

The Wirecard scandal – Do auditor reputational losses cross borders?

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ABSTRACT: This study investigates whether the national audit firm suffers reputational losses from an involvement in a large-scale accounting scandal and whether reputational losses spill over from the national audit firm to foreign network affiliates. Drawing upon Germany's 2020 high-profile accounting scandal involving one of its largest publicly listed companies (Wirecard AG) and a Big 4 audit firm (EY Germany), we examine auditor reputational losses for EY in Germany, and reputational losses spillover to EY's affiliates in Austria, Switzerland, and the UK. We use shareholder dissatisfaction and client switching as proxies for auditor reputation. First, we document reputational losses for EY Germany in terms of client switching resulting in a loss of market share of more than 35 %. Second, our findings reveal some weak evidence for reputational losses spillover from Germany to Austria, Switzerland, and the UK. Overall, our results indicate substantial reputational losses for the national audit firm being involved in the accounting scandal, but very limited evidence that reputational losses cross borders.

KEYWORDS: Auditor reputation, accounting scandal, shareholder dissatisfaction