



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

SPECIAL AUDIT REPORT

OF THE AUDITOR-GENERAL ON

PAYROLL MANAGEMENT FOR

COUNTY EXECUTIVE OF KERICHO

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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 Kericho 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 Kericho Executive was conducted in line with this mandate.

The Special Audit evaluated the human resource and payroll processes at the Kericho 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 Kericho 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 Kericho County Public Service Board and the Governor, Kericho 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 Kericho 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 account agreements with the Kenya commercial bank, and not all summoned employees appeared for the physical verification. 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.

Audit Approach and Methods of Gathering Evidence

- 1.11 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.
- 1.12 The main evidence gathering methodologies applied during the audit included, document review, data analytics, interviews with key payroll staff and physical verification of staff. Further, audit evidence was gathered through walk through tests. In addition, data validation was conducted to test integrity of the data used.

Summary of Findings

1.13 The key audit findings are as detailed below:

A. Payroll Budgeting

I. The Compensation of Employees to Revenue Ratio Exceeded the Set Threshold

1.14 Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires the county government's expenditure on wages and benefits for its public officers not to exceed thirty-five (35%) percent of the county government's total revenue.

1.15 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 two (2) financial years. 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.

1.16 Further, the percentage of budgeted compensation of employees to the budgeted revenue grew from thirty-four (34%) in 2021/2022 to forty-two (42%) 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

1.17. 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

- 1.18. During the period under audit review, the County Executive recruited Ninety-One (91) 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

- 1.19. Review of the recruitment process established the following internal control weakness:
- i. During the three (3) financial year the County Public service Board (CPSB) recruited employees without human resource plans and annual recruitment plans. The departments are required to prepare and forward human resource plans to County public service board at the beginning of each financial year to enable board plan and fill the vacancies.
 - ii. The recruitments done by the CPSB during the three (3) financial years were not supported by shortlisting minutes and interview minutes contrary to Section 68 of the County Government Act 2012.

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

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

C. Employee Data Management

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

- 1.21. The Special audit identified two hundred and forty-four (244) employees with inconsistent date of birth.
- 1.22. Interview with fifty (50) employees and verification of their identification documents established that the data captured in the IPPD System and the HRIS-Ke for thirty-nine (39) 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. Drawing Salary from Different Government Entities

- 1.23. The Special Audit established that during the 2023/2024 financial year, three (3) employees had been engaged by both Kericho County Executive and Teachers Service Commission (TSC). During this period of dual engagement, the officer received a total of Kshs.238,950 in payments from the County Executive. Interviews with the affected staff indicated that they were initially employed by Kericho 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.983,454.

III. Employees with different names in IPPD and National registration bureau (NRB)

- 1.24. The Special Audit identified six (6) employees in the County Executive payroll whose Names in the IPPD Payroll System were different from National registration bureau. The six (6) staff did not appear before the scheduled interview for verification of their documents and those maintained by the County Executive.

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

- 1.25. 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.
- 1.26. Further, a comparison of the staff lists countersigned by various Chief Officers, with the staff register from the IPPD System, established that there was one (1) employee in the Chief Officers' staff lists, that was not in IPPD System and the HRIS-Ke. 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

- 1.28 The Special Audit requested ninety-three (93) employees from the County Executive to present themselves for physical verification. However, seventeen (17) employees did not avail themselves for the exercise, despite multiple attempts to reach out to them. These employees may not exist, presenting the risk of irregular or fraudulent payments. The seventeen (17) employees were paid Kshs.51,965,744 during the period under review.

D. Payroll processing and payments

I. Charging of Compensation of Employee to the Wrong Budget Vote

- 1.29 The Special Audit established that there were misalignments between departmental Vote Heads in the 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 Appointments and Re-designations

- 1.30 Analysis of payroll data and verification of records maintained by the County Executive established that there were Fifty-five (55) 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

- 1.31 During the three years (3) under review, the County Executive paid salary and allowances as arrears totaling Kshs.112,990,533. Further, review of the allowances established the following:
- 1.32 That there were nine hundred and eight-five (985) staff who received monthly gross pay as despite not qualifying for such payments under their terms of engagement. The total amount paid irregularly was Kshs.36,120,170.
- 1.33 There was one (1) non-medical staff who was irregularly paid medical call allowance amounting to Kshs.15,000.
- 1.34 There were four (4) staff that were irregularly paid Extraneous allowance amounting to Kshs.357,200 despite not meeting eligibility criteria stipulated In Compendium of remuneration and benefits for public service of December 2022.

IV. Duplication of Employees in the Payroll Systems and Manual Payrolls

- 1.35 During the period under review, the County Executive was maintaining payroll in the IPPD System for employees with payroll numbers, manual payrolls for employees without payroll numbers and casual payrolls for casual workers. The audit established that there were forty-nine (49) employees whose salaries were processed through both the IPPD System and manual payrolls. A total of Kshs.1,753,803 was paid through IPPD and Kshs.4,804,500 through the manual payroll.
- 1.36 The existence of employees in both payrolls indicates loss of public funds due to double payments.

V. Irregular Payment of Allowances

- 1.37 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 seventy-four (74) employees who were irregularly paid special salary together with other allowances totaling Kshs.28,328,818.
 - ii. There were five (5) employees who were irregularly paid extraneous allowances totaling Kshs.312,000.

- iii. There were three hundred and forty-two (342) employees who were overpaid health worker allowance totaling Kshs.33,530,000.
- iv. There were one hundred and six (106) employees who were overpaid health worker allowance totaling Kshs.497,050.
- v. There were thirteen (13) employees who were irregularly paid non-practicing allowance without valid membership certificate as verified in sampled personal files totaling Kshs.1,345,000.
- vi. There were employees from defunct local authority who were overpaid basic salary totaling to Kshs.85,474,104.
- vii. There were employees from defunct local authorities who were irregularly paid extraneous allowances amounting to Kshs.3,489,774.

VI. Nugatory Expenditure on Compensation of Employees

- 1.38 The Special audit established that former employee filed various legal suits against Kericho County Government relating to labour matters, including unlawful dismissal, claims for terminal dues, and service gratuity. While some of the cases are still ongoing, others have been concluded. These legal actions have resulted in potential nugatory expenditure on staff costs amounting to Kshs.16,103,267 as at 30 June, 2024.

E. Compliance with Laws and Regulations

I. Non- Compliance with Remittance of Statutory Deductions

- 1.39 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 two (2) employees with no evidence of disability that 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.757,639. This exposes the County Executive to penalties, interest and reputational risks, thereby undermining stakeholders' confidence.

II. Other Non- Compliance findings

- 1.40 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, the audit also noted that there were 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.24,269,056.

- 1.40. The special Audit also noted that 97% 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 five (5) employees, 93% of whom were from the dominant community contrary to Section 65(1)(e) of the County Governments Act, 2012.
- 1.41. 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.

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

- 1.42. The Special Audit reviewed migration of salary processing from IPPD system HRIS-Ke to establish the completeness, accuracy, and integrity of the data transferred. The following issues were established:

I. Overpayment and Underpayment of Salary and Allowances

- 1.43. The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between November, 2024 IPPD data and December 2024 HRIS-Ke data established instances of overpayment and underpayments of allowances as shown in **Table 1**.

Table 1: overpayment and underpayments of salaries and allowances

Allowance	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount	Number of Employees	Amount
Basic Salary	2,067	4,496,163		
Health Workers Extraneous Allowance	78	1,575,000	4	430,000

*Source: IPPD and HRIS-Ke Payrolls

II. Non-Deduction of Statutory Deductions

- 1.44. 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.
- 1.45. The Special Audit established that one thousand four hundred and forty-eight (1,448) employees earned a special salary totalling KShs.46,276,941, but pension contributions were not deducted from these payments.

Conclusion

- 1.46. The Special Audit of payrolls for Kericho 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:
 - 1.41 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 update the IPPD system and HRs-ke with approved designations in the approved staff establishment undermines budgetary control and increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 1.46 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 Kericho County Executive.
- 1.50. To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue, the County Assembly should establish mechanisms to ensure compliance with the PFM Act in the execution of its oversight responsibilities.
- 1.51. For effective management of departmental budgets and 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.
- 1.52. To enhance the attainment of optimal staffing levels, management of the County Executive should align the payroll system with the approved staff establishment and ensure consistency between authorized positions and personnel data. Additionally, the staff establishment module in the HRIS-Ke should be fully implemented and configured to enforce recruitment strictly within the approved establishment limits.
- 1.53. To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.

- 1.54. To ensure no payment is made to non-existent employees, salary payments to all staff who failed to appear for physical verification should be suspended.
- 1.55. To reduce opportunity for process irregular payments by exploiting existing weakness in arrear payments, the management of the County Executive together with that of State Department for Public Service and Human Capital Development should automate the processing of arrears by eliminating manual entry fields and integrating system-based validation rules. This will enhance control, ensure consistency with approved policies, and reduce the risk of irregular or unauthorized payments.
- 1.56. To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.
- 1.57. All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

2. INTRODUCTION AND BACKGROUND

Introduction and Background

- 2.1 Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7 (1) (a) of the Public Audit Act, 2015 requires the Auditor-General to give an assurance on the effectiveness of internal controls, risk management and overall governance at national and county governments. In addition, Section 34 of the Public Audit Act, 2015 mandates the Auditor-General to conduct periodic audits upon request or at the Auditor-General's own initiative, with a view to evaluating the effectiveness of risk management, control and governance processes in public entities. The Special Audit on Payroll Management for the Kericho County Executive, referred to as the County Executive in this report, was conducted in line with this mandate.
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- 2.3 The financing agreement, Credit Number IDA-7447-KE, became effective in March 2024 and is set to be implemented over a four-year period; 2023-2027. The development objective of the KDSP II is to strengthen county performance in the financing, management, coordination, and accountability for resources. To achieve the DO, the Program was expected to improve outcomes in the participating counties under three (3) Key Result Areas (KRAs). KRA 1 was on sustainable financing and expenditure management, KRA 2 on intergovernmental coordination, institutional performance, and human resource management, and KRA 3 on oversight, participation, and accountability.

- 2.4 The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2. There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:
- i. Participating counties that have integrated their human resource records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the human resource management information system;
 - ii. Participating counties that are enhancing accountability for results through an integrated performance management framework.
- 2.5 From 2013, the County Executive was using the Integrated Payroll and Personnel Database (IPPD) System to operate payroll for employees with personal numbers, while excel spreadsheets were used to operate payroll for employees without personal numbers. However, due to technological limitations at the time of its development, IPPD did not comprehensively address all human resource related functions. This led to development of a web-based Human Resource Information System-Kenya (HRIS-Ke) in 2024.
- 2.6 A parallel run of the IPPD System and HRIS-Ke was conducted across Ministries, Departments and Agencies and County Governments in November 2024. This was to ensure the readiness of the HRIS-Ke for roll out. Thereafter, in January 2025, the HRIS-ke was fully adopted for payroll management.

Numbers of Employees and Payroll Expenditure

- 2.7 Over the three (3) year period under review, there was a gradual increase in the number of employees and high increase in the compensation of employees.
- 2.8 The overall staff growth across the audit period was 1%. While the cumulative growth in compensation of employees over the three years was approximately **20%** as shown in **Figures 1 and 2**.

Figure 1: Growth Rate of the Number of Staff

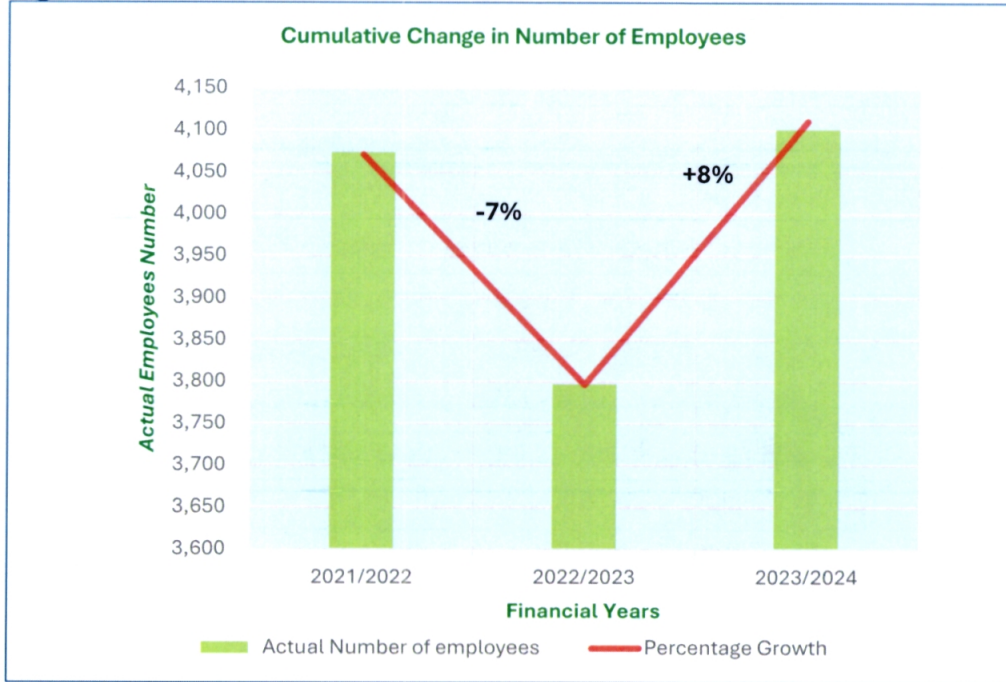
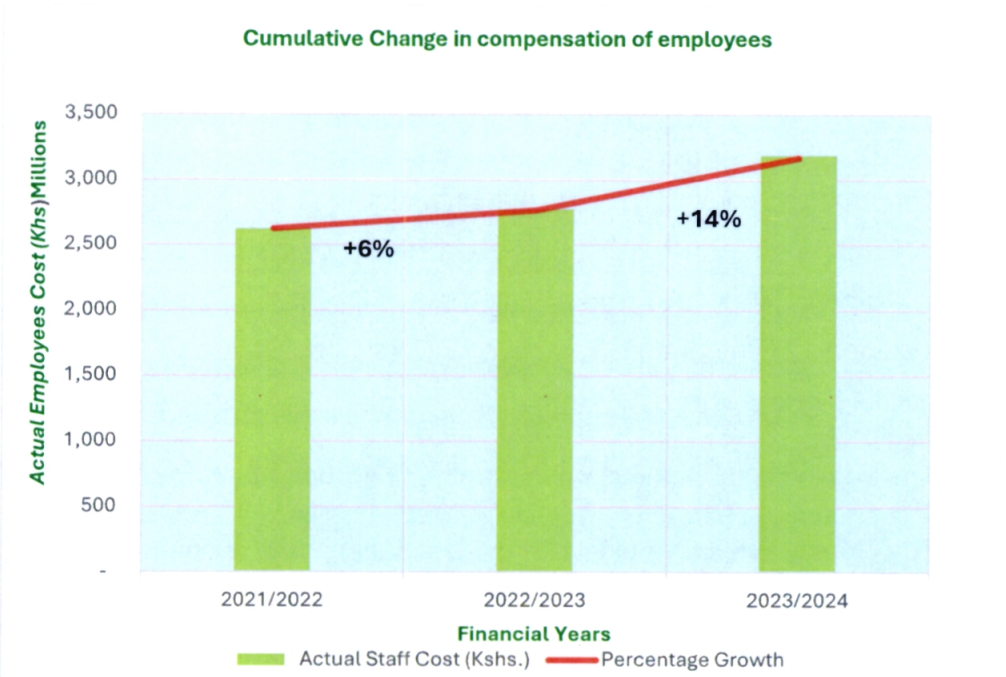


Figure 2: Growth Rate of compensation of employees



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; 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

- 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 February, 2025.
- 2.12 The County Executive did not provide salary control account agreements with the Kenya commercial bank and not all summoned employees appeared for the physical verification. 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 on Payroll Management involved review of payroll processes at the County Headquarters, analysis of payroll data and comparison with records maintained by the County Management.
- 2.15 The methods used to gather audit evidence during the audit included, document review, data analytics, interviews with key payroll staff and physical verification of staff.

a) Document Review

- 2.16 The audit team reviewed various documents in order to set audit criteria and assess compliance with the criteria and in gathering audit evidence. They include:
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Governments) Regulations, 2015;
 - iv. County Governments Act, 2012;
 - v. Employment Act, 2007;
 - vi. 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, 2022; and
 - x. Collective Bargaining Agreements (CBAs), 2012.

b) Data Analytics

- 2.17 The payroll and staff register data from the IPPD System was extracted and analyzed. The exceptions from the analysis formed the basis for verification with payroll records maintained by the County Executive.
- 2.18 The following data sets for the financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed: -
- i. IPPD Staff Registers and Payroll Data;
 - ii. Payment Schedules;
 - iii. Itemized Budgets for Staff Costs; and
 - iv. Chief Officers Staff Lists for Each Department, as at 30 June, 2024.

c) Interviews

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

d) Physical Verification of Staff

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

- 2.22 The report is organized as follows:
- i. Executive Summary;
 - ii. Introduction and Background;

- iii. Detailed Findings;
- iv. Conclusion;
- v. Recommendations; and
- vi. Appendices.

2.23 The report should be read in its entirety 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. The Compensation of Employees to Revenue Ratio Exceeded the Set Threshold

- 3.3. Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 requires the County Executive Committee Member for finance with the approval of the County Assembly to set a limit on the county government's expenditure on wages and benefits for its public officers. This is pursuant to section 107(2) of the Public Finance management Act, 2012. Further, regulation 25(1)(b) requires the limit set not to exceed thirty-five (35) percent of the county government's total revenue;
- 3.4. The Special Audit established that the ratio of budgeted compensation of employee to budgeted revenue exceeded 35% in the two (2) years under audit as shown in the **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.)	Budgeted Compensation of Employee (Kshs.)	Revenue/Expenditure Ratio
2021/2022	8,404,004,168.00	2,839,537,797.00	34%
2022/2023	7,474,085,274.00	2,947,990,701.00	39%
2023/2024	7,604,644,288.00	3,176,041,627.00	42%

*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 Employee to Budget ratio

Financial Year	Actual Revenue (Kshs.)	Compensation of Employee (Kshs.)	Revenue/Expenditure Ratio
2021/2022	6,841,426,418.00	2,624,354,948.00	38%
2022/2023	6,681,961,783.00	2,776,973,006.00	42%
2023/2024	6,353,006,481.00	3,187,074,306.00	50%

*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 Ninety-One (91) employees during the three (3) financial years without annual recruitment plans. **Refer Annexure 2.** 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.
- 3.17. Review of recruitment records maintained by County Service Public Board established that the county recruited ninety-one (91) formal employees during the 3 years under review as shown in **table 3**.

Table 3: Recruited Employees

Recruited Employees	
Financial years	Formal
2021/2022	5
2022/2023	43
2023/2024	43
Total	91

*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) recruited employees without human resource plans and annual recruitment plans. The departments are required to prepare and forward human resource plans to County Public Service Board at the beginning of each financial year to enable board plan and fill the vacancies.

- ii. The CPSB did not support the shorting and interviews conducted during recruitment with shortlisting minutes and interview minutes contrary to Section 68 of the County Government Act 2012.
- 3.19. The weaknesses in the recruitment process, including lack of approvals human resource plans and annual recruitment plans and inadequate documentation, undermine transparency, accountability, and compliance, increasing the risk of irregular hiring and inefficient use of public resources.

III. Designations in the Payroll System were 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 four hundred and twelve (412) designations that were configured in the IPPD System. However, out of the configured designations, three hundred and sixty-six (366) were not in the approved staff establishment.
- 3.22. Further, there were One Thousand and Fifty-Four (1,054) designations in the approved establishment that were not configured in the IPPD System such as Chief Cooperative Auditor, Assistant Director Cooperative Audit, Deputy Director, Cooperative Management (Audit) amongst others as detailed in **Annexure 3**. These designations were also not configured in the new HRIS-Ke System after migration.
- 3.23. The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, the HRIS-Ke had similar designations to those in the IPPD System.
- 3.24. As a result of the misalignment between the staffing records in the IPPD System and the approved staff establishment, it was not possible to establish whether the County filled positions in accordance with the approved staff establishment. This may lead to inefficiencies in workforce planning, and budget overruns.

C. Employee Data Management

- 3.25. 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.

- 3.26. 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.
- 3.27. The Special Audit identified two hundred and forty-four (244) employees in the IPPD System with inconsistent dates of birth.
- 3.28. Interview with a sample of fifty (50) employees and verification of their identification documents established that the dates captured in the IPPD System for thirty-nine (39) 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).
- 3.29. 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.
- 3.30. 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. 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, three (3) employees had been engaged by both Kericho Executive and Teacher service commission (TSC). During the period of dual engagement, the officers received a gross salary of Kshs.238,950 from the County Executive and Kshs.983,454 from TSC as detailed in **Annexure 5**.

3.33. Interviews with the affected staff indicated that they were initially employed by Kericho County Executive before transitioning to TSC another without completing the proper exit process. Consequently, their salaries were paid by both entities.

III. Employees with different names in IPPD and National registration bureau (NRB)

3.34. The Special Audit established that in the 2023-2024 financial year, there were six (6) employees in the county Executive whose names in the IPPD System were different from those in the National registration bureau. The six (6) staff did not appear before the scheduled interview for verification of their documents and those maintained by the County Executive, as indicated in **Annexure 6**.

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

3.35. 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.

3.36. The Letter of Engagement addressed to the County Secretary for the in-depth audit of payroll, dated 31 January, 2025, ref: OAG/SAS/SADS/KDSP-PAYROLL/3/035 required Chief Offices (COs) to provide a list of staff members in their department as at 30 June, 2024. This list was to be compared with employees in the Payroll Systems.

- 3.37. The Special Audit established that there was one (1) employee in the Chief Officer's lists but not in the Integrated Personnel and Payroll Database (IPPD) system. **Annexure 7.**
- 3.38. The employees who did not present themselves for physical verification and not in COs list may not exist, raising the risk of irregular or fraudulent payments.

V. Authenticity of Staff in the Payroll

- 3.39. The Office of the Auditor-General requested for a physical verification of sampled staff via letter Ref OAG/SA/SADS/KDSP-PAYROLL/4/035 dated 05 February 2025, addressed to the County Secretary of the County Executive, the Kericho County Executive.
- 3.40. The letter requested ninety-three (93) employees to present themselves for physical verification. However, seventeen (17) failed to appear for the scheduled physical verification exercise despite multiple attempts to reach out to them. During the period under review, the seventeen (17) employees collectively received gross salary amounting to Kshs.51,965,744, as detailed in **Annexure 8.**
- 3.41. The failure by the sampled staff to appear for scheduled physical verification, despite repeated follow-ups, raises concerns over the authenticity of their employment status and the integrity of the County payroll.

D. Payroll processing and payments

- 3.42. 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 Compensation of Employees to the Wrong Budget Vote

- 2.24 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 there were misalignments between departmental Vote Heads in the IPPD System and those in the IFMIS Ledger Account as the Vote Heads in IPPD were not updated to align with those in IFMIS. As a result, a comparison of the gross salary processed through the IPPD System,

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

- 3.44. This misalignment creates inconsistencies between budget allocations and actual expenditures by departmental, therefore increasing the risk of misuse of funds and inaccurate financial reporting.

II. Irregular Appointments and Re-designations

- 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 Fifty-five (55) 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 10**.
- 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. Further, 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.

- 3.49. During the three years period under review, the County Executive paid salary and allowances as arrears totaling Kshs.112,990,533. Further, review of the allowances established the following:
- a. There were nine hundred and eight-five (985) employees who received monthly gross pay despite not qualifying for such payments under their terms of engagement. The total amount paid irregularly was Kshs.36,120,170, as indicated in **Annexure 11**.
 - b. There was one (1) non-medical staff who was irregularly paid medical call allowance totalling to Kshs.15,000, as indicated in **Annexure 12**.
 - c. There were four (4) staff that who were irregularly paid Extraneous allowance totalling to Kshs.357,200 despite not meeting eligibility criteria stipulated in Compendium of remuneration and benefits for public service of December 2022, as indicated in **Annexure 13**.

IV. Employee in Both IPPD and Manual Payrolls

- 3.50. Regulations 22 (1)(b) of the Public Finance Management (County Governments) Regulations, 2015 states that an Accounting Officers shall in accordance with Article 226(2) of the Constitution and section 149 (1) of the Act be accountable to the County Assembly for maintaining effective systems of internal Control and the measures taken to ensure they are effective.
- 3.51. Comparison between manual payrolls provided and the IPPD System generated payroll revealed that there were forty-nine (49) employees whose salary for were processed through both payrolls. A total of Kshs.1,753,803 was paid through the IPPD System and Kshs.4,804,500 through the manual payroll as detailed in **Annexure 14**.
- 3.52. The existence of employees in both payrolls results in loss of public funds due to double payments.

V. Irregular Payment and Overpayment of Allowances

- 3.53. 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.

- 3.54. 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.
- 3.55. 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

- 3.56. There were seventy-eight (78) employees who were irregularly paid special salary together with other allowances totaling Kshs.28,328,818 as summarized in **table 4** and detailed in **Annexure 15**.

Table 4: Irregular payment of special salary with other allowances

Financial Year	Number of employees	Amount irregularly paid (Kshs.)
2021/2022	46	13,732,926
2022/2023	14	7,598,302
2023/2024	18	6,997,590
Total		28,328,818

*Source: IPPD Payroll System

b. Irregular payment of Extraneous allowance

- 3.57. There were three (3) employees who were irregularly paid extraneous allowances totaling Kshs.312,000 as summarized in **table 5** and detailed in **Annexure 16**.

Table 5: Irregular payment of Extraneous and Health Extraneous allowance

Financial Year	Number of employees	Amount irregularly paid (Kshs)
2021/2022	3	156,000
2022/2023	3	156,000
Total		312,000

*Source: IPPD Payroll System

c. Overpayment of Health worker allowance

3.58. There were three hundred and forty-two (342) employees who were overpaid paid health worker allowance totaling Kshs.33,530,000 as summarized in **table 6** and detailed in **Annexure 17**.

Table 6: Overpayment of Health worker allowance

Financial Year	Number of employees	Amount over paid (Kshs)
2021/2022	123	7,040,000
2022/2023	119	6,950,000
2023/2024	250	19,540,000
Total		33,530,000

*Source: IPPD Payroll System

d. Overpayment of Health Risk allowance

3.59. There were one hundred and six (106) employees who were overpaid paid health worker allowance totaling Kshs.497,050 as summarized in **table 7** and detailed in **Annexure 18**.

Table 7: Overpayment of Health Risk allowance

Financial Year	Number of employees	Amount paid (Kshs)
2022/2023	98	238,450
2023/2024	101	258,600
Total		497,050

*Source: IPPD Payroll System

e. Irregular payment of non-practicing allowance

3.60. There were eleven (11) employees who were irregularly paid non-practicing allowance without valid membership certificate as verified in sampled personal files totaling Kshs.1,345,000 as summarized in **table 8** and detailed in **Annexure 19**.

Table 8:Irregular payment of non-practicing allowance

Financial Year	Number of employees	Amount irregularly paid (Kshs)
2021/2022	10	620,000
2022/2023	8	365,000
2023/2024	6	360,000
Total		1,345,000

*Source: IPPD Payroll System

f. Overpayment of basic salary

- 3.61. There were employees from defunct local authority who were overpaid basic salary totaling to Kshs.85,474,104 as summarized in **table 9** and detailed in **Annexure 20**.

Table 9:Overpayment of basic salary

Financial Year	Number of employees	Amount Overpaid paid (Kshs)
2021/2022	199	31,903,091
2022/2023	180	28,321,689
2023/2024	151	25,249,323
Total		85,474,103

*Source: IPPD Payroll System

g. Irregular Payment of Extraneous Allowance

- 3.62. There were employees from defunct local authorities who were irregularly paid extraneous allowances amounting to Kshs.3,489,000 as summarized in **table 10** and detailed in **Annexure 21**.

Table 10:Irregular Payment of Extraneous Allowance

Financial Year	Number of employees	Amount irregularly paid (Kshs)
2021/2022	21	1,097,000
2022/2023	21	1,170,000
2023/2024	21	1,222,000
Total		3,489,000

*Source: IPPD Payroll System

E. Compliance with Laws and Regulations

- 3.63. The Special audit assessed adherence to labor laws and statutory deductions. The following issues were established:

I. Non-Deduction Pay As You Earn

- 3.64. 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.
- 3.65. Section 37(1) of the Income Tax Act, 1973 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.
- 3.66. The Special Audit established two (2) 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.757,639. Refer **Annexure 22**.

II. Late Remittance of Statutory Deductions.

- 3.67. 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.
- 3.68. 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.
- 3.69. 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.
- 3.70. 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 23. The delay ranged from one (1) day to thirty-seven (37) days.
- 3.71. 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

- 3.72. Section 80 of the County Governments Act, 2012 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, 2020 under which the mandatory retirements age in the public service is sixty years and sixty-five for persons with disability.
- 3.73. Analysis of data from the IPPD System revealed that there were employees who had attained the retirement age of 60 years, yet they were still active in service. The total amount paid to the staff amounted to Kshs.25,637,460. Refer to **Annexure 24**.
- 3.74. 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

- 3.75. 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.
- 3.76. Section 65(1)(e) of the County Governments Act 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. Section 68(c)(4) requires the board to ensure that public service employment equity plan leads to realization of the provisions of section 65(1)(e) and that employment equity within the county public service is achieved.
- 3.77. Review of Analysis of employees in the IPPD system as at 30 June 2024 established that 97% 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 five (5) employees, 100% 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

- 3.78. 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.
- 3.79. 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 25**.
- 3.80. 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

- 3.81. 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.
- 3.82. Analysis of the payroll for the month of June 2024 established that there were seventy-six (76) employees who were paid net salaries less than one-third of their basic salaries. Refer to **Annexure 26**.
- 3.83. 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. Nugatory Expenditure on Compensation of Employees

- 3.84. 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.
- 3.85. The Special Audit established that former employee filed various legal suits against Kericho County Government relating to labour matters, including unlawful dismissal, claims for terminal dues, and service gratuity. While some of the cases are still ongoing, others have been concluded. These legal actions have resulted

in potential nugatory expenditure on staff costs amounting to Kshs.16,103,267 as at 30 June 2024. Refer to **Annexure 27**.

- 3.86. This amount represents an avoidable and wasteful expenditure of public funds and has negative impacted on the staff wage bill as it was not budgeted for in the staff cost.

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

- 3.87. The migration of salary processing from the 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

- 3.88. 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.
- 3.89. 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 11** and detailed in **Annexure 28**.

Table 11: overpayment and underpayments of salaries and allowances

Allowances	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount	Number of Employees	Amount
Basic Salary	2,067	4,496,163		
Health Workers Extraneous Allowance	78	1,575,000	4	430,000

*Source: Payroll Systems – IPPD and HRIS-Ke Payrolls

II. Non-Deduction of Statutory Deductions

- 3.90. 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.

3.91. The special Audit established that (1,448) employees earned a special salary totalling KShs.46,276,941, but pension contributions were not deducted from these payments. Refer to **Annexure 29**.

4. CONCLUSION

- 4.1 The Special Audit of payrolls for Kericho 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 update the IPPD system and HRs-ke with approved designations in the approved staff establishment undermines budgetary control and increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may

result in discrepancies between approved staffing structures and actual payroll expenditures.

- 4.7 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 Kericho 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 align the payroll system with the approved staff establishment and ensure consistency between authorized positions and personnel data. Additionally, the staff establishment module in the HRIS-Ke should be fully implemented and configured to enforce recruitment strictly within the approved establishment limits.
- 5.5. To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
- 5.6. 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. APPENDICES

Appendix 1: List of Staff interviewed

Position	Department
Ag County Secretary	Governor's Office
CECM Finance and Economic planning	Finance and Economic planning
CPSB Secretary	County Public Service Board
Ag DHRM	Public Service and Administration
DHRM CPSB	County Public Service Board
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	Annexure 1	Budget Votes in Payrolls Systems not Aligned with those in Approved Budget.
2	Annexure 2	Summary of Recruitment 2021-2024
3	Annexure 3	Designation in IPPD not in Establishment and in Establishment not in IPPD
4	Annexure 4	Integrity of Date of Birth Data in IPPD Systems.
5	Annexure 5	Drawing Salary from different Government Entities
6	Annexure 6	Employees with different names in IPPD and National registration bureau (NRB)
7	Annexure 7	Staff in CO's List but not in the June 2024 Payroll
8	Annexure 8	Staff who did not appear for physical appears
9	Annexure 9	Charging Compensation of Compensation of Employee to the Wrong Budget Vote
10	Annexure 10	Irregular Promotions and Appointments
11	Annexure 11	staff who received monthly gross pay as arrears and not entitled to
12	Annexure 12	Non-medical staff who was paid medical call allowance
13	Annexure 13	Paid Extraneous allowance despite not meeting eligibility criteria
14	Annexure 14	Employee in both IPPD and Manual Payrolls
15	Annexure 15	Earning special salary with other allowances
16	Annexure 16	Earning both the Extraneous and Health Extraneous allowance

17	Annexure 17	Health workers service allowance irregularly: above the prescribed rate of Ksh15,000
18	Annexure 18	Overpayment of Health Risk allowance
19	Annexure 19	Non-practicing allowance
20	Annexure 20	Overpayment of basic salary – defunct Local authority employees
21	Annexure 21	Irregular Payment of Extraneous Allowance – defunct Local authority employees
22	Annexure 22	Staff without special needs, earning above 25,000 not paying PAYE
23	Annexure 23	NHIF, NSSF and PAYE deductions from employees were not remitted on time
24	Annexure 24	Active Staff Above age 60 years
25	Annexure 25	Delay in Confirmation of Staff on Probation
26	Annexure 26	Non-Compliance with One Third Basic Salary Rule
27	Annexure 27	Other Nugatory expenditure on staff cost
28	Annexure 28	Overpayment and Underpayment of Salary and Allowances
29	Annexure 29	Non-Deduction of Statutory Deductions

CONTACTS

3rd Floor, Anniversary Towers, University Way, Nairobi

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



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