



REPUBLIC OF KENYA



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

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FOREWORD BY THE AUDITOR-GENERAL


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

The Special Audit evaluated the human resource and payroll processes at the Busia 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 Busia 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 remitted copies of the report to the Principal Secretary, State Department for Devolution, Chairperson, the Busia County Public Service Board, and the Governor, Busia County Government.

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

8 July, 2025

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ABBREVIATIONS

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

1. EXECUTIVE SUMMARY

Introduction and Background

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

- 1.7 The Special Audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual and casual payrolls.

Methods of Gathering Evidence

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

Summary of Audit Findings

The key audit findings are as follows: -

A. Payroll Budgeting

I. The Compensation of Employee Cost to Revenue Ratio Exceeding the set Threshold.

- 1.10 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.
- 1.11 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 one (1) of the three (3) 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) financial years.

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

- 1.12 The audit established that the Vote Heads in IPPD System were not aligned with those in the approved budget. This led 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. Recruitment Process

I. Lack of Annual Recruitment Plans

- 1.13 During the years under review, the County Executive recruited one hundred and seventy-eight (178) employees. However, it was established that the departments that initiated the recruitments did not have annual recruitment plans to guide the recruitments. The lack of annual recruitment plans can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

II. Lack of Staff Establishment.

- 1.14 The Special Audit established that the County Government of Busia operated without a staff establishment for the three (3) financial years under review, risking unauthorized hiring and poor workforce planning, budget overruns and service delivery.

III. Designations in the Payroll System not aligned with those listed in the Chief Officers' staff list

- 1.15 The Special Audit established that there were designations in Chief Officers' staff list that were not configured in IPPD System. To facilitate salary processing, the affected employees were being 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

- 1.16 The Special Audit identified sixty-one (61) employees with inconsistent date of birth. Interview with a sample of two hundred and twenty (220) employees and verification

of their identification documents established that the dates captured in the IPPD System for sixty-one (61) employees were different from those in employees' Birth Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).

D. Payroll Processing and Payments.

I. Charging of Employee Costs to the Wrong Budget Vote

- 1.17 The Special Audit established that there were misalignments between departmental Vote Heads in IPPD System and those in IFMIS ledger account. As a result, posting of salary in IFMIS was not done as per departmental budget votes. This process creates inconsistencies between budget allocations and actual expenditures by departments, therefore increasing the risk of misuse of funds and inaccurate financial reporting.

II. Use of Manual Payrolls

- 1.18 During the period under review, the County Executive was operating manual payrolls in addition to the IPPD System the HRIS-KE. The salary processed through the manual payroll amounted Ksh.220,686,730. The use of manual payroll systems for salary processing is vulnerable to fraudulent payments due to lack of proper verification and audit trails.

E. Compliance with Laws and Regulations

I. Other Non-Compliance Issues

- 1.19 During the years under review, the Special Audit established instances where an employee acted in a substantive position for more than 6 months, casuals were engaged for more than three (3) consecutive months without a contract, non-compliance with requirement for employee to retain one-third of their basic salary and employees continued to serve on probationary terms despite having served for periods ranging from one (1) to seventeen (17) years. This increases the risk of litigation and reputational damage, thereby undermining stakeholders' confidence.

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

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 of allowances.

Conclusion

- 1.20 The Special Audit of payrolls for the Busia 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:
- 1.21 The non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 1.22 The recruitments of employees without involving the County Public Service Board and lack of a staff establishment demonstrates ineffective workforce planning and deviation from established staffing structures. This practice can result in either overstaffing or hiring staff for roles that do not align with organizational priorities, which have an impact on the budget.
- 1.23 The failure by the County Executive to update the IPPD System with approved designations in the Chief Officers' list 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.
- 1.24 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. This indicates weak payroll controls, including lack of data validation controls.
- 1.25 The authenticity of some of the employees could not be established. This was evidenced by the failure by employees to appear for physical verification. 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.

1.26 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

- 1.27 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Busia County Executive.
- 1.28 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.
- 1.29 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.
- 1.30 To ensure no payment is made to non – existence employees, salary payments to all staff who failed to present themselves for physical verification should be suspended.
- 1.31 To ensure the integrity of data maintained in the payroll systems, the management should ensure that the validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), and Social Health Authority (SHA).
- 1.32 To avoid redundancy, and promote fiscal discipline in line with the Public Finance Management Act, 2012, the County Executive should rationalize its engagement of advisory staff to align with the ceilings and staffing guidelines issued by the Salaries and Remuneration Commission (SRC). The County Public Service Boards (CPSBs) should ensure adherence to SRC advisories.

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

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

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

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 years under review, there was a gradual decrease in the payroll cost and a gradual increase in the number of employees. The increase was mainly due to striking health workers who had not been paid for three (3) months, implementation of new salary structure for all staff, hired new employees, and staff promotions.

2.7 The overall cumulative growth in payroll costs over the three (3) years was approximately 5% while staff growth across the audit period was 48% as shown in **Figures 1 and 2**.

Figure 1: Cumulative Growth in Payroll Costs

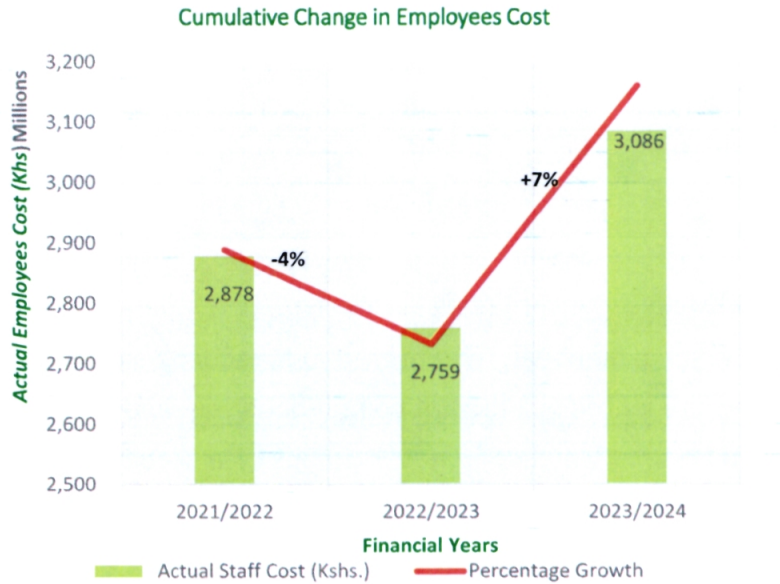
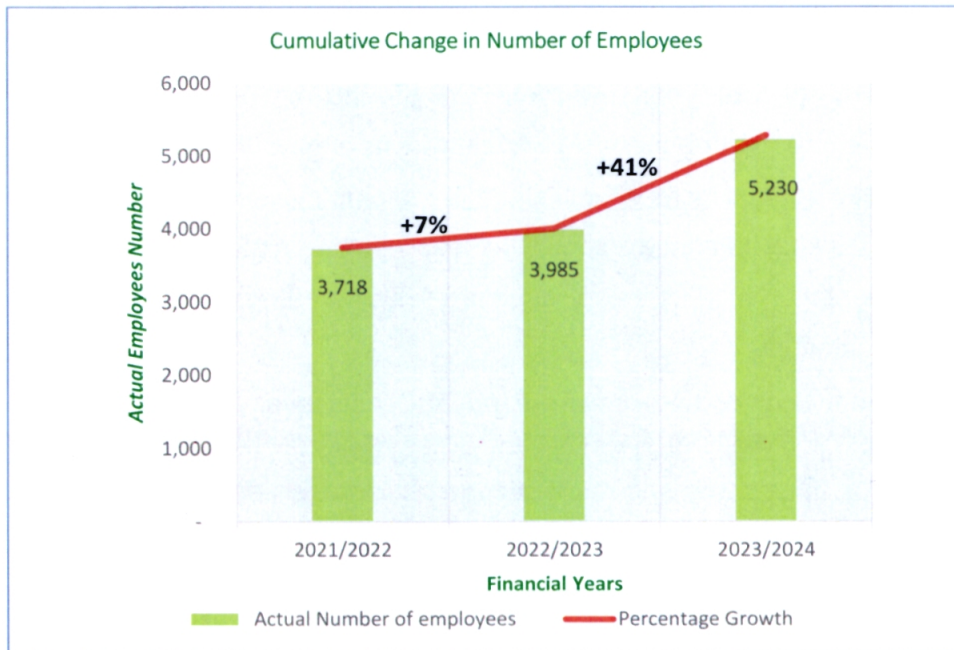


Figure 2: Cumulative Growth of Staff



2.8 The decrease in payroll cost in the period under review was due to end of contracts for staff, the lack of exchequer release for two months' salaries, specifically for May and June 2024.

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

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.

Audit Methodology

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

Methods of Gathering Evidence

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

a) Document Review

- 2.14 The Audit Team reviewed various documents in order to set audit criteria and assess compliance with the criteria and in gathering audit evidence. They include:
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Governments) Regulations, 2015;
 - iv. County Governments Act, 2012;
 - v. Employment Act, 2007;
 - vi. National Security Fund Act, 2013;
 - vii. National Health Insurance Fund Act, 1998 (Now Repealed);
 - viii. The SRC Circular SRC/TS/29(81), dated 10 August 2023;
 - ix. The SRC Circular on the Compendium of Remuneration and Benefits for Public Service, dated December 2022;
 - x. The SRC Circular SRC/TS/MDP/3/1/2(2), dated 11 August 2015;
 - xi. Public Service Commission Human Resource Policies and Procedures Manual of May 2016;
 - xii. Employees' physical files;
 - xiii. Collective Bargaining Agreements (CBA), 2013;
 - xiv. Affordable Housing Act, 2024;
 - xv. The County Executive Financial Statements for financial years 2021/2022, 2022/2023 and 2023/2024;
 - xvi. The County Executive Budgets financial years 2021/2022, 2022/2023 and 2023/2024;

b) Data Analytics

- 2.15 The payroll and staff register data from the IPPD System was extracted and analyzed. The exceptions from the analysis formed the basis for verification with payroll records maintained by the County Executive.
- 2.16 The following data sets for the financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed: -
- i. IPPD Staff Registers and Payroll data
 - ii. HRIS-Ke Payroll data
 - iii. Manual Payroll data
 - iv. Payment schedules
 - v. Casual payrolls data
 - vi. Chief Officers staff list for each department as at 30 June 2024; and
 - vii. Itemized budgets for staff costs

c) Interviews

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

d) Physical Verification of Staff

- 2.18 The Audit Team requested all the Chief Officers to provide countersigned lists of staff members in their departments as at 30 June, 2024. The lists were compared with the IPPD staff registers maintained by the County Executive.
- 2.19 The Audit Team, through the County Secretary, requested two hundred and twenty (220) 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

- 2.20 The report is organized as follows:
- i. Executive Summary;
 - ii. Introduction and Background;
 - iii. Detailed Findings;
 - iv. Conclusion;
 - v. Recommendations; and
 - vi. Appendices.
- 2.21 The report should be read in its entirety, in order to fully comprehend the approach to the audit, findings, conclusions and the proposed recommendations.

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. The Compensation of Employee Cost to Revenue Ratio Exceeding 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 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 one (1) of the three (3) financial years under audit contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 as summarized in **Table 1**.

Table 1: Budgeted Revenue to Budgeted Cost for Personal Emoluments

Financial Year	Budgeted Revenue (Kshs.)	Budgeted Personal Emolument (Kshs.)	% Of Utilization
2021/2022	10,230,377,635	2,878,652,027	28%
2022/2023	8,666,685,093	2,759,087,955	32%
2023/2024	7,813,249,712	3,085,605,917	39%

*Source: Audited Financial Statements

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

Table 2: Actual Employee Cost to Revenue Ratio

Financial Year	Total Revenue (Kshs.)	Actual Personal Emolument	Revenue/Employee (%) Ratio
2021/2022	7,136,548,979	2,878,476,753	40%
2022/2023	6,503,000,153	2,759,066,747	42%
2023/2024	9,221,975,801	3,085,605,995	33%

*Source: Audited Financial Statements

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

II. Budget Votes in 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 payrolls reports extracted from the IPPD System with approved budgets established that the Vote Heads in the IPPD System were not aligned with those in the approved budgets as detailed in **Annexure 1**.
- 3.9 One of the primary factors contributing to the misalignment between the departments and the Vote Heads was the failure to update the IPPD System to reflect changes resulting from the restructuring and consolidation of various sectors within the County Executive.
- 3.10 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, the HRIS-Ke had similar Votes Heads to those in the IPPD System.
- 3.11 The continued referencing to outdated departmental structures leads to inconsistencies between budgetary allocations and actual payroll expenditures, increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect Vote Heads.

B. Recruitment Process

- 3.12 The recruitment process was reviewed in order to establish whether the hiring practices were fair and aligned with the County Executive's policies and legal requirements. The following issues were revealed:

I. Lack of Annual Recruitment Plans.

- 3.13 Section 59(1)(g) of the County Governments Act, 2012 require the County Public Service Board of a county to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. Further, Regulation 119(2) of the Public Finance Management (County Governments) Regulations, 2015 requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.
- 3.14 The County Executive recruited one hundred and seventy-eight (178) employees in the three (3) financial years under review as detailed **Annexure 2**. However, it

was established that the departments that initiated the recruitments did not have annual recruitment plans to guide the recruitments.

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

II. Lack of Staff Establishment.

- 3.16 Section B 5(2) and Section B 6(3) of the County Public Service Human Resource Manual, 2013 requires each County Government entity to maintain optimum staffing levels derived from an authorized establishment and organization structure.

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

- 3.18 The Special Audit for the in-depth payroll audit established that the Busia County Executive did not have an approved staff establishment, as it remained in draft form. As a result, the County relied on provisional staff lists submitted by the respective Chief Officers.

- 3.19 The absence of an approved staff establishment hinders the county's ability to effectively plan and manage its human resources, leading to potential overstaffing or understaffing in critical departments. This situation poses risks such as inefficient service delivery, budgetary overruns due to a rising wage bill, and challenges in workforce planning and succession management.

III. Designations in the payroll system are not aligned with those listed in the Chief Officers' staff list.

- 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 3.19 The Special Audit established that there were four hundred and thirty-seven (437) designations that were configured in IPPD system. However, out of the configured designations four hundred and thirty-five (435) designation were not in the Chief Officers' Staff List. There were three thousand, seven hundred and ninety-two (3792) employees who were grouped in the four hundred and thirty-five (435) designations as detailed in **Annexure 3**.

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 IPPD System and the approved staff establishment, it was not possible to establish whether the County filled positions in accordance with the Chief Officers register. This may lead to inefficiencies in workforce planning and budget overruns.

C. Employee Data Management

3.24 Review of employee's data management involved assessing the accuracy and completeness of both manually maintained records and data from the IPPD System. The following issues were established:

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

3.25 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.

3.26 The Special Audit identified fifty-nine (59) employees in the IPPD System with inconsistent dates of birth.

3.27 Interview with a sample of two hundred and twenty (220) employees and verification of their identification documents established that the dates captured in the IPPD System for fifty-nine (59) 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).

3.28 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.

- 3.29 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. Authenticity of Staff in the Payroll

- 3.30 The Office of the Auditor-General requested for a physical verification of sampled staff via the letter OAG/SA/SADS/KDSP-PAYROLL/4/040 dated 13 February, 2025, which was addressed to the County Secretary, Busia County Government.
- 3.31 The Letter requested two hundred and twenty (220) to present themselves for physical verification. However, twenty-one (21) employees did not present themselves, despite multiple attempts to reach out to them. During the period under review, the twenty-one (21) officers collectively received gross salary amounting to Kshs.71,094,932 as detailed in **Annexure 5**.
- 3.32 The employees who failed to present themselves for physical verification may not exist, raising the risk of irregular or fraudulent payments.

D. Payroll Processing and Payments

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

I. Charging of Employee Costs to the Wrong Budget Vote

- 3.34 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.

The Audit established that there were misalignments between departmental Vote Heads in the IPPD System and those in the Integrated Financial Management Information System (IFMIS) Ledger accounts. As a result, comparison of gross salary processed through the IPPD System, casual payroll and manual payrolls to

salary ledgers from the IFMIS established that posting of salary in IFMIS was not done as per departmental Budget Vote Heads as detailed in **Annexure 6**.

- 3.37 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.
- 3.38 This misalignment led to inconsistencies between budget allocations and actual expenditures by departments, therefore increasing the risk of misuse of funds.

II. Use of Manual Payrolls

- 3.39 Regulation 110(1) of the Public Finance Management (County Governments) Regulations, 2015 requires the Accounting Officer for a county executive entity to institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity, and loss of business continuity.
- 3.40 The Special Audit established that during the years under review, the County Executive had one hundred and sixty (160) formal employees and one thousand, two hundred and fifty-one (1251) casual employees (1328) whose salary totaling Kshs.220,686,730 salary was being processed through payrolls maintained in excel as shown in **Table 3**.

Table 3:Use of Manual Payrolls

Financial Year	No. of Employees in Manual Payroll	Amount Paid (Kshs.)
2021/2022	403	95,711,177
2022/2023	554	93,933,272
2023/2024	1417	31,042,281
Total		220,686,730

*Source: Manual payrolls

- 3.41 The use of manual payrolls poses risks, including a high likelihood of errors and omissions in salary calculations, increased vulnerability to fraudulent payments due to lack of proper verification and audit trails.

E. Compliance with Laws and Regulations

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

I. Payment of Acting Allowance for more than six (6) months

3.43 Section C.14 (1) of the Public Service Human Resource Policies and Procedures Manual, 2016 provides that acting allowance will not be payable to an officer for more than six (6) months.

3.44 The Special Audit established that one (1) employee acted in substantive posts for nine (9) months as from July 2023 to March 2024. This is contrary to Section C.14 (1) of the Public Service Human Resource Policies and Procedures Manual, 2016. The acting allowance paid to the officer amounted to Kshs.161,792 as detailed in **Annexure 7**.

3.45 Having one officer perform responsibilities in both the substantive and acting roles, for a long period may compromise their productivity, undermine accountability, and hinder effective service delivery.

II. Casual Employees Engaged Beyond Stipulated Period

3.46 The engagement of casuals beyond the stipulated period exposes the County Executive to litigation proceedings and associated costs.

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

3.48 The Special Audit established that there were one thousand one hundred and sixty-seven (167) casual employees who were engaged for more than three (3) consecutive months during the years under review as detailed in **Annexure 8**.

3.49 The engagement of casuals beyond the stipulated period exposes the County Government to litigation proceedings and associated costs.

III. Non-Compliance with One-Third Basic Salary Rule

- 3.50 Section 19 (3) of the Employment Act, 2007 requires 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.
- 3.51 An analysis of the staff payroll as at 30 June, 2024 established that one thousand, five hundred and twenty (1,520) employees were paid net salaries that were less than one-third of their basic salaries as detailed in **Annexure 9**. This is contrary to Section 19(3) of the Employment Act, 2007.
- 3.52 The employees earning less than one-third of their basic salary may be unable to meet their personal financial obligations. This can adversely affect their productivity, decision-making, and ability to effectively safeguard county interests.

IV. Failure to Confirm Employees from Probationary Engagement

- 3.53 Section 42(2) of the Employment Act, 2007 states that a probationary period shall not be more than six months, but it may be extended for further period of not more than six months with the agreement of the employee. Further, Section 42(3) states that no employer shall employ an employee under a probationary contract for more than the aggregate period provided under subsection (2).
- 3.54 Further, section B.18 (1) states that an officer appointed to the Service in a pensionable post will be confirmed in appointment and admitted into the permanent and pensionable establishment on completion of a probationary period of six (6) months satisfactory service.
- 3.55 Review of the IPPD System revealed that the County Executive had a total of three thousand, eight hundred and fourteen (3,814) employees as at 30 June, 2024. However, sixty-five (65) employees continued to serve on probationary terms despite having served for periods ranging from one (1) to seventeen (17) years. This is contrary to the provisions of the Employment Act, 2007 and Part II Section B of the Public Service Commission Human Resource Policies and Procedures Manual, May 2016 on appointment on probation and pensionable terms as detailed in **Annexure 10**.

3.56 Non-compliance may result in violations of legal requirements, potentially leading to fines and legal action. Further, prolonged probation undermines employee motivation and may negatively impact productivity and retention.

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

3.57 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 of Allowances

3.58 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.

3.59 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December, 2024. Comparison between payroll data from IPPD System and HRIS-Ke for the month of November, 2024 and December 2024 respectively established instances of overpayment of allowances as shown in **Table 4** and detailed in **Annexures 11**.

Table 4: Overpayment and Underpayment of Allowances

Allowance	Total Amount Overpaid	
	Number of Employees	Amount (Kshs.)
Commuter Allowance	95	1,228,034
Total		584,500

*Source: HRIS-KE data

4. CONCLUSION

- 4.1 The Special Audit of payrolls for Busia 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 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.
- 4.3 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.
- 4.4 The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by inaccurate dates of birth employees and use of manual payrolls. This indicates weak payroll controls including lack of data validation controls.
- 4.5 The authenticity of some of the employees could not be established. This was evidenced by the failure by the Chief Offices to account for employees in their departments, and failure by employees to appear for physical verification. These cast doubt to the 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 Executive.
- 4.6 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments and allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.

4.7 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 conclusions of the Special Audit, the following is recommended to the Busia County Executive;
- 5.2 For effective management of departmental budgets and enhance accuracy in financial reporting the Chief Officer for Public Finance together with the management of the State Department for Public Service and Human Capital Development should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures.
- 5.3 To enhance transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions. Additionally, recruitment processes should be strengthened to ensure transparency, including public advertisement of vacancies, consideration of only formally submitted applications, and securing budget approvals before initiating any recruitment activities.
- 5.4 To ensure integrity of data maintained in the payroll systems, the management should ensure the validation controls are implemented in the in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), Social Health Authority (SHA. Additionally, the use of manual Excel-based payrolls should be discontinued in favour of HRIS-Ke.
- 5.5 To ensure no payment is made to non – existence employees, salary payments to all staff who failed to present themselves for physical verification should be suspended.
- 5.6 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments, and underpayments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.
- 5.7 To enforce compliance with set labor laws, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.

6. APPENDICES

Appendix 1: List of staff Interviewed

No.	Designation	Department
1.	Chief Officer - HR & Public Communication	Public Service Management
2.	Chief Executive Officer -County Public Service Board	Public Service Management
3.	Director Human Resource	Public Service Management
4.	Payroll Manager	Public Service Management
5.	Chief Officer - Accounting Services, Supply Chain Management and Budget	Finance & Accounting
6.	Director Accounting Services	Finance & Accounting

Appendix 2: List of Annexures

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

No.	Annexure	Description
1	Annexure 1	Budget Votes in Payrolls Systems not Aligned with those in Approved Budget
2	Annexure 2	Lack of Annual Recruitment Plans.
3	Annexure 3	Designations in the payroll system are not aligned with those listed in the Chief Officers' staff list.
4	Annexure 4	Integrity of Dates of Birth Data
5	Annexure 5	Authenticity of Staff in the Payroll
6	Annexure 6	Charging of Employee Costs to the Wrong Budget Vote
7	Annexure 7	Non-Compliance to Payment of Acting Allowances
8	Annexure 8	Casuals Engaged Beyond Stipulated Period
9	Annexure 9	Non-adherence to Third- Pay Rule
10	Annexure 10	Failure to Confirm Employees from Probationary Engagement
11	Annexure 11	Overpayment of Allowances

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