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

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COUNTY 014
JULY 2025



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FOREWORD BY THE AUDITOR-GENERAL

I am pleased to present this Special Audit Report on Payroll Management for the Embu 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 on Payroll Management for the Embu County Executive was conducted in line with this mandate.

The Special Audit evaluated the human resource and payroll processes at the Embu County 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 Embu County 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 also remitted copies of the report to the Principal Secretary, State Department for Devolution, Chairperson, the Embu County Public Service Board and the Governor, Embu 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

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ABBREVIATIONS

CBA	Collective Bargaining Agreement
COB	Controller of Budget
COs	Chief Officers
CPSB	County Public Service Board
DO	Development Objective
DPSM	Directorate of Public Service Management
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
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 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 Embu 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 IPPD system to Human Resource Information System – Kenya (HRIS-Ke).

Audit Scope

- 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

Methods of Gathering Evidence

- 1.8 The Special Audit of payroll management involved review of payroll processes at the County Headquarters, analysis of payroll data and comparison with records maintained by the County Executive.
- 1.9 The methods used to gather 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 conducted to test data integrity.

Summary of Findings

1.10 The key audit findings are as detailed:

A. Payroll Budgeting

I. The Compensation of Employees to Revenue Ratio Exceeded the Set Threshold

1.11 Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires the county government's expenditure on wages and benefits for its public officers exceed thirty-five (35%) percent of the county government's total revenue. The audit established that the ratio of the budgeted compensation of employees to the budgeted revenue exceeded 35% in two (2) financial years. Further, the ratio of actual compensation of employees to actual revenue as reflected in the financial statements exceeded the thirty-five (35%) percent threshold in the three (3) financial years. This indicates a high wage bill, which has strained the county's financial resources, limiting funds available for critical development projects and essential service delivery.

II. Budget Vote Heads in the Payroll Systems were not Aligned with those in the Approved Budgets

1.12 The audit established that the budget Vote Heads in the IPPD system and HRIS-Ke were not aligned with those in the approved budgets. This led to inconsistencies between budgetary allocations and actual payroll expenditure, thereby increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect or obsolete vote heads.

B. Recruitment Process

I. Lack of Approved Staff Establishment

1.13 The County Executive did not have an approved staff establishment for the years 2021/2022 and 2022/2023.

II. Designations in Payroll Systems not Aligned with Approved Staff Establishment of July 2023

1.14 There were designations with more in-post staff members in June 2024 IPPD and January 2025 HRIS-Ke staff registers than were required by the staff establishment. There were also designations in the staff establishment that were not defined in IPPD.

III. Lack of Annual Recruitment Plans

- 1.15 The County Executive recruited seven hundred and seventy-five (775) officers over the three years under review without annual recruitment plans to guide the process.

IV. Unprocedural Establishment of Office

- 1.16 The offices of the county chaplain and health advisor to the governor were established without a departmental request to the public service board as required in section 60(3) of the County Governments Act, 2012, and without determination of the County Public Service Board, on its own motion, to establish the offices as allowed by section 62(1). There was no proposal submitted by the County Public Service Board to the County Executive Committee, contrary to section 62(2) of the County Governments Act. There was no evidence of the County Public Service Board applying the criteria for establishment of offices in the county public service, specified in section 60 of the County Governments Act, including section 60(1)(g), which requires the County Public Service Board to satisfy itself that funding for the office to be established is provided for.

V. Irregular Recruitment of Staff

- 1.17 Several positions filled in 2022, 2023 and 2024 without County Human Resource Management Advisory Committee's consideration and recommendation of requests for recruitment from departments. There were also no recruitment requests from the county chief officers of the relevant departments to which the appointments were to be made, as required by section 63(2)(a) of the County Governments Act.
- 1.18 There was also recruitment of nine (9) firemen after advertisement for only seven (7) positions.

C. Employee Data Management

I. Integrity of Dates of Birth Records in the Integrated Payroll and Personnel Database System

- 1.19 The Special Audit identified seventy-two (72) employees with inconsistent date of birth. Interview with a sample of sixty-one (61) employees and verification of their identification documents established that the dates captured in the IPPD System for twenty-two (22) employees were different from those in employees'

Birth Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).

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

- 1.20 Comparison of the staff lists countersigned by various Chief Officer's with staff register from the IPPD System established that there were one hundred and seventy-seven (177) employees who appeared in the Chief Officer's list but not in the Integrated Personnel and Payroll Database (IPPD). Further, four hundred and sixty (460) employees were in the IPPD System but not in the lists provided by Chief Officers, and collectively received Kshs.205,106,395 in earnings in 2023/2024.

D. Payroll Processing and Payments

I. Charging of Compensation of Employees to the Wrong Budget Vote

- 1.21 Charging of salary in IFMIS was not done as per departments under which budgets for compensation of employees were made.

II. Irregular Payment of Commuter Allowance

- 1.22 The Special Audit determined that one State Officer, not ordinarily entitled to commuter allowance, was irregularly paid commuter allowance of Kshs.80,000 in 2021/2022.

III. Irregular Payment of Consolidated Gross Pay

- 1.23 The Special Audit determined that in financial years 2022/2023 and 2023/2024 when all earnings and allowances of state officers had been segregated/deconsolidated into basic salary, house allowance and salary market adjustment allowance, the County Executive made payments under code 872, consolidated gross pay, in the IPPD System. The total amount paid through the code was Kshs.29,306,930.

IV. Irregular Payment of Extraneous Allowance

- 1.24 The Special Audit determined that from financial year 2021/2022 to 2023/2024, the County Executive had paid extraneous allowance of Kshs. 17,551,541 to one hundred and twenty-five (125) officers, significantly surpassing the stipulation of SRC on Extraneous Allowance.

V. Circumventing Payroll Controls to Pay Irregular Salary Arrears

- 1.25 The Special Audit determined that salary arrears amounting to Kshs. 4,676,014.00 was irregularly paid to staff members subsequent to reappointment. Another employee was disciplined for absconding duty but was paid salary arrears amounting to Kshs.1,512,900 in 2021/2022 for a period during which the staff member was neither at work nor on a formally extended study leave.
- 1.26 Further, Commuter Allowance amounting to Kshs.709,673, Extraneous Duty Allowance amounting to Kshs. 2,559,339 and Consolidated Gross Pay of total amount Kshs. 66,617,127 were paid to staff members not entitled to the earnings.

VI. Overpayment of Casual Wages

- 1.27 The Special Audit identified five hundred and forty-nine (549) casual employees who were paid monthly salaries including weekends and public holidays despite their contracts stating that wages attached to these positions were to be on a minimum of Kshs.500 per day subject to statutory deductions. The total amount paid to the casuals between February and June 2024 amounted to Kshs.30,020,578.

VII. Use of Manual Payrolls

- 1.28 The Special Audit determined that whereas integration of casuals payrolls into the IPPD System was done in February 2024, manual payrolls were still in use as at June 2024. The Manual Payrolls were used to pay top-up allowances of police officers engaged by the County Executive and to pay gratuity amounts of total amount Kshs.168,599,320. The use of manual payroll systems for salary processing is vulnerable to manipulation and fraud, potentially resulting in unauthorized payments and disbursements to unverified personnel.

E. Compliance with Laws and Regulations

I. Late Payment of Increments Due on Promotion

- 1.29 A review of payroll data revealed that some employees were promoted but the salary increments of total Kshs. 2,510,713 were paid in subsequent months or years as arrears and not effected during promotions. Delay in payment results in hardship for affected staff members. Further, the unpaid amounts may

become pending bills and increase staff costs into years beyond which the budgets relating to the promotions were originally made

II. Active Staff Above 60 Years

- 1.30 The Special Audit determined that there were nine (9) employees in financial year 2021/2022, nine (9) employees in financial year 2022/2023 and fifty-seven (57) employees in financial year 2023/2024 who had attained the retirement age of 60 years. The total amount paid for the extra years was to Kshs.49,292,716.

III. Non-Compliance with Requirement on Ethnic Diversity

- 2.1. The audit established that 54% of employees in the IPPD System as at 30 June, 2024 were from one dominant ethnic community. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008. However, the dominant community represented 47% of the new recruitment done in 2023/2024. This demonstrates the management effort to ensure compliance with the requirement on ethnic diversity.

IV. Penalties and Pending Bills Relating to Statutory Deductions

- 1.31 The Special Audit observed that in financial year 2023/2024, a total of Kshs. 183,522,101 was paid in payroll pending bills. Further, that the county executive had to pay penalties of at least Kshs.31,555,270 with regard to non-remittance or late remittance of PAYE amounts. Payments of Kshs.1,015,682,659 were made with respect to agency notices issued by KRA to Central Bank of Kenya for the County Executive; the amounts remitted to KRA by the bank constituted assessed tax amounts and interests which the County Executive would ordinarily have remitted to the Commissioner of Domestic Taxes.

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

- 1.32 Comparison between November, 2024 IPPD data and December 2024 HRIS-Ke data established instances of overpayment, underpayment, irregular payment of salaries and allowances and non-deduction of discretionary deductions on migration to HRIS-Ke.
- 1.33 The Overpayments, underpayments and irregular payments during migration from the IPPD System to a HRIS-Ke indicate inadequate data validation and

weak internal controls. This exposes the County Executive to financial loss, legal liabilities, and employee dissatisfaction due to inaccurate compensation.

Conclusion

- 1.34 The Special Audit of payrolls for Embu 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:
- 1.35 The non-compliance with requirements on limiting the Cost of Compensation of Employees within thirty-five (35%) of Revenue indicates weaknesses in 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.
- 1.36 The misalignment between budget votes in payroll systems and those in approved budgets and IFMIS ledgers 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.
- 1.37 The absence of an approved staff establishment in some years denies County Executive departments formal guidance on optimal staffing levels, leading to overstaffing or understaffing, budget overruns or unmet service delivery needs.
- 1.38 The misalignment between the payroll systems and 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.
- 1.39 Lack of annual recruitment plans can result in overstaffing, understaffing, hiring for roles that do not align with organizational priorities or inability to pay staff immediately upon hire or promotion.
- 1.40 Failure to involve the County Public Service Board in office establishment processes undermines its mandate to create offices in the public service, oversee staffing, monitor efficiency, and make informed decisions.

- 1.41 Recruitment requests not initiated by the relevant department or the County Public Service Board may fail to address actual staffing needs or result in overstaffing. Appointing more staff than advertised undermines prior budget assessments, potentially exceeding allocated personnel budgets.
- 1.42 Failure by the Chief Offices to account for some employees casts doubt on authenticity of payroll records.
- 1.43 The payment of irregular salary and allowances and the overpayments of salaries and 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.
- 1.44 The payroll 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.
- 1.45 The use of manual payroll and the inaccurate birth dates in the payroll system indicates weak internal controls and increases the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive and miscalculation of retirement dates and pension dues of employees.
- 1.46 Failure to follow tax rules led to penalties that increased spending on compensation of employees. Other failures to meet legal obligations can reduce workforce diversity, cause employee hardship, lead to lawsuits, harm the county's reputation, and weaken stakeholder trust.
- 1.47 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. 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.

- 1.48 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

- 1.49 In view of the findings and conclusions of the Special Audit, the following is recommended to the Embu County Executive.
- 1.50 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 1.51 For effective management of departmental budgets and enhance accuracy in reporting of compensation of employees expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer for 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 times configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 1.52 To ensure that personnel costs of all appointments and promotions can be met within the budgetary allocation voted for the county government entity, as well as prevent overstaffing, understaffing, hiring for roles that do not align with organizational priorities, the County Executive should prepare annual recruitment plans.
- 1.53 To ensure fairness, merit, efficiency, effectiveness and diversity in the county public service, as establishment of offices of the County Public Service and recruitments should follow due process as detailed in the County Governments Act. The stipulated roles of the county public service board and other stakeholders should be duly carried out. The County Public Service Board should also maintain properly authenticated documents relating to recruitment processes.
- 1.54 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.

- 1.55 To reduce opportunity for processing of irregular payments by exploiting existing weakness in arrears 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.
- 1.56 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.
- 1.57 All manual payrolls should be fully onboarded into the HRIS-Ke, with payments effected only through the system upon successful data entry and verification. This will minimize reliance on manual processes that are prone to error and manipulation.
- 1.58 The County Executive should ensure compliance with laws and regulations to eliminate or minimize the risks of employee hardship, pending bills, penalties, litigation and loss of stakeholder trust.
- 1.59 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments, underpayments and irregular payments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.

1.60 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 Embu 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 an increase in the number of employees and drop in payroll costs.
- 2.7 The overall staff growth across the audit period was **11%**, while the cumulative change in payroll costs over the three years was approximately **-16%** as shown in **Figures 1 and 2**.

Figure 1: Cumulative Change in Number of Employees

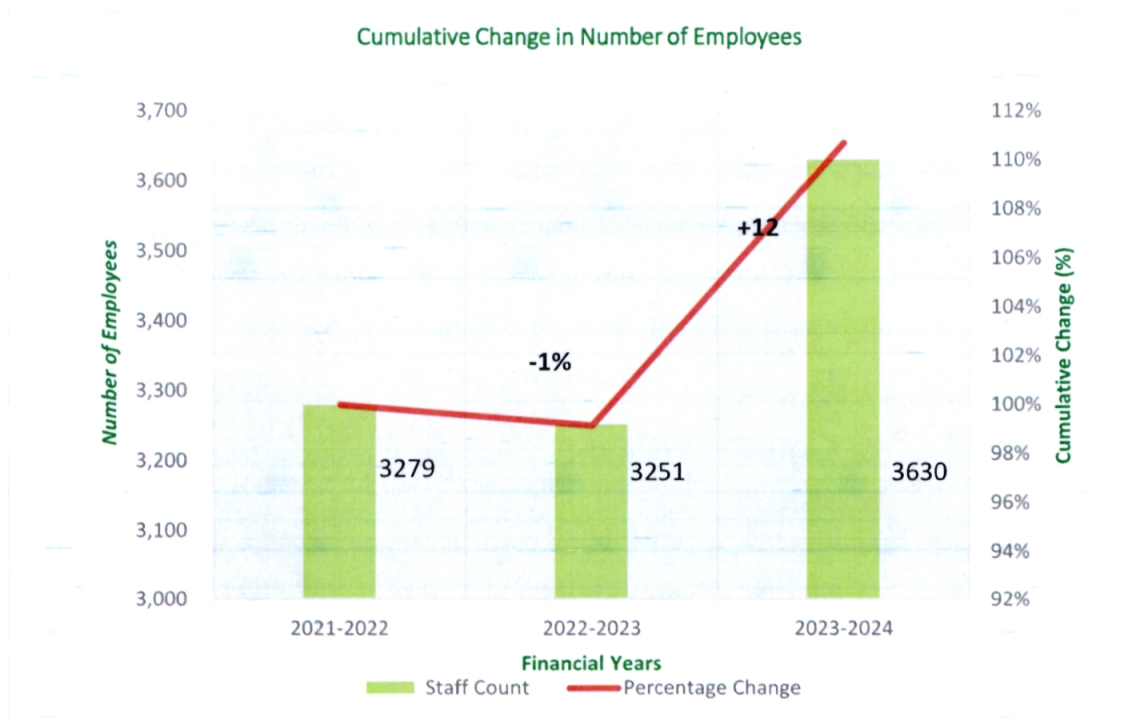
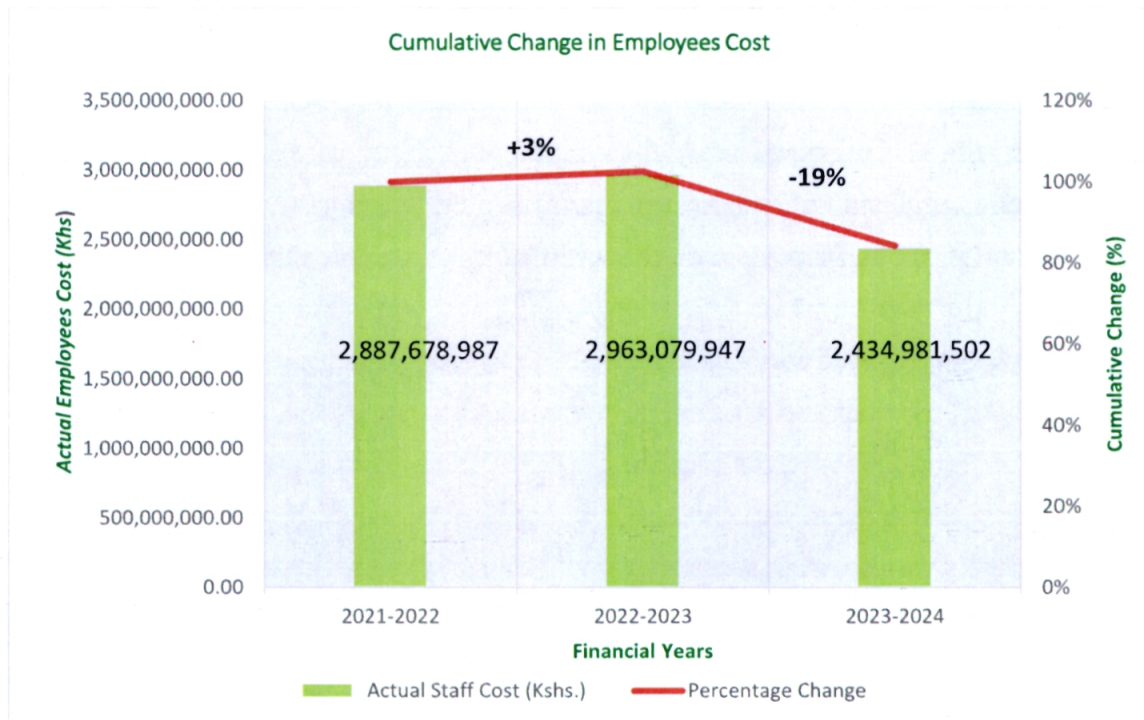


Figure 2: Cumulative Change in Cost of Compensation of Employees



Audit Objectives

- 2.8 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 IPPD system to Human Resource Information System – Kenya (HRIS-Ke).

Audit Scope

- 2.9 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) System, Human Resource Information System - Kenya (HRIS-Ke), manual and casual payrolls.
- 2.10 The audit was carried out in the month of January, 2025

Audit Methodology

- 2.11 The Special Audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) 4000 for Compliance Audit. 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

- 2.12 The Special Audit on Payroll Management involved review of payroll processes at the County Headquarters, analysis of payroll data and comparison with records maintained by the County Management.
- 2.13 The methods used to gather audit evidence during the audit included, document review, data analytics, interviews with key payroll staff and physical verification of staff.

a) Document Review

- 2.14 The Audit team reviewed various documents in order to set audit criteria and assess compliance with the criteria and in gathering audit evidence. This included:
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Governments) Regulations, 2015;
 - iv. County Governments Act, 2012;
 - v. National Cohesion and Integration Act, 2008;
 - vi. National Social Security Fund Act, 2013;
 - vii. National Health Insurance Fund Act, 1998 (now repealed);
 - viii. Affordable Housing Act, 2024;
 - ix. Income Tax Act, Chapter 470 of the Laws of Kenya;
 - x. Public Service Commission Human Resource Policies and Procedures Manual for the Public Service, 2016;
 - xi. SRC Circular SRC/TS/CGOVT/3/61 VolIII/(136) of 14 September 2015;
 - xii. SRC Circular SRC/TS/29(81) of 10 August 2023;
 - xiii. SRC Circular SRC/TS/29(94) of 10 November 2023;
 - xiv. Public Service Commission Circular Ref. No: PSC/ ADM/ 13(9) dated 19 November, 2020

- xv. SRC Compendium of Remuneration and Benefits for Public Service dated December 2022;
- xvi. Gazette Notice No 6518 of 2017, published in The Kenya Gazette Vol.CXIX No 89 of 7 July 2017;
- xvii. Gazette Notice 8794 of 2022, published in The Kenya Gazette Vol. CXXIV No. 145 of 27 July 2022;
- xviii. Gazette Notice 10348 of 2023, published in The Kenya Gazette Vol. CXXV No.177 of 9 August 2023, and
- xix. Approved Staff Establishment dated July 2023.

b) Data Analytics

2.15 Payroll and staff register data from the 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 staff and payroll records maintained by the County Executive.

2.16 The following data sets for the financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed:

- i. IPPD Staff Registers and Payroll Data;
- ii. Manual Payroll Data;
- iii. Casual Payrolls Data and Muster Rolls;
- iv. Recruitment and staff exit data;
- v. IFMIS Salaries Ledgers;
- vi. Bank Statements;
- vii. IFMIS Recurrent Votebooks;
- viii. IPPD Subvote and Vote Head Reports;
- ix. Chief Officers staff list as at 30 June 2024; and
- x. HRIS-Ke Payroll data for December 2024 and Staff Register for January 2025.

c) Interviews

The audit team interviewed relevant officers from the County Executive and County Public Service Board (CPSB). This was in order to understand payroll

processes and obtain clarification on audit issues. The officers interviewed as are as listed in **Appendix 1**.

d) Physical Verification of Staff

2.17 The Audit Team requested all the Chief Officers to provide countersigned list of staff members in their departments as at 30 June 2024. The list was compared with the IPPD staff registers maintained in the County Executive.

2.18 The Audit team through the County Secretary, requested ninety-four (94) employees to present themselves in person for a physical verification, which was based on initial exceptions from data analytics. This verification was to confirm the existence of staff, their employment status and the accuracy of the staff personal data maintained in the payroll systems.

Report Structure

2.19 The report is organized as follows:

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

2.20 The report should be read in its entirety to in order fully comprehend the approach to the audit, findings, conclusions and the proposed 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; and
- f. Migration from Integrated Personnel and Payroll Database System to Human Resource Information System-Kenya.

A. Payroll Budgeting

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

I. The Compensation of Employees to Revenue Ratio Exceeded the Set Threshold

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. This is pursuant to Section 107(2) of the Public Finance Management Act, 2012. Further, Regulation 25(1)(b) requires the limit set not to exceed thirty-five (35%) percent of the county government's total revenue.

3.4 The Special Audit established that the ratio of the budgeted compensation of employees to budgeted revenue exceeded 35% in the two (2) financial years as shown in **Table 1**. This is contrary to Regulation 25(1)(b) of Public Finance Management (County Governments) Regulations, 2015.

Table 1: Budgeted Compensation of Employee to Budgeted Revenue Ratio

Financial Year	Total Budgeted Revenue (Kshs.)	Budgeted Compensation of Employees (Kshs.)	Budgeted Cost / Revenue Ratio
2021/2022	6,919,114,500	2,910,149,160	42%
2022/2023	6,373,123,635	3,033,412,404	48%

*Source: Audited Financial Statements

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

Table 2: Actual Compensation of Employees Costs to Revenue Ratio

Financial Year	Actual Revenue (Kshs.)	Expenditure on Staff Emoluments (Kshs.)	Expenditure/ Revenue Ratio
2021/2022	5,793,154,350.00	2,887,678,987.00	50%
2022/2023	5,241,639,654.00	2,963,079,947.00	57%
2023/2024	6,022,913,829.00	2,434,981,502.00	40%

*Source: Audited Financial Statements

- 3.6 The high ratio of compensation of employee expenditure to total revenue indicates high wage bill, which may become unsustainable in the long term. This may strain the county's financial resources, thereby 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. Further, Regulation 119(2) of the Public Finance Management (County Governments) Regulations, 2015 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.
- 3.8 Comparison of payroll reports extracted from IPPD system with the approved budget established that the vote heads in IPPD were not aligned with those in the approved budget. In some cases, staff from the same department were

assigned different codes in the Vote-Head field of IPPD, while in other cases, staff from different departments had the same code. This made it difficult to accurately link staff to their correct departments in the budget, as detailed in Table 3.

Table 3: Vote Head Codes in IPPD in June 2024 Compared to Budget Votes

IPPD Vote-Head Codes in June 2024 Staff Register (Representing Staff Member Departments)	Budget Votes for Staff Members' Actual Departments
2, 3, 106, 110, 111, 149, 159	Finance
2, 3, 116, 133, 756	Trade
2, 3, 110, 120, 133	Agriculture
2, 3, 110, 111, 120, 149	Water
1, 2, 3, 106, 111, 149	Health Services
2, 3, 159	Infrastructure
2, 3, 142, 143, 159	Education
2, 3, 133, 141, 142	Youth
2, 3, 136	Lands
3,106	E.C.R. A

*Source: IPPD System June 2024 Staff Register

- 3.9 One of the primary factors that contributed to the misalignment between the departments and budget votes was the failure to update the IPPD system when there is reorganization of departments in the county.
- 3.10 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. The continued reference to outdated departmental structures in the payroll systems may lead to inconsistencies between budgetary allocations and actual payroll expenditure, increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect vote heads.

B. Recruitment 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 Approved Staff Establishment in 2021/2022 and 2022/2023

- 3.12 Section 59(1)(g) of the County Governments Act, 2012 requires 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, 2015 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 did not have an approved staff establishment for the years 2021/2022 and 2022/2023.
- 3.14 Without a staff establishment, the departments have no guidance on optimum staffing levels or priorities, and human resources may not meet the service delivery needs of the County Executive.

II. Designations in Payroll Systems not Aligned with Approved Staff Establishment of July 2023

- 3.15 The Special Audit established the following inconsistencies between the staff establishment and the payroll systems:
- i) The staff establishment required a maximum of three (3) staff members in the Junior Agricultural Assistant designation in job group F, represented in IPPD as Junior Agricultural Assistant[2a]; no other Junior Agricultural Assistants were in the staff establishment. However, the June 2024 IPPD staff register and January 2025 HRIS-Ke staff register both had five (5) staff members in this designation.
 - ii) The staff establishment did not include Junior Agricultural Assistant[2b] in job group E among the required designations in the County Executive.

However, the June 2024 IPPD staff register and January 2025 HRIS-Ke staff register both had two (2) staff members in this designation.

- iii) The staff establishment required a total number of one hundred and twenty-one (121) staff in the senior support staff designation across all departments, but the June 2024 IPPD staff register had two hundred and ninety-four (294) members of staff in the senior support staff designation. In January 2025, the HRIS-Ke staff register had two hundred and thirty-two (232) staff members in the senior support staff designation.
- iv) The staff establishment required a total of seven (7) staff members in the designations of the Legal Counsel II in job group L, Legal Counsel I in job group M and Senior Legal Counsel in job group N. However, the three designations are not defined in IPPD.
- v) The staff establishment required eight (8) Youth Officers III, Youth Officers II and Youth Officers I in job groups H, J and K respectively. However, the Youth Officer designations defined in IPPD are in job groups D, E and F under the pay group for staff in the former local authorities (AC).
- vi) The staff establishment required three (3) Senior, Chief and Principal Youth Officer in job groups L, M and N respectively. However, the Senior Youth Officer designation in IPPD is in job group G in the pay group for staff in the former local authorities (AC). Chief and Principal Youth Officer Designations are not defined in IPPD.
- vii) The staff establishment required one (1) Health Advisor in job group R. However, this designation is not defined in IPPD.

3.16 Absence of some designations in IPPD might lead to use of alternative designations, reducing clarity on the actual number of posts in each designation. The misalignment between the records in the payroll systems and the approved staff establishment may lead to inefficiencies in workforce planning, budget overruns and poor service delivery.

III. Lack of Annual Recruitment Plans

- 3.17 Section 59(1)(g) of the County Governments Act, 2012 requires 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. Regulation 199(3) of the Public Finance Management (County Governments) Regulations requires the Accounting Officer of a county government entity to ensure that the personnel cost of all appointees, as well as promotion and salary increases, can be met within the budgetary allocation voted for the county government entity.
- 3.18 The County Executive recruited seven hundred and seventy-five (775) officers over the three years under review: two hundred and twenty-seven (227) officers in 2021/22, three hundred and thirty-two (332) officers in 2022/23, and two hundred and sixteen (216) officers in 2023/24. However, the departments did not have annual recruitment plans to guide the process.
- 3.19 Lack of annual recruitment plans can result in overstaffing, understaffing, hiring for roles that do not align with organizational priorities or inability to pay staff immediately upon hire or promotion.

IV. Un-Procedural Establishment of Office

- 3.20 Section 60(3) of the County Governments Act, 2012 requires that a written request for office establishment be submitted to the County Public Service Board by the relevant department head. Additionally, section 62(1) allows the Board to establish an office independently, but any such proposal must be submitted to the county assembly for approval via the county executive committee member responsible for the public service, as required by section 62(2). Section 60 of the County Governments Act outlines criteria to be applied by County Public Service Boards before establishing a public office, including the requirement the Board should satisfy itself that funding for the office to be established is duly provided for. Regulation 119(4) of the Public Finance Management (County Governments) Regulations also requires a County Public Service Board to approve new public service positions only after getting confirmation of availability of budgetary provisions from the County Treasury.
- 3.21 The offices of the county chaplain and health advisor to the governor were established in a cabinet resolution in April 2023, documented in Minute

14/CEC/4/2023 and 14/CEC/4/2023. The offices were established without a departmental request to the public service board as required in section 60(3) of the County Governments Act, 2012, and without determination of the County Public Service Board, on its own motion, to establish the offices as allowed by section 62(1). There was no proposal submitted by the County Public Service Board to the County Executive Committee, contrary to section 62(2) of the County Governments Act. There was no evidence of the County Public Service Board applying the criteria for establishment of offices in the county public service, specified in section 60 of the County Governments Act, including section 60(1)(g), which requires the County Public Service Board to satisfy itself that funding for the office to be established is provided for. The establishment of the positions of county chaplain and health advisor without input of the County Public Service Board was therefore unprocedural.

- 3.22 Failure to duly involve the County Public Service Board in processes in establishment of offices undermines the Board's authority to carry out its own mandate of establishment of office, exercise control, monitor workforce efficiency and make informed staffing decisions.

V. Irregular Recruitment of Staff

- 3.23 Section 63 of the County Governments Act, 2012 empowers the county public service board to make appointments including promotions in respect of offices in the county public service, at the request of the relevant county chief officer of the department to which the appointment is to be made, or on its own motion. Regulation 119(3) of the Public Finance Management (County Governments) Regulations requires an accounting officer to ensure that personnel cost of all appointees, as well as promotion and salary increases, can be met within the budgetary allocation voted for the county government entity.
- 3.24 The Special Audit established that several positions filled in 2022, 2023 and 2024 without County Human Resource Management Advisory Committee's consideration and recommendation of requests for recruitment from departments. There were also no recruitment requests from the county chief officers of the relevant departments to which the appointments were to be made, as required by section 63(2)(a) of the County Governments Act. See **Annexure 1.**

3.25 There was recruitment of nine (9) firemen after advertisement for only seven (7) positions. See **Annexure 2**.

3.26 Recruitment requests that do not emanate from the department to which the appointment is to be made, or cannot be seen to have been originated by the County Public Service Board in the interest of the public service, might either not meet staffing needs of any department or might lead to overstaffing. Recruitment of staff members to fill more positions than advertised renders futile the prior consideration of availability of budget made by the Human Resource Management Advisory Committees, and personnel costs of appointees may not be met within the budgetary allocation voted for the county government entity.

C. Employee Data Management

3.27 Review of employee data management involved assessing the accuracy and completeness of both manually maintained records and data from the IPPD System. The following issues were established:

I. Integrity of Date of Birth Records in the Payroll Systems.

3.28 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 19 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. This stipulation supersedes provisions of preceding circulars on the matter of dates of birth.

3.29 Comparison of data maintained by IPPD System and that for other government entity flagged fifty (72) employees with inconsistencies with date of birth.

3.30 Interview with thirty (61) employees and verification of their identification documents established that the captured in the IPPD System for nineteen (22) employees were different from those in employees' Birth Certificates as detailed in **Annexure 3**. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).

- 3.31 The inaccurate capturing of dates of birth increases the risk of employees retiring before or after the legal retirement age, leading to potential miscalculation of pension dues and other age-based entitlements.

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

- 3.32 Section 148(1) of Public Finance Management Act, 2012 requires a County Executive Committee member for finance to, except as otherwise provided by law, designate accounting officers in writing 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.
- 3.33 The Letter of Engagement addressed to the County Secretary for the in-depth payroll audit vide letter Ref: OAG/SAS/SADS/KDSP-PAYROLL/014/3 dated 3 January 2025, required Chief Officers provide a 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.
- 3.34 Comparison of the staff lists countersigned by various Chief Officer's with staff register from IPPD system established that there were one hundred and seventy-seven (177) employees, detailed in **Annexure 4**, who appeared in the Chief Officer's list but not in the Integrated Personnel and Payroll Database (IPPD). Further, four hundred and sixty (460) employees, detailed in **Annexure 5**, were in IPPD but not in the lists provided by Chief Officers, and collectively received Kshs. 205,106,394.80 in earnings on 2023/2034.
- 3.35 Failure by the Chief Offices to account for some employees cast doubt on authenticity of payroll records.

D. Payroll Processing and Payments

- 3.36 Assessment was carried out on controls in payroll processing and payments to determine whether employee salaries and deductions were accurately calculated, authorized, and compliant with the applicable laws. The following issues were established.

I. Charging of Compensation of Employees Expenditure to the Wrong Budget Votes

- 3.37 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.
- 3.38 Comparison of gross salary processed through the IPPD system, casual payroll 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 demonstrated in **Annexure 6**.
- 3.39 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, HRIS-Ke had similar Votes Heads to those in IPPD System.
- 3.40 These misalignments led to inconsistencies between budget allocations and actual expenditure by departments, thereby increasing the risk of misuse of funds and inaccurate financial reporting.

II. Irregular Payment of Commuter Allowance

- 3.41 Gazette Notice 6518 of 2017 stipulated the remuneration and benefits for state officers in the county government, effective from 8 August 2017 to 9 August 2022 when new rates were gazette. Under the 2017 gazette notice, state officers were entitled to official transport, but commuter allowance was not provided for. Further, the gazette notice stated that any benefit and allowance not specified were not payable unless otherwise set by Salaries and Remuneration Commission.
- 3.42 The Special Audit determined that one State Officer, not ordinarily entitled to commuter allowance, was irregularly paid commuter allowance of Kshs.80,000 in 2021/2022 as detailed in **Annexure 7**.

III. Irregular Payment of Consolidated Gross Pay

- 3.43 Gazette Notices 8794 of 2022 and 10348 of 2023 set out deconsolidated remuneration packages for state officers in the county executive for 2022/2023 and 2023/2024 respectively. Under these gazette notices, monthly remuneration only comprised basic salary, house allowance, commuter allowance and salary market adjustment. Airtime allowance was also payable monthly. The deconsolidation removed the gross monthly amounts previously payable.
- 3.44 The Special Audit determined that in financial years 2022/2023 and 2023/2024 when all earnings and allowances of state officers had been segregated/deconsolidated, the County Executive made payments under code 872, consolidated gross pay, in the IPPD System. The total amount paid through the code was Kshs.29,306,930 as detailed in **table 4** and **Annexure 8**.

Table 4: Consolidated Gross Pay to Embu County Staff

Financial Year	Amount Paid (Kshs.)
2022/2023	20,679,965
2023/2024	8,626,965
TOTAL	29,306,930

*Source: IPPD System Payrolls

IV. Irregular Payment of Extraneous Allowance

- 3.45 Paragraph C.13 of the PSC HR Policies and Procedures Manual, 2016 states that extraneous allowance shall be paid to officers who are called upon to undertake extra responsibilities in addition to their normal duties and therefore work over and above the official working hours on a continuous basis. SRC circular Ref: SRC/TS/CG/ND/3/61/32 (25) dated 17 January 2019, stipulates that extraneous allowance is payable only to two (2) Secretaries, two (2) Drivers, and (2) Security Officers attached to the offices of the Governor and Deputy Governor.
- 3.46 The Special Audit determined that from 2021/2022 to 2023/2024, the County Executive had paid extraneous allowance of Kshs.17,551,541.45 to one hundred and twenty-five (125) officers as detailed in **Annexure 9**, significantly surpassing the stipulation of SRC on Extraneous Allowance.

V. Circumventing Payroll Controls to Pay Irregular Salary Arrears

- 3.47 Article 201 (d) of the Constitution of Kenya, 2010, on the Principles of Public Finance require accountability in financial matters, responsible financial management and use of public money in a prudent and responsible way.
- 3.48 Section 149(1)(b) 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 lawful and authorized, and effective, efficient, economical and transparent. Further, Regulation 120(3) of the Public Finance Management (County Governments) Regulations 2015 requires the accounting officer to certify the correctness of the payroll at least once every month.
- 3.49 The County Executive of Embu paid arrears amounting to Kshs.46,938,555 in financial year 2021/2022, Kshs.37,511,925 in financial year 2022/23 and Kshs.59,046,290 in financial year 2023/24.
- 3.50 The Special Audit determined that salary arrears amounting to Kshs. 4,676,014.00, detailed in **Annexure 10**, was irregularly paid to staff members, subsequent to reappointment:
- i. Kshs.231,394 was irregularly paid in 2021/2022 to a staff member previously on contract as a Legal Advisor to the office of the Governor and later re-appointed as Director Legal Affairs on permanent and pensionable terms of service after the expiry of the contract. The contract was for a period of three years effective from 1 October, 2017 and the re-appointment was effected from 18 February 2020 which is a four months break in service. The payment was made on the grounds of alleged seniority loss (placed in lower salary scale) during the transition. However, no documented policy or approval was provided to support the payment of these arrears.
 - ii. Kshs. 4,444,620 in salary arrears was paid to a chief officer and a county secretary in 2021/2022, ostensibly to retain seniority. The officers had been re-appointed to the same positions as previously held, and no evidence was provided to indicate that the officers suffered financial disadvantage on re-appointment. Further, there

was no approved policy or documented agreement justifying salary arrears as a means of retaining seniority.

- 3.51 An employee was granted a four-year study leave under an agreement to be bonded to the county government upon completing the studies. However, the employee prolonged their study leave without formal approval, failing to return to duty as required. The employee was later disciplined for absconding duty but was still paid salary arrears amounting to Kshs.1,512,900 in 2021/2022, detailed in **Annexure 11** for a period during which the staff member was neither at work nor on a formally extended study leave.
- 3.52 Commuter Allowance amounting to Kshs.709,673 was paid in arrears in 2022/2023 and 2023/2024 as detailed in **Annexure 12** to state officers who were only entitled to official vehicles.
- 3.53 Extraneous Duty Allowance amounting to Kshs. 2,559,339, detailed in **Annexure 13**, was paid in arrears between financial years 2021/2022 and 2023/2024 to sixty-seven (67) employees, contrary to SRC guidelines, which entitles only health workers and a maximum of six (6) officers in the office of the Governor to extraneous duty allowance. These employees included some health workers who though, entitled to health workers extraneous allowance, were paid under the wrong IPPD code.
- 3.54 Consolidated Gross Pay of total amount Kshs. 66,617,127, detailed in **annexure 14**, was paid in arrears in financial years 2021/2022 to 2023/2024 to officers entitled to segregated (deconsolidated) earnings.
- 3.55 Arrears, particularly when input into the payroll system is done manually, create a loophole for irregular or unsupported expenditure. Further, even regular payments that are not effected in a timely manner might be pushed into subsequent financial years, forming arrears that increase the wage bill in periods subsequent to those in which the payments had been budgeted.

VI. Overpayment of Wages

- 3.56 The Special Audit identified five hundred and forty-nine (549) casual employees who were paid monthly salaries including weekends and public holidays despite their contracts stating that wages attached to these positions were to be on a minimum of Kshs.500 per day subject to statutory deductions. The total amount

paid to the casuals between February and June 2024 amounted to Kshs.30,020,578 as detailed in **Annexure 15**.

- 3.57 The failure to compute and pay wages on actual number of days worked are reflective of weak controls in payroll and casual employee management. It poses a risk of manipulation of records that might result in overpayments.

VII. Use of Manual Payrolls

- 3.58 Regulation 22 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015, requires the accounting officer to maintain effective systems of internal controls and have measures to ensure their effectiveness.
- 3.59 The Special Audit determined that whereas integration of casuals payrolls into the IPPD system was done in February 2024, manual payrolls were still in use as at June 2024. The manual payrolls were used to pay top-up allowances of police officers engaged by the County Executive and to pay gratuity amounts. Payments through the manual payrolls for the period under audit are outlined in **table 5**.

Table 5: Use of Manual Payrolls

	Top-up Allowances (Kshs.)	Gratuity (Kshs.)	Total (Kshs.)
2021/2022	6,841,962.58	55,007,133.44	61,849,096
2022/2023	10,043,053.21	21,172,468.87	31,215,522
2023/2024	13,374,924.00	68,773,193.56	82,148,118
TOTAL			175,212,736

*Source: Top-up and Gratuity Payrolls

- 3.60 The use of manual payroll systems for salary processing is vulnerable to manipulation and fraud, potentially resulting in unauthorized payments and disbursements to unverified personnel.

E. Compliance with Laws and Regulations

- 3.61 An assessment of the County Executive's adherence to laws on statutory deductions and labor laws was conducted, and the following issues were established:

I. Penalties and Pending Bills Relating to Statutory Deductions

- 3.62 Section 4(3) of the Affordable Housing Act, 2024 requires the Housing Levy to be remitted not later than the ninth working day after the end of the month in which the gross salary was due or gross income was received or accrued.
- 3.63 Section 20(1A) of the National Social Security Fund Act, 2013 requires an employer to remit NSSF deductions on the ninth day of each month or on such later date as the Board may, in consultation with the Cabinet Secretary responsible for matters relating to social security, prescribe.
- 3.64 Under section 15(4) of the National Health Insurance Fund Act, 1998 (now repealed), contributions were due on the ninth day of each month or on such later date as the Board, in consultation with the Cabinet Secretary responsible for matters relating to health, may prescribe.
- 3.65 Rule 10(1) of Income Tax (P.A.Y.E) Rules requires that before the tenth day following the end of every month or before any other day which may be notified to him by the Commissioner, an employer shall pay all amounts of tax which the employer has deducted during such month.
- 3.66 Section 19(4) of the Employment Act, Chapter 226 of the Laws of Kenya, requires an employer who deducts an amount from an employee's remuneration to pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement court order or arbitration as the case may be.
- 3.67 In 2023/2024, an allocation of Kshs.300,000,000 was made, "for payment of verified statutory and third-party salary deductions representing fifty-one (51%) percent of the outstanding pending bills for statutory and third-party salary deductions declared by the County Executive Committee Member for Finance and Economic Planning" in 2023. The Special Audit observed that in financial year 2023/2024, a total of Kshs.183,522,101 was paid in payroll pending bills, as detailed in **Annexure 16**.
- 3.68 Further, that the county executive had to pay penalties with regard to non-remittance of PAYE amounts as illustrated by the General Ledger transactions in **Table 6**.

Table 6: Penalties and Pending Bills Relating to Statutory Deductions

Source	GL Date	Transaction Number	Line Description	Debit (Kshs.)
Payables	02-Nov-23	STD011123	being payment for PAYE instalment on penalties	10,000,000
Payables	19-Oct-23	STD191023/1	being payment for penalty instalment for the month of sept	11,555,270
Payables	19-Oct-23	STD191023/	being payment for penalty instalment for the month of sept	10,000,000
Total				31,555,270

*Source: IFMIS Account Analysis Report, Embu County Ledger from July 2023 to June 2024

3.69 Further, agency notice transactions in Embu recurrent account at CBK are representative of amounts claimed by Kenya Revenue Authority as taxes due to them from Embu County Executive. The County Executive should ordinarily have remitted to the Commissioner of Domestic Taxes, but the amounts were collected by KRA directly from the county executive's CBK recurrent bank account, owing to non-remittance. The Amounts remitted to KRA by the bank constitute assessed tax amounts and interests as shown in **table 7** and detailed in **Annexure 17**.

Table 7: Amounts Remitted by CBK to KRA Pursuant to Agency Notices

Years	Total Assessed Tax Plus Interest (Kshs.)
2021	373,329,617
2022	471,560,895
2023	122,590,628
2024	48,201,519
TOTAL	1,015,682,659

*Source: Embu County Recurrent Account Bank Statements from CBK

3.70 Penalties, interests and other amounts incurred under similar circumstances have contributed to higher staff costs for Embu County Executive.

II. Non-Compliance with Requirement on Ethnic Diversity

3.71 Section 7(1) of the 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 representing 33% of its staff from the same ethnic community.

3.72 Analysis of employees in the IPPD system as at 30 June, 2024 revealed that 54% of the staff were from one dominant ethnic community as detailed in **Annexure 18**. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008.

3.73 Further analysis established that the dominant community represented 47% of the new recruitment done during the period under review as detailed in **Annexure 19**. This demonstrates the management effort to ensure compliance with the requirement on ethnic diversity.

III. Active Staff Above 60 Years

3.74 Section 80 of the County Governments Act, 2012 provides that the mandatory retirement age for a county public officer generally or for any category of public officers, shall be prescribed by policy of the national government.

3.75 The policy of the national government on retirement age is prescribed in Regulation 70 (1) of the Public Service Commission Regulations, under which the mandatory retirements age in the public service is sixty years and sixty-five for persons with disability.

3.76 The Special Audit established that there were nine (9) active employees in the payrolls for the financial years 2021/2022 and 2022/2023, and fifty-seven (57) employees in 2023/2024, who had attained the retirement age of sixty (60) years. The total amount paid for the extra years amounted to Kshs. 49,292,716 as shown in **Annexures 20** and **21**, and outlined in **Table 8**.

Table 8: Earnings of Persons Over 60

Year	Number of employees	Amount (Kshs.)
2023/24	52 – Casual Employees	2,320,595
2023/24	5	11,266,391
2022/23	9	13,547,082
2021/22	9	22,158,720
Total		49,292,716

*Source: IPPD System Payrolls

IV. Late Payment of Increments Due on Promotion

- 3.77 Section 18(2)(c) of the Employment Act states that wages or salaries are deemed to be due, in the case of an employee employed for a period exceeding one month, at the end of each month or part thereof.
- 3.78 A review of payroll data revealed that employees were promoted but the salary increments were paid in subsequent months or years as arrears and not effected during promotions. A sample of employees with delayed increments were paid arrears of total amount Kshs.2,510,713, detailed in **Annexure 22**.
- 3.79 Delay in payment results in hardship for affected staff members. Further, the unpaid amounts may become pending bills and increase staff costs into years beyond which the budgets relating to the promotions were originally made.

F. Migration from Integrated Personnel and Payroll Database (IPPD) System to Human Resource Information System-Kenya (HRIS-Ke).

- 3.80 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

- 3.81 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.
- 3.82 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 9** and detailed in **Annexure 23** and **24**.

Table 9: Overpayment and Underpayment of Salary and Allowances on Migration to HRIS-Ke

Allowance	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount (Kshs.)	Number of Employees	Amount (Kshs.)
Commuter	7	112,000		
Health Workers Extraneous			120	895,000
		112,000		895,000

*Source: Comparison between IPPD Payroll for November and HRIS-Ke Payroll for December 2024

II. Irregular Payment of Salary and Allowances

- 3.83 Fifty-six (56) officers changed job groups on migration to HRIS-Ke system, yet these members of staff had not been promoted or appointed to a different job group. The increase in gross pay of these members of staff from the IPPD payroll in November to HRIS-Ke payroll in December (excluding leave allowance paid in December) was Kshs.70,453, as detailed in **Annexure 25**.
- 3.84 There was re-designation of one (1) staff member on migration to HRIS-Ke, but there were no supporting appointment or redesignation records presented for audit by the County Public Service Board. The staff member was initially a casual worker. On migration, the staff member's records indicated a change to the position of Pharmaceutical Technologist [3] with a corresponding increase of gross pay of Kshs.71,750. See **Annexure 26**.

III. Non-Deduction of Discretionary Deductions

- 3.85 Discretionary deductions of up to Kshs. 196,864 were not made for thirty-six (36) employees who ordinarily make voluntary pension and NSSF contributions, as detailed in **Annexure 27**.
- 3.86 The Overpayments, underpayments and irregular payments during migration from a IPPD System to a HRIS-Ke indicate inadequate data validation and weak internal controls. This exposes the County Executive to financial loss, legal liabilities, and employee dissatisfaction due to inaccurate compensation.

4. CONCLUSION

- 4.1 The Special Audit of payrolls for Embu 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 non-compliance with requirements on limiting the Cost of Compensation of Employees within thirty-five (35%) of Revenue indicates weaknesses in 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 misalignment between budget votes in payroll systems and those in approved budgets and IFMIS ledgers 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 absence of an approved staff establishment in some years denies County Executive departments formal guidance on optimal staffing levels, leading to overstaffing or understaffing, budget overruns or unmet service delivery needs.
- 4.5 The misalignment between IPPD system and 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.
- 4.6 Lack of annual recruitment plans can result in overstaffing, understaffing, hiring for roles that do not align with organizational priorities or inability to pay staff immediately upon hire or promotion.
- 4.7 Failure to involve the County Public Service Board in office establishment processes undermines its mandate to create offices in the public service, oversee staffing, monitor efficiency, and make informed decisions.

- 4.8 Recruitment requests not initiated by the relevant department or the County Public Service Board may fail to address actual staffing needs or result in overstaffing. Appointing more staff than advertised undermines prior budget assessments, potentially exceeding allocated personnel budgets.
- 4.9 Failure by the Chief Offices to account for some employees casts doubt on authenticity of payroll records.
- 4.10 The payment of irregular salary and allowances and the overpayments of salaries and 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.
- 4.11 The payroll 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.
- 4.12 The use of manual payroll and the inaccurate birth dates in payroll systems indicates weak internal controls and increases the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive and miscalculation of retirement dates and pension dues of employees.
- 4.13 Failure to follow tax rules led to penalties that increased spending on compensation of employees. Other failures to meet legal obligations can reduce workforce diversity, cause employee hardship, lead to lawsuits, harm the county's reputation, and weaken stakeholder trust.
- 4.14 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. 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.

5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusions of the Special Audit, the following is recommended to the Embu County Executive.
- 5.2 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five percent (35%) of the County Executive's total revenue the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 5.3 For effective management of departmental budgets and enhance accuracy in reporting of compensation of employees expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer for 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 times 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 ensure that personnel costs of all appointments and promotions can be met within the budgetary allocation voted for the county government entity, as well as prevent overstaffing, understaffing, hiring for roles that do not align with organizational priorities, the County Executive should prepare annual recruitment plans.
- 5.5 To ensure fairness, merit, efficiency, effectiveness and diversity in the county public service, as establishment of offices of the County Public Service and recruitments should follow due process as detailed in the County Governments Act. The stipulated roles of the county public service board and other stakeholders should be duly carried out. The County Public Service Board should also maintain properly authenticated documents relating to recruitment processes.
- 5.6 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.

- 5.7 To reduce opportunity for processing of irregular payments by exploiting existing weakness in arrears 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 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.
- 5.9 All manual payrolls should be fully onboarded into the HRIS-Ke, with payments effected only through the system upon successful data entry and verification. This will minimize reliance on manual processes that are prone to error and manipulation.
- 5.10 The County Executive should ensure compliance with laws and regulations to eliminate or minimize the risks of employee hardship, pending bills, penalties, litigation and loss of stakeholder trust.
- 5.11 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments, underpayments and irregular payments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.
- 5.12 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

6. APPENDICES

Appendix 1: List of Staff Interviewed

Embu County Executive Officers Interviewed		
No	Designation	Department
1	Assistant Director Human Resource Management & Development	Public Service
2	Accountants	Finance
3	Payroll Manager (Assistant Director, Accounting Services)	Public Service
4	Deputy Chief Economist	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.	Name	Description
1.	Annexure 1	Recruitments for which There Was No Evidence of Departmental Requests Being Considered by The County HRM Advisory Committee
2.	Annexure 2	Recruitment of More Staff than Positions Advertised
3.	Annexure 3	Errors in Birth Date Captured in IPPD
4.	Annexure 4	Staff in Chief Officers' Lists but not in IPPD
5.	Annexure 5	Staff in IPPD but not in Chief Officers' Lists
6.	Annexure 6	Charging of Employee Costs in 2023/2024
7.	Annexure 7	Irregular Payment of Commuter Allowance to State Officers
8.	Annexure 8	Payment of Consolidated Gross Pay to Officers with Segregated Earnings
9.	Annexure 9	Extraneous Duty Allowance Paid to More People than Stipulated by SRC
10.	Annexure 10	Staff Members Paid Irregular Arrears
11.	Annexure 11	Arrears Paid for Days not Worked/ Unauthorised Study Leave
12.	Annexure 12	Commuter Allowance Arrears Paid to State Officers
13.	Annexure 13	Arrears for Extraneous Duty Allowance Paid to More People than Stipulated by SRC

14.	Annexure 14	Arrears of Consolidated Gross Pay to Officers with Segregated Earnings
15.	Annexure 15	Casuals Paid Higher Rates than Approved Rates
16.	Annexure 16	Payroll Pending Bills Paid in 2023/2024
17.	Annexure 17	Agency Notices from KRA to CBK with Respect to Embu County
18.	Annexure 18	Embu County Executive Staff Ethnic Distribution as at 30 June 2024
19.	Annexure 19	Embu County Executive Ethnic Distribution of Staff Recruited In 2024
20.	Annexure 20	Gross Earnings of Persons in IPPD Payrolls Over the Age Of 60
21.	Annexure 21	Casual Employees above Age 60
22.	Annexure 22	Salary Increments Paid in Arrears After Extended Delays
23.	Annexure 23	Non-payment of Commuter Allowance in HRIS-Ke
24.	Annexure 24	Overpayment of Health Workers Extraneous Allowance in HRIS-Ke
25.	Annexure 25	Unjustified Change in Job Group on Migration / Irregular Payment of Salaries and Allowances
26.	Annexure 26	Unjustified Change in Designation on Migration/ Irregular Payment of Salaries and Allowances
27.	Annexure 27	Voluntary NSSF and Voluntary Pension Amounts in IPPD In November 2024 Not Deducted In HRIS-Ke in December 2024

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