

EY – Wirecard Finance have been laughing at you

8th May 2020

The KPMG report and other information suggest that EY may have been repeatedly deceived by Wirecard when preparing past audit opinions. Internal chats among Wirecard finance employees seem to imply that EY Munich influenced another EY office as a favour for senior management in Munich. This situation is detrimental for all stakeholders in Wirecard.

Given KPMG's findings, and with this knowledge, can EY still stand by its previous audit opinions and Wirecard's accounting treatment? We believe it is essential EY reviews its prior audits and takes account of the KPMG report and the other information now available to ensure a sufficiently rigorous process when handling the current audit.

Throughout the KPMG report, it's clear that KPMG's forensic opinion often differs from that of EY, Wirecard's group auditor. Most notably, as we highlighted in our last article, EY's acceptance of Edo Kurniawan's accounting opinion for treating escrow accounts as cash, written and sent just days before the 2016 audit was signed, raises concerns about the amount of time EY had to perform robust and independent analysis of this and other key accounting issues.

As a second example, how were EY happy to allow Wirecard to report TPA revenue on a gross basis when Wirecard had no access to merchant records or KYC? It is risible that hundreds of millions of euros of revenue were booked and "audited" based solely on the presentation of quarterly excel spreadsheets from TPA partners.

To be fair, EY's lack of insight into the situation does not look like their fault. Communications within the Wirecard finance team in 2016 and 2017 make for astonishing reading. It's clear that there's little respect for EY. Executives in the finance team gloat while making derogatory comments related to how they can get EY to do whatever they want. Was EY aware of how they were viewed, or more likely, were they simply lied to?

We attach two internal chats from Wirecard below to illustrate:

On the 5th of November 2015, a week after the India acquisition closed, Edo Kurniawan and Matthias Helms, current head of M&A at Wirecard, enjoyed the following exchange:

Matthias Helms 3:46 PM:

Discussed with Jan: Kick off integration in India only after legal Closing....
...Will let you know after a call with our lawyers this afternoon

Kurniawan, Edo 3:46 PM:

fyi: I am applying multiple entry business visa for india now

Matthias Helms 3:46 PM:

Carlos is rather pessimistic that we goona travel to Chennai this year....

Kurniawan, Edo 3:47 PM:

hahahaha

Matthias Helms 3:47 PM:

Frankly speaking I am not to optimistic that we will make it in November given the experiences made before signing.
Indian clocks are totally different...

Kurniawan, Edo 3:48 PM:

yes 1 day = 2 weeks there

Matthias Helms 3:48 PM:

Could also be even more or less - nobody knows

Kurniawan, Edo 3:48 PM:

no one know

Matthias Helms 3:48 PM:

BTW: Thanks for the EY introduction

Kurniawan, Edo 3:49 PM:

yes they are good and have a lot help, but just always cut what ever their fee proposal. last time I got 80% discount for audit fee :)

Matthias Helms 3:49 PM:

Obviously Stephan & Burkhard "coordinated" with EY Munich that there will be a change and that the new partner in India will come to Munich to meet us....

...and get brainwashed...

Kurniawan, Edo 3:50 PM:

hahahaha!

Matthias Helms 3:50 PM:

Chapter1: No impairment

never ever

whatever happens

Kurniawan, Edo 3:51 PM:

even in the event of natural disaster or burn. no impairment

Matthias Helms 3:51 PM:

You got it Edo. Totally qualified to join the Munich team:-)

the lawyers call this MAC - material adverse change :-)

Kurniawan, Edo 3:52 PM:

hahahaha

ohh btw I found a new term for Maxcon!

maxcon = maximum confusing!

Matthias Helms 3:53 PM:

hahaha - that's good

I will forward to you the latest audited reports of the Indian entities. A bit of preparation for all of us + financial/tax DD report once finalized.

Please calculate the EBITDA multiples...in particular the one for the last twelve months.

I would love to sell my own company to Wirecard

Kurniawan, Edo 3:57 PM:

(y)

ok will have a look

I go for discussion with GK first before our call later

Matthias Helms 3:58 PM:

ok. I do have a call re new project in....Mauritius...:-)

Intensive onsite DD required ..

Speak to later

The chat clearly suggests that after a specific request from Wirecard's CFO (Burkhard Ley) and deputy CFO (Stephan von Erffa), EY Munich brought about a change in an audit partner for Wirecard in India. And Matthias and Edo are blatantly claiming they'll "brainwash" the new audit team.

They were gloating that they will never be forced to accept any impairments, with the clear implication being that it's because they can rely on EY to simply accept their numbers and accounting at face value.

EMIF, the anonymous PE fund that made ~€300m of profits from Wirecard's Indian transaction just weeks earlier was based in Mauritius. It seems highly likely that the project Wirecard's head of M&A was involved with in Mauritius in November 2015 related to the Hermes deal.

We have previously published our substantial concerns regarding the investments made by EMIF shortly after the Hermes transaction that generated substantial high-margin software revenues for Wirecard's other subsidiaries – was Matthias involved in those deals?

Maxcon is likely a typo of Maxcone, a partner to PayEasy (TPA3), which was reported on [by the FT](#) last year. PayEasy is run by Chris Bauer, a former Wirecard executive.

And "Carlos" almost certainly refers to Carlos Hauser, currently the beneficiary of a Wirecard loan of €115M as CEO of Ocap Management, a company until recently owned by Senjo Group (TPA2).

On an unrelated but similar theme of senior Wirecard executives going to work for TPAs, Arne Matthias, an EVP of Wirecard until November 2019, in January 2020 took a job as COO at PXP Financial, a payment processor that was bought by Senjo Group (TPA2) in 2017 via a loan from Wirecard Bank.

The in-dealings and circularity of Wirecard's operations in payments never fail to surprise.

More recently, on the 4th of April 2017, three days after Edo had sent [the all-important cash accounting opinion](#) to Stephan von Erffa, but still two days before the audit was signed by EY, the following exchange regarding Andreas Loetscher and Martin Dahmen, the E&Y audit partners took place:

Kurniawan, Edo 8:42 AM:

Morgen Stephan,

quick update by 10 am Munich time I will answer all EY munich question about India and Philippines

von Erffa, Stephan 8:43 AM:

OK super

Loetscher and DAhmen were yesterday very friendly and consturctive

Constructive

We will get our revenue

Kurniawan, Edo 8:44 AM:

:D good news!

woohooo

von Erffa, Stephan 8:44 AM:

Therefore we can add the two memos of revenue to one

Kurniawan, Edo 8:44 AM:

ok sure I will revise and send that separately tonight

should send to Andreas?

but really both of them like a girl, change mind so fast!

von Erffa, Stephan 8:47 AM:

Send it to Andreas

Kurniawan, Edo 8:47 AM:

ok noted

Kurniawan, Edo 1:03 PM:

sent my answer shall I forward that directly to the EY team with u and B.Ley in cc?

We have and can provide to regulators more examples that should be of grave concern to anyone. It appears clear that Wirecard's finance team spent considerable amounts of time finding ways to misdirect and mislead their EY counterparties. We think EY needs to consider whether Wirecard has violated the terms of their letter of representation and declaration of completeness.

EY's recent audit of NMC is currently under investigation by the Financial Reporting Council in the UK. There are striking parallels to Wirecard, most notably the huge profits generated through the UAE! Recall that Wirecard's secretive UAE entity, Cardsystems Middle East (CME), generated over €500M in profits between 2015-2018 without being audited, though Wirecard has stated it was incorporated into the group audit by EY.

We believe that based on the information from the KPMG report, combined with the importance of Edo's questionable cash opinion and Wirecard's intention to "brainwash", EY should withdraw their prior audit opinions. EY's withdrawal is further strengthened when taking into account the Wirecard finance team opinion of EY's staff and abilities, especially Martin Dahmen, the current audit partner.