Kenya Organic Agriculture Network

RISK MANAGEMENT POLICY AND PROCEDURE

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FOREWORD

The KOAN Risk Management Policy presented here is meant to be a suggested guideline for use by KOAN employees and Board on how to identify, mitigate and manage risks. KOAN has governance and executive structures which at different levels have specific and detailed Terms of Reference that guide in facilitating and implementing KOAN programmes. All activities undertaken by Kenya Organic Agriculture Network (KOAN) carry an element of risk. The exposure to these risks is managed through the practice of Risk Management. In managing risk, it is the organization's practice to take advantage of potential opportunities while managing potential adverse effects. Managing risk is the responsibility of everyone in the organization. For smooth running of KOAN, it is advised that the conditions, rules and procedures contained herein are bound by all operating under them.

Signed,

Board Chairperson:

Date:

PREFACE

KOAN has developed this Risk Management Manual in line with its resolve to promote best practices in staff management. This is also in line with deliberate efforts towards institutional strengthening and improving efficiency as well. The Board, Management and Staff are aware that sound staff management, governance structures and procedures are integral in optimal running of the organization and achieving intended impacts. Thus, development of this Risk Management Manual is yet another milestone in its pursuit of excellence in delivering its mandate and accomplishing its mission for the fulfillment of its vision. This policy outlines the organization's risk management process and sets out the responsibilities of the Board, the Audit and Risk Committee, the Managing Director, senior management and others within the organization in relation to risk management. It's therefore prudent for all staff and board members have a copy of the policy, read, understand and apply it. It should be noted that all policies are dynamic and will be reviewed from time to time to suit prevailing situations.

Signed,

CEO:

DATE:

ABBREVIATIONS AND ACRONYMS

CEO	Chief Executive Officer
M&E	Monitoring and Evaluation
FAD	Finance and Administrative Department
FAM	Finance and Administrative Manager
FBOs	Faith Based Organizations
NGO	Non-Governmental Organization
OD	Organization Development
POM	Programmes Operations Manager
RBM	Result Based Management Programme Officer
RIM	Research and Information Management

1. BACKGROUND

1.1 Purpose of the Policy

1.1.1 All activities undertaken by Kenya Organic Agriculture Network (KOAN) carry an element of risk. The exposure to these risks is managed through the practice of Risk Management. In managing risk, it is the organization's practice to take advantage of potential opportunities while managing potential adverse effects. Managing risk is the responsibility of everyone in the organization. This policy outlines the organization's risk management process and sets out the responsibilities of the Board, the Audit and Risk Committee, the Managing Director, senior management and others within the Organization in relation to risk management.

1.2 Policy owner

1.2.1 KOAN is the policy owner of the Risk Management Policy and Procedure for KOAN. The Finance and Administration Manager will still have oversight over the risk management program for KOAN.

2. UNDERSTANDING RISK MANAGEMENT

2.1 Risks have been described in terms of combination of the consequences of an event occurring and its likelihood of occurring. Risk is the chance of something happening that will have an impact on objectives and risk management can be described as the culture, processes and structures that are directed towards realizing potential opportunities whilst managing an adverse effect.

2.2 KOAN's risk management system is designed to identify the risks it faces and has measures in place to keep those risks to an acceptable minimum. The existence of risk presents both threats and opportunities to KOAN.

2.3 Risk owners have been assigned responsibility for the identified risks in the Risk Register. KOAN's risk assessment matrix is used as the benchmark in planning and implementing the risk management measures. It takes into consideration the nature, scale and complexity of the business.

2.4 The risk management process consists of the following main elements:

2.4.1 Identify: identify a risk (threats or opportunities) and document the risks captured by the risk register owner.

2.4.2 **Assess:** the primary goal is to document the net effect of all identified threats and opportunities, by assessing:

i. Likelihood of threats and opportunities (risks);
ii. Impact of each risk;
iii. Proximity of threats; and
iv. Prioritization based on scales.

2.4.3 Plan: preparation of management responses to mitigate threats and maximize opportunities.

2.4.4 Implement: risk responses are actioned.

2.4.5 Monitor and review: monitor and review the performance of the risk management system and changes to business initiatives.

2.4.6Communicate: provide regular reports to management team / Audit and Risk Committee at agreed times.

2.4.7 Risks are effectively managed by KOAN through the effective implementation of various controls, which include:

i. Board approved risk management framework;
ii. Documented policies and procedures;
iii. Maintenance of registers;
iv. Implementation of risk-based systems and processes;
v. Ongoing monitoring of regulatory obligations;
vi. Checklists to guide activities and project plans to record actions; and
vii. Internal and external reporting.

3. RESPONSIBILITIES

3.1 Board Responsibilities

The Board of KOAN Limited, through the Audit and Risk Committee, has responsibility under its Charter to review and report to the Board that:

i. the Committee has, at least annually, reviewed the KOAN's risk management framework to satisfy itself that it continues to be sound and effectively identifies all areas of potential risk;
ii. adequate policies and processes have been designed and implemented to manage identified risks;
iii. a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
iv. proper remedial action is undertaken to redress areas of weakness.

3.2 Finance and Administration manager

The Finance and Administration manager of KOAN has responsibility under this policy for:

i. Monitoring compliance with this policy;
ii. Reporting to the Board on compliance with this policy;
iii. Developing, implementing and monitoring systems, management of policies and procedures relevant to the business, including facilitating review by the executive on a regular basis; and
iv. Maintaining the risk register.

3.3 Risk Owner

The risk owner (as noted in the Risk Register) is responsible for ensuring on a daily basis that the relevant operational procedures and controls implemented to treat each risk area are adequate and effective. If a control or procedure is not adequate and effective in treating the risk, the risk owner should report this, with a recommendation for an alternative risk treatment, to the Finance and Administration manager for escalation to the Chief Executive Officer and Managing Director and ultimately approval by the Board.

3.4 General responsibilities

3.4.1 Every KOAN staff member is responsible for effective management of risk including the identification of potential risks. Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies. Risk management processes should be integrated with other planning processes and management activities.

3.4.2 Where there is legislation in place for the management of specific risks (such as Occupational Health and Safety) this Risk Management policy does not relieve KOAN of its responsibility to comply with that legislation.

3.4.3 Managers are accountable for strategic risk management within areas under their control, including the promotion and training of the risk management process to staff.

4. RISK MANAGEMENT PROCESS

4.1 The risk management system is dynamic and is designed to adapt to KOAN's developments and any changes in the risk profile over time. Compliance measures are used as a tool to address identified risks. The risk management system is based on a structured and systemic process which takes into account KOAN's internal and external risks.

4.2 The main elements of the risk management process are as follows:

i. Communicate and consult – communicate and consult with internal and external stakeholders as appropriate at each stage of the risk management process and concerning the process as a whole.
ii. Establish the context – establish the external, internal and risk management context in which the rest of the process will take place – the criteria against which risk will be evaluated should be established and the structure of the analysis defined.
iii. Identify risks – identify where, when, why and how events could prevent, degrade, delay or enhance the achievement of KOAN's objectives.
iv. Record risks – document the risks that have been identified in the risk register.

v. Analyze risks – identify and evaluate existing controls. Determine consequences and likelihood and hence the level of risk by analyzing the range of potential consequences and how these could occur. Evaluate risks – compare estimated levels of risk against the pre-established criteria and consider the balance between potential benefits and adverse outcomes. This enables decisions to be made about the extent and nature of treatments required and about priorities.

vi. Treat risks – develop and implement specific cost-effective strategies and action plans for increasing potential benefits and reducing potential costs.

vii. Monitor and review – it is necessary to monitor the effectiveness of all steps of the risk management process. This is important for continuous improvement. Risks and effectiveness of treatment measures need to be monitored so that changing circumstances do not alter priorities.

4.3 KOAN's risks may come from any internal or external event which, if it occurs, may affect the ability to efficiently and effectively operate in the financial services industry:

i. Internal risks – those risks that specifically relate to KOAN's business itself and as such as generally within its control. They include risks such as employee related risks, strategic risks, and financial risks.

ii. External risks – those risks that are outside the control of KOAN. They include risks such as market conditions and legislative change.

4.4 Risks are effectively managed by KOAN through the effective implementation of various controls, which include:

i. Board approved risk management framework;

ii. Maintenance of risk register; and

iii. Regular review of risks and controls, particularly as the business changes.

4.5 Risk management can be applied at many levels in an organization. It can be applied at a strategic level and operational level. It may be applied to specific projects, to assist with specific decisions or to manage specific recognized risk areas.

4.6 Risk Management methodology: The methodology adopted by KOAN for managing and treating its risks can be defined as follows:

1. Document a risk management framework (i.e. the context)
2. Identify the general activities involved in running the business (i.e. risk categories)
3. Identify the risks involved in undertaking the specific business activity by asking the questions:
   i. What could happen?
   ii. How and why could it happen?
4. Rate the likelihood of the business activity not being properly performed. Likelihood is assessed to the assumption that there are no existing risk management and compliance processes in place. It is assessed as either Almost Certain, Likely, Possible, Unlikely and Rare.
5. Rate the consequence of not properly performing the business activity - damage can be quantified in terms of financial loss to investors and/or KOAN itself. It is assessed as Catastrophic, Major, Severe, Serious and Minor.
6. Assign the inherent risk rating based on a combination of the risk rating. Low and medium risks may be considered acceptable and therefore minimal further work on these risks may be required. The rating may be assessed as Critical, High, Significant, Medium and Low.
7. Decide whether a control (e.g. policy, procedure, checklist, reporting mechanism or account reconciliation) is necessary given the level of risk, based on likelihood and consequences and if so, identify control.
8. Assess whether the existing controls are adequate and allocate the responsibility of monitoring the control to treat the risk. This will integrate risk management and compliance to daily activities and facilitate appropriate control of operational risk.
9. Raise awareness about managing risks across the organization through communicating the policy and responsibilities.

10. Routinely monitor and review ongoing risks so can risk can be effectively managed.

The Risk Assessment Matrix and Risk Register format are shown in Appendix A.

5. APPENDIX A – RISK ASSESSMENT MATRIX AND RISK REGISTER

Risk Consequence Severity

Financial Loss	< KES 500K	KES 1m-5m	KES 5m-KES10m	>KES 10m	Threatens viability of Organization
Reputation Loss					

Likelihood Probability & Frequency

Likelihood Rating	Descripti	Probability
Almost Certain	Known to happen often	> 95%
Likely	Could easily happen	50% - 95%
Possible	Could happen & has occurred before	15% - 50%
Unlikely	Hasn’t happened yet but could	5% - 15%
Rare	Conceivable, but only in extreme circumstances	> 5%

Control Effectiveness

Control	Descripti
Effective	The control design meets the control objective and the control is operating the majority of the time
Partially Effective	The control design mostly meets the control objective and/or the control is normally operational but occasionally is not applied when it should be, or not as intended
Ineffective	The control design does not meet the control objective and/or the control is not applied or is applied

6. RISK ASSESSMENT MATRIX

Likelihood Rating	Minor		Serious	Severe	Major
5. Almost	Medium	High	Critical	Critical	Critical
Certain	Medium	Significant	Hi	Critical	Critical
	Medium	Medium	Significant	High	Critical
4. Likely	Low	Low	Medium	Significant	Critical
	Low	Low	Medium	Medium	High
3. Possible					

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Critical	Extreme risk - detailed research and management planning required at senior levels
High	High risk- immediate senior management attention needed
Significant	Significant risk - Senior management attention needed
Medium	Moderate risk - Management responsibility must be specified
Low	Low risk - Manage by routine procedures

7. RISK REGISTER

No	Risk	Owner	Consequence	Likelihood	Inherent	Controls	Control
	Risk Area						
1.	Risk name and description						