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

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COUNTY 010

JULY 2025



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FOREWORD BY THE AUDITOR- GENERAL

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

The Special Audit evaluated the human resource and payroll processes at the Marsabit 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 Marsabit County Executive for enhancing compliance, accuracy, accountability, and efficiency in payroll management.

The report is submitted to Parliament in accordance with Article 229 (7) of the Constitution of Kenya, 2010 and Section 39 (1) of the Public Audit Act, 2015. I have also remitted copies of the report to the Principal Secretary, State Department for Devolution, Chairperson, the Marsabit County Public Service Board and the Governor, Marsabit County Government.

The Annexures contain personal data and will be handled in accordance with the data protection principles as provided for in the Data Protection Act, 2019.


FCPA Nancy Gathungu, CBS

AUDITOR-GENERAL

8 July, 2025

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ABBREVIATIONS

CPSB	County Public Service Board
DLI	Disbursement Link Indicator
DO	Development Objective
DO	Development Objective
EUR	The Euro
GoK	The Government of Kenya
HR	Human Resource
HRIS-Ke	Human Resource Information System – Kenya
ID	Identification Document
IDA	International Development Association
IPPD	Integrated Personnel and Payroll Database
ISSAIs	International Standards of Supreme Audit Institutions
KDSP II	Second Kenya Devolution Support Program
KRAS	Key Result Areas
MDAs	Ministries, Departments and Agencies
NHIF	National Health Insurance Fund
NSSF	National Social Security Fund
PAYE	Pay As You Earn
SRC	Salaries and remuneration Commission
UPNs	Universal Personal Numbers
US	The US dollar

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

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

Audit Objectives

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

- vi. Assess whether payroll data was accurately and completely migrated from IPPD system to 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), the Human Resource Information System – Kenya (HRIS-Ke), manual and casual payrolls.
- 1.8 To test migration from the IPPD System to the HRIS-Ke, the scope was extended to January 2025.
- 1.9 The County Executive did not provide payment vouchers to support payments made to casual employees. This limitation was mitigated by using data analysis to test the controls.

Methods of Gathering Evidence

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

Summary of Audit Findings

The key audit findings are as detailed below:

A. Payroll Budgeting

I. Employee Cost to Revenue Ratio Exceeded the Set Threshold

1.12 Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires the county government's expenditure on wages and benefits for its public officers not to exceed thirty-five (35%) percent of the county government's total revenue.

1.13 The Special Audit established that the ratio of budgeted compensation of employee to budgeted revenue exceeded 35% in financial year 2022/2023 under audit contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015. Further, comparison of actual compensation of employee against actual revenue collected established the County Executive exceeded the 35% in the financial year 2023/2024.

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

1.14 The Audit established that the budget Vote Heads in IPPD System were not aligned with those in the approved budgets. This led to inconsistencies between budgetary allocations and actual payroll expenditure, thereby increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect or obsolete vote heads.

B. Recruitment Process

I. Lack of Annual Recruitment Plans

1.15 During the period under review, the County executive recruited eight hundred and ninety-eight (898) employees. However, it was established that the departments that initiated the recruitments did not have approved annual recruitment plans. Further, no evidence was provided to prove that budgetary availability was sought before the recruitments were done.

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

1.16 The Special audit team established that there were four hundred and thirteen (413) designations that were configured in IPPD system. However, of the four hundred and thirteen (413) configured designations, two hundred and fifty-one (251) were not aligned to the County Designations. There were eight hundred and sixty-six (866) employees who were placed in the two hundred and fifty-one (251) designations. Further, there were two hundred and fifty-one (251) designation in the approved establishment not configured in IPPD system. Further there were thirty-three (33) employees in the IPPD system who did not have any designations assigned to them in IPPD.

C. Employee Data Management

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

1.17 The Special Audit established that birth dates for thirty-seven (37) employees captured in IPPD system was different from that captured in employees' birth certificates. Further, Identification Numbers for three (3) employees did not match those recorded in IPPD system.

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

II. Authenticity of Staff in the Payroll

1.19 The Office of the Auditor-General, vide a letter to the County Government of Marsabit reference OAG/SA/SADS/KDSP-PAYROLL/010/04, dated 6th February 2025, requested the County to summon a total of sixty-five (65) staff members for physical verification. However, five (5) officers failed to attend the exercise. During the years under review, the five (5) employees collectively received Kshs.7,570,933 in the three financial years.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Salary Ledgers

1.20 It was established there was a misalignment between departmental vote heads in IPPD system and those in IFMIS ledger account. As a result, comparison of gross salary processed through IPPD system, casual payroll and manual payrolls with salary ledgers from Integrated Financial Management Information System (IFMIS) established posting of salary in IFMIS was not done as per departmental budget votes.

II. Noncompliance with SRC Allowances Guidelines

- 1.21 The Special Audit compared allowances paid to members of the County Public Service Board through IPPD system during the three (3) years under review with allowances approved by SRC. It was established that during the financial year 2023/2024, the Board members were irregularly paid hardship allowance amounting to Kshs.7,369,839.

E. Compliance with Laws and Regulations

I. Non-Compliance to Remittance of Statutory Deductions

- 1.22 Comparison of statutory deductions for employees in the IPPD payroll system with Bank Statements established that National Health Insurance Fund (NHIF), National Social Security Fund (NSSF) and Pay As You Earn (PAYE) deductions were not remitted on time.

II. Casuals Engaged Beyond Stipulated Period

- 1.23 During the year 2022/2023, the County Executive had one hundred and seventy-three (173) casual employees who were paid Kshs.28,445,000. Review of payroll records revealed the casuals were engaged for more than three (3) consecutive months contrary to Section 37(1) of the Employment Act, 2007.

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

I. Underpayment of Allowances

- 1.24 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between December 2024 IPPD data and January 2025 HRIS-Ke data established that twenty-one (21) employees were underpaid house allowance by Kshs.143,520. Further, one hundred and twenty-nine (129) employees violated the one third rule.

II. Introduction of Employees in HRIS-Ke

- 1.25 Comparison between December 2024 IPPD data and January 2025 HRIS-Ke data established that two (2) employees were not migrated to HRIS-Ke.

Conclusion

- 1.26 The Special Audit of payrolls for Marsabit County Executive uncovered several audit issues in payroll and human resource management, which may negatively affect its financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows;
- 1.27 The non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 1.28 The failure to align budget votes in payroll systems with those in approved budgets and IFMIS ledgers 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 absence of annual human resource recruitment plans and over establishment of staff demonstrate ineffective workforce planning and deviation from established staffing structures. This hampers the county's ability to plan, budget, and deploy personnel effectively across departments, leading to staffing gaps or surpluses.
- 1.30 The failure by the County Executive to update the IPPD System with approved designations in the approved staff establishment undermines budgetary control and increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 1.31 The inaccurate National Identification (ID) number and dates of birth in the IPPD System indicates weak internal controls and increases the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive and miscalculation of retirement dates and pension dues of employees.

- 1.32 The failure by the County Executive to update the IPPD system with approved designations in the approved staff establishment undermines budgetary control and increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 1.33 The payment of irregular allowances reflects weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of financial misstatements, fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 1.34 The non-compliance with tax and labour laws as evidenced by delayed remittances of statutory deduction, and prolonged engagement of casuals violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.35 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in underpayments of allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.
- 1.36 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

- 1.37 In view of the findings and conclusions of the Special Audit, the following is recommended to the Marsabit County Executive;
- 1.38 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.
- 1.39 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.
- 1.40 To enhance the attainment of optimal staffing levels, management of the County Executive should align the payroll system with the approved staff establishment and ensure consistency between authorized positions and personnel data. Additionally, the staff establishment module in the HRIS-Ke should be fully implemented and configured to enforce recruitment strictly within the approved establishment limits.
- 1.41 To ensure uncoordinated staffing and reduce potential budget overruns, all recruitments should be based on approved annual recruitment plans. Further, all recruitments should follow established procedures including advertisement, shortlisting, and confirmation of budget allocation.
- 1.42 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.

- 1.43 To ensure no payment is made to non – existence employees, salary payments to all staff who failed to present themselves for physical verification should be suspended. Further, Chief Officers should be held accountable for enforcing compliance in their departments.
- 1.44 Management of the County Executive should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments, and underpayments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.
- 1.45 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

2. INTRODUCTION AND BACKGROUND

Introduction and Background

- 2.1 Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7 (1) (a) of the Public Audit Act, 2015 requires the Auditor-General to give an assurance on the effectiveness of internal controls, risk management and overall governance at national and county government. In addition, Section 34 of the Public Audit Act, 2015 mandates the Auditor-General to conduct periodic audits upon request or at the Auditor-General's own initiative, with a view to evaluating the effectiveness of risk management, control and governance processes in public entities. The Special Audit on Payroll Management for the Marsabit 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. 19,538,432,130,000 using the prevailing exchange rate as at 28 June 2024) from the World Bank, to implement the Second Kenya Devolution Support Program (KDSP II). KDSP II supports a sub-set of reforms envisaged under the Government's Devolution Sector Plan. The financing agreement, Credit Number IDA-7447-KE, became effective in March 2024 and is set to be implemented over a four-year period; 2023-2027. The development objective of the KDSP II is to strengthen county performance in the financing, management, coordination, and accountability for resources. To achieve the DO, the Program was expected to improve outcomes in the participating counties under three (3) Key Result Areas (KRAs). KRA 1 was on sustainable financing and expenditure management, KRA 2 on intergovernmental coordination, institutional performance, and human resource management, and KRA 3 on oversight, participation, and accountability.
- 2.3 The Special Audit on Payroll Management for the County Executive is linked to Key Result Area (KRA) 2 There are two (2) Disbursement-Linked Indicators (DLIs) under this KRA:

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

Number of Employees and Payroll Expenditure

- 2.6 Over the three-year period under review, there was a gradual increase in the number of employees and payroll costs.
- 2.7 The overall staff growth across the audit period was **17%**. While the cumulative growth in payroll costs over the three years was approximately **14%** as detailed in **Figures 1 and 2**.

Figure 1: Cumulative Growth in Payroll Costs

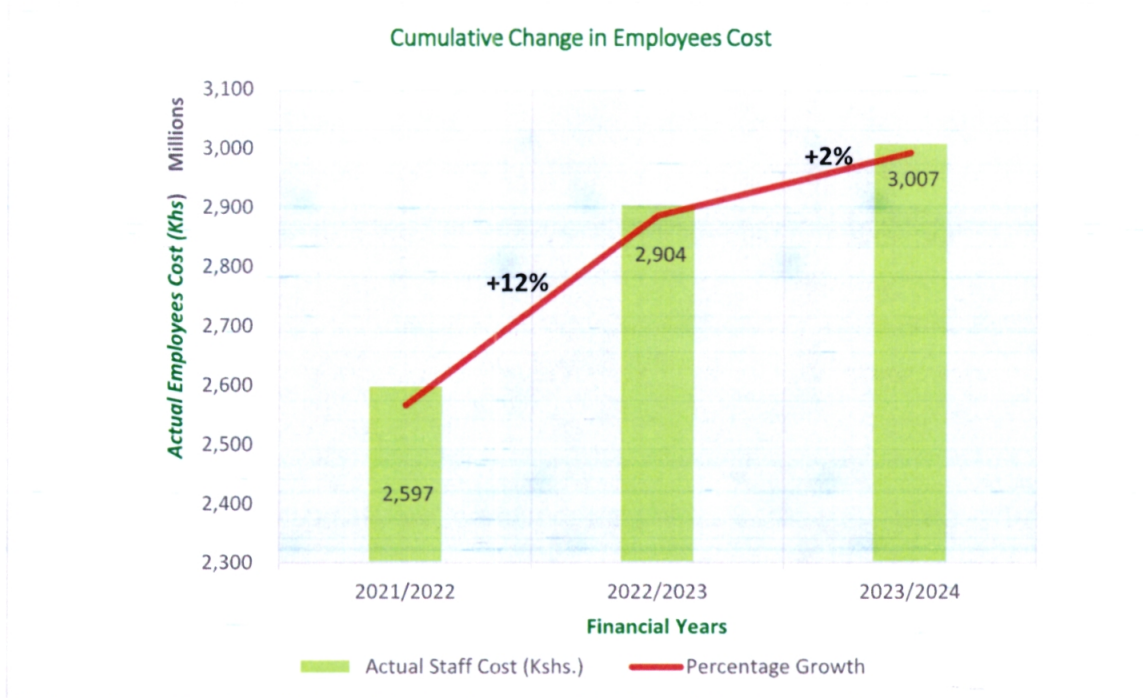
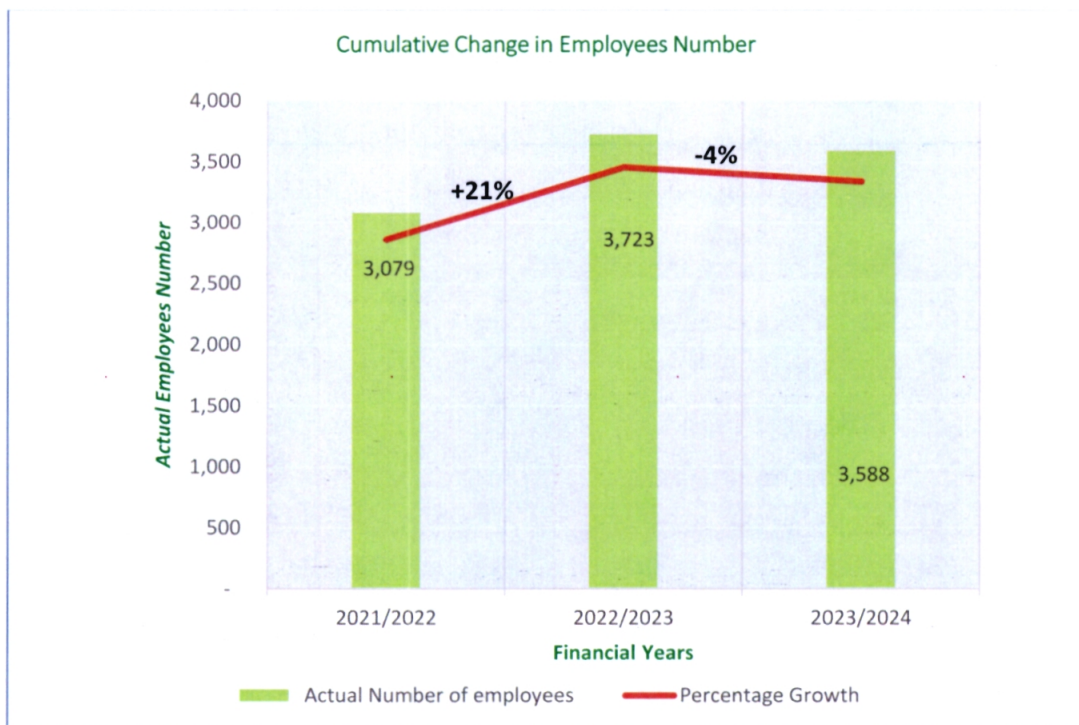


Figure 2: Cumulative Employees Growth



- 2.8 The higher rate of growth in payroll compared to staff numbers indicates payment of arrears, promotion of staff among others.

Audit Objectives

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

Audit Scope

- 2.10 The Special Audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), the Human Resource Information System – Kenya (HRIS-Ke), manual and casual payrolls.
- 2.11 To test migration from the IPPD System to the HRIS-Ke, the scope was extended to January 2025.
- 2.12 The Audit was conducted in the month of February, 2025.

- 2.13 The County Executive did not provide payment vouchers to support payments made to casual employees. This limitation was mitigated by comparing data from different sources.

Audit Methodology

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

Methods of Data Collection

- 2.15 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.
- 2.16 The methods used to gather evidence during the audit included, document review, data analytics, interviews with key payroll staff and physical verification of staff.

a) Document Review

- 2.17 The Audit Team reviewed various documents in order to set audit criteria and assess compliance with the criteria and in gathering audit evidence. They include:
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Governments) Regulations, 2015;
 - iv. County Governments Act, 2012;
 - v. National Health insurance Fund Act, 1998 (Repealed);
 - vi. The SRC circular SRC/TS/29(81), August 2023;
 - vii. The SRC circular on the Compendium of Remuneration and Benefits for Public Service, December 2022;
 - viii. The SRC circular SRC/TS/MDP/3/1/2(2), August 2015;

- ix. Public Service Commission Human Resource Policies and Procedures Manual of May 2016;
- x. Employees' physical files;
- xi. Payment vouchers;
- xii. Financial Statements for financial years 2021/2022, 2022/2023 and 2023/2024;
- xiii. Budgets for financial years 2021/2022, 2022/2023 and 2023/2024.

b) Data Analytics

- 2.18 Payroll and staff register data from IPPD system and HRIS-Ke were extracted and analyzed together with manual and casuals' payrolls. The exceptions from the analysis were the basis for verification with payroll records maintained by the County.
- 2.19 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. Casual payrolls data for the financial years 2021/2022;
 - iii. Chief Officers' departmental staff lists as at 30 June 2024; and
 - iv. HRIS-Ke Payroll data for the month for December 2024.

c) Interviews

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

d) Physical verification of staff

- 2.21 The Audit Team requested all the Chief Officers to provide countersigned list of staff members in their departments as of 30 June 2024. The lists were compared with the IPPD staff registers maintained in the County Executive.
- 2.22 The Audit Team through the County Secretary, requested certain 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

2.23 The report is organized as follows:

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

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

3. DETAILED FINDINGS

3.1 The detailed findings are in the ensuing paragraphs and have been categorized into the following five (5) 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 Payroll and Personnel Database (IPPD) System to Human Resource Information System-Kenya (HRIS-Ke).

A. Payroll Budgeting

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

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

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

3.4 The Special Audit established that the ratio of the budgeted compensation of employee to budgeted revenue exceeded 35% in financial year 2022/2023 under audit as shown in table 1. This is contrary to Regulation 25(1)(b) of Public Finance Management (County Governments) Regulations, 2015 as shown in **Table 1.**

Table 1: Budgeted Revenue to Budgeted Cost for Personal Emoluments

Financial Year	Budgeted Revenue (Kshs.)	Budgeted Emolument (Kshs.)	Staff % Of Utilization
2021/2022	8,258,605,617	2,597,312,583	31%
2022/2023	7,602,682,650	2,935,745,711	39%
2023/2024	8,107,949,379	3,043,333,660	38%

*Source: Audited Financial Statements

- 3.5 Further, comparison of actual Compensation of Employees expenditure against actual revenue collected established the County Executive was within the 35% threshold in 2021/2022 and 2022/2023 but exceeded the 35% in 2023/2024 as detailed in **table 2**.

Table 2: Actual Employee Cost to Revenue Ratio

Financial Year	Actual Revenue (Kshs.)	Expenditure of Staff Emoluments (Kshs.)	Revenue/ Employee Ratio (%)
2021/2022	6,673,433,204	2,597,312,683	39%
2022/2023	6,918,935,047	2,903,845,222	42%
2023/2024	6,911,278,809	3,007,441,497	44%

*Source: Audited Financial Statements

- 3.6 The increase in percentage of compensation of employee to total revenue indicates a growing wage bill, which may be unsustainable in the long term. Further, the high budget allocation to 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 the Approved Budget.

- 3.7 Regulation 22(1)(b) of Public Finance Management (County Governments) Regulations, 2015 requires an Accounting Officer to maintain effective systems of internal control and have measures to ensure their effectiveness.
- 3.8 A comparison of payrolls reports extracted from 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 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 referencing to outdated departmental structures leads to inconsistencies between budgetary allocations and actual payroll expenditures, increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect or obsolete vote heads.

B. Recruitment Process

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

I. Lack of Annual Recruitment Plans

- 3.13 Section 59(1)(g) of the County Governments Act 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 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 eight hundred and ninety-eight (898) employees over the three financial years under review. However, it was established that the departments that initiated the recruitments did not have approved annual recruitment plans. Further, no evidence was provided to prove that budgetary availability was sought before the recruitments were initiated. Refer **Annexure 2**.

- 3.15 The lack of annual recruitment plans supported by budgetary evidence can result in either overstaffing, understaffing, or hiring 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 there four hundred and thirteen (413) designations that were configured in the IPPD System. However, out of the four hundred and thirteen (413) configured designations, two hundred and fifty-one (251) were not in the approved staff establishment. There were eight hundred and sixty-six (866) employees who were placed in the two hundred and fifty-one (251) designations **Annexure 3**. Further, there were two hundred and fifty-one (251) designation in the approved establishment that had not been configured in IPPD system. **Annexure 4**. Further there were thirty-three (33) employees in the IPPD system who did not have any designations assigned to them in IPPD as detailed in **Annexure 5**.
- 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 payroll systems and the approved staff establishment, it was not possible to establish whether the County filled positions in accordance with the approved staff establishment. This may lead to inefficiencies in workforce planning, budget overruns.

C. Employee Data Management

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

I. Integrity of Payroll Data Maintained in Payroll Systems.

- 3.21 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.
- 3.22 Further, Circular Ref. No: PSC/ ADM/ 13(9), dated 19th November 2020, which stipulates that the date of birth as per the Birth Certificate should be considered the official and legal document for determining a public officer's date of birth.
- 3.23 Analysis of payrolls for the years under review and comparison with identification documents for employees established the following data integrity issues:

a. Integrity of Date of Birth records in Payroll Systems

- 3.24 The Special Audit identified three hundred (300) employees in the IPPD System with inconsistent dates of birth.
- 3.25 Interview with a sample of fifty-seven (57) employees and verification of their identification documents established that the dates captured in the IPPD System for thirty-seven (37) employees were different from those in employees' Birth Certificates as detailed in **Annexure 6**. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).
- 3.26 The inaccurate capturing of birthdates leads to the risk of exceeding the legal retirement age or forcing an employee to retire before they are due for retirement. There is also the risk of miscalculation of retirement dates and pension dues of employees, as well as other entitlements that are calculated based on age.
- 3.27 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.

b. Integrity of Identification Number in Payroll Systems.

- 3.28 The Special Audit established that the Identification Numbers for three (3) employees did not match those recorded in the IPPD system and the HRIS-Ke.

3.29 Interview of sampled employees and verification of documents maintained in their personal files revealed that the identification numbers captured in the two (2) payroll systems were erroneous. **Annexure 7.**

3.30 Inaccurate capture of identification number indicates weak input controls which may result in inaccurate statutory remittances and creation of non-existent employees. These weak controls expose the County Executive to payroll fraud.

II. Authenticity of Staff in the Payroll

3.31 The Office of the Auditor-requested for a physical verification of sampled staff via letter Ref. OAG/SA/SADS/KDSP-PAYROLL/4/10, dated 6 February 2025, which was addressed to the County Secretary, the Marsabit County Government.

3.32 The Letter requested sixty-five (65) employees to present themselves for physical verification. However, five (5) employees did not present themselves despite multiple attempts to reach out to them. During the period under review, the five (5) employees collectively received gross salary amounting to Kshs.7,570,933 as detailed in **Annexure 8.**

3.33 The employees who did not present themselves for physical verification may not exist, raising the risk of irregular or fraudulent payments

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 compliant with the applicable laws and policies. The following issues were established:

I. Charging of Employee Costs to the Wrong budget votes

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 IFMIS ledger account. As a result, a comparison of gross salary processed through IPPD system, casual payroll and manual payrolls with salary ledgers from Integrated Financial Management

Information System (IFMIS) revealed that posting of salary in IFMIS was not done as per departmental Budget Vote Heads as shown in **Annexure 9**.

- 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 employee cost were aligned to budget votes.
- 3.38 This misalignment lead inconsistencies between budget allocations and actual expenditures by departments, therefore affecting effective budget monitoring. This misalignment also increases the risk of misuse of funds and inaccurate financial reporting.

II. Irregular Payment of Allowances

- 3.39 The SRC circulars SRC/TS/JE/CG/3/33/6 Vol. III (30) dated 8 July 2020 and SRC/TS/29(81), dated 10 August 2023 on Remuneration and Benefits for Public Officers in the County Government Executive for The Third Remuneration Review Cycle 2021-2022 - 2023-2025 (7), lists all the earnings county public service board members are entitled to.
- 3.40 The Special Audit compared allowances paid to members of the County Public Service Board through IPPD system during the three (3) years under review with allowances approved by SRC. It was established that during the financial year 2023/2024, the Board members were irregularly paid hardship allowance amounting to Kshs.7,369,839 as detailed in **Annexure 10**.

E. Compliance with Laws and Regulations

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

I. Non-Compliance to Remittance of Statutory Deductions

- 3.42 Rule 10(1) of Income Tax (P.A.Y.E) Rules (1973) requires that before the tenth day following the end of every month or before any other day which may be notified to him by the Commissioner, an employer shall pay all amounts of tax which the employer has deducted during such month.
- 3.43 Section 15(4) of the National Health Insurance Fund Act, 1998 (currently Social Health Insurance Act, 2023) states that 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.

- 3.44 Section 20(1A) of the National Social Security Fund Act states an employer is required to pay the contribution under subsection (1) on the ninth day of each month or on such later date as the Board may, in consultation with the Cabinet Secretary, prescribe.
- 3.45 Comparison of statutory deductions for employees in the IPPD payroll system with Bank Statements established that National Health Insurance Fund (NHIF), National Social Security Fund (NSSF) and Pay As You Earn (PAYE) deductions were not remitted on time as detailed in **Annexure 11**.
- 3.46 Failure to remit statutory deductions on time exposes the County Executive to penalties, interest and reputational risks, thereby undermining stakeholders' confidence.

II. Casuals Engaged Beyond Stipulated Period

- 3.47 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.
- 3.48 The Special Audit established that during the year 2022/2023 there were one hundred and seventy-three (173) casual employees who were engaged for more than three (3) consecutive months. This is contrary to Section 37(1) of the Employment Act, 2007. The total amount paid to the workers amounted to Kshs.28,445,000 as detailed in **Annexure 12**.
- 3.49 The engagement of casuals beyond the stipulated period exposes the County Executive to litigation proceedings and associated costs.

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

- 3.50 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. Underpayment of Allowances

3.51 Section 149(2)(a) of the Public Finance Management Act requires the accounting officer of a county Government to ensure that all expenditure made by the entity complies with requirements on lawful, authorized, and transparent use of resources of the entity.

3.52 The County Executive adopted the Human Resource Information System (HRIS-Ke) with effect from December 2024. Comparison between December 2024 IPPD data and January 2025 HRIS-Ke data established that twenty-one (21) employees were underpaid house allowance by Kshs.143,520 as indicated detailed in **Annexure 13**. Further, one hundred and twenty-eight (128) employees violated the one third rule as detailed in **Annexure 14**.

II. Introduction of Employees in HRIS-Ke

3.53 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.

3.54 Comparison between December 2024 IPPD data and January 2025 HRIS-Ke data established that two (2) employees were not migrated to HRIS-Ke as detailed in **Annexure 15**.

4. CONCLUSION

- 4.1 The Special Audit of payrolls for Marsabit County Executive uncovered several audit issues in payroll and human resource management, which may negatively affect its financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 4.2 The non-compliance with requirements on limiting the Employee Cost within thirty-five (35%) of Revenue indicates weaknesses in budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3 The failure to align budget votes in payroll systems with those in approved budgets and IFMIS ledgers hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.4 The absence of annual human resource recruitment plans and over establishment of staff demonstrate ineffective workforce planning and deviation from established staffing structures. This hampers the county's ability to plan, budget, and deploy personnel effectively across departments, leading to staffing gaps or surpluses.
- 4.5 The failure by the County Executive to update the IPPD System with approved designations in the approved staff establishment undermines budgetary control and increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 4.6 The inaccurate National Identification (ID) number and dates of birth in the IPPD System indicates weak internal controls and increases the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County Executive and miscalculation of retirement dates and pension dues of employees.

- 4.7 The failure by the County Executive to update the IPPD system with approved designations in the approved staff establishment undermines budgetary control and increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 4.8 The payment of irregular allowances reflects weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of financial misstatements, fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.
- 4.9 The non-compliance with tax and labour laws as evidenced by delayed remittances of statutory deduction, and prolonged engagement of casuals violates legal obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 4.10 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in underpayments of allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.

5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusions of the Special Audit, the following is recommended for implementation by the Marsabit County Executive;
- 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 enhance the attainment of optimal staffing levels, management of the County Executive should align the payroll system with the approved staff establishment and ensure consistency between authorized positions and personnel data. Additionally, the staff establishment module in the HRIS-Ke should be fully implemented and configured to enforce recruitment strictly within the approved establishment limits.
- 5.5 To ensure uncoordinated staffing and reduce potential budget overruns, all recruitments should be based on approved annual recruitment plans. Further, all recruitments should follow established procedures including advertisement, shortlisting, and confirmation of budget allocation.
- 5.6 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.

- 5.7 To ensure no payment is made to non – existence employees, salary payments to all staff who failed to present themselves for physical verification should be suspended. Further, Chief Officers should be held accountable for enforcing compliance in their departments.
- 5.8 Management of the County Executive should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments, and underpayments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.
- 5.9 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

6. APPENDICES

Appendix I: List of Staff Interviewed

No.	Designation	Department
1.	Director of Human Resources	Public Service and Administration
2.	Payroll manager	Public Service and Administration
3.	Chief Finance Officer	Public Finance and Economic Planning
4.	Secretary- County Public Service Board	County Public Service Board

Appendix II: 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	Employees recruited in the financial years 2021/22,2022/23,2023/24
3	Annexure 3	Designation not in the Staff Establishment
4	Annexure 4	Designation not in IPPD
5	Annexure 5	Employee with no designation
6	Annexure 6	Birthdate captured incorrectly in IPPD
7	Annexure 7	Identification captured incorrectly in IPPD
8	Annexure 8	Employee who did not show up for physical verification
9	Annexure 9	Charging of Employee Costs to the Wrong Budget Vote
10	Annexure 10	Payment of Hardship Allowance to Members of the County Public Service Board
11	Annexure 11	Non-Compliance to Remittance of Statutory Deductions
12	Annexure 12	Casuals paid for more than three months
13	Annexure 13	Migration from Integrated Payroll and Personnel Database (IPPD) System to Human Resource Information System-Kenya (HRIS-Ke)

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