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

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COUNTY 003

JULY 2025



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FOREWORD BY THE AUDITOR-GENERAL


I am pleased to present this Special Audit Report on payrolls for the Kilifi 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 of the payrolls for the Kilifi County Executive was conducted in line with this mandate.

The Special Audit evaluated the human resource and payroll processes at the Kilifi County Executive, and assessed their compliance with the established legal framework on payroll management. The scope of the Special Audit covered the requirements of the Second Kenya Devolution Support Programme (KDSP II), whose objective is to strengthen county-level performance and accountability.

The Special Audit identified weaknesses in controls and irregularities in salary processing and payments, and provides recommendations to the Kilifi County Executive for enhancing compliance, accuracy, accountability, and efficiency in payroll management.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

8 July, 2025

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ABBREVIATIONS

CBA	Collective Bargaining Agreement
COB	Controller of Budget
COs	Chief Officers
CPSB	County Public Service Board
DO	Development Objective
DSA	Daily Subsistence Allowance
DLI	Disbursement-Linked Indicator
GoK	Government of Kenya
HR	Human Resource
HRIS-Ke	Human Resource Information System – Kenya
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IPPD	Integrated Payroll and Personnel Database
ISSAIs	International Standards of Supreme Audit Institutions
KDSP	Kenya Devolution Support Programme
KRA	Key Result Area
MIS	Management Information System
NHIF	National Hospital Insurance Fund
NSSF	National Social Security Fund
OAG	Office of the Auditor-General
PAYE	Pay As You Earn
PFM	Public Finance Management
PSC	Public Service Commission
SRC	Salaries and Remuneration Commission

1. EXECUTIVE SUMMARY

Introduction and Background

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

cleaned payrolls in the human resource management information system;

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

- 1.4 From 2013, the County Executive was using the Integrated Payroll and Personnel Database (IPPD) System to operate payroll for employees with personal numbers, while excel spreadsheets were used to operate payroll for employees without personal numbers. However, due to technological limitations at the time of its development, IPPD did not comprehensively address all human resource related functions. This led to development of a web-based Human Resource Information System-Kenya (HRIS-Ke) in 2024.
- 1.5 A parallel run of the IPPD System and HRIS-Ke was conducted across Ministries, Departments and Agencies and County Governments in November 2024. This was to ensure the readiness of the HRIS-Ke for roll out. Thereafter, in January 2025, the HRIS-ke was fully adopted for payroll management.

Audit Objectives

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

- vi. Assess whether payroll data was accurately and completely migrated from the Integrated Payroll and Personnel Database (IPPD) System to Human Resource Information System – Kenya (HRIS-Ke).

Audit Scope and Limitations

- 1.7 The Special Audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual and casual payrolls.
- 1.8 The County Executive did not provide the bank statements for the three financial years under review. This limitation was mitigated by corroboration of information from different sets of payment records maintained by the County Executive.

Methods of Gathering Evidence

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

Summary of Findings

The key audit findings are as follows:

A. Payroll Budgeting

I. Employee Cost to Revenue Ratio

- 1.11 Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires the county government's expenditure on wages and benefits for its public officers not to exceed thirty-five (35%) percent of the county government's total revenue.
- 1.12 The ratio of budgeted compensation of employee costs to budgeted revenue exceeded the 35% limit of total county revenue in the financial years 2021/2022 being (46%) and the actual expenditure had exceeded the 35% limit for the financial year 2021/2022 being (36%).

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

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

B. Recruitment Process

I. Recruitment without advertisements

- 1.14 During the years under review, the County Executive recruited one hundred and eighty-one (181) employees in the financial year 2021/2022, forty-nine (49) employees during financial year 2022/2023 and ten (10) employees during financial year 2023/2024. However, it was established that the recruiting departments 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 made

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

- 1.15 The special audit established that there were seventeen (17) designations in the IPPD system were not in the approved establishment, covering 6890 employees. To facilitate salary processing, the affected employees were being

placed in similar Job groups in the IPPD system. This process can lead to inefficiencies in workforce planning and budget overruns.

C. Employee Data Management

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

- 1.16 The audit established that One hundred and eighty-one (181) employees had mismatched birth dates between the IPPD system and official documents. Inaccurate dates of birth lead to risk of employees exceeding the legal retirement age or retire before they are due for retirement. Further, it may lead to miscalculation of retirement dates and pension dues of employees, as well as other entitlements that are calculated based on age.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Budget Vote

- 1.17 The Special Audit established that there were misalignments between departmental vote heads in IPPD system and those in IFMIS ledger account. As a result, posting of salary in IFMIS was not done as per departmental budget votes. This process creates inconsistencies between budget allocations and actual expenditures by departments, therefore increasing the risk of misuse of funds and inaccurate financial reporting.

II. Use of manual payroll

- 1.18 A review of the payroll records revealed that there were Manual and casual workers who were paid outside the IPPD system. Manual payroll processing can be susceptible to manipulation and fraudulent activities, which may result in unauthorized payments.

E. Compliance with Laws and Regulations

I. Payment of Special Duty Allowance for more than 6 months

In the financial year 2022/2023, it was established that one (1) employee was paid special duty allowance for six (6) months. The overpaid amount was Kshs.31,778.

II. Non-Compliance with Requirement on Ethnic Diversity

- 1.19 Analysis of employees in the IPPD system as at 30 June, 2024 established that 86% of the staff were from one dominant ethnic community, contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008.

III. Casuals Engaged Beyond Stipulated Period

- 1.20 In the financial year 2022/2023, the special audit revealed that twenty-four (24) casual workers were engaged for more than three (3) consecutive months, exposing the county executive to litigation proceedings and associated costs.

IV. Non-Compliance with One Third Basic Salary Rule

- 1.21 The Special Audit established that the County Executive was not in compliance with the requirement to have all employees have net pay of at least one-third of their basic salary

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

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

CONCLUSION

The Special Audit of payrolls for Kilifi County Executive uncovered several audit issues in payroll and human resource management, with significant implications to financial sustainability, compliance, and operational efficiency. In view of the findings, the Special audit concludes as follows:

- 1.23 The non-compliance with the law in budgetary allocation for employee costs indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 1.24 The lack of structured human resource planning resulted in uncoordinated hiring across departments, which increases the risk of overstaffing, understaffing, and misalignment between staffing decisions and service delivery needs. Furthermore, the occurrence of irregular recruitment such as hiring employees without prior advertisement indicates weak internal controls, undermines transparency, and exposes the County to potential legal and financial risk
- 1.25 The failure to update budget vote in payroll systems with those in approved budgets hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. It also undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources.
- 1.26 The significant inconsistencies in employee master data, including inaccurate birthdates and duplicate payroll entries, indicate a lack of data verification protocols and weak controls over the payroll system.
- 1.27 The failure to align the IPPD system with approved vote heads and 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.
- 1.28 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and

allowance disbursements. This indicates weaknesses in data validation, lack of system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.

- 1.29 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

- 1.30 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Kilifi County Executive;
- 1.31 The County Executive Committee Member for Finance should ensure strict adherence to Regulation 25 of the PFMA (County Governments) Regulations, 2015 by aligning budgeted employee compensation within the 35% revenue limit
- 1.32 The County Public Service Board (CPSB), in collaboration with departmental heads and the County Treasury, should develop annual recruitment plans based on comprehensive human resource needs assessments and aligned with the approved organizational structure and budgetary provisions. All recruitment activities must comply with legal requirements, including job advertisement, fair competition, and merit-based selection
- 1.33 The HR should Immediately verify and correct inaccuracies in the date of birth records within the IPPD/HRIS systems using official documentation (birth certificates).and HR and finance officers on integrated systems management to reduce technical errors in payroll processing.
- 1.34 The county should Implement strategies to comply with Section 7 of the National Cohesion and Integration Act by diversifying recruitment pools and promoting inclusivity.
- 1.35 Review all long-term casual employment and convert eligible workers to appropriate contract terms as per the Employment Act.
- 1.36 Update and configure the IPPD system to reflect the approved vote heads, designations, and staff establishment and ensure that all personnel data and payroll records are accurately mapped to corresponding budget lines.
- 1.37 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments, and underpayments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.

2. INTRODUCTION AND BACKGROUND

Introduction and Background

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

cleaned payrolls in the human resource management information system;

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

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

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

Numbers of Employees and Payroll Expenditure

2.6 Over the three-year period under review, there was a gradual increase in the number of employees and payroll costs. The overall staff change across the audit period was 8%. While the cumulative change in payroll costs over the three years was approximately 15% as illustrated in **Figures 1 and 2**.

Figure 1 Cumulative Growth in Employees cost

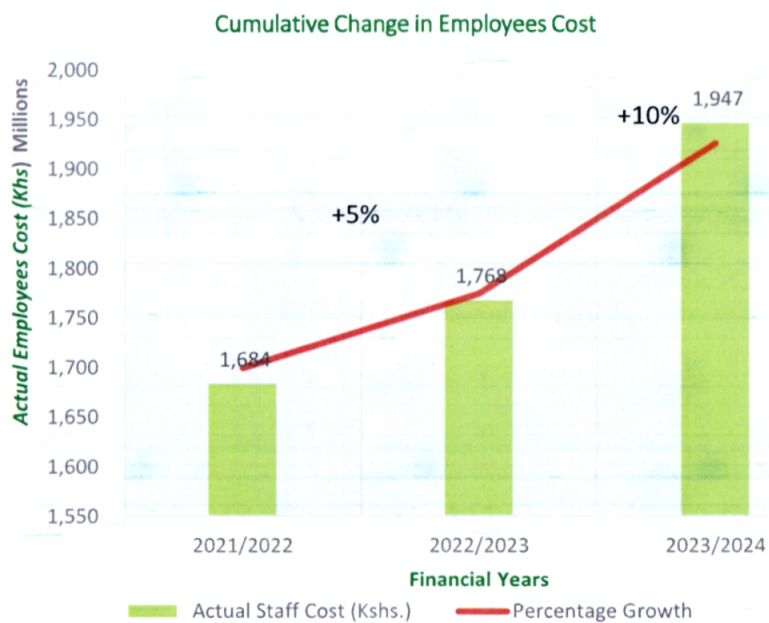
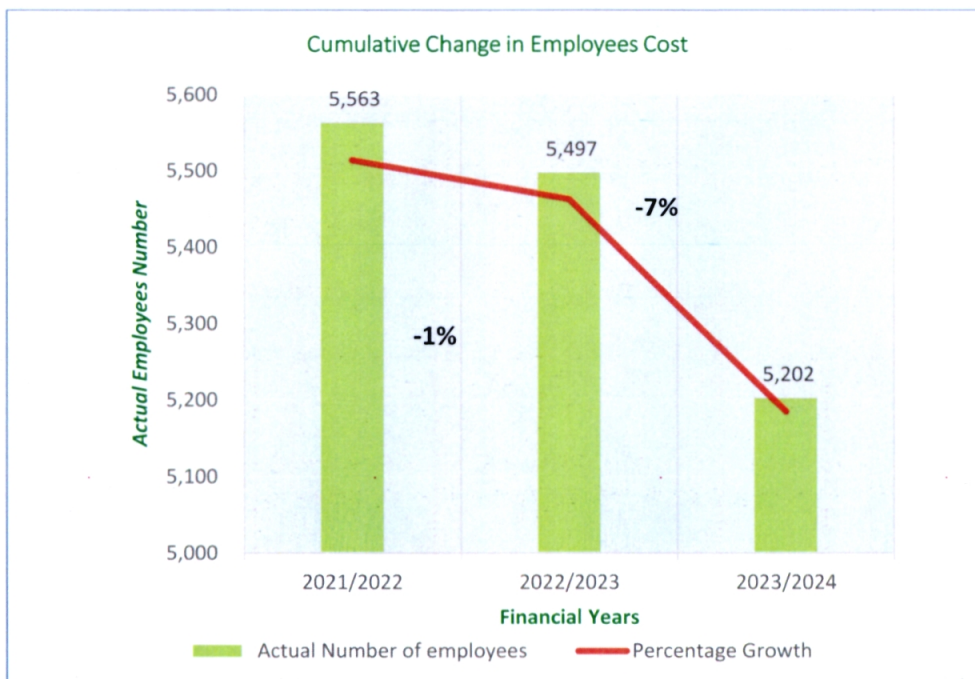


Figure 2 Cumulative Change in Employee cost



Audit Objectives

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

Audit Scope and Limitations

- 2.8 The Special Audit of payroll management covered financial years 2021/2022, 2022/2023 and 2023/2024. It entailed review of the payroll management system and other related records maintained by the County Executive. The payroll systems included the Integrated Payroll and Personnel Database (IPPD), manual and casual payrolls.
- 2.9 The County Executive did not provide the bank statements for the three financial years under review. This limitation was mitigated by corroboration of information from different sets of payment records maintained by the County Executive.

Audit Methodology

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

Methods of Gathering Evidence

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

a) Document Review

- 2.13 The audit team reviewed various documents including: -
- i. The Constitution of Kenya, 2010;
 - ii. The Public Finance Management Act, 2012;
 - iii. The Public Finance Management (County Governments) Regulations, 2015;
 - iv. County Governments Act, 2012;
 - v. Employment Act, 2007;
 - vi. National Security Fund Act, 2013;
 - vii. National Health Insurance Fund Act, 1998 (Now Repealed);
 - viii. The SRC Circular SRC/TS/29(81), dated 10 August 2023;
 - ix. The SRC Circular on the Compendium of Remuneration and Benefits for Public Service, dated December 2022;
 - x. The SRC Circular SRC/TS/MDP/3/1/2(2), dated 11 August 2015;
 - xi. Public Service Commission Human Resource Policies and Procedures Manual of May 2016;
 - xii. Employees' physical files;
 - xiii. Collective Bargaining Agreements (CBA), 2013;
 - xiv. Affordable Housing Act, 2024;
 - xv. The County Executive Financial Statements for financial years 2021/2022, 2022/2023 and 2023/2024;
 - xvi. The County Executive Budgets financial years 2021/2022, 2022/2023 and 2023/2024;

b) Data Analytics

- 2.14 The payroll and staff register data from the IPPD system was extracted and analyzed. The exceptions from the analysis formed the basis for verification with payroll records maintained by the County Executive.
- 2.15 The following data sets for financial years 2021/2022, 2022/2023, and 2023/2024 were analyzed: -
- i. IPPD Staff Registers and Payroll data;
 - ii. Payment schedules;
 - iii. Itemized budgets for staff costs; and
 - iv. Chief Officers staff list for each department as at 30 June, 2024.

c) Interviews

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

d) Physical Verification of Staff

- 2.17 The audit team requested all the Chief Officers to provide countersigned list of staff members in their departments as of 30 June, 2024. This list was corroborated with the IPPD staff registers maintained in the County Executive.
- 2.18 The Audit Team, through the County Secretary, requested sixty-one (61) 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

- 2.19 The report is organized as follows:
- i. Executive Summary;
 - ii. Introduction and Background;
 - iii. Detailed Findings;
 - iv. Conclusion;
 - v. Recommendations; and
 - vi. Appendices.

2.20 The report should be read in its entirety 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 six (6) broad areas:

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

A. Payroll Budgeting

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

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

3.3 Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 requires the County Executive Committee Member for Finance with the approval of the County Assembly to set a limit on the county government's expenditure on wages and benefits for its public officers 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 budgeted compensation of employee to budgeted revenue exceeded 35% in the financial year 2021/2022 contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 as summarized in **Table 1**.

Table 1-Budgeted Employee Cost to Budgeted Revenue ratio

Financial Year	Total Budget Revenue (Kshs.)	Budgeted Personal Emolument (Kshs.)	% of Utilization
2021/2022	8,979,795,868.00	4,114,666,701.00	46%
2022/2023	14,715,880,712.00	4,153,163,846.00	28%
2023/2024	18,812,448,474.00	4,588,874,841.00	24%

*Source: Audited Financial Statements

- 3.5 Further, comparison of actual personal emolument expenditure with actual revenue as reflected in the financial statements revealed the County Executive was within the thirty-five (35%) percent threshold in two financial years but exceeded the 35% in the 2021/2022 financial year, as detailed in **Table 2**.

Table 2: Actual Employee Cost to Revenue ratio

Financial Year	Total Revenue (Kshs.)	Expenditure of Staff (Kshs.)	Revenue/Employee Ratio
2021/2022	11,382,962,488.00	4,141,325,008.00	36%
2022/2023	12,116,136,115.00	4,138,053,461.00	34%
2023/2024	13,272,089,760.00	4,158,068,890.00	31%

*source: Audited Financial Statements

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

- 3.6 Regulation 22(1)(b) of Public Finance Management (County Governments) Regulations, 2015 requires an Accounting Officer to maintain effective systems of internal control and have measures to ensure their effectiveness.
- 3.7 A Comparison of payrolls reports extracted from IPPD system with approved budget established that the vote heads in the IPPD system were not aligned with those in the approved budget as detailed in **Annexure 1**.
- 3.8 One of the primary factors contributing to the misalignment between the departments and the vote lines was the failure to update the IPPD system to reflect changes resulting from the restructuring and consolidation of various sectors within the County Executive.
- 3.9 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, the HRIS-Ke had similar Votes Heads to those in the IPPD System
- 3.10 The continued referencing to outdated departmental structures leads to inconsistencies between budgetary allocations and actual payroll expenditures, increasing the risk of misallocation or even misuse of public funds, as expenditure may be charged under incorrect vote heads.

B. Recruitments Process

3.11 The audit reviewed the recruitment process to evaluate whether hiring practices were fair and aligned with the County Executive's policies and legal requirements. The following issues were established:

I. Lack of Annual Recruitment Plans

3.12 Section 59(1)(g) of the County Governments Act, 2012 require the County Public Service Board of a county to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. Further, Regulation 119(2) of the Public Finance Management (County Governments) Regulations requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.

3.13 The County Executive recruited one hundred and eighty-one (181) employees during the financial year 2021/2022, forty-nine (49) employees during financial year 2022/2023 and ten (10) employees during financial year 2023/2024. However, it was established that the recruiting departments 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 made as detailed in **Annexure 2**.

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

II. Designations in the Human Resource Information System - Kenya not Aligned with Approved Staff Establishment

3.15 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

3.16 The Special Audit established that there were four hundred and fifty-two (452) designations that were configured in IPPD system. However, out of the configured designations, seventeen (17) were not in the approved staff establishment. There were six thousand eight hundred and ninety (6890)

employees who were grouped in the seventeen (17) designations as detailed in **Annexure 3**.

- 3.17 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
- 3.18 As a result of the misalignment between the staffing records in the IPPD system and the approved staff establishment, it was not possible to establish whether the County filled positions in accordance with the approved staff establishment. This may lead to inefficiencies in workforce planning, budget overruns and service delivery.

C. Employee Data Management

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

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

- 3.20 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective. Further, Circular Ref. No: PSC/ ADM/ 13(9) dated 19 November, 2020 from Public Service Commission to all authorized officers stipulates that the date of birth as per the Birth Certificate should be considered as a public officer's official date of birth.
- 3.21 Comparison between the IPPD records and identification records for employees established that the birth dates for one hundred and eighty-one (181) employees captured in IPPD system were different from that in employee's Birth Certificates, contrary to the directive outlined in circular Ref. No: PSC/ ADM/ 13(9), dated 19 November, 2020 as detailed in **Annexure 4**.
- 3.22 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.

3.23 Interviews of sampled employees and verification of documents maintained in their personal files revealed that the birth dates captured in IPPD were inaccurate which may lead to errors in determining retirement age.

3.24 Inaccurate capture of birthdates leads to the risk of exceeding the legal retirement age or forcing an employee to retire before they are due for retirement. There is also the risk of miscalculation of retirement dates and pension dues of employees, as well as other entitlements that are calculated based on age.

D. Payroll Processing and Payments

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

III. Charging of Employee Costs to the Wrong Budget Vote

3.26 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.

3.27 The Audit established that there were misalignments between departmental Vote Heads in the IPPD System and those in the Integrated Financial Management Information System (IFMIS) Ledger accounts. As a result, comparison of gross salary processed through the IPPD System, casual payroll and manual payrolls to salary ledgers from the IFMIS established that posting of salary in IFMIS was not done as per departmental Budget Vote Heads as detailed in **Annexure 5**.

3.28 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, HRIS-Ke had similar Votes Heads to those in the IPPD System.

3.29 This misalignment creates inconsistencies between budget allocations and actual expenditures by departmental, therefore increasing the risk of misuse of funds,

IV. Use of Manual Payrolls

- 3.30 Regulation 110(1) of the Public Finance Management (County Governments) Regulations, 2015 requires the Accounting Officer for a county executive entity to institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity, and loss of business continuity.
- 3.31 The Special Audit established that during the years under review, the County Executive had Two thousand eight hundred and ninety-two (2892) casual workers whose salary was being processed through payrolls maintained in excel as shown in **Table 2**

Table 3-Employees whose salary was being processed through manual payrolls

Financial Year	Number of Manual Employees	Amount Paid (Kshs)	Number of Casual Employees	Amount Paid (Kshs)
2021/2022	0	0	915	17,135,110
2022/2023	0	0	909	194,852,064
2023/2024	0	0	1068	21,828,778
TOTAL	0	0	2,892	233,815,951

*Source: Manual payroll Data

E. Compliance with Laws and Regulations

- 3.32 The audit assessed the County Executive's adherence to labor laws and statutory deductions, and timeliness and accuracy in reporting to regulatory bodies. The following issues were established:

I. Payment of Special Duty Allowance for more than 6 months

- 3.33 Paragraph C.15 (1) states that when an officer is called upon to perform duties of a higher post but does not possess the necessary qualifications for appointment to that post, he shall be paid special duty allowance at the rate of fifteen per cent (15%) of the officer's basic salary. Under paragraph C.15 (4), Special Duty Allowance will not be payable to an Officer for more than six (6) months.
- 3.34 The audit revealed that in the financial year 2022/2023 one (1) employee had an overpayment of special duty totaling to Kshs.31,778 as detailed in **Annexure 6**, Contrary to Section C.14 (1) of the Public Service Human Resource Policies and Procedures Manual (2016).

- 3.35 Having one officer perform responsibilities in both the substantive and acting roles, for a long period may compromise their productivity, undermine accountability, and hinder effective service delivery

II. Noncompliance with Defunct Local Authority Collective Bargaining Agreement

- 3.36 Collective Bargaining Agreement (CBA) between permanent and pensionable former local authorities' employee's union, namely Kenya Local Government Workers Union, and Association of Local Government Employers, dated 1st September 2012, defined Terms and Conditions of service for officers of Local Authorities, including rates for basic salary, house allowance, acting allowance, special duty allowance, overtime, leave allowance, among others.

- 3.37 Analysis of payroll data and comparison of salary and allowance processed through the IPPD systems with respective rates stipulated in Terms and Conditions of service for officers of Local Authorities as set out in CBA dated 1st September 2012 revealed there were two hundred and fifty-two (252) employees that were overpaid leave allowance. The amount overpaid totalled to Kshs.1,080,992 as detailed in **Annexure 7**.

III. Non-Compliance with Requirement on Ethnic Diversity

- 3.38 Section 7(1) of National Cohesion and Integration Act, 2008, states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff. Section 7(2) states that no public establishment shall have more than one third of its staff from the same ethnic community.

- 3.39 Analysis of employees in the IPPD system as at 30th June 2024 established that 86% of the staff were from one dominant ethnic community contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 as detailed in **Annexure 8**.

- 3.40 The non-compliance to ethnic diversity is a violation of legal requirements and may lead to legal suits.

IV. Casuals Employees Engaged Beyond Stipulated Period

- 3.41 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.

3.42 The Special Audit established that there were one thousand two hundred and three (1203) casual workers who were engaged for more than three (3) consecutive months during the years under review as detailed in **Annexure 9**.

3.43 The engagement of casuals beyond the stipulated period exposes the County Executive to litigation proceedings and associated costs.

V. Non-Compliance with One Third Basic Salary Rule

3.44 Section 19 (3) of Employment Act, 2007 require the total amount of all deductions that may be made by an employer from the wages of his employee at any one time not to exceed two-thirds of such wages.

3.45 An analysis of the staff payroll as at June 2024 established that eleven (11) employees were paid net salaries that were less than one-third of their basic salaries contrary to Section 19(3) of the Employment Act, 2007 as detailed in **Annexure 10**.

3.46 The employees earning less than one-third of their basic salary may be unable to meet their personal financial obligations. This may adversely affect their productivity, decision-making, and ability to effectively safeguard county interests

VI. Non-Compliance to Remittance of Statutory Deductions

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

3.48 Examination of payment records and bank statements provided for verification audit revealed that NHIF, NSSF and PAYE deductions from employees were not remitted on time to the fund as detailed in **Annexure 11**.

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

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

3.50 The Special Audit reviewed migration of salary processing from IPPD system HRIS-Ke to establish the completeness, accuracy, and integrity of the data transferred. The following issues were established:

I. Overpayment and Underpayment of Salary and 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 November, 2024 IPPD data and December 2024 HRIS-Ke data established instances of overpayment and underpayments of salaries and allowances as summarized in **Table 3** below and detailed in **Annexure 12**.

Table 4- Overpayment and Underpayment of Salary and Allowances

Allowance	Total Amount Underpaid		Total Amount Overpaid	
	Number of Employees	Amount(Kshs)	Number of Employees	Amount(Kshs)
BASIC	0	0	138	5,151,236
HOUSE	0	0	143	1,131,958
COMMUTER	0	0	27	471,000
HEALTH RISK			12	123,850

*Source: HRIS Data

II. Non-Deduction of Statutory Deductions

- 3.53 Under deduction of PAYE: Three hundred and six (306) staff were under deducted PAYE amounting to Kshs.17,735,227. as detailed in **Annexure 13**.
- 3.54 Under deduction of NHIF: One hundred and nine (109) staff were under deducted NHIF amounting to Kshs.91,299. as detailed in **Annexure 14**.

4. CONCLUSION

- 4.1 The Special Audit of payrolls for Kilifi County Executive uncovered several audit issues in payroll and human resource management, with significant implications to financial sustainability, compliance, and operational efficiency. In view of the findings, the Special audit concludes as follows:
- 4.2 The non-compliance with the law in budgetary allocation for employee costs indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3 The lack of structured human resource planning resulted in uncoordinated hiring across departments, which increases the risk of overstaffing, understaffing, and misalignment between staffing decisions and service delivery needs. Furthermore, the occurrence of irregular recruitment such as hiring employees without prior advertisement indicates weak internal controls, undermines transparency, and exposes the County to potential legal and financial risk
- 4.4 The failure to update budget vote in payroll systems with those in approved budgets hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. It also undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources.
- 4.5 The significant inconsistencies in employee master data, including inaccurate birthdates and duplicate payroll entries, indicate a lack of data verification protocols and weak controls over the payroll system.
- 4.6 The failure to align the IPPD system with approved vote heads and 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.
- 4.7 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and irregular salary and allowance disbursements. This indicates weaknesses in data validation, lack of

system configuration to enforce salary structures, and insufficient post-migration reconciliation controls, thereby exposing the County Executive to financial loss and reputational risk.

- 4.8 The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

5. RECOMMENDATIONS

- 5.1 The County Executive Committee Member for Finance should ensure strict adherence to Regulation 25 of the PFMA (County Governments) Regulations, 2015 by aligning budgeted employee compensation within the 35% revenue limit
- 5.2 The County Public Service Board (CPSB), in collaboration with departmental heads and the County Treasury, should develop annual recruitment plans based on comprehensive human resource needs assessments and aligned with the approved organizational structure and budgetary provisions. All recruitment activities must comply with legal requirements, including job advertisement, fair competition, and merit-based selection
- 5.3 The HR should Immediately verify and correct inaccuracies in the date of birth records within the IPPD/HRIS systems using official documentation (birth certificates).and HR and finance officers on integrated systems management to reduce technical errors in payroll processing.
- 5.4 The county should Implement strategies to comply with Section 7 of the National Cohesion and Integration Act by diversifying recruitment pools and promoting inclusivity.
- 5.5 Review all long-term casual employment and convert eligible workers to appropriate contract terms as per the Employment Act.
- 5.6 Update and configure the IPPD system to reflect the approved vote heads, designations, and staff establishment and ensure that all personnel data and payroll records are accurately mapped to corresponding budget lines.
- 5.7 Management should conduct a comprehensive post-migration payroll reconciliation to identify and correct overpayments, and underpayments resulting from the system transition. Further, HRIS-Ke should be configured to enforce approved salary structures and allowance.

6. APPENDICES

Appendix 1: list of staff interviewed

S/N	Designation	Department
1	County Secretary	County Executive
2	County Executive Committee Member Finance	Finance
3	Director Human Resource	Public Service Management
4	Payroll manager	Public Service Management
5	Secretary CPSB	County Public Service Board
6	Finance Officer	Finance
7	Accountant Human Resource	Public Service Management

Appendix 2: List of annexures

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

No.	Annexure	Description
1	Annexure 1	Budget votes in payroll systems no aligned with those in approved budget
2	Annexure 2	Lack of Annual recruitment plan
3	Annexure 3	Designations in the Payroll Systems not Aligned with the Approved Staff Establishment
4	Annexure 4	Integrity of dates of Birth records in the Payroll system
5	Annexure 5	Charging of employee costs to the wrong budget vote
6	Annexure 6	Payment of special duty allowance for more than six (6) months
7	Annexure 7	Non -compliance with defunct local authority collective bargaining agreement -leave allowance overpayment
8	Annexure 8	Non-compliance with requirement on ethnic diversity
9	Annexure 9	Casuals employees engaged beyond stipulated period
10	Annexure 10	Non-compliance with one third basic salary rule
11	Annexure 11	Non-Compliance to Remittance of Statutory Deductions
12	Annexure 12	Overpayment and underpayment of salary and allowances
13	Annexure 13	Non deduction of PAYE in HRIS
14	Annexure 14	Non deduction of NHIF in HRIS

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