



# Canada Pension Plan Investment Board Special Examination Report



February 9, 2016

## Private and confidential

February 9, 2016

To:

The Minister of Finance, Canada  
The Minister of Finance, Newfoundland and Labrador  
The Minister of Finance, Prince Edward Island  
The Minister of Finance, Nova Scotia  
The Minister of Finance, New Brunswick  
The Minister of Finance, Ontario  
The Minister of Finance, Manitoba  
The Minister of Finance, Saskatchewan  
The Minister of Finance, Alberta  
The Minister of Finance, British Columbia

## Objectives, 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 CPP Investment Board. 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 CPP Investment Board and those of its subsidiaries are safeguarded and controlled;
- The financial, human and physical resources of CPP Investment Board and those of its subsidiaries are managed economically and efficiently; and,
- The operations of 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 2015 to December 2015), 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 CPP Investment Board's systems and practices, was submitted to the Audit Committee on August 12<sup>th</sup>, 2015. The plan included the criteria that we applied in the Special Examination, which were selected specifically by our team in consultation with CPP Investment Board. The criteria were based on our knowledge of and experience with the standards and practices followed by CPP Investment Board and by other organizations, and by reference to legislative and regulatory requirements and to professional literature. The criteria are listed in Appendix A.

The plan also identified those systems and practices that we considered to be essential to providing 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 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 CPP Investment Board with reasonable assurance required by 39(1)(b) and 39(2)(a) and (c) of the CPP Investment Board Act.

Our examination was made in accordance with the plan, as well as auditing standards, recommended by the Chartered Professional Accountants of Canada. 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 CPP Investment Board's Internal Audit function, as appropriate.

## Context

CPP Investment Board is a professional investment management organization that invests the assets of the Canada Pension Plan not currently needed to pay pension, disability and survivor benefits. Its purpose is to help provide a foundation on which Canadians build financial security in retirement. CPP Investment Board's legislated mandate is to maximize long-term investment returns without undue risk of loss, taking into account the factors that may affect the funding of the Canada Pension Plan and its ability to meet its financial obligations. This singular mandate drives CPP Investment Board's investment approach and its performance, and serves as a key metric to measure organizational success.

In pursuit of achieving its mandate, considerable effort was deployed in fiscal 2016, when CPP Investment Board evolved its investment framework to seek higher returns through a strong focus on total fund returns. The investment framework has two key components: first, prudently raising the long-term return-risk appetite; and second, an added emphasis on constructing a portfolio with optimal diversification in asset classes, geographies, currencies, active management strategies and underlying risk factors. The Board has approved a multi-year business plan that management has developed to implement the investment framework that recognizes that as a long-term investor, it can carry higher risk and invest in assets that are more volatile in the short-term in pursuit of higher returns over the long term.

During the period covered by the examination, we observed a number of established systems and practices which we consider foundational. We also noted that the organization was in the process of implementing the enhanced framework including governance and risk controls and a compensation program that align with the organization's long-term goals. As such, a number of systems and practices examined, including existing investment infrastructure and core services capabilities, were in the process of evolution to align with and support the new investment framework. This will be an important multi-year priority for the organization, underpinned by ongoing effort to maintain a strong corporate culture that is in place today which emphasizes a commitment to high ethical standards, accountability, transparency, and prudent risk management.

## Opinion

In our opinion, with respect to the criteria established, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the systems and practices examined.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
Date: December 31, 2015

# 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 CPP Investment Board.

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

Area for detailed examination	Examination criteria
Governance and Compliance	<ul style="list-style-type: none"> <li>• There are policies and practices in place that enable effective oversight by the Board of Directors.</li> <li>• Risk appetite is established, communicated and considers the organization's business strategy, capacity to bear risk and ability to manage risk.</li> <li>• There is an enterprise-wide risk management framework established to support the ongoing identification, assessment, management, monitoring and reporting of existing and emerging significant risks in accordance with established risk appetite.</li> <li>• There are legal and regulatory compliance management policies, processes and systems in place to support the organization's compliance with applicable legislative and regulatory requirements.</li> <li>• There are practices established to promote and sustain a culture that supports the achievement of the organization's mandate and business objectives.</li> <li>• There is a defined program established to manage public affairs and communications.</li> </ul>
Strategy and Planning	<ul style="list-style-type: none"> <li>• The organization's strategic direction is clearly defined and communicated, and is congruent with the organization's mandate.</li> <li>• There are processes in place to monitor progress against the objectives set out in the organization's strategic and business plans.</li> <li>• The organization design enables clear accountabilities and decision making processes and authorities to support effective operations and alignment to the organization's strategy.</li> </ul>

Area for detailed examination	Examination criteria
Investments, Risk Management and Operations	<ul style="list-style-type: none"> <li>• There are policies and practices in place to develop, execute and monitor investment strategies.</li> <li>• The investment decision making process and investment delegation of authority are clearly defined, documented and communicated.</li> <li>• The policies and practices for initiating new investment opportunities are consistent with the organization's strategy, risk and return objectives and expertise.</li> <li>• Processes and practices to support global investment programs are in place, appropriate and scalable for the organization.</li> <li>• There are processes and controls established to identify, conduct due-diligence, select and monitor investment partners.</li> <li>• There are processes and methods in place to measure, monitor and report investment risk in a timely, accurate, consistent and understandable manner and to the appropriate levels within the organization.</li> </ul>
Talent	<ul style="list-style-type: none"> <li>• There is a defined human resources/talent strategy that enables the organization to attract, recruit, engage, and retain top talent.</li> <li>• There is a succession planning process in place for executive and other business critical roles within the organization.</li> <li>• There is a defined performance management framework that integrates employees' individual and development objectives, learning and development, performance evaluation, and career development.</li> <li>• The total rewards program supports the organization's long-term strategic objectives and does not promote taking of undue risk.</li> </ul>
Information Technology (IT) and Infrastructure	<ul style="list-style-type: none"> <li>• There is a well-coordinated, enterprise information technology (IT) strategy which identifies the necessary resources to deliver on responsibilities and is aligned with the strategic direction of the organization.</li> <li>• There are processes in place to monitor and evaluate IT performance.</li> <li>• There is an enterprise data governance and management strategy that is aligned with the organization's strategic objectives.</li> <li>• There is a project management framework that guides governance, planning, execution and post-implementation review, supported by transparent and effective reporting.</li> <li>• There are processes and controls in place to protect critical data.</li> </ul>

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