Anti-Corruption and Anti-Money Laundering Auditing in the Era of Digitalization and Cryptocurrency in China

National Audit Office of China

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中华人民共和国审计署

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1. **Definition of cryptocurrency**

2. **Key risks & impacts**

3. **Cryptocurrency money laundering process**

4. **Audit strategies**

5. **Future challenges & solutions**

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Cryptocurrency

Cryptocurrency is a digital or virtual currency based on blockchain technology, characterized by anonymity, decentralization, irreversible transactions, and global internet-based circulation.

Challenges: Facilitates corruption and money laundering by obscuring transaction trails.

Cryptocurrency

➢ **Key Risk**

- Anonymity enables hidden transactions.
- Decentralization bypasses traditional oversight.
- Cross-border flow complicates tracking.

➢ **Impacts**

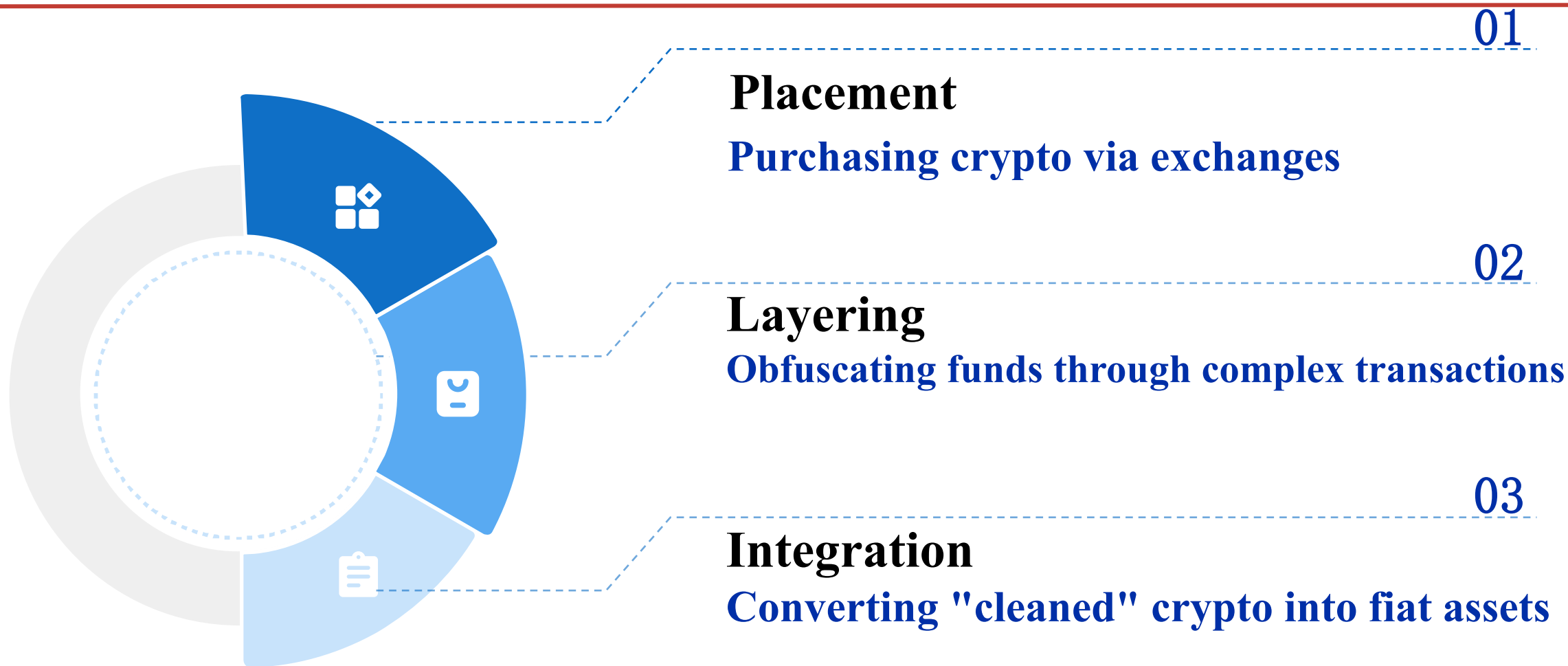Becomes a tool for bribery, money laundering, and illicit wealth transfer.

China's Policies

- ➢ Declared Bitcoin, Ethereum, and Tether-related activities as illegal financial activities.

- ➢ Ban on domestic financial institutions servicing crypto transactions.

- ➢ Prohibition on offshore exchanges serving Chinese residents.

Cryptocurrency Money Laundering Process

01

Placement

Purchasing crypto via exchanges

02

Layering

Obfuscating funds through complex transactions

03

Integration

Converting "cleaned" crypto into fiat assets

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Audit Strategies – Tracking On-Chain Activities

➢ The crux of big data auditing lies in extracting core data features and filtering suspicious accounts from massive datasets.

➢ Cryptocurrency blockchains are public, distributed ledgers where all transactions—including amounts, sender/receiver addresses—are recorded and publicly accessible, providing foundational data for audits.
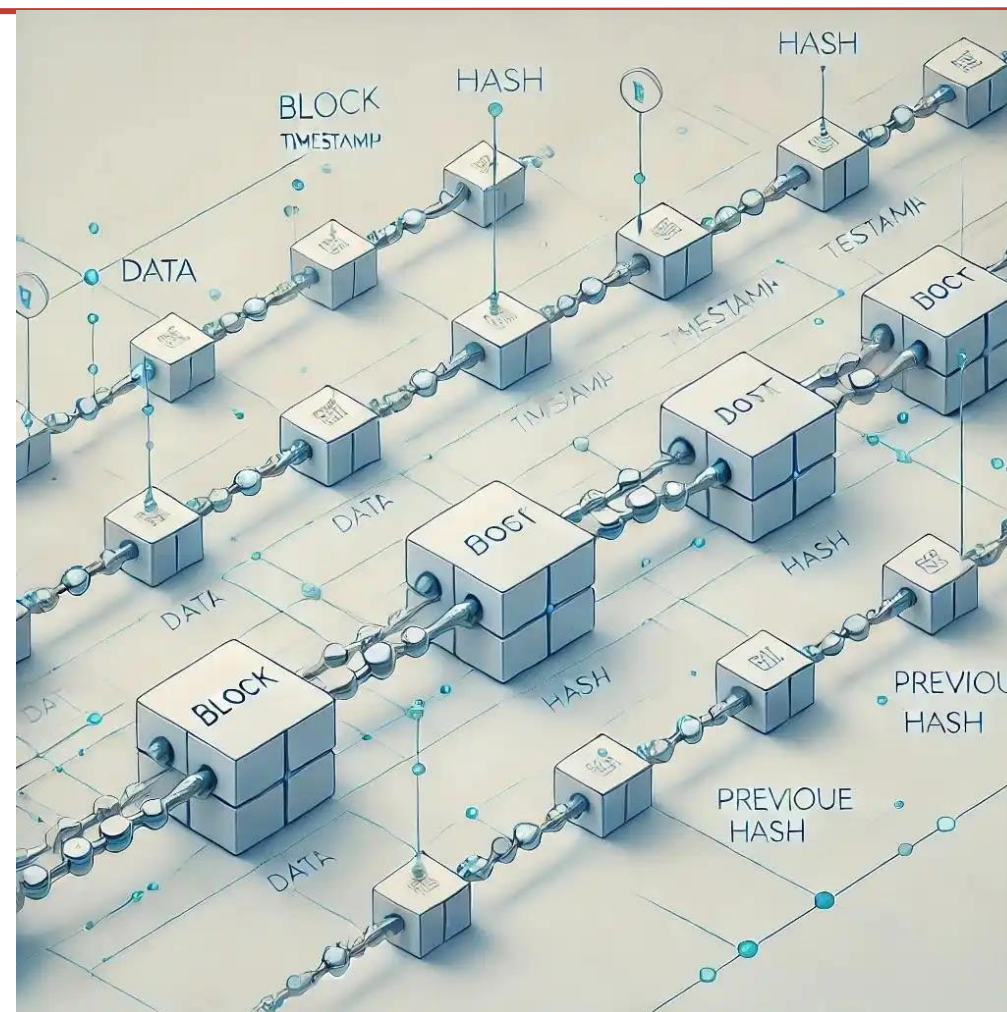
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Audit Strategies – Tracking On-Chain Activities

☐ **Graph Database Analysis for Address Linkage**

Graph databases, a type of non-relational database, efficiently store and query complex data structures, helping auditors analyze intricate relationships.

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Audit Strategies – Tracking On-Chain Activities

☐ **Machine learning to detect abnormal patterns**

Machine learning and AI algorithms can learn normal transaction patterns (e.g., frequency, amounts, timing) and flag deviations.

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Tracking Off-Chain Suspicious Fund Flows

Focus Area I

During the placement stage, launderers often recruit individuals to open accounts and wallets, using them to purchase cryptocurrencies. This process involves funneling illicit funds into third-party accounts before converting them via crypto intermediaries.

Focus Area II

Cryptocurrency purchases rely on exchanges, many of which now enforce "Know Your Customer" policies, requiring user identification. This makes it harder for launderers to operate anonymously.

Future Challenges & Solutions

As decentralized finance evolves, cryptocurrency-enabled corruption and laundering tactics grow more sophisticated, employing smart contracts, cross-chain swaps, and other technologies. This demands continuous advancement in auditing techniques.

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THANK YOU！

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