

Corporate fraud—Wirecard as a case study

Fraud is a risk to any organization, and its damage can reach beyond those involved to impair trust in capital markets more broadly. Recent high-profile frauds in Europe have led governance stakeholders to ask what more can be done to strengthen corporate defenses. Fraud remains a persistent concern for audit committees despite vigorous efforts to improve detection and prevention. Many seek to strengthen their fraud risk oversight.

Members used Wirecard, the now defunct German fintech company, as a case study on corporate fraud. They were joined by Dr. Katja Langenbacher, professor of law, Goethe University, and member of the supervisory board of BaFin, the German financial regulator; Marie-Laure Delarue, global vice chair of assurance, EY; and Jean-Yves Jégourel, EY's country managing partner, Germany.

This *ViewPoints* summarizes three themes that emerged during the discussion and in premeeting conversations:¹

- **Key takeaways from the Wirecard case**
- **EY's changes in external audit practices after Wirecard**
- **Good practices for audit committee oversight of fraud risk**

For guest biographies, see Appendix 1 (page 7); for a list of meeting participants, see Appendix 2 (page 9); and for a list of reflection questions, see Appendix 3 (page 10).

The Wirecard fraud

Wirecard collapsed in 2020 after the discovery of major corruption and fraud. The former CEO and other former high-ranking executives have been charged in criminal proceedings; the former COO is wanted and remains at large. The following abstract from the Harvard Business School provides a summary of the case:²

Wirecard was a German fintech company, member of the DAX30, that provided payment processing and related services. Wirecard had enjoyed large growth rates over the years and most investors and analysts were enthusiastic about the company's prospects. Wirecard's business model was not easy to understand for outsiders, and the company's financials often lacked the necessary details to fully comprehend the company's dealings. Throughout the years, Wirecard had been subject to allegations of fraud, including money-laundering allegations and accounting-fraud allegations, among others. However, up until spring 2020, Wirecard was able to reject these claims. In June

2020, investors and the public learned the truth about Germany's digital darling: a major part of Wirecard's business was fraudulent, and a sum of €1.9 billion, supposedly held in trust accounts in the Philippines, is non-existent.

Key takeaways from the Wirecard case

Members were eager to understand learnings from Wirecard, especially about the factors that helped create an environment conducive to fraud. There were a variety of those across multiple lines of defense, resulting in failure to detect the fraud for several years, according to Dr. Langenbacher. She highlighted facts that audit chairs should consider when thinking about fraud risk:

- **Collusive fraud involving top levels of management is difficult to uncover.** Major fraud incidents involving collusion among executives, as occurred in Wirecard, are very challenging to prevent and detect. One member noted how *"cleverly done"* the Wirecard fraud was and said, *"If a major fraud is very complex, it would be very tricky for internal auditors, external auditors, the audit committee, or board to spot it without inside intelligence."* Another member added, *"The level of sophistication of the fraud and the ability of key individuals to deceive can be incredible."* Collusive frauds of this type, which can elude even the best oversight and internal controls, remain a significant concern for many audit chairs.
- **Traditional lines of defense can be weakened by cognitive biases.** None of the traditional defenses—boards, management, auditors, or regulators—uncovered the issues at Wirecard. Dr. Langenbacher pointed out that this is not unique: *"There has been quite a bit of research on identifying which actors bring corporate scandals to light. The fact that it was not the typical monitoring agents which we would expect to uncover the fraud, but rather the press, short sellers, and whistleblowers who played a big role, is not unique."* Dr. Langenbacher highlighted cognitive biases such as groupthink or confirmation bias as an issue: *"The German securities market culture believed that Wirecard was the star of its fintech scene. This can lead to cognitive biases such as group think and confirmation bias. These influence how people process information, and you end up with incompletely processed information in groups like the board, compliance, legal, auditors, and regulators."* She advised audit committee chairs to remain vigilant for biases and to use professional skepticism to help detect fraud.
- **Evidence from external sources—such as short sellers and social media—can be key.** The groups who successfully raised red flags about Wirecard were journalists from the *Financial Times*, short sellers, and whistleblowers. Dr. Langenbacher said that external sources, such as journalists and short sellers, typically have more incentives when bringing information forward. Short sellers, for instance, *"will make money if the negative news they believe should be known by other market participants is true,"* she said. She noted that since Wirecard, BaFin has begun monitoring social media and short-seller reporting. An audit

committee chair commented, *“The capital markets also failed because even though they had this information, the stock kept going up and banks still lent to them.”*

- **Whistleblower systems in Europe could be strengthened.** Dr. Langenbacher highlighted shortcomings of whistleblower systems in Europe, noting that it is not uncommon for insiders to *“look the other way”* when bad behavior occurs due to the perceived or real costs associated with whistleblowing. Internal whistleblowers may fear job loss or other reprisal. National culture can also play a role. In Germany, for example, reporting peers tends to be viewed negatively. Dr. Langenbacher argued that whistleblower systems in the European Union (EU) need to better protect those who speak up. This concerns anonymous reporting, but also financial incentives for informants, a practice sometimes used in the United States. She believes the EU Whistleblower Directive will be an important first step once transposed but she highlighted missing elements, including financial incentives.

EY’s changes in external audit practices after Wirecard

Globally, EY responded to Wirecard by implementing improvements and innovations to its risk and audit procedures. In Germany, these included a *“Trust in Quality”* initiative that has given teams more time to focus on audit quality and enhanced overall quality management.

Ms. Delarue and Mr. Jégourel described certain specific changes, including increased training and new tools focused on fraud risk:

- Enhancing mandatory fraud training for all audit professionals. This includes an increased emphasis on behavioral interviewing skills, review of case studies, and mentorship of junior auditors by experienced auditors.
- Requiring the use of data analytics for fraud testing in audits of all listed companies to enhance fraud detection and further develop professional skepticism.
- Establishing a new center to monitor and analyze external information sources—such as whistleblower complaints, short-seller reports, social media, and other data—and sharing results with audit, risk management, and forensic teams.
- Expanding the use of electronic cash and bank confirmations for audit evidence.
- Developing Fraud Risk Radar, a proprietary tool that provides a framework for use with audit committees and those charged with governance. It is currently being piloted by several large global corporations.
- Sharpening criteria for accepting and continuing with audit clients, with deeper risk assessments and use of data analysis. This has been a primary focus in Germany, Mr. Jégourel said, where the firm underwent a full review of its client portfolio.

Good practices for audit committee oversight of fraud risk

Fraud is an ongoing challenge, and audit chairs remain unsure about their ability to effectively oversee this risk. One member said prior to the meeting, *“Fraud is an unknown unknown. You*

keep attacking it, but the nonobvious fraud is the most difficult.” Another said, “I haven’t landed at a position where I feel comfortable about it yet.”

Members described a variety of approaches to fraud risk oversight. Some members discuss fraud as a specific topic at every audit committee meeting, while others discuss it annually. Still others say that fraud is not explicitly on the audit committee agenda but is covered as part of risk conversations. All members welcomed ideas on how to strengthen oversight and underscored how difficult fraud prevention and detection can be.

Members and guests discussed good practices for overseeing fraud risk:

- **Ensure that effective whistleblower systems with appropriate oversight are in place.** All members agreed that whistleblower systems are essential for fraud prevention and detection. But implementing an effective speak-up culture can be challenging, especially for global companies whose whistleblower systems must encompass many geographies and cultures. Members emphasized that building trust in the system and ensuring proper oversight are critical. *“The governance structure of the whistleblower reporting and follow-up is key,”* one member stated. Another agreed and described how her company changed the chair of the whistleblowing committee: *“It is now a retired magistrate, which brought rigor and trust to the process.”*
- **Follow up, communicate outcomes, and benchmark.** Members emphasized the need to report back to the whistleblower and to communicate outcomes to the organization, as appropriate. Ms. Delarue also advised members to review benchmarks as part of assessing their whistleblower systems: *“Information is available that allows companies to quickly assess if their process and governance around whistleblowing is appropriate. For example, indicators may include the number of cases by country and the number of cases with merit.”*
- **Monitor corporate culture and tone at the top for fraud risk.** Corporate culture and management’s tone at the top can be indicators of fraud risk. More importantly, tone at the top directly impacts whether employees feel comfortable reporting issues to management and the board. Members recounted examples of executive behavior or personality that in hindsight could be seen as early signals of fraud risk. But getting an accurate read on culture and tone at the top can be difficult for boards. *“How can we come closer to understanding the culture part, which is a huge risk?”* one member asked. Members described internal audit as a crucial resource, with one saying, *“I rely a lot on internal audit to get a grasp of culture issues. I have private meetings with the head of internal audit. If you develop a trustworthy relationship, you get a lot of value and insight.”* Culture audits are another tool some members utilize, but one cautioned that an internal audit team may not be capable of unbiased assessment if it is part of the culture it is tasked with auditing. Dr. Langenbacher suggested asking targeted questions: *“A fraudster will know and expect the traditional kinds of questions, so you need a list of soft questions that go toward understanding the culture.”*
- **Build agility into internal audit teams.** Members underscored how essential internal audit is for fraud prevention and detection. One good practice a member recommended is to keep excess capacity within the internal audit team: *“Internal audit is the single biggest tool we*

have when something is off. We changed our approach this year and have built 10% of our audit capacity as spare so we can do targeted work where needed. It has been very useful during the COVID crisis.”

- **Balance skepticism with collaboration.** It can be particularly challenging for audit committees to maintain a balance between professional skepticism and a collaborative relationship with management. It can also be hard to “*stay out of the weeds*” at board level. A member said, “*These are high-level, sophisticated cover-ups. You try to connect the dots across whistleblowers, internal audit, and external audit, but in the end, this is a judgment of key people. You don’t want to be skeptical the whole time because we need to partner and work with management, but once a year, we may need to step back and create time for the skepticism piece.*”
- **Expand relationships within the external audit team.** Some audit chairs pointed out that they typically have regular interactions only with the lead audit partner and felt that speaking with more members of the external audit team could be beneficial. One observed, “*I might start asking to meet with a wider group of the audit team to encourage speak-up culture.*” Another described a practice that worked well: “*Once a year, we had all worldwide partners involved in the audit get together for lunch, which was very useful and allowed me to engage with local partners.*” Another member agreed that having a relationship with the local office partner has proven to be valuable.
- **Heighten fraud risk awareness in remote work environments.** Members and guests discussed how the COVID pandemic and a shift to remote work have created new fraud risks and new oversight challenges. One member worried that the lack of “*corridor conversations*”—informal chats with management—lessened opportunities for audit chairs to get a sense of the atmosphere and what is going on at the company. Others worried about external audit teams working entirely virtually and without “*face-to-face conversations.*” One said, “*Audit teams need to visit appropriate countries, otherwise it’s an exercise in the dark.*” Dr. Langenbacher agreed: “*A lot of this boils down to a gut feeling. And often what makes both a good board member or a good*

Do continuous audits help protect against fraud?

In continuous audits, auditors perform audit-related activities and are present within a company year-round. Members wondered whether such audits improve fraud prevention and detection. Mr. Jégourel discussed several benefits, such as the fact that continuous audits permit external auditors to gain a deeper understanding of the business model and associated risks. They also provide more time to analyze data and “*find and resolve issues before year-end,*” he said. Members had mixed views. “*I don’t disagree, but there are concerns as well. The presence of external auditors year-round can lead to confirmation bias,*” said one. Another said, “*I don’t think continuous audits are really the solution. I’ve been through that. In fact, we had continuous audit at one company when a major fraud occurred. Skepticism is the number one tool and cannot be replaced by anything else.*”

auditor is this instinct. But having that gut feeling remotely is almost impossible. It's difficult to read body language and other nonverbal cues through a screen." But she highlighted benefits of remote work as well: "Depending on how the remote work environment is structured, artificial intelligence and other tools may be able to pick up more useful data than if you're working in an office."

About this document

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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Appendix 1: Guest biographies

Dr. Katja Langenbucher, professor, Goethe University

Dr. Langenbucher is a law professor at Goethe University's House of Finance in Frankfurt, affiliated professor at Sciences Po, Paris, and visiting faculty at Fordham Law School, New York City. She has held visiting positions at Sorbonne, Vienna University of Economics and Business, London School of Economics, Columbia Law School, Fordham Law School (Edward Mulligan Distinguished Professorship), and at the University of Pennsylvania's Carey Law School, Philadelphia (Bok Visiting International Professorship).

Dr. Langenbucher has published extensively on corporate, banking, and securities law. Her research projects focus on corporate governance, fintech, and artificial intelligence.

She is a member of the German BaFin's supervisory board (Verwaltungsrat), of the German Federal Ministry of Finance's working group on capital markets law, and of the supervisory board (Conseil d'administration) of the Fondation Nationale de Sciences Politique, Paris. Dr. Langenbucher was a member of the supervisory board of Postbank (2014–2018) and of the European Commission's High Level Forum on capital markets union (2019–2020).

Marie-Laure Delarue, global assurance vice chair, EY

Ms. Delarue leads the EY Global Assurance practice, which has over 100,000 professionals worldwide. Prior to taking on this role, she was EY's banking and capital markets leader for financial services in the Europe, Middle East, India, and Asia (EMEIA) region, responsible for connecting the leaders of EY's banking accounts in Europe.

With over 25 years of experience, Ms. Delarue brings a deep understanding of the challenges and priorities currently being faced by the banking industry following years of regulatory pressure and the need to innovate and transform.

Since joining EY, Ms. Delarue has led some of EY's largest financial services accounts in both the advisory and assurance space. She was previously the global client services partner for the largest Eurozone bank and global client service partner for a Swiss multinational investment bank.

She is a champion of women succeeding in financial services and an advocate for EY's diversity and inclusiveness agenda.

Jean-Yves Jégourel, country managing partner, Germany, EY

Mr. Jégourel has been with EY since 1984 and was appointed audit partner in 1995. He was appointed country managing partner, Germany, on 1 April 2021. Prior to that, he was the global vice chair for professional practice (ending that role on 30 June 2021). He was the EMEIA assurance leader from July 2014 to June 2020. Mr. Jégourel was the Americas vice chair for risk management between July 2012 and July 2014. Prior to that he was the EMEIA assurance professional practice leader across 87 countries, beginning in July 2010.

Mr. Jégourel has also served as the IFRS telecommunications leader for EY. He was in charge of coordination and audit of the France Telecom group between 2002 and 2006 and was the



signing partner for the Orange group accounts between 2000 and 2006. In 2004, he implemented a pan-European working group with EY representatives of major European countries and finance teams of telecommunication operators to discuss and address IFRS and regulatory topics. He was joint leader with Dominique Thouvenin of the IFRS desk for Continental Western Europe from 2005 to 2008 and member of the EY global IFRS policy committee.

Mr. Jégourel was a member of the executive committee of EY France – Luxembourg in charge of assurance and advisory services from 2008 to 2010, professional practice director for EY France and Continental Western Europe from 2003 to 2008, and leader of the capital markets activities of EY France and Continental Western Europe from 2003 to 2008.

Mr. Jégourel was chair of a working group sponsored by the Institut Français des Administrateurs external auditors audit committee and a member of the public accounting committee of the Autorité des marchés financiers.

Appendix 2: Participants

The following EACLN members participated in all or part of the meeting:

- Jeremy Anderson, UBS
- Werner Brandt, Siemens
- Carolyn Dittmeier, Assicurazioni Generali
- Eric Elzvik, Ericsson and Volvo
- Margarete Haase, ING
- Marion Helmes, Heineken
- Liz Hewitt, National Grid
- Benoît Maes, Bouygues
- John Maltby, Nordea
- David Meline, ABB
- Marie-José Nadeau, ENGIE
- Karyn Ovelmen, ArcelorMittal
- Stephen Pearce, BAE Systems
- Nathalie Rachou, Veolia
- Bernard Ramanantsoa, Orange
- Guylaine Saucier, Wendel
- Erhard Schipporeit, RWE
- Maria van der Hoeven, TotalEnergies

The following ACLN members participated in all or part of the meeting:

- Pam Daley, BlackRock
- Bob Herz, Fannie Mae and Morgan Stanley
- Kimberly Ross, Cigna
- Jim Turley, Citigroup

EY was represented in all or part of the meeting by the following:

- Marie-Laure Delarue, EY Global Vice Chair, Assurance
- Jean-Yves Jégourel, EY Country Managing Partner, Germany
- Julie Linn Teigland, EMEIA Managing Partner, EY



Appendix 3: Reflection questions for audit committees

- ? How effective do you believe your audit committee is in its fraud risk oversight?
- ? What good practices have you observed for whistleblower and speak-up hotlines to ensure that proper and confidential investigation and reporting occurs, action is taken where appropriate, and trends are analyzed and tracked?
- ? What types of data, trend analysis, or questions have you found to be helpful in identifying early warning signs of high-risk areas?
- ? How do you assess or measure culture and tone at the top, particularly for areas at high risk of fraud or parts of the company that have already experienced fraud?
- ? What challenges have you encountered in comparing and assessing corporate culture across different countries and cultures?



Endnotes

¹ *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn directly from members and guests in connection with the meeting but may be edited for clarity.

² Jonas Heese, Charles C. Y. Wang, and Tonia Labruyere, "Wirecard: The Downfall of a German Fintech Star," Harvard Business School Case 121-058, March 2021 (Revised April 2021).