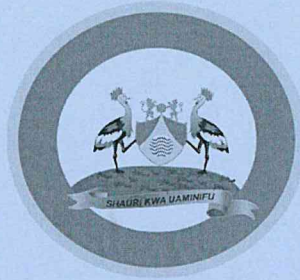


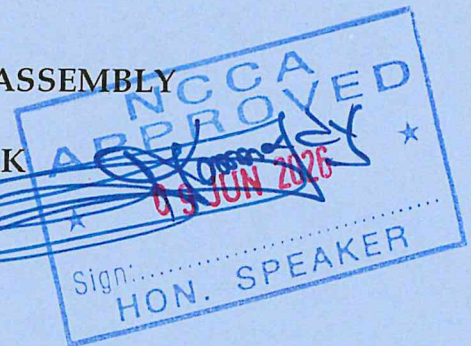
GOVERNMENT OF NAIROBI CITY COUNTY



THE NAIROBI CITY COUNTY ASSEMBLY

OFFICE OF THE CLERK

THIRD ASSEMBLY
(FIFTH SESSION)



NCCA/TJ/PL/2026(65)

9TH JUNE, 2026

PAPER LAID

SUBJECT: REPORT OF COMMITTEE

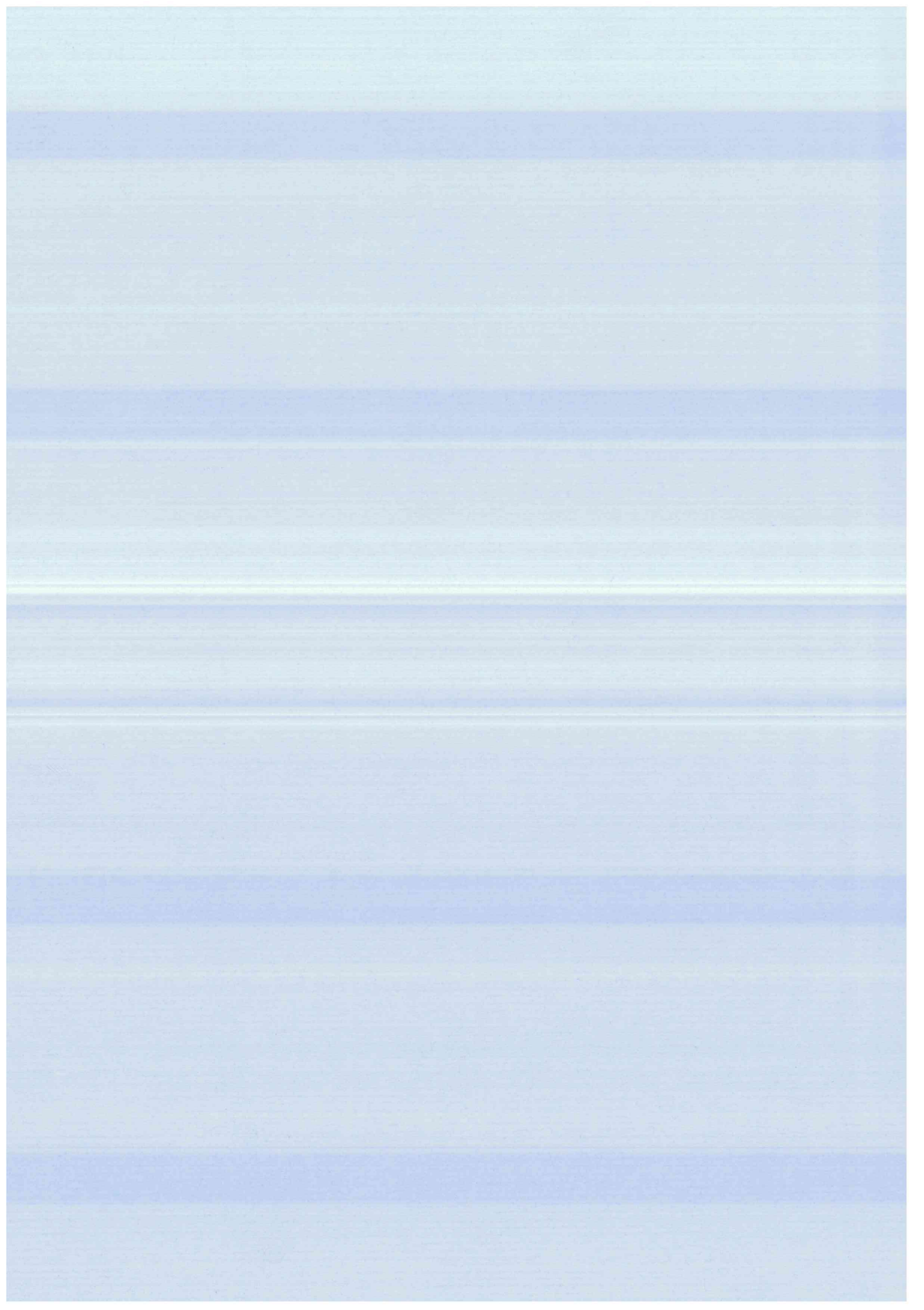
Pursuant to the provisions of Article 229 (8) of the Constitution of Kenya 2010 and Standing Order 196 (6), I beg to lay the following Paper on the Table of the Assembly, today Tuesday, 9th June, 2026

- THE REPORT OF THE SELECT COMMITTEE ON PUBLIC ACCOUNTS ON THE CONSIDERATION OF THE SPECIAL AUDIT REPORT OF THE AUDITOR-GENERAL ON PAYROLL MANAGEMENT FOR NAIROBI CITY COUNTY EXECUTIVE FOR THE FINANCIAL YEARS 2021/2022; 2022/2023; AND 2023/2024

(Chairperson, Select Committee on Public Accounts)

Copies to:
The Speaker
The Clerk
Hansard Editor
Hansard Reporters
The Press

Notice of Motion
Given by Hon Abdo
MCA on 9th June,
2026
Abdo

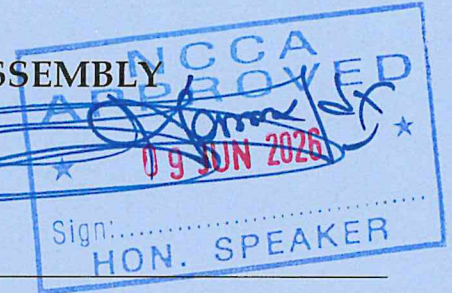




THE NAIROBI CITY COUNTY ASSEMBLY

THIRD ASSEMBLY

(FIFTH SESSION)



NOTICE OF MOTION

Subject: Adoption of Committee Report

Hon. Speaker, I beg to give notice of the following motion:-

- THAT, this Assembly adopts THE REPORT OF THE SELECT COMMITTEE ON PUBLIC ACCOUNTS ON THE CONSIDERATION OF THE SPECIAL AUDIT REPORT OF THE AUDITOR-GENERAL ON PAYROLL MANAGEMENT FOR NAIROBI CITY COUNTY EXECUTIVE FOR THE FINANCIAL YEARS 2021/2022;2022/2023; AND 2023/2024, laid on the Table of the Assembly today, Tuesday, 9th June, 2026

(Chairperson, Select Committee on Public Accounts)

Nairobi City County Government



**Nairobi City County Assembly
Third Assembly – Fifth Session**

**The Report of the Select Committee on Public
Accounts**

On

**The Consideration of the Special Audit Report of the
Auditor-General on Payroll Management for Nairobi
City County Executive for the Financial Years
2021/2022; 2022/2023; and 2023/2024**

Clerks Chambers
Nairobi City County Assembly
City Hall Buildings
NAIROBI

April , 2026

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1.0. PREFACE

Hon. Speaker,

On behalf of the Public Accounts Committee (PAC) and pursuant to the provision of Standing Order 196(6), it is my pleasant privilege and honor to present to this Assembly this report of the Public Accounts Committee on the consideration of the **“Special Audit Report of the Auditor-General on Payroll Management for Nairobi City County Executive for the Financial Years 2021/2022; 2022/2023; and 2023/2024”**.

1.1. Mandate of the Public Accounts Committee

The Select Committee on Public Accounts derives its mandate from Standing Order 203 (2) of the Nairobi City County Assembly, which provides that: -

“The Public Accounts Committee shall be responsible for the examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the County Assembly as the Committee may think fit”.

The primary mandate of the Committee is therefore to oversight the expenditure of public funds by Nairobi City County entities, to ensure value for money and adherence to government financial regulations and procedures. The Committee further aims at ensuring that Nairobi City County public funds are prudently and efficiently utilized. The Committee executes its mandate on the basis of annual and special audit reports prepared by the Office of the Auditor-General (OAG).

Article 229 (8) of the Constitution provides that within three months after receiving the report of the Auditor-General, Parliament or the **County Assembly** shall debate and consider the report and take appropriate action. It is on this basis that this report has been produced by the Committee for consideration and adoption by the County Assembly.

1.2. Guiding principles

In the execution of its mandate, the Committee is guided by core constitutional and statutory principles on public finance management, as well as established customs, traditions, practices and usages. These principles include the following: -

(a) Constitutional Principles on Public Finance

Article 201 enacts fundamental principles aimed at guiding all aspects of public finance in the Republic. It states that the principles are, *inter alia*, *openness and accountability, including public participation in financial matters; public money shall be used in a prudent and responsible way; and financial management shall be responsible, and fiscal reporting shall be clear*. The Committee places high regard on these principles, among others, and has been guided by them in the entire process that has led to this report.

(b) Direct Personal Liability

Article 226(5) of the Constitution is unequivocal that: - *“If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not”*. Consequently, Section 203(1) of the PFM Act, 2012 enacts that: - *“A public Officer is personally liable for any loss sustained by a county government that is attributable to-*

- (a) the fraudulent or corrupt conduct, or negligence, of the officer; or*
- (b) the officer’s having done any act prohibited by sections 196, 197 and 198”*

The Committee considers this Constitutional and legal provisions as the basis for holding Accounting Officers and other Public Officers directly and personally liable for any loss of public funds that may occur under their watch.

1.3. Obligations of the Accounting Officer

Article 226(2) of the Constitution provides, inter alia, that: *“the Accounting Officer of a national public entity is accountable to the National Assembly for its financial management, and the Accounting Officer of a county public entity is accountable to the County Assembly for its financial management”*. Subsequently, Section 149(1) of the Public Finance Management (PFM) Act, 2012 provides that: *“An accounting officer is accountable to the County Assembly for 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.”*

1.4. Committee Membership

The Committee comprises of the following Members: -

- | | |
|--|--------------------|
| 1. Hon. Chege Mwaura, MCA | - Chairperson |
| 2. Hon. Abel Osumba Atito, MCA | - Vice-Chairperson |
| 3. Hon. Benter Juma Obiero, MCA | |
| 4. Hon. Redson Otieno Onyango, MCA | |
| 5. Hon. John Rex Omolleh, MCA | |
| 6. Hon. Stazo Omung’ala Ang’ila, MCA | |
| 7. Hon. Richardo Nyantika Billy, MCA | |
| 8. Hon. John Ndile Musila, MCA | |
| 9. Hon. Cyrus Mugo Mubea, MCA | |
| 10. Hon. Jane Musangi Muthembwa, MCA | |
| 11. Hon. Emmy Khatemeshi Isalambo, MCA | |
| 12. Hon. Fuad Hussein Mohamed, MCA | |
| 13. Hon. Fatuma Abduwahid Abey, MCA | |

14. Hon. Eutyclus Mukiri Muriuki, MCA
15. Hon. Fredrick Njoroge Njogu, MCA
16. Hon. Rachel Wanjiru Maina, MCA
17. Hon. Aaron Kangara Wangare, MCA
18. Hon. Carrington Gichunji Heho, MCA
19. Hon. Mark Thiga Ruyi, MCA
20. Hon. Simon Maina Mugo, MCA
21. Hon. Paul Wachira Kariuki, MCA
22. Hon. Martin Mbugua Mwangi, MCA
23. Hon. Mary Wanjiru Kariuki, MCA

The Committee comprised of the following members of staff;

1. Mr. Kevin Wasike - Senior Clerk Assistant
2. Mr. Benedict Ochieng - Second Clerk Assistant
3. Mr. Klinsman Munase - Legal Counsel
4. Mr. Anthony Nyandiere - Hansard Editor

Allow me **Hon. Speaker** to thank the entire membership of this Committee for its hard work and commitment which made the taking of evidence and production of this Report a success.

FOREWORD

This is Special Audit Report on Payroll Management for the Nairobi City 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 Nairobi City County Executive was conducted in line with this mandate. The Special Audit evaluated the human resource and payroll processes at the Nairobi City Executive, and assessed their compliance with the established legal framework of 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 Nairobi City County Executive for enhancing compliance, accuracy, accountability, and efficiency in payroll management.

The report was submitted to the County Assembly in accordance with Article 229 (7) of the Constitution of Kenya, 2010 and Section 39 (1) of the Public Audit Act, 2015, also remitted to the Nairobi City County Public Service Board and the Governor, Nairobi City 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.

EXECUTIVE SUMMARY

Introduction and Background

Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to Undertake financial, compliance and performance audits. Further, Section 7 (1) (an of the Public Audit Act, 2015 requires the Auditor-General to give an assurance or he effectiveness of internal controls, risk management and overall governance at national and county governments. In addition, Section 34 of the Public Audi 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 Nairobi City County Executive referred to as the County Executive in this report, was conducted in line with this mandate.

The Government of Kenya (GoK) received an International Development Association (IDA) Credit of EUR140.7 million (Approximately Kshs 9,538,432,130 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 DA-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 development objective (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.

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: and
- ii. Participating counties that are enhancing accountability for results through an integrated performance management framework.

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

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 Objective

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

- i. Evaluate whether the preparation and execution of the payroll budget align with relevant laws and approved budgetary provisions;
- ii. Assess whether the recruitment process complied with applicable legal, regulatory, and organizational frameworks governing employment
- iii. Assess the integrity of payroll data and identify any double entries, entries in multiple institutions, unverified employees, or inconsistencies across the County Government Payroll System;
- iv. Determine the accuracy of payroll calculations and payments; and
- v. Evaluate adherence to tax laws, labour laws, and other statutory requirements.

Audit Scope and Limitations

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

The County Executive did not provide casual payrolls and manual payrolls for the period under review. However, this limitation was mitigated by using data analysis to test the controls.

Methods of Gathering Evidence

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.

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.

1.5. Auditor-General's Responsibility

The Auditor-General's responsibility was to obtain reasonable assurance about whether the financial statements as a whole were free from material misstatement, whether due to fraud or error, and to express an opinion on the financial statements in accordance with Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. The matters mentioned in the audit report were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

1.6. Evidence taken

The Committee held sittings of which it interrogated the County Executive officers led by the County Executive Committee Member responsible for Boroughs Administration and Personnel on key findings raised by the Auditor-General. Similarly, the Committee received written responses to the special audit findings.

While taking evidence, the Committee was guided by the existing procedures and modalities of operations of the Nairobi City County Assembly derived from the Constitution of the Republic of Kenya, Acts of National Parliament, Acts of Nairobi City County Assembly and Nairobi City County Assembly Standing Orders, conventions, usages, practices and rulings and directives of the Chair.

1.7. Appreciation

Hon. Speaker,

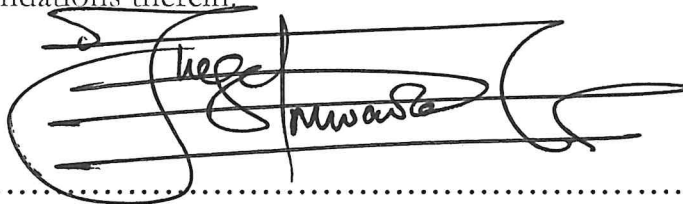
The Committee would like to thank the **County Executive** for appearing before it and subsequently submitting written responses which provided valuable insights into the issues raised by the Auditor-General.

Hon. Speaker,

The Committee also wishes to sincerely thank the Offices of the Speaker and the Clerk for the services extended to it while considering this matter. The Committee further wishes to appreciate the officers from the Office of the Auditor-General and the Committee Secretariat for their exemplary advisory services that enabled Members effectively execute their mandate.

Hon. Speaker,

On behalf of the Committee, I now wish to table this report and urge the Assembly to adopt it and the recommendations therein.



SIGNED

HON. CHEGE MWAURA (CHAIRPERSON)

DATE 22/04/2026

3.0 CONSIDERATION OF SPECIAL AUDIT REPORT OF THE AUDITOR-GENERAL ON PAYROLL MANAGEMENT FOR NAIROBI CITY COUNTY EXECUTIVE FOR THE FINANCIAL YEARS 2021/2022; 2022/2023; AND 2023/2024

3.1. Payroll Budgeting

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

The Special Audit established that the ratio of the budgeted compensation of employee to budgeted revenue exceeded 35% in two (2) of the three (3) financial years under audit.

2022/2023: 40%

2023/2024: 46%

Further, a comparison of the actual personal emolument expenditure with the actual revenue, as reflected in the financial statements, revealed that the County Executive had exceeded the thirty-five (35%) percent threshold in the two (2) of the three (3) financial years.

2022/2023: 36.7%

2023/2024: 55.9%

This is contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015.

Management Responses

Non-compliance with fiscal responsibility is a historical issue carried over from Defunct City Council whereby before Constitution 2010. I) The County inherited an existing workforce of 11,303 with a monthly payroll cost of 773,460,017 as at December 2013. These staff were employed under the Defunct City Council and their terms and conditions of service was guided by a registered Collective Bargaining Agreement signed by the Defunct Councils and Kenya Local Government Workers Union. Following the Enactment of Constitution 2010 under schedule IV a further 3,430 staff who were performing the devolved functions were seconded to the County which added payroll cost of Kshs 298,676,779 in January 2014. This therefore increased the County Payroll cost to Kshs 1,067,662,015. According to County Governments Act Section 138 which states: 138. (1) Any public officer appointed by the Public Service Commission in the exercise of its constitutional powers and functions before the coming to effect of this Act and is serving in a county on the date of the constitution of that county government shall be deemed to be in the service of the county government on secondment from National Government with their terms of service as at that date and— (a) the officer's terms of service including remuneration, allowances, and pension or other benefits shall not be altered to the officer's disadvantage; and (b) the officer shall not be

removed from the service except by the terms and conditions applicable to the officer as at the date immediately before the establishment of the county government or by the law applicable to the officer at the time of commencement of the proceedings for the removal; and (c) The officer's terms and conditions of service may be altered to the officer's advantage. This therefore meant that the County had to absorb the staff as per their existing terms and conditions of service. The inherited staff and those Devolved from the National Government were not adequate to perform the expanded mandate of the County Government since some of the critical skills were lacking and the inherited Defunct staff majority were aging workforce therefore the County Public Service Board had to conduct new requirements.

Committee Observations:

The Committee observes that the County Executive Violated Regulation 25(1)(a) of the Public Finance Management (County Governments) Regulations, 2015, by exceeding the 35% threshold for personnel emoluments in two consecutive financial years, both on budget (40% and 46%) and actual expenditure (36.7% and 55.9%).

The Committee acknowledges the historical context provided by management regarding the inherited workforce and seconded staff. However, the continued and worsening breach, especially the actual expenditure of 55.9% in FY 2023/2024, indicates a failure to implement sustainable fiscal control measures.

Committee Recommendations:

- **The Committee recommends that the County Executive Committee member for Boroughs Administration and Personnel and County Public Service Board (CPSB) must develop and submit to the County Assembly a clear, time-bound workforce rationalization plan to bring the wage bill into compliance with the PFM regulations within sixty (60) days after the adoption of this report; and**
- **That there should establish a strict recruitment freeze in non-priority sectors until the wage bill is compliant, unless express exemption is granted by the County Assembly.**

3.1.2. Budget Votes in Integrated Payroll and Personnel Database System Not Aligned with those in the Approved Budget

Comparison of payroll reports extracted from the IPPD System with the approved budgets established that the Vote Heads in IPPD were not aligned with those in the approved budgets, as shown in Annexure I.

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.

Management Responses

County acknowledges the delays in the aligning of budget lines with sector codes. This is due to IPPD being stand-alone system and is not integrated with IFMIS. Going forward the County in partnership with state department for public service are currently rolling out implementation of HRIS-KE which is an online web-based system that is being integrated with IFMIS and will also have a budgeting module unlike IPPD where budgeting was manually based.

Committee Observations:

The Committee notes the significant misalignment between vote heads in the IPPD system and the approved budget, primarily due to departmental restructuring not being reflected in the payroll system.

The Committee acknowledges management's admission that IPPD is a stand-alone system, which creates inherent control weaknesses and prevents seamless budget execution and tracking.

Committee Recommendations:

- The Committee recommends that the County Executive Committee Member for Boroughs Administration and Personnel should undertake a comprehensive data clean-up and mapping exercise to align all current employees in the new HRIS-Ke system with the correct and approved budget vote heads before the commencement of the financial year 2026/2027; and
- That ongoing forward, administrative actions should be taken against the relevant officers for failure to align budget votes in payroll systems with those in approved budgets.

3.2. Recruitment Process

3.2.1. Lack of Annual Recruitment Plans

The County Executive recruited six hundred and sixty-two (662), one hundred and fifty-three (153) and one hundred and fifty (150) employees, excluding casuals, during the financial years 2021/2022, 2022/2023 and 2023/2024, respectively. The audit established that the departments that 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.

Management Responses

The Board can hardly project the County Staffing needs at the beginning of the Financial Year. This is because, recruitments are done as per sector needs. The Board recruits based on sector needs which are submitted in terms of formal recruitment requests approved by the sector CECM and supported by availability of budget (approved by the budget department) and existence of vacancy in the approved staff establishment.

Committee Observations:

The Committee finds that the recruitment of 965 employees across three years without approved annual recruitment plans is indicative of reactive, rather than strategic, human resource management. This practice undermines proper workforce planning and budgetary control.

While the management cites "sector needs," the lack of a consolidated plan makes it difficult for the Committee to verify if these recruitments align with the County's overall strategic priorities and fiscal capacity.

Committee Recommendations:

- **The Committee recommends to strongly reprimand the County Public Service Board for conducting recruitments without annual recruitment plans by the County Executive;**
- **That the County Public Service Board must ensure that future recruitments are strictly based on a County Annual Recruitment Plan, which should be approved by the County Executive Committee; and**
- **That all recruitment requests must be accompanied by a certificate of budgetary adequacy from the Chief Officer Finance and approved staff establishment before being processed by the County Public Service Board.**

3.2.2. Weaknesses in the Recruitment and Management of Casual Workers

Review of the recruitment process established the following internal control weaknesses:

- i. Three (3) out of the six (6) departments that had recruited during the period under review did not provide records indicating how casual employees were hired, the work for which they were hired for, criteria for their recruitment and terms and conditions of services. The departments are the Revenue, Mobility and Works and Agriculture Departments;
- ii. All the six (6) departments that had recruited during the period under review did not provide muster rolls to support the attendance of casual workers, their respective duty allocations, and the corresponding wages paid. Further, the County Public Service Board did not receive periodic returns from the respective departments engaging

casual workers. The returns, which should include a list of the engaged casual workers and their payment records, are essential for payroll accountability and workforce planning and control; and confirmation of the actual engagement of the casual workforce.

- iii. During the financial year 2023/2024, the Department of Health had recruited casual workers without involving the County Public Service Board, contrary to Section 74 of the County Governments Act, 2012. The casuals were paid wages totalling Kshs. 358,400,000, from an account named "Sundry Debtors Account", held at the Co-operative Bank of Kenya. In addition, a total of Kshs. 158,316,940 was paid to other casual workers through the same bank account.

Management Responses

The Board approves engagement of casual based on sector request and availability of budget. The sectors engage the casuals directly on approval by Board. The Board is however agreeable with the OAG recommendation that all Chief Officers should work harmoniously with the County Public Service Board to ensure adherence to Section 74 of the County Governments Act, 2012.

Committee Observations:

The Committee is deeply concerned by the systemic failure in managing casual workers, including lack of recruitment records, missing muster rolls, and payments made outside the normal payroll system (e.g., Kshs. 358.4 million from the Health department).

The recruitment of casuals by the Health department without involving the CPSB is a direct contravention of the County Governments Act, 2012, and represents a significant breakdown in internal controls.

Committee Recommendations:

- **The Committee recommends to strongly reprimand the accounting officers of the departments of Revenue, Mobility and Works and Agriculture for failure to adhere to the provisions of the law on timeline in submissions of evidences to the office of the Auditor-General for review;**
- **That all payments for casual workers must be processed through the mainstream payroll system (HRIS-Ke) and subjected to the same internal controls as permanent staff;**
- **That the County Public Service Board must institute a mandatory monthly return system for all departments, including signed muster rolls and payment schedules, to account for all casual engagements; and**

— That the Accounting Officers for the Revenue, Mobility, Works, Agriculture, and Health Sectors to take administrative action on the officers involved so as to ensure the control lapses in their respective departments.

3.2.3. Irregular Recruitment of Staff by the Nairobi Metropolitan Services

Following the execution of the Deed of Transfer on 25 February, 2020, the Nairobi City County Government seconded six thousand, six hundred and four (6,604) staff to the then Nairobi Metropolitan Services (NMS) for a period of two (2) years. However, at the conclusion of the Deed of Transfer tenure in November 2022, the then NMS transferred back seven thousand, five hundred and twenty-six (7,526) employees to the Nairobi City County Government. These employees were re-introduced in the IPPD System in January 2023.

Out of the seven thousand, five hundred and twenty-six (7,526) staff transferred back, one thousand, seven hundred (1,700) were not part of the original seconded personnel, resulting in an increase of the January 2023 Wage Bill by Kshs. 827,630,006, as detailed in Annexure 2. This indicates that the then NMS engaged in recruitment of staff during its tenure, contrary to the provisions of Article 5.6 and Article 5.7 of Gazette Notice No. 1609 dated 25 February, 2020.

According to Article 3.3 (b) of the "Framework for the Handover of the Transferred Functions" dated 30 September, 2022, between the then NMS and the Nairobi City County Government, the two (2) entities agreed that the staff and personnel who were employed by the Nairobi Metropolitan Services during Deed Tenure, were to be absorbed into the Nairobi City County Government's Staff Establishment, subject to the existing vacancies and based on the County's needs. However, the audit established that the Nairobi City County Government did not conduct a needs assessment before absorbing the additional staff.

Management Responses

The recruitment of staff by Public Service Commission contravened the provisions of section 5.7 of the deed of transfer which required the County Public Service Board, in consultation with the Public Service Commission to formulate the necessary instruments to facilitate the secondment and/or deployment of the necessary human resources.

This position was also held by County Public Service Board where they issued a disclaimer to Public Service Commission warning that all staff recruited by the Commission will not be automatically absorbed by the County. The same position was held by County Assembly which adopted the report of Sectoral Committee on Labour and Social Welfare which resolved that NMS staff will not be absorbed into County establishment without due process being followed.

The County through respective sectors reviewed their sectors establishment and positions advertised and filled competitively including those from former NMS.

Committee Observations:

The Committee confirms that the recruitment of 1,700 additional staff by NMS was contrary to the provisions of the Deed of Transfer. The Committee further notes that the County Government compounded this irregularity by failing to conduct a needs assessment before absorbing these 1,700 employees, adding an extra Kshs. 827.6 million to the annual wage bill without proper justification.

Committee Recommendations:

- The Committee recommends to strongly reprimand the County Public Service Board for failure to conduct a needs assessment before absorbing the additional staff to the Service;
- That the County Public Service Board and the relevant departments must conduct a skills audit and needs assessment for the 1,700 staff recruited by NMS within ninety (90) days after the adoption of this report. Any staff found to be in excess of the validated establishment or lacking the requisite skills for current county needs should be declared redundant in accordance with the law; and
- That the County Assembly recommends the Senate to review the inter-governmental administrative framework to prevent such unilateral actions by entities exercising delegated authority.

3.2.4. Designations in the Integrated Payroll and Personnel Systems Not Aligned with the Approved Staff Establishment

The Special Audit established that there were four hundred and fifty (450) designations that were configured in the IPPD System. However, out of the configured designations, three hundred and seventy-seven (377) were not in the approved staff establishment. Further, there were ten thousand, seven hundred and fifty (10,750) employees who were grouped in the three hundred and seventy-seven (377) designations, as detailed in Annexure 3 (A-B).

Management Responses

The approved staff Establishment was forwarded to the Ministry of Public Service & Gender; Directorate of Public Service Management vide letter no HRM/3/15/2022 dated 28th September 2022. However, the designations have not been updated to date. The Public Service Sector commit to liaise with the Ministry of Public Service to update the Designations in the HRIS-Ke System.

Committee Observations:

The Committee observes a fundamental disconnect between human resource records (IPPD) and the approved staff establishment. The existence of 377 unapproved designations makes it impossible to accurately manage the workforce. The Committee is alarmed by the "moving target" of the staff establishment, which grew from 13,587 to 31,070 within a short period. This casts doubt on the integrity of the establishment-setting process and validates the finding that the County is operating at a significant over-establishment.

Committee Recommendations:

- **The Committee recommends that this matter be investigated further by the Public Service Commission and the Ethics and Anti-Corruption Commissions for further action.**

3.2.5. Over Establishment of Staff

As at 30 June, 2024, the County Executive had sixteen thousand, three hundred and twenty-one (16,321) employees in the IPPD system, against a staff establishment of thirteen thousand, five hundred and eighty-seven (13,587), which represented a 20% over establishment.

Management Responses

The County Public Service Board was using 2018 approved structure and establishment which had 13,587 staffing level until May 2023. The County Executive Committee in its meeting held on 14th June 2021 under minute 27/CECM/JUNE 2021 revised the Nairobi County high level organizational structure. The Board in exercise of its responsibility of establishing offices as mandated under section 60 of the County Governments Act, resolved to cascade the said approved structure to the lowest level. The Board reviewed, cascaded and approved the County Structure and Establishment in May 2023 together with Governors special project. The approved 2023 structure provided for 23,275 staffing level.

Further, following request for amendments on the approved establishment by various sectors, the Board in its meeting held on 28th October 2024 reviewed the various requests and amended the County Structure and Establishment. The approved 2024 structure provided 31,070 staffing level.

Arising from above, the County Public Service Board has always been guided by approved establishment.

Committee Observations:

The Committee observes a fundamental governance issue regarding the definition and approval of the staff establishment. The narrative that the establishment was "13,587" until

May 2023, then became "23,275," and further ballooned to "31,070" by October 2024, raises serious questions about the credibility of the human resource planning process.

The fact that the actual headcount (16,321) was static between these massive establishment increases indicates that the establishment was being expanded after the fact to justify the existing workforce and future recruitments, rather than being a strategic tool to guide recruitment. This practice renders the concept of an "approved establishment" meaningless and is a direct cause of the uncontrollable wage bill.

Committee Recommendations:

- **The Committee recommends that this matter be investigated further by the Public Service Commission and the Ethics and Anti-Corruption Commissions for further action.**

3.3. Employee Data Management

3.3.1. Integrity of Dates of Date of Birth in the Integrated Payroll and Personnel Database System

The Special audit identified one hundred and ninety-eight (198) employees in the IPPD System with inconsistent dates of birth. Interview with a sample of eighty-nine (89) employees and verification of their identification documents established that the dates captured in the IPPD System for twenty-seven (27) employees were different from those in employees' Birth Certificates as detailed in Annexure 4. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).

Management Responses

Public Service Sub Sector has noted the recommendations and the Sub Sector does continuous cleansing of data continuously to rectify such errors using the approved source documents from County Public Service Board, Public Service Commission and any relevant authorities. Currently the County has migrated from IPPD to HRIS system and cleansing of data is ongoing.

Committee Observations:

The Committee was concerned about data integrity issues, including inconsistent dates of birth for 198 employees. This exposes the County to risks of ghost workers and incorrect pension calculations. The failure of 27 employees to report for physical verification despite receiving Kshs. 47.5 million in salaries raises a red flag on their authenticity and the effectiveness of payroll controls.

Committee Recommendations:

- The Committee recommends that the Ag. County Secretary must institute disciplinary proceedings against the supervisors of the 27 employees who failed to show up for verification. Their salaries should be suspended immediately pending a satisfactory explanation or proof of existence;
- That the County Public Service Board must complete the ongoing HRIS-Ke data cleansing exercise and conduct a county-wide staff verification exercise to validate all employees and their personal details against original documents within three months after the adoption of this report; and
- That the matter be investigated further by the Ethics and Anti-Corruption Commissions for further action.

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

The Letter of Engagement addressed to the County Secretary for the audit of payroll, Ref: OAG/SAS/SADS/KDSP-PAYROLL/3/047 dated 25 November, 2024 required Chief Officers (COs) to provide a 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.

The County Executive had thirty-four (34) departments under the oversight of Chief Officers. However, only nine (9) Chief Officers fully complied with the request to submit validated staff information. The remaining twenty-five (25) departments either failed to submit the required information, or provided lists that were not duly countersigned by the respective Chief Officers, as detailed in Annexure 5. The authenticity of the payroll records could therefore, not be confirmed.

A comparison of the staff lists countersigned by various Chief Officers with staff registers from the IPPD System established that there were two hundred and eighty-five (285) employees in the Chief Officers' lists but not in the IPPD System, as detailed in Annexure 6. Further, ten (10) employees who were paid Kshs. 6,052,009 during the period under review, were in the IPPD System but were missing in lists provided by Chief Officers, as detailed in Annexure 7.

Management Responses

Public Service submits staff returns to Sectors and departments on monthly basis so that sectors can confirm the staff in their respective sectors. Despite these returns, some Chief officers have failed to submit staff returns due to lack of automation of staff returns. Most sectors are still using manual staff registers and therefore takes time for them to submit returns and the 25 departments could not meet the Auditors timelines. Management

acknowledges the observation on this subject. However, 21 Sub Sectors and 3 departments submitted their staff lists. The Management shall cause the remaining Sub-sectors and Departments to submit their reports.

The data is being analysed from individual files and a report on the same will be submitted.

Committee Observations:

The Committee finds the failure of 25 out of 34 Chief Officers to provide validated staff lists as a serious act of non-compliance and a dereliction of duty. As Accounting Officers, they are the first line of control over payroll and must be held accountable. The discrepancy of 285 employees on Chief Officers' lists but not in IPPD, and 10 employees in IPPD but missing from departmental lists, indicates a complete breakdown in the reconciliation process.

Committee Recommendations:

- **The Committee recommends that the Ag. County Secretary must issue a show-cause letter to all Chief Officers who failed to comply with the Auditor-General's request within thirty days after the adoption of this report; and**
- **That a mandatory, quarterly reconciliation between departmental human resource records and the official payroll system (HRIS-Ke) must be instituted, with signed-off reports submitted to the County Secretary and the County Assembly.**

3.3.3. Authenticity of Staff in the Payroll

The Letter requested eighty-nine (89) employees to present themselves for physical verification. However, twenty-seven (27) employees did not present themselves, despite multiple attempts to reach out to them. During the period under review, the twenty-seven (27) officers collectively received gross salary amounting to Kshs. 47,552,597, as detailed in Annexure 8.

Management Responses

The management is ready to call the 27 officers sampled for verification.

Committee Observations:

The Committee finds the failure of 27 employees to present themselves for physical verification, despite receiving Kshs. 47.5 million in salaries, to be a serious indicator of potential fraud or ghost workers. The management's response that they are "ready to call" the officers is inadequate and fails to address the fact that these individuals were uncontactable during the audit process. This situation exposes a critical weakness in the county's internal controls and the effectiveness of the County Secretary and Chief Officers in maintaining an accurate and verifiable record of their workforce.

Committee Recommendations:

- The Committee recommends that the Ag. County Secretary must institute disciplinary proceedings against the supervisors of the 27 employees who failed to show up for verification. Their salaries should be suspended immediately pending a satisfactory explanation or proof of existence; and
- That the matter be investigated further by the Public Service Commissions and the Ethics and Anti-Corruption Commission to determine how the 27 individuals continued to be paid. The responsible Chief Officers and HR personnel should be held accountable for this lapse, and the County should initiate recovery proceedings for the Kshs. 47.5 million if the employees are confirmed to be ghost workers.

3.4. Payroll Processing and Payments

3.4.1. Charging of Employee Costs to the Wrong Budget Vote

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 9.

Management Responses

Public Service acknowledges the mismatch between budget and IPPD due to IPPD being a stand-alone system and not integrated with any other financial or human resource system. The County does not have system rights to amend the system and has to rely of Ministry of Public service to assist with amendments which causes a lot of delays as the IPPD core team manages both National government payroll, parastatal, and counties.

Going forward the County Is already rolling out the HRIS-Ke system which will ensure that payroll system aligns with budget lines as defined in IFMIS an exercise which is expected to be completed before the next FY 2025-2026.

Committee Observations:

The Committee notes the systemic misalignment between payroll (IPPD) and financial management (IFMIS) systems. This disconnect makes a mockery of budget execution, as salary expenditures are not being charged to the correct departmental votes, preventing accurate tracking and oversight by this Committee.

While the management cites a lack of system rights as a challenge, this does not excuse the failure to maintain accurate financial records. Relying on a manual workaround for such a fundamental process is a major control weakness.

Committee Recommendations:

- **The Committee recommends that the County Boroughs Administration and Personnel sector and ICT department must ensure full integration of the new HRIS-Ke system with IFMIS before the end of the financial year (2025-2026), as promised by management and submit a status report to the County Assembly within sixty days after the adoption of this report.**

3.4.2. Employees in Both Integrated Payroll and Personnel Database and Manual Payrolls

During the period under review, the County Executive maintained payroll in the IPPD System for employees with payroll numbers, manual payrolls for employees without payroll numbers, and casual payrolls for casual workers.

A comparison between the manual payrolls provided and the IPPD generated payroll revealed that there were sixty-one (61) employees whose salaries were processed through both payrolls. A total of Kshs. 1,676,395 was paid through the IPPD System, as detailed in Annexure 10. The funds paid through the manual payrolls could not be ascertained, as payment vouchers were not provided for audit review.

Management Responses

The Management confirm that all 61 listed staff are County employees who work in various sectors as indicated below:

1. Talent, Skills & Care – 2 No
2. Green Nairobi – 49 No
3. Fire Services & Disaster Management – 1 No
4. Security & Compliance – 4 No
5. Health, Wellness & Nutrition – 5 No

The Health, Wellness & Nutrition sector has been tasked to provide the circumstance and nature of engagement of serving full-time staff who were engaged as community health promoters. If the staff are found to have worked as volunteers and at the same time as regular county employees, then administrative action be taken against them including the amounts earned as volunteers.

In order to mitigate such occurrence, Public Service in conjunction with State Department for Public Service have implemented an online payroll system HRIS whereby when fully rolled out, all County employees whether casuals or permanent will be captured and paid using this system. This will do away with current manual payroll system.

Committee Observations:

The Committee is alarmed by the discovery of 61 employees receiving payment from both the main payroll and a manual payroll. This is a clear circumvention of payroll controls and is a classic red flag for fraud. The fact that payment vouchers for the manual payroll were unavailable for audit review compounds the seriousness of this finding.

The management's confirmation that these are all county employees, particularly the 49 from "Green Nairobi," does not explain how this double payment occurred and who authorized it. The mention of volunteers in the Health sector being simultaneously paid as regular employees raises further concerns about moonlighting and improper payments.

Committee Recommendations:

- The Committee recommends for a forensic investigation must be launched into the 61 cases of dual payment with the objective to determine the root cause, identify the officers responsible for authorizing the manual payments, and recover all funds paid through the manual payroll; and
- That the County Executive must abolish all manual payrolls and ensure all payments for any form of work are processed through the centralized HRIS-Ke system, which should be configured to prevent duplicate payments within sixty days after the adoption of this report.

3.4.3. Unsupported Promotions

The Special Audit established that there were nine hundred and seventy-eight (978) employees who changed Job Groups more than once within a financial year, or skipped Job Groups within the years under review, as detailed in Annexure 11.

The Management did not provide evidence to justify the irregular change or skipping of Job Groups. In this regard, it was not possible to determine whether the changes in Job Groups were undertaken in a fair and transparent manner.

Management Responses

The Board uses various guideline in execution of promotion within the common cadre and has strived to clear any historical injustices and stagnation cases whilst ensuring that appointments, promotions and re-designations are conducted in a fair and transparent manner.

The Board uses below guidelines in executing promotion;

- i. PSC 2014 Circular
- ii. 2020 one waiver
- iii. 2023 guidelines to address historical and stagnation.

Committee Observations:

The Committee finds the lack of documentation for 978 promotions to be unacceptable. The management's reference to general circulars (PSC 2014, 2020 waiver, 2023 guidelines) is not a substitute for providing individual files and evidence demonstrating that each of the 978 cases was handled fairly, transparently, and in accordance with those very guidelines. This opacity creates a significant risk of patronage, nepotism, and irregular upward pressure on the wage bill, undermining the principles of merit and good governance.

Committee Recommendations:

- **The Committee recommends that the matter be investigated further by the Public Service Commissions and the Ethics and Anti-Corruption Commission for further action.**

3.4.4. Irregular Payment of Overtime Allowance

During the three (3) years under audit review, the County Executive of Nairobi City County Government paid overtime allowances to six thousand, eight hundred and ninety-nine (6,899) employees. However, it was established that the muster rolls were approved by the respective departmental heads after employees had incurred the overtime hours. The total payments amounted to Kshs. 288,273,885.

It was further established that employees who were not from the defunct local authority were also paid overtime allowances amounting to Kshs. 36,095,310, which was irregularly based on the CBA, as summarized in Table 6 and detailed in Annexure 13.

Management Responses

- i. The overtime payment is done after the officers have worked overtime and hence in arrears.
- ii. All overtime is authorized by the respective Chief officers who manage sub-sector Work and budget.

Committee Observations:

The Committee observes a systemic abuse of allowance payments. Paying overtime without prior approval (Kshs. 288 million) is a fundamental breach of financial control, as it allows officers to incur expenditure without authorization.

The payment of allowances to ineligible staff (Kshs. 36 million overtime based on an inapplicable CBA, Kshs. 167 million extraneous based on a superseded circular) represents a direct financial loss to the county and demonstrates a wilful disregard for SRC guidelines and the law.

Committee Recommendations:

- The Committee recommends that the matter be investigated further by the Ethics and Anti-Corruption Commission for further action;
- That the County Treasury must enforce a strict "no prior approval, no payment" policy for overtime. All overtime claims must be authorized by the Chief Officer before the overtime is worked, based on a clear budget and work plan and
- That the Ag. County Secretary must issue a circular to all departments restating that all allowance payments must strictly comply with the latest SRC circulars within thirty days after the adoption of this report.

3.4.5. Irregular Payment of Extraneous Allowance

Analysis of extraneous allowances paid through the IPPD System revealed that there were five hundred and fifty-nine (559) employees from the defunct local authority who were paid extraneous allowance totalling Kshs. 126,732,567, as shown in Table 7 and detailed in Annexure 14. The Management did not provide evidence to prove that the employees offered extraneous service.

It was further established that nine hundred and sixty-one (961) employees who were not from the defunct local authority were also paid extraneous allowance totalling Kshs. 167,108,737, as summarized in Table 8 and detailed in Annexure 15. The Management indicated that the payment was based on the Circular referenced OP/CAB.2/12A/ (8), dated 18 August, 2003. However, this Circular was superseded by SRC Circular SRC/TS/CG/ND/3/61/32(25) dated 17 January, 2018, on employees who are entitled to earn Extraneous Allowance.

Management Responses

The Management has put in place criteria for payment of Extraneous Allowance.

Extraneous allowance is paid to officers who are required to work over and above their normal working hours on a continuous basis by nature of appointments as officers responsible for implementation and coordination of policies and strategies under respective County Chief Officers and hence limited to County Officers in JG P-R. However, due to nature of work performed in the executive, the County Secretary and Head of County Public Service may upon request from respective Chief Officer with satisfactory justification approve payment of extraneous allowance to officers of JG K-N.

Committee Observations:

The Committee observes that a total of Kshs. 293,841,304 was paid as extraneous allowance to 1,520 employees (559 from defunct local authority and 961 others) without proper justification or adherence to the correct legal framework.

For the 559 employees from the defunct local authority (Kshs. 126.7 million), the Committee notes that management failed to provide any evidence that these officers actually performed extraneous services. This represents payment without value for money and a complete breakdown of accountability.

For the 961 employees not from the defunct local authority (Kshs. 167.1 million), the Committee finds the management's reliance on a 2003 Circular (OP/CAB.2/12A/(8)) to be fundamentally flawed. This circular was explicitly superseded by SRC Circular SRC/TS/CG/ND/3/61/32(25) dated 17 January 2018, which provides the current, legal framework for extraneous allowance eligibility. Paying based on an outdated circular is a clear violation of SRC guidelines and constitutes an illegal expenditure.

The Committee further notes that the management's "new criteria" described in their response, which limits the allowance to Job Groups P-R and selectively to K-N with CS approval, appears to be an ex post facto justification created after the audit findings, rather than evidence that these controls were in place and followed during the payment period under review.

Committee Recommendations:

- The Committee recommends that the Boroughs Administration and Personnel sector, in conjunction with the NCPSB, must initiate immediate recovery proceedings for the Kshs. 167,108,737 paid to the 961 employees based on the superseded 2003 circular. These payments were made without a legal basis and must be accounted for. A recovery schedule with clear timelines must be submitted to this Committee within 60 days;
- That for the 559 defunct local authority employees, the respective Chief Officers must provide sworn affidavits to the County Assembly attesting to the actual extraneous services performed by each of these officers during the payment periods. Failure to provide such verification should result in recovery of the Kshs. 126.7 million from the responsible Accounting Officers within sixty days after the adoption of this report;
- The Ag. County Secretary must issue an unequivocal directive within thirty days after the adoption of this report that all allowance payments shall henceforth be based exclusively on the latest SRC Circulars. The practice of relying on outdated, superseded circulars must cease immediately, and any Chief Officer who authorizes such payments in the future will face disciplinary action and personal liability for recovery;
- The County Public Service Board must submit to the County Assembly the official Human Resource policy or Board resolution where the "new criteria"

for extraneous allowance (limiting to JG P-R, etc.) was formally approved and the date of its adoption. The Committee must verify whether this policy was in effect during the audit period (2021-2024) or created afterwards within sixty days after the adoption of this report.

3.4.6. Circumventing Payroll Controls to Pay Irregular Salary Arrears

The Special Audit established that there were employees who were irregularly paid salary arrears amounting to Kshs. 211,448,169. The arrears were paid as extraneous allowance, by circumventing payroll controls. The Management did not explain why the allowance was paid as arrears, yet the allowance had a dedicated earning code in the IPPD System. In addition, payment of extraneous allowance to these particular employees is not provided for in the Salaries and Remuneration Commission (SRC) Guidelines on the Compendium of Remuneration and Benefits for Public Service dated December 2022.

During the period under review, the County Executive paid arrears totalling Kshs. 779,778,178. Further, review of the records supporting the payments established that there were employees who were paid extraneous allowance amounting to Kshs. 211,448,169 as arrears, as summarized in Table 9 and detailed in Annexure 16. These employees were not entitled to earn the allowance which had a dedicated earning code in the IPPD System. The arrears were paid as extraneous allowance, by circumventing the payroll controls.

Management Responses

The IPPD system is programmed in such a way any earning that is discretionary based is captured as arrears as the amount paid is not system generated but determined as per applicable rates defined in the employee terms and condition of service. However, the new system of HRIS is going to rectify all those issues.

Committee Observations:

The Committee views the payment of Kshs. 211 million in "arrears" as extraneous allowance as a deliberate and sophisticated attempt to defraud the county by bypassing established payroll controls.

The management's technical explanation about how the IPPD system handles discretionary earnings does not justify why a dedicated earning code was bypassed, nor does it explain why these payments were made to employees not entitled to the allowance under SRC guidelines. This points to a conscious decision to hide these payments.

Committee Recommendations:

- **The Committee recommends that the matter be investigated further by the Ethics and Anti-Corruption Commission for further action;**

- That the Boroughs Administration and Personnel sector must submit to the County Assembly a full list of all employees who received the Kshs. 211 million in "arrears" payments, along with the authorizing officer for each payment within sixty days after the adoption of this report.

3.4.7. Irregular Payments from the Salary Control Account

Analysis of the 'Customer Settlement Account' established that funds totalling Kshs. 1,690,553,768 were used for payment of Daily Subsistence Allowances (DSA), subscriptions to professional bodies and other unexplained payments, as detailed in Annexure 17 (A) and Annexure 17(B).

Further, analysis of the Bank Statements for the 'Sundry Debtor Account' revealed that the County Executive paid a total amount of Kshs. 130,431,698 for non-salary items such as choir allowances as detailed in Annexure 17(C).

Management Responses

The Bank statements of the Account 0189323239600 have been attached.

In some instances, accountants end up selecting the salary account instead of the imprest account in IFMIS, in those cases the county has gone ahead to process the payments. However, the county Treasury is gradually insisting on the officers to confirm the account.

Committee Observations:

The Committee strongly condemns the misuse of the designated salary account (Customer Settlement Account) for non-salary expenditures amounting to Kshs. 1.69 billion. The management's explanation that "accountants end up selecting the wrong account" is a trivialization of a serious breach of financial regulations and a failure of the county treasury's approval and oversight mechanisms.

Committee Recommendations:

- The Committee recommends that the matter be investigated further by the Ethics and Anti-Corruption Commission for further action;
- That the County Treasury must request the National Treasury to configure IFMIS to prevent the processing of non-salary payments from the salary control account. All such transactions must require an overriding approval from the County Secretary or CECM-Finance; and
- That the County Treasury to confine salary related expenses to the salary account and all other staff emoluments e.g. DSA to a separate account.

3.4.8. Nugatory Expenditure on Staff Cost

During the period under review, the County Executive incurred an amount of Kshs. 148,397,012 in penalties and interest due to delayed repayment of salaries, as shown in Table 11 and detailed in Annexure 18 (A) and Annexure 18(B).

Further, it was established that the 'Sundry Debtor Account' was operating on overdraft facility. As a result, during the financial year 2023/2024, the County Executive incurred commission charges amounting to Kshs. 7,709,746, as detailed in Annexure 19.

Management Responses

Due to irregular remittance of equitable share by the National treasuries to Counties and in order to ensure that the employees are paid in timely manner Nairobi city has entered into an overdraft facility with a commercial bank. The interest is paid in cases where equitable share has been delayed for more than 30days and the facility starts on accumulate interest and penalties.

Committee Observations:

The Committee is deeply concerned by the Kshs. 148.4 million in penalties and interest paid due to delayed salary repayments. This is pure wastage of public funds that could have been used for service delivery.

While delays in equitable share from the National Treasury are a known challenge, incurring overdraft commission charges (Kshs. 7.7 million) and penalties suggests a failure in proactive cash flow management and negotiation of better financing terms. The practice of regularly relying on expensive overdrafts is unsustainable.

Committee Recommendations:

- **The Committee recommends that the County Treasury must submit a report to the County Assembly detailing its cash flow management strategy and the terms of the overdraft facility within sixty days after the adoption of this report; and**
- **That the County Treasury must establish more cost-effective options for bridging temporary liquidity gaps, and also to work on increasing revenue to curb the issue of overdraft.**

3.4.9. Unsupported Payment to Casuals

Analysis of the salary ledgers from IFMIS revealed that payments to casual workers during the three (3) financial years under review amounted to Kshs. 826,978,673. However, the transactions lacked adequate supporting documents like payrolls, muster rolls and payment vouchers, raising doubt on authenticity of the payments.

Management Responses

Management acknowledges the observation on this subject.

Recruitment and Management of casuals has been delegated to respective Accounting Officers (Chief Officers) by the County Public Service Board. Measures will be put for proper management of Casuals.

Committee Observations:

The Committee finds the payment of Kshs. 826.9 million to casual workers without adequate supporting documents (payrolls, muster rolls) to be a complete breakdown of accountability. This creates a huge risk for fraud, as there is no proof that the individuals were actually engaged, performed work, or that the payments reached the intended recipients.

Delegating the management of casuals to Chief Officers without enforcing strict reporting and documentation requirements, as the management admits, was a reckless abdication of responsibility by the CPSB.

Committee Recommendations:

- The Committee recommends that the matter be investigated further by the Ethics and Anti-Corruption Commission for further action;
- That the County Public Service Board must revoke the delegation for casual management and centralize the process within thirty days after the adoption of this report until robust controls are in place;
- That all future casual engagements must be processed through the HRIS-Ke system, with electronic muster rolls and payments made directly to the casuals' bank accounts.

3.5. Compliance with Laws and Regulations

3.5.1. Employees Serving in Acting Capacity for More than Six Months

Review of the IPPD System revealed that one (1) employee, had served in acting capacity for a period exceeding six (6) months. The acting allowance paid during the period under review amounted to Kshs. 408,923.

Management Responses

The officer was paid Acting allowance upon appointment for a period of six (6) Months by the appointing Authority.

Committee Observations:

The Committee notes the audit finding that one (1) employee served in an acting capacity for a period exceeding six (6) months, with acting allowance payments totaling Kshs. 408,923.

The Committee observes that the management's response is contradictory. They state the officer was appointed for a period of six months, yet the audit finding confirms the tenure exceeded this period. This indicates either a failure to adhere to the terms of the appointment letter or a lack of monitoring to ensure the acting position was substantively filled within the legally stipulated timeframe.

This contravenes established public service regulations which limit acting appointments to prevent the abuse of temporary positions and the indefinite payment of acting allowances without a permanent appointment.

Committee Recommendations:

- **The Committee recommends that the County Secretary must issue a directive to all Chief Officers to conduct a review of all staff currently serving in acting positions and ensure that no acting tenure exceeds six months. A compliance report must be submitted to the County Assembly within 60 days after adoption of this report;**
- **Any acting allowances paid beyond the six-month period should be reviewed for potential recovery, as the extension was not in compliance with regulations.**

3.5.2. Non-Compliance to Remittance of Statutory Deductions

A comparison of statutory deductions for employees in the IPPD System with bank statements revealed cases of delay in remittance of statutory deductions.

Management Responses

Nairobi city county processes Gross salaries and ensures that all salary allowances and deductions are paid together with the salaries. However, in some instances where there is delay in release of exchequer from the national treasury and the County and the County has to pay salaries from local collections only net salaries are processed with the deductions been processed immediately after receiving the exchequer. Currently Nairobi is up to date with statutory deductions.

Committee Observations:

The Committee is concerned by the audit finding that there were delays in the remittance of statutory deductions. Timely remittance of these funds (PAYE, NSSF, NHIF, etc.) is not merely an administrative matter but a legal obligation. Delays expose the county to penalties and interest, and potentially deny employees their rightful benefits.

The Committee acknowledges the management's explanation regarding delays in the release of exchequer from the National Treasury. However, this does not absolve the county of its responsibility. The practice of only paying net salaries and holding onto statutory deductions

when facing cash flow challenges is a misappropriation of funds held in trust for third parties (KRA, NSSF, etc.).

While management claims to be "up to date" currently, the audit confirms that instances of delay occurred during the period under review, which constitutes non-compliance.

Committee Recommendations:

- The Committee recommends that the County Treasury in liaison with the Boroughs Administration and Personnel sector must prioritize statutory deductions as a first charge on any funds received, whether from the equitable share or local revenue. These funds must be ring-fenced and remitted immediately upon processing the payroll;
- That the Boroughs Administration and Personnel sector must submit to the County Assembly a schedule of any penalties or interest incurred during the audit period as a result of delayed remittances within sixty (60days) after adoption of this report;
- That officers responsible for the delays in disbursement of statutory deductions must be held accountable for this nugatory expenditure;
- That a strict policy must be instituted that in the event of cash flow shortages, alternative arrangements (such as negotiating short-term, low-interest facilities) must be made to ensure full salary costs (net pay plus statutory deductions) are remitted, rather than selectively paying only net salaries.

3.5.3. Non-Compliance with Requirement on Ethnic Diversity

Analysis of employees in the IPPD system as at 30 June, 2024 revealed that 35% of the staff were from one dominant ethnic community as detailed in Annexure 20. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008.

Management Responses

The recruitment within the County Public service is a competitive process processed purely on selection of a qualified applicants who meets the job requirements and the Board has no control of the ethnicity of applicants that will apply for the job being advertised.

However, the County Public Service Board has strived to ensure that the current recruitments meet the provision of the Act.

This position is supported by reports released by the National Cohesion Commission which has shown a reduction in numbers concerning a dominant ethnic group within the County

Committee Observations:

The Committee notes the audit finding that as at 30 June 2024, 35% of the county's workforce was from one dominant ethnic community, which is contrary to the National Report of the Public Accounts Committee on the consideration of Special Audit of the Auditor General on Payroll Management for Nairobi City County Executive for the Financial Years 2021/2022; 2022/2023; and 2023/2024.

Cohesion and Integration Act, 2008. This indicates a potential imbalance that could undermine national cohesion and the principle of regional balance in public service recruitment.

The Committee observes the management's position that recruitment is purely merit-based and that they have no control over the ethnicity of applicants. While merit is paramount, this response is a passive approach to a constitutional requirement. Section 7(2) of the Act requires the Board to seek to ensure that the composition of the workforce reflects the ethnic diversity of the people of Kenya.

The Committee notes the management's claim of improvement as per National Cohesion Commission reports, but the audit figure of 35% from one community still represents a significant deviation from the ideal of broad-based representation.

Committee Recommendations:

- **The Committee recommends that the County Public Service Board must move beyond a passive stance and adopt a proactive diversity recruitment strategy, this should include targeted outreach and advertisement of vacancies in media/platforms that reach all communities across the country to attract a more diverse applicant pool;**
- **That the County Public Service Board must include in its annual report a detailed analysis of the ethnic composition of new recruits and the overall workforce, along with a clear action plan for achieving greater compliance with the National Cohesion and Integration Act over the next three years; and**
- **The Committee further recommends to strongly reprimand the County Public Service Board for failure to provide annual reports to the County Assembly pursuant to the provisions of Section 59(1)(f) and (5) of the County Governments Act, 2012.**

3.5.4. Non-Compliance with the One Third Basic Salary Rule

An analysis of the staff payroll for the years under review established that one thousand, eight hundred and ninety-seven (1,897) employees were paid net salaries that were less than one-third of their basic salaries, as detailed in Annexure 21. This is contrary to Section 19(3) of the Employment Act, 2007.

Management Responses

Employment Act section 19 (3) states: Without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such

additional or other amount as may be prescribed by the Minister either generally or about a specified employer or employee or class of employers or employees or any trade or industry. The above clause does not prevent the employer from recovering any debt due from an employee and the IPPD system has been programmed in such a such way it gives priority to the recovery of Government debt and statutory deductions under the following circumstances:

- Where a staff fails to report on duty without valid reason or authorization by his/her supervisor, such an officer is deducted salary equivalent to the number of days reported absent
- up to a maximum of 14 days thereafter salary is stopped on account of unauthorized absence
- Where an officer is recovered salary due to the following reasons:
 - (a) Failure to account for imprest
 - (b) Fines and surcharges resulting from the performance of his duties
 - (c) Overpayments as a result of erroneous earnings
 - (d) Recovery of County debts especially house rents for officers residing in County houses
- Where statutory deductions are affected from in the payroll without corresponding increases in salaries. For instance, NSSF was increased from Kshs 200 to 1080 per month with effect July 2023 which resulted in any officer who was within 1/3 threshold earning below the one-third rule. Additionally, in 2024 Housing Levy and Social Housing Insurance Fund was implemented whereby all employees were deducted 2.75 of their gross salaries, which resulted in most staff indicated in the list failing to comply with 1/3 rule.
- Where an officer is retiring during the month yet their existed deductions that were running and the payroll system prorates the earnings to the date of retirement while deductions are recovered in full;
- Where an existing earning is stopped without corresponding stoppage of deductions
- Where an officer has been awarded tax exemption status due to disability by Kenya Revenue Authority and that exemption lapses and which is normally issued for five (5) years yet that officer had already committed the savings resulting from being granted tax exemption status

Committee Observations:

The Committee is concerned that 1,897 employees received net salaries of less than one-third of their basic salary, violating Section 19(3) of the Employment Act, 2007, which is designed to protect employees' ability to meet their basic needs.

The Committee has reviewed the detailed management response outlining the various reasons for this breach, including statutory deduction increases (NSSF, Housing Levy), recovery of government debts (imprests, overpayments, house rent), and system limitations during retirement months.

The Committee acknowledges that some of these reasons, such as increased statutory deductions, are mandated by law. However, the county, as the employer, has a duty to ensure that the cumulative effect of all deductions does not render its employees destitute. The response suggests the payroll system is prioritizing recovery over the employee's welfare, which is a policy choice, not a legal inevitability.

Committee Recommendations:

- The Committee recommends that the Boroughs Administration and Personnel sector must conduct a review of all 1,897 employees to determine the primary cause of the breach for each individual within sixty days after the adoption of this report;
- That for those pushed below the threshold by statutory deductions, the County must explore options such as restructuring the employees' salary packages or engaging with the relevant national government bodies to understand the cumulative impact of these policies on county staff;
- That for those affected by recovery of county debts (e.g., house rent, overpayments), the county must review its recovery policies. Where possible, recovery periods should be extended to ensure the employee's net pay remains compliant with the one-third rule. The goal of debt recovery must be balanced with the legal obligation to ensure the employee has sufficient means to live on; and
- That the County Executive should configure the new HRIS-Ke system to flag potential violations of the one-third rule before the payroll is finalized, allowing HR to intervene and adjust recovery rates to ensure compliance.

3.5.5. Casual Employees Engaged Beyond the Stipulated Period

Review of casual employees' approval records from the County Public Service Board revealed that thirty (30) casual workers within the Revenue Department were engaged for a period exceeding three (3) months. The County Public Service Board approved their continued engagement through successive approvals in response to departmental requests. This is contrary to Section 37 (1) of the Employment Act, 2007.

Management Responses

The County Public Service Board noted the OAG recommendation and will adhere to Section 37 (1) (a & b) of the Employment Act, 2007 in the future.

Committee Observations:

The Committee finds the engagement of 30 casual workers in the Revenue Department for a period exceeding three (3) months, through successive approvals by the CPSB, to be a clear and deliberate violation of Section 37(1) of the Employment Act, 2007.

This practice is a direct circumvention of the law, which stipulates that a casual employee engaged for more than three months is deemed to be a permanent employee and entitled to all the benefits thereof. By using successive approvals, the CPSB has effectively created a class of "permanent casuals," denying them their legal rights while exposing the county to significant legal liability and potential claims for back-dated benefits.

The management's response that they will adhere to the law "in the future" is noted, but it fails to address the past and ongoing violation for these 30 individuals.

Committee Recommendations:

- The Committee recommends that the County Public Service Board must regularize the employment status of the 30 casual workers in the Revenue Department. They must either be confirmed into permanent and pensionable positions if the work is continuous, or their engagement must be terminated to prevent further violation of the law within sixty days after the adoption of this report.
- That the County Public Service Board must cease the practice of approving successive casual contracts for the same role. Any requirement for labor beyond three months must be deemed a permanent need and filled through a competitive recruitment process for a permanent position;
- That the County Attorney should provide a legal opinion on the potential liability the County faces from all casual workers who have been engaged beyond three months through this practice and advise on a strategy to mitigate this risk.

6.0 SUMMARY OF ALL RECOMMENDATIONS OF THE SPECIAL AUDIT OF THE AUDITOR-GENERAL ON PAYROLL MANAGEMENT FOR NAIROBI CITY COUNTY EXECUTIVE FOR THE FINANCIAL YEARS 2021/2022; 2022/2023; AND 2023/2024

Following the Committee's consideration of the "Special Audit of the Auditor-General on Payroll Management for Nairobi City County Executive for the Financial Years 2021/2022; 2022/2023; and 2023/2024" and having considered responses from the Accounting Officer, the Committee urges the County Assembly to resolve as follows: -

7.0 CONCLUSION

The Committee having considered both the “**Special Audit of the Auditor-General on Payroll Management for Nairobi City County Executive for the Financial Years 2021/2022; 2022/2023; and 2023/2024** and oral/written responses by witnesses it invited, has made various recommendations that require implementation by the County Executive Committee Members for Finance and Economic Affairs, Boroughs Administration and Personnel, Accounting Officers and state agencies. The recommendations are aimed at deterring future misappropriation of public funds.

8.0 ANNEXURES

Annex	Title
Annex 1	Minutes Sittings
Annex 2	Management Responses
Annex 3	Supporting Documents

THE NAIROBI CITY COUNTY GOVERNMENT



NAIROBI CITY COUNTY ASSEMBLY

THIRD ASSEMBLY – (FIFTH SESSION)

SELECT COMMITTEE ON PUBLIC ACCOUNTS

Adoption of the Report on the Consideration of the Special Audit Report of the Auditor-General on the County Executive Payroll Management for the years 2022, 2023 and 2024

S/No.	NAME	SIGNATURE
1.	Hon. Chege Mwaura, MCA – Chairman	
2.	Hon. Abel Osumba Atito, MCA – Vice-Chairman	
3.	Hon. Benter Juma Obiero, MCA	
4.	Hon. John Rex Omolleh, MCA	
5.	Hon. Stazo Omung'ala Ang'ila, MCA	
6.	Hon. Richardo Nyantika Billy, MCA	
7.	Hon. John Ndile Musila, MCA	
8.	Hon. Cyrus Mugo Mubea, MCA	
9.	Hon. Jane Musangi Muthembwa, MCA	
10.	Hon. Emmy Khatemeshi Isalambo, MCA	
11.	Hon. Fuad Hussein Mohamed, MCA	
12.	Hon. Fatuma Abduwahid Abey, MCA	
13.	Hon. Redson Otieno Onyango, MCA	
14.	Hon. Eutyclus Mukiri Muriuki, MCA	
15.	Hon. Fredrick Njoroge Njogu, MCA	
16.	Hon. Rachel Wanjiru Maina, MCA	
17.	Hon. Aaron Kangara Wangare, MCA	
18.	Hon. Carrington Gichunji Heho, MCA	
19.	Hon. Mark Thiga Ruyi, MCA	
20.	Hon. Simon Maina Mugo, MCA	
21.	Hon. Paul Wachira Kariuki, MCA	
22.	Hon. Martin Mbugua Mwangi, MCA	
23.	Hon. Mary Wanjiru Kariuki, MCA	

MINUTES OF THE 8TH SITTING OF THE NAIROBI CITY COUNTY ASSEMBLY SELECT COMMITTEE ON COUNTY PUBLIC ACCOUNTS HELD ON FRIDAY, 6TH MARCH, 2026 AT 2:30 P.M. AT LAKE NAIVASHA RESORT, NAKURU COUNTY.

MEMBERS PRESENT:

1. Hon. Chege Mwaura, MCA – Chairman
2. Hon. Abel Osumba Atito, MCA – Vice-Chairman
3. Hon. Emmy Khatemeshi Isalambo, MCA
4. Hon. Redson Otieno Onyango, MCA
5. Hon. Paul Wachira Kariuki, MCA
6. Hon. Jane Musangi Muthembwa, MCA
7. Hon. Cyrus Mugo Mubea, MCA
8. Hon. Rachel Wanjiru Maina, MCA
9. Hon. Mark Thiga Ruyi, MCA
10. Hon. Billy Ricardo Nyantika, MCA
11. Hon. John Rex Omolleh, MCA
12. Hon. Carrington Gichunji Heho, MCA
13. Hon. Benter Juma Obiero, MCA
14. Hon. Fatuma Abduwahid Abey, MCA
15. Hon. Eutyclus Mukiri Muriuki, MCA
16. Hon. Stazo Elijah Omung'ala Ang'ila, MCA
17. Hon. Mary Wanjiru Kariuki, MCA
18. Hon. Fredrick Njoroge Njogu, MCA
19. Hon. Aaron Kangara Wangare, MCA
20. Hon. John Ndile Musila, MCA
21. Hon. Simon Maina Mugo, MCA

MEMBERS ABSENT:

1. Hon. Hussein Fuad Mohammed, MCA
2. Hon. Martin Mbugua Mwangi, MCA

SECRETARIAT

1. Mr. Kevin Wasike – Snr. Clerk Assistant
2. Mr. Benedict Ochieng – Clerk Assistant
3. Mr. Klinsman Munase – Legal Counsel
4. Mr. Anthony Nyandiere – Hansard Officer

OFFICE OF THE AUDITOR-GENERAL

1. Mr. Jeff Otieno

MIN.037/NCCA/PAC/MARCH/2026

– PRELIMINARIES

The Chairman called the meeting to order at twenty minutes past O'clock and welcomed Members present to the meeting after lunch break. The took them through the agenda which was adopted for consideration as proposed by Hon. Redson Onyango, MCA and seconded by Hon. Emmy Khatemeshi, MCA as follows: -

1. Preliminaries (prayers and adoption of the agenda),

2. Adoption of the Draft Report on the consideration of Special Audit of the Auditor General on Payroll Management for Nairobi City County Executive for the Financial Years 2021/2022; 2022/2023; and 2023/2024,
3. Adoption of the Draft Report on the consideration of Report of the Auditor General on the Financial Statements of Nairobi City County Assembly Service Board Car Loan and Mortgage Scheme Fund for the year ended 30th June, 2025,
4. Any Other Business, and
5. Adjournment.

MIN.038/NCCA/PAC/MARCH/2026 – ADOPTION OF THE DRAFT REPORT ON THE CONSIDERATION SPECIAL AUDIT OF THE AUDITOR GENERAL ON PAYROLL MANAGEMENT FOR NAIROBI CITY COUNTY EXECUTIVE FOR THE FINANCIAL YEARS 2021/2022; 2022/2023; AND 2023/2024

The Secretariat tabled and took the Committee through the Draft Report on the consideration of Special Audit Report of the Auditor-General on Payroll Management for Nairobi City County Executive for the Financial Years 2021/2022; 2022/2023; and 2023/2024. The Committee deliberated on the report and adopted the same for tabling in the Assembly as proposed by Hon. Mark Thiga, MCA and seconded by Hon. Fredrick Njogu, MCA.

MIN.039/NCCA/PAC/MARCH/2026 – ADOPTION OF THE DRAFT REPORT ON THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NAIROBI CITY COUNTY ASSEMBLY SERVICE BOARD CAR LOAN AND MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30TH JUNE, 2025

Subsequently, the Secretariat tabled and took the Committee through the Draft Report on the consideration of Report of the Auditor-General on the Financial Statements of Nairobi City County Assembly Service Board Car Loan and Mortgage Scheme Fund for the year ended 30th June, 2025. The Committee deliberated on the report and adopted the same for tabling in the Assembly as proposed by Hon. Aaron Kangara, MCA and seconded by Hon. Cyrus Mugo, MCA.

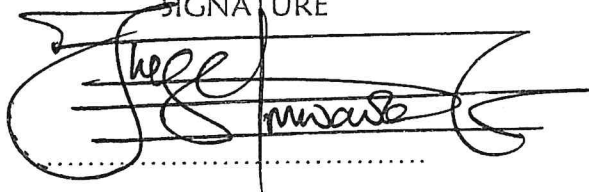
MIN.040/NCCA/PAC/MARCH/2026 – A.o.B

Review of pending Business – the matter was to be discussed in the subsequent meetings of the Committee.

MIN.041/NCCA/PAC/MARCH/2026 – ADJOURNMENT

There being no other business, and the time being thirty-five minutes past five O'clock, the Chairman adjourned the meeting. The next meeting would be communicated in due course.

CONFIRMED AS A TRUE RECORD OF THE PROCEEDINGS

SIGNATURE

 CHAIRPERSON

DATE
 22/4/2026