



Audit Committee Charter Policy

Regulatory Guidance

§611.210(a)(2); §618.8430; §620.30

Policy Details

Purpose:

The Board of Directors (Board) of Texas Farm Credit Services (Association) has created a committee of directors to be known as the Audit Committee (Committee) for the purpose of assisting the Board in fulfilling its fiduciary and oversight responsibilities for the financial reporting process, the systems of internal control, the audit process, and the Association's process for monitoring compliance with laws, regulations, policies, the standards of conduct, and public responsibilities.

Objective:

To this end, the Committee will:

- Oversee and appraise the quality of the audit effort of the Association's internal audit function and those of its independent accountants
- Serve as an independent and objective party to review the financial information presented by management to stockholders, regulators, and other stakeholders
- Determine the adequacy of the Association's administrative operating and internal accounting controls

Operating Parameters:

1. Composition

Every Audit Committee member must also be serving on the Association's Board. Annually, the Board will determine the composition of the Audit Committee, which shall include a minimum of three (3) members, and designate the Committee Chairman and Vice Chairman as part of its annual reorganization meeting. The Audit Committee must include a director designated as a financial expert. Each Committee member will be independent from management and be knowledgeable of and understand the Association's balance sheets, income statements, and cash flow statements.

Each Committee member 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. All Committee members should be knowledgeable in at least one of the following areas: public and corporate finance, financial reporting and disclosure, or accounting procedures. 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. Annually, the Committee must document how its members meet the independence and financial knowledge requirements.

Furthermore, each Committee member should attempt to attend at least one training session a year that advances their skills and helps the director keep abreast of current board and/or audit committee issues. Appropriate training courses include trainings developed by the Farm Credit Bank of Texas, The Farm Credit Administration, the Farm Credit Council Services, or other appropriate financial institution or board of director training. The Committee will identify training needs as part of their annual self-assessment process.

The secretary of the Audit Committee will be any person nominated by the Committee.

2. Authority & Delegation

The Board of Directors, through the adoption of the Charter, delegates to the Committee those authorities necessary to accomplish the responsibilities of the Committee as set out in this Charter. The Committee shall have access to all books, records, facilities, and personnel of the Association and the power to retain outside counsel or other experts considered necessary by the Committee.

The Committee shall have unrestricted access to members of management and relevant information. The Committee may retain independent counsel, internal or external accountants or others to assist in conducting any investigation. The Association shall

provide for appropriate funding, as determined by the Committee, and can only be denied through a two-thirds majority vote of the full Board.

Unless otherwise authorized by an amendment to this Charter, the Committee shall not delegate any of its authority to any subcommittee.

3. Meetings

The Committee will meet at least annually, with authority to convene additional meetings, as circumstances require. The Committee will invite members of the management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors and management in executive sessions. Meeting agendas and minutes will be prepared and provided to members, along with appropriate briefing materials. All Committee members are expected to attend each meeting, in person or via tele- or video-conference. The Committee must maintain records of meetings, including attendance, for at least 3 fiscal years.

4. Role and Responsibilities

The Committee is responsible for the following activities. The Committee will discharge these responsibilities through the assistance of external auditors and appropriate Association management.

A. Financial Reporting

The Audit Committee must oversee management's preparation of the report to shareholders; review the impact of any significant accounting and auditing developments; review accounting policy changes relating to preparation of financial statements; and review annual and quarterly reports prior to release. After the Audit Committee reviews a financial policy, procedure, or report, it must record in its minutes its agreement or disagreement with the item(s) under review.

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.

2. Review with management the results of the audit, including any difficulties encountered.
3. Review the annual and quarterly financial statements and consider whether they are complete and consistent with information known to Committee members.
4. Consider and approve, if appropriate, major changes to the Association's auditing and accounting principles and practices as suggested by the independent accountants, management, or the internal audit function.
5. Review the impact of any significant accounting and auditing developments.
6. Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.

B. Internal Audit

1. Be responsible, with the concurrence of the Board and the Compensation Committee, for the appointment, compensation, retention, and oversight of the work of the internal auditor, who shall report functionally to the Audit Committee, for the purpose of providing internal audit services.
2. Review and approve the annual risk assessment and audit plans developed and recommended by the internal audit function.
3. Ensure there are no unjustified restrictions or limitations placed on the internal audit function.
4. Review all reports, findings, and management responses resulting from the internal audit function's independent evaluation of the systems of internal control and continuing operations.
5. Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

6. On a regular basis, meet separately with the independent internal audit function to discuss any matters that the Committee or internal auditor believes should be discussed in an executive session.

C. External Audit

1. Review and approve external auditors' proposed audit scope and approach, including coordination of audit effort with the internal audit function.
2. Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Association, including non-audit services, and discussing the relationships with the auditors.
3. Review and pre-approve any audit or permitted non-audit services performed by external auditors.
4. Discuss with the external auditors any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.
5. Ensure that the committee receives, discusses, and appropriately acts on significant findings and recommendations made by the external auditors and management's proposed response.
6. Meet separately with the external auditors to discuss any matters that the Committee or auditors believe require private discussion. Ensure the auditors have access to the Chairman of the Audit Committee when required.
7. Review the performance of the external auditors, and exercise final approval of the compensation, appointment or discharge of the auditors.

D. Internal Control

1. Oversee the Association's system of internal controls relating to the preparation of financial reports, including controls relating to the Association's compliance with applicable laws and regulations.

2. Consider the effectiveness of the Association's internal control system, including information technology security and control.
3. Understand the scope of internal and external auditors' review of internal controls, and obtain reports on findings and recommendations, together with management's responses.

E. Compliance

1. Review the effectiveness of systems for monitoring compliance with laws and regulations and the results of internal audit's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
2. Review the findings of any examination by regulatory agencies, and any auditor observations.
3. Review the process for communicating the standards of conduct to Association personnel, and for monitoring compliance therewith.

F. Other Responsibilities

1. The Committee will respond to any concerns identified by the Farm Credit Bank of Texas (Bank) and/or Farm Credit System (System) Audit Committee and will conduct any audit committee activities that are necessary for the Bank and/or System Audit Committee to fulfill its chartered responsibilities.
2. Establish procedures for the receipt, retention, and treatment of complaints received by the Association regarding accounting, internal controls, or auditing matters; and the confidential, anonymous submission by employees of the Association of concerns regarding questionable accounting or auditing matters.
3. Report to the Board Chairman, excessive absences to Committee meetings, conflicts of interest, or dereliction of duties.
4. Review and assess the adequacy of the Committee charter annually, requesting board approval for proposed changes, and ensure appropriate law or regulation required disclosures.

5. Evaluate the Committee's performance and confirm that the Committee carried out all responsibilities outlined in this charter.

Process for Addressing Exceptions:

It is the Audit Committee's responsibility to determine the cause and corrective action necessary to prevent exceptions to this charter.

Reporting Requirements:

The Committee Chairman will report on the activities of the Committee to the full Board.

Minutes of the Committee activities will be prepared. The Association will retain copies of the Audit Committee meeting minutes, including for a minimum of three years.

The Committee will facilitate an open avenue of communication between the external auditors and the Board.

ID Information

Document Name:

Audit Committee Charter

Document Number:

GOV - Policy - 002

Department:

Governance, Legal

Approval Date:

12/1/2023

Review Frequency:

Annual

Next Review Date:

12/1/2024