



The role of accounting in money laundering and money dirtying

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Abstract

This paper examines the processes involved in the misapplication of accounting knowledge from the angle of financial crime. It analyses the importance of accounting knowledge in the construction of money laundering operations and the development of money dirtying. It shows that contrary to a widely held idea, money laundering and money dirtying techniques are not based on the same accounting practices and deviant mechanisms. This paper explores three degrees of integrating accounting knowledge in the organization of financial crime procedures. It sums up the motivations of white-collar criminals and demonstrates that the preparation of a money laundering operation differs from the financing of terrorist activities.

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Fiduciary currency and double entry bookkeeping formerly constituted the twin pillars of the development of capitalism and helped make it the dominant economic system. However, the irrational exuberance of stock markets combined with repeated financial scandals have cast a cloud over an economic system which is characterized by a refusal to be seriously called into question by any other ideological, democratic or economic counter power.

The weakness of capitalism lies in its capacity to pervert both financial statement preparation and auditing, which constitutes accounting. Thus, with the rise of increas-

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ingly sophisticated financial crime, it is the very nature of financial regulation which is at stake.

The question remains: is accounting one of the keys to understanding the mechanisms of the criminal economy and terrorist funding?

Positioning accounting as a determinant element of financial crime presupposes an epistemological examination of accounting knowledge. As well as being a technique, accountancy can also be a language, an art and a science. No matter how it is qualified, accounting knowledge can be used to aid and abet financial crime. As a technique, accountancy adds a sophisticated edge to criminal operations. Thus, the secured loan is an operation in which “the launderer will appear to have received a simple loan whereas he could only have obtained it by depositing the same amount as a guarantee of repayment. Obviously this loan has no apparent link with the criminal activity” (de Maillard, 1998). As the language of business, accountancy must make the crime invisible by ensuring that the accounting information contains all the necessary virtues. It is important to prevent the appearance of “any blatant distortion between the inflows of laundered money and official earnings and to be able to justify the publicly visible lifestyle” (de Maillard, 1998). Identified as an art, accountancy becomes a combinatory instrument combining three of the seven liberal arts taught at medieval universities.¹ Accounting knowledge combines either arithmetic and rhetoric or arithmetic and dialectic. Thus, sophists and investigators confront one another in the search for truth. The very nature of money laundering methods generates a disconnection between the real sphere and the virtual economy. The modern sophist excels in disseminating false information whilst maintaining an impression of rationality and economic credibility. Lastly, to regard accountancy as a science is to seek the cause-and-effect relationship between the technical decision to manipulate and its overall economic and social consequences. This is exemplified by the collective assets management of economic and financial crime which allegedly amounts to approximately “150 billion dollars shared between banking networks and intermediaries” (De Brie, 2000).

Whilst the integrity of practitioner communities is self-evident, the extreme sophistication of financial crime has inevitably led magistrates and investigators to show greater vigilance towards the accounting world. But is it true to say that all financial crime requires mastering accounting techniques and knowledge? The answer is not as obvious as it may seem.

Approaching accounting from a criminal perspective entails trying to discover psychological dominance in the personalities and profiles of accounting manipulators, examining the professionalisation of financial crime techniques, properly defining financial crime and ascertaining whether accounting plays a key supporting role in the development of money laundering and terrorist funding.

1. The three levels of accounting in the organization of crime

The positioning of accounting as a determinant element of financial crime presupposes that modern sophists excel at providing deceptive information whilst maintaining a semblance of rationality and economic credibility.

¹ The seven liberal arts taught at universities during the Middle Ages were, arithmetic, music, geometry, astronomy, grammar, rhetoric and dialectic.

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