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

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COUNTY 012

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

The Special Audit evaluated the human resource and payroll processes at the Meru 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 Meru 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 Meru County Public Service Board and the Governor, Meru 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

## TABLE OF CONTENTS

List Of Figures .....	iii
List Of Tables .....	iii
Abbreviations .....	iv
<b>1. EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>2. INTRODUCTION AND BACKGROUND .....</b>	<b>14</b>
Introduction and Background .....	14
Audit Objectives .....	17
Audit Scope and Limitations .....	17
Audit Methodology .....	17
Methods of Gathering Evidence .....	18
Report Structure .....	20
<b>3. DETAILED FINDINGS .....</b>	<b>21</b>
A. Payroll Budgeting .....	21
B. Recruitment Process .....	23
C. Employee Data Management .....	26
D. Payroll Processing and Payments .....	28
E. Compliance with Laws and Regulations .....	33
F. Migration from Integrated Personnel and Payroll Database (IPPD) System to Human Resource Information System-Kenya (HRIS-Ke) .....	35
<b>4. CONCLUSION .....</b>	<b>37</b>
<b>5. RECOMMENDATIONS .....</b>	<b>39</b>
<b>6. APPENDICES .....</b>	<b>42</b>
Appendix 1: Documents Not Provided or Provided in Part .....	42
Appendix 2: List of Staff Interviewed .....	42
Appendix 3: List of Annexures .....	43

**List Of Figures**

Figure 1: Cumulative Change in Number of Employees ..... 16

Figure 2: Cumulative Change in Cost of Compensation of Employees..... 16

**List Of Tables**

Table 1: Budgeted Compensation of Employee to Budgeted Revenue Ratio ..... 21

Table 2: Actual Compensation of Employees Costs to Revenue Ratio..... 22

Table 3: Overpayment and Underpayment of Salary and Allowances on Migration to HRIS-Ke ..... 35

## Abbreviations

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

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

### **Audit Objectives**

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

- vi. Assess whether payroll data was accurately and completely migrated from 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 contract payrolls.
- 1.8 However, the County Executive did not provide several documents requested, and some were only partially provided. These included:
  - i. Recruitment process documents and data for 2021/2022 and 2022/2023, and County Public Service Board Minutes on recruitment/ appointment for all years under review
  - ii. Contractual agreements between the County and the banks processing staff salaries
  - iii. Signed Chief Officer's list from the Finance Department
  - iv. Signed/authorized payment vouchers to enable verification of the remittance process for statutory deductions
  - v. Bank statements for the County Executive's CBK Recurrent Account for the period between August 2022 to June 2023.

### **Methods of Gathering Evidence**

- 1.9 The Special Audit of 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 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 Findings

The key audit findings are as detailed:

### A. Payroll Budgeting

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

- 1.11 Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires the county government's expenditure on wages and benefits for its public officers exceed thirty-five (35%) percent of the county government's total revenue. The audit established that the ratio of the budgeted compensation of employees to the budgeted revenue exceeded 35% in three (3) financial years. Further, the ratio of actual compensation of employees to actual revenue as reflected in the financial statements exceeded the thirty-five (35%) percent threshold in the three (3) financial years. This indicates a high wage bill, which has strained the county's financial resources, limiting funds available for critical development projects and essential service delivery.

#### II. Budget for Personnel Emoluments made under one Vote

- 1.12 The audit established that the budget Vote Heads in the IPPD system and HRIS-Ke were not aligned with those in the approved budgets. Despite there being eleven (11) departments of the County Executive being represented in IPPD system, the budget for personnel emoluments for the County Executive is made under one department - Public Service, Administration and Legal Affairs. 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 vote heads.

### B. Recruitment Process

#### I. Lack of Approved Staff Establishment

- 1.13 The County Executive did not have an approved staff establishment for the three (3) financial years under review.

#### II. Lack of Annual Recruitment Plans

- 1.14 The County Executive One Hundred and fifty-six (156) employees during the financial year 2023/2024. However, the departments did not have annual recruitment plans to guide the process.

### **III. Irregular Recruitment of Staff**

- 1.15 One (1) employee recruited to Job Group H in 2022/2023 and attached to the Office of the Governor as a Chief Driver did not possess the requisite qualifications as stipulated in the Drivers schemes of service. There was also no documented evidence of shortlisting, interview, or an assessment of the candidate's qualifications and experience against the set criteria in the Scheme of Service. The officer was paid in the manual payroll from September 2022 to March 2023, earning total gross pay of Kshs. 666,409.65 over the period.
- 1.16 The key recruitment documentation of the One Hundred and fifty-six (156) employees recruited in 2023/2024, including indents, approvals for employment, vacancy advertisements, long lists and shortlists with scores, interview reports, County Service Public Board Minutes and final lists of successful candidates, were not provided for audit verification.
- 1.17 There were no documented job needs assessment done with regard to recruitment of the 156 staff members into seven (7) designations.

### **IV. Employment of Officer in Other Government Entities**

- 1.18 One (1) employee of the Meru County Executive while simultaneously earning a salary in Meru Water and Sanitation Company in the financial year 2023/2024. The County Executive of Meru paid the officer Kshs. 816,720.00 while Meru Water and Sanitation Company paid Kshs. 692,760.00. The total amount paid to this employee was Kshs.1,509,480.
- 1.19 Further, the employee had been on secondment in the County Government of Meru, for more than nine (9) years, in contravention with Paragraph B.33 (1) of PSC Human Resource and Procedure Manual, which states that Secondment of officers from the Public Service to other organizations is applicable to pensionable officers, for a period not exceeding three (3) years and may be renewable once.

### **C. Employee Data Management**

#### **I. Integrity of Dates of Birth Records in the Payroll Systems**

- 1.20 The Special Audit identified fifty-one (51) employees with inconsistent date of birth. Interview with thirty-three (33) employees and verification of their identification documents established that the dates captured in the IPPD System for seven (7) employees were different from those in employees' Birth

Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ADM/ 13(9).

## **II. Missing and out of Date Contract Details in the Contract Payrolls**

- 1.21 One Hundred and Twenty-Four (124) employees' contract expiry dates were not indicated in the contract payroll records in the financial year 2022/2023. Further, the appointment date in two records were later than the payroll dates. These employees were paid a cumulative amount of Kshs.6,044,641.
- 1.22 Ninety-five (95) employees in were paid a total of Kshs.4,330,922 after contract-end dates indicated in the contract payrolls.

## **III. Failure of Chief Officers to Account for Human Resources in their Departments.**

- 1.23 The County Executive had eleven (11) departments under the oversight of Chief Officers. However, only ten (10) Chief Officers complied with the request to submit validated staff information. The Counter-Signed list from the Finance Department was not provided for review at the time of audit. The failure by the Chief Officer to account for employees casts doubt on authenticity of payroll records.
- 1.24 Comparison of the staff lists countersigned by various Chief Officer's with staff register from the IPPD system established that there were one hundred and nine (9) employees who appeared in the Chief Officer's list but not in the IPPD system, manual payrolls or contract payrolls. Further, three hundred and fifty-five (355) employees were in the IPPD system but not in the lists provided by Chief Officers, and collectively received Kshs.285,582,892 in earnings in 2023/2024.

## **IV. Authenticity of Staff in the Payroll**

- 1.25 Out of the sixty-five (65) employees summoned for physical verification, twenty-one (21) employees failed to appear for the exercise. During the period under review, the twenty-one (21) officers collectively received gross salary amounting to Kshs.11,078,688. 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**

### **I. Charging of Compensation of Employees to One Budget Vote**

- 1.26 Charging of salary in IFMIS was not done per department; all salary was posted to Public Service, Administration and Legal Affairs Department, as a result of maintenance of compensation of employees budgets for all departments under only one department. The chief officer of this department was effectively made responsible for finances of all departments with respect to compensation of employees without the administrative visibility of all departments' staff existence, movement, attendance, performance or discipline.

### **II. Irregular Payment of Extraneous Allowance**

- 1.27 In 2021/2022, Forty-Six (46) employees were paid extraneous allowance totalling Kshs.3,983,918, exceeding the number of people and rate of payment stipulated in the relevant SRC circular.
- 1.28 Nine (9) employees, including health workers performing administrative functions at Huduma Centres, were simultaneously paid extraneous duty allowance and health workers extraneous allowance, totaling Kshs. 1,979,925 in the financial year 2021/2022 and 2022/2023.
- 1.29 Three (3) employees who were not health workers were paid health workers extraneous allowance in 2023/2024, totaling Kshs.168,000.

### **III. Irregular Payment of Commuter Allowance**

- 1.30 The Special Audit established that one full-time member of the Meru County Public Service Board was paid commuter allowance of Kshs. 80,000 in 2022.

### **IV. Irregular Payment of Special Salary**

- 1.31 Nine (9) employees were, contrary to Gazette Notices 6518 of 2017 and 8794 of 2022, paid special salary in the financial year 2022/2023, totaling Kshs.2,810,734

### **V. Overpayment of Leave Allowance**

- 1.32 Six (6) employees were paid leave allowance twice in the financial year 2022/2023 without justification, totaling Kshs.52,000.

#### **VI. Irregular Payments of Health Workers Allowances**

- 1.33 One (1) employee irregularly received health workers-related allowances such as, Health Risk Allowance, Emergency Call Allowance and Health workers Extraneous allowance amounting to Kshs.1,680,000.

#### **VII. Employees Paid in More than One Payroll Per Month**

- 1.34 Five (5) employees, were each paid in more than one payroll simultaneously in some months. The total amount paid to these employees was Kshs.535,120.

#### **VIII. Payments after Contract Expiry**

- 1.35 Four (4) employees continued to receive salary payments despite their contracts expiring. These employees received Gross payments amounting to Kshs.2,972,078.

#### **IX. Circumventing Payroll Controls to Pay Irregular Salary Arrears**

- 1.36 One (1) employee was paid salary arrears for withheld salary amounting to Kshs.1,768,290 on termination of disciplinary proceedings in which the employee was reprimanded. There was no evidence of approval or a formal directive allowing the payment of withheld wages on termination of disciplinary proceedings.
- 1.37 Three (3) employees received payment arrears amounting to Kshs. 3,077,790 previously withheld for absconding duty, and contrary to the recommendation of the County Human Resource Advisory Committee (CHRMAC).
- 1.38 One Hundred (100) employees received payment of salary arrears amounting to Kshs.2,474,177 without valid contracts.
- 1.39 In financial year 2021/2022, arrears amounting to Kshs.5,934,039 were paid without approvals.
- 1.40 In 2023/2024, seven (7) employees were paid arrears multiple times without clear justification, totaling Kshs.2,278,032.
- 1.41 Two (2) employees were in 2022/2023 irregularly paid commuter allowance in arrears without justification, totaling Kshs.176,323.

## **E. Compliance with Laws and Regulations**

### **I. Non-Deduction of Statutory Dues**

- 1.42 NSSF deductions were not made on earnings of seven hundred and fifty-eight (758) employees. Expected deductions on these employees' pay amounted to Kshs.2,642,800.

### **II. Non-Compliance with Requirement on Ethnic Diversity**

- 1.43 The audit established that 89% of employees in the IPPD System as at 30 June, 2024 were from one dominant ethnic community. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008. Further, the dominant community represented 88% of the new recruitment done in 2023/2024.

### **III. Payment of Special Duty Allowance for More than Six Months**

- 1.44 One (1) employee was paid special duty allowance from July 2021 to June 2024, totaling Kshs.707,617.

### **IV. Staff Under Probation for more than the Stipulated Period**

- 1.45 There were Seven Hundred and Thirty-five (735) employees engaged on probationary terms beyond the stipulated period of nine (6) months. The total amount paid to these employees was Kshs.426,793,760.

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

- 1.46 Comparison between November, 2024 IPPD system data and December 2024 HRIS-Ke data established instances of overpayment of total Kshs. 3,591,239 and underpayment of total Kshs. 1,566,000 of salaries and allowances on migration to HRIS-Ke.

### Conclusion

- 1.47 The Special Audit of payrolls for Meru 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:
- 1.48 The non-compliance with requirements on limiting the Cost of Compensation of Employees within thirty-five (35%) of Revenue indicates weaknesses in 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.
- 1.49 Maintaining compensation of employees budgets under only one department may lead to inconsistencies between budgetary allocations and actual payroll expenditure and increase the risk of misallocation or even misuse of public funds. The accounting officer of a single department is effectively made responsible at the budgeting stage for finances of all departments with respect to compensation of employees without the administrative visibility of all departments' staff existence, movement, attendance, performance or discipline. The chief officer may not be able to effectively certify the correctness of the payroll for each department in each month as required by the Public Finance Management Regulations.
- 1.50 The absence of an approved staff establishment denies County Executive departments formal guidance on optimal staffing levels, potentially leading to overstaffing or understaffing, budget overruns or unmet service delivery needs.
- 1.51 Lack of annual recruitment plans can also result in overstaffing, understaffing, hiring for roles that do not align with organizational priorities or inability to pay staff immediately upon hire or promotion.
- 1.52 The County Executive has not demonstrated its basis for hiring, either through documented requests or needs assessments, and the county may fail to address actual staffing needs or hire more staff that needed. Further, hiring of an officer without the requisite qualifications directly contravenes requirements to be considered in appointments as stipulated in the County Governments Act, including merit. The County Executive has also not able to demonstrate fairness

- and transparency in the hiring processes, given the gaps in documentation on indents, longlisting and shortlisting, interview reports and scores. There are also weaknesses in due diligence during hiring as evidenced by one officer being in the payroll of more than one county government entity.
- 1.53 Failure by the Chief Offices to account for some employees casts doubt on authenticity of payroll records.
  - 1.54 The payment of irregular salary and allowances, payments against expired contracts and the overpayments of salaries and allowances 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.
  - 1.55 The IPPD System provision for manual entry of arrears without automated controls or validation created a loophole that has been 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.
  - 1.56 Failure to deduct and remit statutory deductions will lead to penalties that will increase spending on compensation of employees. Other failures to meet legal obligations can increase unnecessary spending on unauthorized staff costs, reduce workforce diversity, cause employee hardship, lead to lawsuits, harm the county's reputation, and weaken stakeholder trust.
  - 1.57 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.
  - 1.58 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

- 1.59 In view of the findings and conclusions of the Special Audit, the following is recommended to the Meru County Executive.
- 1.60 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five percent (35%) of the County Executive's total revenue the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 1.61 The Public Finance Management Act requires that an accounting officer responsible for managing finances of a county government entity also be responsible for administration of that county government entity. For effective management of compensation of employee budgets, the County Executive should consider budgeting for compensation of employees per department instead of under one department. The chief officer of each department is likely to have better administrative visibility of his own department and more accurately account for the department staff and certify correctness of payrolls.
- 1.62 Further, for enhanced accuracy in reporting of compensation of employees expenditure per department and better accountability by the Chief Officers, the Chief Officer for 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 times configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 1.63 To enhance the attainment of optimal staffing levels, management of the County Executive should document and approve an appropriate staff establishment, and 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.
- 1.64 To ensure that personnel costs of all appointments and promotions can be met within the budgetary allocation voted for the county government entity, as well

- as prevent overstaffing, understaffing, hiring for roles that do not align with organizational priorities, the County Executive should prepare annual recruitment plans.
- 1.65 To ensure fairness, merit, efficiency, effectiveness and diversity in the county public service, recruitments should follow due process as detailed in the County Governments Act. The stipulated roles of the county public service board and other stakeholders should be duly carried out. The County Public Service Board should also maintain properly authenticated documents relating to recruitment.
  - 1.66 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 SRC Circulars and other relevant directives. Further, validations controls should be implemented to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
  - 1.67 To reduce opportunity for processing of irregular payments by exploiting existing weakness in arrears payments, the management of the County Executive together with that of State Department for Public Service and Human Capital Development should automate the processing of arrears by eliminating manual entry fields and integrating system-based validation rules. This will enhance control, ensure consistency with approved policies, and reduce the risk of irregular or unauthorized payments.
  - 1.68 The County Executive should ensure compliance with laws and regulations to eliminate or minimize the risks of employee hardship, penalties, litigation and loss of stakeholder trust.
  - 1.69 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments, underpayments and irregular payments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.
  - 1.70 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

## 2. INTRODUCTION AND BACKGROUND

### Introduction and Background

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

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

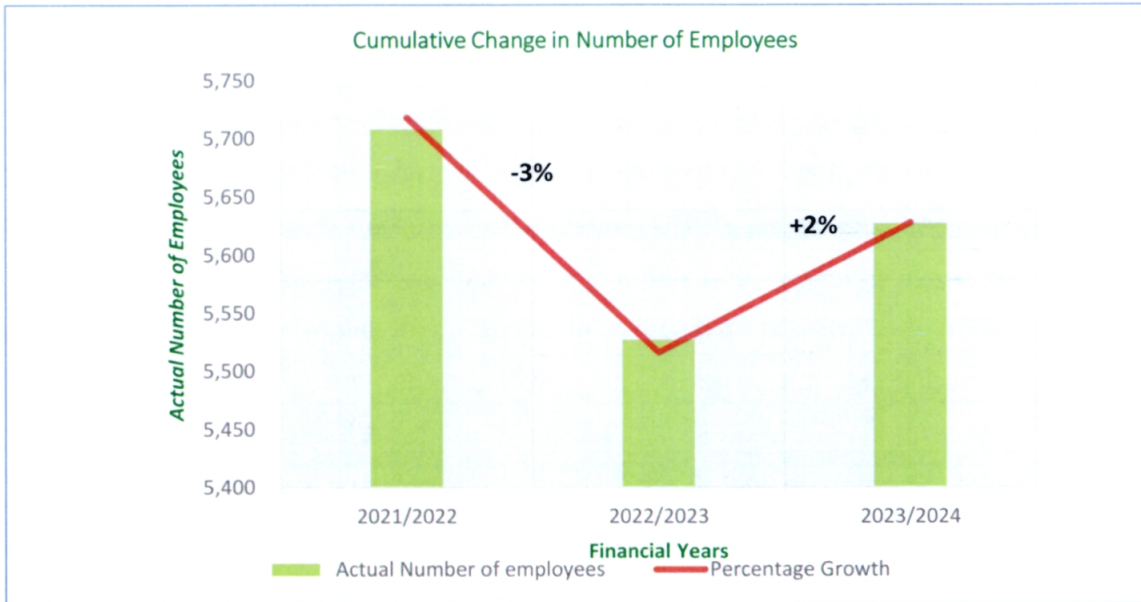
2.6 A parallel run of the IPPD System and HRIS-Ke was conducted across Ministries, Departments and Agencies and County Governments in November 2024. This was to ensure the readiness of the HRIS-Ke for roll out. Thereafter, in January 2025, the HRIS-ke was fully adopted for payroll management.

### **Numbers of Employees and Payroll Expenditure**

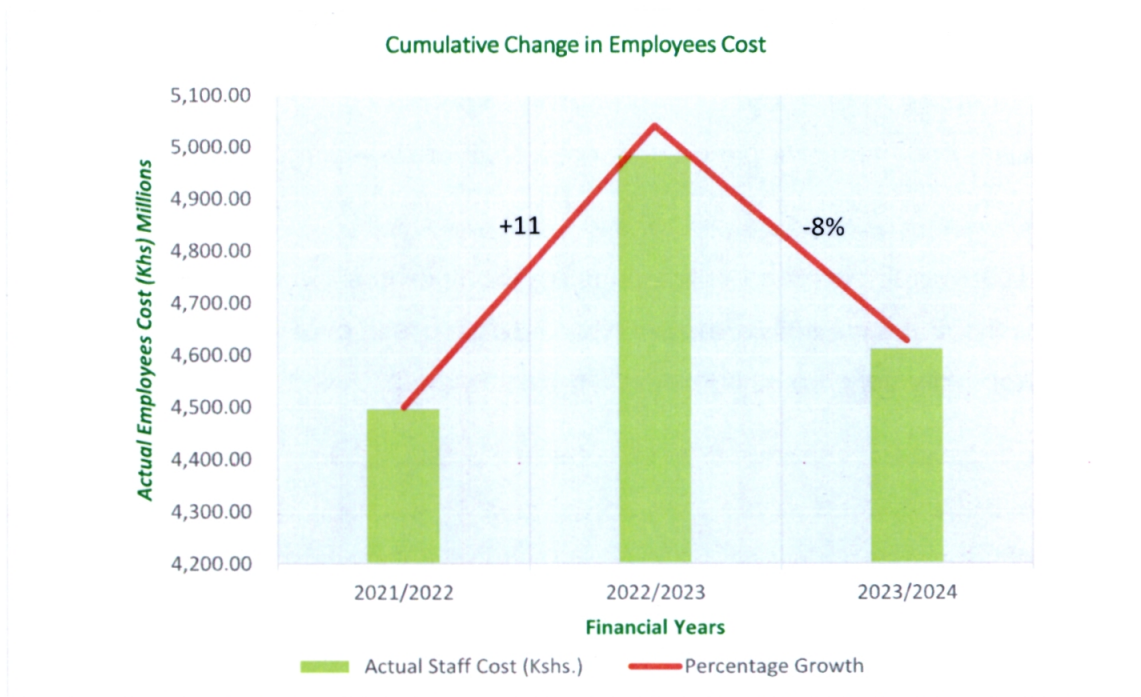
2.7 Over the three-year period under review, there was a marginal decrease in the number of employees, while compensation of employees rose.

2.8 The overall decrease in the number of employees the audit period was **-1%**, while the cumulative increase in payroll costs over the three years was approximately **3%** as shown in **Figures 1 and 2**.

**Figure 1: Cumulative Change in Number of Employees**



**Figure 2: Cumulative Change in Cost of Compensation of Employees**



### Audit Objectives

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

### Audit Scope and Limitations

- 2.10 The Special Audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD) System, Human Resource Information System - Kenya (HRIS-Ke), manual and contract payrolls.
- 2.11 The audit was carried out in the month of March, 2025
- 2.12 The County Executive did not provide several documents requested, and some were only partially provided. Documents not provided and mitigation measures are detailed in **Appendix 1**.

### Audit Methodology

- 2.13 The Special Audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) 4000 for Compliance Audit.

These standards require that the audit is planned and performed so as to draw reasonable audit conclusions on the design, implementation and operating effectiveness of internal controls.

### **Methods of Gathering Evidence**

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

#### **a) Document Review**

- 2.16 The Audit team reviewed various documents in order to set audit criteria and assess compliance with the criteria and in gathering audit evidence. This included:
  - 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. National Cohesion and Integration Act, 2008;
  - vi. National Social Security Fund Act, 2013;
  - vii. National Health Insurance Fund Act, 1998 (now repealed);
  - viii. Affordable Housing Act, 2024;
  - ix. Income Tax Act, Chapter 470 of the Laws of Kenya;
  - x. Public Service Commission Human Resource Policies and Procedures Manual for the Public Service, 2016;
  - xi. SRC Circular SRC/TS/CGOVT/3/61 VolIII/(136) of 14 September 2015;
  - xii. SRC Circular SRC/TS/29(81) of 10 August 2023;
  - xiii. SRC Circular SRC/TS/29(94) of 10 November 2023;
  - xiv. Public Service Commission Circular Ref. No: PSC/ ADM/ 13(9) dated 19 November, 2020
  - xv. SRC Compendium of Remuneration and Benefits for Public Service dated December 2022;

- xvi. Gazette Notice No 6518 of 2017, published in The Kenya Gazette Vol.CXIX No 89 of 7 July 2017;
- xvii. Gazette Notice 8794 of 2022, published in The Kenya Gazette Vol. CXXIV No. 145 of 27 July 2022;
- xviii. Gazette Notice 10348 of 2023, published in The Kenya Gazette Vol. CXXV No.177 of 9 August 2023, and

#### **b) Data Analytics**

2.17 Payroll and staff register data from the IPPD System and HRIS-Ke were extracted and analyzed together with manual and contract payrolls. The exceptions from the analysis were the basis for verification with staff and payroll records maintained by the County Executive.

2.18 The following data sets for the financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed:

- i. IPPD Staff Registers and Payroll Data;
- ii. Manual Payroll Data;
- iii. Contract Payrolls Data;
- iv. Recruitment and staff exit data for 2023/2024;
- v. IFMIS Salaries Ledgers;
- vi. IFMIS Recurrent Votebooks;
- vii. Chief Officers staff list as at 30 June 2024; and
- viii. HRIS-Ke Payroll data for December 2024 and Staff Register for January 2025.

#### **c) Interviews**

2.19 The audit team interviewed relevant officers from the County Executive and County Public Service Board (CPSB). This was in order to understand payroll processes and obtain clarification on audit issues. The officers interviewed as are as listed in **Appendix 2**.

#### **d) Physical Verification of Staff**

2.20 The Audit Team requested all the Chief Officers to provide countersigned list of staff members in their departments as at 30 June 2024. The list was compared with the IPPD system staff registers maintained in the County Executive.

2.21 The Audit team through the County Secretary, requested sixty-five (65) employees to present themselves in person for a physical verification, which was based on initial exceptions from data analytics. This verification was to confirm the existence of staff, their employment status and the accuracy of the staff personal data maintained in the payroll systems.

**Report Structure**

2.22 The report is organized as follows:

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

2.23 The report should be read in its entirety to fully comprehend the approach to the audit, findings, conclusions and 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:

- i. Payroll Budgeting;
- ii. Recruitment Process;
- iii. Employee Data Management;
- iv. Payroll Processing and Payments;
- v. Compliance with Laws and Regulations; and
- vi. 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 and regulations. The following issues were established:

##### I. Cost of Compensation of Employee to Revenue Ratio

3.3 Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 requires the County Executive Committee Member for Finance with the approval of the County Assembly to set a limit on the county government's expenditure on wages and benefits for its public officers. This is pursuant to Section 107(2) of the Public Finance Management Act, 2012. Further, Regulation 25(1)(b) requires the limit set not to exceed thirty-five (35%) percent of the county government's total revenue.

3.4 The Special Audit established that the ratio of the budgeted compensation of employees to budgeted revenue exceeded 35% in the three (3) financial years under review as shown in **Table 1**. This is contrary to Regulation 25(1)(b) of Public Finance Management (County Governments) Regulations, 2015.

**Table 1: Budgeted Compensation of Employee to Budgeted Revenue Ratio**

Financial Year	Total Budgeted Revenue (Kshs.)	Budgeted Cost for Personnel Emoluments (Kshs.)	Budgeted Cost/ Revenue Ratio
2021/2022	11,464,494,220.00	4,596,078,502.00	40%
2022/2023	11,260,373,489.00	4,982,899,999.00	44%
2023/2024	10,813,575,576.00	4,749,413,044.00	44%

\*Source: Annual Reports and Financial Statements for the years under review

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

**Table 2: Actual Compensation of Employees Costs to Revenue Ratio**

<b>Financial Year</b>	<b>Actual Revenue (Kshs.)</b>	<b>Expenditure on Personnel Emoluments (Kshs.)</b>	<b>Expenditure/ Revenue Ratio</b>
<b>2021/2022</b>	10,036,211,627.00	4,496,439,039.00	45%
<b>2022/2023</b>	10,242,588,658.00	4,982,899,999.00	49%
<b>2023/2024</b>	9,244,990,884.00	4,611,166,325.00	50%

\*Source: Annual Reports and Financial Statements for the years under review

- 3.6 The high ratio of compensation of employee expenditure to total revenue indicates high wage bill, which may become unsustainable in the long term. This may strain the county's financial resources, thereby limiting funds available for critical development projects and essential service delivery.

## **II. Budget for Personnel Emoluments made under one Vote**

- 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. Further, Regulation 119(2) of the Public Finance Management (County Governments) Regulations, 2015 requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.
- 3.8 Section 148(1) of Public Finance Management Act, 2012 requires a County Executive Committee member for finance to, except as otherwise provided by law, designate accounting officers in writing 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.

- 3.9 Comparison of payroll reports extracted from IPPD system with the approved budget established that the vote heads in the IPPD system were not aligned with those in the approved budget. Despite there being eleven (11) departments of the County Executive being represented in IPPD system, the budget for personnel emoluments for the County Executive is made under one department - Public Service, Administration and Legal Affairs. The departments represented in the IPPD system are listed in **Annexure 1** and IFMIS vote book report extract showing the compensation of employees budget in the Public Service, Administration and Legal Affairs Department is in **Annexure 2**.
- 3.10 Maintaining compensation of employees budgets under only one department may lead to inconsistencies between budgetary allocations and actual payroll expenditure and increase the risk of misallocation or even misuse of public funds. These risks would arise from one chief officer, the accounting officer of a single department, being made responsible at the budgeting stage for finances of all departments with respect to compensation of employees without the administrative visibility of all departments' staff existence, movement, attendance, performance or discipline.

#### **B. Recruitment Process**

- 3.11 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 Approved Staff Establishment**

- 3.12 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, 2015 requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.
- 3.13 The County Executive did not have an approved staff establishment for the three (3) financial years under review.

- 3.14 Without a staff establishment, the departments have no guidance on optimum staffing levels or priorities, and human resources may not meet the service delivery needs of the County Executive.

## **II. Lack of Annual Recruitment Plans**

- 3.15 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. Regulation 119(3) of the Public Finance Management (County Governments) Regulations requires the Accounting Officer of a county government entity to ensure that the personnel cost of all appointees, as well as promotion and salary increases, can be met within the budgetary allocation voted for the county government entity.
- 3.16 The Special Audit established that the County Executive recruited One Hundred and fifty-six (156) employees, listed in **Annexure 3**, during the financial year 2023/2024. However, the departments did not have annual recruitment plans to guide the process.
- 3.17 Lack of annual recruitment plans can result in overstaffing, understaffing, hiring for roles that do not align with organizational priorities or inability to pay staff immediately upon hire or promotion.

## **III. Irregular Recruitment of Staff**

- 3.18 Section 63 of the County Governments Act, 2012 empowers the county public service board to make appointments including promotions in respect of offices in the county public service, at the request of the relevant county chief officer of the department to which the appointment is to be made, or on its own motion. Section 65(1) stipulates matters to be taken into consideration during appointments, including qualifications, experience and need for open and transparent recruitment of public servants. Section 65(2) specifies that merit and fair competition are overriding factors for fairness and transparency in appointments and promotions.
- 3.19 The Special Audit reviewed IPPD, manual and contract payrolls for all years, staff files and 2023/2024 recruitment records. It was established that that the County recruited one hundred and fifty-six (156) permanent and pensionable

employees during the financial year 2023/2024. The following internal control weaknesses were established:

- i. There was one (1) employee who was directly recruited to Job Group H, in 2022/2023 and attached to the Office of the Governor as a Chief Driver. However, the officer did not possess the requisite qualifications as stipulated in the Drivers schemes of service. In addition, there was no documented evidence of shortlisting, interview, or an assessment of the candidate's qualifications and experience against the set criteria in the Scheme of Service. The officer was paid in the manual payroll from September 2022 to March 2023, earning total gross pay of Kshs. 666,409.65 over the period, as detailed in **Annexure 4**. He was re-introduced into the IPPD system after the period under review.
  - ii. The key recruitment documentation of the One Hundred and fifty-six (156) recruited employees including indents, approvals for employment, vacancy advertisements, long lists and shortlists with scores, interview reports, County Service Public Board Minutes and final lists of successful candidates, were not provided for audit verification, as indicated in **Annexure 5**. Their total gross pay in 2023/2024 was Kshs.24,200,546.
- 3.20 There were no documented job needs assessment done with regard to recruitment of the 156 staff members into seven (7) designations.

#### **IV. Employment of Officer in Other Government Entities**

- 3.21 One (1) employee of Meru County Executive while simultaneously earning a salary in Meru Water and Sanitation Company in the financial year 2023/2024. The County Executive of Meru paid the officer Kshs. 816,720.00, as detailed in **Annexure 6**, while Meru Water and Sanitation Company paid Kshs. 692,760.00. The total amount paid to this employee was Kshs.1,509,480.
- 3.22 Further, the employee had been on secondment in the County Government of Meru, for more than nine (9) years, in contravention with Paragraph B.33 (1) of PSC Human Resource and Procedure Manual, which states that Secondment of officers from the Public Service to other organizations is applicable to pensionable officers, for a period not exceeding three (3) years and may be renewable once.

### C. Employee Data Management

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

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

- 3.24 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective. Further, Circular Ref. No: PSC/ ADM/ 13(9) dated 19 November, 2020 from Public Service Commission to all authorized officers stipulates that the date of birth as per the Birth Certificate should be considered as a public officer's official date of birth. This stipulation supersedes provisions of preceding circulars on the matter of dates of birth.
- 3.25 Comparison of data maintained by IPPD System and that for other government entity flagged fifty-one (51) employees with inconsistencies with date of birth.
- 3.26 Interview with thirty-three (33) employees and verification of their identification documents established that the captured in the IPPD System for seven (7) employees were different from those in employees' Birth Certificates as detailed in **Annexure 7**. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).
- 3.27 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before correction of the data.
- 3.28 The inaccurate capturing of dates of birth increases the risk of employees retiring before or after the legal retirement age, leading to potential miscalculation of pension dues and other age-based entitlements.

#### II. Missing and out of Date Contract Details in the Contract Payrolls

- 3.29 There were One Hundred and Twenty-Four (124) employees, in the financial year 2022/2023 whose contract expiry dates were not indicated in the contract payroll records. Further, the appointment date in two records were later than the payroll date. These employees were paid a cumulative amount of Kshs.6,044,641, detailed in **Annexure 8**.

- 3.30 In addition, ninety-five (95) employees in **Annexure 9** were paid a total of Kshs.4,330,922 after contract-end dates indicated in the contract payrolls.

### **III. Failure of Chief Officers to Account for Human Resources in their Departments.**

- 3.31 Section 148(1) of Public Finance Management Act, 2012 requires a County Executive Committee member for finance to, except as otherwise provided by law, designate accounting officers in writing 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.
- 3.32 The Letter of Engagement addressed to the County Secretary for the in-depth payroll audit vide letter OAG/SAS/SADS/KDSP-PAYROLL/012/3 dated 25 February 2025, required Chief Officers 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 and those not in the Chief Officer's list flagged for physical verification.
- 3.33 The County Executive had eleven (11) departments under the oversight of Chief Officers. However, only ten (10) Chief Officers complied with the request to submit validated staff information. The Counter-Signed list from the Finance Department was not provided for review at the time of audit. The failure by the Chief Officer to account for employees casts doubt on authenticity of payroll records.
- 3.34 Comparison of the staff lists countersigned by various Chief Officer's with staff register from IPPD system established that there were nine (9) employees, listed in **annexure 10**, who appeared in the Chief Officer's list but not in the Integrated Personnel and Payroll Database (IPPD), manual payrolls or contract payrolls. Further, three hundred and fifty-five (355) employees, detailed in **annexure 11**, were in IPPD but not in the lists provided by Chief Officers, and collectively received Kshs. .285,582,892 in earnings on 2023/2034.
- 3.35 Failure by the Chief Offices to account for some employees cast doubt on authenticity of payroll records.

#### **IV. Authenticity of Staff in the Payroll**

- 3.36 The Office of the Auditor General (OAG) requested a physical verification exercise vide letter OAG/SA/SADS/KDSP-PAYROLL/012/4 dated 5 March 2025, addressed to the County Secretary.
- 3.37 Out of the sixty-five (65) summoned employees, twenty-one (21) employees failed to appear for the verification exercise. During the period under review, the twenty-one (21) officers collectively received gross salary amounting to Kshs.11,078,688 as detailed in **Annexure 12**.
- 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 compliant with the applicable laws. The following issues were established:

##### **I. Charging of Compensation of Employees Expenditure to One 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 Section 148(1) of Public Finance Management Act, 2012 requires a County Executive Committee member for finance to, except as otherwise provided by law, designate accounting officers in writing 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
- 3.42 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 per department; all salary was posted to Public Service, Administration and Legal Affairs **annexure 13**.

3.43 Posting to one department was as a result of maintenance of compensation of employees budgets for all departments under only one department. This arrangement may lead to inconsistencies between budgetary allocations and actual payroll expenditure and increase the risk of misallocation or even misuse of public funds. These risks would arise from one chief officer, the accounting officer of a single department, being made responsible at the budgeting stage for finances of all departments with respect to compensation of employees without the administrative visibility of all departments' staff existence, movement, attendance, performance or discipline.

## **II. Irregular Payment of Extraneous Allowance**

3.44 Paragraph C.13 of the PSC HR Policies and Procedures Manual, 2016 states that extraneous allowance shall be paid to officers who are called upon to undertake extra responsibilities in addition to their normal duties and therefore work over and above the official working hours on a continuous basis. SRC circular Ref: SRC/TS/CG/ND/3/61/32 (25) dated 17 January 2019, stipulates that extraneous allowance is payable only to two (2) Secretaries, two (2) Drivers, and (2) Security Officers attached to the offices of the Governor and Deputy Governor.

3.45 SRC Circular SRC.TS.CGOVT/3/61 Vol III/(136) of 14 September 2015 stipulated the allowances payable to health workers, one of which was the health workers extraneous allowance. The circular stated that the allowances were only applicable to health personnel deployed in health facilities and excluded officers performing administrative functions.

3.46 A review of the 2021/2022 payroll records revealed that Forty-Six (46) employees were paid extraneous allowance totalling Kshs.3,983,918 as indicated in **Annexure 14**. The number of people paid and rate of payment used for this earning code exceeded the extraneous allowance limits set by the SRC/TS/CG/ND/3/61/32 (25) of 17 January 2019.

3.47 Further, nine (9) employees, including health workers performing administrative functions at Huduma Centres, were simultaneously paid extraneous duty allowance and health workers extraneous allowance, totaling Kshs.

1,979,924.7 in the financial year 2021/2022 and 2022/2023, as detailed in **Annexure 15**.

- 3.48 Three (3) employees who were not health workers were paid health workers extraneous allowance in 2023/2024, totaling Kshs. 168,000 as detailed in **Annexure 16**.

### **III. Irregular Payment of Commuter Allowance**

- 3.49 SRC circular SRC/TS/CGOVT/3/61 Vol IV(49) of 8 December 2017 stipulated the remuneration and benefits for board members of county public service boards, and was applicable from 8 December 2017 on constitution of new board to 30 June 2023. Under this circular, commuter allowance was not payable to full time members of a county public service board.

- 3.50 The Special Audit established that one full-time member of the Meru County Public Service Board was paid commuter allowance of Kshs. 80,000 in 2022 as detailed in **Annexure 17**, despite not being entitled to it under SRC/TS/CGOVT/3/61 Vol IV(49), the circular in force at the time of the payment.

### **IV. Irregular Payment of Special Salary**

- 3.51 Gazette Notice 6518 of 2017 stipulated that a member of the County Executive Committee was entitled to monthly gross remuneration package of Kshs. 259,875 only. The gazette notice and was effective between 8 August 2017 to 8 August 2022.

- 3.52 Gazette Notice 8794 of 2022, effective from 9 August 2022, stipulated remuneration and benefits for state officers in the Executive of county governments. The monthly remuneration and benefits to which Members of the Executive Committee were entitled to were limited to basic salary, house allowance, salary market adjustment and airtime allowance. The gazette notice also stated that any remuneration not specified was not payable.

- 3.53 Nine (9) employees were, contrary to Gazette Notices 6518 of 2017 and 8794 of 2022, paid special salary in the financial year 2022/2023, totaling Kshs.2,810,734 as detailed in **Annexure 18**.

#### **V. Overpayment of Leave Allowance**

- 3.54 There were six (6) employees who were paid leave allowance twice in the financial year 2022/2023 without justification, totaling Kshs.52,000 as indicated in **Annexure 19**.

#### **VI. Irregular Payments of Health Workers Allowances**

- 3.55 SRC Circular SRC.TS.CGOVT/3/61 Vol III/(136) of 14 September 2015 stipulated the allowances payable to health workers. The circular stated that the allowances were only applicable to health personnel deployed in health facilities and excluded officers performing administrative functions.
- 3.56 One (1) employee, appointed as the Chief Officer of Health, irregularly received health workers-related allowances such as, Health Risk Allowance, Emergency Call Allowance and Health workers Extraneous allowance amounting to Kshs.1,680,000, detailed in **Annexure 20**, during the financial year 2023/2024, despite only performing administrative functions and not being deployed in a health facility.

#### **VII. Employees Paid in More than One Payroll Per Month**

- 3.57 Under regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, an accounting officer is accountable to the county assembly for maintaining effective systems of internal control and measures taken to ensure that they are effective.
- 3.58 A comparison between the IPPD, Manual payrolls and contract for the three (3) financial years revealed that Five (5) employees, were each paid in more than one payroll simultaneously in some months. The total amount paid to these employees was Kshs.535,120 as detailed in **Annexure 21**.

#### **VIII. Payments after Contract Expiry**

- 3.59 The Special Audit determined that four (4) employees continued to receive salary payments despite their contracts expiring. These employees received Gross payments amounting to Kshs.2,972,078 detailed in **Annexure 22**.

#### **IX. Circumventing Payroll Controls to Pay Irregular Salary Arrears**

- 3.60 Article 201 (d) of the Constitution of Kenya, 2010, on the Principles of Public Finance require accountability in financial matters, responsible financial management and use of public money in a prudent and responsible way.

- 3.61 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 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.
- 3.62 The County Executive paid arrears amounting to Kshs128,012,613 in the three (3) financial years.
- 3.63 One (1) employee was paid salary arrears for withheld salary amounting to Kshs.1,768,290, detailed in **Annexure 23**, after being issued with a severe warning as punishment in a disciplinary process. There was no evidence of approval of payment of the withheld salary and the payment was processed without the necessary documentation or a formal directive allowing the payment of withheld wages. The payment was contrary to paragraph K.7(4) of the PSC Human Resource Policies and Procedures Manual for the Public Service, 2016, according to which a salary is restored on termination of disciplinary proceedings only if an officer under disciplinary is not punished or dismissed.
- 3.64 Three (3) employees received payment arrears amounting to Kshs. 3,077,790, detailed in **Annexure 24**, previously withheld for absconding duty. The arrears on reinstatement into the payroll were contrary to the recommendation of the County Human Resource Advisory Committee (CHRMAC).
- 3.65 One Hundred (100) employees received payment of salary arrears without valid contracts, amounting to Kshs.2,474,177 as indicated in **Annexure 25**.
- 3.66 In financial year 2021/2022, arrears amounting to Kshs.5,934,039, detailed in **Annexure 26**, were paid without approvals.
- 3.67 In 2023/2024, seven (7) employees were paid arrears multiple times without clear justification, totaling Kshs.2,278,032 as indicated in **Annexure 27**.
- 3.68 Two (2) employees were in 2022/2023 irregularly paid commuter allowance in arrears without justification, totaling Kshs.176,323 as detailed in **Annexure 28**.

- 3.69 Arrears, particularly when input into the payroll system is done manually, create a loophole for irregular or unsupported expenditure. Further, even regular payments that are not effected in a timely manner might be pushed into subsequent financial years, forming arrears that increase the wage bill in periods subsequent to those in which the payments had been budgeted.

### **E. Compliance with Laws and Regulations**

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

#### **I. Non-Deduction of Statutory Dues**

- 3.71 Section 20(1) and 20(2) of the National Social Security Fund Act, 2013 require an employer to pay into the pension fund the employer's contribution at six per centum of the employee's monthly pensionable earnings and employee's contribution at six per centum of the employee's pensionable earnings deducted from the employee's earnings, or contributions based on the Third schedule in the first five years.

- 3.72 An examination of the payrolls and bank statements provided for audit revealed that NSSF deductions were not made on earnings of seven hundred and fifty-eight (758) employees. Expected deductions on these employees' pay totaled Kshs.2,642,800 as detailed in **Annexure 29**.

#### **II. Non-Compliance with Requirement on Ethnic Diversity**

- 3.73 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 representing 33% of its staff from the same ethnic community.
- 3.74 Analysis of employees in the IPPD system as at 30 June, 2024 revealed that 89% of the staff were from one dominant ethnic community as detailed in **Annexure 30**. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008.

- 3.75 Further analysis established that the dominant community represented 88% of the new recruitment done during the period under review as detailed in **Annexure 31**.

### **III. Payment of Special Duty Allowance for More than Six Months**

- 3.76 Paragraph C.15 (1) of the PSC Human Resource and Procedure Manual 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.
- 3.77 One (1) employee was paid special duty allowance from July 2021 to June 2024, totaling Kshs.707,617 as detailed in **Annexure 32**.
- 3.78 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.

### **IV. Staff Under Probation for more than the Stipulated Period**

- 3.79 Section 42(2) of the Employment Act, 2007 states that a probationary period shall not be more than six months but it may be extended for further period of not more than six months with the agreement of the employee.
- 3.80 Further, paragraph 42(3) states that no employer shall employ an employee under a probationary contract for more than the aggregate period provided under subsection (2). Part II paragraph B.16 (1) of the Public Service Commission Human Resource Policies and Procedures Manual, May 2016 states that where vacancies exist in the pensionable establishment, candidates recruited to fill such vacancies shall be appointed on probation for a period of six (6) months. paragraph B.16 (4) states that where an officer's performance is unsatisfactory, he shall be informed in writing and the probation period may be extended for a maximum period of three (3) months. Paragraph B.18 (1) states that an officer appointed to the Service in a pensionable post will be confirmed in appointment and admitted into the permanent and pensionable establishment on completion of probationary period of six (6) months satisfactory service.

3.81 There were Seven Hundred and Thirty-five (735) employees engaged on probationary terms beyond the stipulated period of nine (6) months. The total amount paid to these employees was Kshs.426,793,760 as indicated in **Annexure 33**.

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

3.82 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**

3.83 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.

3.84 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between November, 2024 IPPD system data and December 2024 HRIS-Ke data established instances of overpayment and underpayments of salaries and allowances as shown in **Table 3** and detailed in **Annexure 34 to 36**.

**Table 3: Overpayment and Underpayment of Salary and Allowances on Migration to HRIS-Ke**

Allowance	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount (Kshs.)	Number of Employees	Amount (Kshs.)
House Allowance			1	13,239
Special Salary	1	10,000		
Commuter Allowance	1	20,000		
Disability Guide Allowance			1	68,000
Health Workers Extraneous	141	1,536,000	456	3,510,000
		<b>1,566,000</b>		<b>3,591,239</b>

\*Source: HRIS-Ke Payroll for December 2024

3.85 The Overpayments, underpayments and irregular payments during migration from a IPPD System to a HRIS-Ke indicate inadequate data validation and weak internal controls. This exposes the County Executive to financial loss, legal liabilities, and employee dissatisfaction due to inaccurate compensation.

#### 4. CONCLUSION

- 4.1 The Special Audit of payrolls for Meru 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 Cost of Compensation of Employees within thirty-five (35%) of Revenue indicates weaknesses in 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 Maintaining compensation of employees budgets under only one department may lead to inconsistencies between budgetary allocations and actual payroll expenditure and increase the risk of misallocation or even misuse of public funds. The accounting officer of a single department is effectively made responsible at the budgeting stage for finances of all departments with respect to compensation of employees without the administrative visibility of all departments' staff existence, movement, attendance, performance or discipline. The chief officer may not be able to effectively certify the correctness of the payroll for each department in each month as required by the Public Finance Management Regulations.
- 4.4 The absence of an approved staff establishment denies County Executive departments formal guidance on optimal staffing levels, potentially leading to overstaffing or understaffing, budget overruns or unmet service delivery needs.
- 4.5 Lack of annual recruitment plans can also result in overstaffing, understaffing, hiring for roles that do not align with organizational priorities or inability to pay staff immediately upon hire or promotion.
- 4.6 The County Executive has not demonstrated its basis for hiring, either through documented requests or needs assessments, and the county may fail to address actual staffing needs or hire more staff that needed. Further, hiring of an officer without the requisite qualifications directly contravenes requirements to be considered in appointments as stipulated in the County Governments Act, including merit. The County Executive has also not able to demonstrate fairness

and transparency in the hiring processes, given the gaps in documentation on indents, longlisting and shortlisting, interview reports and scores. There are also weaknesses in due diligence during hiring as evidenced by one officer being in the payroll of more than one county government entity.

- 4.7 Failure by the Chief Offices to account for some employees casts doubt on authenticity of payroll records.
- 4.8 The payment of irregular salary and allowances, payments against expired contracts and the overpayments of salaries and allowances 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 IPPD System provision for manual entry of arrears without automated controls or validation created a loophole that has been 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 Failure to deduct and remit statutory deductions will lead to penalties that will increase spending on compensation of employees. Other failures to meet legal obligations can increase unnecessary spending on unauthorized staff costs, reduce workforce diversity, cause employee hardship, lead to lawsuits, harm the county's reputation, and weaken stakeholder trust.
- 4.11 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.
- 4.12 The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

## 5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusions of the Special Audit, the following is recommended for implementation the Meru County Executive.
- 5.2 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five percent (35%) 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 The Public Finance Management Act requires that an accounting officer responsible for managing finances of a county government entity also be responsible for administration of that county government entity. For effective management of compensation of employee budgets, the County Executive should consider budgeting for compensation of employees per department instead of under one department. The chief officer of each department is likely to have better administrative visibility of his own department and more accurately account for the department staff and certify correctness of payrolls.
- 5.4 Further, for enhanced accuracy in reporting of compensation of employees expenditure per department and better accountability by the Chief Officers, the Chief Officer for 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 times configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 5.5 To enhance the attainment of optimal staffing levels, management of the County Executive should document and approve an appropriate staff establishment, and 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 that personnel costs of all appointments and promotions can be met within the budgetary allocation voted for the county government entity, as well

as prevent overstaffing, understaffing, hiring for roles that do not align with organizational priorities, the County Executive should prepare annual recruitment plans.

- 5.7 To ensure fairness, merit, efficiency, effectiveness and diversity in the county public service, recruitments should follow due process as detailed in the County Governments Act. The stipulated roles of the county public service board and other stakeholders should be duly carried out. The County Public Service Board should also maintain properly authenticated documents relating to recruitment processes.
- 5.8 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.
- 5.9 To reduce opportunity for processing of irregular payments by exploiting existing weakness in arrears payments, the management of the County Executive together with that of State Department for Public Service and Human Capital Development should automate the processing of arrears by eliminating manual entry fields and integrating system-based validation rules. This will enhance control, ensure consistency with approved policies, and reduce the risk of irregular or unauthorized payments.
- 5.10 The County Executive should ensure compliance with laws and regulations to eliminate or minimize the risks of employee hardship, penalties, litigation and loss of stakeholder trust.
- 5.11 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments, underpayments and irregular payments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.

5.12 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

## 6. APPENDICES

### Appendix 1: Documents Not Provided or Provided in Part

Document	Audit Area Affected	Action /Mitigation
Recruitment process documents and data for 2021/2022 and 2022/2023, and County Public Service Board Minutes on recruitment/ appointment for all years under review	Review of controls over recruitment	Audit procedures were carried out on IPPD and manual payrolls for all three years, staff files and recruitment records for 2023/2024 maintained by County Service Public Board.
Contractual agreements between the County and the banks processing staff salaries	Evaluation of efficiency of payroll processes and computation of nugatory costs, if any	None
Signed Chief Officer's list from the Finance Department	Evaluation of payroll entries for unverified employees with respect to the Finance Department	Audit procedures were carried for all other departments and findings recorded accordingly.
Signed/authorized payment vouchers for to enable verification of the remittance process for statutory deductions	Evaluation of accuracy and completeness of remittances as compared to deductions, compliance with laws on remittance of statutory deductions.	None
Bank statements for the County Executive's CBK Recurrent Account for the period between August 2022 to June 2023	Evaluation of timeliness of remittance of statutory deductions	None

### Appendix 2: List of Staff Interviewed

No	Designation	Department
1	Secretary, CPSB	Public Service, Administration and Legal Affairs
2	HRM & Development Officer	Public Service, Administration and Legal Affairs
3	Accountant	County Treasury
4	Assistant Director, Internal Audit	County Treasury

### Appendix 3: List of Annexures

The Annexures referenced in the report, as listed below, will be provided in soft copy.

Name	Description
Annexure 1	Comparison Of Departments Represented in IPPD To Votes with Compensation of Employees Budget in IFMIS
Annexure 2	IFMIS Vote Book Extract Showing the Compensation of Employees Budget in the Public Service, Administration and Legal Affairs Vote
Annexure 3	Staff Recruited in 2023/2024
Annexure 4	Gross Earnings of Irregularly Recruited Chief Driver
Annexure 5	Staff Recruited in 2023/2024
Annexure 6	2023/2024 Earnings in Meru County Executive for Officer Employed in Other Government Entity
Annexure 7	Difference In Birth Dates Between IPPD Data and Birth Certificates
Annexure 8	Data In Contract Payroll Without Contract End-Date
Annexure 9	Staff In the Contract Payrolls with Out-Of-Date Expiry Details for Contracts
Annexure 10	Staff that Cannot Be Traced to the Payrolls
Annexure 11	Employees in the Payroll Not in The Lists Provided by Chief Officers
Annexure 12	Officers Who Did Not Attend the Physical Verification Exercise
Annexure 13	Posting of Gross Pay per Department Vote Code in 2023/2024
Annexure 14	Irregular Payment of Extraneous Allowance - Earning Code 817
Annexure 15	Simultaneous Payment of Extraneous Duty Allowance and Health Workers Extraneous Allowances
Annexure 16	Irregular Payment of Health Workers Extraneous Allowance To Non-Health Workers
Annexure 17	Commuter Allowance Paid to Fulltime Member of The County Public Service Board Not Entitled to The Allowance in 2022
Annexure 18	Irregular Payment of Special Salary
Annexure 19	Overpayment of Leave Allowance
Annexure 20	Health Workers Allowances Paid To Staff Not Deployed In Health Facility/ Staff Performing Administrative Functions
Annexure 21	Payment of Staff in More than One Payroll

<b>Annexure 22</b>	Payments after Contract Expiry
<b>Annexure 23</b>	Unauthorized Arrears Paid after Disciplinary Proceedings
<b>Annexure 24</b>	Unauthorized Arrears Paid to Officers who Absconded Duty
<b>Annexure 25</b>	Payment of Salary Arrears to Contracted Employees without Valid Contracts
<b>Annexure 26</b>	Staff Paid Arrears without Due Approval
<b>Annexure 27</b>	Payment of Arrears Multiple Times within the Same Year
<b>Annexure 28</b>	Irregular Payment of Commuter Allowance Arrears
<b>Annexure 29</b>	Failure to Deduct NSSF Amounts
<b>Annexure 30</b>	Ethnic Representation in Meru County Executive in June 2024
<b>Annexure 31</b>	Ethnic Representation on Recruitment in Meru County Executive in June 2024
<b>Annexure 32</b>	Payment of Special Duty Allowance for Over Six Months
<b>Annexure 33</b>	Staff on Probation for more than Nine Months
<b>Annexure 34</b>	Overpayment of Health Workers Extraneous Allowance on Migration to HRIS-KE
<b>Annexure 35</b>	Various Overpayments and Underpayments in HRIS-Ke
<b>Annexure 36</b>	Underpayment of Health Workers Extraneous Allowance on Migration to HRIS-KE

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