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

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COUNTY 018

JULY 2025



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FOREWORD BY THE AUDITOR-GENERAL

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

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

The Special Audit identified weaknesses in controls and irregularities in salary processing and payments, and provides recommendations to the Nyandarua 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 Nyandarua County Public Service Board and the Governor, Nyandarua County Government.

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



FCPA Nancy Gathungu, CBS

AUDITOR-GENERAL

8, July 2025

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ABBREVIATIONS

CBA	Collective Bargaining Agreement
COB	Controller of Budget
COs	Chief Officers
CPSB	County Public Service Board

DO	Development Objective
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 of the Nyandarua 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;

- v. Evaluate adherence to tax laws, labour laws, and other statutory requirements; and
- vi. Assess whether payroll data was accurately and completely migrated from the Integrated Payroll and Personnel Database (IPPD) System to Human Resource Information System – Kenya (HRIS-Ke).

Audit Scope and Limitations

- 1.7. The Special audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual and casual payrolls.
- 1.8. The County Executive did not provide recommendations by the County Human Resource Management Advisory Committee (CHRMAC) on departmental recruitment requests; 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 Audit 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.
- 1.12. The Audit established that the ratio of the budgeted compensation of employees to the budgeted revenue for the County Executive was within the thirty-five (35%) percent of the revenue in three (3) financial years. Further, a comparison of the actual personal emolument expenditure, with the actual revenue, revealed that the County Executive exceeded the thirty-five (35%) percent threshold in the three (3) years. 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.

- 1.13. 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 expenditures, thereby increasing the risk of misallocation and 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 years under review, the County Executive recruited two hundred and fifty-three (253) employees. The Audit established that the departments that initiated the recruitments did not have annual recruitment plans to guide the

recruitment process. The lack of annual recruitment plans 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 Employees

- 1.15. The County Public Service Board did not receive periodic returns from the respective departments that engaged casual workers. In addition, during the three (3) financial years, the Department of Water, Environment and Natural Resources 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 Payroll Systems 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. Lack of an Updated Staff Establishment

- 1.18. The Special Audit established that the County Executive operated without of an updated staff establishment, that did not reflect the growing staff and the evolving staffing designations and needs, in contravention of the Public Finance Management (County Governments) Regulations, 2015.

C. Employee Data Management

I. Integrity of Dates of Birth Records in the Payroll System

- 1.19. The Special Audit identified one hundred and forty-six (146) employees with inconsistent date of birth. Interview with a sample of one hundred and sixteen (116) employees and verification of their identification documents established that the dates captured in the IPPD System for forty-six (46) 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. Integrity of National ID Numbers in the Payroll Systems

- 1.20. The Special Audit identified eight (8) employees whose National Identification numbers were inaccurately captured in IPPD System. Inaccurate capture of the Identification numbers points to weak internal controls in the data entry and validation processes during payroll registration and increases the risk of identity misrepresentation or ghost workers.

III. Integrity of KRA Tax PINs in the Payroll Systems

- 1.21. The Special Audit identified that KRA Tax PINs for nine (9) employees were inaccurately captured in IPPD System. Inaccurate capture of the KRA Tax PINS points to weaknesses in the validation and data entry processes during employee onboarding resulting in misreporting of statutory deductions, non-compliance with Kenya Revenue Authority (KRA) regulations, and potential exposure to tax-related penalties for employees.

D. Payroll Processing and Payments

I. Use of Manual Payrolls

- 1.22. The Special Audit established that during the period under review, the County Executive had employees whose salary totaling to Kshs.557,763,348 was being processed through payrolls maintained in Excel.

E. Compliance with Laws and Regulations

I. Non-Compliance with Remittance of Statutory Deductions

- 1.23. 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 instances of delay in remittance of National Health Insurance Fund (now appealed), National Social Security Fund, and Pay As You Earn deductions. The delay ranged from three (3) days to one (1) year. This exposes the County Executive to penalties, interest, and reputational risks, thereby undermining stakeholders' confidence.

II. Non-Compliance with Requirement on Ethnic Diversity

- 1.24. Analysis of records of employees in the IPPD System as at 30 June 2024 established that 95% 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.
- 1.25. Further, all employees recruited at the entry level were from one dominant ethnic community contrary to Section 65(1)(e) of the County Governments Act, 2012.

III. Other Non-Compliance Issues

- 1.26. 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.

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

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

Conclusion

- 1.28. The Special Audit of payrolls for the Nyandarua 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:
- 1.29. 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.
- 1.30. 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.
- 1.31. 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 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.
- 1.32. The Special Audit identified weaknesses in the recruitment process, including lack of critical recruitment documents. These weaknesses undermine transparency, fairness, and compliance with established recruitment procedures. It may result in unqualified or ineligible individuals being employed.
- 1.33. The recruitments of casual workers without involving the County Public Service Board and lack of an updated staff establishment 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 have an impact on the budget.

- 1.34. 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.
- 1.35. The Audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by inaccurate employees' dates of birth, inaccurate National ID Numbers and KRA TAX Pins, and the use of manual payrolls. This indicates weak payroll controls, including lack of data validation controls.
- 1.36. 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 with the one-third basic salary rule. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.37. 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.
- 1.38. The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration

reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.

- 1.39. 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

- 1.40. In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Nyandarua County Executive.
- 1.41. 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 thirty-five (35%) capping before the approval of the budgets.
- 1.42. To enhance the attainment of optimal staffing levels, management of the County Executive should align the payroll system with the approved staff establishment and ensure consistency between authorized positions and personnel data. Additionally, the staff establishment module in the HRIS-Ke should be fully implemented and configured to enforce recruitment strictly within the approved establishment limits.
- 1.43. To enhance transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions. Additionally, recruitment processes should be strengthened to ensure transparency, including public advertisement of vacancies, consideration of only formally submitted applications, and securing budget approvals before initiating any recruitment activities.
- 1.44. To ensure the integrity of data maintained in the payroll systems, the management should ensure that the validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), and Social Health Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favor of HRIS-Ke.
- 1.45. 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.

- 1.46. For effective management of departmental budgets and to 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.
- 1.47. 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.
- 1.48. To enhance transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions. Additionally, recruitment processes should be strengthened to ensure transparency, including public advertisement of vacancies, consideration of only formally submitted applications, and securing budget approvals before initiating any recruitment activities.
- 1.49. To ensure the integrity of data maintained in the payroll systems, the management should ensure that the validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), and Social Health Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favor of HRIS-Ke.
- 1.50. 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 government. 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 of the County Executive of Nyandarua (the County Executive) was conducted in line with this mandate.
- 2.2. The Government of Kenya (GoK) received an International Development Association (IDA) Credit of EUR140.7 million (Approximately Kshs. 19,538,432,130 using the prevailing exchange rate as at 28 June 2024) from the World Bank, to implement the Second Kenya Devolution Support Program (KDSP II). KDSP II supports a sub-set of reforms envisaged under the Government's Devolution Sector Plan. The financing agreement, Credit Number IDA-7447-KE, became effective in March 2024 and is set to be implemented over a four-year period; 2023-2027. The development objective of the KDSP II is to strengthen county performance in the financing, management, coordination, and accountability for resources. To achieve the DO, the Program was expected to improve outcomes in the participating counties under three (3) Key Result Areas (KRAs). KRA 1 was on sustainable financing and expenditure management, KRA 2 on intergovernmental coordination, institutional performance, and human resource management, and KRA 3 on oversight, participation, and accountability.
- 2.3. The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2. There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:

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

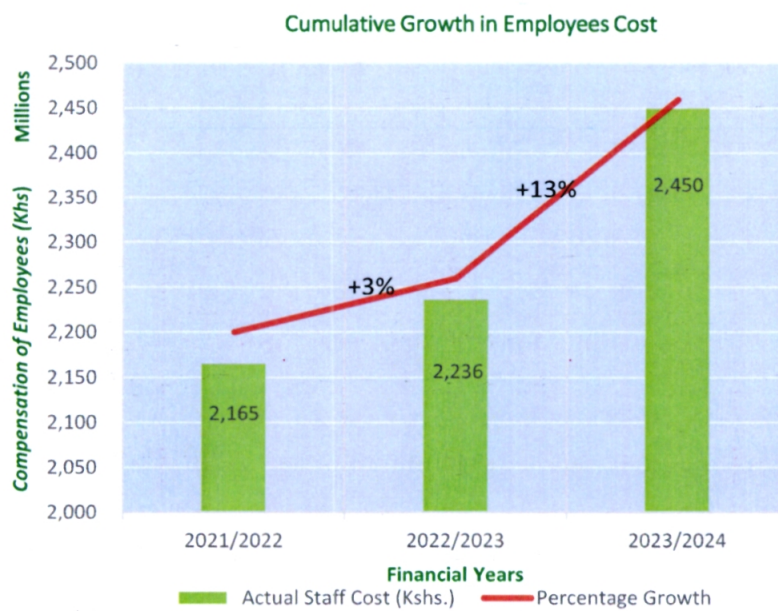
Numbers of Employees and Payroll Expenditure

- 2.6. Over the three-year period under review, there was a gradual increase in the number of employees and payroll costs.
- 2.7. Over the three-year period under review, there was a gradual increase in the number of employees and payroll costs. The overall staff growth across the audit period was **72%**. While the cumulative growth in payroll costs over the three years was approximately **16%** as indicated in **Figures 1 and 2**.

Figure 1: Cumulative Growth of Number of Staff



Figure 2: Cumulative Growth of Payroll Cost



Audit Objectives

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

Audit Scope and Limitations

- 2.9. The Special Audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual and casual payrolls.
- 2.10. The audit was carried out in the month of March 2025.

Audit Methodology

- 2.11. The Special Audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) 4000 for Compliance Audit. These standards require that the audit is planned and performed so as to draw

reasonable audit conclusions on the design, implementation and operating effectiveness of internal controls.

Methods of Data Collection

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

a) Document Review

- 2.14. The audit team reviewed various documents including: -
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Governments) Regulations, 2015;
 - iv. County 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

2.15. 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.

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

- i. IPPD Staff Registers and Payroll data
- ii. 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

2.17. 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

2.18. 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.

2.19. The Audit team through the County Secretary, requested two hundred and eight six (286) employees to appear in person for a physical verification, which was based on initial exceptions during data analytics. This verification was to ensure existence of staff, their employment status and accuracy of personal data maintained in the payroll systems.

Report Structure

2.20. The report is organized as follows:

- viii. Executive Summary;
- ix. Introduction and Background;
- x. Detailed Findings;
- xi. Conclusion;
- xii. Recommendations; and
- xiii. Appendices.

2.21. 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 six (6) broad areas:

- a. Payroll Budgeting;
- b. Recruitment Process;
- c. Employee Data Management;
- d. Payroll Processing and Payments; and
- e. Compliance with Laws and Regulations.
- f. Migration from Integrated Payroll and Personnel 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 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 for the in-depth payroll audit established that the ratio of budgeted compensation of employee to budgeted revenue was within the thirty-five (35%) percent of the revenue in three (3) financial years as indicated in **Table 1**.

Table 1: Budgeted Revenue to Budgeted Employee Cost

Financial Year	Budgeted Revenue (Kshs.)	Budgeted Cost for Personal Emoluments (Kshs.)	% Of Utilization
2021/2022	8,032,514,327	2,165,000,000	27%
2022/2023	6,670,318,665	2,236,150,000	34%
2023/2024	7,735,037,282	2,449,774,418	32%

*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 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	5,172,885,314	2,150,125,588	42%
2022/2023	5,759,503,946	2,234,077,983	39%
2023/2024	5,711,958,690	2,440,833,652	43%

*Source: Audited Financial Statements

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

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

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

- 3.8. A comparison of payrolls reports extracted from IPPD System with approved budgets established that the Vote Heads in IPPD System were not aligned with those in the approved budgets as detailed in **Annexure 1**.
- 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 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.
- 3.11. In addition, review of the IFMIS system and the County's itemized budget revealed the existence of multiple vote heads assigned to similar departmental functions. This duplication creates a risk of redundancy, inefficiencies in budget utilization, and lack of clarity in financial reporting, leading to redundancy, budgetary inefficiencies, and lack of clarity in financial reporting as indicated in **Table 3**.

Table 3: Multiple vote heads assigned to similar departmental functions

Vote Head	Sector Name/Department
3877	Education, Culture, and Arts
3866	Education, Youth, Gender, and Social Services, Culture, and Sports
3885	Education, Children, Gender Affairs, Culture, and Social Services
3878	Youth, Sports, Gender, and Social Services
3886	Youth Empowerment, Sports, and Arts
3875	County Secretary – IFMIS Vote Head
3884	County Secretary and Head of Public Service
3863	Finance and Economic Planning
3881	Finance, Economic Planning, & ICT – IFMIS Vote Head
3887	Lands, Physical Planning, & Urban Development
3879	Lands, Housing, & Physical Planning – IFMIS Vote Head
3882	Public Works, Roads, Transport, Housing, & Energy – IFMIS Vote Head
3868	Roads, Public Works, & Transport – IFMIS Vote Head

*Source: County Executive Budget

3.12. 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.

III. Charging of Employee Costs to the Wrong Budget Vote

3.13. A comparison of gross salary processed through IPPD System, casual payroll and manual payrolls with salary ledgers from Integrated Financial Management Information System (IFMIS) established the vote head configured in the IPPD System were different from that in IFMIS. As a result, charging of salary in IFMIS was not done as per respective departments as demonstrated in **Table 4**.

Table 4: Charging of Employee Cost 2023-2024

Vote Head	Sector Name/Department	Total Payroll (Kshs.)	Total Salary Ledgers (Kshs.)	Variance (Kshs.)
3877	Education, Culture and Arts	-	-	
3866	Education, Youth, Gender and Social Services, Culture, Sports	-	-	
3885	Education Children Gender Affairs Culture and Social Services	221,861,569	-	221,861,569
3878	Youth, Sports, Gender and Social Services	-	-	
3886	Youth Empowerment Sports and Arts	24,847,189	-	24,847,189
3870	Water, Environment and Natural Resources	-	-	
3864	Agriculture, Fisheries and Livestock	153,038,462	-	153,038,462
3876	County Public Service Board	-	-	
3875	County Secretary	-	-	
3884	County Secretary and Head of Public Service	-	-	
3863	Finance and Economic Planning	-	-	
3881	Finance Economic Planning & ICT	191,358,584	-	191,358,584
3874	Governance	129,386,371	-	129,386,371
3865	Health	1,060,016,047	-	1,060,016,047
3871	Information, Communication and E-Executive	-	-	
3887	Lands Physical Planning & Urban Development	36,115,243	-	36,115,243
3879	Lands, Housing and Physical Planning		-	
3883	Public Service Administration and Devolution	134,855,947	2,268,267,882	(2,133,411,935)
3882	Public Works Roads Transport Housing and Energy	58,379,001	-	58,379,001
3868	Roads, Public Works and Transport	-	-	
3889	Tourism Cooperatives Development Trade and Industrialization	30,624,023	-	30,624,023
3888	Water Environment Climate Change and Natural Resources	53,785,315	-	53,785,315
	Total	2,094,267,752	2,268,267,882	(174,000,130)

*Source: IFMIS Vote Heads

- 3.14. This misalignment creates inconsistencies between budget allocations and actual expenditures and managing departmental budgets, therefore increasing the risk of misallocation, misuse of funds, and compromises financial accountability in the County.

B. Recruitment Process

- 3.15. 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

- 3.16. Section 59(1)(g) of the County Governments Act 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. Regulation 119(2) of the Public Finance Management (County Governments) Regulations requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.
- 3.17. The County Executive recruited one hundred and fourteen (114), fifty-nine (59), and eighty (80) during the financial years 2021/2022, 2023/2024, and 2023/2024 respectively, as indicated in **Annexure 2**. However, it was established that the departments which initiated the recruitments did not have annual recruitment plans to guide the recruitments. Further, no evidence was provided as proof that vacancies were available before recruitment were done.
- 3.18. The lack of annual recruitment plans can result in overstaffing, understaffing, or hiring for roles that do not align with organizational priorities.

II. Weakness in the Recruitment Process

- 3.19. Section 74 of the County Governments Act, 2012 states that the County Public Service Board shall regulate the engagement of persons on contract, volunteer and casual workers in its public bodies and offices.
- 3.20. Review of the recruitment records maintained by the County Public Service Board (CPSB) revealed that the County recruited two hundred and fifty-three (253) employees in the formal employment as indicated in **Table 5** and detailed in **Annexure 2**.
- 3.21. In addition, the County Public Service Board approved twenty (20) casual workers to be recruited in each of the financial years, as indicated in **Table 5** and detailed in **Annexure 3**.

Table 5: Weakness in the Recruitment Process

Financial Year	Department	Recruited Employees			
		Formal Employees	Annexure 2	Casual Workers	Annexure 3
2021/2022	Health, Trade, Finance, Transport and Energy, Agriculture and Livestock	114	Annexure 2	20	Annexure 3
2022/2023	Health, Water and Environment, Agriculture, I.C. T	59	Annexure 2	20	Annexure 3
2023/2024	Health, Finance, Trade, Transport and Energy	80	Annexure 2	20	Annexure 3
Total		253		60	

*Source: IPPD Recruitment Analysis

3.22. However, a review of the recruitment process revealed the absence of the following documentation to support the process, which represents a significant internal control weakness:

- i. There were no documented job needs assessment approved by County Human Resource Management Advisory Committee (CHRMAC) to support the need for recruitment in departments that had already recruited the previous years.
- ii. There was no reference made to the approved staff establishment to justify the positions being filled during the recruitment process.
- iii. Interview minutes supporting the selection of successful candidates in the formal sector were not provided.
- iv. Absence of recruitment advertisements, such as notice board memos, for the engagement of casual workers.
- v. It was noted that the County Government Public Service Board (CSPB) did not receive periodic returns from the respective departments engaging casual workers. The required returns, which included a list of engaged casual workers and their payment records, were not submitted to facilitate verification and confirmation of the actual engagement of the casual workforce.

3.23. 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 designations to those in the IPPD System.

3.24. As a result of the misalignment between the staffing records in the payroll system and the approved staff establishment, it was not possible to establish whether the County filled positions in accordance with the approved staff establishment. This may lead to inefficiencies in workforce planning, budget overruns and service delivery.

III. Lack of an updated Staff Establishment

- 3.25. Section B 5(2) and Section B 6(3) of the County Public Service Human Resource Manual, 2013 requires each County Government entity to maintain optimum staffing levels derived from an authorized establishment and organization structure.
- 3.26. 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.
- 3.27. The Special Audit for the in-depth payroll audit established that the Nyandarua County Executive as of June 2024, continued relying on an outdated establishment that did not reflect the growing staff and the evolving staffing designations and needs, in contravention of the Public Finance Management (County Governments) Regulations, 2015.
- 3.28. The absence of an approved staff establishment hinders the county's ability to effectively plan and manage its human resources, leading to potential overstaffing or understaffing in critical departments. This situation poses risks such as inefficient service delivery, budgetary overruns due to a rising wage bill, and challenges in workforce planning and succession management.

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

- 3.29. 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.
- 3.30. The Special Audit established that four hundred and twenty-one (421) designations were configured in the IPPD System. However, out of the configured designations, two hundred and sixty-three (263) did not align with the approved designations in the staff establishment. Further, there were nine hundred and seventy-seven (977)

employees were grouped in the two hundred and sixty-three (263) designations, as indicated in **Annexure 4**.

- 3.31. Similarly, certain designations included in the approved staff establishment had not been configured within the IPPD System. As a result, employees serving under these designations were inaccurately classified under unrelated roles already defined in the system. For example, Sports Officers were listed as Cultural Officers, and Animal Assistants were listed as Livestock Officers.
- 3.32. 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 designations to those in the IPPD System.
- 3.33. 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 had filled all positions in accordance with the approved staff establishment. This may lead to inefficiencies in workforce planning, budget overruns and service delivery.

C. Employee Data Management

- 3.34. 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 Date of Birth Records in the Payroll System

- 3.35. Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective. Further, Circular Ref. No: PSC/ ADM/ 13(9) dated 19 November, 2020 from Public Service Commission to all authorized officers stipulates that the date of birth as per the Birth Certificate should be considered as a public officer's official date of birth.

- 3.36. The Special audit identified one hundred and forty-six (146) employees in the IPPD System with inconsistent dates of birth.
- 3.37. Interview with a sample of one hundred and sixteen (116) employees and verification of their identification documents established that the dates captured in the IPPD System for forty-six (46) employees were different from those in employees' Birth Certificates as detailed in **Annexure 5**. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).
- 3.38. 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 date of birth to those in the IPPD System.
- 3.39. Inaccurate capture of birthdates leads to the risk of exceeding the legal retirement age or forcing an employee to retire before they are due for retirement. In addition, there is a risk of miscalculation of retirement dates and pension dues of employees, as well as other entitlements that are calculated based on age.

II. Integrity of National ID Numbers in the Payroll Systems

- 3.40. The Special Audit established that there were eight (8) employees whose National Identification numbers were inaccurately captured in IPPD as indicated in **Annexure 6**.
- 3.41. Inaccurate capture of the Identification numbers points to weak internal controls in the data entry and validation processes during payroll registration and increases the risk of identity misrepresentation or erroneous data capture.

III. Integrity of KRA Tax PINs in the Payroll Systems

- 3.42. The Special Audit established that, KRA Tax PIN for nine (9) employees were inaccurately captured in IPPD as indicated in **Annexure 7**.
- 3.43. Inaccurate capture of the KRA Tax PINS points to weaknesses in the validation and data entry processes during employee onboarding resulting in misreporting of

statutory deductions, non-compliance with Kenya Revenue Authority (KRA) regulations, and potential exposure to tax-related penalties for employees.

D. Payroll Processing and Payments

- 3.44. 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. Use of Manual Payroll

- 3.45. Regulation 22 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015, requires the accounting officer to maintain effective systems of internal controls and have measures to ensure their effectiveness.
- 3.46. The Special Audit established that during the period under review, the County Executive had one thousand, five hundred and forty-six (1,546) employees whose salaries totaling to Kshs.557,763,347 were processed outside the Integrated Personnel and Payroll Database (IPPD) System.
- 3.47. These salary payments were processed for Interns, ECDE teachers, Revenue Clerks, Preparatory assistants and those employees on Contracts as indicated in **Table 6** and **Annexure 8**.

Table 6: Use of Manual Payroll for processing Salary

Financial Year	No of Employees on Manual payroll	Net Pay (Kshs.)
2021/2022	1023	397,739,619
2022/2023	305	160,023,728
2023/2024	218	15,056,236
Total	1,546	220,062,624.8

*Source: Manual Payrolls

- 3.48. The continued use of manual payroll processing contradicts established payroll management procedures and violates the Public Finance Management (County Governments) Regulations, 2015, which mandates that all salary payments be processed through the IPPD System to ensure transparency and accountability.

E. Compliance with Laws and Regulations

- 3.49. 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. Inadequate Classification of Allowances in the Manual Payroll

- 3.50. The Special Audit established that during the period under review, allowances in the manual payroll system were consolidated into a single entry, except for the house and commuter allowances, which were distinctly categorized.
- 3.51. As a result, compliance to SRC guidelines on payment of allowances through the manual payrolls could not be confirmed.
- 3.52. Lack of detailed categorization of allowances raises concerns about transparency, accuracy, and adherence to SRC guidelines in payment of allowances
- 3.53. Further, the absence of complete and valid personal information increases the risk of fraudulent salary payments, non-compliance with tax regulations and financial losses due to potential salary misappropriation.

II. Non-Compliance with One Third Basic Salary Rule

- 3.54. Section 19 (3) of Employment Act, 2007 require the total amount of all deductions that may be made by an employer from the wages of his employee at any one time not to exceed two-thirds of such wages.
- 3.55. An analysis of the staff payroll for the years under audit established that four thousand, three hundred and twenty-three (4,323) employees were paid net salaries that were less than one-third of their basic salaries contrary to Section 19(3) of the Employment Act, 2007, as indicated in **Table 7**, and detailed **Annexure 9**.

Table 7: Non-Compliance with One Third Basic Salary Rule

Financial Year	Month	Total Number of Employees
2021/2022	As at 30 June 2022	147
2022/2023	As at 30 June 2023	1,851
2023/2024	As at 30 June 2024	2,325
	Total Number of Employees	4,323

*Source: IPPD Payroll System

- 3.56. The employees earning less than one-third of their basic salary due to excessive deductions, may be unable to meet personal financial obligations and adversely affect their productivity, decision-making, and ability to effectively safeguard county interests.

III. Non-Compliance with Requirement on Ethnic Diversity

- 3.57. Section 7(1) of National Cohesion and Integration Act, 2008, states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff. Section 7(2) states that no public establishment shall have more than one third of its staff from the same ethnic community.
- 3.58. Section 65(1)(e) of the County Governments Act, 2012 require the County Public Service Board to consider, in selecting candidates for appointment, the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.
- 3.59. Analysis of employees in the IPPD System as at 30th June 2024 established that ninety-six (96%) percent 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 10**.
- 3.60. Further, all of employees recruited at the entry level were from one dominant ethnic community contrary to Section 65(1)(e) of the County Governments Act, 2012, that requires the County to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county vacant posts at entry level.

- 3.61. The non-compliance to ethnic diversity is a violation of legal requirements leading to legal disputes

IV. Non-Compliance to Remittance of Statutory Deductions

- 3.62. 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.
- 3.63. Section 15(4) of the National Health Insurance Fund (NHIF) Act, 1998 (now repealed) required contributions to NHIF be made by ninth day of the month following that of deduction.
- 3.64. 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.
- 3.65. A comparison of statutory deductions for employees in the IPPD Payroll System with bank statements established cases of delay in remittance of statutory deductions ranging from one (1) day to one (1) year, totaling to Kshs.1,192,609,1822 as indicated in **Annexure 11**.
- 3.66. The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances, non-compliance with requirement on ethnic diversity. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

V. Casuals Employees Engaged Beyond Stipulated Period

- 3.67. Section 37(1) of the Employment Act, 2007 provides that if a casual employee works continuously for a period equivalent to one month or performs tasks that extend beyond three months, their employment shall be deemed to be on a monthly wage contract basis.

- 3.68. Review of casual employee approval records from County Public Service Board revealed that revealed that twenty (20) casual workers had been continuously engaged by various departments for periods exceeding three (3) months across the three (3) financial years as detailed in **Annexure 12**.
- 3.69. The County Public Service Board approved their continued engagement through successive approvals in response to Municipalities requests contrary to Section 37 (1) of the Employment Act, 2007.
- 3.70. The engagement of casuals beyond the stipulated period exposes the County Executive to litigation proceedings and associated costs.

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

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

I. Over-deductions and Under-deductions of PAYE

- 3.72. Section 149(2)(a) of the Public Finance Management Act requires the accounting officer of a county government to ensure that all expenditure made by the entity complies with requirements on lawful, authorized and transparent use of resources of the entity.
- 3.73. The Nyandarua County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between November, 2024 IPPD data and December 2024 HRIS-Ke data established instances of over-deductions and under-deductions of salaries and allowances as summarized in **Table 8**, and detailed in **Annexure 13**.

Table 8: Over-deductions and Under-deductions of PAYE

Allowance	Total Amount Over deducted (Kshs.)		Total Amount Under deducted (Kshs.)	
	Number of Employees	Amount (Kshs.)	Number of Employees	Amount (Kshs.)
PAYE				
IPPD	449	12,612,508	1495	23,299,869
HRIS-Ke	449	13,694,198	1495	19,200,580
	Variance	(1,081,690)		4,099,289

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

II. Job-Group Changes

- 3.74. During the transition to the HRIS-Ke system, it was established that the job groups of two (2) employees were downgraded compared to their previous designations in the IPPD System. This change led to a reduction in their remuneration, with the two (2) officers collectively receiving a gross payment of Kshs.210,922, as detailed in **Appendix 14**, which was lower than what they were entitled to.

III. Overpayment and Underpayment of health workers' extraneous allowance

- 3.75. A comparison between November 2024 IPPD data and December 2024 HRIS-Ke data established instances of overpayment and underpayments of Health Workers Extraneous Allowance as summarized in **Table 9**, and detailed in **Annexure 15** and **Annexure 16**.

Table 9: Overpayment and Underpayment of health workers' extraneous allowance

Allowance	Total Amount Over deducted (Kshs.)		Total Amount Under deducted (Kshs.)	
	Number of Employees	Amount (Kshs.)	Number of Employees	Amount (Kshs.)
Health Workers Extraneous Allowance				
IPPD	211	5,065,000	67	1,543,000
HRIS-Ke	211	6,165,000	67	755,000
	Variance	1,100,000	Variance	788,000

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

3.76. Financial losses may occur due to irregular or overpayment of salaries. In addition, the morale of the overtaxed officers may be negatively affected, leading to decreased productivity.

4. CONCLUSION

- 4.1. The Special Audit of payrolls for the Nyandarua County Executive uncovered several audit issues in payroll and human resource management, which may negatively affect its financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 4.2. The non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3. The 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.
- 4.4. 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 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.
- 4.5. The Special Audit identified weaknesses in the recruitment process, including lack of critical recruitment documents. These weaknesses undermine transparency, fairness, and compliance with established recruitment procedures. It may result in unqualified or ineligible individuals being employed.
- 4.6. The recruitments of casual workers without involving the County Public Service Board and lack of an updated staff establishment 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 have an impact on the budget.

- 4.7. 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.
- 4.8. The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by inaccurate employees' dates of birth, inaccurate National ID Numbers and KRA TAX Pins, and the use of manual payrolls. This indicates weak payroll controls, including lack of data validation controls.
- 4.9. 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 with the one-third basic salary rule. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 4.10. 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.
- 4.11. The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration

reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.

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

5. RECOMMENDATIONS

- 5.1. In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Nyandarua County Executive.
- 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 thirty-five (35%) capping before the approval of the budgets.
- 5.3. 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.
- 5.4. To enhance transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions. Additionally, recruitment processes should be strengthened to ensure transparency, including public advertisement of vacancies, consideration of only formally submitted applications, and securing budget approvals before initiating any recruitment activities.
- 5.5. To ensure the integrity of data maintained in the payroll systems, the management should ensure that the validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), and Social Health Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favor of HRIS-Ke.
- 5.6. For effective management of departmental budgets and to 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.

- 5.7. 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.
- 5.8. To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.

6. APPENDICES

Appendix 1: List of Staff Interviewed

No.	Designation	Department
1.	County Secretary	County Secretary and Head of Public Service
2.	Chief Officer - Public Service	Public Service and Administration
3.	Chief Executive Officer	County Service Public Board of Nyandarua
4.	Chief Officer - Finance and Accounting	Finance & Accounting
5.	Director Human Resource and Administration	Public Service and Administration
6.	Payroll Manager	Finance & Accounting
7.	Senior Finance Officer(s)	Finance & Accounting

Appendix 2: List of Annexures

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

No.	Name	Description
1.	Annexure 1	Budget Votes in Human Resource Information System – Kenya not Aligned with those in Approved Budget
2.	Annexure 2	New Hires: for the financial years- [2021/2022-2023/2024]
3.	Annexure 3	Casual Workers Hired: for the financial years- [2021/2022-2023/2024]
4.	Annexure 4	Designations in IPPD not aligned to Cos' Lists.
5.	Annexure 5	Employees with different Birth Dates in both the Integrated Personnel and Payroll Database (IPPD), Birth Certificates and National ID.
6.	Annexure 6	Errors in National ID Numbers Captured in IPPD: for the financial years- [2021/2022-2023/2024]
7.	Annexure 7	Errors in National KRA Tax Pins Captured in IPPD: for the financial years- [2021/2022-2023/2024]
8.	Annexure 8	Manual Payroll for Interns, ECDE teachers and Preparatory Assistants: for the financial years: for the financial years- [2021/2022-2023/2024]
9.	Annexure 9	Non-Compliance with One Third Basic Salary Rule: for the financial years- [2021/2022-2023/2024]
10.	Annexure 10	Non-Compliance with National Cohesion & Integration act 2008 on Ethnic Diversity: for the financial years- [2021/2022-2023/2024]
11.	Annexure 11	Late Remittance of Statutory Deductions

12.	Annexure 12	Casual engaged beyond the stipulated period: for the financial years- [2021/2022-2023/2024]
13.	Annexure 13	Over-deductions and Under-deductions of PAYE in HRIS-Ke
14.	Annexure 14	Changes in Job-Groups in HRIS-Ke
14.	Annexure 15	Underpayment of Health Extraneous Allowance in HRIS-Ke
16.	Annexure 16	Over-payment of Health Extraneous Allowance in HRIS-Ke

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