



REPUBLIC OF KENYA

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*RISK*

*MANAGEMENT*

*POLICY*

*INSPECTORATE OF STATE  
CORPORATIONS  
(OFFICE OF THE DEPUTY  
PRESIDENT)*

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## ACRONYMS

**IFMIS:** Integrated Financial Management Information System

**IG(C):** Inspector-General (Corporations)

**OIGC:** Office of the Inspector-General (Corporations)

**ICT:** Information Communication Technology

**ISC:** Inspectorate of State Corporations

**PIC:** Parliamentary Investment Committee

**RMP:** Risk Management Policy

**SCAT:** State Corporations Appeals Tribunal

## **Vision Statement**

To be the leading oversight agency in the region.

## **Mission Statement**

To continuously improve public service delivery through promotion of good corporate governance in state corporations

## **Core Values**

The fundamental core values of the Office of the Inspector-General (Corporations) are:-

**I**ntegrity and **I**mpartiality  
**P**rofessionalism  
**C**ustomer Focus  
**T**eam Spirit  
**E**fficiency and **E**ffectiveness

## **Policy Statement**

The Office of the Inspector-General (Corporations) is committed to effective management of risks to enhance achievement of its strategic objectives and ensure its continued viability.

### **1.0 Background/Overview**

The Office of the Inspector-General (Corporations), in pursuing the realization of its strategic objectives as outlined in the Strategic Plan (2010-2012), acknowledges that all envisaged activities are associated with elements of risk. Further, owing to the revamping and expansion of the Office of the Inspector-General, which has taken place over the years, and Government directive for Public Institutions to develop risk management systems and policies, there is need to build awareness and shared responsibilities for risk management at all levels of the department.

#### **1.1 Overview of the Office of the Inspector-General (Corporations)**

The Inspectorate of State Corporations was established as Inspectorate of Statutory Boards in 1966 in the then Ministry of Agriculture and Animal Husbandry. It has evolved over time to become the current Office of the Inspector-General (Corporations) which was established under the State Corporations Act, Cap 446, Laws of Kenya in 1986.

### **2.0 Purpose**

This policy is intended to assist in decision making processes that will minimize potential losses, improve the management of existing uncertainty and the approach to new opportunities thereby helping the department to optimize the utilization of the available resources. The policy will further enhance application of good corporate governance principles and address challenges emanating from both internal and external operating environment.

### 3.0 Policy Scope

Every officer of the Office of the Inspector-General (Corporations) has a role to play in identification and management of risk through risk management processes being integrated with planning processes and embedded in management activities.

### 4.0 Definition of Terms

For the purpose of this Policy and unless otherwise stated, the following definitions shall apply:-

**4.1 Risk:** The threat or possibility that an action or event will negatively impact on the achievement of the goals and objectives of the Office of the Inspector-General (Corporations).

Risks encompass three dimensions:

- (i) **Hazard:** Preventing an exposure from turning into a loss.
- (ii) **Uncertainty:** Coping with volatility, unpredictable events and change.
- (iii) **Opportunity:** Harnessing openings, chances and prospects to our advantage.

**4.2 Risk Management:** The process of identifying, assessing and developing management strategies to deal with risks facing the Office of the Inspector-General (Corporations).

**4.3 Risk Assessment:** The overall process of risk identification, analysis and evaluation.

**4.4 Risk Appetite:** The willingness of the Office of the Inspector-General (Corporations) to accept risks related to its activities or objectives.

**4.5 Risk Treatment:** Includes acceptance, avoidance, reduction, transfer, termination, opportunity taking and seeking of additional information.

**4.6 Inherent Risk:** The risk linked to an activity.

**4.7 Residual Risk:** The risk remaining after controls have been put in place to mitigate the inherent risk.

## **5.0 Objectives of the Risk Management Policy**

The objectives of this policy will be to:

- (i) identify, measure and control risks that might impact the achievement of the goals and objectives of the Office of the Inspector-General (Corporations);
- (ii) provide a framework for formulation of risk management strategies;
- (iii) enable the Office of the Inspector-General (Corporations) to make right decisions in uncertain operating environment and establish pre-emptive strategies to enhance service delivery;
- (iv) allow the Office of the Inspector-General (Corporations) to evaluate, prioritize, and address critical risks and channel resources to risks for quality of services rendered; and
- (v) anticipate any potential impediments/risks that can impact on the achievement of the strategic objectives and propose appropriate risk treatment measures.

## **6.0 Key Principles**

The following key principles outline the Office of the Inspector-General's approach to risk management:

- (i) The identification and management of risks are linked to the achievement of the Office of the Inspector-General's strategic goals.
- (ii) The Inspector-General (Corporations) is responsible for overseeing a sound system of internal controls that support the achievement of the strategic goals.
- (iii) Risk assessment and internal controls are embedded in all ongoing operations.
- (iv) The Senior Deputy Inspector-Generals are responsible for encouraging and implementing good risk management practices.
- (v) The Senior Deputy Inspector-General in charge of Corporate Governance will produce annual reports on internal controls; and risk identification, evaluation, and mitigation review.

## **7.0 The Risk Profile of the Office of the Inspector-General (Corporations)**

The Office of the Inspector-General (Corporations) has identified and profiled the risks in four (4) key areas:-

No.	Key Area	Description	Drivers of the Risk
1.	Strategic	Risks that might affect the Inspectorate in achieving its long-term goals: availability of capital (vehicles, office space); political environment; legal and regulatory; reputation/image.	Internal and External
2.	Operational	Related to day-to-day operations of ISC: skills and competencies, availability of tools and equipment, organizational culture, supply chain processes, communication with stakeholders, record management, fleet management, ICT, audits, inspections and surcharge.	Internal and External
3.	Financial	Availability, effective management and control of financial resources in ISC: budget and budgetary control; delay in approval of budget, cash flow, IFMIS and recovery of expenses.	Internal and External
4.	Environmental Health and Safety	Poor working environment, general security and noise.	Internal and External
5.	Business Related Risks	Management audits, Surcharge processes, Monitoring and Evaluation, Attendance to SCAT, High Court and PIC. The risks are: harassment, threats, risk of being compromised, security of officers, political interference, security of information, and utilization of ISC reports, skills and competencies, legislation, withholding information	External

## 8.0 Risk Management and Control Process

The following steps will be followed in the risk management and control process:-



## 8.1 Risk Management Process

### Step I: Risk Identification

Risks will be identified, registered in a risk register and assigned a ‘risk owner’ whose responsibility will be to ensure that the risk is managed and monitored over time.

### Step II: Risk Analysis

This will involve further identification of what, how and why the risk/event occurs/arises.

### Step III: Risk Assessment

This will determine the existing controls, likelihood of the risk reoccurring and impact of the risk in context of the existing controls where feasible and past events will be used as useful inputs in the risks assessment.

### Step IV: Risk Classification

The risks will be classified by level of likelihood of occurrence and the relative impact (Probable effect on OIGC).

#### (a) Risk Likelihood

- (i) **Certain:** The event will occur in most circumstances or there is a history of regular and predictable occurrence.
- (ii) **Likely:** The event will probably occur in most circumstances or there may be a history of frequent occurrence.
- (iii) **Possible:** The event might occur at some time and there could be a history of occurrence.
- (iv) **Unlikely:** Not expected but there is a slight possibility that the event could occur at some time or when some member of the team considers this as a risk that might occur.
- (v) **Rare:** Highly unlikely that the event may occur unless in exceptional circumstances, or no experience of a similar failure or there are sufficient controls now in place.

#### (b) Level of Impact

The level of impact will be determined by the outcome of an event. The impact may be high, medium or low.

**High:** The risk will be termed as high if the anticipated effect/impact is 50% and above, i.e., the risk will affect the achievement of strategic objective(s) by 50% and above.

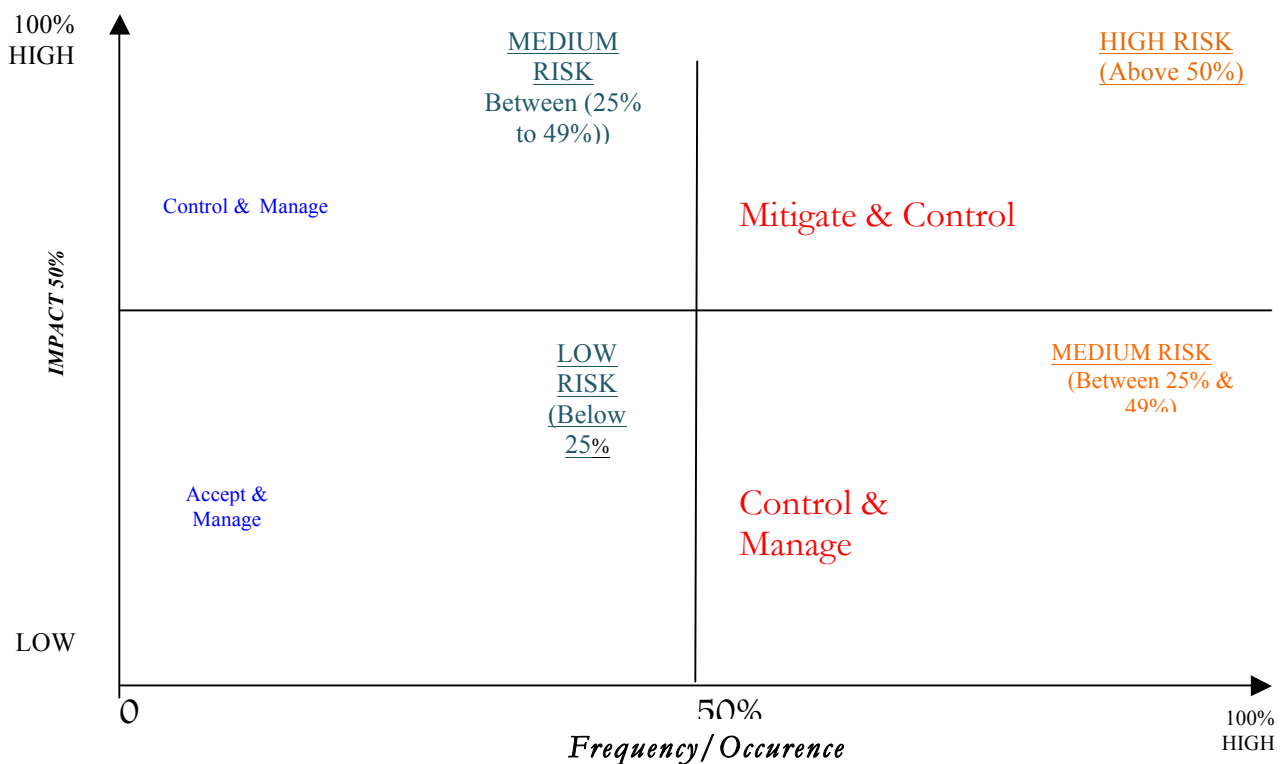
**Medium:** The risk will be termed as medium if the anticipated effect/impact is between 25% and 49%, i.e., the risk will affect the achievement of strategic objective(s) by between 25% and 49%.

**Low:** The risk will be termed as low if the anticipated effect/impact is 24% and below, i.e., the risk will affect the achievement of strategic objective(s) by 24% and below.

**(c) Risk Management Decision Matrix**

In the process of risk analysis, the risk management decision matrix below will be applied:

**Risk Management Decision Matrix**



## **Step V: Risk Treatment**

Treatment of risks is a key step in the risk management process. Decisions are made on how to treat risks that have been identified, categorized and prioritized.

Options of risk treatment will include:

- (i) **Acceptance:** Risk will be accepted if the ability to address it is limited or the cost of taking action is disproportional to the potential benefit. Measures, however, will be put in place for handling the impact that may arise if the risk is realized.
- (ii) **Avoidance:** Putting measures in place to remove hazards, engage in alternative activity or end specific exposure.
- (iii) **Reduction:** This is containing the risk to acceptable levels through systematic reduction in the extent of exposure to a risk/likelihood of occurrence.
- (iv) **Termination:** For risks that are treatable or confineable to acceptable levels, terminate the activities that give rise to the risks.

## **Step VI: Residual Risk**

Residual risk will be acceptable if it is demonstrated that all measures have been taken to limit the inherent risk.

## **Step VII: Monitoring and Evaluation**

A reporting monitoring and evaluation mechanism will be put in place to ensure appropriate and timely corrective measures are taken and weaknesses in the process are addressed.

## **8.2 Risk Appetite**

This will be the willingness of the Corporations) to accept risks related to activities or objectives. This policy recognizes that not all risks can be eliminated and that some levels of risks will always exist and should be tolerated to some level that is acceptable in pursuit of the strategic objectives of the Office of the Inspector-General (Corporations).

## **9.0 Authority and Responsibilities**

### **9.1 The Inspector-General (Corporations)**

The Inspector-General (Corporations) has the overall responsibility for establishment of appropriate structures for the implementation of the risk management policy. The Inspector-General (Corporations) will approve internal compliance and internal controls recommended in Risk Audit

Reports. The Inspector-General (Corporations) will appoint a Risk Management Committee.

## **9.2 The Senior Deputy Inspector-General (Corporate Governance)**

The Senior Deputy Inspector-General (Corporate Governance) has the overall responsibility for coordinating, implementing and assessing the effectiveness of this risk management policy. He/She is therefore responsible for advising on issuance of appropriate Circulars by the Inspector-General (Corporations) to guide the implementation of the policy and establishment of appropriate institutional structures for effective implementation of the policy.

## **9.3 Risk Management Committee**

The Inspector-General (Corporations) will, with the advice of the Senior Deputy Inspector-General (Corporate Governance) appoint a committee of five (5) officers as members of the Risk Management Committee. The committee will be required to identify, monitor and report to the Senior Deputy Inspector-General (Corporate Governance) on all risks that may adversely impact on the achievement of the Inspectorate's objectives. The Committee will also report on major changes in the risk environment and need for review of the Risk Management Policy (RMP). The Chairman of the Committee will be the custodian of the Risk register.

## **9.4 Staff**

All members of staff of the Office of the Inspector-General (Corporations) will be fully involved and adequately informed on the risks associated with their day-to-day activities and their responsibilities. All members of staff, therefore, have the responsibility of identifying, reporting and controlling risks, and adhering to this policy procedure.

## **10.0 Quality Assurance**

The Office of the Inspector-General (Corporations) will provide its stakeholders with reasonable assurance that the organization's operations are well-managed.

## **11.0 Review of the Policy**

This policy will be reviewed from time to time to take into account emerging issues.

## **12.0 Effective Date**

The effective date of this policy will be.....

Signed.....  
**Inspector-General (Corporations)**