

Nothing less than a total overhaul will save accounting...

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Wirecard is a German company managing card payments for customers.

It has gone into insolvency.

That's because it has admitted, as [the FT has noted](#), that maybe $\hat{a}, -1.9\text{bn}$ of cash on its balance sheet probably never existed.

This is despite a decade of being audited by EY.

And a special report into its accounting by KPMG after concerns were raised.

Despite which we now know [EY did not do that most basic of audit tests](#) - a bank reconciliation, which means that the transactions recorded in a bank account are verified against the statements supplied by the bank itself. One has to presume that KPMG managed to miss that as well.

The result is that a massive fraud went undetected.

Now [Germany says](#) it is going to reform its audit regulation. As the FT notes:

Germany is to overhaul the way it regulates accountancy firms as it seeks "radical solutions" to contain the fallout from the huge fraud at payments group Wirecard.

The government will terminate its contract with the country's accounting watchdog, the Financial Reporting Enforcement Panel, as early as Monday, according to officials briefed on the matter.

The power to launch investigations into companies' financial reporting would then be handed to BaFin, Germany's financial regulator, the officials said.

But don't get excited. The FREP apparently had just 15 employees and a budget of $\hat{a}, -6\text{m}$. BaFin may be little better. And the issue is not the fact that a private-sector regulator - FREP - was allowed to monitor private sector activity, although that was very

obviously a ridiculous idea. Instead, the problem is much deeper than that.

The problem is that all governments have walked away from accounting.

They have outsourced accounting standards to the International Financial Reporting Standard - an industry body.

They have outsourced auditing standards to the International Auditing and Assurance Standards Board - another industry body.

They refuse to take responsibility for regulation.

They will not pass company law that requires that accounting is responsible to all stakeholders, and not just shareholders.

They have not been willing to address the failure of the IFRS to address tax abuse via country-by-country reporting - which they have refused to consider.

They have accepted that the IFRS will not go near climate change because they say they are not competent to do so.

As a result, governments tolerate the accounting standard setter refusing to address the two biggest issues in accounting today because the profession does not wish these matters to be addressed.

And across the whole neoliberal world this is considered acceptable by governments.

It isn't. The failure is systemic, but that includes government failure to accept responsibility for this.

We need to split audit from consulting firms.

And we need to regulate auditors vastly more rigorously, and if the cost goes up, so what?

We need accounting standards to be set by the government.

They must be created in the public interest, not that of the accounting profession and its clients.

And they must be enforced in the public interest.

Climate and tax abuse must be tackled by such standards.

Whilst the abomination of mark-to-market accounting, which allows the double-counting of profits amongst its many failing, has to be consigned to history.

Nothing less than a total overhaul will save accounting from itself.

Shuffling a regulator will not do.