

Wirecard's suspect accounting practices revealed

FT Investigation: internal documents from the payments company point to a concerted effort to fraudulently inflate sales and profits

Dan McCrum in London OCTOBER 15 2019

From inside its grey corporate headquarters in Aschheim outside Munich, [Wirecard](#) projects an image of one of Germany's leading business success stories, a fintech champion to rival software giant SAP. After a decade of breakneck growth, Wirecard has become a favourite among investors, with a market capitalisation greater than Deutsche Bank, placing the company in the prestigious Dax 30 index.

Yet Wirecard's seemingly irresistible rise has been plagued by intermittent controversy about its [accounting and business practices](#). Earlier this year, white-collar crime investigators raided Wirecard's offices in Singapore multiple times in connection with allegations that sales and profits were invented [at numerous subsidiaries across Asia](#). Edo Kurniawan, the company's head of international reporting, was named among six suspects.

In response, Markus Braun, Wirecard's Austrian chief executive, dismissed the problems as a local difficulty with scant financial impact. He blamed the payment processing company's fast growth and outlined a dozen measures to improve compliance, including the appointment of a new chairman of the supervisory board in 2020. Wirecard's stock price, which initially fell 40 per cent to €97, has since recovered to about €140, giving it a €17bn market capitalisation.

Today, the Financial Times is publishing documents which cast further doubt on Wirecard's accounting practices. Internal company spreadsheets, along with related correspondence between senior members of Wirecard's finance team, appear to indicate a concerted effort to fraudulently inflate sales and profits at Wirecard businesses in Dubai and Ireland, as well as to potentially mislead EY, Wirecard's tier-one auditor.

The decision to publish these documents follows repeated charges by Wirecard that the FT is relying on fake material and that its own journalism is corrupt and suspect. The documents, provided by whistleblowers, give the clearest picture to date of Wirecard's questionable accounting practices and business model.



Markus Braun, chief executive of Wirecard © Bloomberg

In its defence, Wirecard has claimed that FT reporters have facilitated market manipulation in collusion with short sellers. These allegations have been widely circulated in the German media and are the subject of a legal complaint in Germany, an investigation by BaFin, the German financial regulator, and a probe by prosecutors in Munich.

The FT categorically rejects Wirecard's allegations on all counts. A recently concluded two-month review conducted by an external law firm, RPC, found no evidence of collusion between FT reporters and market participants.

Established in 1999, Wirecard has been a pioneer in the processing of [digital payments](#). In Germany, where consumers prefer to pay in cash, it caught the imagination of investors looking for a blue-chip European digital champion to match those in Silicon Valley.

Initially known for processing payments for online gambling markets and porn sites, Wirecard purchased a bank in 2006 and evolved into a full-service payments operation, providing the software and systems to plug online businesses into the global financial system.

With trillions of dollars of transactions up for grabs as consumers abandon cash, Wirecard is jostling with giant rivals such as Vantiv in the US and China's Alipay for a share of the fast-growing market. It says it processed €125bn in transactions last year, a rise of 37 per cent. It is projecting [40 per cent growth](#) in underlying earnings this year.

More on Wirecard

31/12/2016				24,540,153.77	12,000,000.00
				10,382,983.80	47,634,021.09
				34,923,135.57	59,662,676.06
31/3/2016	80,802,938.59	3,198,246.20	83,405,714.39	11,736,565.92	27,701,389.10
	0.00	0.00	97,533,034.52	30,382,983.80	47,634,021.09
	80,802,938.59	3,198,246.20	180,938,748.91	42,119,549.72	75,335,410.19
30/6/2016	98,473,140.32	3,198,246.20	81,040,591.44	2,339,446.40	19,290,566.33
	0.00	0.00	97,533,034.52	30,382,983.80	47,634,021.09
	98,473,140.32	3,198,246.20	178,573,625.96	54,043,537.40	86,924,587.42
30/9/2016	96,469.45	0.00	36,627,790.54	12,860,358.25	18,345,733.36
	102,243,696.13	3,198,246.20	114,818,806.49	13,265,176.60	56,375,682.75
	0.00	0.00	97,533,034.52	30,382,983.80	47,634,021.09
	102,243,696.13	3,198,246.20	212,351,841.01	69,648,160.40	104,009,703.84
31/12/2016	102,340,155.58	3,198,246.20	78,191,015.93	404,818.35	38,029,545.39
	0.00	0.00	177,533,034.52	86,382,983.80	84,009,703.83
	15,000,000.00				
31/12/2017	123,125,047.88	3,198,246.20	30,100,692.75	6,696,445.82	19,855,397.13
	0.00	0.00	247,533,034.52	86,382,983.80	104,009,703.83
	15,000,000.00				
	138,125,047.88	3,198,246.20	277,633,727.27	93,079,429.62	123,865,100.96

The documents

Click to [download a zip file](#) of internal Wirecard documents obtained by the FT

FT Alphaville Explainer

Follow Dan McCrum on a [tour of the files](#), which point to suspected fraud at a Dax 30 fintech

Over the past decade Wirecard has fuelled its expansion by buying smaller payment processing businesses and groups of customers around the world, including a 2017 move to take on 20,000 merchant clients of Citibank, spread over 11 Asia-Pacific countries. The deal was intended to make the company a household name across the region.

Wirecard has also said its geographic reach has expanded by working with hundreds of [partner processing companies](#), which fill in gaps when Wirecard lacks the expertise or local authorisation to process payments itself.

A focal point of the FT's inquiries into Wirecard is one of these partner companies, a Dubai-based intermediary called Al Alam Solutions, which documents indicate contributed half of the German company's worldwide profits in 2016.

Wirecard staff have described Al Alam as a "third-party acquirer", payments jargon for a business licensed by the big payment networks, such as Visa and Mastercard, to help retailers accept credit card transactions. Al Alam was purportedly the spider at the heart of an international web, processing vast sums for 34 of Wirecard's most important and lucrative clients in the US, Europe, Middle East, Russia and Japan.

Yet when the FT visited Al Alam's Dubai office this year it became clear this was a threadbare operation. A former employee told the FT it had just six or seven staff.

Neither Visa nor Mastercard have any record of a relationship with Al Alam, deepening the mystery of why Wirecard would refer business to the partner company, given the German fintech group already has Wirecard Processing, its own payment processing subsidiary employing scores of staff, nearby in Dubai.

Internal financial reports from 2016 and 2017, shared between members of Wirecard's finance team and obtained by the FT, detail the business which has supposedly flowed through Al Alam. The documents record about €350m of payments from 34 key clients as passing through Al Alam, on behalf of Wirecard, each month during the period.



Edo Kurniawan, Wirecard's head of international reporting and controlling

Yet there are strong indications — likely to attract attention from auditors and regulators — that much of the payment processing attributed to these 34 clients could not have taken place.

When contacted by the FT, 15 of the 34 clients said they had never heard of Al Alam, of which only four said they did use Wirecard for payment processing at the time. Six did not respond to requests for comment or declined to discuss the matter, and five of the other purported clients could not be traced or contacted by the FT. The remaining eight named clients appear to have shut down completely at the time they were appearing in Wirecard's books.

In early 2017, for example, Al Alam is shown in the documents to have been processing around €46m of payments every 30 days on behalf of Wirecard for an Irish prepaid card business called Cymix Prepaid. Yet Cymix was liquidated in 2012, according to Irish corporate records.

Another client, US payments processor CCBill, sent Al Alam €24m of dollar, yen and euro payments each month to transact, according to Wirecard financial reports.

However, CCBill's chief operating officer, Jake Powers, told the FT the company had no connection to Al Alam "of any kind". As a payments industry professional, he said he would be expected to know where and how CCBill's transactions were being routed.

Separately, a Philippines-based gambling business called Gaming Network Solutions is on the Wirecard books for its CardSystems subsidiary as having €2m of payments processed monthly by Al Alam through the whole of 2017.

But Fred Fateh, founder and chief executive of Gaming Network Solutions, said his company's three-year relationship with Wirecard ended when Rodrigo Duterte was sworn in as president of the Philippines vowing to crack down on gambling: "Exactly June 30, 2016, we stopped our real money operations," he told the FT. Mr Fateh's need for payment processing had ended when his business switched to games played for points, not cash. Either way, he had never heard of Al Alam.

thank you!!
Rastede, Lars 4:36 PM:
yes, will do - which CR? Maxcone?
Kurniawan, Edo 4:38 PM:
CR, Maxcone, VISA and remaining business
Rastede, Lars 4:39 PM:
Okay Edo one last thing:
There is a reason our practice is called "triggering event analysis" If in 2017 Maxcone generates more Gross Profit than annual depreciation, EY has to accept it. No fuc**ing Impairment Test is necessary!
Triggering Event analysis is passed (stop your work EY!) once Gross Margin is higher than annual depreciation!
I am just seeing it, Edo! Maxcone has about €230k annual depreciation and generated €2,500k of Gross Margin?!
Triggering Event Testing is passed! No Impairment Test is necessary!
Kurniawan, Edo 4:43 PM:
I am totally agree on this!
apparently they come to me from the other angle
and I start realize that, thats why I plan not to reply immediately and contact you
Rastede, Lars 4:46 PM:
Okay so here in Munich there is Andreas Loetscher and Gregor Fichtelberger who lead the Wirecard Group Audit!
They requested from me the complete Customer Relationship Monitoring File (the one I sent to you last week!)
This is where we compare annual depreciation with Gross Margin which the respective Customer Relationship is
GM > annual depreciation THEY AND WE STOP working! The Test is passed and EY is totally

Details of a transcript between Wirecard staff

Seemingly defunct entities still seeing their business booked in the Wirecard spreadsheets during this period include Bank de Binary, a financial firm which closed in March 2017 following regulatory pressure; Molotok, a former Russian competitor to Ebay; and Piku, a shuttered coupon business from Japan.

Together these findings raise doubts over whether substantial sales and profits were actually travelling through Al Alam to Wirecard — or were simply invented. Further questions arise based on internal correspondence between Wirecard executives and the relationship with EY, its tier-one auditor.

For a decade, EY's reputation as one of the Big Four worldwide accountancy and auditing firms has helped to rebuff criticism of Wirecard's accounts and business practices. Its signature on the financial statements in April this year helped to convince many investors that Mr Braun's decision to [minimise the Singapore accounting scandal](#) — first reported by the FT — was credible.

Three spreadsheets — internal financial reports published today by the FT, with their accompanying correspondence — cast doubt on EY's oversight. They show how Wirecard's finance team used the now-suspect relationship with Al Alam to justify revenues, profits and asset values to auditors.

The supposed Al Alam business was funnelled through two thinly-staffed Wirecard subsidiaries, which rank among the technology group's largest and most profitable in financial terms, according to the limited German-language public disclosure available.

The screenshot shows the CCBill payment processor interface. At the top is the CCBill logo. Below it, there are dropdown menus for currency (USD), a payment plan (\$1.00(USD) for 30 days then \$1.00(USD) recurring every 30 days), and language (English). The main navigation bar includes buttons for 'Pay as a Guest', 'Pay with CCBill Pay', and 'Pay & Create CCBill Pay'. The form is divided into three main sections: 'Billing Contact' with fields for First Name, Last Name, and Email; 'Billing Address' with fields for Address, City, State/Province (set to Arizona), Postal Code, and Country (set to United States); and 'Payment Options' with 'Card' and 'Bank' tabs. Under the 'Card' tab, there are fields for Credit Card Number, Exp. Date (set to Choose One), and CVV, along with logos for VISA, Mastercard, Discover, and American Express. At the bottom of the form, there is a checkbox for 'Yes, Store my payment info & create my own CCBill Pay account!' and a security notice: 'This is a secure 256 bit SSL encrypted payment.' A small disclaimer at the very bottom states: 'By completing this order, I confirm that I am 18 (some locations, 21) years or older and agree with the privacy statement and general terms and conditions.'

Wirecard says the US payments processor CCBill was a multimillion dollar client of its partner company Al Alam Solutions but CCBill says it has had no business with Al Alam

One is CardSystems Middle East in Dubai, which whistleblowers said was effectively a one-man operation run from an apartment in the Burj Khalifa, the world's tallest building. The other is Wirecard UK & Ireland, whose nondescript office in Dublin housed a dozen staff, according to whistleblowers.

Correspondence between senior executive members of Wirecard's finance team underlines just how central Al Alam was to the profits claimed for these two key subsidiaries.

Alongside the spreadsheets, the FT is today publishing a selection of this correspondence to help to demonstrate the apparent authenticity of the accompanying documents.

According to one of the spreadsheets, shared between executives in July 2017 and titled "Übersicht Dritt-Acquirer" (overview of third-party acquirers), Al Alam was responsible for €265m of revenues in 2016 and an "ebitda-effekt" of €173m. That is equivalent to a quarter of Wirecard's worldwide sales that year and more than half of its earnings before interest, tax depreciation and amortisation.

Somehow, the €4.2bn of payments routed through Al Alam in 2016 produced more profit for Wirecard than the rest of the €62bn worth of transactions it processed that year, if the figures in the overview are taken at face value.

The documents raise important questions about EY's oversight of Wirecard's relationship with Al Alam and the integrity of revenues flowing through the Wirecard UK & Ireland and CardSystems Middle East subsidiaries.

Since 2016, Wirecard has claimed an exemption used by multinational groups to not file accounts for Irish subsidiaries, by guaranteeing their liabilities. The group's Irish businesses are audited by BCK, a Dublin-based firm.

In the case of CardSystems, Mr Braun told investors earlier this year that the subsidiary came under EY's group audit. It emerged in a September bond prospectus that CardSystems had no local auditor in Dubai. The company said it has now appointed one.

The group's Munich finance team appears to have prepared documents for EY, conducting the group audit, which said CardSystems earned €69m of profit from €1.6bn of payments processed by Al Alam in 2017. Details of the underlying customer business were included.

These figures appear in a financial report, titled "Q4 2017 Monitoring CR_intern", sent in April 2018 to Mr Kurniawan, the head of international reporting, by Lars Rastede, Wirecard's manager of mergers and acquisitions. It was the final days of that year's audit, and in a subsequent Skype conversation Mr Rastede said "there is massive effort flowing into that big table!".

Mr Rastede's spreadsheet detailed profits at a wide range of Wirecard businesses. Mr Rastede said it had been specifically requested by Andreas Loetscher, the EY partner who signed Wirecard's group accounts days later.

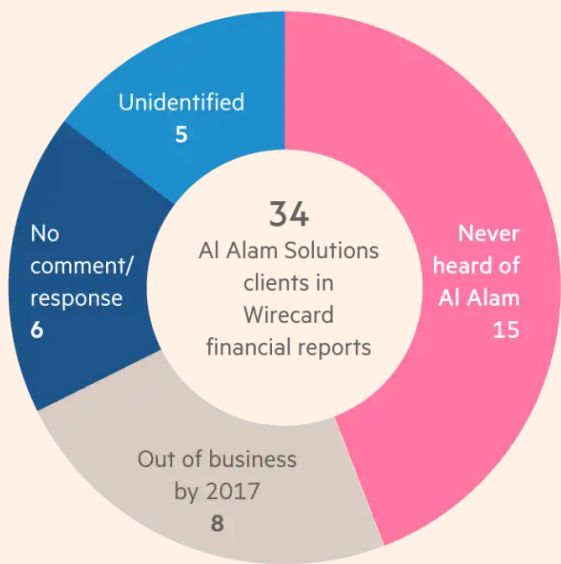
EY declined to comment, citing client confidentiality.

Al Alam said it operates “in full accordance with all applicable laws, rules and regulations” and “was not involved in any alleged process to fake revenues or profits at Wirecard”.

Wirecard rejected any allegation that financial data were invented by its staff. It said all customer relationships were subject to regular audits, and that customers usually connect and contract only to Wirecard, which integrates the services of various parties.

The group initially responded to the FT’s questions about earnings attributed to Al Alam by dismissing documents described in this article as fake. Wirecard later elaborated on this, saying that financial reports “usually only present an aggregated view across clusters of clients”, and said that client names on authentic company spreadsheets may not be reliable either. Customer incorporation data “is rarely represented in internal financial reporting or is masked by aliases”, it said.

Al Alam’s clients don’t know who Al Alam is



Source: FT research
© FT

Al Alam Solutions clients identified in Wirecard financial reports

Response type	Company	Description
Out of business by 2017	Shareee	Japanese coupon site purchased by Rakuten in 2012

Response type	Company	Description
	Piku	Japanese coupon site closed on April 25, 2016
	Mobilmat	Italian prepaid card business, liquidated in 2015
	Banc de Binary	Israeli financial firm, closed March 2017
	Molotok	Russian version of Ebay, shut down 2015
	Axxis Customer Support	Irish business, dissolved in 2013
	Cymix Prepaid	Irish business, dissolved in 2012
	The Enterpay Corporation	Florida business, no filings since 2014 registration
Never heard of Al Alam	1xBET.com	Russian bookmaker <i>(It says it did have a business relationship with Wirecard)</i>
	Allied Wallet	US payments facilitator <i>(It says it did have a business relationship with Wirecard)</i>
	CCBill	US payments processor <i>(It says it did have a business relationship with Wirecard)</i>
	Ventnor Enterprise Limited	UK subsidiary of Friend Finder, an online dating company <i>(It says it did have a business relationship with Wirecard)</i>
	Gaming Network Solutions	Philippine social gaming company <i>(It says it had a relationship with Wirecard before June 2016)</i>
	Payture	Russian payments operator <i>(It says it had a relationship with Wirecard before June 2016)</i>
	Bodypure	Alternative health products
	CyberPlat	Russian payments operator
	ForexTime	Foreign exchange broker
	Medline*	Manufacturer and distributor of healthcare products <i>(*Possibly misidentified, corporate database Orbis identifies more than 1,000 companies with "Medline" in their name)</i>
	Nutraplanet	US nutritional supplement retailer
	Ponpare	Japanese coupon site, owed by Recruit Group
	Shimatomo	Japanese payments processor
	Africa Airtel	Telecoms group
	Kobo	Ebook store owned by Rakuten
No	Buddyprofits	Gay porn affiliate marketing

comment/response Response type	Company	Description
	Epoch	US payment service provider
	Etisalat	Telecoms group
	Mobage Mobacoin	Japanese prepaid card for use on DeNA social network
	Netbilling	US payments service provider
Unidentified	Tombola	UK bingo operator
	Functionlab	
	Goldfish Marketing	
	Herbalmedx	
	Sokol	
	T1M-FILESHARE	

Since the FT revealed this year that Edo Kurniawan, the Singapore executive suspected of cooking Wirecard's books in the region, was still in his post and working on the annual audit, the German group has attempted to undermine the credibility of the FT's reporting.

Its public statements on the matter have been inconsistent. It said the FT's first story about Singapore was false, and that "no material compliance findings" arose. Wirecard impugned the motives of whistleblowers, then months later announced that some staff may face criminal liability in Singapore for their actions.

Wirecard also denied that its offices had been raided by the Singapore police, claimed to be assisting the authorities, then challenged the investigation in court. Singapore prosecutors called the company's failed legal manoeuvre "an abuse of process" and questioned its willingness to co-operate with the probe.

Wirecard has said on several occasions that the FT has relied on fabricated documents. At the same time it has sued the FT in German civil court, alleging misuse of company secrets and seeking damages.

The FT has consistently raised questions about Wirecard's accounting and practices since 2015, while the company has repeatedly cast such criticism of its business as the work of market manipulators. Germany's financial regulator appears to have been sympathetic, imposing an unprecedented ban on short selling bets against Wirecard for two months this year.

Investors and regulators are left to consider a question of credibility. Are the internal documents published today by the FT really fake, or should that description be applied to much of the profits at one of Germany's largest and most popular companies?

Additional reporting by Leo Lewis in Tokyo

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