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OIA-2023-4625

/ March 2023

[REDACTED]
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Dear [REDACTED]

I refer to your email of 1 February 2023 requesting, under the Official Information Act 1982 (OIA), a copy of DFO 81.

Enclosed is a copy of Defence Force Order 081. Note, this Order has since been superseded.

You have the right, under section 28(3) of the OIA, to ask an Ombudsman to review this response to your request. Information about how to make a complaint is available at www.ombudsman.parliament.nz or freephone 0800 802 602.

Yours sincerely

AJ WOODS
Air Commodore
Chief of Staff HQNZDF

Enclosure:

1. DFO 081 Risk Management



DFO 081
Risk Management
Executive Series

Releasable to the public pursuant to s 22 of the Official Information Act 1982.

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Authority Order

DFO 081 Risk Management

Issued by the Chief of Defence Force

Authority

1. These orders are issued by the Chief of Defence Force, pursuant to s 27 of the Defence Act 1990, and are to be complied with by all whom they may concern.
2. The purpose of these orders is to state the policies, and division of responsibilities and accountabilities for all aspects related to risk management within the New Zealand Defence Force in accordance with legislation, governmental direction and the Chief of Defence Force's instructions.

Conflict

3. Nothing in these orders is to be construed as prevailing over any relevant Act of Parliament or regulations made under it.
4. If there is any conflict between these orders and any other orders or procedures within the Armed Forces, except the Manual of Armed Forces Law (DM 69), these orders are to prevail. If there is a conflict between these orders and DM 69, those orders are to prevail.
5. Any conflict between these orders and any other order, direction or instruction is to be reported through normal channels to the Office of the Chief of Defence Force without undue delay.

Signed on original

KR SHORT

Air Marshall

Chief of Defence Force

August 2019

Foreword

Risk management

1. At its core, risk management is a function of good management and is the formalised process for identifying, understanding and taking action to manage risk with the view to increase the probability of success and reduce the likelihood of failure in meeting objectives.
2. Risk is present in all activities we undertake and cannot always be avoided. To deliver our outputs, advance and improve, risk must be taken, but it must be taken with full consideration and managed to be within acceptable limits.
3. To be a trusted, highly-trained Defence Force that is combat capable, flexible and ready, we need to understand that we all play a role in ensuring risk is identified, understood and managed so that our objectives are met.
4. Maintaining a contemporary Risk Management Framework is vital to ensuring the efficient, effective and economic management of the activities and resources of the Defence Force.
5. Our ability to achieve our outcomes depends on being able to identify, understand and effectively manage risks. We achieve this through having strong governance structures and a sound Risk Management Framework.

Contents

Authority Order	ii
Authority	ii
Conflict	ii
Foreword	iii
Contents	iv
Preliminary Provisions	1
Purpose of DFO 081	1
Application	1
Commencement date	1
Repeal	1
Authorising Authority, Approving Authority and Custodian	1
Meanings of terms	2
Statement of equity and inclusion	2
Authoritative version of DFO 081	2
Related publications	2
Annex A	3
Meanings of terms	3
CHAPTER ONE - RISK MANAGEMENT FRAMEWORK	
Section 1 - Risk and risk management	1-1
Section 2 - Risk Management Framework	1-2
Section 3 - Risk management process	1-3
Figure 1.1: ISO 31000:2018 - Risk management process	1-4
CHAPTER TWO - RISK MANAGEMENT ROLES AND RESPONSIBILITIES	
Section 1 - Roles and responsibilities	2-1
Section 2 - Risk ownership, escalation and acceptance	2-2
CHAPTER THREE - RISK MANAGEMENT INSTRUCTIONS, PUBLICATIONS AND TRAINING	
Section 1 - Risk management instructions	3-1
Section 2 - Risk management publications and training	3-1
End Matter	End-1
Record of Change	End-1

Preliminary Provisions

Purpose of DFO 081

1. This order sets out the policy, requirements and responsibilities for risk management to be applied throughout the Defence Force.
2. Any orders, directions or instructions issued by Services, Commands or Units must not be inconsistent with those promulgated in this publication.
3. DFO 081 must be read in conjunction with DFI 0.81.

Application

4. This is a general order to all members of the Armed Forces, pursuant to s 39(a) of the Armed Forces Discipline Act 1971 and instructions to members of the Civil Staff.
5. These orders are to be applied throughout the Defence Force.
6. Except where a departure these orders is permitted¹, all members of the Defence Force must comply with the orders stipulated in this publication.
7. The instructions in DFO 081 apply equally to contractors and consultants and other persons or organisations employed for Defence Force purposes. It is the responsibility of the member of the Defence Force employing any contractor, consultant and other person not a member of the Defence Force to make them aware of this requirement and include such requirements in their contracts.
8. Non-compliance with these instructions may result in disciplinary action being taken, in accordance with the Armed Forces Discipline Act 1971, or may result in possible sanctions, in accordance with the NZDF Civil Code of Conduct.
9. Non-compliance by a contractor, consultant or other person or organisation engaged by the Defence Force could led to a contract being terminated.

Commencement date

10. The commencement date of DFO 081 is 07 August 2019.
11. Amendments to this publication are documented in the Record of Change in the end matter of this publication

Repeal

12. DFO 81 is repealed by the issue of this publication.

Authorising Authority, Approving Authority and Custodian

13. The Authorising Authority for DFO 081 is the Chief of Defence Force.
14. The Approving Authority for DFO 081 is Chief of Defence Strategy Management.
15. The Custodian for DFO 081 is Principal Risk Advisor, Defence Strategy Management.

¹ Chief of Staff HQNZDF for publications issued by CDF and under a delegated authority.

Meanings of terms

16. Terms used in DFO 081, and not explained or stated in the authorised references, are defined in the annex to these preliminary provisions.

Statement of equity and inclusion

17. The content and tone of DFO 081 is non-discriminatory and non-prejudicial. Every effort has been made, so far as is reasonably practicable, to ensure there is no disproportionate impact on gender, ethnicity, age, diversity or disability unless the expression is relevant to the order, direction or instruction.

Authoritative version of DFO 081

18. The online copy of DFO 081 promulgated in the Defence information environment is the authoritative version. Any printed copy or any other electronic copy is deemed uncontrolled and is to be used for guidance only.

Related publications

- A. DFI 0.81 *Risk Management Instructions*

Annex A**Meanings of terms**

1. Words and phrases are to be given their ordinary grammatical or military meaning promulgated in relevant legislation, military glossaries and authorised dictionaries.
2. Meanings of terms used in this publication, and not explained in an authorised reference documents or that are in common use, are—

Term	Meaning
Control	A measure that is modifying a risk. Controls include any process, policy, device, practice or other actions that modify risk.
Control owner	The person or entity with the accountability and authority for ensuring a control is operating as intended.
Risk	The effect of uncertainty on objectives (the effect can be positive or negative).
Risk acceptance	The informed choice to retain a risk without further treatment.
Risk assessment	The overall process of risk identification, analysis and evaluation.
Risk escalation	The process of transferring ownership of risk to the most appropriate party (the risk can be transferred vertically or horizontally through command or management structures and accountabilities).
Risk management	Coordinated activities to direct and control an organisation with regard to risk.
Risk Management Framework	Set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation. The NZDF Risk Management Framework consists of: DFO 081 <i>Risk Management</i> ; DFI 0.81 <i>Risk Management Instructions</i> ; other Orders or Instructions that direct or require a risk-based approach to be taken or risk assessments to be completed; and the NZDF leadership and governance structures that give effect to these.
Risk owner	The person or entity with the accountability and authority to manage a risk.

Chapter One - Risk Management Framework

Section 1 - Risk and risk management

1.1. Definition of risk

- a. Risk is defined as the ***effect of uncertainty on objectives***.
- (1) **Effect.** An effect is the result, outcome, or consequence. The effect(s) can be positive, negative, or both.
 - (2) When managing negative (threat) risk the goal is to prevent or reduce the likelihood of the risk occurring and/or to limit the impact of the consequences.
 - (3) When managing positive (opportunity) risk the goal is to maximise the likelihood of occurrence of the opportunity and maximise the desirable impacts of the consequences.
 - (4) **Uncertainty.** Risk is a concept of future uncertain possibilities with consequences that may or may not occur. Therefore, for there to be risk, there needs to be an element of uncertainty.
 - (5) Uncertainty can arise through ambiguity or lack of information.
 - (6) **Objectives.** Objectives are the outcomes being sought, they relate to our goals and values and can be applied at different levels and areas within NZDF. Objectives can include strategic outcomes and outputs, mission success, project deliverables, performance targets or just what you need to achieve for the day.
 - (7) Multiple objectives increase the complexity of risk and underscore the importance of understanding how objectives in one area can relate to the achievement of objectives in another area.

1.2. Risk management

- a. The purpose of risk management is the creation and protection of value through improving performance, encouraging innovation and supporting the achievement of objectives.
- b. Risk management is a function of good management and is the formalised process for identifying, understanding and taking action to manage risk with the view to increasing the probability of success and reducing the likelihood of failure.
- c. In simple terms, risk management is about knowing what objectives must be achieved, considering all the things that could impact on achieving those objectives and putting a plan in place to give the best chance for success. The optimal time to commence risk management activities is when planning. Risk must then be continually monitored until the objective(s) are realised.
- d. Risks seldom exist in isolation, and it is common to find complex relationships between risks where the consequence of one risk can lead to the cause of another, and so on. Do not underestimate the effort required to understand the complexity of these risk relationships.

- e. For many of us, the role we play in ensuring successful risk management outcomes is to ensure that Orders, Instructions, policies, processes and standard operating procedures are applied and followed. Cultural norms or pressures to ignore mandated risk management processes and controls are not acceptable and must be challenged when encountered.

Section 2 - Risk Management Framework

1.3. NZDF Risk Management Framework overview

- a. The purpose of the NZDF Risk Management Framework is to integrate risk management into all activities and functions of NZDF.
- b. Risk management must be an integrated part of normal management activities and is not separate from our purpose, governance, leadership, strategy, objectives and operations.
- c. The NZDF Risk Management Framework consists of: DFO 081 *Risk Management*; DFI 0.81 *Risk Management Instructions*; other Orders or Instructions that direct or require a risk based approach to be taken or risk assessments to be completed; and the NZDF leadership and governance structures that give effect to these.
- d. The NZDF Risk Management Framework is based upon and consistent with the internationally recognised ISO 31000:2018 *Risk Management - Guidelines*.
- e. The New Zealand Government requires the wider State sector to understand and manage risk both within organisations and across the sector. Consistency of risk management approaches is therefore important. Within specific areas, such as New Zealand's approach to national security, consistent methodology for risk management is critical. Alignment to the ISO 31000:2018 *Risk Management Guidelines* is a mandatory governance requirement (GOV3) of the Protective Security Requirements (PSR).

1.4. NZDF risk management policy statement

- a. NZDF is a complex organisation that must be combat capable, flexible and ready. We will balance risk and opportunity with the need to operate an effective and safe Defence Force in order to satisfy the requirements of the New Zealand Government.
- b. Risk management creates and protects value by contributing to the achievement of objectives and improving organisational performance. The effective management of risk is critical to ensuring the successful delivery of our objectives. Through the adoption and application of good practice in the identification, assessment, communication and management of risks we will increase the likelihood of success and maximise the opportunities we choose to pursue.
- c. Risk management must be integrated into our strategy, planning and activities at all levels, and as early as possible, to provide the greatest opportunity to make well-informed decisions and to implement effective risk controls.
- d. To achieve this our approach to risk management must be—
 - (1) **Proportional.** Risk management effort must be proportionate to the activity or process undertaken.
 - (2) **Aligned.** Risk management effort and language must be aligned across all activities carried out by NZDF.

- (3) **Comprehensive.** Risk management effort must cover all aspects of NZDF activities.
- (4) **Embedded.** Risk management must be an integral part of all NZDF activities, not an add-on.
- (5) **Dynamic.** Risk management activities must be responsive to emerging and changing risks.

1.5. NZDF risk management principles

- a. To have an effective Risk Management Framework and culture we must adhere to the following principles—
 - (1) **Management commitment.** All Commanders and managers must ensure that management of risk is part of everyday activities.
 - (2) **Integration as part of good management.** Risk management must be fully integrated into the duties and activities of all NZDF personnel. It is not to be regarded as a separate discipline.
 - (3) **Risk based decision-making.** All key decisions must be supported with a risk assessment that is proportional to the level of risk faced and a plan on how the risks will be managed.
 - (4) **A risk-aware culture.** Commanders and managers must foster and support a culture that encourages all personnel to identify, understand, communicate and manage risks as part of their day-to-day activities. This includes adhering to a common risk language and process.
- b. Key expected behaviours for a risk aware culture in the NZDF—
 - (1) We use proportional, aligned and integrated risk management to help maintain a resilient, sustainable and capable Defence Force.
 - (2) We actively seek to identify, understand, communicate and manage our risks.
 - (3) We effectively balance and manage our opportunities and threats, and take no unnecessary risks.
 - (4) We escalate risks effectively and accurately to ensure risk decisions are made at the right level.
 - (5) We are committed to the continual improvement and enhancement of risk competencies and risk management performance and maturity.

Section 3 - Risk management process

1.6. NZDF risk management process

- a. The risk management process is core to enabling good risk management and decision-making. The process to be used is based on ISO 31000:2018 *Risk Management – Guidelines* ([Figure 1.1](#)). This process is widely used both in New Zealand and internationally and is proven to be effective for all types of organisations and all types of risk.

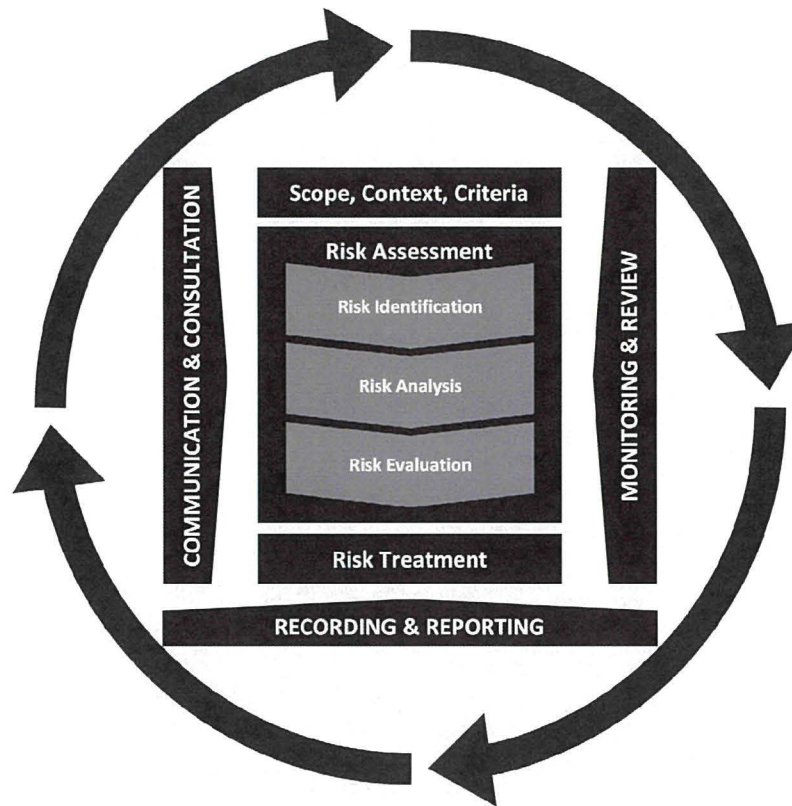


Figure 1.1: ISO 31000:2018 - Risk management process

- b. The risk management process must be integrated and consistently applied across all areas and activities of NZDF, however, the context of the objectives, task or activities may require a specialised Risk Assessment to be employed.
- c. To ensure risk management activities are proportional, aligned and embedded, the Risk Management Framework allows for the development and use of alternative assessments tailored to managing risk in specialised areas.
- d. Alternate risk assessments must be approved for use by the Chief of Defence Strategy Management to ensure their alignment with the Risk Management Framework.
- e. The risk management process, including the standard NZDF risk rating and evaluation criteria and matrices, are described in DFI 0.81 *Risk Management Instructions*.
- f. In the absence of any other specific risk management requirements, risks are to be assessed as described in DFI 0.81 *Risk Management Instructions*.
- g. The person conducting the risk assessment must ensure the appropriate risk assessment is employed, and the risk owner must ensure the appropriate risk assessment/s have been applied.

Chapter Two - Risk Management Roles and Responsibilities

Section 1 - Roles and responsibilities

2.1. Risk management roles and responsibilities

- a. Every member of the Defence Force has a responsibility for effective risk management commensurate with their area of responsibility and level of authority.
- b. Service Chiefs and Heads of Portfolios must—
 - (1) build an effective risk management culture and capability within NZDF by championing and supporting the embedding of risk management into all activities and decision-making;
 - (2) have in place processes to identify, assess, manage, monitor, report and escalate risks;
 - (3) understand the maturity of the risk management processes within their Service or Portfolio and establish assurance and performance measures to ensure that risk management activities are effective;
 - (4) maintain a record of key risks in their area of responsibility and how they are being managed; and
 - (5) provide risk information to support organisational risk reporting.
- c. Commanders and managers must—
 - (1) identify, assess and appropriately manage the key risks that fall within their area of accountability;
 - (2) support all key decisions with a risk assessment that is proportional to the level of risk faced;
 - (3) assign a risk owner to all risks in their area of accountability;
 - (4) only accept risk within their accountability and authority and, where required, escalate risk to a more appropriate risk owner;
 - (5) maintain an up-to-date record of risk information; and
 - (6) ensure risk within their area of accountability is reported through the appropriate chain of command.
- d. Members of the Defence Force must—
 - (1) have awareness of the key risks in relating to the activity or task being undertaken and the role they play in ensuring the risk is managed;
 - (2) communicate, consult, collaborate and escalate risks through chains of command and to other parties that may be affected or have a role in owning, managing or accepting the risk; and
 - (3) be aware of and follow any relevant Orders or Instructions that require a specific approach to risk management (including risk assessment, and risk recording and reporting).

- e. Members of the Defence Force responsible for maintaining Defence Force Orders, Defence Force Instructions and training publications related to risk management must—
 - (1) maintain and ensure that all Orders, Instructions and other publications that require a risk based approach, completion of risk assessments or discuss risk management are consistent with this Order;
 - (2) ensure any training in risk management developed or delivered is consistent with this Order; and
 - (3) ensure that risk assessments conducted are consistent and aligned with the principles in this Order.
- f. Chairs and members of leadership and governance boards and committees must—
 - (1) ensure that the board or committee maintains an up-to-date overview of key risks from across NZDF that impact on the area being managed or governed;
 - (2) ensure that the respective risk overview is used as context for decision-making to inform agenda-setting and form the basis for assurance monitoring;
 - (3) seek information where risk understanding is incomplete or lacking; and
 - (4) communicate and escalate risks to other parties that may be affected or have a role in owning, managing or accepting the risk.

Section 2 - Risk ownership, escalation and acceptance

2.2. Risk ownership

- a. Once identified, every risk must have an agreed risk owner. The risk owner must be an individual with the ability and authority to direct resources to ensure the risk is managed effectively.
- b. Risk owners must—
 - (1) have the ability and authority to direct resources to ensure the risk is managed effectively;
 - (2) ensure that the risk controls have clear ownership (the risk owner is not necessarily the control owner), are appropriate and are working as intended;
 - (3) ensure that any additional risk treatment activities have the required resources allocated and applied;
 - (4) ensure that the risk is monitored and reviewed as required;
 - (5) ensure that the risk is communicated and reported as required; and
 - (6) escalate the risk where a more appropriate risk owner is required.
- c. Control owners must—
 - (1) have the ability and authority to implement and oversee assigned controls; and
 - (2) provide assurance to the risk owner on the performance of the control.

2.3. Risk escalation

- a. It is important that risks are owned and managed by the right person in the right Unit, Portfolio or Service. Occasionally this requires risk to be escalated (moved vertically or horizontally through command or management structures and accountabilities to a more suitable owner) to ensure it is managed at the right level and area.
- b. Risk must be escalated when management of the risk requires decisions or actions beyond what the current risk owner is authorised to decide.
- c. Risk may require escalation when the—
 - (1) Risk impacts on multiple Services, Portfolios or Chains of Command; or
 - (2) Management of the risk will require action by multiple parts of NZDF.

2.4. Risk acceptance

- a. For some risks it may be appropriate to decide that no further action is required to reduce the likelihood or limit the possible consequences (i.e. the cost of controls outweighs the benefit [cost is not always financial] or no viable controls exist): this is known as risk acceptance.
- b. A risk owner can only accept a risk if the consequences fall within their area of accountability and authority.
- c. When accepting risk you must consider compliance with all applicable Orders, Legislation and Regulations.
- d. If the consequences of the risk fall outside the area of accountability or authority of the risk owner, the risk must be escalated to someone with the appropriate authority.
- e. An accepted risk must still be monitored for change and for the emergence of viable treatments. Risk owners must also ensure that the controls in place are working as intended.

Chapter Three - Risk Management Instructions, Publications and Training

Section 1 - Risk management instructions

3.1. Risk management instructions

- a. The Chief of Defence Strategy Management is to give effect to this Order and issue subordinate instructions for managing risk: DFI 0.81 *Risk Management Instructions*. All members of the Defence Force must comply with DFI 0.81 *Risk Management Instructions*.
- b. DFI 0.81 *Risk Management Instructions* is a component part of the NZDF Risk Management Framework.

Section 2 - Risk management publications and training

3.2. Risk management publications and training

- a. All publications that consider or discuss risk management are to be consistent with these orders.
- b. Risk training developed or delivered is to be consistent with these orders.

End Matter**Record of Change**

Amendment Number	Commencement Date	Reference	Details of Change	Approving Authority
V1.00	07 Aug 2019		Initial Issue Cancels DFO 81	Chief of Defence Strategy Management