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

Dear Chairperson,

The ESM management welcomes the Board of Auditors' Annual Report for 2025 and expresses its appreciation for the Board's continued oversight and constructive engagement. The ESM recognises the important role of the Board of Auditors in supporting sound governance, financial integrity, and transparency in line with the ESM Treaty and ESM By-Laws.

As Managing Director of the ESM, I am pleased to provide the ESM management comments on the observations and conclusions set out in the report. The ESM values its regular dialogue with the Board of Auditors throughout the financial reporting cycle and across the wider exercise of its oversight mandate, which contributes to the institution's accountability vis-à-vis its Members.

Independent oversight by the Board of Auditors

In 2025, the ESM Managing Director, members of the Management Board, and senior staff engaged regularly with the Board of Auditors on relevant institutional developments. The Board of Auditors was kept informed of the meetings and decisions of the ESM governing bodies and received presentations on a range of matters relevant to its mandate, including funding and investment activities, liquidity buffers, risk management, compliance, ESM analytical capabilities, and the new building project. The ESM appreciates the Board of Auditors' continued engagement with the internal and external audit functions and the constructive exchanges held throughout the year.

Financial statements and external audit

ESM management appreciates the Board of Auditors' review of the ESM 2025 Financial Statements and of the related accounting treatments, methodologies, and disclosures. In particular, ESM management notes the Board of Auditors' observations on the increase in net profit in 2025, primarily reflecting the prevailing interest rate environment, and on the cash flow statement and related disclosures.

The ESM welcomes the Board of Auditors' conclusion and its recommendation to the Board of Governors to approve the ESM 2025 Financial Statements, having identified no material matters that would prevent such a recommendation.

Regarding the external audit, ESM management acknowledges the Board of Auditors' review of the work of KPMG, including the external auditor's methodology, processes, and working papers. The external auditor's unqualified opinion confirms that the ESM 2025 Financial Statements present a true and fair view of the ESM's financial position. The ESM remains committed to supporting a robust and transparent external audit process.

Internal audit and internal control framework

The ESM internal audit function continued its effective operation throughout 2025 as an independent assurance function reporting directly to the Managing Director and under the oversight of the Board of Auditors. The ESM management notes that the internal audit function continued to have full and unrestricted access to the Board of Auditors, and that no impairments to its independence or objectivity were identified in 2025.

Furthermore, the ESM management appreciates the Board of Auditors' endorsement of the internal audit plan for 2026 and the constructive exchanges on audit priorities. As part of the ESM's internal control framework, management performs an annual self-evaluation of internal controls, taking into account also the observations of the risk management, compliance, and internal audit functions. The 2025 management report on internal controls, as shared with the Board of Auditors, concluded that the ESM maintained an overall effective system of internal controls as of 31 December 2025.

ESM building project

ESM management takes note of the Board of Auditors' observations regarding the new building project, undertaken jointly with the State of Luxembourg. The ESM welcomes the Board of Auditors' acknowledgement of the progress achieved to date and the governance arrangements put in place to support the timely and within budget delivery of the project and reaffirms its commitment to closely monitor the risks of cost overruns and delays.

The project remains subject to close executive oversight, supported by structured governance and validation processes, periodic review of cost developments, and ongoing engagement with the Luxembourg authorities and other external partners. The ESM will continue to implement relevant internal audit recommendations and keep the Board of Auditors and the ESM governing bodies informed of material developments in line with established reporting practices.

In closing

The ESM management remains fully committed to maintaining a regular and constructive dialogue with the Board of Auditors and to providing the support, information, and documentation necessary for the execution of its tasks. The observations and conclusions set out in the Board of Auditors' Annual Report to the Board of Governors are welcomed by ESM management and contribute to the continued strengthening of the institution's governance and operations.

Before concluding, I would like to note the recent changes in the composition of the Board of Auditors, in particular the appointment of Mr Jorg Kristijan Petrovič as the new Chairperson. I would also like to thank the outgoing members for their dedicated service and commitment in the discharge of their mandate. A special thanks to Ms Helga Berger who served as efficient Chairperson for the Board of Auditors.

I look forward to continuing the constructive engagement and close dialogue with the Board of Auditors in 2026 and beyond, for the benefit of the ESM and its Members.

Luxembourg, 11 June 2026

Pierre Gramegna
Managing Director

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