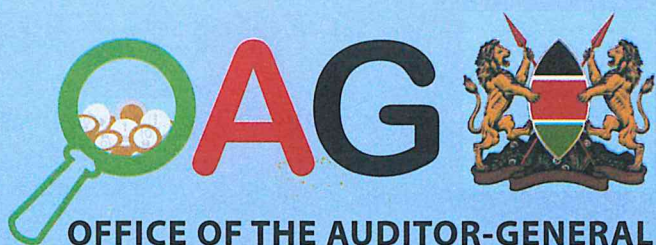


REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

**PUBLIC BENEFIT ORGANIZATIONS
REGULATORY AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE, 2025**

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON PUBLIC BENEFIT ORGANIZATIONS REGULATORY AUTHORITY 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 Public Benefit Organizations Regulatory Authority set out on pages 1 to 32, 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 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 Public Benefit Organizations Regulatory Authority 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 Public Benefit Organizations 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 Public Benefit Organizations Regulatory Authority 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.

Material Uncertainty Related to Going Concern

The statement of financial position reflects total current assets of Kshs.4,432,303 against total current liabilities of Kshs.23,496,047 resulting in a negative working capital of Kshs.19,063,744. Further, the Authority recorded a deficit of Kshs.18,266,986 compared to a deficit of Kshs.8,732,306 reported in 2023/2024 financial year, resulting to a decrease of the accumulated surplus from Kshs.35,502,408 (2023/2024) to Kshs.17,235,422 as at 30 June, 2025. The Authority is, therefore, technically insolvent and its continued operation as a going concern is dependent upon support from the National Government and its creditors.

My opinion is not modified in respect of this matter.

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 Information

The Management is responsible for the Other Information set out on page iii to xxxv which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer, 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 Public Benefit Organizations Regulatory Authority 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 a 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 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 Climate Change and Financing Laws

Review of the Strategic Plan 2023-2027 revealed that the Authority had not developed policies in line with the National Climate Change Action Plan and integrated them into the Strategic Plan. Further, Management had not established a well-resourced unit, headed by a senior officer, to coordinate climate change integration as required by Section 15(5) of the Climate Change Act, 2016.

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

2. Non-Compliance with Affirmative Action on Persons Living with Disability

Analysis of the payroll revealed that, the Authority had fifty-eight (58) members of staff as at 30 June, 2025 and none of them was a person with special needs. This was contrary to Section 2.8.6 of Non-Governmental Organizations (NGOs) Co-Ordination Board Human Resource Policies and Procedures Manual, 2020 that requires at least 5% of their staff to be persons with disabilities.

In the circumstances, Management was in breach of 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 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. Under Staffing

The Authority's approved staff establishment provides for two hundred and seven (207) substantive posts. However, the Authority had fifty-eight (58) positions filled, resulting in staff shortfall of one hundred and forty-nine (149) personnel. Although Management indicated that a budget has been secured for recruitment of twenty-five (25) additional personnel in 2025/2026 financial year, the Authority will remain understaffed.

In the circumstances, the Authority may not effectively and efficiently discharge its mandate due to understaffing.

2. Failure to Implement a Service Level Agreement on Enterprise Resource Planning System

Review of the contract, related extensions and correspondences on implementation of the Enterprise Resource Planning (ERP) system between the Authority and the vendor, revealed that the warranty period expired on the 24 August, 2023. Further, the Authority did not have a Service Level Agreement in place with the vendor of the ERP. Therefore, there is no formal framework obligating the vendor to provide technical support, guarantee minimum service levels or ensure system reliability.

In the circumstances, the absence of a Service Level Agreement exposes the Authority to potential operational risks, unresolved technical issues and system downtimes, compromising overall efficiency and effectiveness of its operations.

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 Board of Directors

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 Authority'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 Board of Directors is responsible for overseeing the Authority'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