**Assignment Front Cover Sheet**

|  |  |
| --- | --- |
| **Student Name:** | Khushi H. Patel |
| **Student ID:** | 14524170 |
| **Degree Title:** | MSc. Professional Accounting |
| **Level:** | 7 |
| **Module Title:** | Audit, Assurance and Professional Ethics |
| **Module Code:** | 7033AFE |
| **Seminar Lecturer:** | Folashade Kola-Eke |

|  |  |
| --- | --- |
| **Assignment Title:** | Problems with audited accounts |
| **Word Count:** | 2071 |

|  |  |
| --- | --- |
| **Link:**  **To shared files, wordpress.com Blog, etc.** |  |

**By submitting this assignment, I confirm that:**

1. I have read and understood the University’s [Academic Integrity Guidance](https://livecoventryac.sharepoint.com/sites/students-london-registry/SitePages/Academic-Integrity.aspx?csf=1&web=1&e=hgcJhm) and that in the attached submission I have worked within the expectations of the Regulations Governing Academic Integrity.
2. I am aware that failure to act by Appendix 1 of the [General Regulations](https://www.coventry.ac.uk/london/legal-documents/general-regulations/) may lead to the imposition of penalties which, for the most serious cases, may include termination of studies.
3. I consent to the University copying and distributing any or all of my work in any form and using third parties (who may be based outside the UK/EU) to verify whether my work contains plagiarised material, and for quality assurance purposes.

**Academic Integrity Declaration:**

I, Khushi H. Patel am aware of the requirements of good academic practice and the potential penalties for any breaches.

I, Khushi H. Patel confirm that this submission is my work and I accept all responsibility for any copyright infringement that may occur as a result of this submission.

|  |  |
| --- | --- |
| Date of Submission: | 7th July, 2024 |

|  |  |
| --- | --- |
| Wirecard Clears Own Executive at Center of Fraud Allegations - Bloomberg  Audit Issues At wirecard AG.  Individual Report | **Abstract:**  This report includes a comprehensive analysis of audit issues at Wirecard AG. The findings reveal significant threats to auditor’s independence and objectivity and potential conflict of interest. The report concludes with recommendations for strict and robust oversight regulatory framework and quality control over auditing procedures and ethical standards to prevent future frauds.  Audit, Assurance and Professional Ethics |

Table of Contents

[Introduction 3](#_Toc170080166)

[Company Overview 4](#_Toc170080167)

[Event Overview 5](#_Toc170080168)

[Reasons Behind the Issue 6](#_Toc170080169)

[Internal Factors 6](#_Toc170080170)

[External Factors 7](#_Toc170080171)

[Ethical Issues 8](#_Toc170080172)

[Audit Failures and Misconduct 9](#_Toc170080173)

[Actions and Omissions by Auditors 9](#_Toc170080174)

[Ethical Violations by Auditors 10](#_Toc170080175)

[Conclusions 11](#_Toc170080176)

[Recommendations 12](#_Toc170080177)

[References 14](#_Toc170080178)

[Appendices 14](#_Toc170080179)

## **Introduction**

Wirecard AG[[1]](#footnote-1), a Munich based payment processor was founded in 1999, it rapidly gained fame in Germany’s financial market. It offered a diverse range of services, from mobile payments to credit cards, which made it an appealing option for investors and led to its inclusion in the prestigious DAX 30 index.[[2]](#footnote-2)

However, this success masked massive financial fraud, culminating in its insolvency in 2020. Wirecard’s rapid ascent and subsequent fall caused serious implications in the financial sector, exposing deficiencies in the regulatory structure and audit practices.

This report delves into analysis of factors that led to Wirecard’s insolvency and audit failures, Internal factors such as Wirecard’s weak internal controls, worsened by external factors like German regulatory oversight. Furthermore, the report lays down the ethical issues within the company, from fabricated statements to wrongful accounting practices. Then after, the omissions and ethics violated by EY[[3]](#footnote-3) are thoroughly scrutinized along with EY’s gross negligence in their audit work.

The conclusion of the report highlights the need of rigorous corporate governance structure and stricter review of auditor’s ethical conduct.

## 

## **Company Overview**

Wirecard AG, established in Munich back in 1999, initially functioned as a payment processor, supporting credit card payments for gambling websites and pornographic sites [(Chen, 2022).](https://www.springerprofessional.de/en/international-cases-of-corporate-governance/23501356)

According to [McCrum (2020)](mailto:https://www.ft.com/content/284fb1ad-ddc0-45df-a075-0709b36868db?subject=Timeline%20of%20Wirecard), the company nearly went bankrupt but merged with its then-rival Electronic Business Systems under newly appointed CEO [[4]](#footnote-4)and former KPMG consultant [Markus Braun](https://en.wikipedia.org/wiki/Markus_Braun).

As explained by [Eckler (2020)](https://www.practicalecommerce.com/the-wirecard-fiasco-digital-payments-gone-wrong), after acquiring German bank XCOM AG, Wirecard obtained licenses from Visa and Mastercard to issue debit and credit cards, allowing it to expand its operations across various sectors, making it a complex business structure (Appendix 1). However, such complexity made it easier for the management to make financial misstatements and deceive its stakeholders.

Wirecard’s initial links to gambling and pornographic websites should have raised concerns about the company's ethical standards for EY which unfortunately did not [(Kara, 2020).](https://mail.sevenpillarsinstitute.org/wirecard-another-fintech-fraud/#:~:text=The%20fraud%20came%20to%20light)

The CEO designates Jan Marsalek as COO[[5]](#footnote-5), who initiated aggressive global growth through unconventional third-party acquisitions, which ultimately disguised Wirecard’s long-term financial deception.

## **Event Overview**

Timeline (Appendix 2) as reported by [McCrum (2020)](mailto:https://www.ft.com/content/284fb1ad-ddc0-45df-a075-0709b36868db?subject=Timeline%20of%20Wirecard)

**2017:** FT[[6]](#footnote-6) journalist [Dan McCrum](https://x.com/FD) discovered a €250 million hole in the company’s accounts related to an Indian acquisition

**October 2018:** An inquiry commenced in response to whistleblower charges; however, it was subsequently terminated by the COO himself.

**October 2019:** FT published a series titled “House of Wirecard,” exposing the corporation's fraudulent activities over many years. Subsequently, KPMG has been contacted to conduct a special audit.

**April 28, 2020:** Further investigation revealed that the prior claims were only the initial indication of a far larger accounting crime. Yet, the CEO asserted that EY would approve the audit report for 2019 after the delay created by COVID-19 had been resolved.

**June 18, 2020**: A sum of €1.9 billion was discovered missing from the company's financial accounts. The corporation admits to falsely informing the auditor EY about money kept in Philippine banks BPI and BDO.

**June 25, 2020**: Wirecard files for insolvency, as EY refused to give out an unqualified audit opinion, as promised by the CEO to the stakeholders [(McCrum, 2020a).](https://www.ft.com/content/ac949729-6167-4b6c-ac3f-f0aa71aca193)

## **Reasons Behind the Issue**

The primary issues in Wirecard’s audit were the discrepancies in the company’s financial statements, which persisted for several years and went undetected by EY. The auditor was unable to gather sufficient audit evidence to authenticate the non-existent cash that the company allegedly claimed. These inconsistencies highlight deficiencies in audit procedures and the absence of professional skepticism.

### Internal Factors

The key concern was the **agency problem**, where the board failed to identify the fraud and safeguard the shareholders’ interests. It was further disclosed that Wirecard did not have an audit committee until 2019. Additionally, the chairman of the supervisory board also chaired the audit committee, which was a breach of the “Code[[7]](#footnote-7) ”. Thus, raising more allegations to the NOCLAR [[8]](#footnote-8) , including earlier allegations of violations of IAS 24 [[9]](#footnote-9) and overstatement of revenues [(Sancak & Loew, 2022)](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4313820). This demonstrated a deficiency in board supervision, which enabled the fraud to persist without being detected.

According to [Sancak and Loew (2022)](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4313820), an internal channel was established between the company and the auditor to convey material findings to the supervisory board. However, there were no concerns raised, as there is no evidence to support them. This demonstrates control risk as well as EY’s negligence in internal control testing, which prevented them from satisfying their professional responsibilities.

The governance structure of the company (Figure 3) shows that the main duty of the Supervisory Board was to guide to the management. Instead, they engaged in governance washing by highlighting success stories within the company rather than protecting stakeholders’ interests.

### External Factors

BaFin[[10]](#footnote-10), Germany’s financial market regulator, was responsible for overseeing Wirecard's corporate activities. Despite BaFin’s regulations, Wirecard persistently reported falsified financial statements over several years [(Jakubeit, 2021)](https://leap.luiss.it/wp-content/uploads/2022/09/WP5.21-The-Wirecard-scandal-and-the-role-of-Bafin.pdf). The authority failed to investigate such accusations against the corporation.

Wirecard saw quick growth and successfully gained a significant market share in the financial technology industry. Occasionally, the fast expansion of firms may prompt them to manipulate their financial statements to fulfil the constantly rising demands of stakeholders. This undoubtedly motivated Wirecard to embrace an aggressive expansion strategy to enhance its market value, regardless of any illegal practices involved [(Langenbucher et al., 2020).](https://www.econstor.eu/handle/10419/226215)

According to [Betz and Kim (2021),](10.4236/me.2021.129072) the financial institutions that lent money to Wirecard failed to perform proper due diligence and provided funds based on falsified financial statements from Wirecard and audit reports from EY. This led to a false sense of security. This calls on auditors to carefully adhere to professional ethics and maintain high-quality audit standards to defend shareholder interests.

### 

### 

### Ethical Issues

Wirecard engaged in unethical practices, such as intentional financial misstatements and accounting fraud, through the fabrication of fictitious accounts. Such intentional lapses violated the IFAC Code of Ethics for Professional Accountants.

The main event that started Wirecard’s collapse was the allegations made by the whistleblower [Pav Gill](https://www.linkedin.com/in/pavgill/?originalSubdomain=sg)[[11]](#footnote-11)about “round-tripping[[12]](#footnote-12)” in the company’s Singapore headquarters. As reported by [McCrum et al. (2021)](https://www.ft.com/content/1d74221e-1321-4f8c-9ca9-a4371629f178), Gill was approached by two Wirecard employees concerning to the above allegations. Despite uncovering alleged misconduct, the internal investigation was intentionally undermined and discontinued by the COO himself. Shortly after, Gill was forced out of the company.

## **Audit Failures and Misconduct**

### Actions and Omissions by Auditors

The auditors, EY, failed to uphold professional ethics and auditing standards. Specific audit failures included:

**Dismissal of Red Flags:**

As reported by [Storbeck (2021b)](https://www.ft.com/content/0288d7b1-1e52-4a3d-a9e1-6850afae0d26), EY dismissed the “red flags,” indicating accounting manipulations that arose in response to the whistleblower’s allegations.

**Reliance on Verbal Assurance:**

There was heavy reliance on verbal assurances or unverified documentation, especially for the amount of “€1.9 billion.” Despite this, EY provided an unqualified audit opinion [(Storbeck, 2021a).](https://www.ft.com/content/abd89375-3fa1-4457-abd6-b3e3231ba339)

**Failure to verify transactions with TPAs:**

EY failed to verify the transactions between Wirecard and its TPAs[[13]](#footnote-13), which substantially deviated from the contractual terms, as further reported by [Storbeck (2021a)](https://www.ft.com/content/abd89375-3fa1-4457-abd6-b3e3231ba339).

**Failure To Verify TPA’s existence:**

EY was unable to represent the existence of another TPA named PayEasy, which seemed to create significant incomes for the company, with sufficient audit evidence.

EY was criticised in [Storbeck et al. (2020),](https://www.ft.com/content/a9deb987-df70-4a72-bd41-47ed8942e83b) for failing to request crucial account information concerning the “€1.9 billion” held in earlier OCBC banks and then in the Philippine banks. Instead, the auditor accepted the account confirmations given by third parties.

**Reliance on fabricated Letters of Confirmation:**

As per [Storbeck and Ruehl (2023),](https://www.ft.com/content/db9fa3d7-11da-476e-beea-d5ed0ad137ed) EY not only trusted the “fabricated” letters of confirmation but also did not conduct further checks thereto, illustrating lapses in the auditor’s objectivity and professional skepticism.

**Repeated Violations of Professional Duties:**

[Apas](https://www.apasbafa.bund.de/APAS/DE/Die_APAS/die_apas_node.html) [[14]](#footnote-14) discovered severe and repeated violations of professional duties in EY’s audit work over many years in different areas, including the key audit matter of “€1.9 billion” cash that was supposedly held in escrow accounts [(Storbeck, 2021a).](https://www.ft.com/content/abd89375-3fa1-4457-abd6-b3e3231ba339)

### Ethical Violations by Auditors

The audit failures mentioned above also highlighted professional and regulatory violations by EY who failed to practice the professional skepticism and due diligence required by International Auditing Standards.

These violations promoted a parliamentary inquiry, which revealed that EY had not fully adhered to professional standards, and relied instead on spoken guarantees from executives on critical matters and also overlooked indicators of fraud (Wambach et al, 2021, as cited in [Teichmann et al., 2023](https://www.researchgate.net/publication/369061081_Wirecard_scandal_A_commentary_on_the_biggest_accounting_fraud_in_Germany's_post-war_history)).

Non-compliance with major auditing standards that are essential to ensure audit quality, according to [Ghosh (2021):](https://www.researchgate.net/publication/352778018_Wirecard_collapse_Ernst_Young_audit_failure_and_Investigative_Journalism_of_Dan_McCrum)

**ISA 220**: FT articles on doubtful acquisitions along with accusations against the corporation should have promoted EY to assign more seasoned staff to the audit. Rather, no action was taken increasing the inherent risk at business level, and suggesting that EY's engagement partner's professional skepticism was tainted.

**ISQM 2**: EY violated this standard as the engagement partner failed to use professional skepticism, which jeopardised the audit integrity by permitting financial misstatements.

**ISA 315**: EY breached for failing to identify and assess the audit risk associated with Wirecard’s complex operations and not conducting necessary audit procedures to assess inherent risk due to allegations and control risk because of weak internal controls.

A detailed overview of the of the specific ISAs violations and the effects is attached in

#### Appendix 4

## 

## **Conclusions**

The rapid rise and fall of Wirecard AG uncovered significant shortcomings in Wirecard’s internal controls, EY’s auditing procedures, and German regulatory oversight. Wirecard, initially a promising FinTech company revealed its sophisticated fraud at a global level. This report examined the internal & external factors that led to Wirecard’s insolvency.

Wirecard’s supervisory board and German regulatory authorities prioritized short-term financial gains over ethical practices and proved weak oversight over Wirecard’s management. The company’s internal controls lacked internal audit procedures and risk management.

The analysis of audit failures by EY shows their gross negligence and absence of professional skepticism and persistent violations of International Auditing Standards. EY failed to perform their professional duties as they dismissed the fraud allegations, red flags, and validated fictitious financial accounts.

Wirecard’s failure undermined investor confidence and threatened the stability of the German economy. Such scandal serves as a call for robust governance framework, stringent ethical conduct of auditors.

## **Recommendations**

## 

**Professional Skepticism**: EY should have applied a high level of professional skepticism throughout the years of engagement with Wirecard. EY failed to verify the unusual acquisitions and other financial transactions. Also, there was a of lack of audit evidence for the alleged “€1.9 billion” held in Philippine banks. EY should have substantiated the verbal assurances from the management by gathering sufficient and appropriate evidence.

**Verification of Financial Transactions in TPAs**: EY should have performed adequate audit procedures to testify about the transactions between Wirecard and its TPSs. EY should have agreed to the amount of “€1.9 billion” with confirmations directly from banks to ensure that the reported cash balances existed, addressing the risk of fictitious cash balances.

**Proper Response to Whistleblower Allegations**: EY should have seriously considered the allegations made by the whistleblower in the Singapore headquarters. EY should have reviewed the allegations with the company’s response thereto to identify the risk of material misstatements.

**Compliance with Auditing Standards**: EY was accused of non-compliance with International Auditing Standards, namely: **ISA 500** (audit evidence) to gather sufficient and appropriate evidence, **ISA 220** (quality control for an audit of financial statements) to secure engagement quality; and **ISA 315** (identifying and assessing the risk of material misstatements) for a rigorous assessment of audit risks.

**Communication with Corporate Governance**: EY should have ensured that the internal channel (pg.6) is used to communicate material findings to the Supervisory Board as per **ISA 260** and **ISA 265.**

The major accusation against EY was its **non-compliance with laws and regulations** (NOCLAR) and **non-adherence to the IFAC Code of Ethics**, which requires the auditor to perform audits with integrity, objectivity, and professional behaviour.

## **References**

DAX 40 (DAX 30) Index Today (GDAXI). (2024, February 22). Investing.com UK. https://uk.investing.com/indices/germany-30

Betz, F., & Kim, M. (2021). Economic Regulation and Corporate Governance: The Case of Wirecard. *Modern Economy*, *12*(09), 1386–1423. https://doi.org/10.4236/me.2021.129072

Boyd, R. (2018, January 23). *Wirecard AG: The Great Indian Shareholder Robbery*. The Foundation for Financial Journalism. https://ffj-online.org/2018/01/23/wirecard-ag-the-great-indian-shareholder-robbery/

Chen, J. J. (2022). Wirecard. *International Cases of Corporate Governance*, 67–82. https://doi.org/10.1007/978-981-19-3238-0\_5

Eckler, M. (2020, October 14). *The Wirecard Fiasco: Digital Payments Gone Wrong*. Practical Ecommerce. https://www.practicalecommerce.com/the-wirecard-fiasco-digital-payments-gone-wrong

Ghosh, T. (2021, June). *Wirecard collapse, Ernst & Young audit failure and Investigative Journalism of Dan McCrum*. ResearchGate. https://www.researchgate.net/publication/352778018\_Wirecard\_collapse\_Ernst\_Young\_audit\_failure\_and\_Investigative\_Journalism\_of\_Dan\_McCrum

International Auditing and Assurance Standards Board. (2022). *2022 Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements | IAASB*. Www.iaasb.org. https://www.iaasb.org/publications/2022-handbook-international-quality-management-auditing-review-other-assurance-and-related-services

Jakubeit, R. (2021). *The Wirecard scandal and the role of BaFin A case for unifying capital markets supervision in the European Union René Jakubeit*. https://leap.luiss.it/wp-content/uploads/2022/09/WP5.21-The-Wirecard-scandal-and-the-role-of-Bafin.pdf. Regulatory environment and oversight.

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

Kara. (2020, November 19). *Wirecard: Another Fintech Fraud*. Seven Pillars Institute. https://mail.sevenpillarsinstitute.org/wirecard-another-fintech-fraud/#:~:text=The%20fraud%20came%20to%20light

Langenbucher, K., Leuz, C., Krahnen, J. P., & Pelizzon, L. (2020). *What are the wider supervisory implications of the Wirecard case?* Www.econstor.eu. https://www.econstor.eu/handle/10419/226215

McCrum, D. (2020a, June 25). *Subscribe to read | Financial Times*. Www.ft.com. https://www.ft.com/content/ac949729-6167-4b6c-ac3f-f0aa71aca193

McCrum, D. (2020b, June 25). *Wirecard: The Timeline*. Www.ft.com. https://www.ft.com/content/284fb1ad-ddc0-45df-a075-0709b36868db

McCrum, D., Palma, S., & Storbeck, O. (2021, May 20). *Subscribe to read | Financial Times*. Www.ft.com. https://www.ft.com/content/1d74221e-1321-4f8c-9ca9-a4371629f178

Meagher, P. (2023, January 6). *The Wirecard Scandal: Uncovering Fraud and Financial Misconduct at a Leading Payment Processor*. Learnsignal. https://www.learnsignal.com/blog/wirecard-scandal-detailed-analysis/#:~:text=delisted%20its%20shares.-

Sancak, I. E., & Loew, E. (2022, December 28). *Revisiting Corporate Governance with Wirecard in the post-Enron Era*. Papers.ssrn.com. https://papers.ssrn.com/sol3/papers.cfm?abstract\_id=4313820

Stevenson-Yang, A., & Kroeber, S. (2015). *More Missing Acquisitions*. https://www.jcapitalresearch.com/uploads/2/0/0/3/20032477/2015\_12\_20\_wirecard\_update.pdf

Storbeck , O. (2024, April 19). *EY’s Wirecard audits marred by “repeated grave” violations of duties, says watchdog*. Www.ft.com. https://www.ft.com/content/0661fcc2-7eff-4a9f-8d21-1c449c0206c8

Storbeck, O. (2021a, April 17). *Subscribe to read | Financial Times*. Www.ft.com. https://www.ft.com/content/abd89375-3fa1-4457-abd6-b3e3231ba339

Storbeck, O. (2021b, May 6). EY fraud expert: “incomprehensible” that Wirecard “red flags” were ignored. *Financial Times*. https://www.ft.com/content/0288d7b1-1e52-4a3d-a9e1-6850afae0d26

Storbeck, O. (2021c, October 26). EY and Wirecard: anatomy of a flawed audit. *Financial Times*. https://www.ft.com/content/bcadbdcb-5cd7-487e-afdd-1e926831e9b7

Storbeck, O., Kinder, T., & Palma, S. (2020, June 26). *EY failed to check Wirecard bank statements for 3 years*. Www.ft.com. https://www.ft.com/content/a9deb987-df70-4a72-bd41-47ed8942e83b

Storbeck, O., & Ruehl, M. (2023, August 1). Wirecard’s auditor EY was too gullible, Singapore suspect claims. *Financial Times*. https://www.ft.com/content/db9fa3d7-11da-476e-beea-d5ed0ad137ed

## **Appendices**

#### Appendix 1

Wirecard’s business structure

#### Appendix 2

Timeline of Events [McCrum (2020)](mailto:https://www.ft.com/content/284fb1ad-ddc0-45df-a075-0709b36868db?subject=Timeline%20of%20Wirecard):

|  |  |
| --- | --- |
| Oct 2015 | Wirecard's largest acquisition of Hermes I Tickets Private Ltd for 340m. |
| 2017 | Wirecard's auditor EY gave an unqualified audit opinion and renewed the investor's spirits for their shares in the company. |
| Mar 2018 | Internal whistleblower alleged that 285m did not go to the seller. Singapore legal team investigates |
| Oct 2018 | As the investigation is discontinued, whistleblower approached Financial Times about the same. |
| Oct 2019 | FT reports that profits from Dubai and Dublin customers that EY allegedly received documents of, DID NOT EXIST| This called KPMG for a special audit |
| Apr 28 2020 | The documents from Philippines that listed 1.9bn allegedly held in two banks in the country, cannot be verified. Yet the CEO claims the EY will sign off the audit report of 2019 after the delay caused due to COVID-19 |
| June 5, 2020 | BaFin, Germany's financial watchdog submits a criminal complaint on the potential financial misstatements ahead of KPMG's special audit report |
| June 18, 2020 | The Philippine banks BPI and BDO, where the 1.9bn were held were totally falsely informed to EY. The company announces that indeed the 1.9bn is 'Missing'. |
| June 22, 2020 | Wirecard actually owns up to the multiyear accounting fraud by the misleading financial discrepancies |
| June 23, 2020 | June 23, 2020: Former CEO Markus Braun as a suspect to financial crimes |
| June 25, 2020 | Wirecard files for insolvency. |

#### Appendix 3

Wirecard’s governance/board structure.

## 

#### Appendix 4

Auditing standards published [International Auditing and Assurance Standards Board (2022)](https://www.iaasb.org/publications/2022-handbook-international-quality-management-auditing-review-other-assurance-and-related-services) violated by EY:

|  |  |  |
| --- | --- | --- |
| **Standard** | **Violation** | **Effect** |
| **ISQM 2:**  Engagement Quality Reviews | EY showed lack of professional skepticism, jeopardising the integrating of the audit. | The audit quality was compromised as a result. |
| **ISA 200:**  Overall objective of independent auditor and the conduct of an audit in accordance with ISAs | EY failed to satisfy the overall objectives of an independent auditor | EY compromised the audit quality and failed to identify the risks and material misstatements in the financial accounts. |
| **ISA 220:**  Quality Management for an audit of financial statements | absence of experienced staff in EY’s engagement team to investigate the allegations against the company. | This increased inherent risk at business level i.e. history of the company and business environment |
| **ISA 240:**  The auditor’s responsibilities relating to fraud in an audit of Financial Statements | EY was unable to identify fraud risk in company’s financial statements. | EY’s oversight in detection of fraud led to the company’s collapse and caused financial loss to the relied stakeholders |
| **ISA 260:**  Communication with those charged with Governance  **ISA 265:**  Communicating deficiencies in internal control to those charged with governance and management. | EY failed to communicate the deficiencies, especially in the internal channel set up between the auditor and the supervisory board about the significant audit findings | The supervisory board did not act in the shareholders’ interests and were not able to take the necessary steps to detect and prevent the financial fraud. |
| **ISA 315:**  Identifying and assessing the risks of material misstatements | EY was unable to assess the control and inherent risks that came because of the company’s complex business model | EY did not apply adequate audit procedures to detect such risks that permitted the financial fraud to persist over years |
| **ISA 500:**  Audit Evidence  **ISA 580:**  Written Representations | EY relied heavily on verbal assurances of executives and fabricated documents | EY failed to gather adequate and appropriate evidence to give out accurate audit opinion. |
| **ISA 570:**  Going Concern | EY failed to assess the company’s viability as a going concern | EY’s failure to detect material misstatements deceived stakeholders about the company’s financial health |

1. AG: Aktiengesellschaft translates to stock corporation. [↑](#footnote-ref-1)
2. DAX 40 (formerly DAX 30) is a German stock market consisting of 40 major German blue-chip companies trading on the Frankfurt Stock Exchange( *DAX 40 (DAX 30) Index Today (GDAXI)*, 2024). [↑](#footnote-ref-2)
3. Ernst & Young [↑](#footnote-ref-3)
4. Chief Executive Officer [↑](#footnote-ref-4)
5. Chief Operations Officer [↑](#footnote-ref-5)
6. Financial Times [↑](#footnote-ref-6)
7. The Deutscher Corporate Governance Kodex (German Corporate Governance Code) [↑](#footnote-ref-7)
8. Non-Compliance with Law and Regulations [↑](#footnote-ref-8)
9. Requires an entity to disclose its transactions with related parties, regardless of the nature of the transaction. [↑](#footnote-ref-9)
10. Bundesanstalt für Finanzdienstleistungsaufsicht: Federal Institute for Financial Services Supervision

    Top of Form

    Bottom of Form [↑](#footnote-ref-10)
11. Wirecard’s first in-house lawyer who was responsible for the Asia-Pacific region, reporting directly to Munich headquarters. [↑](#footnote-ref-11)
12. Inflation of revenues through fictitious transactions [↑](#footnote-ref-12)
13. Third-party acquisitions [↑](#footnote-ref-13)
14. German audit oversight body for maintaining the quality and professional standards of statutory audits [↑](#footnote-ref-14)