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

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COUNTY 006

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 Taita Taveta 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 Taita Taveta County Executive was conducted in line with this mandate.

The Special Audit evaluated the human resource and payroll processes at the Taita Taveta 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 Taita Taveta 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 Taita Taveta County Public Service Board and the Governor, Taita Taveta 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
MIS	Management Information System
NHIF	National Hospital Insurance Fund
NSSF	National Social Security Fund
OAG	Office of the Auditor-General
PAYE	Pay As You Earn
PFM	Public Finance Management
PSC	Public Service Commission
SRC	Salaries and Remuneration Commission

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

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

Audit Objectives

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

- vi. Assess whether payroll data was accurately and completely migrated from IPPD system to the 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 failed to provide the contract agreement with Kenya Commercial Bank relating to the salary advance facility. As a result, the audit could not verify key aspects such as the legal obligations, interest rates, repayment schedules, or potential financial exposure to the County Government.

Methods of Gathering Evidence

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

Summary of Audit Findings

The key audit findings are as follows:

A. Payroll Budgeting

I. Employee Cost to Revenue Ratio

- 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%) for all three financial years under review. Further, a comparison of the actual personal emolument expenditure, with the actual revenue, revealed that the County Executive also exceeded the thirty-five (35%) percent threshold in the three (3) years. This indicates a growing wage bill, which has strained the county's financial resources, limiting funds available for critical development projects and essential service delivery.

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

- 1.12 The Audit established that the budget vote heads in the IPPD system were not aligned with those in the approved budget. This led to inconsistencies between budgetary allocations and actual payroll expenditure, thereby increasing the risk of misallocation or even misuse of public funds.

B. Recruitment Process

I. Lack of Annual Recruitment Plans

- 1.13 During the period under review, the County Executive recruited six hundred and six (606) employees. The Audit however, established that the departments that initiated the recruitment 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 failure to confirm availability of budgets can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

C. Employee Data Management

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

- 1.14 The Special Audit established inconsistencies between employee birthdates recorded in the IPPD system and those in the National identification documents for two hundred and fifty-five (255) employees. Interview with a sample of thirty-seven (37) employees and verification of their identification documents established that the dates captured in the IPPD System for thirty-seven (37) employees were different from those in the employees' Birth Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).

II. Integrity of Employees' Identification Numbers (ID) in IPPD System

- 1.15 The Special Audit also established inconsistencies between employee identification numbers recorded in the IPPD system and those provided in the supporting identification documents for two (2) employees. Examination of the identification records maintained by the County Executive against the IPPD System disclosed that the national identification numbers of two (2) employees were inaccurately captured in the system.

III. Integrity of the Manual Payroll Records

- 1.16 A review of the manual payroll revealed that key statutory employee details, including NSSF, NHIF, and KRA PINs were missing from the manual payroll records for the financial year 2021/2022, raising concerns over data completeness and regulatory compliance.

IV. Failure of Chief Officers to Account for Resources under their Department

- 1.17 A comparison of the lists provided by the Chief Officers against the payroll established that there were three hundred and thirty-five (335) employees who were in IPPD but not on the lists provided by the Chief Officers. This raises concerns over the effectiveness of payroll controls, as the failure by Chief Officers to regularly reconcile departmental records with payroll data increases the risk of fraudulent or erroneous salary payments.

V. Irregular Promotions and Appointments

- 1.18 The analysis of the payroll Special Audit identified anomalies in job group progression where six (6) employees were moved through multiple job groups within a single financial year, while three (3) employees were promoted to higher job groups without serving in the immediate preceding grades.

D. Payroll Processing and Payments

I. Employee in Both IPPD and Manual Payrolls

- 1.19 A comparison of the payroll systems revealed that there were eleven (11) employees whose salaries were processed through both IPPD and manual payroll. This resulted in an irregular payment of Kshs.500,720. The existence of employees in both payrolls indicates a likelihood of fraudulent activities, which may result in the loss of public funds due to double payments.

II. Over-Payment of House Allowance

- 1.20 The Special Audit revealed that during the three financial years under review, the County Executive irregularly overpaid house allowance to a total of one hundred and fifty-two (152) employees. The total overpayment amounted to Kshs. 2,965,817, contrary to the approved public service remuneration guidelines.

III. Irregular Payment of Hardship Allowance

- 1.21 The audit revealed that during the two financial years under review, the County Executive irregularly paid hardship allowance to a total of twenty-seven (27) employees. As a result, a total of Kshs.1,069,281 was irregularly paid, contrary to the prescribed guidelines on hardship allowance eligibility.

E. Compliance with Laws and Regulations

I. Payment of Special Duty Allowance for More than Six (6) Months

- 1.22 The Special Audit established that two (2) employees were paid special duty allowance for a period exceeding six months during the financial year 2022/2023, contrary to Section C.15(1) of PSC HR Policies and Procedures Manual,2016. The total allowance paid for the months exceeding six (6) months amounted to Kshs.104,379.

II. Non-Compliance with Remittance of Statutory Deductions

- 1.23 A comparison of statutory deductions for employees in the IPPD Payroll System with the County Executive's Bank Statements for the year 2023/2024 revealed instances of delay in remittance of National Health Insurance Fund (now appealed), National Social Security Fund, and Pay As You Earn deductions. The delay ranged from fourteen (14) days to one hundred and eighty (180) days. This exposes the County Executive to penalties, interest, and reputational risks, thereby undermining stakeholders' confidence.

III. Non-Compliance with Requirement on Ethnic Diversity

- 1.24 The audit revealed that thirty-five percent 35% of the staff were from one dominant ethnic community, contrary to the requirements of Section 7(2) of the National Cohesion. Further, seventy-six percent 76% of employees recruited at the entry level during the financial year 2023/2024 were from the same dominant ethnic community.

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

- 1.25 A review of payroll data following the migration to the HRIS-Ke system in December 2024 revealed instances of salary and allowance overpayments and underpayments. Additionally, 110 employees were paid below the one-third basic salary threshold, and 20 health workers were excluded from extraneous allowance payments.

Conclusion

- 1.26 The Special Audit of Payrolls for Taita Taveta 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:
- 1.27 The non-compliance with requirements regarding limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in the 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.
- 1.28 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.
- 1.29 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 in inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure the lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 1.30 The Special Audit identified weaknesses in the promotion and appointment of staff, where staff were either appointed or promoted without meeting all the criteria set in the respective schemes of Service. These weaknesses undermine transparency, fairness, and compliance with established procedures. It may result in unqualified or ineligible individuals taking up positions they are not entitled to.
- 1.31 The audit revealed that some of the staff data maintained by the payroll systems used by the County Executive had integrity issues. This was evidenced by inaccurate dates of birth and National Identification numbers of employees. This indicates weak payroll controls including lack of data validation controls.

- 1.32 The authenticity of some of the employees could not be established. This was evidenced by the failure of the Chief Officers to account for employees in their departments. These cast doubt on the authenticity of payroll records and raise the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive.
- 1.33 The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances and non-compliance with the requirement on ethnic diversity and non-compliance with the one-third basic salary rule. These increase the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.34 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

- 1.35 In view of the findings and conclusions of the Special Audit, the following is recommended to the Taita Taveta County Executive;
- 1.36 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 ensure adherence to the 35% capping before the approval of the budgets.
- 1.37 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 times configured with the approved budget vote structures.
- 1.38 To enhance transparency, fairness, and accountability in the promotion and appointment of staff to new positions, the County Executive should adhere to the stipulated Scheme of Service to ensure that all appointments are based on merit, qualifications, experience, and in accordance with the approved human resource policies and procedures.
- 1.39 To ensure the integrity of data maintained in the payroll systems, the management should ensure that validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, the National Social Security Fund (NSSF) and the Social Health Authority (SHA).
- 1.40 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 allowances.
- 1.41 To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting

mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.

- 1.42 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 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 Taita Taveta 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.

Number of Employees and Payroll Expenditure

- 2.6 Over the three-year period under review, the change in the number of employees has been moderate with a slight decrease in the payroll costs.
- 2.7 The overall staff growth across the audit period was **4%** while there was a decrease of **5%** in payroll costs over the three (3) years as shown in **Figures 1 and 2**.

Figure 1: Cumulative Change in Payroll Costs

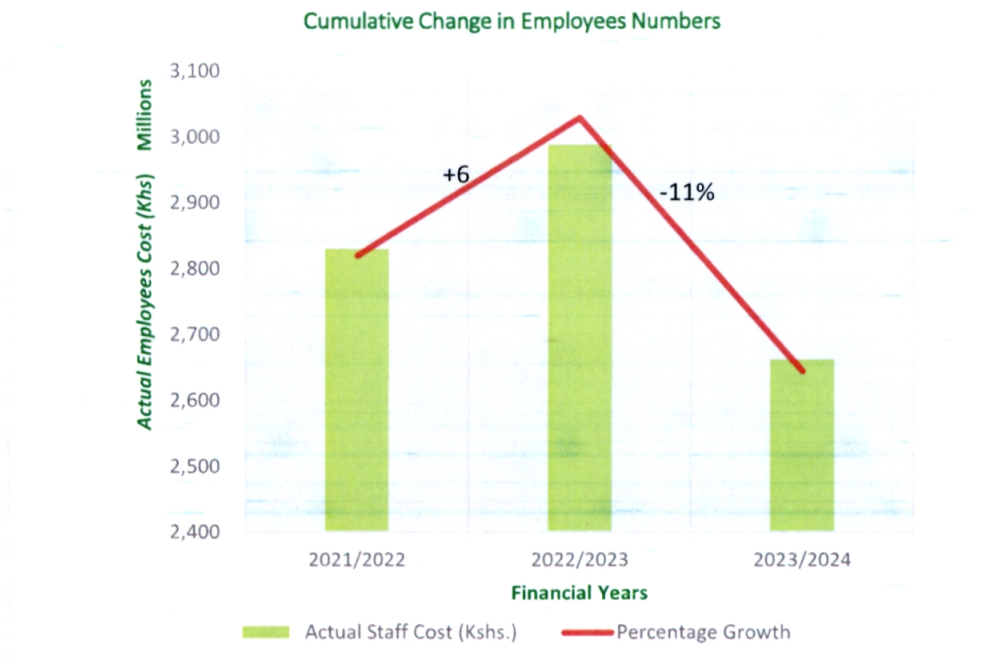
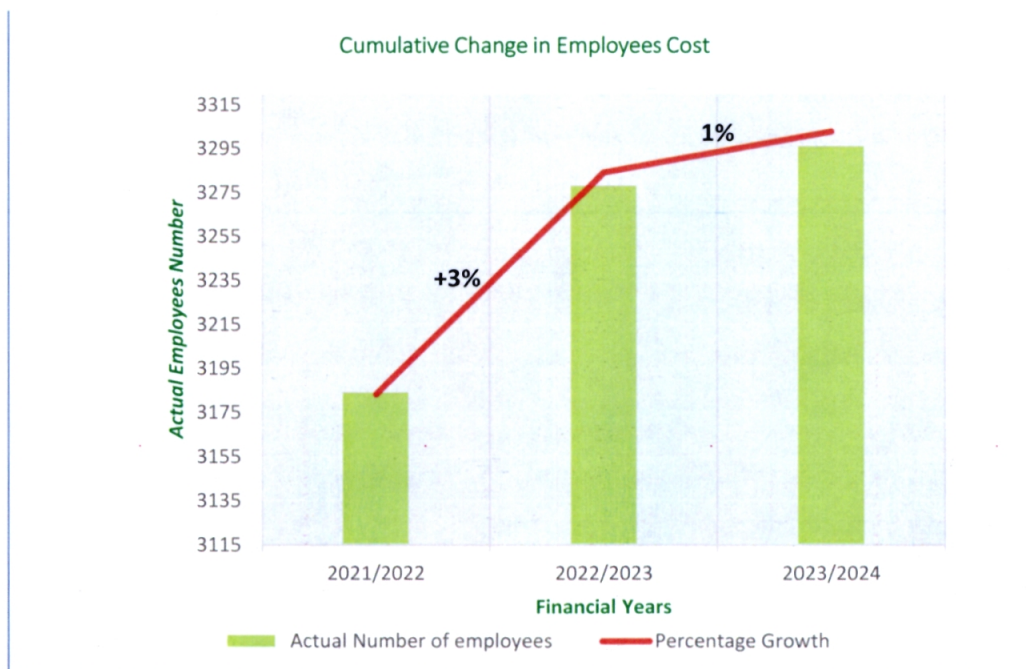


Figure 2: Cumulative Growth of Staff



Summary of the graphs above

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; and
 - v. Evaluate adherence to tax laws, labour laws, and other statutory requirements; and
 - vi. Assess whether payroll data was accurately and completely migrated from IPPD System to the 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 months of February and March, 2025.
- 2.11 The County Executive failed to provide the contract agreement with Kenya Commercial Bank relating to the salary advance facility. As a result, the audit could not verify key aspects such as the legal obligations, interest rates, repayment schedules, or potential financial exposure to the County Government. This

constitutes a limitation of scope, and the propriety of the salary advance facility could not be independently ascertained.

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

a) Document Review

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

- xii. Collective Bargaining Agreements (CBA), 2013;
- xiii. Affordable Housing Act, 2024;
- xiv. The County Executive Financial Statements for financial years 2021/2022, 2022/2023 and 2023/2024;
- xv. 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 and HRIS-Ke were extracted and analyzed. The exceptions from the analysis formed the basis for verification with payroll records maintained by the County Executive.
- 2.17 The following data sets for the financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed: -
- i. IPPD Staff Registers and Payroll data;
 - ii. Payment schedules;
 - iii. Itemized budgets for staff costs; and
 - iv. Chief Officers staff list for each department as at 30 June, 2024.
 - v. The HRIS-Ke payroll data for December 2024

c) Interviews

- 2.18 The Audit Team interviewed relevant payroll officers from the County Executive and the 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 a countersigned list of staff members in their departments as at 30 June 2024. The lists were corroborated with the IPPD staff registers maintained by the County Executive.
- 2.20 The Audit Team through the County Secretary, requested ninety (90) employees to present themselves in person for 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's personal data maintained in the payroll systems.

e) Report Structure

- 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; and
 - e. Compliance with Laws and Regulations.
 - f. Migration from Integrated Personnel and Payroll Database System to Human Resource Information System-Kenya.

A. Payroll Budgeting

- 3.2 The review of payroll budgeting aimed at assessing the reasonableness of payroll forecasts, alignment with the approved budgets and compliance with set laws. The following issues were established:

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

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

Table 1: Budgeted Compensation of Employee to Budgeted Revenue Ratio

Financial Year	Total Budget Revenue (Kshs.)	Total Budgeted Staff Emoluments (Kshs.)	Expenditure/Revenue Ratio
2021/2022	7,155,607,993	2,925,115,437	41%
2022/2023	6,160,537,977	3,022,288,290	49%
2023/2024	6,660,495,041	3,037,420,259	46%

*Source: Audited Financial Statements and Budgets

- 3.5 Further, actual compensation of employees as reflected in the financial statements also exceeded the thirty-five (35) percent threshold in all three (3) financial years, as detailed in **Table 2**.

Table 2: Actual Compensation of Employee to Revenue Ratio

Period	Total Revenue (Kshs.)	Actual Compensation of Employee (Kshs.)	Expenditure/Revenue Ratio
2021/2022	4,789,527,056	2,829,708,887	59%
2022/2023	5,240,960,991	2,988,894,233	57%
2023/2024	5,070,235,235	2,661,985,420	53%

*Source: Audited Financial Statements

- 3.6 The percentage of compensation of employees to the total revenue ratio has shown a slight decline over the three-year period. However, it has consistently remained well above the 35% threshold. This persistent breach raises concerns about the county's ability to manage its wage bill within sustainable limits. Continued high expenditure on employee compensation may constrain the county's fiscal space, limiting resources available for development initiatives and essential public services.

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

- 3.7 Section 148(1) of the 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.

- 3.8 A comparison of payroll reports extracted from the IPPD System with the approved budgets established that the departmental Vote Heads in the IPPD System were not aligned with those in the approved budgets as detailed in **Annexure 1**.
- 3.9 The primary factor that led to the misalignment was that all the County's salaries were budgeted under the Public Service and Administration department only.
- 3.10 It was however observed that the current salary vote has been budgeted in the respective departments.
- 3.11 Centralization of the personnel emoluments budget under the Department of Public Service and Administration limits accountability by individual accounting officers, hinders efficient oversight of budget implementation, and restricts transparency in reporting actual staff costs by departments.

B. Recruitments Process

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

I. Lack of Annual Recruitment Plans

- 3.13 Section 59(1)(g) of the County Governments Act, 2012 requires the County Public Service Board of a county to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. Further, Regulation 119(2) of the Public Finance Management (County Governments) Regulations 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.
- 3.14 The County Executive recruited two hundred and fifty-nine (259) employees (Excluding casuals), one hundred and forty-five (145) and two hundred and two (202) during the financial years 2021/2022, 2022/2023 and 2023/2024. 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 initiated.

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

C. Employee Data Management

- 3.16 Review of employees' data management involved assessing the accuracy and completeness of both manually maintained payrolls and data from the IPPD System. The following issues were established:

II. Integrity of Dates of Birth Records in Payroll System

- 3.17 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. Further, Circular Ref. No: PSC/ ADM/ 13(9) dated 19th November 2020 from the Public Service Commission to all authorized officers stipulates that the date of birth as per the Birth Certificate should be considered as a public officer's official date of birth.
- 3.18 The Special Audit identified two hundred and fifty-five (255) employees in the IPPD System with inconsistent dates of birth. Interviews with a sample of thirty-seven (37) employees and verification of their identification documents established that the dates captured in the IPPD System for thirty-seven (37) employees were different from those in the employees' Birth Certificates, as detailed in Annexure 2. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).
- 3.19 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 dates of birth to those in the IPPD System.

III. Integrity of Employees' Identification Numbers (ID) in IPPD System

- 3.20 The Special Audit identified two (2) employees in the IPPD System with inconsistent National Identification Numbers (ID).
- 3.21 Examination of the identification records maintained by the County Executive against the IPPD System disclosed that the national identification numbers of two (2) employees were inaccurately captured in the system as detailed in Annexure 3.
- 3.22 Further, the Special Audit established that the migration to HRIS-Ke was done before data cleaning to improve its quality and reliability. As a result, at the time of the audit, the HRIS-Ke had similar IDs as those in the IPPD System.
- 3.23 This discrepancy presents a risk to the integrity of personnel data and may affect the proper management of payroll and related benefits.

IV. Integrity of the Manual Payroll Records

- 3.24 Review of manual payroll for the years under review established that key statutory employee details, including the National Social Security Fund (NSSF) number, National Health Insurance Fund (NHIF) number and KRA PINs were missing from the manual payroll records for the financial year 2021/2022, raising concerns over data completeness and regulatory compliance.

V. Failure of Chief Officers to Account for Resources under their Department

- 3.25 Section 148(1) of the 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.
- 3.26 The Letter of Engagement addressed to the County Secretary for the audit of payroll, Ref:OAG/SAS/SADS/KDSP-PAYROLL/3/006 dated 13 February, 2025 required Chief Officers (COs) to provide a list of staff members in their department

as at 30th June 2024. This list was to be compared with employees in the payroll systems maintained by the County Executive.

- 3.27 A comparison of the Chief Officer's list against the records from the IPPD System established that there were three hundred and thirty-five (335) employees who were in the IPPD System but not in the lists provided by the Chief Officers as detailed on Annexure 4. These employees received a total of Kshs.336,311,470 in salaries during the three financial years under review.
- 3.28 Physical verification of the sampled employees established that this was mainly a result of directorates being moved from one department to another. Most of the employees affected were Enforcement officers.
- 3.29 Failure of the Chief Officers to regularly reconcile departmental records with payroll data undermines the effectiveness of payroll controls, increasing the risk of fraudulent or erroneous salary payments.

VI. Irregular Promotions and Appointments

- 3.30 Section 65(1) of the County Governments Act, 2012 sets out factors the County Public Service Board should consider in selecting candidates for appointment. Further, section 65(2) specifies merit as one of the overriding factors in determining whether appointments, promotion or re-designation are undertaken in a fair and transparent manner.
- 3.31 The audit established that there were six (6) employees in financial year 2021/2022 and three (3) employees in the financial year 2022/2023 who were promoted or appointed without adhering to the requirements of the respective schemes of Service, as detailed in Annexure 7.
- 3.32 The irregular promotions undermine the principles of fairness and transparency in human resource management and may expose the County Executive to legal disputes, employee dissatisfaction, and potential financial loss.

D. Payroll Processing and Payments

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

I. Employee in Both IPPD and Manual Payrolls

3.34 Section 149(1) of the Public Finance Management Act, 2012 imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is (a) lawful and authorized, and (b) effective, efficient, economical and transparent.

3.35 During the financial year 2021/2022, the County Executive operated parallel payroll systems, IPPD for employees with assigned payroll numbers, and a manual payroll system for those who had not yet been allocated payroll numbers.

3.36 An analysis of staff in the two payrolls revealed that there were ten(10) employees whose salaries were processed through both payrolls. A total of Kshs.581,120 was paid through the two systems as detailed in **Annexure 6**.

3.37 The existence of employees in both payrolls indicates a likelihood of fraudulent activities, which may result in the loss of public funds due to double payments.

II. Over-Payment of House Allowance

3.38 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.

3.39 The Special Audit established that the County Executive overpaid house allowance to fifty-five (55), sixty-seven (67) and thirty (30) employees during the financial years 2021/2022, 2022/2023 and 2023/2024 respectively. As a result, a total of Kshs.2,965,817 was irregularly paid as detailed in **Annexure 7**.

III. Irregular Payment of Hardship Allowance

- 3.40 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.
- 3.41 The Audit revealed that the County Executive irregularly paid hardship allowance to nine (9) and eighteen (18) employees during the financial year 2022/2023 and 2023/2024 respectively. As a result, a total of Kshs.1,069,281 was irregularly paid as detailed in **Annexure 8**.

E. Compliance with Laws and Regulations

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

I. Payment of Special Duty Allowance for More than Six (6) Months

- 3.43 Paragraph C.15 (1) states that when an officer is called upon to perform duties of a higher post but does not possess the necessary qualifications for appointment to that post, he shall be paid special duty allowance at the rate of fifteen per cent (15%) of the officer's basic salary. Under paragraph C.15 (4), Special Duty Allowance will not be payable to an Officer for more than six (6) months.
- 3.44 The Special Audit established that two (2) employees were paid special duty allowance for a period exceeding six months during the financial year 2022/2023, contrary to Section C.15(1) of PSC HR Policies and Procedures Manual,2016. The total allowance paid for the months exceeding the six (6) months amounted to Kshs.104,379 as detailed in **Annexure 9**.

II. Non-Compliance with Remittance of Statutory Deductions

- 3.45 Rule 10(1) of Income Tax (P.A.Y.E) Rules, 1973 requires that before the tenth day following the end of every month or before any other day which may be notified to him by the Commissioner, an employer shall pay all amounts of tax which the employer has deducted during such a month.
- 3.46 A comparison of statutory deductions for employees in the IPPD System with bank statements revealed there were delays in remittance of NHIF, NSSF and

PAYE deductions. During the period under review a total of Kshs. 109,900,400, 71,538,971 and 1,246,406,798 for NHIF, NSSF and PAYE respectively, were delayed. The delays ranged from 14 to 68, 17 to 180 and 3 to 83 days for NHIF, NSSF and PAYE respectively, as detailed in **Annexure 10(a,b,c)**.

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

III. Non-Compliance with Requirement on Ethnic Diversity

- 3.48 Section 7(1) of the National Cohesion and Integration Act, 2008, states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff. Section 7(2) states that no public establishment shall have more than one-third of its staff from the same ethnic community.

- 3.49 Section 65(1)(e) of the County Governments Act, 2012 requires 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.

- 3.50 Analysis of the staff ethnic composition revealed that 35% 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, as detailed in **Annexure 11**.

- 3.51 Further, 76% of employees recruited at the entry level during the financial year 2023/2024 were from the same dominant ethnic community as detailed in **Annexure 12**. This is contrary to Section 65(1)(e) of the County Governments Act, 2012.

- 3.52 The non-compliance with ethnic diversity is a violation of legal requirements and may lead to legal suits.

IV. Violation of a Third Basic Salary Rule

- 3.53 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.

- 3.54 An analysis of the June 2024 payroll established that there were one hundred fifty-five (155) employees who were paid net salaries that were less than one-third of their basic

pay as detailed in **Annexure 13**. This is contrary to section 19 (3) of the Employment Act, 2007.

- 3.55 The employees earning less than one-third of their basic salary may be unable to meet their personal financial obligations. This may adversely affect their productivity, decision-making, and ability to effectively safeguard county interests.

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

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

I. Overpayment and Underpayment of Salary and Allowances

- 3.57 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. Comparison between data from the IPPD System for the month of November, 2024 and that from HRIS-Ke for January 2025 established instances of overpayment and underpayments of salaries and allowances as shown in table below and detailed in **Annexure 14, 15 and 16**.

Table 3: Overpayment and Underpayment of Salary and Allowances

Salary/ Allowance	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount (Kshs.)	Number of Employees	Amount (Kshs.)
Basic Pay	9	9,427	956	2,149,749
House Allowance	12	11,136	72	254,985
Commuter Allowance	12	13,580	36	446,200
Total		34,143		2,850,934

*Source: IPPD Payroll System and HRIS-Ke Payroll System

III. Non-Deduction of Extraneous Allowance

3.59 A comparison of the allowances paid in December 2024 against the allowances paid January 2025 revealed that there were twenty (20) employees who were not paid extraneous health allowance. **Annexure 17.**

4. CONCLUSION

- 4.1 The Special Audit of payrolls for Taita Taveta 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 percent (35%) of Revenue indicates weaknesses in the budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3 The Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. This 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 the lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.4 The Special Audit identified weaknesses in the promotion and appointment of staff, where staff were either appointed or promoted without meeting all the criteria set in the respective schemes of Service. These weaknesses undermine transparency, fairness, and compliance with established procedures. It may result in unqualified or ineligible individuals taking up positions they are not entitled to.
- 4.5 The audit revealed that some of the staff data maintained by the payroll systems used by the County Executive had integrity issues. This was evidenced by inaccurate dates of birth and National Identification numbers of employees. This indicates weak payroll controls including lack of data validation controls.
- 4.6 The authenticity of some of the employees could not be established. This was evidenced by the failure of the Chief Officers to account for employees in their departments. These cast doubt on the authenticity of payroll records and raise the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive.

- 4.7 The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances and non-compliance with the requirement on ethnic diversity and non-compliance with the one-third basic salary rule. These increase the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 4.8 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.
- 4.9 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.

5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusions of the Special Audit, the following is recommended for implementation by the Taita Taveta County Executive;
- 5.2 To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue, the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 5.3 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.
- 5.4 To enhance transparency, fairness, and accountability in the promotion and appointment of staff to new positions, the County Executive should adhere to the stipulated Scheme of Service to ensure that all appointments are based on merit, qualifications, experience, and in accordance with the approved human resource policies and procedures.
- 5.5 To ensure the integrity of data maintained in the payroll systems, the management should ensure that validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, the National Social Security Fund (NSSF) and the Social Health Authority (SHA).
- 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 allowances.

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.

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

6. APPENDICES

Appendix 1: List of Staff Interviewed

No.	Designation	Department
1.	Director Human Resource	Public Service and Administration
2.	Payroll Manager	Public Service and Administration
3.	Senior Accountant	Finance & Accounting
4.	Chief Human Resource Officer	Public Service and Administration

Appendix 2: List of Annexures


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


No.	Annexure	Title
1	Annexure 1	Budget Votes in Payroll Systems not Aligned with those in the Approved Budget.
2	Annexure 2	Integrity of Date of Birth Data in IPPD Systems
3	Annexure 3	Integrity of Employees' Names in IPPD System
4	Annexure 5	Failure of Chief Officers to Account for Resources under their Department
5	Annexure 7	Irregular Promotions and Appointments
6	Annexure 6	Employees in Both IPPD and Manual Payrolls
7	Annexure 7	Irregular Payment of House Allowance
8	Annexure 8	Irregular Payment of Hardship Allowance
9	Annexure 9	Irregular Payment of Special Duty Allowance.
10a	Annexure 10a	Non-Compliance with Remittance of Statutory Deductions (NHIF)
10b	Annexure 10b	Non-Compliance with Remittance of Statutory Deductions (NSSF)
10c	Annexure 11c	Non-Compliance with Remittance of Statutory Deductions (PAYE)
11	Annexure 11	Non-Compliance with Requirement on Ethnic Diversity
12	Annexure 12	Non-Compliance with Requirement on Ethnic Diversity on Recruitments
13	Annexure 13	Violation of One Third Rule
14	Annexure 14	Underpayment and Overpayment of Basic Pay
15	Annexure 15	Underpayment and Overpayment of House Allowance
16	Annexure 16	Underpayment and Overpayment of Commuter Allowance
17	Annexure 17	Non-Payment of Extraneous Health Allowance

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