

Policy Title: Risk Management Policy Framework

Policy Theme: The County Government of Bungoma will consistently and systematically manage risk so as to optimize operational outcomes, obtain the benefit of opportunities, manage uncertainty and minimize the impact of adverse events

Policy Contact: Chief Officer Finance and Economic Planning

Approval Authority: The County Executive Committee

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Signed:

_____	_____
Governor	Date
_____	_____
CECM Finance and Economic Planning	Date

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OPERATIONAL DEFINITION OF TERMS

- Audit Universe** : The entire auditable functions of the County Government
- Impact** : The degree of loss or damage that would result from an occurrence of the risk event
- Inherent Risk** : The possibility of a loss or damage arising out of circumstances prevailing in current operations
- Internal Controls** : The processes, rules, policies, procedures and mitigating actions used by the County Government to govern work, operations and programs
- Risk** : The uncertainty of achieving intended outcome, whether represented by a positive opportunity or negative consequences of actions taken or not taken by the County Government and its officers
- Risk Analysis** : The assessment and evaluation of the likelihood of occurrence and impact of occurrence on the achievement of County Government objectives
- Risk Appetite** : The level of exposure that the County Government is willing to accept or tolerate in relation to omissions or commissions by its officers in the performance of their work
- Risk Champion** : Employee who will lead their department to identify risk and opportunities and communicate the benefits of risk management to skeptical colleagues
- Risk Driver** : The underlying County Government operational factors that escalate the non-achievement of desired objectives or achievement of adverse consequences
- Risk Identification:** The process used by all County Government officers to

determine operational hazards, when, why and how the hazards may manifest themselves

- Risk Management:** The systematic process used by the County Government Officers to identify, evaluate and respond to all potential hazards that may impact on operations and achievement of broad objectives
- Risk Mitigation :** The lessening of the impact and consequences of hazards and adverse circumstances in County Government operations
- Risk Register :** A comprehensive record of County Government's risks detailing identified risks, risk assessment information and proposed risk response criteria
- Risk Response :** The approved means by the County Government will manage individual risks
- Risk Owner :** The person accountable for managing a particular risk

ABBREVIATIONS AND ACRONYMS

ERM	-	Enterprise Risk Management
CEC	-	County Executive Committee
COSO Commission	-	Committee of Sponsoring Organizations of the Tread way
AS/NZS ISO	-	Australian/New Zealand Standard

FOREWORD

Government of Kenya Treasury circular No. 3/2009 issued by the Permanent Secretary, Office of the Deputy Prime Minister and Ministry of Finance mandates all Public Sector Accounting officers, Chief executives of state corporations and Clerks to Local Authorities to develop and implement an Institutional Risk Management Policy Framework. The framework should enable the management to focus in a comprehensive and holistic basis on all risks faced by the public institution which could impact on the achievement of strategic objectives as well as service delivery targets and thereby enhance accountability to public sector stakeholders.

Consistent with this Policy, the County Government of Bungoma is committed to protecting itself, employees and others from situations or events that would prevent it from achieving its strategic goals and objectives. Risk management is an integral part of good governance, good management practice and the assurance of safe and productive workplace environments. This framework will institutionalize an efficient and effective systematic approach to managing risks and opportunities in the County.

Risk is inherent in all County Government's operations. Our risk management process does not encourage officers to be risk averse. The framework empowers our officers to manage risks to acceptable levels and to take risks commensurate with the assessed opportunities. The key driver in managing our risk will be to consistently and systematically manage risk so as to maximize operational outcomes, obtain the benefit of opportunities, manage uncertainty and minimize the impact of adverse events.

The County Government of Bungoma has adopted a systematic approach to managing risks and opportunities that:

- Defines the process of systematically managing risks inherent in all operations, functions and activities;
- Requires a high standard of accountability at all levels;
- Supports effective corporate governance systems and reporting mechanisms;
- Encourages high standards of efficient and effective stakeholder focused services that take advantage of opportunities for improvement; and
- Allows the County Government to better meet its client and community demands.

Every employee and stakeholder must be involved in the identification, evaluation and treatment of risks and opportunities that could negatively impact or influence the achievement of the County Government's objectives. We trust that this framework will be useful in guiding and assisting you to integrate risk management into your day to day role and operations within the department.

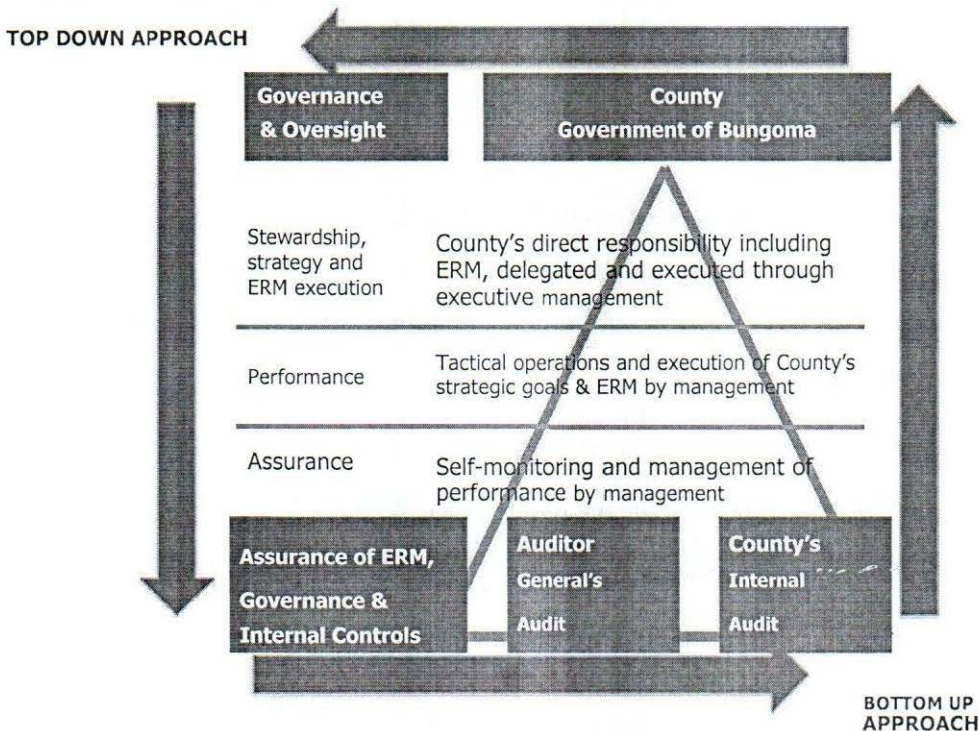
Governor

CHAPTER ONE: INTRODUCTION

1.1 Background

Risk is the possibility of an event or activity impacting adversely on the County Government, preventing it from achieving its organisational outcomes. **Risk management** comprises the activities and actions taken to ensure that the County Government is conscious of the risks it faces, makes informed decisions in managing these risks, and identifies and harnesses potential opportunities. Effective Risk Management will help identify and deal with key risks facing the County Government in the pursuit of its goals.

Risk Management is a key part of corporate governance, which is essentially the way an organisation efficiently and effectively manages its operations by determining its goals and objectives, and how it pursues and achieves those objectives. The diagram below depicts how Risk Management will be part of Corporate Governance in a County Government of Bungoma.



County's Risk Management and Corporate Governance Process

The success of risk management operations in the County Government of Bungoma will depend on the foundations and arrangements that will embed this framework throughout the County's operations at all levels.

1.2 Aim and purpose of the risk management policy framework

The aim of this Risk Management Policy Framework is to improve the ability to deliver the County Government's strategic goals, by managing risks, enhancing risk awareness and creating an environment that adds value to operational activities and to our stakeholders.

The successful implementation of risk management in the County will yield the following benefits:

- **Effective Operational Performance:** The impact of County Government development policies will be enhanced;
- **Improve Financial Performance:** A high proportion of objectives will be achieved cost-effectively and the levels of internal fraud and corruption will be reduced;
- **Improve Human Resource Management:** Reduce staff turnover, absenteeism and work related stress;
- **Improve Corporate Governance and Compliance Systems:** Reduce legal challenges to the County Government, improve corporate governance, increase stakeholder satisfaction and relationships, and enhance the County Government's corporate image;
- **Eliminate** adverse outcomes such as fraud through proactive steps.
- **Help** the County Government to cope effectively when actual risk incidents occur through mitigation plans, insurance and the systematic application of risk management processes;
- **Ensure** that the information about risks derived from the risk management process is accurately reported within the County; and

- **Ensure** that risk management information is used as a basis for decision making and accountability at all relevant levels of County Government levels.

1.3 County Government of Bungoma Risk Management Policy Statement

The County Government recognizes that commitment to risk management contributes to the creation of sustainable value and increases the quality of service delivery to the County residents. County Government's Employees, Stakeholders, Assets, Obligations and ability to deliver its mandate are constantly affected by risks. However the County Government recognizes that risk can be both positive and negative.

The County Government accepts its legal, moral and fiduciary duties in making informed decisions about how best to control and minimize the downside of risk, whilst still maximizing opportunity and benefiting from positive risks. The County Government will ensure that Officers, Management and Staff understand their responsibilities to identify and manage risks.

The Governor has committed the County Government to a process of risk management that is aligned to the principles of good corporate governance as supported by Chapter Six of the Kenyan Constitution and the Mwongozo Code of Corporate Governance.

The County Government recognizes that risk management is an integral part of responsible management and therefore adopts a comprehensive approach to the management of risk. The features of this approach are outlined in the County Government's risk management strategy. All departments, units, operations and processes will be subject to the risk management strategy.

All departments will integrate risk management into their operations, decision-making processes, programs, practices, operations planning and performance reporting activities and will establish a safe working environment for their staff. All departments, units, operations and processes will work together in a consistent and integrated manner, with the overall objective of reducing risk as far as reasonably practicable.

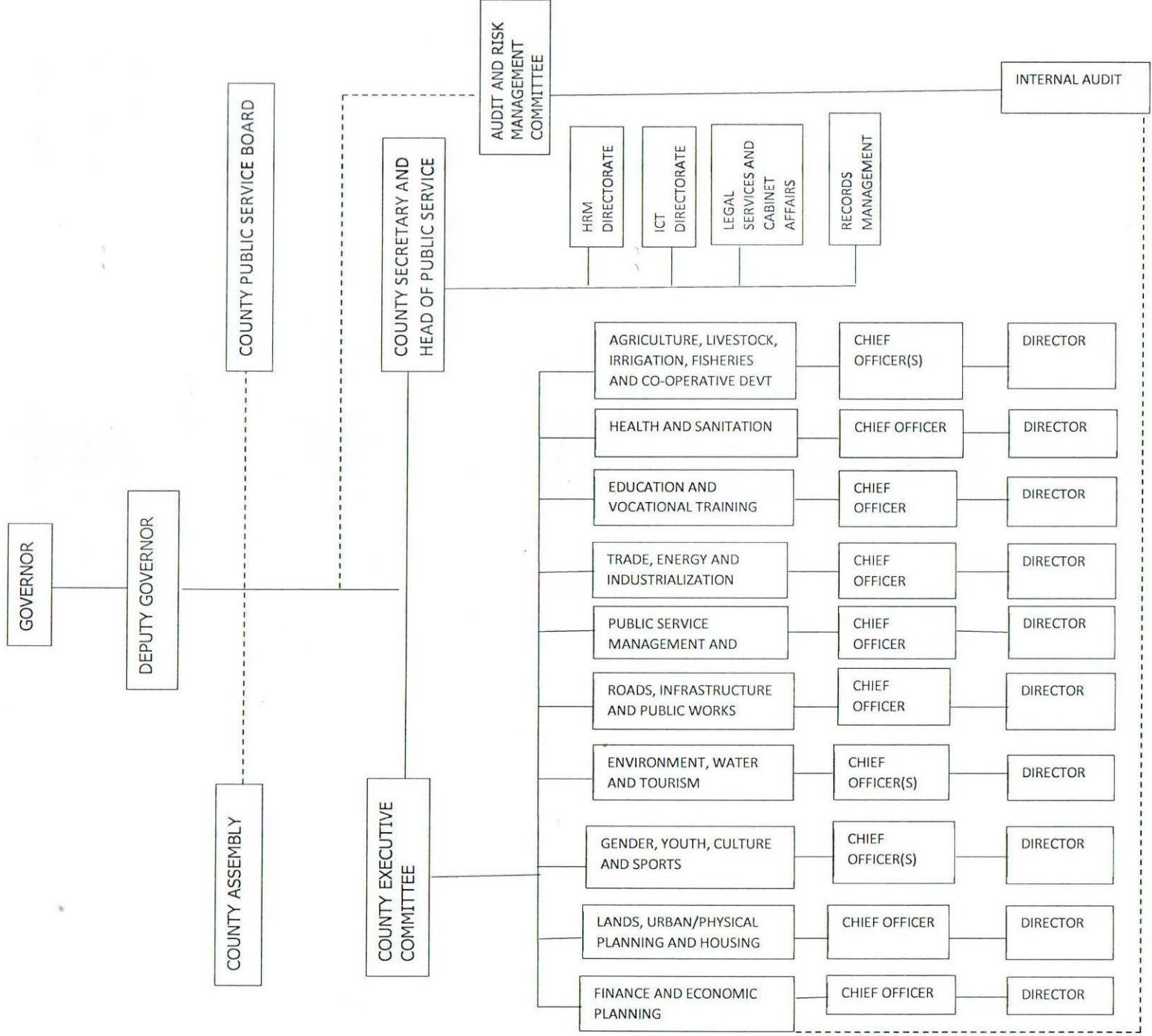
All Accounting Officers are accountable to their relevant departments for the development

and implementation of risk management processes specific to their departments' operations and County Government's needs.

This Risk Management Policy confirms the County Government's commitment to identify, assess and manage risks which may prevent the achievement of strategic goals and objectives. Risk management is recognized as an integral part of good management practice and the provision of safe workplace environments.

All County Government departments will integrate risk management into their operations, decision-making processes, programs, practices, operations planning and performance reporting activities and will establish a safe working environment for their staff.

This Risk Management Policy is applicable to the entire County Government of Bungoma as per organisational structure below:



COUNTY GOVERNMENT OF BUNGOMA ORGANIZATIONAL STRUCTURE

1.4 Purpose of Risk Management in the County Government of Bungoma

Risk Management is a core component of Governance of the County Government of Bungoma. The County Government has developed this Policy Framework to:

- 1.4.1 Fully integrate risk management into the County Government's operating culture and strategic planning process;
- 1.4.2 Ensure that the framework for identifying, evaluating, controlling, reviewing, reporting and communicating risks across the County Government is implemented and understood by all stakeholders;
- 1.4.3 Provide the necessary foundations and organisational arrangements for managing risk across all County Government's operations.
- 1.4.4 Entrench a culture of risk awareness in all County Government's employees whilst promoting a culture of innovation to optimize opportunities within the County Government's operations;
- 1.4.5 Ensure all County Government's operations and programs comply with all legal and regulatory requirements;
- 1.4.6 Integrate and align County Government's risk management systems with day to day operating activities and customer service processes;
- 1.4.7 Promote a culture of continual review and enhancement of the County Government's risk management processes; and
- 1.4.8 Ensure that the Executive Management, Officers, Employees and External Stakeholders obtain assurance that the County is mitigating the risk of not achieving its objectives, and thus complying with good corporate governance practices.

1.5 Objectives of Risk Management in County Government of Bungoma

- 1.5.1 Build capacity to make informed decisions regarding management of potential negative effects of risk and take advantage of potential opportunities
- 1.5.2 Enhance planning and performance management processes, enabling the County Government to focus on core service delivery and service improvements
- 1.5.3 Ensure that all inherent risks are taken into account when making strategic management decisions;
- 1.5.4 Ensure the management of operational risks is integrated into approved management and accountability processes; and
- 1.5.5 To develop an environment where all staff assume responsibility for managing risks

CHAPTER TWO: APPROACH TO MANAGING RISKS

2.1 Introduction

The County Government of Bungoma is committed to maintaining and continuously enhancing a County Government-wide risk management system that manages risks at strategic and operational levels. This system is designed to promote:

2.2 Risk management as part of the County Government's culture

- a) Risk management shall be a continuous evaluation of identified risks, emerging risks, current risk mitigation measures, possible improvement in the mitigation measures, and application of the most cost effective mitigation measure.
- b) The County Government Officers shall:
 - i. Not be risk averse but shall be prepared to manage risks within departmental limits approved by CEC;
 - ii. Routinely enquire, learn, reflect upon, anticipate and objectively assess risks and opportunities associated with the management's instructions, directions, departmental processes, services, values and employee behaviours;
 - iii. Promote open and ethical channels of communication that improve transparency and accountability across operations;
 - iv. Strive to continually add value to operational, departmental and client outcomes; and
 - v. Commit to conducting a robust and inclusive planning of all their programs.

2.3 Visible focus on managing emerging strategic risk and uncertainty

County Government Officers shall:

- i. Demonstrate and exercise risk leadership by example and communicate a positive risk culture;
- ii. Model their behaviours based on principles outlined in this framework;
- iii. Understand and oversee the interdependence of risks;
- iv. Ensure effective employee risk competencies by supporting professional development and risk management education and training; and
- v. Align resources with managing risks and opportunities.

2.4 Full accountability for managing and reporting significant risks at all levels of the County Government (strategic and operational)

County Government Officers shall:

- i. Manage the uncertainty associated with the County Government's strategic risks;
- ii. Create predictability and operational reliability;
- iii. Implement cost effective treatments to reduce risks and exploit opportunities;
- iv. Ensure risk management is considered in all new projects, initiatives, business cases and CEC submissions; and
- v. Integrate accurate, timely and complete risk management information and knowledge in their decision making process.

2.5 Recording and Reporting of Risks

- a) All County Government departments shall record their operational and/or strategic risks in a risk register.
- b) Departmental heads shall report departmental risks, risk controls in place and recommended risk treatment on a quarterly basis. The risk reports shall be subjected to a quality review process that ensures there is a consistent approach and language used across all departments. The reports shall be submitted to the Audit and Risk Management Committee and the CEC.

2.6 Risk control management

- a) All County Government departments shall design appropriate methods and procedures as controls to manage risks;
- b) Adopted controls shall reduce the likelihood of potential risks occurring and limits the impact should the risks materialize; and
- c) Departmental heads shall continuously monitor and review the effectiveness of controls adopted.

CHAPTER THREE: RISK MANAGEMENT PROCESS

3.1 Introduction

The County Government's risk identification is based on assessing the hazards and intervening factors that can derail the attainment of the set County Government's objectives in an economical, efficient and effective way. The identification process is based on identifying the key hazards, the likelihood of the hazards occurring and the impact on the set County Government objectives should the hazards occur.

Risk assessment is based on qualifying and quantifying the consequence level should the risks occur.

Risk management is based on identifying mitigation measures that would best assure the cost effective attainment of the stated County Government's objectives under unfavorable circumstances.

3.2 Types of risk

The County Government is exposed to eight broad types of risk, namely;

- a) **Strategic** – Risks that are associated with achieving the strategic objectives of the operating departments and the County Government as a whole.
- b) **Financial** – Risks that are associated with the financial health and sustainability of departmental and County Government's programs.
- c) **Leadership** – Risks that are associated with Officers of the County Government acting in the best interest of the County at all times.
- d) **Compliance** – Risks that are associated with Officers of the County Government complying with all statutory and regulatory requirements governing their work.
- e) **Hazards** – Risks that are associated with the safety and health of the County Government's working environment, and acts or omissions of

County Government's employees and Officers.

- f) Reputation** – Risks that are associated with acts or omissions of County Government employees and Officers putting the County Government to disrepute.
- g) Operational** – Risks that are associated with the day to day operations, projects, or programs deviating from and not achieving the short, medium and long term County Government's goals.
- h) External** – Risks that are associated with the impact of other county governments' acts or omissions, national government's acts or omissions, regional markets impact, global markets impact or technological impact on the County Government.

3.3 Risk Controls and Treatments / Actions

- a) In the event that the ownership of a risk control or treatment required by the County Government to manage a risk lies outside a department, extra-departmental controls or treatments shall be implemented to ensure that the original control or treatment is effective. Clear intra-county communication is crucial in these situations and all relevant stakeholders must be considered and engaged in this process.
- b) Risk controls and treatments can be linked to more than one risk and can be cross departmental or operational unit e.g. a departmental policy can be a control to more than one department or operational unit. However, the way one operational unit may implement that policy might be different to another and therefore it may create a risk treatment purely for its own use.

3.4 Risk Treatment / Action Plans

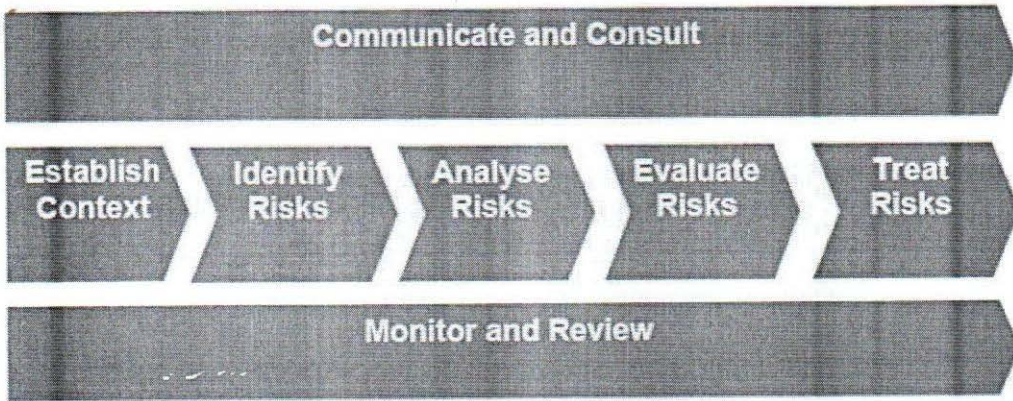
- a) Departmental heads will put in place an effective risk treatment / action plan when either the current controls are ineffective or require improvement, or in the unlikely event that no controls exist at all.
- b) Risk treatment plans shall comprise one or more actions that remedy identified risks or control weaknesses. When recording the risk treatment in the risk register, the description will detail who is doing what and what it is they are doing.

3.5 Steps in the Risk Management Process

The County Government's risk management process is adapted from the AS/NZS ISO 31000:2009 model. County Government Risk managers will in all operational and risk management instances:

- Establish the context of their actions
- Identify associated risks
- Analyse the risk
- Evaluate the risk
- Treat the risk
- Continuously communicate and consult
- Continuously monitoring and reviewing

The model is represented below;



County Government Risk Management Process

NB: A detailed process of risk management has been attached to this Policy as Appendix I.

CHAPTER FOUR: RISK MANAGEMENT ROLES AND RESPONSIBILITIES

4.1 Introduction

The County Government requires every employee and Officer to be informed and committed to implementing risk management processes effectively. Departmental heads shall clearly outline staff risk management roles and responsibilities in the department's Risk Management Register.

4.2 The County Executive Committee

The County Executive Committee is accountable to the public for:

- a) Defining the Mission, Vision and Strategic Objectives;
- b) Identifying Strategic Risks threatening the achievement of County Government's strategic goals;
- c) Approving the strategic and departmental risk registers;
- d) Delegating the responsibility to identify and manage risks to management;
- e) Establishing and maintaining a culture of risk awareness and intelligence;
- f) Ensuring County Government governance mechanisms effectively monitor risks and the way the risk is managed;
- g) Ensuring that all employees receive support in fulfilling their responsibilities;
- h) Setting standards of best practice for risk management, based on the COSO Framework and AS/NZS ISO 31000:2009;
- i) Contributing to the attainment of the County Government's economic, social and environmental objectives and complementing the achievement of Kenya's Vision 2030;
- j) Contributing to the attainment of the County Government's key result

- areas;
- k) Monitoring the adequacy and effectiveness of the risk management process through the Audit and Risk Management Committee and the Internal Audit; and
 - l) Reporting on the effectiveness of risk management in the annual report.

4.3 The Audit and Risk Management Committee

The Committee shall;

- a) Assist CEC in the identification of risks, determine priorities for action, ensure operational transparency and accountability and advise on the development and implementation of effective risk management strategies.
- b) Provide oversight of County Government risk management process, internal audit and external audit functions;
- c) Review and monitor the development and implementation of risk management principles across all County Government's operations;
- d) Review the strategic and departmental risk registers and make the necessary recommendations to the CEC;
- e) Review internal audit reports regarding the control environment;
- f) Receive and review quarterly strategic risk management reports; and
- g) Manage the relationship between the internal auditor and the Auditor General.

4.4 Internal Audit

Internal Audit shall:

- a) Transfer high risks with controls to the internal audit plan for approval by the Audit and Risk Management Committee;
- b) Conduct internal audit assignments to test the effectiveness of internal controls put in place by management;
- c) Prepare internal audit reports with opinions on the extent of effectiveness of the internal controls;
- d) Promote the county-government wide culture of risk management
- e) Make recommendations to the management for corrective action where controls are not followed or not working; and
- f) Prepare reports to the Audit and Risk Management committee regarding the control environment within the County Government.
- g) Co-ordinate the training on the risk management principles

4.5 Accounting Officers

The Accounting Officers of County Government of Bungoma shall be required to:

- a) Take responsibility for strategic risks facing the County Government through their departments;
- b) Put measures in place to manage risks;
- c) Monitor the effectiveness of risk management processes through review of internal audit and other operational reports;
- d) Demonstrate an understanding of and commitment to implementing an integrated risk management system;
- e) Nominate committed and motivated team members to undertake the role of risk champions;
- f) Evaluate risks on a quarterly basis including relevance of risk, level of risk, effectiveness of existing controls, treatments and sign off as part of quarterly

reporting process;

- g) React promptly to recommendations for corrective action by internal audit; and
- h) Undertake annual risk workshops as part of operational planning process, incorporating corruption and fraud risk assessments.

4.6 Public Finance Management Standing Committee

The Committee shall be required to aid the Accounting Officer in:

- a) Identifying risks; and
- b) Implementation of appropriate measures to manage such risks or anticipated changes impacting on the department;

4.7 Other County Public Servants

All employees shall be required to:

- a) Actively support, report and contribute to the effectiveness of the risk management process; and
- b) Maintain an informed awareness of the risks and opportunities that relate to their work group.

CHAPTER FIVE: RISK MANAGEMENT DOCUMENTATION AND REPORTING REQUIREMENTS

Risk reporting shall involve a structured process to record risk information at each stage of the risk management process. Departments shall maintain risk registers which enable the monitoring, review and prioritization of risks. The County Government's decision making process will require risk information that is concise, accurate and timely. Consequently;

- a) **Accounting Officers shall undertake** formal risk assessments as part of the annual business planning process and produce quarterly reports that address the current timelines for risk assessment, risk control effectiveness and appropriateness of implementation treatments.
- b) Operating units and departments through the Accounting Officers shall provide their risk management reports to the Audit and Risk Management Committee on their risk registers and risk treatment plans.
- c) Departmental heads shall report all key risks to the Audit and Risk Management Committee through the Accounting Officers:
 - i. That are rated high;
 - ii. That may have an impact across other department;
 - iii. That require a higher level of authority to be addressed;
 - iv. That were outside of the department's risk appetite, how they were referred to senior management and executive;
 - v. That have been approved by the executive as requiring higher level attention; and
 - vi. That have been downgraded, stating the reasons thereof.

d) **Employees**

All employees are expected to actively support and contribute to the recording and reporting of risks, through discussion on the risks associated with their role with their supervisors and by participation in risk management workshops when required.

e) **Internal audit**

Internal Audit plans shall be developed to contribute to the assessment of the County Government department's operating processes and activities. Internal audits shall provide an assurance to departmental executives regarding the comprehensiveness of identified risks, the effectiveness of risk controls employed and the effectiveness of management of those risks.

f) **Audit and Risk Management Committee**

The Committee shall report to the CEC and the top management on;

- i. Major and emerging County Government risks;
- ii. Underlying trend in managing those risks;
- iii. Risk control effectiveness within the County Government;
- iv. Risk control failures within the County Government; and
- v. Any major risks or issues that are of continuing concern.

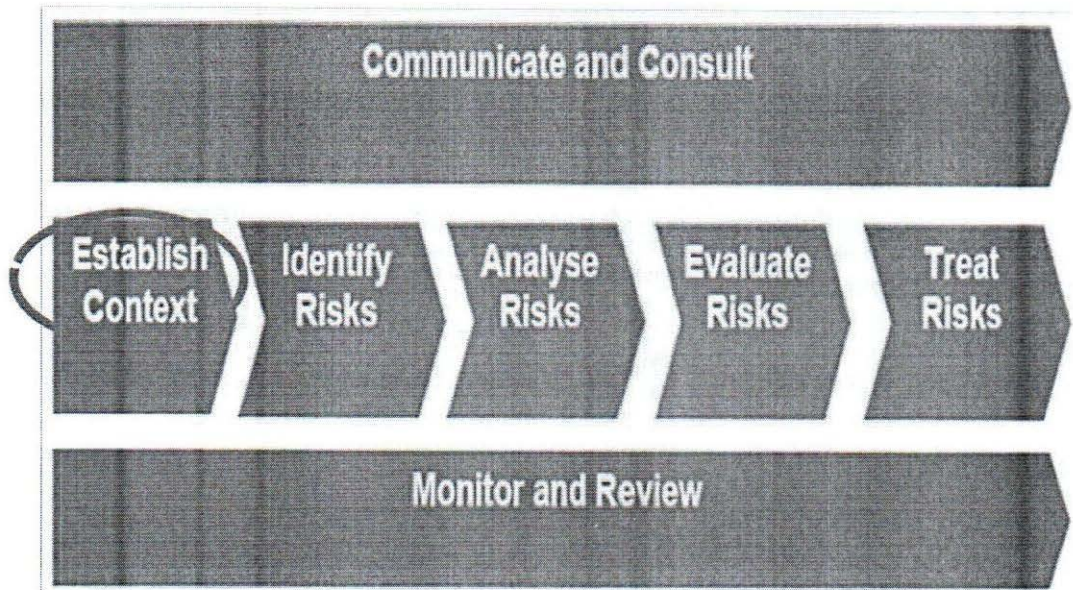
CHAPTER SIX: POLICY REVIEW

This policy framework will be reviewed annually to ensure that it is aligned with the evolving County Government's risk management challenges.

APPENDICES

APPENDIX I - DETAILED RISK MANAGEMENT PROCESS

The County Government's risk management process will be conducted as follows:



a) Establish the context

To establish the context of the work environment, the relevant County Government departmental heads must meet to determine what the risk management objectives are and understand what the internal and/or external environment is eg. legal, cultural, political, socio-economical, physical and day to day aspects of an County Government's functions.

When the internal and external context is understood, the risk management context, or what it is that the County Government has to do, can then be established. The scope and boundaries of where the risk management process will be applied must be clearly defined, taking into consideration both the costs and benefits of risk management. For example, it is not good introducing a state of the art risk management initiative if it fails to support the County Government's goal and objectives, or the County Government simply cannot afford to implement the initiative.

Key Department, Division, or business unit questions to ask when establishing the context may include:

External

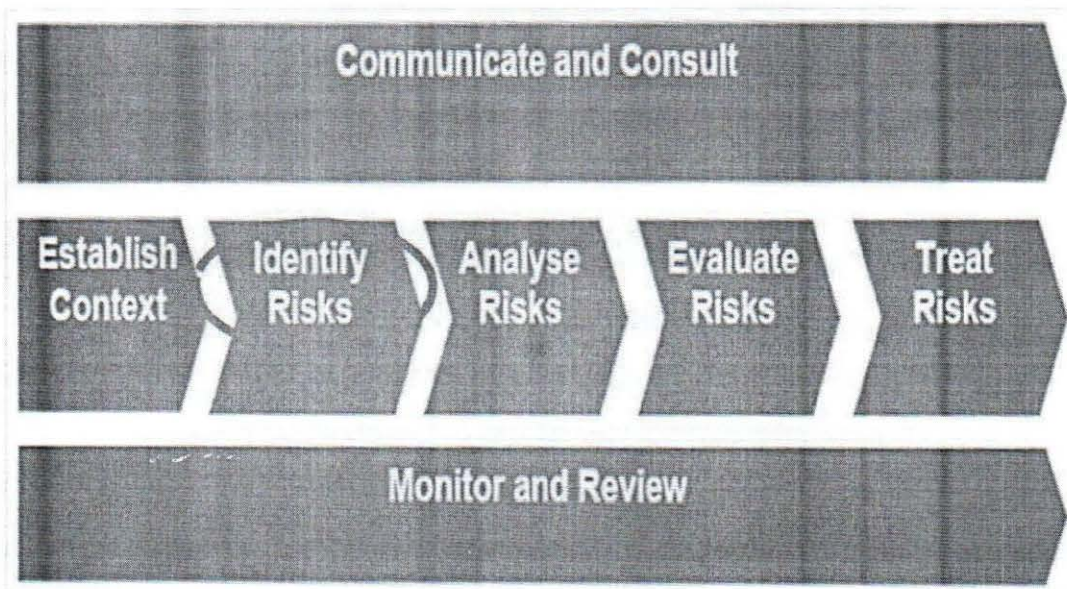
- What is the Purpose/Mission/Objective/s of our unit?
- What hazards / threats do you see that may affect the achievement of our unit's goals and objectives?
- What opportunities do you see that could enhance the achievement of our unit's goals and objectives?

Internal

- What are the strengths and weaknesses of our unit?
- Who are our internal and external stakeholders?
- How is our unit accountable to our stakeholders?

When considering the environment within which risks will be identified, the basis from where a risk initiates is an important element in controlling and treating that risk.

b) Identify the risks



To identify risks, a list of potential things that could stop the County Government from achieving its goals must be developed.

This list should always be wide-ranging as unidentified risks can cause major losses through missed opportunities or adverse events occurring. 'Brainstorming' will always produce a broad range of ideas and all things should be considered as potential risks. Relevant stakeholders are considered to be the subject experts when considering potential risks to the objectives of the work environment and should be included in all risk assessments being undertaken. Key risks to the County Government can then be identified and captured in the risk assessment worksheet.

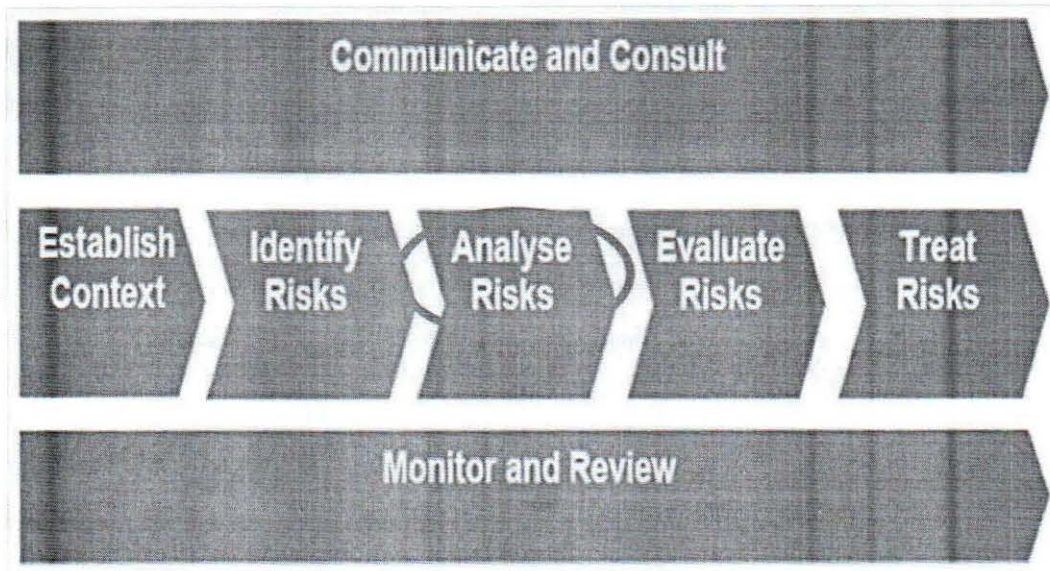
The sources and categories of risk template can be useful again in this step to determine which area the risk falls under. There may be more than one area that the risk affects.

When identifying risks, consider the following:

- What can happen
- Why will it happen
- Where will it happen
- When will it happen
- How will it happen

This step can also be used to determine opportunities for enhancement or gain across the County Government. Risks can also be identified through other operations including policy and procedure development, internal and external audits, customer complaints, incidents and systems analysis.

c) Analyse the risk



The second step in the risk assessment is to analyse the risk. This means to understand the essence of the risk and determine the causes and consequences and to identify any existing controls. Existing controls are things that are already in place such as policies, procedures, training programs etc. These controls require rating as either effective, requires improvement or ineffective.

Once this has occurred, the level of risk can be ascertained. This is done by using a risk assessment matrix. Departments should create their risk assessment matrix based on their '**risk appetite**' and what is and isn't acceptable within the organizational structure. If for example a department has determined that it is not prepared to accept a controlled level of risk above moderate and therefore anything above that rating must have controls recorded as less than effective and have a treatment plan put in place.

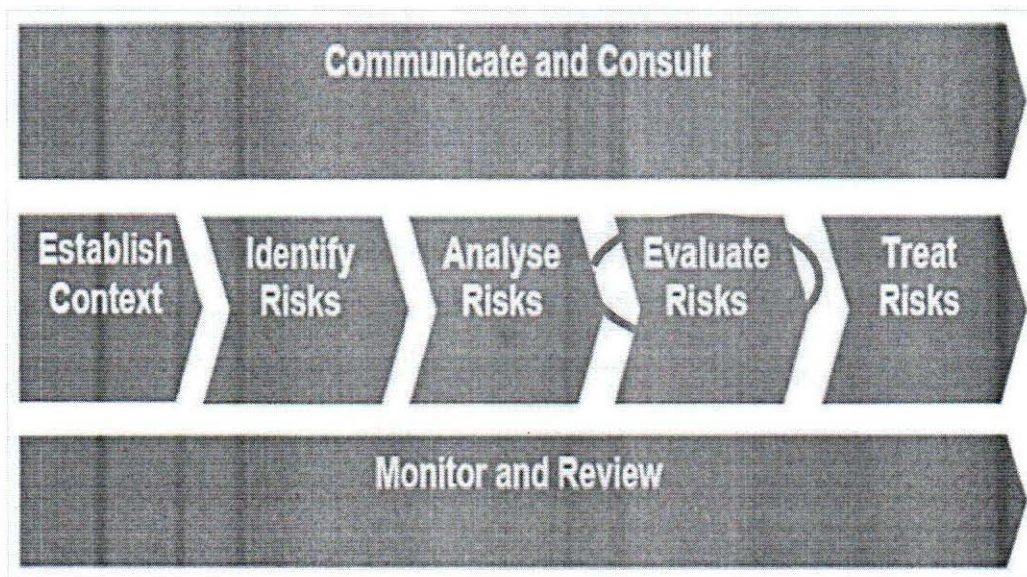
However, there can be circumstances where a high or extreme level of risk is not treated due to the financial impact and therefore remains at this level. Should this occur, an explanation from the risk owner is then required.

Risk descriptions – describe what the risk is, the cause of the risk and the consequences. As the risk description is only meant to be a short, contextual statement, the causes and consequences that are included should centre on the context that the risk is seen in.

Control descriptions – describe what the control is, what it does, who performs it and how it is done. If the control is a process or task performed by a particular role (committee, unit or person), they must be named in the control description as the control owner is not always the person undertaking the process or task. Not every control will require every component; however, the description must reflect exactly how the control is working. If it requires improvement, the weakness of the control is also captured in the risk register.

Treatment descriptions – describe what the treatment is, what action is required and who performs the task. As with controls, the person undertaking the task is not always the treatment owner and therefore must be identified in the description.

d) Evaluate the risk



Risk evaluation uses the information obtained during the analysis to make decisions about whether the risk is acceptable in its current state or whether further action needs to be taken to mitigate the risk. Decisions regarding whether treatments need to be implemented are required and then the priority of those treatments is established.

To evaluate the risk, the departmental risk assessment matrix is used to determine the levels of risk at the inherent and controlled stages. The control effectiveness is also considered at this point and plays a part in the decision whether treatments are then required.

Departments have to ascertain whether there are:

- Any risk where controls are less than effective; therefore requiring a treatment plan
- Risks that are rated at the controlled level of risk as extreme or high must have controls rated as less than effective and therefore require a treatment plan
- Risks that are rated at the controlled level of risk as either moderate or low can be accepted and monitored. *(Provided that the controls have been assessed as effective)*

Some risks outside of the department's risk appetite may need to be accepted with ongoing review because the cost of treatment is not feasible. However, if this is the case, an explanation from the risk owner is required.

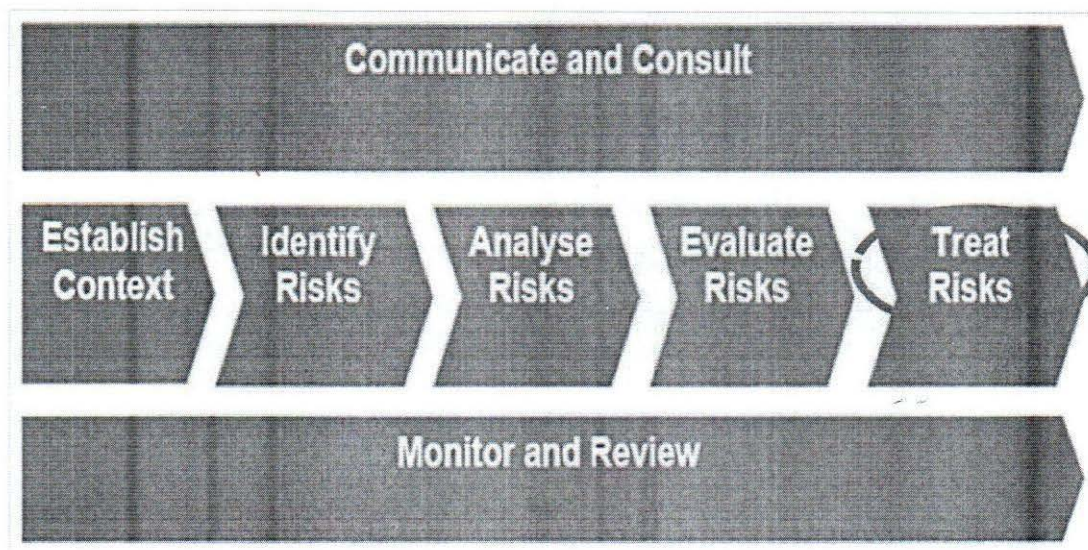
An accepted risk does not mean that the risk is insignificant, rather that:

- the inherent or controlled liability of the risk is low/moderate and does not warrant using resources to treat it
- no treatment is available
- treatment costs are prohibitive
- opportunities significantly outweigh the threats

The departments risk appetite has been determined as below.

Risk Appetite	Action required when rating is at controlled level of risk
High	Immediate action required and commitment of senior management
Significant	Senior management attention required and remedial action planned
Moderate	Management responsibility must be specified & accountability defined
Low	Managed by routine procedures such as quality management systems

e) Treat / action the risk



Treating the risk involves selecting measures that contribute to either mitigating the risk or strengthening current controls.

It is probable that a combination of options will be required to treat complex risks. The most suitable risk treatment / action options are generally identified as:

Risk Acceptance:

When all treatment options have been explored and there is no course of action likely to be effective or, the option will cost more than the benefits gained. It could also be when the risk is of low consequence and unlikely to occur, then it is appropriate to accept the risk. (This may require an explanatory note from the risk owner if the controlled level of risk is rated at extreme or high)

Risk Retention:

When after careful analysis of the risk, it cannot be avoided, reduced or transferred, or where the cost to do so is not justified (this requires an explanatory note from the risk owner stating the situation and they are aware of the current status of the risk)

Risk Avoidance:

This is when stopping or not proceeding with the activity, or choosing an alternative so as to eliminate the risk. This is not often an option in the Public Sector.

Risk Transfer:

This is when the risk is transferred to other parties. This includes taking out insurance policies, outsourcing activities or moving operations to a better equipped part of the department that can handle the risk. In some cases, liability cannot be transferred as contractors may cap their level of liability and therefore responsibility remains with the County Government.

Risk Control (reduce the likelihood and/or consequence of the event):

This is where the majority of effort is generally required in managing risk. Management processes such as audit and compliance programs, preventative maintenance, training of employees etc are some of the methods that will reduce the likelihood of risks being realised. Ensuring that controls are in place such as contingency plans, evacuation procedures or structural barriers, may reduce the consequences.

This element also incorporates evaluating the options, preparing treatment / action plans and implementation of those plans. The treatment plan may incorporate one or more of the above options and will document how chosen treatment options will be implemented.

Information that needs to be included in treatment plans are as follows:

- the name of the selected treatment
- treatment / action owner and those responsible for implementing the plan;
- what will be happening;
- when will it happen
- the original due date and the current due date (which can either be brought forward or go beyond the original date)

Treatment / action plans should be integrated with the risk management reporting process of the business unit and discussed with appropriate stakeholders.

Decision makers and other stakeholders need to be involved in determining the treated level of risk – which is the level of risk after the treatment / action, has taken place. The treated level of risk is recorded on the electronic risk register and is subjected to monitoring, review and, where appropriate, further treatment / action.

A cost benefit analysis of each treatment option is used to provide the basis for selecting the best option to manage each risk identified. The table below illustrates the County Government's risk treatment techniques.

Level of risk	Level of concern	Consequences	Action required	Risk treatment option(s) available
High	Very concerned	Disastrous impact	Comprehensive action required immediately	Transfer, Avoid or reduce
Significant	Concerned	Severe impact	Action required within 3 months	Transfer, Avoid or reduce
Moderate	Uneasy	Medium Impact	Managed via contingency plans. Action plans to be developed within 3 - 6 months	Transfer, Avoid, Reduce or Accept but must have contingency plan in place
Low	Content	Relatively light impact	The County Government is content to accept the risk	Accept, Reduce if cost effective but most importantly monitor

County Government of Bungoma's risk treatment techniques

Two ongoing themes are constant throughout the risk management process, these are:

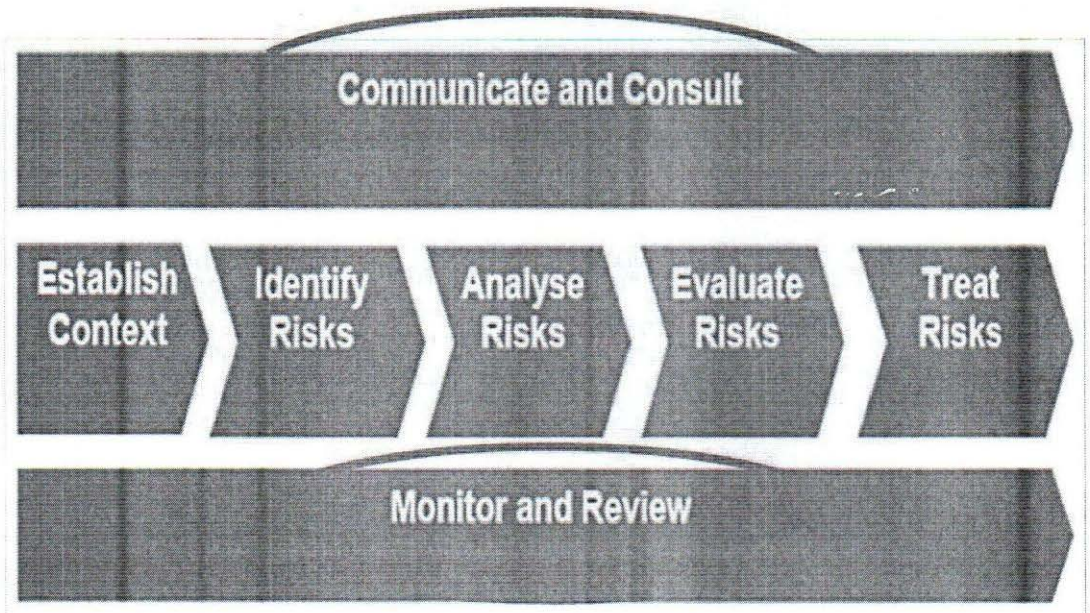
f) Communication and consultation

Effective communication and consultation are essential to ensure that those responsible for managing risk, and those with a vested interest, understand the basis on which decisions are made and why particular treatment / action options are selected or the reasons to accept risks have changed.

g) Monitoring and reviewing

It is essential to monitor and review the management of risks as changing circumstances may result in some risks increasing or decreasing in significance. By regularly reviewing the effectiveness and efficiency of controls and the appropriateness of treatment / action options selected, we can determine if the organisation's resources are being put to the best use possible.

The County Government's risk monitoring will entail oversight processes regarding the effectiveness of the risk management process implemented by management. This will be achieved through quarterly monitoring and reporting on the progress made in implementing risk management action plans.



During the quarterly reporting process, management are required to review any risks within their area and follow up on controls and treatments / action that are mitigating those risks. This allows them to identify any action that is out of date and requires further attention.

Review of the risk management system and processes will be done to ensure that risk registers have been updated for relevance and to recognize new risks as they arise whilst removing those that become less significant in terms of priority. It will provide an opportunity for completed risk treatments to be converted to controls, levels of risk to be confirmed and the retirement or escalation of risks to be implemented.

Monitoring and the reviewing of risks, controls and treatments also applies to any actions/treatments that may come out of an internal audit. The audit report will provide recommendations that effectively are treatments for controls and risks that have been tested during an internal review and appraisal.

Retiring a risk

Retirement of a risk occurs when the organisation no longer considers the risk relevant, in existence or has mitigated it to a point where the risk has been accepted. However, this can only be when the controlled level of risk is either moderate or low.

Risks that are retired for a variety of reasons can be reactivated should there be a change in the organisational objectives or its internal/external environment.

Retired risks are not deleted from the risk register but may be archived after a period of time.

Risk Management Reporting

Reporting entails generating risk management information and reports for submission to relevant stakeholders in the risk management process. These reports are an essential element of effective risk management. The following risk management reporting structure and frequency will be used by the County Government of Bungoma.

Nature of report	Report preparer	Report frequency	Report user
Section risk management report	Section Heads/Risk Management Champions	Bi-weekly	Departmental Accounting Officer
Departmental Risk Management Report	Departmental Accounting Officers	Monthly as part of the reporting to the CEC	CEC Members
Departmental Risk Management Report	Departmental Accounting Officers	Quarterly	County Risk Management Committee
County Government Risk Management Report	CEC Members	Monthly	CEC
County Risk Management Committee Report	Chairperson, County Risk Management Committee	Quarterly	CEC and Accounting Officers
Internal Audit Effectiveness Report	Head of Internal Audit	As per audits in the risk-based plan	Unit managers and Audit Committee

APPENDIX II - RISK ASSESSMENT MATRIX

The County Government of Bungoma uses a five by five matrix to determine its level of risk exposure.

	5	10	15	20	25
	MODERATE	SIGNIFICANT	HIGH	HIGH	HIGH
4	8	12	16	20	
LOW	MODERATE	SIGNIFICANT	HIGH	HIGH	
3	6	9	12	15	
LOW	MODERATE	MODERATE	Lukewarm support of strategies	Lack of strategy formulation competency	
2	4	6	8	10	
LOW	LOW	Budget limitation	MODERATE	Sub-standard and non effective strategies	
1	2	3	4	5	
LOW	LOW	LOW	LOW	MODERATE	
	Consequence of occurrence				

APPENDIX III - RISK CATEGORIES AND POTENTIAL SOURCES OF RISK

Risk Category	Examples of Potential Sources of Risk
Strategic	<p>There is no publicity of County Strategy, hence it is not known to</p> <ul style="list-style-type: none"> • many people • Obsolete items in the strategic plan • There is no monitoring and proper implementation • Lacking publicity strategy • Slow procurement process will lead to the delay in meeting the county strategies • Failure or lack of interest to follow through the county strategic plan • Strategic plan not disseminated to staff • Implementing strategic plan with limited resources is very expensive
Financial	<ul style="list-style-type: none"> • County funds are misused, thus payment for commodities not delivered • Low commitment by revenue collectors • Poor collection of local revenue • Finances are only available to a few individuals and bosses, hence demotivation for employees • Lack of financial policy and regulation on project financing • Lack of internal controls on expenditure • Inadequate systems of revenue collection • Too much reliance on exchequer releases • County is generating insufficient revenue • Corruption, non-accountability leading to audit queries • Allocation from the national government not enough and comes too late in bits • Delayed programme implementation
Leadership	<ul style="list-style-type: none"> • Poor governance structures • Lack of proper governance policies • Unity of purpose is wanting • Poor delegation • Hands off leadership • Leadership is the most wanting fact because it is based on nepotism • Our leaders base too much on rumours than mere facts • Most leaders don't have managerial talent hence leadership is not good • Appointment of county leadership based on community balancing leads to CECs and Chiefs who are not experienced in their areas

	<ul style="list-style-type: none"> • Leadership is involved in too many projects • No clear cut roles due to lacking organogram • Officers leading employees more qualified than him • There is a lot of nepotism and tribalism • Inflation of contract costs • Management staff lack experience • The management system is more politically driven hence lack of focus
Compliance	<ul style="list-style-type: none"> • Poor human resources regulations compliance • The regulations are there but no adherence e.g. PFM Act • Those in office differently interpret the regulations and application is not uniform • Overlooking of the existing laws and taking shortcuts • Officers in senior management ignoring laws affecting their departments • People corrupt their ways not to comply with regulations • Most of the county staff don't understand the law • The employment Act is not followed • Non-compliance to regulations e.g. payment of taxes • Corrupt officers in charge of compliance • So many unethical things are happening
Hazards	<ul style="list-style-type: none"> • All supervisors have registered personal companies hence loopholes for county funds • There is a long procurement process • Bureaucracy in financial management procedures • Confusing and conflicting channels of communication • There is no serious measures to counter hazards such as fires and emergencies • Congested offices can lead to loss of data • Vested interests are exposing staff to insecurity • Policies and regulations not documented • Staff are not insured by the county in case of damages • Many people are working oblivious of the occupational, health and safety requirements • There is no deliberate effort to educate workers on occupational health, leading to diseases and accidents
Reputation	<ul style="list-style-type: none"> • Our county reputation is bad because of paying a large amount for wheelbarrows • Our leaders social life is also giving us a bad reputation • Procurement processes that inflate prices of commodities and services • Destruction of reputation by media and politicians • County is grappling with a corruption image which can repulse investors

Operational	<ul style="list-style-type: none"> ▪ Human resource department not specifying the jobs and poor appraisal methods ▪ Lack of county organogram ▪ Poor staffing and infrastructure ▪ Slow operations due to poor infrastructure, inadequate finance, corruption among staff
External	<ul style="list-style-type: none"> • El nino interference with agriculture and farming • National government not releasing resources on time • Political affiliations • Political factions from government opponents • Poor communication channels and methods hence no flow of information • Public destroying county government projects • The county borders very competitive counties which could attract potential investors away from Bungoma • Political interference by national government and other counties

APPENDIX IV – QUESTIONNAIRE

RISK MANAGEMENT FRAMEWORK POLICY DEVELOPMENT

GENERAL QUESTIONNAIRE

This document is prepared as a general guideline for identifying the current risk management systems and approaches within the County Government's operations. Honestly provide your feedback based on how you understand or deal with the issues raised. Your feedback will help the Internal Audit Department to assess the level of risk awareness in your operational environment as well as assist the Department in developing and reviewing this Policy Framework for the County Government (This Questionnaire shall be revised from time to time on need basis).

Section 1 - Objectives of risk management

Department / Unit _____ Date _____

- 1.1 Looking at your department, what are the departments overall aims or objectives?
- 1.2 How do these departmental aims and objectives link to your personal work objectives?
- 1.3 What factors can interfere with the achievement of these objectives?
- 1.4 Which of these factors are:

Manageable?	Not Manageable?
--------------------	------------------------
- 1.5 In your opinion, why should the manageable factors be managed?

The Universe of County Risk

- 1.6 For each of these broad categories of risk, identify potential challenges for the County:
 - 1.6.1 County Strategy
 - 1.6.2 County Finances
 - 1.6.3 County Leadership

1.6.4 County Regulatory Compliance

1.6.5 County Operational Hazards

1.6.6 County Reputation

1.6.7 County Operations

1.6.8 External Factors

1.6.9 Any Other (Specify)

1.7 How would you rank the risks identified under each category above? If you have any reasons for your ranking, please state the reasons.

Section 2 - Understanding risk and risk management

Looking at your departmental operations, would you say:

2.1 A common definition of operational risk is used throughout the department?

Yes No Not sure

2.2 There is a common understanding of risk management across the department

Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.3 There are clear management statements on risk management in the department

Strongly
Disagree

Disagree

Neither
agree nor
disagree

Agree

Strongly
agree

2.4 The responsibility for risk management is clearly set out and understood throughout the department

Strongly
Disagree

Disagree

Neither
agree nor
disagree

Agree

Strongly
agree

2.5 The accountability for risk management is clearly set out and understood throughout department

Strongly
Disagree

Disagree

Neither
agree nor
disagree

Agree

Strongly
agree

2.6 Managing risk is important to the performance and success of the department

Strongly
Disagree

Disagree

Neither
agree nor
disagree

Agree

Strongly
agree

Section 3 – Departmental risk management capability

How would you rate the overall risk management capability within your department to seize opportunities and manage risks?

Use the following scale: VL= Very Low, L=Low, M=Medium, H=High, VH=Very High.

Internal Environment	VL	L	M	H	VH
Risk Objective Setting	VL	L	M	H	VH
Risk Event Identification	VL	L	M	H	VH
Risk Assessment	VL	L	M	H	VH
Risk Response	VL	L	M	H	VH
Risk Control Activities	VL	L	M	H	VH
Risk Information/Communication	VL	L	M	H	VH
Risk Monitoring	VL	L	M	H	VH

Section 4 – Suggestions to improve county risk management

What is your suggestion on improving the county risk management process?

Thank you

APPENDIX V– DEPARTMENTAL RISK REGISTER TEMPLATE

DEPARTMENT:

Basic Risk Information					Risk Assessment Information					Risk Response Information			
Risk No.	Risk Description/ Risk Event Statement	Responsible Person	Date Reported (dd/mm/yy)	Last Update (dd/mm/yy)	Likelihood of occurrence(H/M/L)	Impact(H/M/L)	Impact Description	Risk Appetite	Status of response	Timely	Completed Actions	Planned Future Actions	Risk Status Open/Closed

APPENDIX VI - Relationships between risk management principles, framework and process (AS/NZS ISO 31000:2009 MODEL)

