

THE FEDERAL RESERVE BANK OF RICHMOND
BOARD OF DIRECTORS
AUDIT COMMITTEE

PURPOSE

The primary purpose of the Audit 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; 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. Audit activities performed under the supervision of other Reserve Banks' Audit Departments, including the scope and quality of their audits, are not within the scope of the Committee's responsibilities.

ORGANIZATION

The Audit Committee will be comprised of a minimum of three members of the Board of Directors of the Bank, appointed annually by the Board of Directors. Each member will serve one-year terms commencing the first of January. The Chairman of the Board of Directors is an ex-officio member and may also participate in all committee meetings and deliberations. Two members of the Audit Committee shall constitute a quorum.

No member will have any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of their independence from management and the Bank. All members of the Audit Committee will have the ability to read and understand financial statements and general finance concepts, and at least one member of the Audit Committee should have banking, accounting or other related financial proficiency.

MEETINGS

The Audit Committee will meet at least once per quarter to permit adequate and timely discussion of audit results, losses, and irregular occurrences, and other matters of concern to auditors and Directors, and to hold executive sessions with the General Auditor whenever such meetings are attended by other officers of the Bank. Meetings may be held more often at the discretion of the Audit Committee Chairman. Following each meeting, the Audit Committee Chairman shall report on the Committee's activities, discussions, and decisions to the Board of Directors of the Bank.

PRIMARY RESPONSIBILITIES

Oversight

1. Perform all duties and responsibilities required by the Bank's Bylaws and the Board of Governors' policy on Audit Committee duties and responsibilities (S-2622).*
2. Review and approve an annual internal audit program that provides for audits for which the 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.*
3. Review and approve the annual Audit Department 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 System and Bank guidelines are justified.*
4. Grant approval to release Federal Reserve Bank of Richmond audit reports to parties outside the Bank.

5. Obtain approval of the Audit Committee Charter from the Board of Directors and review and update the Charter at least annually, or as conditions dictate. Obtain approval from the Board of Directors of any substantive changes to the Charter.
6. Review and approve the Charter for the Audit Department.
7. Establish procedures for (1) the confidential, anonymous submission by employees of complaints and concerns regarding questionable accounting, internal accounting control, or auditing matters and (2) the receipt, retention, and treatment of such complaints and concerns.*
8. Review proposed Bank contracts with the external auditor for services not covered under the Board of Governors' external audit services contract to ensure that the proposed services do not impair or appear to impair the external auditor's independence.
9. Engage independent counsel and other advisors as it determines necessary to carry out its duties.*
10. Meet at least once per year with the external auditor in executive session, without management or the General Auditor present.
11. Perform, or direct performance of, any other activities consistent with this Charter, the Bank's Bylaws, Board of Governors' rules and regulations, and governing law, as the Audit Committee or the Board of Directors deems necessary or appropriate.

Review of Internal and External Audit Work and Results

1. Review reports from the General Auditor, the external auditor, the Board of Governors, and others, as appropriate, about significant risks or exposures and assess the controls established by management to monitor such exposures.
2. Review management's assertion and the external auditor's attestation as to the adequacy of controls over financial reporting.
3. Meet with the external auditor to discuss the Bank's financial statements and issues arising from the annual external audit. Audit Committee members should be prepared to answer inquiries from the external auditor, especially concerning fraud and the mitigation of fraud risk.*
4. Bring before the Board of Directors any matters reported by the Board of Governors, General Auditor or external auditor that warrant the Board's attention, and to ensure that audit recommendations and concerns receive proper attention by Bank management.*
5. Following completion of the external audit, review with management, the external auditor, and the General Auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
6. Review any significant disagreement among management and the external auditor or the General Auditor concerning the preparation of the financial statements.

Personnel Actions

1. Recommend to the Board of Directors the appointment and termination (including separation payments) of the General Auditor and other audit department officers,

and to concur with any reassignment of the General Auditor and other audit department officers to another position in the Bank. *

2. Formally evaluate the performance of the General Auditor, following guidelines set forth by the Bank for evaluating the performance of other officers. *
3. Recommend to the Board of Directors, or a designated subset of the Board, a review of all actions affecting the salary or classification of the General Auditor and other Audit Department officers. *

** Board of Governors' policy on audit committee duties and responsibilities (S-2622) dated December 20, 2004, and published at FRAM 1-007*