



# Building and Construction Risks 2016

KPMG presents our view of the top risk by value driver faced by corporates in the Building and Construction sector

**Global**

---

**October 2016**

# 2016 Risks for Building and Construction

Emergence of fast evolving digital technologies, increased regulatory pressure and global economic uncertainty are key factors in the current risks landscape. KPMG Risk Consulting assists clients to develop robust risk mitigation methods by interpreting the underlying drivers of global risks.



## Strategy

- The bidding prices of contracting projects are largely affected by market competition and as a result, companies may be exposed to risks which are outside the defined risk tolerance level due to pressure to win work.
- Investment risk, arising out of advance payments for projects, decrease in investment of infrastructure projects by government/non-government institutions and significant outlay of working capital over extended periods.



## Technology

- Increasing pressure to adopt new methods and technologies such as Building Information Modeling (BIM), modular or prefabricated construction methods and environment friendly structures (green buildings).
- Unanticipated technical and geotechnical problems, including design or engineering issues, poor assessment of the local environment and inadequate contractual analysis may disrupt operations.
- Lack of effective use of IT and cyber-security breaches could adversely impact operations of the companies.



## Reputation and Ethics

- Risk to reputation/brand as a result of negative assessment or comments from stakeholders.

### Legend

Emerging Risk

Existing Risk

Retiring Risk



## Growth

- Deterioration in global economic conditions from factors such as the UK's vote to leave the EU (Brexit), economic recession in Brazil and Russia and slowdown in China adversely impacting business operations.
- Expanding international operations leading to risks due to non-compliance with various regulations, economical and political developments, discriminatory fiscal policies etc.



## Profitability and liquidity

- Exposure to cost increases as a result of volatility of price and fluctuations in supply of raw materials.
- Liquidity risk, that a company may be unable to raise funds on a timely basis or at a reasonable cost to fund asset growth or settle liabilities.
- Differences between actual costs experienced and budgeted costs owing to certain methodologies, estimations and assumptions used may materially affect the results of operations.
- The risk of adverse movements in interest rates and exchange rates.



## Compliance

- No specialised arbitrators to help settle legal disputes during construction thereby affecting the closure and profit margins of those projects.
- Legal and compliance risk due to changes in international and domestic laws, rules, policies, tax regulations, technical standards and trade policies due to working in foreign jurisdictions that are not understood.



## People

- Operational risk resulting from uncertainties in labour market and disruption caused by labour unions, strikes, work stoppages.
- The inability to attract and retain qualified personnel while appropriately managing costs related to employee benefits.



## Operational Excellence

- Remote locations of construction operations pose an operational threat for safety, management and accountability.
- Increasing complexity in large projects, involving public-private partnerships, concessions and long-term contracts, is a potential source of risk for construction companies.
- Low quality work done by partner companies such as subcontractors, joint contractors and suppliers may affect the satisfactory performance of projects.
- Inefficient project management due to poor implementation of strategy and ineffective cost control measures.



## Health, Safety and Environment

- Natural and man-made disasters may disrupt operations and hamper safety of employees as companies have wide operational areas and long work lines.
- Risks arising from poor health and safety conditions which weakens productivity, skills, employee morale and may attract regulatory sanctions.

### Contact us:

**Ashley Smith**

Internal Audit, Risk & Compliance Services

Practice leader for Europe, Middle-East & Africa (EMA)

T +27 (0)82 719 2392

E ashley.smith@kpmg.co.za