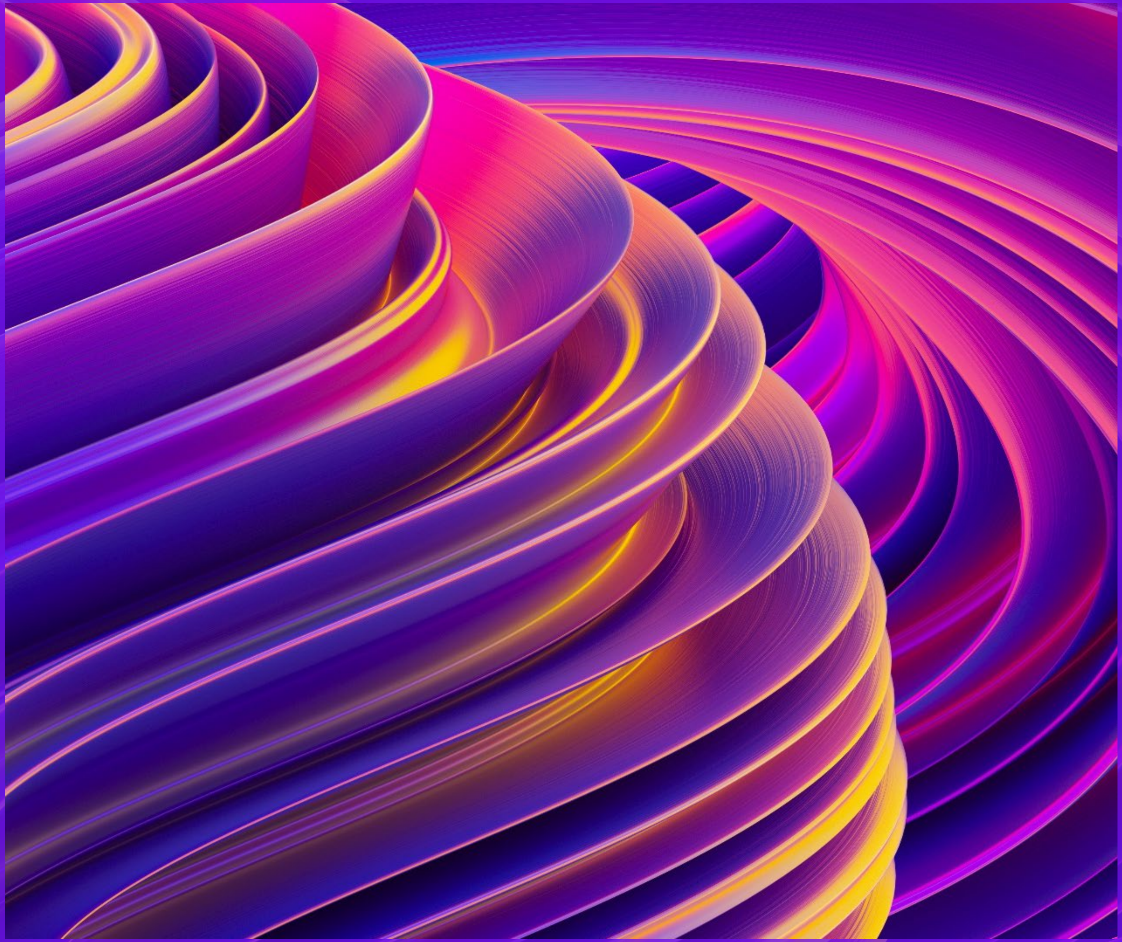
KPMG

Capital Regional District



Audit Findings Report for the year ended December 31, 2024

KPMG LLP

Prepared for the Finance Committee meeting on May 7, 2025

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

Lenora Lee
Lead Audit Engagement Partner
250-480-3588
lenoramlee@kpmg.ca

Sarah Burden
Senior Manager
250-480-3562
sburden1@kpmg.ca

Cameron Rice-Gural
Senior Manager
250-480-3677
cricegural@kpmg.ca

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Digital use information

This Audit Findings Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Audit highlights

No matters to report

Matters to report – see link for details

Status

We have completed the audit of the consolidated financial statements (the "financial statements"), with the exception of certain remaining outstanding procedures, which are highlighted on the 'Status' slide of this report.

Significant changes

Significant changes since our audit plan

- No change to preliminary risk assessment
- No change to planned audit strategy

Risks and results & Significant unusual transactions

Significant risks

- Presumed risk of management override of controls

Other risks of material misstatement

Significant unusual transactions

Policies and practices & Specific topics

Accounting policies and practices

Other financial reporting matters

Misstatements - uncorrected

Uncorrected misstatements

- An uncorrected difference was identified related to the correction of a prior year error detected by management in the current year. We concur with management's representation that the difference is not material to the financial statements.

Misstatements - Corrected

Corrected misstatements

- There are no matters to report.

Control deficiencies

Control deficiencies

- We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. We provided an update on prior year control observations.

The purpose of this report is to assist you, as a member of the Finance Committee, in your review of the results of our audit of the financial statements as at and for the period ended December 31, 2024. This report is intended solely for the information and use of Management, the Finance Committee and the Board of Directors and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

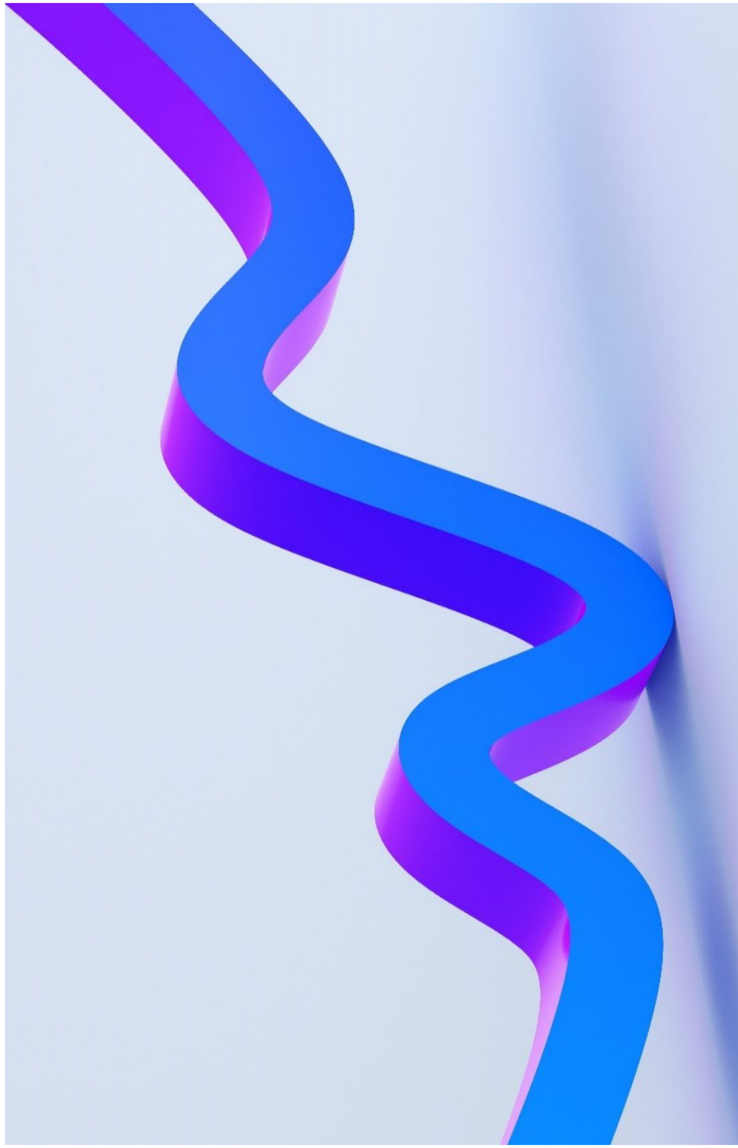
Status

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of legal confirmation responses
- Completing our discussions with the Finance Committee
- Obtaining evidence of the Board of Director's acceptance of the financial statements
- Obtaining a signed management representation letter
- Completing subsequent event review procedures up to the date of the Board of Director's acceptance of the financial statements

We will update the Board of Directors, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

A draft of our auditor's report is included in the draft financial statements.



Significant risks and results

Fraud risk from management override of controls

This is a presumed fraud risk. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities. We have not identified any specific additional risks of management override relating to this audit.

Our response

Our procedures included:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates,
- evaluating the business rationale of significant unusual transactions.

Findings

- There were no issues noted in our testing.

Other risks of material misstatement and results

Tangible Capital Assets (non-routine)

The District has several on-going capital projects, including but not limited to projects under the Regional Housing First Program and the Hartland biogas upgrading facility, among others. Projects are material in value, span multiple years and may have unique funding and/or contract terms to consider for financial reporting.

Our response

- We updated our understanding of the process activities and controls over non-routine capital asset transactions.
- We reviewed the Board meeting minutes and related committees for new capital projects, and performed inquiries with management to obtain an understanding of the status of all new projects, including any remaining commitments under the Regional Housing First Program.
- We obtained and reviewed the relevant contracts and agreements for any new or ongoing material capital projects, including testing a sample of capital additions incurred during 2024 to bank statements, contractual agreements and 3rd party invoices.
- For material non-cash land transactions during the year, we obtained supporting documentation, including contracts and appraisal documents, to assess the accuracy of transaction values at the acquisition date.
- We assessed management's accounting and disclosures for capital commitments, including an estimate of obligations arising in previous years but not paid.
- We assessed management's assessment of asset retirement obligation (ARO) asset and liabilities after initial implementation of the new standard in 2023. We assessed management's process for updating assets and liabilities for remediation work completed in the year, new liabilities identified and revaluation of AROs from new information obtained or passage of time since initial recognition.

Findings

- No issues were identified with respect to non-routine capital transactions.

Other risks of material misstatement and results

Government transfers and deferred revenue

Our response

- We updated our understanding of the process activities and controls over government transfers and deferred revenue.
- We selected a sample of government transfers received and government transfers recognized as revenue and obtained supporting documentation to validate the appropriateness of accounting treatment either as revenue or as deferred revenue.
- We obtained an understanding of performance obligations related to government transfers and whether there are stipulations that result in recognition as deferred revenue until the District has completed activities required to earn the revenue.
- We obtained and reviewed material funding agreements and assessed management's accounting analysis for recognition of such funding, including assessing funding as forgivable loans, mortgages or government grants.
- We assessed revenue recognition in accordance with the requirements of public sector accounting standards including government transfers.

Findings

- There were no issues noted in our testing.

Other procedures performed

In addition to the areas of focus previously described, we highlight below examples of audit procedures we performed to obtain evidence over the existence, accuracy and completeness of the financial statements, including presentation and disclosure.

Adoption of new accounting standard - Revenue

Response and findings

- We obtained management's assessment of the adoption of PS 3400 *Revenue* and concur with management that there is no impact to the financial statements on initial adoption. All revenue streams in scope of the new standard were previously accounted for consistent with the guidance of the new standard.
- We completed a test of details over other revenue, comparing a sample of revenue recognized to cash receipt and supporting documentation. We performed cut-off testing over other revenue to determine if revenue was recognized in the appropriate period.
- We performed analytical procedures over sale of service revenue, comparing revenue recognized to prior year.
- No issues were noted in our testing.

Operating expenses

Response and findings

- We completed a test of details over contract for services and other expenses, comparing a sample of expenses recognized to invoice support. We completed analytical procedures over expenses as a whole by developing an expectation based on prior year and budget and comparing to our expectation to actual.
- Salaries and wage expense included testing internal controls over management review of payroll expense as well as comparing actual to prior year, incorporating changes in expected pay rates based on collective agreements and changes in headcount.
- No issues were noted in our testing.

Other procedures performed

In addition to the areas of focus previously described, we highlight below examples of audit procedures we performed to obtain evidence over the existence, accuracy and completeness of the financial statements, including presentation and disclosure.

Cash, investments and debt

Response and findings

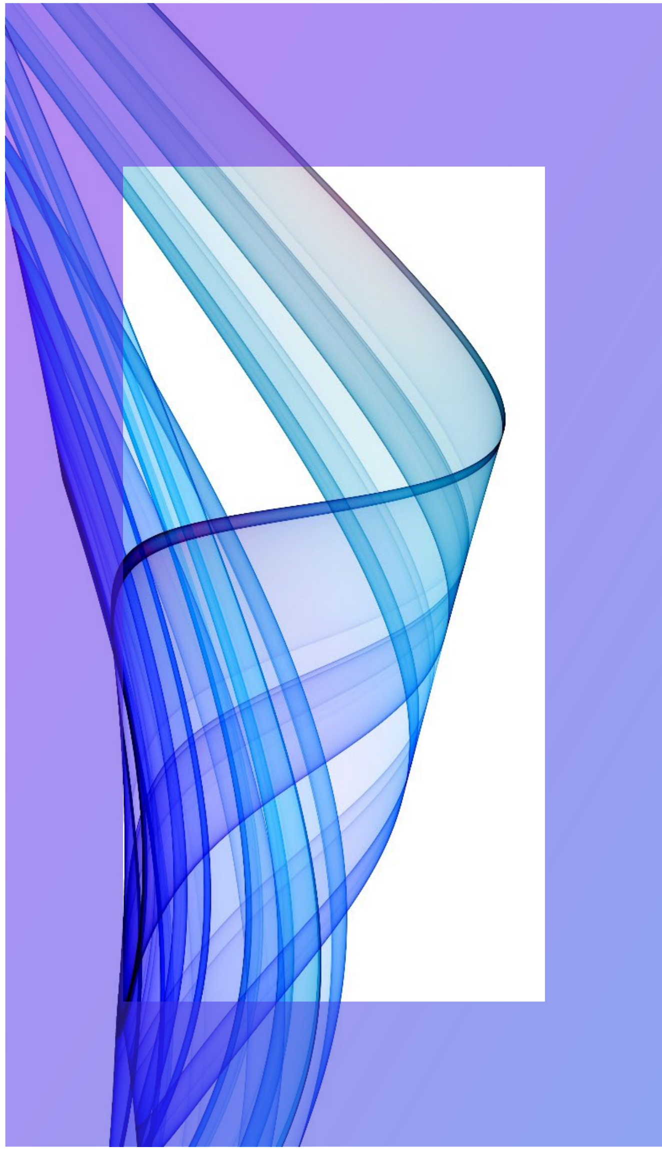
- We confirmed the balances with the respective financial institutions and MFA.
- We verified the expected interest income on investments based on the interest rate and maturity date of investments held during the year.
- We tested subsequent payments to determine if they were recorded in the correct accounting period.
- We have no findings to report.

Tangible Capital Assets (routine transactions)

Response and findings

- A sample of capital asset additions, disposals, and WIP transfers were compared to underlying source documents. An estimate of amortization expense was compared to actual.
- We identified an uncorrected difference relating to capital projects completed in previous years but not amortized until 2024. The difference has both an accounting and a disclosure impact. We concur with management’s representation that the differences is not material to the financial statements.

Other procedures performed



Concluding and reporting

Response and findings

We performed the following procedures as part of the overall conclusion and reporting phases of the audit:

- Evaluated management bias in the preparation of financial statements, based on patterns in the selection and application of accounting policies and principles.
- Financial statement presentation and disclosure was evaluated for compliance with accounting standards and comparability to industry leading practice, for example financial reporting award requirements of Government Finance Officers Association International.
- Legal exposure and estimates of contingency provisions were evaluated against supporting documentation including direct confirmation with external legal counsel.
- Disclosures in the financial statement notes were evaluated for completeness based on our knowledge of the District’s ability to continue as a going concern, related party transactions, future contractual commitments and events occurring after year end.
- Deficiencies in internal control and other control observations were discussed with management, and if significant, communicated to the Board through a separate communication entitled Management Letter.

Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions.

Impact of uncorrected misstatements – Not material to the financial statements

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial, including the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

We identified an uncorrected difference relating to capital projects completed in previous years but not amortized until 2024. The difference has both an accounting and a disclosure impact:

i) $0.5 million of depreciation recorded in the current year that should have been recorded in prior years

ii) A disclosure difference related to the categorization of opening cost balance as in service or work in progress of $2.8 million.

Based on both qualitative and quantitative considerations, management have decided not to correct certain misstatements and represented to us that the misstatements —individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.

We concur with management's representation that the uncorrected misstatements are not material to the financial statements. Accordingly, the uncorrected misstatements have no effect on our auditor's report.

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting

A deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

We did not identify any significant deficiencies in internal control over financial reporting.

Appendices

1. Required communications
2. Management representation letter
3. Current developments
4. Thought Leadership and Insights

Appendix 1: Required communications

Auditor's report	Engagement letter
Refer to the draft report attached to the financial statements.	The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter.

Independence	Management representation letter
As required by professional standards, we have considered all relationships between KPMG and the Entity that may have a bearing on independence. We confirm that we are independent with respect to the Entity within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation from January 1, 2024 up until the date of this report.	We will obtain from management certain representations at the completion of the audit. In accordance with professional standards, a copy of the representation letter is attached.

Appendix 2: Management representation letter

(Letterhead of Client)

KPMG LLP
Chartered Professional Accountants
St. Andrew's Square II
800-730 View Street
Victoria, BC V8W 3Y7

DATE

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of Capital Regional District ("the Entity") as at and for the period ended December 31, 2024.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 9, 2022, including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements ("relevant information"), such as financial records, documentation and other matters, including:

      — the names of all related parties and information regarding all relationships and transactions with related parties;

      — the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.

c) providing you with unrestricted access to such relevant information.

d) providing you with complete responses to all enquiries made by you during the engagement.

e) providing you with additional information that you may request from us for the purpose of the engagement.

f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation, and maintenance of internal control to prevent and detect fraud.

h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

Internal control over financial reporting:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

b) all information in relation to fraud or suspected fraud that we are aware of that involves:

— management;

— employees who have significant roles in internal control over financial reporting; or

— others

where such fraud or suspected fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements or illegal acts, whose effects should be considered when preparing financial statements.

e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

5) We have disclosed to you the identity of the Entity’s related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity’s ability to continue as a going concern.

Misstatements:

11) The effects of the uncorrected misstatements described in **Attachment II** are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Non-SEC registrants or non-reporting issuers:

12) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission (“SEC”) Issuer (as defined by the Sarbanes-Oxley Act of 2002).

13) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

Ted Robbins, B. Sc., C. Tech
Chief Administrative Officer

Nelson Chan, MBA, FCPA, FCMA
Chief Financial Officer,
GM Finance & Information Technology

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
c) dissimilar items, transactions or other events are inappropriately aggregated;
d) similar items, transactions or other events are inappropriately disaggregated; and
e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have

Attachment II – Summary of Audit Misstatements Schedule

Uncorrected Misstatement – Current Year

Presented in dollars	**Statement of operations effect**	**Statement of financial position effect**		
Description of individually significant misstatements	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated surplus (Decrease) Increase**
Overstatement of amortization expense due to acceleration of amortization in the current year for assets placed into service in prior years but for which no amortization was recognized.	498,170	-	-	(498,170)
Total misstatements	**498,170**	**-**	**-**	**(498,170)**

Uncorrected Misstatement – Prior year

Presented in dollars	**Statement of operations effect**	**Statement of financial position effect**		
Description of individually significant misstatements	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated surplus (Decrease) Increase**
Understatement of amortization expense for assets placed into services but for which no amortization was recognized.	(256,752)	(498,170)	-	(241,418)
Total misstatements	**(256,752)**	**(498,170)**	**-**	**(241,418)**

Disclosure misstatements

- We identified $2.8 million of assets substantially complete and placed in service before 2024 but were not presented as in service assets. The opening cost balance of engineering structures is understated by $2.0 million, the opening cost balance of machinery and equipment is understated by $0.8 million and the opening work-in-progress balance is overstated by $2.8 million.

Appendix 3: Current developments

Accounting standards

Standard	Summary and implications
Concepts Underlying Financial Performance	• The revised Conceptual Framework is effective for fiscal years beginning on or after April 1, 2026 with early adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption is permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.
	  • Separating liabilities into financial liabilities and non-financial liabilities.
	  • Restructuring the statement of financial position to present total assets followed by total liabilities.
	  • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
	  • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.
	  • A new provision whereby an entity can use an amended budget in certain circumstances.
	  • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.

Appendix 3: Current developments (continued)

Accounting standards (continued)

Standard	Summary and implications

Employee Benefits	• The Public Sector Accounting Board has issued proposed new standard PS 3251 *Employee benefits* which would replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*.
	• After evaluating comments received about the July 2021 exposure draft, a new re-exposure draft was released in October 2024. The re-exposure draft continues to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard.
	• The proposed standard would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position.
	• The re-exposure draft also proposes that fully funded post-employment benefit plans use a discount rate based on the expected market-based return of plan assets and unfunded plans use a discount rate based on the market yield of government bonds, high-quality corporate bonds or another appropriate financial instrument. A simplified approach to determining a plan's funding status is provided.
	• For most other topics, the re-exposure draft is consistent with the original exposure draft. A few exceptions are:
	  ◦ Deferral provisions – Remeasurement gains and losses will be presented as part of accumulated remeasurement gains and losses.
	  ◦ Valuation of plan assets – Public sector entities may continue to recognize non-transferable financial instruments that meet the definition of plan assets under existing PS 3250 guidance.
	  ◦ Joint defined benefit plans – Defined benefit accounting will be used for measurement of the proportionate share of the plan, instead of previously proposed multi-employer plan accounting which was based on defined contribution plan concepts.
	  ◦ Disclosure of other long-term employee benefits and termination benefits – The re-exposure draft does not include prescriptive disclosure requirements for other long-term employee benefits and termination benefits.
	• The proposed section PS 3251 *Employee benefits* will apply to fiscal years beginning on or after April 1, 2029. Early adoption will be permitted and guidance applied retroactively, with or without prior period restatement.
	• Comments on the re-exposure draft were due on January 20, 2025. The re-exposure draft can be viewed at the following link: Click here

Appendix 3: Current developments (continued)

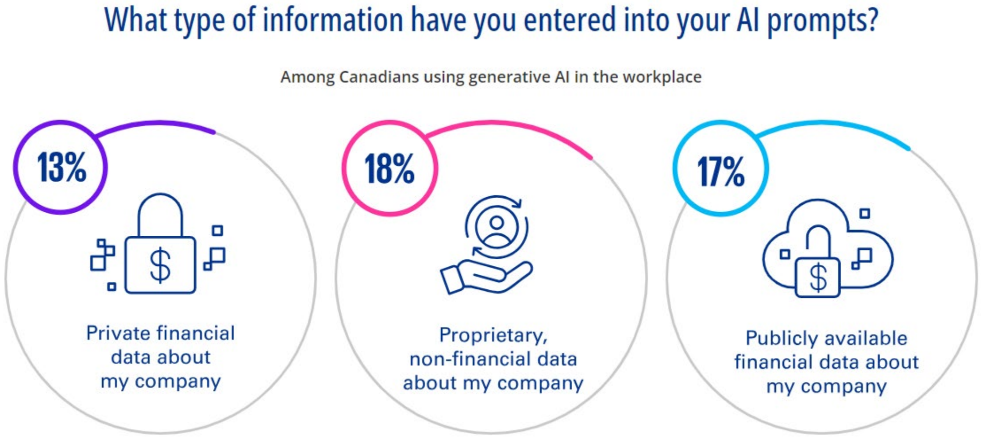
Accounting standards (continued)

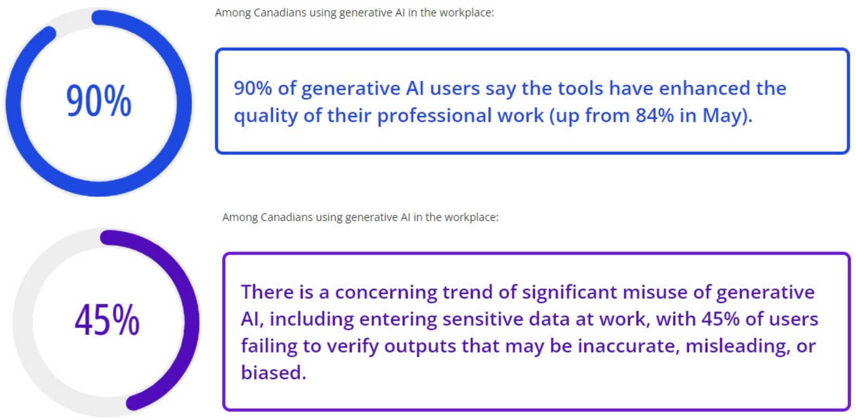
Standard	Summary and implications
Intangible assets	• The Public Sector Accounting Standards Board has issued proposed new standard PS 3155 *Intangible Assets* which would replace Public Sector Guideline 8 *Purchased Intangibles*. The new standard would be effective for fiscal years beginning on or after April 1, 2030 with early adoption permitted. • The standard will include foundational guidance on acquired and internally generated intangibles. It excludes intangible assets addressed in other public sector accounting standards and other intangible items such as exploration and extraction costs for non-renewable resources or intangible assets related to insurance contracts. • The definition of "intangible assets" requires an intangible resource to be separate and identifiable from goodwill. It also requires that the entity has control over the intangible resource, future economic benefits flow from the intangible resource, and the intangible resource is the result of a past transaction and/or other events. • Internally generated goodwill is not permitted to be recognized as an asset. • An intangible resource is recognized when it meets the definition of an intangible asset and the asset's cost can be measured in a faithfully representative way. The generation of the asset is classified into a research phase and a development phase. Expenditures from the research phase of an internally generated project are expensed. An intangible asset arising from the development phase can be recognized if it meets certain requirements. • Intangible assets are initially measured at cost and subsequently carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired through a non-exchange transaction are measured at fair value as of the date it is acquired. • Comments on the exposure draft are due on May 30, 2025. The exposure draft can be viewed at the following link: Click here
Cloud computing arrangements	• As part of its intangible assets project, the Public Sector Accounting Standards Board is also developing guidance on cloud computing arrangements. To ensure the development of this accounting guidance reflects current practices and needs, a survey has been launched to gather insights. The survey will inform the Public Sector Accounting Board about the types of cloud computing arrangements being encountered, magnitude of costs, key arrangement terms, current accounting policies and unique challenges in practice. • We encourage all entities to complete the survey by May 30, 2025, which is at the following link: Click here

Appendix 4: Thought leadership and insights

Generative AI

Ever since ChatGPT launched publicly on November 30, 2022, generative AI has caught the attention of users around the world – including Canada. One year after its launch, KPMG in Canada conducted a survey about generative AI use in Canada's workplaces: Generative AI Adoption Index - KPMG Canada





For governance bodies, generative AI stands as a pivotal innovation that offers unprecedented opportunities to drive business value, improve productivity, reach broader audiences, streamline operations, and help address complicated global issues. However, it also raises complex business and ethical questions. To gain the full trust of stakeholders, AI systems need to be designed with governance, risk, legal, and ethical frameworks in mind. The aim is not just to manage these challenges as they emerge, but to proactively elevate your organization's AI practices to achieve Trusted AI.

3 key guiding principles that can help boards achieve their Trusted AI objectives

- Ensure AI applications align with ethical and legal standards, safeguarding the organization from potential financial, operational, and reputational risks
- Foster innovation, enabling the business to gain a competitive edge through trustworthy AI development
- Establish a commitment to Trusted AI, enhancing trust and brand value among stakeholders and employees

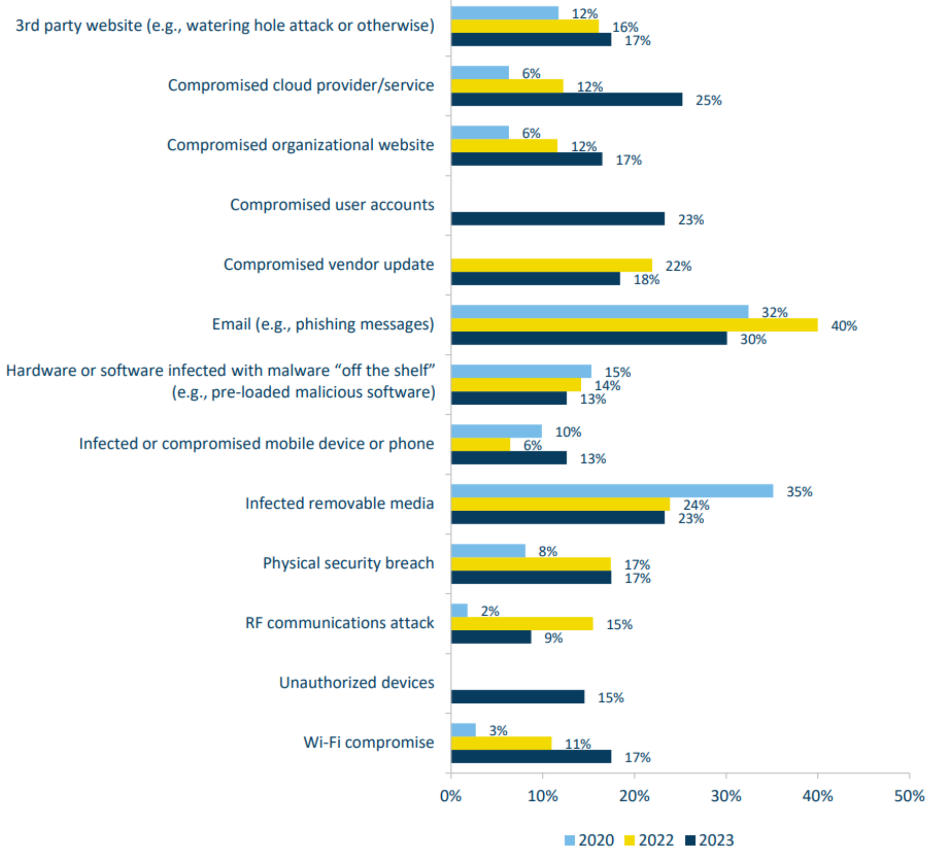
Learn more about how generative AI affects governance responsibilities and tools to emerge as leaders of responsible innovation that serves the greater good: Preparing your board for generative AI

Appendix 4: Thought leadership and insights (continued)

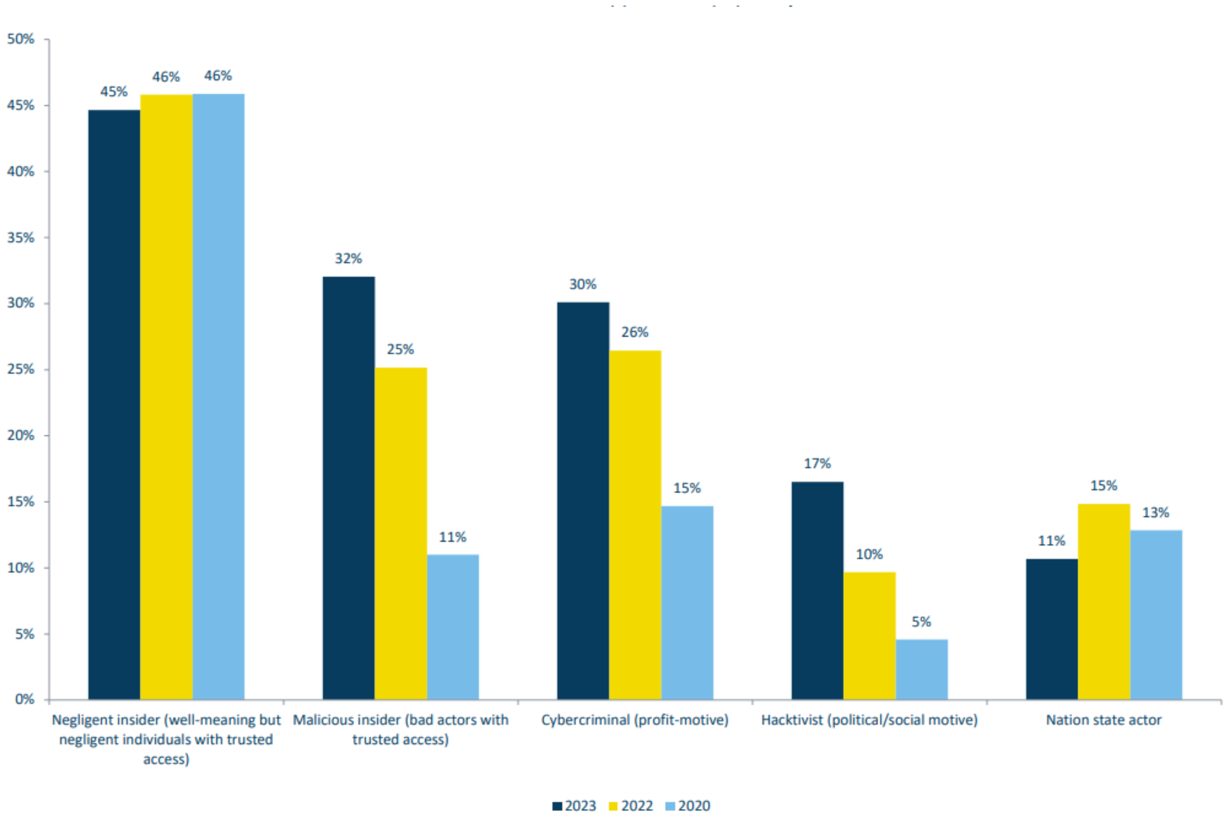
Ransomware in Canada

Canada is the fourth highest victim of ransomware attacks after the US, UK and Malaysia. Where ransomware attacks are successful, the costs can be substantial. COVID-19, lockdown and a shift to remote working has seen a rise in ransomware incidents. Vulnerabilities in people, process and technology controls, due to a shift to remote working over this period, have presented opportunities for cyber criminals.

Trends in types and frequency of cyber incidents



Trends in how cyber incidents arise



Source: The (CS)2 AI-KPMG Control System Cybersecurity Annual Report

Appendix 4: Thought leadership and insights (continued)

Where are Finance Teams adopting AI

Finance's role as a business partner has put them an ideal position to lead enterprise adoption

Forecasting & budgeting

Integrating predictive models, creating scenarios, and generating insights on potential financial outcomes.

Generating commentary

Reduce the time and effort needed to create recurring materials required for financial reporting, business reviews, management reports, and board meetings.

Collecting marketing intelligence

Powerful research tool able to find and synthesize public data to generate insights on markets, competitors, and customers.

Generating strategic insights

Partner with other functions to provide insights across the business. Use finance's position to inform strategic decisions and solve problems with pricing, performance, and benchmarking metrics.

Detecting anomalies

Generative AI shows promise as a tool for detecting errors and potential fraud. It can compare new data with past patterns to identify anomalies.

Managing contracts

Generative AI tools can draft contracts with preferred term and prioritize contract reviews based on deviations from standard terms and conditions.

AI naturally aligns to CFO's existing responsibilities related to business strategy, digital transformation, and risk management

Appendix 4: Thought leadership and insights (continued)

AI brings Risks as well as Opportunities

Internal Risks & Considerations

Breaking Confidentiality

Many Generative AI models are built to absorb user-inputted data to improve the model over time. This could lead to exposure of key confidential information

Employee Misuse and Inaccuracies

Models generate responses based on input, so there is a risk of providing false or malicious content. Employees need to be cautious and review AI-generated content with a critical

Talent Implications

Professionals need to be made aware of their role in training and evolving the solution as high- quality output can only be achieved through high- quality, expert queries

Policies and Regulations

As the world's understanding of AI evolves, more policies and regulations will be brought upon by regulators which in turn need to be complied with

External Risks & Considerations

Misinformation, Bias and Discrimination

The model could generate a response containing inappropriate information or language. In cases where the model does not have an accurate response, it may 'hallucinate' with a false response.

Financial, Brand & Reputational Risk

Copying AI-produced information or code into any deliverable or product could constitute copyright infringement leading to legal and reputational harm

Intellectual Property and Copyright

Risks in copyright includes the potential creation of unauthorized plagiarized content, leading to infringement and violations of intellectual property rights

Cybersecurity

Generative AI models could be trained and employed for many cybersecurity attacks such as phishing scams, malware, data poisoning etc.

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