



## **Audit Review Committee Charter**

### **Purpose**

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

### **Policy**

The primary purpose of the Audit Review Committee is to assist the Board of Directors in fulfilling its oversight responsibilities. The scope of this effort includes, but is not limited to, oversight of the internal and external financial reporting processes and the system of internal controls over financial reporting, the efficiency and effectiveness of operations, independence, qualifications, performance and evaluation of the Bank's internal audit function, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct. It is the responsibility of the Committee to facilitate open communication between the Board of Directors, senior management, general auditor, external auditor, and the Board of Governors.

### **Composition**

The Audit Review Committee will consist of at least three members of the Board of directors. Audit Review 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 Review Committee.<sup>1</sup> All members of the Audit Review 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 Review Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

---

<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.



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

**Responsibilities**

1. To assess the effectiveness and independence of the Bank’s internal audit function, and overseeing 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 obtain from the General Auditor an independent and objective assessment of the adequacy and effectiveness of the Bank’s enterprise risk management program and practices at regular committee meetings and at other times as necessary and to assure management has provided periodic updates to the Board of Directors on the Bank's enterprise risk management program.
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.



FEDERAL RESERVE BANK *of* CLEVELAND  
**Audit Review Committee**

8. To review and approve the annual internal audit program 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 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 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.
11. To formally evaluate the performance of the General Auditor, following guidelines set forth by the Reserve Bank for evaluating the performance of other officers.
12. 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.
13. To discuss with management and the external auditors the Bank's annual financial statements including any certification, report, opinion, and issues. Audit Review Committee members should be prepared to answer inquiries from the external auditors, especially concerning fraud and the mitigation of fraud risk.<sup>3</sup>
14. To review annually the performance of the Audit Review 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.
15. 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.
16. To review and approve the Audit department's charter.
17. 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 Review 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.

---

<sup>3</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.



## FEDERAL RESERVE BANK *of* CLEVELAND

### ***Audit Review Committee***

18. 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>4</sup>
19. 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.
20. To discuss and review with management, the external auditors, and/or the General Auditor
  - a. The significant findings and recommendations of 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.

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

Approved by the Board of Directors October 13, 2011.

---

<sup>4</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.