

## Checklist for Business Management (Governance) (for Basic Elements)

### 【Checkpoints】

- For a financial institution to ensure the soundness and appropriateness of its business, maintain its credibility, protect depositors and facilitate finance, the institution must ensure full legal compliance and customer protection as well as precise management of various risks under an appropriate business management (governance) system.
  
- In order to enable a financial institution to conduct business management (governance) effectively, officers and employees as well as organizations within the institution must perform their respective roles and responsibilities. To be more specific, directors and other executives are responsible for nurturing work ethics and cultivating an institution-wide culture that attaches importance to internal control. The representative directors, non-representative directors and corporate auditors must understand their own roles in the various processes of internal control and fully involve themselves in the processes. Also, it is important that the Board of Directors and the Board of Auditors function effectively and that the functions of a check-and-balance system among divisions and departments and internal audits by the Internal Audit Division function are executed appropriately.
  
- The inspector should determine whether the financial institution's business management (governance) system is functioning effectively throughout the institution and whether the management is performing their roles and responsibilities appropriately by way of reviewing, with the use of the check items listed in this checklist, the effectiveness of the functions of four basic elements, namely (1) a system of business management (governance) by the representative directors, non-representative directors and the Board of Directors, (2) a system of internal audits, (3) a system of audits by corporate auditors and (4) a system of external audits.
  
- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.
  
- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

## **I. Development and Establishment of Business Management (Governance) System by Representative Directors, Non-Representative Directors and Board of Directors**

### **1. Development of Corporate Management Policies**

#### **(1) Establishment and Development of Corporate Ethics**

Do directors and the Board of Directors regard the establishment of corporate ethics with emphasis on the social responsibilities and the public duties of financial institutions as an important task and provide a system to develop the establishment?

#### **(2) Development and Dissemination of Corporate Management Policy and Corporate Management Plan**

Does the Board of Directors clearly establish a corporate management policy for achieving the objectives set by the financial institution? Does it clearly formulate a corporate management plan in accordance with the corporate management policy and disseminate it throughout the institution?

#### **(3) Development and Dissemination of Internal Control Basic Policy**

Does the Board of Directors establish a basic policy concerning the development of a system to secure the soundness and appropriateness of the financial institution's business (hereinafter referred to as the "Internal Control Basic Policy,") in accordance with the corporate management policy and without delegating the task to the representative directors, etc. and disseminate it throughout the institution? Is <sup>1</sup>the Internal Control Basic Policy an appropriate one befitting the scale and nature of the institution's business?

#### **(4) Development and Dissemination of Strategic Objectives**

Does the Board of Directors clearly develop strategic objectives for the financial institution as a whole that include institution-wide profit objectives and strategies for risk-taking and allocation of human and physical resources intended to help achieve the profit objectives, in accordance with the corporate management policy and without delegating the task to the representative directors, etc.? Does the Board of Directors clearly develop strategic objectives for each operational area based on the strategic objectives for the institution as a whole and disseminate both the business-by-business and institution-wide strategic objectives throughout the institution?

#### **(5) Verification of Compatibility and Consistency of Risk Management Policies, etc.**

With regard to institution-wide risk management, does the Board of Directors establish a Comprehensive Risk Management Policy and a management policy for various risks based on the

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<sup>1</sup> The inspectors should review the document that includes the financial institution's basic policy for developing a system for securing the soundness and appropriateness of its business regardless of the title of the document such as "Internal Control Basic Policy," "Internal Control Policy," and "Internal Management Policy," etc.

strategic objectives for the institution as a whole after verifying their compatibility and consistency?

## **2. Roles and Responsibilities of Directors and Board of Directors**

### **(1) Roles and Responsibilities of Representative Directors and Non-Representative Directors**

- (i) Do the directors regard legal compliance, customer protection and risk management as important corporate management tasks based on an understanding of the major points of Laws (including, but not limited to laws and regulations, etc. hereinafter referred to as the “Laws”) applicable to the financial institution, the nature of the various risks to which the institution is exposed and the importance of customer protection, improvement in customer convenience and risk management? Do they understand the importance of audits by corporate auditors, internal audits<sup>2</sup> and external audits in ensuring full legal compliance, customer protection and risk management?
- (ii) Do the representative directors appropriately allocate human and physical resources in accordance with the corporate management policy, the corporate management plan, the Internal Control Basic Policy, the strategic objectives and the Comprehensive Risk Management Policy and appropriately exercise his/her authority so as to ensure flexible management thereof?
- (iii) Do the representative directors take specific measures to have officers and employees get acquainted with his/her approach to legal compliance, customer protection and risk management? For example, do the representative directors express his/her approach to legal compliance, customer protection and risk management to officers and employees when delivering a New Year’s speech and speaking at branch Managers’ meetings?

### **(2) Check and Balance against Representative Directors**

Do non-representative directors engage in substantive debate at meetings of the Board of Directors and perform their duties of making decisions concerning business execution and supervising business execution in order to ensure appropriate business execution by exercising a check-and-balance system against the representative directors and preventing autocratic management? With regard to decision-making concerning the provision of loans, for example, do non-representative directors seek to ensure a check-and-balance system to prevent arbitrary decision-making by the representative directors by taking specific measures such as requiring that important loans whose terms exceed prescribed limitations be subject to a decision by the Board of Directors or equivalent organization to the Board of Directors rather than by the representative directors alone?

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<sup>2</sup> “Internal audits” refer to the process of review of the appropriateness and effectiveness of the internal control system of divisions (including risk management divisions. The same shall apply hereinafter.) and sales branches, etc. (including sales branches and overseas offices. The same shall apply hereinafter.)(hereinafter referred to as the audited divisions, etc.) by a division in charge of internal audits (inspection division, operational audit division, etc.) that is independent from the audited divisions, etc. This process includes not only detecting and pointing out problems with the audited divisions’ administrative processes, etc. but also evaluating the internal control system and proposing improvement measures. In principle, it does not include inspections conducted by the audited divisions, etc. themselves as part of the internal control. The same shall apply hereafter.

Also, is it ensured, for example, that under the rules governing the Board of Directors, decisions on matters concerning legal compliance, customer protection and risk management that would seriously affect the financial institution's corporate management are treated as the exclusive prerogatives of the Board of Directors and judgment as to whether or not specific cases meet the criteria of "seriously affect" is not left to the representative directors?

**(3) Roles and Responsibilities of Outside Directors (in the case where outside directors have been appointed)**

Are outside directors aware of the significance of their roles and actively involved in meetings of the Board of Directors in order to ensure the objectivity of corporate management decision-making? Does the Board of Directors ensure that information concerning the conditions of the financial institution is provided to outside directors on an ongoing basis so as to enable them to make appropriate judgment at meetings of the Board of Directors?

**(4) Directors' Duty of Care and Duty of Loyalty**

Do directors fully perform their duty of care and duty of loyalty in their execution of office, for example by engaging in substantive debate at meetings of the Board of Directors in order to ensure the soundness and appropriateness of the financial institution's business?

**3. Development of Organizational Frameworks**

**(1) Development of Institution-wide Organizational Framework**

Has the Board of Directors developed an organizational framework that enables the financial institution as a whole to conduct business and risk management appropriately and effectively, for example by establishing divisions between which conflicts of interest may arise and assigning them authority in a way to allow them to exercise a mutual check-and-balance system even as they maintain coordination?

**(2) Disclosure**

Does the Board of Directors provide a system to disclose information about financial conditions and other matters concerning the financial institution in an appropriate and timely manner?

**(3) Collection, Analysis and Examination of Information Concerning Financial Institution as A Whole**

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to obtain, from within and outside the financial institution and in a timely manner, information concerning legal compliance, customer protection and risk management that is necessary for corporate governance?

For example, does the Board of Directors or equivalent organization to the Board of Directors

make sure to have access to necessary information, for example by having the Manager of each division report matters specified by it in a regular and timely manner or on an as needed basis or by installing a computer system function that enables directors and corporate auditors to survey information managed by each division?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors have in place procedures for the storage and management of information concerning the execution of business operations by directors, etc. in accordance with the Internal Control Basic Policy?

For example, does it make sure to compile, store and manage the minutes of meetings of the Board of Directors or equivalent organizations to the Board of Directors? Does it also record instructions issued by the Board of Directors or equivalent organizations to the Board of Directors and documents related to its decisions and store and manage the records as necessary?

(iii) Are the contents of the minutes of the meetings, when combined with the raw data used there, sufficient to confirm the agenda and substance of the meetings, such as matters reported to the Board of Directors or equivalent organizations to the Board of Directors (including the actual status of risk management, problems related to legal compliance and customer protection, inappropriate acts and other problems) and details of the approval given and decisions made by the Board of Directors or equivalent organization to the Board of Directors (including the process and substance of debate)? Is it ensured that the raw data used at these meetings is stored and managed for the same period of time as the minutes?

(iv) Is it ensured that corporate auditors have easy access to the minutes of the meetings of the Board of Directors or equivalent organization to the Board of Directors or other information concerning directors' execution of business operations?

#### **(4) Handling of Screening of New Products**

(i) With regard to handling of new products, start of new business and other matters specified in the Comprehensive Risk Management Policy, etc. as requiring prior screening and approval (hereinafter referred to as "New Products, etc."), does the Board of Directors or equivalent organization to the Board of Directors provide a system to have such matters priorly subject to screening and approval (hereinafter referred to as "New Products Approval") by a division in charge of screening New Products or a committee in charge thereof (hereinafter referred to as the "New Product Committee, etc.")?<sup>3</sup>

(ii) Has the Board of Directors or equivalent organization to the Board of Directors clearly specified the criteria for judgment as to whether specific matters are subject to the New Products Screening and the focus of the judgment authority and disseminated them to all of the officers and employees?

(iii) On the occasion of the New Products Screening, do the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that information concerning the

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<sup>3</sup>This shall not preclude the Comprehensive Risk Management Division or other entities from conducting the New Products Screening.

validity and legality of New Products, etc. is collected and sufficient examination is conducted?

For example, is a system in place to ensure that:

- The Comprehensive Risk Management Division and divisions in charge of managing various risks identify the risks inherent in New Products, etc. and report them to the New Product Committee, etc. in a timely manner?
- The Managers in charge of various customer protection management examine issues related to customer protection management and report their findings to the Board of Directors or equivalent organization to the Board of Directors in a timely manner?
- Legal issues related to New Products, etc. are subjected to legal checks, etc. beforehand?

#### **(5) Management System of Subsidiaries, etc.**

Does the Board of Directors or equivalent organization to the Board of Directors appropriately manage the business of subsidiaries, etc.<sup>4</sup> in a manner befitting the scale and nature of their business and provide for measures to ensure that their business is appropriate from the viewpoint of legal compliance, customer protection and risk management? Does the Board of Directors or equivalent organization to the Board of Directors provide for measures to ensure that transactions between the financial institution and its subsidiaries, etc. are in compliance with the rules concerning the prevention of inappropriate practices and the “arms’ length rules”?

#### **(6) Emphasis on Legal Compliance, Customer Protection and Risk Management**

Does the Board of Directors or equivalent organization to the Board of Directors instead of placing too much emphasis on boosting Sales and Profits Division, implement specific measures that attach importance to legal compliance, customer protection, comprehensive risk management, management of various risks and internal audits? For example, does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that staff members engaged in operations related to legal compliance, customer protection, comprehensive risk management, management of various risks and internal audits are fairly treated in performance assessment and personnel evaluation and receive appropriate evaluation in light of the strategic importance of those operations?

#### **(7) Crisis Management System**

Does the Board of Directors or equivalent organization to the Board of Directors appropriately understand what constitutes a crisis for the financial institution and provide a system even in normal times to have an appropriate crisis management system in place so as to enable the management to respond immediately in the event of a crisis and take risk mitigation measures?

For example, does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that a crisis management manual and a business continuity plan

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<sup>4</sup> See Paragraph 2, Article 13, the Banking Law.

(BCP) are formulated and that procedures for collecting information and responding to unfounded rumors in the event of a crisis are established?

#### **4. Monitoring and Revision**

Does the Board of Directors receive a report with regard to the status of business operations and the risks faced by the financial institution in a regular and timely manner or on an as needed basis and order an investigation as necessary to review the effectiveness and validity of the corporate management policy, the corporate management plan, the Internal Control Basic Policy, the strategic objectives, the Comprehensive Risk Management Policy, the policies concerning management of various risks, the Legal Compliance Policy, the Customer Protection Management Policy and other policies as well as the effectiveness of the financial institution's governance system based on these policies and revise them as necessary?

## **II. Development and Establishment of Internal Audit System**

### **1. Development and Establishment of Internal Audit System by Board of Directors or equivalent organization to Board of Directors**

#### **1) Policy Development**

##### **(1) Roles and Responsibilities of Directors**

Do directors fully understand that the development of an effective internal audit system suited to the scale and nature of the financial institution's business and its risk profile as well as the Laws applicable to the business are vital for an appropriate legal compliance, customer protection and risk management? In particular, does the director in charge of internal audits examine a policy and specific measures necessary for the development and establishment of an appropriate internal audit system based on an accurate understanding of the status of the institution's internal audits?

##### **(2) Development and Dissemination of Internal Audit Policy**

Has the Board of Directors established a policy for securing the effectiveness of internal audits (hereinafter referred to as the "Internal Audit Policy") in accordance with the corporate management policy and the Internal Control Basic Policy and disseminated it throughout the institution?

#### **2) Development of Rules and Organizational Framework**

##### **(1) Development of Internal Audit Rules**

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division or the chief of the division establish rules concerning internal audits (hereinafter referred to as the "Internal Audit Rules") and approve them after confirming their consistency with the Internal Audit Policy?

Do the Internal Audit Rules specify the following items in particular?

- Purpose of internal audits
- Organizational independence of the Internal Audit Division
- Scope of the Internal Audit Division's operations, authority and responsibilities
- Arrangements for the Internal Audit Division to obtain information
- Arrangements for implementation of internal audits
- Arrangements for reporting by the Internal Audit Division

##### **(2) Development of Internal Audit Implementation Guidelines**

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division or the chief of the division establish a guideline that specifies the items subject to internal audits and the procedures for the implementation thereof (hereinafter referred to as the Internal Audit Implementation Guidelines) and approve it? Does the Internal Audit Implementation Guidelines reflect the actual status of operations at the divisions audited and enable

the implementation of effective audits suited to the divisions' operations? Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division establish operational procedures that specify details of the items subject to internal audits and the audit procedures where necessary?

### **(3) Development of Internal Audit Plan**

- (i) Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division or the chief of the division grasp the status of legal compliance, customer protection and risk management at the divisions audited and formulate a plan for implementing internal audits in an efficient and effective manner with due consideration for the frequency and depth of necessary audits (hereinafter referred to as the "Internal Audit Plan") and approve basic matters concerning the plan, including its key priority items? Does the Board of Directors or equivalent organization to the Board of Directors approve it after making sure that the Internal Audit Plan provides for additional audits as and when necessary?
- (ii) Does the Internal Audit Plan subject the operations of subsidiaries, etc. to internal audits within the limitations allowed under law? With regard to the operations of subsidiaries and operations commissioned to outsourcing contractors not subject to internal audits, does the plan subject the status of the management of those operations by divisions with the supervisory responsibilities thereof to internal audits?

### **(4) Establishment of System of Internal Audit Division**

- (i) Has the Board of Directors established an Internal Audit Division in charge of reviewing the appropriateness and effectiveness of the internal control system in accordance with the Internal Audit Policy and the Internal Audit Rules and does the Board provide a system to enable the division to perform its functions fully?
- (ii) Has the Board of Directors allocated in the Internal Audit Division a division chief with the necessary knowledge and experience to supervise the division and enabled the division chief to implement his/her operation by assigning him/her the necessary authority therefor? In the case where the chief of the Internal Audit Division concurrently takes charge of an operation subject to audits, is there an arrangement to secure the independence of the Internal Audit Division?
- (iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated in the Internal Audit Division an adequate number of staff members with the necessary knowledge and experience as well as the expertise to sufficiently review the operations and assigned such staff the authority necessary for implementing the operations? Does the Board of Directors or equivalent organization to the Board of Directors make sure to provide in-house and outside training to enhance the expertise of staff members that conduct internal audits? It is desirable that there be a system to provide such training on an ongoing basis and that the relevant staff members regularly utilize it.
- (iv) Does the Board of Directors keep the Internal Audit Division independent from divisions

subject to audits and secure the function of a check-and-balance system? Does the Board of Directors provide a system to enable the Internal Audit Division to implement audits without being unduly restricted by divisions audited, etc.? Does the Board of Directors provide a system to prevent the Internal Audit Division from engaging in business activities or operations that should be conducted by divisions subject to audits, such as compilation of information concerning financial conditions and other matters?

(v) Does the Board of Directors provide a system to implement extraordinary audits aside from ordinary ones with regard to operations and computer systems susceptible to violation of Laws and practices? In the case where outside experts are employed to complement the audits of operations for which internal audits alone would not be sufficient, does the Board of Directors also assume responsibility for the audit process and results?

(vi) Does the Board of Directors, in accordance with the Internal Audit Rules, assign staff members engaged in internal audits the authority to obtain any documents necessary for their execution of operations and interview or question any officer or employee when necessary for their execution of operations?

(vii) Does the Board of Directors provide a system to disseminate the scope of the Internal Audit Division's operations, authority and responsibilities to all of the officers and employees?

(viii) Does the Board of Directors or equivalent organization to the Board of Directors allocate to overseas offices determined as being exposed to higher risk than a certain level internal auditors who are independent from the Managers of the offices and directly linked with the Internal Audit Division?

(ix) Does the Board of Directors provide a system to have the results of internal audits reported in a timely and appropriate manner?

### **3) Systems for Follow-up**

#### **(1) Improvement Steps by Board of Directors**

With regard to problems included in internal audit reports that are determined as likely to seriously affect the corporate management or impossible for an audited division alone to handle, does the Board of Directors promptly take appropriate measures? Does it provide arrangements to have the Internal Audit Division conduct necessary follow-up audits on such cases, check the status of improvement and ensure that cases in which improvement is insufficient are reported to it?

## **2. Roles and Responsibilities of Internal Audit Division**

### **(1) Development of Internal Audit Implementation Guidelines**

Does the Internal Audit Division appropriately identify the items subject to audits, formulate an Internal Audit Implementation Guidelines that specifies the items subject to audits and the procedures for audit implementation and seek approval thereof from the Board of Directors or equivalent organization to the Board of Directors? Does the Internal Audit Implementation Guidelines exhaustively cover the items included in this checklist so as to enable effective audits?

Where necessary, does the Internal Audit Division establish operational procedures that specify details concerning the items subject to internal audits and the audit procedures?

## **(2) Development of Internal Audit Plan**

Does the Internal Audit Division formulate a plan for implementing internal audits in an efficient and effective manner with due consideration for the frequency and depth of necessary audits based on its understanding of the status of legal compliance, customer protection and risk management at the divisions audited and obtain approval by the Board of Directors or equivalent organization to the Board of Directors of basic matters concerning the plan, including its key priority items? Does the division subject the operations of subsidiaries, etc. to internal audits within the legal limitations? With regard to the operations of subsidiaries not subject to internal audits and operations commissioned to outsourcing contractors, does the division subject the status of the management of those operations by divisions with the supervisory responsibilities thereof to internal audits?

## **(3) Implementation of Internal Audits**

- (i) Does the Internal Audit Division implement internal audits of divisions subject to audits in an efficient and effective manner (by implementing an unannounced audit, for example) in accordance with the Internal Audit Implementation Guidelines and the Internal Audit Plan?
- (ii) Does the Internal Audit Division, in accordance with the Internal Audit Rules, etc. seek to ensure fair audits, for example by preventing the same auditing staff member from continuing to audit the same division or preventing an auditing staff member from auditing the division in which he worked immediately before moving to the Internal Audit Division?
- (iii) Do auditing staff members accurately record the procedures followed in internal audits and problems detected therein? Do they compile, in accordance with the Internal Audit Implementation Guidelines and the Internal Audit Plan and without delay, internal audit reports that accurately reflect problems detected in internal audits?
- (iv) Does the chief of the Internal Audit Division check the contents of internal audit reports, analyze the frequency and the degree of importance, etc. of problems pointed out therein and report his/her findings to the Board of Directors without delay? In particular, does the chief of the Internal Audit Division report problems deemed likely to seriously affect the corporate management or significantly undermine customer interests to the Board of Directors without delay? Does the chief attend meetings concerning internal control (e.g. a meeting of a legal compliance committee) as necessary in order to report the status of internal audits and collect information?
- (v) In the case where the Internal Audit Division detects an obvious or suspected illegal act during the process of internal audits, does the division immediately report it to the Compliance Control

Division?<sup>5</sup> Does the Internal Audit Division accurately identify problems based on the analysis of internal audits and disseminate its findings to the Compliance Control Division, operational divisions and sales branches, etc. in a regular and timely manner or on an as needed basis?

#### **(4) Systems for Follow-Up**

Do divisions subject to internal audits take improvement measures without delay with regard to problems pointed out in internal audit reports with due consideration for the degree of their importance and formulate plans for improvement as necessary? Does the Internal Audit Division appropriately check the status of improvement at divisions subject to internal audits and reflect its findings in subsequent Internal Audit Plans?

### **3. Assessment and Improvement Activities**

#### **1) Analysis and Assessment**

##### **(1) Analysis and Assessment of Effectiveness of Internal Audits**

Does the Board of Directors appropriately determine whether there are any weaknesses or problems in the internal audit system and the particulars thereof, and appropriately examine their causes by precisely grasping the status of internal audits and analyzing and assessing the effectiveness of internal audits, based on all information available regarding the status of internal audits (including the status of compliance with the Internal Audit Implementation Guidelines and the Internal Audit Plan), such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions?

In addition, if necessary, does it take all possible measures to find the causes by way of, for example, establishing fact findings committees, etc. consisting of non-interested persons?

Does the chief of the Internal Audit Division analyze and assess the effectiveness of the Internal Audit Implementation Guidelines and the Internal Audit Plan in a regular and timely manner or on an as needed basis and report his/her findings to the Board of Directors?

##### **(2) Revision of Analysis and Assessment Processes**

Does the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of internal audits in a regular and timely manner or on an as needed basis?

#### **2) Improvement Activities**

##### **(1) Improvement Activities Concerning Internal Audit System**

Does the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the internal audit system identified through the analysis, assessment and examination referred to in 3. 1) above in a timely and appropriate manner based on

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<sup>5</sup> See Checklist for Legal Compliance.

the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

**(2) Progress Status of Improvement Activities**

Does the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

**(3) Revision of Improvement Process**

Does the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of internal audits in a regular and timely manner or on an as needed basis?

### **III. Development and Establishment of Auditing System by Corporate Auditors and Board of Auditors**

#### **1. Development of Environment for Auditing by Corporate Auditors**

##### **(1) Development of Auditing Environment**

Do auditors endeavor to develop a favorable environment for collecting information and conducting audits in order to execute their operations appropriately, for example by maintaining close coordination with directors, accounting auditors, the Internal Audit Division, the Manager of the Compliance Control Division and directors of subsidiaries, etc. and seeking reports from them regularly?

##### **(2) Functions of Board of Auditors**

In the case where there is a board of auditors, does it hold consultations and make decisions based on reports obtained from individual auditors and other relevant parties within limitations that would not prevent the individual auditors' execution of authority?

##### **(3) Systems for Supporting Auditing Operation**

Do corporate auditors secure an adequate number of staff members suited to support auditors and the board of auditors? Is it ensured that staff members supporting auditors and the board of auditors are kept outside the line of command from directors and the Board of Directors in their execution of auditor support operations?

##### **(4) Securing of Independence**

Is it ensured that the independence of corporate auditors and the board of auditors is secured in terms of execution of operations and organizational framework? In particular, moves to obstruct the investigative and reporting authority of auditors and restrict audit-related expenses in an unreasonable manner must be excluded in order to secure the independence of auditors.

#### **2. Implementation of Audits**

##### **(1) Development of Audit Policy and Audit Plan**

Do corporate auditors identify the items subject to audits and develop an audit policy and an audit plan from the viewpoint of reviewing whether directors have developed an appropriate internal control system and are operating it appropriately?

##### **(2) Effective Implementation of Audits**

Do corporate auditors and the board of auditors audit operations in addition to conducting accounting audits by appropriately executing the wide-ranging authority assigned to them? Even when there is a board of auditors, does each individual auditor actively conduct audits on their own responsibility as an independent agent?

### **(3) Investigations of Subsidiaries**

Do corporate auditors pay attention to whether there is an appropriate internal control system within the corporate group of the financial institution and check the status of corporate governance and internal control at subsidiaries as necessary from the viewpoint of examining the status of directors' execution of business operations for the purpose of securing the soundness of the business operations of the corporate group?

### **(4) Attendance at Board of Directors' Meetings**

Do corporate auditors appropriately examine the status of directors' execution of business operations, for example, by attending meetings of the Board of Directors and expressing opinions as necessary? Do they also attend meetings of the Board of Directors or equivalent organization to the Board of Directors other than meetings of the Board of Directors and express their opinions, thus appropriately executing their auditing authority?

### **(5) Employment of Outside Experts**

Do corporate auditors and the board of auditors employ lawyers, certified public accountants and other outside experts as necessary in order to supplement their functions?

### **(6) Review of Audit Results**

Do corporate auditors and the board of auditors check whether the process of accounting audits by accounting auditors and the results thereof are reasonable and, if necessary, take measures such as making an appropriate proposal with regard to the replacement of an accounting auditor, for example?

### **(7) Prevention of Illegal Acts**

When detecting an obvious or possible inappropriate act by a director, or when detecting a fact that violates laws or the articles of incorporation or a markedly unreasonable fact, do corporate auditors report it to the Board of Directors without delay? When they determine that a director's act that violates laws or the articles of incorporation may significantly damage the financial institution, do corporate auditors take appropriate measures to halt the act?

### **(8) Outside Auditors**

Do outside auditors fully perform their auditing functions by taking advantage of their positions? When an outside auditor serves on a non-permanent basis in particular, does he/she make sufficient efforts to maintain communications and coordination with permanent auditors so as to perform his/her functions?

## **IV. Development and Establishment of External Audit System**

### **(1) External Audit of Internal Control System by Accounting Auditors, Lawyers, etc.**

Does the institution undergo an external audit<sup>6</sup> by an outside expert such as an accounting auditor and a lawyer at least once a year in order to review the effectiveness of the internal control system?<sup>7</sup> In the case of a financial institution subject to international standards, Does the institution check whether the institution subjects each of its overseas offices to an external audit suited to the circumstances of the relevant country.

Does the Board of Directors or the board of auditors receive the audit results in a timely manner?

### **(2) Cooperation to Effective Audits**

Does the Board of Directors provide for measures to have operational divisions and departments cooperate with external auditors to enable effective audits?

### **(3) Analysis and Assessment of Effectiveness of External Audits**

Do the Board of Directors and the board of auditors regularly check whether external audits are functioning effectively?

Do the Board of Directors and the board of auditors also make sure that external audits of subsidiaries are functioning effectively, for example by receiving reports concerning the results of external audits of subsidiaries, etc. so as to grasp any problem thereof?

### **(4) Improvements and Follow-up**

Does the Board of Directors provide a system to implement improvements within a certain period of time with regard to problems pointed out by external auditors? Do divisions subject to audits implement improvements according to the level of the importance of the problems pointed out and formulate plans for improvements as necessary? Does the Internal Audit Division check the progress status of improvements appropriately?

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<sup>6</sup> External audits as mentioned here shall not be limited to audits of financial statements by accounting auditors, but the inspector should bear it in mind that audits other than the audit of financial statements required under the rules and the verification of the internal control system conducted as part of the procedures of this audit are not obligatory. In the case where the institution inspected undergoes an external audit other than the audit of financial statements in order to secure the effectiveness of the internal control system, the inspector should review the effectiveness of the internal control system by examining the audit results in a comprehensive manner.

<sup>7</sup> It should be noted that the co-operative type of financial institutions are required to appoint accounting auditors only in limited cases.