State Department for Public Investments and Assets Management

Risk Management Policy Framework

June 2026

REPUBLIC OF KENYA

THE NATIONAL TREASURY

STATE DEPARTMENT FOR PUBLIC INVESTMENTS AND ASSETS MANAGEMENT

Risk Management Policy Framework

JUNE 2026

FOREWORD

Articles 10, 201 and 232 of the Constitution provides frameworks for governance and accountability. The State Department for Public Investments and Assets Management is publicly accountable for its successes and challenges to all its stakeholders.

Effective risk management is fundamental to the achievement of government objectives and the delivery of sustainable public value. In an increasingly complex and dynamic operating environment, institutions are exposed to a wide range of strategic, financial, operational and legal risks. It is therefore imperative that risk management is embedded at all levels of decision-making and implementation.

The State Department recognizes that effective risk management is essential to achieving its strategic objectives, enhancing service delivery, and strengthening institutional resilience. It underscores the Government's commitment to fostering a proactive risk management culture that enhances accountability, strengthens internal controls, and safeguards public resources.

This Risk Management Policy Framework establishes a structured framework for identifying, assessing, mitigate, and monitoring risks across all functions, ensuring the State Department remains responsive, resilient, and capable of fulfilling its mandate effectively and sustainably.

The effective implementation of this Policy will significantly contribute to improved service delivery, enhanced institutional performance, and the realization of our strategic objectives.

I call upon all officers and stakeholders to uphold the principles outlined in this Policy and integrate risk management into their daily operations. Leadership at all levels has a critical role in championing this agenda and ensuring compliance with established frameworks and guidelines.

FCPA HON. JOHN MBADI NG'ONGO, EGH
CABINET SECRETARY, THE NATIONAL TREASURY

PREFACE AND ACKNOWLEDGEMENT

The development of this Risk Management Policy Framework marks a significant milestone in strengthening governance, accountability and institutional resilience within the State Department for Public Investments and Assets Management.

This Policy provides a comprehensive Framework to guide the systematic identification, assessment, mitigation, and monitoring of risks that may affect the achievement of our strategic objectives. The State Department remains committed to embedding a strong risk management culture across all levels of operations. This will require continuous collaboration, capacity building and adherence to the guidelines set out in this Policy. All officers are encouraged to take personal responsibility for managing risks within their areas of operation and to integrate risk management into planning, decision-making and performance management processes.

As we implement this Policy as a management tool, I am confident that it will strengthen our institutional capacity to anticipate, respond to and manage risks effectively, thereby contributing to the achievement of our mandate and national development goals.

I recognize the support and guidance provided by the Cabinet Secretary for The National Treasury and the senior leadership of the State Department for Public Investments and Assets Management in championing this initiative, which is critical to enhancing service delivery and safeguarding public resources.

Finally, I acknowledge the Internal Auditor General Department's technical expertise, Risk Steering Committee and Risk Champions for their collaborative effort in the development of this Framework.

MR. CYRELL ODEDE WAGUNDA
PRINCIPAL SECRETARY, STATE DEPARTMENT FOR PUBLIC INVESTMENTS AND ASSETS MANAGEMENT

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ABBREVIATIONS

CS	Cabinet Secretary
IRMPF	Institutional Risk Management Framework
ISO	International Organization for Standardization
KRAs	Key Result Areas
PPD	Public Procurement Directorate
PPPD	Public Private Partnership Directorate
PS	Principal Secretary
RMSC	Risk Management Steering Committee
TNT	The National Treasury

DEFINITION OF TERMS

Inherent Risk	The sum of the risk that the organization faces before it has taken any mitigation steps to alter either the risk likelihood or impact.
Risk	The effect of uncertainty on objectives, which can be positive (opportunity) or negative (threat).
Risk Appetite	The amount and type of risk that the organization is willing to accept while pursuing its objectives and before any action is determined to be necessary to reduce the risk.
Risk Management	Logical and systematic approach of organization's policies, procedures and practices that will enable it to maximize opportunities and minimize losses and negative impacts of risks.
Likelihood	The probability/chance that an event may occur.

Risk Response	The management action(s) that allows an organization to accept, avoid, transfer or reduce identified risks.
Residual Risk	The risk remaining after management has taken risk response measures to change the risk likelihood or impact.
Risk Management Process	The systematic application of policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, evaluating (assessment), communicating, responding and monitoring risk.
Risk Heat Map	A visual chart that ranks risks according to their likelihood and impact, helping organizations prioritize risk treatment and decision making.

CHAPTER ONE: INTRODUCTION AND BACKGROUND

1.0 Introduction

This Chapter provides the foundational institutional context of the Risk Management Policy Framework for the state department for Public Investments and Assets Management. It outlines the background of the State Department, its mandate and functions, Vision, Mission, and Core Values, Key Result Areas (KRAs), Strategic Objectives, Departmental Objectives, and Organizational Structure.

1.1 Background

The State Department was established through Executive Order No. 1 of 2025 under The National Treasury. The Principal Secretary serves as the Accounting Officer responsible for management of public funds, government assets, public investments, institutional risks, and implementation of programs and policies under its mandate.

The State Department executes its mandate through the following key technical directorates and departments:

i. Public Investments and Portfolio Management (PIPM)

- Public Investment Management Department
- Pension Department
- Government Investment and Public Enterprises Department
- National Assets and Liabilities Management Department

ii. Public Private Partnership Directorate (PPPD)

iii. Public Procurement Department (PPD)

1.2 Mandate

The mandate of the State Department for Public Investments and Assets Management is anchored in Executive Order No. 1 of 2025, with the following core functions:

i. Formulate, review and co-ordinate policies, laws and regulations to improve public investment management across government.

ii. Design, develop and maintain an efficient, effective and reliable Public Investment Management Information System (PIMIS).

iii. Develop standards, methodologies and tools for appraisal of project concept notes, pre-feasibility and feasibility studies.

iv. Custodian of National Government assets and properties.

v. Responsible for consolidation and reporting to the Accountant General on all government assets and liabilities.

vi. In liaison with the Public Sector Accounting Standards Board (PSASB), develop and enforce guidelines on asset and liability management.

vii. Provide strategic advice on the management of high value public asset portfolios and monitor risk exposure.

viii. Administer scheme of service for asset management officers.

ix. Public Private Partnerships policy administration.

x. Drive reforms to improve the efficiency and competitiveness of public enterprises.

xi. Co-ordinate state divestiture programs.

xii. Administer the National Pensions Policy

xiii. Public Procurement and Asset Disposal Policy formulation and implementation.

xiv. Administration of the framework for procurement, disposal, administration and management of common user items.

xv. Develop and implement policies, regulations and guidelines for public procurement and asset disposal, ensuring adherence to the Public Procurement and Asset Disposal Act and standardization of procurement processes and documentation.

xvi. Oversee the transition to e-procurement across all Government Ministries, State Departments and Agencies.

xvii. Assist procuring entities in developing and implementing procurement plans, ensuring alignment with national priorities and objectives.

xviii. Provide training and capacity building support to procuring entities and stakeholders to enhance their knowledge and skills in public procurement and asset disposal.

xix. Manage an efficient procurement management system for National and County Governments.

xx. Oversee public procurement and supplies officers in Ministries, Departments and Agencies, ensuring the proper implementation of procurement and asset disposal processes, identifying areas for improvement and ensuring compliance.

xxi. Guide on the proper disposal of unserviceable, obsolete, or surplus stores and equipment by public entities.

xxii. Promote transparency and accountability in public procurement and asset disposal, fostering public confidence in the system.

1.3 Vision, Mission and Core Values

Vision

Excellence in Public Investments, Procurement, Assets, and Pension Management.

Mission

To provide effective and efficient leadership in Public Investments, Assets Management, Public Procurement, and reliable Pension Services for Kenya's economic growth.

Core Values

The State Department shall uphold the following core values in execution of its mandate and implementation of this Framework:

i. Stakeholder Participation
ii. Transparency and Accountability
iii. Results Orientation
iv. Integrity
v. Customer Focus
vi. Teamwork and Commitment

1.4 Strategic Objectives and Key Result Areas

The strategic objectives are organized under eight (8) Key Result Areas (KRAs) which provide the framework for planning, implementation, monitoring, evaluation, reporting, and risk management.

The Key Result Areas are as follows:

KRA 1: Public Investment Policy and Oversight

KRA 2: Government Investments and Public Enterprises Management

KRA 3: Resource Mobilization for Financing Public Expenditures

KRA 4: Public Procurement and Asset Disposal Policy

KRA 5: National Government Assets Management

KRA 6: Pensions Policy and Administration

KRA 7: Institutional Capacity and Governance

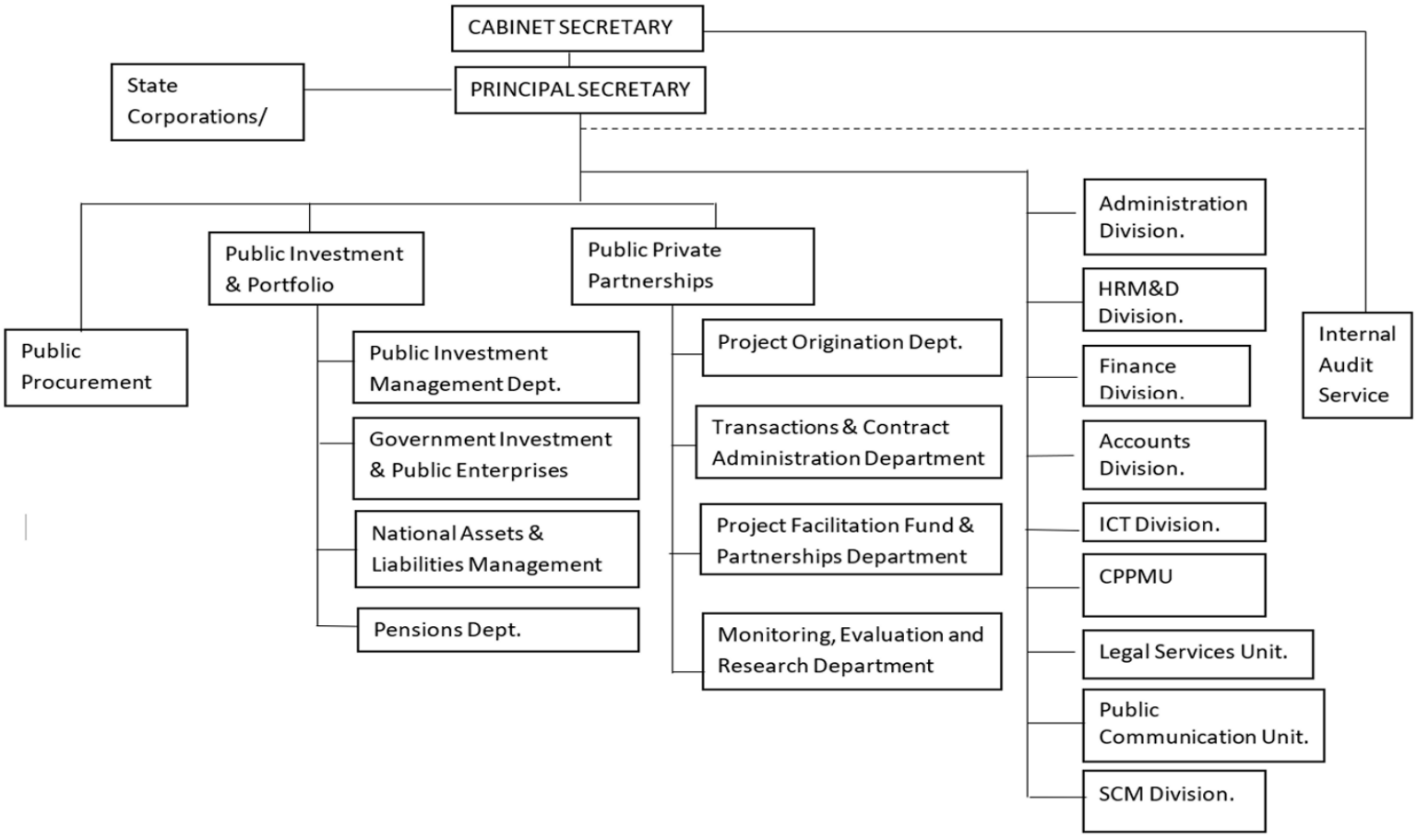
KRA 8: Tracking, Monitoring, Evaluation and Reporting

The linkage between KRAs, Strategic Objectives, Departmental Objectives, and responsible Departments provide the basis for development of departmental risk registers, risk treatment plans, monitoring mechanisms, and reporting frameworks as illustrated in appendix 1

1.5 Organizational Structure

The State Department comprises of two (2) Directorates, six (6) Technical Departments and nine (9) Support Divisions/Units responsible for implementation of its mandate and delivery of strategic objectives as illustrated in Figure 1 below.

Figure 1: Organogram



1.6 Policy Statement

The State Department is committed to providing quality services through efficient and effective management of public investments, public assets, procurement systems, pension, administration, and public finance management processes in accordance with the Constitution of Kenya, applicable laws, regulations, and international best practices.

CHAPTER TWO: OVERVIEW OF RISK MANAGEMENT

2.0 Introduction

This chapter outlines the background information, objectives, rationale, methodology, risk management policy statements, principles of risk management and risk classification.

2.1 Background Information

Risk management guidance for public entities was first issued vide Treasury Circular No. 3/2009 dated 23rd February 2009. The Circular directed all public entities to develop and implement Institutional Risk Management Policy Framework (IRMPF) to enhance good governance practices.

In the year 2010, standards of good governance were entrenched in the Constitution and are binding on all public entities. To give effect to the standards of good governance: Statutes, Regulations, Codes and Policies were enacted or revised. This provided elaborate guidelines for public entities in areas of good governance, decision-making, implementation and the management of public resources.

The PFM Act 2012, and its attendant Regulations 2015, provide guidelines for effective management of public finances. Specifically, Regulation 165 (1) of the PFMR 2015, requires all government entities to develop risk management strategies including fraud prevention mechanisms and a system of risk management and internal controls.

The CS National Treasury vide circular no. NT/AIG/GEN/235/ (64) of 17TH September 2025 The circular requires all MDAs to implement the revised model internal audit manual, internal audit templates, and risk management templates for public sector entities as prescribed by the Public Sector Accounting Standards Board, a procedural Manual for the development of Institutional Risk Management Policy Framework, Risk Identification Survey Layout Template and Risk Register Layout Template.

2.2 Purpose and Objectives of Risk Management Policy Framework

The primary purpose of this risk management policy framework is to provide a clear, consistent and comprehensive approach for the State Department to manage risks, enhance and entrench a culture

of risk awareness, thereby ensuring institutional resilience, safeguarding public assets and sustainable delivery of public value.

The following are the specific objectives of risk management:

i. Cultivate a culture of proactive and systematic risk management;
ii. Enhance The State Department's ability to deliver on its mandate and strategic objectives;
iii. Establish clear roles, responsibilities, and accountability structures for risk management;
iv. Ensure compliance with the applicable legal, regulatory, and policy that govern the State departments operations
v. Provide a structured basis for decision-making in risk management;
vi. Strengthen governance, oversight, and internal controls across the Departments; and
vii. Ensure timely identification and response to emerging risks.

2.3 Benefits of Risk Management

An appropriately executed risk management framework benefits organizations in the following areas:

i. **Strengthening Governance, Accountability and Transparency:** Promotes comprehensive oversight mechanisms, clear lines of responsibility and openness in decision-making processes in line with public sector governance standards.

ii. **Enhance Achievement of Strategic Objectives:** Facilitates the proactive identification and mitigation of risks, thereby improving ability to effectively deliver on strategic goals.

iii. **Improve Resource Utilization and Financial Management:** Supports prudent allocation and utilization of public resources, enhances financial discipline and ensures value for money.

iv. **Risk-Informed Decision-Making Culture:** Embeds a culture of risk awareness across all levels enabling informed, timely and evidence-based decision-making.

v. **Enhance Compliance and Regulatory Alignment:** Ensures adherence to applicable laws, regulations, policies and government directives, thereby reducing exposure to legal and reputational risks.

vi. **Improve Institutional Resilience and Service Delivery:** Strengthens the Department's capacity to anticipate, respond to, recover from emerging risks, disruptions and ensure continuity in service delivery.

2.4 Rationale for Risk Management

The State Department operates in a volatile, uncertain, complex and ambiguous environment. This is as a result of factors which include technology, regulations, demographics, restructuring, changing service requirements, inaccurate or incomplete information, natural calamities and policy changes.

In addition, the State Department faces several challenges such as inadequate staffing, technical capacity, bureaucracy in decision making, limited resources, differing expectations from stakeholder groups and infrastructure constraints. These factors collectively create uncertainty in decision making which places an extra duty of care on Accounting Officer to contain risks within acceptable limits.

The Constitution of Kenya 2010, PFM Act 2012 and the attendant regulations, Treasury Circulars, legal notice on Audit Committees and Audit guidelines requires every organization to have a well thought out Risk Management Policy Framework to communicate the commitment of public entities in understanding, managing risks and establishing clear responsibilities. It is against this background

that the State Department developed this risk management policy framework to provide a clear, consistent and comprehensive approach to risk management.

2.5 Scope of Application

This policy applies to all Directorates and Departments within the State Department. It forms part of its governance and operational framework and applies to all its employees and stakeholders.

2.6 Methodology in the Development of Risk Management Framework

The development of this policy framework was spearheaded by the Risk Management Steering Committee. Its preparation was undertaken through a broad consultative process, involving all the departments under the State Department. The draft policy was developed by the Risk Management Champions then subjected to internal review for quality assurance. The final policy was submitted to the Risk Management Steering Committee for validation before approval by the Accounting Officer.

2.7 Principles of Risk Management

The State Department's approach to risk management shall be guided by ISO 31000:2018 principles as outlined below:

Integrated: Risk management shall form an integral part of all State Department's decision making, activities and processes.

Structured and comprehensive: Risk management should be an all-inclusive systematic approach that ensures consistency and reliability in managing risks.

i. **Customized:** The risk management framework and process shall be customized and proportionate to State Department external and internal context related to its objectives.

ii. **Inclusive:** Risk management shall be transparent and involve all the relevant stakeholders in an appropriate and timely manner, this shall enhance decision-making quality, foster ownership, and ensure diverse perspectives inform risk assessment and treatment.

iii. **Dynamic:** The State Department in managing Risk shall anticipate, detect, acknowledge and respond to internal and external changes and events in an appropriate and timely manner.

iv. **Best available information:** The State Department Commits that inputs to risk management shall be based on historical and current information, as well as on future expectations. Information should be timely, clear and available to relevant stakeholders.

v. **Human and cultural factors:** Human behavior and culture significantly influence all aspects of risk management at each level and stage.

vi. **Continuous improvement:** The State Department Risk management shall be continually improved through learning and experience.

2.8 Risk Management Policy Statement

The State Department is committed to managing risk as an integral function across all its operations, programs and activities. In accordance with ISO 31000:2018, the department shall systematically identify, assess, treat, monitor and review risks that could undermine the achievement of its strategic objectives and mandate. Risk management shall be embedded at all levels of the department, guided by a defined risk appetite, and supported by adequate resources, clear accountability, and regular reporting. The Accounting Officer is ultimately accountable for ensuring that

risk management is effectively implemented and continuously improved across the State Department.

2.9 Risk Management Culture

The State Department recognizes that the effectiveness of its Risk Management Policy Framework is underpinned by a strong, institutionalized risk-aware culture. Accordingly, the State Department shall foster and sustain a culture that is embedded across all levels of its structure to inform the conduct, decisions, and accountability of every officer in the discharge of their duties.

The following principles shall guide State Department's risk culture:

i. Risk management is recognized and discharged as a shared responsibility at every level of the Department.
ii. Officers are empowered to identify, record, escalate and report risks freely and without fear of blame or reprisal.
iii. Ethical conduct, integrity, and compliance with applicable laws and regulations are upheld as non-negotiable standards of practice.

iv. Risk considerations are systematically integrated into all strategic plans, operational decisions, and resource allocation processes.

v. Continuous learning, improvement, and innovation in risk management practice are actively encouraged and supported.

2.10 Risk Categories

In undertaking the risk management process, the State Department categorizes its risks as follows:

Table 1: Risk Categories as per the Strategic Plan 2023-2027

No.	Risk Type/ Category	Definitions
1	**Strategic Risks**	These are risks that affect the attainment of State Department long term goals, objectives and decisions.
2	**Organizational Risks**	These are risks that threaten the implementation of the Strategic Plan due to structural issues or internal capacity.
3	**Operational Risks**	These are risks that arise from capacity inadequacies during implementation of planned programs and activities.
4	**Financial Risks**	These are risks arising from management of public funds, assets and procurement.

5	**Technological Risks**	These are risks that are associated with deficiencies in Information and Communication Technology.
6	**Compliance/ Legislative Risks**	These are risks resulting from non-compliance with applicable laws, regulations, internal policies or prescribed best practices.

2.11 Risk Appetite Statement

In pursuit of its mandate, the State Department shall adopt a deliberate and informed approach to risk Management, evaluating all available risk treatment options against their potential to deliver strategic outcomes and ensure value for money for its stakeholders.

The following risk appetite positions shall govern the department's risk decisions and guide the nature and extent of risks it is willing to accept in the discharge of its functions.

Table 2: Risk Appetite

Risk Category	Appetite Level	Guiding Statement
Strategic Risks	Medium	The State Department accepts a moderate level of strategic risk in pursuing

Risk Category	Appetite Level	Guiding Statement
		innovation and improved service delivery, balanced against its public mandate.
Organizational Risks	▪ Medium ▪ Low	The Department accepts moderate organizational risk associated with structured capacity building, succession planning, and human resource development programs are implemented and maintained. The state department has Low risk appetite for Organizational risks that would critically undermine the Department's institutional capacity are not acceptable and must be escalated accordingly
Operational Risks	Medium	The State Department accepts limited operational risk inherent in delivering its services, provided adequate controls are documented, functional, and subject to regular

Risk Category	Appetite Level	Guiding Statement
		review.
Financial Risks	Low	The State Department has zero tolerance for fraud, misappropriation or deliberate misuse of public funds and assets.
Technological Risks	▪ High ▪ Low	The State Department has a high-risk appetite to invest in technological solutions that enhance efficiency and service delivery across its operations and a Low-risk appetite for system failures, loss of hardware, cybersecurity breaches, or unauthorized access to stakeholder data and information.
Compliance/legislative risk	Low	The State Department has zero tolerance for breaches of applicable laws, regulations and government policy.

2.12 Corruption and Fraud Risk Prevention Policy statement

The State Department upholds zero tolerance for fraud, corruption and any conduct inconsistent with the ethical standards expected of a public institution. In fulfilment of its statutory anti-corruption obligations and in furtherance of its commitment to transparency, accountability, and integrity in the management of public

resources the State Department shall develop and implement a comprehensive Corruption and Fraud Prevention Plan. All officers shall undergo regular training and sensitization on fraud and corruption risk prevention to entrench a culture of ethical conduct across the department.

CHAPTER THREE: RISK MANAGEMENT GOVERNANCE STRUCTURE

3.0 Introduction

This Chapter outlines the Risk Management Governance structure overview, roles and responsibilities of State Department.

3.1 Governance Structure Overview

The State Department Risk Framework adopt the three-line model of the Institute of Internal Auditors as the foundation of its risk management governance structure. This model portrays levels and responsibilities of different functions in the management of risk, which include;

i. First line of defense (Operational risk ownership)
ii. Second line of defense (Risk oversight & compliance)
iii. Third line of defense (Independent assurance)

3.2 Roles and Responsibilities

To ensure that risk management in the State Department is carried out effectively and cohesively, the roles and responsibilities of key players are as outlined in table 3 below.

Table 3: Roles and Responsibilities

NO	STRUCTURE	ROLES AND RESPONSIBILITIES
1	**Cabinet Secretary**	• Provide overall risk management policy framework, direction and oversight.
2	**Principal Secretary**	• Ensure the development and implementation of the Institutional Risk Management Policy Framework, including approval of budgetary allocations for risk management programs. • Promote a culture of risk management and provide adequate resources to support the Framework's implementation. • Receive and approve quarterly action plans on operational risk management issues. • Establish appropriate structures and reporting lines within the entity to support risk management and oversee the functions of the Risk Management Steering Committee. • Hold Heads of Departments accountable for designing, implementing, monitoring, and integrating risk management principles into their day-to-day activities.

NO	STRUCTURE	ROLES AND RESPONSIBILITIES
3	**Ministerial Audit Committee**	• Exercise oversight and review risk management policy framework implementation on behalf of the Principal Secretary.
4	**Public Finance Management Standing Committee**	• Ensure prioritization of resources allocated to risk policy plans and strategies. • Ensure identification of risks and implementation of appropriate measures to manage such risks.
5	**Risk Management Steering Committee**	• Ensure quality, integrity, and reliability of State Department risk management strategies, and co-ordinate the risk management processes described in the policy. • Examine and analyze the action plan before presentation to the Audit Committee and develop a work plan for institutional risk management. • Ensure staff across departments comply with the Framework and foster a culture where risks can be identified and mitigated. • Report to the Principal Secretary on institutional risks and mitigation

NO	STRUCTURE	ROLES AND RESPONSIBILITIES
		measures and propose reviews of the Institutional Risk Management Policy Framework. • Task the Risk Coordinator on follow-up actions where necessary.
6	**Risk Management Coordinator**	• Serves as the Secretary to the Risk Management Steering Committee and custodian of all information, records, and registers on risk management. • Select, develop, and maintain systems to support risk assessment; monitor completion and timely updating of departmental risk registers. • Consolidate quarterly and annual risk management reports to identify key risks and monitor trends in the State Department's risk profile over time. • Coordinate risk management activities, track mitigation of identified risks, and serve as liaison between the RMSC and Internal Audit Unit. • Coordinate the roles and tasks of Risk Champions across all departments and divisions.
7	**Risk Champions**	• Coordinate risk management activities within their functional areas in liaison

NO	STRUCTURE	ROLES AND RESPONSIBILITIES
		with respective Heads of Departments. • Identify, assess, evaluate, and provide response strategies for risk mitigation; intervene where risk management efforts are being hampered. • Report risks to the Risk Coordinator and recommend possible mitigation measures. • Influence and promote a risk management culture within their departments. • Monitor implementation of risk mitigation measures and provide guidance and support on complex or transversal risks.
8	**All State Department Staff**	• Comply with the Risk Management Policy Framework and all internal control procedures. • Identify, communicate, and regularly report risks arising from day-to-day activities to their Heads of Department. • Manage risks for which they are accountable and support the development of the risk register. • Provide information for the preparation of risk reports and for the

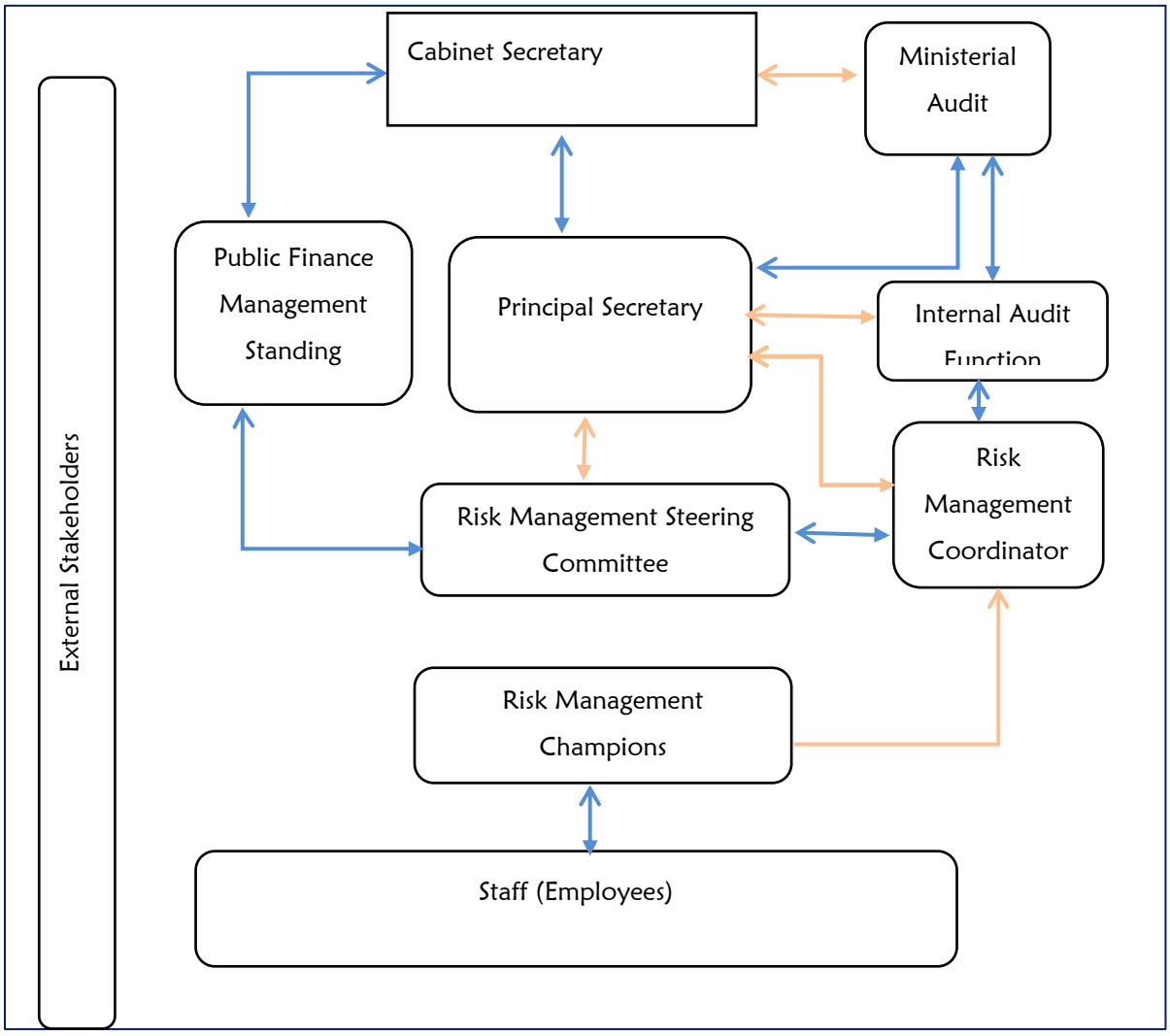
NO	STRUCTURE	ROLES AND RESPONSIBILITIES
		identification and evaluation of risks and opportunities. • Provide feedback on the effectiveness of the Institutional Risk Management Policy Framework (IRMPF).
9	**Internal Audit**	• Provide assurance on the design and effectiveness of risk management processes. • Evaluate risk management processes and report on the status of key risks and controls. • Review the management of key risks, including the effectiveness of controls and other risk responses.
10	**External Assurance Providers**	• Provide reasonable assurance on the effectiveness of risk management strategies and internal controls. • Evaluate the effectiveness of risk management processes and review management and reporting of key risks. • Offer consulting services designed to add value to the risk management policy framework. • Support and strengthen compliance with the risk management policy

NO	STRUCTURE	ROLES AND RESPONSIBILITIES
		framework within State Department. • Give feedback on inherent risks and related risk responses to support the Framework.

3.3 Risk Management Governance Structure

Effective communication and consultation are integral to State Department's risk management process, ensuring that relevant information is shared, expectations are clearly articulated, and feedback from stakeholders is appropriately considered at every stage of the risk management cycle. The governance structure through which communication and consultation shall be channeled across the Department is illustrated in figure 2 below.

Figure 1: Communication and Consultation



CHAPTER 4: RISK MANAGEMENT PROCESS

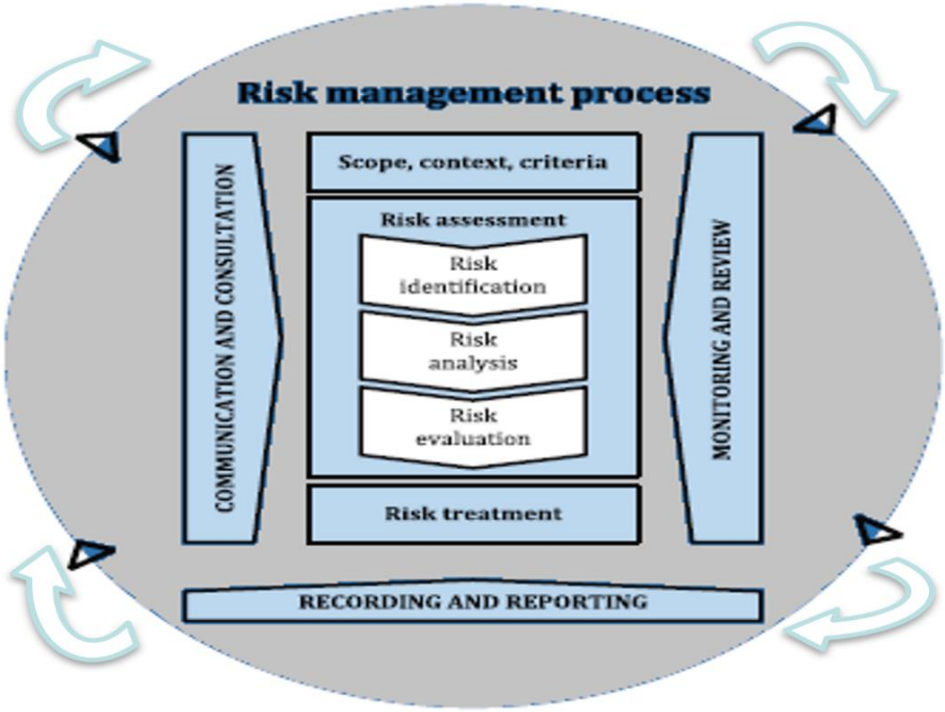
4.0 Introduction

This chapter outlines steps involved in the risk management process as guided by ISO 31000:2018 standard that provides principles and guidelines for effective risk management.

The State Department shall follow a structured approach to identifying, assessing and managing risks that could impact on its strategic objectives. This will entail a set of interactive steps undertaken in a coordinated manner, which will involve:

i. Establishing the scope, context and criteria;
ii. Risk assessment (identification, analysis, and evaluation);
iii. Risk treatment;
iv. Recording and Reporting;
v. Communication and Consultation; and
vi. Monitoring and Review.

Figure 3: Risk Management Process



Source: ISO 31000:2018

4.1 Scope, Context and Criteria

Scope: The scope of this Risk Management Policy Framework defines the boundaries within which risk management shall be applied across the State Department, as guided by its mandate, vision, mission and strategic objectives.

This Framework applies to all operations, functions, programs, and activities undertaken by the State Department and encompasses all:

i. Directorates, departments, divisions and units/sections;
ii. Staff engaged in the discharge of the State Department's functions;
iii. Public resources under the State Department's stewardship and management; and
iv. Projects and programs are funded through the national exchequer or by development partners.

Context: The State Department shall take into account its internal and external environmental factors that influence risk.

(a) Internal Environment

The internal context shall be established through the State Department's mandate, vision, mission and strategic objectives. The internal environment factors include:

i. Governance structure, roles and responsibilities;
ii. Strategies and objectives;
iii. Resources (financial, human capital, technological);
iv. Organizational Culture;
v. Reporting and Communication;
vi. Policies, standards, procedures and guidelines; and
vii. Legal and contractual obligations.

(b) External Environment

The external context is established by mapping key stakeholders and the environment in which State Department operates. This encompasses the cultural, social, political, legal and regulatory, financial, technological, natural and competitive dimensions at the local, regional and international levels. The process focuses on key drivers, trends, relationships, and values of external stakeholders that bear on State Department's objectives. Stakeholder identification draws from the Ministerial Strategic Plan 2023–2027, targeting areas that are, or may be, impacted by the department's operations.

Criteria; To ensure consistent evaluation and prioritization of risks across all its functions and operations, the department shall establish and apply defined standards and thresholds that determine the significance of each identified risk and guide the nature and level of response it warrants. These comprise the likelihood, impact and the overall risk scoring criteria, the risk heat map and the risk appetite.

4.2 Risk Assessment

Risk assessment process shall involve identification, analysis and evaluation of risks. It will be conducted systematically, iteratively

and collaboratively, drawing on the knowledge and views of stakeholders using best available information.

i. **Risk Identification** shall involve finding, recognizing and describing risks that may affect the achievement of the State Department's objectives. The risk identification process shall;
    a) Use a variety of techniques including SWOT analysis, environmental scanning, brainstorming, interviews, stakeholders' consultation, historical incident analysis and review of audit findings;
    b) Cover new and emerging risks.

ii. **Risk Analysis** shall entail examining both the likelihood of a risk occurring and the severity of its potential impact.

Risks shall be assessed based on the probability of occurrence, informed by historical precedent, adequacy of existing controls and professional judgment. Likelihood is rated on a three-point scale from low, medium to high as set out in table 4 below.

Table 4: Likelihood Scoring Criteria

Weight	Rating	Narration	Basis
1	Low	Event has minimal chance of occurring	An event has not occurred before and there are plans/adequate controls to minimize the occurrence and deal with it in case it occurs.
2	Medium	Event has a fair chance of occurring	• An event has not occurred before and there are no controls to deal with it in case it occurs • An event has not occurred in the past medium - term and may not occur in the next medium term. Controls around the event identified are weak or not working as expected
3	High	Event has a greater chance of occurring	An event has occurred within the past year and may occur in the next year. There are minimal or no controls around the identified event

Impact shall be assessed based on the extent to which a risk event can negatively affect the achievement of the State Department's objectives. It is rated on a three-point scale from low, medium to high as set out in table 5 below.

Table 5: Impact Scoring criteria

Weight	Rating	Narration	Basis
1	Low	Negligible impact on strategic objectives	Event will have negligible effect on the State Department's objectives
2	Medium	Moderate impact on objectives	Event will negatively affect the achievement of departmental objective
3	High	Severe impact on objectives	Event will cause significant impact that may result to inability to deliver on the State Department's mandate.

iii. **Risk Evaluation** Criteria shall involve comparing the results of risk analysis with the established overall risk criteria, to determine where additional action is required. The overall risk score shall be derived by multiplying the likelihood score by the impact score. The resultant score determines the risk rating and will inform the appropriate management response,

in making decisions on which risk needs treatment and priority for treatment as shown in table 6 below.

Table 6: Overall Risk Scoring Criteria

Overall Scores Criteria	Rating	Interpretation
1 – 2	Low	The risk event is not likely to happen and if it does, it will have minimal effect on the achievement of the department objectives.
3 – 4	Medium	The risk event is likely to happen at some point and if it happens, the effect may be moderate on achievement of the strategic objectives.
6 – 9	High	The risk event is very likely to happen and if it happens, it may significantly affect the achievement of the State Department's strategic objectives.

iv. Risk Heat Map

A risk heat map shall be used in the risk assessment process to visualize the risks and show a holistic view of risks facing the State Department. The heat map is a two-dimensional representation of risks whereby risk values are represented by colors using qualitative

or quantitative values or a combination of both as depicted in **Figure 4.**

Figure 4: Risk Heat Map

IMPACT				
LIKELIHOOD		1	2	3
	3	3	6	9
	2	2	4	6
	1	1	2	3

KEY

Low (1–2) **Medium (3–4)** **High (6–9)**

4.3 Risk Treatment

This step shall involve selecting and implementing options for addressing risks. All risk treatment/response plans must consider State Department's risk appetite before establishing which risk response strategies to adopt as stated below:

i. Terminate/Avoid – deciding not to proceed with an activity that generates an unacceptable risk.

ii. Transfer/Share – sharing / passing the risk to a third party;

iii. Treat/Reduce – Taking action to reduce the likelihood and / or impact of the risk.

iv. Tolerate/Accept – accepting the residual risk where it falls within the State Department's risk appetite.

4.4 Recording and Reporting

The State Department shall maintain a risk register that will keep a record of all identified risks and communicate with stakeholders' risk mitigation measures that will enable informed decision making at the strategic level, accountability at the operational level and independent assurance at the oversight level.

The risk register shall consist of: strategic objectives, risk identity, description, sources, category, consequences of risk to strategic objectives, risk rating, existing controls, strategic initiatives/response, risk owners and timelines for each risk event as prescribed by PSASB template in appendix 1.

4.5 Communication and Consultation

The State Department shall ensure continuous communication throughout the risk management process in line with its communication strategy and the risk management governance structure. This will promote awareness and obtain feedback to support decision making ensuring that every risk management

initiative is data-driven, timely and aligned with organizational objectives.

4.6 Monitoring and Review

The State Department shall ensure risk management processes are continuously monitored and periodically reviewed.

Monitoring shall entail continuous tracking of the risk management process through ongoing activities and periodic evaluations to confirm that controls are in place, effective, and responsive to changes in the risk environment. Monitoring shall assess whether:

i. Allocated responsibilities are being discharged as intended;
ii. Risk response strategies are producing the desired outcomes; and
iii. Improvements in the risk management system are translating into measurable performance gains.

Review shall focus on identifying and addressing weaknesses in the risk management process, ensuring alignment with changes in State Department's objectives and operating environment, confirming

that the system is achieving its intended goals efficiently and effectively.

Monitoring and review shall be supported by the following tools:

Risk Management Maturity Model *(Appendix 2)*;

i. Quarterly Risk Management Reporting Template *(Annex 2)*; and
ii. Annual Risk Management Reporting Template *(Annex 3)*

CHAPTER 5: REVIEW AND APPROVAL

5.0 Introduction

This chapter outlines the policy review cycle and the responsibilities of designated governance actors in ensuring the policy remains current and fit for purpose.

5.1 Review of the Framework

The Risk Management Policy Framework shall be reviewed at least once every two years from the date of its last approval. It shall assess whether the Framework remains aligned with the State Department's strategic objectives, risk profile, operational context, and applicable regulatory requirements, and shall identify any amendments necessary to maintain its relevance and effectiveness.

In addition to the scheduled review cycle, an out-of-cycle review shall be initiated where any of the following conditions arise:

i. Significant changes in the State Department's operating or regulatory environment;
ii. The occurrence of a significant risk event or incident that exposes gaps in the Framework; or
iii. The introduction of new legislation, policy directives, or risk management standards applicable to the State Department.

5.2 Responsibility for Review

The review of the Risk Management Policy Framework shall be governed by the following designated roles and responsibilities:

Accounting Officer

Provides final approval of the reviewed Framework and any amendments thereto, ensuring alignment with the State Department's governance obligations and strategic direction.

Risk Management Steering Committee

Oversees the review process, deliberates on proposed amendments, and makes recommendations to the Accounting Officer for approval. The Committee shall ensure that the Framework reflects emerging risks and evolving best practice.

Risk Management Coordinator

Serves as the lead for the review process, responsible for initiating, planning, and coordinating the review in accordance with the stipulated cycle or trigger conditions; consolidating inputs from relevant stakeholders; and preparing a revised draft for consideration by the Steering Committee.

APPENDICES:

Appendix 1: Linkage Between KRAs, Strategic Objectives and Departmental Objectives

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
KRA 1: Public Investment Policy and Oversight	To strengthen public investment planning, appraisal, implementation, monitoring and evaluation	To enhance development and implementation of Public Investment Management (PIM) policies, frameworks, guidelines and standards	Public Investment Management
		To strengthen appraisal and prioritization of public investment projects	Public Investment Management
		To strengthen monitoring, evaluation and reporting of public investments and projects	Public Investment Management
		To improve public	Public Investment Management

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
		investment portfolio oversight and value for money	
KRA 2: Government Investments and Public Enterprises Management	To strengthen the capacity of State Corporations (SCs) to achieve their mandates.	To enhance reforms and policy interventions for efficient and effective operations in state Corporations	Government Investments and Public Enterprises Department
		To enhance efficiency and effectiveness of Government Investment Management Information System (GIMIS)	Government Investments and Public Enterprises Department
		To minimize fiscal risk exposure emanating from State Corporations	Government Investments and Public Enterprises Department

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
		To enhance budgeting processes, corporate governance, reporting and performance contracting in State Corporations	Government Investments and Public Enterprises Department
		To enhance compliance with legal, regulatory and policy frameworks governing Public Enterprises	Government Investments and Public Enterprises Department
		To strengthen risk management systems within Government investments and Public Enterprises	Government Investments and Public Enterprises Department

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
		To promote prudent management and safeguarding of Government shareholding and investment interests	Government Investments and Public Enterprises Department
		To strengthen coordination and oversight of reforms in Public Enterprises	Government Investments and Public Enterprises Department
		To enhance efficiency and effectiveness of Government Investment Management Information System (GIMIS)	Government Investments and Public Enterprises Department

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
		To minimize fiscal risks exposure emanating from State Corporations and Government owed Enterprises	Government Investments and Public Enterprises Department
KRA 3: Resource mobilization for financing public expenditures	To increase private capital investments in PPPs	To ensure effective support of contracting authorities (CA) in attracting, securing and managing private investment for sustainable PPP	PPP Directorate
		To enhance resource mobilization under Project Facilitation Fund (PFF) for sustainability	PPP Directorate

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
		of PPP program	
		To enhance the legal and regulatory frameworks that support public private partnership in Kenya	PPP Directorate
KRA 4: Public Procurement and Asset Disposal	To strengthen public procurement and asset disposal systems in the public sector	To enhance implementation of public procurement and asset disposal policies and regulations	Public Procurement Department
		To promote transparency, accountability and value for money in public procurement	Public Procurement Department
		To strengthen compliance with procurement laws,	Public Procurement Department

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
		regulations and standards	
		To enhance uptake of government procurement opportunities by youth, women and persons with disabilities	Public Procurement Department
KRA 5: National Government Assets Management	To strengthen management, administration and safeguarding of government assets and properties	To establish and maintain an updated inventory of National Government assets and properties	National Assets and Liabilities Management Department
		To promote optimal utilization, maintenance and safeguarding of government assets	National Assets and Liabilities Management Department

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
		To enhance accountability and reporting on government assets and properties	National Assets and Liabilities Management Department
		To strengthen policies and systems for management of government assets	National Assets and Liabilities Management Department
KRA 6: Pensions Policy and Administration	To enhance efficiency and effectiveness in pension administration and management	To improve pension claims processing and payment systems	Pensions Department
		To strengthen pension policy formulation and implementation	Pensions Department
		To leverage ICT in pension administration and records management	Pensions Department

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
		To strengthen pension payroll management and controls	Pensions Department
KRA 7: Strengthened Institutional Capacity and Governance	To strengthen institutional capacity, governance and internal business processes	To enhance human resource management and staff productivity	Human Resource Management and Development
		To strengthen internal audit, risk management and internal controls	Internal Audit and Risk Assurance Unit
		To strengthen financial management, accountability and reporting systems	Finance and Accounts Department
		To enhance ICT systems and automation of business processes	ICT Unit

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
		To strengthen records management and access to information	Records Management Unit
		To strengthen legal advisory and compliance services	Legal Services Unit
		To enhance procurement, stores and inventory management systems	Supply Chain Management Unit
		To strengthen corporate communication, stakeholder engagement and public awareness	Public Communications Unit
KRA 8: Monitoring, Evaluation and Reporting	To strengthen monitoring, evaluation and reporting on programs	To enhance monitoring and evaluation of departmental programs, projects and	Central Planning and Project Monitoring Department

Key Result Area (KRA)	Strategic Objectives	Departmental Objectives	Responsible Directorate/ Department
	and projects	policies	
		To strengthen performance management and reporting systems	Central Planning and Project Monitoring Department
		To strengthen risk monitoring, reporting and escalation mechanisms	Risk Management Coordination Unit

Appendix 2: Risk Management Maturity Model

Stage/ Level	Culture	Governance	Systems & Processes	Audit Approach
1.Risk Enabled	Risk management is a value adding tool and is integrated into all decision-making.	The Governing Body undertakes its risk oversight role.	Risk analytics are used to identify and monitor risk. Advanced risk	Audit risk management processes and uses management's assessment of risk.

			management processes are in use.	
2. Risk Managed	Risk is integrated into strategic planning; risk criteria are stated and communicated. The entity is proactive in risk management.	Top management ensures risk management is structured and consistently implemented across the entity.	Risk management processes are monitored, gaps addressed and continually improved	Audit risk management processes and uses management's assessment of risk as appropriate
3. Risk Defined	Risk Management Framework is developed and implemented.	Top Management takes lead in ensuring risk processes are developed and implemented in all key areas.	Formal risk processes are implemented and documented.	Liaises with risk management function and uses management's assessment of risk where appropriate.
4. Risk	Unstructured	Risk	As	Promote

Aware	risk Management and limited standardization	management initiatives are supported by top management on a need basis	needed risk and control self-assessment Processes are implemented Scattered silos approach to risk management.	entity wide approach to risk management and rely on audit's risk assessment
5. Risk Naive	The entity has minimal or no awareness of risk management	The Governing Body and Management is not committed in establishing risk management framework.	Processes are performed on an ad hoc basis by individuals.	Promote risk management and rely on audit's risk management

Source: *IIA*

ANNEXTURE:

ANNEX I: Quarterly Risk Report Template:
https://www.internalaudit.go.ke/wp-content/uploads/2025/10/7.-Quarterly-Risk-Management-Report-Template.pdf

ANNEX II: Annual Risk Report Template
https://www.internalaudit.go.ke/wp-content/uploads/2025/10/8.-Annual-Risk-Management-Report-Template.pdf

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