
As we review the 2011 accomplishments of The Institute of Internal Auditors (IIA), it is good to remember that The IIA founders and others who devoted themselves to the profession over the past seven decades played an inherent role in both today’s world of internal auditing and The IIA’s ability to meet the current needs of its members. It was the vision, dedication, and investment of those who went before us that paved the way to the success and recognition that The IIA and our profession as a whole enjoy today. Therefore, it is proper and fitting that the theme for this report be “Investing, Advancing, Evolving.”

Clearly, the achievements of 2011 speak to the investment so many have made in the profession, the time and effort that has been devoted to advancing internal auditing, and the thought, research, and energy that has been required to help practices and practitioners evolve. And now, supported by strong 2011 financials, we are well equipped to invest even more in advancing our organization and profession to the next level, so that the evolution process can continue.

In addition to demonstrating the strongest financial performance in recent years, in 2011 The IIA set a record for global membership growth and launched a variety of initiatives that are helping IIA members to enhance their proficiency and add value to their organizations. The pages that follow in this report will chronicle those achievements — from innovative websites to revised guidance to new certifications — and provide an overview of both the accompanying strategies and outcomes.

The IIA’s governance structure provides the opportunity for diverse leadership from all around the world. Extraordinary commitment is required of board and committee members, and volunteer efforts throughout 2011 were exceptional. Serving more than 170,000 members globally, our volunteers and Institutes around the world played an integral role in achieving The IIA’s 2011 goals and worked tirelessly behind the scenes to ensure our members’ needs were met.

With $4.5M net contribution from operations and $39.8M in revenue in 2011, The IIA community has made a collective investment in the future of internal auditing, in advancing internal audit proficiency and professionalism, and in being a catalyst for the ongoing evolution of the profession. This report serves as a testament to every initiative that has been implemented, each milestone that was met, the valuable programs brought to fruition, and our goals successfully reached over the past year.
Greetings from IIA Global Headquarters. It is my privilege to once again present to our stakeholders around the world an annual review of The Institute of Internal Auditors. By governance and operational structure, budgetary planning, and design, The IIA is a forward-thinking organization. And yet, unless we know where we’ve been, we can’t clearly identify where we need to go. As Shakespeare so poetically reminds us, “What is past is prologue.” This document — our 2011 Annual Report — affords the perfect opportunity to reflect on the past year’s milestones, accomplishments, changes, and challenges.

From a financial perspective, I am happy to report a positive contribution for the second consecutive year. Not only does this reflect the fine work of our exceptional staff at IIA Global Headquarters and our dedicated volunteers from all around the globe, but also the vote of confidence and support from our members throughout the world. The positive financial contribution of our global division will exponentially advance our profession by addressing the needs of and funding services for our worldwide membership.

I believe we are at an exciting turning point for our organization. But as we continue in our role as a global professional body and standard-setter, we still have much work to do. We must continue to invest in the professionalism and proficiency of our members through ongoing encouragement, leading-edge information, state-of-the-art tools, and authoritative guidance. We must continue to foster alliances with like-minded global entities to advance the world-view of our profession’s value. And as our profession evolves globally, we must seek out more opportunities for our members from vastly diverse cultures to work together in pursuit of common goals based on the tenets of integrity, high ethics, and proven practices.

As we strive to do all of this together, we will propel our global organization further toward meeting its potential. I am committed to that goal and trust that you are, as well. I genuinely appreciate the role you play and I excitedly anticipate what’s ahead as we work together to build a vibrant profession.

Sincerely,
Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President & CEO
The Institute of Internal Auditors
Global Headquarters
On behalf of The Institute of Internal Auditors Global Board of Directors, I invite you to revisit the year 2011 via this report. I also want to take this opportunity to share my appreciation for the confidence you placed in me when you elected me to serve as your 2011-2012 chairman. It has, indeed, been a busy and productive year, and one I will always reflect on as a true highlight of my professional career.

As I considered the year ahead of me when I was elected chairman of The IIA for the 2011-2012 year, I knew that many of my goals included promoting internal auditing’s relevance around the globe. I knew my focal point would be to help ensure our global organization stayed in touch with the needs of our diverse membership, as well as to help ensure that our members maintain relevancy in their day-to-day professional practice. And so for this reason, I chose as my chairman’s theme, “Assess Our Relevance.”

Over the past 12 months, I have touted the benefits of internal audit relevance at myriad venues throughout the world, to varied cultures in many countries around the globe, in numerous speeches and writings, and during countless discussions with IIA members and leaders. Now, with the benefit of hindsight, I believe our members understood and embraced this theme and considered how they could adopt it into their own personal standards for professionalism.

By being truly relevant, and with our stakeholders’ understanding of that relevance, our global association reached many milestones and achieved the goals we set for 2011. We addressed our members’ unique needs, while appropriately responding to the changing global business environment. And, through many of the initiatives launched in 2011, we laid the groundwork for our members to increase their relevancy and provide the assurance, insight, and objectivity required to add the most value to our organizations.

It has been my privilege to give back to my profession by serving as The IIA’s chairman, and I am honored by the trust you placed in me at the helm of our organization. Thank you for the opportunity to get to know so many members over the past year, to work with so many leaders on such important issues, and to represent so broadly the profession that I have so dearly loved for more than 40 years.

Sincerely,
Denny Beran, CIA, CCSA, CRMA
2011-2012 Chairman of the Board
The Institute of Internal Auditors
INVESTING
The year 2011 was tremendous for The Institute of Internal Auditors as it was positioned to invest in serving the global membership and advance the profession. As a result of several new initiatives and strategies, the global organization transitioned from a period of stabilization to an era in which The IIA is poised to provide relevant and leading-edge products and services, and to advocate the profession’s value to stakeholders worldwide.

GLOBAL STRATEGY
Both the global and North American boards of The IIA held in-depth discussions about where the organization should head strategically, which has created a vision for growth and advocacy on behalf of the profession. Our global volunteer leadership framed a new strategic plan that is inspiring, yet achievable. Its goals will keep The Institute focused over the next three to five years on meeting the needs of the profession and driving change.

INVESTING IN THE GLOBAL FOOTPRINT
Although the activities of IIA Global Headquarters help lay a foundation for the profession and IIA Institutes around the world, it is our global footprint that is a true representation of our IIA family. It is for this reason that the relationships among our network of affiliated Institutes are so important. We strive to demonstrate the value of IIA global membership to our thousands of member around the world. Each and every Institute is an indispensable partner to IIA headquarters, so we must continuously invest in global services and affiliation.

2012–2016 GLOBAL STRATEGIC PLAN GOALS
The Big Audacious Goal: Internal audit professionals will be universally recognized as indispensable to effective governance, risk management, and control.

- Goal A (Professionalism): The IIA will be the driving force for the development of high-performing internal audit professionals, indispensable to their organization.

- Goal B (Membership Value Proposition): The IIA will deliver the value that compels current, future, and former internal auditors to be members.

- Goal C (Advocacy): The IIA will have positively raised the profile of, and demand for, professional internal auditing, globally.

- Goal D (Governance): The IIA will have a global operating model in place where all affiliated Institutes are aligned on core principles.

- Goal E (Financial): IIA Global operations will be self-sufficient financially with adequate reserves to carry out its core purpose and strategic direction.

Global Council was held in Vienna where Institutes provided input into The IIA’s global strategy.
INVESTING IN PROFESSIONALISM

In 2011, The IIA launched its first new certification program in more than 10 years. Events over the past decade such as financial scandals, new legislation, technological advancement, corporate global expansion, and economic fluctuations have prompted more involvement from internal auditing in risk management. The IIA responded with a Certification in Risk Management Assurance (CRMA), which enables audit practitioners to demonstrate their ability to provide advice and assurance to audit committees and executive management on whether key risk management and governance processes in their organizations are in place and effective. From the time of the certification’s launch in August 2011 through the end of the year, nearly 500 professionals from 36 countries were conferred the designation. At least 1,000 additional people had already initiated the process of applying for the CRMA.

The IIA also made a significant investment into a job analysis to ensure the content of its certifications are relevant and timely. And major work was begun to reduce the CIA exam from four parts to three parts, better aligning the program with the changing needs of the profession.
The year 2011 was also a landmark year in terms of the amount of new guidance The IIA developed and issued. We issued the revised International Professional Practices Framework (IPPF) and welcomed the IPPF Oversight Council to observe our guidance-setting procedures and share their perspectives with the world.

2011 GUIDANCE

PRACTICE GUIDES:
- Reliance by Internal Audit on Other Assurance Providers
- Independence and Objectivity
- Interaction with the Board
- Auditing the Control Environment
- Assisting Small Internal Audit Activities in Implementing the International Standards for the Professional Practice of Internal Auditing

GLOBAL TECHNOLOGY AUDIT GUIDE (GTAG):
- GTAG 16: Data Analysis Technologies

PRACTICE ADVISORIES:
- PA 1312-3 Independence of External Assessment Team in the Private Sector
- PA 1312-4 Independence of External Assessment Team in the Public Sector
- PA 2320-2 Root Cause Analysis

NORTH AMERICAN STRATEGY

Operations housed at IIA Global Headquarters in Florida not only include those dedicated to our global members and Institutes, but also encompass The IIA’s North American Operations Division led by the North American Board.

The IIA in North America has developed a strategic plan to bolster its presence as the premier resource to chief audit executives, and is focused on developing timely and relevant professional development and thought leadership to enhance practices in North America over the next three to five years.

NORTH AMERICAN STRATEGIC PLAN GOALS

The IIA in North America will...

- Goal A: Be an indispensable resource for our members and chapters.
- Goal B: Increase awareness and value of the profession to management and boards.
- Goal C: Be recognized by public policy makers as the voice for the profession.
- Goal D: Be the preferred resource for government sector auditors.
- Goal E: Be financially secure and stable in order to meet its mission and carry out its strategic goals.
INVESTMENT IN MEMBERSHIP VALUE
The IIA continued its focus on the value proposition of IIA membership by providing enhanced benefits such as complimentary webinars, expanded social media, and news briefings. Our member communications in North America allowed The IIA to communicate the immense value of belonging, resulting in a direct correlation to member growth and a record-high retention rate.

GLOBAL MEMBERSHIP

<table>
<thead>
<tr>
<th>Year</th>
<th>Global Membership</th>
</tr>
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<tbody>
<tr>
<td>2009</td>
<td>170,677</td>
</tr>
<tr>
<td>2010</td>
<td>168,617</td>
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<tr>
<td>2011</td>
<td>175,968</td>
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MEMBERSHIP RETENTION RATE (North America)

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<th>Year</th>
<th>Retention Rate</th>
</tr>
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<td>2009</td>
<td>82.95%</td>
</tr>
<tr>
<td>2010</td>
<td>83.87%</td>
</tr>
<tr>
<td>2011</td>
<td>84.48%</td>
</tr>
</tbody>
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INVESTING IN LEARNING
A revitalization and rebranding initiative around The IIA’s professional conferences, seminars, and online and on-site training in North America resulted in a reorganized “Learning Solutions” division. Ensuring The IIA’s professional development offerings are timely and relevant, Learning Solutions developed new strategies to address how The IIA meets the evolving professional needs of internal auditors. The new model is an evolved approach to how professional development is delivered in person and online. Headquarters staff was restructured and realigned to IIA Committees to produce a combined synergy.

By adding free webinars as a benefit for North American members, The IIA provided professional development to approximately 73,000 internal audit practitioners. This new benefit offered 12 CPEs per year just for being a member. This was identified as a key component of the successful member retention program.

IIA NORTH AMERICAN CONFERENCE ATTENDANCE

<table>
<thead>
<tr>
<th>Year</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>995</td>
</tr>
<tr>
<td>2010</td>
<td>1,629</td>
</tr>
<tr>
<td>2011</td>
<td>2,088</td>
</tr>
</tbody>
</table>

Attendance has increased 110 percent at The IIA’s most significant North American conferences (General Audit Management; Gaming; Governance, Risk, Control; and All Star), over the past three years.
INVESTING IN RELATIONSHIPS

In 2010, The IIA’s North American operations actualized an important strategic goal with the formal launch of The Audit Executive Center. And, as 2011 came to a close, just a short 14 months from launch, already over 500 Chief Audit Executives are availing themselves of key thought leadership, timely and topical newsletters, learning and networking opportunities, and exclusive resources. As a subscription service with varying levels of membership, the Audit Executive Center’s goal of enhancing CAEs’ empowerment, connectedness, and relevance is demonstrated by the stellar member acquisition rate. At certain levels of membership, the dedicated Audit Executive Center web portal is available to a CAE’s entire staff, allowing nearly 4,000 internal auditors access to knowledge, resources, and relevant information to enhance workplace and professional success.

INVESTING IN QUALITY

Now that 10 years have passed since the adoption of the standard requiring an external quality assessment of an internal audit function’s conformance with the International Standards for the Professional Practice of Internal Auditing (Standards), more and more organizations around the world are investing in the quality of their own internal audit activities, starting with the establishment of a quality assurance improvement program, or QAIP. In 2011, nearly 100 organizations relied on The IIA’s North American Quality Assurance Services to evaluate and report on their compliance with the Standards through the completion of full External Quality Assessments (EQAs) or independent validation of the organization’s self-assessment (SAIVs). Over the ensuing five years, we anticipate more organizations will realize the importance and value of full conformance with the Standards, and pursue completion of an EQA or SAIV.

THE AUDIT EXECUTIVE CENTER

The Audit Executive Center published 35 pieces of thought leadership and hosted three roundtable events where chief audit executives networked and shared best practices. Notable thought leadership included:

- Three Crisis Management Imperatives for CAEs
- Developing an IT Strategy for Your Audit Function
- Advising vs. Consulting? Strategies for Delivering Unique Audit Services
- Establishing an Effective Relationship With Your Audit Committee
- The Relationship Advantage: Maximizing Chief Audit Executive Success (Partnership between Korn/Ferry International and the Audit Executive Center)

Chief audit executives meet and share with one another their common challenges and professional opportunities at the Audit Executive Center Networking Reception, held during the 2011 General Audit Management Conference in Las Vegas.
ADVANCING
Elevating and advancing internal auditing has been a core value for The Institute of Internal Auditors since its inception in 1941. Each and every investment allows us to move the organization forward toward achievement of worldwide recognition as the profession’s guiding body, global voice, and chief advocate. Several initiatives and milestones in 2011 demonstrated The IIA’s continued advancement.

CELEBRATING 70 YEARS OF ADVANCEMENT

The year 2011 marked The IIA’s 70th anniversary. Beginning in January, The IIA’s members, volunteers, chapters, Institutes, and staff enjoyed reflecting on seven decades of achievement. A campaign commemorated The IIA’s long history and generated greater awareness of the role The Institute has played in the growth of the profession. Numerous activities throughout the year invited our worldwide membership to join in and be a part of the celebration. This included a special anniversary website; a social media photo campaign; articles in various IIA publications about our organization’s history; a video montage; the dedication of special displays at IIA Global Headquarters honoring our past presidents and chairmen; and gala celebrations at both the International Conference and Mid-year Meetings.

As a part of the 70th Anniversary Gala Dinner festivities at The IIA’s International Conference in Kuala Lumpur, Malaysia, IIA leaders join hands in celebration of our organization’s successful history.

Late former IIA President William G. Bishop III was commemorated with a memorial wall at the Headquarters building. IIA Chairman Denny Beran celebrated alongside Bishop’s wife, Mary, and Bill Taylor, recipient of the 2008 William G. Bishop III Lifetime Achievement Award.

Miss Gargi Akolkar demonstrates the global nature of The IIA’s 70th anniversary in front of Nyay Mandir (the Civil Court) in Vadodara, Gujarat, India.

To commemorate the contributions of The IIA’s top executives, IIA Global Headquarters unveiled the Hall of Presidents, displaying portraits of all nine IIA presidents since the organization was founded in 1941.
ADVANCING THROUGH ADVOCACY

IIA Global Headquarters continued elevating its image in the public eye through its advocacy and public relations initiatives. The year began with IIA President and CEO Richard Chambers appearing on CNBC’s “Worldwide Exchange” to advocate for effective corporate governance and risk management. “Worldwide Exchange” airs in more than 100 countries around the world. In the United States, IIA member and volunteer Michael Head, Managing Director of Corporate Audit at TD Ameritrade, was appointed to the Investor Advisory Group of the U.S. Public Company Accounting Oversight Board (PCAOB). And IIA member and volunteer Steven Homza, Managing Director of Internal Audit at Legg Mason, Inc., continued to serve on the PCAOB’s Standing Advisory Group. These positions are giving internal auditing a voice at the table while this prolific organization conducts activities or makes decisions impacting not only our profession, but corporate governance, risk management, and internal control in organizations.

The IIA’s North American advocacy activities also included a collaboration begun in late 2010 with the Center for Audit Quality (CAQ), Financial Executives International (FEI), and the National Association of Corporate Directors (NACD) to enhance awareness among its members in how to better prevent and detect financial reporting fraud. Additionally, The IIA made significant progress on a newly revised advocacy platform, and the International Professional Practices Framework (IPPF) Oversight Council completed its first year of work in assessing the adequacy of The IIA's guidance setting processes. The Oversight Council includes representatives from influential global advocacy stakeholders including the International Federation of Accountants (IFAC), International Organization of Supreme Audit Institutions (INTOSAI), Organization for Economic Co-operation and Development (OECD), the World Bank, and NACD. By assuring the quality and due diligence of the profession's authoritative guidance, the IPPF Oversight Council will enhance the visibility and credibility of the Standards as the sole recognized global authoritative guidance for internal auditing.

In 2011, the International Professional Practices Framework Oversight Counsel completed its first year of activities. The group, comprising representatives from global stakeholder organizations, ensures due-diligence of The IIA’s guidance and standard setting process: From left to right: Rolf Elm-Larsen, A.J. Hans Spoel, Peter Gleason, James M. Sylph, Zinga Venner, and Larry Rittenberg.
INTERNATIONAL ADVANCEMENT

Along with our host Institute, IIA–Malaysia, we welcomed more than 2,200 attendees from 93 countries to the 2011 International Conference, the largest attendance ever outside of North America. This was also the first time The IIA’s International Conference was held in Asia, an indicator of how global our organization has become. The conference theme, “Standing Tall,” was inspired in part by Kuala Lumpur’s world-famous Petronas Twin Towers, the tallest twin towers on the planet. Several Malaysian dignitaries helped open the conference, and more than 30 journalists from television, newspapers, and magazines generated unprecedented publicity on the event.

INTERNATIONAL GROWTH

The IIA reached a total of 106 Institutes with the affiliation of new Institutes in Formation in Albania and Israel. The number of Institute members reached 105,571.
ADVANCING THROUGH RESEARCH

Among the numerous achievements of The IIA Research Foundation, the results of the groundbreaking 2010 Global Internal Audit Survey were center stage throughout the year. The study, a component of The IIARF’s ongoing Common Body of Knowledge (CBOK) project, represents a two-year effort to collect and analyze responses from 13,582 practitioners in more than 107 countries. It is the most comprehensive global study ever conducted on the practice of internal auditing, and its completion — marked by the release of five survey analysis reports — merely signifies the early stages of an unprecedented effort to understand and improve the practice of internal auditing globally.

There were some noteworthy new enhancements to this latest CBOK study, including a global database that has been established as a research tool to gain tangible benchmarks on the needs and trends of the profession and support further research. The five survey reports were developed specifically as a practical look at the data from a practitioner’s viewpoint. And an additional study was commissioned on the perspectives of the profession on behalf of U.S. stakeholders.
THE NEXT GENERATION

The IIA continues to advance the profession by ensuring the next generation of internal audit practitioners has the requisite education and professional skills necessary to carry the profession forward. The IIA’s academic relations program advocates, mentors, and provides resources to academia on a global basis, and the Internal Auditing Academic Advancement Fund (IAAFAF) is the arm of the Internal Auditing Education Partnership (IAEP) program which provides funding for curriculum development, mentoring of educators, and university outreach. As of the end of 2011, there were 43 IAEP programs located in 11 countries. And for the first time, a Canadian university, Université Laval, was accepted into the program.

The IIA’s Academic Relations Department also held the Fifth Annual IAEP Leadership and Networking Retreat in Orlando, Fla., USA, October 14–16, 2011. More than sixty students and 32 educators networked with practitioners and students from other programs. Six donor organizations presented to, networked with, and interviewed the students for employment.

To support IAEP programs, the IAAAF raised approximately US $140,000, and approved grants totaling approximately US $154,000 to qualifying IAEP schools for educational elements such as teaching assistants, educator development, and IIA professional development events.

Networking was a central component of the IAEP Conference. Students from around the world met and discussed common interests in the career opportunities of internal auditing.

There’s always time for fun! Students and educators at The IIA’s 2011 IAEP Leadership Networking Conference developed contacts and friendships they will carry with them for many years to come.

The IIA’s Internal Auditing Education Partnership program partners with colleges and universities to ensure internal audit curricula is available to prepare the next generation of the profession.

Students studying internal auditing were invited to Orlando, Fla., USA, to take part in a special networking event where they spent valuable time learning about the internal audit profession, how to market themselves to potential employers, leadership skills, and what opportunities might be ahead. The event gathered 62 students, 32 educators, and six donor organizations.
Almost all things evolve. Our cultures and society evolve. We, as individuals, evolve. Our profession of internal auditing has absolutely evolved. And The Institute of Internal Auditors has evolved over the past 70 years. It is the generous investment of our members’ time and resources that have allowed us to advance and evolve into the next iterations of The IIA. In 2011, we not only advanced, but we set forth on a path of innovation and forward-thinking ways of communicating and providing benefits, products, and services to our valued members.

GLOBALIA.ORG
We launched a new global IIA website — www.globaliia.org — which serves as a gathering place for the acquisition and exchange of information for internal auditors from around the world. The new site showcases The IIA’s global products, including the International Professional Practices Framework in a variety of languages; provides up-to-date information about The IIA’s certifications; features a global event calendar; and acts as a portal to Institute websites worldwide where additional products, services, and benefits are available. It is an opportunity to further serve the needs of our international community, and it is truly a reflection of The IIA’s continued evolution.

The IIA’s new global website – www.globaliia.org – was launched in 2011. With a clean and modern design, it provides IIA members worldwide with a portal to resources, guidance, and news relevant to internal auditors no matter where they are. Enhancements include a comprehensive search capability, an interactive Institute map, and easy-to-use e-mail log-in functionality.
@THEIIA

The year 2011 was a landmark year for The IIA’s evolution in social media. An increased presence on LinkedIn, Facebook, and Twitter connected thousands of internal audit enthusiasts around the world through these vastly global online communities. In 2011 alone, The IIA touched a possible 2.2 million people. The IIA’s blogs on Internal Auditor magazine enjoyed 183,220 visitors, and as the public and members continue to use these new forms of communication to share their knowledge and perspectives, The IIA expects to increase its presence on these information mediums.

AUDITCHANNEL.TV

In keeping with our motto of “Progress Through Sharing,” The IIA launched its own social media channel, a new video-sharing website — www.auditchannel.tv. The Audit Channel enables internal audit professionals to view, post, and comment on short videos that address the topics of greatest interest to the profession. Currently, the site features videos in English, Spanish, French, Japanese, and Chinese. Launched in the latter part of 2011, it surpassed our most optimistic projections. In its first four weeks of operation alone, it registered almost 500 regular user-members and more than 100 videos were available for viewing. In its early stages, some content had been viewed more than 2,400 times. As host of the platform, The IIA is posting content on its key activities and latest news about the profession, and we envision AuditChannel.tv to be community-driven, with users providing the majority of the content and guiding its evolution.
INTERNAL AUDITOR MAGAZINE: EN ESPAÑOL

*Internal Auditor* magazine was again highlighted within the publishing industry with numerous accolades from the Florida Magazine Association for its best-in-class design and content. A testament to the staff and volunteers that contribute to the content and design, the globally distributed professional magazine did not stop there or rest on its laurels. A new design brought a modern look and contemporary feel to engage an ever-evolving member demographic. Significant work was also done on a mobile device application (app) to leverage content in the new digital and mobile age. And in a move to meet the diverse needs of a multi-lingual readership, a Spanish prototype of *Internal Auditor* was developed, which is being marketed to a test audience of Spanish-speaking institutes.

THE AUDIT EXECUTIVE CENTER: GOING GLOBAL

Globally, The IIA began leveraging the North American success of The Audit Executive Center, by working with key Institutes in the rollout of a Global Audit Executive Service, targeted to meet the unique needs of CAEs around the globe.

THE FUTURE

Working in partnership with our volunteers, Institutes, and members, The IIA will continue to invest, advance, and evolve. Indeed, the future looks bright.
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Chief Audit Executive
Banesto, Madrid, Spain

Richard Preston Nelson, CIA
Independent Consultant
Solihull, United Kingdom
As The IIA reviews its 2011 fiscal position, it is pleased to outline the financial performance that supported the aforementioned achievements.*

The 12 months ending December 31, 2011, resulted in total revenue of $39.8 million for The Institute of Internal Auditors, Inc. and related entities (The IIA) which represented an increase of $5.4 million (15.8%). Net contribution for that same time period was $4.5 million or an increase of $1.0 million (29.8%).

In 2011 The IIA experienced revenue growth in all major operating areas highlighted by a 27% increase in Certification revenue, 20% increase in Membership revenue and a 5% increase in Educational Program revenue.

The IIA also tracks revenue and expenses by geographic segment between North American operations and Global operations. Both segments exceeded their revenue and net contribution targets by $3.4 million and $1.1 million respectively. This also represented growth over the prior year of $1.7 million for North American Operations and $666,000 for Global Operations.

As a result of the positive financial results, The IIA ended the year with approximately $8.7 million in Cash and Cash Equivalents which is an increase of $4.5 million (108%). This is in excess of the daily required operating cash and a portion of which has been moved into long-term investments during the first quarter of 2012. The IIA continues to have available a $2 million line of credit from CNL Bank to fund any cash-flow shortfall; however, there are no funds currently drawn upon this line.

Also, as a result of the improved operations in 2010, The IIA was able to re-invest some of the prior year net contribution into improving the products and services offered to our members. During 2011 The IIA invested $1.3 million into capital related projects, up almost $1 million from the previous year.

In 2011 the investment portfolio of The IIA decreased slightly from $13.2 million to $13.1 million as a result of a $538,000 mark to market adjustment offset by investment interest income earned. Overall the investment portfolio has performed consistent with expectations given the more conservative nature of an investment policy implemented earlier in 2011.

The 2011 Total Net Assets for The IIA were $20.6 million versus $16.1 million at the end of 2010, which is the highest it has been since 2007.

*All monetary figures represent U.S. dollars.
THE BOARD OF DIRECTORS
THE INSTITUTE OF INTERNAL AUDITORS, INC.
ALTAMONTE SPRINGS, FLORIDA

We have audited the accompanying consolidating statements of financial position of The Institute of Internal Auditors, Inc. (“the Institute”) and Affiliates as of December 31, 2011, and the related consolidating statements of activities and cash flows for the year then ended. We have also audited the consolidated statement of financial position of The Institute of Internal Auditors, Inc. and Affiliates as of December 31, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidating and consolidated financial statements are the responsibility of the Institute’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2011, the consolidating changes in their net assets and their consolidating cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the 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, 2010, the consolidated changes in their net assets and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BATTS MORRISON WALES & LEE, P.A.

Batts, Morrison, Wales & Lee, P.A.

Orlando, Florida
April 18, 2012
For the years ending December 31

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Institute of Internal Auditors, Inc.</strong></td>
<td><strong>Institute of Internal Auditors - Research, Foundation, Inc.</strong></td>
<td><strong>Internal Auditing Academic Advancement Fund, Inc.</strong></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
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<tr>
<td>Cash and cash equivalents</td>
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<td>Investments</td>
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<td>Due from affiliates, net</td>
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<td>Accounts receivable, net</td>
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<td>Inventories</td>
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<td>Deferred project costs, net</td>
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<td>Employee savings plan</td>
<td>1,008,615</td>
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<td>Restricted investments</td>
<td>—</td>
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</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$30,461,540</td>
<td>$3,207,248</td>
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<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
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</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
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<td>Due to affiliates, net</td>
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<td>Permanently restricted</td>
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<tr>
<td><strong>TOTAL NET ASSETS</strong></td>
<td>$16,475,023</td>
<td>$2,937,911</td>
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<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td>$30,461,540</td>
<td>$3,207,248</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
</tr>
<tr>
<td>--------------------------</td>
<td>------------------------------------</td>
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<tr>
<td><strong>CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS REVENUES</strong></td>
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<tr>
<td>Relationship management</td>
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<td>North American services</td>
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<td>Technology based learning</td>
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<td>659,906</td>
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<td>Dividend and interest income</td>
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<td>Contributions</td>
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<td>309,179</td>
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<td><strong>Total revenues</strong></td>
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<td>39,347,803</td>
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<td><strong>Net assets released from use restrictions</strong></td>
<td>73,954</td>
<td>422,878</td>
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<td><strong>Total revenues and net assets released from use restrictions</strong></td>
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<td><strong>EXPENSES</strong></td>
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<td>Seminars</td>
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<td>8,563,262</td>
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<td>Certification</td>
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<td>Relationship management</td>
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<td>Other</td>
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<td>Conferences</td>
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<td>Quality assessment</td>
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<td>North American services</td>
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<td>Grants</td>
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<td><strong>Total expenses</strong></td>
<td>31,588,773</td>
<td>34,621,665</td>
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## For the years ending December 31

<table>
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<th></th>
<th>The Institute of Internal Auditors, Inc.</th>
<th>Institute of Internal Auditors - Research, Foundation, Inc.</th>
<th>Internal Auditing Academic Advancement Fund, Inc.</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
<th>Consolidated Total</th>
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<tbody>
<tr>
<td>Change in unrestricted net assets from operations</td>
<td>4,854,191</td>
<td>261,301</td>
<td>(42,476)</td>
<td>76,000</td>
<td>5,149,016</td>
<td>3,622,868</td>
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<td>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATIONS</td>
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<td>Contributions</td>
<td>152,894</td>
<td>165,456</td>
<td>82,320</td>
<td>(76,000)</td>
<td>324,670</td>
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<td>5,458</td>
<td>8,947</td>
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<td>44,386</td>
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<td>Net assets released from use restrictions</td>
<td>(73,954)</td>
<td>(183,748)</td>
<td>(165,176)</td>
<td>—</td>
<td>(422,878)</td>
<td>(265,383)</td>
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<td>Change in temporarily restricted net assets from operations</td>
<td>78,940</td>
<td>(12,834)</td>
<td>(82,856)</td>
<td>(76,000)</td>
<td>(82,750)</td>
<td>(18,990)</td>
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<td>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS FROM OPERATIONS</td>
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<td>Reclassification</td>
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<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(44,386)</td>
</tr>
<tr>
<td>Change in permanently restricted net assets from operations</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(44,386)</td>
</tr>
<tr>
<td>NON-OPERATING ACTIVITIES</td>
<td>(447,989)</td>
<td>(90,239)</td>
<td>—</td>
<td>—</td>
<td>(538,228)</td>
<td>(79,570)</td>
</tr>
<tr>
<td>CHANGE IN NET ASSETS</td>
<td>4,485,142</td>
<td>158,228</td>
<td>(125,332)</td>
<td>—</td>
<td>4,518,038</td>
<td>3,479,922</td>
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<tr>
<td>NET ASSETS – Beginning of year</td>
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<td>2,779,683</td>
<td>1,319,048</td>
<td>—</td>
<td>16,088,612</td>
<td>12,608,690</td>
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<td>NET ASSETS – End of year</td>
<td>$ 16,475,023</td>
<td>$ 2,937,911</td>
<td>$ 1,193,716</td>
<td>—</td>
<td>$ 20,606,650</td>
<td>$ 16,088,612</td>
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<tr>
<td>The Institute of Internal Auditors, Inc.</td>
<td>Institute of Internal Auditors - Research, Foundation, Inc.</td>
<td>Internal Auditing Academic Advancement Fund, Inc.</td>
<td>Eliminations</td>
<td>Consolidated Total</td>
<td>Consolidated Total</td>
<td></td>
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<td><strong>OPERATING CASH FLOWS</strong></td>
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<td></td>
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<td></td>
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<tr>
<td>Cash received from members and customers</td>
<td>$36,191,158</td>
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<td>$39,432,672</td>
<td>$33,643,380</td>
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<td>Cash paid to vendors and employees</td>
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<td>(2,913,913)</td>
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<td>(27,679,549)</td>
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<td>Investment income received</td>
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<td>52,874</td>
<td>3,635</td>
<td></td>
<td>387,255</td>
<td>640,478</td>
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<td><strong>Net operating cash flows</strong></td>
<td>6,256,053</td>
<td>220,170</td>
<td>(126,605)</td>
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<td>6,449,681</td>
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<td><strong>INVESTING CASH FLOWS</strong></td>
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<td>Proceeds from sales of investments</td>
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<td>316,341</td>
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<td>2,123,930</td>
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<td>Purchases of investments</td>
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<td>(417,758)</td>
<td>151,767</td>
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<td>(2,600,201)</td>
<td>(900,374)</td>
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<td>Purchases of and improvements to property and equipment</td>
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<td>(3,962)</td>
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<td>(144,049)</td>
<td>(58,364)</td>
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<td>Expenditures for deferred projects</td>
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<td>(113,870)</td>
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<td>(1,195,498)</td>
<td>(349,873)</td>
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<td><strong>Net investing cash flows</strong></td>
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<td>(1,815,818)</td>
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<td><strong>FINANCING CASH FLOWS</strong></td>
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<td>Repayments of notes payable</td>
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<td>Net financing cash flows</td>
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<td>—</td>
<td>—</td>
<td></td>
<td>—</td>
<td>(5,555,953)</td>
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<td><strong>CHANGE IN CASH AND CASH EQUIVALENTS</strong></td>
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<td>25,162</td>
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<td>4,533,800</td>
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<td>522,170</td>
<td></td>
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<td>$—</td>
<td>$8,704,555</td>
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<td><strong>RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS</strong></td>
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<tr>
<td>Change in net assets</td>
<td>$4,485,142</td>
<td>$158,228</td>
<td>$(125,332)</td>
<td>$—</td>
<td>$4,518,038</td>
<td>$3,479,922</td>
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<td>Adjustments to reconcile change in net assets to net operating cash flows:</td>
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<td>700,832</td>
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<td>—</td>
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<td>619,071</td>
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<td>Change in restricted investments</td>
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<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>44,386</td>
</tr>
<tr>
<td>Net (gain)/loss on investments</td>
<td>447,989</td>
<td>90,239</td>
<td>—</td>
<td>—</td>
<td>538,228</td>
<td>(686,894)</td>
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<td>Provision for impairment of land carrying value</td>
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<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
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<td>(185)</td>
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<td>—</td>
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</tbody>
</table>
For the years ending December 31

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Institute of Internal Auditors, Inc.</td>
<td>Institute of Internal Auditors - Research, Foundation, Inc.</td>
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<tr>
<td>Change in accounts receivable, net</td>
<td>(785,223)</td>
<td>(133,315)</td>
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<td>Change in inventories</td>
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<td>(63,668)</td>
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<td>Change in prepaid expenses and other assets</td>
<td>(183,235)</td>
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<td>Change in accounts payable and accrued expenses</td>
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<td>Change in deferred revenue</td>
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<td>13,323</td>
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<tr>
<td>Total adjustments</td>
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<td>61,942</td>
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<tr>
<td>Net operating cash flows</td>
<td>$ 6,256,053</td>
<td>$ 220,170</td>
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NOTE A – NATURE OF ACTIVITIES

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

Institute of Internal Auditing Academic Advancement Fund, Inc. ("the Fund") is a not-for-profit corporation formed to support the teaching of internal auditing, establish interorganization transactions and balances have been eliminated.

Canadian Institute of Internal Auditors ("the Canadian Institute") is a not-for-profit Canadian corporation formed to cultivate, promote and disseminate knowledge and information concerning internal auditing and related subjects in Canada. The Institute controls the Canadian Institute by virtue of provisions contained in the Canadian Institute’s governing documents. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Institute’s financial statements include the accounts of the Canadian Institute. Due to the immateriality of the amounts involved, the activities and balances of the Canadian Institute are included in the financial statements of the Institute.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted and unrestricted revenue and support
Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net as-sets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as “net assets released from restrictions.”

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

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

Seminars and conferences
Seminar and conference fees are recognized as income in the period in which the event is completed. Expenses include the direct and indirect costs of conducting seminars and conferences.

Certification
Certification fees are recognized as income in the period in which the exams are taken. Exam registration fees are nonrefundable and are recognized as income when received. Expenses include the direct and indirect costs of producing and delivering publications, as well as website maintenance. Advertising costs are expensed as incurred.

Quality assessment
Quality assessment service fees are recognized as income as the related service is provided based on the percentage of the engagement completed. Expenses include the direct and indirect costs of conducting quality assessment.

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

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

Technology based learning
Webinar revenue is recognized as income in the period in which the webinar is completed, or ratably throughout the year for annual subscriptions to certain online offerings. Expenses include the direct and indirect costs of creating and conducting the webinars.
Professional practices
Expenses include the direct and indirect costs of creating and maintaining authoritative guidance organized in the International Professional Practices Framework.

Other activities
During 2011 and 2010, the Foundation reimbursed the Institute for certain personnel-related costs and certain shared costs. Such reimbursements are reflected as expenses of the Foundation based on the nature of the specific expenses. Additionally, the Institute absorbs certain overhead costs of the Foundation for which reimbursement is not required. Overhead costs of the Fund are not material to the accompanying financial statements and are paid by the Institute. Reimbursement is not required.

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

Cash and cash equivalents
The Institute, the Foundation and the Fund consider all investment instruments purchased with original maturities of three months or less to be cash equivalents.

Investments
Investments are carried at estimated fair value as determined by quoted market prices.

Allowance for doubtful accounts
Accounts receivable are stated net of an allowance for doubtful accounts. The Institute, the Foundation and the Fund estimate the allowance for doubtful accounts based on an analysis of specific accounts, taking into consideration the age of the past due account and an assessment of the 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.

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

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

Deferred project costs
Costs related to seminars, website development and design, 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 endowment funds held by the Foundation, the investment income from which is to be used for scholarships for internal auditing students.

Restrictions on net assets
Temporarily restricted net assets consist primarily of amounts held by the Institute for technological developments, amounts held by the Foundation restricted for the William G. Bishop Memorial Fund and amounts held by the Fund restricted for educational activities. Permanently restricted net assets consist of an endowment fund held by the Foundation, the investment income from which is to be used for scholarships for internal auditing students.

Income taxes
The Institute is exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3) and from state income tax pursuant to state law. The Institute engages in certain activities which are "unrelated business activities" as defined by the Internal Revenue Code, and which are subject to taxation. Income taxes on unrelated business income are recognized as expenses as incurred. The Foundation and the Fund are exempt from federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(3) and from state income tax pursuant to state law. The Foundation and the Fund have not incurred unrelated business income taxes. The Institute, the Foundation and the Fund have not taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America.

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

Reclassifications
Certain amounts included in the accompanying financial statements for the year ended December 31, 2010 have been reclassified to conform to classifications adopted during the year ended December 31, 2011. These reclassifications had no material effect on the accompanying financial statements.

Subsequent events
The Institute, the Foundation and the Fund have evaluated for possible financial reporting and disclosure subsequent events through April 18, 2012, the date as of which the financial statements were available to be issued.

NOTE C – CONCENTRATIONS
The Institute, the Foundation and the Fund maintain their cash and cash equivalents in deposit accounts and money market funds which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Institute, the Foundation and the Fund have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk related to cash and cash equivalents.

NOTE D – INVESTMENTS
Investments consist of mutual funds and (as of December 31, 2010) a certificate of deposit. The Institute, the Foundation and the Fund consider all dividends and interest from investments as operating revenues for purposes of the accompanying statements of activities. Gains and losses related to investments are considered to be nonoperating activities for purposes of the accompanying statements of activities.
Net gain/(loss) on investments (included in “Non-Operating Activities” in the accompanying statements of activities) consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>The Institute</th>
<th>The Foundation</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted gain/(loss) on investments</td>
<td>$(447,989)</td>
<td>$(90,239)</td>
<td>$(538,228)</td>
</tr>
</tbody>
</table>

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

**Level 1** – quoted prices in active markets for identical assets

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

**Level 3** – significant unobservable inputs

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

Estimated fair value of assets measured on a recurring basis at December 31, 2011 are as follows:

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

**NOTE E – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Institute</td>
<td>The Foundation</td>
</tr>
<tr>
<td>Land</td>
<td>$ 1,514,103</td>
<td>$ —</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>3,911,517</td>
<td>—</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>4,063,797</td>
<td>47,356</td>
</tr>
<tr>
<td>Total property and equipment</td>
<td>9,489,417</td>
<td>47,356</td>
</tr>
</tbody>
</table>

Less:

- Accumulated depreciation $(4,753,693) (45,779) $(4,799,472) $(4,476,916)

Net property and equipment $ 4,735,724 $ 1,577 $ 4,737,301 $ 4,946,992

Depreciation expense for 2011 for the Institute and the Foundation amounted to $349,897 and $3,843, respectively. Depreciation expense for 2010 amounted to $700,832. “Land” includes property with a book value of $1,400,000 which was previously held for possible future development and is now held for sale. During 2010, the Institute recognized an impairment loss of $766,464 related to this land, which is included in “Non-Operating Activities” in the 2010 statement of activities.

**NOTE F – LINE OF CREDIT**

The Institute has available a revolving line of credit with a financial institution in an amount up to $2,000,000 ($6,660,015 as of December 31, 2010) for such purposes as approved by the financial institution. The line of credit bears interest at the financial institution’s prime rate (3.25% per annum as of December 31, 2011) and is due on demand (the interest rate at December 31, 2010 was fixed at 6.08% per annum). The line of credit is secured by certain securities
account held by a third party. The line of credit contains various financial and other covenants. Interest expense incurred during 2011 and 2010 was $0 and $154,628, respectively. As of December 31, 2011 and 2010, no balance was outstanding under the line of credit.

NOTE G – OPERATING LEASES

The Institute leases office space and office equipment under operating leases expiring through 2016. Approximate future lease payments are as follows:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 205,000</td>
<td>176,000</td>
<td>154,000</td>
<td>83,000</td>
<td>4,000</td>
<td>$ 622,000</td>
</tr>
</tbody>
</table>

Total rent expense related to the above leases and additional amounts for short-term rentals and related charges amounted to approximately $627,000 and $481,000 for 2011 and 2010, respectively.

NOTE H – RETIREMENT PLANS

The Institute maintains a Section 401(k) retirement plan. The Institute contributes a certain percentage of the total salary of eligible employees to the plan. During 2011 and 2010, the Institute contributed approximately $863,000 and $652,000, respectively, to this retirement plan.

The Institute maintains two Section 457 deferred compensation plans for the benefit of certain employees. Under the provisions of one of the plans, employees may elect to have a portion of their salary contributed to the plan. Employer contributions to this plan were $98,000 and $54,000 during 2011 and 2010, respectively. Contributions to the other plan were terminated effective December 31, 2001. The Institute held $1,008,615 and $941,797 in the plans as of December 31, 2011 and 2010, respectively, which is reflected in the statements of financial position under “employee savings plans” and “deferred employee compensation.”

NOTE I – COMMITMENTS

The Foundation has entered into contracts and agreements with various parties for research projects. Unpaid commitments related to these contracts and agreements totaled approximately $361,000 as of December 31, 2011.

The Institute delivers certain of its examinations in a computer-based testing environment (referred to by the Institute as the “CBT” initiative). In connection with CBT, the Institute entered into an agreement with a third-party (“the hosting service”) which licenses application software for the management, operation and administration of testing, certification and licensure programs and maintains database functions related to such programs, all of which are offered as a hosted service. In connection with the agreement, the Institute agrees to pay the hosting service an annual license fee of $103,000 plus certain incremental fees based on actual volume as described in the agreement. In connection with CBT, the Institute has also entered into a test delivery services agreement with another third-party (“the test provider”). Pursuant to the terms of the agreement, the test provider is responsible for various tasks related to administering tests to participants. The test provider will be paid per test fees and various other fees pursuant to the terms of the agreement. The initial term of the agreement expires during 2013.

NOTE J – EXPENSE ALLOCATIONS

Total expenses for the Institute include approximately $22,992,000 and $20,250,000 of program expenses, $8,589,000 and $7,645,000 of supporting expenses and $8,000 of fund-raising expenses per year for 2011 and 2010, respectively.

Total expenses for the Foundation include approximately $2,427,000 and $2,279,000 of program expenses, $447,000 and $450,000 of supporting expenses and $12,000 and $32,000 of fund-raising expenses for 2011 and 2010, respectively.

Total expenses for the Fund include approximately $289,000 and $235,000 of program expenses for 2011 and 2010, respectively.

NOTE K – NON-OPERATING ACTIVITIES

Following is a recap of the amounts included in “Non-Operating Activities” in the accompanying statements of activities:

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2010</th>
<th>Consolidated 2011</th>
<th>Consolidated 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net gain (loss) on investments</td>
<td>$ (447,989)</td>
<td>$ (90,239)</td>
<td>$ (538,228)</td>
<td>$ 686,894</td>
</tr>
<tr>
<td>Provision for impairment of land carrying value</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(766,464)</td>
</tr>
<tr>
<td><strong>Total non-operating activities</strong></td>
<td>$ (447,989)</td>
<td>$ (90,239)</td>
<td>$ (538,228)</td>
<td>$ (79,570)</td>
</tr>
</tbody>
</table>

NOTE L – RELATED PARTY TRANSACTIONS

During 2011 and 2010, the Institute was a party to certain contracts for research and educational projects and other services with various third parties which included certain members of the Institute’s Board. Payments to Institute Board members (including companies in which Board members have an ownership interest) during 2011 and 2010 totaled $221,900 and $96,750, respectively.
Management is responsible for the preparation, integrity, and fair presentation of the accompanying financial statements. The accompanying statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis and are not affected by material fraud or error. The financial statements include amounts that are based on management's best estimates and judgments.

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

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

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

For the annual report as of, and for the year ending, December 31, 2011, we certify that to the best of our knowledge:

- This annual report does not contain any untrue statements of a material nature or omit to state a material fact necessary to make the statements misleading with respect to the period covered by the annual statement;
- The financial information included in this annual report fairly present in all material respects the financial condition, results of operations, and cash flows as of and for the periods presented in the annual report;
- An adequate system for disclosing controls and procedures exists to ensure that material information is made known to us by others within the organization; Management has concluded that the system of internal control over financial reporting was effective as of 12/31/2011.
- Disclosures of any change in the internal control over financial reporting that occurred during the most recent fiscal quarter and has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting are included in this report.

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

David Polansky
Executive Vice President and Chief Financial Officer