

# Charter of the Audit Committee of the Boards of Directors Of Canandaigua National Corporation and Canandaigua National Bank

## 1. *Management Responsibilities*

It is the responsibility of management to prepare the Company's financial statements and ensure they are complete and accurate and are in accordance with generally accepted accounting principles. Sarbanes Oxley Section 404 requires management to design, document, evaluate, and report on the effectiveness of operations of its internal control over financial reporting. Further, it is the responsibility of management to assure compliance with laws and regulations and the Company's Standards of Conduct.

## 2. *Audit Committee Purpose*

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Committee will work with management, the Board of Directors and the internal and external auditors in an open, positive and constructive manner. It will be visible and will clearly communicate the Committee's role and expectations to appropriate groups within the Company. It will be a constructive resource to management, will be well-informed and knowledgeable about the business and will provide leadership by building and maintaining supportive and trusting relationships with management and the auditors. The Committee will help establish the overall tone for quality financial reporting, sound business risk controls and ethical behavior throughout the Company.

The Audit Committee's primary functions are to:

- Monitor the integrity of the Company's financial reporting process and system of internal controls regarding finance, accounting, security, regulatory and legal compliance.
- Monitor the independence and performance of the Company's external auditors and internal auditing department.
- Provide an avenue of communication among the external auditors, management, the internal auditing department, and the Board of Directors.
- Arrange at least once during each calendar year for a suitable audit of significant fiduciary activities as described in 12 CFR 9.
- Review with the Internal Auditor the Risk Assessment program and approve the annual internal audit schedule.
- Monitor quarterly internal audit's adherence to the approved audit schedule.
- Consider for expansion of basic internal audit work when significant issues arise or when significant changes occur in the institution's environment, structure, activities, risk exposures, or systems.

The Audit Committee has the authority to conduct any investigation appropriate to fulfill its responsibilities, and it has direct access to the external auditors as well as anyone in the organization. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

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## 3. *Audit Committee Composition and Meetings*

The Audit Committee shall be comprised of three or more directors as determined by the Board of Directors. Audit Committee members shall be recommended by the Chairman of the Board of Directors and approved by Board of Directors.

Audit Committee members shall meet the independence and experience requirements of the SEC and Sarbanes-Oxley Act of 2002. To be considered independent, the member cannot, other than in their role as committee member, accept any consulting, advisory, or other compensatory fee from the Company, or be a person affiliated with the Company or any subsidiary.

The Audit Committee shall meet quarterly, or more frequently as circumstances dictate. The Audit Committee Chair shall approve an agenda in advance of each meeting. The Audit Committee will communicate with management and the external auditors quarterly to discuss the Company's financial statements.

### Audit Committee Financial Expert

The Company will disclose in its annual report whether at least one "audit committee financial expert" serves on its Audit Committee. If yes, the Company will disclose the name of the "audit committee financial expert." If not, the Company will explain why it does not have an "audit committee financial expert."

## 4. *Audit Committee Responsibilities and Duties*

### Review Procedures

- Review and reassess the adequacy of this Charter at least annually. Submit the Charter to the Board of Directors for approval and have the document published at least every three years in accordance with SEC regulations.
- Review the Company's annual audited financial statements and interim financial reports as needed including discussion with management and external auditors of significant issues regarding critical accounting policies, practices, and judgments.
- Review significant findings prepared by the external auditors and the internal auditing department together with management's responses.

### External Auditor Engagement

- Be directly responsible for the appointment, compensation, and oversight of the work undertaken by any public accounting firm employed for the purpose of issuance of the audit report or related work.
- Review the independence and performance of the auditors and annually engage the external auditors or discharge the auditors when circumstances warrant.
- Review and discuss with the external auditors on an annual basis all significant relationships they have with the Company that could impair the auditor's independence.
- Review the external auditors audit plan including scope, staffing, locations, reliance upon management and internal audit, and general audit approach.

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- Discuss the results of the audit with the external auditors, including certain matters required to be communicated to audit committees in accordance with AICPA SAS 61.
- Observe all requirements and restrictions pertaining to the external auditors.
  - All services provided by the external auditor are to be pre-approved by the Audit Committee. The Chair of the Audit Committee may approve engagement of services that arise between Audit Committee meetings.
  - External auditors are prohibited from providing the following non-audit services: bookkeeping; financial information systems design and implementation; appraisal or valuation; actuarial services; internal audit outsourcing; management functions or human resources; broker dealer, investment advisor or investment banking; legal or expert services unrelated to the audit; any other service determined by the Board to be impermissible.
  - The lead external audit partner and the SEC reviewing partner are required to rotate off the engagement after 5 years and must stay off the engagement for 5 years. Other partners (non-lead, tax or other specialist partners) must rotate after seven years and must stay off the engagement for two years. The Audit Committee will evaluate the partners on the account to ensure they meet the rotation requirement at time of audit proposal.

## Internal Audit Department

- Review the budget, staffing, schedule, activities, risk assessment, and independence of the internal audit department.
- Review the appointment and performance of the senior internal audit executive.
- Ensure that the senior internal audit executive reports directly to the Audit Committee regarding both audit issues and department administrative matters, e.g. resources, appraisals, and compensation.
- Review reports prepared by the internal audit department together with management's response and follow-up to these reports.

## Other Audit Committee Responsibilities

- Engage third party vendors to assist the Internal Audit Department in fulfilling its schedule, e.g. Loan Review and IT.
- Review with the Company's counsel any legal matters that could have a significant impact on the organization's financial statements.
- Establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters (Whistleblower Program).
- Annually prepare a report to shareholders as required by the Securities and Exchange Commission. The report should be included in the Company's annual proxy statement.
- Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.
- Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Committee or the Board of Directors deems necessary or appropriate.