

A N N U A L R E P O R T

2009

R E F O C U S I N G O N O P P O R T U N I T Y

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When reflecting on 2009, many people may remember it as a year of enormous difficulty and uncertainty as a result of the global economic crisis. Organizations and individuals around the globe tightened their budgets, faced seemingly impossible choices, and reevaluated their priorities. Certainly, The Institute of Internal Auditors (IIA) was no different as it faced revenue losses, staff reductions, and the challenge of emerging from the crisis as a strong and relevant association.

The IIA prevailed by refocusing on its core values and clear mission to serve and share with its more than 170,000 members around the world. The Institute regrouped, responded to the new pressures, and reached out to global members to help them navigate the new economic reality. Ultimately, the passionate vision and dedicated efforts of members, volunteers, and staff enabled The IIA to turn adversity into opportunity for the benefit of the organization, its stakeholders, and the internal audit profession.

2009: REFOCUSING ON OPPORTUNITY

A MESSAGE FROM RICHARD CHAMBERS, THE IIA'S PRESIDENT AND CHIEF EXECUTIVE OFFICER

Welcome to The Institute of Internal Auditors' 2009 Annual Report. Throughout these pages, you will share in the story of how we successfully navigated the early stages of the financial crisis as an association and a profession. I invite you to join us as we focus on the year's highlights and accomplishments.

While we began the year facing significant challenges and concerns, I am proud of how swiftly and decisively The Institute collaborated with its global board of directors to evaluate and address necessary changes to make our organization leaner, more effective, and financially secure. We never lost sight of the need to focus on our members, and ensuring The IIA's financial stability has always been our highest priority.



These actions were only the beginning of our noteworthy accomplishments in 2009. We recognized the need to enhance our relevance among the corporate sector by initiating important steps to launch the Audit Executive Center in 2010. We broadened our global footprint through strides in advocacy and institute relations and, for the first time, held the International Conference on the African continent. We also improved customer service support by transitioning our service center back in-house and leveraged the knowledge of industry experts to improve IT services and infrastructure.

This was my inaugural year as IIA president and CEO, and I am extremely proud of all that we were able to accomplish together. As 2010 unfolds, we are poised and ready to continue the tradition of excellence that is expected of the profession's global leader. The IIA is built on the dedication of people who are passionate about internal auditing and the professionalism of our organization. We can never forget that we stand shoulder to shoulder with the legions of volunteers and staff who have upheld this tradition that defines The IIA.

Sincerely,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive, flowing style.

Richard F. Chambers, CIA, CGAP, CCSA
President and CEO
IIA Global Headquarters

A MESSAGE FROM RODERICK WINTERS, THE IIA'S 2009 – 2010 CHAIRMAN OF THE BOARD

It has been my honor and privilege to serve as The IIA's chairman of the board. I have enjoyed the unique opportunity to demonstrate and advocate for the highest level of internal audit professionalism while traveling the world as The IIA's official spokesperson. What a world of potential I've seen!

Everywhere I have gone, my message of "Achieve Our Potential" has urged internal auditors to achieve and fulfill their full potential as individuals and as professionals. This directly correlates to a core part of our strategic plan that seeks to build universal recognition and respect for internal auditing as a profession that provides assurance, insight, and objectivity to their organizations' stakeholders.

Achieving our potential as a profession means raising the profile, stature, and performance of internal auditors. We must raise the expectations of our stakeholders, and then continuously build our competence and confidence to perform as objective and trusted advisors within the highest levels of our organizations. My interaction with internal audit professionals throughout the world convinces me that, as a global profession, we are ready to step up to this challenge.

During these times of recovery and refocus, the opportunity for internal auditors to reach their potential is greater than ever. We are entering a new era of how we do business, and I look forward to heading into the future with the best and brightest practitioners representing our profession.

Sincerely,

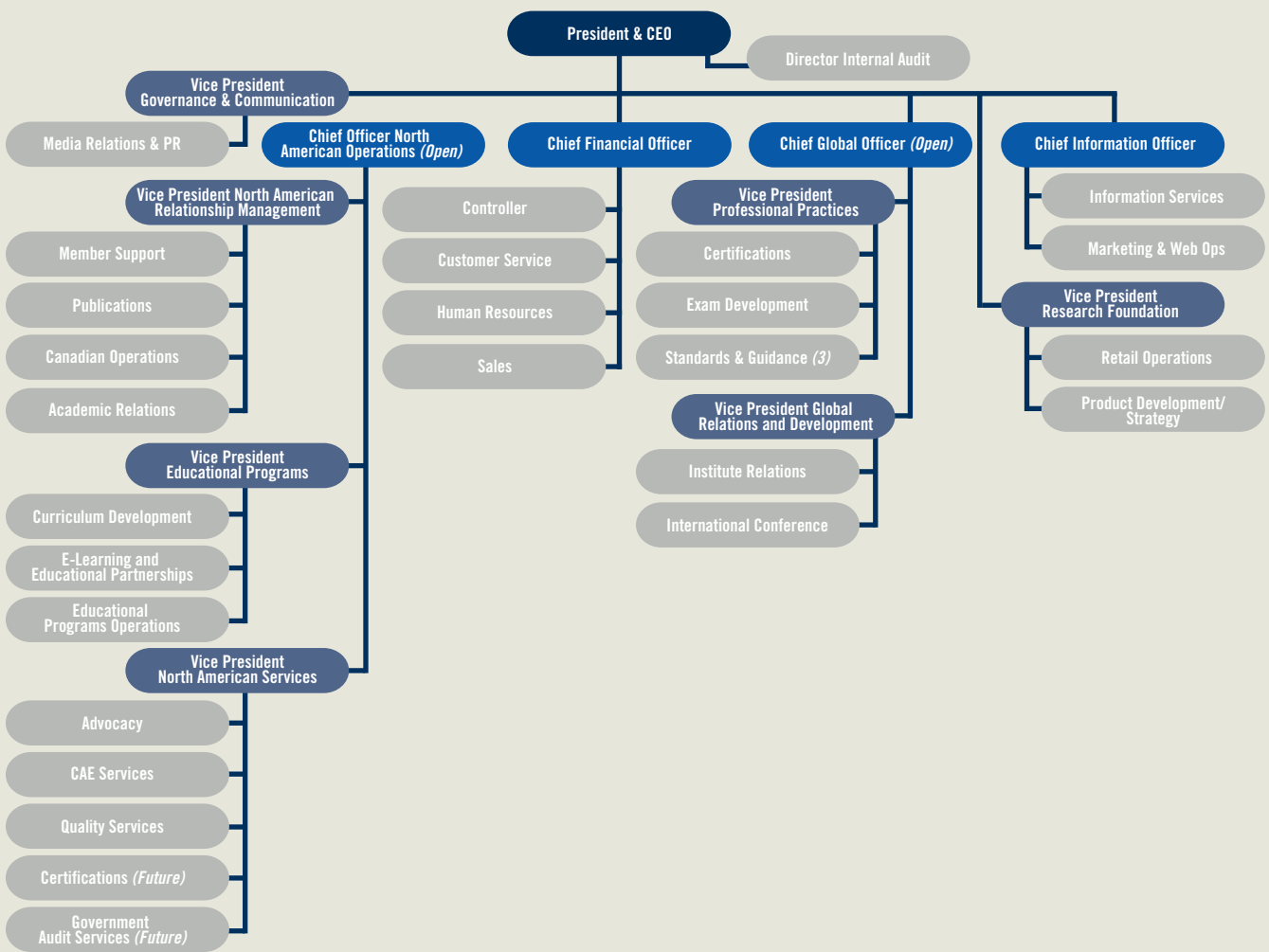


Roderick M. Winters, CIA
2009–2010 Chairman of the Board
The Institute of Internal Auditors



IIA HEADQUARTERS' ORGANIZATIONAL STRUCTURE

In early 2009, IIA Headquarters was reorganized into Global, North American, and Shared Services virtual divisions to realign IIA operations to better fulfill their missions, streamline for greater efficiency, and enhance the quality of products and services delivered to members.



Current as of 2010



2009

A YEAR IN REVIEW

GLOBAL OPERATIONS: 2009 — A YEAR IN REVIEW

The financial crisis caused a ripple effect that was felt beyond borders, making it even more important for The IIA's Global Operations to refocus its efforts on providing the utmost value to its worldwide membership through:

- Developing leading-edge and relevant guidance to enhance the profession.
- Continuing to develop and make IIA certifications accessible.
- Elevating the profession to influential stakeholders through advocacy at the highest levels.
- Providing support to Institutes throughout the world that make it possible for internal auditing to be a unified global profession.

PROFESSIONAL PRACTICES

Recognized and trusted as the global guidance-setting body for the internal audit profession, The IIA provides authoritative and strongly suggested guidance. This global guidance, which is a result of international committee involvement and a worldwide exposure process, is designed to help internal audit professionals around the world to advance their professionalism, practice with integrity, and serve as catalysts for organizational efficiency and effectiveness, improved governance, enhanced risk management, and strong internal controls.



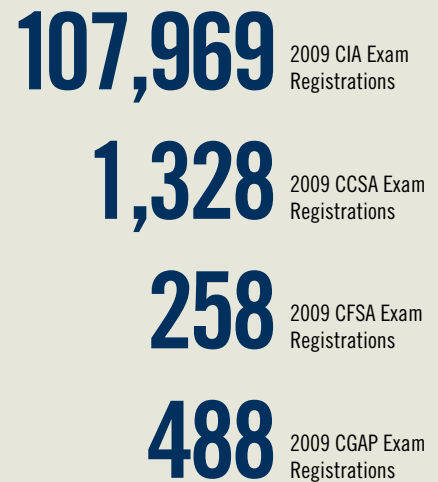
Aimed at clarifying the standard-setting process for authoritative and strongly suggested guidance, The IIA's Standards and Guidance department began 2009 by releasing a new International Professional Practices Framework (IPPF) to the general public in January. The fifth edition of The IIA's *Quality Assessment Manual* was also released to be in line with the new IPPF. Eight guidance papers were released in 2009, and the most popular were: *Formulating and Expressing Internal Audit Opinions*, April 2009; *Internal Auditing and Fraud*, December 2009; and *GTAG-13: Fraud Prevention and Detection in an Automated World*, December 2009.

On a day-to-day basis, The IIA provides a broad range of guidance that addresses real-world internal audit challenges and responds, on behalf of its more than 170,000 members, to emerging worldwide issues and proposed regulations that impact internal audit practice and professionalism. In a business environment where organizations were pressured to do more with less, fraud — as it relates to the new IPPF and IT governance — was the most asked-about topic in The IIA's Standards and Guidance department, whose staff responded to an average of 100 e-mails and 75 phone inquiries monthly.

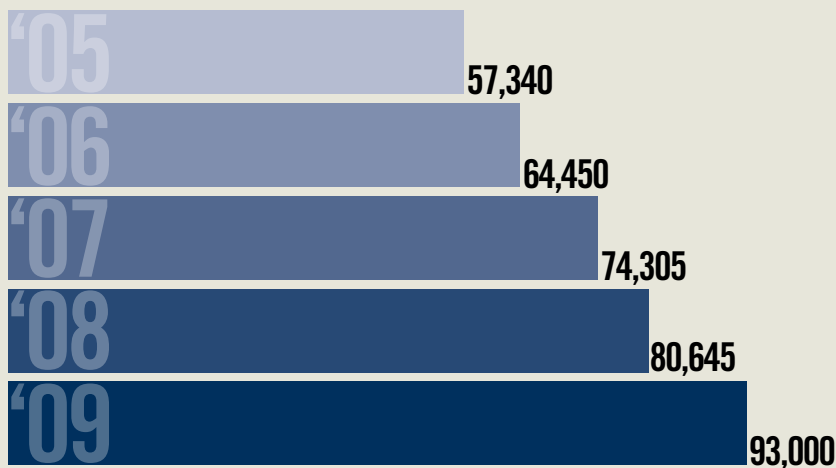
CERTIFICATIONS

By the end of 2009, more than 93,000 internal audit professionals around the globe had demonstrated their internal audit knowledge, technical acumen, and adherence to the *International Standards for the Professional Practice of Internal Auditing (Standards)* by earning their Certified Internal Auditor (CIA) designation. Developed under the auspices of The IIA's Board of Regents to ensure conformance with the IPPF, the CIA exam and IIA specialty exams — Certified Financial Services Auditor (CFSA), Certified Government Auditing Professional (CGAP), and Certification in Control Self-assessment (CCSA) — are delivered via computer-based testing (CBT) in 18 languages and in 160 countries.

This year 2009 was the first full year of using CBT, which allows candidates to take exams at one of any 400 available testing centers around the world, in the exam language of their choice, and at a time convenient for them. The Certificate Candidate Management System (CCMS), which tracks certification candidates' registration records, now allows candidates to access their personal records online at any time. In addition to being a foundation of the profession, certifications also present a major revenue stream for The IIA. During 2009, the certifications business unit generated net contributions of US \$1,594,640, which defrayed operating shortfalls in other business units and enabled important investment in new initiatives.



CERTIFICATIONS OVER THE YEARS



GLOBAL ADVOCACY

One of The IIA's strategic priorities is to be universally recognized as a profession by 2014. Advocating the internal audit profession, its value proposition, and the *Standards* are key to achieving worldwide professional recognition. Because of advocacy efforts by IIA leaders and members around the globe, internal auditing is more broadly understood and recognized by international standard-setters, regulators, government officials, donor agencies, and other like-minded entities dedicated to strong organizational governance.

In 2009, The IIA participated with the International Federation of Accountants (IFAC) in several International Standards on Auditing (ISA) task force meetings for revising *ISA 610: Using the Work of Internal Auditing*. IFAC member bodies, whose membership totals more than 2.5 million chartered accountants around the globe, are required by their IFAC Statement of Membership Obligation to comply and converge with IFAC standards unless prohibited by local law or regulation.

The IIA is pleased to report that it had a seat at the table to provide input and ensure that *ISA 610* (scheduled for exposure in late 2010) reflects the modern practice of internal auditing as well as the many benefits accruing to external auditors who rely on the work of internal auditors. The IIA also actively participated in Consultant Advisory Group meetings of IFAC's Standards and Ethics boards. At these meetings, The IIA actively influenced IFAC's standard-setting processes and agenda, as well as built relationships with 30 other prominent organizations in attendance, such as the World Bank, the International Organization of Securities Commissions, the World Federation of Exchanges, the Basel Committee on Banking Supervision, the Organization for Economic Cooperation and Development, and the International Corporate Governance Network.

The IIA collaborated with the International Organization of Supreme Audit Institutions (INTOSAI) on the development of two INTOSAI Guidance for Good Governance white papers: *Internal Audit Independence in the Public Sector*, and *Coordination and Cooperation Between SAIs and Internal Auditors in the Public Sector*. This guidance, which is to be approved at the International Congress of Supreme Audit Institutions in South Africa in November 2010, expresses the importance of collaborative efforts between internal and external auditors within government. During 2009, The IIA continued to actively participate in steering committee meetings of INTOSAI's Professional Standards Committee.

INSTITUTE RELATIONS

The IIA is dedicated to expanding The IIA's footprint around the world, facilitating the development of new institutes, and supporting their efforts to serve IIA members across the globe. Today, with more than 170,000 members in 165 countries and more than 100 established IIA institutes worldwide, the value of the global connection is incalculable.

Like many organizations that felt the impacts of reduced resources while rightsizing to achieve fiduciary balance, the Institute Relations department at IIA Global Headquarters was equally challenged. While continuing to support the current institute structure, Institute Relations staff still made headway in establishing The IIA in additional parts of the world and helped set up IIA-Saudi Arabia and IIA-Montenegro as institutes-in-formation. After several years of effort to establish themselves, IIA-Chile, IIA-Tanzania, and IIA-Paraguay were approved as full institutes. The worldwide growth of the profession and The IIA continued in 2009 as The Institute made new contacts in a dozen countries where volunteer mentors have been assigned to support institute formation efforts.

In an effort to bring together IIA institute leaders to share knowledge and exchange best practices, IIA Global Headquarters hosted regional workshops in conjunction with conferences hosted by the Asian Confederation of Institutes of Internal Auditors in Kuala Lumpur, Malaysia; by the Federación Latino Americana de Auditores Internos in Lima, Peru; and by the European Confederation of Institutes of Internal Auditing in Rome, Italy.

The IIA's 68th annual International Conference, "A World in One City," was held May 10–13, 2009, in Johannesburg. This significant event marked the first time that an IIA International Conference was held in Africa. A marked success with more than 2,000 delegates representing 90 different countries in attendance, the event generated a net contribution for IIA Global Headquarters of \$424,347. Representatives —114 delegates, senior IIA leaders, and IIA staff from 60 different countries and territories — came together to learn about IIA strategic initiatives, provide input on key issues, and share best practices during The IIA's fifth annual Global Council, which took place immediately before the International Conference began.



Performers native to South African culture entertain IIA delegates at the 2009 IIA International Conference.



ACIIA leaders celebrate the opening of the ACIIA conference in Kuala Lumpur.



Delegates attending The IIA's 2009 International Conference in South Africa were treated to a wide range of expert speakers from around the world.

IIA GOVERNANCE AND COMMUNICATIONS

Throughout 2009, 19 international committees and boards continued to meet to provide guidance and direction for key institute programs. The IIA is fortunate to have more than 400 volunteers who readily contribute their time and experience to help lead the global profession.

The IIA's strategic plan was "refreshed" and several new initiatives were assigned to the committees to develop into plans. The Emerging Issues Task Force submitted its report and set the foundation for development of The IIA's Audit Executive Center. The Value Proposition/Professionalism Task Force completed its work and finalized a new value proposition of internal auditing for stakeholders. It also submitted 21 recommendations to help raise the bar of professionalism in internal auditing.

The IIA's Corporate Communications and Public Relations department continued to raise awareness of the internal audit profession through aggressive media relations. More than 60 interviews were conducted by phone, and 150+ articles quoting IIA spokespersons appeared in trade journals and mainstream business press domestically and internationally. IIA Global Headquarters' leaders made one-on-one visits to several journalists at New York City-based media outlets, such as Accounting Today, CFO, Treasury & Risk, and Reuters. IIA Corporate Communications also continued to assist IIA institutes, chapters, and members with communications materials and campaigns to educate stakeholders and the internal audit profession.



Stephen Morgan, CIA, CGAP (left) receives The Victor Z. Brink Award for Distinguished Service from The IIA's 2008-09 Chairman of the Board Patricia K. Miller, CIA.

HONORS

The Victor Z. Brink Award for Distinguished Service was awarded to Stephen Morgan, CIA, CGAP, from Austin, Texas, USA. Morgan is one of 400 volunteers who serve The IIA on boards and committees and one of thousands of volunteers who serve through their local chapters, institutes, and regional organizations.

Customer focus was a prevalent theme throughout 2009, and The IIA's Customer Service, Web Operations/Marketing, and Information Services teams worked cohesively to deliver initiatives and improvements that enhance The IIA experience.

CUSTOMER SERVICE

The Customer Service Department at IIA Global Headquarters is one of the most visible parts of the organization, and providing efficient and excellent customer service is a top priority. In 2007, The IIA explored the use of additional support by contracting with outsourced customer service providers who were based outside of Florida. The IIA used this time to streamline in-house processes, and brought all customer services back in-house in 2009 once it was again able to fully support its Customer Service Center. This adjustment increased efficiency, member satisfaction, and savings.

The IIA's Customer Service Center also rolled out live chat help in December 2009 that enabled its staff to be even more effective in responding to the more than 46,000 customer calls and nearly 34,000 e-mails received throughout the year while increasing its customer satisfaction rating to 84 percent.

SHARED SERVICES: 2009 — A YEAR IN REVIEW

WEB OPERATIONS

The IIA's website served an impressive number of customers with 10.8 million total visits during 2009. Of those, 55 percent of the visitors were from North America and 45 percent were from elsewhere around the globe. To support that Web traffic, the website (www.theiia.org) was redesigned and reintroduced with larger screen dimensions and an updated home page.

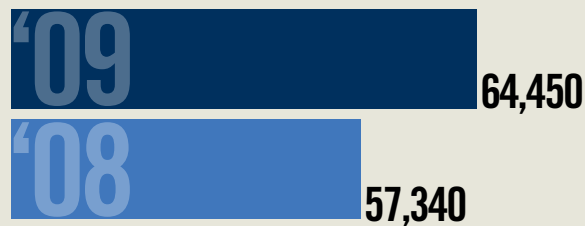


■ NORTH AMERICA
■ OUTSIDE NORTH AMERICA

The site experienced a 33-percent increase in page views from 2008 to 2009. With nearly 112,000 downloads, The IIA's *Certification Candidate Handbook* topped the list of most downloaded documents, followed by *Managing the Business Risk of Fraud: A Practical Guide*, with more than 100,000 downloads.

The IIA continued to host free websites for chapters and institutes, as well as provide support to the administrators of those 169 sites. These IIA-hosted sites received 3 million visits in 2009, making them the top portal pages on The IIA's website.

WEBSITE PAGE VIEWS



INFORMATION TECHNOLOGY SERVICES

IT is critical to many organizations' success, and The IIA identified an IT strategy as a key priority for the organization. In August 2009, The Institute secured the services of an association technology consultant to conduct a comprehensive assessment of its IT operations, assist in the development of an IT strategic plan, and establish priorities and a timeline for future IT initiatives. The assessment validated the critical importance of stabilizing The IIA's website on a new operating platform and a continued recommendation to implement Microsoft SharePoint. This culminated in plans to bring aboard a chief information officer to develop an IT services delivery model and lead The IIA in its future IT strategic planning initiatives.

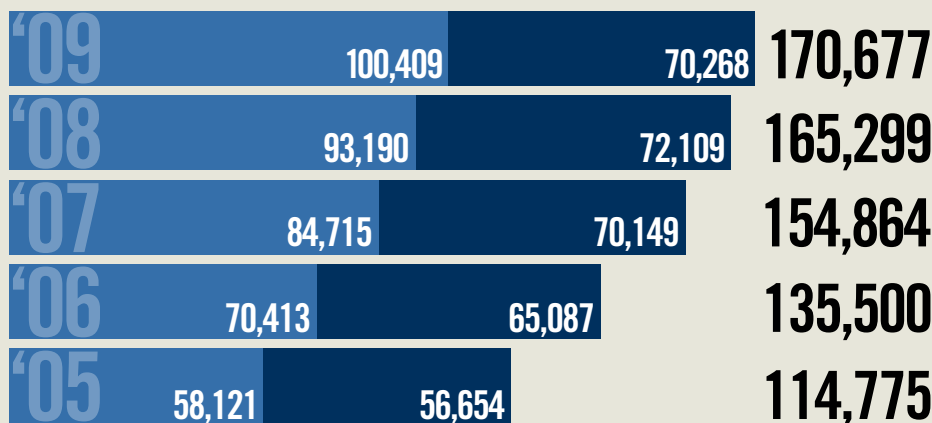
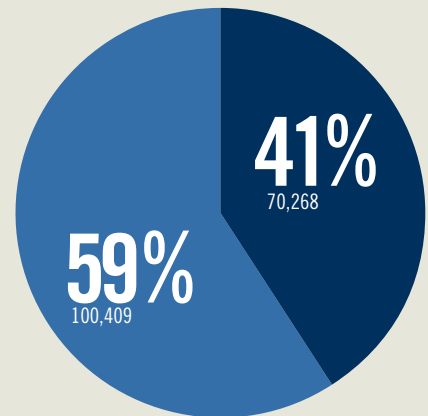
In 2009, The IIA set a path to focus on delivering relevant and value-added services to North American members. The new operating division, referred to as North American Services, introduced numerous member benefits and initiatives despite the economic downturn, including:

- Free “members-only” Webinars on topics of interest.
- Free “bridge” memberships to members who lost jobs due to the economy.
- Instructor-led, virtual seminars on operational auditing and CIA examination review.
- Knowledge Alerts, Briefings, and Reports on the latest trends and issues of interest to CAEs.

NORTH AMERICAN OPERATIONS: 2009 — A YEAR IN REVIEW

NORTH AMERICAN MEMBERSHIP

The internal audit profession — and The IIA itself — was not immune to the challenges arising from the declining economy in 2009. Although The Institute focused on adapting products and services to meet the changing needs of North American members, membership decreased by 2.6 percent as compared to 2008. Some specialty membership groups, however, did see increases in participation, such as the Government Auditors Group which exceeded 10,000 members in 2009. Canadian membership surpassed 7,200 members, which ranks Canada as the third largest membership of any single country represented in The IIA. IIA-UK and Ireland ranked as the second largest membership at 8,982.



■ NORTH AMERICA
■ OUTSIDE NORTH AMERICA



IIA President and CEO Richard Chambers made a classroom visit to speak with high school students about the internal audit profession. The IIA has a global partnership with JA Worldwide.

In an effort to effectively serve the needs of members during these uncertain times, The IIA implemented several new initiatives during 2009. The Bridge Membership Program — which provides core member benefits at no charge to qualifying members who had been negatively impacted by organizational down-sizing — was rolled out early in the year. Additionally, The IIA offered its first free members-only webinar in September and co-hosted a members-only book sale in conjunction with The IIA Research Foundation Bookstore, which provided deeply discounted educational materials. The IIA also reintroduced its amenity program — discounted pricing and preferential rates on insurance, hotels, and banks — for members. Member pricing for certification exams was extended, and the “Recruit-A-Colleague” program allowed members to earn a free membership when referring colleagues to become IIA members.

A new community relations program — Give the Gift of Time — assisted non-profit organizations by posting requests for volunteer auditors on The IIA’s website. The IIA’s continued partnership with Junior Achievement Worldwide saw a record number of members volunteering in classrooms throughout the U.S. to teach students about ethics, entrepreneurship, and the global economy.

The IIA’s *Internal Auditor* magazine is a staple for internal audit practitioners looking for in-depth analysis and commentary on the profession. Although the magazine is produced in North America, it provides global perspectives on risk, control, and governance and is read by almost 90,000 people around the world. *Internal Auditor* received 12 awards in 2009 for editorial and design excellence. The award-winning publication also unveiled InternalAuditorOnline.org — a huge milestone — which supplements the print version with unique Web-only content, timely updates, expert commentary, and industry-specific articles. The site generated almost 747,000 page views in 2009.

EDUCATIONAL PROGRAMS

An IIA survey conducted in early 2009 indicated that more than half of internal audit activities experienced cuts to their budgets, and of those departments, 80 percent reduced travel and training expenses. This was indicative in revenue losses felt by The IIA in its Educational Programs department. It experienced a net contribution of US \$757,649, which was down 68.5 percent from 2008. This led to a focus on E-learning strategies to meet the changing needs of IIA members. More than 13,000 customers attended IIA Webinars and instructor-led virtual seminars and used online self-study courses. Potential seminar leaders also took advantage of a new virtual instructor development course. To meet that demand, Educational Programs introduced new virtual seminars for Operational Auditing: An Introduction; Operational Auditing: Advanced; and The IIA's CIA Learning System Examination Review, Part 3.

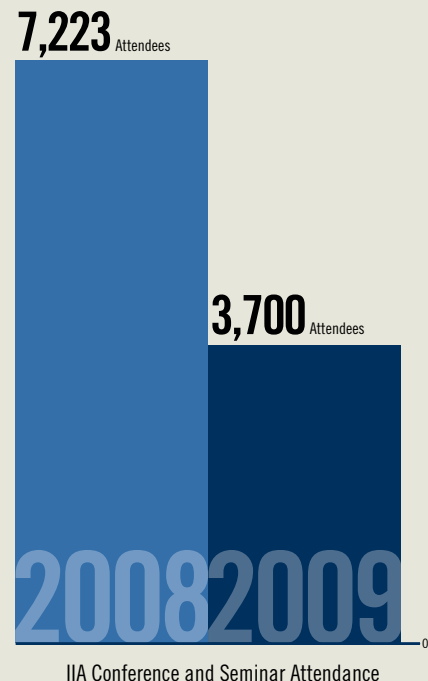
In light of the troubled economy, The IIA's Educational Programs department focused on offering world-class training at affordable rates. The Institute introduced early registration discounts for seminars and conferences, special end-of year pricing for virtual seminars, and Microtek classroom facilities for select on-location seminars to reduce overhead, as well as two new seminars: Assessing Your Organization's Risk Management Process, and Audit Reports: Better Design, Faster Delivery.

IIA Global Headquarters hosted five conferences: the General Audit Management Conference in March; the Gaming Conference in April; the Financial Services Conference in June; the Governance, Risk, and Compliance Conference (Solutions for Tough Times) in August; and the All Star Conference in October. A total of 1,158 attendees networked and enhanced their professional knowledge at these signature IIA events. The Midwestern Regional Conference held in St. Louis, Mo., and the Eastern Regional Conference held in Philadelphia, Pa., attracted more than 700 delegates.

Educational Programs also focused on revamping the conference speaker strategy by bringing in more industry experts and chief audit executives (CAEs) with experience relevant to the changing economic environment that internal audit practitioners were facing. And by focusing on the changing needs and interests of members, Educational Programs conducted market analysis, needs surveys, focus groups, and roundtables to identify new topics and speakers.

13,000+

The number of customers attending webinars, virtual seminars, and online self-study courses in 2009. The IIA focused on E-learning strategies as a response to the economy.



GLOBAL AUDIT INFORMATION NETWORK

In 2009, The IIA's Global Audit Information Network (GAIN) began publishing a series of Knowledge Alerts, Briefings, and Reports on the latest trends or emerging issues of interest to both CAEs and internal auditors. Popular downloads included Audit Committee Trends and Activities, 10 Risk Imperatives for Internal Auditing, and A World in Economic Crisis: Key Themes for Refocusing Audit Strategy. Other knowledge services included the distribution of new topic-based benchmarking studies and The GAIN 2009 Internal Audit Compensation Study.

With a goal of building relevancy to leading corporate CAEs and tapping into their thought leadership, prominent audit executives from organizations, including The Home Depot Inc. and Delta Air Lines Inc., were invited to IIA Global Headquarters for senior-level roundtables and informal presentations to IIA staff. This collaboration with CAEs provided insight that contributed to the development phase of the Audit Executive Center, which is a comprehensive program for CAEs in North America.

NORTH AMERICAN ADVOCACY

The IIA continued to advocate the profession to vital organizations in the U.S. including the U.S. Public Company Accounting Oversight Board (PCAOB), the National Association of Corporate Directors, and the Government Accountability Office (GAO). In 2009, IIA nominees were selected to serve on the PCAOB's Investor Protection Committee, the PCAOB's Standing Advisory Group (which advises the PCAOB on its standard-setting activities), and the GAO's Yellow Book Advisory Committee. Also in 2009, a multi-year collaboration with the GAO culminated in a report that highlights the similarities and differences between The IIA's *Standards* — referred to by many as the "Red Book" — and the GAO's *Government Auditing Standards* — also known as the "Yellow Book." This report will better allow IIA members working in the public sector to adhere to both sets of standards.

ACADEMIC RELATIONS

Working with universities and colleges throughout the world to ensure that the future of the internal audit profession is sustainable continues to be a priority for The IIA. Although 2009 brought challenges, The IIA's Academic Relations department strived to maintain its commitment to internal audit education and sustain the momentum of its success.

Students at 37 colleges and universities in France, Italy, Lebanon, Malaysia, The Netherlands, the People's Republic of China, South Africa, Thailand, the United Kingdom, and the United States benefitted from internal audit curriculum endorsed by The IIA's Internal Audit Education Partnership (IAEP) Program.

Educators and students from 24 different IAEP schools participated in the third annual IAEP Leadership and Networking Retreat in Dallas, Texas, to meet and learn from practicing internal auditors, potential employers, academic leaders in the field, and donors to the Internal Auditing Academic Advancement Fund Inc. (IAAAF), which provides financial support to schools participating in the IAEP Program.

The IAAAF raised approximately US \$232,000 for disbursement to qualifying schools participating in the IAEP Program. The academic fund also provided grants totaling approximately US \$205,750 to help advance IAEP programs and provided internal audit resource libraries to DePaul University and Wayne State University, which were added to the roster of participating schools in 2009.



The third annual IAEP Networking Conference brought together potential employers with professors and students from 24 colleges and universities around the world.



Students studying internal auditing learn critical networking skills at the IAEP Networking Conference.

A MESSAGE FROM PAUL SOBEL, THE IIA RESEARCH FOUNDATION PRESIDENT

Last year brought many organizations daunting challenges, and The IIA Research Foundation was no exception. After restructuring The Foundation's staff and making other difficult financial decisions, we were able to refocus on our core vision of understanding, shaping, and advancing the profession of internal auditing by initiating and sponsoring intelligence gathering, innovative research, and knowledge sharing in a timely manner. By continuing to provide relevant research and educational products, we were able to meet the ever-growing need for timely and relevant research about, and for, the profession.

While we had notable accomplishments in 2009 that are too numerous to mention here, I'd like to point out a few that are particularly indicative of our success. First, we published the second edition of the textbook, *Internal Auditing: Assurance and Consulting Services*, which provided updates to incorporate the issuance of the International Professional Practices Framework and other notable changes since the first edition. We also published the long-awaited *Internal Audit Capability Model for the Public Sector*. Finally, we kicked off the Common Body of Knowledge (CBOK) 2010 Study, which supported the 2010 launch of the Global Internal Audit Survey and the Stakeholders' Expectations and Perceptions Study.



We took a proactive look at our research function and more closely aligned it to the deliverables in our strategic plan. This allowed us to support The IIA's global strategy and emerge from 2009 as a stronger foundation. And thanks to the contributions of generous donors and funding Champions, we were able to honor our outstanding tradition of ongoing research and product development that internal auditors around the world depend on to remain professional, competent, and relevant.

So, it is with great pride that we share our 2009 highlights and accomplishments and express our gratitude to our donors and supporters.

Sincerely,

A handwritten signature in black ink that reads "Paul J. Sobel". The signature is written in a cursive, flowing style.

Paul J. Sobel, CIA

President

The Institute of Internal Auditors Research Foundation

THE IIA RESEARCH FOUNDATION: 2009 — A YEAR IN REVIEW

The IIA Research Foundation's (IIARF's) research pipeline continued to flow despite the financial challenges that affected the organization in 2009. It accomplished this by focusing on:

- Expanding knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally.
- Asking how The IIARF should be structured to ensure sustainable, global success.
- Challenging staff and Champions from within The Foundation to identify better processes for conducting and managing research initiatives and project development and to investigate more cost effective delivery methods.

Notable successes in 2009 included publishing the research report, *Internal Audit Capability Model for the Public Sector*, which currently is the most comprehensive document describing the fundamentals for effective internal auditing in the public sector. The World Bank provided financial and technical support to this initiative. Also, The Foundation published five downloadable research reports as a service to IIA Members in 2009, including *International Financial Reporting Standards (IFRS): What Internal Auditors Need to Know* and *Why Enterprise Risk Management is Vital: Learning from Company Experiences with Sarbanes-Oxley Section 404 Compliance*. Additionally, 11 educational products and 7 Knowledge Reports were issued, including:

- *Internal Auditing: Assurance and Consulting Services, 2nd Edition*
- *Audit Committee Reporting: A Guide for Internal Auditing*
- *Auditing Compensation and Benefits Programs*
- *Implementing the International Professional Practices Framework, 3rd Edition*



Other highlights of 2009 include:



- Development of the Global Internal Audit Survey, a component of the CBOK 2010 Study, for deployment in early 2010 in 22 languages. The results of the survey will present insights on emerging issues and challenges facing the profession, help identify new opportunities for internal auditors to add value to their organizations, contribute to the development of new standards and guidance, and show changes in the profession since the 2006 study was conducted.
- Translation of Spanish CIA, CGAP, CCSA, and CFSA certification exam study materials in partnership with IIA-Argentina, IIA-Spain, and IIA-Mexico.
- Engaging researchers during the fourth international IT Audit Research Symposium in Johannesburg in partnership with The IIA's Advanced Technology Committee.
- Launching product download deliverability for the online bookstore (www.theiia.org/Bookstore).
- Enhancing the functionality of www.theiia.org/Bookstore that enables Bookstore customers to make an IIARF donation at time of checkout.

RESEARCH GRANTS



IIA President and CEO Richard Chambers (left) presented Ray with the Sawyer Award during the 2009 International Conference in Johannesburg.

The Foundation awarded the 2009 Esther R. Sawyer Research Award to Emily Ray at the University of Texas at Dallas for her paper, "Adding Value: How Modern Internal Auditing Assists Organizations in Achieving Strategic Objectives." This annual award is granted to a student currently enrolled or graduating from the internal audit program at an IAEP school and is based on submission of an original manuscript on a specific topic related to modern internal auditing. The award is funded by a grant from the family of Lawrence B. Sawyer.

In 2009, The Foundation also funded one Michael J. Barrett Doctoral Dissertation Award for Kasey Martin at the University of Texas at San Antonio who is studying the characteristics of internal audits and fraud detection. This grant is designed to provide incentive to future professors who will continue research and education in the profession.

IN APPRECIATION OF DONORS

The IIA Research Foundation (IIARF) is extremely grateful for the ongoing support from the individuals, organizations, and IIA chapters and institutes that make its mission possible. The Foundation is able to undertake important research projects, provide relevant research materials, and help define the future of the internal audit profession because of the generous donations from its loyal supporters: individual, corporate, and affiliate contributors; Master Key and Heritage Circle members; and IIA staff and volunteers. Notable support in 2009 was provided by:

- PricewaterhouseCoopers, an IIA Principal Partner.
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- IIA-Chicago, which entered into a five-year partnership with The IIARF to fund internal audit research.
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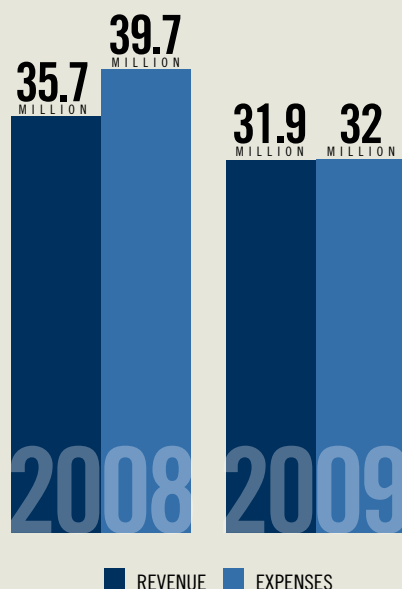
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MANAGEMENT DISCUSSION AND ANALYSIS 2009 AS COMPARED TO 2008

REVENUE AND EXPENSES



PRESENTATION OF FINANCIAL STATEMENTS

The Institute of Internal Auditors' financial statements are presented in accordance with Generally Accepted Accounting Principles. A discussion of the statement of financial position and the accompanying statements of activities follows.

EXECUTIVE SUMMARY

In the year ending December 31, 2009, The Institute experienced a tremendous financial turnaround, realizing a positive net contribution of US \$2,295,494 versus a net contribution loss of US \$10,669,128 in the prior year.

In 2008, as The Institute was already experiencing the financial stress of the post Sarbanes-Oxley boom and the transition of its highly successful certifications program from a "paper-and-pencil" administered exam to a technology-based platform, the global financial crisis was just beginning to unfold. As organizations began to curtail spending on travel and training, The Institute began to experience declining attendance at seminars and conferences as well as reduced membership levels. Saddled with significant fixed costs and declining revenues, The Institute lost over US \$4.1 million from operations.

Following through with a prior-year initiative, The Institute closed on the purchase of approximately 6 acres of unimproved land in Lake Mary, Fla. in August 2008 with the intent of constructing a new headquarters facility and relocating operations from Altamonte Springs, Fla. Due to the economic downturn, the plans for construction were placed on hold prior to breaking ground. In the fourth quarter of 2008, the management team determined it was unlikely that construction would begin in the foreseeable future at which time the plans, drawings, and permits that had been capitalized into the project were deemed no longer actionable. As a result, The Institute — working with its external auditors — recognized an allowance for recoverability of construction expenses of US \$1.9 million, which represented the entire amount of non-land-related costs.

The economic crisis in 2008 also had a significant negative impact on The Institute's investments. With almost US \$15 million in the investment portfolio as of December 31, 2007, The Institute realized a net loss on investments of over US \$4.6 million.

As a result of these losses in 2008, the net assets of The Institute declined by more than 50 percent from almost US \$20.9 million at the end of 2007 to US \$10.3 million as of December 31, 2008.

Faced with the significant losses from 2008 and having better clarity into the potential financial impact of the ongoing economic crisis in North America, a revised revenue projection for 2009 was developed. Using current run rates, preregistrations, and other leading indicators, it was determined that the original 2009 revenue projections were overstated by nearly US \$6 million.

With a weakened balance sheet and a projected significant financial shortfall in 2009, the management team created two cross-functional crisis teams. The first team was charged with examining areas for potential revenue enhancement and the other with finding expense reductions. While some of the revenue enhancement ideas were implemented over time, the more actionable initiatives were put into place immediately.

In total, the expense reduction team recommended staff reductions of nearly 30 percent, saving the organization approximately US \$3 million in 2009. The team also proposed expense reduction initiatives that resulted in annualized savings of more than US \$6 million. These initiatives were implemented during the first quarter of 2009.

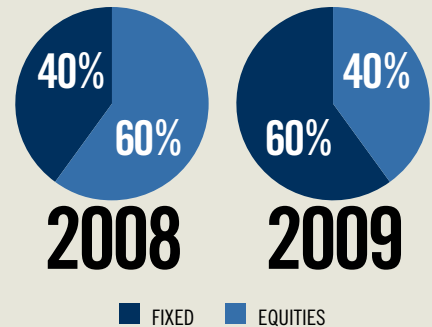
Total revenue for 2009 was US \$31.9 million, which was US \$3.8 million (10.6 percent) lower than 2008. However, 2009 expenses totaled US \$32 million, which was US \$7.7 million (19.4 percent) lower than 2008. Included in the US \$32 million of expenses were certain one-time expenses including severance, COBRA, outplacement services, and redundant staffing costs of nearly US \$866,000 to achieve the staffing reductions.

Excluding the one-time expenses, The Institute realized a positive net contribution from operations of US \$678,000 for the year ending December 31, 2009, versus a loss of US \$4.1 million in 2008.

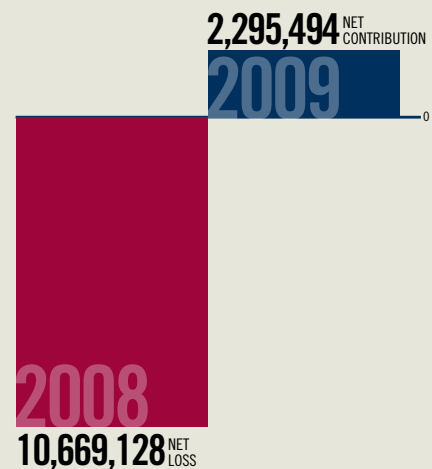
The investment market rebounded in 2009, resulting in a net gain on investments of US \$2,538,954. Furthermore, at the end of 2009, The Institute's Investment Committee recommended — and the board approved — a modification to the organization's investment policy, which changed the investment mix from 60 percent equity and 40 percent fixed to a more conservative investment strategy comprising 60 percent fixed and 40 percent equities. The Institute hoped that the new investment strategy would maintain the purchasing power of the investment portfolio with minimized risk of loss.

This resulted in a net contribution of US \$2,295,494 for the year ending December 31, 2009, versus a net contribution loss of US \$10,669,128 during 2008.

INVESTMENT MIX



OVERALL NET CONTRIBUTIONS



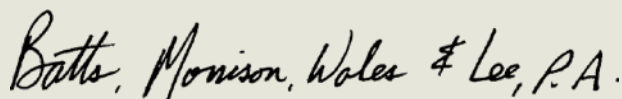
INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidating statements of financial position of The Institute of Internal Auditors, Inc. ("The Institute") and Affiliates as of December 31, 2009, 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, 2008, 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 2009 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, 2009, 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 2008 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, 2008, 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.
Orlando, Florida / April 29, 2010

THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES

CONSOLIDATING AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2009					2008
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors - Research, Foundation, Inc.	Internal Audit Academic Advancement Fund, Inc.	Eliminations	Consolidated Total	Consolidated Total
ASSETS						
Cash and cash equivalents	\$ 1,657,439	\$ 220,855	\$ 707,344	\$ —	\$ 2,585,638	\$ 2,267,398
Investments	12,150,192	1,466,491	—	—	13,616,683	10,661,998
Due from affiliates, net	31,753	—	643,217	(674,970)	—	—
Accounts receivable, net	1,966,120	227,054	—	—	2,193,174	2,510,130
Inventories	—	253,525	—	—	253,525	299,040
Prepaid expenses and other assets	1,034,968	—	296	—	1,035,264	1,675,514
Property and equipment, net	6,330,764	25,160	—	—	6,355,924	7,256,100
Deferred project costs, net	1,072,011	273,991	—	—	1,346,002	1,662,053
Employee savings plan	821,855	—	—	—	821,855	678,285
Restricted investments	—	179,386	—	—	179,386	179,386
TOTAL ASSETS	25,065,102	2,646,462	1,350,857	(674,970)	28,387,451	27,189,904
LIABILITIES						
Accounts payable and accrued expenses	\$ 3,202,227	\$ 158,086	\$ —	\$ —	\$ 3,360,313	\$ 5,885,732
Due to affiliates, net	643,217	31,753	—	(674,970)	—	—
Deferred revenue	6,024,847	15,793	—	—	6,040,640	5,733,679
Note payable	5,555,953	—	—	—	5,555,953	4,579,012
Deferred employee compensation	821,855	—	—	—	821,855	678,285
TOTAL LIABILITIES	16,248,099	205,632	—	(674,970)	15,778,761	16,876,708
NET ASSETS						
Unrestricted	8,817,003	1,835,118	1,193,268	—	11,845,389	9,569,039
Temporarily restricted	—	426,326	157,589	—	583,915	564,771
Permanently restricted	—	179,386	—	—	179,386	179,386
TOTAL NET ASSETS	8,817,003	2,440,830	1,350,857	—	12,608,690	10,313,196
TOTAL LIABILITIES AND NET ASSETS	\$ 25,065,102	\$ 2,646,462	\$ 1,350,857	\$ (674,970)	\$ 28,387,451	\$ 27,189,904

THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES
CONSOLIDATING AND CONSOLIDATED STATEMENTS OF ACTIVITIES

	For The Years Ended December 31, 2009					2008
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors - Research, Foundation, Inc.	Internal Audit Academic Advancement Fund, Inc.	Eliminations	Consolidated Total	Consolidated Total
CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS						
REVENUES						
Seminars	\$ 8,487,117	\$ —	\$ —	\$ —	\$ 8,487,117	\$ 12,754,662
Relationship management	7,241,631	—	—	—	7,241,631	7,059,648
Certification	6,009,736	—	—	—	6,009,736	3,340,585
Conferences	2,136,018	—	—	—	2,136,018	3,478,169
Publishing	1,502,785	—	—	—	1,502,785	1,515,967
Quality assessment	879,130	—	—	—	879,130	1,127,718
Other program revenue	1,924,505	—	—	—	1,924,505	2,170,467
Publication sales	—	2,607,015	—	(99,068)	2,507,947	2,365,848
Contributions	23,347	371,284	319,851	(218,984)	495,498	908,114
Dividend and interest income	405,324	52,609	—	—	457,933	706,411
TOTAL REVENUES	28,609,593	3,030,908	319,851	(318,052)	31,642,300	35,427,589
Net assets released from use restrictions	—	71,218	165,539	—	236,757	229,782
TOTAL REVENUES AND NET ASSETS RELEASED FROM USE RESTRICTIONS	28,609,593	3,102,126	485,390	(318,052)	31,879,057	35,657,371
EXPENSES						
Seminars	6,993,211	—	—	(59,441)	6,933,770	10,313,026
Relationship management	3,466,023	—	—	(9,907)	3,456,116	4,674,660
Certification	4,415,096	—	—	(9,907)	4,405,189	3,680,462
Conferences	2,451,044	—	—	—	2,451,044	2,597,975
Quality assessment	672,228	—	—	(19,813)	652,415	1,143,433
Publishing	245,109	—	—	—	245,109	498,882
Other program expenses	2,316,798	—	56,278	—	2,373,076	3,296,627
Educational products	—	1,905,728	—	—	1,905,728	1,875,775
Research projects	—	190,183	—	—	190,183	272,327
Academic programs	—	8,338	—	—	8,338	17,441
Grants	—	—	205,749	—	205,749	142,000
General and administrative	8,778,249	755,679	—	(293,984)	9,239,944	11,271,704
TOTAL EXPENSES	29,337,758	2,859,928	262,027	(393,052)	32,066,661	39,784,312
CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	(728,165)	242,198	223,363	75,000	(187,604)	(4,126,941)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATIONS						
Contributions	—	118,845	131,000	(75,000)	174,845	267,240
Dividend and interest income	—	6,056	—	—	6,056	12,441
Net assets released from use restrictions	—	(71,218)	(165,539)	—	(236,757)	(229,782)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATIONS	—	53,683	(34,539)	(75,000)	(55,856)	49,899
NON-OPERATING ACTIVITIES	2,255,900	283,054	—	—	2,538,954	(6,592,086)
CHANGE IN NET ASSETS	1,527,735	578,935	188,824	—	2,295,494	(10,669,128)
NET ASSETS – BEGINNING OF YEAR	7,289,268	1,861,895	1,162,033	—	10,313,196	20,982,324
NET ASSETS – END OF YEAR	\$ 8,817,003	\$ 2,440,830	\$ 1,350,857	\$ —	\$ 12,608,690	\$ 10,313,196

THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES

CONSOLIDATING AND CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended December 31, 2009					2008
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors - Research, Foundation, Inc.	Internal Audit Academic Advancement Fund, Inc.	Eliminations	Consolidated Total	Consolidated Total
OPERATING CASH FLOWS						
CHANGE IN NET ASSETS	\$ 1,527,735	\$ 578,935	\$ 188,824	\$ —	\$ 2,295,494	\$ (10,669,128)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS:						
Depreciation	913,999	22,721	—	—	936,720	789,154
Amortization of deferred project costs	478,463	119,345	—	—	597,808	429,537
Net (gain)/loss on investments	(2,255,900)	(283,054)	—	—	(2,538,954)	4,657,433
Allowance for recoverability of construction expenditures	—	—	—	—	—	1,934,653
Change in due to/from affiliates, net	291,406	(79,727)	(211,679)	—	—	—
Change in accounts receivable, net	348,609	(31,653)	—	—	316,956	(111,351)
Change in inventories	—	45,515	—	—	45,515	19,593
Change in prepaid expenses and other assets	640,546	4,002	(296)	—	644,252	(75,358)
Change in accounts payable and accrued expenses	(2,511,078)	(14,341)	—	—	(2,525,419)	2,012,879
Change in deferred revenue	305,824	1,137	—	—	306,961	541,290
TOTAL ADJUSTMENTS	(1,788,131)	(216,055)	(211,975)	—	(2,216,161)	10,197,830
NET OPERATING CASH FLOWS	(260,396)	362,880	(23,151)	—	79,333	(471,298)
INVESTING CASH FLOWS						
Proceeds from sales of investments	1,760,000	190,000	—	—	1,950,000	2,000,000
Purchases of investments	(2,112,970)	(252,761)	—	—	(2,365,731)	(810,284)
Proceeds from sales of property and equipment	—	100,000	—	(96,000)	4,000	—
Purchases of and improvements to property and equipment	(139,147)	(1,399)	—	96,000	(44,546)	(4,477,617)
Expenditures for deferred projects	(68,765)	(212,992)	—	—	(281,757)	(819,142)
NET INVESTING CASH FLOWS	(560,882)	(177,152)	—	—	(738,034)	(4,107,043)
FINANCING CASH FLOWS						
Borrowings	976,941	—	—	—	976,941	4,579,012
NET FINANCING CASH FLOWS	976,941	—	—	—	976,941	4,579,012
CHANGE IN CASH AND CASH EQUIVALENTS	155,663	185,728	(23,151)	—	318,240	671
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	1,501,776	35,127	730,495	—	2,267,398	2,266,727
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 1,657,439	\$ 220,855	\$ 707,344	\$ —	\$ 2,585,638	\$ 2,267,398

SUPPLEMENTAL DISCLOSURE: Interest paid during 2009 and 2008 amounted to approximately \$350,000 and \$36,000, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES

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

Institute of Internal Auditors - Research Foundation, Inc. (“the Foundation”) is a not-for-profit corporation formed to expand knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally. The Institute’s Board of Directors appoints the Foundation’s Board of Trustees. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Institute’s financial statements include the accounts of the Foundation. All significant interorganization transactions and balances have been eliminated.

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

Canadian Institute of Internal Auditors (“the Canadian Institute”) is a not-for-profit Canadian corporation formed to cultivate, promote and disseminate knowledge and information concerning internal auditing and related subjects in Canada. The Institute controls the Canadian Institute by virtue of provisions contained in the Canadian Institute’s governing documents. Accordingly, in conformity with 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 assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as “net assets released from restrictions.”

Revenue recognition and operating activities

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

Seminars and conferences

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

Relationship management

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

Certification

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

Publishing and publication sales

Subscriptions and print advertising revenue are recognized as income in the period in which the related

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

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

Quality assessment

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

During 2009 and 2008, the Foundation reimbursed the Institute for certain personnel-related costs and certain shared costs. Such reimbursements are reflected as expenses of the Foundation based on the nature of the specific expenses. Additionally, the Institute absorbs certain overhead costs of the Foundation for which reimbursement is not required. Expenses of the Fund are not material to the accompanying financial statements and are paid by the Institute. Reimbursement is not required.

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

Cash and cash equivalents

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

Restricted investments

Restricted investments consist of endowment funds given to the Foundation, the investment income from which is to be used for scholarships for internal auditing students.

Investments

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

Allowance for doubtful accounts

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

Inventories

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

Property and equipment

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

Deferred project costs

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

Restrictions on net assets

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

Income taxes

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

NOTES TO FINANCIAL STATEMENTS

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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 and determining the useful lives of property and equipment. Actual results could differ from the estimates.

Subsequent events

The Institute, the Foundation and the Fund have evaluated for possible financial reporting and disclosure subsequent events through April 29, 2010, 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.

The Institute's term debt is held by a single financial institution.

NOTE D – INVESTMENTS

Investments consist of mutual funds. The Institute and the Foundation 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:

	For The Years Ended December 31, 2009			2008
	The Institute	The Foundation	Consolidated Total	Consolidated Total
Unrestricted	\$ 2,255,900	\$ 283,054	\$ 2,538,954	\$ (4,657,433)

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 investments
- 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, 2009 are as follows:

	Estimated Fair Value Measurements at Reporting Date Using			
	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds —				
The Institute	\$ 12,150,192	\$ 12,150,192	\$ —	\$ —
The Foundation	1,466,491	1,466,491	—	—
Total	\$ 13,616,683	\$ 13,616,683	\$ —	\$ —

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

Estimated Fair Value Measurements at Reporting Date Using				
	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds —				
The Institute	\$ 9,541,322	\$ 9,541,322	\$ —	\$ —
The Foundation	1,120,676	1,120,676	—	—
Total	\$ 10,661,998	\$ 10,661,998	\$ —	\$ —

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

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2009			2008
	The Institute	The Foundation	Consolidated Total	Consolidated Total
Land	\$ 2,280,567	\$ —	\$ 2,280,567	\$ 2,230,567
Buildings and building improvements	3,778,094	—	3,778,094	4,139,672
Furniture and equipment	4,077,951	43,394	4,121,345	4,151,477
Construction in progress, net	—	—	—	—
TOTAL PROPERTY AND EQUIPMENT	10,136,612	43,394	10,180,006	10,521,716
Less: Accumulated depreciation	(3,805,848)	(18,234)	(3,824,082)	(3,265,616)
NET PROPERTY AND EQUIPMENT	\$ 6,330,764	\$ 25,160	\$ 6,355,924	\$ 7,256,100

Depreciation expense for the Institute amounted to \$913,999 and \$756,253 for 2009 and 2008, respectively. Depreciation expense for the Foundation amounted to \$22,721 and \$32,901 for 2009 and 2008, respectively. "Land" includes property held for possible future development. See Note F.

NOTE F – NOTE PAYABLE

The Institute's note payable is a revolving line of credit payable to a financial institution in an amount up to \$6,660,015 for such purposes as approved by the financial institution. The note is payable in monthly installments of interest only at 6.08% through the maturity date of August 1, 2010 and is secured by a Real Estate Mortgage, Assignment of Rents and Security Agreement and is further collateralized by a portion of the Institute's securities accounts held by other third parties. The note (and related agreements) contain various financial and other covenants and cross-default provisions related to the construction loan agreement described below. Interest expense incurred during 2009 and 2008 was approximately \$350,000 and \$1,000, respectively.

In connection with its potential relocation, the Institute entered into a construction loan agreement in an amount up to \$9,500,000 for the construction of an 85,000 square foot facility located in Lake Mary, Florida. The construction loan agreement contains various financial and other covenants and cross-default provisions related to the note payable described above. The construction loan agreement was amended during December 2008 to temporarily suspend financing available under the agreement. As of December 31, 2009 and 2008, no amounts were payable by the Institute in connection with the construction loan agreement.

The Institute also entered into a Development Management Agreement with an unrelated organization to manage the construction and development of the facility. The Development Management Agreement was amended during December 2008 to delay the effective date of certain provisions of the Development Management Agreement in return for certain payments.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

The Institute also entered into a Right of Repurchase Agreement with the original sellers of the Lake Mary, Florida property allowing the sellers to repurchase the property should the Institute not meet certain provisions contained in the Right of Repurchase Agreement. The Right of Repurchase Agreement was amended during December 2008 to allow the Institute to defer certain provisions of the agreement until certain future dates in return for payments which will become due and payable at those future dates.

The Institute entered into a construction contract in the original amount of \$7,654,670 (and subsequently increased to \$9,304,636) in connection with its potential relocation. A Notice to Proceed has not been issued and accordingly, the contract has been suspended.

Current status of relocation project

Due to management's uncertainty regarding the Institute's ability to move forward under the terms of agreements described above, the Institute has established an allowance for impairment equal to the entire amount of construction and related expenditures incurred through December 31, 2008 (approximately \$1,900,000). The related expense is included in "Non-Operating Activities" in the accompanying 2008 statement of activities. The Institute did not incur significant construction-related expenditures during 2009. The allowance is subject to future adjustment based on the Institute's intent and ability to honor the related commitments. Recovery of any portion of the allowance is not assured.

NOTE G – OPERATING LEASES

The Institute leases office space and office equipment under operating leases expiring through 2012. Approximate future lease payments are as follows:

Year Ending December 31	
2010	\$ 106,000
2011	72,000
2012	48,000
TOTAL	\$ 226,000

Total rent expense related to the above leases and additional amounts for short-term rentals and related charges amounted to approximately \$581,000 and \$849,000 for 2009 and 2008, 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.

The Institute previously maintained a money purchase pension plan. The Institute contributed a discretionary amount of the total salary of eligible employees to the money purchase pension plan. During 2006, the assets of the money purchase pension plan were merged into the Section 401(k) retirement plan described above.

During 2009 and 2008, the Institute contributed approximately \$744,000 and \$996,000, respectively, to its retirement plans.

The Institute maintains a Section 457 deferred compensation plan for the benefit of certain employees. Under the provisions of the plan, employees could elect to have a portion of their salary contributed to the plan. The Institute held \$821,855 and \$678,285 in the plan as of December 31, 2009 and 2008, respectively, which is reflected in the accompanying statements of financial position under "employee savings plan" and "deferred employee compensation." Contributions to the plan were terminated effective December 31, 2001.

NOTE I – COMMITMENTS

The Foundation has entered into contracts and agreements with various parties for research projects. Unpaid commitments related to these contracts and agreements totaled approximately \$159,000 as of December 31, 2009.

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 \$20,560,000 and \$26,176,000 of program expenses, \$8,770,000 and \$10,923,000 of supporting expenses, and \$8,000 of fund-raising expenses per year for 2009 and 2008, respectively.

During 2009 and 2008, the Foundation incurred approximately \$18,000 and \$66,000 respectively, of fund-raising expenses. Such amounts are included in “general and administrative” expense in the accompanying financial statements.

NOTE K – NON-OPERATING ACTIVITIES

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

	December 31, 2009			2008
	The Institute	The Foundation	Consolidated Total	Consolidated Total
Net gain/(loss) on investments	\$ 2,255,900	\$ 283,054	\$ 2,538,954	\$ (4,657,433)
Provision for impairment of construction-related expenditures	—	—	—	(1,934,653)
Total Non-Operating Activities	\$ 2,255,900	\$ 283,054	\$ 2,538,954	\$ (6,592,086)

NOTE L – RELATED PARTY TRANSACTIONS

As of December 31, 2009, the Foundation was a party to certain contracts for research and educational projects with various third parties which include certain members of the Foundation’s Board. The following table summarizes payments made by the Foundation to Board members in connection with these contracts:

Project Name	Payments – 2009	Payments – 2008
“Internal Assurance and Consulting Services Textbook”	\$ 14,950	\$ 8,386

NOTES TO FINANCIAL STATEMENTS

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

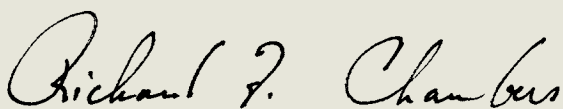
Management also prepared the supplemental information in the annual report and is responsible for its accuracy and consistency with the financial statements. The financial statements have been audited by Batts, Morrison, Wales & Lee, P.A., independent certified public accountants, elected by the Board 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.

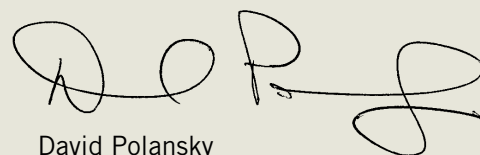
Management has voluntarily elected to evaluate its system of internal control in accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the COSO framework and has documented and tested the key processes used to record activities and prepare the appropriate financial statements.

For the annual report as of, and for the year ending, December 31, 2009, 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 12/31/2009.
- 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



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