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

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COUNTY 046

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 Nyamira 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 Nyamira Executive was conducted in line with this mandate.

The Special Audit evaluated the human resource and payroll processes at the Nyamira 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 Nyamira 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 Nyamira County Public Service Board and the Governor, Nyamira 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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## ABBREVIATION

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
FIF	Facility Improvement Fund
GoK	Government of Kenya
HR	Human Resource
HRIS-Ke	Human Resource Information System – Kenya
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IPPD	Integrated Payroll and Personnel Database
ISSAIs	International Standards of Supreme Audit Institutions
KDSP	Kenya Devolution Support Programme
KRA	Key Result Area
MDAs	Ministries, Departments and Agencies
MIS	Management Information System
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
TSC	Teachers Service 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 Nyamira County Executive, referred to as the County Executive in this report, was conducted in line with this mandate.
- 1.2 The Government of Kenya (GoK) received an International Development Association (IDA) Credit of EUR140.7 million (Approximately Kshs. 19,538,432,130 using the prevailing exchange rate as at 28 June 2024) from the World Bank, to implement the Second Kenya Devolution Support Program (KDSP II). KDSP II supports a sub-set of reforms envisaged under the Government's Devolution Sector Plan. The financing agreement, Credit Number IDA-7447-KE, became effective in March 2024 and is set to be implemented over a four-year period; 2023-2027. The development objective of the KDSP II is to strengthen county performance in the financing, management, coordination, and accountability for resources. To achieve the DO, the Program was expected to improve outcomes in the participating counties under three (3) Key Result Areas (KRAs). KRA 1 was on sustainable financing and expenditure management, KRA 2 on intergovernmental coordination, institutional performance, and human resource management, and KRA 3 on oversight, participation, and accountability.
- 1.3 The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2 There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:

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

#### **Audit Objectives**

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

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

### **Audit Scope and Limitations**

- 1.7 The Special audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual and casual payrolls.
- 1.8 The County Executive did not provide salary control account agreements of the commercial banks. 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**

1.11 The key audit findings are as detailed below:

### **A. Payroll Budgeting**

#### **I. Compensation of Employee to Revenue Ratio Exceeded the set Threshold**

1.12 Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires the county government's expenditure on wages and benefits for its public officers not to exceed thirty-five (35%) percent of the county government's total revenue. The audit established that the ratio of the budgeted compensation of employees to the budgeted revenue for the County Executive exceeded thirty-five percent (35%) in the three (3) financial years.

1.13 Further, a comparison of the actual personal emolument expenditure, with the actual revenue, revealed that the County Executive also exceeded the thirty-five percent (35%) threshold in the three (3) years. Further, the percentage of budgeted compensation of employees to the budgeted revenue grew from forty-four (44%) in 2021/2022 to forty-six (46%) in 2023/2024. This indicates a growing wage bill, which has strained the county's financial resources, limiting funds available for critical development projects and essential service delivery.

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

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

### **B. Recruitments Process**

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

1.14. During the period under audit review, the County Executive recruited one thousand thirty-one (1031) employees. The audit established that the departments that initiated the recruitments did not have annual recruitment plans to guide the recruitment process. Further, no evidence was provided to prove

that budgetary availability was sought before initiating the recruitment process. The lack of annual recruitment plans and lack of confirmation of availability of budgets can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

## **II. Weaknesses in the Recruitment process**

- 1.15. Review of the recruitment process established the following internal control weakness:
- i. The County Public Service Board (CPSB) advertised various job positions on 26 March 2021 but did not fill fourteen (14) positions, despite receiving applications and conducting interviews.
  - ii. During the three (3) financial years, the CPSB did not maintain shortlisting and interview minutes for sampled recruitments.
  - iii. There were irregular appointment letters issued to two (2) officers, as evidenced through a Public Service Management letter dated 1 February 2023. These employees earned a gross salary of Kshs.1,634,876.

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

- 1.16. The Special Audit established that the County Executive had a total of three thousand nine hundred and fifty-four (3,954) employees listed in IPPD. However, the County Executive did not have an approved staff establishment, but a draft staff establishment.

## **C. Employee Data Management**

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

- 1.17. The Special Audit identified six hundred and fifty (650) employees with inconsistent date of birth.
- 1.18. Interview with six-one (61) employees and verification of their identification documents established that the data captured in the IPPD System for thirty-seven (37) 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 National ID Numbers Captured in the IPPD System**

- 1.19. The Special Audit identified seven (7) officers whose ID numbers were erroneously captured in the IPPD System and the HRIS-Ke. Verification confirmed that the ID numbers captured in the payroll system were not due to errors in the official documents, as the personal files and physical ID copies provided by the officers were consistent.

## **III. Drawing Salary from Different Government Entities**

- 1.20. The Special Audit established that during 2023-2024 financial year, one (1) employee had been engaged by both Nyamira County Executive and Teachers Service Commission (TSC). During this period of dual engagement, the officer received a total of Kshs.125,650 in payments from the County Executive.
- 1.21. Interviews with the affected staff indicated that they were initially employed by Nyamira County Executive before transitioning to TSC without completing the proper exit process. Consequently, their salaries were paid by both entities. The amount that was irregularly paid during the financial years under review totaled Kshs.245,650.

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

- 1.22. The Chief Officers (COs) were requested to provide a list of staff members in their respective departments as at 30 June, 2024. This list was to be compared with records of employees in the payroll systems maintained by the County Executive.
- 1.23. Further, a comparison of the staff lists countersigned by various Chief Officers, with the staff register from the IPPD System, established that there were thirty-two (32) in the Chief Officers' staff lists, that were not in IPPD System. In addition, there were fifty (50) employees in the IPPD System, that were not in the staff lists provided by Chief Officers. The fifty (50) employees were paid kshs.25,565,690 during the period under review.

- 1.24. The failure to account for human resource in various departments presents the risk of irregular or fraudulent payments in the County Executive.

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

- 1.25. The Special Audit requested eight-one (81) employees from the County Executive to present themselves for physical verification. However, eleven (11) employees did not avail themselves for the exercise, despite multiple attempts to reach out to them. During the period under review, the eleven (11) officers collectively received a gross salary amounting to Kshs.14,551,406.
- 1.26. These employees who failed to appear for physical verification may not exist, raising the risk of irregular or fraudulent payments.

#### **D. Payroll processing and payments**

##### **I. Charging of Employee Costs to the Wrong Budget Vote**

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

##### **II. Irregular Promotions and Re-designated**

- 1.28. Analysis of payroll data and verification of records maintained by the County Executive established that there were ninety-four (94) employees who were either re-designated, or appointed during the three (3) financial year under audit without meeting the requirements set in respective schemes of service.

##### **III. Payment of Arrears**

- 1.29. During the three years (3) under review, the County Executive paid salary and allowances as arrears totaling Kshs.258,731,097 with dedicated earning codes in the IPPD system. Further review of the allowances established the following:

- i. The special audit established that there were ECDE teachers who received monthly gross pay as arrears and other allowances in arrears, despite not qualifying for such payments under their terms of engagement. The total amount paid irregularly was Kshs.2,164,895.
- ii. There were two (2) health workers who were irregularly paid arrears in both extraneous allowances, and health extraneous allowance in arrears. The total amount paid irregularly was Kshs.302,170. Further, there was one (1) staff from education department who was irregularly paid health extraneous allowance arrear amounting to Kshs.35,000.
- iii. There were forty-five (45) officers who received monthly gross pay in arrears, despite not qualifying for the allowance under their terms of engagement. The total amount paid irregularly was Kshs.4,652,702.

#### **IV. Irregular Payment and Overpayment of Allowances**

1.30. Comparison of salary paid to employees during the period under audit review with applicable Salary and Remuneration Commission (SRC) circulars and guidelines established the following:

- i. There were six (6) employees in the 2021/2022 financial year who were irregularly paid special salary together with other allowances totaling Kshs.2,218,750.
- ii. There were four (4) employees who were irregularly paid extraneous allowances and health extraneous allowance totaling Kshs.1,123,161.
- iii. There were five (5) employees in the 2023/2024 financial year who were irregularly paid extraneous allowance totaling Kshs.825,000. The employees were not entitled to the allowance based on SRC circulars.
- iv. There were thirty (30) employees who were overpaid health worker allowance totaling Kshs.120,600.
- v. There were employees from defunct local authorities who were overpaid basic salaries totaling Kshs.76,937,674.

- vi. There were employees from defunct local authorities who were irregularly paid extraneous allowances amounting to Kshs.540,000. The employees were not entitled to the allowance based on CBA, 2012.

## **V. Nugatory Expenditure on Compensation of Employees**

- 1.31. The Special Audit established that employees had instituted twenty-six (26) legal suits against the county on employment matters, of which five (5) legal suits had been awarded with payments totaling Kshs.2,561,168. This amount represents avoidable and wasteful expenditure of public funds and has negatively impacted the staff wage bill, as it was not budgeted for in the staff costs.

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

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

- 1.32. Comparison of statutory deductions for employees in the IPPD payroll system with Bank Statements established that bank statements provided for audit revealed that NHIF, NSSF and PAYE deductions from employees were not remitted on time. Similarly, there were twelve (12) employees with no evidence of disability were not being deducted Pay As You Earn, contrary to Section 37(1) of the Income Tax Act, 1973. The total amounts not deducted amounted to Kshs.2,263,749. This exposes the County Executive to penalties, interest and reputational risks, thereby undermining stakeholders' confidence.

#### **II. Other Non-Compliance Issues**

- 1.33. 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.
- 1.34. The audit also noted that there were twelve (12) employees who had attained the retirement age of sixty (60) years, yet they were still active in service. The total amount paid for the extra years amounted to Kshs.998,985. Further, 94%

of the employees in the IPPD System as at 30 June, 2024 were from one dominant ethnic community contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008. In the year 2023/2024, the Board recruited thirty-seven (37) employees, 94% of whom were from the dominant community contrary to Section 65(1)(e) of the County Governments Act, 2012.

- 1.35. Review of data from IPPD system for the period under review revealed that there were employees who were on probation for periods exceeding six (6) months without extension letters. Further, The Special audit established that the county executive was engaging casuals for more than three (3) consecutive months.

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

- 1.36. The Special audit reviewed migration of salary processing from IPPD system to 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**

- 1.37. Comparison between data from IPPD system for the month of November, 2024 and that from HRIS-Ke for the month of December 2024 established instances of overpayment and underpayments of salaries and allowances.

##### **II. Non-Deduction of Statutory Deductions**

- 1.38. The special audit established that upon migration, pension contributions were not deducted for eight hundred and eighty-nine (889) employees, amounting to Kshs.1,872,855, based on the applicable pension deductions for November 2024.

##### **Conclusion**

- 1.39. The Special Audit of payrolls for Nyamira 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:
- 1.40. The County Executive did not comply 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.

- 1.42 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.
- 1.43 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.
- 1.44 The Special Audit identified weaknesses in the recruitment process, including maintaining supporting documents of the recruitments. This weakness increases the risk of mismanagement of payroll funds and undermines the County Public Service Board's ability to exercise oversight, monitor workforce efficiency, and make informed staffing decisions.
- 1.45 The County Executive did not have an approved staff establishment which increases the risk of unauthorized or irregular staff recruitment. This weakness compromises the integrity of payroll processing, and weakens accountability.
- 1.46 The authenticity of some of the employees could not be established. This was evidenced by failure of the Chief Offices to account for employees in their departments, the payroll data Integrity issues and failure by employees to appear for physical verification cast doubt on authenticity of payroll records and raises the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County.

- 1.47 The presence of duplicate payroll entries and payment of irregular and unsupported allowances reflects significant weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of financial misstatements, fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 1.48 The Special Audit identified weaknesses in control of employee's cost. This was evidenced by the unauthorized job group changes, circumventing payroll controls to pay irregular salary Arrears, nugatory expenditure on staff cost Indicates weak financial and human resource controls, exposing the payroll to fraud and abuse.
- 1.49 The County Executive did not comply with tax and labour laws as evidenced by as evidenced by delayed statutory remittances and prolonged engagement of casuals violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.50 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**

- 1.51 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Nyamira County Executive.
- 1.52. To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue, the County Assembly should establish mechanisms to ensure compliance with the PFM Act in the execution of its oversight responsibilities.
- 1.53. 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.

- 1.54. To enhance the attainment of optimal staffing levels, management of the County Executive should have in place an 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.
- 1.55. To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
- 1.56. To ensure no payment is made to non-existent employees, salary payments to all staff who failed to appear for physical verification should be suspended.
- 1.57. To reduce opportunity for process irregular payments by exploiting existing weakness in arrear payments, the management of the County Executive together with that of State Department for Public Service and Human Capital Development should automate the processing of arrears by eliminating manual entry fields and integrating system-based validation rules. This will enhance control, ensure consistency with approved policies, and reduce the risk of irregular or unauthorized payments.
- 1.58. To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.

1.59. All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

## **2. INTRODUCTION AND BACKGROUND**

### **Introduction and Background**

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

2.4 The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2. There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:

- i. Participating counties that have integrated their human resource records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the human resource management information system;
- ii. Participating counties that are enhancing accountability for results through an integrated performance management framework.

2.5 From 2013, the County Executive was using the Integrated Payroll and Personnel Database (IPPD) System to operate payroll for employees with personal numbers, while excel spreadsheets were used to operate payroll for employees without personal numbers. However, due to technological limitations at the time of its development, IPPD did not comprehensively address all human resource related functions. This led to development of a web-based Human Resource Information System-Kenya (HRIS-Ke) in 2024.

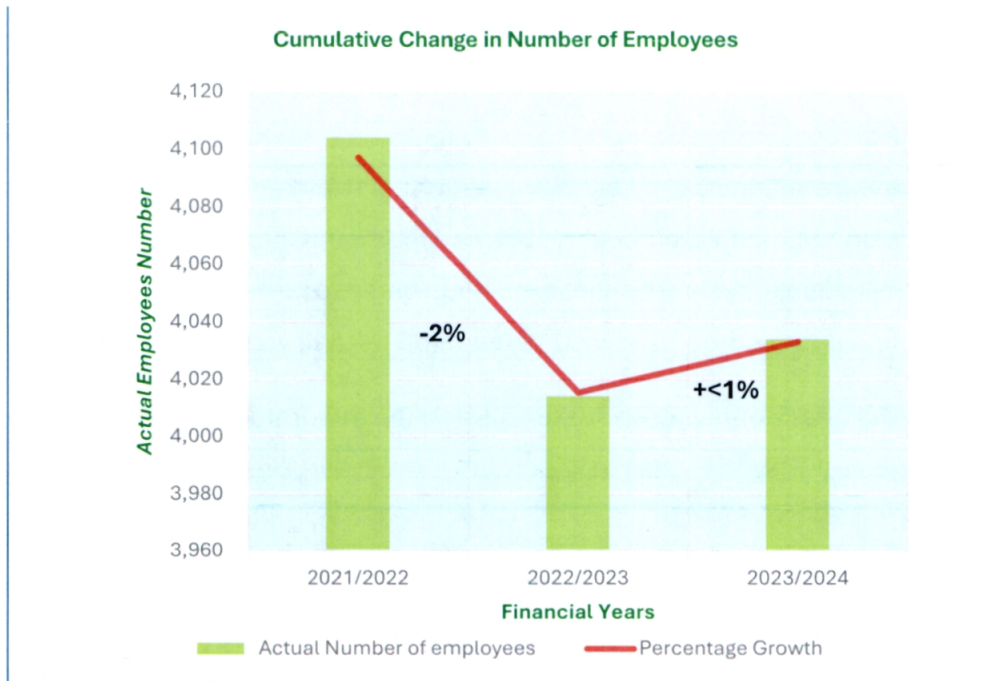
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#### **Numbers of Employees and Payroll Expenditure**

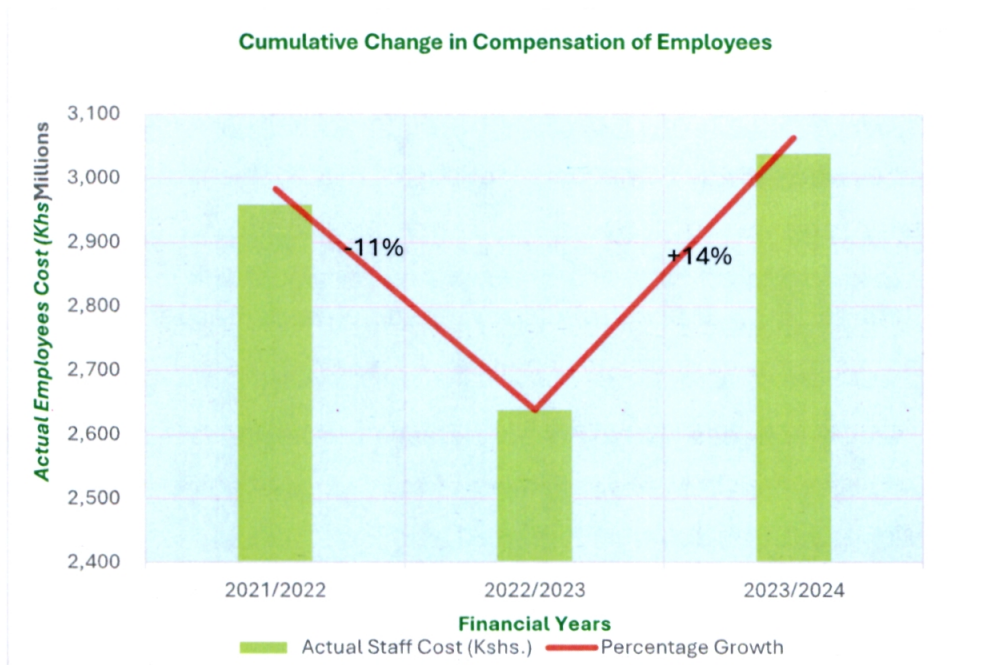
2.7 Over the three (3) year period under review, there was a gradual decrease in the number of employees and slight increase in the payroll costs.

2.8 The overall Employees growth across the audit period was less than 1%. While the cumulative growth in compensation of employees over the three years was approximately 3% as shown in **Figures 1 and 2**.

**Figure 1: Growth Rate of the Number of Employees**



**Figure 2: Growth Rate of Compensation of Employees**



### **Audit Objectives**

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

### **Audit Scope and Limitations**

- 2.10 The Special audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual and casual payrolls.
- 2.11 The audit was carried out in the month of March, 2025
- 2.12 The County Executive did not provide salary control account agreements with the commercial bank. This limitation was mitigated by using data analysis to test the controls.

### **Audit Methodology**

- 2.13 The Special Audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) 4000 for Compliance Audit. These standards require that the audit is planned and performed so as to draw reasonable audit conclusions on the design, implementation and operating effectiveness of internal controls.

### **Methods of Gathering Evidence**

- 2.14 The Special audit of payrolls involved review of payroll processes at the County Headquarters, analysis of payroll data and comparison with records maintained by the County Executive.
- 2.15 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.
- 2.16 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**

- 2.17 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. SRC Circular, Ref No: SRC/TS/CGOVT/3/16, dated 29 July, 2013;
  - vii. SRC Circular, Ref No: SRC/TS/29(81), dated 10 August, 2022;

- viii. Compendium of Remuneration and Benefit for Public Service, dated December 2022 and;
- ix. Collective Bargaining Agreements (CBAs), 2012.

**b) Data Analytics**

- 2.18 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.
- 2.19 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. Payment Schedules;
  - iii. Itemized Budgets for Staff Costs; and
  - iv. Chief Officers Staff Lists for Each Department, as at 30 June, 2024.

**c) Interviews**

- 2.20 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**

- 2.21 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.
- 2.22 The Audit Team, through the County Secretary, requested ninety-three (93) employees to present themselves in person for a physical verification, which was based on initial exceptions from data analytics. This verification was to confirm the existence of staff, their employment status and the accuracy of the staff personal data maintained in the payroll systems.

## **Report Structure**

2.23 The report is organized as follows:

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

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

### 3. DETAILED AUDIT 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 relevant laws and regulations. The following issues were established: -

##### I. Compensation of Employee to Revenue Ratio Exceeded the Set Threshold

- 3.3. Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 requires the County Executive Committee Member for finance with the approval of the County Assembly to set a limit on the county government's expenditure on wages and benefits for its public officers. This is pursuant to section 107(2) of the Public Finance Management Act, 2012. Further, regulation 25(1)(b) requires the limit set not to exceed thirty-five (35) percent of the county government's total revenue.
- 3.4. The Special Audit established that the ratio of budgeted compensation of employee to budgeted revenue exceeded 35% in the three (3) years under audit as shown in **Table I**. This is contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015.

**Table 1: Budgeted Compensation of Employee to Revenue ratio**

Financial Year	Total Budgeted Revenue (Kshs.)	Total Budgeted Compensation of Employees (Kshs.)	Revenue/Expenditure Ratio
2021/2022	6,832,617,659.00	3,012,934,374.00	44%
2022/2023	7,094,885,582.00	2,934,392,469.00	41%
2023/2024	7,282,175,903.00	3,332,485,271.00	46%

\*Source: Audited Financial Statements

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

**Table 2: Compensation of Employees Cost to Budget ratio**

Financial Year	Actual Revenue (Kshs.)	Compensation of employees (Kshs.)	Revenue/Expenditure Ratio
2021/2022	5,177,250,253.00	2,958,585,401.00	57%
2022/2023	5,718,236,200.00	2,637,804,452.00	46%
2023/2024	5,884,949,781.00	3,038,348,148.00	52%

\*Source: Audited Financial Statements

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

**II. Budget Votes in Payrolls Systems were 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 the IPPD System with the approved budget established that the Vote Heads in the IPPD System were not aligned with those in the approved budgets as shown 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. The continued referencing to outdated departmental structures leads to inconsistencies between budgetary allocations and actual payroll expenditures, increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect or obsolete vote heads.

#### **B. Recruitments Process**

- 3.12. 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**

- 3.13. 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, 2015 requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.
- 3.14. The County Executive recruited one thousand two hundred and twenty (1,220) employees during the three financial years. The audit established that the departments which initiated the recruitments did not have annual recruitment

plans to guide the recruitments. Further, no evidence was provided to prove that availability of budgets was sought before the recruitments were initiated.

- 3.15. The lack of annual recruitment plans supported by budgetary provisions can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

**II. Weaknesses in the Recruitment process**

- 3.16. Section 63 of the County Governments Act, 2012 empowers the county public service board to make appointments including promotions in respect of offices in the county public service, at the request of the relevant county chief officer of the department to which the appointment is to be made or on its own motion. Section 65(2) of the act includes fair competition among the overriding factors in determining whether an appointment, promotion or re-designation has been undertaken in a fair and transparent manner. 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. 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
- 3.17. Review of recruitment records maintained by County Service Public Board established that the county recruited one thousand and thirty-one (1031) formal employees during the three (3) years under review as shown in **table 3**.

**Table 3: Recruited Employees**

Year	Department	Recruited Employees	
		Casual	Formal
2021/2022	Various	54	61
2022/2023	Various	55	683
2023/2024	Various	80	287
<b>Total</b>		<b>189</b>	<b>1031</b>

\*Source: County Public Service Board

3.18. Review of the recruitment process established the following internal control weakness:

- i. The County Public Service Board (CPSB) made advertisements for recruitment on 26 March 2021 but did not fill fourteen (14) the advertised positions, despite receiving applications and conducting interviews. Refer to **Annexure 2**.
- ii. Further, the CPSB did not maintain shortlisting and interview minutes for sampled recruitments.
- iii. The audit also noted that there were irregular appointment letters issued to two (2) officers, as evidenced through a Public Service Management letter dated 1 February 2023. These individuals earned a gross salary of Kshs.1,634,876 as detailed **Annexure 3**.

3.19. The weaknesses in the recruitment process, including lack of approvals from the CPSB and inadequate documentation, undermine transparency, accountability, and compliance, increasing the risk of irregular hiring and inefficient use of public resources.

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

3.20. Regulation 22(1)(b) of Public Finance Management (County Governments) Regulations, 2015 requires an Accounting Officer to maintain effective systems of internal control and have measures to ensure their effectiveness. Further, Section B 6(3) of human resource policy, 2016 requires due consideration in the recruitment process be given to appropriate organizational structure in each department, optimal staffing levels, schemes of service and career progression.

3.21. The Special Audit established that the County Executive had a total of three thousand nine hundred and fifty-four (3,954) employees listed in the IPPD system. However, the County Executive did not have an approved staff establishment.

- 2.25 Lack of approved staff establishment raised doubt whether the County Executive filled positions to the required levels, which may lead to inefficiencies in workforce planning, budget overruns and service delivery.

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

- 3.22. 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 Systems.**

- 3.23. Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective. Further, Circular Ref. No: PSC/ ADM/ 13(9) dated 19th 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.
- 3.24. The Special Audit identified six hundred and fifty (650) employees in the IPPD System with inconsistent dates of birth.
- 3.25. Interview with a sample of six-one (61) employees and verification of their identification documents established that the dates captured in the IPPD System for thirty-seven (37) employees were different from those in employees' Birth Certificates as detailed in **Annexure 4**. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).
- 3.26. 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.
- 3.27. The 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. There is also the risk of miscalculation of retirement dates and pension dues of employees, as well as other entitlements that are calculated based on age.

## II. Integrity of National ID Numbers Captured in the Payroll Systems

- 3.28. The Special Audit identified seven (7) officers whose ID numbers were incorrectly recorded in the IPPD System. The verification confirmed that the ID numbers captured in the payroll system were not due to errors in the official documents, as the personal files and physical ID copies provided by the officers were consistent. Refer to **Annexure 5**.
- 3.29. The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the correction was done. As a result, at the time of audit, the HRIS-Ke had similar erroneous ID number.
- 3.30. Erroneously captured ID numbers in the payroll system may lead to inaccurate employee records, potential payroll fraud, and challenges in statutory remittances and employee verification.

## III. Drawing Salary from Different Government Entities

- 3.31. Section 149(1) of the Public Finance Management Act, 2012 imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is (a) lawful and authorized, and (b) effective, efficient, economical and transparent.
- 3.32. The Special Audit established that in the 2023-2024 financial year, one (1) employee had been engaged by both Nyamira County Executive and Teachers Service Commission (TSC). During the period of dual engagement, the officer received a gross salary of Kshs.125,650 from the County Executive and Kshs.120,000 from TSC as detailed in **Annexure 6**.
- 3.33. Interviews with the affected staff indicated that they were initially employed by Nyamira County Executive before transitioning to TSC without completing the proper exit process. Consequently, their salaries were paid by both entities.

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

- 3.34. Section 148(1) of Public Finance Management Act, 2012 requires a County Executive Committee member for finance to, except as otherwise provided by law, in writing designate accounting officers to be responsible for managing the finances of the county government entities as is specified in the designation. Further, Sub-Section (2) requires the person responsible for the administration of a county government entity to be the accounting officer responsible for managing the finances of that entity except as otherwise stated in other legislation.
- 3.35. The Letter of Engagement addressed to the County Secretary for the in-depth audit of payroll, dated 13 February 2025, ref: OAG/SAS/SADS/KDSP-PAYROLL/3/046 required Chief Offices (COs) to provide list of staff members in their department as at 30 June 2024. This list was to be compared with employees in the Payroll Systems.
- 3.36. The Special audit established that there were thirty-two (32) employees in the Chief Officers' who were not in the IPPD system as detailed in **Annexure 7**. Further, there were fifty (50) employees, who were in the IPPD System but not in the lists provided by Cos. During the three (3) financial years under audit, the fifty (50) employees collectively received payments amounting to Kshs.25,565,690 as detailed in **Annexure 8**.
- 3.37. The employees who did not present themselves for who did not appear in COs list may not exist, raising the risk of irregular or fraudulent payments.

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

- 3.38. The Office of the Auditor-General requested for a physical verification of sampled staff via the letter Ref OAG/SA/SADS/KDSP-PAYROLL/4/046 dated 06 March 2025, addressed to the County Secretary of the County Executive, the Nyamira County Executive.
- 3.39. The letter requested eight-one (81) employees to present themselves for physical verification. However, eleven (11) did not present themselves, despite

multiple attempts to reach out to them. During the period under review, the eleven (11) employees collectively received gross salary amounting to Kshs.14,551,406, as detailed in **Annexure 9**.

- 3.40. The employees who did not present themselves for physical verification may not exist, raising the risk of irregular or fraudulent payments.

#### **D. Payroll processing and payments**

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

##### **I. Charging of Employee Costs to the Wrong Budget Vote**

- 3.42. Regulation 22(1)(b) of Public Finance Management (County Governments) Regulations, 2015 requires an Accounting Officer to maintain effective systems of internal control and have measures to ensure their effectiveness.
- 3.43. The Special Audit established that the personal emolument budget in the IPPD System was configured based on 12 departments. Comparison of gross salary processed through the IPPD System, and casual payroll with salary ledgers from Integrated Financial Management Information System (IFMIS) established the vote head configured in the IPPD system were different and less from those in IFMIS. As a result, charging of salary in IFMIS was not done as per respective departments. In IFMIS, personnel emoluments were charged under 16 departments. Refer to **annexure 10**.
- 3.44. This misalignment creates inconsistencies between budget allocations and actual expenditures by departmental, therefore increasing the risk of misuse of funds.

##### **II. Irregular Appointment and Re-designation**

- 3.45. Section 65(1) of the County Governments Act, 2012 set out factors County Public Service Board should consider in selecting candidates for appointment. Further section 65(2) specifies merit as one of the overriding factors in determining

whether appointment, promotion or re-designation are undertaken in a fair and transparent manner.

- 3.46. Analysis of payroll data and verification of records maintained by the County Executive established that there were ninety-four (94) employees who were either re-designated, or appointed during the three (3) financial year under audit without meeting the requirements set in respective schemes of service. Refer to **Annexure 11**.
- 3.47. Irregularities promotions and re-designations undermine the principles of fairness and transparency in human resource management and may expose the County Executive to legal disputes, employee dissatisfaction, and potential financial loss.

### **III. Payment of Arrears**

- 3.48. Article 201 of the Constitution of Kenya, 2010 on principles of public finance require accountability in financial matters, responsible financial management and use of public money in a prudent and responsible way.
- 3.49. Section 149(1) of the Public Finance Management Act, 2012 imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is lawful and authorized, and effective, efficient, economical and transparent. Further, Regulation 120(3) of the Public Finance Management (County Governments) Regulations, 2015 requires the accounting officer to certify the correctness of the payroll at least once every month.
- 3.50. During the three years (3) period under review, the County Executive paid salary and allowances as arrears totaling Kshs.258,731,097 with dedicated earning codes in the IPPD system. Further review of the allowances established the following:
- 3.51. The Special Audit established that there were ECDE teachers who received monthly gross pay as arrears and other allowances in arrears, despite not qualifying for such payments under their terms of engagement. The total amount paid irregularly was Kshs.2,164,895. Refer to **Annexure 12**.

- a. There were two (2) health workers who were irregularly paid arrears in both extraneous allowances, and health extraneous allowance in arrears. The total amount paid irregularly was Kshs.302,170. Further, there was one (1) staff from education department who was irregularly paid health extraneous allowance arrear amounting to Kshs.35,000. Refer to **Annexure 13**.
- b. There were forty-five (45) officers who received monthly gross in arrears, despite not qualifying for the allowance under their terms of engagement. The total amount paid irregularly was Kshs.4,652,702. Refer to **Annexure 14**.

#### **IV. Irregular Payment and Overpayment of Allowances**

- 3.52. 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. The compendium of Remuneration and Benefits for Public Service dated December 2022 outlined Remuneration and Benefits for Public Officers serving in the County Government Executive.
- 3.53. Collective Bargaining Agreement between the Association of Local Government Employers and Kenya Local Government Workers Union National Joint Negotiating Council incorporating all Local Authorities in Kenya of 01 September, 2012 (The Collective Bargaining Agreement (CBA), 2012) defines 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.
- 3.54. An analysis of payroll data and comparison of salary and allowance processed through the IPPD System and Manual payrolls with respective rates stipulated in SRC circulars revealed the following anomalies:

**a. Irregular payment of special salary with other allowances**

3.55. There were six (6) employees in the 2021/2022 financial year who were irregularly paid special salary together with other allowances totaling Kshs.2,218,750. Refer **Annexure 15**.

**b. Irregular payment of both the Extraneous and Health Extraneous allowance**

3.56. There were four (4) employees who were irregularly paid extraneous allowances and health extraneous allowance totaling Kshs.1,123,161 as summarized in **table 4** and detailed in **Annexure 16**.

**Table 4: Earning both the Extraneous and Health Extraneous allowance**

Financial Year	Number of employees	Amount irregularly paid (Kshs)
2021/2022	3	659,161
2022/2023	1	35,000
2023-2024	1	429,000
<b>Total</b>		<b>1,123,161</b>

\*Source: IPPD Payroll System

**c. Irregular Payment of Extraneous allowances**

3.57. There were five (5) employees in the 2023/2024 financial year who were irregularly paid extraneous allowance totaling Kshs.825,000. The employees were not entitled to the allowance based on SRC circulars. Refer to **Annexure 17**.

**d. Overpayment of Health Risk allowance**

3.58. There were thirty (30) employees who were overpaid paid health worker allowance totaling Kshs.120,600 as summarized in **table 5** and detailed in **Annexure 18**.

**Table 5: Overpayment of Health Risk allowance**

Financial Year	Number of employees	Amount irregularly paid (Kshs)
2021/2022	30	42,000
2022/2023	24	42,150
2023-2024	21	36450
<b>Total</b>		<b>120,600</b>

\*Source: IPPD Payroll System

**e. Overpayment of basic salary**

- 3.59. There were one hundred and forty (140) employees from defunct local authorities who were overpaid basic salaries totalling Kshs.76,937,674 as summarized in **table 6** and detailed in **Annexure 19**.

**Table 6: Overpayment of basic salary**

Financial Year	Number of employees	Amount irregularly paid (Kshs)
2021/2022	140	28,282,324
2022/2023	121	25,133,129
2023-2024	103	23,522,221
<b>Total</b>		<b>76,937,674</b>

\*Source: IPPD Payroll System

**f. Irregular Payment of Extraneous Allowance**

- 3.60. There was one (1) employee from defunct local authorities who were irregularly paid extraneous allowances amounting to Kshs.540,000 as summarized in **table 7** and detailed **Annexure 20**. The employees were not entitled to the allowance based on CBA, 2012.

**Table 7:Irregular Payment of Extraneous Allowance**

Financial Year	Number of employees	Amount irregularly paid (Kshs)
2021/2022	1	180,000
2022/2023	1	180,000
2023-2024	1	180,000
<b>Total</b>		<b>540,000</b>

\*Source: IPPD Payroll System

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

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

### **I. Non-Deduction of Pay As You Earn**

- 3.62. Section 37(1) of the Income Tax Act requires an employer paying emoluments to an employee to deduct therefrom, and account for tax thereon, to such extent and in such manner as may be prescribed.
- 3.63. The Special Audit established twelve (12) employees with no evidence of disability were not being deducted Pay As You Earn, contrary to Section 37(1) of the Income Tax Act, 1973. There The total amounts not deducted amounted to Kshs.2,263,749. Refer **Annexure 21**.

### **II. Late Remittance of Statutory Deductions.**

- 3.64. Rule 10(1) of Income Tax (P.A.Y.E) Rules. 1973 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.
- 3.65. Section 15(4) 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.
- 3.66. Section 20(1)(A) of National Social Security Fund Act, 2013 an employer is required to pay the contribution under subsection (1) on the ninth day of each month.
- 3.67. Comparison of statutory deductions for employees in the IPPD System with Bank Statements established that NHIF, NSSF and PAYE deductions from employees were not remitted on time. Refer to **Annexure 22**. The delay ranged from one (1) day to fifty (50) days.

- 3.68. The failure to deduct and remit statutory deductions or their late remittance exposes the County Executive to penalties, and legal sanctions while also denying employees their lawful benefits and protections.

### **III. Active Staff Above age 60 years**

- 3.69. Section 80 of the County Governments Act provides that the mandatory retirement age for a county public officer generally or for any category of public officers, shall be prescribed by policy of the national government. The policy of the national government on retirement age is prescribed in regulation 70 (1) of the Public Service Commission Regulations, under which the mandatory retirements age in the public service is sixty years and sixty-five for persons with disability.
- 3.70. Analysis of data from the IPPD System revealed that there were twelve (12) employees who had attained the retirement age of 60 years, yet they were still active in service. The total amount paid for the extra years amounted to Kshs.998,985. Refer to **Annexure 23**.
- 3.71. The retention of employees beyond the retirement age contravenes the public service regulations and undermines succession planning.

### **IV. Non-Compliance with Requirements in Ethnic Diversity**

- 3.72. 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.
- 3.73. Section 65(1)(e) of the County Governments Act, 2012 require 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.
- 3.74. Analysis of employees in the IPPD system as at 30 June 2024 established that 94% 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.

Further in the year 2023/2024, the Board recruited two hundred and eighty-seven (287) employees, 94% of whom were from the same dominant community, Contrary to Section 65(1)(e) of the County Governments Act, 2012.

#### **V. Delay in Confirmation of Staff on Probation**

- 3.75. Section B.18 (1) of the Public Service Commission Human Resource Policies and Procedures Manual, 2016 requires an officer appointed to the Service in a pensionable post to be confirmed in appointment and admitted into the permanent and pensionable establishment on completion of probationary period of six (6) months satisfactory service.
- 3.76. Review of data from the IPPD System for the period under review revealed that there were employees who were on probation for periods exceeding six (6) months. Refer to **Annexure 24**.
- 3.77. Failure to confirm staff in a timely manner may affect employee morale, career progression, and retention, and may result in reduced productivity.

#### **VI. Non-Compliance with One Third Basic Salary Rule**

- 3.78. 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.
- 3.79. Analysis of the payroll for the month of June 2024 established that there were four hundred and eight-three (483) employees who were paid net salaries less than one-third of their basic salaries. Refer to **Annexure 25**.
- 3.80. The employees earning less than one-third of their basic salary may be unable to meet their personal financial obligations. This may adversely affect their productivity, decision-making, and ability to effectively safeguard county interests.

#### **VII. Casuals Engaged Beyond Stipulated Period**

- 3.81. 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.

- 3.82. The Special Audit established that there were fifty-four (54) casual workers in 2021-2022, fifty-five (55) in 2022-2023 and one hundred and one (101) in 2023-2024, who were engaged for more than three (3) consecutive months. The total amount paid to the workers amounted to Kshs.17,163,817. Refer **Annexure 26**.
- 3.83. Engagement of casual workers continuously for more than three months without formalizing their employment contravenes the section 31(1) of the Employment Act, 2007, and exposes the County to legal liability, potential claims for regularization, and increased wage-related disputes.

#### **VIII. Casual paid below the basic minimum daily wages rate**

- 3.84. The schedule in the Regulation of Wages (General)(Amendment) Order, 2018 amended the Regulation of Wages (General) Order and prescribed a minimum wage of 367 shillings per day for all other areas (outside Nairobi, Mombasa, Kisumu, Mavoko, Ruiru and Limuru).
- 3.85. Analysis of the casual payrolls for the year 2021/2022 established that, there were thirty-one (31) casual staff who were paid at daily rate of KSh.295 contrary to the stipulated rate of KSh.367 resulting to an underpayment of Kshs.428,544. Refer to **Annexure 27**.

#### **IX. Nugatory Expenditure on Compensation of Employees**

- 3.86. Regulation 158 (1)(a) of the Public Finance Management (County Governments) Regulations, 2015 require Accounting Officers to ensure that the County Government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.
- 3.87. The Special Audit established that employees had instituted twenty-six (26) legal suits against the county on employment matters, of which five (5) legal suits had been awarded with payments totaling Kshs.2,561,168. This amount represents avoidable and wasteful expenditure of public funds and has negatively impacted

the staff wage bill, as it was not budgeted for in the staff costs. Refer to **Annexure 28**.

- 3.88. This amount represents an avoidable and wasteful expenditure of public funds and has negative impacted on the staff wage bill.

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

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

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

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

- 3.91. Comparison between data from the IPPD System for the month of November, 2024 and that from HRIS-Ke for the month of December 2024 established instances of overpayment and underpayments of salaries and allowances as shown in **table 8** and detailed in **Annexure 29**.

**Table 8: overpayment and underpayments of salaries and allowances**

Allowance	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount	Number of Employees	Amount
Health risk Allowance	1	2,000	184	950,000
Commuter Allowance	2	4,000		
special salary	2	12,980		
Health extraneous	42	438,387		
<b>Total</b>		<b>457,367</b>		<b>950,000</b>

\*Source: IPPD and HRIS-Ke Payroll Systems

## II. Non-Deduction of Statutory Deductions

- 3.92. Regulation 120(3) of the Public Finance Management (County Governments) Regulations 2015 requires the accounting officer to certify the correctness of the payroll at least once every month.
- 3.93. The Special Audit established that upon migration, pension contributions were not deducted for eight hundred and eighty-nine (889) employees, amounting to Kshs.1,872,855, based on the applicable pension deductions for November 2024 as detailed in **Annexure 30**.

#### 4. CONCLUSION

- 4.1. The Special Audit of payrolls for Nyamira 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 County Executive did not comply with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3. The Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control, resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.4. The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of annual recruitment plans demonstrates ineffective workforce planning 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.
- 4.5. The Special Audit identified weaknesses in the recruitment process, including maintaining supporting documents of the recruitments. This weakness increases the risk of mismanagement of payroll funds and undermines the County Public Service Board's ability to exercise oversight, monitor workforce efficiency, and make informed staffing decisions.

- 4.6. The County Executive did not have an approved staff establishment which increases the risk of unauthorized or irregular staff recruitment. This weakness compromises the integrity of payroll processing, and weakens accountability.
- 4.7. The authenticity of some of the employees could not be established. This was evidenced by failure of the Chief Offices to account for employees in their departments, the payroll data Integrity issues and failure by employees to appear for physical verification cast doubt on authenticity of payroll records and raises the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County.
- 4.8. The presence of duplicate payroll entries and payment of irregular and unsupported allowances reflects significant weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of financial misstatements, fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 4.9. The Special Audit identified weaknesses in control of employee's cost. This was evidenced by the unauthorized job group changes, circumventing payroll controls to pay irregular salary Arrears, nugatory expenditure on staff cost Indicates weak financial and human resource controls, exposing the payroll to fraud and abuse.
- 4.10. The County Executive did not comply with tax and labour laws as evidenced by as evidenced by delayed statutory remittances and prolonged engagement of casuals violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 4.11. The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

## 5. RECOMMENDATIONS

- 5.1. In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Nyamira County Executive.
- 5.2. To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue, the County Assembly should establish mechanisms to ensure compliance with the PFM Act in the execution of its oversight responsibilities.
- 5.3. For effective management of departmental budgets and 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.
- 5.4. To enhance the attainment of optimal staffing levels, management of the County Executive should have in place an approved staff establishment and ensure consistency between authorized positions and personnel data. Additionally, the staff establishment module in the HRIS-Ke should be fully implemented and configured to enforce recruitment strictly within the approved establishment limits.
- 5.5. To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
- 5.6. To ensure no payment is made to non-existent employees, salary payments to all staff who failed to appear for physical verification should be suspended.

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

## 6. APPENDIXES

### Annexure 1: List of Staff interviewed

Designation	Department
County Secretary	Governor's office
CECM PSM	Public Service and Administration
Chief PSM	Public Service and Administration
Chair CPSB	CPSB
DHRM CPSB	CPSB
CEO CPSB	CPSB
Manager payroll	Public Service and Administration
Supervisor payroll	Public Service and Administration

### Appendix 2: List of Annexures

The annexures referenced in the report and which are listed below will be provided in soft copies.


No	Appendix	Title
1	<b>Annexure 1</b>	Budget Votes in Payrolls Systems not Aligned with those in Approved Budget.
2	<b>Annexure 2</b>	Failure to Fill Advertised Vacancies
3	<b>Annexure 3</b>	Irregular appointment letters
4	<b>Annexure 4</b>	Integrity of Date of Birth Records in the Systems.
5	<b>Annexure 5</b>	Errors in National ID Numbers Captured in the IPPD System
6	<b>Annexure 6</b>	Drawing Salary from different Government Entities
7	<b>Annexure 7</b>	Staff in CO's List but not in the June 2024 Payroll
8	<b>Annexure 8</b>	Staff in June 2024 Payroll but not in CO's List.
9	<b>Annexure 9</b>	Staff who did not appear for physical appears
10	<b>Annexure 10</b>	Charging of Employee Costs to the Wrong Budget Vote
11	<b>Annexure 11</b>	Irregular Promotions and Appointments
12	<b>Annexure 12</b>	staff who received monthly gross pay as arrears and not entitled to
13	<b>Annexure 13</b>	Paid arrears in both extraneous allowances, and health extraneous allowance in arrears
14	<b>Annexure 14</b>	staff who received monthly gross pay as arrears and not entitled to
15	<b>Annexure 15</b>	Irregular payment of special salary with other allowances
16	<b>Annexure 16</b>	Earning both the Extraneous and Health Extraneous allowance
17	<b>Annexure 17</b>	Irregular Payment of Extraneous allowances


18	<b>Annexure 18</b>	Staff irregular earning Health risk allowance above the set limits
19	<b>Annexure 19</b>	Overpayment of basic salary
20	<b>Annexure 20</b>	Staff who are not paying special need (PAYE)
21	<b>Annexure 21</b>	Non-Compliance with Deduction and Remittance of Statutory Deductions
22	<b>Annexure 22</b>	Non-Compliance with Remittance of Statutory Deductions
23	<b>Annexure 23</b>	Staff over 60 years in the payroll
24	<b>Annexure 24</b>	Delay in Confirmation of Staff on Probation
25	<b>Annexure 25</b>	Non-Compliance with One Third Basic Salary Rule
26	<b>Annexure 26</b>	Delay in Confirmation of Staff on Probation
27	<b>Annexure 27</b>	Casual paid below the basic minimum daily wages rate
28	<b>Annexure 28</b>	Other Nugatory expenditure on staff cost
29	<b>Annexure 29</b>	Under and over payment of salary or allowances
30	<b>Annexure 30</b>	ECDE not deducted pension


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