

Board of Auditors’ Annual Report to the Board of Governors

Board of Auditors

European Stability Mechanism

1. Introduction

The Board of Auditors of the European Stability Mechanism (the “ESM”) is established pursuant to Article 30 of the Treaty establishing the ESM (the “Treaty”) and Article 24 of the ESM By-Laws (“By-Laws”). The members of the Board of Auditors are appointed by the Board of Governors on the basis of Article 30 (1) of the Treaty and Article 24 (1) of the By-Laws.

The Board of Auditors is an independent body that inspects the ESM accounts and verifies that the operational accounts and the balance sheet are in order. Furthermore, it monitors and reviews the ESM’s internal and external audit processes and

their results. In addition, it carries out independent audits in relation to the regularity, compliance, performance, and risk management of the ESM.

This report is addressed to the Board of Governors in accordance with Article 30 (4) of the Treaty and Article 24 (6) of the By-Laws and provides details on the audit work of the Board of Auditors, its work in relation to the financial statements of the ESM, and its conclusions. This report will also be made available to the national parliaments and supreme audit institutions of the ESM Members, the European Court of Auditors, and the European Parliament.

2. Activities of the Board of Auditors

2.1. Meetings of the Board of Auditors

The Board of Auditors held eight meetings in 2024. From 1 January 2025 to the date of issuance of this report, the Board of Auditors continued its work and held a further five meetings.

During these meetings, the Board of Auditors was informed about institutional developments and issues through regular discussions with ESM management, as part of its oversight role. Furthermore, the ESM Secretary General provided the Board of Auditors with regular updates on the ESM and its governing bodies’ activities. The Board of Auditors requested presentations by ESM management and senior staff on specific topics and met regularly with the internal and external auditors as part of the Board of Auditors’ mandate. It also held its own discussions in connection with the Board of Auditors’ core mandate to:

- review the integrity and adequacy of the financial statements and related control frameworks,
- perform selective efficiency and effectiveness audits in relation to the regularity, compliance, performance, and risk management of the ESM in accordance with International Auditing Standards, and
- monitor and review the ESM’s internal and external audit processes and their results.

In the context of its mandate, the Board of Auditors also exchanged views with the Chairperson of the Board Risk Committee and the Chairperson of the Budget Review and Compensation Committee. The Board of Auditors also presented its report in respect of the ESM 2024 Financial Statements to the Board of Directors on 28 March 2025. Furthermore, the Chairperson of the Board of Auditors met with the Board of Directors on 13 June 2025 and attended the annual meeting of the Board of Governors to discuss the conclusions of this report. Lastly, the

Chairperson of the Board of Auditors also had a bilateral meeting with the Chairperson of the Board of Governors, during the course of June 2025.

2.2. Main activities

In line with its mandate, the Board of Auditors performed the following activities:

Exchanges with ESM management

The Board of Auditors met with the ESM Managing Director, members of the Management Board, and senior staff to discuss and review relevant issues and developments. A particular focus was placed on risks inherent to ESM operations. Furthermore, at its request, the Board of Auditors received various written presentations from ESM management concerning issues of oversight. During the course of 2024, this included presentations related to the ESM's funding and investment activities, liquidity buffers, derivatives risk and governance framework, organisational structure, risk management, compliance function, and sustainability considerations in investment operations.

The Board of Auditors had extensive exchanges with the relevant ESM departments on the progress of the ESM's new building project, discussed the results of the respective internal audits that were conducted in 2024, and held discussions with the external service provider supporting the audit. The Board of Auditors expressed its concerns about potential cost overruns related to the project and, in line with the relevant internal audit report, encouraged management to implement stringent monitoring of costs associated with the project.

In addition, the Board of Auditors was regularly informed about the progress of the ratification of the amended ESM Treaty and noted that as of the date of this report the amended ESM Treaty had not yet come into effect. In this context, the Board of Auditors requested further clarity on possible implications stemming from the preliminary work that had already been executed in preparation of the enhanced ESM mandate.

ESM financial statements

The Board of Auditors reviewed the ESM financial statements for the period ended 31 December 2024 as drawn up by the Board of Directors on 28 March 2025.

The Board of Auditors followed the preparation of the ESM 2024 Financial Statements and provided the ESM with its observations in relation to accounting treatments, methodologies, and disclosures. In addition, the Board of Auditors exchanged views on these matters with the Chairperson of the Board Risk Committee on 7 March 2025 and the Chairperson of the Budget Review and Compensation Committee on 23 September 2024 and 24 March 2025 and on a regular basis with the external auditor.

In this context, the Board of Auditors acknowledged the increase in net profit outcome for the year 2024, following the current interest rate environment.

Additionally, the Board of Auditors sought further clarifications on the:

- governance and transparency of ESM liquidity buffers,
- accounting treatment of derivatives, including their impact on the balance sheet and profit-and-loss statements,
- related hedging strategies and their duration and maturity,
- rationale for restarting the hold-to-maturity investment and its performance so far,
- transparency on the costs of funding,
- transparency on the breakdown on interest on loans to beneficiary Member States according to ESM's pricing structure.

Subsequently, the Board of Auditors issued its report in respect of the ESM 2024 Financial Statements, which is included in the *ESM 2024 Annual Report*. Based on the work undertaken and the information obtained, including the unqualified audit opinion of the external auditor, the Board of Auditors concluded that to the best of its judgement, no material matters have come to its attention that would prevent it from recommending that the Board of Governors approve the ESM financial statements for the year ended 31 December 2024 as part of the *ESM 2024 Annual Report*.

External auditor

In 2024, the Board of Auditors monitored and reviewed the processes performed by the external auditor, KPMG, in line with Article 24 (4) of the By-Laws. This included a review of the annual audit plan that set out the audit methodology and approach, as well as the monitoring of its implementation through regular meetings and discussions with the external auditor. The Board of Auditors also performed a review of the external audit working papers. The review was conducted at KPMG premises over two full days, on 19 and 20 February 2025. In this context, the Board of Auditors discussed with KPMG the audit procedures applied for the most material lines of the balance sheet and profit and loss accounts. The Board of Auditors reviewed and discussed with the external auditor the evidence provided and the results of the applied audit procedures, the controls in place and their adequacy, the treatment of the derivatives and transparency issues in particular in relation to the cost of funding, and the interest on loans to beneficiary Member States. Furthermore, the Board of Auditors reviewed the report prepared and issued by the external auditor which is addressed to the Board of Auditors in compliance with EU Regulation 537/2014 of the European Parliament and of the Council of 16 April 2014 describing the audit process, scope, and its results.

Internal audit

The Board of Auditors met regularly with the internal audit function in closed sessions to monitor internal audit processes and their results. The internal audit function is an independent assurance function designed to add value and improve the operations of the ESM. It assists the ESM in fulfilling its mandate by bringing a systematic and disciplined approach to evaluating and improving the effectiveness and procedural efficiency of ESM risk management, control, and governance processes. As part of its responsibilities, it also evaluates the adequacy, effectiveness, and timeliness of actions taken by management on findings and recommendations issued by the internal audit function, the external auditor, and the Board of Auditors. The internal audit function reports directly to the ESM Managing Director and is under the oversight of the Board of Auditors.

The Board of Auditors examined and discussed the reports issued by the internal audit function, as well as the status of implementation of the related actions agreed by the ESM. In addition, the Board of Auditors also endorsed the internal audit plan for 2025, following its approval by the ESM Managing Director. Lastly, the Board of Auditors reviewed and provided comments on the draft Internal Audit Charter prior to its approval by the ESM Board of Directors.

Other activities

Finally, the Board of Auditors reviewed and updated its own Code of Conduct with effect as of 25 February 2025, which is published on the [ESM website](#).

2.3. Audits of the Board of Auditors

In addition to the annual statutory audit by the independent external auditor and the audits performed by the internal audit function, the Board of Auditors may carry out audits in accordance with Article 30 (3) of the Treaty and Article 24 (4) of the By-Laws.

In this context, in November 2024 the Board of Auditors concluded its audit on the ESM's Investment Strategy, which was conducted with the support of subject matter experts from the German Federal Court of Auditors (Bundesrechnungshof).

Overall, the Board of Auditors concluded that the management of investments at the ESM appears sound. At the same time, the audit identified some areas for enhancement with the aim to improve transparency, accountability, and the efficiency of

decision making in the ESM. More specifically the Board of Auditors recommended that:

- The ESM continue strengthening systematic analysis of different strategies and their potential costs and benefits during the decision-making process.
- The ESM consider enhancing its risk management framework to improve monitoring and reporting practices.
- The governance of the ESM's internal committees be further enhanced by introducing the functional segregation and "need-to-be-there" principles.

Recommendations included in the audit report were agreed with ESM management. The Board of Auditors notes that ESM management confirmed its commitment to implement the issued recommendations.

3. In Closing

The Board of Auditors considers that, during 2024, it adopted a balanced work plan in terms of focus, objectives, and means utilised to obtain the necessary assurance required for the discharge of its mandate. The Board of Auditors also confirms that it received the expected full support from ESM management.

The Board of Auditors will continue to monitor the implementation of its audit recommendations and those of the internal audit function.

Luxembourg, 19 June 2025

Appendix - composition of the Board of Auditors

According to Article 30 (1) of the Treaty, the Board of Auditors shall have five members, appointed by the Board of Governors for a non-renewable term of three years. In line with Article 30 (1) of the Treaty and Article 24 (1) of the By-Laws two members are appointed upon proposal of the Chairperson of the Board of Governors, two members upon nomination by the supreme audit institutions of the ESM Members based on a rotation system, and one upon nomination by the European Court of Auditors. The members of the Board of Auditors are as follows:

- Ms Helga Berger, appointed upon nomination by the European Court of Auditors (from 17 December 2022). Ms Berger has been serving as Chairperson of the Board of Auditors since 17 January 2023.
- Ms Lucia Kašiarová, appointed upon proposal of the Chairperson of the Board of Governors (from 25 April 2022). Ms Kašiarová has been serving as Vice-Chairperson of the Board of Auditors since 27 November 2024.

- Mr Giovanni Coppola, appointed upon nomination by the Italian Court of Auditors (from 8 October 2022).
- Mr Helmut Berger, appointed upon proposal of the Chairperson of the Board of Governors (from 8 October 2024).
- Mr Märt Loite, appointed upon nomination by the National Audit Office of Estonia (from 8 October 2024).

The Board of Auditors notes that the successor of Ms Lucia Kašiarová, whose mandate ended on 24 April 2025, is expected to be appointed by 19 June 2025. It also notes that the non-renewable three-year terms of Mr Giovanni Coppola and Ms Helga Berger will end respectively on 7 October 2025 and 16 December 2025. In line with the ESM Treaty and By-Laws, the Board of Governors will therefore appoint two new members of the Board of Auditors ahead of these departure dates.

