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



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COUNTY 045
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 Kisii 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 Kisii County Executive was conducted in line with this mandate.

The Special Audit evaluated the human resource and payroll processes at the Kisii 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 Kisii 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 Kisii County Public Service Board and the Governor, Kisii 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	Nairobi 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
UHC	Universal Health Care

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 Kisii 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 payment vouchers for the IPPD payroll system for the 2021/2022 and 2022/2023. However, this limitation was mitigated by using data analysis to test the controls.

Audit Methodology

- 1.9 The Special Audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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

- 1.10 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.
- 1.11 The method 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 conducted to test data integrity.

Summary of Audit Findings

The key audit findings are as detailed below: -

A. Payroll Budgeting

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

- 1.12 The Audit established that the ratio of the budgeted compensation of employees to the budgeted revenue for the County Executive exceeded thirty-five percent (35%) in the three (3) financial years contrary to Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015
- 1.13 Further, a comparison of the actual personal emolument expenditure, with the actual revenue, revealed that the County Executive also exceeded the thirty-five percent (35%) threshold in the three (3) years. 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 Payroll Systems were not Aligned with those in the Approved Budgets

- 1.14 The Special Audit established that the budget Vote Heads in the 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. Recruitment Process

I. Lack of Annual Recruitment Plans

- 1.15 During the period under audit review, the County Executive recruited four hundred and fifty-six (456) 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. Weakness in the Recruitment Process

- 1.16 During the 2023/2024 financial year, the County Executive recruited Thirty-two (32) officers. The audit established that their recruitment lacked critical documentation. Which includes: departmental requests, authorization, job advertisements, No County Human Resource Management Advisory Committee Recommendation, County Public Service Board Deliberation and Decision, Shortlisting Minutes, Interview Minutes and Budget Confirmation.

III. Lack of Staff Establishment

- 1.17 The Special Audit established that County Executive did not have an approved staff establishment. The absence an approved staff establishment raises concerns regarding the authenticity and sustainability of the county's workforce. Therefore, it was not possible to ascertain whether the County Executive was operating at optimal staffing levels.

C. Employee Data Management

I. Integrity of Date of Birth Records in Payroll Systems

- 1.18 The Special Audit identified four hundred and thirty (430) employees with inconsistent birth dates recorded in the system, highlighting concerns about the accuracy of employee data. Interview with forty-four (44) employees and verification of their identification documents established that the dates captured in the IPPD System for twenty-nine (29) employees were different from those in employees' Birth Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).

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

- 1.19 The Chief Officers (COs) were requested to provide a list of staff members in their respective departments as at 30 June, 2024.
- 1.20 A comparison of staff lists countersigned by various COs with the Staff Register from the IPPD System established that one hundred and fifty-nine

(159) employees were in the IPPD System but were not in the lists provided by COs. The employees collectively received payments amounting to Kshs. 10,332,311.

- 1.21 Further, one hundred and seventy employees were appearing in Cos list but not in the payroll.

III. Authenticity of Staff in the Payroll

- 1.22 The Special Audit requested fifty-one (51) employees from the County Executive to present themselves for physical verification. However, twelve (12) employees did not present themselves. These employees collectively received gross salary amounting to Kshs.9,452,886.25. A review of their personal files established inconsistencies in academic records. Three (3) officers appeared to have taken the KCPE exam at age 11, raising concerns about the authenticity of their submitted documents.

- 1.23 Special Audit further identified Irregularities in an employee's records, where the recorded start of the probation period coincided with the time the individual was still in secondary school.

D. Payroll Processing and Payments

I. Charging of Employee Cost to the Wrong Budget Vote

- 1.24 The Special Audit established that there were misalignments between departmental Vote Heads in both IPPD System and HRIS-Ke with 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. Sharing of Bank Account Numbers

- 1.25 The Special Audit established that seven (7) employees were sharing bank account numbers. The total amount of kshs.1,220,362 was paid to through the shared account numbers

III. Irregular Payment of Allowance

- 1.26 The Special Audit established that during the 2022/2023 and 2023/2024 financial years, seventy-three (73) employees were overpaid house allowance totaling to Kshs.529,510 and Kshs.199,890 respectively.
- 1.27 Further, one hundred and four (104) employees were overpaid net salary while three (3) employees were irregularly paid leave allowance twice during the year, the total amount paid is Kshs.70,000.
- 1.28 Additionally, the Special Audit established that ten (10) employees were assigned official vehicles and were also receiving commuter allowances, contrary to existing guidelines, resulting in irregular payments totaling to Kshs. 2,021,677.

E. Compliance with Laws and Regulations

I. Non-Compliance with Remittance of Statutory Deductions

- 1.29 The Special Audit established instances of delay in remittance of statutory deduction ranging from three (3) days to thirty-five (35) days.

II. Non-Compliance with Requirement of Ethnic Diversity

- 1.30 A review of human resource records as of 30 June, 2024, revealed that 94% of the staff were from one dominant ethnic community contrary to the requirements of section 7(2) of the National Cohesion and Integration Act, 2008

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

- 1.31 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. A 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 totaling to kshs.11,162,318 and underpayments totaling to kshs.9,300,635

Conclusion

- 1.32 The Special Audit of payrolls for the Kisii 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:
- 1.33 The non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) percent 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.
- 1.34 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.
- 1.35 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.
- 1.36 The Special Audit identified weaknesses in the recruitment process, including lack of critical recruitment documents. These weaknesses undermine transparency, fairness, and compliance with established recruitment procedures. It may result in unqualified or ineligible individuals being employed.
- 1.37 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 and inconsistent employees' records. This indicates weak payroll controls, including lack of data validation controls.

- 1.38 The County Executive did not comply with statutory deductions and ethnicity requirements as evidenced by delayed statutory remittances and non-compliance with the requirement on ethnic diversity. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.39 The inconsistencies in the migration of payroll processing from the Integrated Personnel and Payroll Database (IPPD) to the Human Resource Information System-Kenya (HRIS-Ke), effected in December 2024, characterized by significant data integrity and system control weaknesses point to inadequate system testing, lack of reconciliation protocols, and poor change management during the migration process.
- 1.40 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.
- 1.41 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

- 1.42 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Kisii County Executive.
- 1.43 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five (35%) percent of the County Executive's total revenue, the County Assembly should ensure adherence to the thirty-five (35%) capping before the approval of the budgets.
- 1.44 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.
- 1.45 To enhance transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions. Additionally, recruitment processes should be strengthened to ensure transparency, including public advertisement of vacancies, consideration of only formally submitted applications, and securing budget approvals before initiating any recruitment activities.
- 1.46 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).
- 1.47 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.

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

2. INTRODUCTION AND BACKGROUND

Introduction and Background

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

cleaned payrolls in the human resource management information system;

- ii. Participating counties that are enhancing accountability for results through an integrated performance management framework.

- 2.4 From 2013, the County Executive was using the Integrated Payroll and Personnel Database (IPPD) System to operate payroll for employees with personal numbers, while excel spreadsheets were used to operate payroll for employees without personal numbers. However, due to technological limitations at the time of its development, IPPD did not comprehensively address all human resource related functions. This led to development of a web-based Human Resource Information System-Kenya (HRIS-Ke) in 2024.
- 2.5 A parallel run of the IPPD System and HRIS-Ke was conducted across Ministries, Departments and Agencies and County Governments in November 2024. This was to ensure the readiness of the HRIS-Ke for roll out. Thereafter, in January 2025, the HRIS-ke was fully adopted for payroll management.

Numbers of Employees and Payroll Expenditure

- 2.6 Over the three-year period under review, there was a gradual decrease in the number of employees and slight increase in payroll cost.
- 2.7 The overall Employees growth from financial year 2021/2022 to 2023/2024 period was **-10%**. while the cumulative growth in payroll costs over the three years was approximately **+10%** as indicated in **Figures 1 and 2**.

Figure 1: Cumulative Growth in number of Employees over the three years

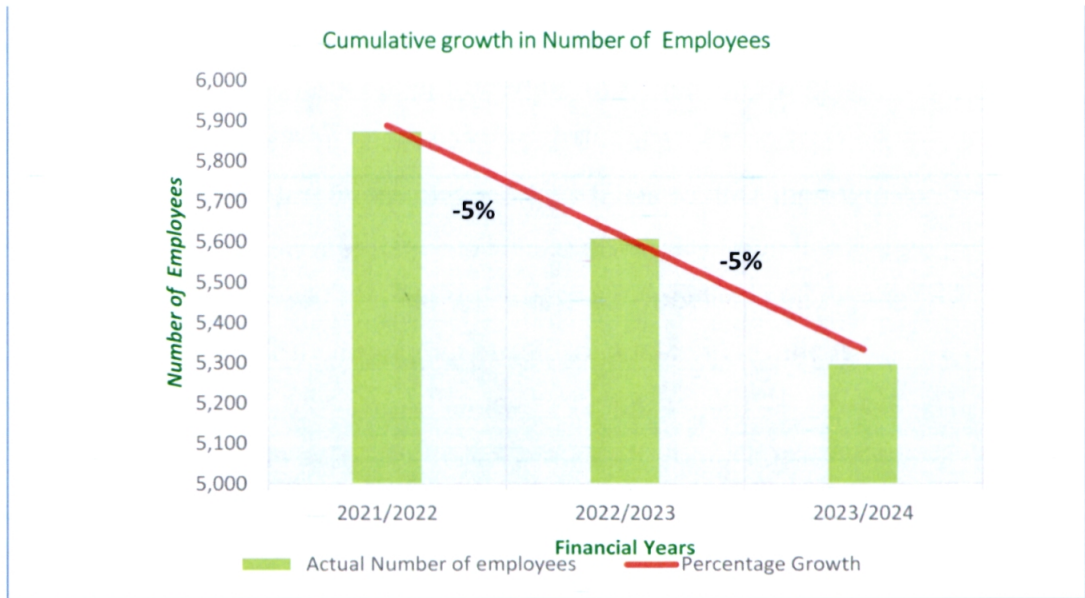
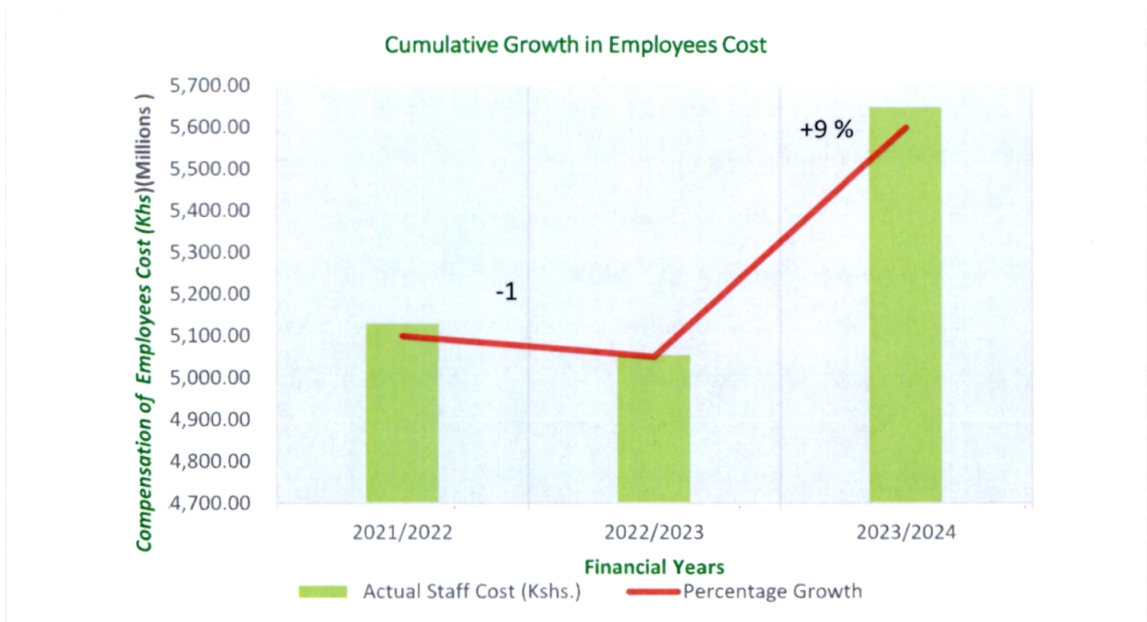


Figure 2: Cumulative Growth of Employee Cost over the three years



Audit Objectives

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

Audit Scope and Limitations

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

Audit Methodology

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

Methods of Gathering Evidence

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

a) Document Review

- 2.15 The Audit Team reviewed various documents in order to set audit criteria and assess compliance with the criteria and in gathering audit evidence. They include -
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Governments) Regulations, 2015;
 - iv. County 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

- 2.16 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
- 2.17 The following data sets for 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 list for each department as at 30 June, 2024.
 - v. IFMIS Account analysis report
 - vi. HRIS -Ke Payroll Data for December 2024

c) Interviews

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

d) Physical verification of Staff

- 2.19 The Audit team requested all the Chief Officers to provide countersigned list of staff members in their departments as of 30 June, 2024. This list was compared with the IPPD staff registers maintained in the County Executive
- 2.20 The Audit team through the County Secretary, requested fifty-one (51) employees to present themselves in person for a physical verification, which was based on initial exceptions during data analytics. This verification was to ensure existence of staff, their employment status and accuracy of personal data maintained in the payroll systems.

Report Structure

- 2.21 The report is organized as follows:
- i. Executive Summary;
 - ii. Introduction and Background;
 - iii. Detailed Findings;
 - iv. Conclusion;
 - v. Recommendations; and
 - vi. Appendices.
- 2.22 The report should be read in its entirety to fully comprehend the approach to the audit, findings, conclusions and 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 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 approved budgets and compliance with set laws and regulations. The following 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 pursuant. This is pursuant to section 107(2) of the 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 compensation to employee's ratio exceeded 35% of the budgeted revenue in three (3) financial years under review as demonstrated in Table 1. This is contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015.

Table 1: Budgeted Employee Cost to Budgeted Revenue Ratio

Financial Year	Budgeted revenue (Kshs)	Budget Employees cost (Kshs)	% of Utilization
2021/2022	12,590,694,978.00	5,102,455,459.00	41%
2022/2023	11,113,855,495.00	5,066,098,150.00	46%
2023/2024	13,260,121,884.00	5,707,304,081.00	43%

*Source: Approved Budget

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

Table 2: Actual Employee Cost to Revenue ratio

Financial Year	Actual Revenue (Kshs.)	Expenditure of Staff Emoluments (Kshs.)	Revenue/Employee Cost %Ratio
2021/2022	9,387,941,539.00	5,129,147,123.00	55%
2022/2023	8,509,855,723.00	5,053,599,742.00	59%
2023/2024	8,786,382,677.00	5,647,519,423.00	64%

*Source: Audited Financial Statement

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

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

- 3.7 Regulation 22(1)(b) of Public Finance Management (County Governments) Regulations, 2015 requires an Accounting Officer to maintain effective systems of internal control and have measures to ensure their effectiveness.
- 3.8 A comparison of payroll reports extracted from IPPD system with approved budget established that the Vote Heads in IPPD were not aligned with those in the approved budget as detailed in **Annexure 1**

- 3.9 One of the primary factors contributing to the misalignment between the departments and the vote head 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, the HRIS-Ke had similar designations 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 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 plan

- 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 two hundred and sixty-five (265) employees during the financial year. 2021/22, One hundred and fifty-nine (159) during the year 2022/2023 and thirty-two (32) during 2023/24. However, the audit established that the recruiting departments did not have annual recruitment plans to guide the recruitments. Further, no evidence was provided to prove

that budgetary availability was sought before the recruitments were made as demonstrated in **Table 3**.

Table 3: Staff Recruited by County Public Service Board

Financial Year	No of Staff recruited
2021-2022	265
2022-2023	159
2023-2024	32

*Source: County Public Service Board

- 3.15 Lack of annual recruitment plans supported by budgetary evidence can result in either over Employing, under Employing, or hiring for roles that do not align with organizational priorities.

II. Weaknesses in the Recruitment of County employees

- 3.16 During the 2023/2024 financial year, the recruitment of thirty-two (32) officers lacked critical documentation. Which includes: departmental requests, authorization, job advertisements, No County Human Resource Management Advisory Committee Recommendation, County Public Service Board Deliberation and Decision, Shortlisting Minutes, Interview Minutes, and Budget Confirmation, Missing applicant and shortlist lists, as well as interview and evaluation reports, all of which were not provided for audit verification as detailed in **Annexure 2**

III. Lack of Staff Establishment

- 3.17 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 Employee levels derived from an authorized establishment and organization structure.
- 3.18 The special Audit established that the Kisii County Executive did not have an approved staff establishment as a result, a total of five thousand two hundred and ninety-seven (5,297) employees listed in the Integrated Personnel and Payroll Database System (IPPD) had no reference to an approved staff establishment.

- 3.19 The absence of a structured and authorized staffing framework raises concerns regarding the authenticity and sustainability of the county's workforce. Consequently, it was not possible to ascertain whether the County Executive was operating at optimal staffing levels.

C. Employee Data Management

- 3.20 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

- 3.21 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.
- 3.22 The Special Audit identified four hundred and thirty (430) employees in the IPPD system with inconsistent date of birth.
- 3.23 Interview with forty-four (44) employees and verification of their identification documents established that the dates captured in the IPPD System for twenty-eight (28) employees were different from those in employees' Birth Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9) as detailed in **Annexure 3**
- 3.24 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before data cleaning to improve its quality and reliability. As a result, at the time of audit, the HRIS-Ke had similar date of birth to those in the IPPD System.
- 3.25 The inaccurate capture of dates of birth increases the risk of employees retiring before or after the legal retirement age, leading to potential miscalculation of pension dues and other age-based entitlements.

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

- 3.26 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.
- 3.27 The Letter of Engagement addressed to the County Secretary for the in-depth audit of payroll, dated 11 February, 2025, Ref: OAG/SAS/SADS/KDSP-PAYROLL/3/045 required Chief Offices (COs) to provide list of Employees in their department as at 30 June 2024. This list was to be compared with employees in the Payroll Systems.
- 3.28 A comparison of Employees lists countersigned by various Chief Officers with the IPPD Employees register established that one hundred and fifty-nine (159) employees were in the IPPD System but not in the lists provided by Chief Officers. These employees collectively received payments amounting to Kshs. 10,332,311 as detailed in **Annexure 4**.
- 3.29 The Special Audit also established that 206 employees were appearing on the Chief Officer's list but not in the Integrated Personnel and Payroll Database (IPPD) System. Further review revealed that thirty-six (36) were new employees who were awaiting the issuance of Personal number, while one hundred and seventy (170) employees could not be confirmed as detailed in **Annexure 5**.

III. Authenticity of Staff in the Payroll

- 3.30 The Office of the Auditor-General requested for a physical verification of sampled Employees via the letter OAG/SA/SADS/KDSP-PAYROLL/4/045

dated 11 February 2025, which was addressed to the County Secretary of Kisii County Executive.

- 3.31 The letter requested fifty-one (51) employees to present themselves for physical verification. However, twelve (12) employees did not present themselves. The officers collectively received a gross salary amounting to Kshs.9,452,886.25 in the financial year 2023/2024 as detailed in **Annexure 6**.
- 3.32 Further review of physical personal files established inconsistencies in academic records. Three (3) officers were found to have sat for their Kenya Certificate of Primary Education (KCPE) examination at the age of eleven (11), which would suggest that they were enrolled in school at the age of three as shown in **Annexure 7**. This raises significant doubts about the authenticity and accuracy of the data submitted for employment purposes.
- 3.33 The Special Audit identified irregularities in one officer's employment records, where his appointment letter was dated 19 January, 2017. However, the appointment letter confirming the officer to permanent and pensionable terms indicates that the officer probationary period commenced on 19 September 2014 when the employee was still in secondary school (Form 3) as detailed in **Annexure 8**.
- 3.34 These inconsistencies raise serious concerns regarding the integrity of the officer's employment records and suggest possible irregularities in their hiring and confirmation processes.

D. Payroll Processing and Payments

- 3.35 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 and policies and the accuracy of payments. The following issues were established:

I. Charging of Employee Costs to the Wrong Budget Vote

- 3.36 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

- 3.37 The Special Audit established that there was misalignment between departmental Vote Head in the IPPD system and those in the Integrated Financial Management Information System (IFMIS) ledger Accounts. As a result, a comparison of the gross salary processed through the IPPD System with salary ledgers established the vote head configured in the IPPD system were different from that in IFMIS. As a result, charging of salary in IFMIS was not done as per respective departments and shown in as detailed in **Annexure 9**.
- 3.38 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, the HRIS-Ke had similar date of birth to those in the IPPD System.
- 3.39 This misalignment led to inconsistencies between budget allocations and actual expenditures by departmental, therefore increasing the risk of misuse of funds and inaccurate financial reporting.

II. Salary Overpayment

- 3.40 Section 149(1) of the Public Finance Management Act 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. Section 149(2) provides that in carrying out this responsibility, the accounting officer shall ensure that all expenditure made by the entity complies with subsection (1).
- 3.41 Review of the payroll processing and the corresponding bank payment for the three financial years under review established discrepancies in the amount paid to one hundred and four (104) employees, where deductions from their payroll exceeded their actual earnings. Further, a comparison between the payroll records and the bank payment list indicated that these employees received higher payments in their bank accounts than the amounts processed in the payroll. This discrepancy resulted in an overpayment totaling Kshs.2,795,202 in 2023/2024, Kshs.1,717,937 in 2022/2023, and Kshs.2,217,281 in 2021/2022. as detailed in **Annexure 10**.

III. Staff sharing bank accounts

- 3.42 Section 149(1) of the Public Financial Management Act, 2012 requires an accounting officer to ensure that the resources of the entity for which the officer is designated are used in a way that is lawful, authorized, effective, efficient, economical, and transparent.
- 3.43 The Special Audit established instances where account numbers were being shared between employees. There were seven (7) employees who were sharing bank account numbers. The total amount paid to the shared bank account is Kshs.1,220,362.60 in the three financial years as detailed in **Annexure 11**.

IV. Overpayment of House Allowance

- 3.44 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.
- 3.45 The Special Audit established that during the financial year 2022/2023 and 2023/2024, thirty-eight (38) employees were overpaid house allowance more than the amount stipulated in the SRC Circular. The amount overpaid is Ksh. 529,510.05 and Ksh. 64,800 in 2022/2023 and 2023/2024 as detailed in **Annexure 12** and summarized in **Table 4**.

Table 4:Overpayment of House Allowance

Payroll	Financial Year	Amount Paid (Kshs)	Approved Rate (Kshs)	Overpaid Amount (Kshs)
IPPD	2022-2023	1,515,140.05	985,630.00	529,510.05
	2023-2024	132,300	67,500	64,800

*Source: IPPD Data

- 3.46 Further, twenty-five (25) employees assigned official vehicles, ten (10) of these officers were also receiving commuter allowances, which is contrary to the established guidelines outlined in the relevant circular on the payment of allowances. The total amount paid as commuter allowance Kshs. 2,021,677 as detailed in **Annexure 13**.

E. Compliance with Laws and Regulations

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

I. Non-Compliance to Remittance of Statutory Deductions

3.48 Rule 10(1) of Income Tax (P.A.Y.E) Rules requires that before the tenth day following the end of every month or before any other day which may be notified to him by the Commissioner, an employer shall pay all amounts of tax which the employer has deducted during such month.

3.49 Section 5(1) of Affordable Housing Act require an Employer to deduct and remit Housing Levy and also remit an amount equivalent to the deducted amount to the collector. Section 4(3) requires the amounts to be remitted not late than the ninth working day after the end of the month in which the gross salary was due or gross income was received or accrued.

3.50 The special audit established instances of delay in remittance of statutory deduction ranging from three (3) days to thirty-five (35) as detailed in **Annexure 14.**

3.51 The failure to remit statutory deductions on time exposes the County Executive to penalties, interest and reputational risks, thereby undermining stakeholders' confidence.

II. Non-Compliance with Requirement on Ethnic Diversity

3.52 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 Employees. Section 7(2) states that no public establishment shall have more than one third of its Employees from the same ethnic community.

3.53 Section 65(1)(e) of the County Governments Act, 2012 require the County Public Service Board to consider, in selecting candidates for appointment, the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

- 3.54 Analysis of data maintained in IPPD system as at 30 June 2024 established that 94% of the Employees were from one dominant ethnic community contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 as detailed in **Annexure 15**.
- 3.55 The non-compliance to ethnic diversity is a violation of legal requirements and may lead to legal suits.

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

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

I. Introduction of Employees in HRIS-Ke

- 3.57 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.
- 3.58 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024.
- 3.59 A 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 that ten (10) employees were introduced in the December 2024 HRIS-Ke system detailed in **Annexure 16** and instances of overpayment and underpayments of salaries as detailed in **Annexure 17,18 and 19** summarized in **Table 5**.

Table 5: Underpayment/Overpayment of Earnings

Earnings	Total Amount Underpaid		Total Amount Overpaid	
	NO of Employees	Amount	No of Employees	Amount
Basic Salary	1225	3,215,421	326	5,360,110
House Allowance	2735	7,170,672	470	3,940,525
Commuter Allowance	421	776,225	0	0

*Source: Payroll data.

4 CONCLUSION

- 4.1 The Special Audit of payrolls for the Kisii County Executive uncovered several audit issues in payroll and human resource management, which may negatively affect its financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 4.2 The non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of annual recruitment plans demonstrates ineffective workforce planning and deviation from established staffing structures. This practice can result in either overstaffing or hiring staff for roles that do not align with organizational priorities, which has an impact on the budget.
- 4.4 The Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control, resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.5 The Special Audit identified weaknesses in the recruitment process, including lack of critical recruitment documents. These weaknesses undermine transparency, fairness, and compliance with established recruitment procedures. It may result in unqualified or ineligible individuals being employed.
- 4.6 The 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 and inconsistent employees' records. This indicates weak payroll controls, including lack of data validation controls.

- 4.7 The County Executive did not comply with statutory deductions and ethnicity requirements as evidenced by delayed statutory remittances and non-compliance with the requirement on ethnic diversity. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 4.8 The inconsistencies in the migration of payroll processing from the Integrated Personnel and Payroll Database (IPPD) to the Human Resource Information System-Kenya (HRIS-Ke), effected in December 2024, characterized by significant data integrity and system control weaknesses point to inadequate system testing, lack of reconciliation protocols, and poor change management during the migration process.
- 4.9 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.
- 4.10 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 Kisii County Executive.
- 5.2 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five (35%) percent of the County Executive's total revenue, the County Assembly should ensure adherence to the thirty-five (35%) capping before the approval of the budgets.
- 5.3 To enhance the attainment of optimal staffing levels, management of the County Executive should align the payroll system with the approved staff establishment and ensure consistency between authorized positions and personnel data. Additionally, the staff establishment module in the HRIS-Ke should be fully implemented and configured to enforce recruitment strictly within the approved establishment limits.
- 5.4 To enhance transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions. Additionally, recruitment processes should be strengthened to ensure transparency, including public advertisement of vacancies, consideration of only formally submitted applications, and securing budget approvals before initiating any recruitment activities.
- 5.5 To ensure the integrity of data maintained in the payroll systems, the management should ensure that the validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), and Social Health Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favor of HRIS-Ke.
- 5.6 For effective management of departmental budgets and to enhance accuracy in financial reporting the Chief Officer for Public Finance together with the management of the State Department for Public Service and Human Capital Development should ensure that the Human Resource Information System –

Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures.

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

6 APPENDICES

Appendix 1: List of Employees Interviewed

No	Designation	Department
1	CPSB	CSPB
2	Ag Director HR	Human Resource
3	Payroll Manager	Payroll
4	Payroll Accountants	Finance and environment
5	IFmis Accountant	Finance and accounting

Appendix 2: List of Annexure


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


No	Annexure	Title
1	Annexure 1	IPPD Vote Head not Configured with Budget Votes
2	Annexure 2	Recruitment Without Annual Recruitment Plan
3	Annexure 3	Inconsistencies in Birth Date Captured In IPPD
4	Annexure 4	Employees appearing on the IPPD but not in the Chief Officer's
5	Annexure 5	Staff in Co's list but not in the Official Staff list
6	Annexure 6	Failure to comply with the Physical verification exercise
7	Annexure 7	inconsistencies in academic records
8	Annexure 8	probation dates to precede the appointment date
9	Annexure 9	Charging of Employee Cost 2023-2024 in ledgers
10	Annexure 10	Salary Overpayment
11	Annexure 11	Staff sharing same bank account
12	Annexure 12	Overpayment of house allowance
13	Annexure 13	Irregular payment of Commuter Allowance
14	Annexure 14	Non-Compliance with Laws on Statutory Deductions
15	Annexure 15	Ethnic Composition
16	Annexure 16	Employees Who were introduced in the HRIS system in December
17	Annexure 17	Underpayment and overpayment of Basic Salaries
18	Annexure 18	Employees Who were underpaid/overpaid housing allowance
19	Annexure 19	Employees who were underpaid commuter allowance


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