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

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COUNTY 029

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 Nandi 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 Nandi County Executive was conducted in line with this mandate.

The Special Audit evaluated the human resource and payroll processes at the Nandi 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 Nandi 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 Nandi County Public Service Board and the Governor, Nandi 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 Nandi County Executive referred to as 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 IPPD and HRIS-Ke was conducted across MDAs and County Governments in November 2024. This was to ensure system readiness, which led to the full adoption of the system in December 2024.

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 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. The County Executive did not provide casual payrolls for the years under review and requests from the County Public Service Board (CPSB) for the hiring of permanent, contract, and casual staff, master rolls indicating casual workers' attendance, and minutes of shortlisting, interviews, and appointments—were not provided for review; management indicated that some of these records were in the possession of investigative agencies such as the Ethics and Anti-Corruption Commission (EACC) and the Directorate of Criminal Investigations (DCI). This limitation was however mitigated by using data analysis to test the controls.

Methods of Gathering Evidence

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

Summary of Findings

The key audit finding are as detailed below

A. Payroll Budgeting

I. Employee Cost to Revenue Ratio

1.10 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 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.

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

1.12 The 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. Recruitments Process

I. Lack of Annual Recruitment Plans

- 1.13 The Special Audit established that the County executive recruited one hundred and twenty-four (124) employees during the three (3) financial years. However, it was established that the recruiting departments did not have annual recruitment plans to guide the recruitments. The lack of annual recruitment plans can result in either overstaffing, understaffing, or hiring for roles that do not align with organizational priorities.

II. Lack of Accountability in Hiring and Management Employees

- 1.14 The Special Audit established internal control weaknesses in hiring, recruitment, and employment processes, as key records—including documentation on the hiring and criteria for casual employees, requests and approvals from the County Public Service Board (CPSB) for staff recruitment, master rolls for casual workers' attendance, and minutes related to shortlisting, interviews, and appointments—were not provided for audit, with management attributing their unavailability to ongoing investigations by agencies such as the Ethics and Anti-Corruption Commission (EACC) and the Directorate of Criminal Investigations (DCI).

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

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

C. Employee Data Management

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

- 1.16 The Chief Officers (COs) were requested to provide a list of staff members in their respective departments as at 30 June, 2024. A comparison of the staff lists countersigned by various Chief Officers, with the staff register from the IPPD System, established that five hundred and seventy-one (571) employees were

present in the IPPD but were not included in the lists provided by the Chief Officers. The failure to account for human resource in various departments presents the risk of irregular or fraudulent payments in the County Executive.

II. Authenticity of Staff in the Payroll

- 1.17 The Office of the Auditor General (OAG) requested a physical verification of eighty-nine (89) sampled employees vide letter OAG/SA/SADS/KDSP-PAYROLL/29/04, dated 14 February 2025, which was addressed to the County Secretary of Nandi County. Out of the eighty-nine (89) summoned employees, thirty-four (34) failed to appear for the verification exercise despite multiple attempts to reach out to them. During the period under review, the thirty-four (34) officers collectively received gross salary amounting to Kshs.134,046,923.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Budget Vote

- 1.18 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. Employee in Both IPPD and Manual Payrolls

- 1.19 The Special Audit established that one hundred seventy-four (174) employees were paid on both payrolls.

III. Irregular Promotions and Upgrades

- 1.20 The Special Audit established that there were one hundred and twenty-nine (129) employees promoted during the financial year 2022/2023 without meeting the requirements set in their respective schemes of service.

IV. Circumventing Payroll Controls to Pay Irregular Salary Arrears

- 1.21 The County Executive paid arrears amounting to Kshs.69,752,144 over three (3) financial years; however, anomalies were noted, including a service gratuity

payment of Kshs.190,628 to an employee engaged on permanent and pensionable term. Further nursing allowances totalling Kshs.720,000 paid to twenty (20) employees who did not meet the criteria set out in the December 2022 Compendium of Remuneration and Benefits for Public Service.

V. Irregular Payment of Airtime Allowance

- 1.22 The Special Audit established that airtime allowance totalling Kshs.5,615,848 was irregularly paid to one hundred and seven (107) employees, no documented criterion for determining employee eligibility for the allowance, and no formal policy or guidelines were provided to justify the basis of payment.

VI. Irregular Payment of Security Allowance

- 1.23 The Special Audit established that there were fifty-six (56) employees who were irregularly paid security allowance totaling to Kshs.10,180,212. However, there was no documented criterion for determining employee eligibility for the allowance, and no formal policy or guidelines were provided to justify the basis of payment.

VII. Irregular Payment of Hardship Allowance

- 1.24 The Special Audit established that there were six hundred and twenty-four (624) employees in IPPD who were irregularly paid hardship allowance totalling to Kshs.41,046,012.

VIII. Irregular Payment of Prosecutorial Allowance

- 1.25 The Special Audit established that there were twenty-six (26) employees who were irregularly paid Prosecutorial Allowance totalling to Kshs.6,420,000. Prosecutorial Allowance is only applicable where the entity has prosecutorial powers in their mandate.

E. Compliance with Laws and Regulations

I. Irregular Payment of Acting Allowance

- 1.26 The audit established that one (1) employee was paid acting allowance amounting to Kshs.333,843.40 for more than six (6) months, this is contrary to Section C.14(1) of the Human Resource Policies and Procedure Manual (2016).

II. Payment of Special Duty Allowance for More than 6 Months

- 1.27 The Special Audit established that two (2) employees were paid special duty allowance for more than six (6) months, totalling to Kshs.419,008. This is contrary to Section C.15(1) of the Human Resource Policies and Procedure Manual (2016).

III. Non-Compliance to Remittance of Statutory Deductions

- 1.28 Examination of statutory deductions, payment vouchers and bank statements provided for audit review revealed that Kshs.609,697,194 was deducted from the employees in the County, but were not remitted to the respective authorities/funds.
- 1.29 Further, examination of deduction and bank statements for the payroll deductions for the period ended 30 June 2023 provided for verification revealed that (NHIF), NSSF and (PAYE) deduction from employees were not remitted on time to the Fund contrary to Section 18 (1) of the NHIF (2012), and 10 (1) of income Tax (P.A.Y.E) Rules.

IV. Nugatory Expenditure on Staff Cost

- 1.30 The Special Audit established that the County Executive incurred Kshs.12,641,487 in interest on overdraft loan. This amount represents an avoidable and wasteful expenditure of public funds and has negatively impacted the staff wage bill as it was not budgeted for in the staff cost.

V. Active Staff Above Age 60 years

- 1.31 The Special Audit established that one (1) employee had attained the retirement age of sixty (60) years however was still active in payroll at 30 June 2024.

VI. Non-Compliance with Requirements in Ethnic Diversity

- 1.32 Analysis of employees in the IPPD System as at 30 June, 2024 established that 96% 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

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

- 1.33 An analysis of the staff payroll for the three (3) financial years revealed that three hundred thirty-eight (388) employees were paid net salaries that were

less than one-third of their basic salaries in contravention with Section 19 (3) of the Employment Act 2007.

VIII. Appointment Without Probation Period

- 1.34 A review of sampled appointment letters issued for staff recruited during the period under review established that the Board appointed employees to permanent and pensionable positions without indicating a probation period.
- 1.35 Failure to adherence to the probation requirement poses a risk of appointing employees without proper performance evaluation, which may affect overall service delivery and compliance with public service regulations.

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

- 1.36 The Special Audit established that thirty-four (34) ECD teachers did not receive their special salary. Additionally, thirty-seven (37) employees who were not listed in the November 2024 payroll were subsequently added to the HRIS-Ke system in December 2024. Management did not provide supporting documentation to justify their inclusion. These employees received a total gross payment of Kshs.8,887,667 in December 2024. Furthermore, the County Executive adopted the Human Resource Information System (HRIS-Ke) effective December 2024, and a comparison between the November 2024 IPPD data and the December 2024 HRIS-Ke data revealed instances of overpayment and underpayment of salaries and allowances.

Conclusion

- 1.37 The Special Audit of payrolls for Nandi 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:
- 1.38 The Nandi County Government did not comply with requirement on limiting the Employee Cost within thirty-five percent (35%) of Revenue. The non-compliance with requirements on limiting the Employee Cost within thirty-five percent (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 1.39 The Vote Heads in the IPPD System and HRIS-Ke 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.
- 1.40 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. This hampers the county's ability to plan, budget, and deploy personnel effectively across departments, leading to staffing gaps or surpluses.
- 1.41 The IPPD System and HRIS-Ke were not updated with approved designations in the approved staff establishment. These increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 1.42 The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by the inaccurate dates of birth in the IPPD System and HRIS-Ke. Data with integrity issues

indicates weak internal controls and increases the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive and miscalculation of retirement dates and pension dues of employees.

- 1.43 The authenticity of some of the employees could not be established. This was evidenced by the failure by the Chief Officers to account for employees in their departments and the payroll data Integrity issues. This casts doubt on authenticity of payroll records and raises the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County.
- 1.44 There were instances where employees were overpaid or paid irregular allowances. This reflects weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of financial misstatements, fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 1.45 The controls over processing and payment of salary were not adequate as evidenced by the unauthorized job group changes and circumventing payroll controls to pay irregular salary arrears. This indicates weak financial and human resource controls, that were exploited to process irregular payments. This weakness undermines the reliability of payroll data, increases the risk of financial loss, and reflects inadequate system and management controls.
- 1.46 The County Executive did not comply with tax and labour laws as evidenced by non-deduction, non-remittance, late remittance of statutory deduction and non-compliance with requirement on ethnic diversity and non-compliance with one third basic salary rule. This violates legal and regulatory obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.47 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and failure to migrate some employees. 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.

- 1.48 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

- 1.49 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Nandi County Executive.
- 1.50 To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35%) percent of the County Executive's total revenue, the County Assembly should establish mechanisms to ensure compliance with the PFM Act in the execution of its oversight responsibilities.
- 1.51 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability, the Chief Officers for Public Finance together with the Management of the State Department for Public Service and Human Capital Development (the custodian of the Human Resource Information System-Kenya) should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 1.52 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.
- 1.53 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.
- 1.54 To ensure integrity of data maintained in the payroll systems, the Management should ensure 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), Social Health Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favour of HRIS-Ke.

- 1.55 To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
- 1.56 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments and underpayments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.
- 1.57 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

2. INTRODUCTION AND BACKGROUND

Introduction and Background

- 2.1 Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7 (1) (a) of the Public Audit Act, 2015 requires the Auditor-General to give an assurance on the effectiveness of internal controls, risk management and overall governance at national and county 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 Nandi 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, there was a gradual increase in both the number of employees and payroll costs. The rise in staff costs was due to the irregular payment of hardship allowances, irregular promotions, and the appointment of one thousand one hundred and eighty-three (1,183) staff members whose appointments had been revoked by the Board but were nonetheless introduced into the IPPD System. Additionally, one hundred and nineteen (119) staff members were removed from the manual payroll.
- 2.7 The overall staff growth across the audit period was 23%. While the cumulative growth in payroll costs over the three years was approximately 8% as detailed in **Figure 1** and **Figure 2**.

Figure 1: Cumulative Growth in Payroll Costs

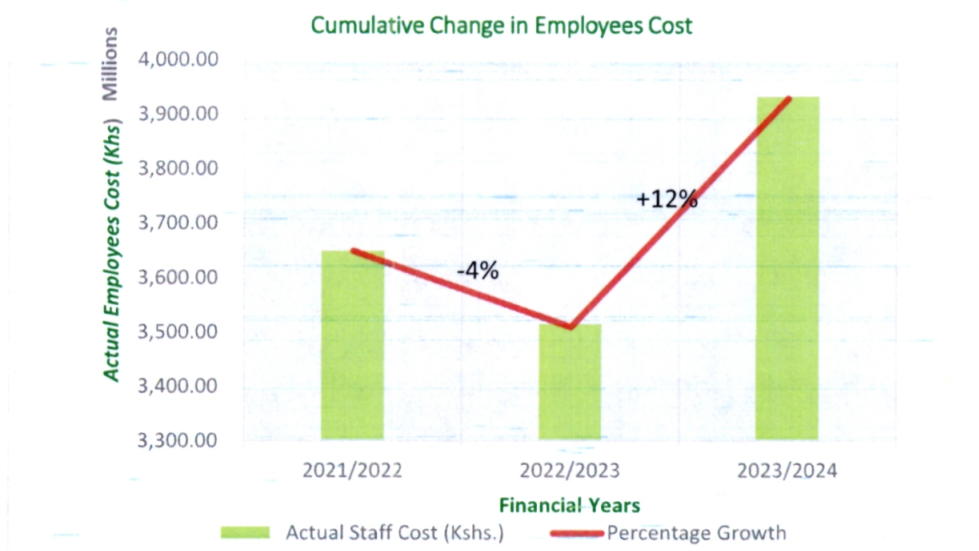
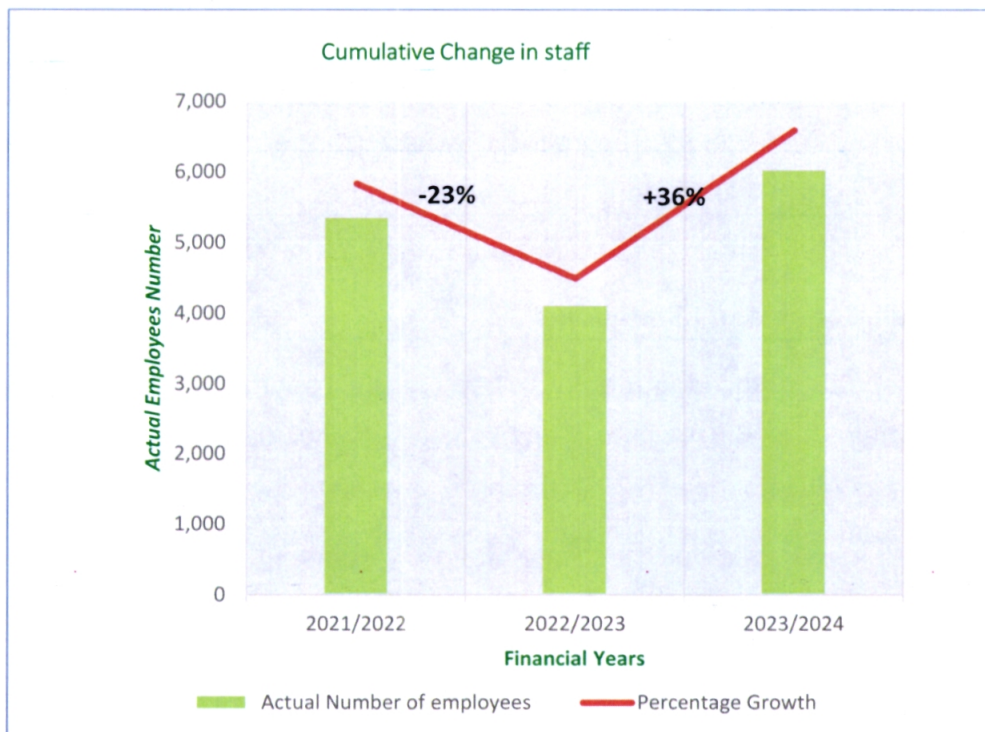


Figure 2: Cumulative Growth Of Number of Staff



2.8 The higher rate of growth in payroll cost compared to staff numbers indicates a combination of factors, including recruitment of additional staff, salary increments, absorption of staff, library, irregular recruitment and payment of irregular hard ship allowances.

Audit Objectives

2.9 The objective of the Special Audit on Payroll Management was to assess the adequacy of controls and compliance across the entire payroll process - from budgeting and recruitment to salary processing and payment. The specific objectives were to:

- i. Evaluate whether the preparation and execution of the payroll budget align with relevant laws and approved budgetary provisions;
- ii. Assess whether the recruitment process complied with applicable legal, regulatory, and organizational frameworks governing employment;
- iii. Assess the integrity of payroll data and identify any double entries, entries in multiple institutions, unverified employees, or inconsistencies across the County Government Payroll System;
- iv. Determine the accuracy of payroll calculations and payments; 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 Human Resource Information System – Kenya (HRIS-Ke).

Audit Scope and Limitations

2.10 The audit entailed in-depth review of the payroll management systems maintained in the County Executive, which included Integrated Payroll and Personnel Databases (IPPD), manual payrolls and casual payrolls.

2.11 The payroll data for the three financial years 2021/2022, 2022/2023 and 2023/2024 was analyzed to assess the internal controls in payroll processing and compliance with laws and regulations.

2.12 The County Executive did not provide the recruitment and promotion file for the three financial years under review. This limitation was mitigated by corroboration of information from different sets of payment records maintained by the County Executive.

Audit Methodology

- 2.13 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 Data Collection

- 2.14 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 Management.
- 2.15 The main evidence gathering methodologies applied during the audit included, document review, data analytics, interviews with key payroll staff and physical verification of staff.

a) Document Review

- 2.16 The Audit Team reviewed various documents in order to set audit criteria and assess compliance with the criteria and in gathering audit evidence. They include:
- 2.17 The Audit Team reviewed various documents including: -
- 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. County Government of Nandi Human Resource Policies and Procedures Manual, December 2021;
- xii. Public Service Commission Human Resource Policies and Procedures Manual of May 2016;
- xiii. Employees' Physical Files;
- xiv. Collective Bargaining Agreements (CBA), 2013;
- xv. Affordable Housing Act, 2024;
- xvi. The County Executive Financial Statements for Financial Years 2021/2022, 2022/2023 and 2023/2024;
- xvii. The County Executive Budgets Financial years 2021/2022, 2022/2023 and 2023/2024;

b) Data Analytics

- 2.18 The Payroll and staff register data from the IPPD System and the HRIS-Ke were extracted and analyzed together with manual and casual's payrolls. The exceptions from the analysis were the basis for verification with payroll records maintained by the County Executive.
- 2.19 The following data sets for the financial years 2021/2022, 2022/2023 and 2023/2024 were analysed: -
- 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. HRIS-Ke Data for the month of December 2024

c) Interviews

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

d) Physical Verification of Staff

2.21 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 corroborated with the IPPD staff registers maintained in the County.

2.22 The Special Audit team through the County Secretary, requested eighty-nine (89) employees to appear 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

2.23 The report is organized as follows:

- i. Executive Summary;
- ii. Introduction and Background;
- iii. Detailed Findings;
- iv. Conclusion;
- v. Recommendations; and
- vi. Appendices;

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

3. DETAILED FINDINGS

3.1 The detailed findings are in the ensuing paragraphs and have been categorized into the following five (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. The following were established:

I. The compensation of Employee Cost to Revenue Ratio exceeded threshold

3.3 Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 requires the County Executive Committee Member for Finance with the approval of the County Assembly to set a limit on the county government's expenditure on wages and benefits for its public officers pursuant to Section 107(2) of the Act. 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 the three (3) financial years contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 as detailed in **Table 1**.

Table 1: Budgeted Employee Cost to Budgeted Revenue Ratio

| Financial Year | Budgeted Revenue (Kshs.) | Budgeted Expenditure of Staff Emoluments (Kshs.) | Revenue/Expenditure Ratio |
|----------------|--------------------------|--|---------------------------|
| 2021/2022 | 8,965,549,809 | 3,837,791,442 | 43% |
| 2022/2023 | 7,783,488,405 | 3,755,359,007 | 48% |
| 2023/2024 | 8,988,667,004 | 4,033,986,309 | 45% |

*Source: Audited Financial Statements

- 3.5 Further, comparison of compensation of employee's expenditure with actual revenue as reflected in the financial statements revealed the County Executive had also exceeded the thirty-five (35) percent threshold in three (3) financial years, as detailed in **Table 2**.

Table 2: Actual Employee Cost to Actual Revenue Ratio

| Financial Year | Total Revenue (Kshs.) | Expenditure of Staff Emoluments (Kshs.) | Revenue/Expenditure % Ratio |
|----------------|-----------------------|---|-----------------------------|
| 2021/2022 | 7,534,802,849 | 3,649,417,748, | 49% |
| 2022/2023 | 7,279,625,010 | 3,514,768,261 | 48% |
| 2023/2024 | 6,968,903,386 | 3,933,307,091 | 56% |

*Source: Audited Financial Statements

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

II. Budget Votes in 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 payrolls reports extracted from IPPD System with the 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 lines was the failure to update the IPPD System to reflect changes resulting from the restructuring and consolidation of various sectors within the County Executive.
- 3.10 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, the HRIS-Ke had similar Votes Heads to those in the IPPD System.
- 3.11 The continued referencing to outdated departmental structures leads to inconsistencies between budgetary allocations and actual payroll expenditures, increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect or obsolete vote heads

B. Recruitments Process

- 3.12 The audit reviewed the recruitment process to evaluate whether hiring practices were fair and aligned with the County Executive's policies and legal requirements. The following issues were established:

I. Lack of Annual Recruitment Plans

- 3.13 Section 59(1)(g) of the County Governments Act, 2012 require the County Public Service Board of a county to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. Further, Regulation 119(2) of the Public Finance Management (County Governments) Regulations 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 recruited one hundred and twenty-four (124) employees during the three (3) financial years as indicated in **Annexure 2**. However, the departments did not have annual recruitment plans to guide the recruitments. Further, there was no evidence was provided as proof that budgetary availability was being sought before recruitments were made. As a result, the effectiveness of internal controls in human resource management could not be verified

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

II. Lack of Accountability in Hiring and Management of Employees

- 3.16 Section 74 of the County Governments Act, 2012 requires the County Public Service Board to regulate the engagement of staff on contract, volunteer and casual workers in its public bodies and offices.
- 3.17 A review of recruitment records maintained by the County Service Public Board established that the County recruited a total of one hundred and twenty-four (124) employees during the three (3) financial years as indicated in **Annexure 3**. However, there were one thousand one hundred and eighty-three (1,183) staff members who were introduced into the IPPD System without authority from the Board. Additionally, one hundred and nineteen (119) staff members were removed from the manual payroll without Board approval.
- 3.18 Review of recruitment process established the following internal control weaknesses:
- i. Records in respect of how casual employees were hired, the work for which they were hired for and criteria for their recruitment were not provided for audit.
 - ii. Requests from Chief Officers and approvals for recruitment from the County Service Public Board (CPSB) for the recruitment of permanent employees, contracted staff and casual workers, were not provided for audit review.
 - iii. Master rolls showing attendance of the casual workers were not provided for audit.
- 3.19 The shortlisting minutes, interview minutes, and appointment minutes from the County Public Service Board (CPSB), as well as records of the deliberations and decisions regarding the appointment of successful candidates from the County Public Service Board (CPSB), were not provided for audit review.
- 3.20 The Management explained that some of these documents had been taken by other government agencies, including, Ethics and Anti-Corruption Commission

(EACC) and Directorate of Criminal Investigations (DCI) who are conducting investigations into payroll matters.

- 3.21 The absence of recruitment records increases the risk of nepotism, favoritism, and irregular hiring practices. In addition, without approvals from the County Public Service Board (CPSB), individuals may be employed without adherence to due process, leading to payroll fraud.

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

- 3.22 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.
- 3.23 The Special Audit established that there were four hundred and eighty-five (485) designations that were configured in the payroll system. However, out of the configured designations, thirty-three (33) designations, were not in the approved staff establishment. There were four thousand eight hundred sixty-four (4,864) employees who were placed in thirty-three (33) as detailed **Annexure 4.**
- 3.24 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, the HRIS-Ke had similar designations to those in the IPPD System.
- 3.25 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, the HRIS-Ke had similar designations to those in the IPPD System.
- 3.26 As a result of the misalignment between the staffing records in the IPPD System and the approved staff establishment, it was not possible to establish whether the County filled positions in accordance with the approved staff establishment. This may lead to inefficiencies in workforce planning, budget overruns and service delivery.

C. Employee Data Management

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

I. Integrity of Employee National Identification Numbers

3.28 The Special Audit establish that there were eight (8) employees in the IPPD System whose names did not match with their corresponding National Identification Numbers. Physical verification revealed that four (4) employees had their personal details erroneously captured in the IPPD System, while the remaining four (4) employees did not appear for verification as detailed in **Annexure 5 (a)**.

II. Integrity of Data Maintained in Manual Payroll

3.29 Analysis of the manual payroll as at 30th June 2024, revealed that two hundred and one (201) employees did not have NSSF numbers, NHIF numbers and KRA PIN numbers as indicated in **Annexure 5(b)**. Verification of documents maintained by the County revealed that the County did not maintain copies of the employees NHIF, NSSF and KRA PIN Certificates.

III. Integrity of Dates of Birth records in Payroll Systems

3.30 Comparison between the IPPD records and identification records for employees established that the birth dates for five hundred and fifty-nine (559) employees captured in IPPD System were different from that in employee's Birth Certificates, contrary to the directive outlined in circular Ref. No: PSC/ADM/ 13(9), dated 19 November, 2020 as detailed in **Annexure 5 (c)**.

3.31 Inaccurate capture of birth dates leads to the risk of exceeding the legal retirement age or forcing an employee to retire before they are due for retirement. There is also the risk of miscalculation of retirement dates and pension dues of employees, as well as other entitlements that are calculated based on age.

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

- 3.32 Section 148(1) of the Public Finance Management Act, 2012 requires a County Executive Committee Member for Finance to, designate accounting officers to be responsible for managing the finances of the county government entities as is specified in the designation. Further, Sub-section (2) requires the person responsible for the administration of a county government entity to be the accounting officer responsible for managing the finances of that entity except as otherwise stated in other legislation.
- 3.33 The Letter of Engagement addressed to the County Secretary for the audit of payroll, Ref: OAG/SAS/SADS/KDSP-PAYROLL/3/029, dated 5 January 2025, required Chief Officers (COs) to provide list of staff members in their respective departments as at 30 June, 2024. This list was to be compared with records of employees in the payroll systems maintained by the County Executive and those not in the Chief Officer's list flagged for physical verification.
- 3.34 A comparison of staff lists countersigned by various Chief Officer's with IP staff register from IPPD system established that there were one hundred and seventy-two (172) employees appearing on the Chief Officer's but not in the Integrated Payroll and Personnel Database (IPPD) as indicated in **Annexure 6(a)**. Further five hundred and seventy-one (571) employees, who were in IPPD but not in lists provided by Chief Officers, as indicated in **Annexure 6(b)**. The five hundred and seventy-one (571) employees were paid Kshs.968,114,871 for the three (3) financial years as detailed in **Annexure 6(b)**.
- 3.35 The failure by the Chief Officers to account for employees cast doubt on authenticity of payroll records.

V. Authenticity of Staff in the Payroll

- 3.36 The Office of the Auditor-General requested for a physical verification of sampled staff via the letter OAG/SA/SADS/KDSP-PAYROLL/4/029 dated 14 February 2025, which was addressed to the County Secretary.
- 3.37 Out of the eighty-nine (89) summoned employees, thirty-four (34) failed to appear for the verification exercise despite multiple attempts to reach out to

them. During the period under review, the thirty-four (34) officers collectively received gross salary amounting to Kshs.134,046,923 as detailed in **Annexure 7**.

- 3.38 The employees who failed to present themselves for physical verification may not exist, raising the risk of irregular or fraudulent payments.

D. Payroll Processing and Payments

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

I. Charging of Employee Costs to the Wrong Budget Vote

- 3.40 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.
- 3.41 It was established that there was a misalignment between departmental vote heads in IPPD system and those in IFMIS ledger account. As a result, comparison of gross salary processed through IPPD system, casual payroll and manual payrolls to salary ledgers from Integrated Financial Management Information System (IFMIS) established that posting of salary in IFMIS was not done as per departmental budget votes detailed in **Annexure 8**.
- 3.42 This misalignment creates inconsistencies between budget allocations and actual expenditures by departmental, therefore increasing the risk of misuse of funds and inaccurate financial reporting.

II. Drawing Salary from Different Government Entities

- 3.43 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective.
- 3.44 Analysis of the payroll for the three (3) financial years and comparison with Identification documents for employees established that one (1) employee in the financial year 2023-2024, who shared a National Identification Number with

an employee in a different government entity i.e the Teachers Service Commission. The total amount paid to this employee was Kshs.773,678 as indicated in **Annexure 9**. In addition, the employee did not appear for physical verification.

III. Employee in Both IPPD and Manual Payrolls

- 3.45 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.
- 3.46 During the years under review, the County Executive was maintaining payroll in IPPD system for employees with Payroll Numbers, Manual Payrolls for employees without payroll numbers and casual payroll for casual workers.
- 3.47 A comparison between the IPPD and manual payrolls showed that one hundred and seventy-four (174) employees were paid on both payrolls. The total amount paid to these employees was Kshs.56,742,638 as detailed in **Annexure 10**.
- 3.48 The existence of employees in both payrolls indicates likelihood of fraudulent activities, that may result to loss of public funds due to double payments.

IV. Irregular Promotions and Appointments

- 3.49 Section 65(1) of the County Governments Act, 2012 set out factors County Public Service Board should consider in selecting candidates for appointment. Further, section 65(2) specifies merit as one of the overriding factors in determining whether appointment, promotion or re-designation are undertaken in a fair and transparent manner.
- 3.50 The Special Audit established that one hundred and twenty-nine (129) employees promoted during the financial year 2022/2023 without meeting the requirements set in their respective schemes of service.
- 3.51 Out of the one hundred and twenty-nine (129) employees, one hundred and ten (110) appointments were revoked by the County Public Service Board of Nandi, and disciplinary cases are ongoing. However, there was no evidence or

explanation as to why the remaining nineteen (19) appointments were not revoked as indicated in **Annexure 11**.

- 3.52 The Management did not provide evidence to justify the changing or skipping of job groups. In this regard, it was not possible to determine whether the changes in Job Groups were regular.

V. Circumventing Payroll Controls to Pay Irregular Salary Arrears

- 3.53 Article 201 of the Constitution of Kenya, 2010 on principles of public finance require accountability in financial matters, responsible financial management and use of public money in a prudent and responsible way.

- 3.54 Section 149(1) of the Public Finance Management Act, 2012 imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is lawful and authorized, and effective, efficient, economical and transparent. Further, Regulation 120(3) of the Public Finance Management (County Governments) Regulations, 2015 requires the accounting officer to certify the correctness of the payroll at least once every month.

- 3.55 During the three (3) years under review, the County Executive paid arrears totaling to Kshs.69,752,144. Further examination of records established irregularities as follows:

- i. There were one thousand, six hundred and thirty-six (1,636) employees in the three (3) financial years, comprising of Security Wardens, Cleaning Supervisors, Finance Officers, Senior HRM Officers, and Health Workers who received gross monthly pay as arrears amounting to Kshs.27,200,000 as indicated in **Annexure 12 (a)** despite not meeting the eligibility criteria stipulated in the Compendium of Remuneration and Benefits for Public Service.
- ii. In November 2023, a service gratuity payment of Kshs.190,628 was processed for one (1) employee and paid as arrears, However, it was noted that despite the engagement code being 3, which indicates the officer had been employed on permanent and pensionable terms, which do not qualify for service gratuity as indicated in **Annexure 12(b)**.

- iii. Twenty (20) employees were paid a nursing allowance totalling to Kshs.720,000 in the three (3) financial years despite not meeting the eligibility criteria stipulated in the Compendium of Remuneration and Benefits for Public Service of December 2022 as indicated in **Annexure 12(c)**.
- iv. As a result of the anomalies a total of Kshs.28,110,628 was irregularly paid as arrears.

VI. Irregular Payment of Airtime Allowance

- 3.56 The SRC Circular SRC/TS/29(81), dated 10 August, 2023 on Remuneration and Benefits for Public Officer 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.
- 3.57 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective.
- 3.58 The Special Audit established that airtime allowance totaling to Kshs.5,615,848 was irregularly paid to one hundred and seven (107) employees as detailed in **Table 3** and **Annexure 13**. Under the Income Tax Act (Cap 470), airtime allowance provided by an employer to an employee is considered a taxable benefit. However, it was noted that the allowance was not subjected to taxation, leading to potential non-compliance with tax regulations.
- 3.59 In addition, there was no documented criterion for determining employee eligibility for the allowance, and no formal policy or guidelines were provided to justify the basis of payment. This lack of clear guidelines raises concerns regarding fairness, accountability, and compliance with internal financial controls.

Table 3: Irregular Payment of Airtime Allowance

| Payroll | Financial Year | Number of Staff | Amount Paid (Kshs.) |
|----------------|-----------------------|------------------------|----------------------------|
| Manual | 2021-2022 | 35 | 2,359,848 |
| | 2022-2023 | 38 | 707,000 |
| | 2023-2024 | 34 | 2,549,000 |
| | Total | 107 | 5,615,848 |

*Source: Manual Payroll System

VII. Irregular Payment of Disability Guide Allowance

- 3.60 The SRC Circular SRC/TS/29(81), dated 10 August, 2023 on Remuneration and Benefits for Public Officer 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.
- 3.61 Analysis of payroll records revealed that there were two (2) employees who were irregularly paid disability guide allowance totaling to Kshs.280,000 as detailed in **Annexure 14**.

VIII. Irregular Payment of Security Allowance

- 3.62 The SRC Circular SRC/TS/29(81), dated 10 August, 2023 on Remuneration and Benefits for Public Officer 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.
- 3.63 There were fifty-six (56) employees who were irregularly paid security allowance totaling to Kshs.10,180,212 as detailed in **Annexure 15**. However, there was no documented criterion for determining employee eligibility for the allowance, and no formal policy or guidelines were provided to justify the basis of payments.

IX. Irregular Payment of Hardship Allowance

- 3.64 There were six hundred and twenty-four (624) employees in IPPD who were irregularly paid hardship allowance totaling to Kshs.41,046,012 as detailed in **Table 4** and detailed in **Annexure 16**.

Table 4: Irregular Payment Hardship Allowance

| Financial Year | Number of Staff | Irregular Hardship Allowance (Kshs.) |
|----------------|-----------------|--------------------------------------|
| 2021-2022 | 15 | 1,073,938 |
| 2022-2023 | 11 | 811,700 |
| 2023-2024 | 598 | 39,160,374 |
| Total | 624 | 41,046,012 |

*Source: IPPD Payroll System

X. Prosecutorial Allowance

- 3.65 The SRC Circular SRC/TS/29(81), dated 10 August, 2023 on Remuneration and Benefits for Public Officer 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.
- 3.66 The Special Audit established that there were twenty-six (26) employees who were irregularly paid Prosecutorial Allowance totaling to Kshs.6,420,000 as indicated in **Annexure 17**. Prosecutorial allowance is only applicable where the entity has prosecutorial powers in their mandate.

E. Compliance with Laws and Regulations

- 3.67 The audit assessed the County Executive's adherence to labor laws and statutory deductions, and timeliness and accuracy in reporting to regulatory bodies. The following issues were established:

I. Irregular Acting Allowances

- 3.68 Section C.14 (1) of the Public Service Human Resource Policies and Procedures Manual, 2016 provides that acting allowance will not be payable to an officer for more than six (6) months.
- 3.69 Analysis of the IPPD payroll for the three (3) financial years revealed that one (1) employee was paid acting allowance amounting to Kshs.333,843.40 for more than 6 months, as detailed in **Annexure 18**. This is contrary to Section C.14(1) of the Human Resource Policies and Procedure Manual (2016).
- 3.70 Having one officer perform responsibilities in both the substantive and acting roles, for a long period may compromise their productivity, undermine accountability, and hinder effective service delivery.

II. Payment of Special Duty Allowance for more than Six Months

- 3.71 Paragraph C.15 (1) the Public Service Human Resource Policies and Procedures Manual, 2016 provide that when an officer is called upon to perform duties of a higher post but does not possess the necessary qualifications for appointment to that post, he shall be paid special duty allowance at the rate of fifteen percent (15%) of the officer's basic salary. Under paragraph C.15 (4), Special Duty Allowance will not be payable to an Officer for more than six (6) months.
- 3.72 Analysis of the IPPD payroll for the three (3) financial years revealed that there were two (2) employees were paid special duty allowance for more than 6 months, totaling to a Kshs.419,008 as detailed in **Annexure 19**. This is contrary to Section C.15(1) of the Human Resource Policies and Procedure Manual (2016).
- 3.73 The Productivity of the officer acting for extended periods may be reduced in both his substantive office and the one in which he is acting as each of the jobs held are designed to be held by one person.

III. Non-Compliance to Remittance of Statutory Deductions

- 3.74 Section 37(1) of the Income Tax Act requires an employer paying emoluments to an employee to deduct therefrom, and account for tax thereon, to such extent and in such manner as may be prescribed. 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.
- 3.75 Section 20(1) of the National Social Security Fund Act requires employers to make payments deducted from employees' earnings together with employer amounts to NSSF. Under section 20(1A), an employer is required to pay the contribution under subsection (1) on the ninth day of each month or on such later date as the Board may, in consultation with the Cabinet Secretary, prescribe.
- 3.76 Further, Section 15(1) of the National Health Insurance Fund Act (now repealed) required Kenyans over the age of 18 with employment income to

- contribute to the Fund. Section 15(1A)(b) of the Act makes each county government liable as a contributor to the fund in respect of all public officers, state officers and employees working in the county government and county government entities. Under section 15(4) of the NHIF Act, contributions were due on the ninth day of each month or on such later date as the Board, in consultation with the Cabinet Secretary, may prescribe.
- 3.77 Section 4(1) of the Affordable Housing Act, 2024 creates a levy. Under section 4(2), the rate of the levy is 1.5% of the gross salary of an employee or the gross income of a person who is not subject to the levy as an employee. Under section 5(1), the employer is required to deduct and remit the levy amount and an amount equivalent to the deducted amount. Section 4(3) requires the amounts to be remitted not later than the ninth working day after the end of the month in which the gross salary was due or gross income was received or accrued.
- 3.78 Section 19(4) of the Employment Act requires an employer who deducts an amount from an employee's remuneration to pay the amount so deducted in accordance with the time period and other requirements specified in the law.
- 3.79 Examination of statutory deductions, payment vouchers and bank statements provided for audit review revealed that Kshs.609,697,194 was deducted from the employees in the County, but were not remitted to the respective authorities/funds as detailed in **Annexure 20 (a)**.
- 3.80 Comparison of statutory deductions for employees in the IPPD payroll system with Bank Statements established cases of delay in remittance of statutory deductions as demonstrated in **Annexure 20(b)**.

IV. Nugatory Expenditure on Staff Cost

- 3.81 Article 201(d) of the Constitution of Kenya, 2010 on principles of public finance require accountability in financial matters, responsible financial management and use of public money in a prudent and responsible way.
- 3.82 Section 149(1)(b) of the Public Finance Management Act, 2012 imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is effective, efficient, economical and transparent.

3.83 During the years under review, the County Executive incurred Kshs.12,641,487 in interest as shown in **Table 5** and detailed in **Annexure 21**.

3.84 Payment of the interest arising from penalties is an avoidable and wasteful expenditure of public funds which can lead to budgetary constraints.

Table 5: Interest on Overdraft

| Financial Year | Interest on Overdraft (Kshs.) |
|----------------|-------------------------------|
| 2023/2024 | 6,364,059 |
| 2021/2022 | 6,277,428 |
| Total | 12,641,487 |

*Source: Bank Statement Analysis

V. Active Staff Above Age 60 years

3.85 Section 80 of the County Governments Act provides that the mandatory retirement age for a county public officer generally or for any category of public officers, shall be prescribed by policy of the national government.

3.86 The policy of the national government on retirement age is prescribed in Regulation 70 (1) of the Public Service Commission Regulations, under which the mandatory retirements age in the public service is sixty years and sixty-five for persons with disability.

3.87 The Special Audit established that one (1) employee had attained the retirement age of 60 years. The officer's date of birth, as per the National ID, is 13 October 1963. It was established that the officer did not have special needs, yet the recorded retirement date in IPPD is 12 October 2023. This means that the employee has worked an extra two (2) years post-retirement.

3.88 Physical verification confirmed that the employee remains active, as evidenced by their in-person appearance with both the original and a photocopy of their national identity card.

3.89 The total amount paid to the employee for the extra years amounted to Kshs.2,033,075 as detailed in **Annexure 22**.

3.90 The County may incur extra employee costs resulting to financial loss.

VI. Non-Compliance with Requirements in Ethnic Diversity

- 3.91 Section 7(1) of the National Cohesion and Integration Act, Chapter 7N of the laws of Kenya, 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.
- 3.92 Analysis of employees in the IPPD system as at 30 June, 2024 established four thousand, six hundred and forty-eight (4,648) employees, which represents 96% of the staff, were from one dominant ethnic community. This is in contravention with the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 as detailed in **Annexure 23(a)**.
- 3.93 Further in the year 2023/2024, the Board recruited four (4) employees, 100% of whom were from the same dominant community as detailed **Annexure 23(b)**. This is contrary to Section 65(1)(e) of the County Governments Act, 2012.
- 3.94 Non-compliance may result in violations of legal requirements potentially leading to fines and legal action.

VII. Non-Compliance with One Third Basic Salary Rule

- 3.95 Section 19 (3) of Employment Act, 2007 require the total amount of all deductions that may be made by an employer from the wages of his employee at any one time not to exceed two-thirds of such wages.
- 3.96 An analysis of the staff payroll for the years under audit established that three hundred and eighty-eight (388) employees were paid net salaries that were less than one-third of their basic salaries in contravention with Section 19 (3) of the Employment Act, 2007 as detailed in **Annexure 24**.
- 3.97 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.

VIII. Appointment Without Probation Period

- 3.98 Section B.18 (1), of Human Resource Policies and Procedures Manual for the Public Service (May 2016) states that an officer appointed to a pensionable post will be confirmed in appointment and admitted into the permanent and pensionable establishment only after successfully completing a six-month probationary period with satisfactory service.
- 3.99 Further, Section B.18 (2) further clarifies that if an officer was previously serving on contract terms and is later appointed to a pensionable establishment without a break in service, their full contract service may be counted as probationary service.
- 3.100 The Special Audit established that appointment letters issued for staff recruited during the period under review established that the Board appointed employees to permanent and pensionable positions without indicating a probation period.
- 3.101 This is contrary to the Human Resource Policies and Procedures Manual for the Public Service (May 2016), Section B.18 (1), which states that an officer appointed to a pensionable post will be confirmed in appointment and admitted into the permanent and pensionable establishment only after successfully completing a six-month probationary period with satisfactory service.
- 3.102 Failure to adhere to the probation requirement poses a risk of appointing employees without proper performance evaluation, which may affect overall service delivery and compliance with public service regulations.

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

- 3.103 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. Employees Migrated to Human Resource Information System-Kenya but not Paid Salary

- 3.104 The Special Audit established that thirty-four (34) ECD teachers did not earn their special salary as detailed in **Annexure 25(a)**.

II. Introduction of Employees in HRIS-Ke

- 3.105 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.
- 3.106 The Special Audit established that thirty-seven (37) employees who were not listed in the November 2024 payroll were subsequently added to the HRIS-Ke system in December 2024. Management did not provide supporting documentation to justify their inclusion. These employees received a total gross payment of Kshs.8,887,667 in December 2024 as detailed in **Annexure 25(b)**.
- 3.107 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between November, 2024 IPPD data and December 2024 HRIS-Ke data established instances of overpayment and underpayments of salaries and allowances as detailed in **Table 6** below and detailed in **Annexure 25(c), (d)(e)(f)**.

Table 6: Overpayment and Underpayment

| Allowance | Total Amount Underpaid | | Total Amount Overpaid | |
|--|------------------------|----------------|-----------------------|----------------|
| | Number of Employees | Amount (Kshs.) | Number of Employees | Amount (Kshs.) |
| Underpayment Extraneous Health Allowance | 169 | 1,377,468 | 753 | 1,350,000 |
| Non-Payment of Extraneous Health Allowance | 28 | 401,000 | - | - |
| Overreduction Payee | 4 | 102,893.60 | - | - |

*Source: HRIS Payroll System

4. CONCLUSION

- 4.1 The Special Audit of payrolls for Nandi 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 Nandi County Government did not comply with requirement on limiting the Employee Cost within thirty-five percent (35%) of Revenue. The non-compliance with requirements on limiting the Employee Cost within thirty-five percent (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3 The Vote Heads in the IPPD System and HRIS-Ke were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.4 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of annual recruitment plans demonstrates ineffective workforce planning. This hampers the county's ability to plan, budget, and deploy personnel effectively across departments, leading to staffing gaps or surpluses.
- 4.5 The IPPD System and HRIS-Ke were not updated with approved designations in the approved staff establishment. These increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.

- 4.6 The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by the inaccurate dates of birth in the IPPD System and HRIS-Ke. Data with integrity issues indicates weak internal controls and increases the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive and miscalculation of retirement dates and pension dues of employees.
- 4.7 The authenticity of some of the employees could not be established. This was evidenced by the failure by the Chief Offices to account for employees in their departments and the payroll data Integrity issues. This casts doubt on authenticity of payroll records and raises the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County.
- 4.8 There were instances where employees were overpaid or paid irregular allowances. This reflects weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of financial misstatements, fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 4.9 The controls over processing and payment of salary were not adequate as evidenced by the unauthorized job group changes and circumventing payroll controls to pay irregular salary arrears. This indicates weak financial and human resource controls, that were exploited to process irregular payments. This weakness undermines the reliability of payroll data, increases the risk of financial loss, and reflects inadequate system and management controls.
- 4.10 The County Executive did not comply with tax and labour laws as evidenced by non-deduction, non-remittance, late remittance of statutory deduction and non-compliance with requirement on ethnic diversity and non-compliance with one third basic salary rule. This violates legal and regulatory obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

4.11 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and failure to migrate some employees. 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.

5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Nandi County Executive.
- 5.2 To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35%) percent of the County Executive's total revenue, the County Assembly should establish mechanisms to ensure compliance with the PFM Act in the execution of its oversight responsibilities.
- 5.3 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability, the Chief Officers for Public Finance together with the Management of the State Department for Public Service and Human Capital Development (the custodian of the Human Resource Information System-Kenya) should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 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.
- 5.5 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.
- 5.6 To ensure integrity of data maintained in the payroll systems, the Management should ensure the validation controls are implemented in the in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), Social Health

Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favour of HRIS-Ke.

- 5.7 To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
- 5.8 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments and underpayments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.
- 5.9 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

6. APPENDICES

Appendix 1: List of Staff Interviewed

| No. | Designation | Name of Department |
|-----|---|-----------------------------------|
| 1. | Chief Officer - Public Service and Administration | Public Service and Administration |
| 2. | Chief Executive Officer | County Public Service |
| 3. | Director Human Resource | Public Service |
| 4. | Director- Finance | Finance and Accounting |
| 5. | Payroll Manager | Finance and Accounting |
| 6. | Finance Officer | Finance and Accounting |

Appendix 2: List of Annexures

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


| No. | Name | Description |
|-----|--------------------------------------|---|
| 1. | Annexure 1 | List of Staff Interviewed |
| 2. | Annexure 2 | Budget Votes in Human Resource Information System – Kenya not Aligned with those in Approved Budget. |
| 3. | Annexure 3 | Lack of Annual Recruitment Plans |
| 4. | Annexure 4 | Lack of Accountability in Hiring and Management Employees |
| 5. | Annexure 5 | Designations in the Human Resource Information System - Kenya not Aligned with Approved Staff Establishment |
| 6. | Annexure 6(a)(b)(c) & (d) | Integrity of Date of Birth Data in IPPD Systems. |
| 7. | Annexure 7(a)(b) | Failure of Chief Officers to Account for Human Resources in their Departments. |
| 8. | Annexure 8 | Authenticity of Staff in the Payroll |
| 9. | Annexure 9 | Charging of Employee Costs to the Wrong Budget Vote |
| 10. | Annexure 10 | Employee in Both IPPD and Manual Payrolls |
| 11. | Annexure 11 | Irregular Promotions and Appointments |
| 12. | Annexure 12(a)(b)(c) | Payment of Arrears |
| 13. | Annexure 13 | Irregular Payment of Airtime Allowance |
| 14. | Annexure 14 | Irregular Payment of Disability Guide Allowance |
| 15. | Annexure 15 | Irregular payment of Security Allowance |
| 16. | Annexure 16 | Irregular payment of Hardship allowance |
| 17. | Annexure 17 | Prosecutorial Allowance |
| 18. | Annexure 18 | Irregular Acting Allowances |


| | | |
|----|----------------------------|---|
| 19 | Annexure 19 | Payment of Special Duty Allowance for more than 6 Months |
| 20 | Annexure 20(a) (b) | Non-Compliance to Remittance of Statutory Deductions |
| 21 | Annexure21 | Nugatory Expenditure on Staff Cost |
| 22 | Annexure22 | Active Staff Above age 60 years |
| 23 | Annexure23 | Non-Compliance with Requirements in Ethnic Diversity |
| 24 | Annexure24 | Non-Compliance with One Third Basic Salary Rule |
| 25 | Annexure25(a)(b)(c) | Migration from Integrated Personnel and Payroll Database System to Human Resource Information System-Kenya. |


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