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## The Problem of Bank Confirmations for the Audit of Financial Statements: The Example of TPA Wirecard's Operations

### Abstract

The Wirecard case was the largest economic scandal in Europe since the Second World War. Thousands of bondholders and shareholders lost their money, and lawsuits were filed against Wirecard, the regulators, the management board, and the auditor Ernst & Young (EY). EY audited Wirecard's consolidated financial statements for ten years. The fraud at Wirecard took place in Asia through business activities with so-called third-party acquirers (TPAs). The scandal resulted in cash funds amounting to 1.9 billion Euros not being available. These funds were allegedly held in escrow accounts. This article shows which audit procedures had to be performed to ensure that the cash funds reported in the balance sheet were actually available. There has been a whole series of alarm signals from outside Wirecard with high relevance for the orientation of the risk-oriented audit approach by the auditor. In addition, Wirecard had numerous indicators of fraud listed in one of the auditing standards. However, this did not have a sufficient impact on EY's risk-based audit approach. On the contrary, the company often relied on Wirecard's verbal statements. Had the audit been conducted properly, the fraud could have been uncovered very quickly. The following article uncovers massive deficiencies in the audit procedures with regard to the escrow accounts. Given the business activity in the TPA business with only three business partners, the dubious nature of the trustee, the involvement of only one bank where the escrow accounts were held, and the paramount importance of the amounts for Wirecard's going concern, it was imperative that the auditor obtain proof of the existence of the cash via a bank confirmation. If the auditor's report had been refused regarding the TPA business at an early stage, which would have been the inevitable consequence if the audit had been carried out properly, the negative financial effects for bondholders and shareholders would have been significantly reduced.

**Keywords:** Wirecard, Ernst & Young (EY), auditor, accounting scandal, escrow account, risk-oriented audit approach, fundamental principles of proper audit

**JEL Codes:** M40, M41, M42, O16

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## 1. Introduction – chronicle of a company full of allegations of manipulation

Wirecard was founded in 1999 and was a pioneer in digital payment processing.<sup>1</sup> The company specialised in linking credit cards to the internet by developing software that served as an interface between credit card companies, online retailers and retailers' customers.

After some turbulence, Wirecard was acquired by Electronic Billing Systems (EBS) in January 2002. Between 2002 and 2004, the company underwent a reorganisation, during which it was listed on the stock exchange as Wirecard AG (Hesse 2016, pp. 65–67). To go public, Wirecard utilised a company called InfoGenie, which had been listed on the market since 2000. A subsidiary of EBS acquired more than 25% of InfoGenie's shares in March 2002. InfoGenie's shares fell on the stock market and were supposed to be delisted. However, this was prohibited by the German Stock Exchange through legal action. In December 2004, it was decided to transfer Wirecard to InfoGenie on January 1, 2005, in exchange for a contribution in kind. InfoGenie was renamed Wire Card, which became Wirecard in June 2006. In this way, Wirecard became a listed company. Markus Braun became CEO. In January 2006, Wirecard bought a bank and developed into a full-service payment company that provided software and systems (McCrum 2020). Wirecard was added to the TecDAX in 2006.

The first allegations of irregularities in Wirecard's balance sheet were made as early as 2008.<sup>2</sup> The board of the German shareholder association Schutzgemeinschaft für Kapitalanleger (SdK) made serious allegations at the Wirecard annual general meeting (Hammer 2008). The Wirecard management and supervisory boards were accused of incomplete and misleading reporting in various key areas in the 2007 consolidated financial statements (Straub stolpert... 2008). Furthermore, the earnings situation of the banking division was said to be non-transparent. Wirecard was accused of concealing income from online betting transactions (Hammer 2008). The SdK also threatened to file criminal charges for balance sheet fraud, which is why an action for annulment was filed with the Munich Regional Court against the resolutions of the Annual General Meeting (Jahn 2008; Hesse 2016, pp. 65–67).

As a result, Wirecard commissioned the auditing firm Ernst & Young (EY) to conduct a special audit, which subsequently replaced a small Munich-based auditing firm that had previously acted as Wirecard's group auditor (McCrum 2020).

According to the Financial Times, there had been an obvious inconsistency in the assets and liabilities reported by Wirecard for its payment business for the years 2009 to 2015. The nature of the growth and the high value of intangible assets of

<sup>1</sup> A short chronicle of Wirecard is also provided by Löw, Kunzweiler 2021, pp. 13–16.

<sup>2</sup> For accounting rumours at Wirecard in the years 2008 to 2019, see in detail Löw, Kunzweiler 2021, pp. 17–27. See also Krüger 2020.

670 million Euros on the balance sheet had already raised questions at that time (McCrum 2020).

In 2010, Jan Marsalek was appointed Chief Operating Officer. In the same year, new allegations were made against Wirecard (McCrum 2020). The financial news service GoMoPa.net (Goldman Morgenstern & Partners) published a critical report. Wirecard obtained a preliminary investigation into market manipulation (GoMoPa.net 2012).

Between 2011 and 2014, the offensive accusations against Wirecard subsided somewhat. In retrospect, the Munich I public prosecutor's office assumes that Wirecard executives had already decided in 2014 to artificially inflate the group's balance sheet with fictitious revenues and to report funds allegedly held in escrow accounts in the 2015 balance sheet (Niedersachsen 2020; Strunz 2020).

In a series of articles entitled House of Wirecard (alluding to the series House of Cards) in the Financial Times (FT) blog FT Alphaville, journalist Dan McCrum, then 37, and Singapore correspondent Stefania Palma began pointing out discrepancies in Wirecard's balance sheet in 2015. On 27 April 2015, the Financial Times began publishing its series of articles in which, based in part on information from whistleblowers, questions about inconsistencies in the Wirecard Group's accounts were continuously raised (McCrum 2020). The FT declared that the biggest accusation in 2015 was that the balance sheet showed a hole of 250 million Euros.

In the third quarter of the year, in October 2015, Wirecard announced the acquisition of the Indian payment company 'GI Retail' for a total value of 340 million Euros – at the time, Wirecard's largest transaction to date (McCrum 2020; Storbeck, McCrum 2018). A year earlier, the value of the acquired companies was only approximately 46 million Euros.

J Capital Research, a US company that specialises in publishing research reports on listed companies, with a particular focus on overvalued companies, revealed that Wirecard's activities in Asia were far less extensive than claimed (McCrum 2020). In its report dated 30 October 2015, J Capital Research also makes serious allegations: "Having found little evidence that Wirecard has any volume of business, we visited five of the subsidiaries in Southeast Asia. Only one of the premises had a reasonably credible presence, and even that one appeared much smaller than disclosures would suggest. At two of the listed locations, we could find no company at all, although there were unrelated companies with similar names."<sup>3</sup> "Wirecard's purchase prices for companies on which it provides valuation details appear to be based on the target company's "customer relationship" value, but that value does not seem to be based on the number of customers acquired: some of the acquisitions are of companies providing a technology platform that is unlikely to deal directly with individual customers. Others seem to be very small companies with few customers. All of this is physical evidence that the balance sheet is bloated with

<sup>3</sup> [https://www.jcapitalresearch.com/uploads/2/0/0/3/20032477/2015\\_10\\_30\\_wirecard\\_initiation\\_global\\_shorts.pdf](https://www.jcapitalresearch.com/uploads/2/0/0/3/20032477/2015_10_30_wirecard_initiation_global_shorts.pdf), executive summary (accessed 27.07.2025).

phantom assets. Wirecard's goodwill and intangibles ballooned to a combined total of nearly 50% of revenue by 2014, with no explanation.<sup>4</sup> "Wirecard says it derives its growth from outside Europe. The ex-European portion of the business has grown from 9.1% of total transactions in Q1 2012 to 24.3% in Q2 2015. The implied growth rate of transactions is 47% for Europe over the 2.5-year period and 372% for ex-Europe. In our analysis of the last three years of earnings, we found that less than 10% of Wirecard's growth is organic, and the rest has been generated through acquisitions. To achieve these growth rates, Wirecard tells investors, it needs to acquire customer relationships in Asia by buying companies at inflated valuations. While Wirecard claims that the acquisitions enable it to boost payments activities in the region, it does not appear to have sufficient on-the-ground resources to offer value in payments clearing."<sup>5</sup>

In February 2016, FT reporter McCrum first reported on a disastrous, comprehensive 100-page report, the 'Zatarra Papers'. Behind Zatarra were ultimately investors and short sellers Fraser Perring and Matt Earl. A total of four reports were published in quick succession under the pseudonym Zatarra. In them, hedge funds accused Wirecard of money laundering and balance sheet manipulation and outlined a confusing corporate structure that was used to conceal dubious payments. It also claimed that Wirecard was buying companies in Asia at significantly inflated prices.

In addition, the Financial Times received internal documents from members of Wirecard's finance department. These documents concerned Wirecard's third-party acquiring (TPA) business. The leaked document describes an (alleged) Al Alam transaction and the monitoring of customer relationships (Wirecard AG 2016). The documents record payments from 34 major customers totalling 350 million Euros, which were processed on behalf of Wirecard via Al Alam (McCrum 2020; McCrum, Palma 2019; McCrum, Storbeck 2019). However, there were clear indications that many of these transactions could not have taken place. When contacted by the FT, 15 of the 34 customers said they had never heard of Al Alam. Eight of these companies closed their business activities in 2017, when their names appeared alongside the monthly financial data for transactions (McCrum, Palma 2019; McCrum, Storbeck 2019), six ignored the enquiries and did not comment, and the remaining five alleged customers could not be traced, which is why no contact could be made between them and the FT. According to the Financial Times, the business activity was responsible for about half of the earnings before interest, taxes, depreciation and amortisation (EBITDA) in 2016.

The spreadsheets leaked just one year later, in July 2017, which were shared by Wirecard executives and titled "Overview of Third-Party Acquirers" (Wirecard AG 2017b) as well as several other Excel files (Führungskräfte 2016a; 2016b), containing data sets stating that Al Alam was responsible for revenues of 265 million Euros in

<sup>4</sup> [https://www.jcapitalresearch.com/uploads/2/0/0/3/20032477/2015\\_10\\_30\\_wirecard\\_initiation\\_global\\_shorts.pdf](https://www.jcapitalresearch.com/uploads/2/0/0/3/20032477/2015_10_30_wirecard_initiation_global_shorts.pdf), pp. 28–29 (accessed 27.07.2025).

<sup>5</sup> [https://www.jcapitalresearch.com/uploads/2/0/0/3/20032477/2015\\_10\\_30\\_wirecard\\_initiation\\_global\\_shorts.pdf](https://www.jcapitalresearch.com/uploads/2/0/0/3/20032477/2015_10_30_wirecard_initiation_global_shorts.pdf), p. 29 (accessed 27.07.2025).

2016. At the time, this represented roughly a quarter of Wirecard's global annual revenue. This means that the 4.2 billion Euros in payments processed through the Al Alam business in 2016 generated more profit for Wirecard than the rest of its transactions (McCrum 2020).

In autumn 2018, Wirecard replaced Commerzbank in the DAX 30 index.

On 21 October 2019, Wirecard's supervisory board commissioned KPMG to conduct a special forensic audit to investigate allegations of balance sheet manipulation (BLZ i Reuters 2020). In the special audit report, published by Wirecard on 28 April 2020, in which KPMG presented the results of a six-month special audit in 2019 (McCrum, Storbeck 2020), the auditors complained about a lack of documentation provided by Wirecard (Hoefer, Engemann 2020). Wirecard failed to provide some of the requested documents or only provided them several months after they were requested. Numerous documents were only available in the form of copies or scans. This meant that the auditing firm was unable to assess the authenticity of these versions.

On 16 June 2020, the Philippine banks informed the auditor that the documents allegedly showing 1.9 billion Euros in funds held in escrow accounts were false. The auditor EY then refused to issue an audit opinion for 2019, after having issued unqualified audit opinions from 2009 to 2018.

The company itself announced in an ad hoc announcement on 22 June 2020 "that the balances in the bank escrow account amounting to 1.9 billion Euros (with a high degree of probability) do not exist" (Wirecard 2020a). This figure corresponds to approximately one-quarter of the balance sheet total and two-thirds of the turnover in the unaudited consolidated financial statements for 2019. As a result, the share price plummeted by more than two-thirds.

On 25 June 2020, the management filed for insolvency with the Munich Local Court due to imminent insolvency and over-indebtedness (Wirecard 2020b).

## 2. Wirecard's business models

Wirecard operated the so-called third-party acquiring (TPA business) through subsidiaries. It was therefore not possible to audit these business activities at the level of the parent company (Wirecard AG), but rather via the annual financial statements of these subsidiaries and at group level for the consolidated financial statements. The working papers of the group auditor has to document the extent to which their own audit measures were carried out or reliance was placed on the results of the auditors of the individual financial statements. Until the end of 2017, Wirecard was not itself a payment service provider (PSP), but used Al Alam and Senjo, which were only transferred to its platform in 2019, and PayEasy directly on its own platform from 2018 onwards. In this respect, Wirecard acted as an intermediary for merchants to (third-party) PSPs via subsidiaries without itself

engaging in acquiring. Ultimately, Wirecard's TPA partners were not acquirers in the true sense of the word, but merely PSPs.

The Wambach Report<sup>6</sup> concludes that the auditor had (demonstrably) dealt intensively with the TPA business model (Wambach-Report, p. 14). The contracts with the three business partners in the TPA business were available to EY. According to these contracts, Wirecard was entitled to a commission for referring customers (merchants) to the acquirers. These TPA partners were obliged to report their commission claims on a monthly basis (rather than Wirecard issuing an invoice based on the transactions referred). In addition, the TPA partners were required to pay the commissions with a time difference of six to nine months. The commission payments were to be made to accounts that the contracting parties, TPA partners and merchants, could designate, i.e. not Wirecard as the commission recipient (Wambach-Report, p. 14). These are unusual business practices that the auditor should have investigated. Commission payments have to be reported in the income statement under the appropriate heading – and not as sales revenue (IFRS 15.114 in conjunction with IFRS 15.B57-B89 and IAS 1.29, 30, IAS 1.85, 85A and IAS 1.97, 99).

According to the Wambach report, EY's working papers also discuss collateral. Wirecard deposited collateral with the third-party acquirer in the event of payment defaults (cash collateral). In the Al-Alam case, for example, this amounted to an initial one-off payment of 10 million Euros. Later, this rose to 20 million Euros. The cash collateral could be adjusted (Wambach-Report, p. 14). The collateral was provided by Wirecard, transferring commission income to which it was entitled, comparable to an abbreviated (shortened) payment method, to escrow accounts.

In addition, Wirecard had to provide further collateral. The collateral was determined as a 12-month rolling collateral based on the transaction volume of services with long-term risk exposure. Subscription models were used as an example. The rolling 12-month collateral retention amounted to 33% of the transaction volume attributable to advance payments.

Wirecard also assumed default risks for chargeback claims and indemnified third-party acquirers against liability and loss risks. Basically, this business proved to be relatively low-risk. The acquirer was allowed to retain part of its liabilities to the online merchant for future chargeback claims in advance. This effectively provided advanced protection. The merchant not only received the purchase price reduced by the commissions, but also a further partial amount that was retained to cover refund claims. In this business model, Wirecard assumed the risk that the acquirer

<sup>6</sup> A committee of inquiry of the German Bundestag appointed the auditing firm Rödl & Partner as investigators on March 4, 2021. Their work was conducted at the offices of the auditor, Ernst & Young (EY), in Berlin from March 15, 2021, to April 15, 2021 inclusive. The investigations culminated in a "Bericht über die Ergebnisse des Ermittlungsauftrags zur Unterstützung der Arbeit des 3. Parlamentarischen Untersuchungsausschusses (der 19. Wahlperiode) des Deutschen Bundestages", meaning "Report on the Results of the Investigation to Support the Work of the 3rd Parliamentary Committee of Inquiry (of the 19th legislative period) of the German Bundestag." The report became known as the Wambach Report, named after Rödl & Partner's Managing Director, Martin Wambach.

would have to pay the card company but would not do so because, for example, a brokered merchant did not pay. While the acquirer had essentially secured itself twice with the merchant, the Wirecard companies provided guarantees to the TPA partners for any financial losses that the TPA partners might have incurred from transactions with the referred credit card customers (merchant defaults, reversal of card payments, penalties imposed by card network organisations, etc.) (KPMG 2020, p. 15). These agreed guarantees were secured by the provision of cash collateral managed in trust (KPMG 2020, p. 15). To secure these guarantees, the TPA partners retained payments due to Wirecard companies or made these payments to accounts managed by a trustee.

Due to the multiple advanced collateralisation, the default risk for Wirecard was very low from an economic perspective. This raises the question of why Wirecard was needed as a guarantor at all, given such a low risk. It is particularly striking that Wirecard had to deposit cash collateral for this purpose, which is said to have amounted to 100 million Euros in 2015 and 1.9 billion Euros in 2020.

In this respect, the TPA agreements had specific features that differed from industry practice. Such unusual business practices should have been noticed during an audit in which the auditor had to examine the client's business model. It would have been necessary to question the reasons for deviating from standard industry practices.

However, the auditor did not further address the extent to which the collateral provided by Wirecard was in line with market conditions (KPMG 2020, p. 15). This means that although EY did examine Wirecard's business model in principle, it did not question the special features of the contracts in the TPA business, which involved an unusual transfer of (additional) collateral to Wirecard, and did not pursue the matter further. This is all the more inexplicable given that EY itself is said to have pointed out in its working papers that in 2014, 2015, 2016, 2017 and 2018,<sup>7</sup> "no liability risks for Wirecard were identified by management."<sup>8</sup> The obvious contradiction of having provided high security deposits for only very low risks was ignored during the audit.

Escrow accounts were used to process transactions in the TPA business, which is standard market practice for hedging the risk of chargebacks (Untersuchungsausschuss 2021, p. 182). However, the business model was implemented with only three different business partners, which from the outset entailed both an operational risk, namely if one of the partners had defaulted, and secondly, a credit risk relating to both the trustee and the trust bank. If one of the business partners had defaulted, Wirecard would have faced insolvency. Due to the risk that the continuation of Wirecard's business activities was dependent on these three business partners,

<sup>7</sup> Some verbatim quotations are used in the following. Where these originate from German examination standards or German literature, they have been translated into English to the best of knowledge and belief. Even if, strictly speaking, it is no longer a literal quotation in the academic sense, they have been retained the inverted commas.

<sup>8</sup> Wambach-Report, p. 16 with reference to the auditor's working papers for the relevant years.

the auditor should have paid particular attention to these three business partners and ensured that these risks were described in the risk report.

In addition, the question arises as to why Wirecard had only a minor influence on the design of this structure, because, on the one hand, the activity could have been carried out without escrow accounts and, on the other hand, the banks that managed the escrow accounts in question were selected without Wirecard's involvement.<sup>9</sup> Furthermore, the ratio of income from this business model to the Wirecard Group's total income should have been questioned. The involvement of TPA partners has reduced Wirecard's potential total commissions, and in addition, cash collateral had to be deposited for reversals, which at least tied up liquidity but ultimately reduced income accordingly. Nevertheless, this activity is said to have been extremely profitable.

### 3. Use of escrow accounts

The accounting treatment of escrow accounts raises numerous questions about the nature of the trust relationship (Löw, Heyd 2024, pp. 61–78). Under IFRS, the existence and accounting attribution of an asset is based on the Conceptual Framework (CF). According to CF 4.4(b), an asset is a resource controlled by an entity as a result of a past event and from which future economic benefits are expected to flow. The key factor in accounting for fiduciary relationships is, therefore, whether the entity can control an asset. To determine this, the legal nature of the fiduciary relationship has to be considered (Marten 2020, p. 1465; Justenhoven, Meyer 2024, § 246, para. 12–26).

Accounting is based on the specific terms of the trust agreement. If the contract and the actual circumstances are such that beneficial ownership is attributable to the settlor, the settlor is responsible for accounting, according to the view expressed in the literature (Justenhoven, Meyer 2024, § 246, para. 16). Applying this interpretation under the German Commercial Code (HGB) to financial statements prepared by IFRS requires consideration of the possibility of control, which in turn falls back on the verification of beneficial ownership.

It was therefore of decisive importance for Wirecard whether it could be assumed that Wirecard had beneficial ownership (or control under IFRS) of the escrow accounts. Given the circumstances, this is highly questionable.

Various transactions were posted to the escrow accounts. On the one hand, Wirecard was entitled to a commission from the credit card organisation, and on the other hand, Wirecard had to pay commissions to the TPA partners for their services. These payments were not processed via a freely available bank account. Furthermore, the transactions relating to the assumption of default risks for chargeback claims were

<sup>9</sup> See the statement of the Head of EY's policy department before the committee of inquiry. Untersuchungsausschuss, p. 378.

processed via these escrow accounts. Wirecard received a guarantee commission for the guarantees it assumed, but at the same time had to deposit cash collateral for returns and possible penalty payments.

The question of whether the fiduciary relationship has to be reported in the balance sheet depends on who the trustor is. Two scenarios are conceivable in the present case (Löw, Heyd 2024, p. 63).

- Assumption – The trustors are the Wirecard companies. In this case, the Wirecard companies have undertaken to transfer the freely disposable cash collateral (trust property) to the escrow accounts and to hold it in reserve for the occurrence of claims. The actual settlement took place insofar as the TPA companies did not transfer amounts from their net debt to the Wirecard companies (sales revenues to be forwarded (credit card processing fees) less commission income claimed) to freely disposable accounts of the Wirecard companies, but to escrow accounts that served to secure the guarantee claims of the TPA companies and the guarantee obligations of the Wirecard companies. If the Wirecard companies could have been regarded as the principal and the TPA business partners as subcontractors, the Wirecard companies would have been the beneficial owners of the trust property (cash collateral) and would have had to capitalise it in their balance sheets. This appears to be the (incorrect) interpretation on which Wirecard based its accounting.
- Alternative assumption – The TPA partners are the trustors. In this case, the TPA partners would have transferred the trust property to the trustee with the restriction that it would only be paid out to the Wirecard companies once the guarantee obligations of the Wirecard companies had been fulfilled. In this case, the payments made by the TPA partners have not (yet) passed into the control of the Wirecard companies. The payments would then have had to be capitalised by the TPA companies. The Wirecard companies would have had to capitalise a claim against the TPA companies until the trustee transferred the cash amounts to an account freely available to the Wirecard companies on the instructions of the TPA partners as trustors, if the liability risks no longer existed, or if the risks for which the Wirecard companies provided a guarantee had materialised and been covered by the cash collateral in the escrow accounts.

"The trust agreement of December 2015 stipulated that the account was not to be held in the name of Wirecard, but by the trustee."<sup>10</sup> Wirecard did not have any direct customer data for the TPA business; instead, the accountants received the documents from business partners, on the basis of which the bookings were made.<sup>11</sup> Wirecard was therefore unaware of either the transfers made by the TPA partners to the escrow accounts or the withdrawals made to cover risks. All dispositions of the escrow account balances were made by the TPA partners and subsequently communicated to the Wirecard companies via screenshot, which used the figures

<sup>10</sup> This was the statement by the Head of EY's policy department before the committee of inquiry. See Untersuchungsausschuss 2021, p. 378.

<sup>11</sup> According to the Head of EY's policy department, before the committee of inquiry. See Untersuchungsausschuss 2021, p. 215.

as a basis for their bookings. They could not be assigned to individual customers or customer groups, but were broken down into different and incomprehensible aggregations. This is already problematic in terms of generally accepted accounting principles and constitutes a violation of Section 238 (1) of the German Commercial Code (HGB).<sup>12</sup> The overall picture does not meet the necessary characteristics of control under IFRS, therefore, the existence of an asset belonging to Wirecard for the trust assets in the escrow account has to be denied. Wirecard was unable to exercise control over the existence or availability of the account balances.

Since Wirecard was not aware of the transfers made by the TPA partners to the escrow accounts or the withdrawals made to cover risks, but was dependent on documents provided by its business partners, there was also an extremely high risk of manipulation. The immense risk of fraudulent activity could only have been countered by obtaining meaningful audit evidence. Particular attention should have been paid to this.

Wirecard's limited influence was also evident in the fact that not only were the appointment of the trustees and the establishment of the escrow accounts initiated by the TPA business partners, but the replacement of the trustees in 2019 and the transfer of the trust assets to another bank were also initiated by the TPA partners.

#### 4. Fundamental principles of proper auditing

In addition to accounting regulations (in Wirecard's case, IFRS at the group level), the formal legal norms relating to these regulations and the principles of proper auditing (Grundsätze ordnungsmäßiger Abschlussprüfung, GoA) are decisive for the audit (Löw, Heyd 2024, pp. 26–28).

GoA are the auditing principles established by the Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW),<sup>13</sup> which are specified in the auditing standards and auditing guidelines. They have to be applied when auditing financial statements, regardless of whether they have been prepared in accordance with national or international standards (Graumann 2020, p. 192).

GoA are either the German translation of the International Standards on Auditing (ISA), which are marked ISA (DE), or national modifications of the ISA on individual aspects to make them compatible with German law. Finally, they may also be independent auditing standards (IDW PS). These are published when either very extensive modifications to the ISA would be necessary, making it virtually impossible to refer to the ISA, or there is no ISA on the relevant topic.

Auditors act in the public interest and have to be aware of this – always. To this end, all relevant auditing standards have to be applied during the audit.

<sup>12</sup> In this sense, also agreement by the Wambach-Report, Addendum II, p. 17.

<sup>13</sup> About the legal position of principles of proper auditing (Grundsätzen ordnungsmäßiger Abschlussprüfung) see Marten, Quick, Ruhnke 2020, pp. 183–185.

## 5. Risk-oriented audit approach and principle of materiality

The main risk for the auditor is that they overlook a material error in the annual or consolidated financial statements and issue an unqualified opinion as part of the audit opinion on the financial statements (Almeling, Flick, Scharr 2020, p. 6).

The application of the risk-oriented audit approach in accordance with IDW PS 261, new version, requires the identification and assessment of the risks of error in the audit objects to obtain sufficient and appropriate audit evidence as a basis for the audit opinion (IDW PS 300, new version, para. 4). To this end, the auditor has to identify and assess the inherent risks (error susceptibility of an audit field) and control risks, which means the risk that material errors are not prevented or detected and corrected by the client's internal control system, in accordance with IDW PS 230.

This requires gaining an understanding of the company and its legal and economic environment (Marten, Quick, Ruhnke 2020, pp. 379–391, 474–477, 492). This includes the business environment, in particular the partners with whom the company under audit has business relationships, the characteristics of the company, the company's objectives and strategies, and the associated business risks. Furthermore, the auditor is obliged to deal with the measurement and monitoring of economic performance (IDW 2020, p. 1531).

Inherent risks represent the susceptibility of the financial statement information to be audited to errors that are material on their own or in combination with errors in other audit areas and are identified without taking the internal control system into account (IDW PS 261, new version, para. 6). Control risks, on the other hand, represent the risk that errors that are material in relation to an audit area are not prevented or detected and corrected by the company's internal control system. If the internal control system is ineffective or only partially effective, the control risks are high. If the internal control system is effective, the control risks are rather low (IDW PS 261, new version, para. 6). There is a strict connection that cannot be separated.<sup>14</sup> The business model, which relied on TPA partners in third countries, required the establishment of an internal control system, as noted by EY in its audit opinion on the 2017 annual report (Wirecard AG 2017a, p. 293). The auditor criticised the inadequate internal control system at Wirecard and, although it considered this activity to be a particularly important audit matter, did not adjust its audit procedures accordingly. This constitutes a violation of the risk-oriented audit approach according to IDW PS 261.

In order to determine whether the financial statements meet the requirements, the materiality of a possible misstatement for the overall statement of the annual or consolidated financial statements (IDW PS 250, new version) has to be reviewed (Marten, Quick, Ruhnke 2020, p. 320). According to IDW PS 250, new version, para. 5, accounting information is considered material if it can reasonably be

<sup>14</sup> For the importance of the internal control system, see Marten, Quick, Ruhnke 2020, pp. 397–399.

expected that its misstatement (including its omission) in detail or as a whole will influence the economic decisions made by the users of the financial statements based on the accounting information. This was undoubtedly the case with the TPA business. In the audit of financial statements, the concept of materiality according to IDW PS 250, new version, para. 6 states "that the audit of the annual financial statements and the management report ... has to be designed to detect with reasonable assurance misstatements that, due to their size or significance, have an impact on the informative value of the financial statements for the users of financial statements." The audit has to be conducted in such a way "that false statements are detected with reasonable assurance if they are material due to their size (quantitative) or significance (qualitative) and thus have an impact on the informative value of the financial statements for the users of the financial statements."<sup>15</sup> This requires a search until there is no doubt about the authenticity of the audit evidence (genuineness, credibility, certainty, reliability, truthfulness). According to IDW PS 300 para. A5, poor quality audit evidence cannot necessarily be compensated for by increasing the quantity (Graumann 2020, p. 282).

## 6. Risks of inaccuracies and violations

According to Section 43 (4) WPO and IDW PS 200 para. 17, the auditor is obliged to maintain a critical attitude, precisely because he or she has to act in the public interest. According to IDW PS 210 para. 14, this critical attitude has to be adopted towards the audited company, its legal representatives, employees and the supervisory body. Although the audit does not constitute a fraud audit, the auditor is not allowed to rely on the credibility of the company's legal representatives and the accuracy of their statements. Rather, he is obliged to have their statements substantiated and assess them on his own responsibility. The audit is not usually a full audit, but a random sample audit (IDW PS 200 para. 19). However, this does not preclude the possibility of a particular audit subject being audited in full, for example, if it involves specific risks. The auditor is forced to "regardless of his previous experience with the client, always consider the possibility that violations could be committed" (Marten, Quick, Ruhnke 2020, p. 584).

The two terms used in Section 317 of the German Commercial Code (HGB), namely inaccuracy and violation, can also be described as accounting errors and fraud or fraudulent acts (Löw, Heyd 2024, pp. 33–38). In the auditing standards, both are covered by the term 'irregularity'. The difference between the two terms is that inaccuracies (errors) occur unintentionally, while violations (fraud or malicious acts) are committed intentionally (IDW 2000. PS 210 para. 6 and para. 7). Fraud

<sup>15</sup> IDW 2020, p. 1603, also p. 1601, explicitly contains references to both qualitative and (alternatively) quantitative characteristics. Section 317 (1) sentence 3 of the German Commercial Code (HGB) requires the auditor to conduct his audit in such a way that he can detect with sufficient certainty, through conscientious professional practice, any inaccuracies or violations that have a material impact on the presentation of the assets, financial position and results of operations.

includes deception (also or only) in the financial statements, damage to assets or violations of the law (Almeling, Flick, Scharr 2020, p. 33).

"Fraudulent acts and other violations of standards are undoubtedly one of the central problem areas in auditing" (Marten, Quick, Ruhnke 2020, p. 580). Missing or inefficient controls increase the opportunity for fraud. "For company management in particular, it can be easy to circumvent or override controls" (Almeling, Flick, Scharr 2020, p. 35).

IDW PS 210 deals exclusively with irregularities (inaccuracies and violations). IDW PS 210 para. 35 contains a detailed list of indicators that point to an increased risk of fraud, including (verbatim and in excerpts with relevance to Wirecard).

- Doubts about the integrity or competence of management
  - Control of the management board by one or a few individuals without an effective supervisory body in place
  - Opaque organisational structures
  - Unwillingness to improve the internal control system
  - Persistent understaffing of the accounting department
- Critical corporate situations
  - ...overly expansive business activities,
  - high-risk sources of income...,
  - dependence on a small number of suppliers or customers.
- Unusual transactions
  - Transactions with a significant impact on profits...,
  - Complicated transactions or unusual accounting for transactions,
  - Transactions with related parties,
  - Excessive expenditure on agency commissions about the service received...
- Difficulties in obtaining audit evidence, such as
  - Inadequate recording or documentation of business transactions,
  - High number of discrepancies between the results of the accounting and the confirmations of third parties,
  - Evasive or difficult-to-understand information from management in response to inquiries from the auditor.
- Other circumstances, such as
  - Inadequate effectiveness of internal auditing.

"The auditor has a positive responsibility to search for fraud."<sup>16</sup> IDW PS 210 para. 38 requires: "The auditor is obliged to identify and assess the risks of material misstatement due to violations at the financial statement level and the level of individual statements relating to certain types of business transactions, account balances and financial statement information. These risks always represent significant risks. This means that the auditor has to gain an understanding of the relevant control measures."

<sup>16</sup> Marten, Quick, Ruhnke 2020, p. 584, with the terms "auditor" and "positive responsibility to search" being emphasised.

IDW PS 210 para. 39 explicitly refers to fraud, which often results from an excessive reporting of sales revenue, for example, through the posting of fictitious revenue. Therefore, IDW PS 210 para. 39 requires: "The auditor has to, therefore, assume that there may be risks of violations in connection with revenue recognition and determine which types of revenues and business transactions or statements in the financial statements that affect profit or loss may be susceptible to such risks. These risks of material misstatements due to violations have to also be treated as significant risks."

If there are indications of fraud, IDW 210 para. 58 requires the auditor to assess the circumstances and effects on the financial statements. "Unless there are indications to the contrary, it has to be assumed that the suspected irregularity is not a one-off occurrence. If a possible impact on the regularity of the financial statements has to be assumed, the auditor is obliged to obtain additional information" (IDW PS 210 para. 59). There is therefore an extended audit obligation.<sup>17</sup> Under no circumstances may the auditor be satisfied with unresolved risks, remaining doubts about the reliability of audit evidence or unverifiable information about the legality of the financial statements without these assessments having an impact on the audit opinion (the attestation). According to IDW PS 210 para. 72, "Consequences for the audit opinion... may also be necessary if the auditor is prevented by circumstances beyond the company's control from determining whether there is an inaccuracy or a violation."

## 7. Required audit procedures and deficiencies in the audit of the financial statements

The fiduciary relationships had to be a mandatory focus of the audit, with very intensive audit procedures. "A fiduciary relationship always carries an increased risk, as its purpose may be to conceal financial circumstances – even beyond the scope of the audit."<sup>18</sup> This is all the more true given that Wirecard's earnings situation depended largely on its business relationship with only three business partners.

In this regard, it is not sufficient to merely note that the auditors analysed the performance obligations that Wirecard had to fulfil, the liability risks that Wirecard had contractually assumed and the collateral that Wirecard had to provide based on the trust agreements, if no conclusions were drawn from this due to the numerous

<sup>17</sup> See Graumann 2020, p. 214, which also includes a reference to the involvement of legal advice or other experts.

<sup>18</sup> Schüttler 2020, pp. 1862–1863, here p. 1863 with emphasis on "increased risk" and "conceal of financial circumstances", which further points out that auditors are subject to increased due diligence obligations under money laundering law and have to comprehensively determine who is the beneficial owner of the trust property (§ 15 GwG, Anlage 2, Faktoren für ein potenziell höheres Risiko). Quite similar Schüttler, Die Treuhand im HGB-Abschluss, Weder Treugeber noch Abschlussprüfer müssen über Treuhandverhältnisse berichten – das muss sich nach Wirecard ändern! In: Steuer- und Bilanzpraxis (StuB), 2020, pp. 671–672, here p. 671.

anomalies. Given the importance of the TPA business for Wirecard's success (and existence), on-site visits to the "external business partners" were absolutely necessary, but in this case, not sufficient to obtain appropriate and sufficient audit evidence (IDW 2000, PS 300 new version, para. 5 and para. 7).

When auditing fiduciary relationships, the first step is to examine the (un)usual nature of establishing a fiduciary relationship in general, the structure of the fiduciary agreement, the terms of the fiduciary agreement about the respective services and their inherent risks, the trustworthiness of the trustees, the creditworthiness of the bank(s) managing the escrow accounts and, ultimately, the existence of the trust property. This includes an examination of whether the escrow accounts are fully documented in the books of the Wirecard companies, whether the amounts posted to the escrow accounts are traceable, whether the balance sheet items on which the amounts in the escrow accounts are reported comply with the regulations (in this case, the designation as cash assets) and, finally, whether the disclosures required for understanding and required by IFRS have been disclosed.

If there are indications of inaccuracies and violations, the auditor is obliged to assess, based on IDW PS 210 para. 58, which circumstances led to these fraud risks and what effects this may have on the accounting. As part of the audit, the auditor has to perform the audit procedures in such a way that he obtains sufficient and appropriate audit evidence to draw reasonable conclusions on the basis of IDW PS 300, new version, para. 5. In this respect, the auditor is required under IDW PS 300, new version, para. 7 to plan and perform the audit procedures in such a way that sufficient and appropriate audit evidence is obtained under the circumstances of the individual case. In doing so, the relevance and reliability of the information have to be taken into account in accordance with IDW PS 300, new version, para. 8. Relevance means that the audit evidence has to be appropriate to the purpose of the audit procedures. "Reliability... is influenced by the nature and source of the information and by the circumstances under which it is obtained" (Graumann 2020, p. 285).

In the case of information from the company, audit evidence regarding the accuracy and completeness of the information has to be obtained in accordance with IDW PS 300, new version, para. 10. If the auditor has doubts about the reliability of audit evidence or if doubts arise based on the overall circumstances – as in this case – IDW PS 300, new version, para. 12 requires that the adjustments or additions to the audit procedures necessary to clarify the facts be determined. IDW PS 300, new version, para. A3 states that interviews alone do not normally provide sufficient audit evidence that there are no material misstatements at the assertion level, nor do they provide reliable statements about the effectiveness of controls.

Nevertheless, no further audit evidence appears to have been obtained. This is all the more serious when the number and content of the indicators of fraud identified in accordance with IDW PS 210 para. 35 are taken into account. It appears that the auditors performed audit procedures as if the company showed no signs of fraud. To assess fraud risks, the auditors conducted a structured analysis in which members of the management board, supervisory board, head of internal audit, head

of the legal department and head of accounting were interviewed. However, this statement-based audit evidence is meaningless if, due to numerous fraud indicators, there is reason to fear that at least the most senior members of the company may be involved in such activities. This contradicts IDW PS 300, new version, para. 43. As expected, the findings obtained from this are irrelevant.

According to IDW PS 300, new version, para. A29, the reliability of information is influenced by its type and origin, as well as by the circumstances under which it is obtained. According to IDW PS 300, new version, para. A29, the reliability of copies, digitised documents or documents converted into electronic form depends on the controls over their creation and maintenance. With regard to the sufficient scope of the selection of items to be audited, IDW PS 300, new version, para. A48 explicitly mentions full audit, deliberate selection and sampling, and points out that the application of one of these forms of audit or a combination thereof is appropriate depending on the circumstances, such as the risks of material misstatements about the audited statement. In this context, a full audit in accordance with IDW PS 300, new version, para. A49 may be appropriate and necessary if there is a significant risk and other procedures do not provide sufficient and appropriate audit evidence. In this respect, the appendix to IDW 300, new version, points out that, regardless of the choice of terms, statements have to be made on account balances at the end of the period that may relate to the existence of and attribution to the company based on existing rights to assets.

In the case of fiduciary relationships, the auditor is obliged to determine in particular:

- “that the fiduciary assets reported in the balance sheet exist (existence);
- that the fiduciary assets are included in full in the balance sheet (completeness);
- the trust assets are properly presented in the financial statements (accuracy, valuation and allocation, as well as disclosure and presentation and, if applicable, notes);
- the reporting entity has beneficial ownership of the trust assets and control over them (rights and obligations)” (Marten 2020, pp. 1465–1469, here p. 1466).

Obtaining third-party confirmations can help obtain relevant and reliable audit evidence. According to IDW PS 302, new version, para. 6(a), this is audit evidence that the auditor obtains directly as a written response from a third party in paper form or using an electronic or other medium. “In such cases, the work of third parties has to be assessed to determine whether it is appropriate for the purposes of the audit” (IDW 2020, p. 1620; Marten 2020, pp. 1465–1469, here p. 1468). IDW PS 302, new version, para 8 requires that the auditor maintain control over the confirmation process. According to IDW PS 302, new version, there are no additional requirements for electronic confirmations. However, given the ease with which third-party confirmations in electronic form can be altered, it is important to “carefully observe the obligation to maintain control over the confirmation process” (IDW 2020, p. 1626).

If the legal representatives refuse to allow the auditor to send a confirmation request, the procedure is, of course, not terminated for the auditor (such a refusal can be seen indirectly in this case in the rather unusual contractual arrangements with the TPA business partners regarding the escrow accounts). Rather, according to IDW PS 302, new version, para. 11(c), he has to perform alternative audit procedures. If the auditor is unable to obtain relevant and reliable audit evidence through alternative audit procedures, the auditor is obliged to enter into discussions with the supervisory body on the basis of IDW PS 302, new version, para. 12. In addition, the auditor is required to decide on the effects on the performance of the audit and the audit opinion, applying the principles of IDW PS 250, new version, IDW PS 261, new version, and IDW PS 400. Even if the auditor has doubts about the reliability of the response to an assurance request or should have doubts based on the overall circumstances, as in the present case, he has to obtain further audit evidence in order to eliminate these doubts in accordance with IDW PS 302, new version, para 14. Furthermore, his (original) assessment of the associated risks of error, including the risk of violations, has to be reconsidered in accordance with IDW PS 302, new version, para. 15.

Special provisions apply to bank confirmations. Under IDW PS 302, new version, para. 26, these have to be obtained for all types of business relationships between a company and credit institutions. There are no exceptions under IDW PS 302, new version, in the given circumstances. Wirecard had a business relationship with the banks involved – albeit not directly in formal terms, because the trust agreements were structured in an unusual way – but indirectly. According to IDW PS 302, new version, para. 21, the information to be obtained via a bank confirmation includes, among other things, existing accounts and their balances, existing credit lines and collateral provided. “When sending bank confirmation requests, however, it is often observed (for example, in the case of foreign credit institutions or in cases where credit institutions engage external service providers to respond to confirmation requests) that the standardised information requested is not answered in whole or in part. In such cases, the auditor may, within the scope of his professional judgement and in accordance with his risk assessment, determine the extent of the alternative audit procedures required under paragraph 16 for the information not received” (IDW PS 302, new version, para. A28).

In the present case, the auditor first had to question the use of escrow accounts (Schüttler 2020b, pp. 1862–1863, here p. 1863; Löw, Heyd 2024, p. 69), as these are not necessary for the implementation of the business model, at least not to this extent.

“The security deposits in the escrow accounts were, as indicated in the contracts, retained for a total loss, i.e. a counterparty risk.”<sup>19</sup> The amount of the security deposit was 33% of the commissions on the underlying transactions (Untersuchungsausschuss 2021, p. 376). This means that for a customer transaction involving

<sup>19</sup> This was the statement made by the Head of EY’s policy department to the committee of inquiry. See Untersuchungsausschuss 2021, p. 376.

an amount of 100 Euros and an assumed commission of 10% of the commission amount of 10 Euros, 33%, or 3.33 Euros, was retained. In order to arrive at an amount of, for example, 1.9 billion Euros in this way, an incredibly high transaction volume would have been required, which would have had to be verified by the auditor.<sup>20</sup>

The retention of large amounts as security for chargeback claims and fines was incomprehensible given the very low risk for Wirecard and would have required more detailed audit procedures. The low risk was also evident from the fact that Wirecard was not actually called upon in the financial years 2015 to 2019. "In fact, the business with third-party providers does not give rise to any claims on the collateral provided, which would justify the high level of collateral provided by Wirecard over time" (Wambach-Report, p. 21). "The provision of further collateral through the reallocation of receivables until mid-2015 is contrary to the contractual provisions and business experience. The model of providing further collateral (...) means that, as business increases, Wirecard receives hardly any money from this business model due to steadily increasing collateral requirements. Wirecard, on the other hand, has to finance the steadily growing collateral volume with equity and debt capital. Such action appears very unusual against the backdrop of economic considerations" (Wambach-Report, p. 51).

Granting very high amounts as collateral for an extremely low risk is suspicious. The auditor should have investigated this. EY had also noticed that the security deposits were very high – namely in previous years, when the escrow accounts were not yet used so extensively and were reported as receivables. At that time, EY criticised that the receivable positions of the individual TPA business partners were too high and that the solvency of these TPAs did not justify the amount of the receivables.<sup>21</sup>

The three TPA partners, which were of central importance to this business activity and posed an existential risk to Wirecard, also appear to have been subject to little in-depth scrutiny. Based on public information, occasional (non-annual) on-site visits, and the conclusion that the three TPA business partners were independent of Wirecard's revenues, the auditor simply trusted that "there was no particular fraud risk about the existence and amount of revenues from Wirecard's TPA business." From EY's point of view, these appear to have been sufficient checks to assume that the TPA partners were independent and, based on this, to be able to trust that the reported revenues were correct.

"Despite the close relationships with the TPAs, no (audited) annual financial statements of the TPAs were obtained in the period from 2015 to 2017, as evidenced by the auditor's working papers ... Analytical audit procedures, such as multi-year

<sup>20</sup> See the example given by the Head of EY's policy department to the Committee of Inquiry, Untersuchungsausschuss 2021, p. 376.

<sup>21</sup> According to a statement made by the Head of Accounting of Wirecard to the committee of inquiry. See Untersuchungsausschuss 2021, p. 216.

comparisons, post-calculations, etc. of the financial data, are not apparent in the auditor's working papers.”<sup>22</sup>

As no sufficient evidence of customers or individual transactions could be found at Wirecard and its group companies, Wirecard was unable to verify the plausibility of the transfers to the escrow accounts by the TPA partners (Wambach-Report, p. 78 as well as Wambach-Report, Addendum II, p. 19). However, this was the audit approach taken by EY. “As far as I could see, we always audited the escrow accounts in the context of revenue recognition, as evidenced by the working papers.”<sup>23</sup> However, a direct audit was not possible. The existence and amount of revenue thus appear to have been verified only indirectly through balance confirmations.

The basis for posting revenues, expenses and receivables from the TPA business at Wirecard was credit notes. These monthly or quarterly credit notes listed the transaction volume processed for Wirecard merchants and the fees incurred by the TPA partner for this. The sales revenues from the TPA business posted in the accounts could be verified by the auditors by inspecting the credit notes from the TPA partners. It is difficult to imagine how this could be brought into line with the principles of proper accounting in accordance with Section 238 (1) of the German Commercial Code (HGB). The collection of commissions constitutes business transactions for which individual proof has to be provided.

In terms of content, the auditors relied entirely on information provided by TPA business partners, which was only subject to rudimentary audit procedures. Given the importance of TPA partners for Wirecard’s solvency, the requirements of a risk-oriented audit in accordance with IDW PS 261, new version, in conjunction with IDW PS 210, new version, were clearly violated.

The contractual partners are of particular importance in a fiduciary relationship. The trustee has a special function of trust. He is usually selected with particular care. “Lawyers, notaries or a bank are often considered as trustees” (Marten 2020, pp. 1465–1469, here p. 1465).

From 2015 to 2019, the trustee was not a German or even a European company, an international auditing firm or a renowned law firm, but a company called

<sup>22</sup> Wambach Report, p. 71. “The two audited financial statements of the Senjo Group for 2016 and 2017 obtained by the auditor cannot be used in the respective audits, as they will not be available to Wirecard until approximately six months after the auditor’s certificate.” Wambach Report, Addendum II, p. 24. In connection with its 2020 investigations into the annual financial statements of TPA business partners, KPMG states: “As part of the investigation, Wirecard provided us with audited annual financial statements of TPA Partner 1 as of December 31, 2018, as well as audited annual financial statements of TPA Partner 3 as of December 31, 2016, December 31, 2017, and December 31, 2018. Wirecard did not provide us with any annual financial statements of TPA Partner 2 until the conclusion of our investigation, although a corresponding right to information existed as of 2018 according to the contractual agreements.” KPMG, p. 16. KPMG also received no evidence of a reliability assessment for the subsequent trustee during the investigation period. See KPMG, p. 17.

<sup>23</sup> Statement made by the Head of EY’s policy department to the committee of inquiry. See Untersuchungsausschuss 2021, p. 376.

Citadelle Corporate Services Pte. Ltd. (hereinafter also referred to as Citadelle). Due to the special position of trust held by the trustee, numerous jurisdictions require a specific professional background or even a license to carry out the activity. It would have been imperative to check whether a license was required in Singapore and whether the trustee had one. According to Singapore's Trust Companies Act,<sup>24</sup> only those who hold the license required by this law may act as trustees. The owner of Citadelle, Rajaratnam Shanmugaratnam, did not have a license and was therefore not allowed to carry out any fiduciary activities in Singapore at all. No annual financial statements were available for Citadelle for the entire period (KPMG 2020, p. 17). It is therefore incomprehensible how any statement could have been made about the trustee, regardless of whether it was reliable or unreliable (Lenz 2020a, pp. 1465–1469, 2085–2089, here p. 2088).

With proper auditing procedures, it could not have remained hidden who was behind Citadelle, especially since a large auditing firm with an international network and offices in Singapore was commissioned to audit the financial statements, for which on-site research would therefore have been extremely easy. After all, several hundred million Euros, amounting to over a billion, were managed by the trustee. "If the auditor considers ... basing his audit opinion on confirmations from the trustee, he is obliged to assess the trustee's reliability or verify the reliability assessment of the audited company as the trustor" (Lenz 2020a, pp. 1465–1469, 2085–2089, here p. 2088). "Confirmations received directly from the bank (original documents) are more reliable than confirmations received indirectly via the trustee. Only if the auditor has good reason to believe that the audit evidence obtained through the trustee is equally reliable and convincing may he obtain the confirmations through the trustee. The latter, in turn, depends on the assessment of the trustee's reliability" (Lenz 2020a, pp. 1465–1469 i 2085–2089, here p. 2088).

If, in this context, the necessity of a license was not examined, this constituted a violation of IDW PS 230 para. 14, which requires the auditor to obtain knowledge of the legal environment of the company being audited within the scope of the audit, namely of "legal provisions of material significance to the company."<sup>25</sup>

Despite these overall circumstances, EY only obtained audit evidence for the 2016, 2017 and 2018 financial years in the form of confirmations from the TPA partners

<sup>24</sup> The Trust Companies Act is available under <https://sso.agc.gov.sg/Act/TCA2005>.

<sup>25</sup> See also IDW (Ed.), WP-Handbuch, 17th edition, Düsseldorf 2020, p. 1475. Answers to the following obvious questions about the trustee should be obtained as audit evidence

- „What is their reputation?
- How long has they been in existence? How can they be contacted?
- Is there a permanent business premises, offices, etc.?
- How long has they been working for the audited company?
- Why was they selected?
- What regulations are they subject to?
- Will they also be audited? By whom?"

Schüttler, Prüfung von Treuhandkonten auf Vorhandensein, in: Der Betrieb, 2020, pp. 1862–1863, here p. 1863.

and the trustee.<sup>26</sup> Furthermore, TPA revenues that were only reported by the TPA partners after the balance sheet date were also included in the annual financial statements (Untersuchungsausschuss 2021, p. 215).

"The reliability of this audit evidence depends to a large extent on the trustworthiness of the TPAs" (Wambach-Report, p. 78; almost identical in Wambach-Report, Addendum II, p. 20). However, EY's working papers reveal numerous peculiarities.<sup>27</sup>

- The confirmations from the trustee Citadelle were not addressed directly to the auditor itself in 2015 and 2016.
- The balance confirmation from TPA business partner Al Alam, dated 28 March 2016, identifies Wirecard's subsidiary Wirecard Technologies GmbH as the beneficial owner, even though the trust agreement was concluded with Al Alam by another subsidiary, namely CardSystems Middle East FZ-LLC.
- The email addresses in the letterhead of the trustee Citadelle vary in 2016 between 'shan.citadelle@com.sg' and citadelle33@yahoo.sg.com, as do the names of the contact persons.
- The dates on the confirmations from 2015 follow the English format, while from the end of 2016 – after the letterhead was changed – they were written in the German format.
- In a balance confirmation dated 25 May 2016, a balance for the other TPA partner Al Alam is shown for 31 March 2016 on an account attributable to the TPA partner Senjo (involving no less than 41 million Euros). Wirecard UK & Ireland is named as the beneficial owner. The confirmation itself is made for Al Alam by another person who (strangely enough) also acts as secretary at Senjo. In contrast, the same account is assigned to CardSystems Middle East FZ-LLC in a confirmation dated 2 December 2016. This means that within the same year (2016), the beneficial owner of the escrow account changed.
- In December 2016, Al Alam made an unusually large payment to the escrow account (for €80 million).
- Confirmation is available for one of the escrow accounts as of 22 November 2016, while no confirmation is available for the end of the year. In the following year (2017), this account was used for other purposes and was no longer used as an escrow account for the TPA business from the end of February 2017.

With specific reference to the consolidated financial statements for the 2018 financial year, the following additional special features arise (Wambach-Report, Addendum II, p. 18).

- The balance confirmation was received on 11 April 2019, but is dated 12 April 2019.
- Once again, the date format is given in the German style.

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<sup>26</sup> According to the statement of the Head of EY's policy department to the committee of inquiry. See Untersuchungsausschuss 2021, p. 376 and p. 377.

<sup>27</sup> For the following special features, see Wambach-Report, p. 77.

- In contrast to previous years, a full stop is placed after the company name and the respective legal form.
- The balance confirmation only confirms amounts, but no account numbers are given for the balances.
- The bank where the credit balances are said to have been held is not named.
- “No balance confirmation requests were made directly to the merchant” (Wambach-Report, Addendum II, p. 20).

According to EY's working papers, these special features were not investigated. The non-independent TPA partners were therefore only asked whether they were independent, and the accuracy of the trust assets was then relied upon. These appear to have been the audit measures taken to satisfy the risk-oriented audit approach. EY completely refrained from obtaining a bank confirmation during these years.

The contract with Wirecard did not provide for direct contact with the bank managing the escrow account or any right to information from the bank (Untersuchungsausschuss 2021, p. 378). “The trust agreement does not stipulate any rights to information, such as monthly sending of account statements, bank balance confirmations, proof of the establishment of escrow accounts, or similar for Wirecard” (Wambach-Report, p. 77). Precisely because the amounts involved were existential for Wirecard and the trust agreements granted Wirecard virtually no rights, the auditor should not have been satisfied with this.

Given the exceptional importance of the TPA business for Wirecard's earnings situation, the account-holding bank played a central role. In corporate practice, it is virtually impossible to conduct such a significant business activity through a single bank and take on an extreme credit risk. The economic environment in which the business activities took place was the Asian region. Nevertheless, the account was held in Euros. This should have given the auditor food for thought.

Apart from the fact that holding an account in Euros is unusual for activities in the Asian region, the question of the terms and conditions of the account arose. At least in Europe, it was common practice in a low-interest-rate environment to charge negative interest on balances of a certain size. Companies, therefore, usually endeavoured to maintain only the absolutely necessary minimum amount of credit. In this sense, it would have been necessary to check whether the account management terms and conditions were in line with market conditions. If necessary, additional audit evidence would have had to be obtained to allow for a reliable audit opinion. After all, banks would have foregone very high earnings without charging negative interest rates on balances ranging from several million to over a billion Euros.

It was therefore not sufficient to obtain confirmations from third parties, specifically only from the trustee.<sup>28</sup> “In connection with the audit of the balances at credit institutions, the auditor has to, at the same time, obtain an overview of the company's other business relationships with credit institutions. To this end,

<sup>28</sup> Agreement also by Schüttler 2020b, pp. 1862–1863, here p. 1863.

bank confirmations have to be obtained for all types of business relationships of the company being audited with credit and financial services institutions as well as for all business relationships with financial companies within the meaning of Section 1(3) KWG" (IDW 2020, pp. 1586, 1789). "In this respect, obtaining bank confirmations is a necessary and generally appropriate measure for assessing whether the company's business relationships with credit institutions are fully recorded" (IDW 2020, p. 1789).

If a view in the literature assumes that obtaining confirmation from trustees is normally sufficient,<sup>29</sup> this does not apply in the present case because 'normal cases' are assumed to involve amounts of no existential significance. In the case of Wirecard, however, the facts were anything but 'normal.' And under the incorrect assumption of a 'normal' case, EY also quite obviously schematically conducted its audit of Wirecard, disregarding the risk-oriented audit approach, the numerous fraud indicators, the questionable reliability of the trustee (without a licence), the many inconsistencies in the confirmations of the TPA business partners, and the significance of the means of payment about the total balance sheet total, as well as the earnings situation and significance for Wirecard's (in) solvency. Further audit procedures were imperative in order to arrive at a reliable audit opinion in view of the very specific and conspicuous circumstances. This is precisely what IDW PS 261, new version, in conjunction with IDW PS 210, new version, requires.

If bank confirmations were not obtained under these circumstances, there could be no sufficient and appropriate audit evidence within the meaning of IDW PS 300, new version, para. 7. Due to the questionable trustworthiness of the trustee Citadelle alone, it was imperative to insist on obtaining bank confirmations directly from the account-holding bank.<sup>30</sup> It would therefore have been essential to have the bank released from its duty of confidentiality in this respect. After all, according to Section 320(2) of the German Commercial Code (HGB), the auditor may request all information and evidence necessary for a thorough audit. "If the trustor cannot even enforce a simple direct bank disclosure by instruction from the trustee, it is more than questionable whether a genuine trust relationship exists at all, which entitles the trustor to recognise the trust property as economic ownership in the balance sheet" (Lenz 2020a, pp. 1465–1469, 2085–2089, here p. 2087).

Given the central importance of the business activity for Wirecard, even without the special circumstances relating to the trustee and the account-holding bank, it could only be assumed in extremely exceptional cases that the auditor could be satisfied with the corresponding confirmations. This would mean that a volume of sales and earnings that was of existential importance for the business success of the entire group and could jeopardise the going concern assumption could be determined without the auditor performing their own audit procedures. "The third-party acquirer business grew very strongly and became a major source of success

<sup>29</sup> See Marten (2020). See also the – relevant – response by Lenz 2020, pp. 1465–1469, 2085–2089.

<sup>30</sup> Agreement by Lenz 2020b, pp. 546–552, here p. 552.

for the entire group" (Wambach-Report, p. 21). After all, it accounted for more than 50% of sales and more than 95% of EBTA,<sup>31</sup> as well as virtually the entire cash balance and 25% of the balance sheet total.<sup>32</sup> This was a clear violation of IDW PS 300, new version, para. 5, according to which audit procedures have to be carried out to obtain sufficient and appropriate audit evidence for reasonable conclusions to form an audit opinion. The legal obligation under Section 317 (1) of the German Commercial Code (HGB) to conduct the audit in such a way as to identify any inaccuracies and violations was thus massively disregarded.

## 8. Audit opinion and audit report

At the end of an audit, the auditor forms an audit opinion. For external users of the company's financial statements, the opinion is visible in the audit opinion. Until 2017, IDW PS 400 applied, which was replaced by IDW PS 400, new version, at the end of November 2017. Modifications to the audit opinion have been newly regulated in IDW PS 405 at the same time.

According to IDW PS 400 para. 8, the audit opinion is required to contain a final assessment of whether the accounting and the annual financial statements (or consolidated financial statements, if applicable) and the management report (or group management report, if applicable) comply with the legal requirements, including the principles of proper accounting or IFRS, as well as other national regulations. According to IDW PS 400 para. 14, the audit opinion may only be issued after the audit required for the assessment has been materially completed, based on the auditor's professional judgement. According to IDW PS 400 para. 41, the audit result may take the form of an unqualified or qualified audit opinion, or a disclaimer of opinion due to objections or serious audit impediments (Marten, Quick, Ruhnke 2020, pp. 718–727). IDW PS 400 para. 68a states that the prerequisite for a refusal due to audit impediments is that the auditor, after exhausting all reasonable possibilities for clarifying the facts, is unable to arrive at an audit opinion – possibly qualified – with a positive overall statement on the financial statements. Due to the importance of the audit opinion, it has to be affixed with a professional seal in accordance with IDW PS 400 para. 86.

"If, in exceptional cases, the auditor can't obtain an overall opinion within the scope of the audit (e.g. due to obstacles to the performance of audit procedures), it has to be clarified whether this is due to circumstances that constitute an important reason for terminating the audit engagement within the meaning of Section 318 (6) HGB. If an audit engagement is terminated, neither an audit opinion nor a certificate shall be issued, but a report on the results of the audit performed to date shall be

<sup>31</sup> According to the Global Head of Compliance of Wirecard to the committee of inquiry, see Untersuchungsausschuss 2021, p. 235.

<sup>32</sup> According to a statement of the Head of the Supervisory Board of Wirecard to the committee of inquiry. See Untersuchungsausschuss 2021, p. 294.

provided in accordance with section 318(6) sentence 4 HGB (see IDW PS 450 para. 150 ff)" (IDW PS 400 para. 10).

With regard to the TPA business, the auditor performed completely inadequate audit procedures to obtain sufficient and appropriate audit evidence on which to base a final opinion. In this sense, it is completely incomprehensible on what basis an unqualified audit opinion could have been issued in the TPA business (and, incidentally, not only in this business).

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