

**WIRECARD SCANDAL:
FRAUD MECHANISM, POTENTIAL ROLE OF IFA &
LESSONS LEARNED**

Research Project for Emerging Issues/Advanced Topics Course

Master of Forensic Accounting

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OBJECTIVE AND METHODOLOGY OF THE RESEARCH

The research paper analyses the recent scandal of Wirecard group unveiled post a series of whistleblowing activities and media raising questions on the operations of the company time and again.

The fintech giant of Germany now is also known as the ‘Enron of Germany.’ A company with a seemingly healthy balance sheet and once valued at € 24 billion has filed for insolvency in June 2020 after a special investigation report by KPMG confirmed some severe concerns.

This research paper aims at understanding:

- The mechanism of the entire accounting scandal and the parties involved
- Were there any early signs that warned of an ensuing scandal?
- What were the observed/ alleged irregularities/ frauds/ financial crimes, and the rationale supporting those allegations?
- Were there any red flags related to the irregularities observed? If yes, had they gone unnoticed or knowingly ignored?
- The action/ lapse on the part of the parties entrusted with corporate governance and external compliances.
- Were there deficiencies in the regulatory framework that needs to undergo reform?
- The impact of the scandal and the lessons learned that would lead to probable reforms
- The potential role of an IFA and how the appointment of an IFA by various parties could have led to the prevention, or early detection of the scandal, at the least.

The research methodology applied was:

- Referring to data related to Wirecard on various online platforms – company’s annual reports and public releases, media reports, stock market profiles, etc. to gain a thorough understanding of the Wirecard group, its organisational structure, subsidiaries, global presence, products and service offered, key decision-makers, persons in-charge, etc.
- Analysing of the audit reports of Wirecard AG, financial trends, stock price movement, and market capitalisation, etc., to understand the expansion story of Wirecard.
- Referring to the whistleblower website, associated investigative articles, and research papers published.
- Studying the irregularities, frauds, or financial crimes undertaken or alleged and the rationale for the allegations.
- Studying the mechanism of how these frauds/ financial crimes were undertaken, the early signs of irregularities, and the red flags that should have raised concerns.
- Studying good corporate governance practices and compliance should have been implemented/achieved by the parties responsible - management, auditor, and regulators.
- Analysing the internal controls, policies, values, code of ethics, etc., in the case of Wirecard to ascertain weaknesses leading to consequent lapses.
- Studying the impact of the scandal on various parties associated with Wirecard and the extent of the impact
- Analysing the proposed changes and reforms required strengthening the regulatory and supervisory framework to ensure the story does not repeat.
- Determining the possible role of IFA, advantages of appointment of an IFA, and how it could have led to early detection of the scandal

TABLE OF ACRONYMS

AML	Anti-Money Laundering
APAS	Abschlussprüferaufsichtsstelle / Auditor Oversight Body
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht
BKA	Federal Criminal Police Office
CFT	Combating the Financing of Terrorism
CME	CardSystems Middle East
EBA	European Banking Authority
EBIDTA	Earnings Before Interest, Taxes, Depreciation & Ammortisation
EBIT	Earnings Before Interest and Taxes
EC	European Commission
ECB	European Central Bank
ESMA	European Securities and Markets Authority
EU	European Union
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FinCEN	Financial Crimes Enforcement Network
FINMA	Swiss Financial Market Supervisory Authority
FREP	Financial Reporting Enforcement Panel
FT	Financial Times
FV	Fair Value
IA	Intangible Assets

ICIJ	International Consortium of Investigative Journalists
IFA	Investigative and Forensic Accountant
MCA	Mercant Cash Advance
NFC	Near-field communication
R&T	Rajah & Tann
RMC	Right Momentum Consulting
SARs	Suspicious Activity Reports
SCP	Supplier and Commission Payments
TA	Total Assets
TD	Transparency Directive
TPA	Thirs Party Acquirer
USDT	US Department of the Treasury
WAH	Wirecard Asia Holding PTE
WSJ	Wall Street Journal

I.

Roshni, excellent job providing an overview of your chosen project area and a relevant table of acronyms. This provides a solid foundation from which to read your report.

INTRODUCTION TO THE COMPANY

1. Company Background:

Wirecard was founded in 1999 in Munich, Germany, by venture capital. When the dot-com crash hit, the company had to re-capitalise in 2002 with the help of an Austrian tech investor and entrepreneur, Markus Braun.

Braun, CTO and later the CEO, refocused Wirecard's business model to provide internet payment services. Over the years, Wirecard has expanded its e-payments service tremendously, starting with Visa and Mastercard credit card division in 2005. What followed later was a series of strategic alliances with companies like Apple Pay, China UnionPay, American Express, etc.

In 2007, Wirecard set up a subsidiary in Singapore to expand its operations in Asia. This step turned out to be a strategic and timely investment that increased the group's revenue during the period. This expansion helped the group wither the sub-prime crisis storm in 2008, which accounted for many financial institutions either getting wound up or filing for bankruptcy.

In the last two decades, Wirecard had expanded and according to the annual report of 2018, Wirecard had a presence in every continent. Wirecard structured its global presence around five key locations, to which smaller locations in other countries were assigned. These are:

- the Group headquarters in Aschheim for Europe,
- Singapore for the Asia-Pacific region,
- São Paulo for Latin America,
- Conshohocken (Philadelphia) for North America

- and Dubai for the Middle East / Africa.

Wirecard served more than 279,000 customers from a diverse range of sectors around the world, according to the annual report of 2018.

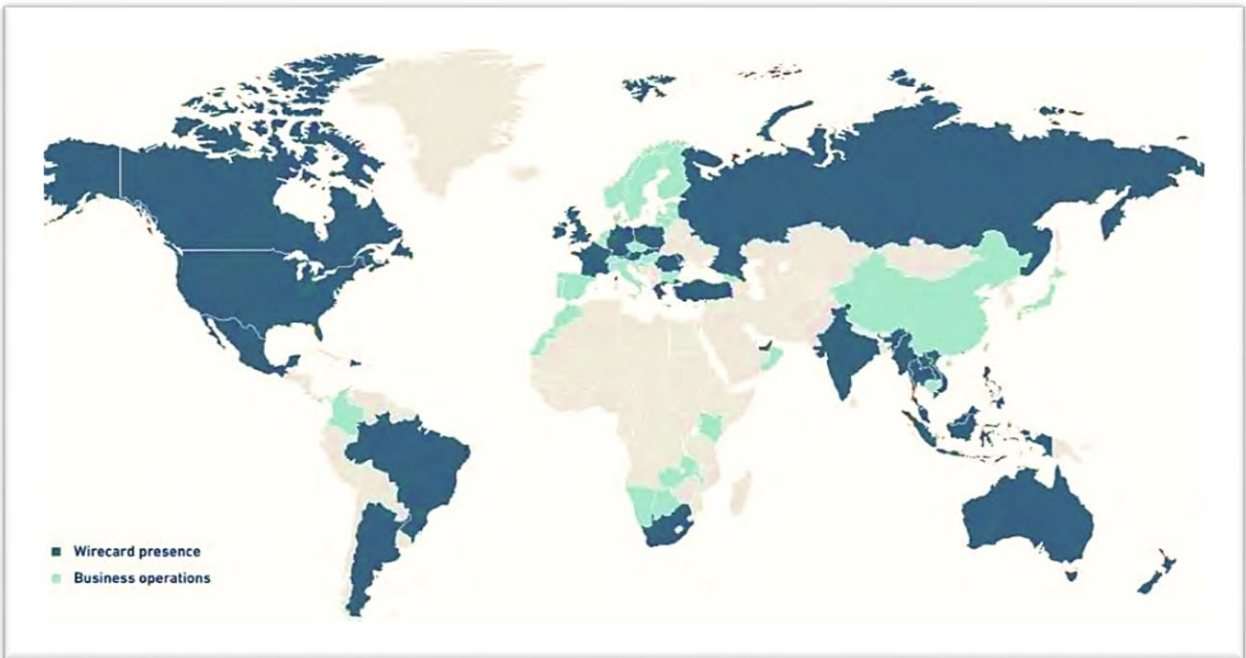


Figure 1: Global presence of Wirecard in 2018

Key subsidiaries of Wirecard referred to in the research ahead are:

1. Wirecard UK & Ireland
2. CardSystems Middle East FZ-LLC
3. Wirecard Asia Holding Pte Ltd.
4. Wirecard Singapore Pte Ltd.
5. Wirecard India Private Limited

A complete list of Wirecard's subsidiaries according to Audit Report 2018 is included in [Appendix 1](#).

2. Shareholding structure:

As per the annual report of 2018, 92.95% of the shareholding pattern comprises of free float. Also, most of the free float includes institutional investors from the Anglo-American region and Europe.

Table 1: Shareholding of Wirecard AG in as per annual report of 2018

Name	% holding
MB Beteiligungsgesellschaft mbH	7.05%
BlackRock Inc (US)	6.70%
Jupiter Asset Management Ltd. (UK)	5.10%
Citigroup Inc (US)	4.93%
Artisan Partners Asset Management Inc. (US)	3.00%
Free float (as defined by Deutsche Börse)*	92.95%

* Free float is inclusive of the holding with all institutions listed above except for MB Beteiligungsgesellschaft mbH.

3. Revenue and Market capitalisation:

Revenue and corresponding profitability reported by Wirecard in the last five years are given below.

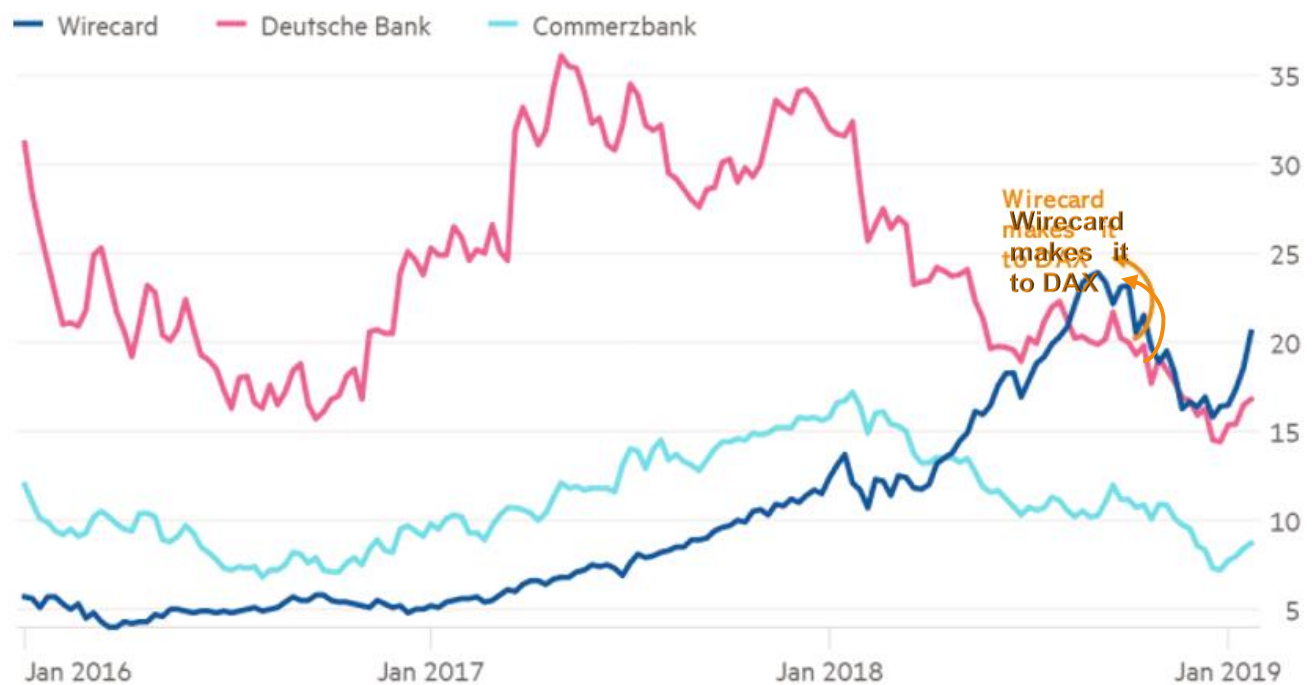
Table 2: Revenue and Profitability of Wirecard AG

(€ million)

	2015	2016	2017	2018	2019
Sales	771.30	1,028.30	1,490.00	2,016.20	2,800.00
Gross profit	380.70	527.80	746.50	971.20	NA
Earnings Before interest and Taxes (EBIT)	172.80	235.20	314.70	438.50	NA

Wirecard became listed on Prime Standard of the Frankfurt Stock Market through a reverse IPO of call centre provider Infogenie in 2005. Wirecard was included in the TecDAX in 2006, while it made its way into the DAX in September 2018.

In September 2018, after overtaking the market capitalisation, Wirecard replaced Commerzbank in the DAX index of the country's 30 leading listed companies. The latter had been a member of the DAX index since its inception in 1988. Later in the same year, Wirecard reached a market capitalisation (peak at € 24 billion) that overtook the market capitalisation of Germany's most important bank - Deutsche Bank, which was valued at approximately €20 billion.



Source: Refinitiv (formerly Thomson Reuters)

Figure 2: Comparative Market Capitalisation of Wirecard in € billions

4. Business model:

Wirecard's business model initially focused on client and market segments which were unwelcome at most financial institutions due to their increased risk profiles. These segments included pornography and gambling websites. In 2006, Wirecard acquired a bank and transformed it into a full-service payment operator which provided software and systems to do online business.

The three main business models undertaken by Wirecard are:

- **Payment Processing Services:**

The central business model of the group is 'transaction-based fees' for the use of services in

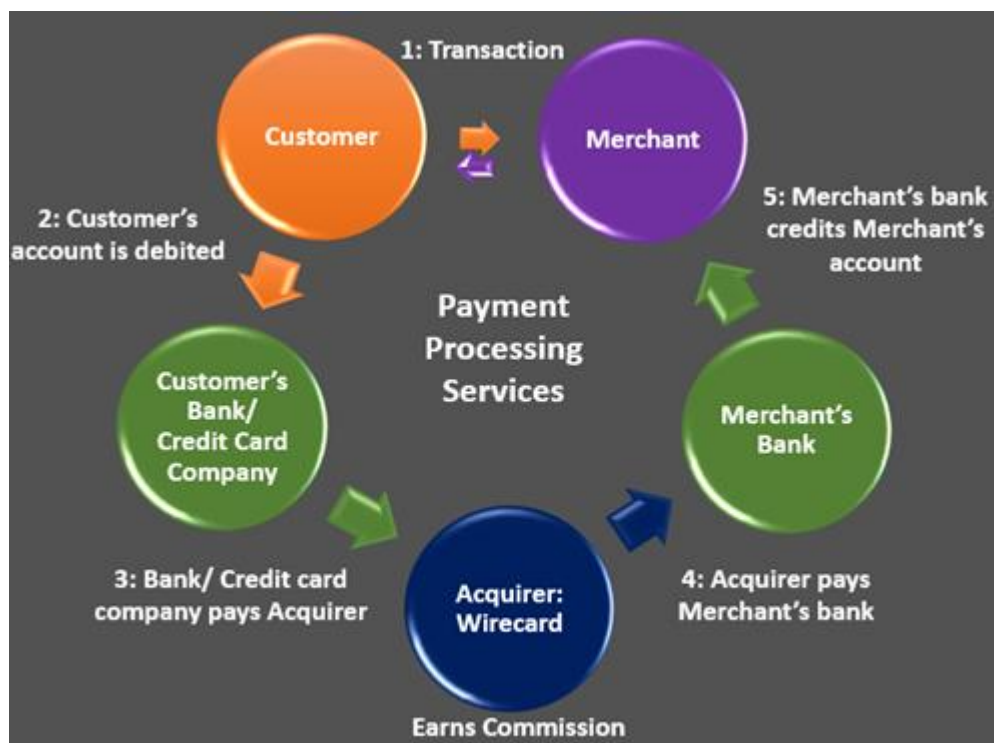


Figure 3: Payment Processing Services Cycle

the area of electronic payment processing. Wirecard provides the entire infrastructure and online services in this model. On processing a transaction, the customer's bank transfers the

transaction amount to Wirecard (Acquirer), which bears the risk of the credit card company. The acquirer pays the merchant bank with a gap, thus mitigating its risk.¹

- **Third-Party Acquirer (TPA):**

This model is majorly used to expand in countries where Wirecard does not hold its own payment processing license. In this business model, Wirecard enters into a contract with a local entity with a banking license. Wirecard then uses the TPA infrastructure to handle payment processing and earns ‘commission/processing fee’ for the customers referred.

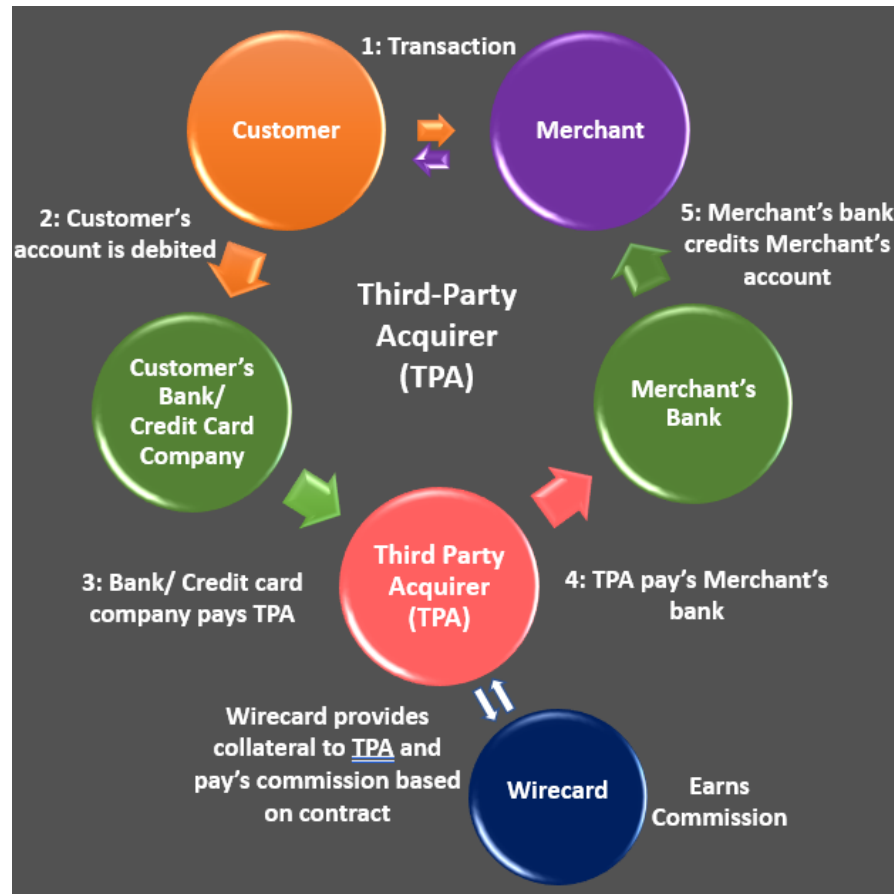


Figure 4: TPA Cycle

¹ Wirecard Audit report 2018, https://ir.wirecard.com/download/companies/wirecard/Annual%20Reports/NFE_2018_EN_websecured.pdf, Accessed on May 1, 2021

- **Merchant Cash Advance (MCA):**

MCA is a value-added service to the business models mentioned aforesaid. In this case, Wirecard settles the payment to merchant bank with no or minimal delay, thus reducing the working capital requirement of the merchants, hence the term ‘Merchant Cash Advance.’ Typically, the payment gateway receives payments from the customer’s bank with a lag of 2-5 days from the date of transaction and then makes the payment out to the merchant’s bank within 3-10 days from the date of the original transaction resulting in a lag of 2-10 days for the merchant to receive cash for the transaction. The lag may go up to 30 days in countries like Brazil, where payment processing takes furthermore time. The timeline of a transaction (on day 0), if its a regular card transaction as distinguished from an MCA, is shown below:

_ 2

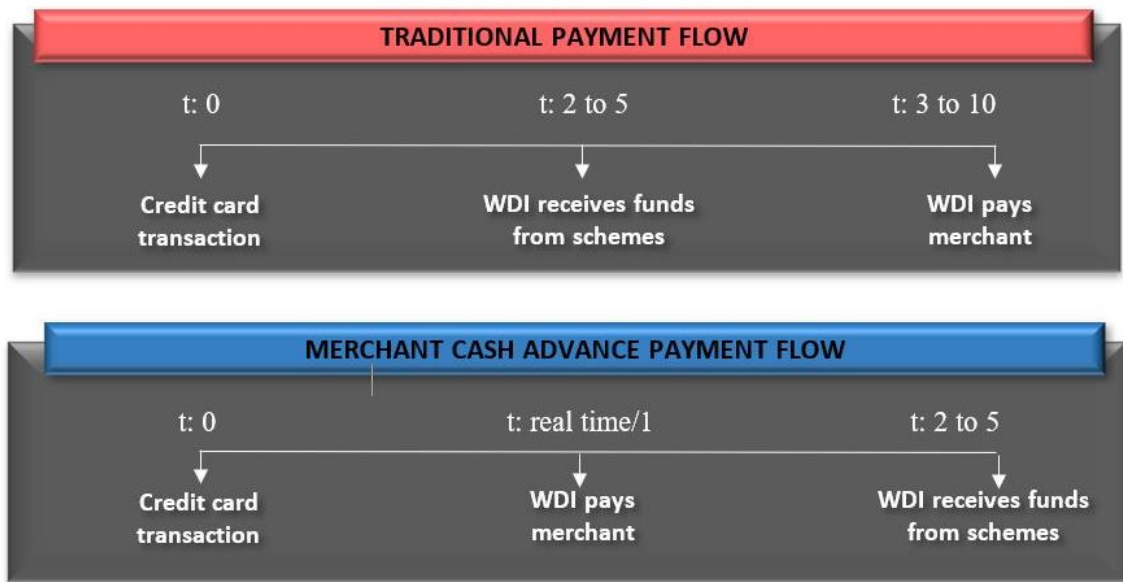


Figure 5: Traditional Payment Flow V MCA Flow

² What is MCA and why is it important? – June 16, 2019 – <https://www.mca-mathematik.com/brazil-in-detail/>, Accessed on April 30, 2021

5. Products and services:

Wirecard provided tailor-made and comprehensive digital solutions within the entire payment ecosystem for all sales channels.



Figure 6: Products & Services of Wirecard as per annual report 2018

Please be sure to provide the name of the source if you are using external tables/diagrams in your report.

- **Card issuing**

Numerous corporations partnered with Wirecard to launch their own payment cards. Curve, start-up banks such as Atom, money apps such as Revolut and Pokit, and Loot & Soldo from the spending management apps category are just a few well-known partnerships. Wirecard Bank has had mycard2go as part of its portfolio since 2010. It is a prepaid card purchased in stores and is ready to use immediately upon activation online.

- **eCommerce**

Wirecard acquired the payment and credit control business for the travel operator TUI in 2007 and KLM Royal Dutch Airlines in 2014. Wirecard's Supplier and Commission Payments (SCP) product was also developed to monitor the travel industry. Enabled with the automatic output of virtual credit cards, it facilitates electronic payments to partners and suppliers, ex. Commission payments. Since 2014, Wirecard offered its Checkout Portal – a fully automated application for connecting different payment methods in online shops, focusing on SMEs and virtual marketplaces.

- **Mobile payment**

Since 2015, Wirecard offered consumers the entirely digitised mobile payment app Boon, which worked independently of banks or network operators based on a virtual Mastercard. Boon offered contactless payments via smartphone and tablet through near-field communication (NFC) as well as online payments and peer-to-peer transactions. Wirecard offered its partners a mobile card reader as a white label programme to accept card payments via smartphones or tablets. The app was available in Germany, Austria, Belgium, the Netherlands, Spain, Ireland, France, Great Britain, Switzerland, and Italy.

- **Digitalization of the retail sector**

Wirecard also supported high-street retail with digitisation; an example of this is the collaborative project with T-Systems. In collaboration with the WMF Group, Wirecard created a smartphone app in 2016 that connects in-store purchases to online sales.

- **Alternative Chinese payment methods**

Wirecard partnered with Alipay in 2015 to provide Chinese tourists traveling to Europe with a standardised payment mechanism. Wirecard accomplished this by integrating the alternative payment option into the till systems of businesses such Printemps, The National Bank of Greece, and The Body Shop. Additionally, the payment process was integrated with retailers located at Munich Airport. Wirecard has worked with Tencent since July 2017 to offer WeChat Pay as well.

II. TIMELINE SUMMARY³

Before we analyse the events and the eventual collapse of Wirecard, below is the snapshot of the notable events leading to insolvency.

2010

March 30 – Market Watch reports that Munich prosecutors have been notified of a money laundering complaint against Wirecard Bank, a subsidiary of Wirecard AG

2015

August 17 – As part of its “House of Wirecard” series, the Financial Times (FT) questions Wirecard’s accounting practice and financial position.

2016

February 24 – Zatarra publishes a report which claims Wirecard laundered offshore betting proceeds in the US, among other allegations. The FT picks up the report the following day.

2017

November 7 – Süddeutsche Zeitung and NDR link Wirecard’s subsidiary, Wirecard Bank, to illegal online gaming operators.

³ RepRisk AG, RepRisk case study Wirecard, July 2020, <https://www.reprisk.com/media/pages/news-research/modules/case-studies/wirecard/1221563856-1620389115/reprisk-case-study-wirecard.pdf>, Accessed on May 23, 2021

2018

January 23 – In an article, the Southern *Investigative* Reporting Foundation questions the legitimacy of Wirecard's business acquisition in India in 2015.

2019

January 30 – The FT reports on allegations of possible forgery and account falsification in Wirecard's Asia-Pacific operations.

February 8 – Singaporean Police raids Wirecard's offices in response to the FT's report on allegations. First investor lawsuit filed against Wirecard in the US, alleging misleading statements and forgery.

March 5 – The Singapore Commercial Affairs Department raids Wirecard's offices in Singapore on suspicion of account fabrication.

April 24 – The FT reports on Wirecard's questionable accounting practices through overseas partner companies.

October – The FT reports that Wirecard overstated its sales and profits for 2016 and 2017 and under pressure from the investors, Wirecard appoints KPMG as special auditor.

2020

April 28 – Wirecard announces delay in publication of its 2019 financial report.

May 14 – First investor lawsuit filed against Wirecard in Germany, alleging accounting irregularities and balance sheet manipulation.

June 5 – Munich prosecutors raid headquarters of Wirecard due to suspected market manipulation.

June 18 – Wirecard announces further delay in publication of its 2019 financial report due to cash deficit of EUR 1.9 billion (USD 2.14 billion.)

June 22 – Wirecard CEO, who resigned four days earlier, arrested in Munich, Germany.

June 25 – Wirecard suspends trading on the Frankfurt Stock Exchange and initiates insolvency proceedings in Germany.

III. EARLY WARNING SIGNS OF IRREGULARITIES

The collapse of Wirecard did not happen overnight. A series of events and irregularities grew to a level that could not be masked further. These irregularities left a trail to the eventuality that could have prevented some of the impacts if detected earlier. Some of the early warnings were:

1. Reverse IPO through an alleged shell company

The corporate listing of Wirecard raised some questions. Wirecard became listed on Prime Standard of the Frankfurt Stock Market through a reverse IPO of call centre provider Infogenie in 2005. Due to minimal disclosure requirements and scrutiny of books, reverse IPO is an easier alternative to getting listed than the traditional listing of companies. In the case of Wirecard, reverse IPO did raise some criticism since the reverse listing was through an entity alleged as a shell company.

2. Weak internal controls:

- **No dedicated audit committee:**

Despite the size of operations undertaken by Wirecard and its global presence, Wirecard's Board did not have a dedicated audit/risk compliance committee till 2018. In early 2019 when a team was set up, the size of the compliance team members was just 20, which is relatively small considering the company's geographical spread. A comparative analysis given by Forbes reflects that HSBC said it had 6,000 compliance staff in 2017, or 2.6 percent of its workforce, as against 0.4% staff mentioned by Wirecard. Since the company was ever-expanding and followed a growth approach, the fraud and financial misstatements went

unnoticed for so long. The Supervisory board never remarked about any limitations or adverse findings were spoke highly about the company and its operations ⁴.

- **Board of Management meeting not minuted**

While KPMG conducted the particular investigation, Wirecard AG confirmed that no minutes were taken at Board of Management meetings. According to the report, KPMG was presented with an overview of the Board of Management resolutions for 2015 to 2018. KPMG further requested individual Board of Management resolutions. ⁵

As noted by KPMG,

“Wirecard AG provided KPMG with a Board of Management resolution that was not included in the overview of the Board of Management decisions. Accordingly, we cannot assess the completeness of the overview of the Board of Management resolutions submitted to us.” ⁶

⁴ Gideon Pel, Wirecard Fraud Is Risk Management Lesson For Fintech Companies, Forbes.com, Jul 14, 2020, <https://www.forbes.com/sites/gideonpell/2020/07/14/wirecard-fraud-is-risk-management-lesson-for-fintech-companies/>, Accessed on May 2, 2021

⁵ KPMG Report Concerning the Independent Special Investigation, Munich, April 27 2020, https://www.wirecard.com/uploads/Bericht_Sonderpruefung_KPMG_EN_200501_Disclaimer.pdf, 8, Accessed on May 2, 2021

⁶ [Ibid.](#), 8

Also, Supervisory Board meetings were not provided to KPMG. KPMG was provided with the agenda of the meetings from Jan 1, 2016, and minutes extract based on agenda items.

Good discussion of the weak internal controls here. It is rather shocking that no audit/risk committee was in place and that Board meetings were not minuted. Excellent red flags to note going forward.

3. Unexplained increase in stock price:

Wirecard shares were trading at single-digit Euro a decade ago and managed to reach close to €45 in 2017. However, since 2017, the company's stock price has increased manifold despite time and again questions raised on the company's financials and operations alike. Wirecard's increased revenue and profitability reported in the annual reports, numerous expansion and proposal to takeover Citi's payment processing operations in 11 countries again helped attract investors and eventually boosted the stock price. Amid these claims by the company backed by the unqualified report from the auditor, the allegations and questions raised were unheeded by many investors. By Sep 2018, the price of the stock had rocketed up to €193.5.

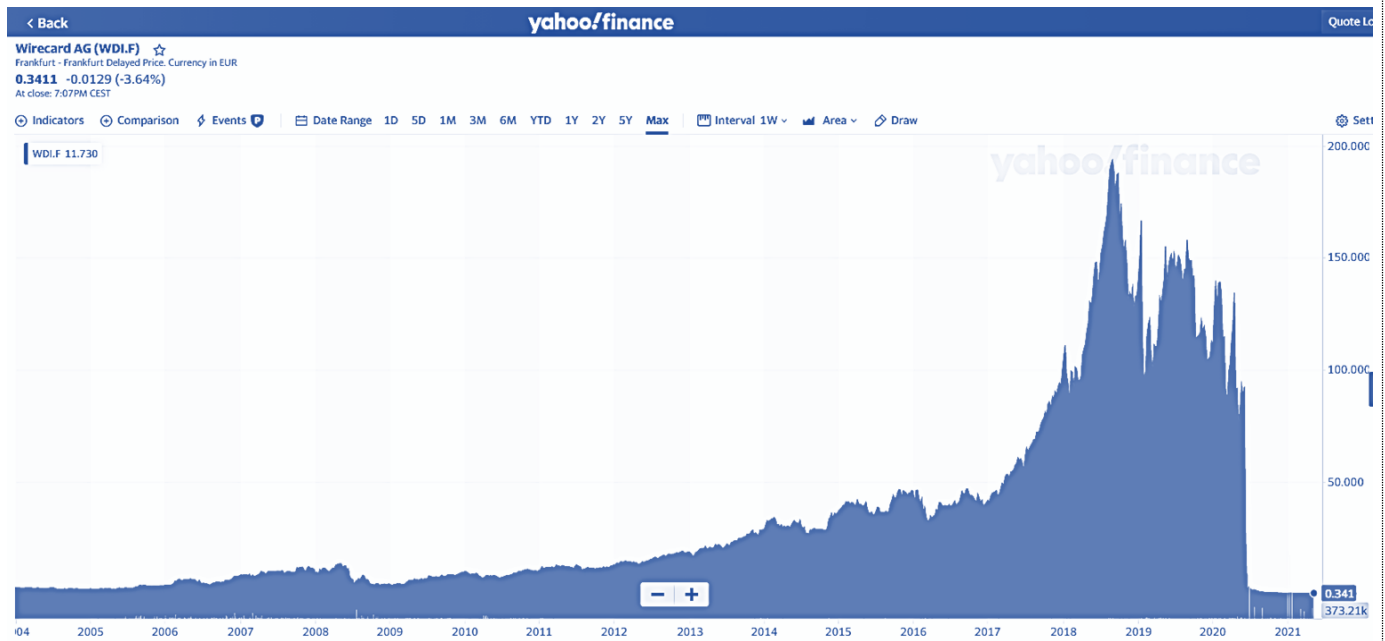


Figure 7: Stock price movement of Wirecard AG since 2005

The whistleblower only posted further disclosures ⁷, raids in the Singapore office, and the consequent KPMG special investigation report, revealing concerns that the stock crashed.

⁷ The whistleblower chooses to remain anonymous owing to ominous nature of the whistle and uploads all his allegations/expose @ <https://www.mca-mathematik.com/>

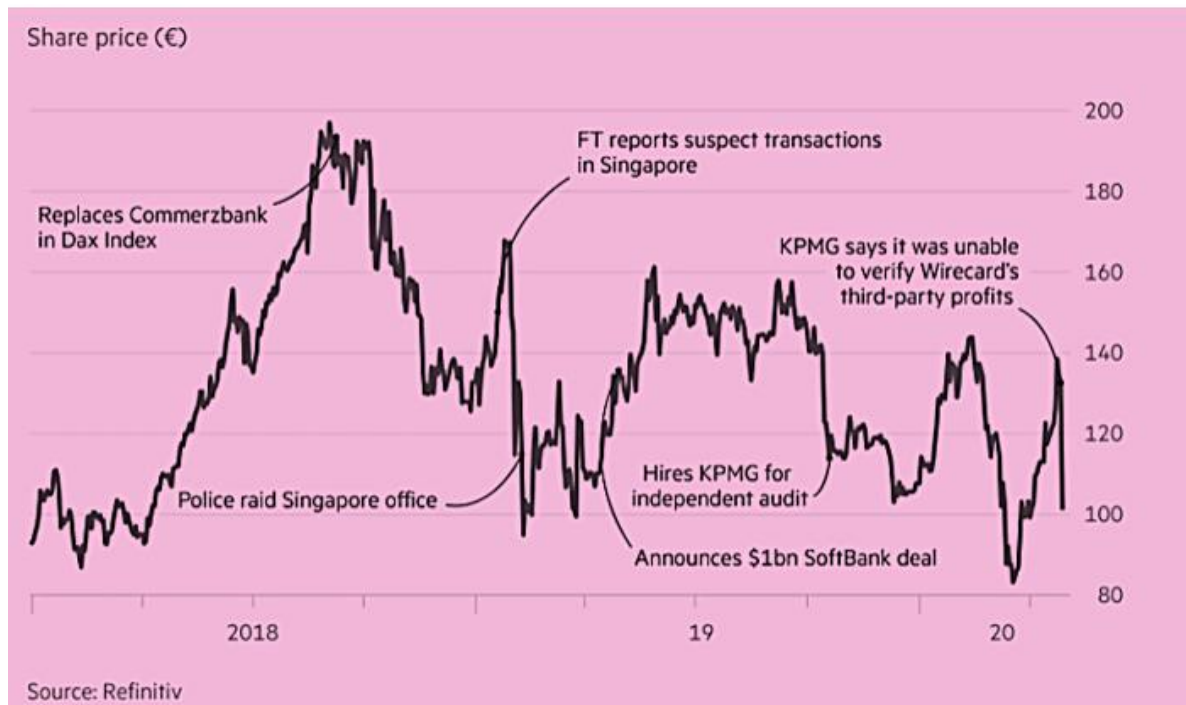


Figure 8: Stock price fluctuation of Wirecard between 2019-2020 before the final collapse

4. Past misconduct:

- **Fines by Visa and Mastercard**

Credit card companies can fine the payment processor if they find miscoding a transaction to hide the real nature of the transaction. Visa and Mastercard, partners of Wirecard, fined the payment processor for questionable transactions a decade ago. Both companies had raised concerns on the risky clientele of Wirecard, mostly being into gambling, pornography, etc. Though these clienteles would mean more profitable business for Wirecard, its partners were not happy that too much of Wirecard's business

is from the high-risk segment. Also, there were issues surrounding the wrong coding of gambling transactions to let the payment be processed without much scrutiny.⁸

- **Questionable transactions**

There were instances of a high count of stolen cards' usage routed through Wirecard and reverse transactions, reported by WSJ. Federal Trade Commission plays a crucial role in identifying card fraud; however, credit card companies are dependent on self-regulation and monitoring transactions according to practice.⁹

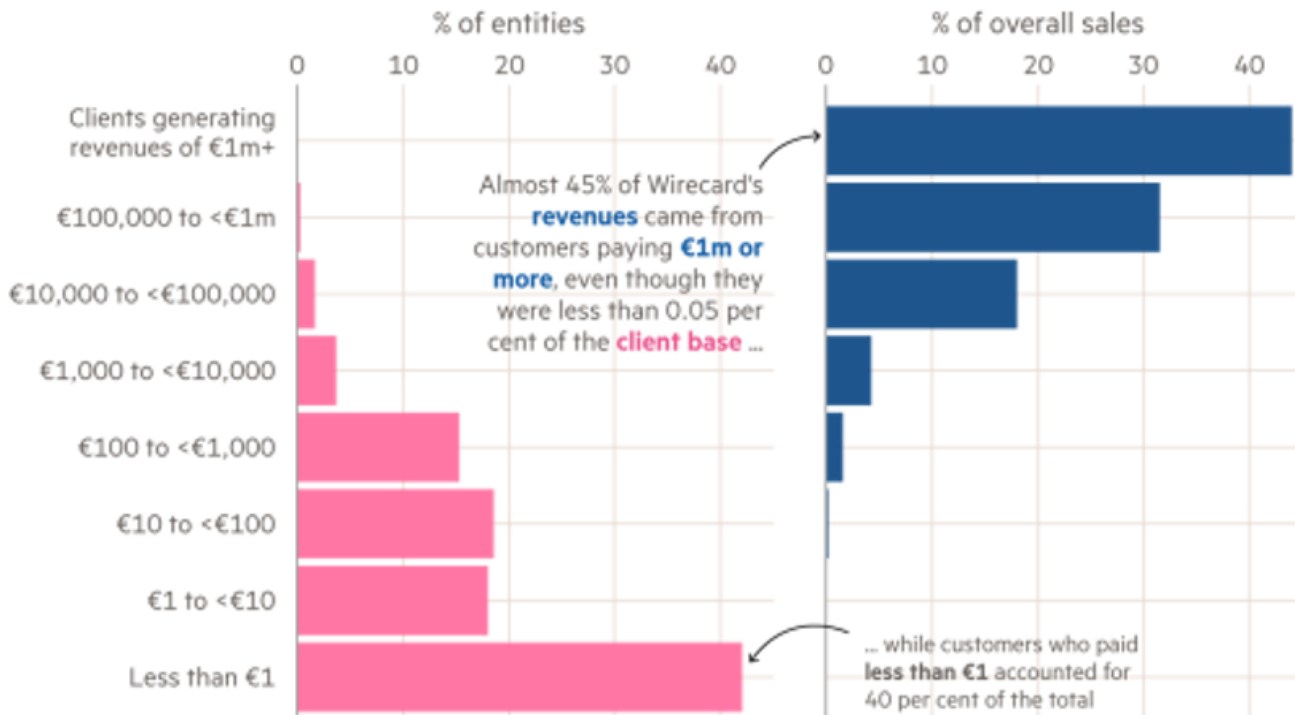
5. Customer imbalance – low diversification and concentration risk

The Wirecard group had a global presence and customers spread across sectors. However, the following analysis of Wirecard's customers reveal that most of the earning of Wirecard were limited to very few clients who contributed very large amounts. In contrast, the majority of the huge customer base was small customers who contributed sparsely to the revenue. These small customers can be seen as camouflage to show a sizeable customer base it is serving.

⁸ AnnaMaria Andriotis, Paul J. Davies and Juliet Chung, Visa, Mastercard Fined Wirecard for Dubious Transactions, July 27, 2020, Wall Street Journal, <https://www.wsj.com/articles/visa-mastercard-fined-wirecard-for-dubious-transactions-11595874886>, Accessed on May 21, 2021

⁹ Ibid

Wirecard's customer imbalance



H1 2017 data. Excludes entities where both revenue and transaction volume are zero or missing

10

Figure 9: Customer diversification of Wirecard for H12017

Great job discussing the early warning signs. Many of these can be taken and applied to other companies as a way to highlight potential red flags of questionable conduct/possible misappropriation.

¹⁰ Dan McCrum, Wirecard's real business relied on small number of customers, June 30, 2020, Financial Times, <https://www.ft.com/content/7c466351-02fe-4d66-85a1-53d012de7445>

IV. FRAUD ANALYSIS: TYPES OF ALLEGED FRAUD & FINANCIAL CRIMES:

The early warning signs went unheeded as most of the associated parties focussed on the brighter side presented by Wirecard - growing revenues, increased market capitalisation, and global expansion. However, the whistle blower activities and some media reports raised critical concerns and alleged Wirecard over the years. Today with the eventual collapse of Wirecard and its executives facing criminal charges, the accounting scandal operated for years is revealed. Following are some of the frauds/ financial crimes alleged by the whistleblower and published by the media. Many of these allegations were investigated by KPMG in a special investigation that was initiated post pressure from investors. Some of the allegations are not yet conclusive and are under probe.

1. Financial Statement Fraud – Round-Tripping of Revenues

The revenues and profits shown by Wirecard were inflated through what is called as Round-Tripping of the revenues—also known by different names like ‘Churning,’ ‘Round-Trip Transactions,’ ‘Wash Sales,’ or ‘Lazy Susans.’ Round tripping is when two or more parties are involved in a series of transfers of assets between reporting them as sales, followed by doing beneficial re-purchases. These transfers increase the profits of the company making the original sale and beneficial re-purchases. The assets that started as sales from the company make a round trip back to it. Thus, no sale in substance leads to the appearance of profit in the books of the round-tripping company. The companies involved appear to be growing and very busy, but the round-tripping business does not generate actual profits.

Wirecard indulged in round-tripping in the following way by Edo Kuruwian, a 33-year old Indonesian heading the Asian-Pacific accounting and finance operations for the global payments group of Wirecard AG.¹¹

The group attempted to acquire Citigroup's payment business, which covered 20,000 retailers across eleven countries ranging from India to New Zealand. Regulatory permissions in each jurisdiction were critical, even if it meant creating numbers for the Hong Kong licensing application.¹²

The objective was to generate numbers that would persuade regulators at the Hong Kong Monetary Authority to grant Wirecard a license to distribute prepaid bank cards in China. Mr. Kurniawan then drew out a practice of 'round tripping' in which a sum of money would be transferred from the bank Wirecard owns in Germany, and make its way on to books of a dormant subsidiary in Hong Kong, then travel to the books of an external "customer" for a brief period before returning to Wirecard in India, where it would appear to local auditors as legitimate business revenue.¹³

The round-tripping of monies was done by Wirecard through its Asian partners, Al-Alam (& its sister concern CardSystems Middle East, based in Dubai and referred to as TPA 1 by KMPG

¹¹ Dan McCrum in London and Stefania Palma in Singapore, Wirecard: inside an accounting scandal, FEBRUARY 7 2019, Financial Times, <https://www.ft.com/content/d51a012e-1d6f-11e9-b126-46fc3ad87c65>, Accessed on May 2, 2021

¹² Dan McCrum in London and Stefania Palma in Singapore, Wirecard: inside an accounting scandal, FEBRUARY 7 2019, Financial Times, <https://www.ft.com/content/d51a012e-1d6f-11e9-b126-46fc3ad87c65>, Accessed on May 2, 2021

¹³ Ibid

in its Special Audit Report), PayEasy (based in the Philippines and referred to as TPA 2) and Ocap Management (Erstwhile Senjo Trading, referred to as TPA 3). The round tripping circle of monies initiating from Wirecard AG and finding its way back to it is shown in the figure below: -

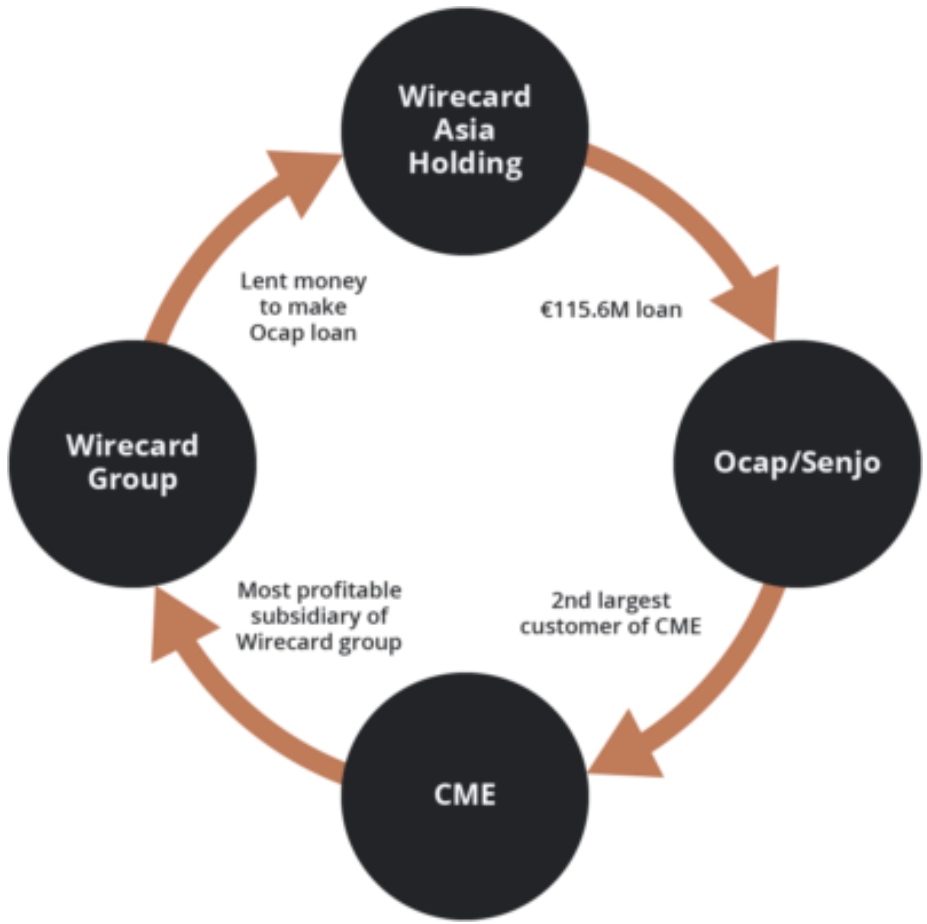


Figure 10: Parties involved in ‘round tripping’ in case of Wirecard

Though the KPMG investigation report does not name these three TPAs by their name, the KPMG investigation addresses the points alleged by Financial Times based on the whistleblower information obtained. Hence the analysis given by KPMG of 3 TPA Partners – TPA Partners 1, 2, and 3 appears to be referring to the parties.

According to the KPMG Special investigation report¹⁴ issued in April 2020:

- The contracts between Wirecard and TPA Partners was provided and verified
- The audited report of all TPA Partners was not presented on request despite Wirecard having a right in the contract to call for such a report
- The contracts between the TPA Partners and some of their clients were provided with quarterly transaction sheets
- The internal controls to verify the validity of these transactions were not adequate
- The revenues were routed through an escrow account earlier maintained by Trustee 1 and later transferred to Trustee 2 and could not be verified satisfactorily (explained further).

2. Financial Statement Fraud – Inflated Revenue and Profits

Wirecard's Asian business is at the heart of the scandal. With the growth rates reported, Wirecard's Asian business went on to become the geographic core of the business. As part of its acquisition and expansion strategy, Wirecard agreed with the local, Third-Party Acquirers who had the required license in their respective country to process payments. According to the business model, Wirecard charges a commission/processing fee for the clients it refers to these partners. Based on the details published by Financial Times¹⁵, internal documents reveal that:

During 2016, 3 Asian partners contributed to over 50% of revenues and 95% of EBIDTA.

¹⁴ KPMG Report Concerning the Independent Special Investigation, Munich, April 27 2020, https://www.wirecard.com/uploads/Bericht_Sonderpruefung_KPMG_EN_200501_Disclaimer.pdf, 13, Accessed on May 4, 2021

¹⁵ Dan McCrum in London, Wirecard relied on three opaque partners for almost all its profit, APRIL 24 2019, <https://www.ft.com/content/a7b43142-6675-11e9-9adc-98bf1d35a056>, Accessed on May 27, 2021

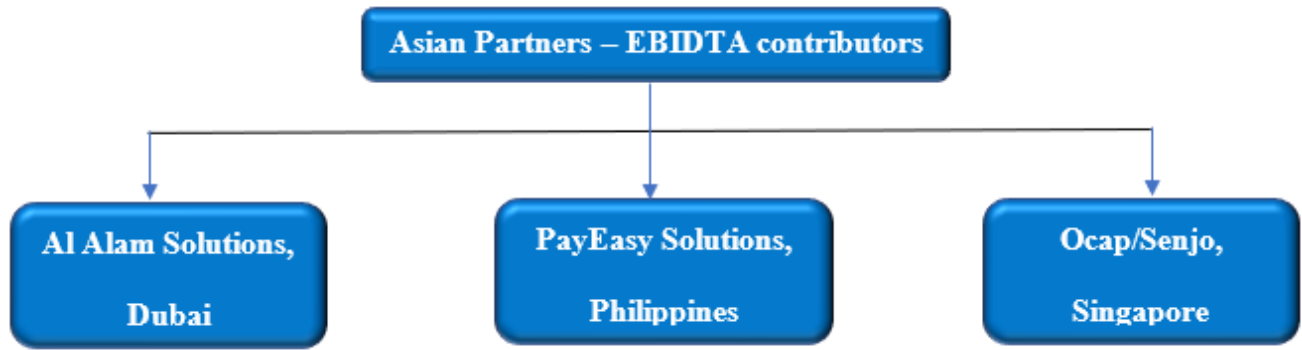


Figure 11: Major Asian partners of Wirecard

Each of these partners and the reasons the revenues and profits seem questionable are detailed as below:

- **Al Alam Solutions, Dubai:**

Al Alam Solutions is a payment processor based in Dubai. Financial times describes the partner as having ‘skeletal operations’ in Dubai. When visited by FT staff, the office was closed on one occasion and barely staffed on the second. Al Alam has no business with Visa or Mastercard. Al Alam’s business was routed through CardSystems and Wirecard UK & Ireland, the group’s following most profitable subsidiary, according to material seen by the FT. According to one whistleblower, the business recorded could not be matched by cashflows.

The company’s internal documents published by FT in October 2019 detailed business supposedly flown through Al Alam - €350 million payments from 34 clients each month in 2016 and 2017.

When FT contacted these listed 34 clients, 44% of the clients said they didn't know Al Alam Solutions, while 24% of the clients were not operational in the period in which transactions were reflected, and the remaining 32% could not be identified or contacted.

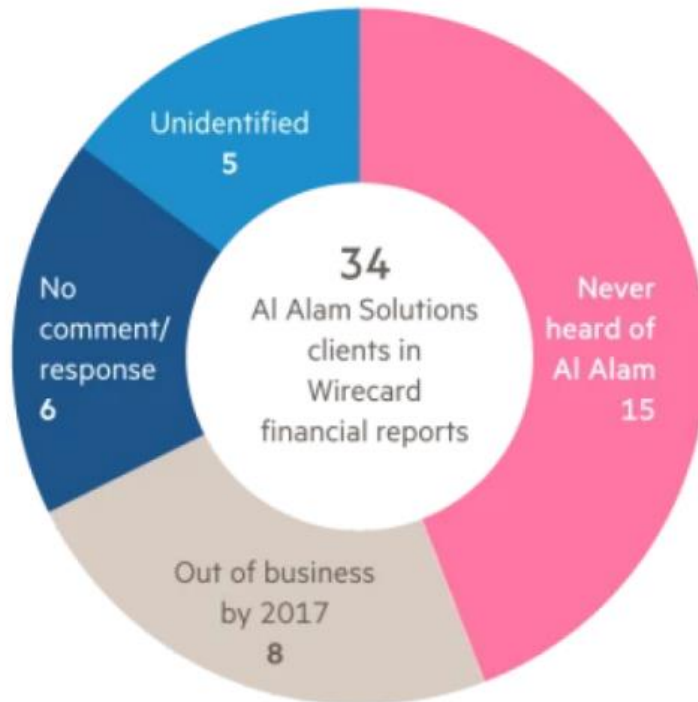


Figure 12: Results of 34 clients of Al Alam Solutions contacted

These numbers are a clear indication that the sales reflected were not genuine transactions and were used to inflate revenue.

The complete list of 34 clients can be found [here](#). The documents raise important questions about the integrity of revenues flowing through the Wirecard UK & Ireland and CardSystems Middle East subsidiaries.

- **PayEasy Solutions, Philippines:**

This Asian partner shared an office with Manila Bus Company and Senjo, a Singapore-based company, and the third Asian partner contributing to Wirecard EBIDTA. Financial Times has reported that Christopher Bauer owned PayEasy Solutions, a former Wirecard employee, and his wife. There was no record of the financial statement filed by PayEasy Solutions with the Philippine Corporate Registrar.¹⁶ Bauer, in 2015, is reported to have received remittances from Wirecard Asia for processing payments on behalf of Wirecard. The said amounts were received as consultancy services. However, the Central Bank of the Philippines has gone on record saying no funds for Wirecard were processed in the Philippines. This incident clarifies that Wirecard was extensively recording revenues that it had never made through the subsidiaries or partners, leading to inflated profits of both the subsidiaries and the group. Also, by the end of 2019, PayEasy was granted €260 million in loans by Wirecard, which are believed to be forwarded to the Wirecard's Indian subsidiaries to complete the round-tripping circle detailed in the above point.¹⁷

- **Ocap/Senjo, Singapore:**

Ocap Management, previously Senjo Trading, a Singapore-based corporation, had numerous close ties to Wirecard.

¹⁶ Dan McCrum in London, Wirecard relied on three opaque partners for almost all its profit, APRIL 24 2019, Financial Times, <https://www.ft.com/content/a7b43142-6675-11e9-9adc-98bf1d35a056>, Accessed on May 27, 2021

¹⁷ Ruby Hinchliffe, Wirecard business partner reported dead in Philippines, Ruby Hinchliffe, 10th August 2020, Fintech Futures, <https://www.fintechfutures.com/2020/08/wirecard-business-partner-reported-dead-in-philippines>, Accessed on May 27, 2021

In November 2018, Wirecard lent Senjo €115 million. Senjo, in turn, allegedly lent €113M out of the total by December 2018 without establishing offices, hiring sales personnel, or spending money on advertising, and with distribution expenses totaling just \$38K. Senjo, along with the other Asian partners already mentioned, was generally acknowledged as a significant contributor to Wirecard's sales, EBITDA, and receivables.

Carlos Haeuser, oCap's CEO and MD was a long-serving Wirecard executive, joining the company in 2005 and being elevated to EVP in 2010. He left the company in March 2018 to join oCap; however, paperwork indicates that his time at Wirecard and oCap overlapped with his new job as director of oCap. Additionally, when he was hired, the auditors were replaced. These were indicators significant enough to take notice of and to be probed.¹⁸

As reported by Financial Times, the Revenue and EBIDTA of the company in 2016 and the portion attributed to the trio partners mentioned above – Al Alam Solutions, PayEasy Solutions, and Senjo is as follows¹⁹:

¹⁸ Is Wirecard round tripping with Singapore entities?, September 9, 2019, <https://www.mca-mathematik.com/ocap-senjo/>, Accessed on May 2, 2021

¹⁹ Dan McCrum in London, Wirecard relied on three opaque partners for almost all its profit, APRIL 24 2019, Financial Times, <https://www.ft.com/content/a7b43142-6675-11e9-9adc-98bf1d35a056>, Accessed on May 2, 2021

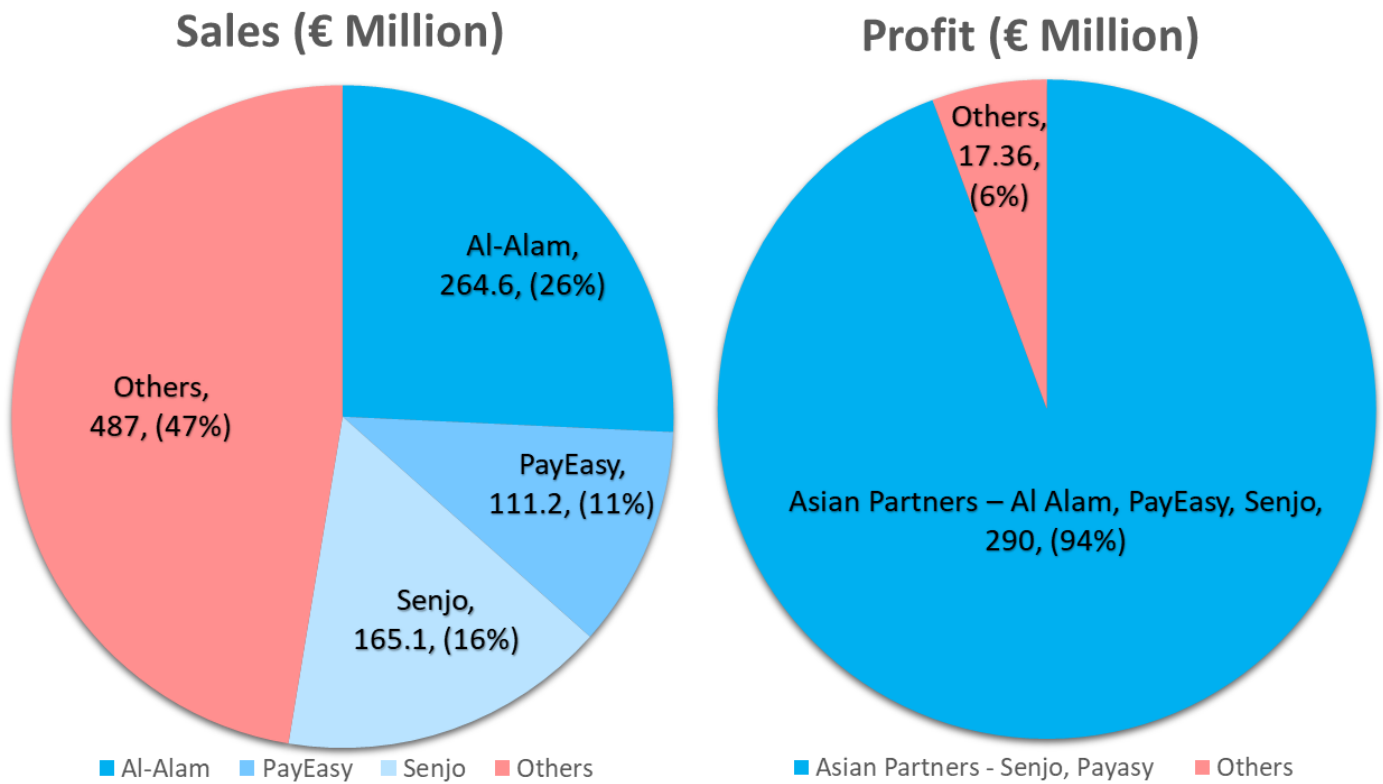


Figure 13: Revenue & EBIDTA of Wirecard in 2016 and % attributable to the 3 Asian partners

The partners to whom the business was outsourced started repatriating more profits to Wirecard with substantially higher margins, against the margins that Wirecard managed, doing the same business itself. This fact defeated the business logic, but Wirecard was still successful in convincing the stakeholders of the ingenuity of the revenues and the profits.

Apart from these three entities, Wirecard’s Singapore officer was raided multiple times by crime investigators after the allegation that Wirecard inflated its sales and profits through subsidiaries across Asia. In October 2019, Financial Times published some of Wirecard’s

internal documents²⁰ (provided by the whistleblower), including company spreadsheets and correspondence between senior staff from the finance team, which further pointed towards a deliberate effort to inflate sales and profits declared through its operations in Dubai and Ireland.

3. Financial Statement Fraud - Escrow arrangement and missing €1.9 billion:

The revenues generated from the Third-Party Acquirers (TPA) were said to be deposited in an escrow account with a Trustee (let's refer to this as Trustee A). Wirecard explained that it undertakes to indemnify the TPA in the event of any loss arising from the business relationship, and hence the revenue is held in an escrow account.

According to the report of the special investigation of KPMG, account statements of the balance with Trustee A were provided by Wirecard; however, when KPMG tried to obtain a direct confirmation from Trustee A, there was no response. Wirecard informed that since the contract between Trustee A and Wirecard was terminated, Trustee A no longer entertains any request relating to Wirecard. The arrangement was transferred to an Asian Law firm (Trustee B). Trustee B has been operating two bank accounts and is operating under the original agreement. KPMG report mentions that the electronic account statements obtained show no indication that these accounts are linked in any way to Wirecard. However, on a physical visit, one of the banks confirmed this linkage. Since the balances had undergone changes and there was no confirmation from Trustee A, it cannot be verified that the escrow amounts existed or belonged to Wirecard.

²⁰ Dan McCrum in London, Wirecard's suspect accounting practices revealed, OCTOBER 15 2019, Financial Times, <https://www.ft.com/content/19c6be2a-ee67-11e9-bfa4-b25f11f42901>, Accessed on May 3, 2021

Thus the verification of the volume of revenue arising from the TPA Partners also cannot be verified.

To quote the KPMG report

*“even on the basis of the bank account statements, neither for the investigation period (2016 to 2018) nor for 2019, we could not make any reliable statements about the origin of the funds in the accounts. To this extent, these investigation activities have not resulted in positive evidence of the existence of revenues through payments received from the respective TPA Partners during the investigation period.”*²¹

4. Forgery and false accounts/contracts

- **Singapore whistleblower reporting:**

In March 2018, in yet another accusation of suspect accounting, the whistleblower identified two senior finance executives of Singapore operations - James Wardhana and Irene Chai as accomplices in the book-cooking operation. In addition to this notification raised to Wirecard’s senior legal counsel, two more whistleblower concerns were raised in February and April. They had shared a suspect contract via Telegram, the encrypted messaging app.

²² After an initial briefing and finding the whistleblower accounts credible, an investigation

²¹ KPMG Report Concerning the Independent Special Investigation, Munich, April 27 2020, https://www.wirecard.com/uploads/Bericht_Sonderpruefung_KPMG_EN_200501_Disclaimer.pdf, 17, Accessed on May 1, 2021

²² Dan McCrum in London and Stefania Palma in Singapore, Wirecard: inside an accounting scandal, February 7, 2019, Financial Times, <https://www.ft.com/content/d51a012e-1d6f-11e9-b126-46fc3ad87c65>, Accessed on May 3, 2021

into the allegations was initiated, for which Singapore-based Rajah & Tann (R&T) was appointed. The investigation was codenamed 'Project Tiger.' Excerpts from the summary report of R&T available in the public domain are given in [Appendix III](#).

Point 1 (c) of the R&T investigation report refers to the unexecuted draft contracts signed on behalf of subsidiaries and raises doubt whether these have any genuine underlying transactions. Also, most of the draft transactions shared could neither be traced into the accounting ledgers of the company nor the flow of funds related to these transactions could be seen in the bank accounts of the group companies.

Point 4: R&T report confirms that there is evidence of contracts being created for IFRS audit purposes.

Point 5: R&T confirms that internal agreements and transactions between Wirecard entities were entered into by or on the instructions of an unauthorised person.

The preliminary report of R&T is not public. According to the Financial Times article referred, R&T preliminary report said:

“We may draw strong and irrefutable inferences from the documentary evidence there has been at the very least several accounting irregularities which take the shape of forged agreements. In the best-case scenario, the purpose behind these

deliberate acts may be limited to the false creation of revenue, with no wrongful misappropriation of monies.”²³

- **Flexi Flex:**

Mr. Wardhana sent himself a digital copy of the Flexi Flex logo in March 2018 while seated at his computer. Flexi Flex is a hydraulics and piping firm with offices in Singapore and Malaysia.

According to records obtained by the FT,²⁴ the image appeared on bills he gave to colleagues for payment. These documents, which included contracts for the sale and purchase of obscure software products signed by Mr. Kurniawan, created the impression that Flexi Flex did significant business with Wirecard.

Mr. Wardhana drafted responses to queries from EY in Germany to conclude that year's audit in an April 9, 2018, email exchange. He defined Flexi Flex as a "new client engaged in 2017" that brought Wirecard Malaysia €4 million in income. Wirecard later revealed that it didn't actually have a genuine business relationship with Flexi Flex. According to Mr. Wardhana's email, Right Momentum Consulting (RMC) earned another €3 million in Hong

²³ Dan McCrum in London and Stefania Palma in Singapore, Wirecard: inside an accounting scandal, February 7, 2019, Financial Times, <https://www.ft.com/content/d51a012e-1d6f-11e9-b126-46fc3ad87c65>, Accessed on May 3, 2021

²⁴ Ibid

Kong from Wirecard. RMC's address in Kuala Lumpur on records examined by the FT could not be located.²⁵

6. Money Laundering - Role of the Turkish Aktif Bank

Aktif Bank is a subsidiary of Calik Holding, Turkey's largest conglomerates with over 30 firms. Mr. Calik, for his part, is a strong ally of the Turkish government. Numerous "suspicious transactions" identified in the FinCEN (Financial Crimes Enforcement Network) Files occurred during Berat Albayrak's tenure as CEO of Calik Holding. Albayrak is Turkish President Recep Tayyip Erdogan's son-in-law and presently serves as the country's Finance Minister.

Suspicious Activity Reports (SARs) provide incriminating evidence against Aktif Bank. In 2019, a significant collection of classified US Department of the Treasury (USDT) financial documents, including the FinCEN files, **was leaked and shared** with the International Consortium of Investigative Journalists (ICIJ). These files contained records from the United States Department of Treasury's regulatory agency charged with safeguarding the FinCEN financial system.

Wirecard Bank AG of Germany, one of Aktif Bank's clients then, garnered considerable attention. Wirecard was referred to BNY Mellon by Aktif Bank for the transactions. However,

²⁵ Dan McCrum in London and Stefania Palma in Singapore, Wirecard: inside an accounting scandal, February 7, 2019, Financial Times, <https://www.ft.com/content/d51a012e-1d6f-11e9-b126-46fc3ad87c65>, Accessed on May 3, 2021

Wirecard Bank's activities were detected as "high-risk" by the New York creditor, who blocked the bank's accounts. This blocking did not prevent Aktif Bank from assisting Wirecard. According to the FinCEN Files, Aktif Bank moved the funds to BNY Mellon under an unidentified identity. According to BNY Mellon, Wirecard conducted up to 12 "suspicious transactions" totaling more than \$110,000 (€93,000) between May and July 2014 using its Aktif Bank account.²⁶

What action was taken by FinCen to address this? Did FinCen take the required actions and conduct an independent review? As stated earlier, an action by FinCen could have led to a deterrent for Wirecard and could have lead to the discovery of other irregularities in time to save the collapse.

7. Marijuana Trading²⁷:

The Wall Street Journal (WSJ) reported that Wirecard AG and its fugitive former No. 2 executive are alleged to have played a crucial part in a scheme to deceive banks into processing marijuana sales.

According to federal prosecutors in Manhattan, Wirecard was one of several European banks that caused \$160 million in marijuana purchases to be concealed by falsely opening accounts

²⁶ Pelin Ünker, FinCEN Files: How Turkey's Aktif Bank helped Wirecard and the porn industry, 21.09.2020, Dow Jones, <https://www.dw.com/en/fincen-turkey-aktif-bank-wirecard/a-54991398>, Accessed on May 4, 2021

²⁷ Rebecca Davis O'Brien, Wirecard Aided Online Marijuana Sales, Prosecutors Allege, March 23, 2021, The Wall Street Journal, <https://www.wsj.com/articles/wirecard-aided-online-marijuana-sales-prosecutors-allege-11616502728>, Accessed on May 4, 2021

through California-based marijuana-delivery service Eaze Technologies. During a March 2021 trial, witnesses stated that Jan Marsalek, Wirecard's former chief operating officer, was intimately involved in the alleged fraud. According to court records, Wirecard and Mr. Marsalek are among approximately 140 uncharged co-conspirators in the Eaze case.

Two of those co-conspirators testified throughout the trial after pleading guilty to their involvement in the scam. Oliver Hargreaves stated that he created intricate fictitious firms and submitted applications to European banks as a cooperating witness for prosecutors. Mr. Hargreaves, who resides in the United Kingdom, stated that Wirecard assisted in setting up bank accounts around Europe. At the time, Wirecard was not charged.

8. Insider Trading

- **BaFin member, other employees**

BaFin is not disclosing the employee whose identity was suspended from work in January 2021. He purchased structured financial products linked to Wirecard on June 17, 2020, as disclosed by BaFin. In a day, shares in Wirecard lost 60 percent after Wirecard disclosed that the auditor EY was unable to authenticate €1.9bn in corporate cash. It was further revealed that BaFin found evidence of insider trading during a special investigation of its employees' shares transactions. A criminal complaint was filed by the German Regulator against its employee with the Stuttgart prosecutors' office on January 27.²⁸ BaFin in October

²⁸ Maria Nikolova, BaFin parts ways with head of Securities Supervision in wake of Wirecard scandal. Jan 30, 2021, <https://fxnewsgroup.com/forex-news/executives/bafin-parts-ways-with-head-of-securities-supervision-in-wake-of-wirecard-scandal/>, Accessed on May 28, 2020

2020 banned employees from trading shares and other securities in companies that it oversees. According to an internal investigation, four other employees in 2020 reported Wirecard trades two to eight months late, violating the disclosure rules. No further details regarding the dealings have been disclosed thus far as the matter is still under investigation.²⁹

- **Suspension of APAS' head**

Despite the fact that the regulator was investigating Wirecard, Ralf Bose, head of APAS then, had admitted to buying and selling Wirecard securities during that investigation. APAS (Abschlussprüferaufsichtsstelle) is the German audit regulator.

Mr. Bose spoke with partners of EY in February 2019. EY assured Mr. Bose that Wirecard was making significant efforts to clarify the allegations. EY was confident that it could form a true and fair picture of Wirecard AG's economic & financial condition since Wirecard's balance sheet was pretty transparent. The EY Germany head also stated that he would investigate the allegations against Wirecard using forensic means. Later in 2019, EY provided APAS with evidence that the allegations had been investigated by professional standards. At the end of April 2019, an unqualified audit opinion was issued by EY for Wirecard AG's 2018 financial statements.³⁰

²⁹ BaFin employee suspended over Wirecard insider dealing allegations, May 19, 2021, <https://www.ft.com/content/900697f8-37f6-4d20-84f1-346dc81dc1bc>, Accessed on May 14, 2020

³⁰ SCHIRP & PARTNER Rechtsanwälte mbB: Wirecard scandal: Criminal complaint against APAS head Ralf Bose. Investor lawyers see prohibited insider trading, 15 December 2020, <https://www.dgap.de/dgap/News/corporate/schirp-partner-rechtsanwaelte-mbb-wirecard-scandal-criminal-complaint-against-apas-head-ralf-bose-investor-lawyers-see-prohibited-insider-trading/?newsID=1413673>, Accessed on May 14, 2020

In April 2020, KPMG published its special audit report pertaining to the allegations leveled against Wirecard for its manipulative accounting practices. Following the report's publication, Wirecard's share price tanked around 25% to around EUR 100. The same day, post the report's publication, Mr. Bose acquired an unknown number of shares in Wirecard AG. The parliamentary inquiry was conducted into this purchase asked Mr. Bose. Mr. Bose was questioned for the rationale behind purchasing the shares despite the highly critical KPMG report. He explained that he did not read the KPMG report carefully and had only 'cursorily' reviewed the report.³¹

- **Deutsche Bank board member**

BaFin, Germany's financial regulator, had filed a criminal complaint against Alexander Schuetz, a Deutsche Bank board member, for alleged insider trading in Wirecard AG shares. Schuetz, a 'close confidant' of Wirecard CEO Markus Braun, was accused of using inside information for trading in Wirecard shares several times in 2019 and 2020. After being publicly reprimanded by Deutsche Bank for this misconduct, he was asked to resign from the board in April 2021, to which he complied. Investigations on what, how, how much, and when are still now underway.³²

³¹ SCHIRP & PARTNER Rechtsanwälte mbB: Wirecard scandal: Criminal complaint against APAS head Ralf Bose. Investor lawyers see prohibited insider trading. 15 December 2020, <https://www.dgap.de/dgap/News/corporate/schirp-partner-rechtsanwaelte-mbb-wirecard-scandal-criminal-complaint-against-apas-head-ralf-bose-investor-lawyers-see-prohibited-insider-trading/?newsID=1413673>, Accessed on May 14, 2020

³² Angharad Carrick, Deutsche Bank board member investigated over alleged insider trading, Monday 19 April 2021, <https://www.cityam.com/deutsche-bank-board-member-investigated-over-alleged-insider-trading/>, Accessed on May 14, 2021

9. MCA lending fraud

- **Brazil**

MCAs are a type of short-term loan offered by a merchant's payment provider to bridge the delay period between a consumer making a credit card payment and the cash reaching the merchant's bank account. Kindly refer to the [MCA point under the Business Model section](#) for more info.³³

The whistleblower has alleged that Wirecard would have had at least €97M of cash that was never accounted for in the 2018 accounts³⁴. He further states that this is an estimate in a favorable scenario for the company. Even more, cash seems to have vanished from the balance sheet going by management's estimates and comments. However, the special investigation report by KPMG states that³⁵: -

- a) The figures provided by the management above are mere estimates by the management.
- b) KPMG was not provided with any details of parties receiving such MCA loans, so they couldn't verify the numbers.

³³ What is MCA and why is it important?, June 16, 2019, <https://www.mca-mathematik.com/brazil-in-detail/>, Accessed on May 27, 2021

³⁴ Brazil simplified, June 17, 2019, <https://www.mca-mathematik.com/brazil-simplified/>, Accessed on May 27, 2021

³⁵ KPMG Report Concerning the Independent Special Investigation, Munich, April 27 2020, https://www.wirecard.com/uploads/Bericht_Sonderpruefung_KPMG_EN_200501_Disclaimer.pdf, 38, Accessed on May 27, 2021

c) According to the said KPMG report, the loans advanced by Wirecard are regular forward advances, and they do not classify as MCA loans, which the management claims them to be, so the question of illegality does not arise.

KPMG basically has declined to comment on the fudging of numbers in MCA lending due to want of information. However, even Wirecard's own financial accounts, submitted to and published by the Brazilian Central Bank, for 2019 demonstrate that MCA financing is extremely limited or non-existent in Brazil. This fact directly contradicts their assertion that at least €133 million is being lent in "Brazil and Turkey, primarily Brazil." Wirecard's accounts reveal essentially minimal difference between receivables and payables, demonstrating that meaningful MCA activity is impossible to derive from their balance sheet.³⁶

- **Turkey**

Interestingly, Wirecard has never published about MCA in Turkey. The anonymous whistleblower estimates a shortfall in cash (in a manner similar to the calculation of missing cash from MCA loans in Brazil) in excess of €100 million³⁷. Thus, Wirecard substantially overreported the MCA loans in Turkey. The whistleblower also commissioned an independent legal opinion to corroborate this point. Their Turkish law firm opined:

³⁶ Wirecard Brazil's published figures show less than €5m in MCA – July 10, 2019 – <https://www.mca-mathematik.com/brazil-accounts/>. Accessed on May 24 2021

³⁷ Is MCA legal in Turkey? – June 20, 2019 – <https://www.mca-mathematik.com/illegal-in-turkey/>. Accessed on May 24, 2021

*“...it is **not legally possible** for e-money or payment institutions to provide a service like “Merchant Cash Advance” in Turkey. Such a case would be a **clear violation of the regulations**, and therefore those offering this service are to be subjected to heavy administrative and criminal sanctions.”³⁸*

Special investigator KMPG, on the other hand, concluded that the MCA loans in Turkey so classified by Wirecard do not qualify as MCA loans, so the question of illegality does not arise in the first place.³⁹

If we go by KPMG’s report, the accounting treatment, presentation, and disclosures of Wirecard seem incorrect; even if we go by the Turkish law firm terming the MCA loans in Turkey as illegal, it again raises questions at the Wirecard’s management, only more ominous this time. Either way, Wirecard seems to have made a self-goal in Turkey by starting MCA product/service there.

³⁸ Legal Report - <https://www.mca-mathematik.com/static/pdf/report.313ccfe3.pdf>, Accessed on May 20, 2021

³⁹ KPMG Report Concerning the Independent Special Investigation, Munich, April 27 2020, https://www.wirecard.com/uploads/Bericht_Sonderpruefung_KPMG_EN_200501_Disclaimer.pdf, 40, Accessed on May 20, 2021

V. RED FLAGS IN THE ACCOUNTING SCANDAL:

Can there be smoke without fire? No, they say. This proved true for Wirecard. Though perceived as the star company and technology leader of Germany, Wirecard was under the constant scanner of the media and some industry enthusiasts and researchers from time to time. Beyond the increased revenue and profitability of Wirecard, the financials of Wirecard also contained indicators of probable fraud or financial crime, though they were overpowered by the former. Some of the red flags which should have lead to further probing and questions are:

1. **Opaque Global Acquisitions:**

Between 2014 and 2017, Wirecard AG purchased or merged 11 firms, as detailed in the annual reports for those years. [Appendix II](#) details the acquisitions and components of these transactions. The Intangible Assets/Total Assets ratio in these transactions is high, ranging between 74% and 97%, considering the nature of the acquired business. However, because these are intangible assets, their valuation is very subjective. Several of Wirecard AG's transactions have been questioned due to a discrepancy between the valuation at which the transaction was finalised, and an alternate valuation previously received. For instance,

- **Indian acquisition:**

In 2015 Wirecard acquired two sister concern companies – Hermes iTickets & GI Technology from its owner group (Great India Retail) and an unrelated company known as Star Global. The acquisition was made for a total of €340 million for the three companies.

Hermes iTickets was sold to an intermediary in Mauritius, namely, Emerging Markets Investment Funds 1A (EMIF), for €37 million. Another purchase made by EMIF was an unrelated company named Star Global based in Bangalore, India. EMIF bundled both companies purchased and sold them to Wirecard AG for €326 million within three weeks from the date of original acquisition, a 9 to 10 fold increase in the valuation in a matter of 3 months. Wirecard directly purchased GI Technology from Great India Retail Group for € 14 million. Thus, the total acquisition consideration was €340 million, broken into €326 million for Hermes ITickets & Star Global and the remaining € 14 million for GI Technology.

What is the relationship between Wirecard and EMIF 1A?

At the heart of Wirecard's €340m disputed deal lies a little known company called EMIF 1A which appeared to make over €250m profit in six weeks

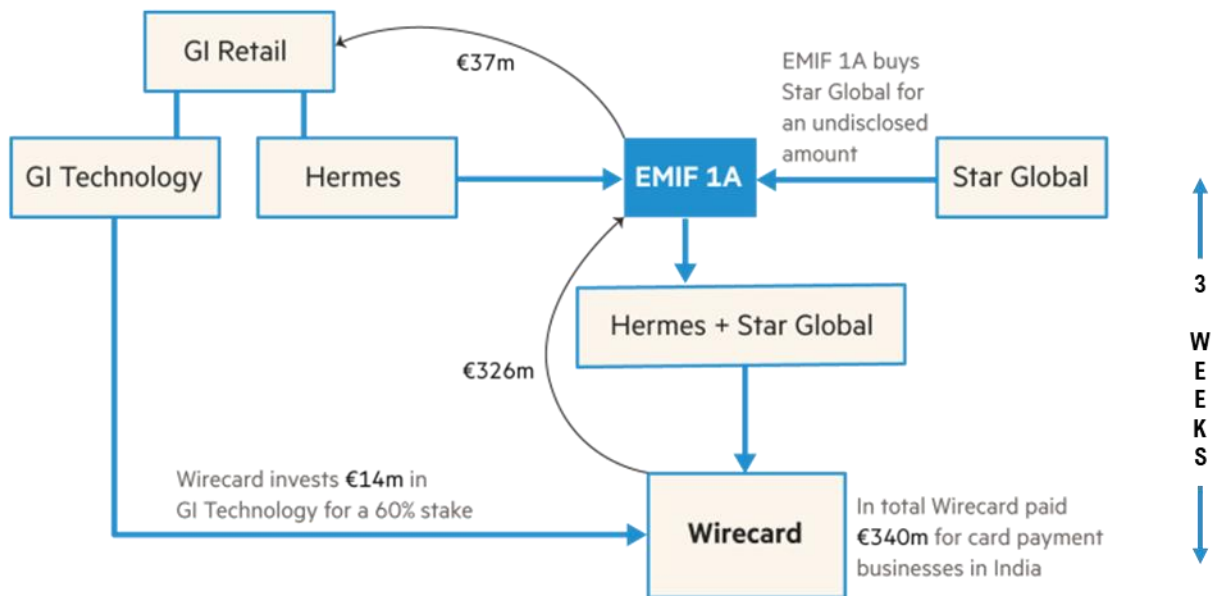


Figure 14: Indian Acquisition Structure

While the founder of the business for Hermes iTickets, was unable to get a value of € 46 million a year prior, it was acquired by Wirecard AG and a new loss-making company for € 326 million. Regardless of the heavy rate tag, these businesses contributed only € 12.1 million to Wirecard's net profits in 2017 and a disastrous € 1.7 million in 2018.⁴⁰

The ultimate owners and beneficiaries of EMIF remain veiled. Wirecard commented that it is not in a position to disclose the leading beneficial owner of EMIF. Wirecard's Singapore investigator Rajah & Tann was not able to verify the material related to the said purchase independently. KPMG, the special investigator, also commented that they could not ascertain the owners of EMIF and were provided with no further information by Wirecard to comment on.

The break up of the purchase consideration for Hermes iTickets and Star Global is given below: - ⁴¹

⁴⁰Dan McCrum, Middleman's profits draw India deal into Wirecard scandal, Financial Times, DECEMBER 18 2019, <https://www.ft.com/content/b3672388-200a-11ea-b8a1-584213ee7b2b>, Accessed on May 15, 2021

⁴¹ VON MATTHIAS MEITNER, Lessons from the Scandal: Three Weaknesses of IFRS – The Wirecard Story so far (5), July 15, 2020, <https://valuesque.com/2020/07/15/lessons-from-the-scandal-three-weaknesses-of-ifrs-the-wirecard-story-so-far-5/>, Accessed on May 31, 2021

Acquisition of Hermes und Star Global

In kEUR	Fair value
Cash	1,092
Goodwill	265,568
Customer relationships	49,783
Property, plant and equipment	443
Other non-current intangible assets	16,311
Trade and other receivables	22,150
Other assets	2,124
Deferred tax assets	4
Deferred tax liabilities	21,300
Current liabilities	20,719
Non-current liabilities	1,131
Purchase price	314,325

Figure 15: Hermes and Star Global Purchase Consideration

It is pretty evident from the above break of the purchase consideration that Hermes did not have any assets in effect. Thus, a considerable amount (~85% of the purchase consideration) has gone towards creating goodwill for the acquisition. The amount or part thereof is supposedly tripped back into Wirecard AG via its other subsidiaries.

The vast disparity in the value of the Indian business within a short period raises questions about the valuation reflected.⁴²

- **Singapore Acquisition:**

Another example of a significant opaque deal was the acquisition of a Singapore-based corporation, as reported by the Financial Times. According to the Singapore corporate filing office, Wirecard's assumption of €12 million in liabilities was, in reality, a loan provided to an undisclosed recipient following the completion of the purchase "for the acquisition of intangible assets from a third party."⁴³

The examples above demonstrate how some purchases may be leveraged to offset more significant balance sheet weaknesses. According to the Wall Street Journal 'German prosecutors allege a massive fraud occurred and that inflated acquisitions, among other considerations, played a part. Certain acquisitions were never fully integrated into the group, and others were made at exorbitant prices despite the fact that the businesses were losing money, former corporate officials stated.'⁴⁴

⁴² Dan McCrum, Revisiting Wirecard's big Indian deal, January 25, 2018, Financial Times, <https://www.ft.com/content/c82cd78c-0c43-3dc7-9ec8-38ba57e524db>, Accessed on May 20, 2021

⁴³ Roddy Boyd, Wirecard AG: The Great Indian Shareholder Robbery, January 23, 2018, FOUNDATION FOR FINANCIAL JOURNALISM, <https://ffj-online.org/2018/01/23/wirecard-ag-the-great-indian-shareholder-robbery/>, Accessed on May 21, 2021

⁴⁴ Paul J. Davies, The Man at the Center of Wirecard's Deal Machine, November 18, 2020, The Wall Street Journal, <https://www.wsj.com/articles/the-man-at-the-center-of-wirecards-deal-machine-11605696233>, Accessed on May 21, 2021

2. Unaudited/Unfiled Accounts ⁴⁵

Irregularities and compliance lapses have been noticed concerning the audit requirement of subsidiaries of the Wirecard group. Some of these are highlighted below:

- **Dubai**

According to Wirecard's most recent bond prospectus, the company's two Dubai subsidiaries, CardSystems Middle East (CME) and Wirecard Processing, were not audited separately in 2017 or 2018. This fact is particularly troubling in light of the following:

CME accounted for 58% of the group's income in 2018. CME's information is unusually sparse, given its importance to Wirecard's profitability, with CME's earnings contribution increasing from €94 million in 2016 to €237 million in 2018. Non-CME profits fell 30% during that period, further highlighting the importance of CME in Wirecard's repertoire.

⁴⁵ Part 2: Wirecard accounting issues, October 7, 2019, <https://www.mca-mathematik.com/wirecard-accounting-issues/>, Accessed on May 19, 2021

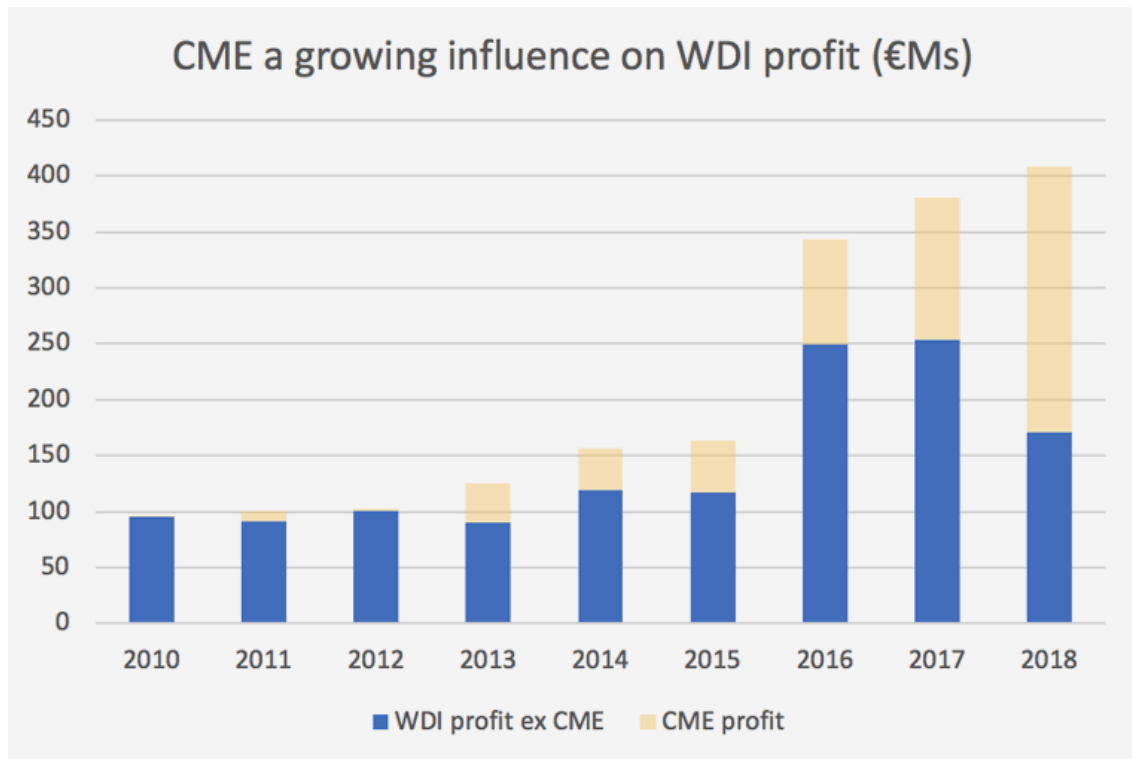


Figure 16: Growing contribution of CME to Wirecard profits

In response to this allegation, and as previously stated, Markus Braun clearly said to investors via CNBC:

"Of course, all subsidiaries are audited." ⁴⁶

This statement by Markus Braun turned out to be false when the corporate filings were investigated upon. ⁴⁷

⁴⁶Part 2: Wirecard accounting issues, October 7, 2019, <https://www.mca-mathematik.com/wirecard-accounting-issues/>, Accessed on May 28, 2021

⁴⁷ Ibid

- **Singapore:**

Wirecard Asia Holding PTE (WAH), which local firm RSM Chio Lim audits, applied for a 60-day extension to file its financial statements in June 2019, citing the following reason: "Accountant need additional time." WAH has been granted a 60-day delay till 29 September to file its accounts. That deadline, too, went without being met.

Wirecard Singapore, Wirecard's another Singapore-based firm, was last audited in 2016. (by EY). It was not until 2018 when the audit was signed. Since then, they have not filed audited financial statements. The following is a snapshot of both Wirecard subsidiaries in Singapore, including information about late or unfiled accounts or annual returns from 2016 to 2018: -

Subsidiary	FYE	AGM Deadline	Filing Deadline	Actual Filing (Days)	Lateness
Wirecard Asia Holding 2016 Accounts	31/12/2016	01/07/2017	31/07/2017	20/04/2018	263
Wirecard Asia Holding 2017 Accounts	31/12/2017	01/07/2018	31/07/2018	12/02/2019	196
Wirecard Asia Holding 2018 Accounts Pre Extension	31/12/2018	01/07/2019	31/07/2019		Late
Wirecard Asia Holding 2018 Accounts Post Extension	31/12/2018	29/08/2019	29/09/2019		Late
Wirecard Singapore 2016 Accounts	31/12/2016	01/07/2017	31/07/2017	22/06/2018	326
Wirecard Singapore 2017 Accounts	31/12/2017	31/07/2018	30/08/2018	18/10/2019	413
Wirecard Singapore 2018 Accounts	31/12/2018	01/07/2019	31/07/2019		Late

⁴⁸ *Figure 17: Delays in annual filing observed in Wirecard subsidiaries for 2016-2018.*

Disturbingly, EY consolidated WAH and Wirecard Singapore in its 2018 group audit opinion, despite the fact that the local auditor had yet to sign off the subsidiary balance sheets till five months later.

⁴⁸ Bernard Bowitz, The Fall of Wirecard, Fraud, Round-Tripping, Money Laundering and the Web of Lies, January 5, 2021, <https://isaan.live/news/the-fall-of-wirecard-fraud-round-tripping-money-laundering-and-the-web-of-lies>, Accessed on May 13, 2021

- **New Zealand:**

Wirecard NZ filed its annual return for 2018 in September. Grant Thornton filed the filing. Even after filing its annual return, Wirecard NZ failed to publish the required financial statements as part of the return. Was Grant Thornton uneasy with accounting?

If only Wirecard had been asked the following Red-Flag questions earlier: -

- *Why has the most profitable subsidiary of Wirecard never been audited? Why was it so profitable?*
- *Why were subsidiary accounts globally missing local filing deadlines? Were the individual auditors having difficulty signing off on accounts?*
- *How many auditors did Wirecard employ? What percentage of earnings was generated by subsidiaries that were audited directly by EY?*

Of course,

- (i) Wirecard's subsidiaries were exempt from getting the audits or filings done in some jurisdictions,
- (ii) EY's scope of the audit was only the Wirecard group, not the TPAs mentioned (shown in the figure)

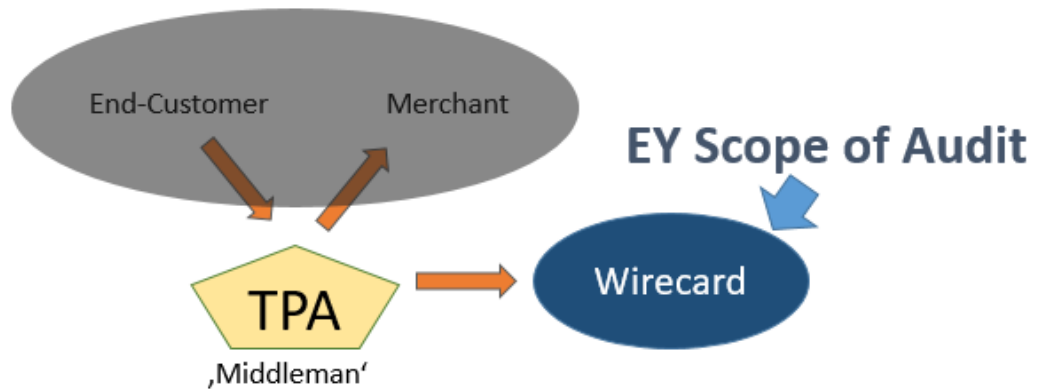


Figure 18: Indian acquisition structure

But the blanket statement that all of Wirecard’s subsidiaries are audited amounts to misrepresentation from the CEO. And that EY incorporated and consolidated the financial statements of such subsidiaries and the revenues/profits from the TPAs into the group revenues without any caveats or qualifications was a major red flag missed by the investors and the regulators.

3. Repeated allegations on Wirecard Financials and questions on Asia operations

While media can be misused to blow a matter out of proportion and not all said in the media can be assumed to be accurate, it is one of the strongest exposers of any company’s wrongdoing in the past. In the case of Wirecard, the media allegations raised by Financial Times were backed by internal documents and the whistleblower’s activities. Also, many independent research reports, e.g., Zatarra Research & Investigations report published in 2016 ⁴⁹, highlighted the concerns in the company's operations. Wirecard has also been fined over the last decade for misconducts,

⁴⁹ Zatarra Research & Investigation, Wirecard Reports, 2016, <https://viceroysresearch.org/wp-content/uploads/2020/07/final-main-report-zatarra-edited-3.pdf>, Accessed on May 13, 2020

manipulations of codes, association with non-recommended industries, yet did not implement strong governance that reflects weak Supervisory Board or casual approach of top management concerning fraud financial crimes. Despite several questions raised about the genuineness of volumes reported by Wirecard, high-value acquisitions, partnerships with companies with skeletal operations or indirect links to the group, and inflated revenues and profits, the company still managed to reach the list country's top 30 companies listed on DAX. Had these red flags been heeded in time, the quantum of financial and reputational loss suffered could have been minimized.

4. Market's short-selling sentiment

While short selling cannot always be free of market manipulation, the fact that the company's stock is becoming more popular among short-sellers shouldn't be overlooked. In the case of Wirecard, repeated allegations and questions, atypical expansion in Asia-Pacific, and a lack of transparency on the company's operations led some investors to consider short-selling the stock. Another and perhaps the most important reason for short selling is insider information. Wirecard shares started short selling should have been a red flag for the market and investors that negative news is in circulation and yet to be revealed to the public at large.

5. A shift from Core business and existing concentration risk

Wirecard's core business was direct payment processing in Europe and credit cards in Europe and North America. As previously stated in the analysis of sales and EBIDTA, 50% of revenue in 2016 was attributable to the three Asian partners, implying that the company's core business contributed

approximately 50% of revenue.⁵⁰ The core business had deteriorated to the point of loss, but the company's financials remained immensely profitable due to the non-core business of Wirecard – the Asian operations. 95% of the EBIDTA came from the three Asian partners whose business was being investigated.

Very comprehensive discussion of the red flags here. Excellent research. It really conveys the extent of the scandal.

⁵⁰ Dan McCrum in London, Wirecard's core business has been lossmaking for years, audit shows, APRIL 24 2019, <https://www.ft.com/content/f697a093-4e1b-4ef4-9b16-820198e4a67f> , Accessed on May 13, 2021

VI. INADEQUATE CORPORATE GOVERNANCE

The onus of designing an environment of strong corporate governance and its implementation in true spirits lies on the Management and Supervisory Board, which closely analyzes and monitors its operations and is responsible for internal controls. This idea can be understood using the Three Lines Of Defense Model⁵¹. The first line of defense in this model is ‘management control’ as far as the risk management is concerned; followed by the ‘risk control and compliance oversight functions’ established by management as the second line of defense, and the third and last line of defense is formed by ‘independent assurance.’ Components of these defense model are as reflected below:



Figure 19: Three Line of Defense Model

⁵¹ Kyle Brasseur, IIA’s ‘Three Lines of Defense’ updated to stress collaboration, July 20, 2020, Compliance Week, <https://www.complianceweek.com/risk-management/iias-three-lines-of-defense-updated-to-stress-collaboration/29212.article>, Accessed on May 19, 2021

Each of these three “lines or tiers” plays a distinct and vital role within the organization’s broader governance framework. These three lines responsible for corporate governance have failed in fulfilling their duties at various stages resulting in the late discovery of the Wirecard scandal.

The composition of the Management and Supervisory Board of Wirecard is as under:⁵²

MANAGEMENT BOARD BEFORE FILING FOR INSOLVENCY		SUPERVISORY BOARD OF WIRECARD	
Name	Title	Name	Title
Dr. Markis Braun	Chief Executive Officer	Wulf Matthais	Chairman
Alexander von Knoop	Chief Financial Officer, effective January 1, 2018	Stefan Klestill (1)	Deputy Chairman
Burkhard Ley (1)	Former Chief Financial Officer, from January 2006 to December 2017	Thomas Eichelmann (2)	Member
Jan Marsalek	Chief Operating Officer	Dr. Anastassia Lauterbach (3)	Member
Susanne Steidl	Chief Product Officer	Vuyiswa V. M’Cwabeni	Member
		Susana Quintana-Plaza (4)	Member

(1) Burkhard Ley had been a key member of the Management Board and had direct knowledge of Wirecard’s financial transactions. He left the Management Board in December 2017.
Source: Wirecard AG 2018 Annual Report [19].

(1) Alfons W. Henseler resigned from the Supervisory Board effective June 18, 2019. Mr. Klestill became the new Deputy Chairman of the Supervisory Board as Mr. Henseler’s successor.
(2) Mr. Eichelmann was elected to the Supervisory Board on June 18, 2019.
(3) Tina Kleingarn stepped down from the Supervisory Board effective on December 31, 2017. Dr. Anastassia Lauterbach joined the Supervisory Board as her successor on June 21, 2018.
(4) Susana Quintana-Plaza joined the Supervisory Board effective on June 26, 2018.
Source: Wirecard AG 2018 Annual Report [21].

Figure 20: Composition of Management and Supervisory Board

Analysis of Wirecard’s corporate governance and its reason for weak defense model is given below:

1. No audit, risk, compliance, and other committees before early 2019

Based on Wirecard’s CG report and CG statement issued on March 29, 2018, the management and Supervisory Board declared that the Company had complied with the recommendations of the Government Commission German Corporate Governance Code with the two exceptions, first of them being:

⁵² Jo, H., Hsu, A., Llanos-Popolizio, R., & Vergara-Vega, J. (2021), Corporate Governance and Financial Fraud of Wirecard, European Journal of Business and Management Research, 6(2), 96-106., <https://doi.org/10.24018/ejbmr.2021.6.2.708>, <https://ejbmr.org/index.php/ejbmr/article/view/708>, Accessed on May 19, 2021

“Supervisory Board committees (the Audit Committee, the Remuneration, Personnel and Nomination Committee, and the Risk and Compliance Committee) were not formed until the first quarter of 2019.”

The compliance of the German Corporate Governance Board kept aside, an organization of Wirecard’s stature should have formed an Audit, Risk, Compliance, Remuneration, and Nomination Committees for the good governance of the company. Not forming such committees till early 2019 shows the turning of a blind eye by the management towards governance, making it easy for them to commit the confessed frauds with lesser checks and hurdles. Also, the non-existence of Supervisory Board committees, particularly the Audit Committee, prior to 2019, explains why the Supervisory Board failed to conduct an effective and efficient independent internal investigation into the numerous claims regarding Wirecard's accounting methods earlier, thereby preventing management from manipulating results.

2. The same person heading both the Supervisory Board and the Audit Committee

In addition to not having the supervisory committees in place, the management of Wirecard also admitted to deviating from the German Compliance Code on:

*“Wulf Matthais has served as Chairman of the Supervisory Board and Chairman of the Audit Committee concurrently since the beginning of 2019 due to his special skills and experience.”*⁵³

The Audit Committee's primary responsibility is to oversee :

- the financial reporting process,
- the audit process,
- the company's system of internal controls, and
- compliance with applicable laws and regulations.

Mr. Mathias' dual role as Chairman of the Supervisory Board and Chairman of the Audit Committee hampered the Audit Committee's ability to carry out its fiduciary duties and responsibilities.

3. Failure of Supervisory Board to veto Markus Braun from pledging his shares in 2017

Another instance of the Supervisory Board's failure was its inability to prevent the inherent conflict between management and shareholder interests. It came in the form of allowing Markus Braun, CEO, to borrow €150.0 million from Deutsche Bank in 2017 via a margin loan secured by his 7% shareholding in Wirecard, impeding its purpose a maximum of shareholder wealth.

Numerous public companies have policies that ban executives and directors from pledging their

⁵³ Jo, H., Hsu, A., Llanos-Popolizio, R., & Vergara-Vega, J. (2021), Corporate Governance and Financial Fraud of Wirecard, European Journal of Business and Management Research, 6(2), 96-106., <https://doi.org/10.24018/ejbmr.2021.6.2.708>, <https://ejbmr.org/index.php/ejbmr/article/view/708>, Accessed on May 19, 2021

business shares as collateral for margin loans to avoid potential conflicts of interest between shareholders and management. The conflict of interest arises when an officer of the firm may have an enticement to artificially inflate the stock price in the short term to avoid significant losses from a forced sell to satisfy the terms of a personal margin loan. Additionally, an officer may request a corporate share buyback to enhance the stock price for personal stock pledge purposes, eroding long-term shareholder value.⁵⁴

Additionally, the lender's sale of pledged shares is reportable, and the sale may result in insider trading penalties if relevant inside information is involved. Due to the Supervisor Board's failure to ban Wirecard's former CEO from pledging the Company's stock in exchange for a margin loan, Mr. Braun had a motive to manipulate earnings. He initiated a share buyback programme to increase the Company's stock price following the pledge. As soon as EY disclosed on June 18, 2020, that €1.9 billion of funds was missing, Wirecard's share price plummeted to €30.90 a share, causing Mr. Braun to sell €150.0 million of Wirecard stock to repay his margin on the debt. Additionally, this kind of action has significant financial ramifications for the Company and has been a contributing factor in the demise of shareholder value.⁵⁵

⁵⁴ Jo, H., Hsu, A., Llanos-Popolizio, R., & Vergara-Vega, J. (2021), Corporate Governance and Financial Fraud of Wirecard, *European Journal of Business and Management Research*, 6(2), 96-106., <https://doi.org/10.24018/ejbmr.2021.6.2.708>, <https://ejbmr.org/index.php/ejbmr/article/view/708> , Accessed on May 19, 2021

⁵⁵ Jo, H., Hsu, A., Llanos-Popolizio, R., & Vergara-Vega, J. (2021), Corporate Governance and Financial Fraud of Wirecard, *European Journal of Business and Management Research*, 6(2), 96-106., <https://doi.org/10.24018/ejbmr.2021.6.2.708>, <https://ejbmr.org/index.php/ejbmr/article/view/708>, Accessed on May 19, 2021

4. High percentages of the variable component in the management compensation structure

In Wirecard, the variable component of management remuneration, referred to as performance-based compensation, was tied to (i) EBITDA growth, ii) stock price appreciation, and iii) total shareholder return (TSR).⁵⁶

In fiscal years 2018 and 2017, the performance-based remuneration accounted for 35% and 27% of the Management Board's total compensation. The primary objective of tying the management board's compensation to its share price and TSR performance was to offer an incentive to sustainably improve the Company's shareholder value in the long term. Since the Management Board's performance-based compensation agreement did not include a clawback provision, this compensation structure failed to reach such a target. Instead, it provided an incentive for management to manipulate earnings to achieve underlying earnings' targets and offset business growth that would have otherwise not met the investors' expectations. In addition, Wirecard acquired enormous wealth in the market during these years and reached a market cap of almost \$28.0 billion due to the steady stock price increase continuing since past years. Consequently, management had to continue to exhibit a business growth consistent with prior trends under severe market pressure.⁵⁷

⁵⁶ Jo, H., Hsu, A., Llanos-Popolizio, R., & Vergara-Vega, J. (2021), Corporate Governance and Financial Fraud of Wirecard, *European Journal of Business and Management Research*, 6(2), 96-106., <https://doi.org/10.24018/ejbmr.2021.6.2.708>, <https://ejbmr.org/index.php/ejbmr/article/view/708>, Accessed on May 19, 2021

⁵⁷ Ibid

5. Weak internal controls:

It's difficult to picture management that oversees the operations of a multinational corporation failing to keep minutes of executive meetings. The failure to meet this fundamental requirement of the internal control system, i.e., developing and adhering to a precise procedure for decision recording, demonstrates that management was only focused on growth and was not adhering to risk management.

6. Weak internal financial reporting:

According to the special investigation report, KPMG found that Wirecard companies have settled liabilities of other Wirecard companies. The resultant liabilities between the group entities are left unsettled for an extended period. KPMG also noted process weaknesses and control risks concerning internal financial reporting.⁵⁸

7. Top executives' involvement

During the inquiry initiated by the German Parliament, former top executives have confessed that Wirecard has been establishing a network of offshore companies so to be able to siphon large amounts of money. Oliver Bellenhaus, one of the executives arrested in the Wirecard scandal, has become a chief witness for prosecutors. He confessed to creating shell companies in Hong Kong and British Virgin Island on instructions from Jan Marsalek. Former COO of Wirecard. He further admitted to having shifted corporate funds out of Wirecard to the shell

⁵⁸ KPMG Report Concerning the Independent Special Investigation, Munich, April 27 2020, https://www.wirecard.com/uploads/Bericht_Sonderpruefung_KPMG_EN_200501_Disclaimer.pdf Accessed on May 19, 2021

companies and then from them to a private foundation. These transfers of money began in 2011 and were done along with Jan Marsalek. He accepted that in 2014 he created an entity, 'Al Alam Solution,' in British Virgin Island. The entity's name was kept identical to Wirecard's Dubai-based partner as directed by Marsalek. This entity account was planned to be used for receiving money into the Wirecard account to give an impression that the Dubai-based partner is transferring the commission According to the contract. ⁵⁹

Despite the whistleblower's allegations of misconduct against Wirecard's "top management" in Germany, KPMG discovered that the forensic audit was handled by Wirecard's internal board rather than its supervisory board. ⁶⁰

⁵⁹ Olaf Storbeck in Frankfurt, Wirecard fraud 'started more than a decade ago, MARCH 23 2021, Financial Times, <https://www.ft.com/content/650d7108-dca8-4299-95ad-e68476bc3020>, Accessed on May 19, 2021

⁶⁰ Whistleblower warned EY of Wirecard fraud four years before collapse, Sep 29, 2020, <https://www.irishtimes.com/business/financial-services/whistleblower-warned-ey-of-wirecard-fraud-four-years-before-collapse-1.4367784>, Accessed on May 19, 2021

VII. INADEQUATE AUDITING COMPLIANCES AND REGULATORY OVERSIGHT

1. External Auditors

EY Germany - the Big Four entity that has been the auditor of Wirecard AG for the last decade is now facing severe scrutiny from the special inquiry ordered by the German Parliament. Although the investigation is still underway, pending that we have analysed the compliance of the auditors based on the data made public to date whether -

1. Red flags were latent, and hence EY might not have been aware of or responded to it OR
2. EY overlooked or was negligent to evident red flags OR
3. Is there truth behind the alleged collusion between EY and Wirecard

Some of the apparent lapses on the part of EY have come to light based on which the prima facie conclusion is that auditors knowingly ignored the red flag indicators. A few of them are as follows:

- **Unqualified Audit report despite red flags**

For the last decade, EY has been signing off unqualified audit reports for Wirecard AG and the group audits. However, disclosures by Financial Times in December 2020 reveal that the Anti -Fraud team of EY had raised concerns regarding 'red-flag indicators' in the 2018 financials of Wirecard. According to this EY team, there were indicators to raise doubt on the accounting of Wirecard and warrant further investigation. However, since the external audit team did not investigate, on the contrary, it issued an unqualified report. This fact indicates that the annual audit team neglected the Anti-fraud team's findings. While in its defense, the audit team responded that the audit and forensic investigation are two separate

teams, the fact that the data was passed between the two teams cannot be ignored, and once gave the audit team issuing an unqualified audit report without further investigation does raise questions on the integrity of the auditors.

- **Project Ring**

An independent report by Rödl & Partner has been released. The report aimed to investigate any shortcomings by accounting firm EY in the now infamous Wirecard scandal. One finding refers to EY's handling of the interim results of a forensic investigation in 2017. The probe, which was conducted by a separate EY anti-fraud team and code-named Project Ring, was mandated by Wirecard's board after a whistleblower raised allegations about accounting manipulations and attempted bribery of an auditor by Wirecard staff in India. The Project Ring was already suffering from delays and yet with critical questions still remaining unanswered by March 2017, just before the audit opinion for 2016 was due. EY auditors warned Wirecard that an unqualified audit would be denied unless these issues were resolved.⁶¹ However, although Project Ring made multiple important "observations" casting doubts on the integrity of Wirecard's Indian subsidiary's financial reporting, according to KPMG, these discoveries were not adequately assessed by the EY audit team that cleared Wirecard's 2017 results with an unqualified opinion.

⁶¹ VICTORIA CONROY, Damning report into EY audit of Wirecard fraud released, APRIL 19, 2021, Payments, <https://www.paymentscardsandmobile.com/damning-report-into-ey-audit-of-wirecard-fraud-released/#:~:text=The%20probe%2C%20which%20was%20conducted.by%20Wirecard%20staff%20in%20India>, Accessed on May 10, 2021

“EY Audit's examination of observations was insufficient,” KPMG noted, adding that “it saw material that argues against terminating Project Ring's special audit and that should have been thoroughly investigated.” Wirecard CEO Marsalek finally discontinued the Project Ring probe in 2018 after being briefed on his troubling 'observations.'⁶²

- **Attempted bribery allegation**

There was attempted bribery to EY officials in the Wirecard case, apparently only dealt with internally by EY – an approach that KPMG, the special investigator, found problematic. “Since the auditor EY was explicitly mentioned in the allegations, in our opinion, it was necessary to hire an independent third party,” KPMG said.⁶³

- **Treatment of escrow funds as cash and cash equivalent**

Wirecard last released its audited financials in September 2019 for the year 2018. The nine monthly results for 2019 published by the company reported net cash of €2.3 billion (\$2.6 billion) and free cash flow of more than €410 million with a more than 60% increase in cash flows.

Rödl & Partner, like KPMG in its recent special audit, take issue with the fact that funds deposited in escrow accounts in Asia were classified as Wirecard's cash. It noted that EY's

⁶² Whistleblower warned EY of Wirecard fraud four years before collapse, September 29, 2020, <https://www.fr24news.com/a/2020/09/whistleblower-warned-ey-of-wirecard-fraud-four-years-before-collapse.html>, Accessed on May 10, 2021

⁶³ Ibid

assessment of the case was "contradictory," as internal documents revealed that the firm first intended to classify the funds as "other financial assets." EY eventually reversed its decision at Wirecard's management's instance with the argument that Wirecard could access the cash within three months because it provides a bank guarantee for the same. Internally, the accounting firm indicated that Wirecard could secure such a bank guarantee at any time due to its financial soundness — but did not verify that assertion during its audits. The cash was later nowhere to be found, let alone classification in the balance sheet.⁶⁴

- **Undiligent balance confirmation**

According to the FT, EY failed to obtain account information directly from the Singapore bank where Wirecard allegedly kept large sums of money for at least three years.⁶⁵

Accounts with the Asian bank were essential to Wirecard's accounting fraud, resulting in the business declaring insolvency.

According to Wirecard's previous management, the accounts were used to settle transactions with partners who processed payments on Wirecard's behalf in countries where Wirecard did not have its electronic payment processing licenses. Yet, it is unknown whether the accounts — let alone the money that was supposed to have been deposited there — existed. Wirecard

⁶⁴ EY's Wirecard audits suffered serious shortcomings, German probe finds, APRIL 17 2021, <https://www.ft.com/content/abd89375-3fa1-4457-abd6-b3e3231ba339>, Accessed on May 10, 2021

⁶⁵ EY in hot water over Wirecard audit, Nov 27, 2020, <https://www.afr.com/companies/professional-services/ey-in-hot-water-over-wirecard-audit-20201127-p56ily>, Accessed on May 10, 2021

informed its auditors that the funds were transferred in late 2019 from OCBC to banks in the Philippines, where €1.9 billion was allegedly placed. KPMG's special audit team was unable to collect authentic bank papers establishing the existence of deposits. The banks informed EY that the documentation it had previously seen on the Philippine accounts was "spurious" and that it didn't exist.⁶⁶ Alexander Geschonneck, a partner at competitor company KPMG who oversaw a special audit of Wirecard's accounting, told MPs that EY was asked to affirm that it followed standard processes for monitoring bank account balances. He stated that the firm had not confirmed this. He said, "There was no account information and no bank paperwork," referring to the accounts intended to hold significant sums of cash. "There really was nothing from 2016 to 2018".⁶⁷

- **Failure to question the 3 Asian partners**

Rödl & Partner asserted that EY overlooked a number of fraud risk indications, including unusually strong ties to Asian partners, as described in the report, as well as high and expanding margins in a market with lesser value-added than Wirecard's core business.

According to the study, the data provided at Wirecard and analysed by EY was insufficiently detailed to verify individual transactions reportedly completed by Asian outsourcing

⁶⁶ Olaf Storbeck in Frankfurt, Tabby Kinder in London and Stefania Palma in Singapore, EY failed to check Wirecard bank statements for 3 years, JUNE 26 2020, Financial Times, <https://www.ft.com/content/a9deb987-df70-4a72-bd41-47ed8942e83b>, Accessed on May 10, 2021

⁶⁷ Olaf Storbeck, EY in hot water over Wirecard audit, Nov 27, 2020, FR24 News, <https://www.afr.com/companies/professional-services/ey-in-hot-water-over-wirecard-audit-20201127-p56ily>, Accessed on May 10, 2021

partners. As reported by Der Spiegel, Rödl & Partner also takes issue with Wirecard's disclosure of its TPA business, citing the 2018 implementation of new IFRS reporting rules that mandated increased transparency. Additionally, Wirecard failed to disclose that the revenue generated by the TPA was never converted into actual cash inflows. The TPA business was formally exposed for the first time in April 2020, with the publication of KPMG's special audit report of Wirecard. Additionally, Rödl & Partner notes that EY should have verified the electronic payment systems of Senjo and Al Alam, two of Wirecard's alleged partners. "In our opinion, there were multiple fraud risk signs in the TPA company that may have heightened the critical attitude and triggered more audit actions," the special investigator concluded.⁶⁸

- **Unqualified Audit Report**

For a decade, Wirecard obtained unqualified audit reports from EY and was previously considered as one of Germany's few technology success stories. It declared bankruptcy this summer after admitting that €1.9 billion in cash "did not exist." This fact raises critical questions on EY's diligence in

2. Regulators

In the case of Wirecard, regulatory and oversight shortcomings have been noticed on the part of both – BaFin, the German security markets' regulator and FinCEN, the US financial Intelligence agency.

⁶⁸ Olaf Storbeck, EY's Wirecard audits suffered serious shortcomings, German probe finds, APRIL 17 2021, Financial Times, <https://www.ft.com/content/abd89375-3fa1-4457-abd6-b3e3231ba339>, Accessed on May 10, 2021

Both the mentioned agencies/authorities had or at least could have the information about Wirecard's illegitimate transactions but chose to turn a blind eye to Wirecard's misdoings, leading to its insolvency.

A. BaFin

- **Regulations' shortcoming**

German Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) does not have the same supervisory power on Wirecard AG as in the case of Wirecard Bank due to the nature of the former being a 'fintech.' The fintech company is traditionally governed as a technology company, unlike other financial institutions. This inherent issue in the regulations leads to lesser controls and disclosure norms for a fintech like Wirecard AG than other financial institutions in payment processing. This lack of direct control also delays investigations and prevents disclosure of data until a special inquiry is mandated.

- **BaFin's ban on the short-selling of Wirecard shares⁶⁹:**

Two and a half weeks after FT's reporting had sent Wirecard's share price plummeting in February 2019, BaFin banning short-selling of Wirecard shares for two months and had initiated its investigation in the matter. The temporary prohibition by the supervisor to trade specific financial instruments is a profound intervention in the market and needs a special justification. From an economic point of view, short-selling has the important market

⁶⁹ René Jakubeit, The Wirecard scandal and the role of BaFin, Working Paper 5/2021, March 22, 2021, <https://sep.luiss.it/sites/sep.luiss.it/files/WP5.21%20The%20Wirecard%20scandal%20and%20the%20role%20of%20Bafin.pdf>, Accessed on May 10, 2021

function of incorporating negative opinions about a company in its share price. Consequently, the ban temporarily disabled this function. Yet, it could be argued that, after the sharp and repeated fluctuations of Wirecard's stock price, BaFin's decision was a proportionate measure to calm markets for a limited period in order to thoroughly assess the situation. However, BaFin does not seem to have issued the ban to buy time for such an assessment. Instead, when it issued the ban, BaFin already had an explanation in place. The regulator's justification of the ban starts with the observation that Wirecard had been "targeted by 'short attacks'" already in the past, namely in 2008 and 2016 (obviously referring to the affairs of "Schutzgemeinschaft der Kapitalanleger" in 2008, and Zatarra in 2016). The German regulator further stated that these attacks had been "followed and facilitated by negative reporting in the media." In this statement, BaFin makes three things clear⁷⁰:

- (i) that it was certain – without implying that the FT's claims were incorrect – that there was a link between adverse news reports and 'short attacks' on Wirecard.
- (ii) that the short attacks on Wirecard posed a threat to the orderly and efficient functioning of markets in general, necessitating the imposition of a ban on short-selling of Wirecard shares.
- (iii) that Wirecard assaults originated "primarily from abroad." The implication is clear: according to BaFin, international journalists and speculators conspired to undermine Wirecard. This interpretation of BaFin's purpose for the short-selling prohibition is

⁷⁰ René Jakubeit, The Wirecard scandal and the role of BaFin, Working Paper 5/2021, March 22, 2021, <https://sep.luiss.it/sites/sep.luiss.it/files/WP5.21%20The%20Wirecard%20scandal%20and%20the%20role%20of%20Bafin.pdf>, Accessed on May 10, 2021

bolstered by the regulator's subsequent filing of a criminal complaint alleging market manipulation against the responsible FT journalists.

- **The decision to file criminal complaints against FT journalists and short-sellers⁷¹**

In April 2019, the German regulator filed a criminal complaint against two FT journalists who had been behind the reports on criminal investigations against Wirecard in Singapore and against several short-sellers, accusing them of potential market manipulation related to the price drop of Wirecard's shares in February 2019. Legal action by public authorities against critical journalists may be a common tool of autocratic regimes after prosecutors in Singapore had already raided local Wirecard offices and had announced that they were probing several Wirecard subsidiaries. Hence, BaFin made its decision to sue when it was already clear that the FT's reporting about a criminal probe against Wirecard in Singapore, which had been the reason for the drop in Wirecard's share price in the first place, was accurate. It is difficult to justify BaFin lodging criminal complaints against FT reporters, especially given that the main party aggrieved by the said reports, Wirecard, did not make the move.⁷²

⁷¹ The Wirecard scandal and the role of BaFin, René Jakubeit, Working Paper 5/2021, March 22, 2021, <https://sep.luiss.it/sites/sep.luiss.it/files/WP5.21%20The%20Wirecard%20scandal%20and%20the%20role%20of%20Bafin.pdf>, Accessed on May 23, 2021

⁷² Ibid

- **A home-country bias**⁷³

The German finance ministry eagerly pointed out that BaFin’s investigation was conducted “in all directions,” i.e., neutrally and open-ended. However, there are clear indications that BaFin actually did not carry out an unbiased assessment of the situation – but instead seems to have jumped to the conclusion that Wirecard was under a coordinated attack from short-sellers and reporters coming “from abroad.” The fact that BaFin took the measures mentioned above so quickly is the strongest indication that BaFin never seriously examined the allegations against Wirecard. Instead, BaFin seems to have filtered all information concerning Wirecard and furthers its existing narrative about Wirecard as the victim of coordinated speculative attacks from abroad.

BaFin’s conduct in the Wirecard affair, and its willingness to side with Wirecard early on, is better explained by a more structural approach, namely the concept of a supervisory home-country bias. This is also what Véron (2020) suspects:

“Economic nationalism - the desire to promote and preserve national corporate giants whose success is supposedly related to the national interest - twisted authorities' incentives and led them to ignore their core responsibility, in

⁷³ René Jakubeit, The Wirecard scandal and the role of BaFin, Working Paper 5/2021, March 22, 2021, <https://sep.luiss.it/sites/sep.luiss.it/files/WP5.21%20The%20Wirecard%20scandal%20and%20the%20role%20of%20Bafin.pdf>, Accessed on May 23, 2021

this case, of the investor protection and the integrity of the German securities market.”⁷⁴

B. FinCEN

Financial institutions like Banks, Credit Societies, Fintechs, etc., conducting business in the U.S. have to file Suspicious Activity Reports (SARs) to FinCEN. This agency overlooks money laundering activities, terrorist funding, and other financial crimes. In confidential reports, the institutions detail and often rescind transactions among clients, or other banks they suspect are problematic. Hence if Visa and Master Card companies did not file the required SAR, then there is a lapse on their end, and the question arises why would they protect Wirecard? And if they did file SARs, what action was taken by FinCen to address this? Did FinCen take the required actions and conduct an independent review? An action by FinCen could have led to a deterrent for Wirecard and could have lead to the discovery of other irregularities in time to save the collapse.

⁷⁴ Véron, Nicolas (2020): The Wirecard debacle calls for a rethink of EU, not just German, financial reporting supervision. PIIE Realtime Economic Issues Watch. Online: <https://www.pii.com/blogs/realtime-economic-issues-watch/wirecard-debacle-callsrethink-eu-not-just-german-financial>

VIII. ALLEGED INVOLVEMENT OF LAWMAKING AND ENFORCEMENT AGENCIES

1. Law enforcement authorities

There have been allegations that Wirecard had close ties with the country's law enforcement authorities which acted as a support mechanism to Wirecard. The company's COO, Jan Marsalek, has also been alleged to have a connection with the secret service of two other countries and is currently on Interpol's wanted list.

One of the mandates of the [Special Enquiry Committee](#)⁷⁵ has been to verify whether there was any communication between representatives of the Wirecard Group and representatives of Land law enforcement agencies about issues relating to the subject under inquiry. The Committee has also been asked to provide recommendations on the extent to which conclusions can and should be drawn about effective law enforcement in accounting fraud cases and reforms required of financial supervision and money laundering supervision.

The inquiry report is not yet public, but as reported by Financial Times, links have been found between Wirecard and Germany's Federal Criminal Police Office (BKA) dating back to 2013. Correspondence between these parties reveals that some of the operatives of BKA were issued credit cards for their criminal investigation backed by fake identities. Around one-third of the cards used by BKA operatives were issued by Wirecard, and issuance charges were waived.

⁷⁵ Deutscher Bundestag, <https://www.bundestag.de/en/committees/bodies/inquiry/3inquiry/mandate-803420>, Accessed on May 23, 2021

BKA is responsible for fighting money laundering and organized crime. Its links with Wirecard, alleged for money laundering, seem to raise questions on the level of scrutiny undertaken by BKA.

2. Alleged lobbying by German Politicians

German officials allegedly collaborated closely with Wirecard personnel to promote Wirecard's global expansion. The charge is directed at German Chancellor Angela Merkel's 2019 conduct during which she supported Wirecard during her visit to China. At the time, Wirecard was in the process of acquiring a Chinese payment company and seeking approval from the People's Bank of China. During her visit to China, German Chancellor Angela Merkel brought up this point with her Chinese counterparts. Though the Chancellor and officials defend themselves by stating that they did not treat Wirecard differently but followed standard business diplomacy guidelines, questions have been raised about whether the Chancellor should have backed a company accused of financial statement manipulation and fraud in its home media.

One of the mandates of the [Special Enquiry Committee](#)⁷⁶ has been

“To investigate:

⁷⁶ Deutscher Bundestag, <https://www.bundestag.de/en/committees/bodies/inquiry/3inquiry/mandate-803420>, Accessed on May 23, 2021

- Whether the Federal Government and/or its executive agencies had any special interests in the Wirecard Group's business success and international expansion, particularly in the People's Republic of China; and, if so, what those interests were and to what extent, if at all, the Wirecard Group received special treatment as a result, which harmed the detection of possible terrorist acts;
- Whether individuals within the federal intelligence services had vested interests in the Wirecard Group's business success and international expansion and, if so, what those interests were and to what extent the Wirecard Group received preferential treatment as a result, which harmed the detection of possible criminal/administrative offences committed by persons acting on their behalf.

Wirecard's expansion plans, growing revenues and profits and being considered a revolutionary company could have fogged the lens with which the law enforcement authorities viewed Wirecard. While the special investigation report is not yet public, the fact remains that Wirecard had good backing by the Government and Politicians, being one of the top companies in Germany, and the allegations raised in the media time and again went unheeded for an unacceptable period.

IX. IMPACTS OF THE SCANDAL

Apart from the immediate and most significant impact of the Wirecard scandal, which is financial losses for various parties, the scandal would continue to have repercussions on more critical aspects of the country and its regulatory regime in the years to come. Some of the vital impacts directly related to the Wirecard scandal are: -

1. Reputational loss for Germany:

The Wirecard scandal has tarnished Germany's image by reducing the trust local companies, global partners, investors, and the public had in law enforcement and regulatory authorities. The scandal has proven to be a national disgrace and has raised whether Germany is a safe place to do business. The Federal government and its executives are currently struggling to justify why a company alleged in local media had been lobbied for and the delay in taking any action against Wirecard despite the repeated whistle-blowing activity. The underlying question that would be clarified in the special inquiry report is whether the German authorities knowingly delayed the inquiry so as not to tarnish the name of a home-grown start company that had risen to be a technology leader ⁷⁷.

Further, the numerous reforms being proposed/ requested by various groups in the industry indicate the weakness in Germany's financial and supervisory regime and have exposed these loopholes to the world at large.

⁷⁷ Nicholas Comfort, Wirecard inquiry probes why Germany missed fraud of century, Aug 31, 2020, Bloomberg News, <https://www.bnnbloomberg.ca/wirecard-inquiry-probes-why-germany-missed-fraud-of-century-1.1487236>, Accessed on May7, 2021

2. Loss of trust for UK's Fintech Industry

The fintech industry is still in its growth phase and is deemed to be characterised by high risk. The Wirecard scandal raises doubt on the long-term sustainability of fintech companies. Due to the nature of business, fintech industries mostly have minimal physical assets, and significant assets of these companies are intangible assets like customer relationships, software, etc. While this industry is in the growth phase, a scandal like Wirecard reinforces the risk associated with Fintech companies and lessens the public's trust in UK's fintech sector.

In the case of Wirecard, when its UK unit was mandated by Financial Conduct Authority (FCA) to stop the activities post-filing for insolvency, it had a catastrophic impact on several fintech apps. Applications that relied on Wirecard's technology had to freeze their customers' accounts, resulting in grieved customers who lost access to their own money. Some of the most impacted apps include Curve, Anna, U Account, etc.

3. The financial loss of the public – customers, investors, etc.

The immediate impact of the scandal has been the loss of wealth for the people associated with Wirecard – its customers, business partners, creditors, retail investors, etc.

- **Loss to shareholding as stock price and market valuation crashed.**

After peaking at €193.5 in September 2018, the stock price began fluctuating on

- (i) reports of allegations and financial misstatement began circulating in the market
- (ii) the news of investment by Softbank in Wirecard also went viral at the same time.

It was later revealed that the KPMG special investigation report raised critical concerns. The EY auditors then released their 2019 report, and the company finally admitted that the missing €1.9 billion could not be traced and filed for bankruptcy. The remaining value of the stock was also wiped out, as illustrated below.:

Table 3: Stock price dip of Wirecard AG

Date	Stock price (€)	Dip in stock price from peak price
02-Sep-18	193.5	
07-Jun-20	92.4	-52.2%
14-Jun-20	24.7	-87.2%
21-Jun-20	1.4	-99.3%
23-May-21	0.4	-99.8%

The retail investors lost millions of euros as the once most popular stock seemed nothing more than a sunk investment. Numerous class actions have been filed against the company, EY, and BaFin by retail investors hoping to recover at least some portion of their investment.

- **Clawback of dividends distributed.**

The insolvency administrator of Wirecard has applied to the district court of Munich to recover the amount paid out by Wirecard to its shareholders in 2017 and 2018 as ‘dividends’ since the company was not making any profit during those years. He has claimed such

payments as illegal in his report and wants to recover the millions paid out.⁷⁸ The Wirecard scandal has already impacted the market sentiment and trust and this proposal will grossly impact the shareholder's confidence in the capital market if approved.

- **Creditors claim at least €12.5 billion.**

While Wirecard insolvency proceedings are underway, the German court received claims from Wirecard creditors totaling €12.5 billion till November 2020. The insolvency administrator is currently selling the assets of the company. However, it is most likely that only a fraction of this amount will be repaid. Claims against the subsidiaries of Wirecard are also filed and are not included in the €12.5 billion mentioned above.⁷⁹

4. Overhaul of the regulatory regime

- **European Securities and Markets Authority (ESMA) proposed improvement to Transparency Directive (TD)⁸⁰:**

Based on the Peer Review conducted by ESMA in November 2020 to assess the reason for the collapse of Wirecard and how the regulatory bodies - BaFin and the Financial Reporting

⁷⁸ Von Lena Kampf und Nils Wischmeyer,, Aktionäre müssen womöglich zahlen, 20.05.2021, Tagesschau, <https://www.tagesschau.de/wirtschaft/unternehmen/wirecard-aktionaere-101.html>, Accessed on May 7, 2021

⁷⁹ Sims Tom, Wirecard's creditors claim at least 12.5 billion euro, Reuters, November 18, 2020, <https://www.reuters.com/article/us-wirecard-accounts-idUSKBN27Y179>, Accessed on May 7, 2021

⁸⁰ ESMA, ESMA PROPOSES IMPROVEMENTS TO TRANSPARENCY DIRECTIVE AFTER WIRECARD CASE, European, Markets Authority, March 3,2021 <https://www.esma.europa.eu/press-news/esma-news/esma-proposes-improvements-transparency-directive-after-wirecard-case>, Accessed on May 7, 2021

Enforcement Panel responded to it, ESMA has proposed to the European Commission (EC) areas of modification in Transparency Directive (TD). The proposal addresses provisions related to enforcement of financial information and aims to achieve the following: - ⁸¹

- Removing confidentiality barriers and facilitating the effective and efficient transmission of information between authorities will improve cooperation across the EU.
- Strengthening inter-national coordination and governance by clearly defining the tasks, roles, and duties of each level of enforcement in a multi-layered enforcement framework.
- Ensuring complete independence of authorities from market participants and government meddling.
- Strengthening harmonised supervision of information across the EU by empowering all the authorities to request information and to require corrective information, ensuring consistent application and enforcement of disclosure norms.

According to ESMA, the proposed modifications to the Transparency Directive will address some of the deficiencies encountered in the Wirecard case.

⁸¹ Arthur Cox LLP, ESMA recommends changes to EU transparency enforcement regime following Wirecard collapse, Lexology, March 5 2021, <https://www.lexology.com/library/detail.aspx?g=d7ed32f8-3a3a-447f-807d-79632fe3b0e4>, Accessed on May 7, 2021

- **The proposed reform of Financial regulation:**

Post the Wirecard scandal; there is significant pressure on the Finance Ministry to reform regulations in the country to address the weakness examined in the regulatory framework. A few of the changes proposed include:

- Empowering BaFin to intervene “directly and immediately” in public companies.
- Empowering BaFin to conduct a special audit of capital market-oriented companies and
- Granting BaFin the right to access information from third parties and the right to conduct a forensic investigation.
- Empowering APAS to impose stricter sanctions on rule-breakers.
- Enforcing a mandate that companies need to replace the auditors every ten years instead of the existing norm of twenty years.
- Remodeling and empowering the EU’s financial oversight body with the right to get information from listed companies.
- Discontinue the existing two-tiered enforcement system in which the private-sector body Financial Reporting Enforcement Panel (FREP) is primarily responsible for monitoring, overlooking, and regulating the financial reporting of listed German companies. BaFin can ask FREP to initiate a probe if required, but FREP does the actual probing.

Great work focussing on the impacts here. They were far reaching and called for change.

X. RECENT DEVELOPMENTS

It's been a year since Markus Braun, CEO of Wirecard, was arrested for his alleged role in the scandal. He has after that confessed to leading the scandal

1. Sale of business, assets, and platforms till April 29, 2021

In a court order dated 25 August 2020, Michael Jaffé was appointed by the Munich Local Court as insolvency administrator of Wirecard AG and Wirecard Technologies GmbH, Wirecard Issuing Technologies GmbH, Wirecard Service Technologies GmbH, Wirecard Acceptance Technologies GmbH, Wirecard Sales International Holding GmbH, and Wirecard Global Sales GmbH.

- Wirecard e-Money Philippines, Inc., Wirecard Payment Solutions Malaysia Sdn. Bhd., Wirecard (Thailand) Co., Ltd., and Wirecard Payment Solutions Hong Kong Limited were sold to Nomu Pay Ltd, a subsidiary of Finch Capital, a British and Dutch technology investment firm.

Additionally, the selling deal announced this week covers the assets and licenses associated with Wirecard Asia Holding Pte. Ltd. and Wirecard Singapore Pte. Ltd.'s data warehouse. As a result, at least 110 employments would be retained across Asia. The acquisition is still subject to clearance by the country's banking regulators in part. Wirecard AG's creditors' committee has previously authorised the transaction.

- PT Wirecard Technologies Indonesia was sold to an Indonesian technology company.

- A successful sale of Wirecard Australia A&I Pty Ltd to an Australian payment services company. The deal remains subject to the transaction's standard closing conditions.⁸²
- Wirecard Singapore Pte. Ltd., a subsidiary of Wirecard Sales International Holding GmbH, sold a majority stake in Wirecard (Vietnam) Company Limited to South Korean credit card company BC Card Co., Ltd. The transaction is subject to numerous conditions, most notably clearance by the local merger control authority.⁸³

The sale of subsidiaries will be beneficial to the creditors and is also essential since this will enable valuable business segments of Wirecard to continue as a going concern.

2. Ongoing inquiry by Committee appointed by German Bundestag⁸⁴

A Special Committee of Inquiry was formed by the German Bundestag under Article 44 of the Basic Law (Grundgesetz) to investigate the Wirecard Group – including group companies, subsidiaries, and other holdings – and natural individuals operating on their behalf as employees or officeholders. The probe will cover the period from 1 January 2014 to the date of the Committee's establishment.

Some of the Key mandates stipulated are for the Committee of Inquiry include:

⁸² Wirecard, <https://www.wirecard.com/2021/04/16/significant-progress-made-in-sale-of-assets/>, Accessed on May 16, 2021

⁸³ Wirecard, <https://www.wirecard.com/2021/04/29/wirecard-subsiary-in-vietnam-sold/>, Accessed on May 16, 2021

⁸⁴ German Bundestag, Decision establishing the Committee of Inquiry and mandate, <https://www.bundestag.de/en/committees/bodies/inquiry/3inquiry/mandate-803420/>, Accessed on May 16, 2021

- Examine the Federal Government's conduct and its executive agencies connected with the Wirecard Group, including cooperation with other public and private entities.
- Determine the extent of the Federal Government and its executive agencies being aware of the events and how they discharged their responsibilities under financial supervision, anti-money laundering supervision, and tax law concerning the Wirecard Group.
- Determine how the Federal Government's executive agencies aided the Wirecard Group's interests in Germany and abroad and what communications occurred in this context, if any.
- Determine whether and to what extent, if any, relationships between the Wirecard Group and domestic public authorities existed and if the Federal Government and/or its executive agencies were aware of or were aware of such connections.

Detailed mandate can be referred at:

<https://www.bundestag.de/en/committees/bodies/inquiry/3inquiry/mandate-803420>

A Committee of Inquiry is also required

“To provide recommendations on the extent to which conclusions can and should be drawn: ⁸⁵

- *following the collapse of the Wirecard Group, a financial oversight reform in terms of organisation, work, powers, and collaboration with other supervisory and oversight*

⁸⁵ German Bundestag, Decision establishing the Committee of Inquiry and mandate, <https://www.bundestag.de/en/committees/bodies/inquiry/3inquiry/mandate-803420/>, Accessed on May 16, 2021

authorities/agencies, law enforcement authorities/agencies, tax authorities/agencies, and security authorities/agencies at the federal and state levels;

- *particularly in light of the crucial necessity of auditor-certified financial statements for financial and stock market supervision, and in view of the need for auditing and financial reporting enforcement reform, particularly with regard to accountants' and auditors' independence, the separation of advisory and auditing services, auditors' liability, and the purpose of audits and accounting, and on the extent to which supervisory reform is necessary (Auditor Oversight Body (APAS), etc.);*
- *following the collapse of the Wirecard Group, a revamp of money laundering supervision and oversight or an upgrade to the Anti-Money Laundering Directives in terms of organisation, work, powers, and collaboration with other supervisory and oversight authorities/agencies, law enforcement authorities/agencies, tax authorities/agencies, and security authorities/agencies at the federal and state levels;*
- *about effective law enforcement in accounting fraud cases;*

- *regarding the creation of rules governing or disclosing exchanges between interest representatives and the Federal Government as well as its executive agencies (e.g., by way of a lobby register). ”⁸⁶*

3. Reorganisation and changes proposed

- **At EY:**

While the investigations into the partners of EY concerning the Wirecard scandal are underway, EY has been taking steps to regain trust and rebuild its image as an efficient auditor. As one of the measures, EY Germany has announced in February 2021 that its head, Hubert Barth, is stepping down and will be replaced by Henrik Ahlers and Jean-Yves Jegourel. With the tarnished reputation post-discovery of the scandal and criminal proceedings being filed against EY, it is reported that the audit firm has lost several prominent contracts. Meanwhile, EY has introduced a new programme and a new risk committee which will foster a culture of professional skepticism and helps in strengthening governance.⁸⁷

⁸⁶ German Bundestag, Decision establishing the Committee of Inquiry and mandate, <https://www.bundestag.de/en/committees/bodies/inquiry/3inquiry/mandate-803420/>, Accessed on May 16, 2021

⁸⁷ Reuters, EY Germany Head Steps Down in Wake of Wirecard Scandal, US News, February 25, 2021, [https://www.usnews.com/news/technology/articles/2021-02-25/ey-germany-head-steps-down-in-wake-of-wirecard-scandal#:~:text=%7C-.Feb.,2021%2C%20at%208%3A34%20a.m.&text=BERLIN%20\(Reuters\)%20%2D%20EY%20Germany,of%20payment%20services%20firm%20Wirecard.](https://www.usnews.com/news/technology/articles/2021-02-25/ey-germany-head-steps-down-in-wake-of-wirecard-scandal#:~:text=%7C-.Feb.,2021%2C%20at%208%3A34%20a.m.&text=BERLIN%20(Reuters)%20%2D%20EY%20Germany,of%20payment%20services%20firm%20Wirecard.) , Accessed on May 10, 2021

- **At BaFin**

Following the Wirecard scandal and reporting of one of its employees on suspicion of insider trading linked to Wirecard, the head of BaFin announced his step down in January 2021. The finance ministry stated that “The Wirecard scandal has revealed that Germany’s financial supervision needs a reorganization,”⁸⁸ He will be replaced by the current CEO of the Swiss Financial Market Supervisory Authority FINMA starting mid-2021.⁸⁹

4. Legal actions underway

- **Class actions**

A consolidated class action has been filed in the United States concerning Wirecard opt-in proceedings being pursued in Germany. Claims have been filed against the company, Wirecard’s auditor Ernst & Young (EY) and/or BaFin, FREP.



Figure 21: Types of class actions filed against Wirecard.

⁸⁸ Sims Tom, Uhlig Patricia, Germany's financial regulator chief leaves in wake of Wirecard, Reuters, January 29, 2021, <https://www.reuters.com/article/us-germany-bafin-idUSKBN29Y2DN>, Accessed on May 16, 2021

⁸⁹ Company Announcement, FINMA CEO to Step Down and Move to German’s BaFin; Jan Blöchliger Takes over, Fintech Switzerland, March 23, 2021, <https://fintechnews.ch/fintech/jan-blochliger-mark-branson-step-down-finma-ceo/43524/#:~:text=Submit%20Your%20Vacancy-.FINMA%20CEO%20to%20Step%20Down%20and%20Move.BaFin%3B%20Jan%20Bl%C3%B6chliger%20Takes%20over&text=Mark%20Branson%20is%20stepping%20down.in%20Germany%20from%20mid%2D2021>, Accessed on May 16, 2021

Investors turned to EY and BaFin since the company itself has filed for insolvency. Claims against EY are for wrongful auditing, and against BaFin are for the lapse in fulfilling the statutory duty of preventing market manipulation.⁹⁰

- **Action against Wirecard executives:**

- Markus Braun, Wirecard's former Chief Executive, resigned in January 2020 after declaring that auditors could not find the missing €1.9 billion. He was arrested in June 2020 on charges of inflating the company's balance sheet. In later June 2020, the CEO was rearrested as German prosecutors probed further into market manipulation and false accounting but was released on a bail of over €5 million.
- Jan Marsaled, Former Chief Operating officer of Wirecard, is currently absconding and is on Interpol's wanted list.
- Some other top executives and staff are also facing inquiries concerning the scandal.

XI. LESSONS LEARNED AND PROBABLE FUTURE MITIGANTS

The Wirecard Scandal is complex encompassing various types of frauds and financial crimes, involves a whole network of fraud mechanisms, and is spread over a decade. The scandal heightened the weaknesses in the overall supervisory and financial framework and, most

⁹⁰ Broadridge Financial Solutions Inc, The Class Action Case Files: Wirecard AG, ICLG, October 28, 2020, <https://iclg.com/briefing/14897-the-class-action-case-files-wirecard-ag>

importantly, initiated the discussions on the reforms required. Improved governance, robust framework, revised processes, etc., are all the results of learnings from past mistakes. The key lessons learned from the Wirecard scandal vary for each party involved and has been summarised below:

1. For Companies: Strong Corporate governance

As discussed earlier, the primary onus of corporate governance is on the Management and Supervisory Board; hence it is critical for those in charge to layout strong policies and internal controls. Lapses on the part of the Supervisory Board has been covered earlier and these, in turn, teach the key lessons for the Supervisory Board and Management Board of other organisation:

- **Risk assessment**

Many fintech companies focus on technology and system risk and do not pay attention not operational, compliance, and reputational risk. Further, they may consider themselves as more technology companies than the financial service sector and hence not assess the specific risk associated with the financial side of the operations. The Wirecard group started as fintech and later expanded into various related fields, including banking. The group did not have adequate compliance staff, given its size of operations. The fintech industry is booming, and hence the companies need to ensure that more robust risk assessment and the proportionate increase in the percentage of staff related to risk, regulatory, and compliance is required as the company's operations grow. It is equally important to have a robust risk management system that will help gain the trust of staff, partners, and final customers. Only focussing on growth strategies like Wirecard can lead to an eventual collapse.

- **Strong internal controls**

The Wirecard case once again emphasizes the need for a robust corporate governance structure.

Companies can structure the corporate governance based on COSO’s 17 principles of internal control⁹¹ as demonstrated below:

COSO’s 17 principles of internal control – summarized

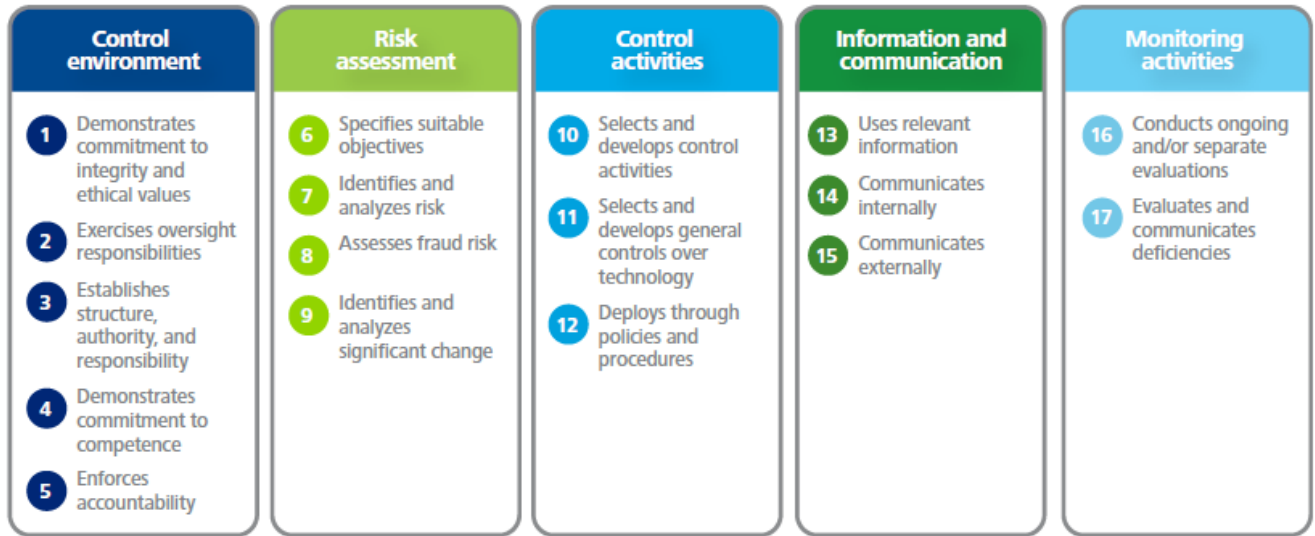


Figure 22: COSO’s 17 principles of internal control

- **Strong internal audit team and audit committee:**

The internal audit team provides assurance on the effectiveness of governance, internal controls, and risk management. Hence it is vital that the team is entirely independent and is empowered to report directly to the Supervisory Board. The internal audit team should be

⁹¹ Deloitte, COSO Enhances Its Internal Control — Integrated Framework- Volume 20, Issue 17, June 10, 2013 https://deloitte.wsj.com/riskandcompliance/files/2013/06/COSO_Internal_Control_Framework.pdf , Accessed on May 15, 2021

trained and have the requisite skills to handle preliminary investigations of matters raised or concerns uncovered, or the whistleblower activities reported.

- **Independent Supervisory Board**

The supervisory board needs to be independent of Management and include the majority of separate persons. Like in the case of Wirecard, lack of this distinction will lead to management frauds and financial crimes going undetected.

2. For Regulators

- **Common regulation for Fintechs and Credit institutions:**

Banks are subject to prudential obligations that include minimum capital and liquidity requirements, constraints on large exposures, and specific rules on governance arrangements and compensation schemes for decision-makers. Additional rules, such as consumer protection, anti-money laundering (AML)/countering the financing of terrorism (CFT), and business behaviour, apply to the many services provided by banks, including deposit-taking, credit underwriting, payment services, and wealth management. Following the emergence of fintech, no generalised adjustments have been made to the perimeters of financial regulations to accommodate Fintech as financial services providers. However, many fintech activities are in spirit like financial services, especially when they handle other's money.⁹² Regulators need to bring fintech companies (even those with limited banking activity) under a common

⁹² Restoy Fernando , Occasional Paper No 17 - Fintech regulation: how to achieve a level playing field , February 2021,<https://www.bis.org/fsi/fsipapers17.pdf>, accessed on May 10, 2021

purview as different types of credit institutions. Even the European Central Bank (ECB) has expressed the desire and benefit of doing so. According to ECB, since many Fintech companies are not bound by a regulatory regime like other credit institutions, the regulators do not have complete data on this fintech for adequate supervision.

- **Alarming ‘Not subject to regulatory regime’ status of 1/3rd Fintech**

According to the survey results conducted by European Banking Authority (EBA),⁹³ a mapping exercise was conducted to check the effectiveness of the regulatory regime of fintech. The survey results are given below:

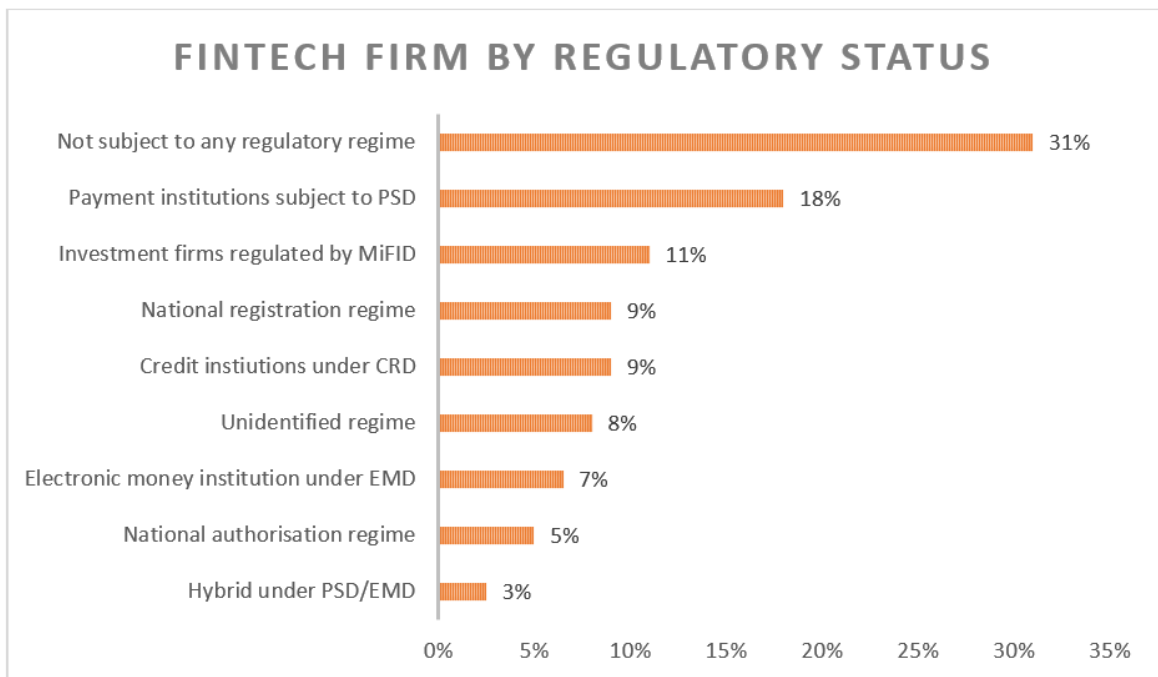


Figure 23: Results of mapping exercise by EBA concerning regulatory status of Fintech in 2017

⁹³ European Banking Authority (EBA), EBA, DISCUSSION PAPER ON THE EBA’S APPROACH TO FINTECH, <https://www.eba.europa.eu/sites/default/documents/files/documents/10180/1919160/7a1b9cda-10ad-4315-91ce-d798230ebd84/EBA%20Discussion%20Paper%20on%20Fintech%20%28EBA-DP-2017-02%29.pdf?retry=1>, Accessed on May 15, 2021

An alarming share of 31% of Fintech companies were not covered under any regulatory regime. At the same time, other Fintechs were regulated by various regimes like national authorisation or registration regimes, implying no standard treatment of FinTech firms across the EU. Hence in addition to stringent norms, having standard regulatory norms across the EU should be proposed. This would eliminate misuse of regulatory arbitrage by fintech and lead to a consolidated databank for regulators for monitoring and supervision.

- **Need to eliminate 2-tier enforcement structure**

The lack of standardisation of regulatory regimes across the EU is pretty concerning, as mentioned above. Germany has implemented a two-tier enforcement structure – Financial Reporting Enforcement Panel (FREP), a government-appointed privately organised institution. Second, the Federal Financial Supervisory Authority (BaFin) is vested with public authority. In Germany, this two-tier enforcement structure has resulted in a lack of clarity regarding the roles and obligations of each authority, thereby impairing their accountability. Despite BaFin being the market regulator, the investigative powers entrusted to BaFin are relatively limited, thus affecting the speed and efficiency of the regulator. There should be a single authority structure – BaFin, which will empower BaFin to take immediate steps in an accounting scandal like in the case of Wirecard and hold them accountable. Other assisting institutions, if required, should be under the regulator.

BaFin and the other regulatory authorities need to have a higher level of transparency regarding information sharing and should be given higher powers to initiate investigations

as required.⁹⁴ Further, to ensure the effectiveness of these regulators, their independence and availability of human, technological, and financial resources should be secured.

- **Reform rules and regulation related to financial crime to cope with the emerging trend**

With the growth of fintech, the number of players associated with para banking activities has significantly increased. Further, with increased reliance on digital transactions, the complexity of the transactions and the risk of financial crimes have both increased. Many of the market players handling these domestic and cross-border transactions may be well outside the regulatory norms of either country or are minimally impacted by AML/ CTF rules compared to traditional financial institutions. This flexibility and lack of a regulatory regime has provided opportunities for financial crimes. Hence it is essential that national and international regulators like Financial Action Task Force (FATF) need to focus on drafting and implementing rules and regulations related to financial crime to counter the current regulatory loopholes in the fintech industry.

3. For Auditors and Supervisory Authority

- **Apply professional skepticism**

While professional standards require auditors to use 'professional skepticism,' there is no law requiring an auditor to use professional skepticism and reasonable checks to identify accounting manipulations and frauds. However, the auditor must understand that a great deal

⁹⁴ Krahen Jan Pieter, Katja Langenbucher, Christian Leuz, Lorian Pelizzon, Wirecard Scandal: When All Lines of Defense Against Corporate Fraud Fail, Promarket, November 6, 2020, <https://promarket.org/2020/11/06/wirecard-scandal-when-all-lines-of-defense-against-corporate-fraud-fail/>, Accessed on May 15, 2021

of trust is placed in the financial statement that the auditor signs and that the expectation of the supervisory board, market, and investors, among others, extends beyond basic audit functions to include highlighting any weaknesses in corporate governance and internal control. Though it is well established that an unqualified audit does not guarantee the absence of fraud or financial crimes, the auditor, while not required to perform the functions of an IFA, is obligated to use the same degree of due diligence and professional skepticism when performing audits.

- **Accountability**

To strengthen auditor incentives and penalties for weak audits, an auditor's liability should be raised considerably. It is critical to assess the performance of current public audit oversight organisations. These agencies should be made to publicly release summary metrics regarding their inspection results for individual audit firms. This would give customers and investors vital information about the auditor's quality.⁹⁵

- **Long term clients**

In many of the accounting frauds uncovered, there are instances of long-term client-auditor relationships. While the long-term relationship gives an auditor an improved understanding of the client's business and helps trigger an alert when a discrepancy is noticed, the cons of

⁹⁵ Krahn Jan Pieter, Katja Langenbucher, Christian Leuz, Lorian Pelizzon, Wirecard Scandal: When All Lines of Defense Against Corporate Fraud Fail, Promarket, November 6, 2020, <https://promarket.org/2020/11/06/wirecard-scandal-when-all-lines-of-defense-against-corporate-fraud-fail/> , Accessed on May 15, 2021

the long-term client-auditor relationship cannot be ignored. Some of the audit deficiencies probability of which is high in a long-term client are: -

- i. The auditor fails to gather sufficient audit evidence and independent confirmations.
- ii. The auditor fails to exercise due professional care.
- iii. The auditor fails to apply the required level of professional skepticism.
- iv. The auditor accepts management estimates without much due diligence.
- v. The auditor relies on internal controls of the company.

Some of these lapses are evident in the case of Wirecard and have been detailed earlier. The Wirecard scandal is an important lesson for the Auditors, especially when dealing with long-term clients.

Auditors need to design a quality control system and make no exception, even for long-term clients. Audit of each year needs to be treated independently, applying the same level of due diligence as is done in the first year of appointment. The staff conducting the audit must be rotated, and close monitoring of process lapses must be maintained. The staff conducting the audit should not have any vested interest in the client being audited, and they should not have any conflict of interest. Stringent policies should be in place to ensure these guidelines are followed by staff, and strict actions for breach need to be implemented.

4. For Investors:

- **Understanding the business, one seeks to invest in**

The most frequent error investors make, albeit it can be rewarding on occasion, is to invest in businesses they do not understand. This is especially true for businesses in emerging industries, particularly those needing a high level of technical understanding. These may appear attractive based on the profits they promise, but if the investor does not understand its operation, they will be unaware of the risk.

- **Paying attention to short selling sentiment, media, and research reports**

Among the essential lessons for investors is that after a stock is purchased, one must monitor market sentiment, allegations, and research studies released for and against the stock. Numerous investors lost money in Wirecard because they refused to think that there might be adequate evidence to support the charges and desired to retain their shares. This was visible between 2018 and 2020 when share prices recovered following a drop and then plummeted in 2020. While each short-selling attitude does not ensure a future loss in carrying share, no smoke without fire is what they often say; hence, it is critical to monitor and update one's holdings following one's risk tolerance.

In the instance of Wirecard, the Financial Times, a reputable media outlet, ran a series titled 'The House of Wirecard' that continually calls attention to anomalies in the company's financial statements. The market news should have piqued investor interest and alerted investors to the possible danger they are facing.

Roshni, I like how you considered the lessons learned from four different stakeholder perspectives. This was very effective and demonstrates the breadth of your analysis with reference to this fraud.

XII. ROLE OF AN INVESTIGATIVE & FORENSIC ACCOUNTANT (IFA)

Frauds that are planned to camouflage the truth and mislead the public, staff, investors, and regulators are challenging to detect. These are well-planned, carefully executed, and cover their trail through false documents and/or financial & accounting entries. Frauds involving collusion and those designed by senior management have an additional advantage to the perpetrator since staff below them in the hierarchy do not generally tend to question the top-down instructions received and thus unknowingly become co-executors in the fraud.

Detailed and robust auditing standards and practices can act as a deterrent to fraud. Still, they cannot assure discovery of fraud, if any, especially a well-designed and executed copy. Detection of fraud requires a much more detailed and skeptical approach than a regular audit, and that's where an IFA can play an essential role due to his/her professional training and education.

1. Why IFA?

- As per the 2014 AICPA Survey of International trends in Forensic and Valuation services, the top service offered by an IFA is '*Fraud prevention, detection, and response,*' which

accounts for 44% of the services provided⁹⁶. This clearly indicates the core strength area and expertise area of an IFA. Hence, IFA can provide an effective investigation in the matter where there is suspicion of frauds or financial crimes.

- An IFA is expected to know multiple fields apart from ‘accounting’ – like legal aspects and implication of a transaction/action, the psychology of the wrongdoers, motivation for deviant behaviors, etc. Another essential field that an IFA is trained in is investigative auditing and how to conduct effective interviews. The areas in which an IFA is required to know is depicted below:

⁹⁶ AICPA, The 2014 AICPA Survey of International Trends in Forensic and Valuation Services, Forensic and Valuation Services Section.



Figure 24: Skills and knowledge set required by an IFA.

Since IFA is trained in the fields, an IFA is bound to understand better the entire operations of the clients, the contracts entered by them, the transactions are undertaken, and the areas of the financials most vulnerable to frauds.

- A forensic approach varies from the traditional audit in specific ways as under⁹⁷:

⁹⁷ Smith, G. S. and Crumbley, D. L. (2009) "Defining a Forensic Audit," Journal of Digital Forensics, Security and Law: Vol. 4 : No. 1 , Article 3, <https://commons.erau.edu/cgi/viewcontent.cgi?article=1054&context=jdfs1>, Accessed on May 31, 2021

- An IFA's investigation is detail-oriented, unlike an audit in which sampling is used as the basis of verification. An IFA needs to analyse all the transactions, contracts, financial records, etc., available and not rely on the accuracy of a defined percentage of entries.
- An IFA places no importance on the criterion of materiality when investigating a matter; hence even a low-value discrepancy found would raise a doubt in the mind of an IFA of weak internal control or process breach. Whereas in a traditional audit, if lower value discrepancies don't have a material impact on the overall financials, many of such discrepancies might be accepted.
- An IFA is trained to apply a high degree of professional skepticism and hence may take steps to determine the integrity of the management. Also, the reliance of IFA is mostly on independent evidence and third-party confirmations, unlike auditors, who rely on management undertakings when third-party confirmations are not available.

2. Role of an IFA and impact IFA appointment could have had on Wirecard scandal

The scope of an IFA's work would depend on the type of contract and the principal.

An IFA can be appointed:

- **By the Company**
 - to lead the Internal Audit team.
 - as a consultant to conduct a fraud risk assessment and strengthen risk management.
 - as an external consultant to investigate a particular case
- **By the External auditor** to investigate some matters beyond the regular audit;
- **By the Regulator** to carry out a special investigation.

The final two functions can be post-facto, meaning they are triggered when there is a whiff of irregularity/fraud/financial crime, whether through the finding of incriminating or suspicious material, complaint by market, media, or third parties, or a whistleblower activity. Without any of these elements, External Auditors or Regulators will decline to appoint IFA to investigate the company.

The appointment of IFA by the **Company** can act as a preventative step or a measure to detect fraud/ financial crimes at an early stage. In any of the Company appointed roles of an IFA aforesaid, an IFA will strengthen the defense mechanism laid by the Management and Supervisory Board according to the [Three lines of Defense Model](#) discussed earlier. Below is the detailed discussion of the roles of the IFA and how the said role could have played a role in preventing or early detection of the Wirecard scandal:

- **IFA's Role in leading the internal audit Team:**

The elementary role of internal audit is to objectively assess and provide an independent opinion if a company's internal control processes, governance, and risk management systems are operating effectively. The company complies with its statutory obligations.

A significant contribution by the IFA would be studying the processes, linking it to the fraud triangle, and identifying areas that can be 'opportunities' to perpetrate fraud and the most vulnerable people with 'motive' and 'rationalization.'

- An IFA can help the internal audit team take their contribution to corporate governance to the next level. An IFA is professionally trained to carry out a fraud risk assessment by

identifying the risk areas and providing mitigants. Hence the IFA can use the operational knowledge of the internal audit team who know the organisation's processes, risks, control systems, and personnel and develop anti-fraud solid policies.

- IFA can assist in training and developing a robust internal audit group whose responsibilities include initiating or conducting a full investigation of suspected fraud, conducting root cause analysis and making recommendations for control improvement, conducting investigations using in-house staff, outsourcing, or a combination of the two, monitoring a reporting/whistleblower hotline, and providing ethics training sessions.

Your direct application of the role of the IFA to the Wirecard case specifically, is effective as it showcases exactly what role an IFA can play in case like this. Well done.

In the case of Wirecard,

- *an IFA lead internal audit team would be equipped to handle whistleblower complaints and initiate a preliminary investigation into the matter.*
- *The internal audit team has much higher chances of gathering evidence and information as compared to an external firm like Rajah and Tann, appointed to carry out an investigation based on allegations raised in Singapore. The external appointment is time-consuming and may not be effective if the staff involved is not comfortable divulging information to an external team.*
- *Also, the internal audit team had better knowledge about the company operations and could have proved more effective in handling the investigation.*

- *The internal documents of Wirecard published by Financial Times (source: whistleblower) would have been more easily accessible to the internal audit team, and there were chances that the internal team could have verified the genuineness of those documents.*
- *An IFA and his/her internal audit team would be skeptical and would have raised multiple questions at the earliest warning signal or earlier.*

Some of the critical questions and IFA would have asked are:

- ***In relation to high-value global acquisitions:***

Is the forecasted revenue from the acquisitions proposed by Wirecard plausible?

What is the valuation of similar companies in the market?

Are the past acquisitions as profitable as expected? If not, is the variation justified?

Are these related party transactions?

- ***In relation to contracts with the 3 Asian partners acting as TPA***

Is the proposed structure with the TPA justified?

What is the rationale of Wirecard to chose a particular TPA?

Is the commission/ processing charge reasonable? If high, what is the risk score of the clients being dealt with?

Why are the Asian partners contributing to 95% of the EBIDTA? Are the remaining businesses loss-making?

- ***In relation to financials and the allegations raised***

Why has the core business of Wirecard declined?

Why is the gross margin ratio of Wirecard higher than its competitors in the industry?

Are the high level of receivables, especially receivables from associated companies, reasonable?

- **IFA's Role as a Consultant to assess fraud risk and strengthen risk management:**

According to the three lines of defense model, the initial onus of good corporate governance is on the Management and the Supervisory Board. Further, a lot of weightage has been assigned to strong internal controls and Risk management. In the case of Wirecard, if Management/ Supervisory Board had insisted on appointing an IFA to design internal controls and risk management, a lapse of [Corporate Governance](#), as discussed earlier, could have been avoided.

A few of the areas which would have been benefited from IFA's appointment as a consultant, especially in the case of Wirecard, are:

- IFA consultant could have provided a fair assessment of the Management, Supervisory Board, and Audit Committee, including but not limited to the following:
 - IFA would have determined whether the composition of the various Boards was optimal and included sufficient independent members.

In the case of Wirecard, the primary concern was not having a dedicated Audit committee till 2018 would have been highlighted, and an Audit Committee would be mandated if a high level of governance were to be achieved. Further, the Supervisory Board and Audit Committee were led by an ordinary individual, which is not recommended.

- IFA would have analysed the tone at the top based on the outlook of the Board and its decisions relating to internal control, anti-fraud policies, etc.

In the case of Wirecard, IFA would have raised issues when the Supervisory Board lacked steps to stop the CEO from pledging his Wirecard shares amounting to €150 million to a competitor – Deutsche Bank.

- IFA would have analysed the weakness in operations of the Board and the way the decision is taken.

In the case of Wirecard, the basic requirement of an official meeting, i.e., minute taking, was not raising questions on whether these meetings were conducted with proper quorum and notice or were the few executives running the show taking the decisions. These lapses would have been highlighted by an IFA as part of the corporate governance framework and would have led to better decisioning and questions being raised on unjustified acquisitions/ partnerships and their financial terms.

- IFA would have identified any policy which would lead to Management members having a vested interest in the revenue/ profits of the company that would lead them to mask any irregularity. Such clauses relating to management remuneration, though essential for shareholder wealth maximization, misuse of these should be analysed periodically to ensure shareholder protection.

In the case of Wirecard, the remuneration of the Management Board was largely dependent on the company's performance. Hence, when the company's core business declined, the Management continued to show a healthy balance sheet. With the ongoing allegation in the

media, IFA's skeptical approach would have seen this clause as a strong 'motive' which is a critical aspect of the Fraud triangle.

- IFA consultant analyses the fraud risk management policies and suggests whether the count of compliance staff is sufficient given the size of the organisation and the industry. This periodic review helps a company to build a well-trained compliance team as the company grows.

In the case of Wirecard, as discussed earlier, the compliance staff ratio was low compared to HSBC. Being a Fintech, the optimal compliance staff to total staff ratio required would have been higher. This lack of compliance staff has led to transactions like wrong coding and high receivables going unquestioned. If IFA could have done the risk assessment and highlighted this weakness to the Supervisory Board, an earlier corrective action could have been possible.

- An IFA consultant approaches the matter with a skeptical outlook and hence would have questioned the company's structure, the related party transactions, high-value acquisitions, etc.

In the case of Wirecard, the questions mentioned above (in pt. 1) relating to financial irregularities, the non-justified value being associated with some acquisitions, loss of core business, customer imbalance, etc., would have been raised early. They may have drawn some response from the Supervisory board or Audit committee.

- An IFA consultant could have suggested the best corporate governance policies to manage subsidiaries and their audits to ensure that the parent company has complete knowledge of its operations. This would include providing a mechanism for subsidiary staff to directly report a

matter to the holding company compliance team/ internal audit team while remaining anonymous and protected.

In the case of Wirecard, which has a global presence, this measure might have led to early reporting by subsidiary staff. Also, strong governance over subsidiaries would have highlighted the late filings and compliance breaches to initiate timely action.

3. IFA's Role as an external consultant/ investigator irrespective of appointment by Company, Auditor, or Regulator:

As IFA can be appointed by the company, auditor, or regulator to conduct preliminary/ complete investigations based on allegations, whistleblowing activity, or even a hint of wrongdoing:

Some of the advantages of having an external IFA to investigate a suspicious matter are:

- When an external IFA is involved, the IFA can be independent and have an unbiased attitude to the company and its staff.
- The IFA must be directly reporting to the Supervisory Board if appointed by a company to avoid information loss in the process. In the case of the Auditor and regulator, the reporting should be at the appropriate level, who is empowered to initiate remedial actions.
- An external IFA will approach the matter with no preconceived notions since the IFA is not involved in the company's day-to-day operations.
- An IFA is trained to conduct informative and confrontational interviews while investigating the matter.

As seen in the case of Wirecard, the audit team working for years with the company had been issuing unqualified audit reports for a decade. However, when an external team investigated the matter, the results were strikingly different:

- *The anti-fraud team of EY found irregularities during their forensic investigation and concluded that further inquiry is needed before issuing an audit report. An IFA uses a similar approach to an anti-fraud team, unlike the process followed in a traditional audit, as discussed earlier. These differences would have led to identifying the red flags in Wirecard.*

Ex., Satisfactory third-party confirmations should have been mandated to classify the escrow amount as cash /cash equivalents; rationale for the escrow and justification of the amount held in escrow and risk associated with it should have been analyzed.

- *KPMG's special investigation team also found discrepancies and could not ascertain the volume or genuineness of the transactions reflected by Wirecard for the TPA business model. The auditor did not question these discrepancies.*

This irony between the results clearly shows the importance of involving an IFA when there are allegations to be investigated.

A Special Committee of Inquiry appointed by Parliament is now verifying the matters relating to Wirecard. However, the regulator BaFin should have appointed an IFA to investigate the allegations before imposing a short-selling ban.

XIII. CONCLUSION:

Wirecard Scandal is not the first of its kind, and even though we wish to hope, it is definitely not the last. This is one of the stories we have heard numerous times – a star company, one of the best in its field, trusted by the investors and the industry players but is managed/controlled by few aggressive and corrupt executives who collaborate internally and externally to abuse the company for their vested interest. The fact that this is a repeat story indicates that there are still elements that need to undergo a change – in the way the company operates/ transacts, disclosure norms, supervisory norms, acceptable standards, etc.

The silver lining of the entire scandal is that the lessons learned from Wirecard will go a long way in framing and implementing the regulatory norms, auditing standards & best practices and, at the very least, highlight the importance of sound corporate and regulatory governance

It teaches the Management and Supervisory Boards the importance of good corporate governance and not solely focusing on increasing profits and market capitalisation of the company. The boards of the booming industries generally tend to direct their energies on expanding operations, increasing the company's worth, and building its image in the industry. And once the company is a market leader, there is tremendous pressure to keep up with the image so built. Since the growth in booming industries is mostly not granular if there is no focus on internal controls, the internal controls soon turn out inadequate for the increased size of operations like in the case of Wirecard. Hence a periodic assessment of risk and strengthening of internal control is required to implement strong corporate governance. As they say, 'it always starts at the top,' so the tone at the top and the values the top executives reflect goes a long way in moulding a company founded on ethics. Each committee member should understand the responsibility they carry and not let few executives run the show. If

even a single member of the board could have followed the governance in its true spirit, the story would have been different.

In the coming years, the impact of these scandals will be felt across different regulatory bodies and their framework. Reorganization of some regulatory bodies and implementing an effective structure that empowers the regulator would probably be the first step. Suggestions for amendments have been proposed concerning rules and regulations governing companies and especially Fintech. Hopefully, we will see redrafting of the guidelines and responsibilities assigned to each body that would enhance transparency and compliance. Though Germany would have to bear the after-effects of the scandal for at least a decade and work towards regaining global trust if suitable lessons learned are implemented, it can develop a robust regulatory regime that can handle the emerging issues of Fintech, which is a booming industry.

The Wirecard scandal has reignited the discussion on the ‘expectation gap’ in relation to auditors and their role in fraud detection. The expectation gap is the difference in what auditors understand as their professional duty and requirement versus what the users of financial statements expect from the auditors. This had been an ongoing discussion, and post the scandal, the International Auditing and Assurance Standards Board (IAASB) is planning to consult its members on this gap. We might see changes in audit mandates in the near future, and the Audit regulatory body might enforce changes in guidelines to bridge the gap. In areas where the Big Four hold most of the audit work, and there is a lack of competition, stronger regulatory norms are required to maintain quality.

Further, the paper highlights the areas in which an IFA can contribute given the wholistic skills of an IFA. IFAs' knowledge across various related fields gives them a higher understanding of the

company, operations, transactions, and even legal contracts. This increases the probability of IFA identifying the red flags and initiating an investigation at a very early stage than letting the concern undetected, leading to a higher financial loss. We discussed how IFA could play different roles depending on the person appointing the IFA and the scope defined in the contract. In any of the multiple roles discussed, IFA can add a positive contribution in building a robust governance structure and fine combing through the processes to identify the vulnerable areas. As the number of frauds and financial crimes is on the rise, the persons responsible must realise the need to use IFA services in the company's fraud risk assessment, designing anti-fraud policies, designing & strengthening internal controls, and build a robust internal audit team. Also, when there is a hint of irregularity, ex. a whistle blower activity, it becomes crucial to hire an expert (if IFA is not on the internal audit team) to handle the situation before the matter grows out of proportion. And involve IFA right at early-stage investigations in case of whistleblower activity. The skills of IFA, especially those in the field of investigative techniques and interviewing skills, can benefit companies across industries and aid the auditors and regulators in effective compliance.

Though the Special Committee report is yet to be public and decisions on various legal proceedings are still underway, the lessons the Wirecard scandal has already taught us are critical, and we look forward to more learnings as the story unfolds.

XIV. APPENDICES

Appendix 1: List of Wirecard AG Subsidiaries According to Annual report of 2018

	Holding*
Wirecard Sales International Holding GmbH, Aschheim (Germany)	100%
Wirecard Payment Solutions Holdings Ltd., Dublin (Ireland)	100%
<i>Wirecard UK and Ireland Ltd., Dublin (Ireland)</i>	100%
<i>Herview Ltd., Dublin (Ireland)</i>	100%
Wirecard Central Eastern Europe GmbH, Graz (Austria)	100%
Wirecard Asia Holding Pte. Ltd., (Singapore)	100%
Wirecard Singapore Pte. Ltd., (Singapore)	100%
<i>Wirecard (Vietnam) Ltd., Ha Noi City (Vietnam)</i>	100%
Wirecard Payment Solutions Malaysia SDN BHD, Kuala Lumpur (Malaysia)	100%
PT Prima Vista Solusi, Jakarta (Indonesia)	100%
PTAprisma Indonesia, Jakarta (Indonesia)	100%
Wirecard Myanmar Ltd., Yangon (Myanmar)	100%
Wirecard (Thailand) Co. Ltd., Bangkok (Thailand)	100%
Wirecard India Private Ltd., Chennai (India)	100%
American Payment Holding Inc., Toronto (Canada)	100%
Hermes ITickets Pte Ltd, Chennai (India)	100%
<i>GI Philippines Corp, Manila (Philippines)</i>	100%
Wirecard Forex India Pte Ltd, Bangalore (India) (before Star Global Currency Exchange Pte Ltd)	100%
Wirecard Romania S.A., Bucharest (Romania)	100%
<i>Romcard S.A., Bucharest (Romania)</i>	100%
<i>Supercard Solutions & Services S.R.L., Bucharest (Romania)</i>	100%
Wirecard Global Sales GmbH, Aschheim (Germany)	100%
Wirecard Poland Sp.Zo.o., Warsaw (Poland)	100%
Wirecard LLC, Moscow (Russia)	100%
Wirecard Mexico S.A. De C.V, Mexico City (Mexico)	100%
Wirecard Technologies GmbH, Aschheim (Germany)	100%
Wirecard Communication Services GmbH, Leipzig (Germany)	100%
Wirecard Retail Services GmbH, Aschheim (Germany)	100%
CardSystems Middle East FZ-LLC, Dubai (United Arab Emirates)	100%
MyGate Communications Pty Ltd., Cape Town (South Africa)	100%

Wirecard Acceptance Technologies GmbH, Aschheim (Germany)	100%
Wirecard Service Technologies GmbH, Aschheim (Germany)	100%
Wirecard Issuing Technologies GmbH, Aschheim (Germany)	100%
<i>Wirecard NZ Ltd., Auckland (New Zealand)</i>	<i>100%</i>
Wirecard Australia Pty Ltd, Melbourne (Australia)	100%
<i>Wirecard Africa Holding Proprietary Ltd., Cape Town (South Africa)</i>	<i>100%</i>
<i>Wirecard South Africa Proprietary Ltd., Cape Town (South Africa)</i>	<i>100%</i>
Wirecard Payment Services (Namibia) (Pty) Ltd, Windhoek (Namibia)	100%
Wirecard Slovakia s.r.o., Kosice (Slovakia)	100%
Click2Pay GmbH, Aschheim (Germany)	100%
Wirecard (Gibraltar) Ltd. (Gibraltar)	100%
Wirecard Processing FZ LLC, Dubai (United Arab Emirates)	100%
Wirecard Acquiring & Issuing GmbH, Aschheim (Germany)	100%
Wirecard Bank AG, Aschheim (Germany)	100%
Wirecard Brazil S.A., Sao Paulo (Brazil)	100%
Wirecard Card Solutions Ltd., Newcastle (United Kingdom)	100%
Wirecard E-Money Philippines Inc., Manila (Philippines)	100%
Wirecard Luxembourg S.A., (Luxembourg)	100%
Wirecard Ödeme ve Elektronik Para Hizmetleri A.Ş., Istanbul (Turkey)	100%
GI Technology Pte. Ltd., Chennai (India)	60%
Wirecard North America Inc., Conshohocken (United States)	100%
Wirecard Australia A&I Pte. Ltd., Melbourne (Australia)	100%
Wirecard Hong Kong Ltd. (Hong Kong)	100%

* Wirecard's holding in the primary subsidiary

Appendix II: Acquisitions and Business combinations of Wirecard AG between 2014-2017

Table 4: Acquisitions of Wirecard group 2014- 2017

(€ million)

Annual report	Acquiree	Fair Value (FV)	Intangible Assets (IA) in FV	Total assets (TA) in FV	IA/ FV	IA/ TA
2014	PT Aprisma Indonesia	56.5	24.5	59.3	161%	91%
2014	Mikro Ödeme Sistemleri İletişim San.ve Tic. A.Ş	25.1	13.1	10.8	97%	85%
2014	Amara Technology Africa Proprietary Ltd.	32.9	26.5	7.4	105%	97%
2014	GFG Group Ltd.	20.6	7.6	26.7	180%	94%
2014	Visa Processing Service (India) Pte. Ltd	14.2	8.0	4.7	90%	83%
2014	Trans Infotech Pte. Ltd	24.6	0.9	22.2	103%	90%
2014	PaymentLink Pte. Ltd	30.7	2.0	27.1	98%	89%
2015	Hermes und Star Global	314.3	265.6	49.8	100%	92%
2015	Wirecard India Private Ltd., (before: Visa Processing Service (India) Pte. Ltd.)	14.2	8.0	6.0	99%	91%
2017	Citi Prepaid Services	NA*	92.3	106.5	NA*	90%
2017	Mygate	13.6	8.2	13.9	169%	96%
2017	Citi's card acceptance business (Asia-Pacific)	NA*	87.0	31.1	NA*	74%

* The parties agreed on not disclosing the exact purchase price.

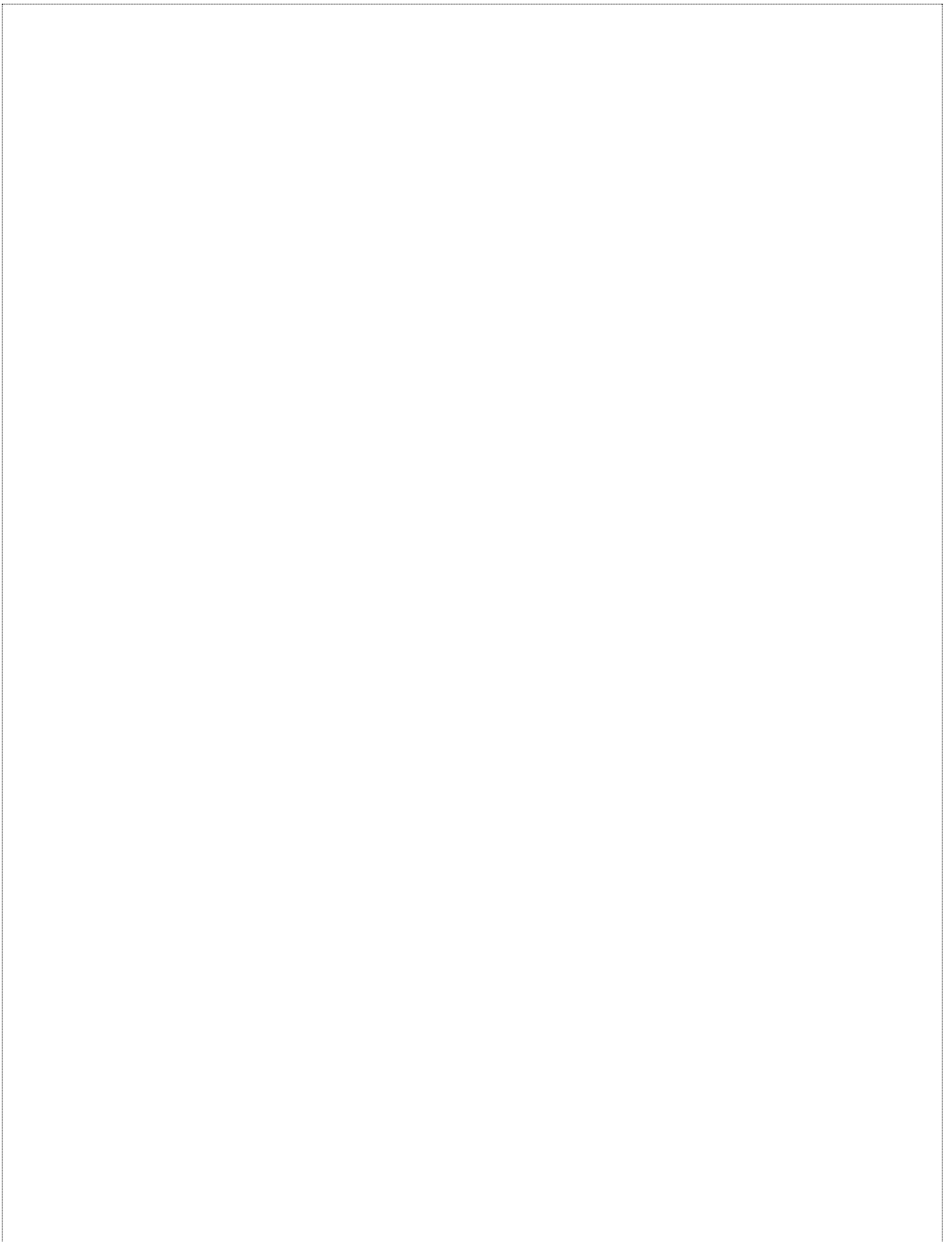
** Intangible assets include Goodwill, Customer relationship, and other intangible assets.

Appendix III: Excerpts of R&T summary report dated March 26, 2019, is as below:⁹⁸

1. A non-implemented transaction structure with a certain customer group has led to the following wrongful accounting recordings:
 - (a) Revenue of €2.5 million emanating from a purported contract was wrongfully recorded (and related invoices wrongfully issued) by a Wirecard subsidiary in 2017 (which will be restated in the 2018 annual accounts).
 - (b) A subsidiary also wrongfully recorded an asset of approximately €3 million for a short period in 2018; however, this was corrected within a week. As such will not be reflected or influence the 2018 annual accounts.
 - (c) In addition, draft contracts were prepared and signed on behalf of certain subsidiaries and not fully executed. These events occurred in respect of agreements that may appear not to have genuine underlying transactions. Save for one transaction of approximately €63K, none of the draft transactions were entered into respective ledgers, nor did funds flow into or out of the bank accounts of Wirecard group companies.
2. An amount of €2.3 million was entered into the aged receivables report of a Wirecard subsidiary in January 2018. This was wrongfully done because no agreement or business transaction has been entered into with the counterparty. The entry was removed a month later without being ever logged into the general ledger.
3. In addition, Rajah & Tann Singapore LLP could not correlate certain payments made between business partners and Wirecard entities with agreements between them.

⁹⁸ Rajah and Tann, Internal Compliance Review – Wirecard AG, Wirecard.com, https://ir.wirecard.com/download/companies/wirecard/Stellungnahme/20190326_Letter.pdf, Accessed on April 28, 2021

4. It is not clear why revenue from third parties with whom a Wirecard entity has existing relationships was booked into a different Wirecard entity's accounts. Not all of the revenue recorded has been received. There is evidence of contracts being created for IFRS audit purposes.
5. An internal agreement and a separate internal transaction between Wirecard entities were entered into by or on the instructions of a person without apparent authority to do so.
6. According to local law concerning some of the circumstances mentioned above, criminal liability may be attributable to a few local employees in Singapore.



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