Grant Thornton
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Grant Thornton New Zealand business risk survey **2015/2016**

Risk on the rise: *a snapshot of business risk in New Zealand*

Contents

Executive summary

Our latest snapshot of business risk in New Zealand is based on the views of a range of organisations from the private, public and not for profit sectors.

Survey results reveal that perceived risk levels are increasing with only 6% of respondents stating that their organisations face less risk than 12 months ago.

We also discovered that risks are materialising more rapidly – 52% of organisations surveyed said that the risks they face are occurring faster than 12 months ago.

The top three risks identified by survey participants were reputational, cyber and regulatory which reflect some of the more widely publicised issues in recent months. Cyber security has come under the spotlight after several high profile breaches; this has most likely fuelled organisations' attention to reputational risk which is the top front of mind risk cited by 79% of survey respondents.

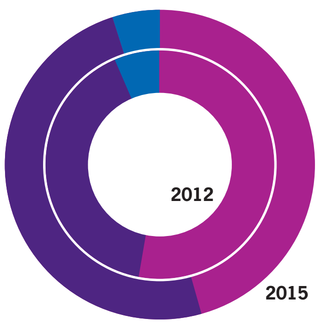
It's encouraging to see that risk management budgets, the number of reporting lines and the use of software have increased since our last survey. This demonstrates that good processes are increasingly being implemented throughout New Zealand organisations. However, outcomes from risk management processes are not being leveraged to drive meaningful or strategic business discussions, and very few businesses are utilising the external information they have procured as part of their conversations about risk.

This outcome is influenced by how little senior managers value risk management, and the decline in Board and audit committees' perceived value in risk management when compared to our previous survey in 2012. While the value Board and audit committees place on risk management is still high, this view is not shared by their management teams who see risk management as a compliance exercise, rather than a core function that can add value to their organisation. This is surprising given that organisations are facing more risks that are emerging faster than ever before.

Perceived risk levels are increasing

The vast majority of respondents believe their organisation is facing the same or more risk today than they were 12 months ago, with only 6% of respondents believing that their organisation faces less risk. This is broadly consistent with the 2012 business risk survey, with the major change being a 6% decrease in organisations facing greater risks in the next 12 months.

1: Organisations' perceived risks
Q: Compared with 12 months ago, is your organisation facing either more risks and/or more severe risks; or is it facing fewer risks and/or less severe risks?

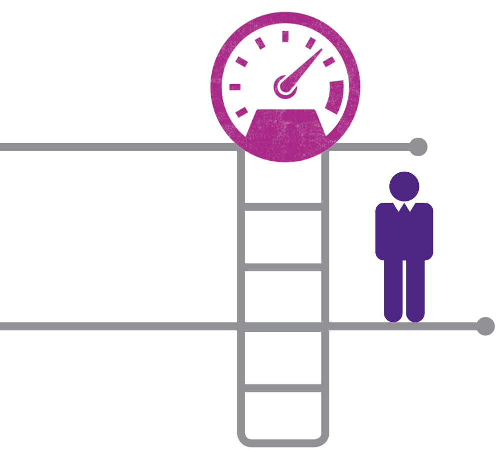


2012
- More/more severe risks 51%
- No change 39%
- Less severe/slightly fewer risks 7%

2015
- More/more severe risks 45%
- No change 49%
- Less severe/slightly fewer risks 6%

Base: all surveyed 2015 (n=123), 2012 (n=174)

This fall is unsurprising, given the 2012 survey was conducted in the aftermath of the global financial crisis and Christchurch earthquakes. However, there are some differing perceptions between the three sectors surveyed.



i: Perceived risks by sector

	Public sector		Private sector		Not for Profit sector	
	2012	2015	2012	2015	2012	2015
More or more severe risks	61%	43%	39%	46%	50%	43%
Fewer or less severe risks	5%	6%	8%	5%	21%	14%
No change	28%	51%	52%	49%	29%	43%

Base: 2015 (n=116), 2012 (n=174)

In the public and NFP sectors there is a strong shift from 'more' or 'more severe' risks towards no change in risk expectations. The opposite is true for the private sector; an additional 7% of respondents are seeing 'more' or 'more severe' risks now than they experienced in the previous 12 months. The differences in opinion may reflect a stable political environment in contrast to a more volatile economy which is reflected in key commodity prices, house prices and the economic outlook for key trading partners.

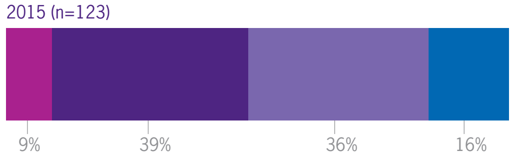
Velocity of risk

A new question was added to the 2015 survey to discover if the velocity at which emerging risks materialise is accelerating.

Fifty two per cent of the respondents stated that emerging risks are materialising faster than 12 months ago, while 9% believed risks were materialising slightly more slowly than 12 months ago.

2: Speed at which emerging risks are materialising
Q: Compared to 12 months ago, is the speed of emerging risks materialising happening more quickly or more slowly?

2015 (n=123)



Base: all surveyed 2015 (n=123)

- Happening much more slowly
- Happening slightly more slowly
- No change
- Happening slightly more quickly
- Happening much more quickly

The sector breakdown reveals some interesting results; in the private sector, 20% of participants state that risks are materialising at a much faster rate, and 56% believe risk velocity has increased overall. This dramatically contrasts to the public sector where only 11% believe risk velocity has increased significantly, while a similar proportion to the private sector believe risks are materialising at a slightly faster rate. Seventy-one percent of NFP respondents believe risk velocity had increased, no one thought risks were emerging at a significantly faster rate.

ii: Speed at which emerging risks are materialising by sector

	Public	Private	Not for Profit
Happening much more quickly	11%	20%	0%
Happening slightly more quickly	34%	36%	71%
Total increased velocity	**45%**	**56%**	**71%**

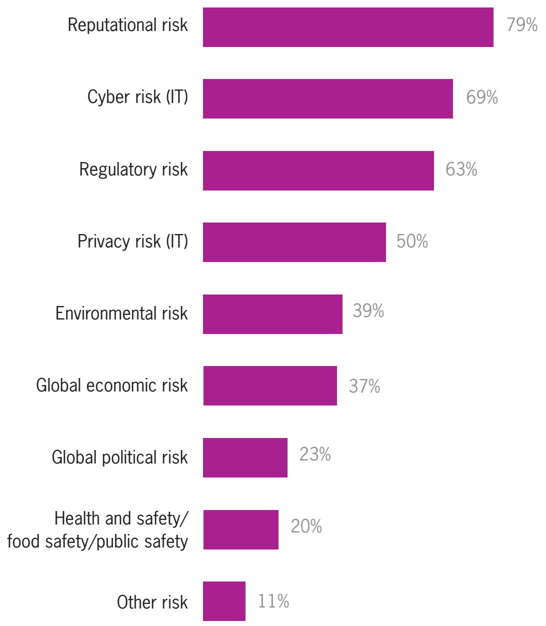
The perception of an increased velocity of risks may be linked to the increased focus on cyber risks across all sectors. The responses to these two questions indicates that the vast majority of respondents think they are facing as much if not more risk today than 12 months ago, and these risks are materialising faster than previously. In short, organisations are faced with a more volatile risk environment than 12 months ago.

Front of mind risks

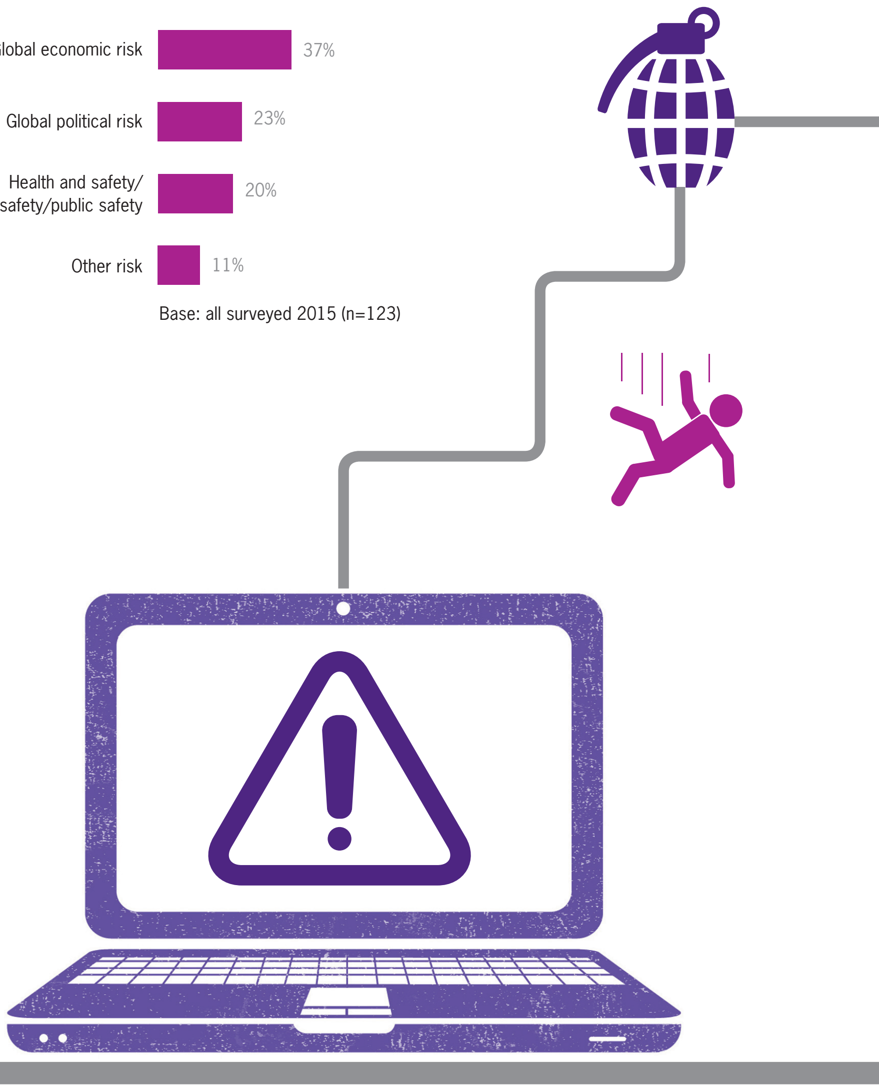
We also wanted to look at the risks that are front of mind for senior managers and Boards. The top seven risks in the chart below were offered as specific survey answers, while the remaining categories were coded for analysis from optional open-ended responses.

3: Front of mind risks

Q: Over the next twelve months which risks do you think will be front of mind for your senior managers and/or Board?



Base: all surveyed 2015 (n=123)



While just under 80% of respondents identified reputational risk as their major concern (89% of public sector organisations, and 71% of private sector organisations), this needs to be viewed with some caution as the nature of these risks means that it could be seen as both a stand-alone risk and an impact of another risk category (for example, the primary impact of a privacy risk emerging may be reputational).

Cyber risk was identified by virtually the same proportion of respondents across all three sectors, while privacy risk was considered more significant by the public and NFP sectors but much less so by the private sector. However, 73% of private sector respondents had a designated privacy officer compared to 87% of the sector. Conversely, regulatory risk was considered significant by the private and NFP sectors but much less so by the public sector. We note the low priority given by survey participants to health and safety risk and assume that for some respondents the potential risks posed by the new health and safety legislation were considered to be part of the regulatory risk category. All private and public sector respondents identified health and safety as a risk focus area.

Environmental and global economic risks are considerably more common in the private sector. It is interesting to see that project risk was not identified as a front of mind risk given the number of well publicised project failures and the significant increase in project risk reporting to Boards and senior management identified in this survey.

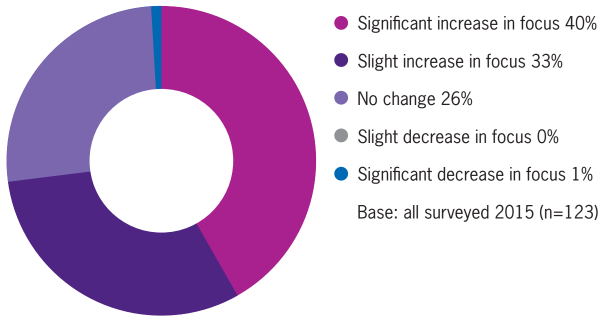
Technology, information security and health and safety risks are the three most common areas where organisations seek external assistance.

Information technology (IT) security

Seventy three per cent of respondents said their organisations have increased their focus on IT security compared to 12 months ago. This figure is similar across all sectors. Nearly all the remaining respondents said there had been no change in their focus, with just 1% indicating a decrease. In both the private and public sectors, more organisations have 'significantly' increased their focus on IT risks than those that have slightly increased their focus, while the opposite is true for the NFP sector.

4: Change in focus on IT security over the past 12 months

Q: Compared to 12 months ago, how much has your organisation increased or decreased its focus on IT (information technology) security given the increased risk to data security and the potential impact to organisational reputation?



Base: all surveyed 2015 (n=123)

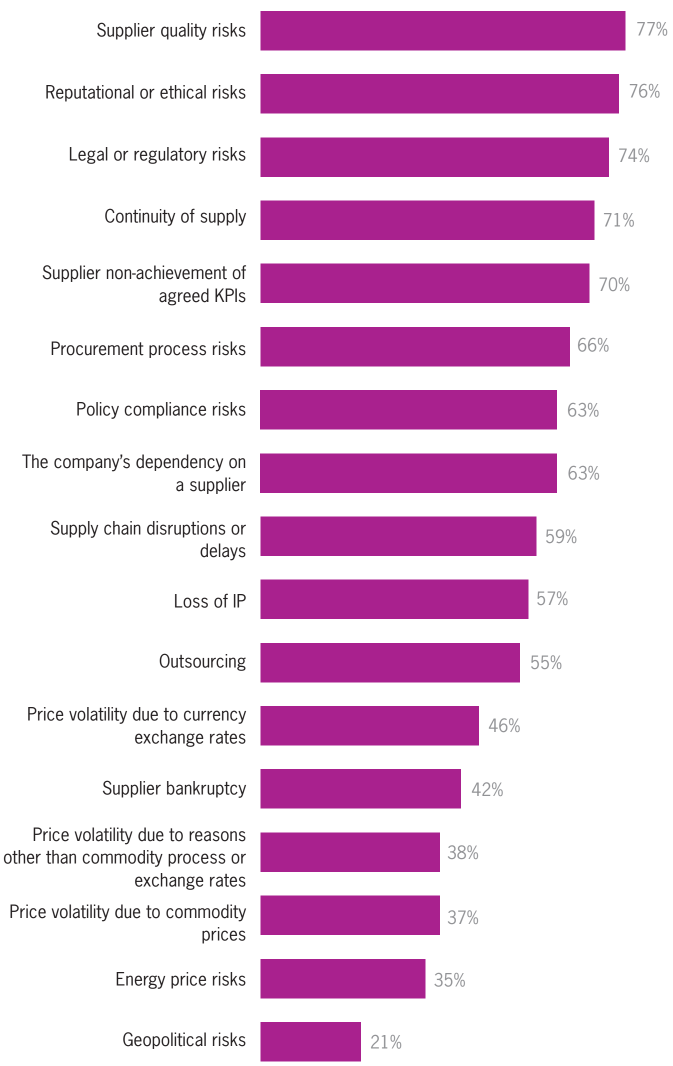
Eight-six percent of NFP organisations have a designated person responsible for IT security, compared to 88% of the private sector and 91% of the public sector. The increased focus on IT security may help explain why over half of the respondents feel the velocity of risk is increasing.

Procurement risks

The survey looked at the extent to which organisations incorporate procurement risks into their risk management strategies and how much impact risk management has had on procurement processes. We also wanted to explore how procurement risks have changed as globalised supply chains and business models have emerged.

5: Procurement risks

Q: As an organisation, do you explicitly consider any of the following procurement risks as part of your risk management or the procurement process?



Other mentions were 12% or less
Base: all surveyed 2015 (n=123)

iii: Procurement risks by sector

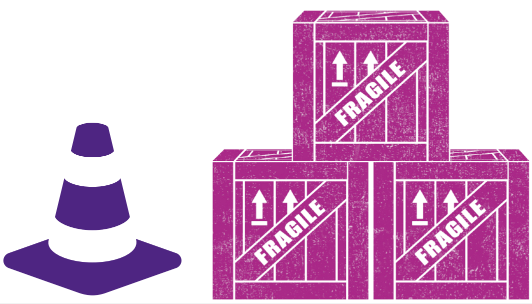
	Public	Private	Not for Profit
Supplier quality risk	83%	75%	71%
Reputational or ethical risks	85%	71%	71%
Legal or regulatory risks	75%	80%	43%
Continuity of supply	64%	82%	57%
Procurement process risk	81%	55%	57%
Dependency on a supplier	57%	73%	14%
Loss of IP	62%	54%	71%

The public sector's key procurement issues are supplier quality risks, reputational or ethical risks, and procurement process risks, while the private sector is more concerned about legal/regulatory risks, continuity of supply and supplier quality risks. The private sector is also significantly more concerned around price volatility risk than either the public or NFP sectors.

Survey participants were also asked to identify the procurement risks they expected to grow in importance over the next 12 months.

iv: Growth in procurement risks over the next 12 months by sector

	Public	Private	Not for Profit
Reputational or ethical risks	62%	28%	67%
Legal or regulatory risks	50%	38%	50%
Supplier non-achievement of KPIs	36%	32%	17%
Dependency on a supplier	19%	38%	0%
Policy compliance	26%	26%	50%
Loss of IP	17%	13%	33%



Value of risk management

Risk management delivers value, but not according to senior managers

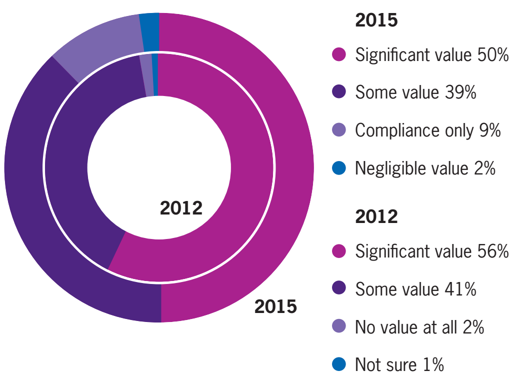
Eighty-nine percent of respondents believe that risk management delivers value to their organisation and half believe it delivers significant value. This is a significant fall from the previous survey when 97% saw value from risk management. We believe it is significant that 9% of the respondents believe that risk management is a compliance exercise only, rather than a process which delivers value to the organisation.

As in the last survey, a large proportion of respondents said their senior management team does not value risk management as much as their Board or audit committee.

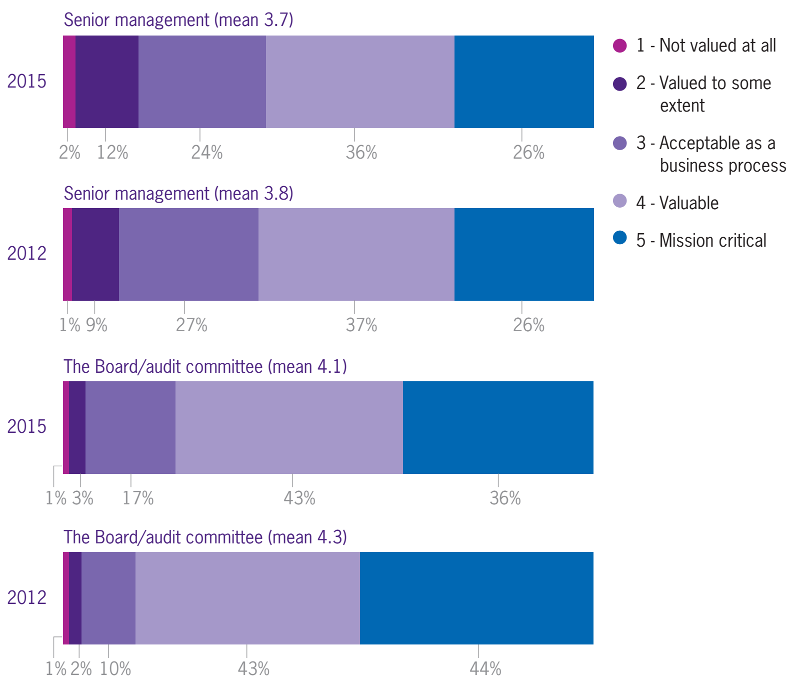
Respondents from the 'risk management leaders' segment said both their senior management and Board or audit committee place high value on risk management. This segment contains significantly higher than average mean scores for perceived value, both by senior management (4.2 vs. 3.7 overall) and by the Board or audit committee (4.5 vs. 4.1 overall).

The 50% of risk managers who believe risk management adds considerable value to their organisation is significantly higher than the 26% percent of senior management and 36% of Boards who think risk management is mission critical to their organisation.

6: Value of risk management
Q: In your opinion, does risk management deliver value to your organisation?



7: Perceived value of risk management in organisations
Q: On a scale of 1 – 5 where 1 means risk management is not valued at all, and 5 means risk management is mission critical, to what extent do senior management and the Board or audit committee in your organisation value risk management?



Base: all surveyed 2015 (n=123), 2012 (n=174)

"...a large proportion of respondents said their senior management team does not value risk management as much as their Board or audit committee".

Although Board and audit committees' perceived value of risk management is consistent with our 2012 survey, there has been a drop in the number of respondents who consider risk management to be valuable or mission critical. In 2012, 87% placed risk as valuable and mission critical compared to 79% in the latest survey. This appears to be consistent with the 9% who rated risk management as a compliance exercise when asked if risk management delivers value to the organisation. This indicates that as risk management becomes just another management process, it isn't provoking important or meaningful discussions, and is therefore of less value to an organisation's leaders. Senior managers' attitudes have remained much the same, with a slight growth in those seeing limited value from risk management.

When we look at perceived value by sector, all sectors have experienced a fall in survey participants that rate risk management as high value between 2012 and 2015. For Boards this fall is most significant in the NFP and public sectors, while for senior management, the public sector has experienced the largest decline in the perceived value of risk management. In the NFP sector there has been a significant change with no senior management now considering risk management to be mission critical.

v: Perceived value of risk management by sector

Board/audit committee	Public sector		Private sector		Not for Profit sector	
	2012	2015	2012	2015	2012	2015
1–3 - Neutral/low value	10%	19%	15%	20%	21%	43%
4 - Valuable	46%	53%	41%	35%	36%	43%
5 – Mission critical	44%	28%	44%	45%	43%	14%
High value sub-total	**90%**	**81%**	**85%**	**80%**	**79%**	**57%**

Senior management	Public sector		Private sector		Not for Profit sector	
	2012	2015	2012	2015	2012	2015
1–3 - Neutral/low value	45%	43%	26%	31%	43%	58%
4 - Valuable	35%	34%	40%	39%	36%	42%
5 – Mission critical	20%	23%	34%	30%	21%	0%
High value sub-total	**55%**	**57%**	**74%**	**69%**	**57%**	**42%**

When we compare risk managers' ratings to where they believe the Board and senior management would rate risk management, we see the fundamental challenge facing risk managers. While risk managers are satisfied they deliver significant value to their organisation, this view is not shared by their management who see risk management as a compliance exercise rather than adding significant value to their organisation. The opinion of the risk manager is most closely aligned to their view of the Board's perceptions.

vi: Perceived value of risk management by leadership groups

	Risk Manager	Board	Senior management
1–2 – Little/No Value	2%	4%	14%
3 – Compliance/Business Process	9%	17%	24%
4 – Some Value	39%	43%	36%
5 – Significant Value	50%	36%	26%

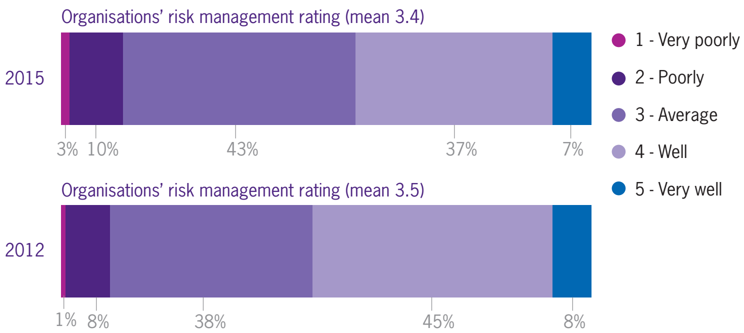
Given the consensus that organisations are facing as much, if not more, risk and these risks are emerging faster than previously, it is surprising that management is not recognising the value risk management should bring to an organisation. In the following sections we explore how well organisations undertake risk management, the scale of the investment made and the processes utilised by risk managers.

Risk management ratings are dropping

Risk management ratings are weaker than in 2012; 44% of respondents state that they manage risks well – a 9% drop compared to the last survey.

On a scale of 1 to 5, where 1 is managing risks 'very poorly' and 5 is managing risks 'very well', the average rating provided by respondents is 3.4. The 'behind on risk management' segment scores significantly lower than average: 3.0 vs. 3.4. The 'risk management leaders' segment scores significantly higher, with an average score of 3.7.

8: Organisations' risk management ratings
Q: On a scale of 1 – 5 where 1 means very poorly and 5 means very well, how well do you feel your organisation manages risk overall?



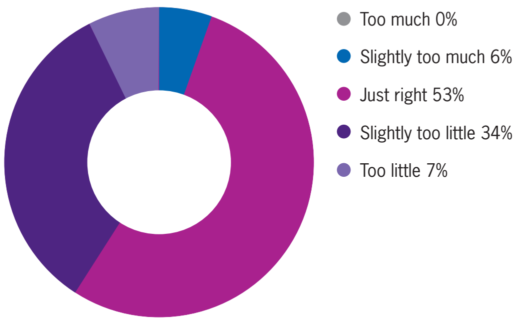
Base: all surveyed 2015 (n=123), 2012 (n=174)

Overall, the results demonstrate that organisations are less effective in risk management than they were in 2012, a contention which is consistent with the fall in the perceived value organisations get from their investment in risk management. When asked: 'if you could describe your organisation's risk management approach, which, if any, of these words might you use?' we noted a 10% increase (to 65%) in respondents who described their approach as "formalised". However, 31% described their risk management approach as 'not well understood", a slight increase on 2012.

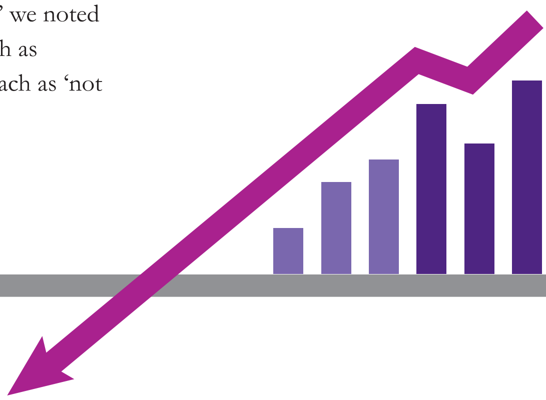
The investment in risk management is considered appropriate

Across each sector, there is still a significant number of organisations who feel too little risk management takes place. However, the majority of respondents from all sectors believe they are doing just the right amount of risk management or slightly too much. These results are consistent with those from 2012.

9: Organisations' investment in risk management
Q: On a scale of 1 – 5 where 1 means too little and 5 means too much, where do you feel your organisation's investment in risk management sits?



The sector split shows a consistency of opinion, with approximately a third of respondents thinking slightly more needs to be done, but the majority is satisfied the level of risk management activity is appropriate. This contrasts to the 44% who think their organisation does risk management well or very well, but is consistent with the 50% who believe risk management adds significant value to their organisation.

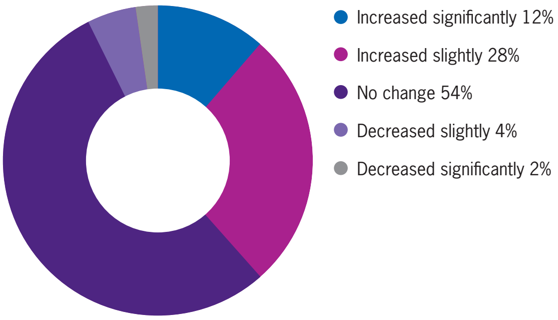


Risk management budgets have increased

Forty percent of respondents said their organisation's risk management budget has increased over the past 12 months; 12% say it has increased significantly, however the majority have had no change in their budgets.

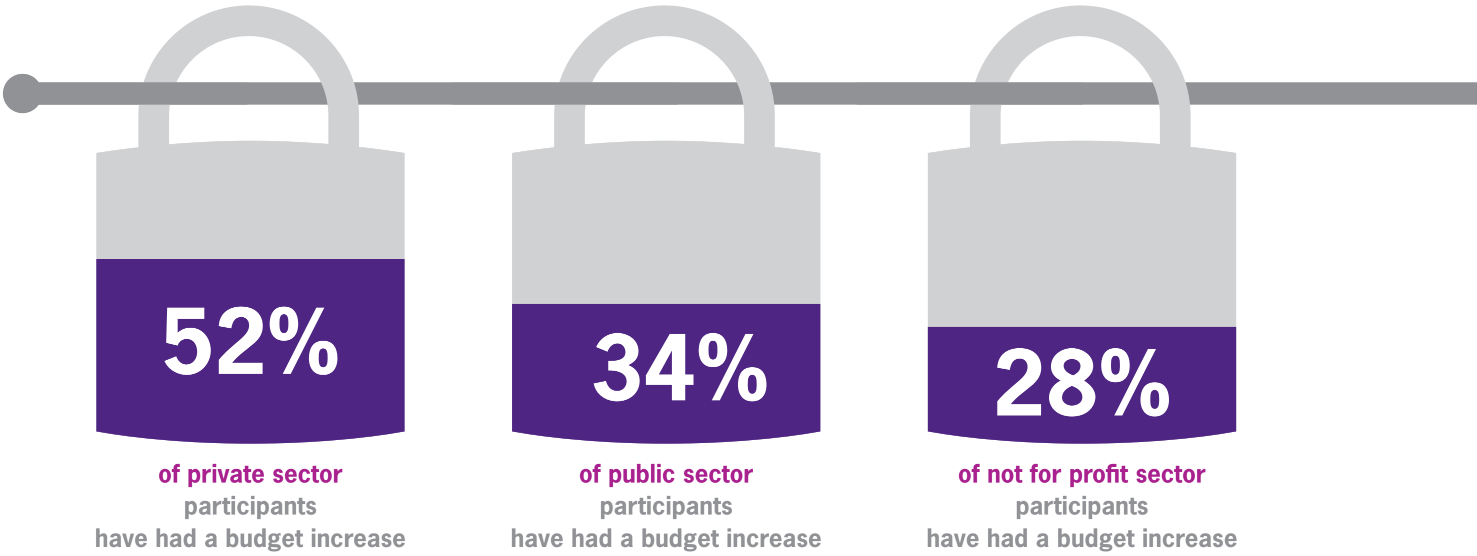
10: Risk management budget: past 12 months

Q: Over the past 12 months, have risk management budgets and resources in your organisation increased or decreased?



vii: Risk management budget: past 12 months by sector

	Public sector		Private sector		Not for Profit sector	
	2012	2015	2012	2015	2012	2015
Increased budget	27%	34%	56%	52%	29%	28%
No change	62%	55%	41%	46%	71%	57%
Decreased budget	11%	11%	3%	2%	0%	15%

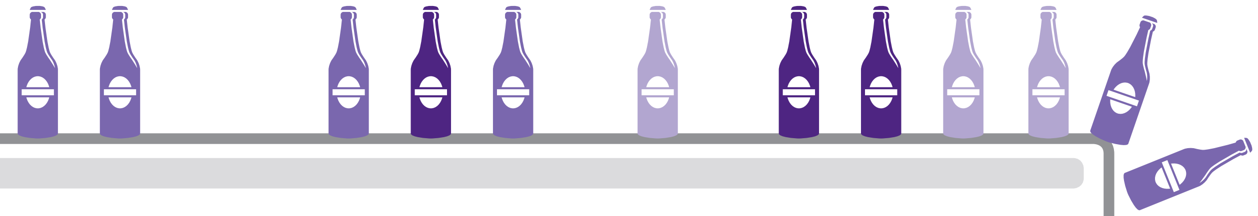


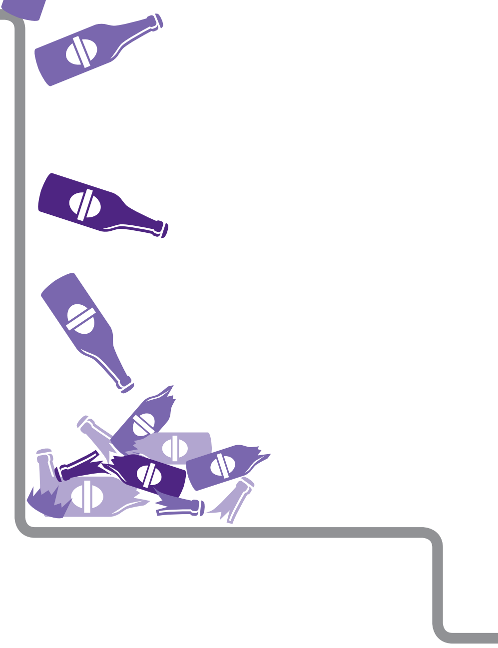
Of all the sectors, 52% of private sector participants said that they have had a budget increase compared to 34% and 28% of the public and not for profit sectors respectively. This reflects the private sector's belief they are facing more risk (46%), and that these risks are materialising faster (56%); 40% of respondents have had a significant increase in focus on IT risks, which is one of the most common areas organisations seek external assistance for.

It is also worth noting the private sector is significantly ahead of the public and NFP sectors (69% valuable or mission critical) in delivering value through their risk management processes.

Processes

To understand how risk management is implemented in New Zealand organisations, we asked survey participants about the approaches and tools they utilised as part of their risk management processes.





viii: Organisations' approaches to risk management by sector

	Public sector		Private sector		Not for Profit sector	
	2012	2015	2012	2015	2012	2015
Software	44%	53%	38%	68%	7%	43%
Key risk indicators	58%	55%	65%	73%	61%	71%
Quantitative analysis	27%	58%	37%	61%	14%	43%
Event analysis	84%	91%	87%	96%	79%	100%
External advisers	52%	72%	60%	66%	36%	86%
Organisational risk profile	84%	81%	71%	82%	57%	57%
Risk appetite statement	-	45%	-	57%	-	29%

Software

Boards and senior management of organisations which use some form of risk management software place higher value on risk management than those in organisations which don't use any kind of software. Organisations which use software are significantly more likely to rate themselves as managing risk than those which don't (54% vs 30%). Smaller organisations are less likely to use software than large organisations.

There has been a substantial increase in the uptake of software across all sectors surveyed. The most notable being a 30% increase in the private sector since 2012. There has also been a big jump in the NFP sector, however, it's important to note that the 2015 sample is half the size of the 2012 respondent group. For the private and NFP sectors, the use of software is consistent with their belief that their risk processes to be formalised. However, 75% of the public sector participants stated they have a formalised process while only 53% utilise risk software.

Key risk indicators

The survey results in this area are similar to those for quantitative techniques; organisations that value risk management and/or have used external support for risk management are more likely to use KRIs than those who are behind on and/or don't value risk management. Overall, the percentage of organisations that use KRIs vs those that don't is very similar to the 2012 survey.

The private sector is the most likely to use KRIs and the percentage of respondents who use them has increased by 8% since 2012.

Quantitative techniques

The 2015 survey revealed a significant increase in the use of quantitative techniques. Nearly two thirds of respondents said they use these techniques in the 2015 survey, compared to less than one third of survey participants in the 2012 survey. As expected, the figure is higher in organisations that are risk management leaders.

Organisations that use software are more likely to use quantitative techniques and these techniques are used by organisations with Boards and senior management teams that value risk management.

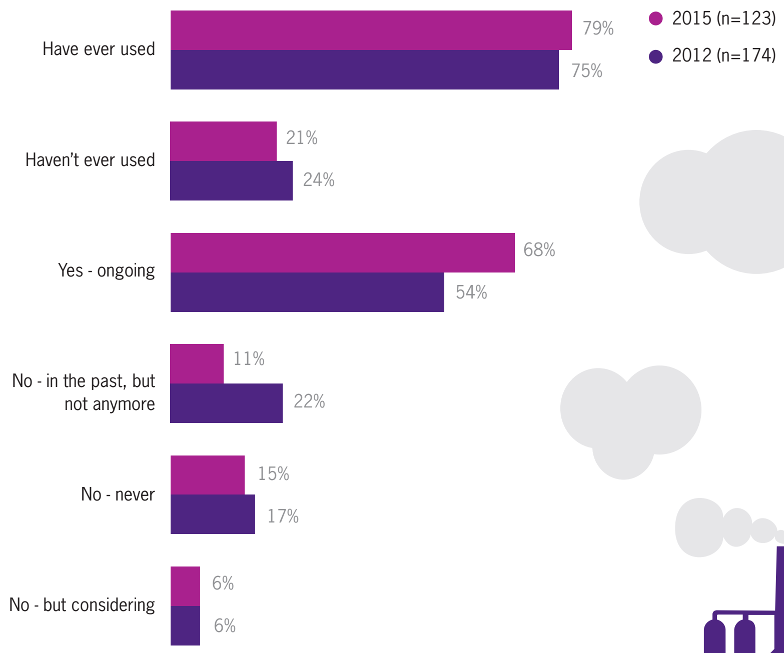
Analysis of incidents or events

The vast majority of respondents indicated their organisations (93%) analyse incidents or events to assist in the analysis of risk.

In the 2012 survey, the 'leaders' and 'starting out' categories were more likely to analyse incidents. With the increase to 9 out of 10 respondents across the board answering positively to this question, it would appear that all sectors value the benefit gained from event analysis to the overall risk performance. However, we note that only 2% of respondents reported using external event analysis as part of risk discussions with senior management or the Board.

11: External support

Q: Does your organisation ever use external professional advisers in risk management?



Base: all surveyed 2015 (n=123), 2012 (n=174)

External support

Sixty-eight per cent of organisations use ongoing external support – a significant increase from the last survey. Eleven per cent have used external advisers in the past, but no longer do so which is a large drop compared to the 2012 survey results where 23% stated they had used external providers but no longer do. Fifteen per cent have never used external support, down from seventeen percent in 2012, while a further 6% had never used external support but were considering it.

ix: External support by sector

	Public sector		Private sector		Not for Profit sector	
	2012	2015	2012	2015	2012	2015
Have ever used	80%	81%	76%	79%	57%	86%
Haven't ever used	20%	19%	24%	21%	43%	14%
Yes ongoing	52%	72%	60%	66%	36%	86%
No – in the past but not anymore	28%	9%	16%	12%	21%	0%
No - never	14%	11%	19%	16%	29%	14%
No – but considering	6%	8%	5%	5%	14%	0%

The majority of organisations in each sector have used external professional advisers for risk management. The public and NFP sectors have the highest on-going usage of external advisers and this has increased by 20% and 50% respectively since 2012. While there was an increase of 6% in the private sector, these respondents are the least likely to utilise external support, whereas in 2012 the private sector was the most likely to use external support.

As with the 2012 survey, chartered accountancy firms are the most common source of external support, followed by insurance brokers and boutique risk management consultants. The increased uptake in support is reflected in the steady rise in the use of each type of service provider since 2012.

Only 5% of the private sector respondents (and no NFP or public sector respondents) stated they used external assistance for 'risk management'. It appears external assistance is utilised around specific risks rather than looking to improve overall risk management processes, this may help explain the gap between the high rates of external assistance and the more modest ratings for risk process effectiveness. The top three activities for which organisations use external support are health and safety (77%), technology risk (77%) and information security (77%). This is consistent with the findings that 73% of respondents had increased their focus on IT security, and that both cyber risk and privacy risk are the top four 'front of mind risks'. Cyber-attacks are taking a tremendous toll on businesses globally, which is why organisations are prioritising their technology and information risks above all else.

The total cost of attacks worldwide is estimated to be at least US$315bn[1] over a 12 month period ending November 2015[2]. In New Zealand alone, National Cyber Security Centre (NCSC) states that 190 security incidents were reported for the 12 months to 30 June 2015[3].

Health and safety (H&S) has been prioritised due to the introduction of new legislation that provides a framework for New Zealand organisations to plan for and improve H&S practices.

Use of risk profiles

Eighty percent of organisations produce an organisation-wide risk profile – up slightly from 2012. Of the organisations that use external providers, 86% use them to advise on their risk profile.

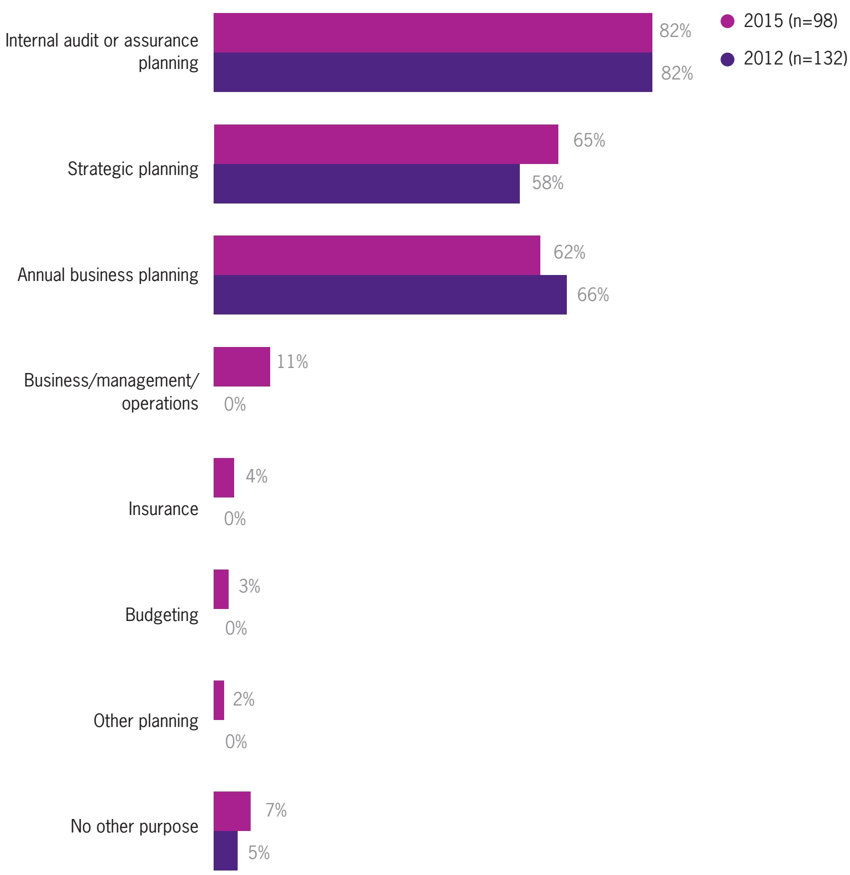
In the 2012 survey, private sector participants were less likely to use a risk profile, but in the 2015 survey, this has increased by 11% bringing the sector up to the same level as public organisations.

As in the last survey, risk profiles are updated more frequently than quarterly by approximately one third of organisations, a third update their risk profile quarterly and the final third update it twice yearly or annually. Public-sector organisations are more likely to update their risk profile at least quarterly.

Similar to the last survey, most respondents said their organisations use a risk profile for purposes other than risk management and reporting. The majority (82%) of those with a risk profile also use it for internal audits or assurance planning – this same result was seen in 2012.

12: Risk profile additional usage

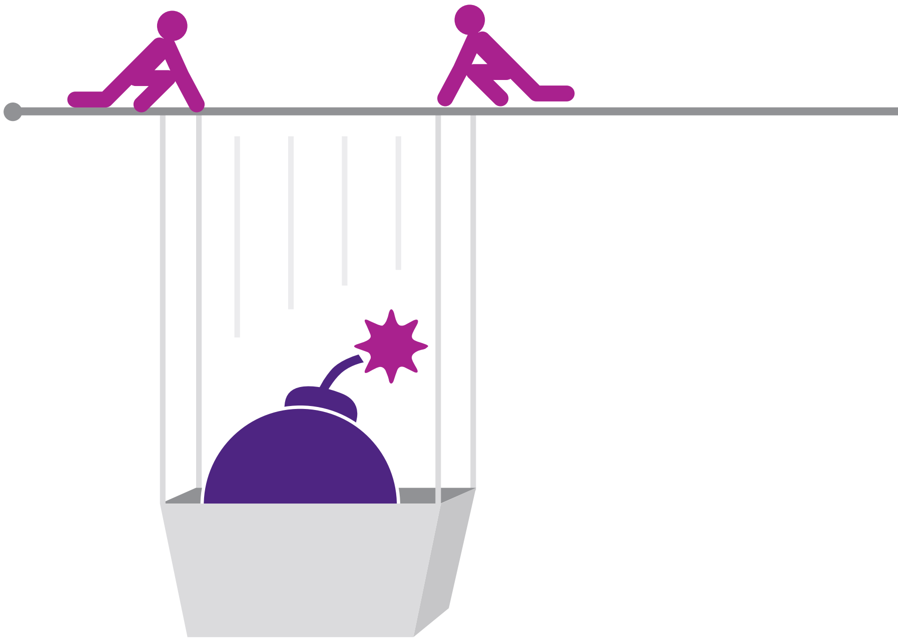
Q: Organisations sometimes use their risk profile for purposes other than risk management and reporting. Which, if any of the following purposes does your organisation use its risk profile for?



1 Based on Grant Thornton International Business Report estimates of total business revenues lost to cyber attacks
2 Source: Cyber-attacks cost global business over $300bn a year; Grant Thornton International Business Report survey, November 2015
3 Source: www.ncsc.govt.nz/newsroom

The results indicate that more organisations are using their risk profile to assist with strategic planning (now 65%), while those using the risk profile for annual business planning fell slightly to 62%. As risk should be an explicit element of both strategic and business planning, these figures indicate that 38% use a separate or no risk process for annual business planning and 35% use a separate or no risk process for strategic planning. This could mean that organisations do not trust their existing risk process or risk is not considered within their planning.

It is encouraging to see an increase in organisations using their risk profile for business management; an indication that risk management is embedded within the organisation.

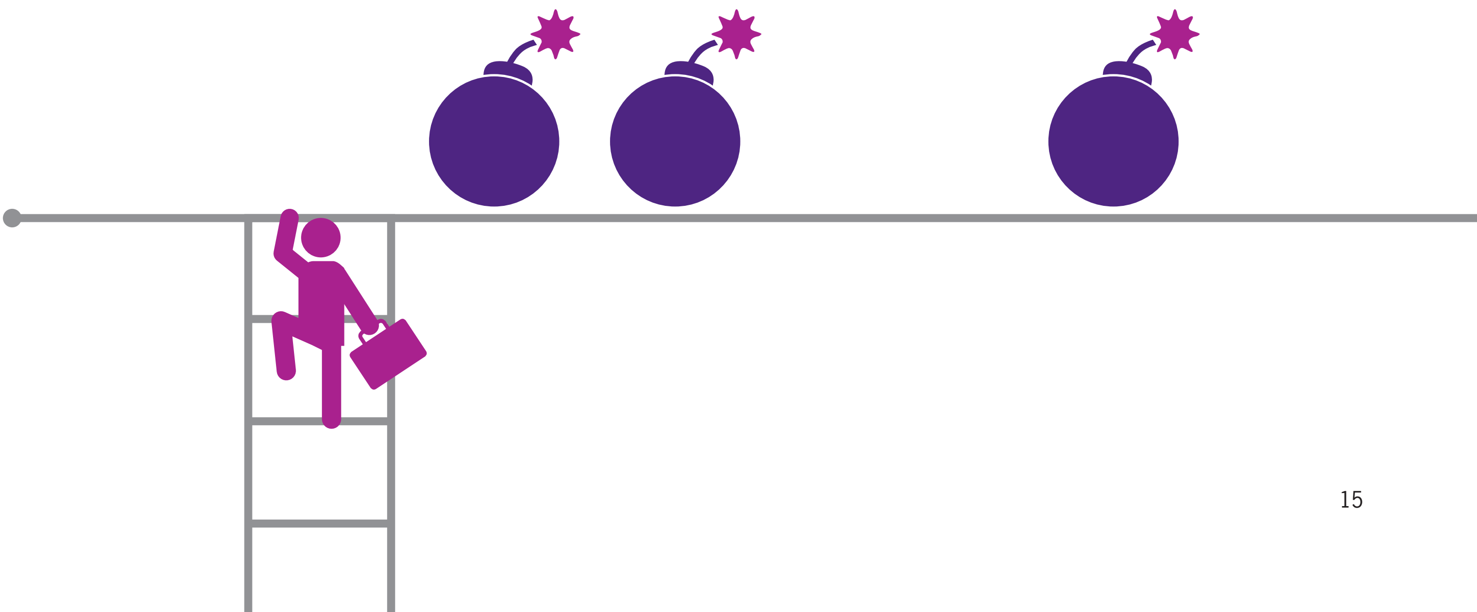


Risk appetite statements

The survey looked at the prevalence of written risk appetite statements used as a key driver of risk reporting and management by organisations. Half (49%) of our respondents indicated that their businesses have a risk appetite statement and private sector organisations are most likely to have one in place. Although half of our respondents have a written risk appetite statement, only 41% indicated that they complete a risk report against their risk tolerance. While these categories give some insight into the composition of the risk appetite statements, it is interesting to note the public sector is more likely to report against value as part of their risk appetite compared to the private sector.

x: Specific categories reported against risk appetite statement by sector

	Public	Private	Not for Profit
People (ie, health & safety)	74%	63%	71%
Reputation	64%	56%	71%
Operational	72%	58%	57%
Value (ie, revenue or cost)	70%	58%	14%
Environmental	40%	37%	14%



Risk reporting

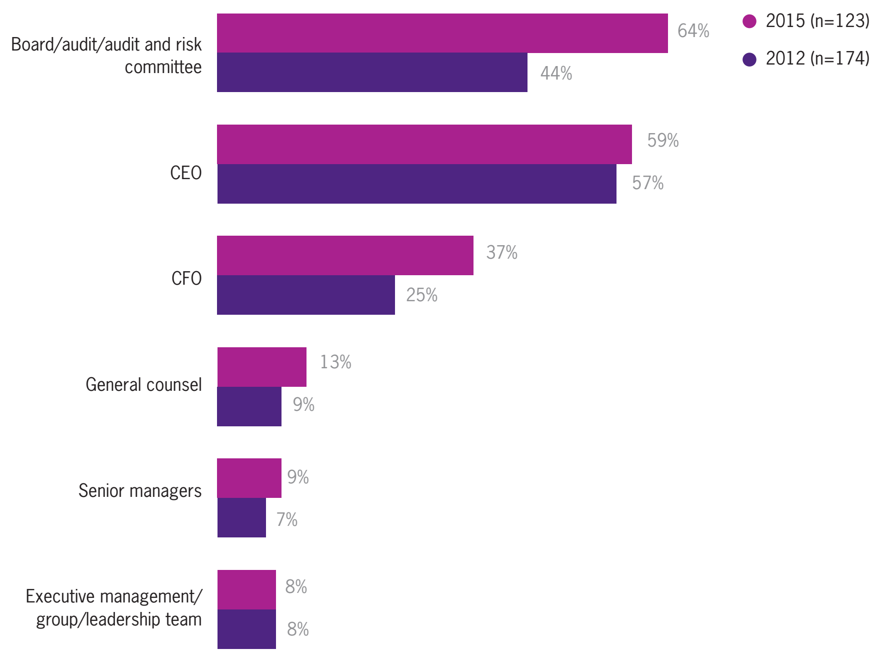
Organisations tend to have one or two primary reporting lines, and most have one secondary reporting line.

Primary reporting lines

Compared to the 2012 survey, there has been a marked increase in the primary reporting lines to the Board, audit committee, and audit and risk committee which is reflected in the perceived value of risk at governance level.

There has also been a significant increase in reporting to the CFO, potentially reflective of both the changing role of the CFO and the increasing importance of getting risk information to the 'top table'. In Grant Thornton and CPA's report 'Transforming the public sector: the role of the CFO in driving change', we state that CFOs have a pivotal role to play in developing and implementing strategy, and partnering with their executive teams to deliver real reform to the sector and better services to the community'. The report also cited a need for agencies to align the CFO's performance objectives to critical areas like customer service, financial sustainability and risk management.

13: Risk group's primary reporting lines
Q: What are your risk group's primary reporting lines?



Base: all surveyed 2015 (n=123), 2012 (n=174)

Secondary reporting lines

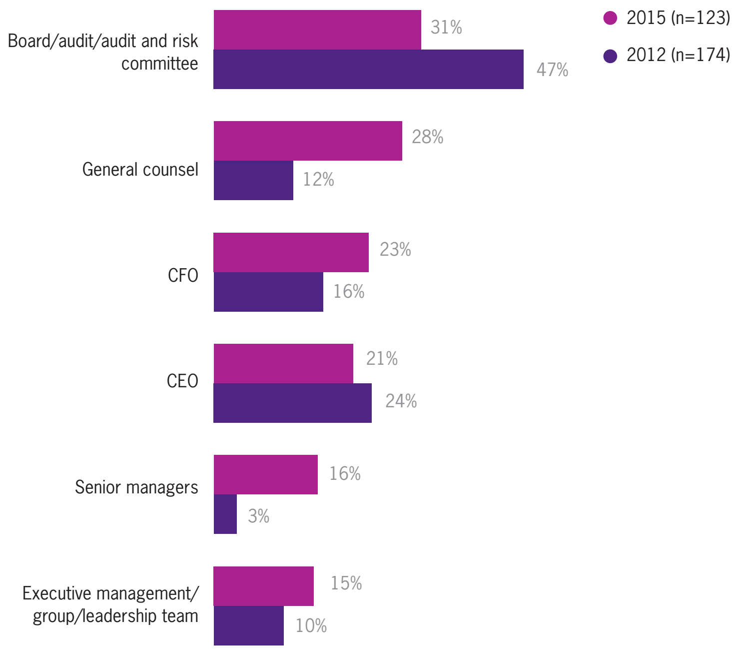
Compared to the last survey, there has been a significant decrease in Board/audit committee/audit and risk committee acting as the secondary risk management reporting line, and an increase in reporting to the general council. This is likely to be driven by the Board level focus on reputational and privacy risks. There has also been an increase in CFOs acting as the secondary reporting line. The survey also reveals that there has been a significant increase in senior managers acting as a secondary reporting line, which reflects the importance of risk managers to this group as the primary risk owners.

Changing risk reporting

The tables below demonstrate that risk reporting has changed since 2012, with both Boards and management obtaining a wider range of risk reports. The biggest changes have been in the reporting of operational, project and divisional risks to Boards and strategic, highest rated, operational, project and new risks to senior management. The risk reporting between Boards and management is now significantly more consistent than in 2012, with both groups getting the same, and closer to complete, risk information.

Generally, senior management risk reporting occurs on a monthly or continuous basis while Board risk reporting is carried out on a quarterly basis.

14: Risk groups' secondary reporting lines
Q: What are your risk group's secondary reporting lines?



xi: Risk reporting changes by sector

Board/audit committee	Public sector		Private sector		Not for Profit sector	
	2012	2015	2012	2015	2012	2015
Highest rated risks	88%	96%	79%	95%	79%	86%
Strategic risks	81%	92%	82%	93%	86%	86%
Operational risks	43%	83%	54%	86%	69%	71%
Project risks	44%	75%	49%	79%	31%	71%
New risks	67%	87%	62%	91%	77%	77%
Divisional/business unit risks	27%	57%	39%	59%	50%	50%
Risk remediation	75%	89%	68%	88%	85%	86%

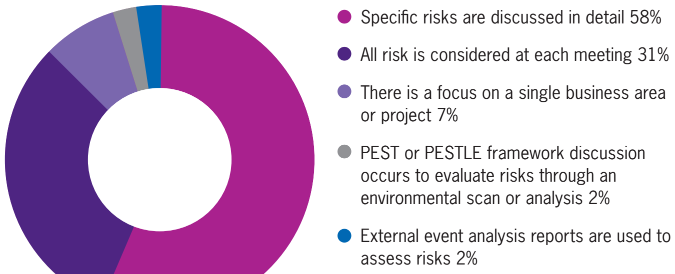
Senior management	Public sector		Private sector		Not for Profit sector	
	2012	2015	2012	2015	2012	2015
Highest rated risks	60%	98%	61%	93%	57%	86%
Strategic risks	63%	83%	49%	88%	50%	86%
Operational risks	76%	96%	67%	93%	54%	100%
Project risks	69%	91%	68%	91%	62%	71%
New risks	70%	96%	74%	95%	62%	100%
Divisional/business unit risks	76%	85%	74%	86%	83%	86%
Risk remediation	86%	89%	71%	89%	62%	100%

Level of risk discussion

We wanted to understand the level of discussion that occurs when organisations' key interest groups meet to discuss risk. More than half (58%) said that specific risks are discussed in detail, while a little under a third (31%) indicated that all risks were discussed at each meeting. Given the number of risks most organisations have, it seems unlikely that a meaningful discussion about all risks would be undertaken.

15: Level of risk discussion

Q: Whenever your senior management and/or Board discusses risk, which of the following would best describe the level of discussion?



Base: all surveyed 2015 (n=123)

xii: Level of risk discussion by sector

	Public	Private	Not for Profit
Specific risks are discussed in detail	62%	52%	43%
All risk is considered at each meeting	32%	29%	57%
There is a focus on a single business area or project	2%	14%	0%
PEST or PESTLE framework discussion occurs to evaluate risks through an environmental scan or analysis	2%	3%	0%
External event analysis reports are used to assess risks	2%	2%	0%

Grant Thornton's perspective on risk management is that it has a key responsibility to provoke discussions that incite action. To achieve this, there must be meaningful discussion about risks and what the organisation is doing about them. It's pleasing to note that over half the survey respondents discuss specific risks in detail, while a further 7% focus these discussions on an area of the business or a project. However, few organisation are utilising external information as part of their risk discussions (through either PESTLE or event analysis), which is unusual given 93% of organisation undertake analysis of incidents or events.

What does a typical risk manager look like?

We've explored organisations' approaches to risk within three key sectors, but what about the people at the helm of risk management? Who are they and how do they operate?

The typical private sector business risk manager

Typically, risk managers in a privately owned/corporate business setting have a financial focus. They are often the CFO, CEO or occupy another financial role. Almost half belong to international companies.

Respondents most commonly came from financial services, energy and manufacturing companies.

A primary focus for them is credit risk, more so than in other types of organisations. Insurance brokers and boutique risk management consultants are well represented among the advisers they have used.

These businesses tend to have relatively large risk management teams, with around seven part time and two full time risk managers, and four risk champions being a typical example.

Business risk managers are more likely to use risk management software, have a written risk appetite statement and use key risk indicators (KRIs) to monitor risk. Most have extensive experience, with 15 years on average in the field.

Risk reporting is less prominent in public sector organisations.

The typical public sector business risk manager

Public sector organisations are more likely to have an organisation-wide risk profile including strategic and reputational risk. They update their risk profile more often than other types of organisations. Therefore, the public sector risk manager is highly skilled, with an average 14 years' experience.

The role of risk manager in a public sector organisation includes risk management, risk assurance, audit and compliance. They are part of a large team with a typical example being four part time, two full time and 10 risk champions in the wider business. They are more likely than average to have a designated privacy officer.

When reporting against a risk tolerance table, public sector organisations are more likely to use the categories of reputation, value (revenue or cost), people (health and safety) and operations.

The typical Not for Profit sector* business risk manager

(*the sample is small so results are indicative)

Not for profit organisations tend to have a less comprehensive approach to risk management than other organisations. They are less likely to have a designated privacy officer, and few use risk management software. Over a quarter surveyed said risk management is not well understood in their organisation.

Most risk management teams in Not for Profit organisations are smaller than average, with around three part timers in the core team and three risk champions in the wider organisation. They often have additional managerial or HR responsibilities – on average risk management represents 10% of their role. Not for Profit organisations don't usually have an organisation-wide risk profile.

The survey methodology

The Grant Thornton business risk survey was commissioned by Grant Thornton New Zealand, an independent member firm of Grant Thornton International, one of the world's leading accounting and consultancy firms providing services globally. Grant Thornton commissioned Ipsos (an independent research company) to conduct the interviews and utilise their research methodologies and tools to prepare the initial data analysis.

The survey used two methodologies. Respondents from Grant Thornton New Zealand's database were contacted and interviewed by telephone. An email invitation to an online version of the interview was sent to the members of the New Zealand Society for Risk Management. We wish to thank the New Zealand Society for Risk Management for their support.

A note was included in the interview introduction to avoid anyone completing the interview twice if they appeared on both databases.

The questionnaire
The interview script was prepared by Ipsos based on Grant Thornton's questionnaire. The survey comprised questions about for key areas:

- **Attitudes towards risk**
- **Value of risk management**
- **Processes**
- **Risk reporting**

Some minor differences between the telephone and online versions of the questionnaire were introduced to accommodate each survey format.

Segmentation background

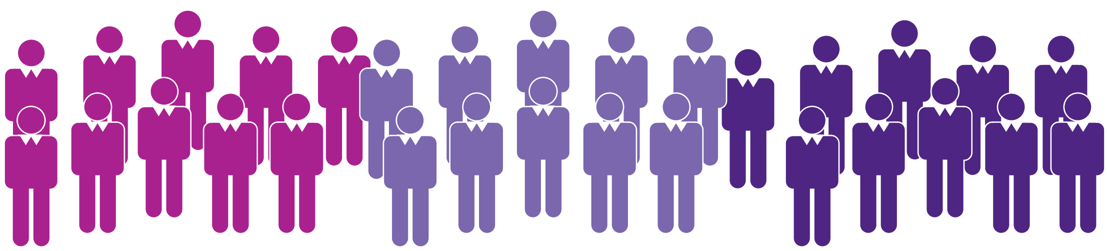
To create the risk management segments applied to the analysis in 2015, machine learning based on the 2012 segmentation was used. Machine learning is a type of artificial intelligence (AI) that allows computers to read and interpret data without being explicitly programmed. Where relevant these segments are referred to in this report.

A multilayer perceptron classifier was used to create a model which was then applied to the current data.

A multilayer perceptron (MLP) is a feed-forward artificial neural network model that maps sets of input data onto a set of appropriate outputs. A MLP consists of multiple layers of nodes in a directed graph, with each layer fully connected to the next one.

xii: Segmentation categories (base 2015 n=117)

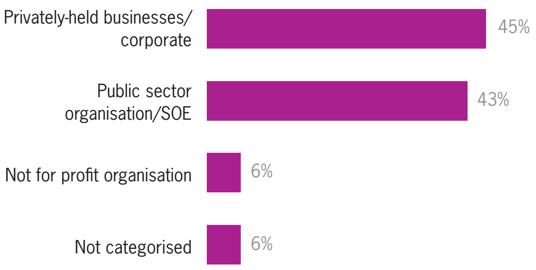
'Behind on risk management' (n=34)	'Starting out with risk management' (n=33)	'Risk management leaders' (n=50)
• Often describe their organisation's approach to risk as 'piecemeal', 'not well-understood', 'less formal', 'reactive' and 'nice-to-have' rather than essential • Few use risk management software • Less likely to analyse incidents or events to assist in the assessments of risk • Like the 'leaders', they are likely to use external advisers (typically these are chartered accountants)	• Often describe their organisation's approach to risk as 'reactive' and not always regarded as 'essential' • This group is the least experienced with risk management, but they are positive about it and still likely to have an organisation-wide risk profile • They are likely not to have ever used an external adviser (64% have not) • Few use risk management software • Less likely to use key risk indicators (KRIs) to monitor risks	• Often describe their organisation's approach to risk as 'formalised', 'proactive', 'well understood' and 'comprehensive' • All of the 'leaders' have experience with external advisers and mainly use chartered accountants, insurance brokers and boutique risk management consultants • They use risk management software • The organisation generally has full time risk managers, part time risk managers and risk champions in the wider business



The survey participants

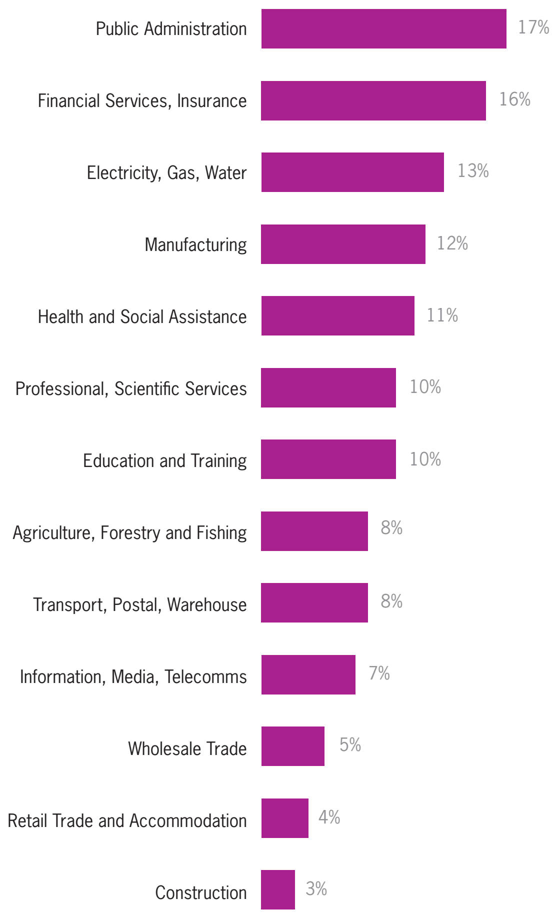
Interviews were completed with individuals from privately held, corporate, public sector and not for profit organisations.

16: Business type



Base: all surveyed 2015 (n=123)

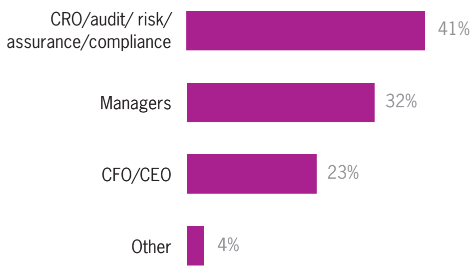
17: Industry sector



Other mentions were 2% or less
Base: all surveyed 2015 (n=123)

18: Job title

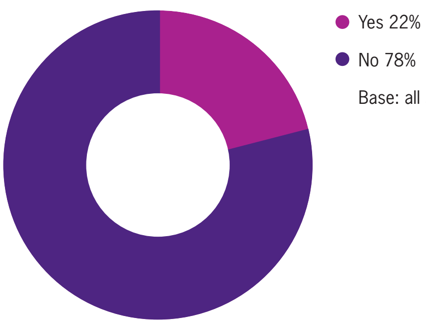
The roles of the people we talked to varied from organisation to organisation. Two out of five respondents had a job title referring to risk management, audit, assurance or compliance.



Base: all surveyed 2015 (n=123)

19: Risk management qualifications

Three quarters of survey participants did not hold a risk management qualification.



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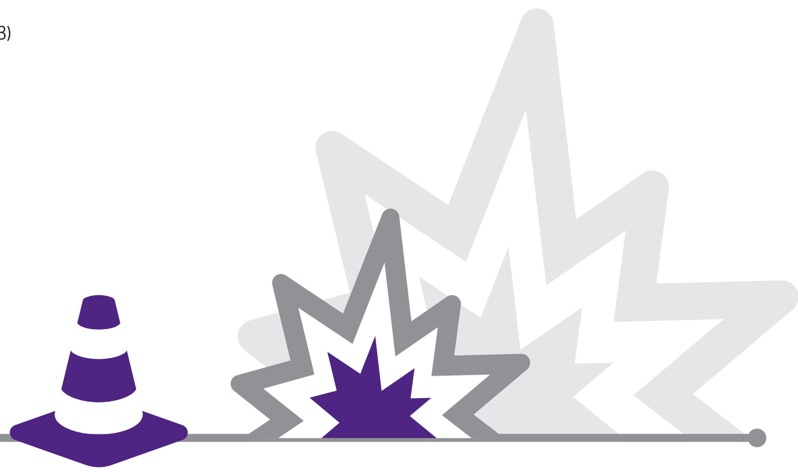


About us

A dedicated business risk team

Whether you're an existing company, growing internationally or simply starting a new venture, we can help you understand, identify and manage potential risks to protect your business.

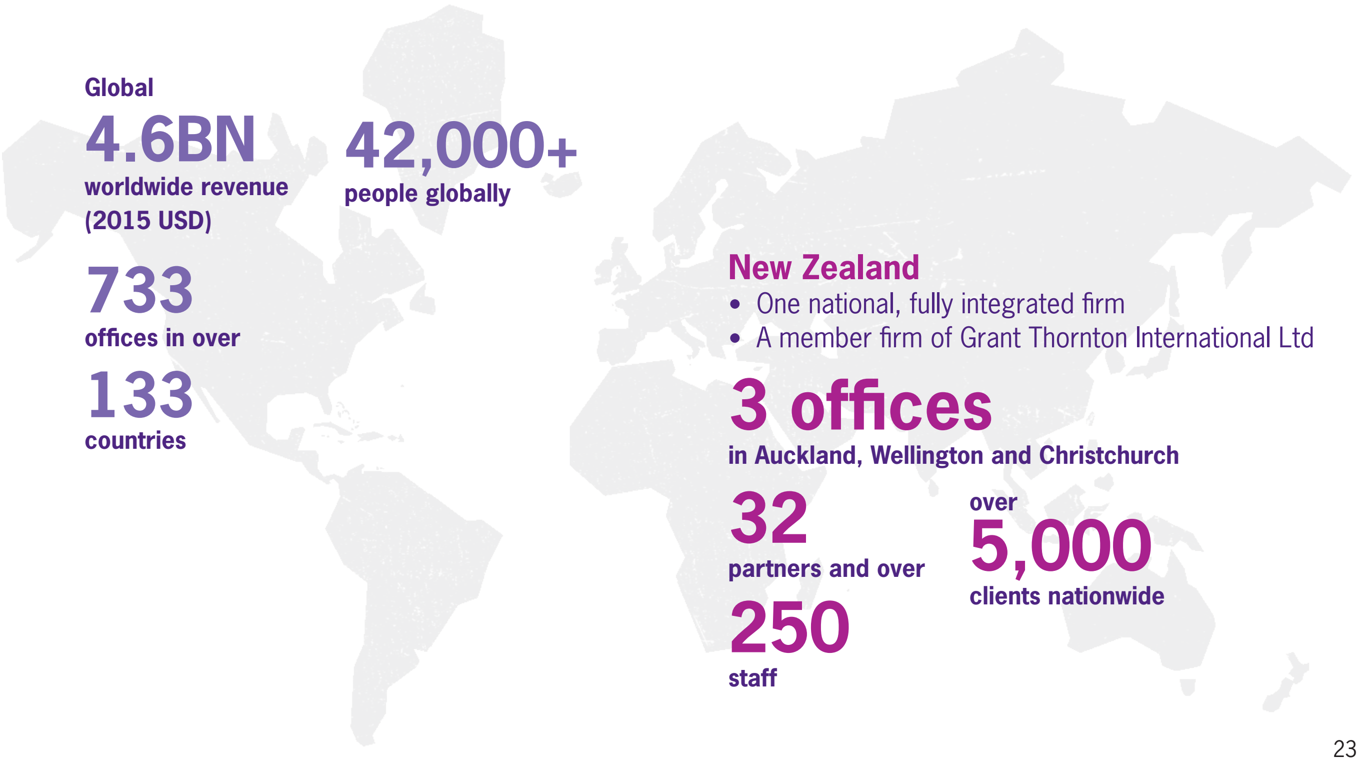
Today's businesses are faced with strategic, financial, operational and technological challenges. Grant Thornton understands that growing companies need guidance to establish robust internal controls, use information technology effectively and improve performance.

Our dedicated risk management team delivers objective, value-added solutions that will strengthen internal controls and governance processes, implement sound organisational strategies, increase technological capabilities and improve your operational efficiency.

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 42,000 Grant Thornton people, in 133 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.

Grant Thornton New Zealand operates from three locations in Auckland, Wellington and Christchurch, with 32 partners and over 250 professional and management services staff.

Our global reach and best practice methods are complemented locally by strong, "hands on" relationships managed by our nationwide network of partners who understand the New Zealand business environment. Underpinned by an acknowledged international market leader, Grant Thornton New Zealand is proud to offer our clients the friendly, personal service demanded by New Zealanders.



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