

The Wirecard Scandal (Germany)

Case Overview

The Wirecard Scandal (Germany)

a. Description:

Wirecard, a German digital payment processing company (fintech), was involved in one of the largest corporate fraud scandals in Europe. The company was found to have inflated its balance sheet by €1.9 billion, which auditors later declared to be missing. The fraud got exposed when the company could not account for the funds, sparking a large-scale investigation. It turned out that Wirecard had been falsifying accounts for years, creating fake transactions and inflating revenues to maintain its market position.

b. Location and Date:

- Location of offence and procedures: Germany
- Date of when investigations commenced: The scandal came to light in 2020, while investigations were already underway from 2019.
- Date of when offence took place: it took place for several years, between 2015-2020.

Reflection questions

- Do you have strong internal controls in place to prevent and detect fraudulent activities?
- If a whistleblower, or an employee, detects and reports fraudulent activity, how would you respond?
- How do you ensure transparency in reporting suspicious activity?
- How would you take responsibility and address a mistake while maintaining trust?
- Have you ever faced a situation where being honest might have led to a negative outcome?
- How would you respond if a manager suggested you manipulate data to make results appear more favorable?
- Do you encourage colleagues to speak up when they notice unethical behavior, even if it involves senior leadership?
- What would you do if a close friend or family member offered you a personal favor in exchange for selecting their company for a contract?

Impact

1. **Outcome:** Wirecard filed for insolvency in June 2020, leading to its collapse. CEO Markus Braun was arrested, and COO Jan Marsalek fled the country. Several other executives were charged, and German regulators faced heavy criticism for failing to

spot the red flags earlier. In 2023, Braun went on trial in Germany, with prison sentences imposed from several years of imprisonment to life. The EU is set to create stricter rules for company financial reporting and auditors based on lessons learnt from Wirecard.

2. **Judgements/Penalties:** Imprisonment, as well as personal liability of three former Wirecard executives fined EUR 140 million in 2024 in total.

Integrity Issue

Specific concern:

- Wirecard falsely reported having €1.9 billion in cash reserves that did not exist. In that way, financial transparency was not ensured, along with accurate accounting, and reliable audit processes.
- Senior executives, including the CEO, were implicated in the fraud, reflecting poor governance, lack of accountability, and ineffective board oversight.
- Despite red flags, regulatory bodies like the German financial regulator, failed to investigate thoroughly.
- Wirecard's internal auditing and risk management processes failed to detect or act on widespread fraud.
- Deception and unethical behavior by the leadership highlighted an inappropriate and unhealthy corporate culture.

Related SDGs:

- **SDG 16: Peace, Justice and Strong Institutions**
In this case, systemic corporate governance failures were exposed, lack of transparency, and fraud of high levels were evident weakening trust in institutions.
- **SDG 8: Decent Work and Economic Growth**
The scandal involved large-scale financial fraud and misrepresentation, undermining trust in economic institutions and capital markets.

Public Response

The scandal severely damaged confidence in Germany's regulatory bodies. There were calls for reforms to increase transparency and accountability in financial oversight. Investors and employees who lost money were outraged, leading to protests and a wave of lawsuits against the firm and its auditors, Ernst & Young (EY), with lawsuits still being on-going.

Learnings:

Key takeaways:

- Fabricating or falsifying financial records undermines trust and integrity.
- A lack of accountability and oversight within senior management can lead to unsupervised misconduct.

- Ignoring whistleblower warnings and external scrutiny, as well as through lack of maintenance of internal transparency can lead to such scandals.

Impact on sustainability:

- Wirecard's collapse significantly undermined investor and consumer confidence in financial markets and in fintech companies, reducing opportunities for sustainable economic growth.
- The scandal highlighted the absence of robust corporate governance structures, harming the company's ability to sustain ethical practices and long-term trust with stakeholders.
- Weak oversight not only impacted Wirecard, but raised questions about the overall sustainability of fintech (financial technology) innovation without strong ethical frameworks.

Applying Learnings in Your Organization

- Conduct independent audits at least annually, preferably by different firms to avoid conflicts of interest. Use external auditors who adhere to strict regulatory standards.
- Implement automated financial systems with checks and balances for transparency. This could include using accounting software that flags irregularities.
- Create a clear whistleblowing policy with confidential reporting mechanisms.
- Encourage employees to speak up and investigate concerns promptly.
- Appoint a supervisory board to ensure objective oversight.
- Implement clear roles and responsibilities for the board in monitoring senior management actions.
- Establish a risk management department that periodically assesses financial and operational risks and reports directly to the board.

References

News articles:

- [Wirecard trial of executives opens in German fraud scandal \(bbc.com\)](https://www.bbc.com/news/business-56844444)
- [How the Biggest Fraud in German History Unravelling | The New Yorker](https://www.nytimes.com/2020/07/23/business/wirecard-fraud.html)
- [Wirecard ex-CEO Braun, two others ordered to pay 140 mln euros in damages | Reuters](https://www.reuters.com/business/wirecard-ex-ceo-braun-two-others-ordered-pay-140-mln-euros-damages-2020-07-23/)
- [Wirecard 'wake-up call' prompts EU company reporting reform | Reuters](https://www.reuters.com/business/wirecard-wake-up-call-prompts-eu-company-reporting-reform-2020-07-23/)

Videos:

- [Wirecard scandal: How fraudsters built a financial giant | DW News \(youtube.com\)](https://www.youtube.com/watch?v=179-What-happened-to-Wirecard?)
- [179\) What happened to Wirecard? | CNBC Explains - YouTube](https://www.youtube.com/watch?v=179-What-happened-to-Wirecard?)