



ESM management comments on the Board of Auditors' Annual Report to the Board of Governors

Dear Chairperson,

The ESM management welcomes the Annual Report for 2024 issued by the Board of Auditors and expresses its appreciation for the Board's continued oversight and constructive cooperation. The ESM recognises the valuable role played by the Board of Auditors in safeguarding sound governance, financial integrity, and operational transparency in line with the ESM Treaty and By-Laws.

As Managing Director of the ESM, I am pleased to share the ESM management comments on the observations and recommendations presented by the Board of Auditors, alongside a summary of the audit oversight activities conducted by the ESM in 2024. As a public institution, the ESM values its ongoing dialogue with the Board of Auditors and the external auditor throughout the financial reporting cycle, including the opportunity to address emerging technical questions at an early stage to bolster the integrity of the ESM's accounting and audit processes. These regular exchanges also contribute to reinforcing the ESM's accountability and transparency.

Financial statements and audit matters

The ESM takes note of the Board of Auditors' conclusion and its recommendation to the Board of Governors to approve the ESM 2024 Financial Statements, having identified no material issues. The ESM management appreciates the Board of Auditors' regular review of accounting approaches and welcomes the exchanges held on specific accounting and financial reporting matters, such as the treatment of derivatives, developments in liquidity management, and the renewed use of hold-to-maturity investments. The ESM remains committed to the consistent application of accounting standards and to the transparent presentation of its financial position, supported by the unqualified opinion of the external auditor.

In addition, ESM management acknowledges the Board of Auditors' review of the external auditor's

methodology and engagement outputs, including a two-day review of audit working papers at KPMG's premises. The ESM continues to fully facilitate the external audit process and values the Board of Auditors' role in monitoring the quality and depth of this independent assurance.

Internal audit and control enhancements

The ESM welcomes the Board of Auditors' role in supporting and monitoring the activities and processes of the internal audit function and the shared objective of strengthening internal governance. The endorsement by the Board of Auditors of the 2025 internal audit plan and the review of the revised Internal Audit Charter are appreciated. The ESM management confirms that it monitors the implementation of audit recommendations through established internal processes and maintains regular oversight at senior management level. The ESM also continues to strengthen its internal control framework by reinforcing cross-functional coordination and by refining the documentation of its control environment in line with evolving best practices.

Investment strategy review

The ESM welcomes the dedicated performance audit conducted by the Board of Auditors, in cooperation with subject matter experts, on the ESM's Investment Strategy. The ESM is encouraged by the Board's overall positive conclusion and has taken note of the recommendations aimed at improving transparency, decision-making processes, and governance of internal committees.

Management is in the process of addressing the recommendations, including through adjustments to internal documentation and committee procedures. The ESM values the Board of Auditors' constructive input to reinforce the governance and decision-making framework related to investment activities.

ESM building project

The ESM management takes note of the Board of Auditors' concerns about possible cost overruns related to the new building project.

While budget risks are inherent to any large construction project, the ESM confirms that robust governance and cost monitoring arrangements are in place and are being regularly reviewed and reinforced in line with internal audit recommendations. These include structured validation processes, periodic reviews of cost developments, and continued engagement with external partners to identify potential cost optimisation measures. The project remains under close executive oversight, with structured decision-making aligned to each key milestone in the design and planning process. At the end of the second design stage, the project remains within the approved budget despite a decline in the contingency buffer compared to the first design phase. Nevertheless, the buffer level remains reasonably comfortable at the current advanced stage of the project. The latest cost estimate from the second design phase will form the basis for the national approval of the project by the State of Luxembourg.

The ESM is committed to ensuring that the project remains financially sound and is delivered transparently and under robust governance. Regular updates will continue to be provided to the Board of Auditors and the ESM governing bodies, in line with established reporting practices.

Institutional developments and treaty ratification

The ESM management notes the Board of Auditors' interest in developments related to the amendment of the ESM Treaty. While ratification of the amended ESM Treaty has not yet been finalised, the ESM stands ready for the eventual implementation of the enhanced mandate. Preliminary preparatory work is being conducted with due regard for governance and cost-efficiency, and the ESM remains available to engage with all stakeholders on these developments.

In closing

The ESM management would like to express its gratitude to the members of the Board of Auditors for their thorough and constructive engagement sustained throughout 2024. The ESM also acknowledges the revision and publication of the Board's updated Code of Conduct, which further strengthens institutional transparency.

The ESM remains committed to maintaining a high standard of operational integrity, audit responsiveness, and continuous institutional improvement. I look forward to continuing the constructive engagement and dialogue with the Board of Auditors in 2025 and beyond.

Luxembourg, 19 June 2025

Pierre Gramegna
Managing Director

