



## Audit Committee Charter

### **Purpose**

This policy addresses the responsibilities and composition of the Audit Committee of the Board of Directors.

### **Policy**

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities, including requirements outlined by the Federal Reserve Administrative Manual (FRAM 1-007). The scope of this effort includes, but is not limited to, the financial reporting process, the system of internal control, the risk management process, the audit process, compliance with laws, regulations and the code of conduct. It is the responsibility of the Committee to facilitate open communication among the Board of Directors, senior management, general auditor, external auditor, and the Board of Governors.

### **Composition**

The Audit Committee will consist of at least three members of the Board of Directors. Audit Committee members and Chairperson shall be appointed annually by the Board of Directors. The Chairman of the Board is an *ex officio* voting member of the Committee. Committee vacancies will be filled by the Board within ninety days of the vacancy.

All members shall be free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee.<sup>1</sup> All members of the Audit Committee should be financially literate (e.g., understand financial statements and general finance concepts) and the Chairman should ensure that at least one member of the Committee has banking, accounting, or other relevant financial proficiency.<sup>2</sup> The members should be particularly suited to fulfill the responsibilities set out below.

### **Authority**

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Oversee the work of any public accounting firm employed by this Bank or by the Board of Governors on behalf of the Bank;

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<sup>1</sup> Members of the audit committee are considered to be independent if they have no relationship to the Reserve Bank that may interfere with the exercise of their independence from management and the Bank. Examples of relationships include: i) a director being employed by that Reserve Bank within the past five years; ii) a director accepting compensation from that Reserve Bank other than compensation for board services; iii) a director being a member of the immediate family of an individual who has been employed by that Reserve Bank as an officer within the past five years; and iv) a director being a partner in, or controlling shareholder or an executive officer of, any for-profit business organization to which that Reserve Bank made, or from which that Reserve Bank received payments that have been significant to the Reserve Bank within the past five years. For the purpose of this policy, a director who is an officer or director of a depository institution or its holding company is not considered to have a relationship that interferes with his/her independence solely because the depository institution makes payments to the Reserve Bank for financial services or an extension of credit.

<sup>2</sup> Banking, accounting or other relevant financial proficiency means significant employment experience in finance, accounting, auditing, or banking functions, professional certification in accounting, or other comparable experience or background which results in the individual's financial sophistication, including being or having been a Chief Financial Officer or other senior officer with financial oversight responsibilities.



- Resolve any disagreements between management and the auditor regarding financial reporting;
- Retain independent counsel or advisors as necessary to carry out its duties;
- In the event the Board of Directors cannot meet its fiduciary responsibilities by relying on the services provided by the external auditor, taking into account its fiscal responsibility, the Committee may, except insofar as is necessary to prevent conflicts of interest that would prevent the Board of Governors-ordered audit and in consultation with the Board of Governors, engage its own external firm.
- Seek any information it requires from employees – all of whom are directed to cooperate with the Committee’s requests – or external parties;
- Meet with company officers, external auditors, or outside counsel, as necessary;
- Grant approval to share Federal Reserve Bank of Cleveland audit reports with others.<sup>3</sup>

### **Responsibilities**

1. To assess the effectiveness and independence of the Bank’s internal audit function, and oversee the accounting and financial practices of the Bank and audits of the Bank’s financial statements.
2. To protect the independence of the General Auditor and other audit officers. To ensure the General Auditor has access to the Board of Directors, on a confidential basis, and that the audit function is independent of Bank management, both by intent and in actual practice.
3. To hold meetings (at least four times annually, with authority to convene additional meetings as circumstances require) to permit adequate and timely discussion of audit results, losses and irregular occurrences, and other matters of concern to the auditors and Directors. The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary.
4. To meet with the General Auditor in executive session whenever the Committee meets. Further, to meet periodically (at least once a year) with management and external auditors in separate executive sessions to discuss any matter that the Committee, management, or external auditor believes should be discussed.
5. To obtain from the General Auditor an independent and objective assessment of the adequacy and effectiveness of the controls over (a) financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with laws and regulations.
6. To review reports from the General Auditor, management, and the external auditor, as appropriate, about significant risks or exposures and to assess the controls established by management. The General Auditor shall periodically provide an independent and objective assessment of the adequacy and effectiveness of the Bank’s enterprise risk management program and practices.

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<sup>3</sup> On September 13, 2012, the Audit Committee granted approval for the Cleveland Reserve Bank General Auditor to share information and findings related to Reserve Bank audits with other Reserve Bank auditors and a select group of members of the Division of Reserve Bank Operations and Payment Systems, subject to defined controls related to access and confidentiality. The Audit Committee authorizes the General Auditor to determine which information will be shared and whether access to that information should be restricted.



7. To bring before the Board of Directors any matters reported by the Board of Governors, General Auditor or external auditors that warrant the Board of Directors' attention and to ensure that audit recommendations and concerns receive proper attention by Bank management.
8. To review and approve the annual internal audit program<sup>4</sup> that provides for audits whose scope and frequency are reasonably expected to ensure an appropriate level of audit attention and to coordinate with any external audit conducted at the direction of the Board of Governors.
9. To review and approve an annual audit budget that is sufficient to carry out an effective internal audit program; to review performance against budget, and to determine whether any significant variances from existing Federal Reserve System and Federal Reserve Bank of Cleveland guidelines are justified.
10. To review and discuss the results of the internal audit quality assurance and improvement program. The program assesses the department's conformance to the Institute of Internal Auditors International Professional Practices Framework.
11. To recommend to the Board of Directors the appointment and termination (including separation payments) of the General Auditor, and to concur with any reassignment of the general auditor to another position in the Reserve Bank. To assure that required communications between the chair of this Reserve Bank's Board of Directors and the chair of the Board of Governors Committee on Federal Reserve Bank Affairs about changes in the General Auditor position occur.
12. To formally evaluate the performance of the General Auditor, following guidelines set forth by the Reserve Bank for evaluating the performance of other officers.
13. To recommend to the Board of Directors, or a designated subset of the Board, all actions affecting the salary or classification of the General Auditor.
14. To discuss with management and the external auditors the Bank's annual financial statements including any certification, report, opinion, and issues. Audit Committee members should be prepared to answer inquiries from the external auditors, especially concerning fraud and the mitigation of fraud risk.<sup>5</sup>
15. To review annually the performance of the Audit Committee responsibilities as set forth in the bylaws and this policy (charter), report the results of that self-assessment to the full Board, and recommend changes to the Board of Directors as appropriate.
16. To review the Audit Committee Charter at least annually or more frequently as conditions dictate, and obtain approval from the full Board of Directors of any substantive changes to the charter.
17. To review and approve the Internal Audit Charter annually.

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<sup>4</sup> The internal audit program encompasses all aspects of the annual audit plan that is presented to the Audit Committee for approval including the schedule of audits, risk universe and ratings, and strategic areas of focus.

<sup>5</sup> SAS 99, Consideration of Fraud in a Financial Statement Audit, requires the external auditors to obtain information to identify the risks of material misstatement due to fraud, including making specific inquiries of management, the general auditor, and the audit committee. Members of the audit committee should be prepared to answer the auditor's questions about the risks of fraud in the Bank and whether committee members have knowledge of fraud or suspected fraud affecting the Bank. Audit committee members should also be prepared to discuss how the audit committee exercises oversight of the assessment of the risk of fraud, and activities that mitigate those risks.



18. To ensure that the Bank does not inadvertently create an arrangement that would impair the independence of an external auditor, to establish policies and procedures to obtain the approval of the Board of Directors and the Board of Governors (a) before engaging the external auditor to perform services and (b) before engaging a vendor that has indicated its intent to subcontract a portion of its responsibilities under the Reserve Bank's contract to the external auditor. At least annually, consider the independence of the external auditors and obtain and review a report from the external auditors describing all relationships between the auditor and the Bank or System. The Audit Committee shall engage in dialogue with the external auditors concerning any disclosed relationships or services that might impact the objectivity and independence of the auditors.
19. To establish policies and procedures to record the receipt, retention, and treatment of (a) complaints received by the Bank regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.<sup>6</sup>
20. To obtain from the General Auditor reports on complaints and internal audit's handling of whistleblower information regarding questionable accounting or auditing matters and management's action plan.
21. To discuss and review with management, the external auditors, and/or the General Auditor:
  - a. The significant findings and recommendations related to internal controls over financial reporting and safeguarding of assets as they pertain to financial reporting, together with management's responses;
  - b. The risk of fraud and the implementation of controls to mitigate fraud risk;
  - c. Critical accounting policies and practices and any material changes in accounting principles or practices used in preparing the financial statements;
  - d. Any significant changes to the internal or external audit plan and any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information; and
  - e. The competence and performance of the external auditors.

### **Interaction between the Audit and Operations and Resource Committees**

Risk-related information and reports reviewed by the Operations and Resource Committee or the Audit Committee may be of mutual interest and should be provided to the other as appropriate. Joint meetings of these committees to review and discuss topics of common interest may be beneficial on occasion.

The committee shall perform such other functions as assigned by the Board of Directors.

Approved by the Audit Committee: March 8, 2023

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<sup>6</sup> The procedures are to be written in such a manner as to provide the Committee assurance that all complaints have been recorded and reported to them.