



# RISK MANAGEMENT POLICY FRAMEWORK

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## **ABBREVIATIONS AND ACRONYMS**

<b>BD</b>	Budget Department
<b>BFEA</b>	Budget Fiscal & Economic Affairs
<b>CGS</b>	Credit Guarantee Scheme
<b>CPPMD</b>	Central Planning & Project Monitoring Department
<b>FLLoCA</b>	Financing Locally Led Climate Actions
<b>FY</b>	Financial Year
<b>FSAD</b>	Financial Sectorial Affairs Department
<b>GAS</b>	Government Accounting Services
<b>GDP</b>	Government Digital Payment
<b>GF</b>	Global Fund
<b>GVLP</b>	Government Vehicle Leasing Program
<b>HOD</b>	Head of Divisions/Sections/Departments
<b>HRM&amp;D</b>	Human Resource Management and Development
<b>IAGD</b>	Internal Auditor General Department
<b>IA&amp;RAU</b>	Internal Audit & Risk Assessment Unit
<b>IIA</b>	Institute of Internal Auditors
<b>ICT</b>	Information and Communication Technologies
<b>IFMIS</b>	Integrated Financial Management Information System
<b>IGFRD</b>	Intergovernmental Fiscal Relations Department
<b>IRM</b>	Institutional Risk Management
<b>ISO</b>	International Organization for Standardization
<b>KRA</b>	Key Result Area
<b>LSU</b>	Legal Services Unit
<b>M&amp;E</b>	Monitoring and Evaluation

<b>MED</b>	Monitoring and Evaluation Directorate
<b>MFAD</b>	Macro & Fiscal Affairs Department
<b>NSCT</b>	National Sub County Treasury
<b>NSSF</b>	National Social Security Fund
<b>PC</b>	Performance Contract
<b>PCU</b>	Public Communications Unit
<b>PDMO</b>	Public Debt Management Office
<b>PFMA</b>	Public Finance Management Act, 2012
<b>PFMR</b>	Public Finance Management Reforms Secretariat
<b>PFMR(NG)</b>	Public Finance Management Regulations – National Government, 2015
<b>PPADA</b>	Public Procurement and Asset Disposal Act, 2015
<b>PPD</b>	Public Procurement Department
<b>PSASB</b>	Public Sector Accounting Standards Board
<b>RK-FINFA</b>	Rural Kenya Financial Inclusion Facility
<b>RM</b>	Risk Management
<b>RMPF</b>	Risk Management Policy Framework
<b>RMSC</b>	Risk Management Steering Committee
<b>SACCO</b>	Savings and Credit Cooperative
<b>SCM</b>	Supplies Chain Management
<b>SHA</b>	Social Health Authority
<b>SO</b>	Strategic Objective
<b>TNT</b>	The National Treasury

## DEFINITION OF TERMS

<b>Department</b>	Functional areas of the State Department for the National Treasury (Directorates, Divisions, Sections and Departments)
<b>Impact</b>	The potential consequence if the risk materializes.
<b>Inherent Risk</b>	The sum total of risk that the State Department faces before it has taken any mitigation steps to alter either the risk likelihood or impact
<b>Institutional Risk Management Policy Framework</b>	Is a document that provides the foundational components and structures for implementing monitoring, reviewing and enhancing risk management throughout the TNT.
<b>Internal Controls</b>	A process designed to provide reasonable assurance to management regarding the achievement of objectives.
<b>Likelihood</b>	The probability that a risk may occur.
<b>Residual Risk</b>	The risk remaining after management has taken risk response measures to change the risk likelihood or impact.
<b>Risk</b>	This is the effect of uncertainty on the National Treasury's Objectives. This includes both threats and opportunities.
<b>Risk Appetite</b>	This is the amount and type of risk that the National Treasury is willing to accept while pursuing its objectives.
<b>Risk Management</b>	It is a coordinated activity to direct and control the National Treasury regarding the risks.
<b>Risk Management Process</b>	It is a systematic and logical approach to managing risks involving the identification analysis and evaluation of risks to determine

whether they need to be modified through risk treatment.

**Risk Management Maturity Level**

The extent to which risk management is embedded within TNT where a high maturity level (Risk Enabled) translates into effective risk management.

**Risk Owner**

A person or a department with the accountability and responsibility to manage a specific risk.

**Risk Response**

The management actions that allows TNT to accept, transfer or reduce identified risks.

## FOREWORD

**R**isk Management in the Public Sector has gained impetus since the promulgation of the Constitution of Kenya in the year 2010. The Constitution lays down the fundamental principles for good governance which are the hallmarks of an effective and efficient Public Service. The principles have further been entrenched in different Statutes, Regulations, Codes and Policies providing an elaborate framework to guide decision-making and management of public resources.

The National Treasury has developed its Risk Management Policy Framework (RMPF) which will be the guiding tool on the standard of Risk Management practices in the National Treasury. The Framework has been developed based on ISO 31000:2018 Risk Management Standard which provides for a common, accepted, and recommended reference point to assess the quality of Risk Management system.

The development of this Framework illustrates the Cabinet Secretary's commitment to managing risks to acceptable levels across all the National Treasury functions. This commitment is also demonstrated through an elaborate Risk Management structure with clearly defined roles and responsibilities that have been established, as well as the resources to support risk management activities.

The policy will support achievement of the objectives of Bottom-Up Economic Transformation Agenda (BETA) as prioritised in the Fourth Medium - Term Plan of the Kenya Vision 2030 that aims to re-position the economy on a steady, inclusive and sustainable growth trajectory.

The performance of the risk management policy framework will be measured by the level of integration of the risk management to the processes and decision making within the National Treasury. This will be achieved through effective oversight on the implementation of robust risk management mechanisms.



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**CABINET SECRETARY**  
**THE NATIONAL TREASURY**

## PREFACE AND ACKNOWLEDGEMENT

The Constitution of Kenya 2010 established the framework for governance and accountability through Articles 10, 201, and 232. The Public Finance Management Act (PFMA) 2012 and its attendant Regulations 2015, places the responsibility of developing systems of risk management and internal control that builds robust business operations on Accounting Officers.

The National Treasury's (TNT) Risk Management Policy framework was developed through a consultative and participatory process; this was to ensure that the Policy reflected the aspirations and expectations of our stakeholders.

This policy will guide the National Treasury in realizing its mandate as per the Public Finance Management Act 2012 and Executive Order No. 1 of 2025. Further, this policy supports the Zero Fault Audit initiative which seeks to enhance governance, internal controls, promote accountability and ensure public funds are utilized efficiently.

The actualization of this policy framework will require the participation of all members of staff and stakeholders. Sensitization will be carried out to ensure that all members of staff understand their role in the implementation of the policy framework. The operational process will be reviewed biennial to provide for any necessary strategic adjustments.

I wish to express my sincere gratitude to the Cabinet Secretary for his strategic leadership and guidance. I also wish to thank all the Directorates for facilitating the preparation of this Risk Management Policy Framework, the Risk Steering Committee and the Risk Technical Committee for working tirelessly to realize its finalization, the members of staff for their input, all our valued stakeholders for their comments and views that enriched this document.

I am grateful to the consultants from the Department of the Internal Auditor General for ably facilitating the framework formulation process.



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**THE NATIONAL TREASURY**

# CHAPTER ONE

## 1.0. INTRODUCTION

This Chapter presents the National Treasury's Mandate and Functions, Vision, Mission, Core Values, Key Result Areas, Strategic objectives, Departmental objectives as well as its Organizational structure.

## 1.1. BACKGROUND INFORMATION

The National Treasury derives its mandate from the Constitution of Kenya, 2010, the PFMA, 2012 and Executive order No. 1 of 2025.

## 1.2. MANDATE AND FUNCTIONS OF THE NATIONAL TREASURY

The National Treasury mandate is anchored in the PFMA 2012 together with Presidential Executive Orders, specifically Executive Order No. 1 of 2025.

The core functions of the National Treasury are as outlined below:

- a) Overall Economic policy management;
- b) Management of public finance;
- c) Formulation of National Budget;
- d) Public Debt Management;
- e) Formulation and maintenance of government accounting standards;
- f) Bilateral and Multilateral financial relations;
- g) Capital markets policy;
- h) Oversight over revenue collection as prescribed under all written laws;
- i) Competition policy management;
- j) Insurance Policy and Regulation;
- k) Development and enforcement of financial governance standards;
- l) Financial sector analysis and management including Sacco's, NSSF and SHA;
- m) Financial institutions oversight;
- n) Management of National and County Governments financial management system and standards;
- o) Development of Kenya as an international financial centre;
- p) Anti-Money laundering policy;

- q) Secretariat to Intergovernmental Budget and Economic Council; and
- r) Development and promotion of carbon trading (carbon credit market) as an emerging asset class within the capital markets.

### **1.3. VISION, MISSION, AND CORE VALUES**

#### **Vision**

Excellence in economic and public finance management, and development planning for Kenya's socio-economic transformation.

#### **Mission**

To provide leadership in prudent economic and public finance management and development planning through formulation, implementation and monitoring of policies for Kenya's inclusive growth.

#### **Core Values**

1. Stakeholder participation
2. Transparency and Accountability
3. Results oriented
4. Integrity
5. Customer focus
6. Teamwork and commitment

### **1.4. KEY RESULT AREAS (KRAs) AND STRATEGIC OBJECTIVES**

The National Treasury has 5 KRAs as follows:

**KRA 1:** Resource mobilization for financing public expenditures;

**KRA 2:** Stable and sustainable macroeconomic environment;

**KRA 3:** Policy, legal and institutional frameworks for development planning, budgeting and intergovernmental and stakeholder relations;

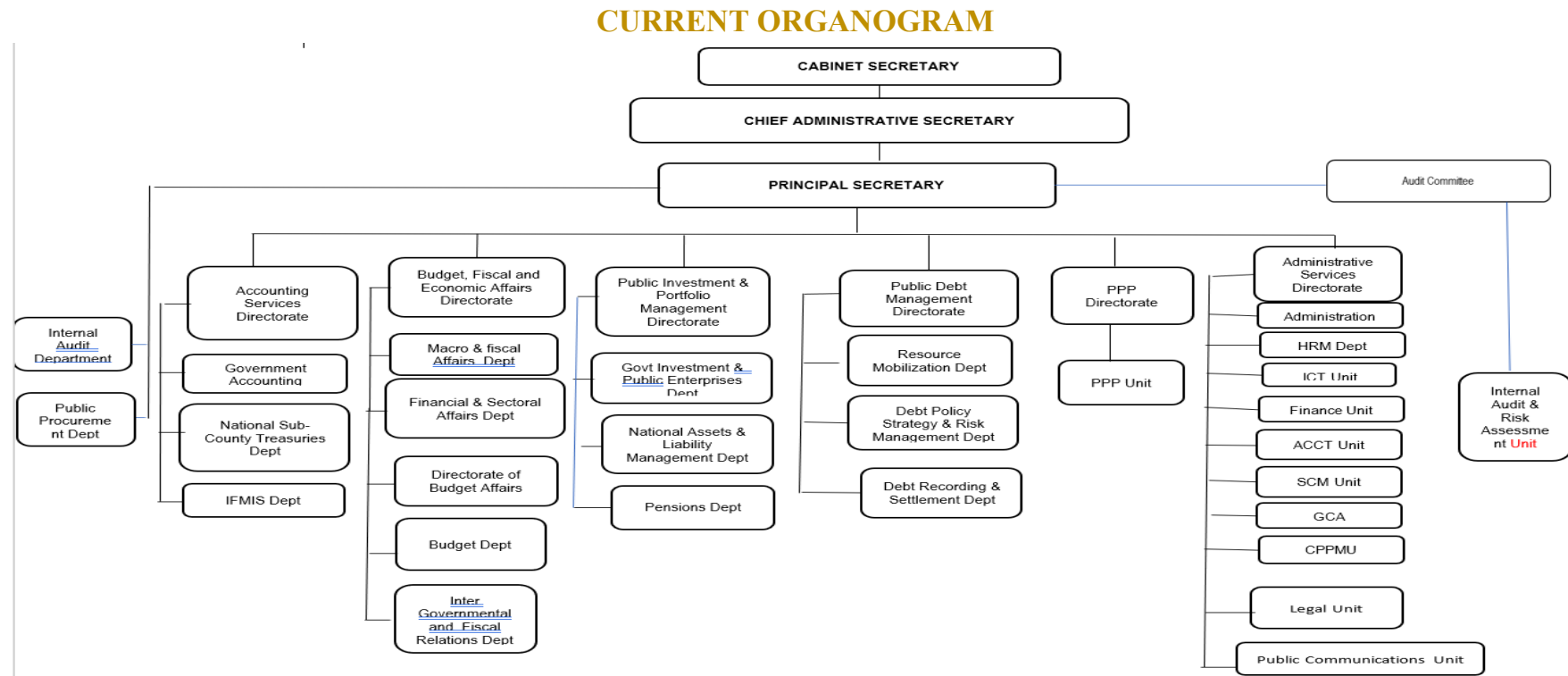
**KRA 4:** Tracking, evaluation and reporting on implementation of development plans, policies, international frameworks and financial payments; and

**KRA 5:** Strengthened Institutional capacity and internal business processes.

The process of risk management requires clearly defined objectives that serve as the context for identifying relevant risks. The National Treasury's strategic plan outlines the KRAs and Strategic Objectives, it is on this basis that the departmental objectives were formulated and will guide in identification of risks refer to **Appendix I: Linkage between KRAs, strategic objectives and departmental objectives.**

## 1.5. ORGANIZATIONAL STRUCTURE

The National Treasury has five (5) technical Directorates, Administrative and Support Services Directorate, the Internal Auditor General Department, the Public Procurement Department and the Public Finance Management Reforms Secretariat. The National Treasury is organized as shown in **Figure 1**



**FIGURE 1: NATIONAL TREASURY’S ORGANOGRAM (IN LINE WITH CURRENT STRATEGIC PLAN 2023-2027)**

## **CHAPTER TWO**

### **2.0. OVERVIEW OF RISK MANAGEMENT**

#### **2.1. INTRODUCTION**

**T**his Chapter addresses the development of the Risk Management Policy Framework. It focuses on the background information of risk management in public sector, purpose/objectives, benefits, scope of application, rationale, methodology, principles of risk management and risk categories/classification. The National Treasury top management demonstrates its leadership and commitment through the risk management policy statement, risk culture statement, risk appetite statement and corruption & fraud prevention policy statement.

#### **2.2. BACKGROUND INFORMATION**

Risk management guidelines for government entities was first issued vide Treasury Circular No. 3/2009 dated 23<sup>rd</sup> February 2009. The Circular directed all government entities to develop and implement Risk Management Policy Framework (RMPF) to enhance good governance practices.

The Constitution of Kenya, 2010, entrenches the values and principles of good governance that binds all government entities. To achieve the standards of good governance; Statutes, Regulations, Codes and Policies were enacted or revised. This provides elaborate guidelines for government entities in areas of good governance, decision-making, implementation and the management of public resources.

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

The Cabinet Secretary of the National Treasury and Economic Planning vide circular no. NT/IAG/GEN/235/ (64) of 15<sup>th</sup> May 2023 directed all Accounting Officers to develop a risk management policy framework in their respective MDAs. The Circular also prescribed three (3) key tools to enable development of specific risk management policy framework. These tools included: A procedural Manual for the development of Institutional Risk Management Policy Framework, Risk Identification Survey Layout Template and Risk Register Layout Template.

The Principal Secretary for the National Treasury vide Circular No. TNT/IAG/GEN/218/ (51) of 17<sup>th</sup> September 2025 issued Risk Management Templates for Public Sector Entities. The templates were prescribed by the Public Sector Accounting Standards Board (PSASB) as required under Section 194(1)(f) of the PFMA, 2012. The Circular directed all the Accounting Officers to ensure development of the Risk Management Strategies as required under Regulation 165 of the PFMR (NG), 2015 and as per the prescribed templates.

Consequently, the National Treasury designated the Risk Management Steering Committee to lead the process of developing its risk management policy framework in compliance with the stipulated regulations.

### **2.3. PURPOSE OF THE RISK MANAGEMENT FRAMEWORK**

The Public Finance Management Regulation 2015 requires Accounting Officers to ensure that National Government entities develop a system of risk management and internal control that builds robust business operations.

The purpose of risk management policy framework is to provide guidance for the National Treasury to build a system of risk management that supports the achievement of its mandate by ensuring;

- I. **Systematic Risk Management:** Provides a consistent, structured method for identifying and assessing threats (both internal and external) across the TNT.
- II. **Strategic Decision-Making:** Helps TNT management make informed decisions by integrating risk in decision making process.
- III. **Regulatory Compliance:** Ensures adherence to legal and regulatory requirements.
- IV. **Continuous Improvement & Monitoring:** Enables ongoing tracking, evaluation, and reporting of risks to improve mitigation strategies.
- V. **Balanced Risk-Taking:** Enables TNT to take appropriate risks while staying within defined risk tolerance levels.

### **2.4. OBJECTIVES OF RISK MANAGEMENT**

The general objective of Risk Management Policy Framework is to enhance the achievement of the National Treasury's mandate, goals and objectives. It will also assist in proactive identification of opportunities and threats, hence effective allocation of resources for risk management.

The risk management policy framework specifically aims to;

- a) Contribute to effective and efficient service delivery;

- b) Enhance strategic decision making;
- c) Promote a strong environment control that enhances transparency and accountability;
- d) Facilitate improved audit outcomes in line with Zero Fault Audit initiative;
- e) Safeguard institutional assets and reputation;
- f) Enhance compliance with legal and regulatory requirements;
- g) Support TNT become risk mature by considering its current and future risks in a coordinated manner within an institutional-wide framework.

## 2.5. SCOPE OF APPLICATION

This Policy applies to all Directorates and Departments within the National Treasury. It forms part of the National Treasury's governance framework and applies to all its employees and stakeholders.

## 2.6. METHODOLOGY IN THE DEVELOPMENT OF RISK MANAGEMENT POLICY FRAMEWORK

The drafting of this policy was undertaken by the Risk Management Technical Committee. Its preparation follows a highly consultative process which is open, inclusive and participatory involving all the departments under the National Treasury. The draft policy was subjected to internal review and validation, and the final draft was submitted to the Risk Management Steering Committee for quality assurance and approval by the Cabinet Secretary and Principal Secretary.

## 2.7. PRINCIPLES OF RISK MANAGEMENT

In developing the RMPF, TNT adopted ISO 31000:2018 standard for risk management in line with the PSASB guidelines on risk management, this standard outlines the principles of risk management.

The principles are the foundation for managing risks and were considered when establishing the RMPF and processes.

The following principles will enable TNT to manage the effects of uncertainties:

- a) **Integrated:** Risk management is an integral part of all TNT decision making process, strategic planning, performance management processes and activities;
- b) **Structured and comprehensive:** Risk management is a systematic approach that will ensure consistency and reliability in managing risks;
- c) **Customized:** The risk management practices will be tailored to take into consideration the environment to which TNT operates.

- d) **Inclusive:** Risk management shall be transparent and will involve all stakeholders in an appropriate and timely manner for better decision making;
- e) **Dynamic:** Risk management anticipates, detects, acknowledges and responds to internal and external changes and events in an appropriate and timely manner;
- f) **Best available information:** The inputs to risk management are based on historical and current information, as well as on future expectations. Information will be timely, clear and available to relevant stakeholders.
- g) **Human and cultural factors:** Human behavior and culture significantly influence all aspects of risk management at each level and stage. TNT will promote a risk aware culture through sensitization and training.
- h) **Continual improvement:** Risk management will be improved through continual learning and experience.

## **2.8. RISK MANAGEMENT POLICY STATEMENT**

The Cabinet Secretary and the Principal Secretary are committed to ensuring that Risk Management is entrenched in all operations, decision making and culture. The National Treasury will apply Risk Management principles to support the realization of its mandate by fully implementing this risk management policy framework.

## **2.9. RISK CULTURE STATEMENT**

The Principal Secretary is committed to creating and maintaining a proactive and transparent risk management culture that supports accountability and sound decision making across all its Directorates and departments. The management and staff will be empowered to identify, report and escalate risk without fear or favor. The initial risk management sensitization will be conducted within a period of twelve months from the policy adoption.

## **2.10. RISK CATEGORIES/CLASSIFICATION**

In undertaking the risk management process, TNT will categorize its risks as follows but not limited to:

**TABLE 1: RISK CATEGORIES/CLASSIFICATION**

NO.	RISK TYPE/ CATEGORY	DEFINITIONS
1	<b>Strategic Risks</b>	Risks related to long-term goals and direction of the organization, such as: Poor strategic decisions; Failure to adapt to change and Weak leadership or governance
2	<b>Operational Risks</b>	Are those that arise from capacity inadequacies during implementation of planned programmes and activities (deals with day-to-day activities, e.g., absenteeism, human error, equipment breakdown etc.)
3	<b>Financial Risks</b>	Emanate from failure to either mobilize adequate funds or lack of prudence in financial resource utilization and related outcomes (e.g. credit risk, liquidity, market)
4	<b>Technological Risks</b>	Are risks associated with deficiencies in Information and Communication Technology, or related thereto (e.g. cyber security breaches, system down time)
5	<b>Compliance</b>	These are risks that affect TNT resulting from its failure to act in accordance with laws and regulations, internal policies or prescribed best practices.
6	<b>Reputational Risks</b>	Risks that damage public trust or the organization's image, such as: poor service delivery, ethical misconduct and negative media coverage.

## 2.11. RISK APPETITE STATEMENTS

The National Treasury's risk appetite is guided by various laws and regulations as well as the risks that are ranked in its risk registers. **Table 2** highlights TNT's risk appetite statements for its risk categories.

**TABLE 2: RISK APPETITE STATEMENTS**

S/N o.	Risk Type / Category	Risk Appetite Statement	Key Risk Indicators (KRIs)	Appetite Target (Green)	Risk tolerance Threshold (Amber)	Unacceptable Threshold (Red)
1	Strategic Risks	The TNT has a <b>moderate risk appetite</b> for strategic decisions or reforms that carry uncertainty that may derail the achievement of its Strategic objectives.	% of strategic initiatives behind schedule	5%	6%-15%	>15%
			% Variance between approved fiscal targets and actual performance			
			% of achievement rate of annual strategic KPIs/KRAs.	100%	90%-99%	<90%
			% of stakeholder satisfaction index.	100%	75%-99%	<75%
2	Operational Risks	TNT has <b>low to moderate appetite</b> for all risks under this category.  Operational risk-taking is permitted selectively to unlock efficiency gains but must be balanced by effective internal controls to protect TNT's integrity.	No. of qualified audit opinion /adverse audit findings per financial year for all its Agencies	0	1-3	>3
			No. of critical process downtime affecting service delivery	4 hrs	5-6hrs/ Quarter	>6 hrs./ Quarter
			% of Internal controls failure rate	0%	1%-5%	>5%
			% of staff turnover in critical roles (annual)	2%	3%-5%	>5%
3	Financial Risks	TNT has a <b>low appetite for risks</b> that may lead to loss of public funds and only	% of Budget variance (expenditure vs approved)	±1%	±2 to ±5%	>±10%

S/N o.	Risk Type / Category	Risk Appetite Statement	Key Risk Indicators (KRIs)	Appetite Target (Green)	Risk tolerance Threshold (Amber)	Unacceptable Threshold (Red)
		accepts risks that enhance Value-for-Money.	No. of Unauthorized expenditure incidents	0	1 incident	>2 incidents
			% of Procurement non-compliance rate	0%	1%-3%	>3%
			% of Projects without cost-benefit analysis	0%	1%-5%	>5%
4	Technological Risks	TNT has <b>moderate appetite</b> for technological risks.  It encourages adoption of new technologies /innovations and practices, provided risks are assessed and mitigated.	% of IT projects delayed	0%	Upto 5%	>5%
			No. of Cybersecurity incidents reported (per quarter)	0	1	>2
			% of Critical vulnerabilities unpatched (30 days)	0	1%-5%	>5%
			% of System availability (uptime)	100%	95%- 98%	<95%
5	Compliance Risks	TNT has <b>Low appetite</b> on compliance risks as it has Zero tolerance for breaches of laws, regulations, or TNT directives.	No. of Regulatory breaches	0	1 minor breach	Any major breach
			No. of Late statutory reports	0	1 instance	>1 instances
			% of Policy non-compliance rate	0	1%-2%	>2%
6	Reputational Risks	TNT has <b>Low appetite</b> on reputational risks and prioritizes public trust and transparency; proactive	No. of Substantiated negative media mentions (per quarter)	0	1-3	>3

S/N o.	Risk Type / Category	Risk Appetite Statement	Key Risk Indicators (KRIs)	Appetite Target (Green)	Risk tolerance Threshold (Amber)	Unacceptable Threshold (Red)
		communication and accountability	% of public complaints unresolved (within 30 days)	0%	1-10%	>10%
			% of Stakeholder trust/confidence index	100%	80%-99%	<80%
			No. of Confirmed ethical misconduct cases	0	1 case	>1 cases

## 2.12. CORRUPTION AND FRAUD PREVENTION POLICY STATEMENT

The National Treasury is fully committed to the values of transparency and accountability. It aims to comply with the statutory requirements and good practices on corruption prevention. It will implement corruption prevention plan and carry out regular training and sensitization of its staff on corruption prevention and mitigation measures.

## CHAPTER THREE

### 3.0. RISK MANAGEMENT GOVERNANCE STRUCTURE

#### 3.1. INTRODUCTION

This chapter presents the risk governance structure and the roles and responsibilities of the National Treasury risk management oversight body, implementers, internal and external stakeholders.

#### 3.2. RISK GOVERNANCE STRUCTURE

Risk Management is the responsibility of the Principal Secretary, Senior Management and all employees of TNT who should play their assigned roles for the framework to be effective. Implementation of the framework will therefore be embedded within the established risk governance structure as depicted in **Figure 2**.

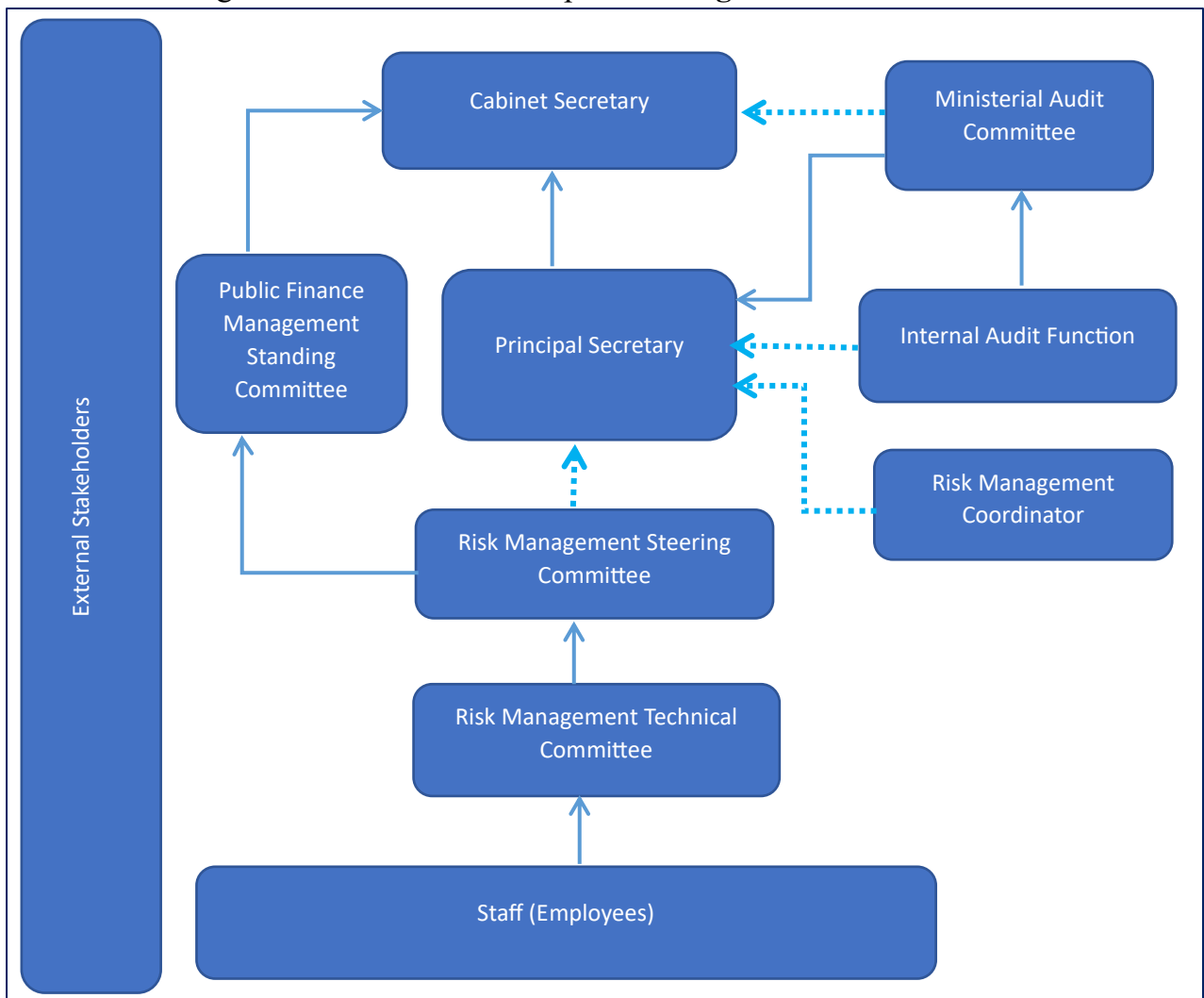


FIGURE 2: RISK MANAGEMENT GOVERNANCE STRUCTURE

### 3.3. ROLES AND RESPONSIBILITIES

Implementation of this framework will be carried out based on clearly defined roles and responsibilities. The clear lines of responsibility and a coordinated set of management strategies all work in a cohesive manner to ensure effective risk management at TNT. The different roles and responsibilities are depicted in the **Table 3**:

**TABLE 3: ROLES AND RESPONSIBILITIES**

S/No.	STRUCTURE	ROLES AND RESPONSIBILITIES
1.	Cabinet Secretary	<ul style="list-style-type: none"> <li>Provides overall risk management policy framework direction and oversight.</li> </ul>
2.	Ministerial Audit Committee	<ul style="list-style-type: none"> <li>Responsible to the Cabinet Secretary and Principal Secretary on oversight and review of the risk management policy framework implementation.</li> </ul>
3.	Principal Secretary (Accounting Officer)	<ul style="list-style-type: none"> <li>Ensuring development and implementation of the Institution Risk Management Policy Framework.</li> <li>Foster a culture of risk management and provide adequate resources to support the implementation of the framework.</li> </ul>
4.	Public Finance Management Standing Committee - PFMSC (Standing Committee)	<ul style="list-style-type: none"> <li>Ensure that there is prioritization on resources allocated to risk policy plans/strategies.</li> <li>Ensure identification of risks and implementation of appropriate measures to manage such risks or anticipated changes impacting on TNT;</li> </ul>
5.	Risk Management Steering Committee - RMSC (HoDs)	<ul style="list-style-type: none"> <li>Ensure quality, integrity and reliability of TNT risk management strategies.</li> <li>Ensure staff in their respective departments comply with the Framework and support a culture where risks can be identified, mitigated and/or escalated to the Principal Secretary</li> </ul>
6.	Risk Management Coordinator	<ul style="list-style-type: none"> <li>Secretary to the Risk Management Steering Committee.</li> <li>Custodian to all information, records and register pertaining to risk management.</li> <li>Coordinate risk management activities.</li> <li>Escalating identified or emerging risks exposures to the Accounting Officer</li> </ul>

S/No.	STRUCTURE	ROLES AND RESPONSIBILITIES
7.	Internal Audit Function	<ul style="list-style-type: none"> <li>• Provide reasonable assurance on the effectiveness of Risk Management strategies, internal controls and Governance.</li> <li>• Offer advisory services designed to add value on risk management policy framework.</li> </ul>
8.	Risk Management Technical Committee (Risk champions)	<ul style="list-style-type: none"> <li>• Coordinate risk management activities within their functional areas in liaison with the respective Head of Departments (HoDs). The activities will include; identification, assessment, evaluation, and provision of response strategies mitigation.</li> </ul>
9.	Staff	<ul style="list-style-type: none"> <li>• Comply with the Risk Management Policy Framework and internal control procedures.</li> <li>• Identify and communicate risks emanating from their day-to-day activities to the Risk Champions.</li> </ul>
10.	External Stakeholders	<ul style="list-style-type: none"> <li>• Support the Framework by giving feedback on risks and related risk responses.</li> <li>• Support and strengthen compliance of risk management policy framework within TNT</li> </ul>

## CHAPTER FOUR

### 4.0 RISK MANAGEMENT PROCESS

#### 4.1. INTRODUCTION

This chapter outlines the steps involved in the risk management process. It provides a structured method used to identify, analyze, evaluate, assess, manage, control and monitor risks that could impact the objectives, projects, or operations of the National Treasury.

#### 4.2. RISK MANAGEMENT PROCESS

Risk management process is a structured approach for identifying, assessing and managing potential risks that could impact the National Treasury goals. It entails a set of interactive steps that are undertaken in a coordinated manner but not necessarily in a sequential manner as illustrated in **Figure 3**.

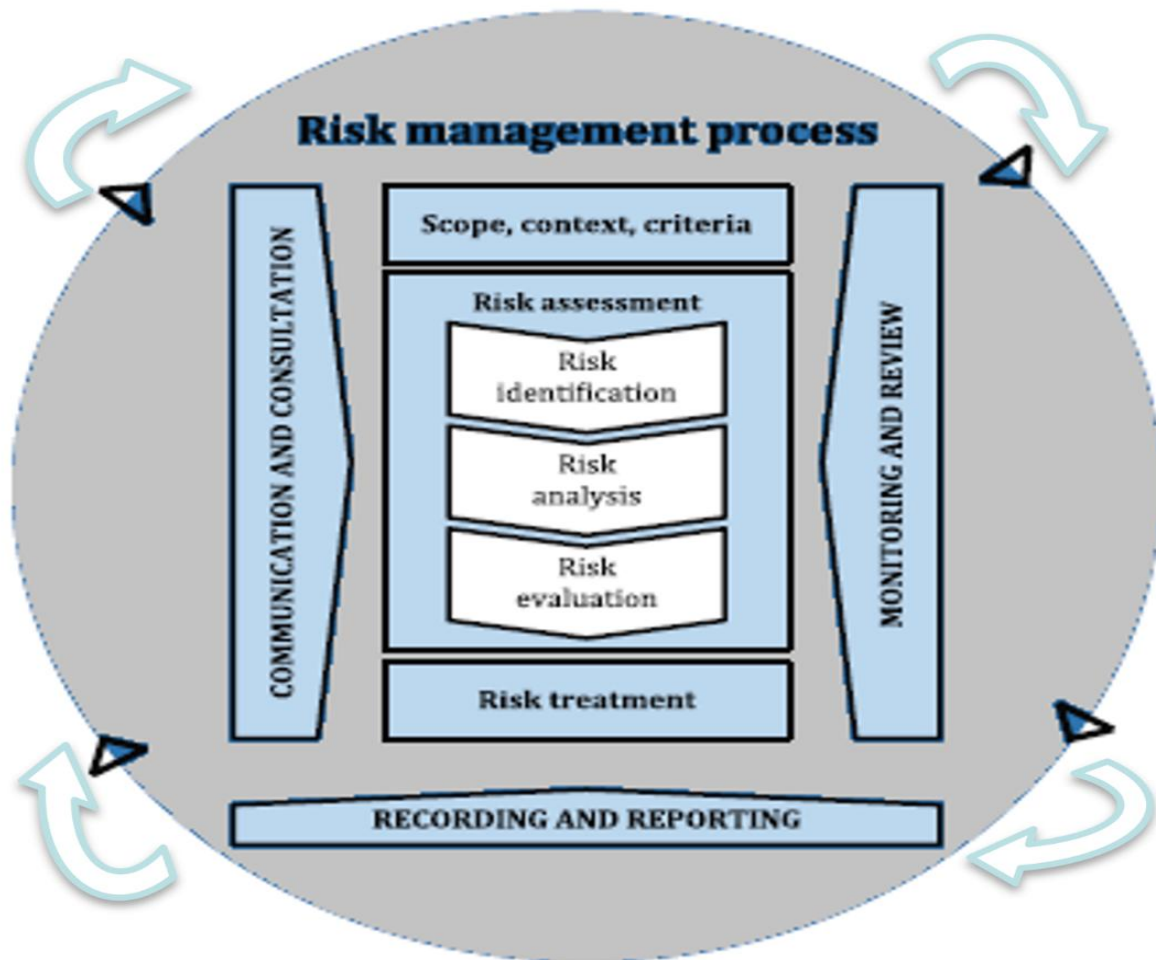


FIGURE 3: RISK MANAGEMENT PROCESS: SOURCE ISO 31000:2018 RISK MANAGEMENT STANDARD

## Step 1: Establishing Context

The first step in the risk management process will be to establish both the internal and external environment within which the National Treasury operates. The internal context will be established through its mandate, vision, mission and strategic objectives, while the external context will be established through mapping out the key stakeholders.

In developing the RMPF, the National Treasury's risks will be identified on the strategic objectives and departmental objectives while taking into consideration the key stakeholders.

## Step 2: Risk Assessment

The risk assessment process will involve identification, analysis and evaluation of risks. It will be conducted systematically, iteratively and collaboratively, drawing on the knowledge and views of stakeholders using the best available information, supplemented by further enquiry as necessary.

- a) **Risk identification:** This will involve the understanding of what is at risk in the context of the National Treasury's mandate and objectives. This will result in the generation of a comprehensive inventory of risks based on the threats and opportunities that might prevent, degrade, delay or enhance the achievement of the objectives.
- b) **Risk Analysis:** This will enable the comprehension of the nature and characteristics of the risks that impact on the objectives. It will involve identifying the risk sources (risk triggers), risk categories, determining their likelihood, impact and control effectiveness.

### c) Risk Evaluation:

Risk evaluation will involve comparing the results of risk analysis against the prescribed risk criteria to determine where additional action is required. This will assist in making decisions on which risk needs treatment and the priority for treatment implementation.

The overall risk scoring will be based on the product of likelihood and impact of the risk events.

- **Likelihood** is the probability that a risk event will occur; it will be rated on a scale of 1 to 3 as indicated on **Table 4**.

**TABLE 4: LIKELIHOOD SCORING CRITERIA**

<b>WEIGHT</b>	<b>RATING</b>	<b>NARRATION</b>	<b>BASIS</b>
<b>1</b>	<b>Low</b>	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.
<b>2</b>	<b>Medium</b>	Event has a fair chance of occurring	An event has not occurred before and there are no controls to minimize its occurrence.  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
<b>3</b>	<b>High</b>	Event has a greater chance of occurring	An event has occurred in the past Financial Year and may occur in the next financial year.  There are minimal or no controls around the identified event.

- **Impact** is the extent to which events can positively/negatively affect the achievement of the National Treasury’s objectives. It is rated on a scale of 1 to 3 as indicated in **Table 5:**

**TABLE 5: IMPACT SCORING CRITERIA**

<b>WEIGHT</b>	<b>RATING</b>	<b>NARRATION</b>	<b>BASIS</b>
<b>1</b>	<b>Low</b>	Negligible impact on objectives.	Event will negatively affect the internal processes.
<b>2</b>	<b>Medium</b>	Moderate impact on objectives.	Event will negatively affect the achievement of departmental objective.
<b>3</b>	<b>High</b>	Severe impact on objectives	Event will cause significant impact that may result to

WEIGHT	RATING	NARRATION	BASIS
			inability to deliver on the TNT's mandate.

- **Overall risk scoring** is the product of likelihood and impact scores as shown in **Table 6**.

**TABLE 6: OVERALL RISK SCORING CRITERIA**

OVERALL SCORES CRITERIA	RATING	INTERPRETATION
1 – 2	<b>Low</b>	The risk event will most likely not happen and if it does, it will have minimal effect on the achievement of the department objectives.
3 – 4	<b>Medium</b>	The risk event is likely to happen at some point and if it happens, it may have moderate effect on achievement of the strategic objectives.
6 – 9	<b>High</b>	The risk event is very likely to happen and if it happens, it may significantly affect the achievement of TNT's strategic objectives and mandate.

- **Risk Heat Map**

A risk heat map will be used in the risk assessment process to visualize the risks and show a holistic view of risks facing the National Treasury at a glance. 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 depicted in

**Figure 4.**

<b>LIKELIHOOD</b>	<b>3</b>	<b>3</b>	<b>6</b>	<b>9</b>
	<b>2</b>	<b>2</b>	<b>4</b>	<b>6</b>
	<b>1</b>	<b>1</b>	<b>2</b>	<b>3</b>
		<b>1</b>	<b>2</b>	<b>3</b>
	<b>IMPACT</b>			

**FIGURE 4: RISK HEAT MAP**

### **Step 3: Risk Treatment**

This step will involve selecting and implementing options for addressing risks. All risk treatment/response plans must consider the National Treasury’s risk appetite before establishing which risk response strategies to adopt as stated below:

- Terminating/avoid – ceasing the activity;
- Transferring/sharing – passing to a third party, usually via a contract;
- Treating – management action / control to bring within appetite;
- Tolerating – accepting the current level of risk.

### **Step 4: Communication and Consultation**

Communication will seek to promote awareness and understanding of risks and risk management whereas consultation involves obtaining feedback and information to support decision making.

The National Treasury communication strategy will support risk management strategies by ensuring timely and effective communication of all the steps in risk management to both internal and external stakeholders for informed decision making.

## Step 5: Monitoring and Review

### a) Monitoring

The National Treasury will develop a mechanism for systematically tracking the Risk Management Process which will ensure that controls are in place and effective, while checking for changes in the risk environment.

Monitoring entails checking on a regular basis to confirm the proper functioning of the entire risk management system. It will be affected through ongoing activities or separate evaluations to ascertain whether risk management is effectively practiced at all levels and across TNT in accordance with the RMPF.

Monitoring activities will focus on evaluating whether:

- I. Allocated responsibilities are being executed effectively;
- II. Response strategies are producing the desired result of mitigating risks or exploiting opportunities; and
- III. A positive correlation exists between improvements in the system of risk management and performance.

Where deficiencies are identified, the relevant head of directorates/ departments will continuously monitor implementation of recommendations to evaluate their effectiveness. Where such risk management recommendations fail, the process owners will inform the Risk Management Steering Committee immediately.

### b) Review

Reviewing risk management processes is necessary to achieve continuous improvement and it will involve:

1. Identifying and addressing weaknesses in risk management process;
2. Identifying changes in the National Treasury's objectives and environment to ensure risk management processes are in alignment; and
3. Determining if the risk management policy is achieving its intended objectives.

Monitoring and review will be undertaken using various tools including:

1. Risk Maturity Model (IIA) Refer to **Appendix II**
2. Quarterly risk management reporting Template (PSASB) **Annex I**
3. Annual Risk Management Reporting Template (PSASB) **Annex II**

**c) Monitoring and review of Key Performance Indicators (KPIs)**

To monitor and review risk management progress within TNT, the following KPIs may be used: -

<b>S/no.</b>	<b>AREA</b>	<b>KPIs</b>
1	Risk register coverage;	% of risks documented in the register
2	Emerging risk detection;	% of new risks identified and documented in the register
3	Risk assessment frequency	No. of formal risk assessments conducted in the period under review
4	High risk concentration;	% of risks classified as high risk
5	Mitigation plan completion;	% of mitigation actions completed
6	Risk Residue level	Risk score after mitigation measures are implemented
7	Incident frequency rate	No of incidences reported
8	Mean time to resolve incidences;	Average time to close incidents
9	Audit finding closure rate	% of audit issues resolved within the period under review
10	Policy and regulatory compliance rate	% of compliance with the laid down laws and policies
11	Risk appetite breach rate	No of times risk exceeded tolerance level.
12	Risk management training coverage	% of employees trained on risk management

## **Step 6: Recording and Reporting**

This step will involve maintaining a risk register, communicating to stakeholders, and using the information for ongoing monitoring and improvement of the risk management framework.

A risk register is a document that will record all the risks identified, the risk sources, risk category, the consequence of the risk to the objectives, likelihood and the impact of the risk events. It will also highlight the controls/strategic initiatives to be taken and the risk owners. The risks will be identified, assessed and recorded in a detailed risk register as per the approved risk register template. Refer to **Annex III: Risk Register Template**.

## **CHAPTER FIVE**

### **5.0 REVIEW OF THE FRAMEWORK**

**T**his chapter outlines the Review of this Framework and Responsibility for review

#### **5.1 Review of This Framework**

The Policy Framework will be reviewed biennial or on need basis to ensure relevance to the National Treasury's operations and compliance with new developments in risk management. Risk registers will be reviewed and updated quarterly and annually or as and when need arises.

#### **5.2 Responsibility for Review**

The Risk Management Coordinator will be responsible for initiating, coordinating and managing the review process. The Risk Management Committee shall review and recommend any proposed amendments. All amendments to this Framework will require the approval of the Principal Secretary (Accounting Officer).

## APPENDICES

### APPENDIX I: Linkage Between KRAs, Strategic Objectives and Departmental Objectives

KEY RESULT AREA	STRATEGIC OBJECTIVES	DEPARTMENTAL OBJECTIVES	DEPARTMENT
<b>KRA 1: Resource mobilization for financing public expenditures</b>	1.1 To enhance mobilization of government revenues	To enhance tax policy and administrative measures formulation for increased government revenues	MFAD
		To enhance digitization of government payment services	GDP
		To enhance integration of payments systems with IFMIS	
	1.2 To enhance mobilization of funds from external and domestic sources	To ensure effective and efficient mobilization of external and internal resources	PDMO
		To ensure effective diversification of borrowing resources	
		To ensure quality portfolio review assessment and reporting	
	1.3 To improve debt management	To enhance public debt management efficiency and transparency	
1.5 To support county governments, enhance their own source revenue.	To enhance the capacity of county governments on revenue mobilization	IGFRD	
<b>KRA 2: Stable and sustainable macroeconomic environment</b>	2.1 To foster and maintain a stable macroeconomic environment for accelerated economic growth and development.	To enhance macroeconomic and fiscal forecasting and modeling to support macroeconomic stability	MFAD
	2.2 To promote a sustainable and robust financial sector for domestic saving and investment	To ensure stability efficiency and accessibility in the financial services sector	FSAD
		To support the development of the sectorial policies and strategies	
		To ensure effective legal and regulatory framework to support the growth and development of the economy	
		To improve & stimulate the economy by encouraging additional lending to MSMEs increasing investment	CGS

KEY RESULT AREA	STRATEGIC OBJECTIVES	DEPARTMENTAL OBJECTIVES	DEPARTMENT
		<p>opportunities for MSME's and strengthening skills and capacities of proprietors of MSME's.</p> <p>To create a conducive business environment and promote partnerships between the government and financial intermediaries with respect to credit guarantee for MSME's and other related activities.</p> <p>To facilitate the financing of MSMEs increasing investment opportunities for MSME's by partially guaranteeing credit advanced to the enterprises</p>	
		<p>Strengthen participating financial institution capacities for innovation, rural outreach and green finance services in Kenya</p> <p>To build MSME and small holders' farmers sustainable investment capacities and financial literacy skills particularly tailored to reach women, youth and marginalized groups</p> <p>To ensure risk sharing mechanisms to promote rural outreach innovations and catalyze funding from Kenyan mainstream financial institutions into the rural and agriculture sector</p> <p>To ensure success implementation of green financing facility by elevating liquidity constraints of non-bank financial institutions and encourage investment in climate smart and inventive environmentally friendly activities</p>	RK-FINFA
<b>KRA 3: Policy, legal and institutional frameworks for development planning, budgeting and</b>	3.4 To strengthen public finance management at National Sub- County Treasuries.	To ensure effective operations in the National Sub-County Treasuries.	NSCT
		To ensure financial statements from the national subcounty treasuries adhere to international public sector accounting standards.	

KEY RESULT AREA	STRATEGIC OBJECTIVES	DEPARTMENTAL OBJECTIVES	DEPARTMENT
intergovernmental and stakeholder relations		To ensure effective support in accounting of public funds disbursed to National Government entities at the sub counties.	
	3.5 To strengthen Public Financial Management at National and County levels	To enhance the county fiscal policy frameworks	IGFRD
		Enhance compliance with PFM laws by county governments	
		To strengthen capacity on Public Finance Management	
		To provide strategic direction and support effective implementation and reporting of PFM Reform Strategy.	PFMR Secretariat
	3.7 To enhance policy, legal and institutional framework for the intergovernmental fiscal relations.	To ensure legislative proposals on sharing of resources between the two levels of governments are in place.	BFEA
	3.9 To formulate and implement the national budget	To effectively coordinate allocation of resources in line with the government priorities and implementation of the budget	BD
		To strengthen the capacity of PFM staff both at the national and county levels on budgeting	
		To enhance implementation of budget reforms and automation of the budget process.	
		To ensure effective macroeconomic and fiscal policy formulation	
	3.12 To strengthen fiduciary assurance and transparency in public sector entities	To enhance proficiency and professionalism of internal auditors	IAGD
		To enhance effectiveness in assurance and advisory services in the public sector entities	
		To strengthen corporate governance and oversight in public sector	
To provide effective advisory and assurance on risk management			
To strategically position internal audit to influence policy and resource allocation			

KEY RESULT AREA	STRATEGIC OBJECTIVES	DEPARTMENTAL OBJECTIVES	DEPARTMENT
		To ensure effective assurance and advisory on governance, risk management and controls at the National Treasury	IA & RAU
<b>KRA 4: Tracking, evaluation and reporting on implementation of development plans, policies, international frameworks and financial payments.</b>	4.1 To strengthen tracking and reporting of financial transactions	To enhance accuracy and transparency in financial reporting in line with statutory requirements.	GAS
		To ensure seamless transition from cash to accrual accounting basis.	
		To ensure improved visibility of government cash resources by implementing The Treasury Single Account (TSA)	
	4.3 To enhance monitoring evaluation and feedback mechanism for intergovernmental fiscal relations and public finance management.	To strengthen the monitoring, evaluation and feedback framework for intergovernmental fiscal relations and PFM.	IGFRD
<b>KRA 5: Strengthened institutional capacity and internal business processes</b>	5.1 To enhance the quality delivery of services throughout the plan period	To provide effective and efficient administrative support to the departments under the National Treasury	Admin. Unit
		To ensure TNT leverages on technology for enhanced service deliver	ICT Unit
		To ensure effective government fleet management	GVLP
		Business process automation driving efficiency in service delivery	IFMIS
		To effectively and efficiently offer legal advice and review to enhance quality of service delivery by national treasure	LSU
		To procure goods, works and services in a timely and cost-effective way while achieving value for money	SCM
		To ensure efficient and effective management of inventory, assets and stores	
		To ensure efficient and effective records management	Record Unit
To ensure effective mobilization of financial resources to support programs and projects for the National Treasury	Finance		

KEY RESULT AREA	STRATEGIC OBJECTIVES	DEPARTMENTAL OBJECTIVES	DEPARTMENT
		To ensure effective monitoring of the implementation of the budget	Accounts
		To develop and implement clear and concise financial procedures and systems	
	5.2 To improve Organizational and Staff productivity progressively throughout the Period	To attract, develop and retain competent staff and ensure seamless separation	HRM&D
		To ensure effective payroll management	
	5.3 To strengthen corporate brand and enhance governance by 2027	To strengthen corporate brand and image of the National Treasury.	PCU
	5.4 To enhance the efficiency and effectiveness of planning and project monitoring.	To efficiently coordinate the formulation implementation and review of national and sectorial development of plans, policies and strategies	CPPMD
To monitor, evaluate, report progress on implementation of National Treasury programs and projects			
<b>PROJECTS</b>	To deliver locally led climate resilience actions and strengthen county and national governments capacity to manage climate risks	To increase access to climate finance to support investments in climate resilience and low carbon emission at local level (Urban and rural)	FLLoCA
		To support community led local initiatives for enhanced community resilience and enhance sustainable development.	
		Strengthening the capacity of county level institutions and stakeholders, particularly the ward climate change planning committees to accelerate climate action at the local level	
		Supporting the development and strengthening of policy legal and regulatory frameworks at the county levels to improve access to climate financing and build local resilience	

KEY RESULT AREA	STRATEGIC OBJECTIVES	DEPARTMENTAL OBJECTIVES	DEPARTMENT
		To increase access to green/environmentally friendly technologies to deliver low carbon climate resilient development at national and county levels.	
		Enhancing transparency and accountability for the climate change support provided and the actions implement	
	To enhance mobilization of funds from external and domestic sources	To enhance mobilization of resources from Kenya to the Global Fund	GF
		To ensure effective planning for global fund grants through grant writing and negotiations	
		To ensure effective financial management and accountability of global fund grants and GoK counterpart funds	
	To strengthen tracking, evaluation, reporting and implementation of policies projects and programs.	To ensure effective monitoring and evaluation of implementation of global fund Grants	
	To enhance the efficiency and effectiveness of planning and project monitoring	To enhance the capacity of technical staff in implementation of the Global Fund grants	

## APPENDIX II: Risk Maturity Level

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 management processes are in use.	Audit risk management processes and uses management's assessment of risk.
2. Risk Managed	Risk is integrated into strategic planning; risk criteria is 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 take lead in ensuring risk processes are developed and implemented in all key areas.	Formal risk processes are implemented and documented.	Liaise with risk management function and use management's assessment of risk where appropriate.
4. Risk Aware	Unstructured risk Management and limited standardization	Risk management initiatives are supported by top management on a need basis	As needed risk and control self-assessment Processes are implemented Scattered silos approach to risk management.	Promote 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

**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>

**ANNEX III: Risk Register Template**

<https://www.internalaudit.go.ke/wp-content/uploads/2025/10/5.-Sample-Risk-Register.pdf>