



# Internal Audit System

## An Outline of the Group's Internal Audit System

In addition to the SMFG Auditing Committee, which functions as a governance committee reporting to the Board of Directors, the Internal Auditing Committee is set up as part of the Management Committee, taking into consideration its critical role and responsibility for the internal audit for the management, in order to effectively facilitate the internal audits. The Internal Auditing Committee meets every quarter, and its members discuss on important internal auditing matters based on reports prepared by the departments responsible for conducting internal audits. Under such structure, the Audit Department is set up as the independently operated internal auditing unit of the Group.

The Audit Department conducts internal audits on the operations of all of the Group's units and departments for optimal management, proper operations of the Group and the soundness of their assets. These audits also have the functions of verifying whether the Group's internal control systems, including compliance and risk management, are appropriately and effectively operated. Additionally the Audit Department is responsible for the overall supervision of the internal audit systems of the Group companies, for its appropriateness and effectiveness by verifying the accumulated internal audit data and monitoring activities, including inspections and any other activities based on the actual sample data; and conducting audits as deemed necessary. Based on these activities, the Audit Department provides recommendations and guidance to the business units and departments as well as to the Group companies.

At SMBC, we have established the Internal Audit which is independently operated from other business activities. Under the said Internal Audit Unit, the Internal Audit Department and the Credit Review Department are set up. Similarly for SMFG, SMBC also sets up an Internal Auditing Committee, which is responsible for discussing and reporting important matters proposed by the Internal Audit Unit, as the committee partially constituting its Management Committee.

The Internal Audit Unit is responsible for auditing compliance and risk management at SMBC (head office departments, domestic and overseas branches) and SMBC Group companies. The audit of operations of the head office departments is conducted by assessing for appropriateness of overall internal control systems of each department, in perspective of

functionality of procedures for the "Plan, Do, Check and Act" (PDCA) method. In addition to these individual audits for each department, we also focus on specific businesses or specified critical issues associated with risk management to conduct the "Audit of Targeted Items" for verifying the bank's overall or cross-departmental conditions of the internal control systems. Moreover, audits of branches and offices are not limited to simply inspecting for any inadequacies but also specifying and pointing out issues for the overall internal control systems, including any problem items associated with compliance and risk management; and making proposals for improvement measures or corrective actions.

For other Group companies, internal audit departments have been set up according to the respective business characteristics of such Group companies.

## Initiatives to Enhance the Sophistication and Efficiency of Internal Audit

The Audit Department has adopted methods in accordance with the standards of the Institute of Internal Auditors (IIA)\*, an international organization. The Audit Department conducts risk-based audits and the Group companies also conduct the same.

The Audit Department, as the controlling department for the Group's overall internal audit systems, strives to enhance the expertise of internal auditors such as collection of internal and external up-to-date information related to internal audit and forwarding such information to the Group companies; implementation of seminars conducted by outside professionals for the Group companies; and promoting the acquisition of international qualification for internal audit. Also, the Audit Department organizes training programs taught by outside experts for the staff of the Group companies, encouraging them to learn international standards to enhance their professional knowledge and skills for internal audit.

To further improve the effectiveness of audit, we also proactively take measures on a group-wide basis to assess the quality of our internal audit while taking into account the IIA\* standards.

\* 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 on internal auditing, the IIA administers examinations for Certified Internal Auditor (CIA), which is the internationally recognized qualification in this field.

