

**Farm Credit of Western Oklahoma, ACA, PCA, FLCA**  
**AUDIT COMMITTEE CHARTER**  
Revised April, 2010

**1) Mission Statement**

The Audit Committee (Committee) of Farm Credit of Western Oklahoma, ACA, PCA, FLCA is established by and reports to the Board of Directors (Board) to assist the Board in fulfilling its fiduciary and oversight responsibilities.

The Mission of the Committee is to:

- Review financial statements and significant accounting policies;
- Oversee financial reporting regarding its disclosure to shareholders, and to U.S. AgBank, FCB (AgBank), for both AgBank District reporting and reporting to the Federal Farm Credit Banks Funding Corporation (Funding Corporation) for disclosure to investors;
- Oversee the audit activities of the independent auditor; and
- Monitor internal controls, including those relating to compliance with laws and regulations.

**2) Membership, Qualifications, and Terms of Office**

**(A) Membership**

The Committee shall consist of three (3) directors, including all directors designated by the Board to be financial experts, who meet the independence criteria outlined in the Director Independence Criteria Policy and who are designated by the Board to be independent members. The Board Chairperson will serve as an ex-officio member of the Committee.

The committee will select a Chairperson and Vice Chairperson from within its membership. Any Board member may attend Committee Meetings.

**(B) Qualifications of Members**

Members of the Committee should have a practical knowledge of finance and accounting and be able to read and understand fundamental financial statements or be able to do so within a reasonable period of time after appointment to the Committee. Each member shall be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure practices, or accounting procedures. Each member will meet the criteria for independence established by the Board. At least one member of the Committee must be an independent member who is designated by the Board to be a financial expert recognized as having education or experience in accounting, internal accounting controls, or preparing or reviewing financial statements for financial institutions or large corporations consistent with the breadth and complexity of accounting and financial reporting issues that can reasonably be expected to be raised by the institution's financial statements.

**(C) Terms of Office**

The term of office for each position on the Committee shall be for one year.

**(D) Voting and Quorum**

A majority of the Committee members shall constitute a quorum. Voting on Committee matters shall be on a one member-one vote basis. When a quorum is present, the vote of a majority of the Committee members present shall constitute the action or decision of the Committee.

### **3) Meetings**

The Committee will meet at least four times a year, with authority to convene additional meetings as circumstances require as determined by the Chairperson or Chief Executive Officer. The Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information, as necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. The Committee may, at times, handle duties and responsibilities of the Committee in concert with the Board during, before, or after Board meetings. Minutes of all Committee meetings will be prepared and approved by the Committee. Minutes will include attendance and will be retained for at least 7 fiscal years.

### **4) Responsibilities and Authorities**

For the purpose of achieving the Committee's objectives, the Committee shall have the following responsibilities and authorities. These responsibilities will be discharged with the assistance of appropriate management, independent auditors, and the Chief Financial Officer. The Committee shall have the authority to take corrective actions and/or conduct or authorize special or investigative audits into matters within the Committee's scope of responsibilities. The Committee shall have access to all books, records, facilities, and personnel of the Association necessary to fulfill its responsibilities. Unless otherwise authorized by amendment to this Charter, the Committee shall not delegate any of its authority to any subcommittee.

#### **(A) Financial Reporting and Disclosure**

- (1) Review quarterly accounting and financial reports and shareholder disclosures with management and consider whether they are complete and consistent with the information known to Committee members.
- (2) Require periodic reports from management, the independent auditor, and internal audit regarding any significant proposed regulatory, accounting, or reporting changes and issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements. Understand the potential impact to and to the financial reporting from these developments.
- (3) Review and assess the impact on the Association and its financial reporting process of any significant accounting or auditing developments or any accounting policy changes relating to preparation of financial statements.
- (4) Periodically, but at least annually, review and discuss with management and the independent auditor disclosure controls and procedures.
- (5) Prior to issuance, approve any annual, quarterly and interim press release of financial results.

- (6) Oversee the preparation of each quarterly or annual report.
- (7) Receive and review reports from Disclosure Officer in connection with quarterly and annual financial reporting.
- (8) Review non-financial sections of the annual report before release and consider the accuracy and completeness of the information.
- (9) Prior to the release of annual reports to shareholders, review a report on disclosures made by the Chief Executive Officer, Chief Financial Officer, and Chief Credit Officer during their certification process about any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Association's ability to record, process, summarize and report financial information, and any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
- (10) Prior to the release of annual audited financial statements, review with management and the independent auditors the results of the audits including any difficulties encountered and receive reports regarding: (a) all critical accounting policies and practices used by the Association; (b) all material alternative accounting treatments of financial information within Generally Accepted Accounting Principles (GAAP) that have been discussed with management, including the ramifications of the use of alternative treatments and disclosures and the treatment preferred by the independent auditor; and (c) other material written communications between the independent auditor and management, such as any management letter and management's response to the letter, schedule of unadjusted differences, reports on observations and recommendations on internal controls, a listing of adjustments and reclassifications not recorded, and the independent auditor's independence letter.
- (11) Review each quarterly and annual report to shareholders prior to its dissemination to the public, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles. Quarterly reports will be reviewed and discussed in a Committee meeting that includes management. The Board hereby delegates to the Committee the authority to approve the release of quarterly and annual statements.
- (12) Report annually to the shareholders, describing the Committee's composition, responsibilities and how they were discharged, and any other required information. The report will include a disclosure that the Committee has reviewed and discussed the audited financial statements with management and discussed matters required to be discussed by statement on Auditing Standards No. 114, ( The Auditor's Communication with those Charged with Governance) with the independent auditors. The report will also reflect that the Committee received written disclosures and a letter from the independent auditors in accordance with Independence Standards

Board Standard No. 1 (Independence Discussion with Audit Committees), and discussed with the independent auditors their independence from AgBank.

- (13) Approve disclosures made by management and the independent auditor regarding: (a) the effect of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investor's; and (b) earnings press releases and other reports or written or electronic material disclosing "pro forma," or "adjusted" non-GAAP information.
- (14) After the Committee reviews a financial policy, procedure or report, it will record in its minutes its agreement or disagreement with the items under review.

**(B) Independent Auditors**

- (1) After giving due consideration to the need for a single auditor for all System institutions, the Committee is responsible for approval of the appointment, compensation, retention or discharge, and oversight and review of the work of the independent auditor, who shall report directly to the Committee for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Association. This includes resolution of disagreements between management and the independent auditor regarding financial reporting.
- (2) Review and approve the scope, approach, and planning of the annual audit by the independent auditor of financial statements, and review the interim and financial reports of the independent auditor with respect to the audits. Ensure that the Chief Financial Officer is involved in the development of the scope of all external audits.
- (3) Pre-approve allowable non-audit services to be provided by the independent auditor, and take appropriate steps to ensure that the independent auditor is not providing prohibited non-audit services, including the receipt of a written certification from the independent auditor to that effect.
- (4) Review any material weaknesses in internal accounting control structure identified as a reportable condition by the independent auditor, and recommend and/or monitor, as deemed necessary by the Committee, the correction of any such deficiency.
- (5) On a regular basis, meet separately in executive session with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately.
- (6) Review and confirm the independence of independent auditors by obtaining statements from the auditors on relationships between the auditors and the

Association, including non-audit services, and discussing relationships with the auditors, including matters specifically required in Statement of Auditing Standards No. (The Auditor's Communication with Those Charged with Governance) and Part 621 of Farm Credit Administration regulations. Receive written disclosures and a letter from the independent auditors in accordance with the Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), and discuss with the independent auditors their independence from the Association.

- (7) Receive a written report annually from the independent auditor that describes: the independent auditing firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm; and any steps taken to deal with such issues. Discuss with the independent auditors the contents of the report and the impact of the matters addressed in the report on the quality of services performed by the independent auditors.
- (8) Evaluate annually, after giving due consideration to the need for a single auditor for all System institutions and, taking into consideration all relevant circumstances known to the Committee, whether the Association should change its independent auditor or the partner in charge of performing or reviewing the Association's audit or other audit team personnel.
- (9) Ensure there are no unjustified restrictions or limitations on the independent auditors.

**(C) Internal Control**

- (1) Evaluate the adequacy and effectiveness of financial, administrative, operating, and accounting policies through active communications with operating management, internal audit, and the independent auditor.
- (2) Evaluate the adequacy of internal accounting control by review of written reports from the internal and independent auditors and regulators along with management's response and actions to correct any noted deficiencies.
- (3) At least annually, review and discuss management's internal control report with the independent auditor, the CEO and CFO.
- (4) Oversee system of internal controls related to preparation of financial reports, information technology security and control, those controls relating to compliance with applicable laws and regulations, and controls relating to the preparation of quarterly and annual reports.
- (5) Annually review and recommend to the Board changes to its Code of Ethics.

**(D) Internal Audit**

- (1) Review and approve the Internal Audit Charter.

- (2) Review and approve the annual risk assessment and the annual and three year audit plans developed and recommended by the internal audit function.
- (3) Ensure there are no unjustified restrictions or limitations on the internal audit function.
- (4) Ensure that internal auditors utilize adequate scopes of work and have full access to all information needed.
- (5) Approve and oversee completion of contracts when internal audit and credit review functions are outsourced.
- (6) Review all reports and findings resulting from the internal audit functions independent evaluation of the systems of internal control and continuing operations.
- (7) Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.
- (8) On a regular basis, meet separately with the CEO and CFO to discuss any matters that the Committee or CEO and CFO believe should be discussed in an executive session.

**(E) Compliance**

- (1) Review all examination and other reports from regulators submitted and monitor management's response to any findings included in these reports.
- (2) 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.
- (3) Review the process for communicating the Standards of Conduct Policy for Employees to personnel and for monitoring compliance therewith.
- (4) Review, on at least an annual basis, with management, the independent auditor, and internal auditors, compliance with Codes of Ethics for Board members, the Chief Executive Officer, the Chief Financial Officer and the Chief Credit Officer.
- (5) Obtain regular updates from management and legal counsel regarding compliance matters.

**(F) Coordination with the AgBank and/or System Audit Committees**

- (1) Review reports from the Association to the AgBank and/or System Audit Committee regarding all significant deficiencies and material weaknesses in the design or operation of key internal controls over financial reporting that are identified.

- (2) Review reports from the Association to the AgBank and/or System Audit Committee regarding any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
- (3) Review reports from the Association to the AgBank and/or System Audit Committee regarding any significant issues regarding questionable accounting, auditing matters or fraud originating from the Whistleblower Program.
- (4) Respond to any concerns identified by the AgBank and/or System Audit Committee and conduct any investigations or other audit committee activities that are necessary to enable the AgBank and/or System Audit Committees to fulfill their chartered responsibilities.

**(G) Other Responsibilities**

- (1) 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 accounting or auditing matters (Whistleblower Program).
- (2) Consult with legal counsel or outside counsel, as the Committee may deem appropriate, in order to discharge its responsibilities and duties.
- (3) Adopt such additional procedures, undertake such activities or utilize such resources as the Committee may deem appropriate, in order to discharge its responsibilities and authorities and to accomplish the stated objectives.
- (4) Discharge any additional responsibilities and authorities as may be imposed by law or regulations.
- (5) Perform an annual self-evaluation of the Committee's performance and communicate the results with the Board.
- (6) Make regular reports to the Board regarding meetings and decisions.
- (7) Perform such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Board.

**5) Resources**

The Committee shall have the authority to engage independent counsel and other advisers as the Committee deems necessary to carry out its duties, with funding to be provided by the Association, as determined by the Committee, for: (a) compensating any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services; (b) compensating independent counsel and/or other advisers engaged by the Committee; and (c) paying ordinary administrative expenses the Committee incurs in carrying out its duties. A two-thirds

majority vote of the full board of directors is required to deny the Committee's request for resources.

**6) Reporting**

The Committee will:

- (1) Make regular reports to the Board on the routine discharge of its responsibilities under this charter.
- (2) Ensure that the Board is kept informed of substantial or exceptional matters or developments pertaining to major areas of its responsibility and, if decision making is involved or a recommendations is developed, report on the process followed, the options considered, and the rational used to support the Committee's decision or recommendation.

**7) Reviews and Amendment**

This Charter will be reviewed by the Board at least annually and may be amended from time to time by action of the Board. The Committee will review and assess the adequacy of this Charter annually, requesting Board approval for any proposed changes.

**8) Disclosure of the Charter**

This Charter will be posted on the "public" area of the Association website and copies made available in printed form upon request.

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dotm  
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