



**CPP
INVESTMENT
BOARD**

Tab No. F-2

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

November 11, 2009

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

| | | |
|-----|---|----|
| 1.0 | INTRODUCTION | 1 |
| 2.0 | PURPOSE..... | 1 |
| 3.0 | COMMITTEE MEMBERSHIP..... | 2 |
| 4.0 | COMMITTEE MEETINGS | 2 |
| 4.1 | Frequency..... | 2 |
| 4.2 | Calling..... | 2 |
| 4.3 | Attendance by External Auditor and Internal Auditor | 2 |
| 5.0 | OPERATIONS | 3 |
| 6.0 | DUTIES AND RESPONSIBILITIES..... | 3 |
| 6.1 | Financial Statements and Other Financial Information..... | 3 |
| 6.2 | Internal Control and Information Systems, Enterprise Risk Management..... | 4 |
| 6.3 | Internal Audit | 6 |
| 6.4 | External Audit..... | 7 |
| 6.5 | Special Audits | 8 |
| 6.6 | Special Examinations..... | 9 |
| 6.7 | Employee Pension Plans | 9 |
| 6.8 | Employee and Travel and Expense Policy..... | 9 |
| 6.9 | Other..... | 10 |
| 7.0 | ACCOUNTABILITY | 10 |
| 8.0 | COMMITTEE TIMETABLE | 10 |

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

1.0 INTRODUCTION

The objects and powers of the CPP Investment Board are outlined in the **Act**. The **Act** articulates certain responsibilities for the Board. The **Terms of Reference for the Board** clarify the Board's responsibilities, and **Guidelines for the Board** elaborate upon the **Terms of Reference for the Board**.

The **Act** requires that the Board create an audit committee to fulfill certain responsibilities. The Board has established the Audit Committee in accordance with the requirements of the **Act**.

These terms of reference are designed to articulate and clarify the responsibilities of the Audit Committee.

The Board has adopted **Guidelines for Board Committees**, which provide elaboration upon each Board Committee's terms of reference.

The Audit Committee fulfills an oversight role in connection with the internal auditor, the external auditor, and the special examiner, each of whom reports directly to the Audit Committee. The Audit Committee also fulfills an oversight role in ensuring the quality and integrity of the financial statements.

2.0 PURPOSE

The purpose of the Audit Committee is to meet the requirements of the **Act** and thereby assist the Board in fulfilling its obligations by receiving reports and making recommendations to the Board on matters including:

- (a) financial reporting;
- (b) internal control and information systems, and related Enterprise Risk Management;
- (c) internal audit;
- (d) external audit;
- (e) special examinations;
- (f) Employee Pension Plans;
- (g) Subsidiaries; and
- (h) such other matters as may be determined by the Board.

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

3.0 COMMITTEE MEMBERSHIP

The Audit Committee shall be composed of not fewer than three Directors
A quorum for the transaction of business at a meeting of the Audit Committee will be a majority of Directors appointed to the Audit Committee.

Any Director who is a member of the Audit Committee may be removed and replaced at any time by the Board.

All members of the Audit Committee shall meet the standard of financial literacy, which entails the ability to read and understand financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the CPP Investment Board's financial statements. The Chair of the Audit Committee shall have accounting or related financial management expertise. Accounting or related financial management expertise may have been gained from past employment experience in finance or accounting, professional certification in accounting, or any comparable experience or background that results in the member's financial sophistication, including having been a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities.

The Chairperson shall not serve as a member of the Audit Committee, but may attend Audit Committee meetings.

4.0 COMMITTEE MEETINGS

4.1 Frequency

The Audit Committee shall meet at least 4 times a year, with additional meetings at the discretion of the Committee Chair.

4.2 Calling

The CPP Investment Board's external auditor, internal auditor, or any member of the Audit Committee, may call a meeting of the Audit Committee.

4.3 Attendance by External Auditor and Internal Auditor

The external auditor is entitled to receive notice of and to attend meetings of the board of directors and meetings of the Audit Committee, at the CPP Investment Board's expense, and to be heard at those meetings on matters relating to the external auditor's duties.

The external auditor and the internal auditor shall attend meetings of the Audit Committee if requested to do so by an Audit Committee member.

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

5.0 OPERATIONS

The Audit Committee may call a meeting of the Board to consider any matter of concern.

The Audit Committee will have access to Management and the CPP Investment Board's documents as may be required to fulfill its responsibilities.

The Audit Committee will be provided with the resources necessary to carry out its responsibilities. The Audit Committee may engage independent counsel and other advisors, and set and pay the compensation for any advisors so engaged.

6.0 DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, and to the requirements of the **Act**, the Audit Committee will perform the following duties in relation to the CPP Investment Board, as may be appropriate in the context:

6.1 Financial Statements and Other Financial Information

The Audit Committee will review and recommend for approval to the Board financial information that will be made publicly available. In this regard the Audit Committee will:

- (a) review, approve and recommend to the Board for approval the CPP Investment Board's, consolidated annual financial statements;
- (b) review the formal representation letter provided by the President and the CFO to the external auditors quarterly;
- (c) review and recommend to the Board the release of the CPP Investment Board's quarterly financial statements;
- (d) review and recommend to the Board for approval the financial content of the Annual Report;
- (e) review the Management Discussion and Analysis section of the Annual Report;
- (f) receive confirmation from Management that the quarterly disclosure published on the website is consistent with the financial statements;
- (g) prior to public disclosure, review news releases which accompany published financial statements (to the extent such releases discuss the financial position or operating results) for consistency of disclosure with the financial statements themselves;

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

- (h) receive a report on Management's evaluation of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP; and
- (i) receive a report from Management to ensure that adequate procedures are in place, and periodically review these procedures, for the review of public disclosure of financial statements and financial information extracted or derived from financial statements, other than public disclosure otherwise referred to in section 6.1 of these Terms of Reference.

The Audit Committee will review and assess regularly:

- (j) the appropriateness of accounting policies and financial reporting practices used by the CPP Investment Board;
- (k) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the CPP Investment Board;
- (l) any new or pending developments in accounting and reporting standards that may affect the CPP Investment Board;
- (m) the key estimates and judgments of Management that may be material to the financial reporting of the CPP Investment Board; and
- (n) responses by Management to material information requests from government or regulatory authorities.

6.2 Internal Control and Information Systems, Enterprise Risk Management

The Audit Committee will review and obtain reasonable assurance that the internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information and that they are appropriately incorporating the risks identified in the Enterprise Risk Management Framework. In this regard the Audit Committee will:

- (a) obtain reasonable assurance by discussions with and reports from Management, the internal auditor and the external auditor, that:
 - (i) the information systems, security of information and recovery plans are adequate and reliable; and
 - (ii) the internal control systems and procedures are properly designed and effectively implemented;
- (b) review, evaluate and approve internal control procedures by:

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

- (i) receiving Management's annual report on the CPP Investment Board's internal control systems. The report should include information on how the internal control system addresses the results of Management's assessment of the risks identified in the Enterprise Risk Management Framework, including the risk of fraud or error;
 - (ii) receiving compliance report quarterly to address Management's legislative and policy compliance;
 - (iii) receiving a report on specified internal controls audited by the external auditor, sufficient in content to enable the Committee to recommend signing the certificate regarding investment compliance in accordance with subsection 51(3)(c) of the **Act**;
 - (iv) receiving internal audit reports outlined in section 6.3.
- (c) review reports, at least annually, summarizing significant payments to professional consultants engaged directly by Management;
 - (d) review the appointment of the CFO and where agreed between Management and the Audit Committee, any other senior financial management appointments, as required;
 - (e) review adequacy of accounting and finance resources, as required;
 - (f) review reports, at least annually, summarizing each Directors' and each Management member's travel and expense claims;
 - (g) review reports, at least quarterly, on compliance with personal trading guidelines for Officers and Employees and convey to the Chair of the Governance Committee any issues noted;
 - (h) review reports, at least semi-annually, on compliance with personal trading guidelines for Directors and convey to the Chair of the Governance Committee any issues noted; and
 - (i) ensure that there are adequate procedures for the receipt, retention and treatment of complaints received by the CPP Investment Board regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

- (j) at the instigation of the President, the General Counsel, the Chairperson, the Chair of the Audit Committee, the Chair of the Governance Committee or the Conduct Review Advisor, undertake any and all required investigations and other actions in relation to suspected non-compliance with accounting, internal control or auditing standards, using the services of external and/or internal auditors or other third parties as deemed appropriate, to ascertain whether any non-compliance has occurred and thereafter, if deemed appropriate, raise such matters with the Board.

6.3 Internal Audit

The Audit Committee will oversee the internal audit of the CPP Investment Board and the internal auditor's relationship with the external auditor and with Management. In this regard the Audit Committee will:

- (a) review and approve the terms of the annual internal audit plan including objectives, scope, staffing, timetable and proposed fees;
- (b) assess the performance of and approve the annual appointment or removal of the internal auditor;
- (c) review matters which may affect the independence of the internal auditor including but not limited to:
 - (i) the position of the internal audit function within the organization structure of the CPP Investment Board;
 - (ii) review and approval of a policy regarding provision of non-internal audit services provided by internal auditor's firm (or its affiliates); and
 - (iii) review and approval in advance, in accordance with the policy referred to in (ii), any non-internal audit services to be provided by internal auditor's firm (or its affiliates) and receive a semi-annual report thereon from Management.
- (d) review the findings and follow-up of the internal auditor including any significant disagreements between management and the internal auditor with regard to required systems and controls;
- (e) review the CPP Investment Board's hiring practices concerning current or former employees and partners of the internal auditor's firm;
- (f) ensure that direct and open communication exists among the Audit Committee, the external auditor and the internal auditor; and

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

- (g) meet periodically with the internal auditor in the absence of Management and the external auditor.

6.4 External Audit

The Audit Committee is directly responsible for overseeing the work of the external auditor, and shall require the external auditor to report directly to the Committee. The Audit Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. In this regard the Audit Committee will:

- (a) review and recommend the annual appointment of the external auditor;
- (b) review and approve the terms of the annual external audit engagement plan, including but not limited to the following:
 - (i) engagement letter;
 - (ii) objectives and scope of the external audit work;
 - (iii) materiality limit;
 - (iv) areas of audit risk;
 - (v) staffing, and in particular the lead audit partner and the audit partner responsible for reviewing the audit, including partner rotation;
 - (vi) timetable; and
 - (vii) proposed fees;
- (c) review and approve in advance, the non-audit services to be provided by the external auditor's firm or its affiliates (including the estimated fees) in accordance with a policy established by Management and approved by the Audit Committee, consider the impact on the independence of the external audit work and receive a semi-annual report thereon from Management;
- (d) assess the performance of the external auditor;
- (e) meet with the external auditor in the absence of Management and the internal auditor to discuss the CPP Investment Board's consolidated annual financial statements, and the external auditor's report; and

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

- (f) review and advise the Board with respect to the plan, conduct and reporting of the annual external audit, including but not limited to the following:
 - (i) any difficulties encountered, or restriction imposed by Management, during the annual audit;
 - (ii) any significant accounting policies or financial reporting issues, alternative GAAP methods discussed with Management, ramifications and external auditor's preferred alternative, and any other material written communications with Management;
 - (iii) the external auditors' comments on design and or effectiveness of the CPP Investment Board's system of internal controls over financial reporting, procedures and documentation, relating to those internal controls reviewed as part of the financial statement audit;
 - (iv) the post audit or management letter containing any findings or recommendation of the external auditor including Management's response thereto and the subsequent follow-up to any identified internal control weaknesses;
 - (v) any significant disagreements between management and the external auditor with regard to financial reporting; and
 - (vi) any other matters which the external auditor brings to the attention of the Audit Committee.
- (g) ensure that direct and open communication exists among the Audit Committee, the external auditor and the internal auditor; and
- (h) review the CPP Investment Board's hiring practices concerning employees and partners or former employees and partners of the external auditor.

6.5 Special Audits

Where a special audit has been conducted pursuant to section 46 of the **Act**, ensure that the results are included in the next Annual Report.¹

¹ As per item 22(3) of the CPP Investment Board **Regulations**.

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

6.6 Special Examinations

The Audit Committee will oversee the conduct of the special examination and review and advise the Board with respect thereto. In this regard the Audit Committee will:

- (a) review the plan and examination criteria and the coordination with the internal auditor;
- (b) review findings and report;
- (c) together with other committees, as appropriate, monitor Management's response to the special examination findings;
- (d) ensure the results are included in the next Annual Report;² and
- (e) review any other matters which the special examiner brings to the attention of the Audit Committee.

6.7 Employee Pension Plans

The CPP Investment Board has two defined contribution pension plans for Employees, the RPP and the SPP (collectively the "Employee Pension Plans"), the details of each of which are found in their respective plan texts. The Audit Committee bears the following responsibilities in connection with the Employee Pension Plans:

- (a) review and approve annual financial statements;
- (b) require Management to implement and maintain appropriate control procedures; and
- (c) review, evaluate and approve those internal control procedures consistent with the process described in section 6.2(b).

6.8 Employee and Travel and Expense Policy

The Audit Committee will:

- (a) receive Management's recommendations regarding an appropriate Employee Travel and Expense Policy; and
- (b) review and approve Employee Travel and Expense Policy when warranted.

² As per item 22(3) of the CPP Investment Board **Regulations**.

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

6.9 Other

The Audit Committee will also regularly:

- (a) review all investments and transactions that could adversely affect the return on the Board's investments that are brought to the Audit Committee's attention by the external auditor or Officers;
- (b) review insurance coverage of significant business risks and uncertainties;
- (c) review any legal claims;
- (d) carry out other duties as may be determined from time to time by resolution of the Board.

7.0 ACCOUNTABILITY

The Audit Committee shall report its discussions to the Board by distributing the minutes of its meetings and where appropriate, by oral report at the next Board meeting.

8.0 COMMITTEE TIMETABLE

The timetable on the following pages outlines the Audit Committee's annual schedule of activities.

**TERMS OF REFERENCE FOR THE
AUDIT COMMITTEE**

AUDIT COMMITTEE TIMETABLE

| Source | | | Meeting | | | |
|-------------|--------------------|---|---------|-----|-----|-----|
| Statute/Reg | Terms of Reference | | Feb | May | Aug | Nov |
| | 6.1 | FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION | | | | |
| 31(c) | (a) | Review, approve and recommend to the Board for approval annual consolidated financial statements | | * | | |
| | (b) | Review the formal representation letter provided by the President and the CFO to the external auditors quarterly | * | * | * | * |
| | (c) | Review and recommend to the Board the release of quarterly financial statements | * | | * | * |
| | (d) | Review and recommend to the Board for approval financial content of the Annual Report | | * | | |
| | (e) | Review the Management Discussion and Analysis section of the Annual Report | | * | | |
| | (f) | Receive confirmation from Management that the quarterly disclosure published on the website is consistent with the financial statements | * | * | * | * |
| | (g) | Prior to public disclosure, review news releases which accompany published financial statements for consistency of disclosure with the financial statements | * | * | * | * |
| | (h) | Receive a report on Management's evaluation of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. | | * | | |
| | (i) | Receive a report from Management to ensure adequate procedures are in place, and periodically review these procedures, for the review of public disclosure of financial information extracted or derived from financial statements, other than public disclosure otherwise referred to in section 6.1 of these Terms of Reference (as required) | | | | |
| | (j) | Review and assess appropriateness of accounting policies and financial reporting practices | * | * | * | * |
| | (k) | Review and assess any significant proposed changes in financial reporting and accounting policies and practices | * | * | * | * |
| | (l) | Review and assess any new or pending developments in accounting and reporting standards | * | * | * | * |
| | (m) | Review and assess key estimates and judgments of Management that may be material to financial reporting | * | * | * | * |
| | (n) | Review and assess responses by Management to material information requests from government or regulatory authorities (as required) | | | | |
| | 6.2 | INTERNAL CONTROL AND INFORMATION SYSTEMS, ENTERPRISE RISK MANAGEMENT | | | | |
| 31(f) | (a) | Receive assurance that the information systems, security of information and recovery plans are adequate and reliable; and the internal control systems and procedures are properly designed and effectively implemented | * | * | | |

**TERMS OF REFERENCE FOR THE
AUDIT COMMITTEE**

| Source | | | Meeting | | | |
|-------------|--------------------|--|---------|-----|-----|-----|
| Statute/Reg | Terms of Reference | | Feb | May | Aug | Nov |
| 31(b) | (b) | Review, evaluate and approve internal control procedures by: | | | | |
| | | (i) receiving Management’s annual report on the CPP Investment Board’s internal control systems. The report should include information on how the internal control system addresses the results of Management’s assessment of the risks identified in the Enterprise Risk Management Framework, including the risk of fraud or error; | * | | | |
| | | (ii) Receiving compliance report quarterly to address Management’s legislative and policy compliance | * | * | * | * |
| | | (iii) Receiving a report on specified internal controls audited by the external auditor, sufficient in content to enable the Committee to recommend signing the certificate regarding investment compliance in accordance with subsection 51(3)(c) of the Act | | * | | |
| | (c) | Review reports, at least annually, summarizing significant payments to professional consultants engaged directly by Management | | * | | |
| | (d) | Review appointment of CFO and where agreed between Management and the Audit Committee, any other senior financial management appointments , as required | | | | |
| | (e) | Review adequacy of accounting and finance resources, as required | | | | |
| | (f) | Review reports, at least annually, summarizing each Directors’ and each Management member’s travel and expense claims | | * | | |
| | (g) | Review reports, at least quarterly, on compliance with personal trading guidelines for Officers and Employees | * | * | * | * |
| | (h) | Review reports, at least semi-annually, on compliance with personal trading guidelines for Directors | | * | | * |
| | (i) | Ensure that there are adequate procedures for the receipt, retention and treatment of complaints received by the CPP Investment Board regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters | | | | |
| | (j) | At the instigation of the President, the General Counsel, the Chairperson, the Chair of the Audit Committee, the Chair of the Governance Committee or the Conduct Review Advisor, undertake any and all required investigations and other actions in relation to suspected non-compliance with accounting, internal control or auditing standards, using the services of external and/or internal auditors or other third parties as deemed appropriate, to ascertain whether any non-compliance has occurred and thereafter, if deemed appropriate, raise such matters with the Board (as required) | | | | |
| | 6.3 | INTERNAL AUDIT | | | | |
| | (a) | Review and approve the terms of the annual internal audit plan including objectives, scopes, staffing, timetable and proposed fees | | | * | |
| | (b) | Assess performance of and approve annual appointment or removal of internal auditor | | | * | |

**TERMS OF REFERENCE FOR THE
AUDIT COMMITTEE**

| Source | | | Meeting | | | |
|-------------|--------------------|---|---------|-----|-----|-----|
| Statute/Reg | Terms of Reference | | Feb | May | Aug | Nov |
| | (c) | Review matters which may affect the independence of the internal auditor including but not limited to: | | | * | |
| | | (i) the position of the internal audit function within the organization structure of the CPP Investment Board | | | | |
| | | (ii) review and approval of a policy regarding provision of non-internal audit services by internal auditor's (or its affiliates) (when required) | | | | |
| | | (iii) review and approval in advance, in accordance with the policy referred to in (ii), any non-internal audit services to be provided by internal auditor's firm (or its affiliates) and receive a semi-annual report thereon from Management | * | | * | |
| | (d) | Review the findings and follow-up of the internal auditor including any significant disagreements between management and the internal auditor with regard to required systems and controls | * | * | * | * |
| | (e) | Review the CPP Investment Board's hiring practices concerning current or former employees and partners of the internal auditor's firm (as required) | | | | |
| | (f) | Ensure that direct and open communication exists among the Audit Committee, the external auditor and the internal auditor | * | * | * | * |
| | 6.4 | EXTERNAL AUDIT | | | | |
| | (a) | Review and recommend the annual appointment of the external auditor | | | * | |
| | (b) | Review terms of annual external audit engagement plan | | | * | |
| | (c) | Review and approve in advance the non-audit services to be provided by the external auditor's firm or its affiliates (including the estimated fees) in accordance with a process established by Management and approved by the Audit Committee, and consider the impact on the independence of the external audit work and receive a semi-annual report thereon from Management | * | | * | |
| | (d) | Assess performance of the external auditor | | | * | |
| | (e) | Meet with external auditor to discuss annual financial statements and auditor's report | | * | | |
| | (f) | Review and advise the Board with respect to the plan, conduct and reporting of the annual external audit | | * | | |
| | (g) | Ensure that direct and open communication exists among the Audit Committee, the external auditor and the internal auditor | * | * | * | * |
| | (h) | Review the CPP Investment Board's hiring practices concerning employees and partners or former employees and partners of the external auditor (as required) | | | | |

**TERMS OF REFERENCE FOR THE
AUDIT COMMITTEE**

| Source | | | Meeting | | | |
|-------------|--------------------|--|---------|-----|-----|-----|
| Statute/Reg | Terms of Reference | | Feb | May | Aug | Nov |
| | 6.5 | SPECIAL AUDITS | | | | |
| | | Where a special audit has been conducted pursuant to section 46 of the Act , ensure that the results are included in the next Annual Report (as required) | | | | |
| | 6.6 | SPECIAL EXAMINATIONS | | | | |
| 47(3) | | Review and advise the Board with respect of the conduct of special examinations (as required) | | | | |
| | (c) | Monitor Management’s response to the special examination findings (as required) | | | | |
| | (d) | Ensure results are included in the next Annual Report (as required) | | | | |
| | 6.7 | EMPLOYEE PENSION PLANS | | | | |
| | (a) | Review and approve annual financial statements for Employee Pension Plans | | * | | |
| | (b) | Require Management to implement and maintain appropriate control procedures with respect to Employee Pension Plans (ongoing) | | | | |
| | (c) | Review, evaluate and approve internal control procedures with respect to Employee Pension Plans consistent with the process described in Section 6.2(b) (as required) | | * | | |
| | 6.8 | EMPLOYEE TRAVEL AND EXPENSE POLICY | | | | |
| | (a) | Review and approve Travel Expense Policy (when warranted) | | | | |
| | 6.9 | OTHER | | | | |
| 31(e) | (a) | Review all investments and transactions that could adversely affect the return on the Board’s investments that are brought to the Audit Committee’s attention by the external auditors or Officers | * | * | * | * |
| | (b) | Review insurance coverage of significant business risks | | * | | |
| | (c) | Review any legal claims | * | * | * | * |
| | | GUIDELINES FOR BOARD COMMITTEES (S. 2.3) | | | | |
| | | Review Terms of Reference for the Audit Committee annually and recommend changes to the to the Board when warranted | | | | * |