

REPUBLIC OF KENYA

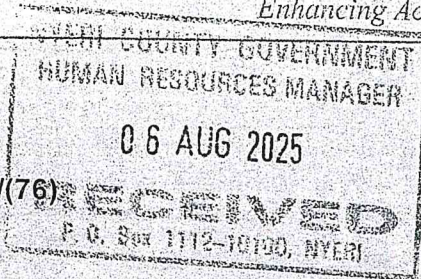
Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI



OAG/CONF/6/(76)

17 July, 2025

Mr. Jeremiah Nyegenye, CBS

Clerk of the Senate

Parliament Buildings

P.O Box 41842 - 00100

NAIROBI

Dear

Nyegenye

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

Article 229(7) of the Constitution of Kenya mandates the Auditor-General to submit Audit Reports to Parliament or the relevant County Assembly.

In line with mandate, I hereby transmit to you the duly signed Auditor-General's Special Audit Report on Payroll Management for the Nyeri County Executive for the financial years 2021/2022, 2022/2023 and 2023/2024.

The Annexures referred to in the Report contain encrypted personal data and will be provided in a password protected device upon request by an authorized person.

Yours

Sincerely

[Signature]
FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Copy to: **Mr. Michael Lenasalon**
Principal Secretary, State Department for Devolution
P.O. Box 3004 - 00100
NAIROBI

H.E. Dr. Edward Kahiga, EGH ✓
Governor, Nyeri County
P.O. Box 1112 - 10100
NYERI

Mr. Jenard Mwiggeh
Clerk, County Assembly of Nyeri
NYERI

Mr. Paul Kimondo
Chairperson, County Public Service Board
Nyeri County
NYERI



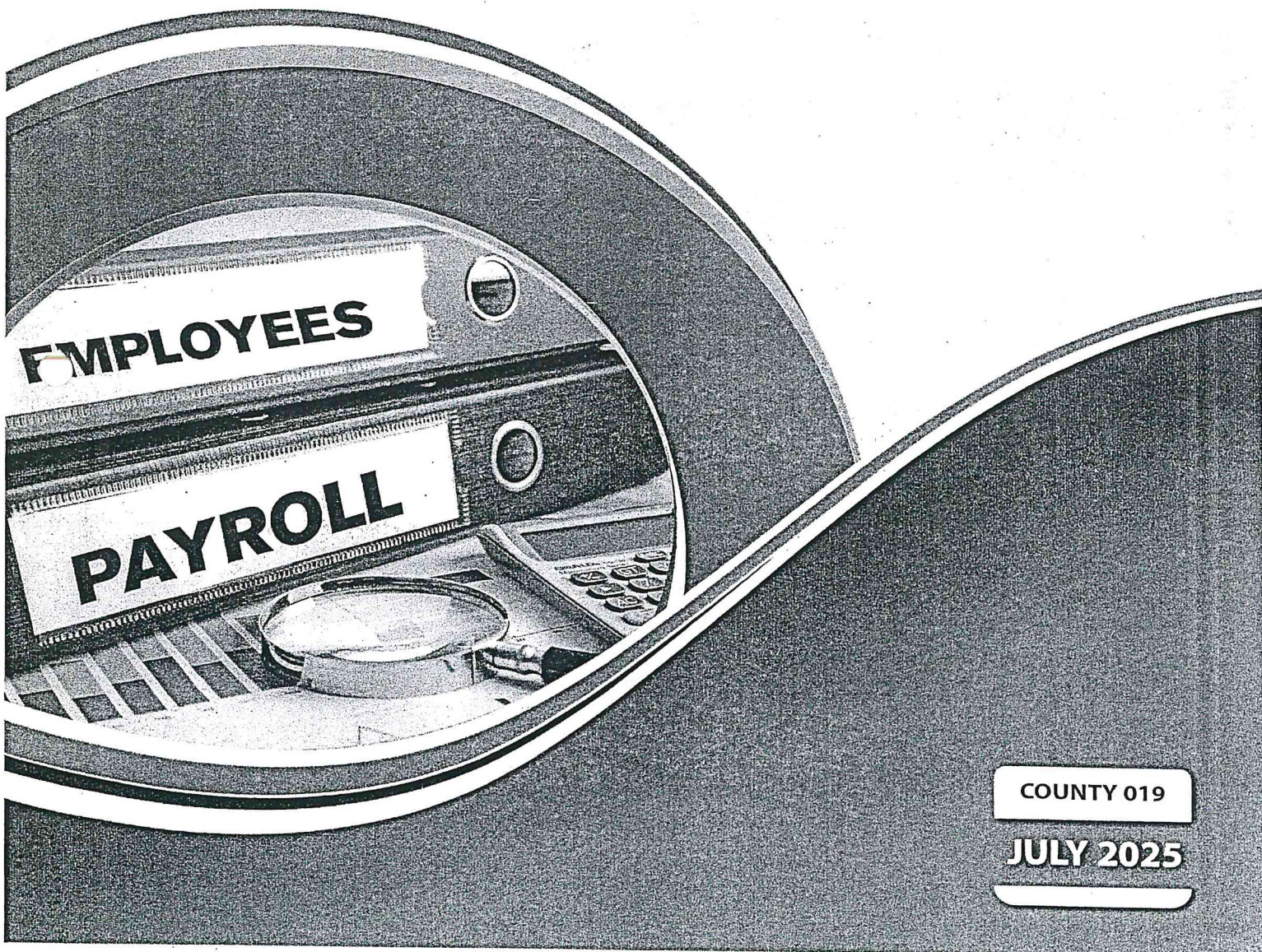
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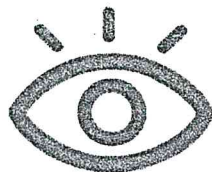
Enhancing Accountability

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



COUNTY 019

JULY 2025



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livelihoods of the Kenyan people



MISSION

Audit services that impact on effective and
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FOREWORD BY THE AUDITOR-GENERAL

I am pleased to present this Special Audit Report on Payroll Management for the Nyeri 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 Nyeri County Executive was conducted in line with this mandate.

The Special Audit evaluated of the human resource and payroll processes at the Nairobi 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 Nyeri 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 remitted copies of the report to the Principal Secretary, State Department for Devolution, Chairperson, the Nyeri County Public Service Board and the Governor, the Nyeri 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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1. EXECUTIVE SUMMARY

Introduction and Background

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

1.3 The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2 There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:

- i. Participating counties that have integrated their human resource records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the human resource management information system;
- ii. Participating counties that are enhancing accountability for results through an integrated performance management framework.

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

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

Audit Objectives

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

- i. Evaluate whether the preparation and execution of the payroll budget align with relevant laws and approved budgetary provisions;
- ii. Assess whether the recruitment process complied with applicable legal, regulatory, and organizational frameworks governing employment;

- iii. Assess the integrity of payroll data and identify any double entries, entries in multiple institutions, unverified employees, or inconsistencies across the County Government Payroll System;
- iv. Determine the accuracy of payroll calculations and payments;
- v. Evaluate adherence to tax laws, labour laws, and other statutory requirements; and
- vi. Assess whether payroll data was accurately and completely migrated from the IPPD system to the Human Resource Information System – Kenya (HRIS-Ke).

Audit Scope

- 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.

Methods of Gathering Evidence

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

Summary of Findings

The key audit findings are as follows

A. Payroll Budgeting

I. Employee Cost and Revenue Ratio

- 1.10 The Special Audit established that while compensation to employee's ratio exceeded the thirty-five (35%) percent of the revenue in three (3) financial years, the actual expenditure against actual revenue had exceeded the thirty-five (35%) percent threshold in contravention to Regulation 25(1) (a) of Public Finance Management, County Government Regulations, 2015 that requires a maximum ratio of 35% of wages to revenue.
- 1.11 It was also established that the County Executive had overutilized all its personal emolument budget pointing to weak budgetary control and planning.

II. Budget Votes in IPPD System not aligned with those in Approved Budget

- 1.12 A comparison of payrolls reports extracted from IPPD system with approved budget established that the vote heads in IPPD were not aligned with those in the approved budget creating inconsistencies between allocations and actual payroll expenditures.

B. Recruitment Process

I. Lack of annual Recruitment Plans

- 1.13 During the years under review, the County Executive recruited two hundred and twenty-six (226) employees. However, it was established that the departments which initiated the recruitments did not have annual recruitment plans to guide the recruitments. In addition, no evidence was provided as proof that vacancies were available before recruitments were done therefore compromising workforce planning and control.

II. Designations in the Payroll System not aligned with Approved Staff Establishment

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

C. Employee Data Management

I. Integrity of Dates of Birth Records in IPPD System

- 1.15 The Special Audit established inconsistencies between employee birth dates recorded in the IPPD system, and those in the Birth Certificates documents. This contravened the directive outlined in circular Ref. No: PSC/ADM/ 13(9), dated 19 November, 2020 to all authorized officers stipulating that the date of birth as per the Birth Certificate should be considered as the official and legal document for determining a public officer's date of birth, risking data integrity issues for relying on inaccurate data.

II. Use of Manual Payrolls

- 1.16 The Special Audit raised concerns over the use of manual payrolls to pay casual workers, posing risks, including a high likelihood of errors and omissions in salary calculations, increased vulnerability to fraud and ghost workers due to lack of proper verification and audit trails.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Budget Vote

- 1.17 It was established that there was a misalignment between departmental vote heads in the IPPD system and those in IFMIS ledger account. This creates inconsistencies between budget allocations and actual expenditure by departments, therefore increasing the risk of misuse of funds and inaccurate financial reporting.

E. Compliance with Laws and Regulations

I. Irregular Payment of Extraneous Duty Allowance

- 1.18 The Special Audit established that there were employees who had earned irregularly earned extraneous duty allowance amounting to Kshs. 960,077 over the period under review. The County Executive could be losing funds from this irregular payment.

II. Casuals Engaged beyond Stipulated Period

- 1.19 The Special audit also examined the casual payrolls for the years 2021/22, 2022/23, and 2023/24 and revealed that eight hundred and eighty-two (882) employees were engaged for more than 3 consecutive months. Engaging casual employees for periods exceeding three consecutive months without converting their contracts to formal written agreements as required by the Employment Act, 2007, exposes the County Executive to legal and financial risks.

III. Late Remittance of Statutory Deductions

- 1.20 The Special audit also established those statutory deductions were not remitted on time exposing the County Executive to penalties, interest and reputational risks, thereby undermining stakeholders' confidence.

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

- 1.21 The Special Audit established that the County Executive did not adhere to the requirement ensuring that employees retain a net pay of at least one-third of their basic salary. This non-compliance exposes the County Executive to potential litigation and related financial liabilities.

V. Non-Compliance with Requirements on Ethnic Diversity

- 1.22 It was also established that one dominant ethnic group accounted for more than one-third of the workforce, contrary to the requirements of section 7(2) of the National Cohesion and Integration Act, 2008. Further, all employees recruited at the entry level were from one dominant ethnic community contrary to Section 65(1)(e) of the County Governments Act, 2012, that requires the County to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates

who are not from the dominant ethnic community in the county vacant posts at entry level.

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

I. Overpayment and Underpayment of Allowances

- 1.23 The audit identified significant payroll inconsistencies following the migration from IPPD to HRIS-Ke, indicating weaknesses in system configuration and control effectiveness.
- 1.24 It was also established that there was underpayment and overpayment of the Health Workers Extraneous allowance in the month of December 2024 after the migration from IPPD to HRIS-Ke.
- 1.25 These anomalies expose the County to potential financial losses and may demoralize affected staff, ultimately impacting productivity.

Conclusion

- 1.26 The Special Audit of payrolls management for the Nyeri County Executive revealed several audit issues, with significant implications to financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 1.27 The Nyeri County Government did not comply with requirement on limiting the Employee Cost within thirty-five (35%) of Revenue. This 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.
- 1.28 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.
- 1.29 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of the 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 have an impact on the budget.
- 1.30 The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by inaccurate employees' dates of birth and the use of manual payrolls. This indicates weak payroll controls, including lack of data validation controls.
- 1.31 The authenticity of some of the employees could not be established. This was evidenced by the failure of the Chief Officers to account for employees in their departments. These cast doubt on the authenticity of payroll records and raise the

risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive

- 1.32 The irregular payment of allowance to employees reflects significant weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 1.33 The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances, non-remittances of statutory deductions, non-compliance with a third rule and non-compliance with requirement on ethnic diversity. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.34 The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

Recommendations

- 1.35 In view of the findings and conclusions of the Special Audit, the following is recommended for implementation by the Nyeri County Executive;
- 1.36 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 1.37 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.
- 1.38 To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
- 1.39 To ensure that no payments are made to non-existent employees, salary payments to all staff who were not accounted for by the respective Chief Officers should be investigated. The payroll system and departmental staff lists should also be updated accordingly.

- 1.40 To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.
- 1.41 All salaries and allowances irregularly paid 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 the Nyeri County Executive referred to as the County Executive in this report was conducted in line with this mandate.
- 2.2. The Government of Kenya (GoK) received an International Development Association (IDA) Credit of EUR140.7 million (Approximately Kshs. 19,538,432,130 using the prevailing exchange rate as at 28 June 2024) from the World Bank, to implement the Second Kenya Devolution Support Program (KDSP II). KDSP II supports a sub-set of reforms envisaged under the Government's Devolution Sector Plan. The financing agreement, Credit Number IDA-7447-KE, became effective in March 2024 and is set to be implemented over a four-year period; 2023-2027. The development objective of the KDSP II is to strengthen county performance in the financing, management, coordination, and accountability for resources. To achieve the DO, the Program was expected to improve outcomes in the participating counties under three (3) Key Result Areas (KRAs). KRA 1 was on sustainable financing and expenditure management, KRA 2 on intergovernmental coordination, institutional performance, and human resource management, and KRA 3 on oversight, participation, and accountability.

- 2.3. The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2 There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:
- i. Participating counties that have integrated their human resource records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the human resource management information system;
 - ii. Participating counties that are enhancing accountability for results through an integrated performance management framework.
- 2.4. From 2013, the County Executive was using the Integrated Payroll and Personnel Database (IPPD) System to operate payroll for employees with personal numbers, while excel spreadsheets were used to operate payroll for employees without personal numbers. However, due to technological limitations at the time of its development, IPPD did not comprehensively address all human resource related functions. This led to development of a web-based Human Resource Information System-Kenya (HRIS-Ke) in 2024.
- 2.5. A parallel run of the IPPD System and HRIS-Ke was conducted across Ministries, Departments and Agencies and County Governments in November 2024. This was to ensure the readiness of the HRIS-Ke for roll out. Thereafter, in January 2025, the HRIS-ke was fully adopted for payroll management.

Numbers of Employees and Payroll Expenditure

- 2.6. Over the three (3) year period under review, there was a decrease in the number of employees and increase in compensation of employees.
- 2.7. The overall staff change across the audit period was +2% while the cumulative change in payroll costs over the three (3) years was approximately -8% as illustrated in **Figures 1 and 2**.

Figure 1 - Cumulative Growth in Payroll Costs

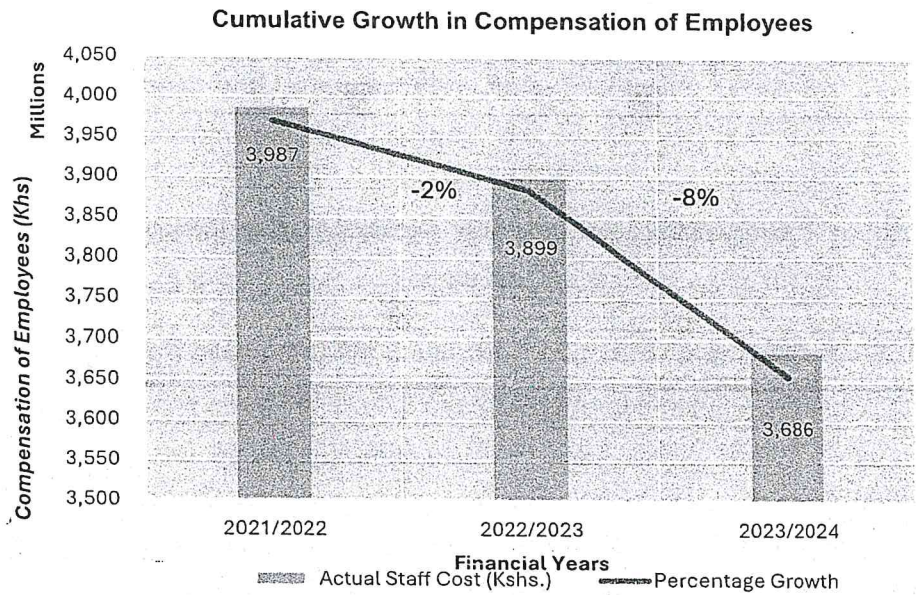
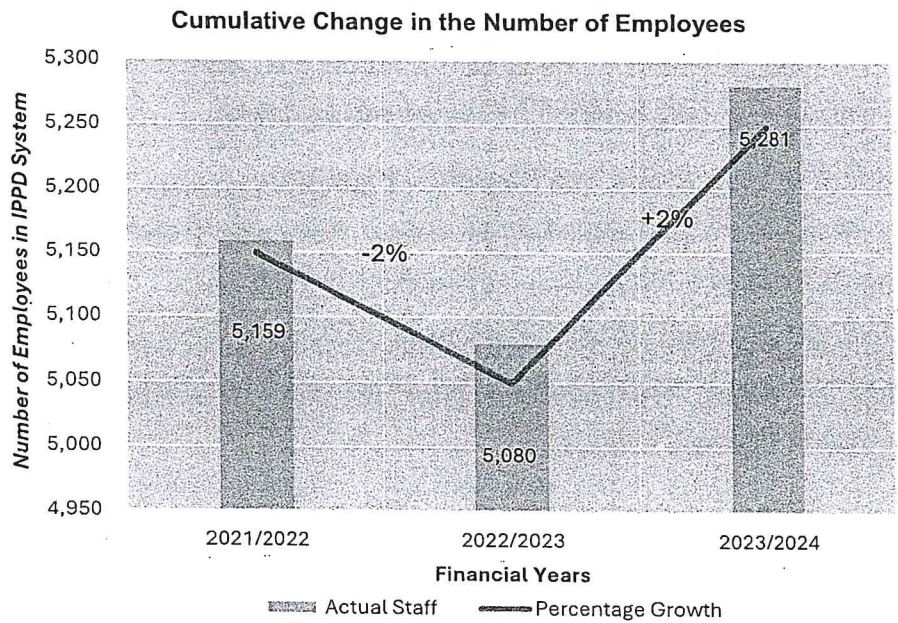


Figure 2- Cumulative Growth of Staff



Audit Objectives

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

Audit Scope

- 2.9. The Special Audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual and casual payrolls.
- 2.10. The audit was carried out in the month of March, 2024

Audit Methodology

- 2.11. The Special audit was conducted in accordance with 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

- 2.12. 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.
- 2.13. 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

- 2.14. The audit team reviewed various documents including: -
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Governments) Regulations, 2015;
 - iv. County Governments Act, 2012;
 - v. Employment Act, 2007;
 - vi. National Security Fund Act, 2013;
 - vii. National Health Insurance Fund Act, 1998 (Now Repealed);
 - viii. The SRC Circular SRC/TS/29(81), August 2023;
 - ix. The SRC Circular on the Compendium of Remuneration and Benefits for Public Service, December 2022;
 - x. The SRC Circular SRC/TS/MDP/3/1/2(2), August 2015;
 - xi. County Government of Nyeri Human Resource Policies and Procedures Manual, December 2021;
 - xii. Public Service Commission Human Resource Policies and Procedures Manual, May 2016;
 - xiii. Employees' physical files;
 - xiv. Collective Bargaining Agreements (CBA), 2012;
 - xv. Affordable Housing Act, 2024;

- xvi. Employment Act, 2007
- xvii. The County Executive Financial Statements for financial years 2021/2022, 2022/2023 and 2023/2024;
- xviii. The County Executive Budgets financial years 2021/2022, 2022/2023 and 2023/2024;

b) Data Analytics

- 2.15. 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.
- 2.16. The following data sets for the financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed: -
 - i. IPPD Staff Registers and Payroll Data;
 - ii. Payment Schedules;
 - iii. Chief Officers staff list for each department as at 30 June, 2024; and
 - iv. HRIS-Ke Payroll data for the month of December 2024

c) Interviews

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

d) Physical Verification of Staff

- 2.18. The Audit Team requested all the Chief Officers to provide countersigned list of staff members in their departments as at 30 June, 2024. The lists were compared with the IPPD staff registers maintained in the County Executive.
- 2.19. The Audit Team through the County Secretary, requested forty-six (46) 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

2.20. The report is organized as follows:

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

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

3. DETAILED FINDINGS

3.1. The detailed findings are in the ensuing paragraphs and have been categorized into the following six(6) broad areas:

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

A. Payroll Budgeting

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

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

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

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

Table 1: Budgeted Compensation of Employee to Budgeted Revenue Ratio

Financial Year	Total Budget Revenue (Kshs.)	Budgeted Compensation of Employee (Kshs.)	% of Utilization
2021/2022	8,126,687,855.00	4,080,889,856.00	50%
2022/2023	6,795,758,717.00	3,645,164,891.00	54%
2023/2024	8,733,268,481.00	3,668,325,920.00	42%

*Source: Audited Financial Statements

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

Table 2: Actual Employee Cost to Revenue Ratio

Period	Total Actual Revenue (Kshs.)	Expenditure of Staff Emoluments (Kshs.)	Revenue/Employee (%) Ratio
2021/2022	7,253,744,913.00	3,981,766,677.00	55%
2022/2023	6,208,240,451.00	3,595,551,694.00	58%
2023/2024	6,691,539,002.00	3,601,050,748.00	54%

*Source: Audited Financial Statements

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

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

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

- 3.9. One of the primary factors contributing to the misalignment between the departments and the Vote Heads was the failure to update the IPPD System to reflect changes resulting from the restructuring and consolidation of various sectors within the County Executive.
- 3.10. The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, the HRIS-Ke had similar Votes Heads to those in the IPPD System.
- 3.11. The continued use of outdated departmental structures has resulted in inconsistencies between budgetary allocations and actual payroll expenditures, heightening the risk of misallocation or potential misuse of public funds, as expenditure may be charged under incorrect or obsolete vote heads. Notably, these errors were carried forward during the migration to the HRIS-Ke system, perpetuating the same risks

B. Recruitment Process

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

I. Lack of Annual Recruitment Plans

- 3.13. Section 59(1)(g) of the County Governments Act, 2012 requires the County Public Service Board of a county to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. Further, Regulation 119(2) of the Public Finance Management (County Governments) Regulations, 2015 requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.
- 3.14. The County Executive recruited ninety-six (96) (excluding casuals), eighty-nine (89) and twenty (21) employees during the financial years 2021/2022, 2022/2023.

and 2023/2024 respectively. However, it was established that the departments which initiated the recruitments did not have annual recruitment plans to guide the recruitments. Further, no evidence was provided to prove that budgetary availability was sought before the recruitments were initiated.

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

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

- 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 Special Audit established that a total of four hundred and two (402) designations were configured in the IPPD System. However, three hundred and twenty-two (322) of these designations were not part of the approved staff establishment. As a result, two thousand one hundred and forty-two (2,142) employees were assigned to these unmapped designations as detailed in **Annexure 2**.
- 3.18. 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.
- 3.19. As a result of the misalignment between the staffing records in the IPPD System and the approved staff establishment, it was not possible to establish whether the County filled positions in accordance with the approved staff establishment. This may lead to inefficiencies in workforce planning and budget overruns.

C. Employee Data Management

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

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

- 3.21. Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective. Further, Circular Ref. No: PSC/ ADM/ 13(9) dated 19 November, 2020 from Public Service Commission to all authorized officers stipulates that the date of birth as per the Birth Certificate should be considered as a public officer's official date of birth.
- 3.22. The Special Audit identified three hundred and twenty-nine (329) employees in the IPPD System with inconsistent dates of birth.
- 3.23. Interview with a sample of forty-six (46) employees and verification of their identification documents established that the dates captured in the IPPD System for fourteen (14) employees were different from those in employees' Birth Certificates as detailed in **Annexure 3**. 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 similar date of birth to those in the IPPD System.
- 3.25. The inaccurate capturing of dates of birth 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. Use of Manual Payrolls

- 3.26. 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 measures taken to ensure that they are effective.
- 3.27. The Special Audit established that during the period under review, the County Executive had two hundred and twenty-four (224), thirty-one (31) and seventy-five (75) employees during the financial years 2021/2022, 2022/2023 and 2023/2024

respectively whose salary was processed through payrolls maintained in excel as shown in Table 3.

Table 3: Use of Manual Payrolls

Financial Year	No. of Employees in Manual Payroll	Amount Paid (Kshs.)
2021/2022	224	16,974,871
2022/2023	31	2,568,184
2023/2024	75	5,727,869
Total		25,270,924

*Source: Manual Payrolls

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

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

- 3.29. Section 148(1) of the Public Finance Management Act, 2012 requires a County Executive Committee Member for Finance to, designate accounting officers to be responsible for managing the finances of the county government entities as is specified in the designation. Further, Sub-section (2) requires the person responsible for the administration of a county government entity to be the accounting officer responsible for managing the finances of that entity except as otherwise stated in other legislation.
- 3.30. The Letter of Engagement addressed to the County Secretary for the audit of payroll, Ref: OAG/SAS/SADS/KDSP-PAYROLL/3/019 dated 24 February, 2025 required Chief Officers (COs) to provide list of staff members in their respective departments as at 30 June, 2024. This list was to be compared with records of employees in the payroll systems maintained by the County Executive and those not in the Chief Officer's list flagged for physical verification.
- 3.31. A comparison between staff lists countersigned by various Chief Officers and the Integrated Personnel and Payroll Database (IPPD) register for the financial year 2023/2024 revealed that 233 employees appeared on the Chief Officers' lists but were missing from the IPPD, while 455 employees were listed in the IPPD but not

accounted for by the Chief Officers. The latter group received payments totaling Kshs. 271,267,049, as detailed in **Annexure 4**.

3.32. The County Executive attributed the inconsistencies to interdepartmental transfers that had not been communicated to the respective Chief Officers. This highlights a critical internal control weakness in the human resource management processes within the County Executive.

3.33. The lack of alignment between the Chief Officers' staff lists and the IPPD register exposes the County Executive to the risk of unauthorized or ghost workers on the payroll, leading to potential loss of public funds, inaccurate financial reporting, and weakened accountability in human resource and payroll management

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 comply 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 was a misalignment between departmental Vote Heads in the IPPD System and those in the IFMIS Ledger Account. 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 Votes as detailed in **Annexure 5**.

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 audit, HRIS-Ke had similar Votes Heads to those in the IPPD System.

- 3.38. This misalignment led to inconsistencies between budget allocations and actual expenditures by departments, therefore increasing the risk of misuse of funds and inaccurate financial reporting.

E. Compliance with Laws and Regulations

- 3.39. 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. Casuals Engaged Beyond Stipulated Period

- 3.40. 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.
- 3.41. Examination of the casual payrolls for the period under review established that one hundred and sixty-seven (167) casual employees were engaged for more than three (3) consecutive months. The wages paid to the employees amounted to Kshs.1,991,708, Kshs.2,244,814 and Kshs.2,342,175 for the financial years 2021/2022, 2022/2023 and 2023/2024 respectively as detailed in **Annexure 5**.
- 3.42. Engaging casual employees for periods exceeding three consecutive months without converting their contracts to formal written agreements as required by the Employment Act, 2007, may lead to litigation proceedings.

II. Irregular payment of Extraneous Duty Allowance

- 3.43. Section 149 (1) of the Public Finance Management Act, 2012 imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is lawful and authorized, and effective, efficient, economical and transparent. Further, Regulation 120(3) of the Public Finance Management (County Governments) Regulations 2015 requires the accounting officer to certify the correctness of the payroll at least once every month.
- 3.44. An Analysis of payroll data and comparison of salary and allowance processed through the IPPD payroll system with respective rates stipulated in SRC circulars

revealed that three (3) employees were irregularly paid extraneous duty allowance totaling to Kshs. 960,077.40 detailed in Annexure 7.

3.45. This was contrary to the Compendium of Remuneration and Benefits for Public Service of December 2022, which stipulated that Extraneous Allowance is payable for Governors and Deputy Governor's office staff, that only two (2) secretaries at Kshs.7,000, two (2) security officers at Kshs 4,500 and two(drivers) at Kshs 4,500 monthly rate are entitled to the allowance.

3.46. The County Executive could be losing funds due to irregular, payment of the Extraneous duty allowances

III. Late Remittance of Statutory Deductions

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

3.48. Under section 15(4) of the NHIF Act, contributions were due on the ninth day of each month or on such later date as the Board, in consultation with the Cabinet Secretary, may prescribe.

3.49. Section 20(1A) of the National Social Security Fund (NSSF) Act, 2013 (Kenya) states that an employer shall, in respect of each employee, deduct the contributions payable under subsection (1) from the employee's wages or salary and remit the same together with the employer's contribution to the Fund in accordance with the regulations.

3.50. Examination of statutory deductions for employees in the IPPD payroll system with bank statements established that (NHIF), (NSSF) and (PAYE) deductions from employees were not remitted on time to the funds as detailed in **Annexure 8**. The duration ranged from two (2) to three (3) days

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

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

- 3.52. Section 19 (3) of Employment Act, 2007 require the total amount of all deductions that may be made by an employer from the wages of his employee at any one time not to exceed two-thirds of such wages.
- 3.53. An analysis of the staff payroll for June 2024 established that two hundred and fourteen (214) employees were paid net salaries that were less than one-third of their basic salaries. This is contrary to Section 19(3) of the Employment Act, 2007 as detailed in **Annexure 9**.
- 3.54. The employees earning less than one-third of their basic salary may be unable to meet their personal financial obligations. This may adversely affect their productivity, decision-making, and ability to effectively safeguard county interests.

V. Non-Compliance with Requirement on Ethnic Diversity

- 3.55. Section 7(1) of National Cohesion and Integration Act, 2008, states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff. Section 7(2) states that no public establishment shall have more than one third (33%) of its staff from the same ethnic community.
- 3.56. Section 65(1)(e) of the County Governments Act, 2012 requires the County Public Service Board to consider, in selecting candidates for appointment, the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.
- 3.57. Analysis of records of employees in the IPPD system as at 30 June, 2024 established that 93% 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.
- 3.58. Further analysis on the new recruitment for the period under review, the Special audit revealed that 93% of those recruited were from one dominant ethnic group as detailed in **Annexure 10**.
- 3.59. The non-compliance to ethnic diversity is a violation of legal requirements and may lead to litigation proceedings.

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

- 3.60. 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 Allowances

- 3.61. 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.
- 3.62. The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between data from the IPPD System for the month of November, 2024 and the HRIS-Ke data for the month of December 2024 established instances of overpayment and underpayment of allowances as shown in **Table 4** and detailed in **Annexure 11**.

Table 4: Migration from IPPD to HRIS-Ke

Allowance	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount	Number of Employees	Amount
Health workers extraneous	158	2,640,000	81	585,000

*Source: HRIS-Ke System

- 3.63. The overpayment and underpayment of allowances in the Human Resource Information System – Kenya, indicates weaknesses in the migration process and ineffectiveness of HRIS-Ke.

4. CONCLUSION

- 4.1. The payroll audit of Nyeri County Executive uncovered several systemic weaknesses in payroll and human resource management, with significant implications for financial sustainability and compliance.
- 4.2. The Special Audit of payrolls management for the Nyeri County Executive revealed several audit issues, with significant implications to financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 4.3. The Nyeri County Government did not comply with requirement on limiting the Employee Cost within thirty-five (35%) of Revenue. This 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.
- 4.4. The Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS ledgers. The misalignment hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.5. The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of the 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 have an impact on the budget.
- 4.6. The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by inaccurate employees' dates of birth and the use of manual payrolls. 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. 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 irregular payment of allowance and erroneous interdiction of employees reflects significant weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 4.9. The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances, non-remittances of statutory deductions, non-compliance with a third rule and non-compliance with requirement on ethnic diversity. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusions of the Special Audit, the following is recommended to the Nyeri County Government;
- 5.2 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 5.3 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.
- 5.4 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.
- 5.5 To ensure that no payments are made to non-existent employees, salary payments to all staff who were not accounted for by the respective Chief Officers should be investigated. The payroll system and departmental staff lists should also be updated accordingly.
- 5.6 To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and

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

- 5.7 All salaries and allowances irregularly paid should be recovered and responsible officers held accountable.

6. APPENDICES

Appendix 1: List of Staff Interviewed

No.	Designation	Department
1.	Chief Officer – Public Service	Public Service
2.	Director Human Resource	Public Service
3.	Acting Director	Finance & Accounting
4.	Finance Manager	Finance & Accounting
5.	Payroll Manager	Public Service
6.	Chair Person County Public Service Board	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	Description
1.	Annexure 1	Budget Votes in Human Resource Information System – Kenya not Aligned with those in Approved Budget
2.	Annexure 2	Designations in the IPPD Systems not Aligned with Approved Staff Establishment
3.	Annexure 3	Integrity of Birth Dates Data in the payroll System
4.	Annexure 4	Failure to Account for Staff by Chief Officers
4.	Annexure 5	Charging of Employee Costs 2023 -2024
5.	Annexure 6	Casuals Engaged Beyond Stipulated Period
6.	Annexure 7	Irregular Extraneous Duty Allowance
7.	Annexure 8	Late remittance of statutory deductions
8.	Annexure 9	Non-Compliance with One Third Basic Salary Rule
9.	Annexure 10	Non-Compliance with National Cohesion & Integration act 2008 on ethnic Diversity
10.	Annexure 11	Migration from IPPD to HRIS-KE

CONTACTS

3rd Floor, Anniversary Towers, University Way, Nairobi

Phone: +254 020 3214000 | **Email:** oag@oagkenya.go.ke | **Website:** <https://www.oagkenya.go.ke/>



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