REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website:www.oagkenya.go.ke

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON BUSINESS REGISTRATION SERVICE FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such Services are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management, and Governance.

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Business Registration Service set out on pages 1 to 41 which comprise of the statement of financial position as at 30 June, 2025, and the statement of financial performance, statement of changes in net assets, statement of cash flows, and the statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Business Registration Service as at 30 June, 2025, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Business Registration Service Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Business Registration Service Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the prior year's audit report, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Service in Financial Year 2024/2025 revealed that the following five (5) issues remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Non-Compliance with the State Corporations Advisory Committee requirements
2	2023/2024	Irregular extension of contract for comprehensive medical insurance cover
3	2023/2024	Understaffing of the service

No.	Financial Year	Audit Issue
4	2023/2024	Weak internal controls over imprest management
5	2023/2024	Failure to open county offices

Other Information

The Management is responsible for the Other Information set out on pages iv to lx, which comprise of Key Entity Information and Management, Chairman's Statement, Report of the Director General, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors' Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Service's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is no material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with the State Corporations Advisory Committee Requirements

As reported previously, review of records revealed that the Business Registration Service did not submit compliance reports for approval to the State Corporations Advisory Committee (SCAC) as guided by the Office of the President Circular Ref. OP/CAB.9/1A dated 11 March, 2020. The Circular requires all State Corporations to file with SCAC their

Human Resource Compliance Reports, including payroll reports for all cadres of staff and other stated Human Resource Instruments for approval by 31 July of each year.

In the circumstances, Management was in breach of the SCAC Circular.

2. Irregular Extension of Contract for Comprehensive Medical Insurance Cover

Note 8 to the financial statements reflects Kshs.304,644,098 in respect to employee cost. The expenditure includes an amount of Kshs.18,769,959 in respect to employer contribution to health insurance. However, review of records indicates that a contract for Corporate Medical Insurance Cover for the year 2022-2024 was signed on 31 October, 2022 with a commencement date of 1 November, 2022 and expiring on 31 October, 2024 at a cost of Kshs.22,699,462. On the expiry of the contract on 31 October, 2024, the Service prepared an addendum to the contract to include a renewal of the contract for one year, commencing 1 November, 2024 to 1 November, 2025 at an enhanced cost of Ksh.24,975,028. The increments of Kshs.2,275,566 was not explained. Further, on 31 October, 2024, the parties drew another agreement referred to as Addendum 2, extending the contract for another year ending 31 October, 2025 at a cost of Kshs.14,736,674. The first and the second addendums were not explained nor justified.

In the circumstances, the regularity of the insurance expenditure of Kshs.18,769,959 could not be confirmed.

3. Insufficient Budgetary Allocation for the ICT Department

The approved budget for the year under review was Kshs.403,745,000, out of which the Information and Communication Technology (ICT) department was allocated Kshs. 4,476,882 or 1.1% of the approved budget. This was contrary to Section 14.4(a) of the Government Information and Communication Technology Governance Standards, 2023, which requires that Ministries, Counties, Departments, and Agencies allocate at least 5% of their funds for ICT activities through the annual budget.

In the circumstances, the amount of money allocated for the Information and Communication Technology (ICT) department could not be confirmed to be sufficient to maintain and upgrade the ICT system.

4. Lack of Climate Change Financing Requirements

Review of records revealed that the Service did not dedicate an amount in its annual budget directed towards Climate Change activities. The Service neither allocated nor tracked the use of funds specific to climate change interventions. Further, the Service lacks systematic records of climate change initiatives, including project outcomes, emissions reductions, and financial tracking. This was contrary to Regulation 6(1)(d) of the Climate Change (Duties and Incentives) Regulations, 2021, which requires each public entity at both the National and County Governments to dedicate an amount in its annual budget towards climate change activities.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on the Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Understaffing of the Service

As previously reported, review of the staff establishment as at 30 June, 2025 revealed that the Business Registration Service (BRS) had one hundred and thirteen (113) employees out of the recommended staff establishment of one hundred and sixty-two (162), resulting to an understaffing of forty-nine (49) staff, or 30% below the approved establishment. Despite the significant staffing shortfall, the BRS Management had neither developed a recruitment plan nor allocated a budget to address the deficit.

In the circumstances, the Service may not achieve its core mandate of administering laws relating to incorporation, registration, operation and management of companies, partnerships and firms.

2. Weaknesses in the Management of Imprest

Review of imprest register maintained by Management revealed that the Service issued multiple imprests amounting to Kshs.2,440,667 to various staff during the year under review. In addition, Kshs.4,409,000 was surrendered later than the stipulated seven (7) days after the safari. This was contrary to Regulation 93(8) of the Public Finance Management (National Government) Regulations, 2015 which requires that to effectively and efficiently manage and control the issue of temporary imprests, an accounting officer or AIE Holder shall ensure that no second imprest is issued to any officer before the first imprest is surrendered or recovered in full from his or her salary.

Further, imprests amounting to Kshs.12,526,000 was issued to a few staff on behalf of other officers. The system of issuing imprest to a few staff on behalf of others is susceptible to abuse, as secondary recipients may not be held accountable for imprests issued through other officers.

In the circumstances, the effectiveness of management control over imprest could not be confirmed.

3. Delayed Implementation of the Enterprise Resource Planning (ERP) System

Review of records revealed that the Service had procured an Enterprise Resource Planning (ERP) System at a cost of Kshs.9,000,000 in 2022. Although the system is currently in use, it has not been fully integrated to support all intended operations. Key modules, including Human Resource, Procurement and Finance are not functioning as per the service level agreement. Further, there were no user acceptance reports or implementation status reports available to identify existing gaps or outline Management's plans for addressing them. The incomplete integration undermines the effectiveness of the ERP system and limits its ability to deliver the intended operational benefit.

In the circumstances, value for money obtained from the procurement of Enterprise Resource Planning (ERP) system could not be confirmed.

4. Lack of ICT Strategic Plan

Review of Information Technology (IT) records revealed that the Service lacks an operational IT Strategic Committee and an Information and Communication Technology (ICT) Strategic Plan that guide the Information Technology operations. Further, the Service lacks business continuity and disaster recovery plans to support the organization's business processes.

In the circumstances, the policy, strategies and procedures put in place to assess, identify, measure, prioritize and mitigate risks in the Service could not be confirmed.

5. Failure to Open County Offices

As previously reported, review of the Service records on regional offices revealed that operational branches are only in Kisumu and Mombasa Counties. However, the strategic plan for 2021-2026 did not consider opening of regional offices in other Counties in Kenya contrary to Section (3) of Business Registration Service Act, 2015. The law provides that, the headquarters of the Business Registration Service shall be in the capital city, but the Business Registration Service shall establish branches in every County in Kenya to ensure reasonable access of its services.

In the circumstances, the effectiveness of service delivery by the entity could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Service's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Service's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

25 November, 2025