



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

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Dear Chairperson,

Thank you for sharing the Board of Auditors' report to the Board of Governors. The independent oversight provided by the Board of Auditors and your annual report to the Board of Governors are essential elements of the ESM governance and accountability framework. The ESM management acknowledges your report and welcomes its observations and conclusions.

I would like to provide you and the Board of Governors with the ESM management comments on your report and to recall some key elements of the ESM's audit oversight that were in place in 2022.

## Independent oversight by the Board of Auditors

In 2022, the Board of Auditors held eight meetings. From 1 January 2023 to the date of the issuance of this report, another five meetings took place. During these meetings, the Board of Auditors met with the ESM Managing Director, the Secretary General, and other senior staff members from various functions, including corporate governance, finance and control, internal audit, risk management, compliance, funding and investor relations, investment and treasury, human resources and organisation and information technology and facilities management. Throughout these meetings, the Board of Auditors was informed of the meetings and decisions of the ESM governing bodies, as well as other relevant ESM policy issues and developments.

The Board of Auditors engaged in discussions with ESM management, staff, and the external auditor regarding the draft ESM financial statements and related disclosures as of 31 December 2022. The Board of Auditors concluded in its report on the ESM 2022 financial statements that, based on its best judgement, no material issues came to its attention that would prevent it from recommending the Board of Governors' approval of the ESM 2022 financial statements.

The Chairperson of the Board of Auditors presented the report on the ESM 2022 financial statements to the Board of Directors on 30 March 2023. A subsequent exchange with the Board of Directors took place on 8 June 2023, followed by the

presentation of the Board of Auditors' report on the ESM 2022 financial statements and its annual report to the Board of Governors during the annual meeting of the Board of Governors on 15 June 2023.

In line with its mandate, the Board of Auditors regularly monitored and reviewed the external audit processes and their results and performed a review of the working papers of the external auditor, Ernst & Young *Société Anonyme*, Luxembourg ("Ernst & Young"), related to the statutory audit of the ESM 2022 financial statements. In its 2022 annual report, the Board of Auditors recommended the review of the ESM accounting manual and policies, taking into account the ESM's needs and best practices.

Additionally, the Board of Auditors requested information on the progress of the ESM building project and the impact of prevailing economic conditions, as well as rapidly increasing and volatile construction prices on the overall costs of the project. The Board of Auditors also proposed a relevant disclosure to be included in the ESM 2022 financial statements, which was implemented by the ESM. The Board of Auditors was kept informed of the audits of the ongoing project related to the ESM's new building that continued in 2022 and had exchanges with the external service provider supporting the audits.

The ESM confirmed its appreciation of the observations and recommendations made by the Board of Auditors and reiterated its commitment to address them.

## Audit procedures by the internal audit function

In 2022, the ESM internal audit function performed 12 audits in accordance with its annual audit plan, four audits were postponed and one was merged. As part of each audit, the internal audit function tested the design and operating effectiveness of the internal controls for the activities in scope. In addition, the internal audit function performed an annual review of the ESM entity-level controls.

The internal audit function had full, unrestricted and confidential access to the Board of Auditors and confirmed that there were no impairments to its independence and objectivity in 2022.

## Audit procedures by the independent external auditor

Ernst & Young carried out the statutory audit of the ESM 2022 financial statements and on 30 March 2023 presented its report to the Board of Directors. In its report, Ernst & Young confirmed that the financial statements give a true and fair view of the financial position of the ESM as of 31 December 2022. Furthermore, Ernst & Young confirmed that no matter came to its attention that would require making recommendations in its Management Letter.

The external auditor also confirmed that the statutory audit was conducted in accordance with the requirements of Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Luxembourg Law of 23 July 2016 concerning the audit profession, the International Standards on Auditing, as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*, and in compliance with the relevant ethical requirements regarding its independence. The external auditor noted that it was granted unlimited access to documents and ESM staff and had good cooperation with the ESM management. The external auditor's report was presented to the Board of Governors at the annual meeting on 15 June 2023 and is publicly available on the ESM website, as part of the *ESM 2022 Annual Report*.

According to Article 22 (2) of the ESM By-Laws, there shall be a mandatory rotation of the external auditors every six years. The Board of Governors appointed Ernst & Young as independent external auditor of the ESM for a term of three years in June 2017 and in 2020 extended its term for

another three years until June 2023. In 2022, the ESM performed a competitive procurement procedure for the selection of a new independent external auditor for the financial years 2023–2025. Two members of the Board of Auditors acted as observers to this process. On 5 December 2022, the Board of Governors appointed KPMG Luxembourg, *Société anonyme* ("KPMG") as the new independent external auditor of the ESM for the financial years 2023–2025.

## ESM Internal Control Framework

The extensive audit oversight of the ESM is complemented by a comprehensive system of internal controls, which are embedded in the daily operations of the ESM. The ESM internal controls, comprising entity-level, process-level, and information technology controls, are consistent with the nature, complexity and risks inherent in the ESM activities. The internal controls are subject to scrutiny by ESM management and regular independent review by the ESM internal audit function, the external auditor, and the Board of Auditors.

As part of the ESM Internal Control Framework, the ESM management performs an annual self-evaluation of internal controls. The outcome of the self-evaluation, together with the observations of the risk management, compliance, and internal audit functions, is presented in an annual management report on internal controls, which is shared with the Board of Auditors, the external auditor and the Board Risk Committee. The 2022 management report on internal controls concluded that ESM maintained an overall effective system of internal controls as of 31 December 2022.

## In closing

ESM management remains committed to maintaining a regular dialogue with the Board of Auditors and providing the necessary support, documentation, and information for the execution of its tasks. The Board of Auditors' annual report to the Board of Governors presents valuable observations and recommendations, which are appreciated and welcomed by ESM management.

I would also like to use this opportunity to thank the Board of Auditors and in particular Mr Baudilio Tomé Muguruza, the former Chairperson of the Board of Auditors, whose mandate at the Board of Auditors ended on 16 December 2022, and Mr Ilias Dimitriadis, the former Vice Chairperson, whose mandate ended on 7 October 2022, for their great commitment and service. I would also like to welcome the new members of the Board of Auditors appointed by the Board of Governors:

Mr Giovanni Coppola, nominated by the Italian Court of Auditors and appointed as of 8 October 2022, and Ms Helga Berger, nominated by the European Court of Auditors and appointed as of 17 December 2022. Ms Berger has been serving as Chairperson of the Board of Auditors since 17 January 2023.

I look forward to continuing our constructive exchanges with the Board of Auditors in 2023 for the benefit of the ESM and its Members. We appreciate the valuable insights and recommendations that the Board of Auditors offers, which contribute to the ongoing improvement of the ESM's operations.

15 June 2023

**Pierre Gramegna**  
Managing Director