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



COUNTY 032
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 Nakuru 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 Nakuru County Executive was conducted in line with this mandate.

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

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

Audit Objectives

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

- v. Evaluate adherence to tax laws, labour laws, and other statutory requirements; and
- vi. Assess whether payroll data was accurately and completely migrated from the Integrated Payroll and Personnel Database (IPPD) System to Human Resource Information System – Kenya (HRIS-Ke).

Audit Scope and Limitations

- 1.7 The Special Audit of payroll management covered financial years 2021/2022, 2022/2023, and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual, and casual payrolls.
- 1.8 The County Executive personal files provided for verifications lacked critical employee information like promotion/redesignation letters, approvals for arrears payments, and employees' biodata. This limitation was, however, mitigated by using data analysis to test the controls.

Methods of Gathering Evidence

- 1.9 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.
- 1.10 The methods used to gather audit evidence included document review, data analytics, interviews with key payroll staff, and physical verification of staff. Further, audit evidence was gathered through walk-through tests. In addition, data validation was also conducted to test data integrity.

Summary of Audit Findings

The key audit findings are as follows:

A. Payroll Budgeting

I. Compensation of Employees to Revenue Ratio

- 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 not to exceed thirty-five (35%) percent of the county government's total revenue.
- 1.12 The Audit established that the ratio of the budgeted compensation of employee for the three (3) years under review was within 35% of the budgeted revenue. However, actual payroll expenditure accounted for in the three (3) years under review exceeded the 35% threshold of actual revenue.

II. Budgetary Control and Performance

- 1.13 Regulations, 29(2)(a) of the Public Finance Management (County Governments), Regulations, 2015 require the accounting officer to be responsible, for ensuring that all services that can be reasonably foreseen are included in the estimates and that they are within the capacity of the County Government entity during the financial year.
- 1.14 The Audit established that, for the three (3) years under review, the County did not fully utilize all of its compensation of employee budget. Under-utilization indicates poor budget execution and planning, which may negatively impact service delivery to the public.

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

- 1.15 The Audit established that the budget Vote Heads in the IPPD System 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 and misuse of public funds, as expenditure may be charged under incorrect or obsolete vote heads.

B. Recruitment Process

I. Lack of Annual Recruitment Plans

- 1.16 During the period under audit review, the County Executive recruited nine hundred and eighty-five (985) employees. The audit established that the departments that initiated the recruitment lacked annual recruitment plans to guide the process. The lack of annual recruitment plans can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

II. Lack of an Approved Staff Establishment

- 1.17 The County executive operated without an approved staff establishment for the three financial years under review, risking unauthorized hiring and poor workforce planning. However, the County Public Service Board adopted a staff establishment on 1 July 2024.

III. Designations in the Payroll Systems not Aligned with the Chief Officers' List

- 1.18 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 payroll system. This process can lead to inefficiencies in workforce planning and budget overruns.

C. Employee Data Management

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

- 1.19 Comparison of data maintained by the IPPD System and that from another government entity identified seven hundred and four (704) employees who had inconsistencies in date of birth.
- 1.20 Interview with two hundred and sixty (260) employees and verification of their identification documents established that the data captured in the IPPD System for thirty (30) employees were different from those in the employees' Birth Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ADM/ 13(9).

II. Employment of Officers Engaged in Other Government Entities

- 1.21 One employee was found to have been employed by the Nakuru County Executive while being on the payroll of the Teachers Service Commission. An interview with the employee and verification of documents maintained by the County Executive revealed that the officer had been employed by the County since 2021, as a clerical officer in the finance department. The employee had been paid a gross pay totalling Kshs.917,480 in the three financial years under review.
- 1.22 It was, however, established that the officer's resignation in January 2025, was approved by the County Public Service Board. Further, the County has since engaged the Teachers Service Commission through a letter to confirm the employment status of the officer, in order to establish the exact date of engagement and facilitate recovery.

III. Authenticity of Staff in the Payroll

- 1.23 The Special Audit requested sixty (60) employees to appear for physical verification. However, eight (8) employees did not appear despite multiple attempts to reach out to them. During the period under review, the eight (8) officers collectively received a gross salary amounting to Kshs.14,941,508.
- 1.24 The employees who failed to appear for physical verification may not exist, raising the risk of irregular or fraudulent payments.

IV. Use of Manual Payrolls

- 1.25 During the years under review, the County Executive had employees whose salary totalling Kshs.1,478,832,857 was processed through payrolls maintained in Excel. The use of manual payroll systems for salary processing is vulnerable to manipulation and fraud, potentially resulting in unauthorized payments and disbursements to unverified personnel.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Budget Vote

- 1.26 The Special Audit established that there were misalignments between departmental Vote Heads in the IPPD System and those in the Integrated Financial Management System (IFMIS) Ledger Account. As a result, the 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. Irregular Promotions and Appointments

- 1.27 Analysis of the payroll data and verification of records maintained by the County Executive established that two (2) employees were promoted during the financial year 2022/2023 without meeting the requirements set in their respective schemes of service.

III. Non-compliance with Laws and SRC Guidelines on Payment of Allowances

- 1.28 An analysis of payroll data and a comparison of salaries and allowances processed through the IPPD and Manual Payroll Systems, with respective rates stipulated in the SRC circulars, revealed the following anomalies:
- i. There were twenty-two (22) employees who were overpaid house allowance by Kshs.126,500.
 - ii. An employee engaged on casual terms was overpaid commuter allowance by Kshs.12,000.
 - iii. There were five (5) employees who were irregularly paid leave allowance, totalling Kshs.416,064.
 - iv. A registered oncology nurse of Job Group K was paid an emergency call allowance at a rate of Kshs.72,000 instead of Kshs.30,000 in July and August 2022, resulting in an overpayment of Kshs.84,000.

v. Non-practice allowance was paid to a registered oncology nurse of Job group K for July and August 2022, resulting in an irregular payment of Kshs.36,000.

vi. In the 2021/2022 financial year, a health worker in Job Group K received both extraneous duty allowance and the health workers' extraneous allowance for 12 months, resulting in an irregular payment Kshs.120,000. The officer was only eligible for the Kshs.25,000 health workers' extraneous allowance.

IV. Variance Between Net Pay and Amount Remitted to Bank

Analysis of payroll data for the three (3) financial years revealed a discrepancy of Kshs.2,829,134 in the 2023/2024 financial year, where the net pay recorded in the manual payroll was Kshs.76,361,176, while the actual bank remittances totaled Kshs.79,190,310.

V. Staff Appearing in Multiple Payroll Records

1.29 A comparison of manual, casual, and IPPD Payrolls System for the three (3) years under review revealed that fourteen (14) employees received salaries from both the IPPD and manual payrolls in 2022/2023 and 2023/2024, totalling Kshs.2,645,077. Additionally, in June 2024, three (3) employees were paid from both the manual and casual payrolls across different departments, amounting to Kshs.216,334.

VI. Irregular Remuneration in the Casuals Payroll

1.30 In August 2022, an employee in the Public Service Training and Development department was irregularly paid a double salary totalling Kshs.38,664, having been compensated for 44 days in one month. In that month, the employee was paid for 21 days at a daily rate of Kshs.481, and 23 days at Kshs.1,241.85.

E. Compliance with Laws and Regulations

I. Non-Compliance to Remittance of Statutory Deductions

1.31 An examination of the County Executive statutory deductions revealed the following anomalies:

- i. One hundred and eighty-one (181) employees in the Manual and Casual payrolls for the financial years 2021/2022 and 2022/2023 were not being deducted NHIF. The employees received a total gross pay of Kshs.6,014,256.
- ii. It was also established that NHIF, NSSF, and PAYE deductions for July and August 2021, July 2022, and July and August 2023 from employees were not remitted on time to the relevant authorities.

II. Casuals Engaged Beyond Stipulated Period

- 1.32 The Special Audit established that two thousand eight hundred and seventy-three (2,873) casual workers were engaged for more than 3 consecutive months in the three financial years under review. This exposes the county to litigation costs and risks of labor lawsuits.

III. Employees in the Staff List not in the payroll (Stopped Salaries)

- 1.33 Analysis of the IPPD System staff list and payroll as at June 2024, established that one hundred and sixteen (116) employees had their salaries stopped due to various reasons between 2014 and 2023. Despite this, these employees remain listed as active in the master payroll data.

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

- 1.34 An analysis of the IPPD payroll as at June 2024 established that one hundred and fifty-nine (159) employees were paid net salaries that were less than one-third of their basic salaries

V. Non-Compliance with Requirement on Ethnic Diversity

- 1.35 Analysis of employees in the IPPD system as at 30 June 2024 established that 48% of the staff were from one dominant ethnic community, contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008.

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

- 1.36 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between payroll data from the IPPD system and HRIS-Ke for the months of November 2024 and December 2024, respectively, established instances of overpayment and underpayment of allowances.

Conclusion

- 1.37 The Special Audit of payrolls for Nakuru 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 non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 1.39 The Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control, resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 1.40 The departments in the County Executive did not have an approved staff establishment and annual human resource recruitment plan. The absence of staff establishment and annual recruitment plans demonstrates ineffective workforce planning and deviation from established staffing structures. This practice can result in either overstaffing or hiring staff for roles that do not align with organizational priorities, which has an impact on the budget.

- 1.41 The failure by the County Executive to update the IPPD system with approved designations in the approved staff establishment undermines budgetary control and increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 1.42 The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by inaccurate employees dates of birth, the use of manual payrolls, employees appearing in multiple payrolls and payment of irregular allowances and casual wages. This indicates weak payroll controls, including lack of data validation controls.
- 1.43 The authenticity of some of the employees could not be established. This was evidenced by the failure of the Chief Officers to account for employees in their departments, and the failure by employees to appear for physical verification. These cast doubt on the authenticity of payroll records and raise the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive.
- 1.44 The non-compliance with tax, labour laws, and other statutory requirements as evidenced by delayed of statutory remittances, engagement of employees beyond the retirement age, prolonged engagement of casuals, non-compliance with ethnic diversity, and requirement for employee to retain one-third of their basic salary violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.45 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.

- 1.46 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

- 1.47 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Nakuru County Executive.
- 1.48 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.
- 1.49 For effective management of departmental budgets and to enhance accuracy in financial reporting the Chief Officer for Public Finance together with the management of the State Department for Public Service and Human Capital Development should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures.
- 1.50 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer 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.
- 1.51 To enhance transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions. Additionally, recruitment processes should be strengthened to ensure transparency, including public advertisement of vacancies, consideration of

- only formally submitted applications, and securing budget approvals before initiating any recruitment activities.
- 1.52 To ensure the integrity of data maintained in the payroll systems, the management should ensure that the validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), and Social Health Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favor of HRIS-Ke.
 - 1.53 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, validation controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
 - 1.54 To ensure no payment is made to non-existent employees, salary payments to all staff who failed to appear for physical verification should be suspended.
 - 1.55 To enforce compliance with the set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.
 - 1.56 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.

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 on Payroll Management for the Nakuru 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.
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- 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 the 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 Compensation of Employees

- 2.6 Over the three years under review, there was a gradual increase in the number of employees and the compensation of employees. The increase was mainly due to the recruitment of four hundred and seventy-eight (478) staff in the 2022/2023 and two hundred and fourteen (214) staff in the 2023/2024 financial years.
- 2.7 The cumulative change in the compensation of employees over the three years was approximately **4%**, while the overall staff change across the audit period was **5%** as demonstrated in **Figure 1** and **Figure 2**.

Figure 1: Cumulative Change in Compensation of Employee

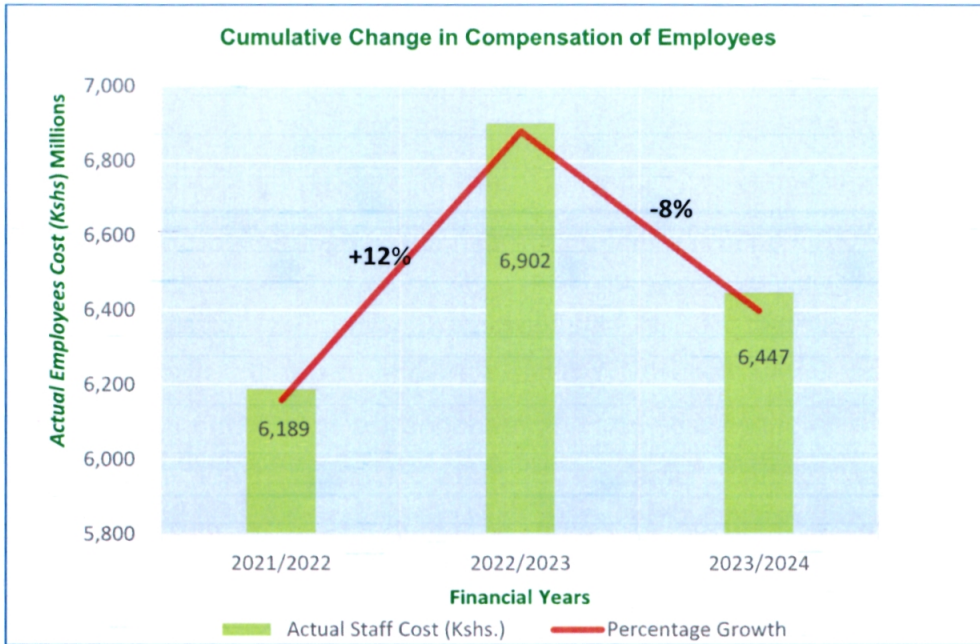
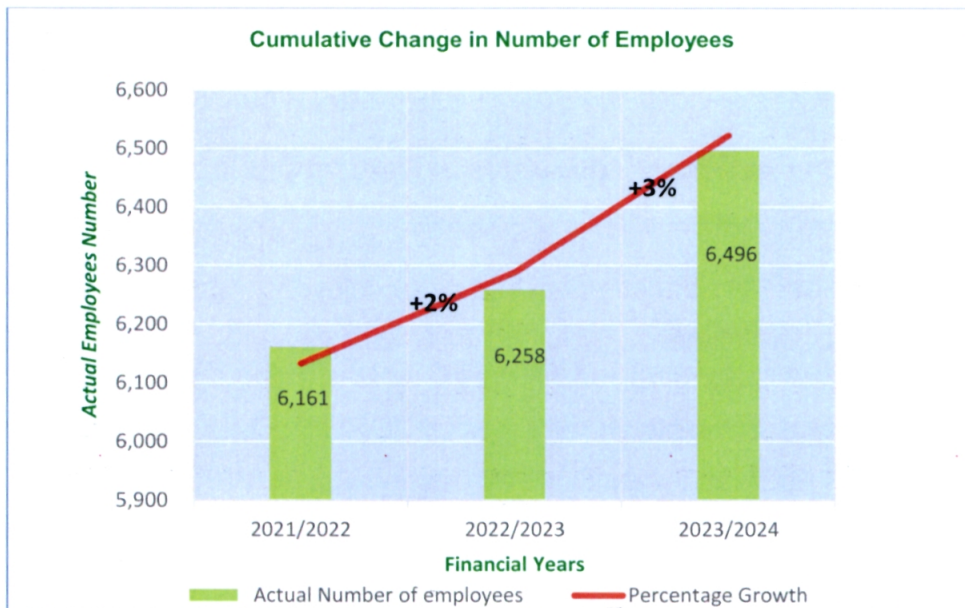


Figure 2: Cumulative Change in Number of Employees



2.8 During the financial year 2022/2023, the compensation of employees increased at a rate higher than the growth in employee numbers. This variance was mainly attributable to an increase in both casual workers and permanent staff, which consequently led to higher expenditure on basic salaries, wages, and allowances. In contrast, for the financial year 2023/2024, the number of

permanent employees declined while the number of casual workers increased significantly. This shift resulted in an overall increase in staff numbers but a corresponding decrease in the compensation of employees, due to the lower remuneration associated with casual employment.

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.
 - vi. Assess whether payroll data was accurately and completely migrated from the IPPD system to the 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), manual and casual payrolls.
- 2.11 The County Executive personal files provided for verifications lacked critical employee information like promotion/redesignation letters, approvals for

arrears payments, and employees' biodata. This limitation was however mitigated by using data analysis to test the controls.

Audit Methodology

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

Methods of Gathering Evidence

- 2.13 The Special Audit 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.
- 2.14 The methods used to gather audit evidence during the audit included document review, data analytics, interviews with key payroll staff, and physical verification of staff.

a) Document Review

- 2.15 The audit team reviewed various documents, including: -
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Government) Regulations, 2015;
 - iv. County Government Act, 2012;
 - v. Employment Act, 2007;
 - vi. National Security Fund Act, 2013;
 - vii. National Health Insurance Fund Act, 1998 (Now Repealed);
 - viii. The SRC circular SRC/TS/29(81), dated 10 August 2023;
 - ix. The SRC circular on the Compendium of Remuneration and Benefits for Public Service, dated December 2022;
 - x. The SRC circular SRC/TS/MDP/3/1/2(2), dated 11 August 2015;

- xi. Public Service Commission Human Resource Policies and Procedures Manual of May 2016;
- xii. Employees' physical files;
- xiii. Collective Bargaining Agreements (CBA), 2013;
- xiv. Affordable Housing Act, 2024;
- xv. The County Executive Financial Statements for financial years 2021/2022, 2022/2023, and 2023/2024;
- xvi. The County Executive Budgets for financial years 2021/2022, 2022/2023, and 2023/2024.

b) Data Analytics

2.16 The payroll and staff register data from the IPPD system was extracted and analyzed. The exceptions from the analysis formed the basis for verification with payroll records maintained by the County Executive.

2.17 The following data sets for financial years were analyzed: -

- i. IPPD Staff Registers and Payroll data for financial years 2021/2022, 2022/2023 and 2023/2024;
- ii. Manual and Casual payroll data for financial years 2021/2022, 2022/2023 and 2023/2024;
- iii. HRIS-Ke Payroll data for December 2024;
- iv. Chief Officers' staff list for each department as at 30 June 2024;

c) Interviews

2.18 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

2.19 The Audit Team requested all the Chief Officers to provide a countersigned list of employees in their departments as of 30 June 2024. This list was corroborated with the IPPD staff registers maintained in the County Executive.

2.20 The audit team, through the County Secretary, requested sixty (60) employees to appear in person for a physical verification, which was based on initial exceptions during data analytics. This verification was to ensure the existence of staff, their employment status, and the accuracy of personal data maintained in the payroll systems.

Report Structure

2.21 The report is organized as follows:

- i. Executive Summary
- ii. Detailed Findings
- iii. Conclusion
- iv. Recommendations and
- v. Appendices

2.22 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:

- a. Payroll Budgeting;
- b. Recruitment Process;
- c. Employee Data Management;
- d. Payroll Processing and Payments;
- e. Compliance with Laws and Regulations;
- f. Migration from Integrated Personnel and Payroll Database System to Human Resource Information System-Kenya.

A. Payroll Budgeting

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

I. The Compensation of Employee to Revenue Ratio

3.2. Regulation 25(1)(a) of Public Finance Management (County Government) 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.

3.3. The Special Audit established that the budgeted compensation of employees for the three (3) years under review was within 35% of the budgeted revenue. However, actual payroll expenditure accounted for in the three (3) years under review exceeded the 35% threshold of actual revenue, as shown in **Table 1**.

Table 1: Actual Employee Cost to Revenue Ratio

Financial Year	Actual Revenue (Kshs.)	Actual Compensation of Employee Expenditure (Kshs.)	Revenue/ Expenditure Ratio (%)
2021-2022	16,654,957,076	6,188,514,501	37%
2022-2023	16,252,255,255	6,901,543,527	42%
2023-2024	16,362,575,243	6,447,452,070	39%

*Source: Audited Financial Statement

II. Budgetary Control and Performance

- 3.4. Regulations, 29(2)(a) of the Public Finance Management (County Governments), Regulations, 2015 require the accounting officer to be responsible, for ensuring that all services that can be reasonably foreseen are included in the estimates and that they are within the capacity of the County Government entity during the financial year.
- 3.5. The audit established that, for the three (3) years under review, the County executive did not fully utilize all of its compensation of employee's budget, as demonstrated in **Table 2**. Under-utilization indicates poor budget execution and planning, which may negatively impact service delivery to the public

Table 2: Budget Utilization

Financial Year	Compensation of Employees (Kshs.)	Final Budget (Kshs.)	Variance (Kshs.)	% of Utilization
2021/2022	6,188,514,501	7,082,492,257	893,977,756	87%
2022/2023	6,901,543,527	7,115,728,954	214,185,427	97%
2023/2024	6,447,452,070	7,188,511,416	741,059,346	90%

*Source: County Executive Budget

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

- 3.6. 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.
- 3.7. A comparison of payroll reports extracted from the 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**.
- 3.8. 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.
- 3.9. 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 the audit, the HRIS-Ke had similar Vote Heads to those in the IPPD System.

- 3.10. The continued referencing to outdated departmental structures leads to inconsistencies between budgetary allocations and actual payroll expenditures, increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect vote heads.

B. Recruitment Process

- 3.11. 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 Annual Recruitment Plans

- 3.12. 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.
- 3.13. The County Executive recruited two hundred and ninety-three (293), four hundred and seventy-eight (478), and two hundred and fourteen (214) employees during the financial year 2021/2022, 2022/2023, and 2023/2024, respectively, as detailed in **Annexure 2**. However, it was established that the departments that initiated the recruitment did not have annual recruitment plans to guide the process.
- 3.14. The lack of annual recruitment plans supported can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

II. Lack of an Approved Staff Establishment

- 3.15. Section 59(1)(g) of the County Governments Act requires the County Public Service Board of a county to, on behalf of the county government, facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties.
- 3.16. 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.
- 3.17. The County executive operated without an approved staff establishment for three financial years under review, risking unauthorized hiring and poor workforce planning. However, the audit established that a staff establishment was adopted on 1 July 2024 by the County Public Service Board.

III. Designations in the Payroll Systems not Aligned with the Chief Officers List

- 3.18. 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.
- 3.19. The Special Audit established that there were five hundred and eleven (511) designations that were configured in the IPPD System. However, out of the configured designations, one hundred and eighty-nine (189) were not in the chief officers' list. Further, there were one thousand, seven hundred and sixteen (1,716) employees who were grouped in the one hundred and eighty-nine (189) designations, as detailed in **Annexure 3 (a-b)**.
- 3.20. 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.
- 3.21. As a result of the misalignment between the staffing records in the HRIS-Ke and the provisional Chief Officers lists, it was not possible to establish whether the County filled all positions in accordance with the drafted staff establishment.

This may lead to inefficiencies in workforce planning, budget overruns, and service delivery.

C. Employee Data Management

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

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

- 3.23. 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 the Public Service Commission to all authorized officers stipulates that the date of birth as per the Birth Certificate should be considered as a public officer's official date of birth.
- 3.2 Comparison of data maintained by the IPPD System and that from another government entity identified seven hundred and four (704) employees that had inconsistencies with date of birth.
- 3.3 Interview with two hundred and sixty (60) employees and verification of their identification documents established that the data captured in the IPPD System for thirty (30) employees were different from those in the employees' Birth Certificates, as shown in **Annexure 4**. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).
- 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 a similar date of birth to those in the IPPD System.
- 3.25. Inaccurate capture of birthdates leads to the risk of exceeding the legal retirement age or forcing an employee to retire before they are due for retirement. There is also the risk of miscalculation of retirement dates and

pension dues of employees, as well as other entitlements that are calculated based on age.

II. Employment of Officers Engaged in Other Government Entities

- 3.26. Section 11 of the Public Officer Ethics Act prohibits public officers from using their offices for improper enrichment. Section 9(e) of the Public Officer Ethics Act requires observance of official working hours and prohibits absenteeism without proper authorization or reasonable cause.
- 3.27. The audit established that an employee was concurrently on the payroll of both the County Executive and the Teachers Service Commission. The employee served as a clerical officer in the finance department from 2021 and earned a gross salary of Kshs. 917,480 over the three (3) years as detailed in **Annexure 5**. The officer's resignation was approved by the County Public Service Board in January 2025. The County Executive has requested employment confirmation from the Teachers Service Commission to determine the appropriate recovery measures.
- 3.28. An officer will not be able to serve in two full-time positions in the two entities, and may not meet the requirements of their employment contract. Further, the officer may also be improperly enriching himself by drawing two salaries under two full-time engagements.

III. Authenticity of Staff in the Payroll

- 3.28. The Office of the Auditor-General requested for a physical verification of sampled staff via the letter OAG/SA/SADS/KDSP-PAYROLL/4/032 dated 14 January 2025, addressed to the County Secretary.
- 3.29. The Letter requested sixty-one (60) employees to present themselves for physical verification. However, eight (8) employees did not present themselves. During the years under review, the eight (8) staff were paid salary amounting to Kshs. 14,941,508, as detailed in **Annexure 6**.
- 3.30. The employees who did not present themselves for physical verification may not exist, raising the risk of irregular or fraudulent payments.

IV. Use of Manual Payrolls

- 3.31. Regulation 22 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015, requires the accounting officer to maintain effective systems of internal controls and have measures to ensure their effectiveness.
- 3.32. The Special Audit established that during the years under review, the County Executive had one hundred and thirty-one (131) employees on manual payroll and one thousand one hundred and sixty (1,160) casual employees whose salaries totaling to Kshs.1,478,832,857 were being processed through payrolls maintained in Excel as shown in **Table 3**.

Table 3: Use of Manual and Casual Payrolls

Financial Year	No. of Casuals	Amount Paid (Kshs.)	No Employees in Manual Payroll	Amount Paid (Kshs.)
2021/2022	775	112,193,252	786	526,005,908
2022/2023	676	136,383,992	159	432,945,545
2023/2024	1160	172,625,764	131	98,678,396
Totals		421,203,008		1,057,629,849

*Source: Manual and Casuals payroll data

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

D. Payroll Processing and Payments

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

I. Charging of Employee Costs to the Wrong Budget Vote

- 3.35. 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.

- 3.36. The Audit established that there were misalignments between departmental Vote Heads in the IPPD System and those in the IFMIS Ledger Account, as the Vote Heads in IPPD were not updated to align with those in IFMIS. As a result, a comparison of the gross salary processed through the IPPD System, casual payroll, and manual payrolls to salary ledgers from the Integrated Financial Management Information System (IFMIS), revealed that posting of salary in IFMIS was not done as per departmental Budget Vote Heads, as Detailed in **Annexure 7**.
- 3.37. The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of the audit, HRIS-Ke had similar Vote Heads to those in the IPPD System.
- 3.38. This misalignment creates inconsistencies between budget allocations and actual expenditures by departments, therefore increasing the risk of misuse of funds.

II. Irregular Promotions and Appointments

- 3.39. Section 65(1) of the County Governments Act, 2012 sets out factors the County Public Service Board should consider in selecting candidates for appointment. Further, section 65(2) specifies merit as one of the overriding factors in determining whether appointment, promotion or re-designation are undertaken in a fair and transparent manner.
- 3.40. An analysis of the payroll data and verification of records maintained by the County Executive established that two (2) employees were promoted during the financial year 2022/23 without meeting the requirements set in their respective schemes of service, as detailed in **Annexure 8**.
- 3.41. The Irregularities in job group progressions may result in unforeseen payroll expenditures, disrupting planned financial allocations.

III. Non-Compliance with SRC Guidelines on Payment of Allowances

- 3.42. The SRC circular SRC/TS/29(81), dated 10 August 2023, on Remuneration and Benefits for Public Officers in the County Government for The Third

Remuneration Review Cycle 2021-2022 - 2023-2025 (7), lists all the earnings county Government officers are entitled to.

- 3.43. The SRC circular on the Compendium of Remuneration and Benefits for Public Service, dated December 2022, lists remuneration and Benefits for Public Officers serving in the County Government, remuneration and Benefits for State officers and other Public Officers serving in the County Government, and remuneration and Benefits for the County Public Service Board.
- 3.44. An analysis of payroll data and a comparison of salaries and allowances processed through the IPPD and Manual payroll systems, with respective rates stipulated in the SRC circulars, revealed the following anomalies:
- i. **Overpayment of House Allowance** – In the 2022/2023 and 2023/2024 financial years, twenty-two (22) employees were overpaid house allowance by Kshs.126,500 as detailed in **Annexure 9**.
 - ii. **Overpayment of Commuter Allowance** – An employee engaged on casual terms was overpaid commuter allowance by Kshs.12,000 in November 2022 to January 2023 as shown in **Annexure 10**.
 - iii. **Irregular payment of Leave Allowance** – Five (5) employees were irregularly paid leave allowance, totaling to Kshs.416,064 as detailed in **Annexure 11**.
 - iv. **Overpayment of Emergency Call Allowance** - A registered oncology nurse of Job Group K was paid an emergency call allowance at a rate of Kshs.72,000 instead of Kshs.30,000 in July and August 2022, resulting in an overpayment of Kshs.84,000 as shown in **Annexure 12**.
 - v. **Irregular Payment of Non-Practice Allowances** - Non-practice allowance was issued to a registered oncology nurse of Job group K, for July and August 2022, resulting in an irregular payment of Kshs.36,000 as shown in **Annexure 13**.
 - vi. **Payment of Both Extraneous Duty Allowance and Health Workers Extraneous Allowance** - In the 2021/2022 financial year, a health worker in Job Group K received both extraneous duty allowance and the

health workers' extraneous allowance for 12 months, resulting in an irregular payment Kshs.120,000 as detailed in **Annexure 14**. The officer was only eligible for the Kshs.25,000 health workers' extraneous allowance.

IV. Variance Between Net Pay and Amount Remitted to the Bank

- 3.45. Section 149(1) of the Public Finance Management Act imposes on an accounting officer of a county Government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is (a) lawful and authorized, and (b) effective, efficient, economical and transparent. Section 149(2) provides that in carrying out this responsibility, the accounting officer shall ensure that all expenditure made by the entity complies with subsection (1).
- 3.46. Analysis of payroll data and bank remittances for the three financial years under review revealed discrepancies between the net pay as recorded in the manual payroll and the amounts remitted to their respective bank accounts in the financial year 2023-2024. The manual payroll net pay was Kshs.76,361,176, and Bank Remittance was Kshs.79,190,310, resulting in a variance of Kshs.2,829,134.

V. Staff Appearing in Multiple Payroll Records

- 3.47. 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.
- 3.48. A comparison between the manual and IPPD payroll System revealed that in the 2022/2023 financial year, twelve (12) officers received salaries from both payrolls, amounting to Kshs.1,177,020 in IPPD and Kshs.1,195,198 in the manual payroll. Similarly, in the 2023/2024 financial year, two (2) officers were paid through both payrolls, amounting to Kshs. 133,720 in IPPD and Kshs.139,139 in the manual payroll, as detailed in **Annexure 15**.

- 3.49. Further, analysis of the June 2024 manual and casual payroll revealed that three (3) officers were paid salaries in both the manual and casual payrolls from two different departments, as shown in **Annexure 16**. The total amount paid was Kshs.216,334.
- 3.50. The existence of employees in both payrolls indicates a loss of public funds due to double payments.

VI. Irregular Remuneration in the Casuals Payroll

- 3.51. An employee in the Public Service Training and Development sector was paid double wage of Kshs.38,664 in August 2022, having received wages for 44 days in one month. This included 21 days at a rate of Kshs.481 and 23 days at Kshs.1,242 as detailed in **Annexure 17**.

E. Compliance with Laws and Regulations

- 3.52. 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 – NHIF

- 3.53. 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.
- 3.54. The Special Audit established that one hundred and eighty-one (181) employees in the Manual and Casual payrolls for the financial years 2021/2022 and 2022/2023 were not being deducted NHIF statutory dues. The employees received a total gross pay of Kshs.6,014,256 as detailed in **Annexure 18**.

II. Late Remittance of Statutory Deductions

- 3.55. Rule 10(1) of Income Tax (P.A.Y.E) Rules. 1973 requires that before the tenth day following the end of every month or before any other day which may be

notified to him by the Commissioner, an employer shall pay all amounts of tax which the employer has deducted during such month.

- 3.56. Section 15(4) the National Health Insurance Fund (NHIF) Act, 1998 (now repealed) required contributions to NHIF be made by ninth day of the month following that of deduction.
- 3.57. 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.
- 3.58. Comparison of statutory deductions for employees in the IPPD payroll system with Bank Statements established NHIF, NSSF, and PAYE for July and Aug 2021, July 2022, and July and August 2023 were not remitted on time to the relevant authorities as detailed in **Annexure 19**.
- 3.59. Non-remittance and delayed remittance of NHIF, NSSF, and PAYE contributions may attract penalties and interest as stipulated in the respective laws, increasing the county's financial burden.

III. Casuals Engaged Beyond Stipulated Period

- 3.60. Section 37(1) of the Employment Act, 2007 provides that if a casual employee works continuously for a period equivalent to one month or performs tasks that extend beyond three months, their employment shall be deemed to be on a monthly wage contract basis.
- 3.61. The Special Audit established that there were two thousand eight hundred and seventy-three (2,873) casual employees who were engaged for more than three (3) consecutive months during the years under review as detailed in **Annexure 20**.
- 3.62. The engagement of casuals beyond the stipulated period exposes the County Government to litigation proceedings and associated costs.

IV. Employees in the Staff List not in the payroll (Stopped Salaries)

- 3.63. Regulation 23(1c) of Public Finance Management (National Government) Regulations, 2015 states that an accounting officer is accountable to the

National Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective.

- 3.64. Further, Section K.3(4) of PSC HR Policies and Procedures Manual May 2016 on Disciplinary Procedure General provisions states that Disciplinary cases should be dealt with promptly and finalized within a period of six (6) months. Where it is found impracticable to do so, the Authorized 151 Officer shall report individual cases to the Public Service Commission explaining the reason for the delay.
- 3.65. Analysis of the IPPD System staff list and payroll as of June 2024, established that one hundred and sixteen (116) employees had their salaries stopped due to various reasons between 2014 and 2023. Despite this, these employees remain listed as active in the master payroll data. **Annexure 21.**
- 3.66. Non-compliance with PSC HR policies exposes the organization to scrutiny and potential legal penalties, increasing the organization's financial burden.

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

- 3.67. Section 19 (3) of the Employment Act, 2007 requires the total amount of all deductions that may be made by an employer from the wages of his employee at any one time not to exceed two-thirds of such wages.
- 3.68. An analysis of the staff payroll as at June 2024 established that one hundred and fifty-nine (159) employees were paid net salaries that were less than one-third of their basic salaries as detailed in **Annexure 22**. This is contrary to Section 19(3) of the Employment Act, 2007.
- 3.69. Employees earning less than one-third of their basic salary due to excessive deductions may be unable to meet personal financial obligations, adversely affecting their productivity, decision-making, and ability to effectively safeguard county interests.

VI. Non-Compliance with Requirement on Ethnic Diversity

- 3.70. Section 7(1) of the National Cohesion and Integration Act, 2008, states that all public establishments shall seek to represent the diversity of the people of

Kenya in the employment of staff. Section 7(2) states that no public establishment shall have more than one-third of its staff from the same ethnic community.

- 3.71. Analysis of employees in the IPPD system as at 30 June 2024 established that 48% 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.
- 3.72. The non-compliance with ethnic diversity is a violation of legal requirements and may lead to legal suits.

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

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

I. Overpayment of Allowances

- 3.74. Section 149(2)(a) of the Public Finance Management Act 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.
- 3.75. The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December, 2024. Comparison between payroll data from the IPPD system and HRIS-Ke for the months of November 2024 and December 2024, respectively, established instances of overpayment of allowances as shown in **Table 4** and detailed in **Annexures 23**.

Table 4: Overpayment of Allowances

Allowance	Total Amount Overpaid	
	Number of Employees	Amount (Kshs.)
Health Risk Allowance	9	14,550
Health Workers Extraneous Allowance	198	1,599,678
Total		1,614,228

*Source: HRIS-Ke December payroll

II. Over-Dedication of PAYE

- 3.76. Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations requires an accounting officer is to be accountable to the County Assembly for maintaining effective systems of internal control and measures taken to ensure that they are effective.
- 3.77. The Special Audit established that after migration of payroll processing to HRIS-Ke, seven hundred and eleven (711) employees were over-deducted PAYE by Kshs.1,796,308 as shown in **Annexure 24**.

4. CONCLUSIONS

- 4.1. The Special Audit of payrolls for Nakuru County Executive uncovered several audit issues in payroll and human resource management, which may negatively affect its financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 4.2. The non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3. The Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control, resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.4. The departments in the County Executive did not have an approved staff establishment and annual human resource recruitment plan. The absence of staff establishment and annual recruitment plans demonstrates ineffective workforce planning and deviation from established staffing structures. This practice can result in either overstaffing or hiring staff for roles that do not align with organizational priorities, which has an impact on the budget.
- 4.5. The failure by the County Executive to update the IPPD system with approved designations in the approved staff establishment undermines budgetary control and increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 4.6. The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by inaccurate

employees dates of birth, the use of manual payrolls, employees appearing in multiple payrolls and payment of irregular allowances and casual wages. This indicates weak payroll controls, including lack of data validation controls.

- 4.7. The authenticity of some of the employees could not be established. This was evidenced by the failure of the Chief Officers to account for employees in their departments, and the failure by employees to appear for physical verification. These cast doubt on the authenticity of payroll records and raise the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive.
- 4.8. The non-compliance with tax, labour laws, and other statutory requirements as evidenced by delayed of statutory remittances, engagement of employees beyond the retirement age, prolonged engagement of casuals, non-compliance with ethnic diversity, and requirement for employee to retain one-third of their basic salary violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 4.9. The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.
- 4.10. The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

5. RECOMMENDATIONS

- 5.1. In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Nakuru 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 to enhance accuracy in financial reporting the Chief Officer for Public Finance together with the management of the State Department for Public Service and Human Capital Development should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures.
- 5.4. For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer 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.
- 5.5. To enhance transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions. Additionally, recruitment processes should be strengthened to ensure transparency, including public advertisement of vacancies, consideration of only formally submitted applications, and securing budget approvals before initiating any recruitment activities.
- 5.6. To ensure the integrity of data maintained in the payroll systems, the management should ensure that the validation controls are implemented in the

HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), and Social Health Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favor of HRIS-Ke.

- 5.7. 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. To ensure no payment is made to non-existent employees, salary payments to all staff who failed to appear for physical verification should be suspended.
- 5.9. To enforce compliance with the set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.
- 5.10. 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.

6. APPENDICES

Appendix 1: List of Staff Interviewed

No.	Designation	Department
1	Chief Officer PSM	Public Service Management
2	Secretary - County Public Service Board	County Public Service Board
3	Deputy Director of Finance	Finance
4	Deputy Director HRM	County Public Service Board
5	Payroll Administrator	Public Service Management
6	HRM&D	County Public Service Board

Appendix 2: List of Annexures


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


No.	Annexure	Title
1	Annexure 1	Budget Votes in payroll systems not Aligned with those in the Approved Budget.
2	Annexure 2	Lack of Annual Recruitment Plan
3	Annexure 3a	Designations in Chief Officers List not Aligned with the Payroll System
4	Annexure 3b	Designations in the Payroll System as at June 2024
5	Annexure 4	Integrity of Date of Birth Dates in IPPD Systems
6	Annexure 5	Employment of Officers Engaged in Other Government Entities
7	Annexure 6	Authenticity of Staff in the Payroll
8	Annexure 7	Charging of Employee Costs to the Wrong Budget Vote
9	Annexure 8	Irregular Promotion and Appointments
10	Annexure 9	Overpayment House Allowance
11	Annexure 10	Overpayment of Commuter allowance
12	Annexure 11	Irregular payment of leave allowance
13	Annexure 12	Overpayment of Emergency Call Allowance
14	Annexure 13	Irregular Payment of Non-Practice Allowances
15	Annexure 14	Payment of Both Extraneous Duty Allowance and Health Workers Extraneous Allowance
16	Annexure 15	Employees in both Manual and IPPD
17	Annexure 16	Employees in both Manual and casual payroll
18	Annexure 17	Irregular Remuneration in the Casuals Payroll
19	Annexure 18	Non-Deduction of NHIF
20	Annexure 19	Late Remittance Statutory Deductions
21	Annexure 20	Casuals Engaged Beyond Stipulated Period
22	Annexure 21	Employees in the staff list not in the payroll (Stopped Salaries)
23	Annexure 22	Non-Compliance with One-Third Basic Salary Rule
24	Annexure 23	Overpayment of Allowances
25	Annexure 24	Over deducted PAYEE In December 2024 in HRIS-Ke


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