

# General Meeting

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## *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 Boards 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") Standards<sup>1</sup> 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"<sup>2</sup> 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 Audit<sup>3</sup>,
- (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

<sup>1</sup> Standard 1300 – Quality Assurance and Improvement Program.

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

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

Plans and that formalised, holistic remediation plans in particular in these areas are duly pursued (see also Sections 4 and 5 below).

The Audit Board underlines that action undertaken to address Agreed Action Points should not limit itself to the design of measures, but also encompass their adequate implementation and testing, with a view to ensuring an optimal coverage of risks and avoid that relevant findings are recurrent.

### 3.2.2 | Status review of Audit Recommendations and AAPs

Recommendations from Internal Audit are recorded as Agreed Action Plans (AAPs), classified as "high", "medium" or "low" risk, and with target dates that are defined in consultation with the EIF Executive Management and the EIF services concerned. The follow-up and monitoring of control issues and their corrective actions is a fundamental part of the audit cycle. The recommendations issued by the external auditors are followed separately and are not part of Internal Audit's implementation performance statistics.

On the basis of quarterly Internal Audit updates, the Audit Board reviews the status of audit recommendations. The Audit Board noted a closure rate for IA-issued AAPs varying between 56% and 64% throughout 2021, settling at 63% on 31 December 2021, a value close but still below the IA-set Key Performance Indicator of 65%. The Audit Board appreciated the overall efforts undertaken to address recommendations of Internal Audit with 99 AAPs closed in 2021, as compared to 105 new AAPs issued. Overall, there were 80 outstanding AAPs at year end 2021 (19 high / 55 medium / 6 low risk).

The Audit Board expresses, however, its concern with the high number of AAPs that have not been implemented within the set deadlines (26 AAPs overdue as at end-2021) with certain items overdue by several years. Furthermore, the Audit Board is critical of the fact that, albeit improved in Q3 2021, the average lead-time to closure of an AAP remained high at 283 days.

The Audit Board hence strongly recommends sustained executive management attention throughout 2022 and beyond for the closure of outstanding points, with a focus on high-risk and/or overdue items, and the cultivation of a genuine and widespread managerial culture of rapidly and comprehensively addressing risks identified.

#### High risk AAPs open as at 31 December 2021

EIF Internal Audit reports	AAPs
Guarantee calls	2
Implementation of the RM function (Governance)	5
Implementation of the RM function (Governance) - Corporate Risk Management	1
New Mandate Acceptance	2
Securitisation / Credit Enhancement	2
<b>Total</b>	<b>12</b>

Group Internal Audit reports	AAPs
Cloud outsourcing to service providers	4
Conflicts of Interest	1
IT Governance and strategy	2
<b>Total</b>	<b>7</b>

In this respect, taking note of elements made available to the Audit Board post-2021, the Audit Board welcomes the development, in early 2022, and in line with its recommendation during the year, of a dedicated tracking tool within the EIF Secretariat General, which centralises EIF services' input as to action plans for closure, interim risk-mitigants and anticipation of deadlines and provides executive management a weekly overview on implementation. Initial results demonstrate an improvement in the key indicator of AAPs being overdue as well as an appreciable number of points being closed. The Audit Board requests that this effort be maintained, and coordinated with relevant functions as applicable.

In addition, in order to ensure an adequate oversight going forward, the Audit Board requests the implementation of an escalation process covering high risk Agreed Action Points overdue by more than six months, whereby such cases are promptly brought to the attention of the Audit Board with the presence of responsible Services and Internal Audit.

## 4 | Controls

### 4.1 | Internal Control Framework

The EIF maintains an Internal Control Framework (ICF), which relies, in particular, on a risk control matrix outlining the main risks to which the EIF is exposed. On that basis, there can be an assessment of the internal control processes to ensure that risks are mitigated to an acceptable level. On a quarterly basis, the Audit Board received updates on operational risk management and internal controls.

In February 2022, the annual ICF update was presented to the Audit Board, in conjunction with the below-referenced opinion based on ISAE 3402 type 2 report, which covers the EIF's mandate management services and includes an independent opinion from KPMG on the design and effectiveness of the controls in place. The ICF report includes the main outstanding agreed risk-mitigating actions and the representation letter from the Chief Executive, stating that the identification of risks related to the EIF's business activities and the establishment of control objectives and measures for the mitigation of significant risks were, to the best of the Chief Executive's knowledge and judgement, operating effectively throughout 2021, except for the elements identified in the report.

In addition, in February 2021, Internal Audit provided an opinion on the design, implementation and operating effectiveness of the internal controls relevant to the areas which, in line with the Internal Audit Plan, were audited during the period.

Lastly, in March 2022, the Audit Board completed its annual assessment of the EIF's internal control and compliance monitoring effectiveness, framed by the Financial Reporting Council Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

While the Audit Board is satisfied with the observation by Internal Audit of significant enhancements in 2021, in terms of the quality of the EIF Risk Control Matrix, including its alignment with EIF's procedural framework, the Audit Board shared IA's assessment that urgent improvements to the Internal Control Framework process are needed, in order to maintain the benefits of the enhanced Risk Control Matrix.

The Audit Board critically notes that a high-risk finding and corresponding recommendation to this effect issued by Internal Audit in late 2020, and which was expected to be closed by February 2021, remained outstanding and overdue as of end-2021 with an earliest expected timeline for closure not before 30 June 2022<sup>4</sup>. The reasons indicated for the delay (mainly resource constraints) denote a lack of executive attention to addressing the risks identified.

In a supplemental statement issued to the Audit Board in February 2022, the Chief Executive provided an explanation for the fact that certain issues with EIF systems had been identified since 2020, that certain mitigating actions had been taken, albeit in a difficult context of the COVID-19 pandemic where EIF's focus turned to the delivery of an increased operational plan, and that a commitment is made to address the issues identified in a systematic way throughout 2022. Furthermore, an Action Plan under the oversight of the Group Chief Risk Officer has been devised, aiming at addressing in a coordinated manner identified deficiencies affecting the Internal Control Framework.

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<sup>4</sup> The IA recommendation was itself preceded by an earlier EIF-internal commitment approved by Executive Management to strengthen the ICF process by end-2020.

Taking note of these commitments, the Audit Board strongly recommends that the implementation of an ICF Policy and reinforcement of EIF's internal control functions, including regular maintenance of the Risk Control Matrix during the year, a robust notification/escalation process of issues identified and the sample testing of key controls following a risk-based approach, must constitute an urgent priority for 2022. In this context, a general review of the current ICF design should be considered, including as to the reflection of a three-lines-of-defence model, and a more actionable definition and number of control items.

## 4.2 | ISAE 3402 type 2 report

As mentioned above, the ICF is complemented with an external audit opinion on the design and operating effectiveness of the EIF's mandate management services related to equity, guarantee, securitisation and inclusive finance transactions, which also includes the related payment and information technology aspects<sup>5</sup>.

The 2021 opinion was addressed to the Audit Board by KPMG in February 2022, and established in line with the internationally recognised ISAE 3402 standard (type 2 report). It stated KPMG's opinion that, in all material respects, throughout the period from 1 January 2021 to 31 December 2021 and based on the relevant information provided by the EIF:

- the description fairly presented the system for the EIF's mandate management services that was designed and implemented;
- the controls related to the control objectives stated in the description were suitably designed; and
- the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively.

On the basis of individual confirmation letters received from the relevant EIF services, the report also incorporated a statement, co-signed by the Chief Executive and the Deputy Chief Executive, to confirm, to the best of their knowledge and belief, the description, design and operating effectiveness of the EIF's mandate management services.

The Audit Board underlines that a swift implementation of recommendations arising in the context of the ISAE 3402 report is needed, and should be seen in connection with the ICF actions referred to above.

# 5 | Risk Management & Compliance

## 5.1 | EIF Risk Management

2021 was a particularly challenging year for EIF, as demands were high in a context which included exceptional business volumes and important governance-related and reporting developments.

At the same time, deficiencies have been identified in the organisation, governance, monitoring and management of risks at the second line of defence within EIF as was also noted through successive Internal Audit findings. EIF Risk Management (RM) continued to suffer from under-investment throughout 2021. In addition to the aforementioned need to strengthen the ICF process and the need to define the role of Risk Management as part of a comprehensive three-lines-of-defence model for the entire EIF, progress was slower than expected in several RM-relevant areas, as further set out below.

A key concern in this respect, remains the still-lagging adequate staffing and structuring of the EIF Risk Management function in order to face the numerous challenges. In this context, the Audit Board provided its observations on the concerted action plan devised in early 2022 under the oversight of the Group Chief Risk

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<sup>5</sup> The report does not encompass an opinion on the control objectives and related controls of subservice organisations related to system and software providers.

Officer, aiming at reinforcing Risk Management and systematically addressing identified deficiencies. Reinforcement of control and coordination functions across the EIF (also beyond RM) must be comprehensive and concerted so as to avoid the emergence of new risks resulting from sudden staff reallocations.

The Audit Board notes initial results in early 2022 under the aforementioned action plan, including the closure of certain RM-related audit points and the approval by the EIF Board of an updated EIF Risk Management Charter. Adequate implementation of the aforementioned action plan will remain a key subject of oversight by the Audit Board in 2022. In this context, the Audit Board calls for the implementation of a robust three-lines-of-defence model, including efficient processes for the identification of risks within the first line of defence.

## 5.2 | Capital management

Following authorisation of the capital increase by the General Meeting in January 2021, the capital subscription period opened on 15 February 2021 and closed on 30 September 2021. The Audit Board followed-up the developments on the capital increase and was pleased to note that the shareholders showed strong demand in subscribing to new shares.

In addition, the Audit Board notes that, in accordance with the EIF's statutory obligations and in the context of relevant best practice frameworks and Group-related consolidation requirements, the EIF completed an Internal Capital Adequacy Assessment Process (ICAAP) report in May 2021, which formed part of the Group ICAAP, and an EIF Internal Liquidity Adequacy Assessment Process (ILAAP) report, finalised in April 2021, itself incorporated into the Group ILAAP.

## 5.3 | Transaction and portfolio risk

The continuously high level of business volumes determined key challenges to the workload in the Transaction and Portfolio Risk team. The Audit Board received, as usual, six-monthly risk reports providing analysis across the equity, credit and treasury portfolios as well as results on the annual stress-testing exercise which has been carried out together with the Group Chief Risk Officer, at individual and Group level, in order to assess the expected impact of the COVID-19 crisis on portfolio performance and the evolution of credit metrics.

Drawing on findings by Internal Audit, external auditors and its own conclusions, the Audit Board notes that significant executive attention is needed for the design, validation, implementation and back-testing of transaction and portfolio models and related processes and procedures. Notably in the areas of securitisation transactions and equity investments (including under the InnovFin SME VC Facility), progress has been slow and swift action is needed in 2022 to conclusively address action points that have been identified since early 2021 but which remain outstanding. The Audit Board welcomes the inclusion of these priorities in the action plan referred to in Section 5.1 above.

## 5.4 | Compliance & Corporate Risk Management

### 5.4.1 | Best practices

Article 2(3) of the Statutes provides that the activities of the EIF shall be based on sound banking principles or other sound commercial principles and practices as applicable. Accordingly, the EIF applies a Best Market Practices ("BMP") Framework calibrated on the basis of the EIF's business activity being assessed as substantially commensurate to that of an investment firm and asset manager in the meaning of the relevant regulatory principles under EU law. BMP are defined as rules, regulations and market practices and standards recognised as relevant and, as the case may be, applicable to the EIF (in full or part), taking into account its status, mission and business activities.

Furthermore, pursuant to the EIB Best Banking Practices (“BBP”) Guiding Principles, the EIB assesses and determines which best banking regulatory requirements apply to the EIB for the purposes of financial and risk consolidation and, when identified by the EIB’s Watch Team for as relevant to the EIF, the corresponding BBP are also implemented by the EIF, in accordance with its internal procedures.

The Audit Board notes that during 2021, no significant progress was achieved in the relevance and applicability assessment of BMPs and BBPs, despite prior commitments to this effect. The Audit Board emphasizes the need to swiftly and conclusively conclude this phase, including in cooperation with the EIB as also identified in the action plan for RM, so as to then proceed with the assessment of potential compliance gaps and their remediation in the course of 2022. To this end, the Audit Board calls for an adequate resourcing of relevant functions across the EIF.

### 5.4.2 | Additional compliance matters

EIF Compliance assesses, in line with best market practices and in line with the EIB Group’s policy framework, the (i) institutional, (ii) transactional and (iii) ethical aspects of the EIF’s compliance risk.

The Audit Board received updates from Compliance in connection with each meeting in 2021, including a number of private sessions, as deemed necessary, with the Chief Compliance Officer. The regular updates allowed the Audit Board to closely follow the implementation and closure of AAPs, notably those remaining from previous years, such as in relation to Market Abuse control framework and AML-CFT procedural enhancements.

The Audit Board also provided input on Compliance on other important matters, as such:

- the Compliance streamlined approach for COVID-19 transactions;
- the 2021 EIF Compliance Risk Assessment Report;
- the development of a new declaration form for EIF staff acting on EIF-advised Fund-of-Fund governing bodies;
- the newly developed Group Politically Exposed Person (PEP) questionnaire, which was expected to be in use as of beginning of 2022;
- the collaboration procedures in place with the EIB on various Compliance matters.

For 2022, the Audit Board requests Executive Management’s and EIF Compliance’s attention in particular on matters of conflicts of interest, where an update of the procedural framework is required and a sharp review of potential situations of conflict at the interface between EIF’s services and underlying investment schemes.

### 5.4.3 | Operational Risk

The Audit Board monitored the open significant Operational Risk Events and Operational Risk Alerts on potential procedural failures. In the context of developing EIF’s risk culture, the Audit Board underlines the need to sharpen executive and managerial focus on swiftly remedying identified risks.

In July 2021, the EIB Group Operational Risk Policy was approved by the EIF Board of Directors, followed by a discussion at the joint Audit Board – Audit Committee meeting of September 2021.

## 5.5 | Information security

The Audit Board had exchanges with the EIF’s Information Security Officer (ISO) on a regular basis. The main goal was to identify opportunities for strengthening the Group-wide information security measures while using a cloud software and cyber-security and the use of End-User Computers (EUC) tools.

The Audit Board also requested regular updates on the implementation of AAPs derived from the two EIB Group audits in the area of IT Security and IT strategy performed in 2021, while members of the Audit Board and Audit Committee coordinated their review of cybersecurity matters, via quarterly meetings with EIB and EIF Services.

The Audit Board notes an improving reactivity of services in addressing certain security considerations that arose from identified external threats but recommends to systematize and sustain EIF-wide efforts relating to information and IT security so as to anticipate and prevent threats (notably as regards cloud-based systems).

Moreover, IT security efforts in particular and the digital ambition strategy more generally, must be closely coordinated with EIB counterparts so as to ensure that risks and solutions are adequately addressed at Group level. In this context, the Audit Board welcomes the adoption of a Group Digital Ambition & IT Strategy Roadmap and looks forward to close interaction with the Group Chief Digital Officer once appointed.

## 6 | Additional assurances and supporting information

### 6.1 | Intra-Group Service Level Agreements

A Service Level Agreement and a Treasury Management Agreement between the EIB and the EIF govern the provision of certain services by the EIB to the EIF.

In two separate annual assurance letters, dated 8 February 2022 for the Service Level Agreement and 19 January 2022 for the Treasury Management Agreement, the EIB confirmed that the defined services carried out on behalf of the EIF for the accounting year 2021 had been executed in line with the respective agreements.

These letters support Executive Management's representation letter to the Audit Board.

### 6.2 | Investigations

The Audit Board held quarterly meetings with the EIB's Inspector General and the Head of Investigations on the status of ongoing investigations, including an assessment whether the EIF is exposed to reputational risk or financial losses. The Audit Board also received the Fraud Investigations annual activity report prior to its publication. The Audit Board and the Inspector General also discussed the cooperation with the European Public Prosecutor's Office and respective expectations laid on the EIB Group.

### 6.3 | Evaluations

The Audit Board held quarterly meetings with the EIB's Inspector General and the Head of Operations Evaluation on the Operations Evaluation annual activity report and the work programme for the following three-year period, as well as on the end of year report on the implementation of Evaluation recommendations.

In 2021, the Audit Board also held an annual private session with the EIB's Inspector General.

## 7 | European Court of Auditors

The EIF, the European Court of Auditors ("ECA") and the European Commission are parties to the Tripartite Agreement governing the procedures for the audit by the ECA of the value of the European Union's subscription to the capital of the EIF. No audit in cooperation with the ECA was carried out under the Tripartite Agreement in the course of the year. The annual meeting between the Audit Board and ECA was postponed to H1 2022.

## 8 | Audit Board activity and confirmations

### 8.1 | Responsibilities and activity

The **Statutes of the EIF** define the responsibilities of the Audit Board as follows:

#### Article 22

1. *The accounts of the Fund shall be audited annually by an Audit Board consisting of three auditors appointed by the General Meeting. The General Meeting may decide to increase the number of auditors to a maximum of five. Nominations shall be made in accordance with the terms laid down in the Rules of Procedure.*
2. *The members of the Audit Board shall act in accordance with the customary standards of their profession. The Audit Board shall confirm that the balance sheet and profit and loss account of the Fund give a true and fair view of the financial position of the Fund in respect of its assets and liabilities, and of the results of its operations for the financial year under review.*

Article 17 and, in particular, Article 18 of the EIF's **Rules of Procedure** elaborate further on the Audit Board's remit and exercise of its responsibilities, including as concerns receiving assurances on the effectiveness of the internal control, risk management and internal administrative processes:

#### Article 17

*The Audit Board, having satisfied itself that the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure, shall annually confirm that the balance sheet and profit and loss account contained in the annual report to be submitted by the Board of Directors to the General Meeting give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review.*

#### Article 18

1. *At the end of each financial year but not later than 1 March of the following year, the Audit Board shall receive copies of the draft annual report and the draft balance sheet and profit and loss account as well as any other document or information necessary or useful for the evaluation of the Fund's financial position or results. Within thirty days of receiving these documents, the Audit Board, having received assurance from the Chief Executive in particular concerning the effectiveness of the internal control systems, risk management and internal administration, shall forward to the Chairman of the General Meeting of the Fund a statement confirming that to the best of its knowledge and judgement:*
  - i. *the operations of the Fund have been carried out in compliance with the Statutes and the Rules of Procedure; and*
  - ii. *the balance sheet and profit and loss account give a true and fair view of the financial position of the Fund as regards its assets and liabilities and of the results of its operations.*

2. *Should the Audit Board consider that it is unable to deliver the foregoing, it must deliver to the Chairman of the General Meeting of the Fund within the same time limit a written statement setting out the reasons.*
3. *The Audit Board shall address to the General Meeting a report on the results of its work during the preceding financial year.*
4. *The Audit Board's statement and the report on the result of its work shall be annexed to the annual report submitted by the Board of Directors to the General Meeting.*
5. *The Audit Board shall hold a meeting at least once a year with the Board of Directors and the Chief Executive in order to discuss the results of its work during the preceding financial year as well as its work programme for the current financial year.*

As continued in Article 19, the Audit Board may have recourse to external auditors, as is the case for the audit of the EIF's financial statements, as further developed in sections 4 and 6. The Audit Board also relies on internal audit work – which is outsourced to the EIB Internal Audit Department ("Internal Audit") under an EIB Group Framework Agreement – Risk Management and Compliance.

#### Article 19

1. *The members of the Audit Board and the alternate member shall have access to all the books and accounts of the Fund and may request access to any other documents, which they deem necessary or useful to examine in the discharge of their duties. The services of the Fund shall be at their disposal for any assistance.*
2. *The Audit Board may have recourse to external auditors, which it shall designate after consultation with the Chief Executive and the Board of Directors. It may delegate the regular conduct of the audit of the Fund's financial statements to such designated external auditors. It may also, if necessary, collaborate with other experts.*
3. *The Audit Board shall also review each year the work programme, the scope and the results of EIF's internal audit. It shall ensure that there is adequate co-ordination between the internal and external auditors.*
4. *The members of the Audit Board and the alternate member shall not disclose any information or data coming to their knowledge in the course of their duties to persons or bodies outside the Fund, save for any information transmitted by the Audit Board, for the purpose of exchanges required with members of the Fund and their corporate bodies.*

In 2021, due to the ongoing circumstances associated with the COVID-19 pandemic, and in accordance with Article 5.1 of the Audit Board Charter, the vast majority of meetings and additional discussions of the Audit Board took place in a teleconferencing format.

## 8.2 | Audit Board composition

The members and alternate member of the Audit Board are each appointed for a term of office of three years, which may be renewed.

The Chair of the Audit Board since the AGM on 21 April 2021 is Mr. Sergio SIERRA, Head of Funding and Treasury at Instituto de Crédito Oficial (ICO), Spain. Mr. SIERRA's mandate concludes at the AGM in April 2022.

At the 2021 AGM, on the basis of the proposal made by the European Commission ("EC"), the General Meeting re-appointed Ms. Georgiana VAN ROMPUY, Internal Auditor in the EC's Internal Audit Service, Belgium, as member of the Audit Board. The third Audit Board member is Mr. Jacek DOMINIK, General Counsel, Ministry of Finance, Poland; the alternate member is Mr. José Manuel PACHO SANCHEZ, Director-General for Corporate Resources, ICO, Spain.

## 8.3 | Audit Board approach

In order to comply with its aforementioned mandate during the period under consideration, and as developed in later sections, the Audit Board relied on a range of reports, information updates, presentations and assurances, as received in connection with the Audit Board's formal meetings and additional conference calls which took place between the 2021 AGM and the Audit Board's sign-off on the financial statements on 7 March 2022.

## 8.4 | Evaluation of the Fund's financial results

Relevant sources of information and assessment in the course of the year included:

- the accounting judgements made by Executive Management, as reviewed and discussed by the Audit Board with Executive Management and KPMG Luxembourg (“KPMG”), designated by the Audit Board as external auditor of the EIF to audit the annual financial statements;
- the Audit Board's review of the appropriateness of the audit approach adopted by KPMG; and
- KPMG's unqualified Audit Opinion and Management Letter on the EIF financial statements.

## 8.5 | Compliance of the EIF's operations with the Statutes and Rules of Procedure

Information relevant to the Audit Board's assessment of whether the operations of the Fund have been carried out in compliance with the EIF's statutory framework includes:

- minutes of the meetings and decisions of the Board of Directors and of the General Meeting;
- reporting by EIF functions, notably Risk Management, Compliance and Operational Risk;
- the Compliance Annual Report 2021;
- Executive Management's written assurance on the adequacy of the EIF's internal control system, which is included as part of the Internal Control Framework ("ICF");
- Internal Audit reports, including quarterly reports and the Annual Report;
- Internal Audit's annual opinion on controls in place; and
- the confirmations received from the EIB that services carried out by the EIB on behalf of the EIF were executed in line with the relevant agreements.

On the basis of its annual work plan, the Audit Board also received regular updates from relevant EIF services on the EIF's operational, strategic and policy-related environment.

## 8.6 | Meeting with the Board of Directors

Pursuant to Article 18(5) of the Rules of Procedure, the Audit Board is to meet the Board of Directors and the Chief Executive at least once a year to discuss the results of its work during the preceding financial year as well as its work programme for the current financial year.

In that context, the Audit Board and the Board of Directors held a meeting via teleconference in May 2021, allowing for an exchange on different developments and areas of focus, including the EIB Group Alignment Implementation Plan and the EIB Review and Evaluation Process. In addition, in March 2022, the Audit Board and the Board of Directors exchanged views over the actions necessary to address risks and challenges identified throughout the financial year.

## 8.7 | Self-assessment

In accordance with Article 7 of the Audit Board Charter, the Audit Board evaluated its performance in 2021 by a self-assessment, carried out prior to the AGM 2022, in order to confirm that all responsibilities defined in the Audit Board Charter had been duly fulfilled.

## 8.8 | Audit Board's confirmation and observation

The Audit Board hereby confirms that, on the basis of (i) the audit work carried out, (ii) the unqualified audit opinion given by KPMG, (iii) the assurance statement provided by EIF Executive Management and (iv) the reporting received from the EIF's control functions, to the best of its knowledge and judgement:

- the operations of the EIF have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure; and
- the 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 and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, give a true and fair view of the financial position of the EIF as regards to its assets and liabilities, and of the results of its operations for the financial year under review.

In conjunction with the elements raised in this report, the Audit Board further requests that appropriate action be taken by Executive Management to promptly and conclusively address identified issues, not least where they have a bearing on the assurances received by the Audit Board.

# 9 | Areas of focus for 2022

The Audit Board will have a particular oversight focus in the following areas, for which an enhanced Executive Management commitment is advised:

- improvements in the overall effectiveness of the EIF's Risk Management & Compliance function, notably in line with Internal Audit recommendations that relate to the necessary strengthening of the EIF's 2<sup>nd</sup> line of defence;
- implementation of a long-term business-driven IT strategy for EIF and coherence at EIB Group level, approach to the use of cloud applications and compliance with the applicable security policies;
- substantial advance in the BMP/BBP project in close coordination with EIB;
- executive attention to timely addressing of internal and external audit recommendations, including escalation of long overdue high risks findings to the Audit Board;
- continued progress across GAIP projects and additional Group structuring initiatives towards increased Group synergies.

The Audit Board will further place additional focus on:

- overseeing the implementation of reporting over the achievement of EU policy objectives, notably in terms of disclosures, controls, processes, and assurance;
- continuing and strengthening the collegial approach to the cooperation and exchange with the Audit Committee;
- continuing its oversight on cybersecurity aspects, Group IT strategy and policies;
- reviewing the crisis mechanisms, to ensure an appropriate response to future emergency needs;
- the design and implementation of the REP Process as it is extended to the subsidiary.