

# **Capital Farm Credit Audit Committee**

## **Purpose**

The Audit Committee's (Committee) primary function is to provide a structured, systematic oversight of the organization's financial reporting and internal control practices. The Committee assists the Board of Directors (Board) in fulfilling its oversight responsibilities for audit by providing advice and guidance on the adequacy of the organization's initiatives for values and ethics, evaluating the internal control framework, providing oversight of the internal audit activity, external auditors, and other providers of assurance, and reviewing the financial statements and financial data released publicly.

The Committee functions as a committee of the Board, and as such operates under authorities delegated by the Board. Actions undertaken by this Committee carry the same authority as if rendered by the Board, subject to review or ratification as further defined in this charter. The Committee shall report to the Board on decisions and guidance given in summary in an expedient method, with full reports at the next Board meeting.

## **Authority**

In discharging its responsibilities listed within this charter, the Committee will have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The Committee has the sole authority to hire and supervise any external auditor(s), to engage or retain outside consultants to advise the Committee, and to approve the terms of any such engagement and the fees of any such consultant or firm. The Committee also will have unrestricted access to records, data, and reports.

A two-thirds majority vote of the full board is required to deny a Committee request for resources.

The Committee may delegate specific tasks relating to the completion of its responsibilities to a subcommittee comprised of one or more members of the Committee.

## **Structure**

**Membership:** The Committee shall be comprised of no less than four (4) and no more than ten (10) members of the Board. If the Board chairman and vice chairman are not members of the Committee, the Board chairman and vice chairman may choose to attend the meeting as a nonvoting member. The Board chairman and/or vice chairman may participate as a voting member if quorum is not met. A quorum is 75 percent of committee members.

**Appointment:** The chairman of the Board will appoint a Committee chairman to serve a one-year term concurrent with the annual re-organization cycle of the Board. Additionally, the Board chairman, working with the committee chairman, selects the Committee members. Every Committee member must be free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a Committee member and all Committee members should be knowledgeable in at least one of the following: public and

corporate finance, financial reporting and disclosure, or accounting procedures and must be able to read and understand the Association's financial statements.

At least one member of the Committee shall be a Board member who has been designated as a "financial expert" by the Board. At least one member will be a director-elected-director. If a member of the Committee is no longer able to serve on the Committee, the Committee chairman, in consultation with the Board chairman and vice chairman, may appoint another member or leave the Committee position vacant as long as quorum is met. If the appointed Committee chairman is unable to serve in the leadership role for one or more meetings, the Board chairman will appoint another member of the Committee to serve as an interim chairman.

### **Meetings**

The Committee will meet as often as may be deemed necessary by the Committee chairman or when directed to meet by the Board. All Committee members are expected to attend each Committee meeting in person unless the Committee chairman has provided for teleconference or other electronic means and so stated in the meeting notice. The Committee chairman will establish agendas for the meetings in consultation with the Committee members and management.

The Committee will meet at least once per year with the SVP, Internal Audit & Credit Review and the external auditor in separate executive sessions to discuss any matters that the Committee or any of these groups believe should be discussed. Additionally, the Committee may meet with any member of management in executive session. The Audit Committee Chairman may determine who should be included in executive sessions.

Minutes for all meetings of the Committee are prepared to document the Committee's discharge of its responsibilities. The minutes include the attendance records of the Committee members, and the minutes shall be retained by a corporate officer for at least three years from the date of the meeting. The minutes are circulated in draft form to all Committee members (to ensure an accurate final record), approved by the Committee, signed by the chairman, and provided to the Board. The Committee chairman makes regular reports to the Board.

The Committee will conduct itself in accordance with the code of values and ethics of the association, association policies, laws, and Farm Credit Administration regulations. The Committee expects that management and staff of the association will adhere to these requirements.

### **Primary Responsibilities**

- Review quarterly and annual financial reports before release, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Review significant accounting and reporting changes and issues, including accounting policy changes, complex or unusual transactions and highly judgmental areas, and

recent professional and regulatory pronouncements, and understand their impact on financial statements.

- Approve changes proposed by management to the Current Expected Credit Losses. Changes will be post approved at the next regularly scheduled meeting after quarter end for interim reporting and yearend for annual reporting.
- Review the results of all testing of internal controls including those performed to comply with Internal Control over Financial Reporting (ICFR) requirements.
- Be apprised of quarterly certification letters provided to FCBT regarding ICFR testing.
- Consider the effectiveness of the Association's internal control system.
- Understand the scope of internal and external auditor's review of internal controls and obtain reports of significant findings and recommendations.
- Review the content and treatment of ethics hotline reports (regardless of source or media used to report) regarding accounting, internal controls or auditing matters.
- Review and approve the Internal Audit Department Charter annually.
- Review and approve the Internal Audit/Internal Credit Review annual risk assessment, four- year audit plan and annual credit review plan.
- Approve the staffing and organizational structure of the Internal Audit and Credit Review teams including the review of and concurrence with the appointment, replacement, dismissal, performance standards and evaluation, and compensation of the SVP, Internal Audit & Credit Review.
- Inquire of management and the SVP, Internal Audit & Credit Review to determine whether scope or resource limitations, if any, are appropriate.
- Review all reports, findings, and recommendations of the Internal Audit and Credit Review functions.
- Review and approve the engagement of external auditors co-sourced or outsourced by the Internal Audit and Credit Review functions prior to performance of audits or reviews.
- Review prior to release of any external audit or review recommendations.
- Inquire of the SVP, Internal Audit & Credit Review about steps taken to ensure that the internal audit activity conforms with The Institute of Internal Auditors Global Internal Audit Standards (Standards).
- Ensure the SVP, Internal Audit & Credit Review has unrestricted access to and communicates and interacts directly with the Committee.
- Ensure that the internal audit activity has a quality assurance and improvement program and that the results of these periodic assessments are presented to the Committee.
- Ensure that the internal audit activity has an independent external quality assurance review every five years.
- Review the results of the independent external quality assurance review and monitor the implementation of the internal audit activity's action plans to address any recommendations.

- Discuss with the SVP, Internal Audit & Credit Review and executive management about the “essential conditions” described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Advise the Board about any recommendations for the continuous improvement of the internal audit activity.
- Review the performance of the external auditors, review and approve the engagement letter, and exercise final approval on appointment, compensation and discharge of external auditors performing the annual financial statement audit.
- Ensure the rotation of the lead audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required per part 621.32(b) of the FCA regulations.
- Ensure that the policy on Standards of Conduct for Agents (FCA regulation 612.2180) is considered as required per 621.30 of the FCA regulations.
- Prior to the release of the annual audited financial statements, review with management and the external auditors the results of the audit, including any difficulties encountered. This includes all matters required to be communicated to the Committee by generally accepted auditing standards.
- Review any management representation letter provided to external auditors on a timely basis.
- Obtain a statement of independence from external auditors detailing relationships (including conflict of interest in prior employment as required per 621.32(a) of the FCA regulations) between the auditors and the Association, including non-audit services performed by any such auditors. Pre-approve any non-audit services to be provided when those services are to be performed by firms also performing audit services.
- At least annually, meet separately with the external auditors to discuss any matters the Committee or the external auditor believes should be discussed in executive session.
- Oversee management’s arrangement for the prevention and deterrence of fraud.
- Ensure that appropriate action is taken against known perpetrators of fraud.
- Challenge management and internal and external auditors to ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.
- Review the findings of FCA examinations and approve prior to release any formal response to FCA, not including management responses to the Board, and follow up on any corrective actions.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management’s investigation and follow-up (including disciplinary action) of systemic or significant instances of noncompliance.
- Receive regular updates from management and/or legal counsel regarding compliance matters.
- As requested by FCA’s Office of Inspector General, participate with the CEO in responding to the follow-up survey subsequent to an audit by the FCA.
- Strive to attend at least annually one seminar with emphasis on Farm Credit audit committee functions and responsibilities, as appropriate.

- The Committee should facilitate an open avenue of communication between Internal Audit, Internal Credit Review, the external auditors, and the board.
- Report annually to the stockholders, describing the Committee's composition, responsibilities, and any other required information.

**Reporting Requirements**

The Committee chairman or their delegate reports to the Board on a timely basis regarding the actions taken during the most recent Committee meeting(s). In addition, the Committee provides copies of approved minutes of the Committee to the Board. Annually the Committee will conduct a self-evaluation and prepare a written summary of its activities for the year and submit it to the full board.

**Review Cycle**

This charter will be reviewed annually by the Committee and approved by the board.

*Audit Committee Approved: April 22, 2025*

*Board Approved: May 7, 2025*