



CHARTER
FEDERAL RESERVE BANK OF RICHMOND
BOARD OF DIRECTORS
AUDIT AND RISK COMMITTEE

Purpose

The Audit and Risk Committee (the Committee) is a committee of the Board of Directors (the Board). The Committee is responsible for assessing the effectiveness and independence of the Federal Reserve Bank of Richmond's (Bank) Audit Department. **(IIA 1100; FRAM 1-005 and 1-007)** The Committee is also responsible for assessing the effectiveness and the adequacy of the Bank's enterprise risk management framework. It is the responsibility of the Committee to facilitate open communication between the Board, senior management, the General Auditor, Chief Risk Officer, external auditors, and the Board of Governors.

Committee Membership

The Committee shall have a minimum of three members, consisting of at least one representative from each of the three classes of directors. The Committee may conduct business upon the affirmative vote of at least two members. Members of the Committee shall be recommended annually by the Executive Committee for appointment by the Board to one-year terms commencing the first of January. All members of the Committee must be independent and have the ability to read and understand financial statements and general finance concepts. At least one member of the Committee should have audit, risk management, accounting, banking, or other related financial proficiency. Special consideration shall be given to directors who have experience or working knowledge of audit practices. The Board Chair shall designate the Committee Chair. **(Bylaws; FRAM 1-007)**

Meetings

The Committee will meet at least once per quarter to permit adequate and timely discussion of audit results, losses, enterprise risks and irregular occurrences, and other matters of concern to auditors and directors. **(IIA 1111)** The Committee Chair may call additional meetings as necessary. A meeting may be held by any means of communication that allows each participant to hear and be heard by each other participant. Minutes from the meetings will be documented and maintained. The Committee may hold executive sessions with the General Auditor

whenever meetings are attended by other officers of the Bank. These executive sessions may be held more often at the discretion of the Committee Chair. The Committee Chair shall report the Committee's actions to the Board at its next meeting and will make recommendations to the Board as appropriate. **(FRAM 1-007)** The Committee may transact business through notational or electronic voting as needed.

Authority and Responsibilities

The specific responsibilities of the Committee, including those required by the *Federal Reserve Administrative Manual* (FRAM), in consultation with senior Bank management, are described below. The Committee oversees and reviews the Bank's audit and risk functions to monitor key business and regulatory compliance risks and the effectiveness of the Bank's internal control environment. Management is responsible for designing, implementing, and maintaining an effective risk management program and internal control framework to identify, plan for, and respond to the Bank's material risks. The scope of the Committee's responsibility for risk management includes the overall risk management and control framework for the Bank; however, certain Board committees may have responsibility for specific risks related to that committee as noted in committee Charters or as assigned by the Board Chair. The Committee has the responsibility to do the following:

1. Obtain approval of the Committee Charter from the Board and review and/or update the Charter at least annually, or as conditions dictate. Obtain approval from the Board for any substantive changes to the Charter. **(FRAM 1-007)**
2. Conduct a self-assessment of the performance of the Committee annually as set forth in the Bylaws or Charter. **(FRAM 1-007)**
3. Establish procedures for the receipt, retention, and treatment of confidential, anonymous complaints and concerns regarding questionable accounting, internal accounting control, or auditing matters, and unethical or illegal behavior including those submitted through the Bank's Ethics and Compliance hotline. **(FRAM 1-007)**
4. Bring before the Board any matters reported by the General Auditor, Board of Governors, or external auditor that warrant the Board's attention, and to ensure that audit recommendations and concerns receive proper attention by Bank management. **(FRAM 1-007)**
5. Engage independent counsel and other advisors as it determines necessary to carry out its duties. **(FRAM 1-007)**
6. Grant approval to release Bank audit reports to parties outside the Bank. **(Services Agreement)**
7. Perform, or direct performance of, any other activities consistent with this Charter, the Bank's Bylaws, Board of Governors' policy, as the Committee or the Board deems necessary or appropriate.

Audit Department Oversight

1. Review and approve the Audit Department Charter. **(IIA 1110)**
2. Review and approve an annual risk-based audit plan that provides for audits for which the scope and frequency are reasonably expected to ensure an appropriate level of audit attention and is aligned with System and Bank risks. **(IIA 1110)**
3. Coordinate with any external audit conducted at the direction of the Board of Governors. **(IIA 2050; FRAM 1-007)**
4. Review and approve an annual Audit Department budget that is sufficient to carry out an effective audit program, review performance against budget, and determine whether any significant variances from existing Federal Reserve System and Bank guidelines are justified. **(Bylaws; IIA 1110; FRAM 1-007)**
5. Review periodic reports from the General Auditor, the external auditor, the Board of Governors, and others, as appropriate. **(IIA 2060)**
 - Activities and performance of the Audit Department relative to its plan,
 - Conformance with the Core Principles, Code of Ethics and the Institute of Internal Auditors' International *Standards* for the Professional Practice of Internal Auditing based on internal and external assessments **(IIA 1312, 1320)**
 - Any significant risks or exposures, and the effectiveness of the Bank's system of internal controls, including information technology security and control. **(IIA 1111)**
6. Review Audit's annual assessment of its performance and discuss the adequacy of Audit's access within the Bank to perform its responsibilities. Ensure that the General Auditor has sufficient authority and resources within the organization, has access to the Board and the Committee on a confidential basis, and the audit function is independent of Bank management, both by intent and in actual practice. **(IIA 1111, 2060)**
7. Recommend to the Board the appointment and termination (including separation payments) of the General Auditor and other Audit Department officers and concur with any reassignment of the General Auditor or other Audit Department officers to other positions in the Bank. **(IIA 1110; FRAM 1-005, 1-007)**
8. Formally evaluate the performance of the General Auditor, following guidelines set forth by the Bank for evaluating the performance of other officers. **(FRAM 1-007)**
9. Recommend to the Board, 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. **(IIA 1110; FRAM 1-007)**

Financial Reporting/External Audit

1. Meet with the external auditor to discuss the Bank's financial statements and issues arising from the annual external audit. Committee members should be prepared to answer inquiries from the external auditor, especially concerning fraud and the mitigation of fraud risk.¹ **(FRAM 1-007)** Review and discuss with management, at least annually, the implementation and effectiveness of the Bank's ethics, code of conduct, and any significant changes or exceptions.
2. Review management's assertion and the external auditor's attestation of the adequacy of internal controls over financial reporting and the Bank's financial statements.
 - 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.
3. Review any significant disagreement among management and the external auditor or the General Auditor concerning the preparation of the financial statements.
4. Meet at least **once** per year with the external auditor in executive session, without management or the General Auditor present.
5. Review written communications between the external auditor and management, including any management letters or schedule of unadjusted differences and other disclosures, as required by applicable professional auditing standards.
6. Prior to the Bank engaging an external auditor for services not covered under the existing Board of Governors' external audit services contract, approval by the Committee, Board, and Board of Governors is required to ensure that such proposed services do not impair or appear to impair the external auditor's independence. **(FRAM 1-7 and 1-008)**

¹ AICPA's Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*

Risk Management

1. Assist the Board in assessing the adequacy and effectiveness of the Bank's enterprise risk management framework and the Bank's compliance with legal and regulatory requirements.
2. Ensure that the Bank has a Chief Risk Officer, with sufficient authority and resources within the organization, and with access to the Board and the Committee on a confidential basis.
3. Provide guidance and feedback to Bank management regarding the enterprise risk framework, material risks, and matters related to the performance of the strategic activities of the Bank.
4. Ensure senior management is aligning the Bank's strategic objectives, risk profile, risk management policies, and annual budget.
5. Obtain from the Chief Risk Officer and/ or General Auditor an assessment of the potential for, or actual occurrences of, fraud within the organization. Such reports should include, among other things, the Bank's process for communicating the risk management policies and the Code of Conduct to employees and officers and compliance therewith, and the Bank's investigation and follow-up regarding instances of non-compliance and/or fraud.
6. Discuss with the Chief Risk Officer and/ or General Auditor the Bank's major risk exposures, excluding legal risk (which is covered below), and review the steps management has taken to monitor and control such exposures, including the Bank's risk assessment and risk management policies, and the effectiveness of internal controls over identified risks.
7. Discuss with the General Counsel the Bank's major legal risk exposures and any legal matters that may have a material impact on the Bank's compliance with applicable laws and policy or that may impact the reputation of the Bank. Review the steps management has taken to monitor and control such exposures.
8. Obtain from the General Auditor an independent and objective assessment of (1) adequacy and effectiveness of the risk management policies, (2) the adequacy and effectiveness of risk management practices, and (3) the adequacy and effectiveness of the Bank's compliance with risk management policies and compliance with legal and regulatory requirements and those relating to the Bank's responsibilities for the execution of operational activities relating to monetary policy.
9. Authorize investigations into any matters within the Committee's scope of responsibility.

The Committee will also undertake additional activities within the scope of the purpose of the Committee as the Committee or the Board deems necessary.