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

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FOREWORD BY THE AUDITOR-GENERAL

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

The Special Audit evaluated the human resource and payroll processes at the Kisumu 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 Kisumu 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 Kisumu County Public Service Board and the Governor, Kisumu County Government.

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

8 July, 2025

TABLE OF CONTENTS

List of Figures.....	iii
List of Tables	iii
ABBREVIATIONS.....	iv
1. EXECUTIVE SUMMARY	1
Conclusion	10
Recommendations	12
2. INTRODUCTION AND BACKGROUND	14
Introduction and Background.....	14
Audit Objectives.....	17
Audit Scope and Limitation	17
Audit Methodology.....	18
Methods of Gathering Evidence.....	18
3. DETAILED FINDINGS	21
A. Payroll Budgeting	21
B. Recruitments Process.....	23
C. Employee Data Management.....	26
D. Payroll Processing and Payments	28
E. Compliance with Laws and Regulations	32
F. Migration from Integrated Payroll and Personnel Database System to Human Resource Information System-Kenya	34
4. CONCLUSION.....	36
5. RECOMMENDATIONS.....	38
6. APPENDICES	40
Appendix 1: List of Staff interviewed	40
Appendix 2: List of Annexures.....	40

List of Figures

Figure 1: Cumulative Growth in Number of Employees.....	16
Figure 2: Cumulative Growth in Employee Cost.....	16

List of Tables

Table 1: Budgeted Employee Cost to Budgeted Revenue Ratio.....	22
Table 2: Actual Employee Cost to Revenue Ratio	22
Table 3: Over-Establishment of Staff.....	26
Table 4: Over/Underpayment of Allowances	35

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
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 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 Kisumu County Executive (the County Executive) was conducted in line with this mandate.
- 1.2 The Government of Kenya (GoK) received an International Development Association (IDA) Credit of EUR140.7 million (Approximately Kshs.19,538,432,130 using the prevailing exchange rate as at 28 June 2024) from the World Bank, to implement the Second Kenya Devolution Support Program (KDSP II). KDSP II supports a sub-set of reforms envisaged under the Government's Devolution Sector Plan. The financing agreement, Credit Number IDA-7447-KE, became effective in March 2024 and is set to be implemented over a four-year period; 2023-2027. The development objective of the KDSP II is to strengthen county performance in the financing, management, coordination, and accountability for resources. To achieve the DO, the Program was expected to improve outcomes in the participating counties under three (3) Key Result Areas (KRAs). KRA 1 was on sustainable financing and expenditure management, KRA 2 on intergovernmental coordination, institutional performance, and human resource management, and KRA 3 on oversight, participation, and accountability.
- 1.3 The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2. There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:

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

Audit Objectives

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

- v. Evaluate adherence to tax laws, labour laws, and other statutory requirements.
- 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 the following information related to the recruitment process:- Recommendations by the County Human Resource Management Advisory Committee (CHRMAC) on departmental recruitment requests; deliberations and decisions by the County Public Service Board (CPSB) regarding the recruitment; confirmation of budget allocations for the recruitment process; reference to the approved staff establishment indicating the positions being filled; and supporting documentation, including the list of applicants, shortlisting minutes, interview minutes, and appointment minutes. This limitation was mitigated by using data analysis to test the controls.

Methods of Gathering Evidence

- 1.9 The Special Audit on Payroll Management involved review of payroll processes at the County Headquarters, analysis of payroll data and comparison with records maintained by the County Executive.
- 1.10 The methods used to gather audit evidence included document review, data analytics, interviews with key payroll staff and physical verification of staff. Further, audit evidence was gathered through walk through tests. In addition, data validation was also conducted to test data integrity.

Summary of Findings

The key audit findings are as follows:

A. Payroll Budgeting

I. Employee Cost to Revenue Ratio Exceeding Set Threshold

- 1.11 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. This is contrary to Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015. 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. 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 Payrolls Systems not Aligned with those in Approved Budget

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

B. Recruitments Process

I. Lack of Annual Recruitment Plans

- 1.13 During the period under audit review, the County Executive recruited six hundred and sixty-five (665) employees. However, it was established that the recruiting departments did not have annual recruitment plans to guide the recruitments. Further, no evidence was provided to prove that budgetary availability was sought before 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

- 1.14 The recruitment process revealed several weaknesses. Although the County Executive had advertised the vacant positions on its official website, the County Public Service Board did not provide essential recruitment documents to support the recruitment of employees for the three financial years under review.

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

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

IV. Over Establishment of Staff

- 1.16 The County Executive had an approved staff establishment dated August 2023. A comparison between the staff establishment and the payroll data as at 30 June 2024 revealed that the County Executive had more staff in certain cadres than what was approved in the staff establishment.

C. Employee Data Management

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

- 1.17 The Special Audit identified five hundred and ninety (590) employees that had inconsistent date of birth.
- 1.18 Interview with a sample of fifty-one (51) employees and verification of their identification documents established that the dates captured in the IPPD System for seventeen (17) 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 Identification and Tax PIN Data in the Payroll Systems

- 1.19 The Special Audit identified fifteen (15) employees with inconsistent national identification numbers.
- 1.20 Interview with a sample of fourteen (14) employees and verification of their identification documents established that the national identification numbers captured in the IPPD System and the HRIS-Ke for ten (10) employees were different from those in employees' national identification documents.

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

- 1.21 The Chief Officers (COs) were requested to provide a list of staff members in their respective departments as at 30 June, 2024. This list was to be compared with records of employees in the payroll systems maintained by the County Executive.
- 1.22 A Comparison of the staff lists countersigned by various Chief Officers with staff register from the IPPD System, established that there were one hundred and forty (140) employees appearing on the Chief Officer's lists but not in the IPPD System. Further, there were thirty-two (32) employees in the IPPD System that were not in the staff lists provided by the Chief Officers. The thirty-two (32) employees were paid Kshs.5,322,632 during the period under review.

IV. Use of Manual Payroll

- 1.23 During the period under review, the County Executive was operating manual payrolls in addition to the IPPD System and the HRIS-Ke. The salary processed through the manual payroll amounted to Kshs.19,002,698. The use of manual payroll systems for salary processing is vulnerable to manipulation and fraud, potentially resulting in unauthorized payments and disbursements to unverified personnel.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Budget Vote

- 1.24 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. Employees in Both IPPD and Manual Payrolls

- 1.25 A Comparison between manual payrolls and the IPPD System generated data revealed that there were eight (8) employees in 2022/2023 financial year and twelve (12) employees in 2023/2024, whose salaries were processed through both payroll Systems. A total of Kshs.1,483,230 was paid through IPPD System and Kshs.1,859,580 was paid through manual payroll System.

III. Irregular Promotions

i. Accelerated Promotion

- 1.26 The Special Audit established that promotion for four hundred and four (404) officers in 2022/2023 financial year and forty-three (43) in 2023/2024, were not done in accordance with relevant schemes of service resulting to the officers skipping job groups.
- 1.27 The Audit further established that twelve (12) employees who were promoted during the financial year 2022/2023 did not have supporting documentation, such as promotion letters or any other official authorization validating the change in job group.

ii. Irregular Job Group Changes

- 1.28 The Special Audit established that ten (10) employees were irregularly promoted to higher job groups without following due process. However, the changes were subsequently reversed following an internal payroll audit, and recovery of the

overpaid amounts was initiated. This incident highlights significant weaknesses in internal control processes related to the management of job group changes.

IV. Inadequate Recovery of Outstanding Salary Overpayments

- 1.29 The Special Audit established that as at June 2024, two (2) employees had outstanding overpayment balances totaling Kshs.1,815,730. However, the monthly deductions being made were insufficient to fully recover the amounts before the employees exit service.

V. Payment of Special Duty Allowance for more than 6 Months

- 1.30 The Special Audit established that fourteen (14) and sixteen (16) employees were paid Special Duty Allowance for periods exceeding six months, totaling to Kshs.1,511,245 and Kshs.1,765,274 in 2021/2022 and 2022/2023 financial years respectively, contrary to Section C.15(1) of the Public Service Commission-Human Resource Policies and Procedure Manual (2016).

VI. Irregular Payment of Extraneous Allowance

- 1.31 The Special Audit established that Extraneous Duty Allowances totaling Kshs.8,270,161, Kshs.10,500,387, and Kshs.9,800,483 were paid to one hundred and two (102), one hundred and forty-five (145), and one hundred and sixteen (116) employees in the 2021/2022, 2022/2023, and 2023/2024 financial years respectively.
- 1.32 The audit further established that Extraneous Duty Allowance paid in arrears totaling Kshs.5,145,000, Kshs.762,000, and Kshs.3,430,483 were paid to forty-one (41), nine (9), and fifty-two (52) employees in the 2021/2022, 2022/2023, and 2023/2024 financial years respectively.
- 1.33 This was contrary to eligibility criteria stipulated In the Compendium of Remuneration and Benefits for Public Service of December 2022 that extraneous allowance is payable only to Secretaries, Drivers, and Security Officers attached to the offices of the Governor and Deputy Governor.

E. Compliance with Laws and Regulations

I. Non-Compliance to Remittance of Statutory Deductions

- 1.34 A comparison of statutory deductions for employees in the IPPD payroll system with bank statements established cases of delay in remittance of statutory deductions. The delay ranged from one (1) day to one hundred and ninety (190) days.

II. Non-Compliance with Requirement on Ethnic Diversity

- 1.35 The Special Audit established that 87.6% of employees in the IPPD System as at 30 June, 2024 were from one dominant ethnic community. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008.

III. Other Nugatory Expenditure on Staff Cost

- 1.36 The Special Audit established that the County Executive incurred Kshs.3,300,000 as interest on overdraft facilities, which resulted from an arrangement between the County Executive and Kenya Commercial bank for payment of salaries in 2023/2024 financial year. This amount represents an avoidable and wasteful expenditure of public funds and has negative impact on the staff wage bill as it is not budgeted for in the staff cost.

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

- 1.37 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

- 1.38 The Special Audit of payrolls management for the Kisumu County Executive revealed several audit issues, with significant implications to financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 1.39 The County Government did not comply with requirement on limiting the Employee Cost within thirty-five percent (35%) of Revenue. This indicates weaknesses in budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 1.40 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.
- 1.41 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of the 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 have an impact on the budget.
- 1.42 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, incorrect national identification numbers, inconsistent tax PINs, employees drawing salary from different government entities and the use of manual payrolls. This indicates weak payroll controls, including lack of data validation controls.
- 1.43 The authenticity of some of the employees could not be established. This was evidenced by the failure of the Chief Officers to account for employees in their

departments. These cast doubt on the authenticity of payroll records and raise the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive.

- 1.44 The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances and non-compliance with requirement on ethnic diversity. Additionally, the County Executive also incurred nugatory cost on staff cost expenditure. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

Recommendations

- 1.45 In view of the findings and conclusions of the Special Audit, the following is recommended to the Kisumu County Government;
- 1.46 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five (35%) percent of the County Executive's total revenue the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 1.47 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer for Public Finance together with the Management of the State Department for Public Service and Human Capital Development (the custodian of the Human Resource Information System-Kenya) should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 1.48 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.
- 1.49 To ensure that no payments are made to non-existent employees, salary payments to all staff who were not accounted for by the respective Chief Officers should be

investigated. The payroll system and departmental staff lists should also be updated accordingly.

- 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.
- 1.51 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 of the Kisumu County Executive (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 an increase in the number of employees and payroll costs.
- 2.7 The overall staff growth across the audit period was 15% while the cumulative growth in payroll costs over the three (3) years was approximately 4% as shown in **Figures 1 and 2**.

Figure 1: Cumulative Growth in Number of Employees

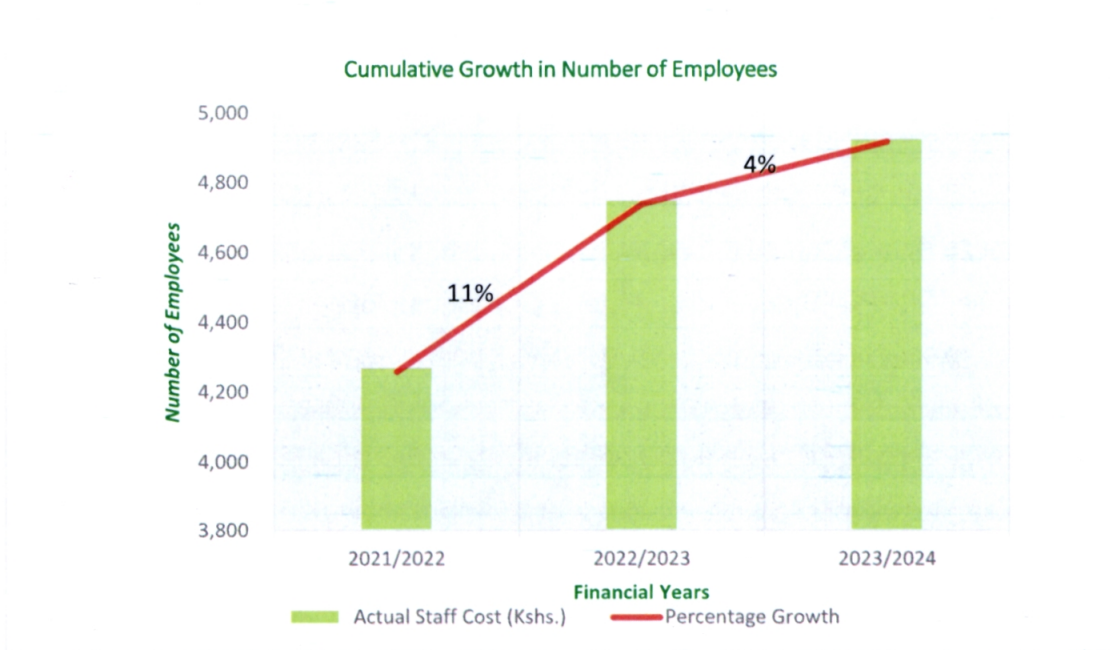
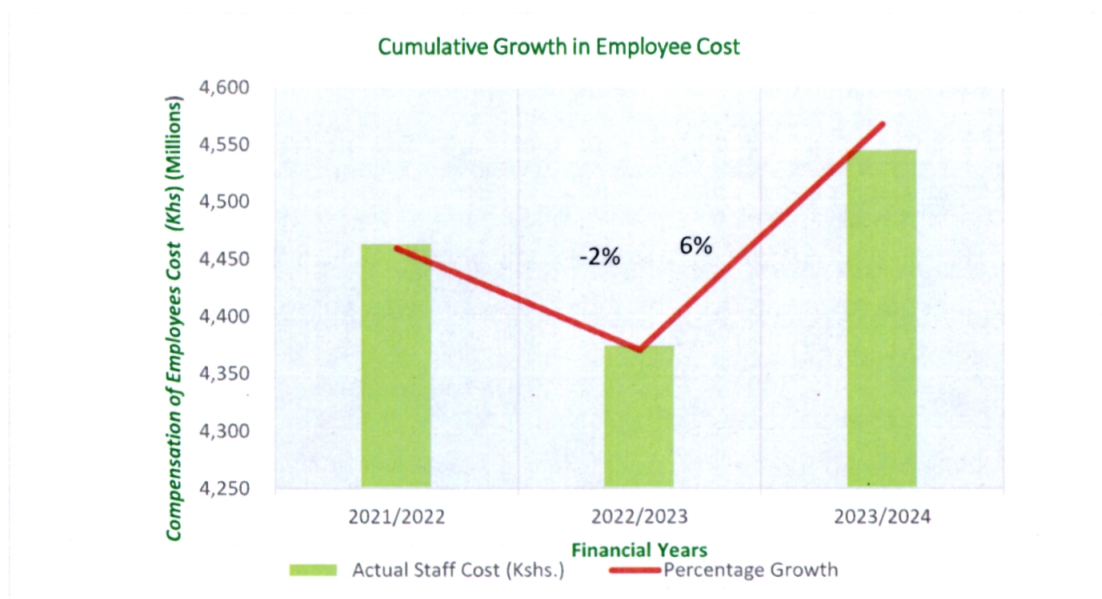


Figure 2: Cumulative Growth in Employee Cost



Audit Objectives

- 2.8 The overall objective of the Special Audit of payrolls was to evaluate the accuracy, compliance, and efficiency of payroll processes, ensuring proper compensation, adherence to regulations, and safeguarding against errors. 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 Limitation

- 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 January, 2025.
- 2.11 The County Executive did not provide the following information related to the recruitment process: Recommendations by the County Human Resource Management Advisory Committee (CHRMAC) on departmental recruitment requests; deliberations and decisions by the County Public Service Board (CPSB)

regarding the recruitment; confirmation of budget allocations for the recruitment process; reference to the approved staff establishment indicating the positions being filled; and supporting documentation, including the list of applicants, shortlisting minutes, interview minutes, and appointment minutes. This limitation was mitigated by using data analysis to test the controls.

Audit Methodology

- 2.12 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

- 2.13 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 Management.
- 2.14 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

- 2.15 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 Government 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.
- ix. Approved Staff Establishments, 2023; and
- x. Collective Bargaining Agreements (CBAs), 2012.

b) Data Analytics

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

c) Interviews

- 2.18 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 are as listed in **Appendix 1**.

d) Physical Verification of Staff

- 2.19 The Audit Team requested all the Chief Officers to provide countersigned list of staff members in their departments as at 30 June, 2024. This list was corroborated with the IPPD staff registers maintained in the County Executive.
- 2.20 The Audit Team through the County Secretary, requested sixty-five (65) 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

2.21 The report is organized as follows:

- i. Executive Summary
- ii. Detailed Findings
- iii. Conclusion
- iv. Recommendations and
- v. Appendices

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

3. DETAILED FINDINGS

3.1 The detailed findings are in the ensuing paragraphs and have been categorized into the following six (6) broad areas:

- a. Payroll Budgeting;
- b. Recruitment Process;
- c. Employee Data Management;
- d. Payroll Processing and Payments;
- e. Compliance with Laws and Regulations; and
- f. Migration from Integrated 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 set laws. The following issues were established:

I. Employee Cost to Revenue Ratio Exceeding 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 pursuant to Section 107(2) of the Public Finance Management Act, 2012. 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) financial years under audit, contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 as indicated in **Table 1**.

Table 1: Budgeted Employee Cost to Budgeted Revenue Ratio

Financial Year	Total Budget Revenue (Kshs.)	Budgeted Personal Emolument (Kshs.)	% of Utilization
2021-2022	11,248,535,017.00	4,887,669,647.00	43%
2022-2023	11,111,397,362.00	4,635,539,865.00	42%
2023-2024	12,557,553,292.00	5,026,747,982.00	40%

* Source: Audited Financial Statements.

- 3.5 Further, it was established that actual expenditure against actual revenue collected exceeded the thirty-five (35%) percent threshold in the three (3) financial years under review as indicated in **Table 2**.

Table 2: Actual Employee Cost to Revenue Ratio

Financial Year	Total Revenue (Kshs.)	Actual Personal Emolument (Kshs.)	Revenue/Employee (%) Ratio
2021-2022	8,404,407,350	4,545,113,972	54%
2022-2023	8,533,526,659	4,374,160,138	51%
2023-2024	8,584,243,710	4,462,912,350	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 employee 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 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 payroll reports extracted from the IPPD system with approved budget established that the Vote Heads in the IPPD were not aligned with those in the approved budgets as shown in **Annexure I**.

- 3.9 One of the primary factors contributing to the misalignment between the departments and the Vote Heads was the failure to update the IPPD system to reflect changes resulting from the restructuring and consolidation of various sectors within the County Executive.
- 3.10 The 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 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.

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 requires the County Public Service Board of a county to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. Further, Regulation 119(2) of the Public Finance Management (County Governments) Regulations, 2015 requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.
- 3.14 The County Executive recruited three hundred and twenty (320) employees, seventy-two (72) and two hundred and seventy-three (273) during 2021/2022,

2022/2023 and 2023/24 financial years respectively, excluding casuals employees. 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 to prove that budgetary availability 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 Recruitment and Management of Employees

- 3.16 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.
- 3.17 Review of employee recruitment records revealed that the County Executive recruited three hundred and twenty (320), seventy-two (72) and two hundred and seventy-three (273) employees during 2021/2022, 2022/2023 and 2023/2024 financial years respectively.
- 3.18 The Special Audit further established that, although the County Executive had advertised for the positions in the County's website, the County Public Service Board did not provide essential recruitment documents to support the recruitment of employees in the three financial years under review.
- 3.19 The control weakness in the recruitment process undermines transparency, accountability, and compliance, thus increasing the risk of irregular hiring.

III. Designations in the Payroll Systems not Aligned with 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.
- 3.21 The Special Audit established that there were five hundred and sixty-five (565) designations that were configured in the IPPD system. However, out of the

configured designations, seven (7) were not in the approved staff establishment. Further, there were one hundred and fifty-six (156) employees who were grouped in the seven (7) designations as detailed in **Annexure 2**.

- 3.22 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.
- 3.23 As a result of the misalignment between the staffing records in the Payroll Systems 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.

IV. Over Establishment of Staff

- 3.24 Section 59 (1)(a) of the County Governments Act, 2012 sets one of functions of the County Public Service Board as to establish and abolish offices in the county public service. Sub-section (g) further requires the board to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. In addition, Section 119(4) requires the responsible county government department for public service management matters and the County Public Service Board to only approve establishment of new public service positions after getting confirmation of availability of budgetary provisions from the County Treasury.
- 3.25 The County Executive had an approved Staff Establishment dated August 2023. Comparison between the Staff Establishment and the payroll data as at 30 June 2024 established that the County had more staff in some cadres than the approved staff establishment as shown in **Table 3**.

Table 3: Over-Establishment of Staff

Designation	Staff Establishment	In Post (IPPD Payroll)	Variance (Excess)
Principal Accountant	4	8	4
Cleaning Supervisor 1A	3	16	13
Senior Support Staff	24	251	227
Sargent	10	36	26
Senior Sargent	10	18	8
Senior Public Health Assistant	14	33	19
Senior ICT Officer	1	12	11
Senior Clerical Officer	1	56	55

* Source: County Executive Approved Staff Establishment and IPPD Payroll Data.

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

C. Employee Data Management

- 3.27 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 Data in Payroll Systems

- 3.28 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective. Further, Circular Ref. No: PSC/ ADM/ 13(9) dated 19 November, 2020 from Public Service Commission to all authorized officers stipulates that the date of birth as per the Birth Certificate should be considered as a public officer's official date of birth.
- 3.29 The Special Audit identified five hundred and ninety (590) employees in the IPPD System with inconsistent dates of birth.
- 3.30 Interview with a sample of fifty-one (51) employees and verification of their identification documents established that the dates captured in the IPPD System for seventeen (17) employees were different from those in employees Birth

Certificates as detailed in **Annexure 3**. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).

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

II. Integrity of National Identification and Tax PIN Data in the Payroll Systems

- 3.33 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective.
- 3.34 The Special Audit identified fifteen (15) employees in the IPPD System with inconsistent national identification numbers.
- 3.35 Interview with the fifteen (15) employees and verification of their identification documents established that the national identification numbers captured in the IPPD System for ten (10) employees were different from those in employee's national identification documents. Further, the Tax PIN for one (1) employee, was different from that in employee's Tax PIN certificate as detailed in **Annexure 4**.

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

- 3.36 Section 148(1) of the Public Finance Management Act, 2012 requires a County Executive Committee Member for Finance to, designate accounting officers to be responsible for managing the finances of the county government entities as is specified in the designation. Further, Sub-section (2) requires the person responsible for the administration of a county government entity to be the

accounting officer responsible for managing the finances of that entity except as otherwise stated in other legislation.

- 3.37 The Letter of Engagement addressed to the County Secretary for the audit of payroll, Ref: OAG/SAS/SADS/KDSP-PAYROLL/3/042 dated 3 January, 2025 required Chief Officers (COs) to provide list of staff members in their respective departments as at 30 June, 2024. This list was to be compared with employees in the Payroll Systems maintained by the County Executive.
- 3.38 A Comparison of the staff lists countersigned by various COs with registers from the IPPD system revealed that one hundred and forty (140) employees were in the Chief Officer's lists but not in IPPD as detailed in **Annexure 5**. Further, thirty-two (32) employees were in the IPPD System but not in the CO's list. This raises concerns about their existence. During the years under review, the thirty-two (32) officers were paid gross pay mounting to Kshs.5,322,632 as detailed in **Annexure 6**.

IV. Use of Manual Payroll

- 3.39 Regulation 22(1)(b) of the Public Finance Management (County Government) Regulations require an accounting officer is to be accountable to the County Assembly for maintaining effective systems of internal control and measures taken to ensure that they are effective.
- 3.40 The Special Audit established that during the period under review, the County Executive had two hundred and ninety-one (291) employees whose salary totaling Kshs.19,002,698 was being processed through payrolls maintained in Excel as detailed in **Annexure 7**.
- 3.41 The use of manual payroll systems for salary processing is vulnerable to manipulation and fraud, potentially resulting to unauthorized payments.

D. Payroll Processing and Payments

- 3.42 Assessment was carried out on controls in payroll processing and payments to determine whether employees' salaries and deductions were accurately

calculated, authorized, and compliant with the applicable laws and policies. The following issues were established:

I. Charging of Employee Costs to the Wrong Budget Vote

- 3.43 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.
- 3.44 The Special Audit established that there were misalignments between departmental Vote Heads in the IPPD System and those in the IFMIS Ledger Account as the Vote Heads in IPPD were not updated to align with those in IFMIS. As a result, a comparison of the gross salary processed through the IPPD System, casual payroll and manual payrolls to salary ledgers from the Integrated Financial Management Information System (IFMIS), revealed that posting of salary in IFMIS was not done as per departmental Budget Vote Heads, as Detailed in **Annexure 8**.
- 3.45 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, HRIS-Ke had similar Votes Heads to those in the IPPD System.
- 3.46 These misalignments led to inconsistencies between budget allocations and actual expenditures by departments, therefore increasing the risk of payroll overruns, inability to track payroll costs and misuse of funds.

II. Employees in Both IPPD and Manual Payrolls

- 3.47 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.

3.48 During the years under review, the County Executive was maintaining payroll in IPPD system for employees with Payroll Numbers and Manual Payrolls for employees without payroll numbers.

3.49 A Comparison between the manual payrolls and the IPPD generated payroll revealed that there were eight (8) employees in 2022/23 financial year and twelve (12) in 2023/2024, whose salaries were processed through both payrolls. A total of Kshs.1,483,230 was paid through Integrated Payroll and Personnel Database (IPPD) and Kshs.1,859,580 was paid through manual payroll as detailed in **Annexure 9**.

3.50 The existence of employees in both payrolls indicates likelihood of fraudulent activities, that may result to loss of public funds due to double payments.

III. Irregular Promotions

3.51 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.

3.52 A review of the County Executive promotion process established the following issues;

i. Accelerated Promotion

3.53 The Special Audit established that the promotion for four hundred and four (404) employees in 2022/2023 financial year and forty-three (43) in 2023/2024, were not done in accordance with relevant schemes of service resulting to the officers skipping job groups as detailed in **Annexure 10**.

3.54 The audit further established that twelve (12) employees who were promoted during the financial year 2022/2023 did not have supporting documentation, such as promotion letters or any other official authorization validating the change in job group, as shown in **Annexure 11**.

ii. Irregular Job Group Changes

- 3.55 A review of the County Executive payroll for the three years under review revealed that ten (10) employees were irregularly moved to higher job groups without following due process as shown in **Annexure 12**. However, the changes were later reverted following an internal payroll audit, and recovery of the overpayments was initiated.
- 3.56 This incident highlights significant weaknesses in internal control processes related to the management of job group changes.

IV. Inadequate Recovery of Outstanding Salary Overpayments

- 3.57 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.
- 3.58 The Special Audit established that as at 30 June 2024, two (2) employees had outstanding overpayment balances totaling to Kshs.1,815,730. However, the monthly deductions being made were insufficient to fully recover the amounts before the employee exit service as detailed in **Annexure 13**.

V. Payment of Special Duty Allowance for more than 6 Months

- 3.59 Paragraph C.15 (1) of HR Policies and Procedures Manual for the Public Service, 2016 states that when an officer is called upon to perform duties of a higher post but does not possess the necessary qualifications for appointment to that post, he shall be paid special duty allowance at the rate of fifteen percent (15%) of the officer's basic salary. Under paragraph C.15 (4), Special Duty Allowance will not be payable to an Officer for more than six (6) months.
- 3.60 Analysis of IPPD payroll data for the period under review established that fourteen (14) and sixteen (16) employees were paid Special Duty Allowance for periods exceeding six months, totaling to Kshs.1,511,245 and Kshs.1,765,274 in 2021/2022 and 2022/2023 financial years respectively, as detailed in

Annexure 14. This contravenes Section C.15(1) of the Public Service Commission Human Resource Policies and Procedures Manual (2016).

VI. Irregular Payment of Extraneous Allowance

- 3.61 The Compendium of Remuneration and Benefits for Public Service (December 2022) references SRC circular Ref: SRC/TS/CG/ND/3/61/32 (25) dated 17 January 2019, which stipulates that extraneous allowance is payable only to Secretaries, Drivers, and Security Officers attached to the offices of the Governor and Deputy Governor.
- 3.62 The Special Audit established that Extraneous Duty Allowance totaling Kshs.8,270,161, Kshs.10,500,387, and Kshs.9,800,483 were paid to one hundred and two (102), one hundred and forty-five (145), and one hundred and sixteen (116) employees in the 2021/2022, 2022/2023, and 2023/2024 financial years respectively.
- 3.63 The audit further established that Extraneous Duty Allowance paid in arrears totaling Kshs.5,145,000, Kshs.762,000, and Kshs.3,430,483 were paid to forty-one (41), nine (9), and fifty-two (52) employees in the 2021/2022, 2022/2023, and 2023/2024 financial years respectively.
- 3.64 This was contrary to eligibility criteria stipulated In the Compendium of Remuneration and Benefits for Public Service of December 2022 that extraneous allowance is payable only to Secretaries, Drivers, and Security Officers attached to the offices of the Governor and Deputy Governor.

E. Compliance with Laws and Regulations

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

I. Non-Compliance to Remittance of Statutory Deductions

- 3.66 Employers are legally required to deduct and remit various statutory contributions within specified timelines. Under Rule 10(1) of the Income Tax (PAYE) Rules, PAYE must be paid by the 10th day of the month following the deduction.

- 3.67 Section 20(1A) of the National Social Security Fund Act, 2013 requires an employer to remit NSSF deductions on the ninth day of each month or on such later date as the Board may, in consultation with the Cabinet Secretary responsible for matters relating to social security, prescribe.
- 3.68 Under Section 15(4) of the National Health Insurance Fund Act, 1998 (now repealed), contributions were due on the ninth day of each month or on such later date as the Board, in consultation with the Cabinet Secretary responsible for matters relating to health, may prescribe.
- 3.69 Section 4(3) of the Affordable Housing Levy Act, 2024, requires employer to remit Affordable housing levy deductions to the collector for remittance into the Fund, not later than the ninth working day after the end of the month in which the gross salary was due or gross income was received.
- 3.70 A Comparison of statutory deduction for employees in the IPPD payroll system with bank Statements established cases of delay in remittance of statutory deductions as demonstrated in **Annexure 17**. The delay ranged from one (1) day to one hundred and ninety (190) days.
- 3.71 Failure to remit statutory deductions on time exposes the County to penalties, interest and reputational risks, thereby undermining stakeholders' confidence.

II. Non-Compliance with Requirement on Ethnic Diversity

- 3.72 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 Analysis of employees in the IPPD System as at 30 June 2024, established that that 87.6 % of employees 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 18**.
- 3.74 The non-compliance to ethnic diversity is a violation of legal requirements and may lead to legal suits.

III. Other Nugatory Expenditure on Staff Cost

- 3.75 Article 201(d) 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.
- 3.76 Section 149(1)(b) of the Public Finance Management Act, 2012 imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is effective, efficient, economical and transparent.
- 3.77 During the years ended 30 June 2024, the County Executive incurred Kshs.3,300,000 as interest on overdraft facilities, which resulted from an arrangement between the County Executive and Kenya Commercial bank for payment of salaries.
- 3.78 The reliance on the Kenya Commercial Bank salary control account and the associated overdraft facility was necessitated by persistent delays in exchequer disbursements from The National Treasury. These delays disrupted the County's cash flow and posed challenges in meeting timely salary obligations.
- 3.79 This amount represents an avoidable and wasteful expenditure of public funds and has negative impact on the staff wage bill as it is not budgeted for in the staff cost.

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

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

I. Overpayment and Underpayment of Salary and Allowances

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

3.82 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December, 2024. Comparison between payroll data from the IPPD System and the HRIS-Ke for the month of November, 2024 and December 2024 respectively established instances of overpayment and underpayments of salaries and allowances as shown in **Table 4**.

Table 4: Over/Underpayment of Allowances

Allowance	Total Amount Underpaid		Total Amount Overpaid		Annexure
	Number of Employees	Amount (Kshs.)	Number of Employees	Amount (Kshs.)	
Basic salary	3,828	26,283,912	14	212,778	Annexure 19
Commuter	245	1,032,000	-	-	Annexure 20
Special House	1	54,712	-	-	Annexure 21
Special Salary	3	30,000	2	130,000	Annexure 22
Extraneous	9	18,000	-	-	Annexure 23
Total	4,086	27,418,624	16	342,778	

*Source: HRIS-KE Data

II. Over-deduction of PAYE

3.83 The Special Audit established that after migration of payroll processing to the HRIS-Ke, seventy-five (75) employees were over-deducted PAYE by Kshs.78,040 as shown in **Annexure 24**.

III. Non-deduction and Overstatement of Bank Loan Recovery

3.84 The Special Audit established that after migration of payroll processing to the HRIS-Ke, sixty-one (61) employees had not been deducted for bank loan recovery. The Audit further established that, five hundred and nineteen (519) officers whose loan recovery had been overstated by Kshs.5,685,872 as shown in **Annexure 25**.

4. CONCLUSION

- 4.1 The payroll audit of Kisumu County Executive uncovered several systemic weaknesses in payroll and human resource management, with significant implications for financial sustainability and compliance.
- 4.2 The Special Audit of payrolls management for the Kisumu County Executive revealed several audit issues, with significant implications to financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
 - 4.3 The County Government did not comply with requirement on limiting the Employee Cost within thirty-five percent (35%) of Revenue. This indicates weaknesses in budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
 - 4.4 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 departments in the County Executive did not have approved annual human resource recruitment plans. The absence of the 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 have an impact on the budget.
 - 4.6 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, incorrect national identification numbers, inconsistent tax PINs, employees drawing salary from different government entities and the use

of manual payrolls. This indicates weak payroll controls, including lack of data validation controls.

- 4.7 The authenticity of some of the employees could not be established. This was evidenced by the failure of the Chief Officers to account for employees in their departments. These cast doubt on the authenticity of payroll records and raise the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive.
- 4.8 The irregular payment of allowance and doubtful overpayment recoveries reflects significant weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 4.9 The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances and non-compliance with requirement on ethnic diversity. Additionally, the County Executive also incurred nugatory cost on staff cost expenditure. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusions of the Special Audit, the following is recommended to the Kisumu County Government;
- 5.2 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five (35%) percent of the County Executive's total revenue the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
 - 1.1 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer for Public Finance together with the Management of the State Department for Public Service and Human Capital Development (the custodian of the Human Resource Information System-Kenya) should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
 - 1.2 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.
 - 1.3 To ensure that no payments are made to non-existent employees, salary payments to all staff who were not accounted for by the respective Chief Officers should be investigated. The payroll system and departmental staff lists should also be updated accordingly.

- 1.4 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.
- 1.5 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

6. APPENDICES

Appendix 1: List of Staff interviewed

No	Designation	Department
1	Director	Public Service and Administration
2	Payroll Manager	Public Service and Administration
3	Director, Budget	Budget
4	CEO and Chairperson	County Public Service Board

Appendix 2: List of Annexures


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


No	Annexure	Title
1	Annexure 1	Budget Votes in Payrolls Systems not Aligned with Those Aligned in Approved Budget
2	Annexure 2	Designations in the IPPD System not Aligned with Approved Staff Establishment
3	Annexure 3	Integrity of Birth Dates Data in the Payroll Systems
4	Annexure 4	Integrity of National Identification and Tax PIN Data in the payroll Systems
5	Annexure 5	Employees in Chief Officers' List and not in IPPD
6	Annexure 6	Employees in IPPD and not in Chief officer's list
7	Annexure 7	Use of Manual Payroll
8	Annexure 8	Charging of Employee Cost to the Wrong Budget Votes
9	Annexure 9	Employees in both IPPD & manual payroll
10	Annexure 10	Accelerated Promotions
11	Annexure 11	Promotions without Supporting Documents
12	Annexure 12	Irregular Change in Job Groups
13	Annexure 13	Inadequate Overpayment Recoveries
14	Annexure 14	Employees Earning Special Duty for More Than 6 Months
15	Annexure 15	Irregular payment of Extraneous Allowances
16	Annexure 16	Irregular payment of Extraneous Allowances in arrears
17	Annexure 17	Late Remittance of Statutory Deduction
18	Annexure 18	Non-Compliance to Ethnic Diversity requirement
19	Annexure 19	Overpayment & Underpayments of Basic Pay- HRIS-Ke
20	Annexure 20	Employees Who Did Not Receive Commuter Allowance-HRIS-Ke
21	Annexure 21	Employees Who Did Not Receive Special House Allowance
22	Annexure 22	Employees Who Did Not Receive Special Salary Allowance
23	Annexure 23	Officers Who Did Not Receive Extraneous Allowance
24	Annexure 24	Overstatement of PAYE
25	Annexure 25	Non-deduction and overstatement of bank loan recovery


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