REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA LAW REFORM COMMISSION

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA LAW REFORM COMMISSION 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 funds 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 are aimed at addressing the statutory roles and responsibilities of the Auditor-General 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 Kenya Law Reform Commission set out on pages 1 to 52, 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 Kenya Law Reform Commission 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 Kenya Law Reform Commission Act, 2013 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 Kenya Law Reform Commission 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 audit 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 Commission in the financial year 2024/2025 revealed that the following eight (8) issues remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Understaffing
2	2023/2024	Non-Compliance with the One-Third Rule on Basic Salary
3	2023/2024	Failure to Surrender Other Income to The National Treasury
4	2023/2024	Lack of Physical Presence of the Commission in the Counties
5	2023/2024	Lack of an Operational and Approved Risk Management Policy
6	2023/2024	Unapproved Human Resource Instruments
7	2023/2024	Delay in the Appointment of the Commission Secretary
8	2023/2024	Failure to Establish the Staff Housing Mortgage and Car Loan Scheme Fund

Other Information

Management is responsible for the Other Information set out on pages iv to l, which comprise of Key Entity Information and Management, The Commission, Chairman's

Statement, Preface by the Acting Secretary, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, and the 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 Commission'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. Understaffing

Review of Human Resource records revealed that as at 30 June, 2025, the approved staff establishment of the Commission was two hundred and forty (240), but only sixty-six (66) positions were filled, resulting in a shortage of one hundred and seventy-four employees.

Failure to fill these vacancies has led the Commission to operate below optimal capacity and may have impacted negatively on service delivery to the public.

2. Non-Compliance with the One-Third Rule on Basic Salary

Review of payroll data revealed that during the year forty-seven (47) employees earned a net salary of less than one-third (⅓) of their basic salary. This was contrary to the provisions of Section 19(3) of the Employment Act, 2007, which states that the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

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

3. Non-Compliance with Climate Change Financing Requirements

Review of the Commission's budget and expenditure records revealed that the Climate Change action plan was not integrated into its sectoral strategies, action plans, and other implementation projections for legislative and policy functions. Further, the Commission had not designated a unit with adequate staffing and financial resources, nor appointed a senior officer to coordinate the mainstreaming of the Climate Change action plan and other statutory Climate Change responsibilities into sectoral strategies. This was contrary to The National Treasury Circular 13/2020, which requires Government entities to identify and report on climate-related budget allocations and provide quarterly expenditure data on climate and environmental projects.

In the circumstances, Management was in breach of The National Treasury's Circular.

4. Lack of Physical Presence of the Commission in the Counties

As previously reported, the Commission has only one office in Nairobi County, which may have limited its effectiveness in consulting and collaborating with state and non-state organs, departments, or agencies in developing legislation to implement current social, economic and Political policies. This was contrary to Section 7(2) of the Kenya Law Reform Commission Act, 2013, which requires the Commission to ensure access to its services nationwide, in accordance with Article 6(3) of the Constitution.

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 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. Lack of a Fully Constituted Board at the Commission

Review of records revealed that the Commission's Board is not fully constituted as required under the Kenya Law Reform Commission Act, 2013. Although the appointment of members of the Commissions Board was made through Kenya Gazette Notice Number 4863 of 20 December, 2019, effective from 13 December, 2019 for a term of five (5) years, which expired on 12 December, 2024, the Commission has been operating without representatives for the Council of Governors, the Director of Public Prosecutions (DPP), Law Society of Kenya and the Attorney-General.

Lack of a fully constituted Board undermines governance and statutory compliance. This may have negatively impacted governance and oversight and may weaken institutional capacity to deliver on its mandate.

In the circumstances, the effectiveness of the Board's decisions and the governance at the Commission could not be confirmed.

2. Lack of an Approved Operational Annual Board Work Plan

Review of documents relating to Board operations revealed there was lack of an approved and operational work plan aligned to the Commission's strategic annual performance targets and Government activities. Further, the Board did not submit its annual work plan aligned to the Commission's Strategic Plan, annual performance targets and calendar of Government activities to the State Corporations Advisory Committee (SCAC). This was contrary to Sections 3.3.1 and 3.3.2 of the Mwongozo Code of Governance for State Corporations, 2015, and the Public Finance Management Act, 2012, which require the Board to develop and approve an annual work plan to guide the execution of its mandate throughout the year.

In the circumstances, Management was in breach of the Code of Governance for State Corporations.

4. Delay in Appointment of the Commission Secretary

As previously reported, the Commission's Secretary/Chief Executive Officer was seconded to the Commission by the Public Service Commission for a period of five (5) years. The secondment was extended on 09 May, 2019 to remain in effect until the Commission was fully constituted. Management attributed the delay to the ongoing process of developing human resource instruments for all staff. However, these instruments are yet to be approved by the Public Service Commission for implementation. As at the time of the audit in November, 2025, the Board had not recruited the Commission Secretary.

In the circumstances, the effectiveness of the Board's decisions and the governance at the Commission could not be confirmed.

5. Lack of Board Committee Charter

Review of documents revealed that the Commission had three (3) operational Board Committees. However, the Committees operated without a formally documented and approved Committee Charter that clearly outlines their respective roles, responsibilities, authority and reporting relationships. This was contrary to Paragraph B.2 of the Office of the President Circular Reference No. OP/CAB.9/1A dated 11 March, 2020, on the Management of State Corporations, which requires each committee to have a Charter outlining its roles and responsibilities as guided by the State Corporations Advisory Committee.

Further, Section 6.2.1 of the Mwongozo Code of Governance for State Corporations, 2015, emphasizes that Board Committees must operate under clearly defined charters to ensure accountability and functional clarity.

In the circumstances, the effectiveness of governance at the Board Committees could not be confirmed.

6. Lack of a Risk Management Policy

As previously reported, the Commission did not have in place an operational and approved risk management policy and risk management strategies. This was contrary to Regulation 165(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015, which states that the Accounting Officer shall ensure that the National Government entity develops risk management strategies, which include fraud prevention mechanisms and a system of risk management and internal control that builds robust business operations.

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

7. Lack of Approved Human Resource Instruments

As previously reported, the Commission operated without an approved organization structure, staff grading, establishment, career guidelines and a human resource policy and procedures manual. Further, there was no evidence provided to show that the Human Resource Instruments had been submitted to or approved by the Public Service Commission.

In the circumstances, the absence of approved human resource instruments could negatively impact the effectiveness of the succession planning, staff development, career progression for existing employees and the overall implementation of the Commission's mandate.

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 the Management and the Commissioners

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 Commission'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.

The Commissioners are responsible for overseeing the Commission'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 in order 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

15 December, 2025