

# Terms of Reference for the Audit Committee

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## 1.0 Introduction

The objects and powers of Canada Pension Plan Investment Board (CPP Investments) are outlined in the Act. The Act outlines 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 all Board Committees, which elaborate upon each Board Committee's terms of reference.

The Audit Committee fulfills an oversight role in connection with the Head of Assurance and Advisory, 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 approving or making recommendations to the Board on matters including:

- financial reporting;
- internal controls;
- internal audit;
- external audit;
- special examinations; and
- such other matters as may be determined by the Board.

### 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 CPP Investments' 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.

### 4.0 Committee Meetings

#### 4.1 FREQUENCY

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

#### 4.2 CALLING

CPP Investments' external auditor, Head of Assurance and Advisory, or any member of the Audit Committee, may ask the Committee Chair to call a meeting of the Audit Committee.

#### 4.3 ATTENDANCE BY EXTERNAL AUDITOR AND HEAD OF ASSURANCE AND ADVISORY

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 CPP Investments' expense, and to be heard at those meetings on matters relating to the external auditor's duties.

The Head of Assurance and Advisory is entitled to receive notice of and to attend meetings of the Audit Committee, and to be heard at those meetings on matters relating to the Head of Assurance and Advisory's duties.

## 5.0 Operations

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

The Audit Committee will have access to Management and CPP Investments' 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 CPP Investments, 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 and recommend to the Board for approval CPP Investments' consolidated annual financial statements;
- (b) review the formal representation letter provided by the President and the CFO to the external auditors in respect of CPP Investments' consolidated annual financial statements;
- (c) review and recommend to the Board for approval CPP Investments' condensed interim consolidated financial statements;
- (d) review and recommend to the Board for approval the financial content of the Annual Report, including the financial content of the Management Discussion and Analysis section, but excluding the Compensation Discussion and Analysis section and the Governance Practices section;
- (e) receive confirmation from Management that the quarterly disclosures published on the website are consistent with the financial statements;
- (f) 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;

- (g) receive a report on Management's evaluation of internal control over financial reporting and disclosure controls and procedures to provide reasonable assurance regarding the reliability of financial reporting, the completeness of financial disclosures and the preparation of financial statements in accordance with IFRS;
- (h) receive and review reports from the external auditor over the design and effectiveness of internal control over financial reporting; and
- (i) receive annual confirmation from Management that adequate procedures are in place, and are periodically reviewed, over 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 regularly review:

- (a) the appropriateness of accounting policies and financial reporting practices used by CPP Investments;
- (b) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by CPP Investments;
- (c) any new or pending developments in accounting and reporting standards that may affect CPP Investments;
- (d) the key estimates and judgments of Management that may be material to the financial reporting of CPP Investments;
- (e) the actual results, forecasted expenses and capital expenditures in relation to the approved budget; and
- (f) the quality of the reporting provided to the Audit Committee.

## 6.2 INTERNAL CONTROLS

The Audit Committee will review and evaluate that Management has implemented and is maintaining appropriate systems of internal control. In order to obtain reasonable assurance that such systems of internal control are properly designed and operating effectively, including that they are producing accurate, appropriate and timely management and financial information, the Audit Committee will have regular discussions with and reports from Management, the Head of Assurance and Advisory, and the external auditor, including but not limited to the following:

- (a) receive periodic reports that information systems, security of information and crisis management plans are adequate and reliable, recognizing that the Risk Committee has primary responsibility for review of the security of information and crisis management plans;
- (b) receive a report on Management's assessment of the risk of fraud or error and controls to mitigate those risks;
- (c) receive a report on CEO/CFO certification of internal control over financial reporting and disclosure controls and procedures;

- (d) receive a compliance report quarterly to address Management’s legislative, regulatory and policy compliance;
- (e) receive a report on specified internal controls audited by the external auditor or Assurance and Advisory, 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;
- (f) receive internal audit reports issued in the execution of the Assurance and Advisory audit plan approved annually by the Audit Committee, as outlined in section 6.3;
- (g) review adequacy of accounting and finance resources, as required;
- (h) receive periodic reports on controls to manage tax risk;
- (i) review reports, at least annually, summarizing each Director’s and each Senior Management member’s travel and expense claims;
- (j) 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;
- (k) 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;
- (l) ensure that there are adequate procedures for the receipt, retention and treatment of complaints received by CPP Investments regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission through the whistleblower hotline or otherwise by employees of concerns regarding questionable accounting or auditing matters;
- (m) receive a summary report, at least quarterly, on whistleblower hotline activity; and
- (n) at the instigation of the CEO, the General Counsel, the Chairperson of the Board, 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 reported or suspected non-compliance with accounting, internal control or auditing standards, using the services of Assurance and Advisory, external auditors and/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 ASSURANCE AND ADVISORY

The Audit Committee will oversee the Assurance and Advisory function of CPP Investments and its relationship with the external auditor and with Management. In this regard the Audit Committee will:

- (a) approve the selection, evaluation and retention of the Head of Assurance and Advisory;

- (b) at least annually, review and approve the Mandate for Assurance and Advisory;
- (c) review and approve the terms of the annual Assurance and Advisory plan including objectives, scope, staffing, timetable, resourcing and budget;
- (d) review the Head of Assurance and Advisory's performance and compensation annually (this will be performed by the Chair of the Audit Committee on behalf of the Committee with the Senior Managing Director, General Counsel and Corporate Secretary's assistance);
- (e) review, at least annually, matters which may affect the objectivity of the Assurance and Advisory function including but not limited to the position of the Assurance and Advisory function within the organizational structure of CPP Investments;
- (f) review the findings and observations in Assurance and Advisory reports and follow-up by the Head of Assurance and Advisory including any significant disagreements between Management and the Head of Assurance and Advisory with regard to the adequacy and effectiveness of systems of internal control;
- (g) ensure that direct and open communication exists among the Audit Committee, the external auditor, and the Head of Assurance and Advisory; and
- (h) meet periodically with the Head of Assurance and Advisory in the absence of Management and the external auditor.

#### 6.4 EXTERNAL AUDIT

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

- (a) review and approve the terms of the annual external integrated audit engagement plan of CPP Investments, including but not limited to the following:
  - (i) engagement letter for the annual integrated audit (to be reviewed by the Chair of the Audit Committee on behalf of the Audit Committee);
  - (ii) engagement letter for the interim reviews (to be reviewed by the Chair of the Audit Committee on behalf of the Audit Committee);
  - (iii) objectives and scope of the external audit work, including work in accordance with section 40 of the Act;
  - (iv) audit materiality;



- (v) areas of audit risk;
  - (vi) staffing, and in particular, the lead audit partner and the quality review audit partner, including partner rotation;
  - (vii) timetable; and
  - (viii) proposed fees and any material variance from fees originally approved (to be approved by the Chair of the Audit Committee on behalf of the Audit Committee);
- (b) review and advise the Board with respect to the plan, conduct and reporting of the annual external integrated audit of CPP Investments, including but not limited to the following:
- (i) any difficulties encountered, or restrictions imposed by Management, during the annual integrated audit;
  - (ii) any significant accounting policies or financial reporting issues, alternative IFRS methods discussed with Management, ramifications and external auditor's preferred alternative, and any other material written communications with Management;
  - (iii) the external auditor's comments on design and/or effectiveness of CPP Investments' systems of internal control over financial reporting, including procedures and documentation relating to those internal controls reviewed as part of the financial statement audit;
  - (iv) any post audit or management letter containing any findings or recommendations 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; and
  - (vi) any other matters which the external auditor brings to the attention of the Audit Committee.

The Audit Committee will oversee and review the ongoing relationship with the external auditor. In this regard, the Audit Committee will:

- (a) use a recognized framework for evaluating the performance of the external auditor and review and recommend the annual appointment of the external auditor, with a comprehensive review performed every five years;
- (b) review and recommend to the Board for approval the External Audit and Non-Audit Services Approval Policy at least every three years and in conformity with that policy, approve audit and non-audit services provided by the external auditor and receive reports thereon from Management;
- (c) meet with the external auditor in the absence of Management regularly;

- (d) ensure that direct and open communication exists among the Audit Committee, the external auditor, and the Head of Assurance and Advisory; and
- (e) review CPP Investments' 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, the Audit Committee will ensure that the results are included in the next Annual Report.

## 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 Head of Assurance and Advisory;
- (b) review findings and the special examination 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; and
- (e) review any other matters which the special examiner brings to the attention of the Audit Committee.

## 6.7 EMPLOYEE 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 recommend to the Board for approval the Employee Travel and Expense Policy at least every three years.

## 6.8 OTHER

The Audit Committee will also:

- (a) jointly with the Risk Committee, be involved in the selection and appointment of the CFO and where agreed between Management and the Audit Committee, any other senior financial management appointments, as required;

- (b) jointly with the Risk Committee, review with the CEO, the CFO's performance annually (this will be performed by the Chair of the Audit Committee on behalf of the Committee);
- (c) review all investments and transactions that could adversely affect CPP Investments' return that are brought to the Audit Committee's attention by the external auditor or Officers;
- (d) regularly review any legal claims; and
- (e) 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.

### Audit Committee Timetable

\* means “usual” or “approximate” timing that may be adjusted with agreement of the Committee Chair

Source			Meeting				
Statute /Reg	Terms of Reference		Feb	Mar/ Apr	May	Aug	Nov
	<b>6.1</b>		<b>Financial Statements and Other Financial Information</b>				
31(c)		(a)			*		
		(b)			*		
		(c)	*			*	*
		(d)			*		
		(e)	*		*	*	*
		(f)	*		*	*	*
		(g)			*		

Source			Meeting				
Statute /Reg	Terms of Reference		Feb	Mar/ Apr	May	Aug	Nov
		(h)	Receive and review reports from external auditor over the design and effectiveness of internal control over financial reporting.				
		(i)	Receive annual confirmation from Management that adequate procedures are in place, and are periodically reviewed, over 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 regularly review:				
		(a)	*	*	*	*	*
		(b)	*	*	*	*	*
		(c)	*	*	*	*	*
		(d)	*	*	*	*	*
		(e)	*		*	*	*
		(f)	As required				
	<b>6.2</b>		<b>Internal Controls</b>				
31(a), (f)		(a)	Receive periodic reports that information systems, security of information and crisis management plans are adequate and reliable, recognizing that the Risk Committee has primary responsibility for review of the security of information and crisis management plans.				

Source			Meeting						
Statute /Reg	Terms of Reference		Feb	Mar/ Apr	May	Aug	Nov		
31(b)		(b)	Receive a report on Management’s assessment of the risk of fraud or error and controls to mitigate those risks.			*			
		(c)	Receive a report on CEO/CFO certification of internal control over financial reporting and disclosure controls and procedures.			*			
		(d)	Receive a compliance report quarterly to address Management’s legislative, regulatory and policy compliance.		*		*	*	*
		(e)	Receive a report on specified internal controls audited by the external auditor or Assurance and Advisory, 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.				*		
		(f)	Receive internal audit reports issued in the execution of the Assurance and Advisory audit plan approved annually by the Audit Committee, as outlined in section 6.3.		*	*	*	*	*
		(g)	Review adequacy of accounting and finance resources, as required.		<b>As required</b>				
		(h)	Receive periodic reports on controls to manage tax risk.						*
		(i)	Review reports, at least annually, summarizing each Director’s and each Senior Management member’s travel and expense claims.				*		
		(j)	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.		*		*	*	*
		(k)	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.				*		*

Source			Meeting				
Statute /Reg	Terms of Reference		Feb	Mar/ Apr	May	Aug	Nov
	(l)	Ensure that there are adequate procedures for the receipt, retention and treatment of complaints received by CPP Investments regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission through the whistleblower hotline or otherwise by employees of concerns regarding questionable accounting or auditing matters.	<b>Ongoing</b>				
	(m)	Receive a summary report, at least quarterly, on whistleblower hotline activity.	*		*	*	*
	(n)	At the instigation of the CEO, the General Counsel, the Chairperson of the Board, 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 reported or suspected non-compliance with accounting, internal control or auditing standards, using the services of Assurance and Advisory, external auditors and/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.	<b>As required</b>				
	<b>6.3</b>	<b>Assurance and Advisory</b>					
	(a)	Approve the selection, evaluation and retention of the Head of Assurance and Advisory.	<b>As required</b>				
	(b)	At least annually, review and approve the Mandate for Assurance and Advisory.		*			
	(c)	Review and approve the terms of the annual Assurance and Advisory plan including objectives, scope, staffing, timetable, resourcing and budget.		*			
	(d)	Review the Head of Assurance and Advisory's performance and compensation annually (this will be performed by the Chair of the Audit Committee on behalf of the Committee with the Senior Managing Director, General Counsel and Corporate Secretary's assistance).			*		

Source			Meeting				
Statute /Reg	Terms of Reference		Feb	Mar/ Apr	May	Aug	Nov
		(e)		*			
		(f)	*	*	*	*	*
		(g)	<b>Ongoing</b>				
		(h)	*	*	*	*	*
	<b>6.4</b>	<b>External Audit</b>					
	(a)	Review and approve the terms of the annual external integrated audit engagement plan of CPP Investments, including but not limited to the following:					
		(i) Engagement letter for the annual integrated audit (to be reviewed by the Chair of the Audit Committee on behalf of the Audit Committee);					*
		(ii) Engagement letter for the interim reviews (to be reviewed by the Chair of the Audit Committee on behalf of the Audit Committee);				*	
		(iii) Objectives and scope of the external audit work, including work in accordance with section 40 of the Act;					*
		(iv) Audit Materiality;					*
		(v) Areas of audit risk;					*
		(vi) Staffing, and in particular, the lead audit partner and the quality review audit partner, including partner rotation;					*



Source			Meeting				
Statute /Reg	Terms of Reference		Feb	Mar/ Apr	May	Aug	Nov
	(vii)	Timetable; and					*
	(viii)	Proposed fees and any material variance from fees originally approved (to be approved by the Chair of the Audit Committee on behalf of the Audit Committee).					*
	(b)	Review and advise the Board with respect to the plan, conduct and reporting of the annual external audit of CPP Investments, including but not limited to the following:					
	(i)	Any difficulties encountered, or restriction imposed by Management, during the annual integrated audit;	*	*	*	*	*
	(ii)	Any significant accounting policies or financial reporting issues, alternative IFRS methods discussed with Management, ramifications and external auditor's preferred alternative, and any other material written communications with Management;	*	*	*	*	*
	(iii)	The external auditor's comments on design and or effectiveness of CPP Investments' systems of internal control over financial reporting, including procedures and documentation relating to those internal controls reviewed as part of the financial statement audit.	*	*	*	*	*
	(iv)	Any 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;	<b>Ongoing</b>				
	(v)	Any significant disagreements between Management and the external auditor; and	*	*	*	*	*
	(vi)	Any other matters which the external auditor brings to the attention of the Audit Committee.	*	*	*	*	*
		The Audit Committee will oversee and review the ongoing relationship with the external auditor. In this regard, the Audit Committee will:					
	(a)	Use a recognized framework for evaluating the performance of the external auditor and review and recommend the annual appointment of the external auditor, with a comprehensive review performed every five years.				*	

Source			Meeting									
Statute /Reg	Terms of Reference		Feb	Mar/ Apr	May	Aug	Nov					
		(b)	Review and recommend to the Board for approval the External Audit and Non-Audit Services Approval Policy at least every three years and in conformity with that policy, approve audit and non-audit services provided by the external auditor and receive reports thereon from Management.					<b>As required</b>				
		(c)	Meet with the external auditor in the absence of Management regularly.					*	*	*	*	*
		(d)	Ensure that direct and open communication exists among the Audit Committee, the external auditor, and the Head of Assurance and Advisory.					*	*	*	*	*
		(e)	Review CPP Investments' hiring practices concerning employees and partners or former employees and partners of the external auditor.					<b>As required</b>				
	<b>6.5</b>		<b>Special Audits</b>									
<b>22(3)</b>			Where a special audit has been conducted pursuant to section 46 of the Act, the Audit Committee will ensure that the results are included in the next Annual Report.					<b>As required</b>				
	<b>6.6</b>		<b>Special Examinations (every six years)</b>									
47(3)			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:					<b>As required</b>				
		(a)	Review the plan and examination criteria and the coordination with the Head of Assurance and Advisory.									
		(b)	Review findings and the special examination report.									
		(c)	Together with other committees, as appropriate, monitor Management's response to the special examination findings.									
<b>22(3)</b>		(d)	Ensure the results are included in the next Annual Report.									
		(e)	Review any other matters which the special examiner brings to the attention of the Audit Committee.									
	<b>6.7</b>		<b>Employee Travel and Expense Policy</b>									

Source			Meeting					
Statute /Reg	Terms of Reference		Feb	Mar/ Apr	May	Aug	Nov	
		(a)	The Audit Committee will receive Management’s recommendations regarding an appropriate Employee Travel and Expense Policy.					<b>As required</b>
		(b)	The Audit Committee will review and recommend to the Board for approval the Employee Travel and Expense Policy at least every three years.					<b>As required</b>
	<b>6.8</b>		<b>Other</b>					
			The Audit Committee will also:					
31(e)		(a)	Be involved in the selection and appointment of the CFO and where agreed between Management and the Audit Committee, any other senior financial management appointments, as required.					<b>As required</b>
		(b)			*			
		(c)	Review all investments and transactions that could adversely affect CPP Investments’ return that are brought to the Audit Committee’s attention by the external auditor or Officers.					<b>As required</b>
		(d)	*		*	*	*	
		(e)	Carry out other duties as may be determined from time to time by resolution of the Board.					<b>As required</b>
			<b>Guidelines for the Board Committees (S. 2.3)</b>					
			Review Terms of Reference for the audit committee and recommend changes to the Board when warranted.					*