



SPECIAL AUDIT REPORT
OF THE AUDITOR-GENERAL ON
**PAYROLL MANAGEMENT FOR
NAIROBI CITY COUNTY EXECUTIVE**





VISION

Making a difference in the lives and livelihoods of the Kenyan people



MISSION

Audit services that impact on effective and sustainable service delivery



OUR CORE VALUES

Integrity • Credibility • Relevance •
Accountability • Independence

FOREWORD BY THE AUDITOR-GENERAL

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

The Special Audit evaluated the human resource and payroll processes at the Nairobi City 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 Nairobi City 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 Nairobi City County Public Service Board and the Governor, Nairobi City 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
2. INTRODUCTION AND BACKGROUND	16
Introduction and Background	16
Audit Objectives	19
Audit Scope and Limitations.....	19
Audit Methodology.....	19
Methods of Data Collection	20
A.Payroll Budgeting	23
B.Recruitment Process.....	25
C.Employee Data Management	30
D.Payroll Processing and Payments	32
E.Compliance with Laws and Regulations.....	41
4. CONCLUSION	44
5. RECOMMENDATIONS	46
6. APPENDICES	48
Appendix 1: List of Staff Interviewed	48
Appendix 2: List of Annexures.....	48

List of Figures

Figure 1: Cumulative Growth in Payroll Costs	18
Figure 2: Cumulative Growth of Staff	18

List of Tables

Table 1: Budgeted Employee Cost to Budgeted Revenue Ratio	24
Table 2: Actual Employee Cost to Revenue Ratio	24
Table 3: Approved Recruitment for Casual Workers by the County Public Service Board	26
Table 4: Over Establishment of Staff in the County	30
Table 5: Unsupported Payment of Overtime Allowance	35
Table 6: Irregular Payment of Overtime Allowance	35
Table 7: Irregular Extraneous Allowances - Employees from the Defunct Local Authority	36
Table 8: Irregular Extraneous Allowances _ Other Employees	37
Table 9: Irregular Payment of Arrears	38
Table 10: Irregular Payments from the Salary Control Account	39
Table 11: Nugatory Expenditure on Staff Cost	40
Table 12: Unsupported Payments to Casual Workers	40
Table 13: Late Remittance of Statutory Deductions	42

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
MDAs	Ministries, Departments and Agencies
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
UHC	Universal Health Care

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 Nairobi City 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 Objective

- 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

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 casual payrolls and manual payrolls for the period under review. However, this limitation was mitigated by using data analysis to test the controls.

Methods of Gathering Evidence

- 1.9 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 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 detailed below: -

A. Payroll Budgeting

I. The Employee Cost 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 not to 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 for the County Executive exceeded thirty-five percent (35%) in 2022/2023 and 2023/2024 financial years.
- 1.12 Further, a comparison of the actual personal emolument expenditure, with the actual revenue, revealed that the County Executive also exceeded the thirty-five (35%) percent threshold in the two (2) years. Further, the percentage of budgeted compensation of employees to the budgeted revenue grew from twenty-one (21%) percent in 2021/2022 to forty-six (46%) percent in 2023/2024. This indicates a growing 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 Integrated Payroll and Personnel Database System were not Aligned with those in the Approved Budgets

- 1.13 The Audit established that the budget Vote Heads in IPPD System 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 Annual Recruitment Plans

- 1.14 During the period under audit review, the County Executive recruited nine hundred and sixty-five (965) employees. The audit established that the departments that initiated the recruitments did not have annual recruitment plans to guide the recruitment process. Further, no evidence was provided to prove that budgetary availability was sought before initiating the recruitment process. The lack of annual recruitment plans and lack of confirmation of availability of budgets can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

II. Weaknesses in the Recruitment and Management of Casual Workers

- 1.15 The departments that recruited casual employees did not provide records indicating how the employees were hired, evidence to prove the service provided, their respective duty allocations, and the corresponding wages paid. Further, the County Public Service Board did not receive periodic returns from the respective departments that engaged casual workers. In addition, during the financial year 2023/2024, the Department of Health recruited casual workers without involving the County Public Service Board (CPSB).
- 1.16 The weaknesses in the recruitment and management of casual employees increases the risk of mismanagement of casual wages. Further, the County Public Service Board's ability to exercise oversight, monitor workforce efficiency, and make informed staffing decisions is undermined.

III. Designations in the Integrated Payroll and Personnel Database not Aligned with the Approved Staff Establishment

- 1.17 The Special Audit established that there were designations in the approved staff establishment that were not configured in IPPD System. To facilitate salary processing, the affected employees were placed in similar Job Groups in the IPPD System. This process can lead to inefficiencies in workforce planning and budget overruns.

IV. Over Establishment of Staff

- 1.18 Section 59 (1)(a) of the County Government Act, 2012 sets one of the functions of the County Public Service Board as to establish and abolish offices in the County Public Service. Sub-section (g) further requires the Board to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. In addition, Section 119(4) requires the responsible county government department for public service management matters and the County Public Service Board to only approve establishment of new public service positions after getting confirmation of the availability of budgetary provisions from the County Treasury.
- 1.19 The Special Audit established that the County Executive had sixteen thousand, three hundred and twenty-one (16,321) employees in IPPD System, against a staff establishment of thirteen thousand, five hundred and eighty-seven (13,587). This represents a twenty (20%) over establishment, which may strain the County's financial resources, limiting funds available for critical development projects and essential service delivery.

C. Employee Data Management

I. Integrity of Dates of Birth in the Integrated Payroll and Personnel Database System (IPPD)

- 1.20 The Special Audit identified one hundred and ninety-eight (198) employees with inconsistent date of birth. Interview with a sample of eighty-nine (89) employees and verification of their identification documents established that the dates captured in the IPPD System for twenty-seven (27) 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

- 1.21 The Chief Officers (COs) were requested to provide a list of staff members in their respective departments as at 30 June, 2024. This list was to be compared with records of employees in the payroll systems maintained by the County Executive. However, twenty-five (25) Chief Officers did not submit the required information. The authenticity of the payroll records could therefore, not be confirmed.
- 1.22 Further, a comparison of the staff lists countersigned by various Chief Officers, with the staff register from the IPPD System, established that there were two hundred and eighty-five (285) employees in the Chief Officers' staff lists, that were not in IPPD System. In addition, there were ten (10) employees in the IPPD System, that were not in the staff lists provided by Chief Officers. The ten (10) employees were paid Kshs.6,052,009 during the period under review.
- 1.23 The failure to account for human resource in various departments presents the risk of irregular or fraudulent payments in the County Executive.

III. Authenticity of Staff in the Payroll

- 1.24 The Special Audit requested eighty-nine (89) employees from the County Executive to present themselves for physical verification. However, twenty-seven (27) employees did not avail themselves for the exercise, despite multiple attempts to reach out to them. During the period under review, the twenty-seven (27) employees collectively received gross salaries amounting to Kshs.47,552,597. These employees may not exist, presenting the risk of irregular or fraudulent payments.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Vote Heads

- 1.25 The Special Audit established that there were misalignments between departmental Vote Heads in IPPD System and those in the Integrated Financial Management System (IFMIS) Ledger Account. As a result, posting of salary in IFMIS was not done as per departmental Vote Heads. This process creates inconsistencies between budget allocations and actual expenditure by

departments, therefore presenting the risk of misuse of funds and inaccurate financial reporting.

II. Duplication of Employees in the Integrated Payroll and Personnel Database and Manual Payrolls

- 1.26 During the period under review, the County Executive was maintaining payroll in the IPPD System for employees with payroll numbers, manual payrolls for employees without payroll numbers and casual payrolls for casual workers. The audit established that there were sixty-one (61) employees whose salaries were processed through both the IPPD System and manual payrolls. A total of Kshs.1,676,395 was paid through the IPPD System for the employees duplicated in the two (2) payrolls. The amount paid through manual payrolls could not be ascertained, as payment vouchers were not provided for audit.
- 1.27 The existence of employees in both payrolls indicates loss of public funds due to double payments.

III. Unsupported Promotions

- 1.28 The Special Audit established that there were nine hundred and seventy-eight (978) employees who changed Job Groups more than once within a financial year, or skipped Job Groups within the years under review. The Management did not provide evidence to justify the change or skipping of Job Groups. In this regard, it was not possible to determine whether the changes in Job Groups were undertaken in a fair and transparent manner.

IV. Irregular Payment of Allowances

- 1.29 Comparison of salary paid to employees during the period under audit review with applicable Salary and Remuneration Commission (SRC) circulars and guidelines established the following:
- i. There were six thousand, eight hundred and ninety-nine (6,899) employees who were paid overtime allowances amounting to Kshs.288,273,885. However, the audit established that muster rolls were approved by departmental heads after employees had worked.

Further, it was established that there were three thousand, six hundred and seventy-seven (3,677) employees who were not from the defunct Nairobi City Council but were irregularly paid overtime allowance amounting to Kshs.36,095,310. The allowance was not applicable to them, based on the Collective Bargaining Agreement.

- ii. There were five hundred and fifty-nine (559) employees from the defunct local authority who were paid extraneous allowance totaling Kshs.126,732,567. The Management did not provide evidence to prove that the employees offered extraneous service. Further, there were nine hundred and sixty-one (961) employees who were not from the defunct local authority, yet they were paid extraneous allowance totaling Kshs.167,108,737.

V. Circumventing Payroll Controls to Pay Irregular Salary Arrears

- 1.30 The Special Audit established that there were employees who were irregularly paid salary arrears amounting to Kshs.211,448,169. The arrears were paid as extraneous allowance, by circumventing payroll controls. The Management did not explain why the allowance was paid as arrears, yet the allowance had a dedicated earning code in the IPPD System. In addition, payment of extraneous allowance to these particular employees is not provided for in the Salaries and Remuneration Commission (SRC) Guidelines on the Compendium of Remuneration and Benefits for Public Service dated December 2022.

VI. Irregular Payments from the Salary Control Account

- 1.31 The Management indicated that the County Executive used the 'Customer Settlement Account' as a Salary Control Account. Funds allocated for payments of salary were therefore, transferred from the Central Bank of Kenya to the 'Customer Settlement Account', which is maintained at the Cooperative Bank of Kenya. The funds were later transferred from the 'Customer Settlement Account' to the 'Sundry Debtor Account', maintained in the Cooperative Bank Account, where salary payments were made.

- 1.32 However, analysis of bank statements for the 'Customer Settlement Account' revealed that an amount totaling Kshs.1,690,553,768 was used to pay Daily Subsistence Allowances (DSA), subscriptions to professional bodies and other unexplained payments.
- 1.33 Further analysis of the Bank Statements for the 'Sundry Debtor Account' for the financial year 2023/2024 revealed that the County Executive paid a total amount of Kshs.130,431,698 for non-salary items such as choir allowances.
- 1.34 The diversion of salary funds to finance non-salary expenditures compromises financial accountability and contravenes budgetary principles. This practice may lead to delays in the payment of staff salaries, which might negatively impact on employee morale and productivity.

VII. Nugatory Expenditure on Staff Cost

- 1.35 During the period under review, the County Executive incurred Kshs.148,397,012 in penalties and interest, due to delayed payment of salaries. Further, it was established that the 'Sundry Debtor Account' was operating as an overdraft facility. As a result, during the financial year 2023/2024, the County Executive incurred commission charges amounting to Kshs.7,709,746.
- 1.36 Payment of the interest arising from penalties is an avoidable and wasteful expenditure of public funds which can lead to budgetary constraints.

E. Compliance with Laws and Regulations

I. Non-Compliance with Remittance of Statutory Deductions

- 1.37 A comparison of statutory deductions for employees in the IPPD Payroll System with the County Executive's Bank Statements for the year 2023/2024 revealed remittance of Housing Levy for six (6) months was not made on time. Similarly, remittance of Pay As You Earn deductions for the month of June 2025 was delayed. The delay ranged from three (3) days to one hundred and eighty- seven (187) days. This exposes the County Executive to penalties, interest and reputational risks, thereby undermining stakeholders' confidence.

II. Other Non-Compliance Issues

- 1.38 The Special Audit established that the County Executive was not in compliance with the requirement of Section 19 (3) of the Employment Act, 2007 which requires employees to retain at least one third of their basic salary. Further, it did not comply with requirement of Section C.14 (1) of the Public Service Human Resource Policies and Procedures Manual, 2016 on engagement of casual employees on contract terms if they are anticipated to work for a period exceeding three (3) consecutive months. This noncompliance presents the risk of litigation proceedings and associated costs.

Conclusion

- 1.39 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.
- 1.40 The failure to align budget votes in payroll systems with 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.
- 1.41 The absence of annual human resource recruitment plans, recruitments of casual workers without involving the County Public Service Board and over establishment of staff demonstrate ineffective workforce planning and deviation from established staffing structures. This practice can result in either overstaffing or hiring staff for roles that do not align with organizational priorities, which have an impact on the budget.
- 1.42 The failure by departments to maintain supporting documents of the recruitments increases the risk of mismanagement of payroll funds and undermines the County Public Service Board's ability to exercise oversight, monitor workforce efficiency, and make informed staffing decisions.
- 1.43 The failure by the County Executive to update the IPPD system 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.

- 1.44 The failure by the Chief Offices to account for employees in their departments, the payroll data Integrity issues and failure by employees to appear for physical verification cast 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.
- 1.45 The presence of duplicate payroll entries and payment of irregular and unsupported allowances reflects significant 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.
- 1.46 The unauthorized job group changes, circumventing payroll controls to pay irregular salary Arrears, nugatory expenditure on staff cost Indicates weak financial and human resource controls, exposing the payroll to fraud and abuse.
- 1.47 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.
- 1.48 The non-compliance with tax and labour laws as evidenced by delayed statutory remittances and prolonged engagement of casuals violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

Recommendations

- 1.49 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Nairobi City County Executive.
- 1.50 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.
- 1.51 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 new 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.
- 1.52 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.
- 1.53 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.

- 1.54 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.
- 1.55 To reduce opportunity for process irregular payments by exploiting existing weakness in arrear payments, the management of the City 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 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.
- 1.57 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 Nairobi City 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.
- 2.3 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.

2.4 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.

2.5 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.

2.6 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.

Number of Employees and Payroll Expenditure

2.7 Over the three-year period under review, there was a drastic increase in the number of employees and payroll costs.

2.8 The overall staff growth from financial year 202/2022 to 2023/2024 was 189%, while the cumulative growth in payroll costs over the same period was approximately 275%, as shown in **Figures 1 and 2**.

Figure 1: Cumulative Growth in Payroll Costs

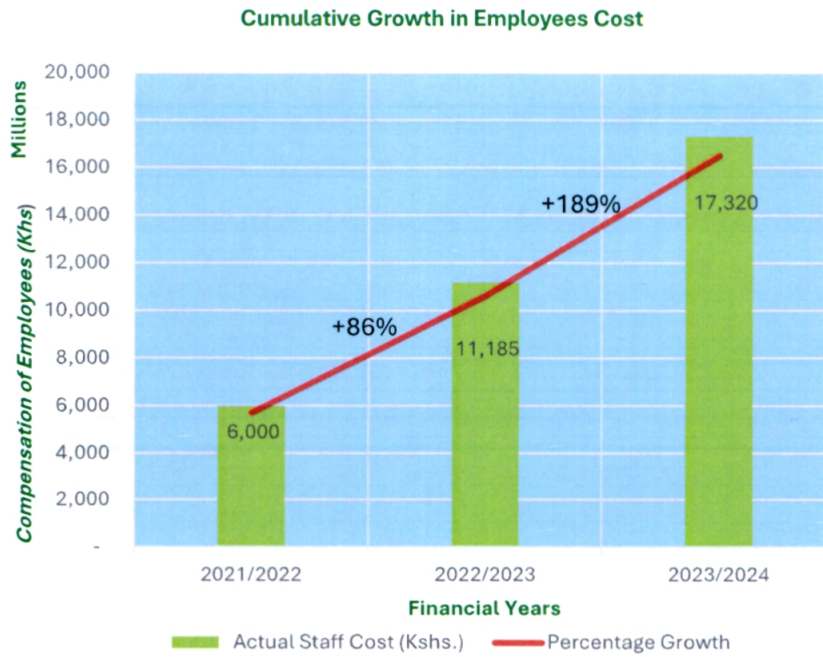
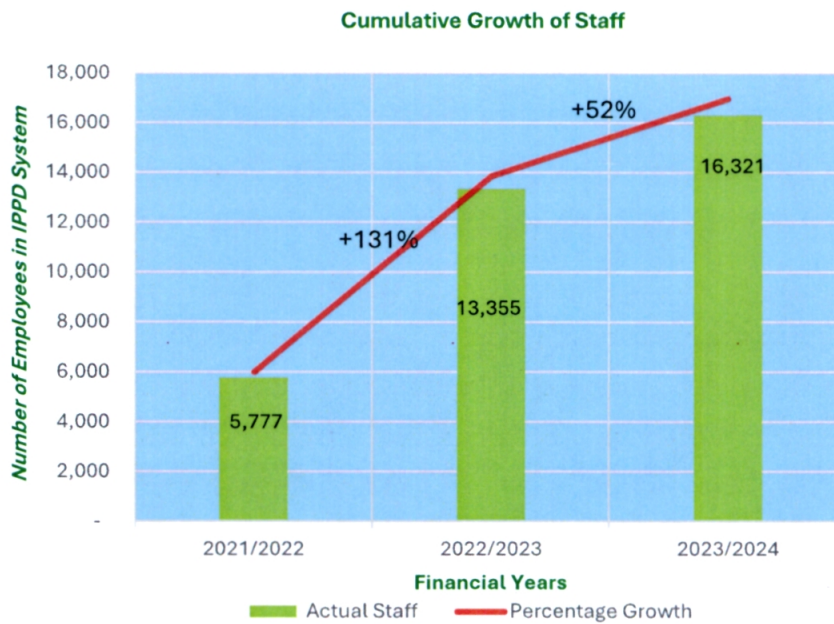


Figure 2: Cumulative Growth of Number of Staff



Audit Objectives

- 2.9 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.

Audit Scope and Limitations

- 2.10 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.
- 2.11 The audit was carried out in the month of November and December, 2024.
- 2.12 The County Executive did not provide Chief Officers list from three (3) sectors having twenty-one (21) departments and Manual payroll payment vouchers. This limitation was mitigated by using data analysis to test the controls.

Audit Methodology

- 2.13 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 Data Collection

- 2.14 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.
- 2.15 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

- 2.16 The Audit Team reviewed various documents in order to set audit criteria and assess compliance with the criteria and in gathering audit evidence. They include:
- 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. Employment Act, 2007;
 - vi. National Security Fund Act, 2013;
 - vii. National Health Insurance Fund Act, 1998 (Now Repealed);
 - viii. The SRC Circular SRC/TS/29(81), dated 10 August 2023;
 - ix. The SRC Circular on the Compendium of Remuneration and Benefits for Public Service, dated December 2022;
 - x. The SRC Circular SRC/TS/MDP/3/1/2(2), dated 11 August 2015;
 - xi. Public Service Commission Human Resource Policies and Procedures Manual of May 2016;
 - xii. Employees' physical files;
 - xiii. Collective Bargaining Agreements (CBA), 2013;

- xiv. Affordable Housing Act, 2024;
- xv. The County Executive Financial Statements for financial years 2021/2022, 2022/2023 and 2023/2024;
- xvi. The County Executive Budgets financial years 2021/2022, 2022/2023 and 2023/2024;

b) Data Analytics

2.17 The payroll and staff register data from the IPPD System was extracted and analyzed. The exceptions from the analysis formed the basis for verification with payroll records maintained by the County Executive.

2.18 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. HRIS-Ke Payroll data
- iii. Manual Payroll data
- iv. Payment schedules
- v. Casual payrolls data
- vi. Chief Officers staff list for each department as at 30 June 2024; and
- vii. Itemized budgets for staff costs

c) Interviews

2.19 The audit team interviewed relevant payroll 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

- 2.20 The Audit Team requested all the Chief Officers to provide countersigned lists of staff members in their departments as at 30 June, 2024. The lists were compared with the IPPD staff registers maintained by the County Executive.
- 2.21 The Audit Team, through the County Secretary, requested ninety (90) 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

- 2.22 The report is organized as follows:
- i. Executive Summary;
 - ii. Introduction and Background;
 - iii. Detailed Findings;
 - iv. Conclusion;
 - v. Recommendations; and
 - vi. Appendices.
- 2.23 The report should be read in its entirety, in order to 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 five (5) broad areas:
- a. Payroll Budgeting;
 - b. Recruitment Process;
 - c. Employee Data Management;
 - d. Payroll Processing and Payments; and
 - e. Compliance with Laws and Regulations.

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 relevant 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 employee to budgeted revenue exceeded 35% in two (2) of the three (3) financial years under audit, as indicated in **Table 1**. This is contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015.

Table 1: Budgeted Employee Cost to Budgeted Revenue Ratio

Financial Year	Budgeted Revenue (Kshs.)	Budgeted Cost for Personal Emoluments (Kshs.)	% Utilization
2021/2022	29,093,579,967	6,000,278,598	21%
2022/2023	30,369,963,848	12,293,654,434	40%
2023/2024	42,286,936,833	18,340,227,951	46%

*Source: Audited Financial Statements

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

Table 2: Actual Employee Cost to Revenue Ratio

Financial Year	Actual Revenue (Kshs.)	Expenditure of Staff Emoluments (Kshs.)	Revenue/Employee Ratio (%)
2021/2022	39,627,536,00	6,000,278,598	15.1%
2022/2023	30,485,249,863	11,185,475,652	36.7%
2023/2024	31,006,479,217	17,319,812,635	55.9%

*Source: Audited Financial Statements

- 3.6 The increase in the percentage ratio of compensation of employee to total revenue indicates a growing wage bill, which may be unsustainable in the long term. Further, the high budget allocation for compensation of employees may strain the County's financial resources, thereby limiting funds available for critical development projects and essential service delivery.

I. Budget Votes in Integrated Payroll and Personnel Database System not Aligned with those in the 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 A comparison of payroll reports extracted from the IPPD System with the approved budgets established that the Vote Heads in IPPD were not aligned with those in the approved budgets, as shown in **Annexure I**.
- 3.9 One of the primary factors contributing to the misalignment between the departments and the Vote Heads 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 or obsolete 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 Annual Recruitment Plans

- 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 recruited six hundred and sixty-two (662) , one hundred and fifty-three (153) and one hundred and fifty (150) employees, excluding casuals, during the financial years 2021/2022, 2022/2023 and 2023/2024, respectively. The audit established that the departments that initiated the recruitments did not have annual recruitment plans to guide the recruitments. Further, no evidence was provided to prove that budgetary availability was sought before the recruitments were initiated.
- 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. Weaknesses in the Recruitment and Management of Casual Workers

- 3.15 Section 74 of the County Governments Act, 2012 requires the County Public Service Board to regulate the engagement of staff on contract, volunteer and casual workers in its public bodies and offices.
- 3.16 Review of records of casual employees from departments within the County Executive revealed that the County Public Service Board approved five hundred and thirty-two (532) casual workers to be recruited, as shown in **Table 3**.

Table 3: Approved Recruitment for Casual Workers by the County Public Service Board

Financial Year	Department	Number Approved
2021/2022	County Administration	93
	Food, Agriculture and Natural Resources	15
2022/2023	Mobility and Works	350
	Revenue	33
2023/2024	Finance and Economic Planning	33
	Lands	8
	Total	532

*Source: County Service Public Board Casual Workers Recruitment Records

3.17 Review of the recruitment process established the following internal control weaknesses:

- i. Three (3) out of the six (6) departments that had recruited during the period under review did not provide records indicating how casual employees were hired, the work for which they were hired for, criteria for their recruitment and terms and conditions of services. The departments are the Revenue, Mobility and Works and Agriculture Departments;
 - ii. All the six (6) departments that had recruited during the period under review did not provide muster rolls to support the attendance of casual workers, their respective duty allocations, and the corresponding wages paid. Further, the County Public Service Board did not receive periodic returns from the respective departments engaging casual workers. The returns, which should include a list of the engaged casual workers and their payment records, are essential for payroll accountability and workforce planning and control; and confirmation of the actual engagement of the casual workforce.
 - iii. During the financial year 2023/2024, the Department of Health had recruited casual workers without involving the County Public Service Board, contrary to Section 74 of the County Governments Act, 2012. The casuals were paid wages totaling Kshs.358,400,000, from an account named "Sundry Debtors Account", held at the Co-operative Bank of Kenya. In addition, a total of Kshs.158,316,940 was paid to other casual workers through the same bank account.
- 3.18 The lack of supporting evidence, such as muster rolls and failure to provide periodic returns presents the risk of mismanagement of casual wages and undermines the County Public Service Board's ability to exercise oversight, monitor workforce efficiency, and make informed staffing decisions.

III. Irregular Recruitment of Staff by the Nairobi Metropolitan Services

- 3.19 Article 5.6 of Gazette Notice No. 1609 dated 25 February, 2020 on Deed of Transfer between the Nairobi City County Government and the National Government required that the relevant human resources for the implementation of the Deed be seconded from the County Government to the National Government. Further, Section 5.7 required the Nairobi City County Public Service Board, in consultation with the Public Service Commission, to formulate the necessary instruments to facilitate the secondment and/or deployment of the necessary human resources.
- 3.20 Following the execution of the Deed of Transfer on 25 February, 2020, the Nairobi City County Government seconded six thousand, six hundred and four (6,604) staff to the then Nairobi Metropolitan Services (NMS) for a period of two (2) years. However, at the conclusion of the Deed of Transfer tenure in November 2022, the then NMS transferred back seven thousand, five hundred and twenty-six (7,526) employees to the Nairobi City County Government. These employees were re-introduced in the IPPD System in January 2023.
- 3.21 Out of the seven thousand, five hundred and twenty-six (7,526) staff transferred back, one thousand, seven hundred (1,700) were not part of the original seconded personnel, resulting in an increase of the January 2023 Wage Bill by Kshs.827,630,006, as detailed in **Annexure 2**. This indicates that the then NMS engaged in recruitment of staff during its tenure, contrary to the provisions of Article 5.6 and Article 5.7 of Gazette Notice No. 1609 dated 25 February, 2020.
- 3.22 According to Article 3.3 (b) of the "Framework for the Handover of the Transferred Functions" dated 30 September, 2022, between the then NMS and the Nairobi City County Government, the two (2) entities agreed that the staff and personnel who were employed by the Nairobi Metropolitan Services during Deed Tenure, were to be absorbed into the Nairobi City County Government's Staff Establishment, subject to the existing vacancies and based on the County's needs. However, the audit established that the Nairobi City County Government did not conduct a needs assessment before absorbing the additional staff.

IV. Designations in the Integrated Payroll and Personnel Systems (IPPD) not Aligned with the Approved Staff Establishment

- 3.23 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.
- 3.24 The Special Audit established that there were four hundred and fifty (450) designations that were configured in the IPPD System. However, out of the configured designations, three hundred and seventy-seven (377) were not in the approved staff establishment. Further, there were ten thousand, seven hundred and fifty (10,750) employees who were grouped in the three hundred and seventy-seven (377) designations, as detailed in **Annexure 3 (A-B)**.
- 3.25 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 and budget overruns.

V. Over Establishment of Staff

- 3.26 Section 59 (1)(a) of the County Government Act, 2012 sets one of functions of the County Public Service Board as to establish and abolish offices in the county public service. Sub-section (g) further requires the Board to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. In addition, Section 119(4) requires the responsible county government department for public service management matters and the County Public Service Board to only approve establishment of new public service positions after getting confirmation of availability of budgetary provisions from the County Treasury.
- 3.27 As at 30 June, 2024, the County Executive had sixteen thousand, three hundred and twenty-one (16,321) employees in the IPPD system, against a staff establishment of thirteen thousand, five hundred and eighty-seven (13,587), which represented twenty (20%) percent over establishment. However, there was an

under establishment of fifty-seven (57%) percent and one point seven (1.7%) percent during the financial years 2021/2022 and 2022/2023, respectively, as summarized in **Table 4**.

Table 4: Over Establishment of Staff in the County

Financial Year	Staff Establishment (A)	In Post (Manual and IPPD) (B)	Variance Numbers (A-B)	% Variance
2021/2022	13,587	5,777	7810	57%
2022/2023	13,587	13,355	232	1.7%
2023/2024	13,587	16,321	2,734	20%

*Source: Approved Staff Establishment and IPPD data

3.28 The over establishment may strain the County's financial resources, limiting funds available for critical development projects and essential service delivery.

C. Employee Data Management

3.29 Review of employee's 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 Dates of Date of Birth in the Integrated Payroll and Personnel Database System

3.30 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 the 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.

3.31 The Special audit identified one hundred and ninety-eight (198) employees in the IPPD System with inconsistent dates of birth.

3.32 Interview with a sample of eighty-nine (89) employees and verification of their identification documents established that the dates captured in the IPPD System for twenty-seven (27) employees were different from those in employees' Birth

Certificates as detailed in **Annexure 4**. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).

- 3.33 The inaccurate capturing 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. Failure of Chief Officers to Account for Human Resources in their Departments

- 3.34 Section 148(1) of the Public Finance Management Act, 2012 requires a County Executive Committee Member for Finance to, 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.
- 3.35 The Letter of Engagement addressed to the County Secretary for the audit of payroll, Ref: OAG/SAS/SADS/KDSP-PAYROLL/3/047 dated 25 November, 2024 required Chief Officers (COs) to provide a list of staff members in their respective departments as at 30 June, 2024. This list was to be compared with records of employees in the payroll systems maintained by the County Executive.
- 3.36 The County Executive had thirty-four (34) departments under the oversight of Chief Officers. However, only nine (9) Chief Officers fully complied with the request to submit validated staff information. The remaining twenty-five (25) departments either failed to submit the required information, or provided lists that were not duly countersigned by the respective Chief Officers, as detailed in **Annexure 5**. The authenticity of the payroll records could therefore, not be confirmed.
- 3.37 A comparison of the staff lists countersigned by various Chief Officers with staff registers from the IPPD System established that there were two hundred and eighty-five (285) employees in the Chief Officers' lists but not in the IPPD System,

as detailed in **Annexure 6**. Further, ten (10) employees who were paid Kshs.6,052,009 during the period under review, were in the IPPD System but were missing in lists provided by Chief Officers, as detailed in **Annexure 7**.

III. Authenticity of Staff in the Payroll

- 3.38 The Office of the Auditor-General requested for a physical verification of sampled staff via letter Ref. OAG/SA/SADS/KDSP-PAYROLL/4/047, dated 4 December, 2024, which was addressed to the County Secretary, the Nairobi City County Government.
- 3.39 The Letter requested eighty-nine (89) employees to present themselves for physical verification. However, twenty-seven (27) employees did not present themselves, despite multiple attempts to reach out to them. During the period under review, the twenty-seven (27) officers collectively received gross salary amounting to Kshs.47,552,597, as detailed in **Annexure 8**.
- 3.40 The employees who did not present themselves for physical verification may not exist, raising the risk of irregular or fraudulent payments.

D. Payroll Processing and Payments

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

I. Charging of Employee Costs to the Wrong Budget Vote

- 3.42 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.
- 3.43 The audit established that there were misalignments between departmental Vote Heads in the IPPD System and those in the IFMIS Ledger Account as the Vote Heads in IPPD were not updated to align with those in IFMIS. As a result, a comparison of the gross salary processed through the IPPD System, casual payroll

and manual payrolls to salary ledgers from the Integrated Financial Management Information System (IFMIS), revealed that posting of salary in IFMIS was not done as per departmental Budget Vote Heads, as Detailed in **Annexure 9**.

- 3.44 These misalignments led to inconsistencies between budget allocations and actual expenditures by departments, therefore, increasing the risk of misuse of funds and inaccurate financial reporting.

II. Employees in Both Integrated Payroll and Personnel Database and Manual Payrolls

- 3.45 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.
- 3.46 During the period under review, the County Executive maintained payroll in the IPPD System for employees with payroll numbers, manual payrolls for employees without payroll numbers, and casual payrolls for casual workers.
- 3.47 A comparison between the manual payrolls provided and the IPPD generated payroll revealed that there were sixty-one (61) employees whose salaries were processed through both payrolls. A total of Kshs.1,676,395 was paid through the IPPD System, as detailed in **Annexure 10**. The funds paid through the manual payrolls could not be ascertained, as payment vouchers were not provided for audit review.
- 3.48 The existence of employees in both payrolls indicates loss of public funds due to double payments.

III. Unsupported Promotions

- 3.49 Section 65(1) of the County Governments Act, 2012 set out factors that the County Public Service Board should consider in selecting candidates for appointment. Further, Section 65(2) specifies merit as one of the overriding factors in determining whether appointment, promotion or re-designation are undertaken in a fair and transparent manner.
- 3.50 The Special Audit established that there were nine hundred and seventy-eight (978) employees who changed Job Groups more than once within a financial year, or skipped Job Groups within the years under review, as detailed in **Annexure 11**.
- 3.51 The Management did not provide evidence to justify the irregular change or skipping of Job Groups. In this regard, it was not possible to determine whether the changes in Job Groups were undertaken in a fair and transparent manner.

IV. Irregular Payment of Overtime Allowance

- 3.52 The Salaries and Remuneration Commission Circular Ref. SRC/TS/29(81), dated 10 August, 2023 on Remuneration and Benefits for Public Officers in the County Government Executive for the Third Remuneration Review Cycle 2021-2022 to 2023-2025 (7), lists the Terms of Employment the County Executive) officers are entitled to.
- 3.53 Section 12(a)(I) of the Terms and Conditions of Service for Officers in Local Authorities dated September 2012 require payment of overtime allowance to officers in Job Grades 10 to Job Grade 20, who worked after normal working hours, provided it was specifically authorized in writing by the officer's Head of Department.
- 3.54 According to the Management, overtime allowances to employees from the Local Defunct Authority were processed based on the Collective Bargaining Agreement, 2012, between the Association of Local Government Employers and the Kenya Local Government Workers Union National Joint Negotiating Council, incorporating all Local Authorities in Kenya as at 1 September, 2012.

3.55 The Collective Bargaining Agreement (CBA), 2012 stipulates that, overtime allowances needed pre-authorization, based on the projected work for the month. Further, the Agreement required that the authorization should be done in writing, by the Employee's Head of Department, prior to incurring overtime hours.

3.56 During the three (3) years under audit review, the County Executive of Nairobi City County Government paid overtime allowances to six thousand, eight hundred and ninety-nine (6,899) employees. However, it was established that the muster rolls were approved by the respective departmental heads after employees had incurred the overtime hours. The total payments amounted to Kshs.288,273,885, as summarized in **Table 5** and detailed in **Annexure 12**.

Table 5: Unsupported Payment of Overtime Allowance

Financial Year	Number of Employees	Amount Paid (Kshs.)
2021/2022	517	105,569,312
2022/2023	680	91,550,130
2023/2024	880	91,154,443
Total		288,273,885

*Source: IPPD Data

3.57 It was further established that employees who were not from the defunct local authority were also paid overtime allowances amounting to Kshs.36,095,310, which was irregularly based on the CBA, as summarized in **Table 6** and detailed in **Annexure 13**.

Table 6: Irregular Payment of Overtime Allowance

Financial Year	Number of Employees	Amount Paid (Kshs.)
2021/2022	186	6,997,163
2022/2023	497	13,143,333
2023/2024	630	15,955,623
Total		36,096,119

*Source: IPPD Data

V. Irregular Payment of Extraneous Allowance

- 3.58 Paragraph 43 of the Collective Bargaining Agreement (CBA), 2012 spells out payment of Honoraria Allowance to employees from a defunct local authority. The CBA further required payment of the Honoraria Allowance to be paid for extraneous service.
- 3.59 Analysis of extraneous allowances paid through the IPPD System revealed that there were five hundred and fifty-nine (559) employees from the defunct local authority who were paid extraneous allowance totaling to Kshs.126,732,567, as indicated in **Table 7** and detailed in **Annexure 14**. The Management did not provide evidence to prove that the employees offered extraneous service.

Table 7: Irregular Extraneous Allowances - Employees from the Defunct Local Authority

Financial Year	Number of Employees	Amount Paid (Kshs.)
2021/2022	141	33,330,968
2022/2023	206	43,882,832
2023/2024	223	49,518,767
	Total	126,732,567

*Source: IPPD Data

- 3.60 It was further established that nine hundred and sixty-one (961) employees who were not from the defunct local authority were also paid extraneous allowance totaling to Kshs.167,108,737, as summarized in **Table 8** and detailed in **Annexure 15**. The Management indicated that the payment was based on the Circular referenced OP/CAB.2/12A/ (8), dated 18 August, 2003. However, this Circular was superseded by SRC Circular SRC/TS/CG/ND/3/61/32(25) dated 17 January, 2018, on employees who are entitled to earn Extraneous Allowance.

Table 8: Irregular Extraneous Allowances _ Other Employees

Financial Year	Number of Employees	Amount Paid (Kshs.)
2021/2022	173	34,637,150
2022/2023	260	61,660,151
2023/2024	308	70,811,436
	Total	167,108,737

*Source: IPPD Data

VI. Circumventing Payroll Controls to Pay Irregular Salary Arrears

- 3.61 The Special Audit established that there were employees who were irregularly paid salary arrears amounting to Kshs.211,448,169. The arrears were paid as extraneous allowance, by circumventing payroll controls. The Management did not explain why the allowance was paid as arrears, yet the allowance had a dedicated earning code in the IPPD System. In addition, payment of extraneous allowance to these particular employees is not provided for in the Salaries and Remuneration Commission (SRC) Guidelines on the Compendium of Remuneration and Benefits for Public Service dated December 2022.
- 3.62 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.
- 3.63 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. 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.
- 3.64 During the period under review, the County Executive paid arrears totalling Kshs.779,778,178. Further, review of the records supporting the payments established that there were employees who were paid extraneous allowance amounting to Kshs.211,448,169 as arrears, as summarized in **Table 9** and detailed in **Annexure 16**. These employees were not entitled to earn the allowance which

had a dedicated earning code in the IPPD System. The arrears were paid as extraneous allowance, by circumventing the payroll controls.

Table 9: Irregular Payment of Arrears

Financial Year	Number of Employees	Amount Paid (Kshs.)
2021/2022	281	45,506,150
2022/2023	426	77,853,983
2023/2024	475	88,088,036
	Total	211,448,169

*Source: IPPD Data

VII. Irregular Payments from the Salary Control Account

- 3.65 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.
- 3.66 The Management indicated that the County Executive used the 'Customer Settlement Account' as a Salary Control Account. Funds meant for payment of salary were therefore, transferred from the Central Bank of Kenya to the 'Customer Settlement Account', which is maintained at the Cooperative Bank of Kenya. The funds were later transferred from the 'Customer Settlement Account' to the 'Sundry Debtor Account' maintained at the Cooperative Bank Account, where salary payments were made.
- 3.67 Analysis of the 'Customer Settlement Account' established that funds totalling Kshs.1,690,553,768 were used for payment of Daily Subsistence Allowances (DSA), subscriptions to professional bodies and other unexplained payments, as indicated in **Table 10** and detailed in **Annexure 17 (A) and Annexure 17(B)**.

Table 10: Irregular Payments from the Salary Control Account

Date	Description	Amount (Kshs.)
2022/2023	DSA and Other Allowance	76,332,205
2023/2024	DSA and Other Allowance	154,521,688
	Unexplained Transfer	1,434,443,384
	Unexplained Transfer	25,256,491
	Total	1,690,553,768

*Source: Bank Statements

- 3.68 Further, analysis of the Bank Statements for the 'Sundry Debtor Account' revealed that the County Executive paid a total amount of Kshs.130,431,698 for non-salary items such as choir allowances as detailed in **Annexure 17(C)**.
- 3.69 The diversion of salary funds to finance non-salary expenditures compromises financial accountability and contravenes the Principles of Public Finance. This practice may lead to delays in the payment of staff salaries, which might negatively impact on employee morale and productivity.

III. Nugatory Expenditure on Staff Cost

- 3.70 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.
- 3.71 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 effective, efficient, economical and transparent.
- 3.72 During the period under review, the County Executive incurred an amount of Kshs.148,397,012 in penalties and interest due to delayed repayment of salaries, as indicated in **Table 11** and detailed in **Annexure 18 (A)** and **Annexure 18(B)**.

Table 11: Nugatory Expenditure on Staff Cost

No.	Financial Year	Penalties (Kshs.)
1	2021/2022	-
2	2022/2023	73,532,448
3	2023/2024	74,864,564
	Total	148,397,012

*Source: Bank Statements

- 3.73 Further, it was established that the 'Sundry Debtor Account' was operating on overdraft facility. As a result, during the financial year 2023/2024, the County Executive incurred commission charges amounting to Kshs.7,709,746, as detailed in **Annexure 19**.
- 3.74 Payment of the interest arising from penalties is an avoidable and wasteful expenditure of public funds which can lead to budgetary constraints.

VIII. Unsupported Payment to Casuals

- 3.75 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.
- 3.76 Analysis of the salary ledgers from IFMIS revealed that payments to casual workers during the three (3) financial years under review amounted to Kshs.826,978,673, as indicated in **Table 12**. However, the transactions lacked adequate supporting documents like payrolls, muster rolls and payment vouchers, raising doubt on authenticity of the payments.

Table 12: Unsupported Payments to Casual Workers

Financial Year	Salary Ledgers (Kshs.)
2021/2022	74,164,765
2022/2023	211,566,743
2023/2024	541,247,165
Total	826,978,673

*Source: Bank Statements

E. Compliance with Laws and Regulations

3.77 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. Employees Serving in Acting Capacity for More than Six Months

3.78 Section C.14 (1) of the Public Service Human Resource Policies and Procedures Manual, 2016 provides that acting allowance will not be payable to an officer for more than six (6) months.

3.79 Review of the IPPD System revealed that one (1) employee, had served in acting capacity for a period exceeding six (6) months. The acting allowance paid during the period under review amounted to Kshs.408,923.

3.80 This resulted in the same officer performing responsibilities in both the substantive and acting roles. Having such an arrangement for a prolonged periods may compromise their productivity, undermine accountability, and hinder effective service delivery.

II. Non-Compliance to Remittance of Statutory Deductions

3.81 Rule 10(1) of the 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.

3.82 Section 5(1) of the Affordable Housing Act, 2024 requires an employer to deduct and remit Housing Levy and also remit an amount equivalent to the deducted amount to the collector. Section 4(3) requires the amounts 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.

3.83 A comparison of statutory deductions for employees in the IPPD I System with bank statements revealed cases of delay in remittance of statutory deductions, as tabulated in **Table 13**.

Table 13: Late Remittance of Statutory Deductions

Deduction Type	Month Deduction was Made	Payroll Amount (Kshs.)	Date Remitted	No. of Days After Deadline
Housing Levy	February-2024	35,209,356	12-February-2024	3
	April & March-2024	32,005,104	12-June-2024	124
	May & June 2024	35,985,958	14-August-2024	187
PAYE	June	195,630,415	14-August-2024	187

*Source: Bank Statements

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

III. Non-Compliance with Requirement on Ethnic Diversity

- 3.85 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.
- 3.86 Analysis of employees in the IPPD system as at 30 June, 2024 revealed that 35% of the staff were from one dominant ethnic community as detailed in **Annexure 20**. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008.
- 3.87 The non-compliance to ethnic diversity is a violation of legal requirements and may lead to litigation proceedings.

IV. Non-Compliance with the One Third Basic Salary Rule

- 3.88 Section 19 (3) of the 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.

- 3.89 An analysis of the staff payroll for the years under review established that one thousand, eight hundred and ninety-seven (1,897) employees were paid net salaries that were less than one-third of their basic salaries, as detailed in **Annexure 21**. This is contrary to Section 19(3) of the Employment Act, 2007.
- 3.90 The employees earning less than one-third of their basic salary may be unable to meet their personal financial obligations. This may adversely affect their productivity, decision-making, and ability to effectively safeguard county interests.

V. Casual Employees Engaged Beyond the Stipulated Period

- 3.91 Section 37(1) of the Employment Act, 2007 provides that if a casual employee works continuously for a period equivalent to one (1) month or performs tasks that extend beyond three (3) months, their employment shall be deemed to be on a monthly wage contract basis.
- 3.92 Review of casual employees' approval records from the County Public Service Board revealed that thirty (30) casual workers within the Revenue Department were engaged for a period exceeding three (3) months. The County Public Service Board approved their continued engagement through successive approvals in response to departmental requests. This is contrary to Section 37 (1) of the Employment Act, 2007.
- 3.93 The engagement of casuals beyond the stipulated period exposes the County Executive to litigation proceedings and associated costs.

4. CONCLUSION

- 4.1 The non-compliance with requirements on limiting the Employee Cost 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.
- 4.2 The failure to align budget votes in payroll systems with 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.
- 4.3 The absence of annual human resource recruitment plans, recruitments of casual workers without involving the County Public Service Board and over establishment of staff demonstrate ineffective workforce planning and deviation from established staffing structures. This practice can result in either overstaffing or hiring staff for roles that do not align with organizational priorities, which have an impact on the budget.
- 4.4 The failure by departments to maintain supporting documents of the recruitments increases the risk of mismanagement of payroll funds and undermines the County Public Service Board's ability to exercise oversight, monitor workforce efficiency, and make informed staffing decisions.
- 4.5 The failure by the County Executive to update the IPPD system 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.

- 4.6 The failure by the Chief Offices to account for employees in their departments, the payroll data Integrity issues and failure by employees to present themselves for physical verification cast 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 presence of duplicate payroll entries and payment of irregular and unsupported allowances reflects significant 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.
- 4.8 The unauthorized job group changes, circumventing payroll controls to pay irregular salary Arrears, nugatory expenditure on staff cost Indicates weak financial and human resource controls, exposing the payroll to fraud and abuse.
- 4.9 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.
- 4.10 The non-compliance with tax and labour laws as evidenced by delayed statutory remittances and prolonged engagement of casuals violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusions of the Special audit, the following is recommended to the Nairobi City County Government;
- 5.2 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.
- 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 new 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.

- 5.8 To ensure no payment is made to non – existence employees, salary payments to all staff who failed to present themselves for physical verification should be suspended.
- 5.8 To reduce opportunity for process irregular payments by exploiting existing weakness in arrear payments, the management of the Nairobi City 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.
- 5.6 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.
- 5.7 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	Name of Department
1.	Chief Officer - Public Service and Administration	Public Service and Administration
2.	Chief Executive Officer	County Public Service Board Nairobi
3.	Deputy Director Human Resource	Public Service
4.	Deputy Director- Finance	Finance and Accounting
5.	Payroll Manager	Finance and Accounting
6.	Finance Manager	Finance and Accounting

Appendix 2: List of Annexures

The **Annexures** referenced in the report, as listed below, will be provided in soft copies.


No.	Name	Description
1.	Annexure 1	Budget Votes in Human Resource Information System – Kenya not Aligned with those in Approved Budget
2.	Annexure 2	Nairobi Metropolitan Services Staff Absorbed back to the Nairobi County
3.	Annexure 3	Job Designations that did not Match in Integrated Payroll and Personnel Database
4.	Annexure 4	Employees with Different Birth Dates in Integrated Payroll and Personnel Database and Birth Certificate
5.	Annexure 5	Chief Officers who were Non-Compliant in Submitting their Counter-Signed Staff Lists
6.	Annexure 6	Staff in Co's List but not in the Official Staff List
7.	Annexure 7	Discrepancies Between Chief Officers' Staff Lists and IPPD Staff List - Missing Staff Paid through Integrated Payroll and Personnel Database Payroll Records as of 30 June, 2024
8.	Annexure 8	Employees who were Non-Compliant with the Physical Verification Exercise
9.	Annexure 9	Human Resource Information System – Kenya not Aligned to Budget Votes
10.	Annexure 10	Employees Appearing in both Integrated Payroll and Personnel Database and Manual Payrolls
11.	Annexure 11	Unsupported Promotions
12.	Annexure 12	Non-Compliance with Overtime Authorization Requirements and Payments for the financial years 2021/2022 to 2023/2024
13.	Annexure 13	Non-Compliance with Overtime Authorization Requirements and Payments for Other Pay-Groups
14.	Annexure 14	Irregular Payment of Extraneous Allowances for Local Authority Employees
15.	Annexure 15	Irregular Payment of Extraneous Allowances for Other Pay-Groups


No.	Name	Description
16.	Annexure 16	Arrears in Extraneous Allowances
17.	Annexure 17	Irregular Use of Salary Control Account for Expenditure not Related to Staff Cost
18.	Annexure 18	Avoidable Nugatory Expenditure on Staff Cost
19.	Annexure 19	Interest Earned on Bank Account
20.	Annexure 20	Non-Compliance with National Cohesion and Integration Act, 2008 on Ethnic Diversity
21.	Annexure 21	Non-Compliance with one Third Basic Salary Rule for the financial years 2021/2022 to 2023/2024


CONTACTS

3rd Floor, Anniversary Towers, University Way, Nairobi

Phone: +254 020 3214000 | **Email:** oag@oagkenya.go.ke | **Website:** <https://www.oagkenya.go.ke/>

 Office of the Auditor-General Kenya

 [oagkenya](https://www.linkedin.com/company/oagkenya)

 [@OAG_Kenya](https://twitter.com/OAG_Kenya)