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SPECIAL AUDIT REPORT
OF THE AUDITOR-GENERAL ON
PAYROLL MANAGEMENT FOR
COUNTY EXECUTIVE OF MAKUENI

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COUNTY 017
JULY 2025



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FOREWORD BY THE AUDITOR-GENERAL

I am pleased to present this Special Audit Report on payrolls for the Makueni County Executive for the financial years 2021/2022, 2022/2023, and 2023/2024. Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7(1)(a) of the Public Audit Act, 2015 requires the Auditor-General to give assurance on the effectiveness of internal controls, risk management and overall governance at national and county governments. The Special Audit of the payrolls for the Makueni County Executive was conducted in line with this mandate.

The Special Audit evaluated the human resource and payroll processes at the Makueni Executive, and assessed their compliance with the established legal framework on payroll management. The scope of the Special Audit covered the requirements of the Second Kenya Devolution Support Programme (KDSP II), whose objective is to strengthen county-level performance and accountability.

The Special Audit identified weaknesses in controls and irregularities in salary processing and payments, and provides recommendations to the Makueni Executive for enhancing compliance, accuracy, accountability, and efficiency in payroll management.

The report is submitted to Parliament in accordance with Article 229 (7) of the Constitution of Kenya, 2010, and Section 39 (1) of the Public Audit Act, 2015. I have remitted copies of the report to the Principal Secretary, State Department for Devolution, Chairperson, the Makueni County Public Service Board, and the Governor, Makueni County Government.

The Annexures contain personal data and will be handled in accordance with the data protection principles as provided for in the Data Protection Act, 2019.


FCPA Nancy Gathungu, CBS

AUDITOR-GENERAL

8 July, 2025

TABLE OF CONTENTS

List of Figures.....	iii
List of Tables	iii
ABBREVIATIONS.....	iv
1. EXECUTIVE SUMMARY	1
2. INTRODUCTION AND BACKGROUND	13
Introduction and Background	13
Audit Objectives	16
Audit Scope and Limitations.....	16
Methods of Gathering Evidence	17
3. DETAILED FINDINGS.....	19
A. Payroll Budgeting.....	19
B. Recruitments Process.....	21
C. Employee Data Management	22
D. Payroll Processing and Payments	24
E. Compliance with Laws and Regulations	25
F. Migration from Integrated Personnel and Payroll Database System to Human Resource Information System-Kenya.....	27
4. CONCLUSION.....	28
5. RECOMMENDATIONS	30
6. APPENDICES	32
Appendix 1: List of Staff Interviewed	32
Appendix 2: List of Annexures.....	32

List of Figures

Figure 1: Cumulative Growth in Payroll Costs.....	15
Figure 2: Cumulative Growth of Staff	15

List of Tables

Table 1: Budgeted Employee Cost to Budgeted Revenue ratio	20
Table 2: Actual Employee Cost to Revenue ratio.....	20
Table 3: Overpayment & Underpayment of Salary and Allowances.....	27

ABBREVIATIONS

CBA	Collective Bargaining Agreement
COB	Controller of Budget
COs	Chief Officers
CPSB	County Public Service Board
DO	Development Objective
DSA	Daily Subsistence Allowance
DLI	Disbursement-Linked Indicator
GoK	Government of Kenya
HR	Human Resource
HRIS-Ke	Human Resource Information System – Kenya
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IPPD	Integrated Payroll and Personnel Database
ISSAIs	International Standards of Supreme Audit Institutions
KDSP	Kenya Devolution Support Programme
KRA	Key Result Area
MIS	Management Information System
NMS	Nairobi Metropolitan Services
NHIF	National Hospital Insurance Fund
NSSF	National Social Security Fund
OAG	Office of the Auditor-General
PAYE	Pay As You Earn
PFM	Public Finance Management
PSC	Public Service Commission
SRC	Salaries and Remuneration Commission

1. EXECUTIVE SUMMARY

Introduction and Background

- 1.1 Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7 (1) (a) of the Public Audit Act, 2015 requires the Auditor-General to give an assurance on the effectiveness of internal controls, risk management and overall governance at national and county governments. In addition, Section 34 of the Public Audit Act, 2015 mandates the Auditor-General to conduct periodic audits upon request or at the Auditor-General's own initiative, with a view to evaluating the effectiveness of risk management, control and governance processes in public entities. The Special Audit on Payroll Management for the Makueni County Executive, referred to as the County Executive in this report, was conducted in line with this mandate.
- 1.2 The Government of Kenya (GoK) received an International Development Association (IDA) Credit of EUR140.7 million (Approximately Kshs. 19,538,432,130 using the prevailing exchange rate as at 28 June 2024) from the World Bank, to implement the Second Kenya Devolution Support Program (KDSP II). KDSP II supports a sub-set of reforms envisaged under the Government's Devolution Sector Plan. The financing agreement, Credit Number IDA-7447-KE, became effective in March 2024 and is set to be implemented over a four-year period; 2023-2027. The development objective of the KDSP II is to strengthen county performance in the financing, management, coordination, and accountability for resources. To achieve the DO, the Program was expected to improve outcomes in the participating counties under three (3) Key Result Areas (KRAs). KRA 1 was on sustainable financing and expenditure management, KRA 2 on intergovernmental coordination, institutional performance, and human resource management, and KRA 3 on oversight, participation, and accountability.
- 1.3 The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2 There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:
- i. Participating counties that have integrated their human resource records, authorized staff establishment and payroll, and uploaded

cleaned payrolls in the human resource management information system;

- ii. Participating counties that are enhancing accountability for results through an integrated performance management framework.

- 1.4 From 2013, the County Executive was using the Integrated Payroll and Personnel Database (IPPD) System to operate payroll for employees with personal numbers, while excel spreadsheets were used to operate payroll for employees without personal numbers. However, due to technological limitations at the time of its development, IPPD did not comprehensively address all human resource related functions. This led to development of a web-based Human Resource Information System-Kenya (HRIS-Ke) in 2024.
- 1.5 A parallel run of the IPPD System and HRIS-Ke was conducted across Ministries, Departments and Agencies and County Governments in November 2024. This was to ensure the readiness of the HRIS-Ke for roll out. Thereafter, in January 2025, the HRIS-ke was fully adopted for payroll management.

Audit Objectives

- 1.6 The objective of the Special Audit on Payroll Management was to assess the adequacy of controls and compliance across the entire payroll process from budgeting and recruitment to salary processing and payment. The specific objectives were to:
 - i. Evaluate whether the preparation and execution of the payroll budget align with relevant laws and approved budgetary provisions;
 - ii. Assess whether the recruitment process complied with applicable legal, regulatory, and organizational frameworks governing employment;
 - iii. Assess the integrity of payroll data and identify any double entries, entries in multiple institutions, unverified employees, or inconsistencies across the County Government Payroll System;
 - iv. Determine the accuracy of payroll calculations and payments;
 - v. Evaluate adherence to tax laws, labour laws, and other statutory requirements; and

- vi. Assess whether payroll data was accurately and completely migrated from the Integrated Payroll and Personnel Database (IPPD) System to Human Resource Information System – Kenya (HRIS-Ke).

Audit Scope and Limitations

- 1.7 The Special Audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual and casual payrolls
- 1.8 The County Executive did not provide the bank statements for the three financial years under review. This limitation was mitigated by corroboration of information from different sets of payment records maintained by the County Executive.

Methods of Gathering Evidence

- 1.9 The Special Audit of payrolls involved review of payroll processes at the County Headquarters, analysis of payroll data and comparison with records maintained by the County Executive.
- 1.10 The methods used to gather audit evidence included document review, data analytics, interviews with key payroll staff and physical verification of staff. Further, audit evidence was gathered through walk through tests. In addition, data validation was also conducted to test data integrity.

Summary of Findings

The key audit findings are as follows:

A. Payroll Budgeting

I. Employee Cost to Revenue Ratio

- 1.11 An analysis of the Makueni County Executive's financial performance revealed consistent non-compliance with Regulation 25(1)(a) of the Public Finance Management (County Governments) Regulations, 2015, which limits employee compensation to 35% of revenue. Budgeted employee compensation exceeded this threshold in two out of three financial years. Furthermore, actual personal emolument expenditure also surpassed the 35% limit in all three financial years, indicating a sustained challenge in managing personnel costs relative to revenue.

II. Budget Votes in Payroll Systems not Aligned with those in Approved Budget

- 1.12 A review of payroll reports from the IPPD system against the approved budget revealed a significant misalignment of vote heads. The continued use of outdated departmental structures within the IPPD system creates inconsistencies between budgetary allocations and actual payroll expenditures, escalating the risk of misallocation or misuse of public funds due to expenditures being charged to incorrect vote heads.

B. Recruitment Process

I. Lack of Annual Recruitment Plans

- 1.13 The County Executive recruited a total of four hundred and ninety (490) employees across the three financial years. However, a significant control weakness was identified: the recruiting departments lacked annual recruitment plans to guide these hires.

II. Designations in the Integrated Payroll and Personnel Systems not Aligned with Approved Staff Establishment

- 1.14 The special audit identified four hundred and seventy-three (473) designations configured within the IPPD system. Of these, ten (10) designations, encompassing eleven (11) employees, were not present in the approved staff

establishment. This misalignment between IPPD staffing records and the official staff establishment hindered the ability to confirm that positions were filled in accordance with approved organizational structures. This discrepancy carries risks of inefficient workforce planning, potential budget overruns, and adverse impacts on service delivery.

C. Employee Data Management

I. Integrity of Date of Birth Data in IPPD Systems

- 1.15 Three hundred and seventy-two (372) employees in the IPPD system birthdates differed from those on their Birth Certificates, contrary to the directive in circular Ref. No: PSC/ ADM/ 13(9) dated 19 November 2020. Out of forty-four (44) employees sampled for physical verification, three (3) were noted not to have different birth dates in their birth certificates to IPPD system records. This inaccuracy poses a significant risk of errors in determining retirement ages, potentially leading to employees working beyond the legal retirement age or being forced into early retirement. Furthermore, it introduces a risk of miscalculating retirement dates, pension dues, and other age-dependent entitlements.

II. Missing Bio Data details in Manual Payroll

- 1.16 An analysis of manual payroll data across the three-year period revealed significant omissions in employee statutory deductions information. Specifically, NSSF numbers were not captured for one hundred and forty-eight (148) employees, and NHIF numbers were missing for eight hundred and ten (810) employees. This lack of essential information in the payroll system poses compliance risks and could impact accurate remittances of statutory deductions.

III. Drawing Salary from Different Government Entities

- 1.17 Ten (10) employees were found to be dually engaged by both the County Executive and other government agencies during the review period. These officers received a total of Kshs. 9,673,960 in payments during this period of dual employment, raising concerns about adherence to legal and financial management principles.

IV. Failure of Chief Officers to Account for Human Resources in their Departments.

- 1.18 A comparison of CO-provided staff lists with the IPPD system's staff register revealed significant discrepancies. Specifically, fifteen (15) employees appeared on Chief Officers' lists but were not present in the IPPD system. Conversely, one hundred and seventy-three (173) employees, who collectively received Kshs.15,493,441 in payments during the financial year, were found in the IPPD system but were not included in the lists provided by their respective Chief Officers. This significant mismatch between departmental records and the central payroll system highlights weaknesses in financial accountability and staff oversight.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Budget Vote

- 1.19 A significant misalignment was identified between departmental vote heads in the IPPD system and the IFMIS ledger accounts. Consequently, a comparison of gross salaries processed via IPPD and manual payrolls against IFMIS salary ledgers revealed that salary postings in IFMIS were not aligned with departmental budget votes. This discrepancy indicates a lack of consistent financial coding across systems, which can hinder accurate budget tracking and reporting.

E. Compliance with Laws and Regulations

I. Non-Compliance to Remittance of Statutory Deductions

- 1.20 Comparison of statutory deduction for employees in the IPPD payroll system with Bank Statements established cases of delay in remittance of NSSF and NHIF in July 2021 and March 2022 of the 2021/2022 and July 2022 of the 2022/2023 financial year.

II. Nugatory Expenditure on Staff Cost

- 1.21 The County Executive incurred Kshs. 3,248,283 in penalties and interest during the 2021/2022 financial year due to delayed salary repayments. This expenditure represents an avoidable and wasteful use of public funds,

contributing to budgetary constraints and indicating a weakness in financial risk management.

III. Non-Compliance with Requirement on Ethnic Diversity

- 1.22 An analysis of employee demographics within the IPPD system revealed significant non-compliance with national and county diversity regulations. Specifically, recruitment of staff from the dominant ethnic community during the three financial years averaged 92% thus not meeting the threshold for entry-level posts as required by Section 65(1) of the County Governments Act, 2012. Furthermore, as of June 30, 2024, 93% of the total staff in the IPPD system were from one dominant ethnic community, directly contravening Section 7(2) of the National Cohesion and Integration Act, 2008, which limits staff from a single ethnic community to one-third. This consistent non-compliance with ethnic diversity requirements poses a violation of legal mandates and carries the risk of potential legal action.

IV. Non-Compliance with One Third Basic Salary Rule

- 1.23 An analysis of the June 2024 staff payroll revealed that two hundred and fifty-seven (257) employees received net salaries that were less than one-third of their basic salaries. .

F. Migration from Integrated Personnel and Payroll Database System to Human Resource Information System-Kenya

I. Employees not migrated and Employees Introduced in HRIS-Ke Payroll

- 1.24 Analysis of the HRIS-Ke December 2024 payroll against the IPPD November 2024 payroll revealed there ten (10) officers who were in the November IPPD payroll were not migrated to the HRIS-Ke December payroll. Further, analysis revealed some sixteen (16) officers who were not in the November IPPD payroll but introduced in the HRIS-Ke December payroll.

II. Overpayment and Underpayment of Salary and Allowances

- 1.25 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between November, 2024 IPPD data and December 2024 HRIS-Ke data established instances of overpayment and underpayments of salaries and allowances.

Conclusion

- 1.26 The Special Audit of payrolls for Makueni County Executive uncovered several audit issues in payroll and human resource management, which may negatively affect its financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 1.27 The Makueni County Government did not comply with requirement on limiting the Employee Cost within thirty-five (35%) of Revenue. The non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 1.28 The Vote Heads in the IPPD System and HRIS-Ke were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 1.29 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of annual recruitment plans demonstrates ineffective workforce planning. This hampers the county's ability to plan, budget, and deploy personnel effectively across departments, leading to staffing gaps or surpluses.
- 1.30 The IPPD System and HRIS-Ke were not updated with approved designations in the approved staff establishment. The failure by the County Executive to update the Payroll Systems with approved designations in the approved staff establishment undermines budgetary control and increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.

- 1.31 The authenticity of some of the employees could not be established. This was evidenced by the failure by the Chief Offices to account for employees in their departments, the payroll data Integrity issues, employees drawing salary from different government entities and failure by employees to appear for physical verification. This casts doubt on authenticity of payroll records and raises the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County.
- 1.32 There were instances where employees were paid irregular allowances. The payment of irregular allowances reflects weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of financial misstatements, fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 1.33 The controls over processing and payment of salary were not adequate as evidenced by the unauthorized job group changes, circumventing payroll controls to pay irregular salary Arrears and nugatory expenditure on staff cost. This indicates weak financial and human resource controls, exposing the payroll to fraud and abuse.
- 1.34 The IPPD System provision for manual entry of arrears without automated controls or validation created a loophole that has been exploited to process irregular payments. This weakness undermines the reliability of payroll data, increases the risk of financial loss, and reflects inadequate system and management controls.
- 1.35 The County Executive did not comply with tax and labour laws as evidenced by evidenced by delayed statutory remittances and prolonged engagement of casuals. This violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.36 The migration from the IPPD System to the HRIS-Ke was inadequately managed as evidence by overpayments and underpayments of allowances, and non-deduction of statutory deductions that arose from migration. This indicates weaknesses in data validation, lack of system configuration to enforce

salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.

1.37 The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

1.38 The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

Recommendations

- 1.39 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Makueni County Executive.
- 1.40 To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue, the County Assembly should establish mechanisms to ensure compliance with the PFM Act in the execution of its oversight responsibilities.
- 1.41 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer for Public Finance together with the management of the State Department for Public Service and Human Capital Development (the custodian of the Human Resource Information System-Kenya) should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 1.42 To enhance the attainment of optimal staffing levels, management of the County Executive should align the payroll system with the approved staff establishment and ensure consistency between authorized positions and personnel data. Additionally, the staff establishment module in the HRIS-Ke should be fully implemented and configured to enforce recruitment strictly within the approved establishment limits.
- 1.43 To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.

- 1.44 To ensure no payment is made to non-existent employees, salary payments to all staff who failed to appear for physical verification should be suspended.
- 1.45 To reduce opportunity for process irregular payments by exploiting existing weakness in arrear payments, the management of the County Executive together with that of State Department for Public Service and Human Capital Development should automate the processing of arrears by eliminating manual entry fields and integrating system-based validation rules. This will enhance control, ensure consistency with approved policies, and reduce the risk of irregular or unauthorized payments.
- 1.46 To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.
- 1.47 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

2. INTRODUCTION AND BACKGROUND

Introduction and Background

- 2.1 Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7 (1) (a) of the Public Audit Act, 2015 requires the Auditor-General to give an assurance on the effectiveness of internal controls, risk management and overall governance at national and county governments. In addition, Section 34 of the Public Audit Act, 2015 mandates the Auditor-General to conduct periodic audits upon request or at the Auditor-General's own initiative, with a view to evaluating the effectiveness of risk management, control and governance processes in public entities. The Special Audit on Payroll Management for the Makueni County Executive, referred to as the County Executive in this report, was conducted in line with this mandate.
- 2.2 The Government of Kenya (GoK) received an International Development Association (IDA) Credit of EUR140.7 million (Approximately Kshs. 19,538,432,130 using the prevailing exchange rate as at 28 June 2024) from the World Bank, to implement the Second Kenya Devolution Support Program (KDSP II). KDSP II supports a sub-set of reforms envisaged under the Government's Devolution Sector Plan. The financing agreement, Credit Number IDA-7447-KE, became effective in March 2024 and is set to be implemented over a four-year period; 2023-2027. The development objective of the KDSP II is to strengthen county performance in the financing, management, coordination, and accountability for resources. To achieve the DO, the Program was expected to improve outcomes in the participating counties under three (3) Key Result Areas (KRAs). KRA 1 was on sustainable financing and expenditure management, KRA 2 on intergovernmental coordination, institutional performance, and human resource management, and KRA 3 on oversight, participation, and accountability.
- 2.3 The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2 There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:

- i. Participating counties that have integrated their human resource records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the human resource management information system;
 - ii. Participating counties that are enhancing accountability for results through an integrated performance management framework.
- 2.4 From 2013, the County Executive was using the Integrated Payroll and Personnel Database (IPPD) System to operate payroll for employees with personal numbers, while excel spreadsheets were used to operate payroll for employees without personal numbers. However, due to technological limitations at the time of its development, IPPD did not comprehensively address all human resource related functions. This led to development of a web-based Human Resource Information System-Kenya (HRIS-Ke) in 2024.
- 2.5 A parallel run of the IPPD System and HRIS-Ke was conducted across Ministries, Departments and Agencies and County Governments in November 2024. This was to ensure the readiness of the HRIS-Ke for roll out. Thereafter, in January 2025, the HRIS-ke was fully adopted for payroll management.

Numbers of Employees and Payroll Expenditure

- 2.6 Over the three-year period under review, there was a change in the number of employees and payroll costs. The decrease between the 2021/2022 and 2022/2023 financial years was mainly due to exits, mostly from the Health Department. During the 2022/2023 and 2023/2024 financial years, there was a slight rise in number of employees due to recruitments, consequently raising the payroll costs.
- 2.7 The overall staff change across the audit period was **12%**. While the cumulative change in payroll costs over the three years was approximately **(-0.7%)** as shown in **Figures 1 and 2**.

Figure 1: Cumulative Growth in Payroll Costs

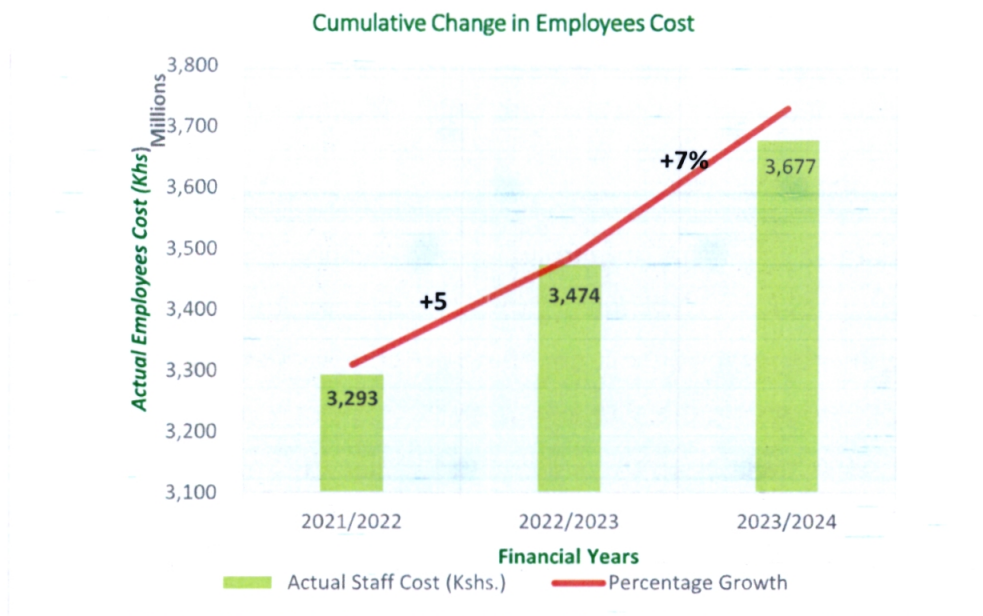
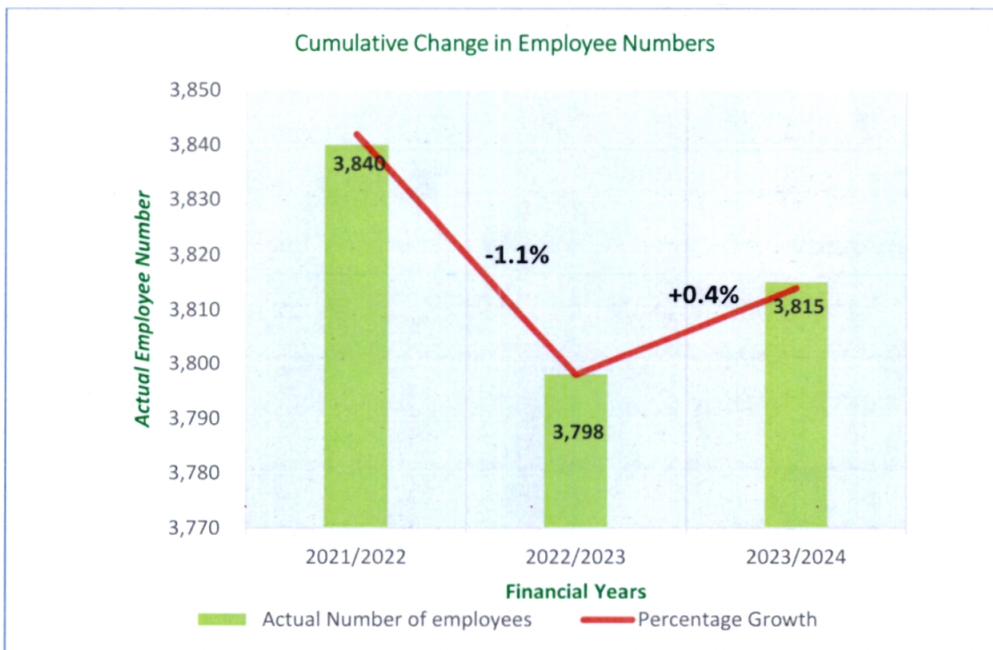


Figure 2: Cumulative Growth of Staff



2.8 The higher rate of growth in payroll compared to staff numbers indicates a combination of factors, including exits of officers, payment of arrears and introduction of new statutory deductions in payroll.

Audit Objectives

- 2.9 The overall objective of the Special audit of payrolls was to evaluate the accuracy, compliance, and efficiency of payroll processes, ensuring proper compensation, adherence to regulations, and safeguarding against errors.
- 2.10 The specific objectives were to:
- i. Evaluate whether the preparation and execution of the payroll budget align with relevant laws and approved budgetary provisions;
 - ii. Assess whether the recruitment process complied with applicable legal, regulatory, and organizational frameworks governing employment;
 - iii. Assess the integrity of payroll data and identify any double entries, entries in multiple institutions, unverified employees, or inconsistencies across the County Government Payroll System;
 - iv. Determine the accuracy of payroll calculations and payments;
 - v. Evaluate adherence to tax laws, labour laws, and other statutory requirements; and
 - vi. Assess whether payroll data was accurately and completely migrated from the Integrated Payroll and Personnel Database (IPPD) System to Human Resource Information System – Kenya (HRIS-Ke).

Audit Scope and Limitations

- 2.11 The audit entailed in-depth review of the payroll management systems maintained in the County Executive, which included Integrated Personnel and Payroll Databases (IPPD) system, manual payrolls, causal payrolls and the Human Resource Information System- Kenya (HRIS-Ke).
- 2.12 The payroll data for the three (3) financial years 2021/2022, 2022/2023 and 2023/2024 was used to assess the internal controls in payroll processing and compliance with laws and regulations. However, to test migration from IPPD to HRIS-Ke, the scope was extended to December 2024.
- 2.13 The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). These standards require that the audit is planned and performed so as to draw reasonable audit conclusions on the design, implementation and operating effectiveness of internal controls.

Methods of Gathering Evidence

- 2.14 The Special audit of payrolls involved review of payroll processes at the County Headquarters, analysis of payroll data and comparison with records maintained by the County management.
- 2.15 The main evidence gathering methodologies applied during the audit included, document review, data analytics, interviews with key payroll staff and physical verification of staff.

a) Document Review

- 2.16 The audit team reviewed various documents including: -
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Governments) Regulations, 2015;
 - iv. County Government Acts, 2012;
 - v. Employment Act, 2007;
 - vi. SRC Circular, Ref No: SRC/TS/CGOVT/3/16 dated 29 July 2013;
 - vii. SRC Circular, Ref No: SRC/TS/29(81) dated 10 August 2022;
 - viii. Compendium of Remuneration and Benefit for Public Service dated December 2022;
 - ix. Approved Staff Establishment 2018;
 - x. Collective Bargaining Agreements (CBAs);
 - xi. Financial statements for the financial years 2021/2022, 2022/2023 and 2023/2024.

b) Data Analytics

- 2.17 Payroll and staff register data from IPPD system and HRIS-Ke were extracted and analyzed together with manual and casuals payrolls. The exceptions from the analysis were the basis for verification with payroll records maintained by the County.
- 2.18 The following data sets for financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed: -
- i. IPPD Staff Registers and Payroll data;

- ii. Manual Payroll data;
- iii. Votebooks and IFMIS Account Analysis Reports;
- iv. Staff Emoluments IFMIS Ledgers;
- v. Chief Officers staff list as at 30 June 2024; and
- vi. HRIS-Ke Payroll data for the month of December 2024.

c) Interviews

2.19 The audit team interviewed relevant payroll officers from the County Executive and County Public Service Board (CPSB) to understand payroll processes and obtain clarification on audit issues. The officers interviewed as are as shown in **Appendix 1**.

d) Physical verification of staff

2.20 The audit team requested all the Chief Officers to provide countersigned list of staff members in their departments as of 30 June 2024. This list was corroborated with the IPPD staff registers maintained in the County.

2.21 The audit team through the County Secretary, requested forty-four (44) employees to appear in person for a physical verification, which was based on initial exceptions during data analytics. This verification was to ensure existence of staff, their employment status and accuracy of personal data maintained in the payroll systems.

Report Structure

2.22 The report is organized as follows:

- i. Executive Summary;
- ii. Detailed Findings;
- iii. Conclusion;
- iv. Recommendations; and
- v. Appendices.

2.23 The report should be read in its entirety to fully comprehend the approach to the audit, findings, conclusions and recommendations made.

3. DETAILED FINDINGS

3.1 The detailed findings are in the ensuing paragraphs and have been categorized into the following six (6) broad areas:

- a. Payroll Budgeting
- b. Recruitment Process
- c. Employee Data Management
- d. Payroll Processing and Payments
- e. Compliance with Laws and Regulations
- f. Migration from Integrated Personnel and Payroll Database System to Human Resource Information System-Kenya.

A. Payroll Budgeting

3.2 The audit of payroll budgeting aimed at assessing the reasonableness of payroll forecasts, alignment with approved budgets and compliance with set laws. The following were established:

I. Employee Cost to Revenue Ratio

3.3 Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 requires the County Executive Committee Member for finance with the approval of the County Assembly to set a limit on the county government's expenditure on wages and benefits for its public officers pursuant to section 107(2) of the Public Finance Management Act, 2012. Regulation 25(1)(b) requires the limit set not to exceed thirty-five (35) percent of the county government's total revenue.

3.4 Comparison of budgeted compensation of employees with total budgeted revenue for the County Executive revealed that budgeted compensation of employees exceeded 35% of the revenue in two (2) of the three (3) financial years contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 as shown in **Table 1**.

Table 1: Budgeted Employee Cost to Budgeted Revenue ratio

Financial Year	Total Budget Revenue (Kshs.)	Budgeted Personal Emolument (Kshs.)	% of Utilization
2021/2022	11,544,836,718	3,995,192,181	35%
2022/2023	9,808,966,758	4,067,217,930	42%
2023/2024	10,233,333,653	4,213,892,127	41%

*Source: Financial Statements

- 3.5 Further, comparison of actual personal emolument expenditure with actual revenue as reflected in the financial statements revealed the County Executive exceeded the thirty-five (35%) percent threshold in the three (3) financial years, as shown in **Table 2**.

Table 2: Actual Employee Cost to Revenue ratio

Financial Year	Total Revenue (Kshs.)	Actual Personal Emolument (Kshs.)	Actual Employee Cost to Revenue Ratio
2021/2022	8,777,873,656	3,405,879,803	39%
2022/2023	8,278,384,792	4,067,217,930	49%
2023/2024	8,259,693,356	3,837,996,248	46%

*Source: Financial Statements

- 3.6 The high allocation to compensation of employee may strain the county's financial resources, limiting funds available for critical development projects and essential service delivery.

II. Budget Votes in Payroll Systems not Aligned with those in Approved Budget

- 3.7 Regulation 22(1)(b) of Public Finance Management (County Governments) Regulations, 2015 requires an Accounting Officer to maintain effective systems of internal control and have measures to ensure their effectiveness.
- 3.8 Comparison of payrolls reports extracted from IPPD system with approved budget established that the vote heads in the IPPD system were not aligned with those in the approved budget as detailed in **Annexure 1**.
- 3.9 One of the primary factors contributing to the misalignment between the departments and the vote lines was the failure to update the IPPD system to reflect changes resulting from the restructuring and consolidation of various sectors within the County Executive.

- 3.10 The continued referencing to outdated departmental structures leads to inconsistencies between budgetary allocations and actual payroll expenditures, increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect vote heads.

B. Recruitments Process

- 3.11 The recruitment process was reviewed in order to establish whether the hiring practices were fair and aligned with the County Executive's policies and legal requirements. The following issues were revealed:

I. Lack of Annual Recruitment Plans

- 3.12 Section 59(1)(g) of the County Governments Act, 2012 require the County Public Service Board of a county to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. Further, Regulation 119(2) of the Public Finance Management (County Governments) Regulations requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.
- 3.13 The County Executive recruited two hundred and twenty-eight (228) employees during the financial year 2021/2022, one hundred and thirty (130) during 2022/2023, and one hundred and thirty-two (132) during 2023/2024 financial year, as detailed in **Annexure 2**. However, it was established that the recruiting departments did not have annual recruitment plans to guide the recruitments.
- 3.14 The lack of annual recruitment plans supported by budgetary provisions can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

II. Designations in the Payroll Systems not Aligned with Approved Staff Establishment

- 3.15 Regulation 22(1)(b) of Public Finance Management (County Governments) Regulations, 2015 requires an Accounting Officer to maintain effective systems of internal control and have measures to ensure their effectiveness.

- 3.16 The Special Audit established that there were four hundred and seventy-three (473) designations that were configured in IPPD system. However, out of the configured designations, ten (10) were not in the approved staff establishment. There were twenty-two (22) employees who were grouped in the ten (10) designations as detailed in **Annexure 3**.
- 3.17 As a result of the misalignment between the staffing records in the IPPD system and the approved staff establishment, it was not possible to establish whether the County filled positions in accordance with the approved staff establishment. This may lead to inefficiencies in workforce planning, budget overruns and service delivery.

C. Employee Data Management

- 3.18 The Special audit of employee's data management involved assessing the accuracy and completeness of both manually maintained and IPPD based staff registers. The following issues were established:

I. Integrity of Date of Birth Records in IPPD Systems

- 3.19 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective. Further, Circular Ref. No: PSC/ ADM/ 13(9) dated 19th November 2020 from Public Service Commission to all authorized officers stipulates that the date of birth as per the Birth Certificate should be considered as a public officer's official date of birth.
- 3.20 Comparison between the IPPD records and identification records for employees established that the birth dates for three hundred and twenty-seven (372) employees captured in IPPD system were different from that in employee's Birth Certificates, contrary to the directive outlined in circular Ref. No: PSC/ ADM/ 13(9), dated 19 November, 2020 as detailed in **Annexure 4**.
- 3.21 Interviews of forty-four (44) sampled employees and verification of documents maintained in their personal files revealed that the birth dates captured in IPPD system for the three (3) officers were inaccurate which may lead to errors in determining retirement age.

- 3.22 Inaccurate capture of dates of birth leads to the risk of exceeding the legal retirement age or forcing an employee to retire before they are due for retirement. There is also the risk of miscalculation of retirement dates and pension dues of employees, as well as other entitlements that are calculated based on age.

II. Missing Bio Data details in Manual Payroll

- 3.23 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective.
- 3.24 Analysis of the manual payroll data for the three (3) years revealed that NSSF numbers for one hundred forty-eight (148) employees and NHIF numbers for eight hundred and ten (810) employees were not captured in the payrolls. As details in **Annexure 5**.

III. Drawing Salary from Different Government Entities

- 3.25 Section 149(1) of the Public Finance Management Act, 2012 imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is (a) lawful and authorized, and (b) effective, efficient, economical and transparent.
- 3.26 The Special audit established that during the years under review, ten (10) employees had been engaged by both the County Executive and other Government agencies. During this period of dual engagement, the officers received a total of Kshs.9,673,960 in payments as detailed in **Annexure 6**.

IV. Failure of Chief Officers to Account for Human Resources in their Departments.

- 3.27 Section 148(1) of Public Finance Management Act, 2012 requires a County Executive Committee member for finance to, except as otherwise provided by law, in writing designate accounting officers to be responsible for managing the finances of the county government entities as is specified in the designation. Further, Sub-Section (2) requires the person responsible for the administration of a county government entity to be the accounting officer responsible for

managing the finances of that entity except as otherwise stated in other legislation.

- 3.28 The Letter of Engagement addressed to the County Secretary for the in-depth audit of payroll, dated 25th November 2024, Ref: OAG/SAS/SADS/KDSP-PAYROLL/3/017 required Chief Offices (COs) to provide list of staff members in their department as at 30th June 2024. This list was to be compared with employees in the Payroll Systems and those not in the Chief Officer's list flagged for physical verification.
- 3.29 Comparison of the staff lists countersigned by various Chief Officer's with staff register from IPPD system established that there were fifteen (15) employees appearing on the Chief Officer's lists but not in IPPD as detailed in **Annexure 7**. Further, one hundred and seventy-three (173) employees who were paid Kshs.15,493,441 during the financial year under review were in IPPD system but not in lists provided by Chief Officers as detailed in **Annexure 8**.

D. Payroll Processing and Payments

- 3.30 The audit assessed controls in payroll processing and payments to determine whether employee salaries and deductions were accurately calculated, authorized, and compliant with applicable laws and policies and the accuracy of payments. The following issues were established:

I. Charging of Employee Costs to the Wrong Budget Vote

- 3.31 Regulation 22(1)(b) of Public Finance Management (County Governments) Regulations, 2015 requires an Accounting Officer to maintain effective systems of internal control and have measures to ensure their effectiveness.
- 3.32 The Audit established that there was a misalignment between departmental vote heads in IPPD system and those in IFMIS ledger account. As a result, comparison of gross salary processed through IPPD system and manual payrolls to salary ledgers from Integrated Financial Management Information System (IFMIS) established that posting of salary in IFMIS was not done as per departmental budget votes as shown in **Annexure 9**.
- 3.33 The misalignment creates inconsistencies between budget allocations and actual expenditures by departments, therefore increasing the risk of misuse of funds and inaccurate financial reporting.

E. Compliance with Laws and Regulations

3.34 The audit assessed the County Executive's adherence to labor laws and statutory deductions, and timeliness and accuracy in reporting to regulatory bodies. The following issues were established:

I. Non-Compliance to Remittance of Statutory Deductions

3.35 Section 15(4) of the National Health Insurance Fund (NHIF) Act, 1998 (now repealed) required contributions to NHIF be made by ninth day of the month following that of deduction.

3.36 Section 20(1A) of the National Social Security Fund Act, 2013 states An employer shall pay the contribution under subsection (1) on the ninth day of each month or on such later date as the Board may, in consultation with the Cabinet Secretary, prescribe.

3.37 Comparison of statutory deduction for employees in the IPPD payroll system with Bank Statements established cases of delay in remittance of statutory deductions as detailed in **Annexure 10**.

3.38 Failure to remit statutory deductions on time exposes the County to penalties, interest and reputational risks, thereby undermining stakeholders' confidence.

II. Nugatory Expenditure on Staff Cost

3.39 Regulation 158 (1)(a) of the Public Finance Management (County Governments) Regulations, 2015 require Accounting Officers to ensure that the County Government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

3.40 During the 2021/2022 financial year, the County *Executive* incurred Kshs.3,248,283 in penalties and interest due to delayed repayment of salaries.

3.41 Payment of the interest arising from penalties is an avoidable and wasteful expenditure of public funds which can lead to budgetary constraints.

III. Non-Compliance with Requirement on Ethnic Diversity

3.42 Section 7(1) of National Cohesion and Integration Act, 2008, states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff. Section 7(2) states that no public

- establishment shall have more than one third of its staff from the same ethnic community.
- 3.43 Section 65(1)(e) of the County Governments Act, 2012 require the County Public Service Board to consider, in selecting candidates for appointment, the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.
- 3.44 Analysis of employees in the IPPD system as at 30 June, 2024 established that 93% of the staff were from one dominant ethnic community contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008.
- 3.45 Further analysis established that the dominant community represented 92% of the new recruitment done during the period under review as detailed in **Annexure 11**. This demonstrates the Management's lack of effort to ensure compliance with the requirements on ethnic diversity.
- 3.46 The non-compliance to ethnic diversity is a violation of legal requirements and may lead to legal suits.

IV. Non-Compliance with One Third Basic Salary Rule

- 3.47 Section 19 (3) of Employment Act, 2007 require the total amount of all deductions that may be made by an employer from the wages of his employee at any one time not to exceed two-thirds of such wages.
- 3.48 An analysis of the staff payroll as at June 2024, established that two hundred and fifty-seven (257) employees were paid net salaries that were less than one-third of their basic salaries contrary to Section 19(3) of the Employment Act, 2007. **Annexure 12**.
- 3.49 Employees earning less than one-third of their basic salary due to excessive deductions, may be unable to meet personal financial obligations and adversely affect their productivity, decision-making, and ability to effectively safeguard county interests.

F. Migration from Integrated Personnel and Payroll Database System to Human Resource Information System-Kenya.

3.50 The migration of salary processing from IPPD system to HRIS-Ke was reviewed to establish the completeness, accuracy, and integrity of the data transferred.

I. Overpayment and Underpayment of Salary and Allowances

3.51 Section 149(2)(a) of the Public Finance Management Act, 2012 requires the accounting officer of a county government to ensure that all expenditure made by the entity complies with requirements on lawful, authorized, and transparent use of resources of the entity.

3.52 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between November, 2024 IPPD data and December 2024 HRIS-Ke data established instances of overpayment and underpayments of salaries and allowances as shown in **table 3** below and detailed in **Annexure 13**.

Table 3:Overpayment & Underpayment of Salary and Allowances

Allowance	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount	Number of Employees	Amount
Basic Salary	10	163,574	19	73,675
House Allowance	10	32,065	3	14,977
Special House			1	1,170
Hardship Allowance	12	37,202	4	7,850
Special Salary	5	121,944		
Commuter	10	22,613		
Emergency Call	1	16,258		
Health Workers	601	4,499,355	5	30,000
Health Risk			6	2,300
Health Service	4	80,000		
Market Adjustment	1	5,358	1	10,361

*Source: HRIS Payroll data

4. CONCLUSION

- 4.1 The Special Audit of payrolls for Makueni County Executive uncovered several audit issues in payroll and human resource management, which may negatively affect its financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 4.2 The Makueni County Government did not comply with requirement on limiting the Employee Cost within thirty-five (35%) of Revenue. The non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3 The Vote Heads in the IPPD System and HRIS-Ke were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.4 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of annual recruitment plans demonstrates ineffective workforce planning. This hampers the county's ability to plan, budget, and deploy personnel effectively across departments, leading to staffing gaps or surpluses.
- 4.5 The IPPD System and HRIS-Ke were not updated with approved designations in the approved staff establishment. These increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 4.6 The authenticity of some of the employees could not be established. This was evidenced by the failure by the Chief Offices to account for employees in their departments, the payroll data Integrity issues, employees drawing salary from different government entities and failure by employees to appear for physical

verification. This casts doubt on authenticity of payroll records and raises the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County.

- 4.7 The controls over processing and payment of salary were not adequate as evidenced by nugatory expenditure on staff cost. This indicates weak financial and human resource controls, exposing the payroll to fraud and abuse.
- 4.8 The County Executive did not comply with tax and labour laws as evidenced by evidenced by delayed statutory remittances. This violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 4.9 The migration from the IPPD System to the HRIS-Ke was inadequately managed as evidence by overpayments and underpayments of allowances, and non-deduction of statutory deductions that arose from migration. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.
- 4.10 The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.
- 4.11 The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Makueni County Executive.
- 5.2 To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue, the County Assembly should establish mechanisms to ensure compliance with the PFM Act in the execution of its oversight responsibilities.
- 5.3 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer for Public Finance together with the management of the State Department for Public Service and Human Capital Development (the custodian of the Human Resource Information System-Kenya) should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 5.4 To enhance the attainment of optimal staffing levels, management of the County Executive should align the payroll system with the approved staff establishment and ensure consistency between authorized positions and personnel data. Additionally, the staff establishment module in the HRIS-Ke should be fully implemented and configured to enforce recruitment strictly within the approved establishment limits.
- 5.5 To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
- 5.6 To ensure no payment is made to non-existent employees, salary payments to all staff who failed to appear for physical verification should be suspended.

- 5.7 To reduce opportunity for process irregular payments by exploiting existing weakness in arrear payments, the management of the County Executive together with that of State Department for Public Service and Human Capital Development should automate the processing of arrears by eliminating manual entry fields and integrating system-based validation rules. This will enhance control, ensure consistency with approved policies, and reduce the risk of irregular or unauthorized payments.
- 5.8 To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.
- 5.9 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

6. APPENDICES

Appendix 1: List of Staff Interviewed

No.	Designation	Department
1.	Ag. Director	Financial Accounting Services
2.	Finance Officer	Financial Accounting Services
3.	Manager	Human Resource Management
4.	Director	Human Resource Management
5.	Secretary	County Public Service Board
6.	Chairman	County Public Service Board

Appendix 2: List of Annexures


The **Annexures** referenced in the report and which are listed below will be provided in soft copies


No.	Annexure	Title
1.	Annexure 1	Budget votes in Payroll System not aligned with those in Approved Budget
2.	Annexure 2	Lack of Annual Recruitment Plans
3.	Annexure 3	Designations in the Integrated Payroll and Personnel Systems not Aligned with Approved Staff Establishment
4.	Annexure 4	Integrity of Date of Birth Data in IPPD Systems
5.	Annexure 5	Missing Bio Data details in Manual Payroll
6.	Annexure 6	Drawing Salary from Different Government Entities
7.	Annexure 7	Failure of Chief Officers to Account for Human Resources in their Departments.
8.	Annexure 8	Failure of Chief Officers to Account for Human Resources in their Departments.
9.	Annexure 9	Charging of Employee Costs to the Wrong Budget Vote
11.	Annexure 10	Non-Compliance to Remittance of Statutory Deductions
12.	Annexure 11	Non-Compliance with Requirement on Ethnic Diversity
13.	Annexure 12	Non-Compliance with One Third Basic Salary Rule
14.	Annexure 13	Overpayment and Underpayment of Salary and Allowances


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