

Panhandle-Plains Federal Land Bank Association, FLCA

Audit Committee Charter

PURPOSE

To assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct.

AUTHORITY

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. The committee will have access to all financial, credit, administration and operational records and employees of the Association. It is empowered to:

- Appoint, compensate and oversee the work of any independent credit reviewer and any independent fiscal reviewer that may be employed by the association.
- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the auditor, independent credit review and or independent fiscal reviewer regarding financial reporting.
- Pre-approve all auditing, independent credit reviewer, and non-audit services.
- As necessary, retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- 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, internal auditors, external auditors, independent credit reviewer, or outside counsel, as necessary.

COMPOSITION

The audit committee will consist of all members of the board of directors. The board will appoint committee members and the committee chair.

Each committee member will be both independent and financially literate. At least one member shall be designated as the "financial expert," as defined by applicable legislation and regulation.

MEETINGS

The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions. Meetings agendas will be prepared and provided in advance to members. Minutes will be prepared.

RESPONSIBILITIES

The committee will carry out the following responsibilities:

Financial Statements

- 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.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements and consider whether they are complete, consistent with information known to committee members and reflect appropriate accounting principles.
- Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing Standards.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.
- Approve changes proposed by management to the allowance for loan losses.

Internal control

- Review the results of all testing of internal controls performed to comply with SOX 404 requirements.
- Consider the effectiveness of the company's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
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Internal Audit

- Review with management the charter, plans, activities, staffing and organizational structure of the internal audit function.
- Ensure there are not unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit executive.
- Review and approve an annual risk assessment and three-year audit plan developed by management.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.
- Review and concur with management's responses to address all audit recommendations and follow up on any corrective actions.
- At least annually, meet separately with the chief audit executive (as well as any other member of senior management deemed appropriate by the committee) individually to discuss any matters that the committee believes should be discussed in executive session.

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- Review and concur with management's responses to address all audit recommendations and follow up on any corrective actions.
- At least annually, meet separately with the external auditor to discuss any matters that the committee or external auditor believes should be discussed in executive session.

Credit and Collateral Review Function

- Determine the selections, and direct the retention, of outside third party review firms in order to evaluate the effectiveness of the association's credit and collateral function.
- In consultation with the firm selected for the engagement, determine the scope and timing of the review.
- Upon the conclusion of the review, meet separately from association management with the outside review firm to 1) Discuss any matters that the committee or review firm believe necessary, 2) present the findings of the review, and 3) to confirm there were no restrictions, or limitations, or barriers imposed upon the firm by management during the review.

- Review and concur with management's responses to address all audit recommendations and follow up on any corrective actions.

Compliance

- 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.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and company legal counsel regarding compliance matters.
- Receive anonymous complaints (whistle blower complaints). Provide a mechanism for employees to report valid complaints regarding questionable accounting practices, internal accounting control weakness, or fraud and not fear reprisal from the employer.

Other Responsibilities

- Perform other activities related to this charter as requested by the board of directors.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- At least annually, conduct a self-evaluation of committee performance.

Reporting Responsibilities

- Regularly report to the board of directors about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the board of directors.
- Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- Review any other reports the company issues that relate to committee responsibilities.