

World Economic Forum: Global risks update 2021



With the world more attuned to risk, there is an opportunity to leverage attention and find more effective ways to identify and communicate risk to decision-makers.

This is one of the messages in the preface to the [2021 Global Risks Report](#) produced by the World Economic Forum (WEF).

An annual report which in 2006 and 2007 highlighted the risk of a flu pandemic. The risk did not diminish, and further editions stressed the need for global collaboration on a variety of health-related topics including overstretched health systems as we entered 2020.

Yet in 2020, against a backdrop of digital, technological and scientific advancements the coronavirus pandemic rampaged across the globe savaging economies and taking lives.

With the world more attuned to risk, there is an opportunity to leverage attention and find more effective ways to identify and communicate risk to decision-makers.

The message is worth repeating.

It is not enough for internal audit to be heard.

We have to win hearts and minds to drive meaningful action.

In this piece, we address WEF'S latest global risks report and explore its relevance for audit leaders.

Top global risks

The WEF thought leadership event in Davos, Switzerland brings together the worlds of commerce, charity, politics, science, activism and academia. An esteemed collective of some of the most influential, intelligent and creative minds on our planet.

Unsurprisingly climate related risks continue to dominate the top risks in terms of **likelihood**. The reappearance of pandemic, a perennial risk as part of infectious diseases, is a good example of availability bias, the mental shortcut we all use that relies on our recent memory for information and decision making. The last time we saw it in the top five was in the aftermath of the SARS outbreak in 2002-4.

Look at your organisation's risk profile and ask yourself if any risks are there because of availability bias? How are you helping your organisation improve its risk assessment capabilities?



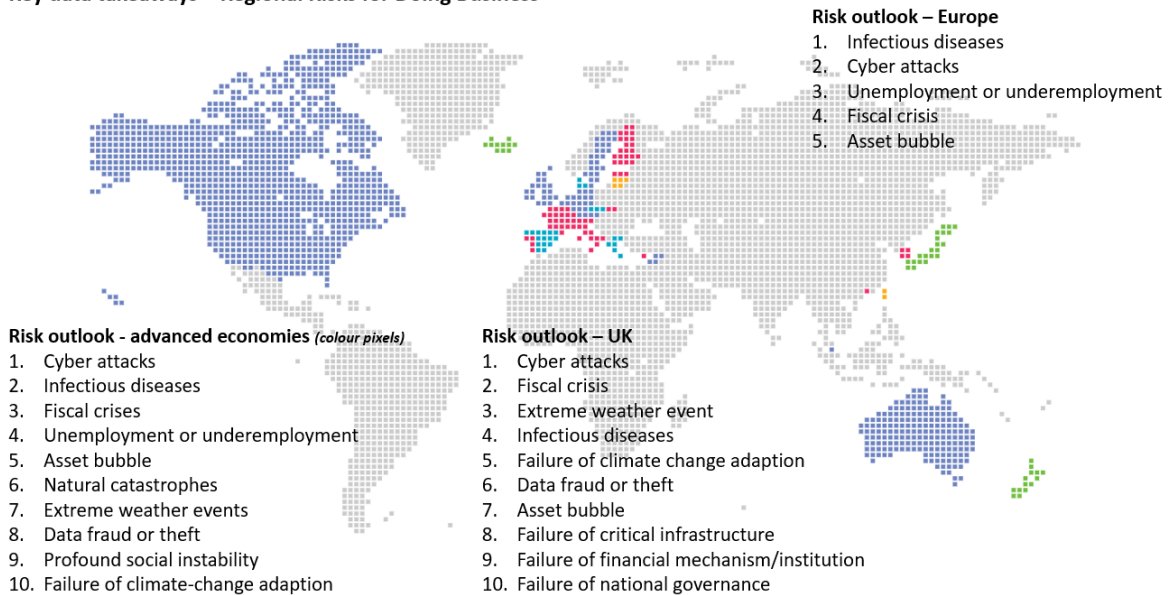
In terms of **impact**, the ongoing pandemic heads the list. An issue rather than a risk for 2021, although uncertainty remains on the impact of the consequences over the next five years. The impact of climate action failure remains high, although the immediacy of the pandemic has shifted the focus.

	1st	2nd	3rd	4th	5th
2021	Infectious diseases	Climate action failure	Weapons of mass destruction	Biodiversity loss	Natural resource crises
2020	Climate action failure	Weapons of mass destruction	Biodiversity loss	Extreme weather	Water crises
2019	Weapons of mass destruction	Climate action failure	Extreme weather	Water crises	Natural disasters
2018	Weapons of mass destruction	Extreme weather	Natural disasters	Climate action failure	Water crises
2017	Weapons of mass destruction	Extreme weather	Water crises	Natural disasters	Climate action failure

Business specific risks

The WEF also conduct a private sector Executive Opinion Survey which provides complementary risk insights. The **Risks for Doing Business** reporting format evolves year on year as it seeks to provide understanding as regional perspectives of risk differ.

Key data takeaways – Regional Risks for Doing Business



The business world is principally short-termism in its risk outlook with cyber risk remaining the top risk for the UK. Cyber was also the top risk identified by CAEs in **Risk in Focus 2021**. A chart detailing significant cyber attacks over the last four years shows the UK to be second only to the US in having experienced the most attacks. See page 54 of the report for more details.

Key messages for audit leaders

The organisational preparedness for pandemic risk across all sectors was found to be lacking when needed most in early 2020. The lesson for audit leaders is to look at preparedness for the risks that are being forecast across short, medium and long-term horizons.

The Institute's own research into organisations' preparedness for climate change found that too many CAEs were unsure what their organisation was doing. Internal audit must be better prepared and able to provide assurance on activities and either known risks or risks seen on the horizon.

There are differences in the global risks to those identified by chief audit executives (CAEs) in **Risk in Focus 2021**. Some of this is to be expected as one takes a macro perspective across the world and the other a micro view of an organisation. There are similarities with the Executive Opinion survey.

This is very visible when looking ahead to the risks we think will be in play by 2024.

Internal audit must look beyond what is an issue today and a readily auditable risk to those elements which are uncomfortable to audit and present uncertainty to our future.

As audit leaders we must use publications like the WEF global risks report to help shape our thinking and encourage our organisations to be less insular when thinking about risk. Hunkering down is a natural reaction to a crisis. Notwithstanding the seriousness of the immediate issues' organisations are facing into for 2021, we must also take time to prepare for other risks if our organisations are to emerge from the pandemic in a position of strength.



The report, and much of our internal audit work, focuses on individual risks. Okay on paper, but it is not how risks play out in the real world. They are complex and interdependent eg the pandemic in itself wasn't a standalone risk but a scenario that exacerbated almost all risks facing organisations.

When asked about the risks that in turn dial up the temperature of other risks, this interplay becomes apparent and is shown in a diagram on page 13 of the report. We encourage you to take a moment to look at it. It is too detailed to reproduce here.

Failure to take action on climate change comes out as the most concerning global risk.

Yet it does not feature on the list of individual risks that are a clear and present danger in the short-term (0-2 years), nor those with knock on effects in the medium-term (3-5 years). Even as an existential threat over the long-term (5-10 years) only 38% of respondents saw it as a threat.

There is a lesson here for internal auditors.

When providing assurance, it is essential to look at what drives a risk, what events could increase its likelihood or impact, or both. The external environment is volatile and uncertain with increasing complexity and ambiguity – a **VUCA** world.

A special section of the **WEF Global Risk Report 2019** highlighted the need for '*fresh thinking*' to '*navigate a rapidly evolving risks landscape*'. Experts and influential decision-makers in all walks of life face a shared dilemma, '*deciding which risks to accept, at least for now*'. The report included practical examples from energy to transport.

There is a trade-off when managing risk and it's an important consideration to make as efforts to mitigate one risk can often exacerbate others.

Summary of risk themes

We take an internal audit perspective to the following five themes highlighted in the 2021 report.

Fractured future

Going into the pandemic, over half the world lacked access to essential health services and sixty percent of adults lacked basic digital knowledge and skills. The effects of COVID-19 have not only damaged economies but widened existing disparities and complicated efforts to achieve the United Nations Sustainable Development Goals by 2030.

What assurance might be required about the resilience of third parties, overseas operations, supply chains in light of the effect of the pandemic in developing nations?

The report warns that there is no vaccine for environmental degradation. We need to adapt. Global CO₂ emissions fell by 9% in the first half of 2020. A similar decrease is required every year for the next decade to limit warming by 1.5°C.

Are you prepared to turn up the heat on climate assurance?

There are huge positives to take from the pandemic too. The speed and scale of policy responses, collaboration, public-private partnerships and public action have shown what is possible. Public discontent about climate inaction and other issues may intensify now that global citizens now know the power political leaders can wield when they are convinced that the challenge demands it.

How is your organisation positioning itself to adapt and respond to a fractured future?

Barriers to digital inclusivity

COVID-19 has accelerated and broadened the Fourth Industrial Revolution with the rapid expansion of e-commerce, online education, digital health and remote work. This step change will continue long after

recovery from the pandemic.

Reading this, we take for granted our digital skills and connectivity.

Yet in the UK, 22% of the population was digitally disconnected before the pandemic.

Globally, 1 in 4 people do not have a decent toilet of their own let alone 5G or a smart device.

What dependencies does your organisation's strategy have on digital inclusivity?

Exploring the UK's digital divide - Office for National Statistics (ons.gov.uk)

Coronavirus has intensified the UK's digital divide (cam.ac.uk)

Within this section of the report, the WEF also explores the role of governance in advancing technologies, algorithmic bias, regulatory censure, misinformation and big data.

Is your audit function skilled to provide assurance in the digital age?

Pandemics – youth in an age of lost opportunity

Young adults (ages 15–24) around the world are experiencing their second major global crisis within a decade - first the financial crisis and now a pandemic. Coupled with the existential threat of climate change and the social media pressures of the digital age they face serious challenges to their education, economic prospects and mental health.

Youth disillusionment and mental health deterioration are risks recognised by young influencers within the WEF community. The report explores this in-depth covering issues such as education, careers and discontent.

How could this risk manifest for your organisation? A lack of future specialist talent, changing consumer behaviours, strategic obsolescence, increased workforce costs through welfare requirements.

Navigating global divides

Middle powers, states that lack superpower status but still play influential roles in international relations, have the potential to forge a more stable, sustainable and cooperative balance of power, individually or in some collective constellation.

An interesting section on geopolitical risk for audit leaders as the UK begins to forge an independent path having separated from the EU.

Is now a time for internal audit to provide assurance on strategic alignment with operational goals, to look at the robustness of corporate procurement and to advise on risk horizon scanning?

A disorderly industrial shakeout

Emerging from the shock and government stimulus of COVID-19, a volatile shakeout threatens the global business landscape. Protectionism, technological transformation and social unrest, among other trends, have been disrupting economic activity for some years, but the pandemic has given them fresh momentum.

New challenges to doing business are likely to emerge from three key sources:

- [national agendas](#) – micro and SMEs have been hardest hit by the pandemic and are the backbone of

economies, increasing fiscal pressure and the global business environment may become costlier and more uncertain as a result of amplified protectionist trends to secure domestic jobs.

- technology running riot - as other sectors struggle, the big technology players will likely emerge from the pandemic with stronger, more diverse revenue streams and enhanced investment power, the risks around technology governance are increasing.
- heightened public scrutiny – corporate values are being scrutinised intensely, society is more sceptical about information and decision makers, perceptions of 'key workers' have changed alongside pay inequalities and while immediate employment challenges dominate public attention, organisations must be ready to address societal risks.

What will be the shakeouts within your sector and how will your assurance be relevant to the challenges that your organisation is facing into?

Action for audit leaders

Macro risks can seem too remote from the day to day of most organisations. Although they are often closer than we care to admit. Recognising the risk means it needs to be managed. And management of risk means someone taking responsibility for it.

We suggest four simple steps – **READ**

- **Research the risks.** Read through the three reports referenced in this paper. Yes, it takes a couple of hours, but a good investment of time. Some topics will be familiar so can be skimmed, others will be enlightening.
- **Evaluate the information.** How does it relate to your organisation? Stretch your thinking, go beyond the boundaries of strategy, partnerships, operations - think about all stakeholders and consequences.
- **Adjust the audit plan.** Challenge yourself to add at least one audit into the plan for 2020 that stretches the capabilities of the team and will lead to your organisation doing its part in managing the top global risks.
- **Do it.** Don't just think about it. Do it this week. Make it happen.

The UN's 17 **Global Goals** for sustainable development are a useful guide for making many of the WEF risks manageable at an organisational level.

Closing thoughts

As usual, the WEF report contains big risk themes for the world to grapple with and as individuals they can be difficult to relate to. It's all too easy to think they are someone else's problem. Someone with more influence and power.

We can all make a difference. It is only through collective and collaborative action that we can address our fractured future. Internal auditors are powerful influencers. You can make a difference.

"The economic, technological and reputational pressures of the present moment risk a disorderly shakeout, threatening to create a large cohort of workers and companies that are left behind in the markets of the future"

WEF Global Risk Report 2021

