

**BRITISH AMERICAN TOBACCO KENYA plc.**

**LOCAL AUDIT, GOVERNANCE & CORPORATE SOCIAL RESPONSIBILITY COMMITTEE  
(AGCC)**

**TERMS OF REFERENCE**

**A CONSTITUTION**

The Board of British American Tobacco Kenya plc. hereby resolves that the Terms of Reference of its Local Audit, Governance & Corporate Social Responsibility Committee (AGCC - hereinafter referred to as Audit Committee) are as set out below.

**B PURPOSE**

The Audit Committee's (AC) purpose is to assist the Board of Directors in carrying out their responsibilities as they relate to the management of business risks and internal controls and the conduct of business in accordance with the applicable corporate governance and ethical business conduct standards and rules.

The Committee's primary focus is to be satisfied that the Company's business risk management and internal control focus is appropriate and effectively managed. This will enable them to provide evidence to the Regional Audit and CSR Committee (RACC) that business risks and control issues or weaknesses of significance are identified, and appropriate and timely action is being taken.

The AC will seek to focus on the Company's internal control responsibility, and will provide a forum which demonstrates through the medium of the RACC to the Board Members of British American Tobacco plc. that their collective internal control responsibility is being fulfilled.

The Committee will seek to satisfy itself that internal and external audit are effective in meeting the needs of the business and the Company.

**C AUTHORITY**

The Audit Committee is authorised by the Board to review any activity within the Company. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the Committee. The Managing Director will be the relevant catalyst as his knowledge will ensure that the Committee has access to all relevant and pertinent information.

The Committee is authorised by the Board to obtain outside legal or other

independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The Committee will meet at least two times annually with the location of each meeting being arranged such that all major locations or areas of the business are visited over a period of time.

## **D RESPONSIBILITIES AND OBJECTIVES**

By delegation from the Board of Directors the Audit Committee seeks to satisfy itself, by means of suitable steps and appropriate information, that proper and satisfactory internal control systems are in place within the Company to identify and contain business risks: furthermore, that its business is conducted in a proper, economically sound and ethical manner.

Specific areas of concentration are to ensure there is due process for:

- identification and management of key business risks;
- efficiency and effectiveness of operational controls;
- safeguarding of assets;
- reliability of financial and other management information;
- compliance with relevant national laws and regulations;
- compliance with the BAT Group Standards of Business Conduct.

### **Detailed objectives of the Committee are:**

1. To consider the Business Risk Management procedure used within the company, and be satisfied that the evaluation and management of such risks is appropriate. The Managing Director will aid the Committee in identifying key business risks and their management, ensuring line management's active participation in the process.
2. To ensure that systems of internal control are soundly conceived and effectively administered and to seek assurance that internal control systems are in place, operating efficiently and are regularly monitored.
3. To cause reviews to be made of the extent of compliance with established policies, plans, procedures, laws and regulations. To review annually the programmes for monitoring compliance with the Group's Standards of Business Conduct within the Company so that appropriate information can be provided to the Audit Committee of British American Tobacco plc.
4. To obtain assurance that proper plans for internal control have been

developed prior to the commencement of major areas of change within the company.

5. To be satisfied that the strategies, plans, manning and organisation for internal auditing and the methodologies promulgated as best practice are communicated down through the company. Specifically:
  - 5.1 To review the integrated internal audit plans for the Company and to be satisfied as to their consistency, coverage and methodologies.
  - 5.2 To be satisfied that the internal audit function within the Company has the proper resources and appropriate standing to enable them to complete their mandates and approved audit plans.
  - 5.3 Review status reports from internal audit and recommend any broader reviews deemed appropriate as a consequence of the issues or concerns identified.
  - 5.4 Ensure internal audit has full, free and unrestricted access to all activities, records, property and personnel necessary to fulfil its agreed objectives.
  - 5.5 Request and review any special audit which it deems necessary.
6. To review the scope, fees and co-ordination of the external auditors and to be satisfied that the audit scopes at each of the subsidiaries are considered. To be satisfied on an annual basis that external auditors are providing an efficient and effective service in each subsidiary. The Committee should consider a consolidated opinion on the quality of external auditing at one of its meetings.
7. To review and evaluate factors related to the independence of the external auditors and assist them in preserving their independence in accordance with the BAT Group's Auditor Independence Policy set out in Appendix 1.
8. To be advised of significant use of the external auditors in performing non-audit services within the company, considering both the types of services rendered and the fees such that their position as auditors is not deemed to be compromised.
9. To review the external auditors' findings arising from the interim and final audits on accounting issues, particularly any comments and responses in management letters in order to be satisfied that appropriate action is being taken.
10. To recommend to the Managing Director steps to improve the system of

internal control derived from the findings of the internal and external auditors and from the consultants of the Audit Committee itself.

11. To satisfy itself that each business unit has satisfactory arrangements for monitoring control in keeping with their delegated authority.

Where the Audit Committee is not satisfied that appropriate action on a control issue is being taken it will advise the Managing Director and the Regional Audit Committee.

## **E RELATIONSHIPS WITH INTERNAL AND EXTERNAL AUDITORS**

The Internal Audit Manager has direct access to the Audit Committee on matters of control and audit. He reports significant audit findings to the Audit Committee regularly and without delay and provides the Audit Committee at each regular meeting with status reports. Any inappropriate restrictions on audit scope are to be reported to the Audit Committee.

Representatives from the external auditors may be invited to attend the regular Audit Committee meetings and be heard on any matter which affects them. They have direct access to the Audit Committee on matters of control, audit and accounting and may request special meetings if considered necessary. Annually the Committee meets with management to evaluate the external auditors' quality of service.

Terms of reference of the Local Audit & Corporate Governance Committee were reviewed by the Audit Committee on 9<sup>th</sup> March 2017 and the main Board on 13<sup>th</sup> April 2017.

## **APPENDIX 1: POLICY ON AUDITOR INDEPENDENCE**

This Policy sets out the Group's arrangements for ensuring that the independence and objectivity of its external auditors are maintained.

### **1. Introduction**

- 1.1 The Board of British American Tobacco p.l.c. (the "Company") is committed to ensuring that the Company's financial statements, the consolidated financial statements of the British American Tobacco Group (the "Group") and the financial statements of all other Group companies have an effective and independent annual audit by its external auditors. The Board has delegated to the Audit Committee responsibility for reviewing the effectiveness of the external audit and the independence and objectivity of the external auditors.
- 1.2 This policy has been drafted in accordance with current UK rules, regulations and guidance on the provision of non-audit services.

### **2. General Policy**

- 2.1 The Company and all other Group companies will only use the appointed external Group auditor (the "External Auditor") to provide services in cases where those services do not impair the External Auditors' objectivity and independence.
- 2.2 In this Policy, the term "External Auditor" includes, where the context admits, the External Auditor's firms and associates.
- 2.3 The External Auditor must be independent both in face and appearance. The External Auditor is not independent if it, directly or indirectly, maintains a financial, employment or business relationship with the Company or any Group company, or provides services to the Company or any Group company, which:
  - (a) creates a mutual or conflicting interest between the Company or any Group company and the External Auditor;
  - (b) places the External Auditor in a position of auditing its own work;
  - (c) results in the External Auditor acting as a manager or employee of the Company or any Group company; or
  - (d) places the External Auditor in the position of advocate for the Company or any Group company.

### **3. Permitted services**

- 3.1 Consistent with the general policy outlines above, the External Auditor is permitted to provide the services specified below as audit, audit-related and other non-audit services. The Audit Committee reviews this policy, including the lists of audit-related, tax and other non-audit services annually.
- 3.2 The total annual fees for tax and other non-audit services are limited to 70% of the Company's average audit fees paid to the External Auditor over the preceding three (3) financial years.
- 3.3 The External Auditor is not permitted to provide the prohibited services.

#### 4. **Audit Services**

- 4.1 Audit services comprise the work that constitutes the agreed scope of the statutory audit of the Company's financial statements, the Group consolidated financial statements and the financial statements of any Group company.
- 4.2 Subject to clause 12.3 below, the External Auditor can be engaged to perform the above audit services without the requirement of a separate tender process. Such services are approved by the Audit Committee on the basis of the annual engagement letter and the scope of audit services agreed by the Audit Committee with the External Auditor.

#### 5. **Audit-related services**

- 5.1 Audit-related services comprise the work that is outside the required scope of the statutory audit, but is consistent with the role of the external statutory auditor. This category includes work that is reasonably related to the performance of an audit or review and is a logical extension of the audit or review scope, is of an assurance or compliance nature and is work that the auditors must or are best placed to undertake.
- 5.2 Audit-related services include:
- (a) reporting required by law or regulation to be provided by the External Auditor;
  - (b) reviews of interim financial information;
  - (c) reporting on regulatory returns;
  - (d) reporting to a regulator on client assets;
  - (e) reporting on government grants;
  - (f) reporting on internal financial controls when required by law or regulation;
  - (g) extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions;
  - (h) those limited tax services required by law or regulation to be provided by the External Auditor, and therefore deemed to be Audit Related Services.
- 5.3 Subject to clause 12.3 below, the External Auditor can be engaged to perform these audit related services without the requirement of a separate tender process. Such services are pre-approved by the Audit Committee, subject to the reporting requirements set out in clauses 8.1 and 8.2 below.

#### 6. **Other non-audit services**

- 6.1 Other non-audit services comprise work of an advisory nature that does not compromise the independence of the external auditor.
- 6.2 Other non-audit services include (subject to clause 7.1 below):
- (a) public reporting on investment circulars;
  - (b) private reporting to sponsors or similar parties in connection with investment circulars (including comfort letters and reporting on working capital statements);
  - (c) other services pursuant to legislation not covered above;
  - (d) information technology services;
  - (e) litigation support services;

- (f) corporate finance services;
- (g) transaction-related services not covered above; and
- (h) pension fund audit.

6.3 For these non-audit services a tender process is in most cases required for work projects anticipated to generate fees in excess of 1% of the projected fee for audit services for the year. It is recognised that there may be circumstances where it will not be appropriate to tender such work, notwithstanding that the anticipated fee is in excess of the 1% threshold. In such cases, the decision not to tender must be pre-approved by the Group Finance Director and the work plan referred to in section 9 below will include an explanation as to why no tender was required.

6.4 Non-audit services falling within this section are deemed to be pre-approved by the Audit Committee, subject to the reporting requirements set out in clauses 8.1 and 8.2 below.

## 7. **Prohibited services**

7.1 The External Auditor may not provide the following categories of services:

- (a) book-keeping and preparation of accounting records and financial statements;
- (b) the design and implementation of financial information systems or financial controls;
- (c) valuation services, appraisals, fairness opinions or contribution in kind reports;
- (d) outsourced internal audit services;
- (e) management functions and the performance of any other decision-making, supervisory or on-going monitoring functions;
- (f) human resources and recruitment services;
- (g) broker-dealer, investment advisor or investment banking services;
- (h) legal services;
- (i) actuarial services;
- (j) personal taxation services and advice to the Chairman and Executive Directors of the Company and the Chairman of the Audit Committee;
- (k) payroll services; and
- (l) tax services relating to the preparation of tax forms; payroll tax, customs duties; identification of public subsidiaries and tax incentives unless support from the audit firm in respect of such services is required by law; support regarding tax inspections by tax authorities unless support from the audit firm in respect of such services is required by law; calculation of direct and indirect tax and deferred tax; and the provision of tax advice

## 8. **Reporting requirements for pre-approved services**

8.1 A work plan will be submitted annually to the Audit Committee, typically at its meeting in December, identifying the total fees for all audit-related services, tax services and other non-audit services which it is anticipated will be undertaken by the External Auditor in the following year. The work plan will specifically itemise:

- (a) other non-audit services in respect of which the anticipated fee is in excess of 1% of the projected fee for audit services for the year.

8.2 The work plan for each year will be updated and submitted to the Audit Committee at the mid-year and year end, typically at its meetings in July of that year and the following February.

## **9. Rotation of key audit partners**

- 9.1 The Company requires its External Auditor to adhere to a rotation policy that is widely accepted and provides an appropriate balance between effectiveness and efficiency, risk management, independence and credibility.
- 9.2 Subject to any specific exceptions agreed by the Audit Committee in extenuating circumstances:
- (a) the Group audit engagement partner of the External Auditor will rotate after a maximum period of five (5) years.
  - (b) all other partners and directors of the External Auditor who are involved in the auditor of the Group consolidated financial statements and/or any Group company's financial statements will, subject to any local legal or regulatory requirements, rotate after a maximum period of seven (7) years.

## **10. Responsibility of the External Auditor**

- 10.1 The External Auditor is required to maintain a quality control system that provides reasonable assurance that its independence is not impaired.
- 10.2 The External Auditor is required to report annually to the Audit Committee on all aspects concerning independence, including possible conflicts with this policy and if any, and is required annually to confirm its independence in writing.
- 10.3 The External Auditor is required to report annually to the Audit Committee on its system of audit quality controls in general and, in particular, on the audit quality control measures applicable with regard to the Company and the Group.

## **11. Responsibility of the Audit Committee**

- 11.1 The Audit Committee will review the External Auditor's appointment annually, involving an assessment of the qualification, expertise and resources of the External Auditor, the nature and quality of the services provided and their value for money, and the effectiveness of the audit process. The Audit Committee's assessment will be informed by a customer satisfaction survey completed by members of the Group's senior management.
- 11.2 As part of its annual review, the Audit Committee will conduct a formal assessment of the External Auditor's independence and objectivity and, where appropriate, will address any changes to this Policy and such other steps as it may consider necessary.

## **12. Appointment of Auditor**

- 12.1 The External Auditor's appointment will be for a period of one year, from one Annual General Meeting to the next.
- 12.2 The existing External Auditor may be re-appointed on an annual basis under clause 12.1 above up to a maximum term of ten (10) years. This may be extended to a maximum of twenty (20) years provided that a tender process is conducted at the end of this period and for a further two (2) years in exceptional circumstances as determined by the Board.



12.3 The Audit Committee is responsible for making recommendations to the Board, for the Board to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the External Auditors.

12.4 In the event that the existing External Auditor is not re-appointed, a tender process will be applied to select the new External Auditor.

### 13. **Hiring arrangements**

13.1 Subject to any specific exceptions agreed by the Audit Committee in extenuating circumstances, the Group will not seek to:

- (a) hire any partner, director or senior manager of the External Auditor who has within the preceding two (2) years been involved in the audit of the Company's financial statements or the Group consolidated financial statements;
- (b) hire any partner or director of the External Auditor who has within the preceding two (2) years been involved in the audit of any other Group company's financial statements.

13.2 Subject to any specific exceptions agreed by the Audit Committee in extenuating circumstances, the External Auditor is required not to:

- (a) hire any officer, director or senior manager of the Group for involvement in the audit of the Company or the Group within two (2) years after termination of their employment agreement with the Group;
- (b) hire any officer, director or senior manager of the Group who has been involved in the management of any other group company for involvement in the audit of that group company within two (2) years after termination of their employment agreement with the Group.

### 14. **Communication**

14.1 The Company will disclose in its Annual Report the result of the Audit Committee's assessment of the External Auditor's independence and objectivity for the year under review.

14.2 The Company will disclose in its Annual Report the total fees paid to the External Auditor during the reporting period in accordance with the applicable statutory reporting requirements.

This policy will apply from 1 January 2017.