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

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COUNTY 038

JULY 2025



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FOREWORD BY THE AUDITOR-GENERAL


I am pleased to present this Special Audit Report on Payroll Management for the Vihiga County Executive for the financial years 2021/2022, 2022/2023 and 2023/2024. Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7(1)(a) of the Public Audit Act, 2015 requires the Auditor-General to give assurance on the effectiveness of internal controls, risk management and overall governance at national and county governments. The Special Audit on Payroll Management for the Vihiga County Executive was conducted in line with this mandate.

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

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

TABLE OF CONTENTS

List of Figures.....	iii
List of Tables	iii
ABBREVIATION	iv
1. EXECUTIVE SUMMARY	1
2. INTRODUCTION AND BACKGROUND	11
Introduction and Background.....	11
Audit Objectives	13
Audit Scope	14
Audit Methodology.....	14
Methods of Gathering Evidence.....	15
3. DETAILED FINDINGS	17
A. Payroll Budgeting.....	17
B. Recruitments Process.....	19
C. Employee Data Management.....	21
D. Payroll Processing and Payments.....	22
E. Compliance with Laws and Regulations	25
F. Migration from Integrated Payroll and Personnel Database System to Human Resource Information System-Kenya	26
4. CONCLUSION.....	28
5. RECOMMENDATIONS.....	30
6. APPENDICES	31
Appendix 1: List of Staff interviewed	31
Appendix 2: List of Annexures	31

List of Figures

Figure 1: Cumulative Decline in Employees 13
Figure 2: Cumulative Decline in Number of Employees..... 13

List of Tables

Table 1: Budgeted Employee Cost to Budgeted Revenue Ratio 18
Table 2: Actual Employee Cost to Revenue Ratio 18
Table 3: Over/Under Payment of Allowances 27

ABBREVIATION

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

- ii. Participating counties that are enhancing accountability for results through an integrated performance management framework.
- 1.4 From 2013, the County Executive was using the Integrated Payroll and Personnel Database (IPPD) System to operate payroll for employees with personal numbers, while excel spreadsheets were used to operate payroll for employees without personal numbers. However, due to technological limitations at the time of its development, IPPD did not comprehensively address all human resource related functions. This led to development of a web-based Human Resource Information System-Kenya (HRIS-Ke) in 2024.
- 1.5 A parallel run of the IPPD System and 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, and
 - 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

- 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 Findings

The key audit findings are as follows:

A. Payroll Budgeting

I. Employee Cost to Revenue Ratio

- 1.10 The 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 the three (3) financial years. This is contrary to Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015. Further, a comparison of the actual personal emolument expenditure, with the actual revenue, revealed that the County Executive also exceeded the thirty-five percent (35%) threshold in the three (3) years. This indicates a wage bill which has strained the county's financial resources, limiting funds available for critical development projects and essential service delivery.

II. Budgetary Control and Performance

- 1.11 A comparison of the budgeted employee emoluments with the actual expenditure as reported in the financial statements, established that the County Executive had overutilized the allocated budget for staff emoluments, with a utilization rate of 111% in 2021/2022 financial year.

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

- 1.12 The Special Audit established that the budget Vote Heads in the IPPD System and HRIS-Ke 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. Lack of Annual Recruitment Plans

- 1.13 During the period under audit review, the County Executive recruited three hundred and thirty-two (332) employees. 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 initiating the recruitment process. The lack of

annual recruitment plans and lack of confirmation of availability of budgets can result in either overstaffing, understaffing, or hiring staff for roles that do not align with organizational priorities.

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

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

C. Employee Data Management

I. Integrity of Dates of Birth Data in Payroll Systems

- 1.15 The Special Audit identified three hundred and eighteen (318) employees with inconsistent date of birth.
- 1.16 A review of two hundred and fifty-five (255) employee personal documents maintained by the County, established that the dates captured in the IPPD System for fifty-three (53) employees were different from those in their personal files.
- 1.17 Further, interview with twenty-six (26) employees and verification of their identification documents established that the data captured in the IPPD System for sixteen (16) employees were different from those in the employees' Birth Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ADM/ 13(9).

II. Integrity of National Identification Data in Payroll Systems

- 1.18 The Special Audit identified fifteen (15) employees with inconsistent National identification documents.
- 1.19 Interview with nine (9) employees and verification of their national identification documents established that the data captured in the IPPD System for six (6) employee was different from those in the employees national Identification document.

III. Officer Engaged in both Vihiga County Executive and Teachers Service Commission

- 1.20 The Special Audit established that during the 2022/2023 financial year, one (1) employee was engaged by both Vihiga County Executive and Teachers Service Commission (TSC). During this period of dual engagement, the employee received a total of Kshs.156,150 in payments from the County Executive.

D. Payroll Processing and Payments

I. Charging of Employee Costs to the Wrong Budget Vote

- 1.21 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. Irregular Payment of Arrears

- 1.22 The Special Audit, established that arrears totaling to Kshs.2,417,010 and Kshs.700,000 paid in the 2021/2022 and 2022/2023 financial years respectively, did not have supporting documentation such as requests, approvals, and calculations justifying the amounts paid.

III. Irregular Payment of Special Salary Allowance

- 1.23 The Special Audit established one (1) officer, designated as a Medical Laboratory Technician, was paid Special Salary Allowance totaling to Kshs.360,000 in the 2021/2022 financial year, despite not being eligible for the allowance.

IV. Irregular Payment of Extraneous Allowance

- 1.24 The Special Audit established that three (3) employees received Extraneous Duty Allowance totaling to **Kshs.1,500,000** in the 2021/2022 financial year, despite not meeting the eligibility requirements outlined in the Compendium of Remuneration and Benefits for Public Service (December 2022). The Special Audit further established that, the employees were paid at rates higher than those prescribed.

E. Compliance with Laws and Regulations

I. Non-Compliance to Remittance of Statutory Deductions

- 1.25 A comparison of statutory deductions for employees in the IPPD payroll system with bank statements established cases of delay in remittance of statutory deductions. The delay ranged from one (1) day to fifty (50) days.

II. Non-Compliance with Requirement on Ethnic Diversity

- 1.26 The Special Audit established that 93% of employees in the IPPD System as at 30 June, 2024 were from one dominant ethnic community. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008. Further, the dominant community represented 95% of the new recruitment done during the period under review. This is contrary to Section 65(1)(e) of the County Governments Act, 2012.

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

I. Overpayment and Underpayment of Salary and Allowances

- 1.27 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 allowances.

Conclusion

- 1.28 The Special Audit of payrolls management for the Vihiga County Executive revealed several audit issues, with significant implications to financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 1.29 The County Government did not comply with requirement on limiting the Employee Cost within thirty-five (35%) of Revenue. This indicates weaknesses in budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 1.30 The Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS ledgers. The misalignment hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 1.31 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of the annual recruitment plans demonstrates ineffective workforce planning and deviation from established staffing structures. This practice can result in either overstaffing or hiring staff for roles that do not align with organizational priorities, which have an impact on the budget.
- 1.32 The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by inaccurate employees' dates of birth, incorrect national identification numbers and employees drawing salary from different government entities. This indicates weak payroll controls, including lack of data validation controls.
- 1.33 The irregular payment of allowance reflects significant weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.

1.34 The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances and non-compliance with requirement on ethnic diversity. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

Recommendations

- 1.35 In view of the findings and conclusions of the Special Audit, the following is recommended to the Vihiga County Government;
- 1.36 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 1.37 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer for Public Finance together with the management of the State Department for Public Service and Human Capital Development (the custodian of the Human Resource Information System-Kenya) should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 1.38 To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
- 1.39 To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.
- 1.40 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

2. INTRODUCTION AND BACKGROUND

Introduction and Background

- 2.1 Article 229 of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7 (1) (a) of the Public Audit Act, 2015 requires the Auditor-General to give an assurance on the effectiveness of internal controls, risk management and overall governance at national and county government. In addition, Section 34 of the Public Audit Act, 2015 mandates the Auditor-General to conduct periodic audits upon request or at the Auditor-General's own initiative, with a view to evaluating the effectiveness of risk management, control and governance processes in public entities. The Special audit of the Vihiga County Executive (the County Executive) 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 decrease in the number of employees and payroll costs.
- 2.7 The overall staff decline across the audit period was 3.4%, while the cumulative reduction in payroll costs over the three years was approximately 12% as shown in **Figures 1 and 2**.

Figure 1: Cumulative Decline in Employee Cost

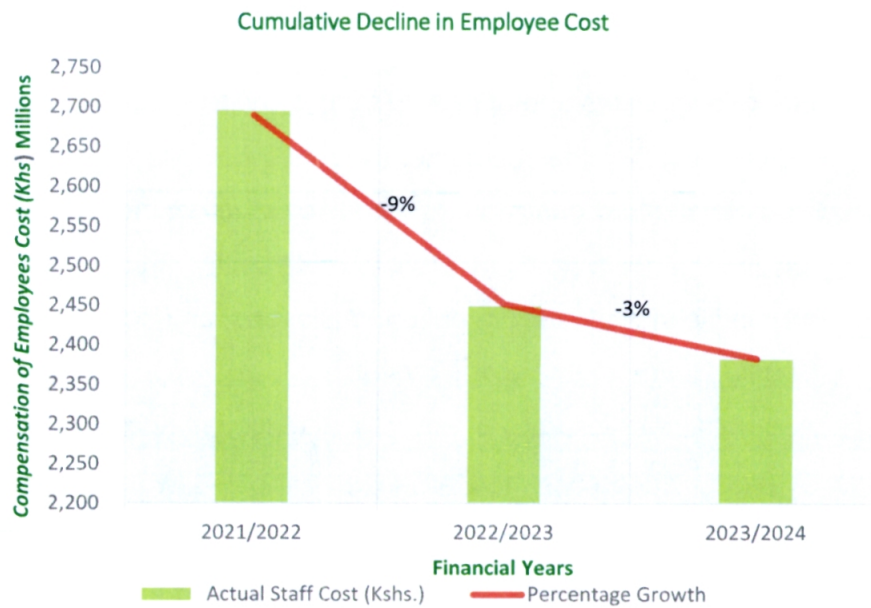
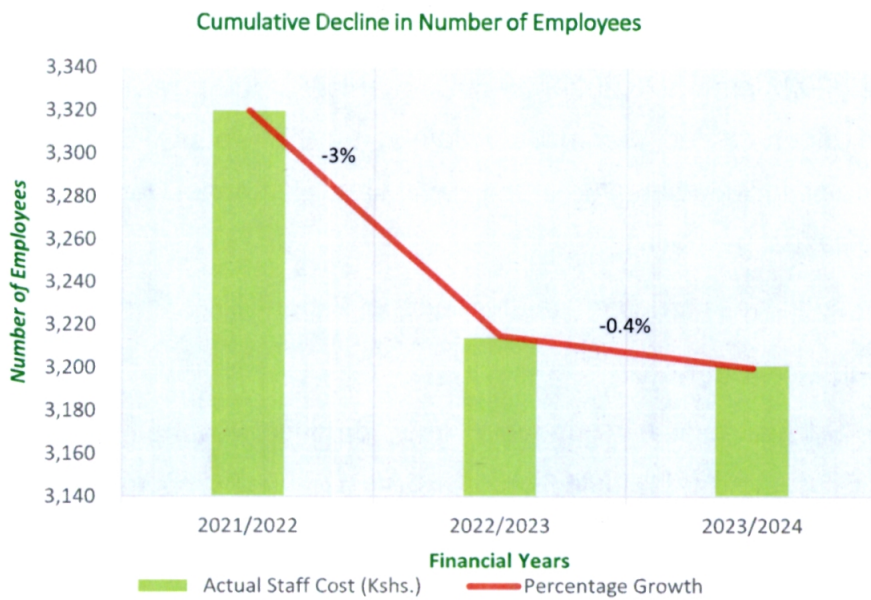


Figure 2: Cumulative Decline in Number of Employees



Audit Objectives

2.8 The overall objective of the Special audit of payrolls was to evaluate the accuracy, compliance, and efficiency of payroll processes, ensuring proper compensation,

adherence to regulations, and safeguarding against errors. 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

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

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

Audit Methodology

2.11 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

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

a) Document Review

- 2.14 The Audit Team reviewed various documents 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 Government Act, 2012;
 - v. Employment Act, 2007;
 - vi. SRC Circular, Ref No: SRC/TS/CGOVT/3/16 dated 29 July 2013;
 - vii. SRC Circular, Ref No: SRC/TS/29(81) dated 10 August 2022;
 - viii. Compendium of Remuneration and Benefit for Public Service dated December 2022.
 - ix. Approved Staff Establishments, 2023; and
 - x. Collective Bargaining Agreements (CBAs), 2012.

b) Data Analytics

- 2.15 The payroll and staff register data from IPPD system was extracted and analyzed. The exceptions from the analysis formed the basis for verification with payroll records maintained by the County Executive.
- 2.16 The following data sets for the financial years 2021/2022, 2022/2023 and 2023/2024 were analyzed: -
- i. IPPD Staff Registers and Payroll Data;
 - ii. Manual Payroll Data;
 - iii. Casual Payrolls Data; and

iv. Chief Officers staff lists as at 30 June, 2024.

c) Interview

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

d) Physical Verification of Staff

2.18 The Audit Team requested all the Chief Officers to provide countersigned list of staff members in their departments as at 30 June, 2024. This list was corroborated with the IPPD staff registers maintained in the County Executive.

2.19 The Audit Team through the County Secretary, requested thirty-five (35) employees to present themselves in person for a physical verification, which was based on initial exceptions from data analytics. This verification was to confirm the existence of staff, their employment status and the accuracy of the staff personal data maintained in the payroll systems.

Report Structure

2.20 The report is organized as follows:

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

2.21 The report should be read in its entirety to fully comprehend the approach to the audit, findings, conclusions and 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 set laws. The following issues were established:

I. Employee Cost to Revenue Ratio

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 Public Finance Management Act, 2012. 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 three (3) financial years under audit, contrary to Regulation 25(1)(a) of Public Finance Management (County Governments) Regulations, 2015 as shown 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	11,248,535,017.00	4,887,669,647.00	43%
2022-2023	11,111,397,362.00	4,635,539,865.00	42%
2023-2024	12,557,553,292.00	5,026,747,982.00	40%

* Source: Audited financial statements.

- 3.5 Further, it was established that actual expenditure against actual revenue collected exceeded the thirty-five (35) percent threshold in the three (3) financial years under review as shown in **Table 2**.

Table 2: Actual Employee Cost to Revenue Ratio

Financial Year	Total Revenue (Kshs.)	Actual Personal Emolument (Kshs.)	Revenue/Employee (%) Ratio
2021-2022	4,471,161,499	2,695,739,587	60%
2022-2023	4,928,188,384	2,449,450,402	50%
2023-2024	4,963,541,189	2,382,693,382	48%

* Source: Audited financial statements.

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

II. Budgetary Control and Performance

- 3.7 Regulations, 29(2)(a) of the Public Finance Management (County Governments), Regulations, 2015 require the accounting officer to be responsible, for ensuring that all services which can be reasonably foreseen are included in the estimates and that they are within the capacity of the County Government entity during the financial year.
- 3.8 A comparison of the budgeted employee emoluments with actual expenditure as reported in the financial statements, established that in 2021/2022 financial year, actual employee emolument amounted to Kshs.2,695,739,587 against a final budget of Kshs.2,430,370,844. This resulted in an over-expenditure of

Kshs.265,368,743 and a utilization rate of 111%, indicating significant overutilization of the allocated budget for staff compensation.

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

- 3.9 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.
- 3.10 A comparison of payrolls reports extracted from the IPPD System with approved budgets established that the Vote Heads in the IPPD System were not aligned with those in the approved budgets as detailed in **Annexure 1**.
- 3.11 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.
- 3.12 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.
- 3.13 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

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

I. Lack of Annual Recruitment Plans

- 3.15 Section 59(1)(g) of the County Governments Act, 2012 requires the County Public Service Board of a county to facilitate the development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties. Further, Regulation 119(2) of the Public Finance Management (County

Governments) Regulations, 2015 requires the budgetary allocation for personnel costs to be determined on the basis of a detailed costing of a human capital plan of a county government entity as approved by the responsible county department for public service management matters, the County Public Service Board and County Treasury.

- 3.16 The County Executive recruited eighty-five (85) employees, one hundred and sixty-one (161) and eighty-six (86) in 2021/2022, 2022/2023 and 2023/2024 financial years respectively. However, it was established that the departments that initiated the recruitments did not have annual recruitment plans to guide the recruitments.
- 3.17 The lack of annual recruitment plans can result in overstaffing, understaffing, or hiring for roles that do not align with organizational priorities.

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

- 3.18 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.
- 3.19 The Special Audit established that there four hundred and two (402) designations that were configured in the IPPD System. However, out of the configured designations, one hundred and forty-four (144) were not in the approved staff establishment. Further, there were five hundred and sixty-seven (567) employees who were grouped in the one hundred and forty-four (144) designations as detailed in **Annexure 2**.
- 3.20 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.
- 3.21 As a result of the misalignment between the staffing records in the payroll 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

3.22 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 Payroll Systems

- 3.23 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.
- 3.24 The Special Audit identified three hundred and eighteen (318) employees with inconsistent date of birth.
- 3.25 A review of two hundred and fifty-five (255) employee personal documents maintained by the County, established that the dates captured in the IPPD System for fifty-three (53) employees as detailed in **Annexure 3** were different from those in their personal files.
- 3.26 A further, interview with twenty-six (26) employees and verification of their identification documents established that the data captured in the IPPD System for sixteen (16) employees were different from those in the employees' Birth Certificates. This is contrary to the directive outlined in Circular Ref. No: PSC/ ADM/ 13(9).
- 3.27 The County Executive migrated the processing of payrolls from the IPPD System to HRIS-Ke in December 2024. This was done before the alignment was done. As a result, at the time of audit, the HRIS-Ke had similar date of birth to those in the IPPD System.

II. Integrity of National Identification Records in Payroll Systems

- 3.28 Regulation 22(1)(b) of the Public Finance Management (County Government) Regulations 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.
- 3.29 The Special Audit identified fifteen (15) employees with inconsistent National identification documents.
- 3.30 Interview with nine (9) employees and verification of their national identification documents established that the data captured in the IPPD System for six (6) employee was different from those in the employees national Identification document as detailed in **Annexure 4**. This highlights weaknesses in data validation and internal control processes within the payroll system.

III. Officer Engaged in both Vihiga County Executive and Teachers Service Commission

- 3.31 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.
- 3.32 Analysis of the Integrated Personnel and Payroll (IPPD) data, along with an interview with the employee, established that during the 2022/2023 financial year, one (1) employee had been engaged by both Vihiga County Executive and Teachers Service Commission in the months of August to November 2023. During the period of dual engagement, the employee received a total of **Kshs.156,150** in payments from the County Executive as detailed in **Annexure 5**.

D. Payroll Processing and Payments

- 3.33 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:

i. Charging of Employee Costs to the Wrong Budget Vote

- 3.34 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.
- 3.35 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 6**.
- 3.36 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.
- 3.37 This misalignment led to inconsistencies between budget allocations and actual expenditures by departments, therefore increasing the risk of misuse of funds.

ii. Irregular Payment of Arrears

- 3.38 Article 201 of the Constitution of Kenya, 2010 on principles of public finance require accountability in financial matters, responsible financial management and use of public money in a prudent and responsible way.
- 3.39 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. Further, Regulation 120(3) of the Public Finance Management (County Governments) Regulations, 2015 requires the accounting officer to certify the correctness of the payroll at least once every month.
- 3.40 The Special Audit established that arrears totaling Kshs. 2,417,010 paid to two (2) employees and Kshs. 700,000 paid to two (2) employees in the 2021/2022 and 2022/2023 financial years respectively, did not have supporting documentation such as requests, approvals, or calculations justifying the amounts paid as detailed in **Annexure 7**.

3.41 The absence of supporting documentation for arrears payments increases the risk of unauthorized, inaccurate, or fraudulent payments, leading to potential financial loss.

iii. Irregular Payment of Special Salary Allowance

3.42 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.

3.43 The Special Audit established that one (1) employee, designated as a Medical Laboratory Technician, was paid Special Salary Allowance in the month of February and March totaling to Kshs.360,000 in the 2021/2022 financial year, despite not being eligible for the allowance as detailed in **Annexure 8**.

3.44 This irregular payment presents a risk of financial loss and non-compliance with applicable compensation policies.

iv. Irregular Payment of Extraneous Allowance

3.45 The Compendium of Remuneration and Benefits for Public Service (December 2022) references SRC circular Ref: SRC/TS/CG/ND/3/61/32 (25) dated 17 January 2019, which stipulates that extraneous allowance is payable only to Secretaries, Drivers, and Security Officers attached to the officers of the Governor and Deputy Governor, payable at Kshs. 7,000, Kshs. 4,500, and Kshs. 4,500 per month respectively.

3.46 The Special Audit established that three (3) employees received extraneous duty allowances totaling to Kshs.1,500,000 in the 2021/2022 financial year, despite not meeting the eligibility requirements outlined in the Compendium of Remuneration and Benefits for Public Service (December 2022). The Special Audit further established that, the employees were paid at rates higher than those prescribed as detailed in **Annexure 9**.

E. Compliance with Laws and Regulations

3.47 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 to Remittance of Statutory Deductions

3.48 Employers are legally required to deduct and remit various statutory contributions within specified timelines. Under Rule 10(1) of the Income Tax (PAYE) Rules, PAYE must be paid by the 10th day of the month following the deduction.

3.49 Section 20(1A) of the National Social Security Fund Act, 2013 requires an employer to remit NSSF deductions on the ninth day of each month or on such later date as the Board may, in consultation with the Cabinet Secretary responsible for matters relating to social security, prescribe.

3.50 Under section 15(4) of the National Health Insurance Fund Act, 1998 (now repealed), contributions were due on the ninth day of each month or on such later date as the Board, in consultation with the Cabinet Secretary responsible for matters relating to health, may prescribe.

3.51 Section 4(3) of the Affordable Housing Levy Act, 2024, requires employer to remit Affordable housing levy deductions to the collector for remittance into the Fund, not later than the ninth working day after the end of the month in which the gross salary was due or gross income was received.

3.52 A Comparison of statutory deduction for employees in the IPPD payroll system with bank Statements established cases of delay in remittance of statutory deductions as demonstrated in **Annexure 10**. The delay ranged from one (1) day to fifty (50) days.

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

II. Non-Compliance with Requirement on Ethnic Diversity

3.54 Section 7(1) of the 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.

- 3.55 Section 65(1)(e) of the County Governments Act, 2012 require County Public Service Board to consider, in selecting candidates for appointment, the need to ensure that at least thirty (30%) percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.
- 3.56 Analysis of employees in the IPPD System as at 30 June, 2024 established that 93% of the staff were from one dominant ethnic community as detailed in **Annexure 11**, contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008.
- 3.57 Further analysis established that the dominant community represented 95% of the new recruitment done during the period under review as detailed in **Annexure 12**. This demonstrates the management effort to ensure compliance with the requirement on ethnic diversity.
- 3.58 The non-compliance to ethnic diversity is a violation of legal requirements and may lead to legal suits.

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

- 3.59 The migration of salary processing from IPPD system to HRIS-Ke was reviewed to establish the completeness, accuracy, and integrity of the data transferred:

I. Overpayment and Underpayment of Salary and Allowances

- 3.60 Section 149(2)(a) of the Public Finance Management Act, 2012 requires the accounting officer of a county government to ensure that all expenditure made by the entity complies with requirements on lawful, authorized, and transparent use of resources of the entity.
- 3.61 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 the HRIS-Ke for the month of November, 2024 and December 2024 respectively established instances of overpayment and underpayments of salaries and allowances as shown in **Table 3**.

Table 3: Over/Under Payment of Allowances

Allowance	Total Amount Underpaid		Total Amount Overpaid		Annexure
	Number of Employees	Amount (Kshs.)	Number of Employees	Amount (Kshs.)	
Basic salary	4	29,580	256	1,618,920	Annexure 13
Health Workers Extraneous	84	1,184,000	173	1,555,430	Annexure 14
Commuter Allowance	9	89,612	19	84,850	Annexure 15
Special Salary	-	-	151	2,106,523	Annexure 16
Total	97	1,303,192	599	5,365,723	

*Source: HRIS-KE data

II. Non-Deduction of Statutory Deductions

- 3.62 Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 require 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.
- 3.63 The Special Audit established that after migration of payroll processing to the HRIS-Ke, one hundred and forty-eight (148) employees were not deducted Social Health Insurance Fund totaling to Kshs. 58,234 as shown in **Annexure 17**.

4. CONCLUSION

- 4.1 The Special Audit of payrolls management for the Vihiga County Executive revealed several audit issues, with significant implications to financial sustainability, compliance, and operational efficiency. In view of the findings, the Special Audit concludes as follows:
- 4.2 The Vihiga County Government did not comply with requirement on limiting the Employee Cost within thirty-five (35%) of Revenue. This indicates weaknesses in budgeting process and inadequate oversight role by the County Assembly. Therefore, the County's financial resources are strained, limiting the funds available for critical development projects and essential service delivery.
- 4.3 The Vote Heads in the IPPD System were not aligned with those in the approved budgets and those configured in the IFMIS ledgers. The misalignment hinders effective management of departmental budgets and control resulting to inaccurate financial reporting. Further, it undermines the obligations of the Accounting Officers to ensure lawful, efficient, and accountable use of public resources. In addition, it increases the risk of unauthorized or irregular salary payments.
- 4.4 The departments in the County Executive did not have approved annual human resource recruitment plans. The absence of the annual recruitment plans demonstrates ineffective workforce planning and deviation from established staffing structures. This practice can result in either overstaffing or hiring staff for roles that do not align with organizational priorities, which have an impact on the budget.
- 4.5 The audit identified that the data maintained by the payroll system used by the County Executive had integrity issues. This was evidenced by inaccurate employees' dates of birth, incorrect national identification numbers and employees drawing salary from different government entities. This indicates weak payroll controls, including lack of data validation controls.
- 4.6 The irregular payment of allowance reflects significant weaknesses in the payroll system's controls, including poor data validation and lack of oversight. These lapses increase the risk of fraudulent payments, and non-compliance with applicable policies, ultimately undermining the integrity and accountability of the payroll process.

- 4.7 The County Executive did not comply with tax and labour laws as evidenced by delayed statutory remittances and non-compliance with requirement on ethnic diversity. These increases the risk of penalties, litigation, and reputational damage, thereby undermining stakeholders' confidence.

5. RECOMMENDATIONS

- 5.1 In view of the findings and conclusions of the Special Audit, the following is recommended to the Vihiga County Government;
- 5.2 To ensure compliance with fiscal responsibility principle on capping expenditure on wages to thirty-five (35) percent of the County Executive's total revenue the County Assembly should ensure adherence to the 35% capping before the approval of the budgets.
- 5.3 For effective management of departmental budgets and enhance accuracy in reporting of personal emolument expenditure per department thus promoting accountability by the Chief Officers, the Chief Officer for Public Finance together with the management of the State Department for Public Service and Human Capital Development (the custodian of the Human Resource Information System-Kenya) should ensure that the Human Resource Information System – Kenya (HRIS-Ke) is at all time configured with the approved budget vote structures. Further, staff costs should be charged to the votes under which their budgets are made.
- 5.4 To reduce instances of financial loss due to irregular payment of allowances, enhance payroll integrity and support effective personnel management, the County Executive, together with the State Department for Public Service and Human Capital Development should ensure HRIS-Ke is appropriately configured to automatically enforce salary structures, as stipulated in the Salaries and Remuneration Commission Circulars and other relevant directives. Further, validations controls should be implemented in order to ensure compliance, enhance payroll accuracy, and prevent irregular financial transactions.
- 5.5 To enforce compliance with set labor laws and statutory deductions, the management of the County Executive should implement monitoring and reporting mechanisms to promptly detect and address compliance issues, alongside staff training on compliance obligations.
- 5.6 All salaries and allowances irregularly paid or overpaid should be recovered and responsible officers held accountable.

6. APPENDICES

Appendix 1: List of Staff interviewed

No	Designation	Department
1	Director	Public Service and Administration
2	Accountant	Finance
3	Assistant payroll Officer	Public Service and Administration
4	Assistant Payroll Director	Public Service and Administration
5	Secretary-County Public Service Board	County Public Service Board

Appendix 2: List of Annexures


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


No	Annexure	Title
1	Annexure 1	Budget Votes in Payrolls Systems Not Aligned with Those in Approved Budget
2	Annexure 2	Designations In Payroll System That Are Not Defined in The Approved Staff
3	Annexure 3	Integrity Of Date of Birth Records in Payroll Systems
4	Annexure 4	Integrity Of National Identification Records in Payroll
5	Annexure 5	Officer Engaged in Both Vihiga County Executive and Teachers Service Commission
6	Annexure 6	Charging Of Employee Costs to The Wrong Budget Vote:
7	Annexure 7	Irregular Payment of Arrears
8	Annexure 8	Irregular Payment of Special Salary Allowance
9	Annexure 9	Irregular Payment of Extraneous Allowance
10	Annexure 10	Late Remittance of Statutory Deduction
11	Annexure 11	Non-Compliance With Requirements of Ethnic Diversity
12	Annexure 12	Non-Compliance With Requirements of Ethnic Diversity-New Recruitments
13	Annexure 13	Over/Under Payment of Basic Pay
14	Annexure 14	Over Payment of Health Workers Extraneous Allowance
15	Annexure 15	Under/Over Payment of Commuter Allowance
16	Annexure 16	Payment of Special Salary to Officers who were not Earning
17	Annexure 17	Non-Deduction of Social Health Insurance Fund


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