



**AgHeritage Farm Credit Services, ACA
Audit Committee Charter
As Adopted September 21, 2004**

Revised: March 2, 2023

Purpose and Mission

The AgHeritage Farm Credit Services, ACA (the Association) Audit Committee (the Committee) is established by and reports directly to the Board of Directors (the Board) of the Association. The purpose of this charter is to describe the Committee's composition, authorities and responsibilities in accordance with 12 CFR 620.30. The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities in relation to financial reporting, compliance with laws and regulations, as well as related internal controls.

The mission of the Committee is:

- to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight;
- to assist the Board in fulfilling its fiduciary responsibilities relating to accounting, financial reporting and compliance by employing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes;
- to oversee and ensure the quality of the efforts of the Association's internal audit function, its external auditor and other individuals or firms performing reviews of selected policies and procedures;
- to maintain, by scheduling regular meetings, open lines of communications among the Board, the Association's Chief Audit Executive, the internal audit function, the external auditor and other individuals or firms performing audit or review engagements for the Association to exchange views and information as well as confirm their respective authority and responsibilities; and
- to serve as an independent and objective party to review the financial and compliance-related information presented by management to the Association's shareholders, regulators and the general public.

In all activities, the Committee will adhere to the mandatory elements of the The Institute of Internal Auditors' International Professional Practices Framework, which includes the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics* and the *Internal Standards for the Professional Practice of Internal Auditing* and the definition of Internal Auditing.

Membership

Each member of the Committee must be a member of the Board. The Association's Board Chairman and Vice Chairman will appoint the members of the Committee, subject to approval by the Board. The Committee shall consist of no less than three and no more than five members, 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 be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure or accounting procedures. Members should also be able to read and understand the Association's financial statements and significant regulatory compliance requirements pertinent to the Association or be able to do so within a reasonable period of time after appointment to the Committee. At least one member of the Committee should be a "financial expert," as defined under 12 CFR 611.210(a)(2). A financial expert is one 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 Association's financial statements.

Authorities

The Committee is granted the following authorities to adequately fulfill its purpose and mission:

- Select, engage and determine the compensation of a qualified individual or firm to serve as the Association's Chief Audit Executive, who is responsible for coordinating and providing oversight with respect to the Association's internal audit and review program.
- Select, engage and determine the compensation of one or more qualified firm(s) or individual(s) to serve as the Association's external auditor and internal auditor, each of which shall report directly to the Committee and/or the Chief Audit Executive, as directed by the Committee.
- Resolve disagreements between Association management and the Chief Audit Executive, the external auditor or the internal auditor.
- Terminate the Chief Audit Executive, external auditor or internal auditor.
- 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 for the Association, (b) compensating independent counsel and 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 is required to deny an Audit Committee's request for resources.
- Approve the Audit Committee Charter and the Internal Audit Charter.
- Approve the risk-based internal audit and review plan.
- Initiate special investigations, audits, reviews or projects as deemed necessary to address financial reporting or compliance risks not previously considered in the risk-based internal audit and review plan.
- Have full, free and unrestricted access to all functions, records and personnel within the Association.
- Determine monetary and other resources necessary to ensure effective and efficient execution of the Committee's purpose, mission and responsibilities, and make appropriate inquiries of management and the Chief Audit Executive to determine if there are scope or resource limitations that may be detrimental to the effectiveness of the Committee's activities.

Responsibilities

For the purpose of achieving the Committee's objectives and in carrying out the Committee's authorities specified in the preceding section, the members of the Committee and the Association's Chief Audit Executive shall have the following responsibilities, which may not be delegated unless expressly stated in an amendment to this charter and approved by a majority vote of the Committee and the Board:

Independence and Objectivity

- Remain free from all conditions that threaten the ability of the Committee to carry out its responsibilities in an independent and objective manner, including matters of areas to be considered in the audit universe, scope, procedures, frequency, timing and report content.
- Maintain an unbiased mental attitude that allows an objective evaluation of the results of engagements.
- Refrain from having operational responsibility or authority over any activities subject to internal audit, review or external audit.
- Disclose any potential impairment, in fact or appearance, to the Committee for deliberation.

Responsibilities (*Continued*)

Independence and Objectivity (*Continued*)

- Confirm annually, in writing, independence with respect to the Association's operations, the Association's management and third parties performing services for the Association.

Financial Reporting

- Oversee management's preparation of reports, including disclosures, to shareholders and to AgriBank FCB, for both AgriBank District reporting and reporting to the Funding Corporation for disclosure to investors.
- Review the impact of significant accounting or auditing developments with management and/or the external auditor, as appropriate.
- Review accounting policy changes relate to preparation of the financial statements with management and/or the external auditor, as appropriate.
- Review, *prior to issuance*, quarterly and annual shareholder reports of financial results, as well as any interim financial reports.
- Review with Association management and other key employees all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Association's ability to record, process, summarize and report financial information.
- Review with Association management and other key employees fraud or suspicions of fraud, whether or not material, that involves management or other employees who have a significant role in the Association's internal controls.
- Review off-balance sheet arrangements that could have current or future effect on amounts reported or disclosed in the Association's financial reports.
- It is not the duty of the Committee to plan or conduct audits or reviews, 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, the external auditor, and other firms or individuals engaged to perform other audit or review procedures. However, it is the responsibility of the Committee to provide sufficient oversight with respect to management activities to ensure the accuracy of financial reporting and adequacy of the Association's system of internal controls.

External Audit

- Ensure the selection of a qualified firm to perform the external audit through a request for proposals or other reasonable means.
- Ensure that the external audit firm complies with auditor independence provisions set forth in 12 CFR 621.30, 12 CFR 621.31 and 12 CFR 621.32 and reports directly to the Committee.
- Review the contents of the engagement letter to ensure the scope and nature of the engagement are appropriate. The engagement letter must confirm that the audit firm meets all relevant independence requirements.
- Give prior approval for any non-audit services to be performed by the external auditor, ensuring that such non-audit services are not expressly prohibited by 12 CFR 621.31 and that such services are fully disclosed in the annual report. All non-audit services must be specified in the engagement letter.

Responsibilities (Continued)

External Audit (Continued)

- Meet with the external auditor and management prior to the commencement of the engagement to review the audit plan and discuss fraud risk factors and other critical matters relevant to the current audit engagement.
- Meet with the external auditor and management at the conclusion of the engagement to review and discuss the audit report, any communications arising from the audit and other key audit matters, including any changes to the audit plan, control deficiencies noted, significant transactions, changes in accounting policy, difficulties encountered during the audit, corrected and uncorrected misstatements identified as a result of the audit and any other matters of significance.
- Meet with the external auditor in Executive Session to discuss any concerns regarding management.
- Determine there are no restrictions or limitations being placed on the external auditors by management.
- Review management's responses to audit findings and monitor the status of corrective action.

Internal Audit and Review Program

- Review and approve the annual risk-based audit and review plan developed and recommended by the Chief Audit Executive.
- Identify circumstances that may require adjustments to the annual risk-based audit and review plan, such as the introduction of new programs, changes in laws or regulations, changes in systems or procedures, changes in key personnel, and work with the Chief Audit Executive to ensure the plan is appropriately amended.
- Ensure the selection of qualified individuals or firms to perform internal audit and review procedures through requests for proposals or other reasonable means.
- Meet with the individuals or firms at the conclusion of their respective engagements and review and discuss the results of their procedures, their reports and any findings.
- Meet with the individuals or firms at the conclusion of their respective engagements in Executive Session to discuss any concerns regarding management.
- Determine that there are no restrictions or limitations being placed on individuals or firms hired to perform internal audit and review engagements by management.
- Review management's responses to findings and monitor the status of corrective action.

Internal Controls

- Oversee the Association's system of internal controls, including those controls relating to preparation of financial reports and the Association's compliance with applicable laws and regulations.
- Evaluate the adequacy of the Association's administrative, operating and accounting policies and procedures through active communications with management, the external auditor, and individuals or firms performing internal audit or review engagements.
- Evaluate the adequacy of the Association's system of internal control over financial reporting and compliance through review of management assertions, as well as written reports from individuals and firms performing internal audit and review engagements and the external auditor.

Responsibilities *(Continued)*

Internal Controls *(Continued)*

- Establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls or compliance matters and for the confidential, anonymous submission of concerns regarding questionable Association accounting or auditing matters.
- Review, on at least an annual basis, with management, the external auditor, and individuals or firms performing internal audit and review engagements, compliance with the Association's code of ethics.

Regulatory Compliance

- Review, along with the Board, all examination reports of the Association issued by the Farm Credit Administration.
- Review and approve management's responses (corrective action plans) to matters requiring attention identified during the most recent examination. Review management's responses to findings and monitor the status of corrective action.

Other

- Respond to any concerns identified by the District Bank and/or Farm Credit System Audit Committee and conduct any activities that are necessary for the District Bank and/or Farm Credit System Audit Committee to fulfill its chartered responsibilities.
- Perform an annual self-evaluation of the Committee's performance and reassess the adequacy of and, if appropriate, propose to the Board, any desired changes in, the Committee's Charter.
- Perform an annual evaluation of the effectiveness of the internal audit function and reassess the adequacy of and, if appropriate, propose to the Board, any desired changes in, the Internal Audit Charter.

Meetings

The Committee shall meet four times annually, or more frequently as circumstances may dictate. Meetings may be called by the chairperson of the Committee or by the chairperson of the Board. The Committee may at times handle duties and responsibilities of the Committee in concert with the Board at Board meetings.

A majority of the Committee members present 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 the majority of the members present shall constitute an action or a decision of the Committee.

Minutes of Committee meetings (excluding any Executive Session minutes) shall be prepared and distributed to the Committee and the Board. Reports of meetings shall be made by the Committee chairperson or his/her designee to the Board at its next regularly scheduled meeting following the Committee meeting. In addition, the Committee chairperson and other members of the Committee shall be available to answer any questions the members of the Board may have regarding the matters considered and actions taken by the Committee. Executive Sessions may be called by a majority vote of the Committee to discuss matters without management present.

At a minimum, minutes shall address the following:

- Date, time, location, and those in attendance.
- Annual review and approval of the Audit Committee Charter and Internal Audit Charter.

- Annual assessment of independence of the Audit Committee, the Chief Audit Executive, the external auditor and any individuals or firms engaged to perform internal audit or review engagements.

Meetings (Continued)

- Approval of non-audit services to be performed by the external auditor, with the specific services listed in the minutes.
- Deliberations regarding and decisions reached regarding the engagement of individuals or firms to serve as Chief Audit Executive, to perform the Association's external audit, or to perform internal audit or review engagements.
- Formal approval of engagement letters and reports.
- Review and approval of the annual Operations and Credit Review Plan, as well as any modifications to that plan that may occur throughout the year.
- Review of management's assertions regarding internal controls over financial reporting.
- Significant matters discussed with the external auditor and individuals or firms performing internal audit or review engagements.
- Review and approval of corrective action plans and the status of corrective actions.
- Decisions reached regarding the adoption of new accounting policies.
- Agreement or disagreement with matters regarding financial policy, procedures, or reports under Committee review.
- The results of the Committee's self-evaluation process.
- The results of any Committee vote, whether it be a vote taken in person or via email.

Separate minutes shall be taken to document matters discussed during Executive Sessions.

The minutes will be distributed to Committee members for review and approval prior to being distributed to the Board. The final, official minutes must be signed and dated by the Committee chairperson. Minutes of the meetings, including records of attendance, shall be retained for at least three fiscal years.

Board Reporting

The Committee will make regular reports to the Board on the routine discharge of its responsibilities under this Charter. In addition, the Committee will ensure that the Board is apprised of significant matters pertaining to areas of its responsibility, and, if a decision is involved or a recommendation is developed, report to the Board the matter considered, the process followed, the deliberations, the decision or recommendation and the rationale used to support the decision or recommendation. Annually, the Committee will provide to the Board a summary of work performed during the preceding year to discharge its responsibilities and authorities.