



Canada Pension Plan
Investment Board
Special Examination
Report



February 11, 2010

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To:

The Minister of Finance, Canada
The Minister of Finance and President of Treasury Board, Government of
Newfoundland and Labrador
The Provincial Treasurer, Government of Prince Edward Island
The Minister of Finance, Government of Nova Scotia
The Minister of Finance, Government of New Brunswick
The Minister of Finance, Government of Ontario
The Minister of Finance, Government of Manitoba
The Minister of Finance, Government of Saskatchewan
The Minister of Finance and Chair of the Treasury Board, Government of Alberta
The Minister of Finance, Government of British Columbia

Objective, scope and criteria

As required by section 47 of the Canada Pension Plan Investment Board Act (CPP Investment Board Act), we have carried out a Special Examination of the financial and management control and information systems, and management practices maintained by the Canada Pension Plan Investment Board (CPP Investment Board). The CPP Investment Board is required by paragraphs 39(1)(b) and 39(2)(a) and (c) of the CPP Investment Board Act to maintain these systems and practices in such manner as will provide reasonable assurance that:

- The assets of the CPP Investment Board and those of its subsidiaries are safeguarded and controlled
- The financial, human and physical resources of the CPP Investment Board and those of its subsidiaries are managed economically and efficiently, and
- The operations of the CPP Investment Board and those of its subsidiaries are carried out effectively.

Our responsibility is to express an opinion on whether, during the period under examination, August to December 2009, there was reasonable assurance that there were no significant deficiencies in the systems and practices examined.

A plan for the examination, based on our survey of the CPP Investment Board's systems and practices, was submitted to the Audit Committee of the CPP Investment Board on August 12, 2009. The plan included the areas for detailed examination and examination criteria to be applied in the Special Examination. The criteria were selected specifically for this examination by our team, after consultation with the CPP Investment Board. They were selected based on our knowledge of and experience with the standards and practices followed by the CPP Investment Board and by other organizations, and by reference to legislative and regulatory requirements and to professional literature. These criteria are listed in Appendix A.

The plan also identified those systems and practices that we considered to be essential to providing the CPP Investment Board with reasonable assurance with respect to its assets being safeguarded and controlled, its resources being managed economically and efficiently, and its operations being carried out effectively. These systems and practices were selected for detailed examination. Other systems and practices of the CPP Investment Board, although covered in the survey, were excluded from detailed examination because our analysis of the significance and risks associated with them indicated that, during the period under examination, they were not critical to providing the CPP Investment Board with the reasonable assurance required by 39(1)(b) and 39(2)(a) and (c) of the CPP Investment Board Act.

Our examination was conducted in accordance with the plan, as well as auditing standards recommended by the Canadian Institute of Chartered Accountants. Accordingly, it included such tests and other procedures, as we considered necessary in the circumstances. In carrying out the Special Examination, we relied on internal audits conducted by the CPP Investment Board's Internal Auditors to the extent appropriate.

Context

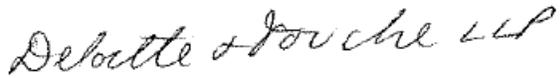
The CPP Investment Board administers the CPP Fund under a legislated mandate that directs it to achieve a *“maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canadian Pension Plan and the ability of the Canadian Pension Plan to meet its financial obligations.”* This focused mandate is a key performance driver for the organization as it provides clear guidelines for performance.

In December 2005 the CPP Investment Board chose to pursue a strategy of active investing and in April 2006 began implementing an explicit value-added investment strategy. As the organization continues to go through a period of significant change and growth, systems and practices are constantly evolving. As a result, establishing a strong organization culture dedicated to the guiding principles of integrity, partnership and high-performance has been a priority and significant emphasis has been placed on ensuring that employees understand and abide by these principles. Considerable effort has also gone into building and enhancing investment capabilities to support the use of more sophisticated products and investment strategies as well as an expanded geographic focus. This includes on-going efforts to establish the appropriate IT infrastructure to support the execution of the investment strategy which, given the complexity associated with the implementation, is taking a few years to complete.

The governance model of the CPP Investment Board has received recognition from global pension and policy sources as well as the International Monetary Fund and the Organisation for Economic Co-operation and Development. The CPP Investment Board has built on this model and has adopted a number of strong governance practices. As the organization continues to evolve and growth stabilizes, continued effort will need to be maintained to ensure the integrity of key systems and practices appropriate for the size and sophistication of the CPP Investment Board.

Opinion

In our opinion, with respect to the requirements of section 47 of the CPP Investment Board Act and the criteria applied, there is reasonable assurance that there are no significant deficiencies in the systems and practices.

A handwritten signature in cursive script that reads "Debatté & Jorche LLP".

Licensed Public Accountants

Toronto, Canada

December 31, 2009

Appendix A: Focus areas and examination criteria

Systems and practices examined and related examination criterion

Examination criterion, which relate to selected focus areas, define the standards against which systems and practices are assessed. They are expressed in terms of reasonable expectations for these systems and practices to achieve corporate results. The focus areas and examination criteria were selected specifically for this examination, in consultation with the CPP Investment Board.

A list of key area including the systems and practices which are considered essential to examine and the related criterion are included below:

| Area for detailed examination | Examination criteria |
|---|--|
| Managerial governance | <p>The interface between the Board of Directors and Senior Management enables effective oversight by the Board</p> <p>The organizational design aligns structure and accountabilities to support effective operations and facilitate the desired organization culture</p> <p>Management committees are formalized, have appropriate membership, and mandates are clearly articulated and communicated</p> <p>Roles and responsibilities, including delegation of authority, are clearly defined, documented and communicated</p> <p>The organization reports on and escalates breaches of management controls and compliance requirements to the appropriate level of the organization</p> <p>There is an effective planning and execution process to manage strategic risk as the organization evolves</p> <p>Stakeholder relations policies and practices are established and in place</p> |
| Investment decision making and monitoring | <p>Investment strategies, policies and guidelines are documented, communicated, aligned with the strategic direction of the organization, and monitored</p> <p>New activities and product due-diligence process is in place to identify and measure risk, both before investment programs are launched and on an ongoing basis.</p> <p>Processes and controls are in place to identify, conduct due-diligence, hire and monitor external managers</p> |
| Investment risk management | <p>Governance processes that support investment risk management are in place, appropriate for the organization and are scalable</p> <p>Investment risks are identified, assessed and managed</p> |

| Area for detailed examination | Examination criteria |
|-------------------------------|--|
| | <p>Processes/methods exist to measure, monitor and report risk in a timely, accurate, consistent and understandable manner, is reported to the appropriate levels within the organization</p> <p>There is a review and oversight of investment risk methodologies and models independent of the Investment departments and the Investment Planning Committee</p> <p>The organization has processes in place to monitor compliance with investment and related risk management policies</p> |
| HR processes and practices | <p>There is a well coordinated, enterprise HR strategy which identifies the necessary enabling resources to deliver on corporate objectives and is aligned with the strategic direction of the organization and considers efficiency and economy</p> <p>There are clearly defined recruitment strategies and supporting programs for appropriate hiring and on-boarding of talent</p> <p>There is an articulated talent management strategy and supporting processes that enable performance management, development and engagement of talent and enables the desired culture</p> <p>There is a transparent total compensation program that enables and supports the organization's business and investment strategy and does not promote undue risk taking</p> <p>There is a clearly defined succession planning process to address critical person / skill gaps including leadership, knowledge and relationships.</p> |
| Data and IT management | <p>There is a well coordinated, enterprise data and IT strategy which identifies the necessary resources to deliver on responsibilities and is aligned with the strategic direction of the organization</p> <p>Critical information systems that support the corporate mandate have the desired functionality, are available, protected, sustainable and scalable</p> <p>Processes and controls are in place to manage third party service providers</p> <p>There are processes in place to monitor and evaluate IT systems performance</p> <p>Data governance requirements have been identified and procedures exist to maintain the completeness, accuracy, availability and protection of critical data</p> <p>There is organizational capability (e.g. responsibilities, skills and methods) to manage transition and change</p> |



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