Understanding 5 new and emerging risks

As business environments become more complex, auditors must anticipate and focus closely on new and emerging varieties of risk. While often unpredictable, there are measures every auditor can take to mitigate their overall impact.

1 Existing risks

Existing risks can be separated into two tiers. Tier 1 are those risks that auditors commonly perform assessments on - finance, compliance, reputation, technology, and fraud. When including tier 2 risks - operations, supply chain, infrastructure, knowledge, and competition – auditors will expand their knowledge base and be better prepared.

2 Black Swan risk

Black swans are extraordinary events that are of high significance, high impact, and low probability, such as a global pandemic, political instability, or natural disasters. They also include the breakdown of technology that may disrupt an organization's business practices – potentially over an extended period of time.

3 Prospective risk

Prospective risks are less relevant today but provide numerous red flags or observable signs that the risk is forthcoming and should be on the auditor's radar. They are potential risks that may occur in the future, like climate change or rising sea levels.

4 Management pressures

It's possible management's focus may change as pressures increase. As a result, it's critical to stay aware – in real time – of management's goals and priorities, plus any related policies, procedures and measures. A change in management's focus can lead to increased risk, particularly when that change is the result of a sudden shift in results-based pressures.

5 Reliability of accounting systems and information

What if the reliability of accounting systems or information falters? What if competitive pressures, cashflow pressures, or growth pressures restrained your systems from being properly maintained? While the likelihood of this happening may be low, there is enough potential for risk to make it worth considering.