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

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BY THE TABLE	Tiffany K...



COUNTY 009
JULY 2025



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FOREWORD BY THE AUDITOR-GENERAL


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

The Special Audit involved an evaluation of Human Resource and payroll processes and assessing their compliance with law. It was scoped so as to address the requirement 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 Mandera County Executive for enhancing compliance, accuracy, accountability, and efficiency in human resource management and payroll operations.

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 Mandera County Public Service Board and the Governor, Mandera 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 Mandera 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

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

Methods of Gathering Evidence

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

Summary of Audit Findings

1.10 The key audit findings are as detailed below: -

A. Payroll Budgeting

I. The Employee Cost to Revenue Ratio Exceeded the Set Threshold

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 Special Audit established that the ratio of the budgeted compensation of employees to the budgeted revenue for the County Executive exceeded thirty-five percent (35%) in 2022/2023 and 2023/2024 financial years. Further, a comparison of the actual personal emolument expenditure, with the actual revenue, revealed that the County Executive also exceeded the thirty-five (35%) percent threshold in the two (2) out of three (3) years. This indicates a growing wage bill, which has strained the county's financial resources, limiting funds available for critical development projects and essential service delivery.

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

1.13 The Special 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. Recruitments Process

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

1.14 The Special Audit established that there were designations in the approved staff establishment that were not configured in IPPD System. To facilitate salary processing, the affected employees were 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. Drawing Salary from Different Government Entities

- 1.15 The Special Audit established that during financial year 2023/2024, there was one (1) employee who was engaged in both County Executive of Mandera and Teachers Service Commission (TSC). The total amount paid to the employee was Kshs.390,471.

II. Authenticity of Staff in the Payroll

- 1.16 The Special Audit requested ninety-nine (99) employees from the County Executive to present themselves for physical verification. However, forty-nine (49) employees did not avail themselves for the exercise, despite multiple attempts to reach out to them. During the period under review, the forty-nine (49) employees collectively received gross salaries amounting to Kshs.112,149,960.
- 1.17 The employees who failed to appear for physical verification may not exist, raising the risk of irregular or fraudulent payments.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Vote Heads

- 1.18 The Special Audit established that there were misalignments between departmental Vote Heads in IPPD System and those in the Integrated Financial Management System (IFMIS) Ledger Account. As a result, posting of salary in IFMIS was not done as per departmental Vote Heads. This process creates inconsistencies between budget allocations and actual expenditure by departments, therefore presenting the risk of misuse of funds and inaccurate financial reporting.

II. Use of Manual Payroll

- 1.19 During the years under review, the County Executive had employees whose salary as processed through payrolls maintained in excel. The use of manual payroll systems for salary processing is vulnerable to manipulation and fraud, potentially resulting in unauthorized payments and disbursements to unverified personnel.

III. Irregular Payment of House Allowance and Special House Allowance

- 1.20 The Special Audit revealed that during the financial years 2021/2022, 2022/2023 and 2023/2024 there were two thousand four hundred and ninety-nine (2,499) employees irregularly paid house allowance and special house allowance totaling Kshs.273,851,000

E. Compliance with Laws and Regulations

I. Non-Compliance with the Persons with Disabilities Act, 2003 in Recruitment

- 1.21 The Special Audit revealed that the County Executive had a total of three thousand seven hundred and sixty (3,760) employees, of which eighty-three (83) were persons living with disabilities, representing approximately two percent (2%) of the total workforce.

II. Non-Compliance with Gender Equality and Distribution in the County Government

- 1.22 The Special Audit revealed that the County Executive had a total of three thousand seven hundred and sixty (3,760) employees, out of which nine hundred and forty-one (941) employees were of the female gender representing twenty five percent (25%)

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

- 1.23 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 employees introduced in HRIS-Ke.

Conclusion

- 1.24 The Special Audit of payrolls for Mandera 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;
- 1.25 The County Executive did not comply with requirement on limiting the Employee Cost within thirty-five percent (35%) of Revenue. The non-compliance with requirements on limiting the Employee Cost within thirty-five percent (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources

are strained, limiting the funds available for critical development projects and essential service delivery.

- 1.26 The Vote Heads in the IPPD System and HRIS-Ke were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 1.27 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of annual recruitment plans demonstrates ineffective workforce planning. This hampers the county's ability to plan, budget, and deploy personnel effectively across departments, leading to staffing gaps or surpluses.
- 1.28 The IPPD System and HRIS-Ke were not updated with approved designations in the approved staff establishment. These 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.
- 1.29 The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by the inaccurate dates of birth in the IPPD System and HRIS-Ke. Data with integrity issues 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.
- 1.30 The authenticity of some of the employees could not be established. This was evidenced by the failure by the Chief Officers to account for employees in their departments and the payroll data Integrity issues. This casts doubt on authenticity

of payroll records and raises the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County.

- 1.31 There were instances where employees were overpaid or paid irregular allowances. This 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.
- 1.32 The County Executive did not comply with tax and labour laws as evidenced by irregular deduction of statutory deduction. This violates legal and regulatory obligations, increasing the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.
- 1.33 The migration from the IPPD System to the HRIS-Ke was inadequately managed, resulting in overpayments, underpayments, and failure to migrate some employees. 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.
- 1.34 The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

Recommendations

- 1.35 In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Mandera County Executive.
- 1.36 To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35%) percent of the County Executive's total revenue, the County Assembly should establish mechanisms to ensure compliance with the PFM Act in the execution of its oversight responsibilities.
- 1.37 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability, the Chief Officers for Public Finance together with the Management of the State Department for Public Service and Human Capital Development (the custodian of the Human Resource Information System-Kenya) should ensure that

the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.

- 1.38 To enhance transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions.
- 1.39 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.
- 1.40 To ensure integrity of data maintained in the payroll systems, the Management should ensure the validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), Social Health Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favour of HRIS-Ke.
- 1.41 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.
- 1.42 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.

1.43 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 governments. In addition, Section 34 of the Public Audit Act, 2015 mandates the Auditor-General to conduct periodic audits upon request or at the Auditor-General's own initiative, with a view to evaluating the effectiveness of risk management, control and governance processes in public entities. The Special Audit of the County Executive of Mandera, 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 drastic increase in the number of employees and payroll costs.
- 2.7 The overall staff growth across the audit period was nine (9%) while the cumulative growth in payroll costs over the three (3) years was approximately eleven (11%) as shown in **Figures 1 and 2**.

Figure 1: Cumulative Growth in Number of Staff

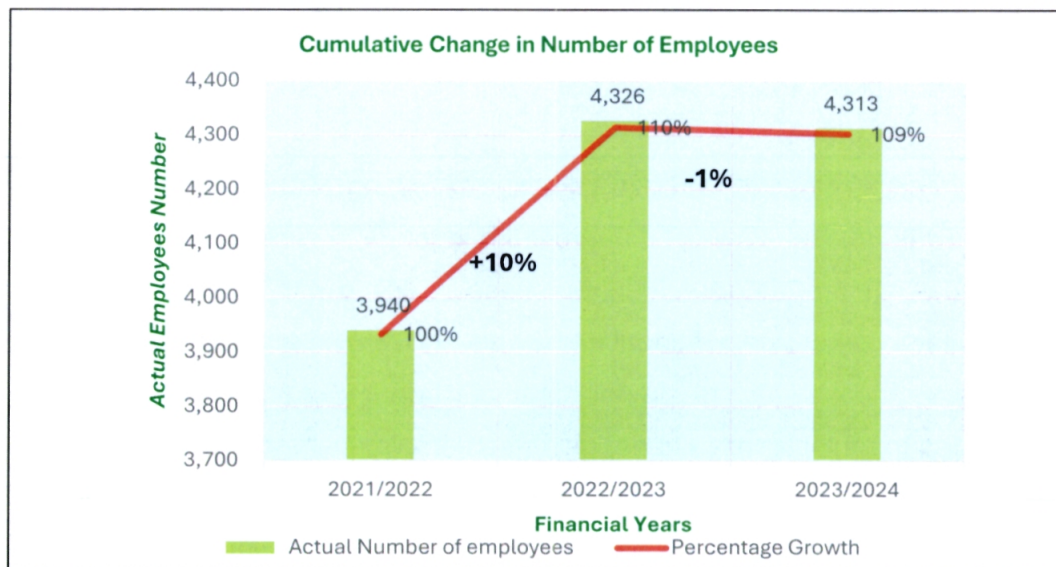
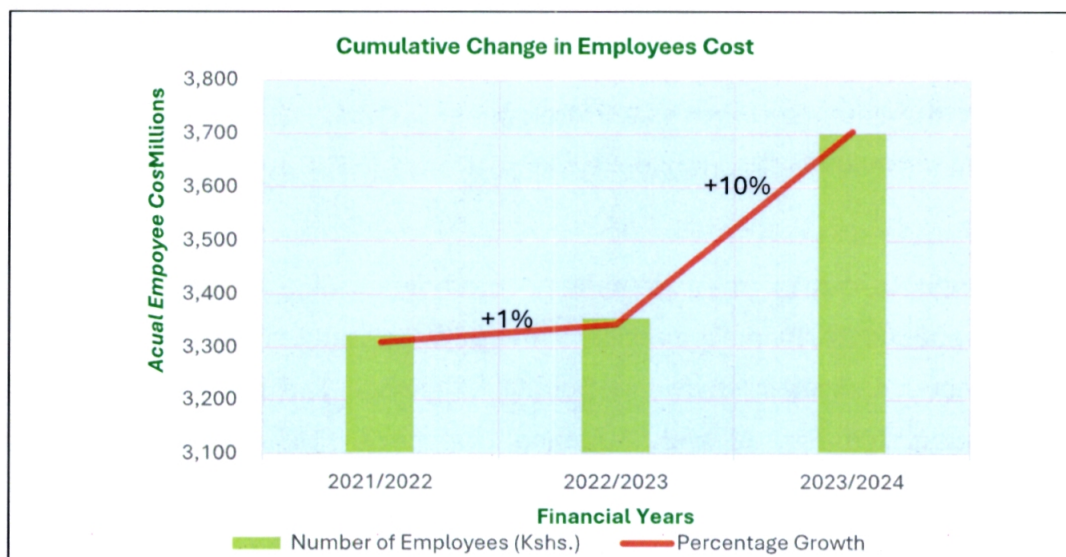


Figure 2: Cumulative Growth in Employee Cost



2.8 The higher rate of growth of payroll cost was mainly due to employment of 449 ECDE teachers, 238 Enforcement officers, 130 village administrators and 229 casuals in the manual changed their terms to support staff therefore increasing the salaries during the financial year 2022-2023.

Audit Objectives

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

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

2.11 The audit was carried out in the month of March, 2025.

Audit Methodology

2.12 The Special Audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) 4000 for Compliance Audit. These standards require that the audit is planned and performed so as to draw reasonable audit

conclusions on the design, implementation and operating effectiveness of internal controls.

Methods of Gathering Evidence

2.13 The Special Audit of payrolls involved review of payroll processes at the County Headquarters, analysis of payroll data and comparison with records maintained by the County Management.

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

a) Document Review

2.15 The Audit Team reviewed various documents 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. 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

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

2.17 The following data sets for the financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed: -

- i. IPPD Staff Registers and Payroll data
- ii. HRIS-Ke Payroll data
- iii. Manual Payroll data
- iv. Payment schedules
- v. Casual payrolls data
- vi. Chief Officers staff list for each department as at 30 June 2024; and
- vii. Itemized budgets for staff costs

c) Interviews

2.18 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 as are as listed in **Appendix 1**.

d) Physical Verification of Staff

2.19 The Audit Team requested all the Chief Officers to provide countersigned lists of staff members in their departments as at 30 June, 2024. The lists were compared with the IPPD staff registers maintained by the County Executive.

2.20 The Audit Team, through the County Secretary, requested one hundred and eighty (180) 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

2.21 The report is organized as follows:

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

2.22 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 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 Payroll and Personnel Database System to Human Resource Information System-Kenya.

A. Payroll Budgeting

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

I. The Compensation of Employees 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 for the in-depth payroll audit established that compensation to employee's ratio exceeded 35% of the budgeted revenue in two (2) of the three (3) financial years contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 as summarized in **Table 1**.

Table 1: Budgeted Revenue to Budgeted Cost for Personal Emoluments

Financial Year	Budgeted Revenue (Kshs.)	Budgeted Cost for Personal Emoluments (Kshs.)	% Of Utilization
2021/2022	13,283,669,212	2,983,874,206	22%
2022/2023	11,678,312,519	4,232,297,751	36%
2023/2024	11,987,831,007	4,259,444,600	36%

*Source: Audited Financial Statements

- 3.5 Further a, comparison of actual Personal Emolument expenditure with actual revenue as reflected in the financial statements revealed the County Executive had also exceeded the thirty-five (35%) percent threshold in two (2) of the three (3) financial years, 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	10,675,140,693	2,945,863,521	28%
2022/2023	11,002,925,245	4,191,679,367	38%
2023/2024	10,749,914,805	4,111,229,696	38%

*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 allocation to compensation of employee may strain the county's financial resources, 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 payroll reports extracted from the IPPD System with the approved budgets established that the Vote Heads in IPPD were not aligned with those in the approved budgets, as shown in **Annexure I**.

- 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 designations 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

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

- 3.12 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.
- 3.13 The Special Audit established that there were three hundred and sixty-four (364) designations that were configured in IPPD System. However, out of the three hundred and sixty-four (364) configured designations, one hundred and eighty-four (184) were not in the approved staff establishment. There were one thousand seven hundred and fifty-nine (1,759) employees who were placed in the one hundred and eighty-four (184) designations as shown in **Annexure 2**.
- 3.14 Similarly, there were designations in the approved establishment that were not configured in IPPD system such as Ward Administrator, Village Administrator, Town Administrator, ECDE officers, and Security/Enforcement Office.
- 3.15 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.

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

C. Employee Data Management

3.17 The Special Audit of employee's data management involved assessing the accuracy and completeness of both manually maintained and IPPD based staff registers. The following issues were established:

I. Drawing Salary from Different Government Entities

3.18 Section 149(1) of the Public Finance Management Act, 2012 imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is (a) lawful and authorized, and (b) effective, efficient, economical and transparent.

3.19 During financial year 2023/2024, there was one (1) employee who was engaged in both County Executive of Mandera and Teachers Service Commission (TSC) . The total amount paid to the employee was Kshs.390,471. as detailed in **Annexure 3**.

II. Authenticity of Staff in the Payroll

3.20 The Office of the Auditor-General requested for a physical verification of sampled staff via the letter Ref OAG/SA/SADS/KDSP-PAYROLL/4/09 dated 12 January, 2025, which was addressed to the County Secretary, Mandera County Government.

3.21 The Letter requested ninety-nine (99) to present themselves for physical verification. However, forty-nine (49) employees did not present themselves, despite multiple attempts to reach out to them. During the period under review, the forty-nine (49) officers collectively received gross salary amounting to Kshs.112,149,960 as detailed in **Annexure 4**.

III. Use of Manual Payroll

3.22 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires an accounting officer to be accountable to the County Assembly for maintaining effective systems of internal control and measures taken to ensure that they are effective.

3.23 The Special Audit established that the County Executive operated both the IPPD system and excel spreadsheets to process payrolls. Manual payroll systems can be

susceptible to payroll fraud the employee cost process Kshs.408,633,718, Kshs.242,571,771 and Kshs.191,521,557.40 for the financial years 2021/2022, 2022/2023 and 2023/2024 respectively

D. Payroll Processing and Payments

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

I. Charging of Employee Costs to the Wrong Budget Vote

3.25 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.

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

3.27 These misalignments led to inconsistencies between budget allocations and actual expenditures by departments, therefore, increasing the risk of misuse of funds and inaccurate financial reporting.

II. Employees earning both House Allowance and Special House Allowance

3.28 Section 149(1) of the Public Finance Management Act imposes on an accounting officer of a county government entity the responsibility of ensuring that the resources of the entity for which the officer is designated are used in a way that is (a) lawful and authorized, and (b) effective, efficient, economical and transparent. Section 149(2) provides that in carrying out this responsibility, the accounting officer shall ensure that all expenditure made by the entity complies with subsection (1).

3.29 The Special Audit revealed that during the financial years 2021/2022, 2022/2023 and 2023/2024 there were two thousand four hundred and ninety-nine (2,499) employees irregularly paid house allowance and special house allowance totaling Kshs.273,851,000 as shown in **table 3** and detailed in **Annexure 6**.

Table 3: Irregular payment of both house allowance and special house allowance

Financial Year	Payment of House Allowance paid (Kshs.)	Special allowance paid (Kshs.)	House allowance paid (Kshs.)	Total Amount Paid (Kshs.)
2021-2022	59,750,153	36,306,288		96,056,441
2022-2023	57,869,549	36,388,083		94,257,632
2023-2024	55,981,369	27,555,558		83,536,927
Totals				273,851,000

*Source: IPPD Payroll Data

E. Compliance with Laws and Regulations

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

I. Non-Compliance with the Persons with Disabilities Act, 2003 in Recruitment

3.31 Section 13 of the Persons with Disabilities Act, 2013 provides that the Council shall endeavor to secure the reservation of five percent (5%) of all casual, emergency and contractual positions in employment in the public and private sectors for persons with disabilities.

3.32 A review of the payroll data revealed that the County Executive had a total of three thousand seven hundred and sixty (3,760) employees, of which eighty-three (83) were persons living with disabilities, representing approximately two percent (2%) of the total workforce. This is below the five percent (5%) threshold mandated by Section 13 of the Persons with Disabilities Act, 2013.

II. Non-Compliance with Gender Equality and Distribution in the County Government

3.33 Article 27(8) of the Constitution, the state is required to take measures to implement the principle that not more than two-thirds of the members of elective or appointive bodies shall be of the same gender.

3.34 Section 68(a) of the County Governments Act, 2012 states that each County Public Service Board is required to promote equal opportunity in the County Public Service, and establish and implement strategies for the elimination of any form of discrimination based on ethnicity, gender, religion, health, marital status, or disability.

3.35 Review of the payroll data revealed that the Mandera County Executive had a total of three thousand seven hundred and sixty (3,760) employees. This included nine hundred and forty-one (941) employees representing approximately twenty five percent (25%) female gender, while two thousand eight hundred and nineteen (2,819) representing approximately seventy-five (75%) male gender.

3.36 Review of the payroll data revealed that the Mandera County Executive had a total of three thousand seven hundred and sixty (3,760) employees. This included nine hundred and forty-one (941) employees representing approximately 25% female gender, while two thousand eight hundred and nineteen (2,819) representing approximately 75% male gender.

3.37 This is contrary to Article 27(8) of the constitution, which states that not more than two-thirds of the members of elective or appointive bodies shall be of the same gender.

3.38 Mandera County Executive risks legal penalties, reputational damage for failing to promote equal employment rights and opportunities for all regardless of gender.

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

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

I. Officers introduced during the migration of salary processing from IPPD system to HRIS-Ke

3.40 The Special Audit established that two (2) employees who were not in the November 2024 HRIS-Ke were added to the December 2024 HRIS-Ke. Management did not provide evidence to justify the introduction of the two officers in the payroll. In the month of December 2024, the two officers were paid a gross of Kshs.229,670 as detailed in **Annexure 7**.

4. CONCLUSION

- 4.1. The Special Audit of payrolls for Mandera 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 County Executive did not comply with requirement on limiting the Employee Cost within thirty-five percent (35%) of Revenue. The non-compliance with requirements on limiting the Employee Cost within thirty-five percent (35%) of Revenue indicates weaknesses in internal budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3. The Vote Heads in the IPPD System and HRIS-Ke were not aligned with those in the approved budgets and those configured in the IFMIS Ledgers. The misalignment hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.4. The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of annual recruitment plans demonstrates ineffective workforce planning. This hampers the county's ability to plan, budget, and deploy personnel effectively across departments, leading to staffing gaps or surpluses.
- 4.5. The IPPD System and HRIS-Ke were not updated with approved designations in the approved staff establishment. These increases the risk of unauthorized or irregular salary payments. This weakness compromises the integrity of payroll processing, weakens accountability, and may result in discrepancies between approved staffing structures and actual payroll expenditures.
- 4.6. The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by the inaccurate dates of birth in the IPPD System and HRIS-Ke. Data with integrity issues 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 authenticity of some of the employees could not be established. This was evidenced by the failure by the Chief Officers to account for employees in their departments and the payroll data Integrity issues. This casts doubt on authenticity of payroll records and raises the risk of irregular or fraudulent payments, including paying salaries to staff who do not offer services to the County.
- 4.8. There were instances where employees were overpaid or paid irregular allowances. This 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 County Executive did not comply with tax and labour laws as evidenced by irregular deduction of statutory deduction. This violates legal and regulatory 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 overpayments, underpayments, and failure to migrate some employees. 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.
- 4.11. The identified audit issues had persisted over time, suggesting a failure of risk identification mechanisms and an underperforming internal audit function that may not have identified and prevented the control breaches in a timely manner.

5. RECOMMENDATIONS

- 5.1. In view of the findings and conclusion of the Special Audit, the following is recommended for implementation by the Mandera County Executive.
- 5.2. To ensure compliance with the fiscal responsibility principle on capping expenditure on wages to thirty-five (35%) percent of the County Executive's total revenue, the County Assembly should establish mechanisms to ensure compliance with the PFM Act in the execution of its oversight responsibilities.
- 5.3. For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability, the Chief Officers 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 transparency, fairness, and accountability in the recruitment process, the County Executive should develop and implement annual recruitment plans aligned with staffing needs and budgetary provisions.
- 5.5. 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.
- 5.6. To ensure integrity of data maintained in the payroll systems, the Management should ensure the validation controls are implemented in the HRIS-Ke. Further, the HRIS-Ke should be integrated with Key government systems such as the National Identity, National Social Security Fund (NSSF), Social Health Authority (SHA). Additionally, the use of manual Excel-based payrolls should be discontinued in favour of HRIS-Ke.

5.7. To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.

5.8. 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.

5.9. All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

6. APPENDICES

Appendix 1: List of staff interviewed

Designation	Department
County Secretary	Public Service and Administration
Director Human Resource Management	Public Service and Administration
Payroll Manager	Finance and Accounting

Appendix 2: List of Annexures

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

No	Appendix	Description
1	Annexure 1	Ippd system not aligned to approved staff establishment
2	Annexure 2	Designations in the Integrated Payroll and Personnel Systems not Aligned with Approved Staff Establishment
3	Annexure 3	Employees receiving salary from both county government of Mandera and teachers service commission
4	Annexure 4	Non-compliance with physical verification exercise
5	Annexure 5	Charging of Employee Costs to the Wrong Budget Vote
6	Annexure 6	Payment of both house allowance and special house allowance
7	Annexure 7	Officers introduced in HRIS during migration from IPPD

CONTACTS

3rd Floor, Anniversary Towers, University Way, Nairobi

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



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@OAG_Kenya