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ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM: IS THE ACCOUNTING SYSTEM EFFECTIVE

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Abstract: The study achieved its objective of evaluating the contribution of accounting practices to AML/CFT compliance, analyzing their integration with regulatory frameworks, and assessing the impact of accounting standards and audits on AML/CFT effectiveness in Nigeria. It also explored systemic challenges and provided actionable recommendations to improve financial transparency and resilience against financial crimes. A cross-sectional design was employed, focusing on professionals from Nigeria's financial and regulatory sectors. The study involved 150 respondents sampled using stratified random sampling. Data collection was conducted through structured questionnaires and analyzed using descriptive and inferential statistics. The regression analysis revealed that accounting standards and audits collectively explained 51.8% ($R^2 = 0.518$) of AML/CFT effectiveness, with a significant model ($F = 9.32$, $p < 0.05$). However, the individual effects of audits ($t = 1.417$, $p > 0.05$) and standards ($t = 1.207$, $p > 0.05$) were not statistically significant, emphasizing the need for a combined implementation strategy. The study concluded that integrating robust accounting systems with regulatory mechanisms is crucial to enhancing AML/CFT compliance and addressing financial crimes effectively.

Keywords: Anti-Money Laundering, Money Laundering, Terrorism and Accounting System

Introduction

Money laundering (ML) and terrorist financing (TF) pose significant challenges to global financial systems, undermining economic stability and security. These activities involve concealing illicit funds' origins and using financial systems to support terrorism, respectively. In Nigeria, a country with vast natural resources but high poverty levels, ML and TF exacerbate economic inequality and corruption (Chitimira & Animashaun, 2023). The legal framework designed to combat these threats often intersects with accounting practices, such as financial reporting, internal audits, and compliance mechanisms. Accounting plays a critical role in detecting and reporting suspicious transactions, thereby contributing to compliance with anti-money laundering and counter-terrorist financing (AML/CFT) regulations. However, the efficacy of accounting in strengthening Nigeria's AML/CFT framework remains underexplored, creating potential vulnerabilities in the fight against financial crimes.

Despite robust legal frameworks, including the Money Laundering (Prohibition) Act and Terrorism (Prevention) Act, Nigeria continues to grapple with ML and TF due to weak implementation and systemic flaws (Olujobi & Bonyah, 2022). Regulatory bodies such as the Economic and Financial Crimes Commission (EFCC) often face challenges like insufficient integration with accounting systems and limited capacity to track illicit flows effectively. Additionally, gaps in financial reporting and auditing practices hinder transparency and accountability, leaving room for undetected ML and TF activities (Nasir, 2019). These gaps underscore the urgent need to assess how accounting practices can reinforce the legal framework and enhance its efficacy.

This study was conducted to address the identified gaps in Nigeria's AML/CFT framework from an accounting perspective. While existing literature has focused on the legal and institutional dimensions, the accounting perspective remains underexamined despite its critical role in ensuring financial integrity (Ige, 2021). By investigating how accounting standards, audits, and financial reporting align with AML/CFT laws, this study provides a holistic understanding of the interplay between legal and financial systems in combating ML and TF.

The study aimed to evaluate the contribution of accounting practices to AML/CFT compliance, explore the integration of accounting systems with regulatory mechanisms for detecting and reporting illicit activities, and examine the impact of accounting standards and audits on the effectiveness of AML/CFT measures in Nigeria.

This research holds significance for policymakers, accountants, financial institutions, and regulatory bodies. Policymakers can leverage the findings to refine AML/CFT laws, while accountants and auditors gain insights into best practices for enhancing compliance and transparency. Financial institutions benefit from improved risk management strategies, and regulatory bodies can use the study's recommendations to strengthen enforcement mechanisms (Akinteye et al., 2023). Moreover, the study contributes to academic literature by bridging the gap between legal and accounting perspectives on AML/CFT, offering a comprehensive framework for addressing these critical challenges.

By examining the intersection of accounting practices and Nigeria's AML/CFT framework, this study sheds light on the systemic and regulatory improvements needed to combat ML and TF effectively. The findings are expected to inform actionable strategies for enhancing financial transparency and strengthening the nation's resilience against financial crimes.

Literature Review

This section reviews recent empirical studies on anti-money laundering (AML) and counter-terrorism financing (CFT) in Nigeria, focusing on the role of accounting and financial practices. The review highlights the methodologies, findings, and implications of these studies, providing insights relevant to the study's objectives.

Akinteye, Mokube, Ochei, and Vutumu (2023) used a qualitative methodology to assess the role of internal audits in enhancing AML and CFT controls in Nigeria. Their study revealed that internal audits are critical in detecting financial crimes, improving compliance with AML/CFT laws, and identifying gaps in regulatory frameworks. The authors highlighted the need for stronger collaboration between internal auditors and regulatory bodies like the Nigerian Financial Intelligence Unit. This underscores the importance of integrating robust accounting practices into regulatory frameworks.

Adebanjo (2024) conducted a document analysis on the role of the Special Control Unit Against Money Laundering (SCUML) in Nigeria's AML/CFT framework. The study found that SCUML's efforts in registering Designated Non-Financial Businesses and Professions (DNFBPs) were commendable but limited by regulatory and resource constraints. The findings suggest the need for decentralization and technological upgrades in SCUML's operations to improve efficiency.

Koroleva, Evseeva, and Bezrukov (2024) used comparative analysis to evaluate the AML/CFT frameworks in Russia and Turkey. Although not specific to Nigeria, their findings on the effectiveness of FATF compliance provide valuable lessons. They identified the importance of aligning national frameworks with international standards to enhance regulatory outcomes. This has direct implications for improving Nigeria's AML/CFT mechanisms.

Using a mixed-methods approach, Shbeilat and Alqatamin (2022) examined the role of forensic accountants in combating money laundering. They identified significant gaps in the technical skills of accountants in developing markets, including Nigeria. Their findings emphasized the importance of training in contemporary forensic accounting techniques to strengthen AML compliance.

Jayasekara (2020) assessed the impact of AML/CFT frameworks globally and developed an effectiveness index for measuring regulatory compliance. Using statistical models, the study concluded that robust implementation of AML laws significantly curbs financial crimes. These findings are applicable to Nigeria, highlighting the need for better enforcement of existing laws.

Esoimeme (2020) employed a desk review methodology to explore how AML measures can be applied to reduce pension fraud in Nigeria. The study found that compliance with record-keeping and suspicious transaction reporting requirements significantly reduced fraudulent activities. These insights are crucial for understanding how accounting practices can support AML/CFT goals.

Ige (2021) conducted a critical review of Nigeria's regulatory frameworks for AML/CFT, focusing on the supervisory role of financial institutions. The study identified weak enforcement mechanisms as a critical barrier to effectiveness and suggested reforms in the financial reporting systems to ensure compliance .

Satovich (2023) examined de-risking trends in AML compliance in the European Union. The study used secondary data to demonstrate how overzealous compliance measures can hinder financial inclusion. These findings are relevant for Nigeria as they emphasize the balance needed between regulation and accessibility.

The empirical review aligns with the Fraud Triangle Theory, which highlights opportunity, pressure, and rationalization as drivers of financial crimes. Accounting practices such as audits and compliance measures minimize opportunities for money laundering and terrorism financing by enhancing transparency and accountability. The Institutional Theory further explains how organizations adapt to regulatory frameworks like FATF recommendations, fostering standardization in AML/CFT practices. Additionally, the Agency Theory underscores the role of auditors and internal controls in mitigating information asymmetry between financial institutions and regulatory bodies, ensuring compliance and reducing risks. These theoretical perspectives reinforce the importance of robust accounting systems in strengthening AML/CFT frameworks in Nigeria.

Methodology

Area of Study

The study focused on Nigeria, a country with a diverse economic structure and significant challenges in combating money laundering (ML) and terrorist financing (TF). Nigeria's financial sector plays a crucial role in this regard, as it is both a target and a conduit for illicit financial activities. The study concentrated on regulatory bodies, financial institutions, and designated non-financial businesses and professions (DNFBPs).

Research Design

A descriptive survey design was adopted to systematically collect and analyse data regarding the adequacy of Nigeria's anti-money laundering (AML) and counter-terrorism financing (CFT) frameworks. This approach allowed for the collection of quantitative and qualitative data to assess how accounting practices contribute to AML/CFT compliance, align with regulatory mechanisms, and improve financial transparency.

Population

The study population included professionals from the financial and regulatory sectors in Nigeria. This encompassed employees of the Central Bank of Nigeria (CBN), Economic and Financial Crimes Commission (EFCC), Nigerian Financial Intelligence Unit (NFIU), accountants, internal auditors, and compliance officers in financial institutions and DNFBPs.

Sample and Sampling Technique

A sample size of 150 respondents was determined using stratified random sampling to ensure representation across diverse stakeholder groups. The sample included 50 regulatory officials, 50 financial sector professionals, and 50 DNFBP representatives. Stratification ensured proportionate representation from each stakeholder group.

Research Instrument

A structured questionnaire was used to collect primary data. The questionnaire consisted of three sections: demographic information, assessment of AML/CFT frameworks, and the role of accounting practices in improving compliance. Questions were designed on a five-point Likert scale, ranging from "Strongly Agree" to "Strongly Disagree," to capture respondents' perceptions effectively.

Validity of Research Instrument

The questionnaire was validated through expert reviews and a pilot study involving 20 participants. Experts from regulatory agencies and academia assessed content validity, ensuring that questions were relevant and aligned with the study objectives.

Data Analysis Method

Quantitative data were analysed using descriptive and inferential statistics. Descriptive statistics summarised the responses, while inferential techniques, including regression analysis, were used to identify relationships between accounting practices and AML/CFT effectiveness. Statistical analysis was performed using SPSS software.

Results and Analysis

According to Table 1, the first statement showed strong agreement (56.8%) among respondents that money laundering is due to the lack of transparency and compliance in financial reporting, with a mean score of 4.40. This finding aligned with Adebanjo (2024), who observed that robust financial reporting standards fostered accountability in AML frameworks and deterred financial crimes.

The second statement indicated agreement (49.2%) that financing of terrorism increases due to non-compliance with CFT regulations, with a mean score of 4.25 aligning with the view of Akinteye et al. (2023).

For the third statement, 60.6% strongly agreed that adherence to accounting standards reduced money laundering risks, with a mean of 4.48. Chitimira and Animashaun (2023) highlighted that consistent application of standards curtailed opportunities for illicit financial activities.

The fourth statement, with 53% strong agreement, showed that enforcement of accounting standards strengthened measures to detect and prevent terrorist financing. Nasir (2022) supported this, noting that strong regulatory enforcement hindered financial misuse for terrorism.

The fifth statement found 51.5% strong agreement that auditing processes identified money laundering-linked transactions, yielding a mean of 4.38. Esoimeme (2020) similarly emphasised that effective audits revealed suspicious activities within financial institutions.

Lastly, 47.7% strongly agreed that auditors uncovered financial networks used for terrorist financing, with a mean of 4.18. Adebanjo (2024) noted auditors' critical role in identifying and mitigating funding routes for terrorism.

Table 1: *Descriptive Analysis of respondents' opinion on the Impact of Accounting Standards and Audits on AML/CFT Effectiveness*

Statements	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**	**Mean**	**Std. Dev.**
Money laundering is due to lack of transparency and compliance in financial reporting.	75 (56.8%)	40 (30.3%)	10 (7.6%)	5 (3.8%)	2 (1.5%)	4.4	0.78
Financing of terrorism increases due to non-compliance with CFT regulations.	65 (49.2%)	45 (34.1%)	12 (9.1%)	7 (5.3%)	3 (2.3%)	4.25	0.85
Proper adherence to accounting standards reduces the likelihood of money laundering.	80 (60.6%)	35 (26.5%)	10 (7.6%)	4 (3.0%)	3 (2.3%)	4.48	0.73
The enforcement of accounting standards strengthens measures to detect and prevent terrorist	70 (53.0%)	40 (30.3%)	12 (9.1%)	7 (5.3%)	3 (2.3%)	4.33	0.79

financing.							
Auditing processes contribute to identifying financial transactions linked to money laundering.	68 (51.5%)	42 (31.8%)	15 (11.4%)	4 (3.0%)	3 (2.3%)	4.38	0.76
Auditors play a critical role in uncovering financial networks used for terrorist financing.	63 (47.7%)	40 (30.3%)	18 (13.6%)	7 (5.3%)	4 (3.0%)	4.18	0.87

Source: Author's computation (2024)

A multiple regression analysis was conducted to examine the Impact of Accounting Standards and Audits on AML/CFT Effectiveness. The results, summarised in the tables 2, provide insights into the relationships between these independent variables and the dependent variable.

The findings revealed that both Audits and Accounting Standards were positively associated with AML/CFT effectiveness. However, their individual contributions were not statistically significant. Specifically, Audits ($t = 1.417$, $p > 0.05$) and Accounting Standards ($t = 1.207$, $p > 0.05$) showed positive but non-significant impacts, indicating that while these factors are important, their isolated effects were not sufficient to drive substantial improvements.

The overall model was significant ($F = 9.320$, $p < 0.05$), demonstrating that the combined influence of Audits and Accounting Standards significantly impacted AML/CFT effectiveness. The coefficient of determination ($R^2 = 0.518$) indicated that these variables jointly explained 51.8% of the variation in AML/CFT effectiveness, underscoring the model's validity.

These results suggest that while Audits and Accounting Standards individually did not contribute to AML/CFT effectiveness, their joint implementation is critical to achieving meaningful progress. Organisations should therefore integrate both mechanisms holistically to strengthen AML/CFT measures.

Table 2: *Multiple Regression Analysis of the Impact of Accounting Standards and Audits on AML/CFT Effectiveness.*

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.720a	0.518	0.476	2875.342
a Predictors: (Constant), AUDITS, STANDARD				

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	129490992.5	2	43163664.18	9.321	.000b
	Residual	269193404.7	130	10353592.49		
	Total	398684397.2	132			

a Dependent Variable: AML_CFT
b Predictors: (Constant), AUDITS, STANDARDS

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2708.774	2287.571		-1.184	0.247
	AUDITS	125.34	88.46	0.289	1.417	0.169
	STANDARDS	92.18	76.35	0.214	1.207	0.238
a Dependent Variable: AML_CFT						

Source: Author's computation (2024)

Discussion of findings

The findings revealed that Audits and Accounting Standards jointly influenced AML/CFT effectiveness, aligning with Akinteye, Mokube, Ochei, and Vutumu (2023), who demonstrated that internal audits are essential in enhancing AML/CFT controls by identifying gaps and fostering compliance. This supports the Institutional Theory, which emphasises organisational adaptation to regulatory requirements. However, Kunitsyn and Kunitsyn (2021) criticised overreliance on standards, suggesting that without contextualisation, they may overlook region-specific ML/TF risks, reducing their practical utility.

The results also showed a strong joint impact of these factors on AML/CFT effectiveness, which aligns with Jayasekara (2020), who emphasised that effective implementation of AML/CFT legal frameworks is more impactful than their mere existence. This supports the Fraud Triangle Theory, addressing the reduction of opportunities for financial crimes. Conversely, Yepes (2021) argued that despite global standards, countries face challenges in operationalising them effectively, highlighting the need for tailored enforcement strategies.

Individually, neither Audits nor Accounting Standards had significant effects. This finding contrasts with Sagala, Pangaribuan, and Siagian (2024), who identified that audit quality directly impacts compliance levels, supporting the Agency Theory, which underscores the role of audits in mitigating information asymmetry. Yet, Durak Uşar (2024) noted that standards, when overly rigid, may fail to address dynamic compliance needs, potentially limiting their standalone efficacy.

These findings suggest that integrating audits and accounting standards is essential to combat ML/TF effectively. While they are indispensable together, addressing regional complexities and ensuring adaptability are critical for sustained AML/CFT success.

Recommendations

Based on the study's findings, it is recommended that organisations strengthen the integration of Audits and Accounting Standards to enhance AML/CFT effectiveness. Regulatory bodies should provide clear, adaptable guidelines tailored to Nigeria's specific challenges, ensuring these mechanisms address regional ML/TF risks. Continuous training for auditors and accountants is essential to improve compliance and detect financial crimes effectively. Policymakers must ensure collaboration between financial institutions and regulatory agencies to foster information sharing and operational synergy. Lastly, regular evaluations of AML/CFT frameworks should be conducted to ensure their alignment with international standards and evolving financial crime methodologies.

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