

General Meeting

Annual Activity Report of the Audit Board for the 2022 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 2022. To the extent relevant, it reflects information made available to the Audit Board until 27 March 2023, including as regards developments up to such date, with a view to presenting a comprehensive 2022 overview and a forward-looking outlook for 2023.

The Audit Board has also fulfilled its responsibility, according to Article 18 of the Rules of Procedure, by providing an opinion on the EIF financial statements for the financial year 2022 in a separate statement contained in the EIF's 2022 Annual Report.

2 | EIB Group considerations

Key observations

The Audit Board notes:

- the execution of several Group projects, such as the Group Equity Strategy, Group ILAAP and Group ICAAP, as part of the Group Alignment Implementation Plan, and additional Group structuring initiatives towards increased Group synergies, such as the ongoing Group Digital ambition and the Group Risk Appetite Framework;
- the issuance of the first EIB Group Compliance annual Activity Report;
- the ambition at Group level to deliver on Climate Action and Environmental Sustainability and the ongoing implementation and contribution to EIB Group thematic targets;
- the communication with the Group Chief Digital Officer (GCDO) on matters relating to the Group's IT strategy, cloud outsourcing and IT security as part of the Digital Transformation Programme (please see also section 5.5. below);
- the substantial progress made by a Monitoring Task Force established at Group level in the context of the action plan put in place in early 2022 aiming at comprehensively addressing identified areas for improvement in EIF Risk Management (RM);
- the information and updates received from services attesting to the generally efficient sharing of data and the good cooperation within the Group; and
- the progress made on IT Governance and Strategy matters and the timely closure of all the AAPs.

The Audit Board also received documents of Group relevance on the EIB Review and Evaluation Process (REP):

- the EIB REP Guiding Principles, the REP Implementing Rules; and
- the REP Methodology.

The Audit Board held quarterly private sessions with the Group Chief Risk Officer (GCRO), as well as exchanges with the GCDO and the Inspector General, either in private sessions or in connection with relevant agenda items.

General recommendations

The Audit Board calls for:

- determined efforts for ongoing GAIP projects, in line with the prioritisation plan, notably those where complexities and/or delays have been identified and, in particular, as concerns the BCBS 239 project and Best Market Practices (BMP) and Best Banking Practices (BBP) frameworks.

2.1 | Cooperation with the EIB's Audit Committee

The Audit Board and the Audit Committee continued their cooperation in 2022 and met on four occasions.

Key observations

The Audit Board and Audit Committee exchanged views on a number of matters of joint concern, with a focus on:

- key considerations raised by external auditors with relevance to EIF and EIB Group consolidated accounts;
- the good collaboration between EIF and EIB risk management functions, underpinning the closure of relevant action points and a strengthening of the Group approach;
- discussions on operational risk matters and the lessons learned at Group level for the efficient monitoring of such cases (please see also below section 5.4.3).

The EIB REP was also touched upon and the Audit Board was briefed by the new Head of REP on the process and work of the REP's team.

On IT security matters, the sub-group of members of the Audit Committee and the Audit Board continued the meetings for the oversight on relevant IT matters of Group relevance.

The Audit Board notes the importance of a balanced Group approach and looks forward to having more fruitful exchanges with the Audit Committee in 2023 on key matters for the EIB Group.

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 2023, and as also stated in the Independent Auditor's Report included in the EIF's Annual Report 2022, the Audit Board received confirmation from KPMG of its independence.

Key observations

- The Audit Board took note of the work delivered by the external auditor and the updates and confirmations that it received in connection with the audit of the financial statements and the closure of the Management Letter points (MLPs).
- The Audit Board also received confirmation that no non-audit related services (NAS) which could compromise KPMG's independence were provided to the EIF during the period under review and that the requests for NAS are managed via the relevant procurement process.
- The Audit Board was pleased to note the continuation of the regular exchanges between KPMG and Internal Audit, with a view to ensuring the timely and optimal coverage of relevant risks and the adequate implementation of actions.

General recommendations

- The Audit Board underlines the importance of considering recourse to third party advice for new and complex products, with a dedicated committee for new products, in particular focusing on accounting/risk treatment, and with a corresponding process documented in accounting/risk policies.

3.1.2 | Audit of the annual financial statements

Under the mandate given by the Audit Board, KPMG has audited the 2022 financial statements of the EIF, which comprise the statement of financial position and the statement of comprehensive income as at 31 December 2022, the statement of changes in equity, the cash flow statement for 2022 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 2022, 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 2022, and of its financial performance and cash flows for the financial year 2022, in accordance with International Financial Reporting Standards as adopted by the European Union.

Key observations

In 2022, the Audit Board held regular meetings with KPMG, receiving updates regarding the audit approach, audit progress and developments. In addition to the regular meetings, the Audit Board held several private sessions with the KPMG Partner in charge of the EIF.

- The Audit Board is satisfied to note that the audit approach followed for the audit of the financial statements was appropriate and the external audit process was performed in accordance with the plan.

In February and March 2023, the Audit Board held discussions with KPMG on the 2022 Management Letter, for which the final version will be received prior to the AGM in 2023.

The Audit Board is satisfied that all previous Management Letter points and observations have been closed and notes that no MLPs have been identified for 2022. 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 February 2023.

General recommendations

- In the context of the financial audit, the Audit Board observes and insists on the importance of having early and fruitful exchanges with the external auditor in the case of new mandates and initiatives. This may entail specificities and complexities requiring careful consideration, also from an accounting perspective, at the initial implementation phase as well as throughout the mandate's duration;
- The Audit Board also encourages the services and executive management to address observations and recommendations without undue delay and in the same financial year.

3.2 | Internal Audit

Internal Audit (IA) services are outsourced to the EIB. The role of Internal Audit 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.

In November 2022, the Audit Board approved the EIF Internal Audit plan for 2023, which is based on Internal Audit's independent risk assessment of the EIF and Group audit universe in accordance with the risk rating methodology, discussions with senior management and a review of key thematic risks.

The Institute of Internal Auditors (IIA) Standards¹ require that the Internal Audit function undergoes an internal Quality Assurance Review (QAR) on a regular basis and an external QAR at least every five years. IA adopted an annual basis for the internal QAR, which, in 2022, was replaced by the external QAR, performed by Deloitte UK and presented to the Audit Board in December 2022. The report concluded that, within the scope of the 2022 QAR, Internal Audit "generally conforms"² with the IIA's International Professional Practices Framework, which includes the Standards and Code of Ethics.

The Audit Board was also interested to receive, early 2022, an Internal Audit Maturity Assessment performed by Gartner, allowing a discussion with IA on the different levels of maturity which might be desirable and achievable over a medium-term horizon, as well as the development of an advisory role for IA.

Key observations

Whilst the external QAR report identified some areas for potential development and alternative approaches, the Audit Board was pleased to note the key strengths observed through the review and 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 2022, which were generally presented through dedicated discussions on such reports in the presence of Internal Audit and the relevant EIF services and, in the case of Group reports and other matters of joint interest, with the Audit Committee and EIB services.

In addition, in 2022, Internal Audit created a quarterly report in order to provide an overall independent assessment on the progress of the closure of Internal Audit's Agreed Action Plans (AAPs) included in the action plan for the Implementation of the RM function.

The Internal Audit Activity Report 2022 was issued in February 2023 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;³ and
- (ii) the matters identified across 20 audit reports issued by Internal Audit in 2022, 14 of which were joint EIB Group audits, in addition to regular reporting on the status of AAPs follow-up.

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;

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".

- (ii) the control objectives in the audited areas, as described in the 2022 Risk Control Matrix, were achieved and the related internal controls were considered 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 2022 Risk Control Matrix, the ISAE 3402 report, or in IA reports; and
- (iii) on the basis of the abovementioned audit work, and except for the matters referred to in IA's report on the EIF's Internal Control Framework, nothing came to IA's attention that caused 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 2022 to 31 December 2022 was not fairly stated.

Key observations

In addition to the above-mentioned reporting and exchanges, the Audit Board is satisfied with IA's monitoring role on the AAPs in the Remediation Action Plan for the Implementation of the RM function via the quarterly report.

The Audit Board appreciates:

- the high quality of service delivered by Internal Audit throughout 2022, 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, and the resources constraints for the audited EIF services;
- the robust audit methodology that is regularly updated and has demonstrated awareness of where improvements are required; and
- the external QAR confirmation that IA's audit plan was found to be aligned with the purpose of EIB and EIF, including audits on climate risk.

General recommendations

The Audit Board:

- expresses its support for maximising the use of in-house expertise, data analytics and new technologies; and
- advises that, when it is necessary, the recourse to external consultants should be made with due regard to secure the competitive process for the renewal of the external auditor.

The Audit Board looks forward to further developing the approach to the identification of Group-relevant joint audit assignments, noting the importance of a coherent approach to the coverage of audited areas across EIF and EIB Group audits as well as clarity in accountabilities and deliverables to address findings.

In addition to the role of Internal Audit under its assurance objective, going forward, the Audit Board has requested:

- the development of an approach for including elements of advisory in assurance assignments;
- the incorporation of the advisory approach as part of one of the audits included in the IA Plan, as a pilot;
- guidance on elements of relevance to the EIF when building the monitoring system for the appropriate implementation of BMP/BBP; and
- a coordination of the scope of activities of Internal Audit and of the REP team with a view to share information, coordinate activities and consider relying upon the work of other internal and external assurance providers

Lastly, the Audit Board proposes the possible review of reporting on the impact of policy objectives, based on evolving EIF priorities.

3.2.2 | Status review of Audit Recommendations and AAPs

Internal Audit AAPs are classified as "high", "medium" or "low" risk, and are associated 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.

Key observations

The Audit Board:

- appreciates the overall efforts undertaken by EIF services to address recommendations of Internal Audit and notes with satisfaction the considerable efforts to limit to a large extent overdue AAPs;
- is satisfied with the closure rate for IA-issued AAPs of 85% at 31 December 2022, significantly higher than the IA-set Key Performance Indicator (KPI) of 65% and a considerable improvement compared to year-end 2021 (63%), noting that the high closure rate is also driven by the issuance of less AAPs addressed to EIF in 2022 compared to 2021;
- is satisfied with the oversight by the Executive Management and the General Secretariat's Audit Coordination team on the implementation of the recommendations;
- notes a positive change in the culture of rapidly and comprehensively addressing risks identified;
- underlines the importance of adequate staff resourcing in order to address the issues identified by Internal Audit and the closure of related AAPs, highlighting that the increased workload should not come at the cost of a decrease on the available resources to cover EIF specific assignments.

General recommendations

The Audit Board:

- strongly recommends, wherever possible, finding the root causes underpinning AAPs, with a view to establishing deadlines which will minimise or avoid delays in closure and focusing recommendations on the implementation of processes in addition to the design;
- encourages maintaining a closure rate on or above the aforementioned IA-set KPI; and
- requests that the appreciable effort to avoid in particular the high risk overdue AAPs be maintained going forward.

4 | Controls

4.1 | Internal Control Framework

The EIF Internal Control Framework (ICF) is a set of operating principles designed to document and assess the effectiveness of the controls in place to mitigate identified risk exposures and operate within the limits of the EIF's risk appetite. It relies, in particular, on a Risk and Control Matrix (RCM), which underpins the annual review of the internal control processes to ensure that risks are mitigated to an acceptable level.

During 2022, the Audit Board received updates on the AAPs related to the ICF at each meeting, including the finalisation of the EIF ICF Concept, the establishment of EIF ICF Implementing Procedures and a first ICF Pilot review by the ICF team.

In February 2023, the Group ICF Policy was presented to the Audit Board, providing a framework for a robust intra-Group consultation to provide internal control assurance at Group level and thereby also addressing a significant item in the Group Alignment Implementation Plan. The EIF will complement the policy with further operational procedures for the ICF implementation and guiding the release of internal/external control assurance statements.

In March 2023:

- the ICF Annual Report 2022 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 concluded on the main outstanding agreed risk-mitigating actions and high-risk drivers at year-end 2022.
- on the basis of individual confirmation letters addressed from relevant EIF services to the Chief Executive, the ICF Annual Report 2022 also incorporated 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 2022, save for the elements identified in the report.
- Internal Audit provided an overall positive opinion on the design, implementation and operating effectiveness of the ICF related to the areas which, in line with the Internal Audit Plan, were audited during the period, except for those matters described as agreed improvements in the 2022 Risk Control Matrix, the ISAE 3402 report, or in IA reports (see also section 3.2.1).
- lastly, the Audit Board completed its annual assessment of the EIF's internal control and compliance monitoring effectiveness, in line with the responsibilities of the Audit Board as defined in the EIF Statutes, the EIF Rules of Procedure and the Audit Board Charter.

Key observations

The Audit Board:

- notes the increased commitment by the EIF to strengthen the ICF function, including building a dedicated team to further support the control assurance statements and the closing of open remedial actions throughout the year;
- notes the targeted improvements to the ICF mechanism and supports the continued development of the Group ICF approach; and
- draws specific attention to the high residual risk drivers identified in the ICF Annual Report 2022, particularly as regards (i) staff and costing controls as part of the Operational Plan elaboration, (ii) the finalisation of the framework for sustainability, policy and climate action plans and (iii) the Three Lines Model project.

Recommendations and actions

The Audit Board:

- stresses the need for continued work on the enhancement of the ICF mechanism, including (i) to complete the update of the RCM, considering the Three Lines Model project output, (ii) progress on implementation of the design and effectiveness testing, (iii) the digitalisation of the process and (iv) the important work on the Group methodology to ensure alignment with the Group ICF Policy; and
- will follow closely and expect significant progress on the BMP Implementation project⁴ and the Three Lines Model project.

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, equity, guarantee, securitisation and inclusive finance transactions, which also includes the related payment and information technology aspects⁴.

The 2022 opinion, which was established in line with the internationally recognised ISAE 3402 standard (type 2 report), was presented to the Audit Board by KPMG in March 2023. The opinion stated KPMG's opinion that, in all material respects, throughout the period from 1 January 2022 to 31 December 2022 and based on the relevant information provided by the EIF:

- the description fairly presented the system as 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.

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, with reference to the ICF, the identification, description, design and operating effectiveness of the EIF's mandate management services.

Moreover, the 2021 Management Letter included a recommendation for the ISAE 3402 type 2 report referring to the review and streamlining of the EIF control environment, for which the services established a two-step approach. Firstly, a short/mid-term solution, completed in Q3 2022, concluded with a material enhancement to the ISAE 3402 control descriptions. A second phase comprises longer-term objectives to follow the RCM enhancement and the automation of the ICF process to support the 2023 ISAE exercise.

In the 2022 Management Letter, KPMG concluded that the Management Letter point in relation to the ISAE 3402 type 2 report was closed.

Key observations

The Audit Board is satisfied with the efforts made by the services for the implementation of the 2021 Management Letter recommendations arising in the context of the ISAE 3402 type 2 report.

General recommendations

It is important that EIF-wide efforts are maintained as concerns the streamlining of the EIF's control environment.

5 | Risk Management & Compliance

5.1 | EIF Risk Management

2022 was a demanding year as EIF RM had to face the challenges identified by Internal Audit in the organisation, governance, monitoring and management of risks in the second line of defence.

In this context, an action plan and associated task force were set up under the purview of the Group Chief Risk Officer (GCRO). Moreover, as mentioned in section 3.2.1, Internal Audit provided an overall independent assessment, per quarter, on the progress of the closure of IA AAPs included in the action plan. Audit Board also received regular status updates from Risk Management and the GCRO, with active participation of Executive Management and, where relevant, from Human and Resources Management on the question of resources, which was a major driver behind the identified deficiencies.

⁴ The report does not encompass an opinion on the control objectives and related controls of subservice organisations related to system and software providers.

Key observations

- The Audit Board recognises the major efforts that have been made by the Services to close all the action points⁵ as well as the strong oversight role performed by Executive Management and the GCRO;
- Overall, the Audit Board is satisfied with the positive outcome of the action plan and the strong cooperation between EIF and EIB to achieve that.

General recommendations

The Audit Board:

- stresses the importance of maintaining the allocation of sufficient resources in order to avoid similar issues going forward and the need to maintain at an appropriate level the ratio of resources allocated to risk management compared to resources allocated to business; and
- requests that efforts shall be continued in connection with the establishment of a robust EIF wide three lines model, with a view to consolidating a risk culture and clear responsibility and lines of accountability.

5.1.1 | Capital management

Key observations

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 and an EIF Internal Liquidity Adequacy Assessment Process (ILAAP) report, both submitted to the Audit Board in April, and forming part, respectively, of the Group ICAAP and Group ILAAP reports.

5.1.2 | Operational Risk

The Audit Board received quarterly updates on the open significant Operational Risk Events (ORE) and Operational Risk Alerts on potential procedural failures.

The Audit Board also received regular updates on a particular Operational Risk event, linked to a mandate in Spain, an associated financial provision and related reputational considerations, including discussions with KPMG, Internal Audit and the GCRO, as regards any aspects of EIB relevance. In addition, following the combined output of a dedicated ICF review and specific Operational Risk Event report, the matter was discussed at a joint Audit Board – Audit Committee meeting where the services gave a clear view of the background, the lessons learned and the actions to be taken to close the event.

Executive Management requested that an Investment Risk Committee Work Program 2023 (“IRC Work Program 2023”) be put in place with a representative of each EIF Service to provide clarification of mandate, guarantee transaction negotiations and respective post signature requirements. EIF Services will be providing regular reporting to the CE/DCE and Audit Board, with the aim of signing off on a closure report to be presented to the Governing Bodies no later than 30 October 2023.

Last but not least, the European Commission’s Directorate-General for Regional and Urban Policy (DG REGIO) is running an audit action, in the context of the closure of the mandate.

⁵ As of March 2023, 51 out of 54 AAPs (94%) were closed. The remaining three AAPs were being actively addressed.

Key observations

The Audit Board:

- appreciates the overall efforts undertaken to address the Operational Risk Event and focuses its main concerns on the residual reputational considerations for the EIF and any financial implications;
- is satisfied with the regular reporting on the issue by the EIF services; and
- looks forward to receiving the conclusions of the IRC Work Program and the results of relevant audits.

General recommendations

The Audit Board:

- highlights the importance of having a strong cooperation, a clear distinction of duties and obligations, and transparent and timely communication between the stakeholders when drafting delegated programmes and mandates;
- stresses the importance of a forward-looking lessons-learned exercise and ways of improvement from the perspectives of the EIB Group and the intermediaries and potentially also the mandators; and
- emphasizes the importance of clarifying the responsibilities of each actor involved in mandate negotiation, financial intermediaries' due diligence and post-signature eligibility oversight, for new mandates.

5.1.3 | Transaction and portfolio risk

The Audit Board received regular updates on the new private equity valuation methodology, which was established by EIF Financial Control (FC), EIB FC and KPMG in early 2022 in the context of the 2021 financial statements and 2021 Management Letter. In light of the continued application of the methodology for the 2022 exercise and the efforts towards the closure of the Management Letter point, the Audit Board also intensified its exchanges with KPMG in order to receive their updates on the associated back-testing.

Key observations

The Audit Board

- appreciates the efforts made by the involved parties to design and implement the new private equity valuation model; and
- is satisfied to see the closure of the recommendation confirmed in the 2022 Management Letter.

Recommendations and actions

- Whilst the Audit Board notes the initial satisfactory results of the new private equity valuation model, it emphasizes that a sustainable long-term solution should be targeted, with appropriate resources in place.

5.2 | EIF Compliance

The Audit Board welcomed the strengthened organisation of EIF Compliance in the course of 2022 and was kept regularly informed of progress concerning EIF- and Group-wide initiatives within their remit related to Compliance.

5.2.1 | 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 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 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.

Pursuant to the changes to the EIF's statutory framework approved by the General Meeting in September 2022, the Audit Board's remit with respect to monitoring and verifying compliance as concerns the application of sound banking principles or other sound commercial principles and practices as applicable to the EIF came into effect as of 1 January 2023.

In 2022, the Audit Board received regular updates on the progress of the applicability assessment of BMPs and requested close attention from executive management with the aim of ensuring significant progress by the end of the year. The applicability of BMPs/BBPs were also discussed with the Audit Committee, on the basis of a coordinated approach at Group level. The Audit Board also endorsed the inclusion of an audit by Internal Audit on BMP/BBP in the Internal Audit Plan for 2023.

Key observations

- The Audit Board notes that, during 2022, moderate progress was achieved in the relevance and applicability assessment of BMPs and BBPs.

Recommendations and actions

- The Audit Board stresses the importance of having a clear allocation of responsibilities and to establish a staggered approach, with priorities to ensure the correct monitoring, implementation, controlling and annual assurances related to BMPs/BBPs;
- In that respect, the Audit Board advises that, in addition to the scheduled audit on BMP/BBP, Internal Audit shall in line with its role as trusted advisor and to the extent feasible accompany EIF services when building the monitoring system for the appropriate implementation of BMP/BBP.

5.2.2 | Transaction and Corporate Compliance

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 2022, 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 the high-risk overdue ones, as well as particular sessions which were organised on matters of conflicts of interest.

The Audit Board received a number of documents in 2022 in relation to conflict of interests, including:

- Group Conflicts of Interest Policy;
- Code of Conduct for the Chief Executive and Deputy Chief Executive; and
- Compliance opinion to assess the situation of EIF Staff delegated to governing and management bodies in EIF sponsored and advised funds of funds.

The Audit Board was also briefed on the revised Money laundering - Financing of terrorism (ML-FT) Risk Scoring Tool with a focus on the new EIB Group Politically Exposed Persons (PEPs) approach, as part of the alignment on the treatment of PEPs and synergies between the Compliance Monitoring Programme and the Compliance Risk Assessment.

Key observations

The Audit Board:

- is pleased to note the good progress on several initiatives as well as the strengthened organisational structure within Compliance; and
- acknowledges the continued good collaboration with the EIB on Group Compliance matters.

Recommendations and actions

The Audit Board requests:

- the swift implementation of the recommendations that were included in the aforementioned Compliance Opinion as well as on the framework for appointments of EIF staff on the governing bodies of certain external vehicles, irrespective of the status of the drafting of the relevant Implementing Procedures; and
- a speedy implementation of necessary improvements and updates to the pending for revision codes of conduct applicable to the relevant governing bodies.

5.3 | Information security

The Audit Board received quarterly updates by the EIF's Information Security Officer (ISO) and on an ad-hoc basis, where relevant, in a context of strengthening Group-wide information and cyber-security measures.

In addition, the Audit Board held dedicated sessions on the AAPs on IT Governance and Strategy and received regular reporting by the Services until the closure of all AAPs.

The Audit Board and the GCDO, who took office in September 2022, exchanged views on matters relating to the Group's IT strategy, cloud outsourcing and IT security as part of the Digital Transformation Programme.

Lastly, the Audit Board discussed group-wide IT matters with the Audit Committee and one of the Audit Board members and Audit Committee members participated in a sub-group on IT matters together with the relevant Services from both the EIB and the EIF.

Key observations

- The Audit Board welcomed the appointment of the EIB Group's first GCDO;
- The Audit Board takes notes of the ISO's confirmation that an Information Security Awareness Program is held at the EIF and there are regularly reports on the results;
- At group level, the Audit Board takes notes of actions taken to improve the stability and resilience of IT at Group level.

General recommendations

Going forward, the Audit Board calls for intensified attention to cybersecurity matters and ways for continued improvement in IT security at group level, not least in light of the geopolitical instabilities.

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 the annual assurance letters, dated 13 February 2023 for the Service Level Agreement and 14 February 2023 for the Treasury Management Agreement, the EIB confirmed that the defined services carried out on behalf of the EIF for the accounting year 2022 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 and the Inspector General also discussed cases when a follow-up on the recommendations was issued by the European Anti-Fraud Office (OLAF).

6.3 | Evaluations

The Audit Board received reports from EIB Evaluations and met with the EIB's Inspector General and the Head of Operations Evaluation in order to discuss the work programme for the following three-year period.

In 2022, 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 Audit Board held an annual meeting with ECA in May 2022 to exchange views in areas of common interest, including recent and ongoing audits performed by ECA.

8 | Audit Board activity and confirmations

8.1 | Responsibilities and activity

The **Statutes of the EIF**⁶ 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 six auditors appointed by the General Meeting. The General Meeting may vary the number of members of the Audit Board. 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.*
3. *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.*
4. *The Audit Board shall verify that the activities of the Fund are based on sound banking principles or other sound commercial principles and practices as applicable to it*⁷.

Article 17 and, in particular, Article 18 of the EIF's **Rules of Procedure**⁸ 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 activities of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure and are based on sound banking principles or other sound commercial principles and practices as applicable to the EIF, 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 activities of the Fund have been carried out in compliance with the Statutes and the Rules of Procedure in particular with regard to risk management and monitoring;*
 - 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;*
 - iii. *the activities of the Fund are based on sound banking principles or other sound commercial principles and practices as applicable to it.*

⁶ Amended on 27 September 2022 by the General Meeting (ref. GM/129/2022, doc. 22/11)

⁷ The Audit Board's remit with respect to the application of sound banking principles or other sound commercial principles and practices as applicable to the EIF shall enter into effect as of 1 January 2023

⁸ Amended on 27 September 2022 by the General Meeting (ref. GM/129/2022, doc. 22/11)

2. *Should the Audit Board consider that it is unable to deliver the foregoing, it must deliver to the Chair 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 members⁹ of the Audit Board 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 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. The Audit Board shall, in particular, cooperate closely with the Bank's Audit Committee for the purposes of the consolidation of the annual accounts and of the verification of the conformity with applicable sound banking principles or other sound commercial principles and practices.*

In 2022, due to the ongoing circumstances associated with the COVID-19 pandemic, and in accordance with Article 5.1 of the Audit Board Charter, a small number of the meetings and additional discussions of the Audit Board took place in a teleconferencing format or in hybrid format. The possibility for meetings via teleconferencing was reiterated by a further revision to the Audit Board Charter, approved by the General Meeting in January 2023, empowering the Chair to have recourse to teleconferencing also in situations not arising from exceptional circumstances, as had been the previous case.

8.2 | Audit Board composition

By decision of the General Meeting dated 27 September 2022, the composition of the Audit Board was extended to consist of six members, nominated by the shareholding groups with the following proportion: three members nominated by the EIB, two members nominated by the European Commission and one nominated by the financial institutions. The appointments of two of the new members was completed in January 2023, while the nomination of the sixth and last member is expected in conjunction with the AGM 2023.

⁹ Prior to the amendments, the members of the Fund were also appointing an alternate member on a rotating basis. This has been discontinued and the term of office of the current alternate member will conclude on the day of the EIF's 2023 Annual General Meeting.

In connection with this enhanced composition, appointments to the Audit Board shall be for six consecutive years and shall not be renewable¹⁰. One member of the Audit Board shall be replaced each year. The Audit Board meets at least six times annually and meets at least once with the Board of Directors.

The Chair of the Audit Board since the AGM on 7 April 2022 is Mr. Jacek DOMINIK, General Counsel, Ministry of Finance, Poland. Mr. DOMINIK's mandate concludes at the AGM in April 2023.

The other members are: Ms. Georgiana VAN ROMPUY, Assistant to the Director-General, in the EC's Internal Audit Service, Belgium; Mr. Sergio SIERRA, Head of Funding and Treasury at Instituto de Crédito Oficial (ICO); Ms. Delphine REYMONDON, Head of Unit within the Prudential Regulation and Supervisory Policy Department of the European Banking Authority in Paris, France; and Ms. Rossella LOCATELLI, professor in Banking and Finance at the University of Insubria in Italy. The alternate member is Mr. José Manuel PACHO SANCHEZ⁹, 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 2022 AGM and the Audit Board's sign-off on the financial statements on 28 March 2023.

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;
- 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.

¹⁰ With the exception of the shorter mandates for the three new members appointed in the immediate extension to six members, as part of a transition period, providing for the continued rotation of the office of Chair in the final year of a member's term in office.

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 three meetings in 2022:

- a bilateral via teleconference with the Chair of the Board of Directors in March 2022;
- two meetings with the Board of Directors in March 2022 and October 2022, where 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 2022 by a self-assessment, carried out prior to the AGM 2023.

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 2022, 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 2023

The Audit Board will have a particular oversight focus in the following areas, with the view to ensuring that adequate information is provided to the Audit Board in the context of its Annual Statement, for which an enhanced Executive Management commitment is advised:

- Three Lines Model: further improvements and to ensure the clear allocation of responsibilities and accountabilities of involved parties;
- Testing of the new ICF and need for further strengthening; and
- Finalisation of initial BBP/BMP self-assessment.

The Audit Board will further place additional focus on:

- New mandates to be deployed in 2023: ongoing oversight on implementation of flagship initiatives from an audit risk and control perspective;

- Reporting on impact of policy objectives, including environmental policy objectives in the Group context;
- Implementation of IRC Work Programme;
- EIF engagement in Ukraine in the Group context;
- Implementation of Digital Transformation Programme: digitalisation efforts to minimise risks of errors and potentially release scarce resources for other activities;
- Need to maintain a robust Risk Management function; and
- IA's feedback as concerns the revision of the Institute of Internal Auditors Standards, to the extent relevant for the activities of the Fund.