



## **Audit Committee Charter**

Approved January 21, 2015

### **Statement of Purpose:**

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities related to corporate accounting, financial reporting practices, quality and integrity of financial reports as well as legal compliance and business ethics. Key components of fulfilling this charge include:

- Facilitating and maintaining an open avenue of communication among the Board of Directors, the Audit Committee, management, the independent external accountants, and the internal audit staff.
- Serving as an independent and objective party to monitor the corporation's financial reporting process and internal control system.
- Reviewing and appraising the efforts of the independent accountants.
- Providing direction to and oversight of the Internal Audit function.

The function of the Audit Committee is oversight. Management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements. Management also is responsible for maintaining appropriate accounting and financial reporting principles and policies as well as internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent accountants are responsible for planning and performing proper audits, including an audit of the Company's annual consolidated financial statements filed on Form 10-K, and other procedures, including the filing of each quarterly report on Form 10-Q.

### **General Objectives:**

#### *Organization & Composition*

The Audit Committee will be comprised of three or more directors as determined by the Board, each of whom shall be independent directors as defined in applicable rules of the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. The Board of Directors will appoint one committee member as an "audit committee financial expert" as defined in Item 401(h) of Regulation S-K. The members will be free from any financial, family or other material personal relationship that, in the opinion of the Board or Audit Committee members, would interfere with

the exercise of his or her independence from management and the corporation. All members of the committee will be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement.

## **Roles and Responsibilities:**

### *Responsibilities & Duties*

The Audit Committee believes that its policies and procedures should remain flexible in order to best react to changing conditions and provide reasonable assurance to the Board that the accounting and reporting practices of the corporation are in accordance with requirements and an effective legal compliance and business ethics program exists.

The Audit Committee will fulfill its duties and responsibilities as follows:

#### General

- Adopt a formal written charter that is approved by the full Board of Directors that specifies scope of responsibility, process, membership, etc. The charter will be reviewed as necessary, but at least annually.
  - Maintain minutes or other records of meetings and activities.
  - Report Committee actions to the Board.
- As part of executing the responsibility to foster open communication, the Committee will meet in separate executive sessions without members of senior management present with the Independent Accountants and the Internal Audit Manager to discuss matters that the Committee believes should be discussed privately.
- Conduct or authorize investigations into matters within the Audit Committee's scope of responsibilities. The Audit Committee shall have full access to books, records, facilities and personnel and shall be empowered to retain independent counsel, accountants, or others to assist it in the conduct of any investigation.
- Establish appropriate procedures for receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees regarding questionable accounting or auditing matters.

#### Internal Audit

- Review and approve the annual internal audit plan and any significant changes to the internal plan.
- Review the adequacy of internal audit staff qualifications as well as the number of internal audit staff annually.
- Approve the Audit Charter.
- Review the Internal Audit function of the corporation including its independence and the authority of its reporting regulations.

- Review completed audit reports and a progress report on executing the approved internal audit plan.
- Review and concur in the appointment, replacement, reassignment, or dismissal of the Internal Audit Manager.
- Participate with the VP, Chief Risk Officer in completing the annual employee evaluation of the Internal Audit Manager.

#### External/Independent Accountants

- Select, appoint, and, if necessary, discharge the independent accountants, considering independence and effectiveness, and approve fees to be paid to the independent accountants. Annually, the Committee will ensure a formal statement delineating all relationships between the accountants and the company is received from the outside accountants. The Committee will discuss with the independent accountants all significant relationships the accountants have with the corporation to determine the accountants' independence.
- Approve any replacement of the independent accountants.
- Pre-approve all services to be provided by the independent accountants, including audit services and permitted audit-related and non-audit services. The Committee will not engage the independent accountants to perform specific non-audit services proscribed by law or regulation. As an alternative to pre-approving each non-audit service, the Committee may establish and disclose policies and procedures for pre-approval subject to applicable legal requirements.
- Consult with independent accountants out of management's presence about internal controls and the accuracy of the financial statements.
- Meet with the independent accountants and financial management of the company to review the scope of the proposed external audit for the current year. The external audit scope shall include a requirement that the independent accountants inform the Audit Committee of any significant changes in the independent accountant's original audit plan. The external accountants will conduct a SAS 71 Interim Financial Review of the Company's Quarterly Reports on Form 10-Q. The Committee will review with financial management and the external accountants the Form 10-Q prior to its filing or prior to the release of earnings. The Chairman of the Committee may represent the entire Committee for the purposes of this review.

#### Financial Statements/Internal Controls

- Review annual financial statements with management and the independent accountants to determine that the independent auditors are satisfied with the disclosure and content of the financial statements, including the nature and extent of any significant changes in accounting principles, and approve such financial statements prior to release of the annual earnings.
- Consider external auditors' judgments regarding the quality and appropriateness of financial statements.

- Make inquiries of management and external auditors concerning the adequacy of the company's system of internal controls.
- Advise management and the independent auditor that they are expected to provide a timely analysis of significant current financial reporting issues and practices.
- Advise financial management and the independent auditor to discuss with the Audit Committee their qualitative judgments about the appropriateness, not just the acceptability, of accounting principles and financial disclosure practices used or proposed to be adopted by the company.
- A report from the Audit Committee will be included in the annual proxy statement disclosing whether a written charter was adopted and, if so, a copy of the charter will be included at least every three years. In addition, the report must include the names of all committee members, and must include whether the committee:
  - Reviewed and discussed the audited financial statements with management.
  - Discussed with the auditors the matters requiring discussion by SAS 61, as amended.
  - Received the written disclosures and letter from the auditors required by Independence Standards Board No. 1, and discussed with the auditors their independence.
  - Based on the above, recommended to the full Board that the audited financial statements be included in the company's Annual Report on Form 10-K.

#### Related Party Transactions

- Conduct an appropriate review of all related party transactions (i.e. transactions required to be disclosed pursuant to Securities and Exchange Commission Regulation S-K, Item 404) for potential conflict of interest situations prior to approval of such transactions.

#### Funding

The Company shall provide for appropriate funding of the Audit Committee, as determined by the Audit Committee for payment of:

- Compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, reviews or attest services for the Company.
- Compensation to any advisors engaged by the Company as authorized under this Charter.
- Ordinary administrative expenses of the Audit Committee that is necessary or appropriate to carry out its duties.

## **Internal Control:**

### *Meetings*

This Audit Committee Charter has been amended and restated by the Board of Directors of HopFed Bancorp, Inc. as of March 17, 2004. The Audit Committee of the Board shall review and reassess this Charter annually and recommend any proposed changes to the Board for approval.

The Audit Committee will meet at least four times annually. Additional meetings may occur more frequently as circumstances dictate. A quorum of at least 2 members of the Audit Committee must be present in order to conduct the business of the committee. If a quorum is not present, the meeting will be rescheduled.