Officer
Citigroup
United Kingdom

Eric N. Allegaer, CIA, CCSA, CRMA
Vice President and Chief Audit Executive
Adobe Systems
USA

Narendra K. Aneja, CIA, QIAL, CRMA
Chief Executive
Anjra Associates
India

Jorge G. Badillo Ayala, CIA, CCSA, CGAP, CRMA
Internal Audit Manager
Sierra Caja SCM (V.KGHM and Sumitomo)
Chile

John Bemberger, CIA
Chief Audit Executive, Director of Group
ABN AMRO
Netherlands

Ágúst Hrafnkelsson, CIA, CRMA
Chief Audit Executive
Islandsbanki hf
Iceland

Jan Petrus Opperman, CIA, CRMA
Chief Audit Executive
Steinhoff International
South Africa

Marco Petracchini, CIA, CRMA
Senior Executive Vice President
ENI
Italy

Jean-Marie Pivard, CIA, CRMA
Vice President, Internal Audit
Publicis Group
France

Juergen Rohrmann, CIA
Director
Union Fonds Holding AG
Germany

Renato Trisciuaggi, CIA, QIAL, CCSA, CRMA
Corporate Audit Director
Walmart
Brazil

Qing (Joy) Xia, CIA, CRMA
Vice President, Auditing Department
China UnionPay Merchant Services
China

Hajime Yoshikata, CIA, CCSA, CFSA, CRMA
Chair, Corporate Audit Committee
Saitama Resona Bank, Ltd
Japan

INSTITUTE DIRECTORS

INSTITUTE DIRECTORS

Mark Carawan, CIA, QIAL, CRMA
Citi Chief Compliance Officer
Citigroup
United Kingdom

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Chair, Corporate Audit Committee
Saitama Resona Bank, Ltd
Japan

NORTH AMERICAN DIRECTORS

Chairman, North American Board
Shannon J. Urban, CIA, CRMA
Executive Director
Ernst & Young
USA

Karen Brady, CIA, CRMA
Vice President and Chief Compliance Officer
Baptist Health South Florida
USA

Neil Friese, CIA
Vice President, Internal Audit
Frontier Communications
USA

Nancy Haig, CIA, CCISA, CFSA, CRMA
Director, Internal Audit and Compliance
Global Consulting
USA

Robert B. Kuling, CIA, CRMA
Partner, Enterprise Risk Services
Deloitte & Touche LLP
Canada

Julie Lathrop, CIA, CRMA
North America Controller
HP Inc.
USA

Seth Peterson, CIA, QIAL, CRMA
AVP Internal Audit Manager
The First National Bank in Sioux Falls
USA

Harold C. Silverman, CIA, QIAL, CRMA
Partner
Postlethwaite & Nobettville
USA

Laura Soileau, CIA, CRMA
Partner
Postlethwaite & Nobettville
USA

Benito Ybarra, CIA
Chief Audit and Compliance Officer
Texas Department of Transportation
USA
2017 Financial Discussion and Analysis

As The Institute of Internal Auditors reviews its 2017 fiscal position, it is pleased to outline the financial performance that supported the aforementioned achievements.

For the 12-month period ending Dec. 31, 2017, total revenue was $58.6 million for The Institute of Internal Auditors, Inc., and related entities (IIA). That represented a decrease of $1.3 million (2.1 percent) from 2016. Change in Net Assets (net contribution) was $6.6 million in 2017, an increase of $1.1 million (20.2 percent) from 2016.

In 2017, The IIA experienced revenue growth in certification of 6.6 percent and relationship management of 4.6 percent, offset mainly by conferences and seminars, which decreased by 13.6 percent and 7.5 percent, respectively.

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, 2017, total revenue for North American Operations was $36.3 million, while net contribution was $288,000. For Global Operations, total revenue was $21.2 million, while net contribution was $1.2 million.

As a result of the strong financial performance, The IIA ended 2017 with $20.6 million in cash and cash equivalents. That represented a year-over-year increase of $2.2 million (11.9 percent).

During 2017, The IIA continued its practice to reinvest prior year net contribution into improving the product and services offered to its members. In 2017, The IIA invested $3.0 million into capital-related projects, bringing the two-year (2016-17) total investment to $4.9 million.

The IIA’s investment portfolio in 2017 increased from $42.3 million to $47.4 million as a result of dividend and interest income, and realized and unrealized gains. Overall, the investment portfolio has performed consistent with expectations given the conservative nature of an investment policy, which was revised in March 2017.

The IIA’s net assets in 2017 increased from $49.3 million to $55.9 million, a year-over-year increase of $6.6 million (13.4 percent). Total net assets in 2017 for The IIA were $55.9 million, compared with $49.3 million in 2016. (All monetary figures represent U.S. dollars.)
The Institute of Internal Auditors, Inc. and Affiliates
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$20,585,111</td>
<td>$18,397,162</td>
</tr>
<tr>
<td>Investments</td>
<td>47,378,802</td>
<td>42,328,920</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>2,412,738</td>
<td>2,418,619</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>2,847,584</td>
<td>2,646,004</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>4,437,547</td>
<td>3,174,630</td>
</tr>
<tr>
<td>Deferred project costs, net</td>
<td>1,192,613</td>
<td>850,746</td>
</tr>
<tr>
<td>Employee savings plans</td>
<td>1,819,463</td>
<td>1,842,622</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$80,673,858</strong></td>
<td><strong>$71,658,703</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND NET ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$8,246,860</td>
<td>$8,155,537</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>12,331,642</td>
<td>11,313,595</td>
</tr>
<tr>
<td>Deferred employee compensation</td>
<td>1,819,463</td>
<td>1,842,622</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>2,377,358</td>
<td>1,085,649</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$24,775,323</strong></td>
<td><strong>$22,397,403</strong></td>
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</table>

<table>
<thead>
<tr>
<th>NET ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>55,179,584</td>
<td>48,609,943</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>583,951</td>
<td>516,357</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>131,000</td>
<td>131,000</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$55,898,535</strong></td>
<td><strong>$49,261,300</strong></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>CHANGES IN NET ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$49,261,300</td>
<td>$43,740,979</td>
</tr>
<tr>
<td>End of year</td>
<td><strong>$55,898,535</strong></td>
<td><strong>$49,261,300</strong></td>
</tr>
</tbody>
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The Institute of Internal Auditors, Inc. and Affiliates
CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31, 2017 and 2016

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship management</td>
<td>$15,217,630</td>
<td>$14,553,447</td>
</tr>
<tr>
<td>Certification</td>
<td>14,833,200</td>
<td>13,913,805</td>
</tr>
<tr>
<td>Conferences</td>
<td>9,422,022</td>
<td>10,909,197</td>
</tr>
<tr>
<td>Seminars</td>
<td>8,491,122</td>
<td>9,178,935</td>
</tr>
<tr>
<td>Publishing and educational products</td>
<td>3,312,539</td>
<td>2,726,160</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td>890,234</td>
<td>1,594,792</td>
</tr>
<tr>
<td>Quality assessment service fees</td>
<td>1,973,538</td>
<td>1,923,854</td>
</tr>
<tr>
<td>Other program revenue</td>
<td>1,416,538</td>
<td>1,658,215</td>
</tr>
<tr>
<td>North American services</td>
<td>1,293,692</td>
<td>1,443,585</td>
</tr>
<tr>
<td>Technology based learning</td>
<td>1,239,692</td>
<td>931,272</td>
</tr>
<tr>
<td>Contributions</td>
<td>441,050</td>
<td>371,424</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>$58,593,840</strong></td>
<td><strong>$59,873,311</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conferences</td>
<td>7,141,988</td>
<td>8,140,977</td>
</tr>
<tr>
<td>Certification</td>
<td>8,488,067</td>
<td>8,054,919</td>
</tr>
<tr>
<td>Seminars</td>
<td>6,065,630</td>
<td>6,922,969</td>
</tr>
<tr>
<td>Relationship management</td>
<td>6,794,930</td>
<td>6,615,851</td>
</tr>
<tr>
<td>North American services</td>
<td>2,743,026</td>
<td>2,631,761</td>
</tr>
<tr>
<td>Educational products</td>
<td>1,893,195</td>
<td>1,940,634</td>
</tr>
<tr>
<td>Other</td>
<td>1,403,238</td>
<td>1,224,726</td>
</tr>
<tr>
<td>Quality assessment</td>
<td>1,280,778</td>
<td>1,208,978</td>
</tr>
<tr>
<td>Professional practices</td>
<td>1,017,704</td>
<td>1,175,638</td>
</tr>
<tr>
<td>Publishing</td>
<td>636,644</td>
<td>597,718</td>
</tr>
<tr>
<td>Research projects</td>
<td>104,672</td>
<td>142,214</td>
</tr>
<tr>
<td>Grants</td>
<td>138,959</td>
<td>84,600</td>
</tr>
<tr>
<td>Academic programs</td>
<td>15,000</td>
<td>24,353</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$56,085,629</strong></td>
<td><strong>$56,054,780</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OTHER CHANGES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net realized and unrealized gains on investments</td>
<td>4,136,430</td>
<td>201,228</td>
</tr>
<tr>
<td>Gain on sale of land and building</td>
<td>-</td>
<td>1,664,262</td>
</tr>
<tr>
<td><strong>Total other changes</strong></td>
<td><strong>4,136,430</strong></td>
<td><strong>1,865,490</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHANGE IN UNRESTRICTED NET ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>123,555</td>
<td>152,696</td>
</tr>
<tr>
<td>Dividend and interest income</td>
<td>5,172</td>
<td>12,229</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>136,133</td>
<td>328,625</td>
</tr>
<tr>
<td><strong>Change in unrestricted net assets</strong></td>
<td><strong>4,136,430</strong></td>
<td><strong>1,865,490</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the consolidated financial statements.
The Institute of Internal Auditors, Inc. and Affiliates
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

<table>
<thead>
<tr>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Cash received from members and customers</td>
<td>$58,749,956</td>
</tr>
<tr>
<td>Cash paid for program and supporting services</td>
<td>($53,519,282)</td>
</tr>
<tr>
<td>Investment income received</td>
<td>846,060</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>6,091,070</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sales of investments</td>
<td>46,408,269</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>($47,321,721)</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>($2,536,649)</td>
</tr>
<tr>
<td>Proceeds from sale of property</td>
<td></td>
</tr>
<tr>
<td>Expenditures for deferred project costs</td>
<td>($453,020)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>($3,903,121)</td>
</tr>
<tr>
<td>Net increase in cash</td>
<td>2,187,949</td>
</tr>
</tbody>
</table>

**CASH**

Beginning of year | $18,397,162 | $15,940,226 |
End of year | $20,585,111 | $18,397,162 |

Reconciliation of change in net assets to net cash provided by operating activities:

Change in net assets | $6,637,235 | $5,520,321 |
Adjustments to reconcile change in net assets to net cash provided by operating activities:

Depreciation and amortization | 1,228,735 | 897,724 |
Amortization of deferred project costs | 111,153 | 301,015 |
Loss (gain) on disposal/sale of property and equipment | 44,997 | ($1,664,262) |
Net unrealized gain on investments | (4,136,430) | (201,238) |

Change in operating assets and liabilities:

Accounts receivable | 5,881 | (102,112) |
Prepaid expenses and other assets | (201,580) | (929,075) |
Increase (decrease) in liabilities:

Accounts payable and accrued expenses | 91,323 | 1,372,983 |
Deferred revenue | 1,018,047 | 542,943 |
Other liabilities | 1,291,709 | 478,337 |
Total adjustments | ($546,165) | 265,377 |
Net cash provided by operating activities | $6,091,070 | $5,785,692 |

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Institute of Internal Auditors, Inc. (the Institute), formed in 1941 as a not-for-profit corporation, was 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 (U.S. GAAP), the Institute’s consolidated financial statements include the accounts of the following organizations, which are separate legal entities (collectively referred to as the Organization):

- **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.

- **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 amount of activity within the Canadian Institute, the activities and balances are included in the financial statements of the Institute in the accompanying consolidating statement of financial position information and the accompanying consolidating statement of activities information.

- **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 amount of activity within BEAC, the activities and balances are included in the financial statements of the Institute in the accompanying consolidating statement of financial position information and the accompanying consolidating statement of activities information.

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

A summary of the Organization’s significant accounting policies follows:

**Basis of presentation:** The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

A not-for-profit organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- **Unrestricted net assets:** Net assets that are not subject to donor-imposed stipulations, but may be designated for specific purposes by action of the Board of Directors.

- **Temporarily restricted net assets:** Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted net assets consist primarily of 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:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization and that only the income earned thereon will be available for operations. 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.
Revenue recognition and operating activities: The Institute recognizes revenue, including expenses incurred in its operation of the following activities:

Relationship management: Membership dues are recognized as income ratably throughout the membership period, which is generally one year. Membership application fees are nonrefundable and are recognized as income when received. Membership application fees 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: Exam registration fees are recognized as income in the periods in which the exams are taken. Application 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 service: 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: North American services include revenues from Global Auditing Information Network (GAIN) subscription fees and Audit Executive Center (AEC) membership dues. GAIN subscription fees are recognized as income ratably over the length of the subscription contract. One-time purchases are recognized as income when the product 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.

Professional services: Expenses include the direct costs of creating and maintaining authoritative guidance organized in the International Professional Practices Framework. There is no direct revenue generated from professional practices, rather these costs support other sources of revenue.

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.

Other activities: During 2017 and 2016, the Foundation reimbursed the Institute for certain 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. These activities are reflected within grants to/from affiliates in the accompanying consolidating statement of activities information.

Revenue received in advance of the recognition period is included in deferred revenue in the accompanying statements of financial position. Deferred revenue consists primarily of membership fees not yet earned and fees for upcoming conferences.

Contributions: Contributions received are recognized as unrestricted, temporarily restricted or permanently restricted support, depending on the extent to which contributions are restricted. Any donor restrictions at fair value. All donor restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction unless they are expended in the year of receipt. Such contributions are recorded as unrestricted 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.

Contributed services are recognized and reported at fair value in the period received, if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and were not typically need to be purchased if not provided by contribution. There were no contributed services for the years ended December 31, 2017 and 2016.

Cash and cash equivalents: For purposes of the statements of cash flows, the Organization considers all short-term securities purchased with an original maturity of three months or less to be cash equivalents. The Organization's cash and cash equivalent accounts maintained in brokerage accounts are considered investments by the Organization.

The Organization maintains its cash and cash equivalents in deposit accounts and market money funds which may not be fully protected by federal deposit insurance limits, or may be insured by an entity other than an agency of the federal government. The Organization has not experienced any such accounts and believe they are not exposed to any significant credit risk related to cash and cash equivalents.

Investments and investment income: Investments are reported at fair value (see Note 2). Realized gains and losses are recorded at date of disposition based on the difference between proceeds received and the cost of the investments sold, using the specific identification method. Unrealized gains and losses are reported for the changes in fair value of securities held at the time of period. Interest and dividends income is recognized when earned. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Accounts receivable: Accounts receivable are stated at net realizable value. The Organization uses the allowance method to determine uncollectible accounts receivable. The allowance for doubtful accounts is estimated based on an analysis of specific accounts and other economic factors, 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. In the opinion of management, the allowance for doubtful accounts is $29,297 and $8,685 as December 31, 2017 and 2016, respectively, reflects management's best estimate of uncollectible accounts.

Property and equipment: Property and equipment are recorded at cost when purchased or at fair value at the date of gift, if contributed. Depreciation of property and equipment is computed using the straight-line method of accounting over the estimated useful lives of the depreciable assets. Routine maintenance and repair costs are charged to expense as incurred, while major replacements and improvements are capitalized as additions to the related assets. When assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts and gains or losses are recognized based on the fair value of the related project. Seminar costs are amortized over three years at 60% the first year, 30% the second year and 10% the third year.

Deferred project costs: Deferred project costs result from the expenditure of cash to prepay expenses such as conference and seminar fees. These costs are amortized over three years at 60% the first year, 30% the second year and 10% the third year.

Functional expenses: The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

Use of estimates: The presentation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Income taxes: The Institute and BEAC are exempt from federal income tax under Internal Revenue Code Section 501(c)(3) as organizations described in Section 501(c)(3) and from state income tax pursuant to state law. The Foundation is 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 is treated as a disreigated entity 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. Quality Services and BEAC have not incurred unrelated business income taxes.

The Organization follows accounting standards relating to accounting for uncertainty in income taxes. Management assessed whether there were any uncertain tax positions, which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying consolidated financial statements. Generally, the Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before December 31, 2014.
Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will become effective for annual reporting periods beginning after December 15, 2017. The Organization has not yet selected a transition method and is currently evaluating the impact of this ASU on its consolidated financial statements.

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. Leases must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. Nonpublic entities should apply the amendments for fiscal years beginning after December 15, 2018. The Organization is currently evaluating the impact of this ASU on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958). Presentation of Financial Statements of Not-for-Profit Entities. ASU No. 2016-14 amends guidance on the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance and cash flows. ASU No. 2016-14 replaces the currently required three net asset classes with two net asset classes, net assets with donor restrictions and net assets without donor restrictions. Other amendments within this ASU will improve the usefulness of information provided to donors, grantees, creditors and other users of a not-for-profit’s financial statements. The new guidance is effective for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact of this ASU on its consolidated financial statements.

The FASB has issued certain new or modifications to, or interpretations of existing accounting guidance in addition to the ASUs described above. The Organization has considered the new pronouncements and does not believe that any other new or modified guidance will have a material impact on the Organization’s reported financial position or activities in the near term.

Reclassifications: Certain amounts included in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on the previously reported results of operations or cash flows.

Subsequent events: Management has assessed subsequent events through April 23, 2018, the date the consolidated financial statements were available to be issued.

NOTE 2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The fair value of investments at December 31, 2017 and 2016, consists of the following:

<table>
<thead>
<tr>
<th>Level</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash and cash equivalents</td>
<td>$3,021,232</td>
</tr>
<tr>
<td></td>
<td>Equity securities – common stocks</td>
<td>2,785,469</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>41,762,101</td>
<td>35,567,010</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>-</td>
<td>3,475,772</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$47,378,802</strong></td>
<td><strong>$42,328,920</strong></td>
</tr>
</tbody>
</table>

The Organization follows accounting standards relating to fair value measurements which defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards relating to fair value measurements establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Investments recorded at fair value in the accompanying statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by this guidance, are as follows:

**Level 1:** Quoted market prices in active markets for identical assets or liabilities.

**Level 2:** Observable market-based inputs or unobservable inputs that are corroborated by market data.

**Level 3:** Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following tables summarize the fair value measurements by level measured on a recurring basis as of December 31, 2017 and 2016:

**2017**

<table>
<thead>
<tr>
<th>Fair Value Measurements Using</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$3,021,232</td>
<td>-</td>
<td>$3,021,232</td>
<td></td>
</tr>
<tr>
<td>Equity securities – common stocks (U.S. large cap equity)</td>
<td>2,785,469</td>
<td>-</td>
<td>2,785,469</td>
<td></td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>-</td>
<td>18,845,108</td>
<td>-</td>
<td>18,845,108</td>
</tr>
<tr>
<td>U.S. large cap equity fund</td>
<td>-</td>
<td>4,788,564</td>
<td>-</td>
<td>4,788,564</td>
</tr>
<tr>
<td>EAFE equity fund</td>
<td>4,254,911</td>
<td>-</td>
<td>4,254,911</td>
<td></td>
</tr>
<tr>
<td>Real estate and infrastructure</td>
<td>2,547,792</td>
<td>-</td>
<td>2,547,792</td>
<td></td>
</tr>
<tr>
<td>Emerging market equity fund</td>
<td>2,452,941</td>
<td>-</td>
<td>2,452,941</td>
<td></td>
</tr>
<tr>
<td>Multisector bond fund</td>
<td>2,340,634</td>
<td>-</td>
<td>2,340,634</td>
<td></td>
</tr>
<tr>
<td>Asia ex-Japan equity fund</td>
<td>1,524,379</td>
<td>-</td>
<td>1,524,379</td>
<td></td>
</tr>
<tr>
<td>Japanese large cap equity fund</td>
<td>1,470,711</td>
<td>-</td>
<td>1,470,711</td>
<td></td>
</tr>
<tr>
<td>Equity precious metals fund</td>
<td>1,278,541</td>
<td>-</td>
<td>1,278,541</td>
<td></td>
</tr>
<tr>
<td>European large cap equity fund</td>
<td>888,353</td>
<td>-</td>
<td>888,353</td>
<td></td>
</tr>
<tr>
<td>U.S. mid cap equity fund</td>
<td>857,033</td>
<td>-</td>
<td>857,033</td>
<td></td>
</tr>
<tr>
<td>Allocation equity fund</td>
<td>343,134</td>
<td>-</td>
<td>343,134</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$47,378,802</strong></td>
<td>-</td>
<td>-</td>
<td><strong>$47,378,802</strong></td>
</tr>
</tbody>
</table>

**2016**

<table>
<thead>
<tr>
<th>Fair Value Measurements Using</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$252,642</td>
<td>-</td>
<td>$252,642</td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>3,475,772</td>
<td>-</td>
<td>3,475,772</td>
<td></td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>-</td>
<td>11,461,567</td>
<td>-</td>
<td>11,461,567</td>
</tr>
<tr>
<td>Intermediate term bond fund</td>
<td>6,753,531</td>
<td>-</td>
<td>6,753,531</td>
<td></td>
</tr>
<tr>
<td>Large blend fund</td>
<td>6,045,351</td>
<td>-</td>
<td>6,045,351</td>
<td></td>
</tr>
<tr>
<td>Large growth fund</td>
<td>2,320,440</td>
<td>-</td>
<td>2,320,440</td>
<td></td>
</tr>
<tr>
<td>Allocation equity fund</td>
<td>2,268,329</td>
<td>-</td>
<td>2,268,329</td>
<td></td>
</tr>
<tr>
<td>Tactical allocation fund</td>
<td>2,218,146</td>
<td>-</td>
<td>2,218,146</td>
<td></td>
</tr>
<tr>
<td>Multisector bond fund</td>
<td>2,150,358</td>
<td>-</td>
<td>2,150,358</td>
<td></td>
</tr>
<tr>
<td>Foreign large growth fund</td>
<td>2,046,475</td>
<td>-</td>
<td>2,046,475</td>
<td></td>
</tr>
<tr>
<td>World allocation fund</td>
<td>60,946</td>
<td>-</td>
<td>60,946</td>
<td></td>
</tr>
<tr>
<td>Short-term bond fund</td>
<td>34,853</td>
<td>-</td>
<td>34,853</td>
<td></td>
</tr>
<tr>
<td>Equity precious metals fund</td>
<td>9,204</td>
<td>-</td>
<td>9,204</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$42,328,920</strong></td>
<td>-</td>
<td>-</td>
<td><strong>$42,328,920</strong></td>
</tr>
</tbody>
</table>

Shares of equities are valued based on the quoted market price of the stock on active markets as of the valuation date. Shares of mutual funds are valued based on the quoted market price of the fund on active markets as of the valuation date which represents the net asset value of shares held by the Organization.
The Institute maintains Section 409 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 $260,000 and $316,000 during years ended December 31, 2017 and 2016, respectively. The Institute held $1,819,463 and $1,842,622 in the plans as of December 31, 2017 and 2016, respectively, which is reflected in the accompanying statements of financial position as employee savings plans and deferred employee compensation.

NOTE 6. COMMITMENTS AND CONTINGENCIES

The Foundation has entered into contracts and agreements with various parties for research projects. Unpaid commitments related to these contracts and agreements totaled approximately $167,000 as of December 31, 2017.

The Institute delivers 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, administration of testing and certification, 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 $90,000 plus certain incremental fees based on actual volume as described in 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 $167,000 as of December 31, 2017.

The Institute participates in a defined contribution pension plan organized under section 401(k) of the Internal Revenue Code. The Institute contributes a certain percentage of the total salary of eligible employees to the plan. During the years ended December 31, 2017 and 2016, the Institute contributed approximately $1,350,000 and $1,518,000, respectively, to this retirement plan.

NOTE 4. OPERATING LEASES

The Institute leases office space and office equipment under operating leases expiring through April 1, 2027. Future annual minimum lease payments due under these operating leases as of December 31, 2017, are as follows:

<table>
<thead>
<tr>
<th>Years Ending December 31:</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total rent expense related to all leases and additional amounts for short-term rentals and related charges amounted to approximately $2,237,000 and $2,369,000 for the years ended December 31, 2017 and 2016, respectively.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

LITIGATION: The organization is involved in lawsuits in the normal course of business. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the consolidated financial statements. Management believes that losses resulting from these matters, if any, would not have a material adverse effect on the financial position or results of operations of the organization.
The Institute of Internal Auditors 2017 Annual Report

Management has concluded that the system of internal control over financial reporting was effective as of Dec. 31, 2017.

Disclosures of any change in the internal control over financial reporting that occurred during the most recent fiscal quarter

An adequate system for disclosing controls and procedures exists to ensure that material information is made known to us

The financial information included in this annual report fairly presents in all material respects the financial condition, results

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 RSM US LLP, independent certified public accountants, selected by the Board of Directors. Management has made available to RSM US LLP all financial records and related data as well as the minutes of Board of Directors meetings. Management believes that all representations made to RSM US LLP 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, 2017, 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, 2017;
- 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
CFA, QBDL, CGAP, CGMA, CRMA
President and Chief Executive Officer

Ann S. Cohen
CPA, CGMA
Senior Vice President and Chief Financial Officer