

PARLIAMENT  
OF KENYA  
LIBRARY



REPUBLIC OF KENYA



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

PAPERS LAID	
DATE	29.07.25
TABLED BY	ML
COMMITTEE	
CLERK AT THE TABLE	Tiffany K



COUNTY 002

JULY 2025



## **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 Kwale 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 Kwale County Executive was conducted in line with this mandate.

The Special Audit evaluated the human resource and payroll processes at the Kwale 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 Kwale 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 Kwale County Public Service Board and the Governor, Kwale 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
<b>1. EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>2. INTRODUCTION AND BACKGROUND.....</b>	<b>14</b>
Introduction and background.....	14
Audit Scope.....	17
Audit Methodology .....	17
<b>3. DETAILED FINDINGS .....</b>	<b>21</b>
A. Payroll Budgeting.....	21
B. Recruitments Process.....	22
C. Employee Data Management .....	24
D. Payroll Processing and Payments .....	26
E. Compliance with Laws and Regulations .....	29
F. Migration from Integrated Personnel and Payroll Database System (IPPD) to Human Resource Information System-Kenya HRIS-KE. ....	31
<b>4. CONCLUSION .....</b>	<b>33</b>
<b>5. RECOMMENDATIONS.....</b>	<b>36</b>
<b>6. APPENDICES.....</b>	<b>38</b>
Appendix 1: List of Staff Interviewed .....	38
Appendix 2: List of Annexures .....	38

**List of Figures**

Figure 1 Cumulative Growth In Payroll Costs..... 16  
Figure 2 Cumulative Growth Of Staff..... 16

**List Of Tables**

Table 1: Underpayment And Overpayments On Hris-Ke..... 32

## ABBREVIATIONS

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

## **1. EXECUTIVE SUMMARY**

### **Introduction and Background**

- 1.1 Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7 (1) (a) of the Public Audit Act, 2015 requires the Auditor-General to give an assurance on the effectiveness of internal controls, risk management and overall governance at national and county governments. In addition, Section 34 of the Public Audit Act, 2015 mandates the Auditor-General to conduct periodic audits upon request or at the Auditor-General's own initiative, with a view to evaluating the effectiveness of risk management, control and governance processes in public entities. The Special Audit on Payroll Management for the Kwale County Executive (the County Executive) 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; and

- 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 the 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 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.
- 1.9 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 conducted to test data integrity.

## **Summary of Audit Findings**

1.10 The key audit findings are as detailed below:

### **A. Payroll Budgeting**

#### **I. Employee Cost to Revenue Ratio Exceeded the Set Threshold**

1.11 The audit established that the ratio of the actual compensation of employees to the actual revenue for the County Executive exceeded thirty-five percent (35%) during the 2023/2024 financial year. This is contrary to Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015. 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 Votes in Payroll Systems not Aligned with those in the Approved Budget**

1.12 The Audit established that the budget vote heads in the IPPD system were not aligned with those in the approved budget. This led to inconsistencies between budgetary allocations and actual payroll expenditure, thereby increasing the risk of misallocation or even misuse of public funds.

### **B. Recruitments Process**

#### **I. Lack of Annual Recruitment Plans**

1.13 During the period under review, the County Executive recruited four hundred and forty-seven (447) employees. The Audit, however, 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 failure to confirm availability of budgets can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

## **II. Lack of Approved Staff Establishment**

- 1.14 The audit established that the Kwale County Executive did not have an approved staff establishment for the financial years under review. As a result, it was not possible to assess whether the recruitment of staff was based on an approved organizational structure or whether staffing levels were aligned with service delivery requirements. This indicates weaknesses in human resource planning and may lead to overstaffing, understaffing, or misallocation of personnel, thereby affecting operational efficiency.

### **C. Employee Data Management**

#### **I. Integrity of Dates of Birth Records in the Payroll Systems**

- 1.15 The Special Audit established inconsistencies between employee birthdates recorded in the IPPD system and those in the National identification documents for one hundred and sixty-nine (169) employees. Interview with a sample of twenty-five (25) employees and verification of their identification documents established that the dates captured in the IPPD System for twenty-five (25) employees were different from those in the employees' Birth Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).

#### **II. Integrity of Employees' Identification Numbers (ID) in The Payroll System**

- 1.16 The Special Audit also established inconsistencies between employee identification numbers recorded in the IPPD system and those provided in the supporting identification documents for three (3) employees. Examination of the identification records maintained by the County Executive against the IPPD System disclosed that the national identification numbers of two (2) employees were inaccurately captured in the system.

#### **III. Integrity of Employees' Bank Account Numbers**

- 1.17 The Special Audit established that during the financial years 2021/2022 to 2023/2024, a total of ten (10) employees were found to be sharing five (5) bank account numbers, four (4) in 2021/2022, four (4) in 2022/2023, and two (2) in 2023/2024. This practice compromises payroll integrity and increases the risk of fraudulent payments and the presence of ghost workers.

#### **IV. Failure of Chief Officers to Account for Resources under their Department**

- 1.18 A comparison of the lists provided by the Chief Officers against the payroll established that there were forty-six (46) employees who were in IPPD but not on the lists provided by the Chief Officers. This raise concerns over the effectiveness of payroll controls, as the failure by Chief Officers to regularly reconcile departmental records with payroll data increases the risk of fraudulent or erroneous salary payments.
- 1.19 Further, there were fifty (50) employees who were in IPPD but not on the lists provided by the Chief Officers, as detailed in **Annexure 6**. These employees received a total of Kshs. 22,786,600 in salaries during the 2023/24 financial year.
- 1.20 Physical verification of a sample of affected employees revealed that the discrepancies were primarily due to unvalidated or inaccurate departmental staff returns.

#### **D. Payroll Processing and Payments**

##### **I. Authenticity of Staff in the Payroll**

- 1.21 The audit established that one (1) employee was concurrently engaged by both the Kwale County Executive and the Teachers Service Commission (TSC) and received salary payments from both entities for a period of eight (8) months between July 2023 and February 2024. The officer subsequently deserted duty, and the County Executive stopped salary payments in March 2024.

##### **II. Irregular Payment of Extraneous Allowance**

- 1.22 The audit revealed that the County Executive irregularly paid extraneous allowance to a total of eighty (80) employees during the financial years 2021/2022, 2022/2023, and 2023/2024. As a result, a total of Kshs. 7,462,400 was irregularly paid.

### **III. Over-Payment of House Allowance**

- 1.23 The audit established that overpayment of house allowance occurred across the three years under review, affecting 551 employees in 2021/22, 528 in 2022/23, and 551 in 2023/24. The total irregular payment amounted to Kshs. 30,304,682.

### **IV. Irregular Payment of Both Extraneous and Health Workers' Extraneous Allowance**

- 1.24 The Special Audit revealed that five (5) officers were paid both Extraneous Allowance and Health Workers' Extraneous Allowance concurrently during the financial years 2022/23 and 2023/24. As a result, a total of Kshs. 1,003,233 was irregularly paid.

### **V. Under-Payment of Leave Allowance**

- 1.25 The Special Audit established that a total of two hundred and twenty (220) employees were underpaid leave allowance during the financial years 2021/2022, 2022/2023, and 2023/2024. As a result, the affected employees did not receive their full entitlements as prescribed in the applicable remuneration guidelines.

### **VI. Irregular Payment of Gratuity**

- 1.26 The audit established that five hundred and sixty-three (563) employees whose contracts had lapsed were paid gratuity amounting to Kshs. 38,803,179 during the financial year 2021/2022. However, a review of their contract terms revealed no provisions granting entitlement to such payments, rendering the expenditure irregular.

### **VII. Irregular Change of Employment Status**

- 1.27 The audit established that a sample of thirty (30) personnel files for employees whose employment status had changed from probation to permanent and pensionable lacked letters of confirmation. As a result, there was no formal documentation to evidence completion of the probation period.

## **E. Compliance with Laws and Regulations**

### **I. Irregular Payment of Special Duty Allowance for More than Six (6) Months**

- 1.28 The Special Audit established that one (1) employee received special duty allowance for a period exceeding six months during the financial year 2022/2023. This was contrary to the Public Service Commission Human Resource Policies and Procedures Manual, Section C.15(1). The excess allowance paid beyond the six-month limit amounted to Kshs. 518,330.

### **II. Non-Compliance with Remittance of Statutory Deductions**

- 1.29 A review of the bank statement established that the County Executive delayed remitting employee statutory deductions NHIF, NSSF, PAYE within the legally prescribed periods across the three financial years . The delays ranged from 5 to 120 days.
- 1.30 The Special Audit revealed that statutory deductions such as PAYE, NSSF, and NHIF were not made for six hundred and eighty-one (681) employees during the three-year audit period. This constitutes a breach of relevant statutory requirements.
- 1.31 Further, the audit established that 35% of the staff were from one dominant ethnic community, contrary to the requirements of Section 7(2) of the National Cohesion.

### **II. Non-Compliance with Requirement on Ethnic Diversity**

- 1.32 The audit revealed that 35% of the County Executive's workforce comprised individuals from one dominant ethnic community, contrary to the provisions of Section 7(2) of the National Cohesion and Integration Act. Further, 76% of the employees recruited at entry level during the financial year 2023/2024 were also from the same ethnic group, indicating non-compliance with diversity and inclusivity requirements in public service recruitment.

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

- 1.33 Following the migration from IPPD to HRIS-Ke in December 2024, the audit revealed payroll irregularities, including instances of salary and allowance overpayments and underpayments. Additionally, eight hundred and ninety-two

(892) employees received net pay below the statutory one-third threshold, and Government of Kenya (GoK) house rent deductions were omitted for five (5) officers.

### **Conclusion**

- 1.34 The Special Audit of payrolls for the Kwale 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 Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in the 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 Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control, resulting in inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure the lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 1.37 The failure by the County Executive to develop and maintain an approved staff establishment contravenes the requirements of Section 59(1)(g) of the County Governments Act, 2012, and Regulation 19(1) of the Public Finance Management (County Governments) Regulations, 2015, . In the absence of an approved staff establishment, there is a heightened risk of irregular recruitment, uncontrolled wage bill growth, duplication of roles, and mismatch between staffing and service delivery needs, potentially leading to inefficiencies in the utilization of public resources.
- 1.38 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of annual recruitment plans demonstrates ineffective workforce planning 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 has an impact on the budget.

- 1.39 The audit revealed that some of the staff data maintained by the payroll systems used by the County Executive had integrity issues. This was evidenced by inaccurate dates of birth and National Identification numbers of employees. This indicates weak payroll controls, including the lack of data validation controls.
- 1.40 The authenticity of some of the employees could not be established. This was evidenced by the failure of the Chief Officers to account for employees in their departments. These cast doubt on the authenticity of payroll records and raise the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive.
- 1.41 The engagement of an officer concurrently by both the Kwale County Executive and the Teachers Service Commission (TSC), coupled with the receipt of salaries from both entities over an eight-month period, indicates a breach of ethical standards and public service regulations governing employment in the public sector.
- 1.42 The audit revealed significant weaknesses in the County Executive's management of remuneration and benefits, resulting in irregular and unauthorized payments contrary to guidelines issued by the Salaries and Remuneration Commission (SRC), Collective Bargaining Agreements (CBA), and provisions of the Employment Act.
- 1.43 The failure by the County Executive to issue formal letters of confirmation to employees transitioning from probationary to permanent and pensionable terms indicate weak human resource management practices and non-compliance with standard employment procedures. This omission undermines accountability in staff administration. It also raises concerns about the effectiveness of probation assessments and proper documentation in personnel records, which are critical for informed decision-making in promotions, benefits administration, and disciplinary actions.

- 1.44 The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances and non-compliance with the requirement on ethnic diversity and non-compliance with the one-third basic salary rule. These increase the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.45 The inconsistencies in the migration of payroll processing from the Integrated Personnel and Payroll Database (IPPD) to the Human Resource Information System-Kenya (HRIS-Ke), effected in December 2024, characterized by significant data integrity and system control weaknesses point to inadequate system testing, lack of reconciliation protocols, and poor change management during the migration process.
- 1.46 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, the 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.
- 1.47 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

- 1.48 In view of the findings and conclusions of the Special Audit, the following is recommended to the Kwale County Executive;
- 1.49 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 ensure adherence to the 35% capping before the approval of the budgets.
- 1.50 For effective management of departmental budgets and enhance accuracy in financial reporting, the Chief Officer for Public Finance, together with the management of the State Department for Public Service and Human Capital Development should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures.
- 1.51 The County Executive should urgently develop a comprehensive staff establishment that outlines the required positions, job descriptions, grades, and number of staff per department, based on workload analysis and service delivery needs. This establishment should be submitted for approval to the County Public Service Board (CPSB) in line with Section 59(1)(g) of the County Governments Act, 2012.
- 1.52 The County Executive should develop and implement approved annual human resource recruitment plans aligned with the approved staff establishment, departmental objectives, and available budget provisions. These plans should be reviewed and approved by the County Public Service Board to ensure effective workforce planning and prevent irregular or misaligned recruitment. All recruitment should strictly adhere to the approved plans, with any exceptions properly justified and documented. Additionally, the County should establish monitoring mechanisms to track compliance, report deviations, and build HR capacity to enhance planning and adherence to legal and regulatory requirements.
- 1.53 To ensure the integrity of data maintained in the payroll systems, the management should ensure that validation controls are implemented in the HRIS-Ke. Further,

the HRIS-Ke should be integrated with Key government systems such as the National Identity, the National Social Security Fund (NSSF) and the Social Health Authority (SHA).

- 1.54 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments and underpayments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowances.
- 1.55 The County Executive should ensure that Chief Officers take full responsibility for verifying and accounting for all employees under their departments through regular staff headcounts and reconciliation with payroll records. A comprehensive staff validation exercise should be conducted to confirm the existence, deployment, and duties of all employees.
- 1.56 The County Executive should strengthen human resource management by ensuring the timely issuance of formal confirmation letters to employees transitioning from probationary to permanent and pensionable terms. This should be based on documented performance evaluations and compliance with relevant employment regulations.
- 1.57 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.

## **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 Kwale 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.

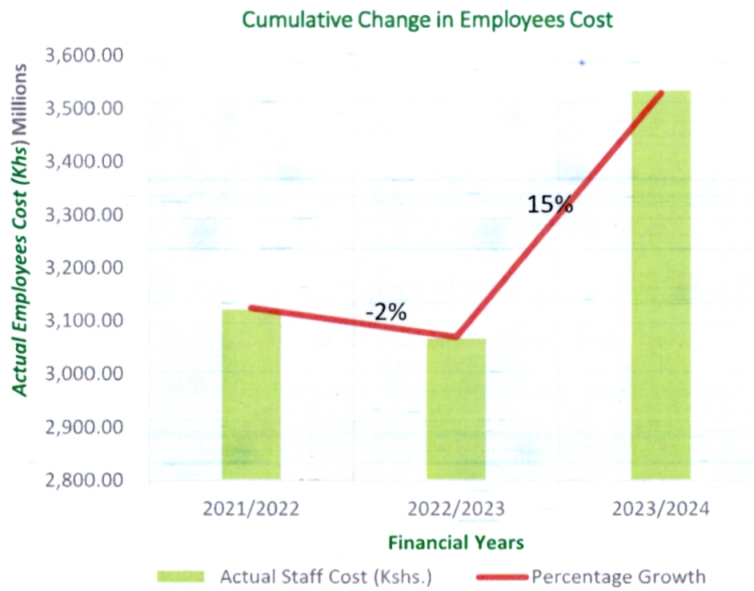
2.4 From 2013, the County Executive was using the Integrated Payroll and Personnel Database (IPPD) System to operate payroll for employees with personal numbers, while excel spreadsheets were used to operate payroll for employees without personal numbers. However, due to technological limitations at 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.

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.

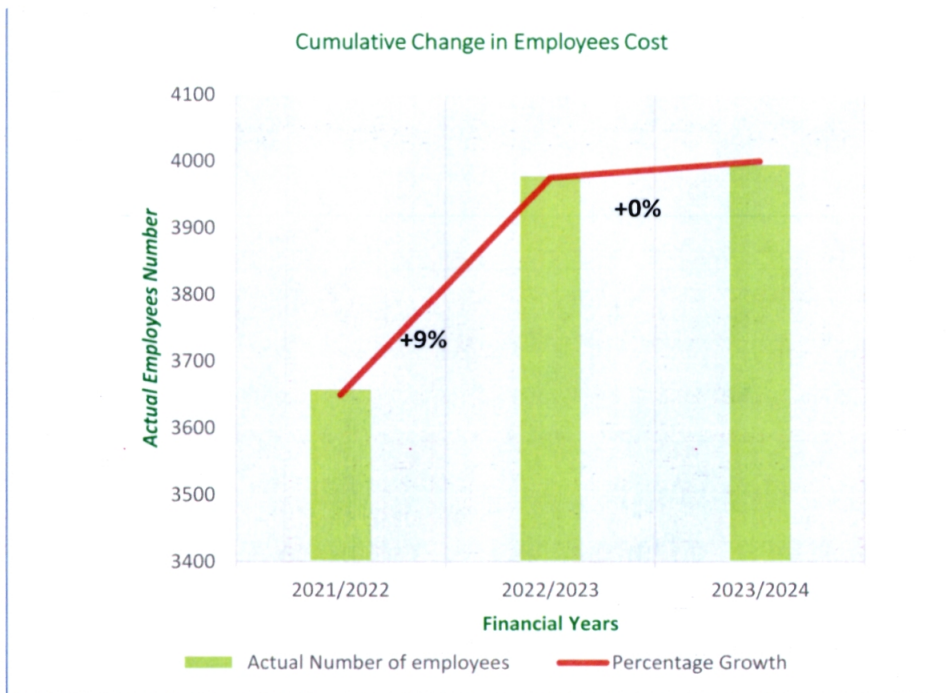
#### **Number of Employees and Payroll Expenditure**

- 2.5 Over the three-year period under review, there hasn't been a significant increase in the number of employees.
- 2.6 The overall staff growth across the audit period was **9%**, while the cumulative growth in payroll costs over the three (3) years was approximately **13%** as shown in Figures 1 and 2.

**Figure 1 Cumulative Growth in Payroll Costs**



**Figure 2 Cumulative Growth of Staff**



### **Audit Objectives**

- 2.7 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; and
  - 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 the Human Resource Information System – Kenya (HRIS-Ke).

### **Audit Scope**

- 2.8 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.
- 2.9 The audit was carried out in the months of January and February, 2025.

### **Audit Methodology**

- 2.10 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

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

### a) Document Review

- 2.13 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**

- 2.14 The payroll and staff register data from IPPD system and HRIS-Ke was extracted and analyzed. The exceptions from the analysis formed the basis for verification with payroll records maintained by the County Executive.
- 2.15 The following data sets for financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed: -
- i. IPPD Staff Registers and Payroll Data;
  - ii. Manual Payroll Data;
  - iii. Casual Payrolls Data; and
  - iv. Chief Officers staff list as at 30 June, 2024.
  - v. The HRIS-Ke payroll data for January 2025.

### **c) Interviews**

- 2.16 The Audit Team interviewed relevant payroll officers from the County Executive and the County Public Service Board (CPSB). This was in order to understand payroll processes and obtain clarification on audit issues. The officers interviewed are as listed in **Appendix 1**.

### **d) Physical Verification of Staff**

- 2.17 The Audit Team requested all the Chief Officers to provide a countersigned list of staff members in their departments as of 30 June, 2024. This list was corroborated with the IPPD staff registers maintained in the County Executive.
- 2.18 The Audit Team through the County Secretary, requested eighty-six (86) employees to appear in person for physical verification, which was based on initial exceptions during data analytics. This verification was to ensure the existence of staff, their employment status and accuracy of 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 fully comprehend the approach to the audit, findings, conclusions and 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. The following issues were established:

##### **I. Compensation of Employees to Revenue Ratio Exceeded 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 budgeted compensation of employee for the three (3) years under review was within 35% of the budgeted revenue. However, actual payroll expenditure accounted for 37% of actual revenue in the financial year 2023/2024.
- 3.5 The increase in the percentage of compensation of employees to total revenue indicates a growing wage bill, which may be unsustainable in the long term.

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

- 3.6 Section 148(1) of the Public Finance Management Act, 2012 requires a County Executive Committee member for finance to, except as otherwise provided by law, in writing designate accounting officers to be responsible for managing the finances of the county government entities as is specified in the designation. Further, sub-section (2) requires the person responsible for the administration of a county government entity to be the accounting officer responsible for managing the finances of that entity except as otherwise stated in other legislation.
- 3.7 A comparison of the Budget against the IPPD vote head setup established that the departmental vote heads in IPPD were not aligned with those in the approved budget as detailed in **Annexure 1**. The main cause of the misalignment was that interdepartmental transfers were not timely updated in the payroll system.
- 3.8 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, the HRIS-Ke had similar Votes Heads to those in the IPPD System.
- 3.9 The continued referencing to outdated departmental structures leads to inconsistencies between budgetary allocations and actual payroll expenditures, increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect Vote Heads.

### **B. Recruitments Process**

- 3.10 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**

- 3.11 Section 59(1)(g) of the County Governments Act, 2012 require the County Public Service Board of a county to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. Further, Regulation 119(2) of the Public Finance Management (County

Governments) Regulations requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County

- 3.12 The County Executive recruited three hundred and thirty-one (331) employees during the financial year 2021/22, and one hundred and sixteen (116) during 2023/24 financial year. However, it was established that the recruiting departments 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 made.
- 3.13 The lack of annual recruitment plans supported by budgetary evidence can result in either overstaffing, understaffing, or hiring for roles that do not align with organizational priorities.

#### **II. Lack of Approved Staff Establishment.**

- 3.14 Section B 5(2) and Section B 6(3) of the County Public Service Human Resource Manual 2013 require each County Government entity to maintain optimum staffing levels derived from an authorized establishment and organization structure. Further, 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.
- 3.15 The Special Audit established that the Kwale County Executive did not have an approved staff establishment for the three years under review. Consequently, it was not possible to determine the criteria used in recruiting new staff or whether staffing levels were aligned with service delivery needs.

## **C. Employee Data Management**

- 3.16 Review of employees' data management involved assessing the accuracy and completeness of both manually maintained payrolls and data from the IPPD System. The following issues were established:

### **I. Integrity of Date of Birth Records in Payroll Systems**

- 3.17 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.
- 3.18 The Special Audit identified one hundred and sixty-nine (169) employees in the IPPD System with inconsistent dates of birth.
- 3.19 Interviews with a sample of twenty-five (25) employees and verification of their identification documents established that the dates captured in the IPPD System the twenty-five (25) were different from those in the employees' Birth Certificates, as detailed in Annexure 2. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).
- 3.20 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before data cleaning to improve its quality and reliability. As a result, at the time of audit, the HRIS-Ke had similar dates of birth to those in the IPPD System. An inaccurate date of birth may lead to errors in determining retirement age.

### **II. Integrity of Employees' Identification Numbers (ID) in The Payroll System**

- 3.21 Regulation 110(1) of the Public Finance Management (County Government) Regulations states that the accounting officer for a County Executive entity shall institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity, and loss of business continuity.
- 3.22 Examination of the identification records maintained by the County Executive against the IPPD System disclosed that the national identification numbers of three

(3) employees were inaccurately captured in the system, as detailed in Annexure 3.

3.23 A review of employee records established that the identification numbers of three (3) employees captured in the Integrated Payroll and Personnel Database (IPPD) were different from those provided in the supporting documentation.

3.24 Further, the Special Audit established that the migration to HRIS-Ke was done before data cleaning to improve its quality and reliability. As a result, at the time of the audit, the HRIS-Ke had similar IDs as those in the IPPD System.

3.25 This discrepancy presents a risk to the integrity of personnel data and may affect the proper management of payroll and related benefits.

### **III. Integrity of Employees' Bank Account Numbers**

3.26 Regulation 110(1) of the Public Finance Management (County Government) Regulations states that the accounting officer for a County Executive entity shall institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity, and loss of business continuity.

3.27 Further, regulation 110 (3)(e) of the Public Finance Management (County Government) Regulations requires users of the system under the regulation not to alter, delete or in any other way interfere with any information, data, or files.

3.28 The Special Audit established during the financial year 2021/22, there were four (4) employees sharing four (2) bank account numbers, four (4) employees sharing four (2) account numbers during 2022/23 financial year and two (2) sharing one (1) bank account number during 2023/24 financial year as detailed in Annexure 4. This raises concerns regarding the transparency and accountability of payroll disbursements, as it complicates tracking and verification of salary payments.

### **IV. Failure of Chief Officers to Account for Resources under their Department**

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

a county government entity to be the accounting officer responsible for managing the finances of that entity except as otherwise stated in other legislation.

- 3.30 The Letter of Engagement addressed to the County Secretary for the in-depth audit of payroll, dated 10 February, 2025, Ref: OAG/SAS/SADS/KDSP-PAYROLL/3/002 required Chief Officers (COs) to provide a list of staff members in their department as at 30 June 2024. This list was to be compared with employees in the Payroll Systems and those not on the Chief Officer's list were flagged for physical verification.
- 3.31 The comparison of the Chief Officer's list against the IPPD records established that there were forty-six (46) employees who had been listed in the Chief Officers' list(s) but not in the Integrated Personnel and Payroll Database (IPPD) as detailed in **Annexure 5**.
- 3.32 Further, there were fifty (50) employees who were in IPPD but not on the lists provided by the Chief Officers, as detailed in **Annexure 6**. These employees received a total of Kshs. 41,532,106 in salaries during the three financial years under review.
- 3.33 Physical verification of the sampled employees established that this was mainly a result of errors and omissions as the staff lists from the Chief Officers were not validated for accuracy.
- 3.34 Failure of the Chief Officers to regularly reconcile departmental records with payroll data undermines the effectiveness of payroll controls, increasing the risk of fraudulent or erroneous salary payments.

#### **D. Payroll Processing and Payments**

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

### **I. Authenticity of Staff in the Payroll**

- 3.36 Regulation 110(1) of the Public Finance Management (County Government) Regulations states that the accounting officer for a County Executive entity shall institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity, and loss of business continuity.
- 3.37 The audit revealed that there was one (1) employee who had been engaged by both the Kwale County Executive and the Teachers Service Commission (TSC). The officer received payments from the two entities for eight (8) months, from July 2023 to February 2024, prior to the officer deserting duty and salary being stopped in March 2024. The officer was required to present himself for physical verification but failed to do so. The total amount paid by the county to the employee for the eight months totaled to Kshs. 625,520 as detailed in **Annexure 7**.

### **III. Irregular Payment of Extraneous Allowance**

- 3.38 The SRC circular 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 - 2023-2025 (7), lists all the earnings county executive officers are entitled to.
- 3.39 The Audit revealed that the County Executive irregularly Extraneous allowance to eighteen (18), seven (7), and fifty-five (55) employees during the financial years 2021/2022, 2022/2023 and 2023/2024 respectively. As a result, a total of Kshs. 7,462,400 was irregularly paid as detailed in **Annexure 8**.

### **IV. Over-Payment of House Allowance**

- 3.40 The SRC circular 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 - 2023-2025 (7), lists all the earnings county executive officers are entitled to.
- 3.41 The audit revealed that the County Executive irregularly overpaid house allowance to five hundred and fifty-one (551), five hundred and twenty-eight (528), and five hundred and fifty-one (551) employees during the financial years 2021/2022, 2022/2023, and 2023/2024, respectively. The excess payments were made in the

form of Special House Allowance, resulting in a total irregular payment of Kshs. 30,304,682, as detailed in **Annexure 9**.

#### **V. Irregular Payment of Both Extraneous and Health Workers' Extraneous Allowance**

- 3.42 The SRC circular 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 - 2023-2025 (7), lists all the earnings county executive officers are entitled to.
- 3.43 A review of the allowances paid revealed that during the financial years 2022/23 and 2023/24, five (5) officers were paid both Extraneous Allowance and Health Workers' Extraneous Allowance, amounting to Kshs. 379,233 and Kshs. 624,000 respectively as detailed in **Annexure 10**. This contravenes the SRC guidelines on allowances.

#### **VI. Under-Payment of Leave Allowance**

- 3.44 Collective Bargaining Agreement (CBA) between permanent and pensionable former local authorities' employee's unions, namely Kenya Local Government Workers Union, and Association of Local Government Employers, dated 1<sup>st</sup> September 2012, defined Terms and Conditions of service for officers of Local Authorities, including rates for basic salary, house allowance, acting allowance, special duty allowance, overtime, leave allowance, among others.
- 3.45 The Special Audit established that ninety (90), eighty-two (82), and forty-eight (48) employees were underpaid leave allowance during the financial years 2021/2022, 2022/2023, and 2023/2024, respectively, as detailed in **Annexure 11**.
- 3.46 This was as a result of the management's misinterpretation of the Defunct Local Authority CBA dated 1 September, 2012.

#### **VII. Irregular Payment of Gratuity.**

- 3.47 Section 35 (5) of the Employment Act provides that an employee whose contract of service has been terminated under subsection (1)(c) shall be entitled to service pay for every year worked, the terms of which shall be fixed. Section 35(6) stipulates that this section shall not apply where an employee is a member of a

registered pension or provident fund scheme under the Retirement Benefits Act (No. 3 of 1997) and the National Social Security Fund.

- 3.48 A review of the employees' record established that there were five hundred and sixty-three (563) employees whose contracts had lapsed. These employees received gratuity payments totaling Kshs. 37,188,487 in the 2021/2022 financial year as detailed in **Annexure 12**. However, a review of the contract terms revealed that there were no clauses establishing entitlement to such payment.

#### **VIII. Irregular Change of Employment Status.**

- 3.49 Clause B.18(1) of the Human Resource Policies and Procedures Manual for the Public Service May, 2016 guides the confirmation in Appointment and Admission to Pensionable Establishment and states that an officer appointed to the Service in a pensionable post will be confirmed in appointment and admitted into the permanent and pensionable establishment on completion of probationary period of six (6) months satisfactory service.
- 3.50 During the audit, a sample of thirty (30) personnel files for employees whose employment status had changed from probation to permanent and pensionable were reviewed and it was established there were no letters of confirmation to formally communicate completion of the probation period.
- 3.51 This raise concerns over the integrity of HR processes and increases the risk of unauthorized or premature transitions to permanent and pensionable terms, which may lead to employment disputes.

#### **E. Compliance with Laws and Regulations**

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

##### **I. Irregular Payment of Special Duty Allowance for More than Six (6) Months**

- 3.53 Paragraph C.15 (1) states that when an officer is called upon to perform duties of a higher post but does not possess the necessary qualifications for appointment to that post, he shall be paid special duty allowance at the rate of fifteen percent

(15%) of the officer's basic salary. Under paragraph C.15 (4), Special Duty Allowance will not be payable to an Officer for more than six (6) months.

- 3.54 The Special Audit established that one (1) employee had received special duty allowance for a period exceeding six months during the financial year 2022/23, contrary to PSC HR Policies and Procedures Manual, Section C.15(1). The total allowance paid for the months exceeding the six (6) months amounted to Kshs. 518,330 as detailed in **Annexure 13**.

#### **I. Non-Compliance with Remittance of Statutory Deductions**

- 3.55 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.
- 3.56 Section 20(1) of the National Social Security Fund Act requires employers to make payments deducted from employees' earnings together with employer amounts to NSSF. Under section 20(1A), an employer is required to pay the contribution under subsection (1) on the ninth day of each month or on such later date as the Board may, in consultation with the Cabinet Secretary, prescribe.
- 3.57 Further, section 15(1) of the National Health Insurance Fund Act (now repealed) required Kenyans over the age of 18 with employment income to contribute to the fund. Section 15(1A)(b) of the Act makes each county government liable as a contributor to the fund in respect of all public officers, state officers and employees working in the county government and county government entities. Under section 15(4) of the NHIF Act, contributions were due on the ninth day of each month or on such later date as the Board, in consultation with the Cabinet Secretary, may prescribe.
- 3.58 A review of the bank statement established that the County Executive delayed remitting employee statutory deductions NHIF, NSSF, PAYE within the legally prescribed periods across the financial years. The delays ranged from 5 to 120 days and totaled to Kshs. 135,076,827 as detailed in **Annexure 14**.

3.59 Further, the Special Audit also established that mandatory statutory deductions such as PAYE, NSSF and NHIF were not deducted for six hundred and eighty-one (681) employees over the three-year audit period. The total not deducted amounted to Kshs. 651,454 as detailed in **Annexure 15**, contrary to applicable regulations.

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

## **II. Non-Compliance with Requirement on Ethnic Diversity**

3.61 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 of its staff from the same ethnic community.

3.62 Analysis of the staff ethnic composition revealed that 35% of the staff were from one dominant ethnic community, contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008, as detailed in the Special Audit established that 35% of the staff were from one dominant ethnic community, contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008, as detailed in **Annexure 16**.

3.63 The non-compliance with ethnic diversity is a violation of legal requirements and may lead to legal suits.

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

3.64 Assessment was carried out on controls in migration of salary processing from IPPD system HRIS-Ke to establish the completeness, accuracy, and integrity of the data transferred. The following issues were established:

### **I. Overpayment and Underpayment of Salary and Allowances**

3.65 Assessment was carried out on controls in migration of salary processing from IPPD system HRIS-Ke to establish the completeness, accuracy, and integrity of the data transferred. The following issues were established.

3.66 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between November 2024 IPPD data and January 2024 HRIS-Ke data established instances of overpayment and underpayments of salaries and allowances as shown in the table below and detailed in **Annexures 17,18 and 19**.

Table 1: Underpayment and Overpayments on HRIS-Ke

Salary/Allowance	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount (Kshs)	Number of Employees	Amount (Kshs)
<b>Basic Salary</b>	6	144,504	10	25,612
<b>House Allowance</b>	4	24,180	7	22,637
<b>Commuter Allowance</b>	4	18,580	0	0

\*Source: IPPD Payroll System and HRIS-Ke Payroll System

## II. Violation of a Third Rule

3.67 An analysis of the HRIS-Ke payroll for January 2023 established that eight hundred and ninety-two (892) employees were paid net salaries that were less than one-third of their basic pay contrary to section 19 (3) of the Employment Act, 2007 requires that 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. **Annexure 20**.

## III. Non-Deduction of GoK House Rent

3.68 A comparison of deductions made in December against deductions made in February established that there were five (5) employees who were not deducted the GoK House Rent that is deductible to officers living in government quarters amounting to Kshs. 15,200 as shown in **Annexure 21**.

#### 4. CONCLUSION

- 6.1 The Special Audit of payrolls for the Kwale 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:
- 6.2 The non-compliance with requirements regarding limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in the 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.
- 6.3 The Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control, resulting in inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure the lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 6.4 The failure by the County Executive to develop and maintain an approved staff establishment contravenes the requirements of Section 59(1)(g) of the County Governments Act, 2012, and Regulation 19(1) of the Public Finance Management (County Governments) Regulations, 2015, . In the absence of an approved staff establishment, there is a heightened risk of irregular recruitment, uncontrolled wage bill growth, duplication of roles, and mismatch between staffing and service delivery needs, potentially leading to inefficiencies in the utilization of public resources.
- 6.5 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of annual recruitment plans demonstrates ineffective workforce planning 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 has an impact on the budget.

- 6.6 The audit revealed that some of the staff data maintained by the payroll systems used by the County Executive had integrity issues. This was evidenced by inaccurate dates of birth and National Identification numbers of employees. This indicates weak payroll controls, including the lack of data validation controls.
- 6.7 The authenticity of some of the employees could not be established. This was evidenced by the failure of the Chief Officers to account for employees in their departments. These cast doubt on the authenticity of payroll records and raise the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive.
- 6.8 The engagement of an officer concurrently by both the Kwale County Executive and the Teachers Service Commission (TSC), coupled with the receipt of salaries from both entities over an eight-month period, indicates a breach of ethical standards and public service regulations governing employment in the public sector.
- 6.9 The audit revealed significant weaknesses in the County Executive's management of remuneration and benefits, resulting in irregular and unauthorized payments contrary to guidelines issued by the Salaries and Remuneration Commission (SRC), Collective Bargaining Agreements (CBA), and provisions of the Employment Act.
- 6.10 The failure by the County Executive to issue formal letters of confirmation to employees transitioning from probationary to permanent and pensionable terms indicate weak human resource management practices and non-compliance with standard employment procedures. This omission undermines accountability in staff administration. It also raises concerns about the effectiveness of probation assessments and proper documentation in personnel records, which are critical for informed decision-making in promotions, benefits administration, and disciplinary actions.
- 6.11 The County Executive did not comply with tax and labor laws as evidenced by delayed statutory remittances and non-compliance with the requirement on ethnic diversity and non-compliance with the one-third basic salary rule. These increase

the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

- 6.12 The inconsistencies in the migration of payroll processing from the Integrated Personnel and Payroll Database (IPPD) to the Human Resource Information System-Kenya (HRIS-Ke), effected in December 2024, characterized by significant data integrity and system control weaknesses point to inadequate system testing, lack of reconciliation protocols, and poor change management during the migration process.
- 6.13 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, the 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.
- 6.14 The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

## 5. RECOMMENDATIONS

- 6.1 In view of the findings and conclusions of the Special Audit, the following is recommended for implementation by the Kwale County Executive;
- 6.2 To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35%) percent of the County Executive's total revenue, the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 6.3 For effective management of departmental budgets and enhance accuracy in financial reporting, the Chief Officer for Public Finance, together with the management of the State Department for Public Service and Human Capital Development should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures.
- 6.4 The County Executive should urgently develop a comprehensive staff establishment that outlines the required positions, job descriptions, grades, and number of staff per department, based on workload analysis and service delivery needs. This establishment should be submitted for approval to the County Public Service Board (CPSB) in line with Section 59(1)(g) of the County Governments Act, 2012.
- 6.5 The County Executive should develop and implement approved annual human resource recruitment plans aligned with the approved staff establishment, departmental objectives, and available budget provisions. These plans should be reviewed and approved by the County Public Service Board to ensure effective workforce planning and prevent irregular or misaligned recruitment. All recruitment should strictly adhere to the approved plans, with any exceptions properly justified and documented. Additionally, the County should establish monitoring mechanisms to track compliance, report deviations, and build HR capacity to enhance planning and adherence to legal and regulatory requirements.
- 6.6 To ensure the integrity of data maintained in the payroll systems, the management should ensure that validation controls are implemented in the HRIS-Ke. Further,

the HRIS-Ke should be integrated with Key government systems such as the National Identity, the National Social Security Fund (NSSF) and the Social Health Authority (SHA).

- 6.7 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments and underpayments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowances.
- 6.8 The County Executive should ensure that Chief Officers take full responsibility for verifying and accounting for all employees under their departments through regular staff headcounts and reconciliation with payroll records. A comprehensive staff validation exercise should be conducted to confirm the existence, deployment, and duties of all employees.
- 6.9 The County Executive should strengthen human resource management by ensuring the timely issuance of formal confirmation letters to employees transitioning from probationary to permanent and pensionable terms. This should be based on documented performance evaluations and compliance with relevant employment regulations.
- 6.10 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.

## 6. APPENDICES

### Appendix 1: List of Staff Interviewed

No.	Designation	Department
1.	Director Human Resource	Public Service and Administration
2.	Deputy Director Human Resource	Public Service and Administration
3.	Payroll Manager	Public Service and Administration
4.	Accountant	Finance & Accounting

### Appendix 2: List of Annexures

- 6.1 The **annexures** referenced in the report and which are listed below will be provided in soft copies:

No	Annexure	Title
1	<b>Annexure 1</b>	Budget Votes in Payroll Systems not Aligned with those in the Approved Budget.
2	<b>Annexure 2</b>	Integrity of Date of Birth Data in IPPD Systems
3	<b>Annexure 3</b>	Integrity of Employees' Names in IPPD System
4	<b>Annexure 4</b>	Integrity of Employees' Bank Account Numbers
5	<b>Annexure 5</b>	Employees listed in chief officers' lists but not in the IPPD
6	<b>Annexure 6</b>	Employees in payroll and not in chief officers' list
7	<b>Annexure 7</b>	Officer engaged by both the County Executive of Kwale and TSC
8	<b>Annexure 8</b>	Irregular Payment of Extraneous Allowance
9	<b>Annexure 9</b>	House Allowance Overpayment
10	<b>Annexure 10</b>	Paid Both Extraneous and Health Workers' Extraneous Allowance
11	<b>Annexure 11</b>	Underpayment of Leave Allowance
12	<b>Annexure 12</b>	Unlawful payment of Gratuity
13	<b>Annexure 13</b>	Irregular Payment of Special Duty Allowance
14	<b>Annexure 14</b>	Late remittance of Statutory Deductions
15	<b>Annexure 15</b>	Non-Deduction of Statutory Dues
16	<b>Annexure 16</b>	Non-Compliance with Requirement on Ethnic Diversity
17	<b>Annexure 17</b>	Underpayment and Overpayment of Basic Salary
18	<b>Annexure 18</b>	Underpayment and Overpayment of House Allowance.
19	<b>Annexure 19</b>	Underpayment of Commuter Allowance.
20	<b>Annexure 20</b>	Violation of a Third Rule
21	<b>Annexure 21</b>	Non-deduction of GoK House Rent

## CONTACTS

3rd Floor, Anniversary Towers, University Way, Nairobi

**Phone:** +254 020 3214000 | **Email:** [oag@oagkenya.go.ke](mailto: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)