

## AUDIT COMMITTEE CHARTER

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**BOARD POLICY** (Board Approval: 4/27/10, Board Reviewed: 4/27/10, Effective Date: 4/27/10, Owner: Brumbaugh)

### **OVERVIEW**

The Audit Committee is a committee of the Board of Directors. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities relating to the quality and integrity of the accounting, auditing, and reporting practices of the Association and such other duties as directed by the Board. The Committee's purpose is to oversee the accounting and financial reporting processes of the Association, the audits of the Association's financial statements, the qualifications of the public accounting firm engaged as the Association's independent auditor to prepare and issue an audit report on the financial statements of the Association, and the performance of the Association's internal audit and credit review function and independent auditor. In addition it will determine the adequacy of the Association's administrative, operating, and internal controls and evaluate adherence. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Association policies, procedures, and practices at all levels.

### **SPECIFIC POLICIES AND ACTIONS**

#### AUTHORITY

The Audit Committee will have the resources and authority necessary to discharge its duties and responsibilities. The Committee has sole authority to retain and terminate outside counsel or other experts or consultants for the Committee's use, as it deems appropriate, including sole authority to approve the firms' fees and other retention terms. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention. The Committee will have full access to the Association's books, records, facilities, and personnel. Any communications between the Committee and legal counsel in the course of obtaining legal advice will be considered privileged communications of the Association, and the Committee will take all necessary steps to preserve the privileged nature of those communications. A two-thirds majority vote of the full Board of Directors is required to deny an Audit Committee's request for resources.

#### COMPOSITION

The Audit Committee shall be comprised of at least three directors as determined by the Board, each of whom shall be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. Members of the Committee should have a working familiarity with general business and/or basic finance and accounting practices, and at least one member of the

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Committee must, in the judgment of the Board, be deemed to be a “financial expert” as defined by rules and regulations of the Farm Credit Administration.

Each member of the Committee shall be elected by the Board to serve a term not to exceed three years with no limit to the number of terms served. The terms of the members shall be staggered so that no more than one-half of the members of the Committee shall stand for election in any given year. A chairperson shall be elected annually by the Audit Committee and shall serve no more than two consecutive years as chairperson. A majority of Audit Committee members shall constitute a quorum.

COMMUNICATIONS

The independent auditor reports directly to the Committee. The Committee is expected to maintain free and open communication with the Board, the independent auditor, the internal auditors, management, and the Farm Credit System Audit Committee.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee shall meet as often as needed, but at least once per year, with the Chief Executive Officer, the Chief Internal Auditor, and the independent accountants in separate executive sessions to discuss any matters that the Committee or any of these groups believes should be discussed. The Committee will cause to be kept adequate minutes of its proceedings, and will report its actions and activities to the full Board of Directors. The Committee shall regularly seek guidance from the Board of Directors regarding other oversight functions to be performed.

Members of the Committee will be furnished with copies of meeting minutes at the next scheduled meeting of the Committee.

RESPONSIBILITIES

The Audit Committee’s specific responsibilities in carrying out its oversight role are delineated in the Audit Committee Responsibility Calendar. The Responsibility Calendar will be reviewed or updated annually or as needed to reflect changes in regulatory requirements, authoritative guidance, and evolving oversight practices. The most recently updated Responsibility Calendar will be considered to be an addendum to this charter. The Audit Committee has the authority to amend the Responsibility Calendar at any time.

The Committee relies on the expertise and knowledge of management, the internal auditors, and the independent auditor in carrying out its oversight responsibilities. It is not the duty of the Committee to plan or conduct audits, to determine the Association’s financial statements are complete and accurate and in accordance with generally accepted accounting principles, or to conduct investigations. Management of the Association is responsible for determining the Association’s financial statements are complete, accurate, and in accordance with generally accepted accounting principles and establishing satisfactory internal control over financial reporting. The independent auditor is responsible for auditing the Association’s financial statements and the effectiveness of the Association’s internal controls over financial reporting. While the Committee may oversee the work of others to assure compliance with laws and regulations or the Association’s standards of business conduct, code of ethics, internal policies, procedures, and controls, members of the Committee are not personally responsible for performing these functions.

**REPORTING**

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The Audit Committee Chair will report, at each scheduled Board of Directors meeting, the committee's activity and recommendations.

**RESCISSIONS**

This policy supersedes all previous actions of this Board on this subject, which are hereby rescinded effective April 27, 2010.

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### **AgChoice Farm Credit, ACA Audit Committee Responsibility Calendar**

	RESPONSIBILITIES: General	Q1	Q2	Q3	Q4	AS NEEDED	DATE COMPLETED
1.	Agenda for Committee meetings will be prepared by the Chief Internal Auditor in consultation with the Committee Chair and provided to the Committee members in advance of each Committee meeting.	X	X	X	X	X	

	RESPONSIBILITIES: Internal Controls	Q1	Q2	Q3	Q4	AS NEEDED	DATE COMPLETED
2.	Evaluate whether management is setting the appropriate tone at the top by communicating the importance of internal controls and ensure that all individuals possess an understanding of their roles and responsibilities.	X					
3.	Consider and review the Association's annual assessment of the effectiveness of its internal controls with management and the Chief Internal Auditor. (SOX)	X					
4.	Consider and review with management, the Chief Internal Auditor, and, when appropriate, the Independent Auditor:						
	a. The adequacy of the Association's internal controls.	X	X	X	X		
	b. Any related significant findings and recommendations of the independent auditor and internal audit, together with management's responses.	X	X	X	X		

	RESPONSIBILITIES: Financial Statements	Q1	Q2	Q3	Q4	AS NEEDED	DATE COMPLETED
5.	Provide a report in the Association's Annual Report to summarize the Committee's review and discussion of matters with management and the independent auditor.	X					
6.	Resolve any disagreements between management and the independent auditor about financial reporting.					X	
7.	Review with management, Internal Audit, and the independent auditor at the completion of the annual audit:						
	a. The Association's annual financial statements and related footnotes.	X				X	
	b. The independent auditor's audit of the financials and its report thereon.	X				X	
	c. Any significant changes required in the independent auditor's audit plan.	X				X	
	d. Any serious difficulties or disputes with management encountered during the course of the annual audit and management's response.	X				X	
	e. Other matters related to the conduct of the annual audit that are to be communicated to the Audit Committee under generally accepted auditing standards.	X			X	X	
8.	Meet with management and Chief Internal Auditor quarterly to review and discuss quarterly financial statements. Additional focus on judgmental areas, including, for example, loan losses, litigation reserves, environmental liability, and other commitments and contingencies. Review the impact of any significant accounting policy changes.		X	X	X	X	
9.	In connection with the Association's Annual Report review:						
	a. The Report of Management.	X					
	b. Disclosures required under Farm Credit Administration regulations.	X					

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	RESPONSIBILITIES: Ethics and Standards of Conduct	Q1	Q2	Q3	Q4	AS NEEDED	DATE COMPLETED
10.	Monitor the appropriate standards as adopted for the Code of Ethics.		X				
11.	Ensure that a code of conduct is formalized in writing and that all Directors and employees are aware of it.		X				
12.	Obtain updates from the Standards of Conduct Officer regarding compliance with the code of conduct.	X	X	X	X	X	
13.	Act on matters requiring approval in the Standards of Conduct.					X	

	RESPONSIBILITIES: Internal Audit	Q1	Q2	Q3	Q4	AS NEEDED	DATE COMPLETED
14.	Review with the Chief Internal Auditor, the independent Auditor, and management the audit scope and plan, and coordinate audit efforts to ensure completeness of coverage, reduction of redundant efforts, effective use of audit resources, and the use of independent public accountants other than appointed auditors of the Association.	X				X	
15.	Review the responsibilities, functions, and performance of the Association's internal audit function.	X					
16.	Review and approve the appointment or discharge of the Chief Internal Auditor.					X	
17.	Review and discuss with the Association's Chief Executive Officer, the mid-year and annual performance review of the Chief Internal Auditor as submitted to the Committee by the CEO. Provide final approval of the review prior to submission to the Chief Internal Auditor.	X		X			
18.	Consider and review with management and the Chief Internal Auditor:						
	a. Significant findings resulting from internal audits and management's responses.	X	X	X	X	X	
	b. Any difficulties that the internal auditors may have encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.	X	X	X	X	X	
	c. Any changes to the approved audit plan or the scope of audits.		X	X	X	X	

	RESPONSIBILITIES: External Audit	Q1	Q2	Q3	Q4	AS NEEDED	DATE COMPLETED
19.	Appoint or replace the Association's independent auditor and approve the terms on which the independent auditor is engaged for the ensuing fiscal year. Pre-approve any non-audit services provided by the independent auditors (including tax services).		X				
20.	At least annually, evaluate the independent auditor's qualifications, performance, and independence.	X					
21.	Ensure receipt from the independent auditor of a formal written statement delineating all relationships between the auditor and the Association, consistent with Accounting Standards No. 1; actively engage in a dialogue with the independent auditor about any disclosed relationships or services that may impact the objectivity and independence of the auditor; and take appropriate action to oversee the independence of the independent auditor.	X					

	RESPONSIBILITIES: Other	Q1	Q2	Q3	Q4	AS NEEDED	DATE COMPLETED
22.	Review and update the Audit Committee Charter and the Responsibility Calendar annually.	X					

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	RESPONSIBILITIES: Other	Q1	Q2	Q3	Q4	AS NEEDED	DATE COMPLETED
23.	Meet with the independent auditor in executive session to discuss any matters the Committee or the independent auditor believes should be discussed privately with the Audit Committee.	X					
24.	Meet with the Chief Internal Auditor in executive session to discuss any matters the Committee or the Chief Internal Auditor believes should be discussed privately with the Audit Committee.	X	X	X	X	X	
25.	Review with the Chief Internal Auditor and management the use of independent public accountants other than the appointed external auditors of the association. Pre-approval is required for the engagement of an independent accounting firm other than the appointed external auditors under one or both of the following conditions: <ul style="list-style-type: none"> <li>• The independent accounting firm is to provide an alternate opinion to the appointed external auditor on the association financial statements, and/or</li> <li>• The cost of engagement will exceed \$15,000.</li> </ul>	X		X		X	
26.	Confirm that the Board of Directors has designated a financial expert as defined under FCA guidelines and that such expert is a member of the Audit Committee.	X					
27.	Review with management legal and regulatory matters that may have a material impact on the financial statements, related association compliance policies, and programs and reports received from regulators.	X	X	X	X	X	
28.	Develop, review, and oversee procedures for the receipt, retention, and treatment of complaints received through the whistleblower program.	X	X	X	X	X	
29.	Review the policies and procedures in effect for considering officers' expenses and perquisites.				X	X	
30.	Receive reports of criminal referrals made by the Association					X	