

## **CAPITAL FARM CREDIT, ACA AUDIT COMMITTEE CHARTER**

### **PURPOSE**

The audit committee (committee) will assist the board of directors (board) in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, the external audit process, and the Association's process for monitoring compliance with laws, regulations and policies.

### **COMPOSITION**

On an annual basis, the board chairman will appoint the Audit Committee Chair that will participate with the Board Chair to appoint at least three additional members to serve on the committee. Each member of the committee will be independent from management and be able to read and understand the Association's financial statements. At least one member of the committee will be designated as a "financial expert". 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 chairman of the board, the chairman of the committee, the chief executive officer, or the Director of Internal Review and Audit (DIRA). The committee will invite members of management, auditors, or others to attend meetings and provide pertinent information. The chairman will appoint one person at the meeting to prepare minutes of the meeting.

### **AUTHORITY**

The committee has all authorities necessary 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, 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 or accountants or consultants to advise the committee or assist in the conduct of an investigation.
- Oversee and appraise the audit of the Association's internal audit/review function.

### **DUTIES AND RESPONSIBILITIES**

The committee will be responsible for the following activities. The committee will rely on the assistance of the DIRA, 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 complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on financial statements.
- Review financial data to be released publicly prior to its release.
- Approve changes proposed by management to the allowance for loan losses

### **Internal Controls**

- Review the results of all testing of internal controls performed to comply with SOX 404 requirements.
- Review the representation letter provided to the FCBT regarding SOX testing
- Consider the effectiveness of the Association's internal control system, including information technology security and control.
- 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.
- Establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission of concerns regarding questionable Association accounting or auditing matters.

### **Internal Audit/Review**

- Review with the DIRA and management the annual internal audit and credit review plans for the Association.
- Approve the staffing and organizational structure of the internal credit review team and internal audit function.
- Review and approve an annual risk assessment and three-year audit plan developed by the DIRA.
- Review and concur in the appointment, replacement, dismissal, performance standards and evaluation, compensation and bonus of the DIRA.
- Review and approve the engagement letter prior to any reviews to be performed by auditors other than association staff.
- Review all reports and findings of the DIRA.
- Review and concur with management's responses to address all audit recommendations and follow up on any corrective actions.
- At least annually, meet with the DIRA and CFO (as well as any other member of senior management deemed appropriate by the committee) individually to discuss any matters the committee or the DIRA believes should be discussed in executive session.

### **External Audit**

- Review the performance of the external auditors, review and approve the engagement letter, and exercise final approval on appointment and discharge of external auditors.
- 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. Pre-approve any non-audit services to be provided.
- Review prior to release 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 board executive session.

**Compliance**

- Review the findings of any examinations by FCA and any auditor observations and review prior to the release and concur with management's responses to address all examination recommendations 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 any instances of noncompliance.
- Receive on a current basis any report from Listen Up of any complaints regarding accounting, internal accounting controls or auditing matters.
- Obtain 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 chairman will report to the board on the activities of the committee.
- On an annual basis, the audit committee will prepare a written summary of their activities for the year and submit it to the full board.
- The committee should facilitate an open avenue of communication between internal audit and review, the external auditors, and the board.

**Other**

- At least annually, reassess the adequacy of and, if appropriate, propose to the full board, any desired changes to the Committee Charter.
- At least annually, conduct a self-evaluation of committee performance.
- Report annually to the shareholders, describing the committee's composition, responsibilities and any other required information.

*Approved by the Capital Farm Credit, ACA board at a meeting held on April 2, 2008*