Wirecard AG

KPMG audited Mauritian company used in suspicious Wirecard deals

Accountancy firm had criticised EY for the way it handled fraud allegations

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KPMG, which this year revealed its rival accounting firm EY had missed a chance to stop Wirecard's fraud, was itself the auditor to a suspicious vehicle that investigators believe may have been used to siphon off the payments group's funds.

In a special audit into Wirecard, which precipitated the collapse of the German group, KPMG wrote an unpublished addendum that criticised EY for failing to follow up properly on 2016 allegations of accounting fraud.

Among the allegations, made in a letter from an EY employee, was that "Wirecard senior management" secretly held stakes in a Mauritius-based fund that sold three Indian companies to Wirecard for €340m weeks after buying them for a fraction of that amount.

Senior Wirecard managers were also accused of artificially inflating the operating profit of the Indian businesses in an attempt to push up the acquisition price, which was partly linked to future profits.

KPMG found that a subsequent EY investigation into the allegations was "incomplete" and there was evidence "that should have been investigated conclusively". In the event, the Wirecard fraud continued for four years.

However, absent from the KPMG report was any acknowledgment that the auditor on the Mauritius fund, named Emerging Market Investment Fund 1A, was KPMG.

In addition to auditing the fund, the Big Four accounting firm also played an advisory role in the suspect deal and one of the KPMG partners involved went on to work for the Mauritius fund, according to documents seen by the Financial Times and several people familiar with the situation.

KPMG declined to comment.

Details of the work for EMIF add KPMG’s name to the long list of professional services firms employed by Wirecard and its suspect business partners before the Dax-listed group crashed into insolvency in June.

KPMG was called in by Wirecard's supervisory board last year to investigate multiple allegations of fraud, and the 2015 deal with EMIF 1A was one of the main issues considered in the special audit.

The huge price increase of the Indian assets over such a short period in time has long fuelled suspicion of misconduct – in particular as the ultimate beneficial owner behind EMIF 1A is unknown.

People familiar with KPMG's special audit into Wirecard told the Financial Times that the firm's auditing work for EMIF 1A was not disclosed because it was deemed “irrelevant” for the mandated inquiry.

These people stressed that the auditing work was conducted by a KPMG subsidiary that was legally independent from the unit conducting the special audit into Wirecard. They also argued that KPMG's audit into EMIF 1A had been legally off-limits for the German forensic team working on the special audit into Wirecard as it was a confidential document. Sharing it within KPMG would have been a breach of law, these people argued.

Apart from its auditing work for EMIF 1A, KPMG had a second link to Wirecard’s controversial acquisition in India. The seller of one of the three Indian payments groups had commissioned the firm to conduct a so-called “vendor due diligence” and compiled a “fact book” outlining financial details of the operations of the deal's target.

This activity was disclosed by KPMG in the non-public appendix of its Wirecard special audit. People familiar with KPMG’s special audit told the Financial Times that the EY employees working on the Wirecard investigation did not access the “fact book” and were not familiar with its contents.

Documents seen by the Financial Times also reveal that one of the Indian KPMG employees who worked on the vendor due diligence a few months later left the Big Four firm to take a senior position at Goomo, a travel company that was carved out of the transaction. Goomo, which was controlled by EMIF 1A, later received $50m of funding from the funds as well as a loan from Wirecard Bank.

EMIF and Goomo have previously declined to comment.