



# Internal Audit System

## An Outline of the Internal Audit System

As mentioned previously, at SMFG, the Auditing Committee, which reports to the Board of Directors, was established in June 2005. To further raise the profile of internal auditing and facilitate the more effective conduct of audits, we also established the Internal Auditing Committee, which reports to the Group Management Committee. The Internal Auditing Committee meets every quarter, and the members discuss important matters related to internal auditing based on reports prepared by the departments responsible for internal audits. Under this system, the Audit Department of SMFG has been functioning as an internal auditing entity independent from the operating departments of the Group.

With the objective of helping realize optimal management and business operations of the Group and ensuring the soundness of the Group's assets, the Audit Department conducts internal audits of the operations of all units and departments. The audits have the additional aim of verifying that the Group's internal control system, including compliance and risk management, is appropriate and effective. The Audit Department is also responsible for supervising the internal auditing systems of each Group company. It monitors the implementation of internal audits at each company and carries out its own audits directly when deemed necessary. By these means, we are able to verify the appropriateness and effectiveness of internal control of each Group company. Based on the results of these audits, suggestions are made and/or guidance provided, as necessary, to sections or departments of SMFG, or to Group companies.

At SMBC, we have set up auditing departments independent of bank units involved in marketing activities. We established the Internal Audit Department and the Credit Review Department within the Internal Audit Unit. As at SMFG, the bank set up the Internal Auditing Committee, which reports to the Management Committee. The committee receives reports on important matters from the auditing departments and deliberates on them.

The Internal Audit Department is responsible for auditing the state of legal compliance, and the management of market, liquidity, operational, and systems risks at SMBC's head office departments and domestic and overseas branches, and at all other business offices of SMBC subsidiaries in Japan and overseas.

Auditing of operations at each head office department focuses on the crucial themes that arise in the management of specific business operations and risk categories and emphasizes verification of "Target Audits" across the whole of the bank's organization. Moreover, audits of branches and offices include the verification of compliance and operational risk management frameworks, as well as the checking of operations, and recommendations are made in the case of problems.

The Credit Review Department audits credit risk management, including the accuracy of ratings and self-assessment.

Internal auditing departments have been set up at other Group companies, according to the respective nature of each company's line of business.

## Enhancing Efficiency of the Internal Auditing Process

The Audit Department has adopted auditing methods in line with the standards of the Institute of Internal Auditors (IIA)\*, an international body. It conducts risk-based audits and spreads the concepts and methods to the Group companies.

Additionally, to effectively fulfill its role as the central body for internal auditing, the staff of the Audit Department constantly work to collect the latest information on internal auditing from inside and outside Japan and to distribute it to all Group companies. They also organize training courses, which are conducted by outside experts, for all the staff of Group companies, and encourage the staff to obtain international qualifications, to raise their level of specialist expertise in internal auditing. To improve the effectiveness of auditing still further, we are also taking active steps to ensure that our internal auditing standards are in line with those set forth by the IIA, and these auditing standards are being introduced on a graduated basis at all Group companies.

\* The Institute of Internal Auditors (IIA) was founded in 1941 in the United States as an organization dedicated to helping raise the level of specialization and professionalism of internal auditing staff. In addition to conducting theoretical and practical research, the IIA administers examinations for Certified Internal Auditor® (CIA), which is the globally accepted qualification in the field.

