

Capital Farm Credit Audit Committee Charter



Purpose:

The primary function of the Audit Committee (Committee) is to fulfill its oversight responsibilities relating to the quality of financial reporting and internal controls. Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Association's policies, procedures and practices at all levels.

While the Committee has the powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Association's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent accountant. However, it is the responsibility of the Committee to ensure reasonable steps are taken by management to ensure the accuracy of financial reporting and adequacy of the institution's system of internal controls.

Composition:

The Board chairperson will appoint a Board member to serve as the Committee chairperson until the annual re-organization of the Board, and the Committee chairperson will participate with the Board chairperson to appoint at least three additional Board members to serve on the Committee. If the Board chairperson and vice-chairperson are not members of the Committee, they may attend the meetings at their option and serve as a non-voting member. Anytime at least a majority of the voting members are not present at a meeting (either physically or via an acceptable electronic method), the meeting shall be adjourned and reconvened when at least a majority of voting members are present. In the event the appointed Committee chairperson is unable to serve in the leadership role for one or more meetings, the Board Chairman will appoint another member of the Audit Committee to serve as an interim chairperson.

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.

Meetings:

The Committee will meet at least four times annually, with additional meetings as necessary. Meetings may be called by the Board chairperson or the Committee chairperson. The Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information. The Committee chairperson will appoint one person at the meeting to prepare minutes of the meeting. The minutes of the meeting shall include attendance records and shall be safely maintained by a corporate officer for a period of no less than three years from the date of the meeting.

Authority and Resources:

The Committee has all necessary authorities and has access to all resources needed to accomplish the responsibilities of the Committee as described in this Charter. The Committee will have access to all financial, credit, administrative and operational records, facilities and employees of the Association. It is empowered to:

- Appoint, compensate, retain and oversee the work of any public accounting firm employed by the Association.
- Resolve any disagreements between management and the auditors regarding financial reporting.
- Retain independent counsel, accountants or consultants to advise the Committee or assist in the conduct of an investigation.

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- Oversee and appraise the audits and reviews performed by the Association's Internal Audit and Internal Credit Review functions.
- A two-thirds majority vote of the full Board of Directors is required to deny the Committee's request for resources.

Duties and Responsibilities:

The Committee will be responsible for the following activities. The Committee will rely on the assistance of the Internal Audit and Credit Review Departments, external auditors and the appropriate Association management in accomplishing these tasks.

Financial Statements and Financial Data Released Publicly

- 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 allowance for loan losses. Changes will be post approved at the next regularly scheduled meeting after quarter end for interim reporting and year-end for annual reporting.

Internal Controls

- Review the results of all testing of internal controls including those performed to comply with Internal Controls 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, together with management's responses.
- Review the content and treatment of ethics hotline reports (regardless of source or media used to report) regarding accounting, internal controls or auditing matters.

Internal Audit and Credit Review

- 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 head of the Internal Audit and Credit Review Departments.
- Review all reports and findings of the Internal Audit and Credit Review functions.
- Review and concur with management's responses to address all Internal Audit and Credit Review recommendations and follow up on any corrective actions.
- 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 to any external party and concur with management's responses to address all external audit or review recommendations and follow up on any corrective actions.
- At least annually, meet with the head of the Internal Audit and Credit Review Departments and CFO (as well as any other member of senior management deemed appropriate by the Committee) individually to discuss any matters the Committee or senior management believes should be discussed in executive session.
- Encourage, to the extent possible, compliance with The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing as these standards are consistent with sound, prudent business practices.

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External Audit

- 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.
- 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 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.
- Review prior to release to an external party and concur with management's responses to address all audit recommendations and follow up on any corrective actions.
- 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.

FCA Examinations and Compliance

- 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.

Training

- Strive to attend at least annually one seminar with emphasis on Farm Credit audit committee functions and responsibilities, as appropriate.

Reporting

- Approved minutes of Committee meetings will be provided to the Board on a current basis.
- The Committee chairperson will report to the Board on the activities of the Committee.
- On an annual basis, the Audit Committee will prepare a written summary of its activities for the year and submit it to the full Board.
- The Committee should facilitate an open avenue of communication between Internal Audit, Internal Credit Review, the external auditors, and the Board.
- At least annually, conduct a self-evaluation of Committee performance.
- Report annually to the stockholders, describing the Committee's composition, responsibilities and any other required information.

Other

- At least annually, reassess the adequacy of and, if appropriate, propose to the full Board, any desired changes to the Committee Charter.

Audit Committee Approved: July 27, 2021

Board Notice: November 17, 2021