

Audit Board

*Annual Activity Report of the Audit Board
for the 2023 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 2023. To the extent relevant, it reflects information made available to the Audit Board until 19 March 2024, including as regards developments up to such date, with a view to presenting a comprehensive 2023 overview and a forward-looking outlook for 2024.

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 2023 in a separate statement contained in the EIF's 2023 Annual Report and which refers to this report.

2 | EIB Group considerations

The EIF forms, together with the EIB, the EIB Group. Across many areas, output prepared by the EIF is consolidated by the EIB to provide an EIB Group view, common frameworks are put in place for the Group or EIB delivers services to the EIF. Group-level considerations are of relevance over many areas of the Audit Board's work, notably in the context of consolidated financial reporting and control frameworks.

In line with the requirements of Article 19(4) of the Rules of Procedure, the Audit Board exchanged with the EIB's Audit Committee 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 Best Banking Practices (BBP)/Best Market Practices (BMP) processes and efforts deployed across the Group and the need for close coordination in that respect;
- the appointment of external auditors for EIB and EIF, including the joint extension of the current auditor's term and the forthcoming process for the selection and appointment of a new external auditor, in anticipation of the term of the current external auditor's mandate.

The Audit Board held exchanges with EIB services exercising oversight on consolidated risk, including in particular the Group Chief Risk Officer (GCRO), the Group Chief Compliance Officer (GCCO) and the Group Chief Digital Officer (GCDO), which all briefed the Audit Board on matters falling within their remit.

Drawing from the above, the Audit Board underlines the importance of good integration of the EIF services in the elaboration, discussion, establishment and review of key policies and procedures relevant for the entire EIB Group, with a view to ensuring that timely improvements and incorporation of new practices occur seamlessly across the Group and that EIF specificities are taken into account.

Key observations

In this context:

- The Audit Board observes that several areas of best practices are relevant to the EIB and the EIF, so that their review, assessment, and implementation should be coordinated across the Group and their implementation within the EIF are contingent on conclusions identified at EIB Group level.
- The Audit Board underlines the importance of maintaining a functioning internal control framework that is suitable to the need of providing a consolidated view of risks and controls across the Group. For this purpose, the Audit Board recommends the seamless interaction between EIF and EIB services for the further development and strengthening of the Internal Control Framework (ICF) controls at Group level, taking into account the Group ICF Policy and the Group ICF Policy Implementing Provisions presented to the Audit Board throughout 2023, as well as relevant information provided by Internal Audit.
- Observing that the challenges around the full deployment of the three-lines-of-defence model present common characteristics between the EIB and the EIF and comport a number of crucial areas of common contribution (e.g. data governance), the Audit Board underlines the need for close interaction of the EIB and the EIF services involved in this deployment, resulting in solutions that achieve good intra-group information flow without impeding the agility of the EIF and its ability to efficiently implement the Three Lines of Defence Model.
- The Audit Board stresses the importance of ensuring an integrated approach for the Review and Evaluation Process (REP) exercise while noting the accountability gaps in relation to the role of the Audit Board, including as to any effects on EIF arising from findings which are issued without the involvement of the Audit Board.

3 | Review of audit work performed

3.1 | External audit

3.1.1 | Review of external auditor's work

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 2024, and as also stated in the Independent Auditor's Report included in the EIF's Annual Report 2023, the Audit Board received confirmation from KPMG of its independence.

Key observations

The Audit Board closely monitored 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 outstanding 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.

Furthermore, following the joint Audit Board-Audit Committee meeting in February 2023, the Audit Board and the Audit Committee decided that the EIB Group's external auditor's contract would be extended by an additional two years, with 2026 being the last financial year for audit by KPMG. The tendering process for the appointment of the new external auditor is to be finalised by the end of 2024.

In the same context, in line with good practices relevant to the relationship with the external auditor, the Audit Board and the Audit Committee discussed and endorsed the rotation of both EIF and EIB signing partners within KPMG, with the aim of obtaining a renewed auditor's perspective on the EIB Group. The rotation of the EIF KPMG signing partner was completed on 7 September 2023.

The Audit Board received regular updates both from EIF services and the external auditor and also appreciated the approach taken by the new external audit team in relation to the audit of the financial statements.

Recommendations

The Audit Board expects the services and the external auditor to:

- In view of new EU strategic priorities and the strategy of the EIB Group, maintain early and efficient exchanges in connection with any new mandates and initiatives, involving also the different services, notably Internal Audit, Financial Control, Risk Management and Compliance, with a view to ensuring the timely and optimal coverage of relevant risks and adequate implementation of actions;
- considering the complexity of the exercise and the associated challenges, ensure that adequate expertise on the valuation of financial guarantees is available within the Fund both in the first and second line functions;
- Revise the accounting treatment for existing products where significant changes have occurred, including an external review thereof.

3.1.2 | Audit of the annual financial statements

Under the mandate given by the Audit Board, KPMG has audited the 2023 financial statements of the EIF, which comprise the statement of financial position and the statement of comprehensive income as at 31 December 2023, the statement of changes in equity, the cash flow statement for 2023 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 2023, 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 2023, and of its financial performance and cash flows for the financial year 2023, in accordance with International Financial Reporting Standards as adopted by the European Union.

Key observations

In 2023, 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 with the new audit approach followed for the audit of the financial statements and the timely execution of the external audit process.
- The Audit Board further expresses satisfaction with the smooth transition related to the rotation of the EIF KPMG signing partner and the respective KPMG team.

In March 2024, the Audit Board held discussions with KPMG on the 2023 Management Letter, for which the final version will be received prior to the AGM in 2024. 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 2024.

Recommendations

- The Audit Board reiterates the importance of due attention from Executive Management in the interactions with the external auditor with a view to addressing any observations and recommendations without undue delay and in the same financial year.
- In particular the Audit Board stresses the importance to address the observations and recommendations identified by the external auditors and addressed to the Executive Management, relating to:
 - valuation of financial guarantees;
 - valuation of private equity investments;
 - processes relating to the foreign currency account balances;
 - specific information recorded relating to financial guarantees; and
 - the further development of a back-testing exercise for the calibration of the fair-value estimation model in private equity.
- The Audit Board evidences the crucial importance of improving efficiency of the set of second line controls on data quality regarding financial statements.
- The Audit Board further emphasizes the need for an efficient implementation of the procurement process, to allow sufficient time for potential bidders to exit consultancy assignments.

3.2 | Internal Audit

Internal Audit (IA) services are performed by the EIB, at EIF's cost. The role of Internal Audit is to provide EIF's management with independent, objective assurances, analyses, insights, and agreed action plans (AAPs) 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 2023, the Audit Board approved the EIF Internal Audit plan for 2024 (with the exception of one item), 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. An internal QAR was conducted in 2023 and the Audit Board took note of the key areas for improvement with high priority and IA's commitment to address them. IA had undergone the 2022 external QAR, performed by Deloitte UK and the report was initially presented to the Audit Board in December 2022. In July 2023, the Audit Board approved IA's action plan to address the recommendations for potential development and alternative approaches in the 2022 external QAR.

Recommendations

- The Audit Board requests earlier involvement of the Audit Board in the approval of the yearly plan, so as to allow a meaningful calibration of proposed audits towards subject matters of particular concern to the EIF.
- By the same token, the Audit Board remains interested in developing an approach by IA which involves insight activities, with a view to further fluidifying the identification and remediation of risks by relevant services.

¹ Standard 1300 – Quality Assurance and Improvement Program.

3.2.1 | Internal Audit reports and assessment of Internal Audit work

Internal Audit provided the Audit Board with thematic audit reports throughout 2023, which were all made available to the Audit Board and, in key cases, presented through dedicated discussions on such reports in the presence of Internal Audit and the services of the EIF and/or the EIB, as relevant. The Internal Audit Activity Report 2023 was issued in February 2024 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;² and
- (ii) the matters identified across 18 audit reports issued by Internal Audit in 2023, 12 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 AAPs raised in the reports;
- (ii) the control objectives in the audited areas, as described in the 2023 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 2023 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 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 2023 to 31 December 2023 was not fairly stated.

Recommendations

- The Audit Board requests meaningful consultation in 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.
- The Audit Board requests a substantial shortening of the time period between the finalisation of the audit work and the issuance of audit reports to the Audit Board. To achieve this, the Audit Board recommends that audit reports including findings and associated recommendations are issued by Internal Audit once the audit work is finalised and allowing for the management response / action plan to arrive within a reasonable timeline, to enable the Audit Board to have a timely and meaningful discussion.

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:

- notes the importance of distinguishing the key responsibilities and remit of the EIF services where there are interdependencies for the closure of AAPs.

² In accordance with the International Professional Practices Framework, issued by the Institute of Internal Auditors, Standard 1110 – "Organisational Independence".

Recommendations

- The Audit Board recommends analysing potential dependencies for AAPs with a view to establishing realistic deadlines which will minimise or avoid delays in the closure of AAPs.
- In this context the Audit Board recommends operating a detailed apportionment of responsibilities within the Group, reflective of the fact that key elements in the areas under review are generally led by the parent company and give rise to intra-Group interdependencies.

4 | Controls

4.1 | Internal Control Framework

The EIF maintains an Internal Control Framework, 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.

During 2023, the Audit Board received updates on the AAPs related to ICF, as well as other regular updates related to ICF matters.

In February and March 2024:

- the Audit Board discussed the ICF report and the ISAE 3402 report;
- the Audit Board received relevant information from Internal Audit on the EIF's ICF;
- 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

- In the context of the outstanding ICF open actions, the Audit Board notes in particular the following areas for EIF in relation to:
 - mandate origination and monitoring;
 - independent valuation in the field of equity investments;
 - the allocation of roles and responsibilities in alignment with the Three Lines Model;
 - the headroom monitoring for new commitments;
 - the internal rating model for the allocation of economic capital in the securitization activities;
 - the adherence to best banking and best market practices;
 - the cost forecasting linked to operational planning;
 - the development of middle office IT solutions; and
 - the contribution to the development of an EIB Group Outsourcing Framework.

Recommendations

- The Audit Board calls on EIF to ensure the timely closure of the open action points in particular in the areas identified by EIF and Internal Audit as entailing a relation to the high residual risk areas as mentioned above.

- The Audit Board further calls on EIF to maintain diligent attention to the closure of high-risk action items, based on solid, implementation-based criteria and within the agreed timelines, including the close monitoring by Executive Management of the progress made in implementing the actions through a dedicated follow-up forum. This mechanism shall particularly focus on repeat or overdue action points in order to further their timely closure.

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 aspects³.

The opinion stated KPMG's opinion that, in all material respects, throughout the period from 1 January 2023 to 31 December 2023 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 2023 ISAE 3402 identified a small number of minor recommendations which were addressed during the process.

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

Recommendations

- Noting the streamlining of controls in reply to the Management Letter point of 2022, the Audit Board recommends reviewing the extension of the ISAE 3402 report to other relevant areas of activity such as guarantees.

5 | Risk Management & Compliance

5.1 | EIF Risk Management

The EIF operates an integrated Risk Management service with a remit extending over financial and non-financial risks, including areas under the purview of the Compliance department. As part of the Audit Board's remit having a particular focus over risk management and monitoring, the Audit Board regularly reviewed information and reports issued by EIF Risk Management and held numerous public and private sessions with the heads of the respective services.

Recommendations

- The Audit Board requests the swift coordination of all pending actions in relation to one of EIF's mandates in Spain, under the steer of Executive Management and with delays being promptly brought to the attention of the Audit Board.

³ The report does not encompass an opinion on the control objectives and related controls of subservice organisations related to system and software providers.

5.1.1 | Capital and financial risk

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 completes annually an Internal Capital Adequacy Assessment Process (ICAAP) report and an EIF Internal Liquidity Adequacy Assessment Process (ILAAP) report, forming part, respectively, of the Group ICAAP and Group ILAAP reports.

5.1.2 | Transaction and portfolio risk

The Audit Board continued closely monitoring and receiving updates on the implementation of the new private equity valuation model in the context of the 2022 financial statements and in light of the continued application of the model for the 2023 exercise.

Key observations

- The Audit Board notes the enhanced analysis and procedures that were applied for the calibration and the back-testing of equity valuations, including an accounting analysis performed by EIF Financial Control, shared and agreed with EIB Financial Control, validated by an external accounting firm and, lastly, agreed and formalised with KPMG;

5.2 | 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, in October 2019, the EIF Board of Directors approved Best Market Practices (BMP) Guidelines organising the process aiming at the EIF's compliance with rules and regulations 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. Together with secondary internal rules and procedures, they form the EIF's Best Market Practices Framework.

In the light of the belonging to the EIB Group, the Best Market Practices Guidelines clarify that the EIF shall comply with (1) the EIB Best Banking Practice (BBP) Guiding Principles regarding consolidation requirements, and (2) additional rules relevant and applicable to EIF as a stand-alone entity.

Accordingly, 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 as relevant to the EIF, the corresponding BBP(s) is/are also implemented by the EIF, in accordance with its internal procedures. An equivalent EIF-standalone process is conducted only to the extent rules are identified that relate to EIF as a standalone entity.

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 2023, the Audit Board received regular updates provided by the services and continued monitoring closely the progress of the BMPs project implementation and requested close attention from Executive Management with the aim of ensuring significant progress by the end of the year. The status of the project implementation was also discussed with the Audit Committee in July 2023, in view of ensuring an aligned approach at Group level.

The Audit Board also requested the inclusion of an audit by Internal Audit on BMP/BBP in the Internal Audit Plan for 2023 and considering the importance of an opinion by the third line, requested that the same exercise is performed for 2024.

Key observations

- The Audit Board evidenced the BMP Self-Assessment exercise's conclusion of the EIF being assessed as partially compliant with BMPs, consistent with the status of the EIB.
- The Audit Board notes that for a number of sources of best practices identified for review by the EIB in the light of their consolidation relevance, the relevance and applicability assessment for the entire Group is yet to take place at Group level, so that no conclusion can be drawn including as to their ultimate compliance status by EIF.
- The Audit Board observes that there is a need for EIF services to more clearly identify the regulations and market practices that are exclusively relevant to the EIF and those that are passed on to EIF from the EIB as per the applicable framework, as well as the BMP sources that are yet to be assessed and where relevant, implemented.
- The Audit Board further notes that 2023 was the pilot year for this exercise and understands that, in 2024, further enhancements of the oversight, processes and controls will be developed to address the areas for improvement identified throughout the process.
- The Audit Board observed that the methodology leading to the above status of compliance mirrored the methodology implemented by the EIB, without ability for EIF adaptations.

Recommendations

- The Audit Board stresses the importance of a critical review of the BMPs repository with a view to giving a proportional and material view of the universe of rules and regulations to be assessed for relevance and applicability; this should also translate in a clear presentation of the BMPs which are to be implemented by EIF as a result of EIB deeming them applicable to the Group and BMPs exclusively relevant to the EIF.
- Taking into account the complex regulatory landscape, and the fact that 2023 was the first year for EIF completing a full BMP cycle, the Audit Board requests the speedy improvement of the control environment of the BMP framework, in terms of governance, process cycle and quality and coverage of the applicability and compliance assessment and the inclusion thereof in the ICF.
- More generally, the Audit Board encourages the relevant services across the EIB and the EIF to sustain efforts to adopt joint solutions, exchange views and streamline processes where relevant, so as to minimise the imprint of the (necessary) BBP/BMP exercise on Group resources.
- The Audit Board recommends the swift implementation of recommendations from the IA report on BBP/BMP. The Audit Board further calls on IA to continue to complement the self-assessment by EIF services with an independent review by IA, pending the required maturity of the process and any relevant governance updates.

5.2.2 | Operations, corporate and ethics 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 regular updates from Compliance in 2023.

5.2.3 | Operational Risk

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

The Audit Board also continued receiving updates on a particular Operational Risk event, linked to a mandate in Spain that was identified in 2022, an associated financial provision and related reputational considerations, including discussions with KPMG, Internal Audit and the GCRO, as regards any aspects of EIB relevance.

Additionally, the outcomes of the relevant audits conducted by the European Commission's Directorate-General for Regional and Urban Policy (DG REGIO) and the European Court of Auditors in the context of this mandate were shared with the Audit Board in March 2024.

5.3 | Information security

The Audit Board received regular updates in 2023 by the EIF's Information Security Officer (ISO) in the context of strengthening Group-wide information and cyber-security measures.

More broadly, the Audit Board and the GCDO exchanged views on matters relating to the Group's IT strategy, cloud outsourcing and IT security as part of the overarching Digital Transformation Programme.

As an area of focus for the Audit Board in 2023, the Digital Transformation Programme and group-wide IT matters were also discussed with the EIB Audit Committee and the EIF Board of Directors.

Recommendations

- The Audit Board urges for the timely implementation of the recommendations resulting from the Internal Audit report which assessed the governance structure of Information Security at Group level, and the related functions and processes.
- The Audit Board advises that special attention be given to the report's findings of ineffective implementation of the three-line model with unclearly defined roles and responsibilities between the First Line (i.e. IT Security Unit) and the Second Line, as well as among the Second Line actors.
- The Audit Board requests a swift implementation of the digitalisation-related actions.

5.4 | 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 23 February 2024 for the Service Level Agreement and 15 February 2024 for the Treasury Management Agreement, the EIB confirmed that the defined services carried out on behalf of the EIF for the accounting year 2023 had been executed in line with the respective agreements.

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

5.5 | Investigations

The Audit Board received quarterly updates from the EIB's Inspector General and the Head of Investigations on the status of ongoing investigations, including an assessment of whether the EIF is exposed to reputational risk or financial losses.

The Audit Board and the Inspector General also discussed on various occasions the developments on case 2018/IN/049 for which a follow-up on the recommendations was issued by the European Anti-Fraud Office (OLAF). An update on the case was provided to the Audit Board at the 5 December 2023 meeting where it was confirmed that all the recommendations were under implementation. It has been confirmed that all recommendations were completed by the due date of 31 December 2023.

5.6 | Evaluations

The Audit Board received reports from EIB Evaluations, including the published “Evaluation of EIB Group equity and quasi equity support to SMEs and mid-caps” and met with the EIB’s Inspector General in order to discuss the work programme for the following three-year period.

In July 2023, the Audit Board also held an annual private session with the EIB’s new Inspector General.

6 | 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 July 2023 to exchange views in areas of common interest, including recent and ongoing audits performed by ECA.

7 | Audit Board activity and confirmations

7.1 | Responsibilities and activity

The **Statutes of the EIF**⁴ 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 members appointed by the General Meeting. The General Meeting may vary the number of members on 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*⁵.

⁴ Amended on 27 September 2022 by the General Meeting.

⁵ 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

Article 17 and, in particular, Article 18 of the EIF's **Rules of Procedure**⁶ 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 Chair 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; and*
 - iii. *the activities of the Fund are based on sound banking principles or other sound commercial principles and practices as applicable to it;**
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 members⁷ 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.*

⁶ Amended on 27 September 2022 by the General Meeting.

⁷ 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.

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.*

7.2 | 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 nomination processes for the two of the new members was completed in January 2023, while the nomination of the sixth and last member was completed in April 2023.

In connection with this enhanced composition, appointments to the Audit Board shall be for six consecutive years and shall not be renewable⁸. One member of the Audit Board shall be replaced each year. The Audit Board meets at least four times annually and meets at least once with the Board of Directors.

The Chair of the Audit Board since the AGM on 24 April 2023 is Ms. Georgiana VAN ROMPUY, Assistant to the Director-General, Internal Audit Service, European Commission. Ms. VAN ROMPUY's mandate concludes at the AGM in April 2024.

The other members are: Mr. Sergio SIERRA, Head of Funding and Treasury at Instituto de Crédito Oficial (ICO), Spain; Ms. Rossella LOCATELLI, Professor in Banking and Finance at the University of Insubria in Italy; Mr. Jacek DOMINIK, General Counsel, Ministry of Finance, Poland; Ms. Delphine REYMONDON, Head of Unit within the Prudential Regulation and Supervisory Policy Department of the European Banking Authority in France; and Ms. Isabelle GOUBIN, Independent Director, Luxembourg.

7.3 | 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 in Luxembourg and via teleconferencing, as well as additional conference calls which took place between the 2023 AGM and the Audit Board's sign-off on the financial statements on 19 March 2024.

7.4 | Background to the Audit Board statements

The statement required to be given by the Audit Board to the General Meeting is incorporated in the Annual Report of the EIF for the financial year 2023. This statement is to be read in conjunction with and under the context of the information provided in this Annual Activity Report, including the background, framing circumstances and other factors set out below.

⁸ 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.

7.4.1 | 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.

7.4.2 | Compliance of 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 Internal Audit 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.

7.4.3 | Sound banking principles or other applicable sound commercial principles and practices

Information relevant to the Audit Board's assessment of whether the activities of the Fund have been based on sound banking principles, or other sound commercial principles and practices as applicable to it, centres around the consolidated BMPs Self-Assessment Report Package, as explained in section 5.2.1. Section 5.2.1 further sets out the conditions and circumstances under which the EIF's own verification of compliance with BMP was conducted.

Accordingly, for the purpose of its issuance of the relevant confirmation to the General Meeting as part of EIF's Annual Report, the Audit Board informs that the statement contained therein is circumscribed by:

- the perimeter of principles and practices recognised so far by the EIB and (where relevant) the EIF to be relevant and applicable to the EIF and/or the EIB Group, as the case may be, in accordance with its rules and procedures; and
- the degree of compliance observed and described in the statement communicated to the Audit Board by the Chief Executive for this purpose and as described in the internal audit report on the implementation of EIF's BMP framework and roadmap.

7.5 | 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 two meetings in 2023, one in March and one in November, where the two boards exchanged views on matters of mutual interest, as well as actions necessary to address risks and challenges identified throughout the financial year. The Audit Board and Board of Directors also met in March 2024 where the Audit Board presented an overview of the results of its work during 2023 and its areas of focus for 2024.

Furthermore, in 2023 the Audit Board held regular meetings with the Chief Executive and the Deputy Chief Executive.

7.6 | Self-assessment

In accordance with Article 7 of the Audit Board Charter, the Audit Board evaluated its performance in 2023 by a self-assessment, carried out prior to the AGM 2024.

8 | Areas of focus for 2024

The Audit Board will have a particular oversight focus in the following areas, for which an enhanced Executive Management and Internal Audit (as appropriate) attention is advised:

- Overall review of the Audit Board's requirements in terms of the nature and scope of information and reporting provided;
- Enhancement and further development of EIF's BMPs Framework, including an independent assessment by internal audit;
- The implementation of a revised process for the issuance of internal audit reports, aimed at ensuring that findings and recommendations are brought promptly to the attention of the Audit Board;
- Three Lines Model: continued development with a view to achieving full implementation by year-end, including the clear ownership of responsibilities and accountabilities of involved parties;
- Further implementation of the dedicated ICF function's strategy and need for additional strengthening of the digitalisation of the internal control environment;
- New mandates to be deployed in 2024: ongoing oversight on implementation of flagship initiatives from an audit risk and control perspective;
- Follow up of improvements to the control environment over the eligibility process (definition, assessment and monitoring), both in terms of prevention and detection of non-eligibility of portfolios and ensuring compliance of financial intermediaries with defined requirements.

The Audit Board will further place additional focus on:

- New initiatives arising for EU strategic priorities and EIB Group strategy;
- The need to maintain robust Risk Management and Compliance functions.

Annex: Overview of recommendations issued in the Audit Board Annual Activity Report 2022

Annex

The table below summarizes the status of all the recommendations included in the 2022 Annual Activity report.

EIF-specific

Action Point / recommendation	Status
<p><u>Section 3.2.1</u></p> <p>Internal Audit (IA) reports and assessment of Internal Audit work:</p>	<i>Implementation on an ongoing basis</i>
<ul style="list-style-type: none"> IA to maximise the use of in-house expertise, data analytics and new technologies 	
<ul style="list-style-type: none"> As necessary, IA to have recourse to external consultants with due regard to the competitive process for the renewal of the external auditor 	
<ul style="list-style-type: none"> Development of an approach for including elements of advisory in assurance assignments 	<i>In progress with foreseen completion in Q1 2024</i>
<ul style="list-style-type: none"> Incorporation of the advisory approach as part of one of the audits included in the IA Plan, as a pilot 	
<ul style="list-style-type: none"> IA to provide guidance on elements of relevance to the EIF when building the monitoring system for the appropriate implementation of BMP/BBP 	
<ul style="list-style-type: none"> Coordination of the scope of activities of Internal Audit and of the Review and Evaluation Process (REP) team with a view to share information, coordinate activities and consider relying upon the work of other internal and external assurance providers 	<i>Implementation on an ongoing basis</i>
<p><u>Section 3.2.2</u></p> <p>High risk and overdue AAPs requiring:</p> <ul style="list-style-type: none"> Identifying the root causes underpinning the Agreed Action Plans (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 Maintaining a closure rate on or above the IA-set KPI Avoid the high-risk overdue AAPs 	<i>Implementation on an ongoing basis</i>
<p><u>Section 4.1</u></p> <p>Continued work on the enhancement of the Internal Control Framework (ICF) mechanism, including:</p> <ul style="list-style-type: none"> Complete the update of the Risk and Control Matrix (RCM), considering the Three Lines Model (TLM) project output 	<i>Implementation on an ongoing basis until end 2024</i>
<ul style="list-style-type: none"> Progress on the implementation of the design and effectiveness testing 	<i>Implementation on an ongoing basis until end 2024</i>

Action Point / recommendation	Status
<p><u>Section 4.1 continued</u></p> <ul style="list-style-type: none"> • Digitalisation of the process 	<p><i>Implementation on an ongoing basis until end 2024</i></p>
<ul style="list-style-type: none"> • Important work on the Group methodology to ensure alignment with the Group ICF Policy 	<p><i>Implementation on an ongoing basis until end 2024</i></p>
<ul style="list-style-type: none"> • Significant progress expected on the BMP implementation project and the Three Lines Model project 	<p><i>Implementation on an ongoing basis</i></p>
<p><u>Section 4.2</u></p> <p>ISAE 3402 type 2 report:</p> <ul style="list-style-type: none"> • Maintain the EIF-wide efforts for the streamlining of the EIF's control environment 	<p><i>Implementation on an ongoing basis</i></p>
<p><u>Section 5.1</u></p> <ul style="list-style-type: none"> • Deficiencies in the management of risk, requiring: • Importance of maintaining the allocation of sufficient resources, as well as an appropriate ratio level of resources allocated to risk management and to business respectively 	<p><i>Implementation on an ongoing basis</i></p>
<ul style="list-style-type: none"> • 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 	<p><i>Implementation on an ongoing basis</i></p>
<p><u>Section 5.1.2</u></p> <ul style="list-style-type: none"> • Deficiencies in the management of operational risk (in the context of SMEi Spain), requiring: • Importance of having strong cooperation, clear distinction of duties and obligations and transparent and timely communication between the stakeholders when drafting programmes and mandates 	<p><i>Implementation on an ongoing basis until Q1 2024</i></p>
<ul style="list-style-type: none"> • Establishment of a forward-looking lessons-learned exercise from the perspective of EIB Group, the intermediaries and the mandators 	
<ul style="list-style-type: none"> • Importance of clarifying the responsibilities of each party involved in mandate negotiation, due diligence and post-signature requirements, in particular for new mandates 	
<p><u>Section 5.1.3</u></p> <p>Transaction and portfolio risk:</p> <ul style="list-style-type: none"> • Target a sustainable long-term solution, with appropriate resources in place, for the implementation of the new private equity valuation model 	<ul style="list-style-type: none"> • <i>Implementation on an ongoing basis and to be seen in the context of the 2023 financial statements</i>

Action Point / recommendation	Status
<p><u>Section 5.2.1</u></p> <p>Best practices:</p> <ul style="list-style-type: none"> Establish a clear allocation of responsibilities and a staggered approach, with priorities to ensure the correct monitoring, implementation, controlling and annual assurances related to BMPs/BBPs 	<p><i>Implementation on an ongoing basis and to be further developed in 2024</i></p>
<ul style="list-style-type: none"> IA to assist and advise the EIF services in the process of building the monitoring system for the appropriate implementation of BMPs/BBPs 	
<p><u>Section 5.2.2</u></p> <p>Transaction and Corporate Compliance – Conflicts of interest, requiring:</p> <ul style="list-style-type: none"> Swift implementation of the recommendations in the Compliance Opinion as well as of the framework for appointments of EIF staff on the governing bodies, irrespective of the status of the drafting of the relevant Implementing Procedures 	<p><i>Implementation on an ongoing basis</i></p>
<ul style="list-style-type: none"> Speedy implementation of necessary improvements and updates to the Codes of Conduct applicable to the relevant Governing Bodies 	
General recommendations	Status
<p><u>Section 5.3</u></p> <p>Information security:</p> <ul style="list-style-type: none"> Intensified attention on cybersecurity matters and ways for continued improvement in IT security at Group level 	<p><i>Implementation on an ongoing basis</i></p>

EIB Group considerations

Action Point	Status
<p><u>Section 2</u></p> <p>EIB Group-wide approach for coordination and collaboration:</p> <p>Determined efforts for ongoing Group Alignment Implementation Plan (GAIP) projects, in line with the prioritisation plan, notably those where complexities and/or delays have been identified, and in particular as concerns:</p> <ul style="list-style-type: none"> the BCBS 239 project 	<p><i>Implementation on an ongoing basis and on track</i></p>
<ul style="list-style-type: none"> Best Market Practices (BMP) and Best Banking Practices (BBP) frameworks 	

Third parties – external auditor

Action Point / recommendation	Status
<p><u>Section 3.1.1</u></p> <p>Management of new and complex products:</p> <ul style="list-style-type: none"> • Important to consider 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. 	<p><i>Implementation on an ongoing basis and in conjunction with the established New Products Committee</i></p>
<p><u>Section 3.1.2</u></p> <p>Financial statements:</p> <ul style="list-style-type: none"> • To ensure 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 	<p><i>Implementation on an ongoing basis</i></p>
<ul style="list-style-type: none"> • The EIF's services and executive management to address observations and recommendations without undue delay and in the same financial year 	<p><i>Implementation on an ongoing basis</i></p>

Other

Action Point / recommendation	Status
<p><u>Section 9</u></p> <p>The Audit Board wished to further place additional focus on:</p> <ul style="list-style-type: none"> • New mandates to be deployed in 2023 – ongoing oversight on implementation of flagship initiatives from an audit risk and control perspective 	<p><i>Implementation on an ongoing basis</i></p>
<ul style="list-style-type: none"> • Implementation of IRC Work Programme 	
<ul style="list-style-type: none"> • Implementation of Digital Transformation Programme: digitalisation efforts to minimise risks of errors and potentially release scarce resources for other activities 	
<ul style="list-style-type: none"> • IA's feedback as concerns the revision of the Institute of Internal Auditors (IIA) Standards, to the extent relevant for the activities of the Fund 	
<ul style="list-style-type: none"> • EIF engagement in Ukraine in the Group context 	