

General Meeting

Annual Activity Report of the Audit Board for the 2021 financial year

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1 | Introduction

This Annual Activity Report of the Audit Board provides an overview of the Audit Board's activities, issues and related recommendations as well as information on the Audit Board's composition, responsibilities and how they were discharged. The report is prepared in accordance with Article 7 of the Audit Board Charter of the European Investment Fund ("EIF" or "Fund") and shall be addressed to the Annual General Meeting ("AGM") in accordance with Article 18 of the Rules of Procedure.

This report relates to the Audit Board's activity and the situation of the EIF over 2021. To the extent relevant, it reflects information made available to the Audit Board until 8 March 2022, including as regards developments up to such date, with a view to presenting a comprehensive 2021 overview and a forward-looking outlook for 2022.

The Audit Board has provided its opinion on the EIF financial statements for the financial year 2021 in a separate statement contained in the EIF's 2021 Annual Report.

2 | EIB Group considerations

The Audit Board continues to support efforts that are made to strengthen efficiency, consistency and collaboration across the Group, especially when the need for overarching Group policies is recognised. More generally, the Audit Board recognises the need for a comprehensive reflection on desired Group mechanisms and welcomes initiatives to that effect.

The Audit Board considers the Group Alignment Implementation Plan (GAIP) launched in 2021 to be of major importance as it provides a Group-wide holistic and coordinated approach across the areas of (i) accountability, decision-making, financial autonomy and financial resources, (ii) strategy and business models and (iii) best practices and efficiency. In this context, the Audit Board emphasizes the need to implement comprehensive solutions for an efficient sharing of data within the Group.

The Audit Board was satisfied with the continued structuring of a Group approach to Risk Management, noting that the solutions identified furthered risk consolidation while respecting EIF's governance framework. Equally, the Audit Board valued the deepening cooperation and exchange with the EIB's Audit Committee throughout 2021.

2.1 | Cooperation with the EIB's Audit Committee

The Audit Board and the Audit Committee intensified their cooperation in 2021, meeting on four occasions, where they exchanged views on new matters relevant to the Audit Board and the Audit Committee, with a focus on:

- key considerations raised by external auditors with relevance to EIF and EIB Group consolidated accounts;
- Internal Audit reports issued at Group level or with Group relevance;
- the Group's IT strategy, cloud outsourcing and IT security;
- progress on the EIB Review and Evaluation Process (REP) and the role of the Audit Board from the Group perspective.

On IT security matters, a sub-group of members of the Audit Committee and the Audit Board was formed to maintain focused oversight on matters of Group relevance.

The Audit Board is firmly committed to a strong cooperation with the EIB's Audit Committee through collaboration and coordination on matters of Group relevance. The Audit Board notes the importance of a balanced Group approach, combining regulatory and supervisory needs resulting from risk and capital consolidation at Group level under the general purview of the Audit Committee and accountabilities deriving from each institution's governance frameworks and business models.

The Audit Board looks forward to intensifying the fruitful exchanges with the Audit Committee in 2022, as part of a general strengthening of frameworks for the sharing of information within the EIB Group.

2.2 | Group risk management

The Audit Board implemented quarterly private sessions with the Group Chief Risk Officer (GCRO) and held a number of additional exchanges across meetings in 2021 with a view to ensuring good intra-Group cooperation and a consistent Group-level view of risks.

The Audit Board appreciated the constructive role played by the GCRO in maintaining coherence in risk management oversight across the Group and the GCRO's efficient interaction with EIF's Risk Management function, including in the context of the action plan put in place in early 2022 aiming at comprehensively addressing identified areas for improvement.

The Audit Board commends the progressive build-up of a robust Group risk architecture under the Group Risk Management Charter (GRMC), including through the adoption in 2021 of:

- GRMC Implementing Procedures which further define the interaction between EIB and EIF as to risk management;
- the Group Risk Appetite Framework (Group RAF);
- the Group Internal Capital Adequacy Assessment Process (ICAAP);
- the Group Internal Audit Charter, establishing the roles of the EIB's and EIF's audit bodies in their interaction with Internal Audit.

3 | Review of audit work performed

3.1 | External audit

3.1.1 | Review of work of external auditor

In accordance with Article 6.4 of the Audit Board Charter, it is the Audit Board's responsibility to review the external auditor's performance as well as to review and confirm their independence by obtaining statements on their relations to the EIF and discussing such relations.

As stated in KPMG's executive summary memorandum presented to the Audit Board in February 2022, and as also stated in the Independent Auditor's Report included in the EIF's Annual Report 2021, the Audit Board received confirmation from KPMG of its independence.

With respect to non-audit related services provided by KPMG, the Audit Board has received confirmation that no such services which could compromise KPMG's independence were provided to the EIF during the period under review. The Audit Board requests that a systematic process be introduced to identify and report potential threats to external auditors' independence that could result from such assignments, so that these instances can be assessed in-time by the Audit Board.

Going forward, the Audit Board recommends an enhancement of the exchanges of the Chief Executive and the Deputy Chief Executive (together “Executive Management”) and Internal Audit with the external auditors, with a view of ensuring an optimal coverage of relevant risks and adequate implementation of actions.

3.1.2 | Audit of the annual financial statements

Under the mandate given by the Audit Board, KPMG has audited the 2021 financial statements of the EIF, which comprise the statement of financial position and the statement of comprehensive income as at 31 December 2021, the statement of changes in equity, the cash flow statement for 2021, and a summary of significant accounting policies and other explanatory information.

As confirmed in the Independent Auditor's Report included in the EIF's Annual Report 2021, KPMG considers that the audit evidence they have obtained is sufficient and appropriate to provide a basis for their audit opinion. In their opinion, the financial statements give a true and fair view of the EIF's financial position as at 31 December 2021, and of its financial performance and cash flows for the financial year 2021, in accordance with International Financial Reporting Standards as adopted by the European Union.

During the course of the year, the Audit Board held regular meetings with KPMG, receiving updates with regard to the audit approach, audit progress and developments. The Audit Board used these meetings to review KPMG's work and to satisfy itself that the audit approach was appropriate. In addition, several private sessions between the Audit Board and the KPMG Partner in charge of the EIF audit took place. The Audit Board monitored the external audit process to ensure it is performed in accordance with the plan.

In the context of the EIB Group consolidated financial statements, the KPMG EIF team and the KPMG EIB team provided the Audit Board and the Audit Committee with a status update on the EIF, EIB and EIB Group financial statements in January 2022.

In February and March 2022, the Audit Board held discussions with KPMG on their 2021 Management Letter, for which the final version will be received prior to the AGM 2022. The Audit Board notes the observations made by KPMG in their Management Letter both as regards new observations relating to 2021 as well as on the follow-up of still outstanding observations relating to 2020.

In this context, the Audit Board underlines the importance of addressing observations raised without undue delay, in particular where these are recurrent or outstanding over successive financial years, and requests that, going forward, no observation relating to a particular financial year shall remain unaddressed beyond the following financial year. The Audit Board will continue to closely monitor the implementation of the Management Letter recommendations.

3.2 | Internal Audit

Internal audit services continued to be outsourced to the EIB in 2021. The role of Internal Audit (IA) is to provide EIF's management with independent, objective assurances, analyses, agreed action plans or recommendations, as appropriate, with a view to adding value and improving, where necessary, the effectiveness of the EIF's operations, governance, risk management, and control processes. Its work also underpins the statement by Executive Management on the design and effectiveness of internal controls, risk management and administration.

The Audit Board was particularly appreciative of the high quality of service delivered by Internal Audit throughout 2021, taking into consideration the high volume of audits that Internal Audit had to perform, at both EIB Group level and on an EIF standalone basis.

In December 2021, the Audit Board approved the EIF Internal Audit plan for 2022, which is based on a combined audit universe (EIB Group and EIF standalone audit units) and risk-assessed throughout the year. In addition to the role of Internal Audit under its assurance objective, going forward, in view of the maturity of the function and its extensive knowledge and expertise, the Audit Board encourages the use of Internal Audit to provide advice for improvements to processes and risk management that will advance the goals and

objectives of the EIF and the EIB Group (advisory objective), without prejudice to the required coverage of high risks and Internal Audit follow-up action on overdue recommendations.

Following the endorsement by the Audit Board and the EIB Audit Committee in 2020, the Audit Board was pleased to see in 2021 the approval and the implementation of the first EIB Group Internal Audit Charter, noting the importance of the joint Charter to formalise the framework relevant to Group-level audit activities and related information sharing.

The Institute of Internal Auditors ("IIA") Standards¹ require that the Internal Audit function undergoes an internal Quality Assurance Review ("QAR") on a regular basis, adopted by Internal Audit on an annual basis, and an external QAR at least every five years. For 2021, an internal QAR was performed by a senior EIB member of staff external to Internal Audit but closely familiar with the works and methodologies of Internal Audit. The QAR was presented to the Audit Board in February 2022. The report concluded that, within the scope of the 2021 QAR, Internal Audit "generally conforms"² to the selected IIA Standards and there were no standards to which Internal Audit "does not conform". Whilst the report identified that some strategic and operational improvements could be achieved, the Audit Board was pleased to note the overall positive results.

3.2.1 | Internal Audit reports and assessment of Internal Audit work

Internal Audit provided the Audit Board with audit reports throughout 2021.

The Internal Audit Activity Report 2021 was issued in February 2022 and has been taken into consideration in preparing the present report. For this purpose, the Audit Board also noted:

- (i) the declaration of independence from the Head of Internal Audit³,
- (ii) the matters identified across 21 audit reports issued by Internal Audit in 2021, 17 of which were joint EIB Group audits, and
- (iii) the information collected through dedicated discussions on such reports in the presence of Internal Audit and the relevant EIF services. These exchanges also included the Audit Committee and EIB services in the case of Group reports.

Overall, the Audit Board notes the conclusion by IA that :

- (i) based on the audit work performed, the control objectives in the audited areas were achieved and the related internal controls were operating effectively at the date of issuance of the respective IA reports, except for the audit findings and Agreed Action Plans raised in the reports,
- (ii) it considers that the internal controls in the audited areas, as described in the 2021 Risk Control Matrix, to be designed and operating effectively, having regard to the nature and scale of the EIF's business, except for the matters described as agreed improvements in the 2021 Risk Control Matrix, the ISAE 3402 type 2 report or in IA reports, and
- (iii) on the basis of the abovementioned audit work, and except for the matters raised by IA, nothing came to the attention of IA that causes IA to believe that the EIF Chief Executive's assertion of reasonable assurance over the effectiveness of the internal controls during the period from 1 January 2021 to 31 December 2021 is not fairly stated.

The Audit Board is however concerned with IA's observation that risk management activities and EIF's IT and data governance framework are two key thematic areas with significant deficiencies.

The Audit Board requests that regular oversight is exercised by Executive Management, that sufficient resources are dedicated to addressing the issues identified by IA and to the closure of related Agreed Action

¹ Standard 1300 – Quality Assurance and Improvement Program.

² The confirmation of 'general conformity' is the highest possible rating under relevant IIA Standards.

³ In accordance with the International Professional Practices Framework, issued by the Institute of Internal Auditors, Standard 1110 – "Organisational Independence".

