PUBLIC NOTICE

Enforcement Action

IRISH AUDITING AND ACCOUNTING SUPERVISORY AUTHORITY (IAASA)

IN THE MATTER OF

Alison Gray

Respondent

1. Following an investigation (in accordance with section 934(2)(b) of the Companies Act 2014) by the Irish Auditing and Accounting Supervisory Authority ('the Authority'), a Settlement Agreement has been agreed and the Authority has decided to impose a Severe Reprimand and the respondent is further fined €10,500 by way of sanction.
2. The contraventions were admitted by the Respondent.

Background

3. This matter concerned the audit of the financial statements of Wirecard UK and Ireland Limited (herein the entity) for the year ending 31 December 2018.

4. BCK Audit, Accounting & Tax Limited audited those financial statements. This firm has since, ceased trading. The respondent was an audit partner in that firm. The audit report was signed by the respondent. An unmodified opinion was issued.

5. The entity is incorporated in the Republic of Ireland. The Parent undertaking is Wirecard Payment Solutions Holdings Limited, also incorporated in the Republic of Ireland. The ultimate parent undertaking is Wirecard AG, a PLC incorporated in Germany which was not audited by the respondent. Allegations of accounting malpractices followed Wirecard AG for a number of years. In 2019, the Financial Times (FT) published a series of investigations which considered whistle-blower complaints and internal documents concerning those allegations of malpractice at Wirecard AG. On 25 June 2020, Wirecard AG filed for insolvency.

6. Allegations of fraud of c. €400m prompted an investigation by the Garda National Economic Crime Bureau into the entity. The High Court appointed liquidators to the entity in October 2020.

7. The entity traded in the card payment processing industry. As a payment service provider, the entity charged its customers (merchants), mainly in the online travel, gaming and adult entertainment sectors, for the processing and reconciliation of payments made by their customers.

8. The business model of the entity was that it earned the majority of its revenue through its third-party acquiring relationship. In the third-party acquiring business, an external party called the third-party acquirer played the role of payment service provider, carrying out card processing for the entity. The third-party acquirer entered into and managed contractual relationships with merchants and the acquiring bank selected by the third-party acquirer. Processing fees paid by customers were collected by the third-party acquirer and were passed through to the entity. The entity paid commissions for the processing and acquiring services provided.

The Relevant Standards of Conduct

9. As a result of the deficiencies identified in the audit file reviewed a number of contraventions were identified.

10. Auditors are required to conduct an audit in accordance with applicable technical and professional standards. The relevant auditing standards, were the International Standards on Auditing (Ireland) ("**ISAs**"). The purpose of ISAs is to establish standards and general principles with which auditors are required to comply. Together they form a body of standards that should be applied before an auditor can express an opinion that financial statements give a 'true and fair view' within the meaning of the Companies Act 2014.

11. Aspects of the following ISAs are referred to in this document:

International Standards on Auditing (Ireland) (where relevant):

1. ISA (Ireland) 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

2. ISA (Ireland) 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

3. ISA (Ireland) 315 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

4. ISA (Ireland) 330 - The Auditor's Responses to the Assessed Risks

5. ISA (Ireland) 500 - Audit Evidence

6. ISA (Ireland) 505 - External Confirmations

7. ISA (Ireland) 550 - Related Parties

12. The relevant contraventions identified in this case demonstrated that insufficient professional scepticism was applied in the audit engagement and the respondent's performance of the audit fell below the standards reasonably expected of a statutory auditor. Auditing standards require the auditor to plan and perform an audit with professional scepticism.

ISA 200 para 15 states:

> *The auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statement to be materially misstated.*
>
> *The auditor shall maintain professional skepticism throughout the audit, recognising the possibility of a material misstatement due to facts or behaviour indicating irregularities, including fraud, or error, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and of those charged with governance.*

ISA 240 para 12 states:

> *The auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.*

13. There was a lack of evidence that the respondent maintained professional scepticism throughout the audit.

14. Throughout the audit file there were references by the respondent that professional scepticism would be maintained throughout the audit.

15. Throughout the audit file there are various examples of areas where the respondent designed and planned to perform certain procedures. These procedures were in response to assessed risks of material misstatement and in response to fraud risks, which included obtaining certain items of audit evidence, and performing walkthroughs, of which there was no or no sufficient evidence of execution. The following examples highlight the issue:

In relation to sales:

- The respondent set out that her response to the Revenue Recognition fraud risk included the performance of "walkthrough testing". The respondent set out that her response to the identified fraud risk of Completeness of Income included the performance of "walkthrough testing on the sales system to prove that system operates efficiently". There was no evidence on the audit file that walkthrough testing was performed in relation to sales/revenue.

In relation to intercompany balances and transactions:

- The respondent identified a fraud risk in relation to debtor and creditor balances and set out that her response to the risk included the performance of external confirmation procedures, and procedures to validate the balances. For the majority of intercompany debtor and creditor balances there was no evidence of performance of external confirmation procedures on the audit file. There was insufficient evidence of other audit procedures performed to validate intercompany debtor and creditor balances. There was insufficient evidence that related party balances and transactions had been verified by agreeing to invoice, other supporting agreement or information, or to counterparty financial statements or financial information. Flows of cash related to related party transactions had not been verified against bank statements. This included in relation to significant related party transactions outside the normal course of business such as the €64m paid to related party Cardsystems as detailed in Ground 4.4 below. Whilst the respondent did identify this transaction as an area of concern, as evidenced in the minutes of the closing meeting with Those Charged with Governance, and obtained certain explanations for the transaction and certain documents related to the transaction, the respondent did not obtain sufficient appropriate audit evidence to understand the transaction and verify the authenticity of the transaction. The respondent did not sufficiently challenge the entity's management in this area, including in relation to the lack of availability of sufficient and appropriate audit evidence. The respondent did not demonstrate that she maintained professional scepticism recognising the possibility that material misstatement due to fraud could exist.

16. The respondent communicated the following issue that came to her attention that needed to be reported to Those Charged With Governance in the audit findings letter on 10 May 2019:

Late Entries:

Findings:

During the course of the audit we received updated TBs with new journals being posted into the system. We understand the instructions for these journals were received from central management and was a result of reconciling intercompany accounts.

Implications:

This lead to a number of variations of working papers and draft financial statements.

Recommendations:

We would recommend full intercompany reconciliations to be performed centrally prior to the commencement of the audit in order to minimize the number of journals being posted after the final TB has been produced.

17. The audit file did not evidence performance of audit procedures on these late entries. The audit file did not evidence consideration, assessment and testing of these late entries in the journal entry testing performed on the audit file.

18. In 2019 the FT published a series of investigations which considered whistle-blower complaints and internal documents concerning allegations of malpractice at Wirecard AG. An FT Article from 24 April 2019 entitled 'Wirecard relied on three opaque partners for almost all its profit', was included on the audit file. It referred to a number of items relating to the entity, its related parties, and the third-party acquiring relationship with Al Alam.

The article detailed that according to documents seen by the FT, "half of the worldwide revenue and almost all of the reported profits of Wirecard have come from only 3 opaque partner companies in recent years". Much of these profits were "booked through Wirecard's largest business, CardSystems Middle East, in Dubai in 2016 and 2017, whose accounts were not audited in those years" according to whistle-blowers.

The article referenced Al Alam Solutions, "a Dubai based payments processor with skeletal operations in the emirate" as "the largest of the three partner entities", and that according to a former employee, Oliver Bellenhaus, a Wirecard executive, was understood to be "the boss".

The article also stated; "Al Alam's business was routed through CardSystems and Wirecard UK & Ireland, the group's next most profitable subsidiary". One whistleblower told the FT that "the substantial business recorded for CardSystems in Wirecard's books did not appear to be matched by flows of cash". The person said that CardSystems had accounts at Wirecard Bank as well as institutions in the Middle East, but "the revenues never passed through these accounts".

The article noted that Al Alam Solutions had "a limited web presence", "only five employees listed on Linkedin", and "no one was named on the company's website". When the FT visited the Al Alam office in Dubai during business hours it was "empty on the first occasion", "staffed by two people on the second", and on a third occasion there was "a lone IT employee there working on the servers".

According to documents seen by the FT referenced in the article "Cardsystems chalked up €58m of commission due from Al Alam in 2017, equivalent to 4.4 per cent of the €1.3bn of payments processed by the Dubai-based partner". The article noted that "such lucrative commissions are typically associated with processing high-risk transactions and raise questions about where Wirecard finds merchants willing to pay such fees".

19. Having regard to the information included in the FT article, the respondent did not sufficiently consider that information in its risk assessment, including fraud risk assessment, and in designing and performing audit procedures to address risks. In particular;

- there was no evidence or no sufficient evidence on the audit file of an understanding of Al Alam and the third-party acquirer relationship.

- there was no evidence or no sufficient evidence that the respondent obtained an understanding of the sales process and the sales system related to the third-party acquiring business.

- there was no evidence or no sufficient evidence that the audit approach was designed to obtain relevant and reliable audit evidence to verify the existence of the revenue earned through Al Alam.

- the respondent did not verify revenue earned through the third-party acquiring business to flows of cash by agreeing to account statements or other relevant account information.

- there was no evidence or no sufficient evidence that the audit team performed audit procedures to verify transactions through the 'Escrow Account' such as by the testing of 'lodgements' to the account, or 'payments' from the account. There was no evidence or no sufficient evidence that the respondent understood these transactions or verified the transactions by agreeing them to bank statements or other relevant bank account information to verify the flows of cash.

- The audit file did not evidence whether the audit team investigated and understood what role Oliver Bellenhaus had in Al Alam, or whether Al Alam was a related party of the entity.

1. Sales/Revenue:

1.1. The nature, timing and extent of the audit procedures designed and performed by the auditor in relation to Sales/Revenue were not responsive to the assessed risks of material misstatement at the assertion level.

ISA 330 para 6 states:

The auditor shall design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

20. In respect of the year ended 31 December 2018, per the financial statements the entity earned revenue of €167.4m, c. 90% of this revenue being earned through its third-party acquiring business with Al Alam. The audit file does not evidence an understanding of the revenue process for sales through Al Alam.

21. The area of Sales was identified as a fraud risk area, specifically 'completeness of income – management override' and 'revenue recognition'. The planned response to the assessed risk included

‘walkthrough testing’, and ‘post year end receipts in respect of Al Alam’. There was no evidence of walkthroughs being performed in relation to revenue recognition. There was no evidence or no sufficient evidence of audit procedures being performed regarding post year end receipts in respect of Al Alam.

22. The audit file included the following in relation to completeness of income:

The risks in relation to completeness of income span the combined risks of:

- *Income potentially being suppressed and not recorded*
- *Use of FX rates for foreign exchange*
- *Recording of Income from reports provided by Munich*

There is no definitive way to address the Completeness of Income risk due to huge number of transactions, but in order to reduce the risk to an acceptably low level for the purposes of our audit we propose to take the following steps to address the issue:

Risk Responses:

1. We will consider the testing performed and results of that testing in conjunction with any points brought forward from the previous years file

2. Walkthrough testing to be performed on the sales system to prove that system operated efficiently

3. Further transaction testing will be performed in relation to sales, purchases, bank balances, debtors/creditors listing, wages and intercompany balances

4. Throughout all transaction and substantive testing being performed on all elements of the audit the possibility of management override and staff theft or fraud will also be considered.

5. An overall sales reconciliation for a quarter will be performed to satisfy the sales figure posted per reports

6. Sales/Purchase cut off testing will be performed

7. Review of journal postings

8. As part of the final analytical review all material variance will be analysed in detail.

23. A number of issues arise in respect of these risk responses. In relation to risk response 1, significant issues had been identified in the previous year end audit file with implications on Sales/Revenue for this audit in question. The following was included in the 2017 Audit Findings Letter:

There is no apparent policy or agreement for receiving money from Citadelle and Al Alam. The letter of credit / escrow account has increased from €177,533,035 at 31/12/2016 to €327,533,035 at 31/12/2017. Turnover for the year processed through Al Alam was approximately €94 million, however only €14 million was received. In the same period €150 million was transferred from Al Alam to the escrow account.

No clear release agreement means that letter of credit / escrow account continues to increase and creates significant exposure should a catastrophic failure occur in the letter of credit / escrow provider which could result in a loss and non-recoverable amount of €327 million to WUKI.

Recommendation:

An agreement should be put in place for the release of funds from the letter of credit / escrow account and this should occur on a monthly basis in line with current agreement with Al Alam and new funds being transferred from Al Alam to the escrow account.

Local management should receive a monthly statement from both Al Alam and Citadelle showing movements in and out of the specific accounts, the month end balance and these should be fully reconciled.

24. The audit file did not sufficiently evidence that these points were considered by the respondent in the financial year end audit in relation to sales/revenue . Further the financial year end audit file 2018 did not evidence whether the financial year end 2017 issues were addressed and recommendations implemented in the 2018 audit. In particular, there was no evidence that local management obtained any monthly statement from Al Alam or Citadelle showing movements in and out of specific accounts and there was no evidence that the month end balance in these accounts was reconciled.

25. In relation to risk response 2, there was no evidence on the audit file of walkthroughs being performed on the sales system to prove that the system operated efficiently. There was no evidence of any walkthroughs being performed in relation to sales/revenue.

26. In relation to risk response 3, there was insufficient evidence of transaction testing in relation to sales/revenue. There was no evidence that the respondent vouched any sales transactions to flows of cash by agreeing to account statements or other account information.

27. In relation to risk response 5, the audit file noted that the following procedure was performed:

We have conducted further testing by selecting Q3 reports provided by Wirecard AG. We have reviewed the nominal ledger for the posting made from the report to CODA and satisfied that all posting agreed to the reports

- The audit file did not evidence why a sample of 1 quarter was determined as appropriate for completeness of income testing.

- The audit file did not evidence that the audit team had obtained an understanding of the reports provided by Wirecard AG and assessed whether/why they could be relied upon.

- The audit file did not evidence testing of any transactions included on the Wirecard AG reports.

28. Throughout audit procedures performed in relation to sales/revenue, particularly in relation to revenue earned through Al Alam, the respondent has not verified revenues earned to flows of cash. There is no evidence of amounts or transactions being agreed to bank account statements, payment/receipt records, or other relevant account information.

29. In the audit planning memorandum to the Group Auditor the following was set out concerning the significant risk area of revenue recognition:

> *Merchant balances*
>
> *We will check all year-end reconciliations of merchant balances, ensuring that the company has recognised all proper revenue, and that this revenue has been recognised in agreement with that relevant contract and that 3rd party agreements have been received from the merchant. We will perform a full review on commission reports received from Munich.*

30. There was no evidence of completion of the above procedure on the audit file.

> *Acquirer balances*
>
> *We will check all year-end reconciliations of acquirer balances, ensuring that all revenue that is deemed to be due from the acquirer has been accounted for and confirmed with the acquirer. We will seek 3rd party confirmation as part of our audit testing. All payments will be checked via reconciliation files held by the Group.*

There was no evidence or no sufficient evidence of completion of the above procedures on the audit file.

31. The following was further set out in the memorandum to the Group Auditor:

> *We understand in accordance with group instructions "the existence and recoverability of accounts receivables from 3rd party acquirer as well as related revenues and cost of materials are audited centrally for group audit purposes and is outside the scope of this report", however, if this information is not provided we will not be in a position to issue an audit opinion on the Statutory Financial Statements on the Irish Components due to the fundamental nature of this area to the component and its fellow subsidiaries"*

32. There was no evidence of receipt of this information (which would have been a centrally performed audit procedure for the purpose of the group audit relating to "the existence and recoverability of accounts receivables from the third-party acquirer as well as related revenues and cost of materials") on the audit file. Further, there was no evidence of instructions being issued to the Group Auditor, or receipt of reporting from the Group Auditor on the audit file.

1.2. The substantive procedures performed in response to the significant risks (and fraud risks) related to Sales/Revenue were insufficient and not specifically responsive to the risks.

ISA 330 para 21 states:

If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk.

33. In light of the examples set out in 1.1 above substantive procedures performed in response to the significant risks (and fraud risks) related to Sales/Revenue were insufficient and not specifically responsive to the risks.

1.3 The audit procedures designed and performed by the auditor were not appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence in relation to Sales/Revenue.

ISA 500 para 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

34. In light of the examples set out in 1.1 above the audit procedures were not appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to Sales/Revenue.

2. Debtors/Receivables (Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets)

2.1. The nature, timing and extent of the audit procedures designed and performed by the auditor in relation to Debtors/Receivables were not responsive to the assessed risks of material misstatement at the assertion level.

> **In particular:**
>
> **(i) audit procedures designed and performed on Debtors/Receivables balances with related parties, including the recoverability of these balances.**
>
> **(ii) audit procedures designed and performed on Debtors/Receivables balances with third-party acquirer, including the recoverability of these balances.**

ISA 330 para 6 states:

The auditor shall design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

35. The nature, timing and extent of the audit procedures designed and performed by the respondent in relation to debtors/receivables were not responsive to the assessed risks of material misstatement at the assertion level.

36. The audit planning memo and audit conclusions memo noted that the following fraud risk was identified:

> *Fraud Risk: Intercompany – Debtor / Creditor balances*
>
> *Testing Required:*
>
> - *Validity and external confirmation on the balance per FS*

37. There was no evidence of external confirmation procedures on the audit file for material intercompany debtor and creditor balances.

38. The audit file did not evidence sufficient audit procedures designed and performed to ‘validate’ intercompany receivable and payable balances. This is dealt with later in this document.

The following fraud risk was also identified on the audit file:

> *Fraud Risk: Provider Balance – Collectability*
>
> *Testing Required:*
>
> *- Post year-end receipts*
>
> *- Confirms at year end*

39. There was insufficient evidence on the audit file that the respondent had designed and performed testing involving post year-end receipts.

40. As set out in the 31 December 2018 financial statements the entity had Receivables of €82.3m. Schedules included on the audit file set out the accounts that comprised the €82.3m balance, included the following material balances:

i) Intercompany – WD Bank: €10.78m

There was no evidence that this balance was subject to external confirmation procedures. There was no evidence that this balance was agreed to the counterparty’s accounts, financial information, or other supporting evidence. There was no evidence of any audit procedures performed on the recoverability of this balance. There was no evidence or no sufficient evidence of any other relevant audit procedures performed on this material balance.

ii) Providers – WD Bank: €3.7m

There was no evidence that this balance was subject to external confirmation procedures. There was no evidence that this balance was agreed to the counterparty’s accounts, financial information, or other supporting evidence. There was no evidence of any audit procedures performed on the recoverability of this balance. There was no evidence or no sufficient evidence of any other relevant audit procedures performed on this material balance.

iii) Related Party – Cardsystems: €64m

The respondent included a memo on the audit file outlining the work performed in relation to the Cardsystems €64m receivable. The following was included:

> *<u>Work performed:</u>*
>
> *In 2018 Wirecard UK and Ireland issued and (sic) invoice of €64m to Cardsystems which has not been received at 31 December 2018. In order to satisfy that the amount is repayable we have carried out the following:*
>
> *- We have obtained a confirmation which confirms that the €64m is repayable on demand*

- We also obtained profit & loss and reserves figures for Cardsystems to ensure the company has sufficient funds to pay back. The company has made €569,187m in profit and has €237,486m in reserves in 2018..

41. There was a confirmation on the audit file. This confirmation was not addressed to the respondent. This confirmation was addressed to a director of the entity. The confirmation procedure was not compliant with the requirements of ISA 505 External Confirmations which defines an external confirmation as "audit evidence obtained as a direct written response to the auditor from a third-party (the confirming party), in paper form, or by electronic or other medium".

42. It was unclear from the audit file where the referenced 'profit & loss and reserves figures for Cardsystems' financial information was obtained/sourced, and there was no assessment and conclusion as to whether and why it was reliable evidence.

43. The financial information of Cardsystems was not audited financial statements. The FT Article referred to earlier which was included on the audit file noted that the financial statements of Cardsystems had not been audited in 2016 and 2017.

44. The audit file did not sufficiently evidence an understanding of this balance. The audit file did not evidence that the respondent had obtained relevant agreements, invoices, legal documents, or evidence of any internal approval for the transaction. The memo included on the audit file referenced that in 2018 the entity issued and invoiced €64m to Cardsystems. This invoice had not been included on the audit file.

45. Transactions relating to this balance had not been verified to flows of cash through bank statements or other relevant account information.

46. In light of the newspaper article referred to above, the respondent had not sufficiently considered the following in its risk assessment, and in the design and performance of audit procedures in relation to this balance:

One whistleblower said the substantial business recorded for CardSystems in Wirecard's books did not appear to be matched by flows of cash. The person said Cardsystems had accounts at Wirecard Bank as well as institutions in the Middle East, but said "the revenues never passed through these accounts.

iv) Receivables from Al Alam: €3.1m

47. The gross receivable amount was €3.4m. The respondent included an opening to closing movement schedule for this account for the year ended 31 December 2018 on the audit file. There were a number of significant transactions included on the schedule for which the respondent did not perform procedures to validate, including verifying the transactions to flows of cash through bank statements or other relevant account information.

- Transfer to Escrow Account (Cr. €28m)
- Transfer to Cardsystems (Cr. €64m)

48. The bad debt provision for this receivable above was a negative balance of €0.3m. The audit file evidences that the respondent understood management's policy and process for determination of the 'bad debt provision', being *Provision = 1% of the balance*. The respondent performed a recalculation of the bad debt provision based on the entity's methodology and identified an immaterial difference which was unadjusted in the financial statements. There was no evidence or no sufficient evidence that the respondent assessed the appropriateness of the policy in accordance with the requirements of IFRS 9 Financial Instruments. The audit file does not evidence procedures performed to assess the recoverability of the receivable and/or test the sufficiency of the bad debt provision. The audit file did not evidence consideration of Al Alam's financial position, liquidity and ability to repay the amount due.

49. In the audit planning memorandum to the Group Auditor the respondent set out that the following were significant risk areas on the audit:

- *Trade Receivables – Provision for Bad Debts & Contingencies*
- *Merchant & Acquirer reconciliation*

50. The following was set out concerning the significant risk areas:

Merchant balances

We will check all year end reconciliations of merchant balances, ensuring that the company has recognised all proper revenue, and that this revenue has been recognised in agreement with that relevant contract and that 3rd party agreements have been received from the merchant. We will perform a full review on commission reports received from Munich.

51. There was no evidence of completion of the above procedure on the audit file.

Acquirer balances

We will check all year end reconciliations of acquirer balances, ensuring that all revenue that is deemed to be due from the acquirer has been accounted for and confirmed with the acquirer. We will seek 3rd party confirmation as part of our audit testing. All payments will be checked via reconciliation files held by the Group.

52. There was no evidence of completion of the above procedures on the audit file.

Bad Debt Provision

We review all amounts due and ascertain if any potential provision is required or sufficient if already provided for.

53. On the audit file the only balances within the Debtors/Receivables financial statement line item that were reviewed for requirement/sufficiency of bad debt provision were the receivable balance from Al Alam, and the receivable balance from Cardsystems. The respondent did not evidence a consideration of the recoverability, or of the requirement for the provision for bad debt/impairment for other material balances within the Receivables/Debtors financial statement line item, for example, receivables from WD Bank.

54. The following was further set out in the memorandum to the Group Auditor:

We understand in accordance with group instructions "the existence and recoverability of accounts receivables from 3rd party acquirer as well as related revenues and cost of materials are audited centrally for group audit purposes and is outside the scope of this report", however, if this information is not provided we will not be in a position to issue an audit opinion on the Statutory Financial Statements on the Irish Components due to the fundamental nature of this area to the component and its fellow subsidiaries"

55. There was no evidence of receipt of this information (which would have been a centrally performed audit procedure for the purpose of the group audit related to "the existence and recoverability of accounts receivables from third-party acquirer as well as related revenues and cost of materials") on the audit file. There was no evidence of instructions being issued to the Group Auditor, or receipt of reporting from the Group Auditor on the audit file.

2.2. The substantive procedures performed in response to the significant risks (and fraud risks) related to Debtors/Receivables were insufficient and not specifically responsive to the risks.

In particular, there was no or no sufficient evidence that the auditor performed substantive procedures specifically responsive to the following:

(i) Fraud risks

(a) Intercompany – Debtor / Creditor balances

(b) Provider balance – Collectability

(ii) Significant Risks

(a) Trade receivables – Provision for Bad Debts and Contingencies

(b) Merchant and Acquirer reconciliation

ISA 330 para 21 states:

If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk.

56. In light of the examples set out in Ground 2.1 above substantive procedures performed in response to the significant risks (and fraud risks) related to Debtors/Receivables were insufficient and not specifically responsive to the risks.

2.3. The audit procedures designed and performed by the auditor were not appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence in relation to Debtors/Receivables, including in relation to the following:

i) Intercompany receivables

(a) WD Bank

(b) Cardsystems

ii) Third-party acquirer Al Alam

(a) Receivable balance

(b) Provision for impairment of receivable.

ISA 500 para 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

57. In light of the examples set out in Ground 2.1 above the audit procedures were not appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to Debtors/Receivables.

2.4. There was no evidence or no sufficient evidence that the auditor maintained control over external confirmation requests in relation to Debtors/Receivables balances, including in relation to the following balances:

(i) Intercompany receivable – WD Bank

(ii) Intercompany receivable - Cardsystems

- There is no evidence or no sufficient evidence on the audit file that an external confirmation request was sent by the auditor for each of these balances.

- There is no evidence or no sufficient evidence on the audit file that the auditor obtained an external confirmation for each of these balances.

ISA 505 para 7 states:

When using external confirmation procedures, the auditor shall maintain control over

external confirmation requests, including:

(a) Determining the information to be confirmed or requested;

(b) Selecting the appropriate confirming party;

(c) Designing the confirmation requests, including determining that requests are

properly addressed and contain return information for responses to be sent

directly to the auditor; and

(d) Sending the requests, including follow-up requests when applicable, to the confirming party.

58. In light of the examples set out in 2.1 above, the audit file did not sufficiently evidence that the respondent maintained control over external confirmation requests in relation to Debtors/Receivables, specifically in relation to material balances for Intercompany Receivable – WD Bank of €10.78m, and Intercompany Receivable – Cardsystems of €64m.

3. Cash and Cash Equivalents

3.1. The nature, timing and extent of the audit procedures designed and performed by the auditor in relation to Cash and Cash Equivalents were not responsive to the assessed risks of material misstatement at the assertion level.

In particular, in relation to the 'Escrow Account':

(i) Testing of Escrow Account Reconciliations – There was no evidence or no sufficient evidence that the auditor performed testing of reconciliation of the 'Escrow Account'. Further, it was unclear from the audit file whether Management performed any reconciliations of this account.

(ii) Testing of lodgements to and payments from the account – There was no evidence or no sufficient evidence that the audit team performed audit procedures to verify material transactions through the account such as by the testing of 'lodgements' to the account, or 'payments' from the account. There was no evidence or no sufficient evidence that the auditor understood these transactions, or verified the transactions to flows of cash by agreeing to account statements or other account information.

(iii) Recoverability – There was no evidence or no sufficient evidence that the auditor designed and performed audit procedures to assess the recoverability of the balance in the 'Escrow Account', nor determine expected credit loss in accordance with IFRS 9.

(iv) Accounting policy – There was no evidence or no sufficient evidence that the auditor understood the entity's accounting policies in relation to Cash and Cash Equivalents, specifically in relation to the 'Escrow Account' and its classification as Cash and Cash Equivalents

(v) There was no evidence or no sufficient evidence on the audit file of procedures performed to verify that the 'Escrow Account' was under control of the company. Audit procedures designed to address this risk identified by the auditor included the following:

- **Confirm accounts to bank title on bank statements'.**

There was no evidence or no sufficient evidence that the auditor performed the procedure as designed in relation to the 'Escrow Account'. There was no evidence or no sufficient evidence on the audit file that the auditor obtained bank statements or other relevant bank account information in relation to the 'Escrow Account'

ISA 330 para 6 states:

The auditor shall design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

59. The nature, timing and extent of the audit procedures designed and performed by the respondent in relation to cash and cash equivalents were not responsive to the assessed risks of material misstatement at the assertion level.

60. The financial statements set out that the entity had cash and cash equivalents of €311.85m at 31 December 2018. The financial information included on the audit file sets out that €305.5m of this balance was in an escrow account. The audit file does not evidence that the respondent sufficiently understood the terms of the escrow account arrangement, the process and terms for release of funds from the escrow account, or the specific bank where the account was held. External confirmation of the balance was not obtained from the bank in which the funds were held. Confirmation of funds held in the escrow account was obtained from escrow agents (Citadelle Corporate Service Pte. Ltd.) and Al Alam only. The respondent did not obtain any account statements, or other account information to verify the account balance at year end, or to verify any transactions through the account in the financial year ended 31 December 2018. There was no evidence or no sufficient evidence that the respondent performed testing of reconciliation of the 'escrow account'. Further, it was unclear from the audit file whether the entity's management performed any reconciliations of this account. There was no evidence to demonstrate that the respondent performed any procedures to understand and verify transactions through the account during the financial year ended 31 December 2018.

61. The respondent included an opening to closing movement schedule for the escrow account on the audit file. The schedule set out that the opening balance was €327.5m, and there were lodgements of €28m to the account, payments of €50m from the account, and that the closing balance was €305.5m.There was insufficient evidence on the audit file to demonstrate that the respondent performed procedures to understand and verify the transactions. The transactions were not verified to flows of cash through bank statements or other relevant account information.

62. The audit planning memo and audit conclusions memo noted that in relation to cash and cash equivalent, the respondent identified a risk that 'bank accounts may not be under control of the company'. The planned audit procedures in response to the risk included 'confirm accounts to bank title on bank statements'.

63. There was no evidence that the respondent performed this procedure in relation to the escrow account. There was no evidence on the audit file that the respondent obtained any bank statements in relation to the account.

64. In the audit planning memorandum to the Group Auditor the following was set out concerning Bank & Cash:

> *Bank & Cash*
>
> *We will verify all material reconciliations and obtain 3rd party confirmations for same. We will verify the electronic payment process and ensure that all controls are working and in use. We will verify transactions to the ledgers to ensure that the business processes work as described.*
>
> *We will also be confirming that funds held in Escrow by 3rd parties satisfy the conditions and definition of cash equivalents under IAS 39.*

65. There was no evidence that the respondent verified all material reconciliations – specifically the respondent did not verify reconciliations related to the escrow account. There was no evidence on the audit file that the respondent verified the electronic payment process and ensured that all controls are working

and in use or verified transactions to the ledgers to ensure that the business processes worked as described.

66. There was insufficient evidence on the audit file that the respondent considered the conditions and definition of cash equivalents in relation to the escrow account.

3.2. The results of the external confirmation procedure performed by the auditor in relation to the 'Escrow Account' (i.e. confirmations received from a) Escrow Agent (Citadelle Corporate Service Pte. Ltd.), and b) third-party acquirer (Al Alam), rather than from the bank in which the funds were held) were not sufficient to draw the conclusion that the external confirmation procedure provided relevant and reliable audit evidence.

ISA 505 para 16 states:

The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary.

67. The audit file does not evidence that the respondent evaluated whether the results of the external confirmation procedures performed provided relevant and reliable audit evidence, or whether further audit evidence was necessary.

68. The respondent did not obtain confirmation of funds held in the escrow account from the bank in which the funds were held, the appropriate confirming party, only from the escrow agent (Citadelle Corporate Service Pte. Ltd.) and Al Alam. There was no evidence that the respondent sufficiently considered this in their evaluation.

69. The respondent did not consider in their evaluation, the fact that a number of audit procedures were planned in response to the assessed risks but were not performed.

3.3. The audit procedures designed and performed by the auditor were not appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence in relation to Cash and Cash equivalents, in particular in relation to the 'Escrow Account'.

ISA 500 para 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

70. In light of the detail set out in 3.1 and 3.2 above the audit procedures designed and performed were not appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence in relation to cash and cash equivalents.

4. Related Party transactions

4.1. There was no evidence or no sufficient evidence that the auditor designed and performed audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions.

In particular, there was no evidence or no sufficient evidence that the auditor performed the audit procedures designed to address the following specific audit risks and fraud risks identified by the auditor:

Specific Audit Risks:

(i) There are related parties and there are related party transactions during the period. Ensure that these are accounted for correctly and disclosed appropriately.

- Impacted Assertions: Valuation, completeness, existence, accuracy, presentation & disclosure

- Testing - Assess the accuracy, cut-off and presentation and disclosure of related party transactions.

(ii) Are the intercompany loan balances fully repayable and should they be considered from a recoverability and repay ability perspective.

- Impacted Assertions: Valuation, accuracy, presentation & disclosure

- Testing - Assess the status of the companies who have intercompany loans and their going concern status. If there is not repayment capacity this should be discussed with the directors in the first instance but the disclosures in the financial statements and the audit opinion should be considered.

Fraud Risks:

(i) Intercompany – Debtor/Creditor balances

- Testing - Validity and external confirmation on the balance per the Financial Statements

ISA 550 para 20 states:

As part of the ISA (Ireland) 330 requirement that the auditor respond to assessed risks, the auditor designs and performs further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions.

71. The respondent identified the above specific risks and fraud risks related to related party transactions.

72. The audit file did not evidence that the respondent performed the planned audit procedures in response to the assessed risks.

73. Related party balances included the following as at 31 December 2018:

Receivables:

- Intercompany - WD Bank - €10.78m
- Providers - WD Bank - €3.74m
- Related party Cardsystems - €64m

- Various intercompany receivables balances included within Trade Debtors €0.56m

Payables:

- Amounts Payable to Group Companies' (€52.5m) – comprises a number of related party payable balances.

74. Audit procedures performed on these related party balances within audit file section O Related Parties, or within other sections of the audit file, namely G Debtors, and I Trade Creditors and Accruals, were not sufficient to obtain audit evidence in relation to the completeness, accuracy, valuation, or rights and obligations assertions.

75. There was insufficient evidence to demonstrate that the respondent understood the nature of many related party balances on the audit file.

76. There was insufficient evidence that related party balances and transactions had been verified by agreeing to invoice, other supporting agreement or information, or to counterparty financial statements or financial information. Flows of cash related to related party transactions had not been verified against bank statements.

77. For the majority of intercompany receivable and payable balances on the audit file there was no evidence of performance of external confirmation procedures. As previously stated for the Cardsystems receivable balance of €64m, there was a confirmation on the audit file but it was not addressed to the respondent.

78. Insufficient audit procedures were designed and performed to assess the recoverability of intercompany receivable balances.

79. In relation to Amounts Payable to Group Companies' (€52.5m), in audit file section I Creditors & Accruals the audit file evidenced that the respondent obtained schedules for amounts payable to related parties, and verified a sample of transactions to invoice. There was no evidence of performance of external confirmation procedures.

4.2. The audit evidence obtained in relation to the assessed risks of material misstatement concerning related parties and related party balances and transactions was not sufficient and/or appropriate. In particular in relation to the following amounts:

(i) Receivable from Cardsystems of €64m and the underlying transaction

(ii) Receivables from WD Bank:

- **Intercompany – WD Bank: €10.7m**
- **Providers – WD Bank: €3.7m**

(iii) the Amounts Payable to Group Companies balance of €52.5m

ISA 500 para 6 states:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

80. In light of the examples set out in Ground 4.1 above, the audit procedures were not appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to related party balances and transactions.

4.3. There was no evidence or no sufficient evidence that the auditor understood the underlying circumstances of the entity's relationship with Al Alam to determine whether a related party relationship existed. In particular:

(i) There was no evidence or no sufficient evidence of an understanding of Al Alam, its owners, its directors, its organisation structure, its operations, and Wirecard UK and Ireland's relationship with Al Alam, and lines of communication with Al Alam.

(ii) Having included on the audit file an FT article from 24 April 2019 which details the following:

***"Wirecard refers clients to Al Alam in return for a share of any processing fees as commission. A former Al Alam employee said the business had six or seven staff in total and "the boss" was Oliver Bellenhaus, a Wirecard executive"*,**

there was no evidence or no sufficient evidence of queries made if any, of management or Oliver Bellenhaus, or other procedures performed to obtain an understanding of the underlying circumstances of the relationship to confirm whether a related party relationship existed.

ISA 550 para 21 states:

If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.

81. The audit file did not evidence an understanding of Al Alam, its owners, it's directors, the entity's relationship with Al Alam, the lines of communication or the organisational structure of Al Alam. It was unclear on the audit file what procedures the respondent performed to assess and understand whether Al Alam was a related party of the entity.

82. The audit file did not evidence whether the audit team investigated and understood what role Oliver Bellenhaus had in Al Alam, or whether Al Alam was a related party of the entity. The audit file did not evidence whether queries were made of management or Oliver Bellenhaus to obtain an understanding.

4.4. In respect of the following significant related party transactions outside the entity's normal course of business:

(i) €64m paid to related party Cardsystems,

(ii) receipt of €50m into a bank account in Wirecard Bank from 'Escrow Account', which was used to repay intercompany payables with Wirecard Technologies AG,

there was no evidence or no sufficient evidence that the auditor:

(a) Inspected the underlying contracts or agreements, if any, and evaluated whether:

(i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;

(ii) The terms of the transactions are consistent with management's explanations; and

(iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and

(b) Obtained audit evidence that the transactions have been appropriately authorised and approved.

ISA 550 para 23 states:

For identified significant related party transactions outside the entity's normal course of business, the auditor shall:

(a) Inspect the underlying contracts or agreements, if any, and evaluate whether:

(i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;

(ii) The terms of the transactions are consistent with management's explanations; and

(iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and

(b) Obtain audit evidence that the transactions have been appropriately authorized and approved.

83. Audit programme Section O concerning related parties included the following audit procedure:

Consider related party transactions outside the normal course of business, by enquiring of management about i) nature of the transactions, ii) whether any related parties are involved. Inspect underlying contracts/agreements where related parties were involved.

84. There was a listing of balances with related parties as at 31 Dec 2018 included in Section O. There was also documentation stating "*this information is consistent of our knowledge with (sic) the client, our communications with the client throughout the audit, our review of documentary evidence including company secretarial documentation. Confirmation on the balances are to be obtained."*

85. The listing of related party balances was incomplete. Various related party balances including receivables from WD Bank of €10.78m, and Cardsystems of €64m, were not included in the list.

86. In relation to significant related party transaction '€64m paid to related party Cardsystems':

- The respondent did not inspect underlying contracts and agreements in relation to this transaction to evaluate whether:

  (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;

  (ii) The terms of the transactions are consistent with management's explanations; and

  (iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework

- The respondent did not obtain sufficient audit evidence that the €64m amount paid to Cardsystems was appropriately authorised and approved.

- The respondent did not obtain and inspect the underlying contracts and agreements. The audit file did not evidence that the respondent had obtained any relevant agreements, contracts, invoices, legal documents, or evidence any internal approval of the transaction.

- The transaction had not been agreed to flows of cash through bank statements or other relevant account information.

- The audit file is unclear in relation to from where this amount was paid to Cardsystems.

  - The audit file included an opening to closing reconciliation of the receivable from Al Alam account. This reconciliation indicates that the €64m amount was paid to Cardsystems by Al Alam directly, rather than through the entity.

  - Correspondence included on the audit file involving a director of the entity and other individuals from Wirecard Group noted that the entity made a payment to CardSystems from the entity's trustee account to the trustee account of CardSystems. The audit file included an opening to closing reconciliation of the escrow account. The opening to closing reconciliation did not include the payment of €64m to Cardsystems.

87. In relation to significant related party transaction 'receipt of €50m into a bank account in Wirecard Bank from escrow account, which was used to repay intercompany payables with Wirecard Technologies AG':

88. The respondent did not inspect underlying contracts and agreements in relation to this transaction to evaluate whether:

(i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;

(ii) The terms of the transactions are consistent with management's explanations; and

(iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework

- The receipt of €50m into the entity's bank account in Wirecard Bank from the escrow account was not agreed to flows of cash through bank statements or other relevant account information.

- The payment(s) made to Wirecard Technologies AG from the entity's bank account in Wirecard Bank were not agreed to flows of cash through bank statements or other relevant account information.

- The respondent did not perform sufficient audit procedures to understand the nature of the underlying intercompany payable amount owed to Wirecard Technologies AG. The respondent did not obtain and inspect the underlying contracts and agreements. The audit file did not evidence that the respondent had obtained any relevant agreements, contracts, invoices or other relevant agreements or documents.

- The respondent did not obtain sufficient audit evidence that the €50m amount paid to Wirecard Technologies AG transaction was appropriately authorised and approved.

- The respondent did not perform sufficient audit procedures on transactions with Wirecard Technologies AG in audit file in sections I. Creditors & Accruals, or O. Related Parties.

4.5. There was no evidence or no sufficient evidence that the auditor inquired of management and others within the entity, or performed other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management had established to:

(i) authorise and approve significant transactions and arrangements with related parties, and

(ii) authorise and approve significant transactions and arrangements outside the normal course of business.

ISA 550 para 14 states:

The auditor shall inquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to:

(a)……

(b) Authorize and approve significant transactions and arrangements with related parties; and

(c) Authorize and approve significant transactions and arrangements outside the normal course of business.

89. The audit file did not sufficiently evidence that the respondent had obtained an understanding of the controls, if any, that management had established in relation to related party transactions to:

- Authorise and approve significant transactions and arrangements with related parties,

- Authorise and approve significant transactions and arrangements outside the normal course of business.

90. There was no or no sufficient evidence on the file of relevant enquiries of management or others within the entity in this regard. There was no evidence of walkthroughs performed to obtain an understanding of the controls and processes in place, and there were no controls set out on the audit file.

91. From the evidence on the audit file, it was unclear what controls, if any, were in place in relation to the authorization and approval of significant transactions and arrangements with related parties, and transactions and arrangements outside the normal course of business.

5. Understanding the Entity

5.1. There was no evidence or no sufficient evidence on the audit file that the auditor obtained an understanding of the nature of the entity, including its operations, in particular:

(i) Al Alam, the third-party acquirer relationship, lines of communication with Al Alam, and reporting from Alam.

(ii) The entity's client base – i.e. the clients from which the entity derives its material sales/revenue.

(iii) Escrow Agent relationship (Citadelle Corporate Service Pte. Ltd)

(iv) The 'Escrow Account' balance. The bank where this balance was held. The process and terms for release of funds from the 'Escrow Account'.

ISA 315 para 11(b) states:

The auditor shall obtain an understanding of the following:

(b) The nature of the entity, including:

(i) its operations;

(ii) its ownership and governance structures;

(iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and

(iv) the way that the entity is structured and how it is financed to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.

92. In relation to Grounds 5.1-5.7 the relevant information has already been set out earlier in this document.

5.2. There was no evidence or no sufficient evidence that the auditor obtained an understanding of the entity's selection and application of accounting policies. There was no evidence or no sufficient evidence that the auditor evaluated whether the entity's accounting policies were appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

In particular:

(i) Sales / Revenue

- There was no evidence or no sufficient evidence of an understanding of the entity's selection and application of accounting policies in relation to Sales / Revenue through its third-party acquiring business (Al Alam).

- There was no evidence or no sufficient evidence of the auditor's evaluation of the entity's accounting policies against the requirements of the applicable financial reporting framework (including IFRS 15 - Revenue from contracts with customers).

- The financial statements incorrectly noted that IFRS 15 was "not yet effective for the company and not expected to have a material effect".

ii) Debtors / Receivables

- There was no evidence or no sufficient evidence of an understanding of the entity's selection and application of accounting policies in relation to Debtors / Receivables (including Financial Assets, and impairment of Debtors / Receivables / Financial Assets).

- There was no evidence or no sufficient evidence of the auditor's evaluation of the entity's policy for provision for impairment/expected credit loss of financial assets against the requirements of the applicable financial reporting framework.

- The financial statements incorrectly noted that IFRS 9 was "not yet effective for the company and not expected to have a material effect".

iii) Cash and cash equivalents

- There was no evidence or no sufficient evidence of an understanding of the entity's selection and application of accounting policies in relation Cash and Cash Equivalents, specifically the selection and application of accounting policies in relation to the 'Escrow Account', including its classification as Cash and Cash Equivalents.

- There was no evidence or no sufficient evidence of the auditor's evaluation of the entity's accounting policies in relation to Cash and Cash Equivalents, specifically in relation to the 'Escrow Account', against the requirements of the applicable financial reporting framework.

ISA 315 para 11 (c) states:

The auditor shall obtain an understanding of the following:

(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

5.3. There was no evidence or no sufficient evidence that the auditor obtained an understanding of internal control, or control activities, relevant to the audit, including in the following areas:

> **(i) Sales/Revenue, in particular as it relates to the sales system, and third-party acquiring business (Al Alam)**
>
> **(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets**

(iii) Intercompany / Related Party transactions

(iv) Cash and Cash Equivalents, particularly as it relates to the 'Escrow Account'

(v) General ledger and journal entry process

ISA 315 para 12 states:

The auditor shall obtain an understanding of internal control relevant to the audit

ISA 315 para 20 states:

The auditor shall obtain an understanding of control activities relevant to the audit.

5.4. There was no evidence or no sufficient evidence that the auditor obtained an understanding of how the entity has responded to risks arising from IT, in understanding the entity's control activities, including in the following areas:

(i) Sales/Revenue, in particular as it relates to the sales system, and third-party acquiring Business (Al Alam)

(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets

(iii) Intercompany / Related Party transactions

(iv) General ledger and journal entry process

ISA 315 para 21 states:

In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT.

5.5. There was no evidence or no sufficient evidence that the auditor obtained an understanding of the information system, including the related business processes relevant to financial reporting, including in the following areas:

(i) Sales/Revenue, in particular as it relates to the sales system, and third-party acquiring business (Al Alam)

(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets

(iii) Intercompany / Related Party transactions

(iv) General ledger and journal entry process

ISA 315 para 18 states:

The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:

(a) The classes of transactions in the entity's operations that are significant to the financial statements;

(b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;

(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;

(d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;

(e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and

(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.

5.6. There was no evidence or no sufficient evidence that the auditor evaluated the design of controls that are relevant to the audit, or determined whether they had been implemented, by performing procedures in addition to inquiry of the entity's personnel including in the following areas:

> **(i) Sales/Revenue, in particular as it relates to the sales system, and third-party acquiring Business (Al Alam)**
>
> **(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets**
>
> **(iii) Intercompany / Related Party transactions**
>
> **(iv) Cash and Cash Equivalents, particularly as it relates to the 'Escrow Account'**
>
> **(v) General ledger and journal entry process**

ISA 315 para 13 states:

When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.

5.7. There was no evidence or no sufficient evidence that the auditor obtained an understanding of the entity's controls relevant to the significant risks (and fraud risks), including in the following areas:

(i) Sales/Revenue (including the related fraud and significant risks)

(ii) Debtors / Receivables / Financial Assets, and impairment of Debtors / Receivables / Financial Assets (including the related fraud and significant risk areas)

(iii) Intercompany / Related Party transactions (including the related fraud risk areas)

(iv) Cash and Cash Equivalents (including the related fraud risk areas)

ISA 315 para 29 states:

If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk.

6. The Auditor's responsibilities relating to fraud in an audit of financial statements, including the requirement to maintain professional scepticism throughout the audit

6.1. There was no evidence or no sufficient evidence that the auditor obtained an understanding of the entity's controls, or control activities, relevant to the assessed risks of material misstatement due to fraud.

ISA 240 para 27 states:

The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.

6.2 The nature, timing and extent of the audit procedures designed and performed were not responsive to the assessed risks of material misstatement due to fraud at the assertion level.

ISA 240 para 30 states:

In accordance with ISA (Ireland) 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level.

93. The respondent identified a number of risks of material misstatement due to fraud, including the following:

- Sales: Completeness of income - Management Override, and Revenue Recognition

- Intercompany – Debtor/Creditor balances
- Provider balance – Collectability
- Cash/Bank – Misappropriation of cash amounts
- Journals – Incorrect postings of journals

94. In light of the detail set out in grounds 1.1, 2.1, 3.1, 3.2, 4.1 - 4.3 above, and 6.3 below, the nature, timing and extent of the audit procedures designed and performed were not responsive to the assessed risks of material misstatement due to fraud.

6.3 The nature, timing and extent of the audit procedures designed and performed by the auditor to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements were insufficient.

ISA 240 para 32 states:

Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:

(a) Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. In designing and performing audit procedures for such tests, the auditor shall:

(i) Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;

(ii) Select journal entries and other adjustments made at the end of a reporting period; and

(iii) Consider the need to test journal entries and other adjustments throughout the period.

95. The audit procedures designed and performed to test the appropriateness of journal entries recorded in the general ledger and other adjustments in the preparation of the financial statements were not sufficient and not responsive to the risk of management override of controls.

96. The respondent set out in the audit planning memo that the area 'posting of journals' would be assessed throughout the audit for any potential fraud. Journals were identified as a fraud risk area, specifically 'incorrect postings of journals'. The planned response to the assessed risk included 'review of journal postings for a month and check for any discrepancies'.

97. The audit file does not sufficiently evidence that the auditor understood the general ledger system, the journal entry process, the types of journal entries – e.g. automated journals, manual journals, and any controls in place related to posting of journal entries.

98. The respondent detailed journal entry testing in the Material Journals Testing Memo on the audit file:

Objective:

The objective of this memo is to explain the work carried out in relation to material journals and observation of any unusual transactions during the year in order to identify any indications of management override.

<u>Work performed:</u>

- *We have obtained the journals listing from the client. Please refer to B2.1A,*
- *We have filtered the journals by value and only worked with journals above €140,000,*
- *We have deleted transactions such as debtors, creditors and taxation as these transactions are in the normal course of business,*
- *We have reviewed all remaining transactions.*

<u>Results</u>

- *All journals appear to be in the normal course of business.*
- *There was a €50m transaction payment from connected parties. We can see a reduction under I101 in the Escrow amounts.*

<u>Conclusion</u>

Based on the work performed we did not identify any indication of management override and all journals appear to be in line with the business.

99. The Material Journals Testing Memo on the audit file is a word document dated 28/01/2019 (before delivery of the journals listing by the entity, and was last edited on 16/05/2019 (after the date of signing of the audit report on 10/05/2019).

100. As evidenced in email correspondence included on the audit file, the entity's Finance Director delivered the journal entries listing to the audit team on 08/05/2019. The journal entries listing on the audit file, including edits and work performed by the audit team was last edited on 16/05/2019 (after the date of signing of the audit report on 10/05/2019).

101. The audit file did not evidence procedures performed to ensure that the general ledger data is complete and accurate. Further, the audit file did not evidence how the respondent verified that the journal listing was extracted directly from the general ledger system without any manual amendments.

102. It was unclear how the journal entry procedures designed addressed the risk of management override of controls. There was no documented rationale for excluding journals with value below €140,000. It was unclear why transactions related to debtors, creditors were deleted as these specifically related to fraud risk areas. The results section of the Material Journals Testing Memo notes that "There was a €50m transaction payment from connected parties. We can see a reduction under I101 in the Escrow amounts". This relates to the 'Receipt of €50m into a bank account in Wirecard Bank from 'Escrow Account', which was used to repay intercompany payables with Wirecard Technologies AG' as detailed at 4.4 above, where a number of issues were identified in testing performed. The audit file did not sufficiently evidence performance of audit procedures to test the appropriateness of journal entries recorded in the general ledger in relation to this transaction.

103. Further, as set out earlier, the respondent communicated the following issue that came to her attention that needed to be reported to Those Charged With Governance in the audit findings letter on 10 May 2019:

> ***Late Entries:***
>
> *Findings:*
>
> *During the course of the audit we received updated TBs with new journals being posted into the system. We understand the instructions for these journals were received from central management and was a result of reconciling intercompany accounts*
>
> *Implications:*
>
> *This lead to a number of variations of working papers and draft financial statements*

104. The audit file did not sufficiently evidence performance of audit procedures to test the appropriateness of the late journal entries.

6.4 In respect of the following significant transactions (related party transactions) that were outside the entity's normal course of business for the entity:

(i) €64m paid to related party Cardsystems,

(ii) receipt of €50m into a bank account in Wirecard Bank from 'Escrow Account', which was used to repay intercompany payables with Wirecard Technologies AG,

there was no evidence or no sufficient evidence that the auditor evaluated whether the business rationale (or lack thereof) of the transaction(s) suggested that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

ISA 240 para 32 states:

Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:

…..

(c) For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

105. In light of examples set out in Ground 4.4 above, in relation to the referenced significant related party transactions outside the normal course of business for the entity, there was no evidence or no sufficient evidence that the auditor evaluated whether the business rationale (or lack thereof) of the transaction(s) suggested that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

6.5. The Auditor failed to demonstrate in part or at all that professional scepticism was exercised recognising the possibility that a material misstatement due to fraud could exist.

In particular:

(i) There was no consideration or no adequate consideration of significant transactions (including related party transactions) outside the normal course of business, including those referred to in 6.4 above.

- **There was no evidence or no sufficient evidence that the auditor obtained an understanding of the nature of the transaction(s), or the business rationale for the transaction(s).**
- **There was no evidence or no sufficient evidence that the auditor obtained sufficient support for the transaction(s), including:**
    - **Invoice or other documentation related to the transaction(s)**
    - **Evidence of approval of the transaction(s)**
    - **Evidence to support the flows of cash related to the transaction(s), i.e. bank statements**

(ii) There was no consideration or no adequate consideration of media articles containing fraud allegations from whistle-blowers, and allegations questioning the legitimacy of the third-party acquiring business with Al Alam and the related revenues.

In particular:

(a) There was no evidence or no sufficient evidence of an understanding of Al Alam and the third-party acquirer relationship.

(b) There was no evidence or no sufficient evidence that the auditor obtained an understanding of the sales process and the sales system related to the third-party acquiring business.

(c) There was no evidence or no sufficient evidence that the audit approach was designed to obtain relevant and reliable audit evidence to verify the existence of the revenue earned through Al Alam.

(d) There was no evidence or no sufficient evidence that the auditor verified revenue earned through the third-party acquiring business to flows of cash by agreeing to account statements or other relevant account information.

(e) There was no evidence or no sufficient evidence that the audit team performed audit procedures to verify transactions through the 'Escrow Account' such as by the testing of 'lodgements' to the account, or 'payments' from the account. There was no evidence or no sufficient evidence that the auditor understood these transactions, or verified the

transactions by agreeing them to bank statements or other relevant bank account information to verify the flows of cash.

(f) There was no evidence or no sufficient evidence of audit procedures performed to verify the legitimacy of Al Alam, the third-party acquiring relationship, and the revenue earned through the third-party acquiring relationship with Al Alam.

iii) There was no evidence or no sufficient evidence to support the execution on the audit file of audit procedures that had been designed by the auditor in response to assessed risks of material misstatement and fraud in the following areas:

a) Sales: Completeness of Income, and Revenue Recognition:

There was no evidence or no sufficient evidence that the auditor performed walkthroughs in relation to the sales process or the sales system.

b) Cash and Bank:

There was no evidence or no sufficient evidence of testing of account reconciliations in relation to the 'Escrow Account'.

There was no evidence or no sufficient evidence that the auditor obtained any bank account statements related to the 'Escrow Account'.

There was no evidence or no sufficient evidence that the auditor verified any transactions through the 'Escrow Account' during the year, or the balance at year end, by agreeing to bank account statement.

c) Intercompany – Debtor/Creditor balances:

There was no evidence or no sufficient evidence that the auditor performed audit procedures, including confirmation procedures, to verify the completeness, accuracy, and rights & obligations of material intercompany debtor and creditor balances.

ISA 240 para 12 states:

In accordance with ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

106. Paragraphs 12-19 above are of relevance.

Sanction

107. The sanction imposed must be proportionate balancing the need to protect the public with the respondents' own interests.

108. The purpose of sanction is to declare and uphold proper standards of conduct amongst statutory auditors and statutory audit firms and to maintain public and market confidence in statutory auditors and statutory audit firms and their regulators. In addition, the purpose of sanction is to protect the public from statutory auditors and statutory audit firms whose standard of work falls short of the high-quality audit expected of statutory auditors and statutory audit firms.

109. In coming to the appropriate and proportionate sanction the Authority took into account the Authorities sanctions guidance (effective from 8 March 2021) : The Authority also had regard to its published policy on settlement agreements. The Authority had regard to:

(a)The gravity and duration of the relevant contravention;

(b)The degree of responsibility of the specified person;

(c) The financial strength of the specified person;

(d)The amount of profits gained or losses avoided by the specified person in consequence of the contravention;

(e)The level of cooperation of the specified person with the Supervisory Authority;

(f) Previous relevant contraventions committed by the specified person.

110. The Authority considers that the conduct in question was a serious departure from the standards expected of a statutory auditor. There were numerous departures from the standards identified and there was a lack of professional scepticism applied when conducting this complex audit. In mitigation the respondent has engaged from the outset of the preliminary investigation with the Authority. The respondent's timely admissions demonstrate her insight into the contraventions that were identified.

111. In considering the level of engagement of the respondent with the Authority, an early settlement discount was also applied.

112. The Authority considered the sanction options open to it in ascending order of seriousness. The Authority also took into account the respondent's personal circumstances and that she also works in a voluntary capacity.

113. The Authority took into account the timing of the admissions and it considered that it was appropriate to apply an early settlement discount of 30% to the level of the fine imposed.

114. The Authority concluded that the appropriate and proportionate sanction for the contraventions identified in respect of the audit in this case is a **Severe Reprimand** and the respondent is further **fined €10,500** (the early settlement discount having been applied).

Dated: 5 April 2023

IAASA