

Brilliant Consultants

About Wirecard's financial auditors and the chess game

#EY #Ernst&Young #Wirecard #BaFin #Audit #Munich #Bundestag

According to a legend from India, there was once a king in whose lifetime the chess game was invented. The king was so enthusiastic about it that he invited the inventor to his castle to grant him a wish. The inventor was a clever man and thought for a while, until he pointed to the chessboard in front of the king. He suggested he would like to have grains of rice, one on the first field, twice as much on the second, on the third double the amount of rice of the previous one, each square doubling the one before, until the 64th field of the chess board was reached.

The king was impressed by the man's modesty and granted his wish without considering that the cosmic sum of 18 quintillion, 446 quadrillion, 744 trillion, 73 billion, 709 million, 551 thousand and 615 grains of rice had accumulated on the 64th board square - the equivalent of 376 million and 80 thousand trains each with 30 railroad cars full of 30 tons of rice each. Or roughly 433 times the world rice production in 2018. That's how the king lost his entire kingdom to the man.

In a not so unsimilar way, the one or other financial auditor of the top consulting firm Ernst & Young (EY) seemed to have set out to propose financial advise to the German king company Wirecard, which in September of the same year 2018 replaced Commerzbank on Germany's DAX king stock exchange. For companies listed on Germany's largest stock exchange, there is the great responsibility for the correct preparation of financial data, which have to be presented to investors and to the public in great detail every three months, and at the end of each year. While one rarely hears about the meticulous accounting work assembled at most companies, things were entirely different with Wirecard, this actually long before 2018.



2005

One would have to start around the year 2005, when Wirecard completely absorbed the Berlin-based company InfoGenie AG, finally finding itself as a stock corporation listed on Germany's TecDax. Professional help with the many financial reports was initially sought from Munich-based auditing firm Control5H GmbH, whose auditors Roland Weigl and Ulrich Burkhardt signed the balance sheets for Wirecard already from the start.

In 2005, **Wirecard was apparently one of the first** to invent the so-called virtual credit cards, available only in electronic form and used for payments on the Internet. Many corporate customers were attracted and became Wirecard clients in the coming years. The same year, **Wirecard announced to take over Berlin-based XCOM Bank AG** for 18 million euros, a bank that had obtained a license from Visa and Mastercard to issue credit cards.



2006

Wirecard's [2006 annual report](#) states on page 44 that a little more than 5 million euros was spent as acquisition costs for XCOM Bank AG. Additionally, another 18 million euros was spent for a (or their) somewhat obscure “customer portfolio consisting of a customer base of various types of European Internet service providers, 11 million euros in cash plus 1.3 million Wirecard shares”, and also a somehow “variable component of up to 17 million euros paid in the form of a debtor warrant”.

Shareholders did not seem to have complained much, except perhaps Fidelity International Limited in the Bermuda Islands, whose Wirecard voting rights fell to 2.88 per euro cent according to the 2006 report. As usual, Control5H's auditors Weigl and Burkhardt signed off without raising any issue for the 2006 financial year. All fine.



2007

The following [2007 annual report](#) shows that Wirecard had its first and important growth spike in that business year. The share value almost doubled, so much that then supervisory chairman Klaus Rehnig sold around 10% of his Wirecard shares in mid-December 2007, making him a double millionaire at least. It is unknown whether wife Tanja also sold parts of her Wirecard shares at that time. She held with 2.95% a slightly higher stake in Wirecard than her chairman husband (2007 annual report, page 16).



2008

Only a few months later, the first serious complaints about the financial audits by Control5H GmbH, who renamed themselves to RP Richter GmbH in that time, surfaced. The [2008 Wirecard annual report](#) states the following:

The investor protection association Schutzgemeinschaft der Kapitalanleger e.V. (SdK) has raised an action to challenge the resolutions adopted at the Annual General Meeting concerning a discharge of the Management and Supervisory Board as well as a petition for a court order to have the annual financial statements of the Company for fiscal 2007 declared null and void....This action is still pending in the first [court] instance without a final judgement yet.

([Wirecard 2008 Annual Report](#), page 81 & 114)

Further details in the 2008 annual report on page 20 show that at the end of Wirecard's general meeting on June 24, 2008, the Protection Association of Investors (SdK) publicly complained about the financial statements, most likely relating to [the comments by blogger 'memyselfandi007'](#) on the WallStreet-Online internet forum. These complaints urged Wirecard's supervisory board to initiate a special audit for 2007 by Ernst & Young (EY), who from then on were situated next to RP Richter GmbH's auditors. In particular, the circumstances of Wirecard's TrustPay International AG takeover in 2007 had to be reconsidered, as the supervisory board itself states in the 2008 annual report on page 14.

In August 2008, these issues were discussed at another supervisory board meeting. In October 2008, EY auditors were asked to provide an explanation of SdK's complaints. Astonishingly however, EY's findings had no influence on the previously prepared financial data for 2007:

Prior to its meeting in October 2008, the Chairman of the Supervisory Board and the Board of Management requested the auditors from Ernst & Young to provide an explanation of the findings of their audit. In the process, individual items were discussed but which had no material impact on the meaningful nature and correctness of the consolidated financial statements and the consolidated management report for 2007. On the whole, there were no indications of any misleading statements in the consolidated financial statements and consolidated management report for 2007.

([Wirecard 2008 Annual Report](#), page 14)

There were side effects, however: Klaus Rehnig, until then chairman of the supervisory board and millionaire at least since the end of 2007, steps down from his position at the general meeting on June 24, 2008. He is succeeded by Wulff Matthias. The many global funds and companies that invested into Wirecard and were listed on page 73 of [Wirecard's 2008 annual report](#) did not seem to bother much.

Now that Wirecard could operate with their own Wire Card Bank, business was in full swing, especially in online gambling. So much so that credit card company [Mastercard imposed a fine](#) over 11 million British pounds on Wirecard in 2008 for labelling many financial transactions with incorrect transaction codes, according to Mastercard.

2009

Visa also filed a complaint with Wirecard about their shady retailers only one year later at the end of 2009. When these for Wirecard highly profitable retailers only changed their business names, but not their transaction volumes processed via Wirecard, the US imposed a [fine of 12 million US dollars](#) via a related lawsuit.

The two anglo-american top payment providers Visa and Mastercard had probably become aware of the shooting star from Germany meanwhile, and wanted to clear the fronts in the global payment market early on with these fines. Wirecard would not visibly mention these fines in any of their final reports.

Quite possible that during this time an exorbitant rejection of all anglo-american had established itself in Wirecard's top management level. This rejection may have been one of the reasons why not only literally

all of Germany's financial supervision authorities were affected, but even the criminal prosecutors in Munich, who from then on - and especially about a decade later - preferred to rather go after investigative journalists and fraud detectors, than investigating Wirecard.

It is worth mentioning that co-founder and ex-porn operator Paul Bauer-Schlichtegroll leaves the supervisory board on October 31, 2009 ([Wirecard 2009 Annual Report](#), page 66). As of December 10, 2009, his successor is Stefan Klestil, son of former Austrian President Thomas Klestil, who passed away in 2004. In 2009, son Stefan would not only become a member of Wirecard's supervisory board, but his widowed stepmother Margot Klestil-Loeffler is also [appointed to the position as ambassador to Moscow, Russia](#), where she would represent Austrian interests until 2014, the year of the Winter Olympic Games in Sochi. The many gigantic construction projects in Sochi in that timeframe were realised also with the help of Austrian construction giant Hochtief, where Russian entrepreneur and oligarch [Oleg Deripaska increased his shareholder stake significantly early on](#).

2010

Jan Marsalek is appointed to Wirecard's top management team on February 1, 2010, succeeding Rüdiger Trautmann as COO. At its meeting in April 2010, the supervisory board dealt with the "accusations made against the Wirecard Group, published inter alia on the GoMoPa website" with regard to the money laundering case involving Michael Schütt in Florida and Wirecard UK. "Appropriate countermeasures" were initiated, according to board chairman Wulff Matthias ([Wirecard 2010 Annual Report](#), page 17). In detail, this meant that GoMoPa first corrected the whistleblower statements on their website, only to retract them later entirely; further that the public prosecutors in Munich investigated GoMoPa instead of seriously going after Wirecard's involvement in the money laundering case.

The auditors from EY along with those from RP Richter GmbH jointly undersign the annual report for 2010. Interestingly, that annoying problem with the 2007 financial statements and Wirecard's Trustpay AG takeover still had to be mentioned, also in the year before by the way:

As stated in the group management report, an action for annulment of the annual financial statements for fiscal year 2007 of the parent company Wirecard AG as well as an action contesting two shareholder meeting resolutions passed in 2008 relating to the exoneration of the management board and the supervisory board of Wirecard AG were lodged. To this effect, the Munich I Regional Court engaged an appraiser in 2009. The proceedings are still pending.

([Wirecard 2009 Annual Report](#), page 209; [2010 Annual Report](#), page 225)

2011

Things would be entirely different from 2011 on. Even though Wirecard's annual report mentions that EY was paid 433,000 euros for their financial audit for that business year ([Wirecard 2011 Annual Report](#), page 232), all of a sudden the auditors from RP Richter GmbH would not appear any longer in the final report, also not in the years to come. While the financial auditors themselves had undersigned Wirecard's annual balance and financial sheets in the years before, they would from now on only be approved and personally undersigned by CEO Dr. Markus Braun, CFO Burkhard Ley and COO Jan Marsalek.

Wirecard's 2011 annual report also states that the Protection Association of Investors (SdK) lawsuit against Wirecard had ended, and that changes for the 2007 financial statements and reports were not necessary:

The suit filed by the Schutzgemeinschaft der Kapitalanleger e.V. (SdK) concerning, among other issues, the annual financial statements (single-entity financial statements) of the company for fiscal year 2007, has been legally ended. The ruling neither results in changes to the financial statements (consolidated or single-entity financial statements), nor does it impact the Company's financial position and results of operations.

([Wirecard 2011 Annual Report](#), page 155)

The 2007 financial reports were never corrected. On the contrary, Munich's public prosecutors [would indict SdK employees and short sellers](#) for their more than justified complaints also against Wirecard's 2007 financial reports, convict a few and even had some imprisoned in Munich's Stadelheim facility for 18 months.

2012 - 2015

For the work on the 2012 financial audits, EY received around 150,000 euros more than for the audit of the previous business year ([Wirecard 2012 Annual Report](#), page 213). The jump in salary was worth the effort, it seems. In the following years, Wirecard grew rapidly, particularly through their Asia businesses.

[Wirecard's 2013 annual report](#) mentions only two legal proceedings against the company on page 124. A year later, the [2014 annual report](#) states on page 134 that all pending proceedings are processed either by Munich's Regional Court I or Munich's Higher Regional Court. The lawsuits against Wirecard usually drag on for years, until after an opposing party's complaint, appeal or revision the proceedings usually end with an agreement of both sides, or to the benefit of Wirecard in these years.

[Wirecard's 2015 annual report](#) states that at least six legal proceedings are pending against the company, plus an unspecified number of smaller proceedings. Loosing any of these cases would be "extremely unlikely", according to Wirecard (2015 Annual Report, page 146).

2016

In 2016, [Matthew Earl's famous Zatarra-Report](#) was initially published on a social media account and shortly after referred to by various journalists and short seller Fraser Perring. The report shed lights on the financial scandals surrounding Wirecard takeovers in Asia. Wirecard files a criminal complaint against this report, a criminal [investigation of the British short sellers](#) was opened by Munich's public prosecutors.

EY's auditors are getting particularly creative in 2016. Wirecard's business in Asia was done via partners there who needed securities for their business activities. Apparently, EY auditors themselves [recommended to Wirecard's top management in a 2016 proposal](#) the use of trust accounts, where the alleged third party business partners' profits would be safeguarded.

In mid-June 2016, Wirecard decided to expand the Supervisory Board and appoints Tina Kleingarn and Vuyiswa M'Cwabeni as new members ([2016 Annual Report](#), page 15). The report also mentions that in 2015 at least three lawsuits were opened against Wirecard and in 2016 at least two. These are each described without exception as, quote: "Wirecard AG believes that losing this case is unlikely" (2016 Annual Report, page 151 & 152).

Most likely, these lawsuits were the result of complaints about Wirecard's Asia businesses. For the 2016 financial reports, EY's auditors accepted counterfeited documents of Wirecard's obscure trustee by the name 'Citadelle Corporate Services', according to which 86 million euros would allegedly lay in trust accounts at a Singapore bank. The [counterfeited receipts were submitted as PDF documents with forged stamp](#) and signature. EY signed off.

2017

In June 2017, Wirecard's supervisory board "intensively discussed the possible candidates for the position of CFO" Burkhard Ley, who apparently announced his resignation rather surprisingly ([Wirecard 2017 Annual Report](#), page 13). For the year 2017, Wirecard names five legal proceedings against itself, as usual believes that "loosing the case is unlikely", also points out that "the risks of an immaterial impact on assets, financial position and results of operations arising from the current litigation cases cannot be completely excluded" (2017 annual report, page 167 & 168).

2018

Munich's state attorneys [issued a fine against the Zatarra report publishers](#) in 2018, following roughly two years of investigations and prosecutions. Wirecard's former [Asia Managing Director Pav Gill](#) meanwhile had contacted Financial Times journalist Dan McCrum as a whistleblower who [published a](#)

number of reports from early 2019 on, at the beginning focusing on Wirecard's dubious Asia businesses.

Wirecard was informed at an early stage about the whistleblower disclosures regarding their Asia business. Lawyers at Singapore's firm Rajah & Tann were commissioned in early 2018 to review reported services at Wirecard Asia-Pacific, which were invoiced heavily but apparently had never taken place. The law firm interviewed several individuals and prepared a report dated May 4, 2018, which mentions extraordinary falsification of receipts by Wirecard employees, and criminal activity there:

On the face of the evidence uncovered so far, these acts appear to bear out at the very least serious offences of forgery and/or of falsification of accounts/documents under section 477A of Singapore's Penal Code. As these acts were intentional, there are reasons to suspect that they may have been carried out to conceal other misdeeds, such as cheating, criminal breach of trust, corruption and/or money laundering. As such, we strongly recommend a full-scale investigation to be conducted, given the high quantum of sums involved in the transfer of monies.

(Rajah & Tann report dated May 4, 2018, page 3)

Noteworthy is that Susanne Steidl was appointed to Wirecard's management board with effect from January 1, 2018. Tina Kleingarn resigned from the supervisory board by the end of 2017 "for personal reasons", she is replaced by two new supervisory board members Dr. Anastassia Lauterbach and Susana Quintana-Plaza (Annual Report for 2018, page 20).

2019

On February 3, 2019, Rajah & Tann sends an email to Wirecard regarding the Aschheim AG's "May 18, 2018 engagement to conduct an internal compliance inquiry". On February 8, 2019, police raided the Singapore offices of Wirecard Asia-Pacific. Ten days later, Germany's financial supervisory authority BaFin declared a short sale ban on Wirecard's falling shares for 8 weeks to save what apparently could no longer be saved.

It was not until the end of March 2019, more than ten months after the Rajah & Tann report was assembled and precisely during the short sale ban on Wirecard shares imposed by Germany's banking regulatory authority BaFin, that the company in Aschheim unveiled a Wirecard-friendly one-page summary of the incriminating Rajah & Tann report from May 2018.

Only after German Chancellor Angela Merkel's September 2019 visit to China, where she recommended Wirecard AG due to the extensive lobbying efforts of Germany's former Defense Minister Karl-Theodor zu Guttenberg, KPMG is finally appointed at the end of 2019 to prepare a special audit for the fiscal year 2019, commissioned when the Financial Times and other journalists continued to report.

For the 2019 financial reports, EY's auditors had already taken into consideration Wirecard's written confirmations of 1.1 billion euros in trust accounts in Asia without much hesitation. On these documents, both account numbers as well as bank information were missing. EY's auditors at Wirecard's

Munich headquarters were apparently also not worried much about the German date notation on these foreign documents.

2020 - 2021

EY would refuse to sign the 2019 financial audit only in the year 2020. On June 18, 2020, Wirecard announced that 1.9 billion euros on trust accounts in the Philippines were simply missing.

After Wirecard filed for insolvency, among others a lawyer from Stuttgart collected the lawsuits of many deceived Wirecard shareholders and focused his legal efforts on EY's auditors. When the consumer and investor protection lawyer goes on a weekend bike ride in the spring of 2021, he suddenly has an accident **and apparently dies of a head injury still at the scene.**

In 2021, an EY management and consulting partner who calls himself a "forensic" is **invited as a witness to the Wirecard investigational committee in Berlin.** The management consultant and psychologist stated there among other that "Jan Marsalek was a super eloquent jackass of all trades" who acted "partly brilliantly".

A little later, EY tried to prevent the publication of the **final report of the Wirecard committee** in Berlin by the filing of a lawsuit. An EY auditor **wanted to have the references to his name erased** in the report, and hence tried to hold back the entire 2000-page Bundestag committee report publication. EY's lawsuits were not only rejected by Berlin courts, but also by Germany's Federal Court of Justice (BGH) here.

The **report of a special investigator** however, commissioned by the Wirecard investigational committee solely to shed lights on EY's role in the Wirecard scandal, was **successfully withheld from a publication by EY's efforts** for a longer time. The case was decided in favor of EY by Germany's Federal Supreme Court in mid-2021. Not because the auditors' concerns were particularly relevant, but because even though the investigative committee filed its case on June 24, 2021, the Federal Supreme Court did not issue its ruling until August 6, 2021, some time after the official and legal end of the Bundestag's Wirecard Committee.

The courts in Stuttgart meanwhile, EY's headquartered home in Germany, **refuse to deal with the many angry investor lawsuits** there and referred all compensation proceedings **to the courts in Munich.**

Will the humble wish for a grain of rice, doubled on every square of the chessboard, be granted there at last ?