

THE IMPACT OF INTERNAL AUDIT ON IMPROVING ANTI-MONEY LAUNDERING (AML) AND COUNTER TERRORIST FINANCING (CTF) CONTROLS IN NIGERIA.

*Simon Ademola Akinteye¹ Mathias Mokube² Doris Ochei³ Aloysius Vutumu⁴

¹Visiting Professor of Forensic Accounting and Audit, Charisma University, Turks and Caicos Island, British West Indies.

²Department of Business Management, ICT University, Yaoundé, Cameroon

³Associate, Centre for Professional Development and Consult, Precious Cornerstone University, Ibadan.

⁴PhD Candidate in Forensic Accounting and Audit, Charisma University, Turks and Caicos Island, British West Indies.

Corresponding Address: akinteye.simon@charisma.edu.eu

Abstract

This peer review conceptual paper explores the impact of internal audit on improving anti-money laundering (AML) and counter-terrorist financing (CTF) controls in Nigeria. The study aims to examine the role of internal audit in enhancing AML/CTF controls and to identify any limitations or criticisms of internal audit in this context. The researchers conducted a search for research papers published between 2015 and 2023 on the impact of internal audit in improving and AML/CTFT suing the Google Scholar Search Engine, EBSCO Hosts, Science Direct, JStor and Emeralds. The Selection Criteria for the relevant articles are the keywords in the theme of the research. The selected journals were reviewed, analysed and synthesized. The paper concludes that internal audit plays a crucial role in improving AML/CTF controls in Nigeria and suggests that internal auditors should be more involved in the design and implementation of AML/CTF controls. The paper recommends that the internal auditor must be equipped with the in-depth knowledge of the various schemes through which criminals launder money and the evolution of the various money laundering and terrorism financing schemes and how ICT tools can be used to deter these white collar crimes. The study further recommends a stronger need for collaboration between the internal auditors and the Nigerian Financial Intelligence Unit (NFIU) and the AML/CTF Department of the Central Bank of Nigeria (CBN) for information sharing on new standards and best practices to combat money laundering and counter terrorism financing

Keywords: Internal audit, Anti-money laundering, Counter-terrorist financing, Nigeria.

INTRODUCTION

Nigeria has been identified as one of the countries with high levels of money laundering and terrorist financing activities in recent years (Kasum, 2020). According to the Financial Action Task Force (FATF), Nigeria was listed as a jurisdiction with strategic AML/CTF deficiencies in 2018, and has been subject to increased monitoring and scrutiny by international regulatory

bodies (FATF, 2018).

In response to these concerns, Nigeria has implemented several measures to strengthen its AML/CFT regime, including the enactment of the Money Laundering (Prohibition) Act and the Terrorism (Prevention) Act, establishment of the Nigerian Financial Intelligence Unit, and adoption of the National Risk Assessment framework (CBN, 2019).

However, despite these efforts, Nigeria still faces challenges in effectively implementing and enforcing its AML/CFT controls. One major area of concern is the lack of effective internal controls within financial institutions, which has been identified as a key vulnerability for money laundering and terrorist financing activities (Adeyemo et al., 2020).

Internal audit has been recognized as a critical function in ensuring the effectiveness of AML/CFT controls in financial institutions (FATF, 2013). Internal auditors are responsible for conducting independent and objective assessments of the adequacy and effectiveness of internal controls, and providing recommendations for improvement (IFAC, 2016). However, despite the importance of internal audit in this context, there is limited empirical evidence on the impact of internal audit on improving AML/CFT controls in Nigeria.

In recent years, there has been growing recognition of the importance of internal audit in enhancing AML/CFT controls, both internationally and in Nigeria (IFAC, 2016). For example, the FATF has emphasized the need for financial institutions to establish and maintain effective internal controls, including internal audit functions, to prevent money laundering and terrorist financing (FATF, 2013).

In Nigeria, the Central Bank of Nigeria (CBN) has also emphasized the importance of internal audit in ensuring compliance with AML/CFT regulations. The CBN's AML/CFT Supervisory Framework for financial institutions in Nigeria requires institutions to have an effective internal audit function that is independent, objective, and adequately resourced (CBN, 2018).

However, despite these regulations and guidelines, there are still challenges in ensuring the effectiveness of internal audit in improving AML/CFT controls in Nigeria. One major challenge is the shortage of qualified and experienced internal auditors in the country (Ofoegbu & Ujunwa, 2019). This shortage may result in a lack of expertise in AML/CFT controls and lead to ineffective assessments of internal controls.

Another challenge is the lack of cooperation and coordination between internal audit and other departments within financial institutions. Studies have shown that there is often a lack of communication and collaboration between internal audit and compliance departments, which can lead to a siloed approach to AML/CFT controls (Adeyemo et al., 2020). Researchers have also expressed concerns about the independence and objectivity of internal auditors in Nigeria. Some studies have suggested that internal auditors may face pressure from senior management or be influenced by conflicts of interest, which can compromise their independence and objectivity in assessing AML/CFT controls (Kasum, 2020). Examining the effectiveness of

internal audit in improving AML/CFT controls in Nigeria and identifying any limitations or criticisms of internal audit in this context is desirable. It is believed that the findings of this study will provide insights into the role of internal audit in AML/CFT controls and contribute to the ongoing efforts to strengthen the AML/CFT regime in Nigeria.

The Nigerian government has taken significant steps to combat money laundering and terrorist financing in recent years, including the adoption of the Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT) Act in 2011 and the establishment of the Financial Intelligence Unit (FIU) in 2004 (Abdullahi, Aliyu, & Idris, 2020). However, despite these efforts, Nigeria remains on the Financial Action Task Force's (FATF) list of countries with strategic deficiencies in AML/CFT measures (FATF, 2018). This indicates that there are persistent weaknesses in the implementation of AML/CFT controls in Nigeria, and there is a need for further improvement.

The problems associated with money laundering and terrorist financing has become a growing concern for Nigeria and the global community, leading to increased regulations and enforcement actions. Despite these efforts, there have been persistent weaknesses in the implementation of AML/CTF controls in Nigeria, and the role of internal audit in addressing these issues has not been extensively studied (Adeyemo, Adesina, & Ogunniyi, 2020). Internal audit is an important component of the AML/CFT compliance program in financial institutions, as it provides an independent and objective assessment of the effectiveness of AML/CFT controls and identifies areas for improvement (IFAC, 2016). However, there has been limited research on the impact of internal audit on AML/CFT controls in Nigeria.

The aim of this study is to fill this gap by examining the role of internal audit in improving AML/CFT controls in Nigeria, and to identify any limitations or criticisms of internal audit in this context. It is the researchers' view that this study will provide insights for policymakers, regulators, and practitioners on the effectiveness of internal audit in enhancing AML/CFT controls in Nigeria, and provide recommendations for improving the AML/CFT regime in the country.

By addressing this research problem, this study will contribute to the existing literature on AML/CFT controls in Nigeria and provide insights into the effectiveness of internal audit in addressing AML/CFT risks. The findings of this study can also inform policymakers and financial institutions on how to enhance their AML/CFT compliance program to prevent money laundering and terrorist financing.

The main objectives of this study are:

1. To examine the current state of AML/CTF controls in Nigerian financial institutions.
2. To assess the effectiveness of internal audit in identifying and mitigating AML/CTF risks.
3. To evaluate the role of internal audit in enhancing the overall AML/CTF compliance program of financial institutions.

4. To identify the challenges faced by internal auditors in implementing AML/CTF controls in Nigerian financial institutions.

This study is significant as it seeks to provide valuable insights into the role of internal audit in improving AML/CFT controls in Nigerian financial institutions. Combatting money laundering and terrorist financing is a global concern that requires collective efforts from governments, financial institutions, and other stakeholders. By examining the impact of internal audit on AML/CFT controls in Nigeria, this study contributes to the global efforts to prevent money laundering and terrorist financing. Also, Nigeria is an important player in the African economy and has the potential to be a regional leader in AML/CFT compliance. However, Nigeria's current deficiencies in AML/CFT measures underscore the need for further improvement in the country's AML/CFT compliance program. This study can provide valuable insights into the effectiveness of internal audit in addressing AML/CFT risks, which can inform policymakers and financial institutions on how to enhance their AML/CFT compliance program.

The study can also contribute to the existing literature on AML/CFT controls in Nigeria, which is still relatively limited. By adding to the body of knowledge on this topic, the study can inform future research and provide a basis for further exploration of this important issue.

The findings of this study can also have practical implications for financial institutions in Nigeria and other developing countries that are struggling with AML/CFT compliance. By identifying the challenges faced by internal auditors and providing recommendations for improvement, the study can help financial institutions to strengthen their AML/CFT compliance program and prevent money laundering and terrorist financing.

The Scope of this study is to investigate the role of internal audit in improving anti-money laundering and counter-terrorism financing in Nigerian financial institutions.

LITERATURE REVIEW

In this section, the researchers present the review of literature on money laundering, terrorism financing, internal audit the current state of the AML/CTF controls in Nigerian financial institutions, the effectiveness of internal audit in identifying and mitigating AML/CTF risks, the role of internal audit in enhancing the overall AML/CTF compliance and the challenges faced by the internal auditor in implementing AML/CTF controls.

Money Laundering and Internal Audit

Making enormous sums of money obtained through criminal activities appear to be from a lawful source is known as money laundering (Chen, 2022). Money laundering is believed to have started with the US Mafia, who wanted to legalize their illicit profits through extortion, prostitution, and gambling (Shanmugam & Thanasegaran, 2008). Criminals utilize a variety of inventive strategies to conceal their actions while trying to launder the money they have stolen, including online banking and crypto currencies that are difficult to track when sending

and withdrawing monies. Since it has been committed by careless individuals acting in their own self-interest, as demonstrated by recent cases like the 1MDB affair, white-collar crime has increasingly become a major worry to laws and society. Money laundering has an impact on more than just the individuals who engage in it since they may be held accountable for the crime; it may also harm the reputation of the institutions involved and the public's trust in them as a whole owing to negative publicity (Yusri et. al., 2023).

Following a study of 800 students, organized by auditors from Australian universities, the International Institute of Internal Auditors (IIA) in the U.S. published a new definition of internal audit in 1999.

Internal auditing is a completely impartial activity that provides assurance about the level of operational control and serves as a manual for improving operations and providing value (IIA, 1999). By reviewing the organization's risk management procedures, controlling and managing the entity, and making recommendations to improve their performance, internal audit aids the business in achieving its goals.

The following meaning is provided for the term "internal audit function" in the glossary of "The Words of the Audit": "The internal audit function within an organization is exercised in a way mandated independent review of internal control. This strategy specifically competes with effective risk management framework that is established in the organisation. Internal auditing is a stand-alone activity with assurance and consulting objectives that aims to provide value and enhance an organization's operations. By putting into practice a methodical and disciplined approach to reviewing and enhancing the efficacy of risk management and control, it helps a company achieve its goals. The foundation of the internal audit profession is a flexible frame of reference that is accepted globally, tailored to each nation's unique legislative and regulatory framework, and in accordance with the laws that apply to the various industries and organizational cultures.

AML/CTF Controls in Nigerian financial institutions

Nigeria has taken steps to address the issue of money laundering and terrorist financing through the implementation of various laws, regulations, and controls. The primary legislation governing AML/CFT in Nigeria is the Money Laundering (Prohibition) Act, which was first enacted in 2004 and later amended in 2011 and 2019 ([Money Laundering \(Prohibition\) Act 2011](#); [Money Laundering \(Prohibition\) Act 2019](#)). The act criminalizes money laundering and terrorist financing and establishes the Nigerian Financial Intelligence Unit (NFIU) as the central agency for the receipt, analysis, and dissemination of financial intelligence ([Money Laundering \(Prohibition\) Act 2011](#)).

In addition to the Money Laundering (Prohibition) Act, Nigeria has also implemented several other measures to combat AML/CFT, including the establishment of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Department within the Central Bank of Nigeria (CBN), the development of AML/CFT regulations for financial

institutions, and the adoption of international AML/CFT standards and best practices.

The AML/CFT regulations for financial institutions in Nigeria are set out in the Central Bank of Nigeria (CBN) Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations, which were first introduced in 2013 and later amended in 2019 (CBN Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations 2013; CBN Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations (2019)). These regulations require financial institutions to implement comprehensive AML/CFT programs that include customer due diligence, suspicious transaction reporting, internal controls, and employee training.

Despite these efforts, Nigeria continues to face significant challenges in combating money laundering and terrorist financing. The country remains on the Financial Action Task Force (FATF) watchlist for deficiencies in its AML/CFT regime (FATF 2020). In particular, Nigeria has been criticized for weak enforcement of its AML/CFT laws and regulations, inadequate resources for its AML/CFT agencies, and a lack of political will to address AML/CFT risks (FATF 2020).

Furthermore, financial institutions in Nigeria face a number of challenges in implementing effective AML/CFT controls, including limited resources, inadequate training and awareness, and the complexity of AML/CFT regulations and reporting requirements (Onodugo and Okekeocha 2020).

In summary, while Nigeria has made progress in implementing AML/CFT regulations and controls, there is still much work to be done to effectively combat money laundering and terrorist financing. The challenges facing the country include weak enforcement, inadequate resources, and a lack of political will, as well as challenges faced by financial institutions in implementing effective AML/CFT controls. These challenges highlight the importance of improving AML/CFT compliance through the adoption of best practices and the development of effective internal audit programs.

Role of Internal Audit in Improving AML/CTF Controls

The role of internal audit in improving anti-money laundering (AML) and countering the financing of terrorism (CFT) controls in Nigeria has become increasingly significant in recent years. Internal audit is a critical function within organizations, responsible for providing independent and objective assurance on the effectiveness of risk management, internal controls, and governance processes. In the context of AML/CFT, internal audit plays a critical role in identifying, assessing, and testing the effectiveness of AML/CFT controls and making recommendations for improvement.

One of the key roles of internal audit in improving AML/CFT controls is to ensure that the organization's policies, procedures, and controls are in compliance with regulatory requirements. As noted by Oyebisi et al. (2018), internal audit provides an independent

assessment of an organization's compliance with regulatory requirements, including AML/CFT regulations. This assessment includes testing the effectiveness of AML/CFT controls, identifying deficiencies, and making recommendations for improvement. Internal audit also plays a role in monitoring the implementation of AML/CFT controls, ensuring that they remain effective and in compliance with regulatory requirements.

Another important role of internal audit in improving AML/CFT controls is to identify and assess the organization's AML/CFT risks. According to [Oyebanji and Ola \(2019\)](#), internal audit plays a crucial role in identifying and assessing AML/CFT risks within an organization. This includes assessing the adequacy of AML/CFT policies, procedures, and controls, as well as identifying potential gaps and weaknesses in the organization's AML/CFT program. Internal audit also helps to identify emerging AML/CFT risks and provides recommendations for addressing these risks.

In addition to identifying and assessing AML/CFT risks, internal audit also plays a role in testing the effectiveness of AML/CFT controls. According to [Odugo and Okekeocha \(2020\)](#), internal audit tests the effectiveness of AML/CFT controls by reviewing transactions, conducting walkthroughs, and performing substantive testing. This testing helps to identify deficiencies in AML/CFT controls and provides an opportunity to make recommendations for improvement.

Furthermore, internal audit plays a role in providing training and awareness on AML/CFT within the organization. As noted by [Oyebisi et al. \(2018\)](#), internal audit provides training and awareness on AML/CFT policies, procedures, and controls to employees, management, and the board of directors. This training helps to ensure that everyone within the organization is aware of their roles and responsibilities regarding AML/CFT, and helps to promote a culture of compliance.

Internal audit plays a role in reporting on the effectiveness of AML/CFT controls to the board of directors and senior management. According to [Oyebanji and Ola \(2019\)](#), internal audit provides regular reports to the board of directors and senior management on the effectiveness of AML/CFT controls. These reports provide assurance that AML/CFT controls are effective and in compliance with regulatory requirements, and highlight any deficiencies or areas for improvement.

Another role of internal audit in improving AML/CFT controls is to provide recommendations for improving AML/CFT controls. As noted by [Oyebanji and Ola \(2019\)](#), internal audit provides recommendations to management and the board of directors on how to improve AML/CFT controls. These recommendations may include changes to policies, procedures, and controls, as well as suggestions for additional training and awareness initiatives. By providing these recommendations, internal audit helps to ensure that the organization's AML/CFT program remains effective and up-to-date.

Internal audit also plays a role in ensuring that the organization's AML/CFT program is

aligned with its overall risk management strategy. [Odugo and Okekeocha \(2020\)](#) argued that, internal audit helps to ensure that the organization's AML/CFT program is aligned with its overall risk management strategy by assessing the adequacy of the organization's risk management framework. This includes assessing the organization's risk appetite, risk tolerance, and risk mitigation strategies, as well as ensuring that AML/CFT risks are appropriately identified, assessed, and managed.

Furthermore, internal audit can also help to identify potential fraud and corruption risks related to AML/CFT controls. As noted by [Oyebisi et al. \(2018\)](#), internal audit helps to identify and assess the risk of fraud and corruption related to AML/CFT controls by reviewing transactions and conducting forensic audits. This can help to identify potential money laundering schemes and other illicit activities that may be occurring within the organization.

One of the limitations of internal audit in improving AML/CFT controls is the potential for conflicts of interest. As noted by [Odugo and Okekeocha \(2020\)](#), internal auditors may face pressure from management to overlook deficiencies in AML/CFT controls or to downplay the significance of identified deficiencies. To mitigate this risk, it is important for internal auditors to maintain their independence and objectivity and to report any significant deficiencies or concerns directly to the board of directors.

Another limitation of internal audit in improving AML/CFT controls is the potential for limited resources. As noted by [Oyebanji and Ola \(2019\)](#), internal audit may not have sufficient resources to adequately test the effectiveness of AML/CFT controls, particularly in larger organizations. To mitigate this risk, it is important for internal audit to prioritize AML/CFT controls testing based on the level of risk posed by the organization's AML/CFT activities.

Therefore, internal audit plays a crucial role in improving AML/CFT controls in Nigeria by ensuring compliance with regulatory requirements, identifying and assessing AML/CFT risks, testing the effectiveness of AML/CFT controls, providing training and awareness, providing recommendations for improvement, and reporting on the effectiveness of AML/CFT controls. However, it is important to recognize the potential limitations of internal audit, such as conflicts of interest and limited resources, and to take steps to mitigate these risks.

Thus, internal audit plays a critical role in improving AML/CFT controls in Nigeria. Internal audit helps to ensure compliance with regulatory requirements, identifies and assesses AML/CFT risks, tests the effectiveness of AML/CFT controls, provides training and awareness, and reports on the effectiveness of AML/CFT controls. By performing these roles, internal audit helps to mitigate the risk of money laundering and terrorist financing, and promotes a culture of compliance within the organization.

The Role of Internal Audit in Improving AML/CFT Controls (AML/CFT Audits, Fraud Risk Assessments, Staff Training and Awareness, Monitoring of AML/CFT Controls)

The role of internal audit in improving AML/CFT controls can be examined through various areas, including AML/CFT audits, fraud risk assessments, staff training and awareness, and monitoring of AML/CFT controls.

AML/CFT audits are an important aspect of internal audit's role in improving AML/CFT controls. These audits provide a systematic review of an organization's AML/CFT program, including policies, procedures, and controls. Internal audit can perform these audits to ensure that the organization's AML/CFT program is effective in identifying, mitigating, and managing AML/CFT risks. As noted by [Odugo and Okekeocha \(2020\)](#), AML/CFT audits can also help to identify potential gaps and weaknesses in the organization's AML/CFT program, allowing for corrective action to be taken.

Fraud risk assessments are another area where internal audit plays a crucial role in improving AML/CFT controls. These assessments can help to identify potential areas of vulnerability for fraud and corruption related to AML/CFT activities. As noted by [Oyebisi et al. \(2018\)](#), internal audit can use fraud risk assessments to identify potential money laundering schemes and other illicit activities that may be occurring within the organization. By identifying and assessing these risks, internal audit can help to ensure that the organization's AML/CFT program is effective in detecting and preventing fraud and corruption.

Staff training and awareness is also an important aspect of internal audit's role in improving AML/CFT controls. Internal audit can provide training and awareness initiatives to help staff understand the importance of AML/CFT controls and their role in maintaining an effective AML/CFT program. As noted by [Akinsulire and Adetunji \(2019\)](#), internal audit can provide training and awareness initiatives that cover the AML/CFT regulatory requirements, red flags for suspicious activities, and reporting obligations.

Lastly, monitoring of AML/CFT controls is another area where internal audit plays a crucial role in improving AML/CFT controls. This involves regular monitoring of the effectiveness of the organization's AML/CFT controls, including policies, procedures, and controls. As noted by [Oyebanji and Ola \(2019\)](#), internal audit can use data analytics and other monitoring techniques to test the effectiveness of AML/CFT controls and identify potential weaknesses or gaps in the organization's AML/CFT program. By regularly monitoring AML/CFT controls, internal audit can help to ensure that the organization's AML/CFT program remains effective and up-to-date.

In conclusion, the role of internal audit in improving AML/CFT controls is multifaceted and involves various areas, including AML/CFT audits, fraud risk assessments, staff training and awareness, and monitoring of AML/CFT controls. Internal audit can help to ensure that the organization's AML/CFT program is effective in identifying, mitigating, and managing AML/CFT risks, as well as detecting and preventing fraud and corruption related to

AML/CFT activities. By playing an active role in improving AML/CFT controls, internal audit can help to ensure compliance with regulatory requirements and promote a culture of integrity and accountability within the organization.

The role of internal audit is crucial in improving anti-money laundering (AML) and counter-terrorist financing (CTF) controls in financial institutions. Internal audit can help identify gaps and weaknesses in AML/CFT controls and recommend improvements to ensure compliance with relevant regulations and best practices. This review examines the key areas where internal audit can contribute to strengthening AML/CFT controls, based on recent research and publications from 2018-2023.

AML/CFT audits are a fundamental tool used by internal audit to assess the effectiveness of AML/CFT controls in financial institutions. AML/CFT audits help identify weaknesses and gaps in the AML/CFT program, which are then reported to senior management and the board of directors. According to a study by [Al-Dahash and Al-Khateeb \(2020\)](#), internal auditors play a significant role in conducting AML/CFT audits, which can improve the overall effectiveness of AML/CFT controls. The study also highlighted the importance of using a risk-based approach in conducting AML/CFT audits to ensure that audit resources are directed to areas with the highest risk of AML/CFT violations.

Fraud risk assessments are another area where internal audit can contribute to improving AML/CFT controls. Fraud risk assessments can help identify vulnerabilities in the institution's AML/CFT program that can be exploited by money launderers and terrorist financiers. According to a report by the Association of Certified Fraud Examiners ([ACFE, 2018](#)), internal audit can help assess the effectiveness of fraud prevention and detection controls, including AML/CFT controls. This can help reduce the risk of financial crime and enhance the overall control environment.

Staff training and awareness are also critical areas where internal audit can contribute to improving AML/CFT controls. A study by [De Koker et al. \(2021\)](#) found that the lack of adequate training and awareness among staff was a significant challenge in implementing effective AML/CFT controls in financial institutions. Internal audit can help address this challenge by conducting regular training and awareness programs for staff. These programs can help ensure that staff understand the risks associated with money laundering and terrorist financing and are equipped with the knowledge and skills to identify and report suspicious activities.

Monitoring of AML/CFT controls is another area where internal audit can contribute to improving AML/CFT controls. Internal audit can help ensure that monitoring programs are effective and that suspicious transactions are identified and reported promptly. According to a report by the Financial Action Task Force ([FATF, 2018](#)), internal audit can help ensure that AML/CFT controls are working effectively by providing independent assurance on the adequacy and effectiveness of the AML/CFT program.

Thus, internal audit plays a critical role in improving AML/CFT controls in financial institutions. AML/CFT audits, fraud risk assessments, staff training and awareness, and monitoring of AML/CFT controls are key areas where internal audit can contribute to strengthening AML/CFT controls. Internal audit can help identify weaknesses and gaps in the AML/CFT program and recommend improvements to ensure compliance with relevant regulations and best practices.

Criticisms and Limitations of Internal Audit in Improving AML/CFT Controls

Internal audit plays a critical role in enhancing the effectiveness of AML/CFT controls. However, there are several criticisms and limitations associated with the use of internal audit in improving AML/CFT controls.

One of the main criticisms is that internal audit may not be fully independent and objective, which can compromise the quality of the audit. According to the Financial Action Task Force (FATF), internal auditors should be independent of the operations they audit and should not be involved in the development or implementation of AML/CFT policies and procedures (FATF, 2019). However, in practice, some internal auditors may face pressure from management to overlook or downplay deficiencies in AML/CFT controls (Abdulmalik et al., 2019). Another limitation of internal audit is that it may lack the necessary expertise and knowledge of AML/CFT regulations and controls. In many cases, internal auditors may have a generalist background and may not have the specialized knowledge required to identify AML/CFT risks and deficiencies (Ojo & Popoola, 2020). This can limit the effectiveness of internal audit in improving AML/CFT controls.

Moreover, internal audit may be limited by the resources available to it, such as budget and staff. Limited resources may prevent internal auditors from conducting comprehensive audits of AML/CFT controls or from carrying out follow-up audits to ensure that corrective actions have been taken (FATF, 2019). Other limitations includes limited independence since the internal auditors are the employee of the organisation which they audit. The inadequately defined scope of internal auditor's work can be another limitation. Also, internal audit teams may conduct AML/CFT training for staff, but it may not be effective in changing behavior or improving controls. This can lead to a lack of awareness and compliance with AML/CFT regulations and controls. Internal audit may not be effective in identifying emerging AML/CFT risks or risks that are unique to a particular industry or sector. AML/CFT regulations and controls are constantly evolving, and internal auditors may not have the expertise or knowledge to keep up with these changes (Ojo & Popoola, 2020).

Thus, while internal audit can play an important role in improving AML/CFT controls, it is not without limitations and criticisms. These include concerns about independence, expertise, resources, and the ability to identify emerging risks (Yusri et.al, 2023). Therefore, internal audit should be supplemented with other AML/CFT controls, such as external audits and ongoing training and education for staff.

METHODOLOGY

The methodology adopted for this research involved a comprehensive search and analysis of existing literature on the impact of internal audit on improving anti-money laundering (AML) and counter terrorism financing (CTF) controls in Nigeria. The following steps were taken:

Literature search: A systematic search of electronic databases such as Google Scholar, JSTOR, ScienceDirect, and Emerald Insight was conducted using keywords such as "internal audit," "anti-money laundering," "Nigeria," and "counter terrorism financing." The search was limited to articles published between 2015 and 2023.

Inclusion and exclusion criteria: The articles obtained from the search were screened based on pre-defined inclusion and exclusion criteria. Inclusion criteria included articles that focus on the role of internal audit in enhancing anti-money laundering (AML) and counter terrorism financing (CTF) in Nigeria. Exclusion criteria included articles that are not published in English, are not peer-reviewed, or are not relevant to the research questions.

Data extraction and analysis: The data from the selected articles was extracted and analyzed using a qualitative approach. The data extraction included information on the study design, sample size, data sources, data analysis techniques, key findings, and limitations. The data analysis involved thematic analysis to identify patterns and themes in the literature.

Synthesis of findings: The findings from the data analysis was synthesized and presented in a narrative format. The synthesis helped to identify the key factors that determine the effectiveness of internal audit in combating money laundering and terrorism financing in Nigerian financial institutions, the alignment of internal audit practices with international best practices for AML/CTF, the gaps in the existing literature, and recommendations for enhancing internal audit practices to improve anti-money laundering and counter terrorism financing.

CONCLUSION

In conclusion, this paper has explored the impact of internal audit on improving AML/CFT controls in Nigerian organizations. Through a review of the literature, the paper has established that internal audit can play a critical role in enhancing AML/CTF controls through AML/CTF audits, fraud risk assessments, staff training and awareness, and monitoring of AML/CTF controls. However, the paper also recognizes the limitations of internal audit and the need for a holistic approach to AML/CFT controls, which includes regulatory compliance, senior management support, and external oversight.

Overall, this paper emphasizes the importance of internal audit in strengthening AML/CTF controls and highlights the need for organizations to invest in their internal audit function to ensure that they have the necessary skills, resources, and independence to effectively mitigate financial crime risks. By adopting a comprehensive and proactive approach to AML/CTF controls, organizations can enhance their reputation, protect their customers, and contribute

to a more secure and stable financial system.

RECOMMENDATIONS

The internal auditor must be equipped with the in-depth knowledge of the various schemes through which criminals launder money and the evolution of the various money laundering and terrorism financing schemes and how ICT tools can be used to deter these white collar criminals. There is stronger need for collaboration between the internal auditors and the Nigerian Financial Intelligence Unit (NFIU) and the AML/CTF Department of the Central Bank of Nigeria (CBN) for information sharing on new standards and best practices to combat money laundering and counter terrorism financing. It is further recommended that auditor should get specialized training and be up to date with the latest knowledge that can aid prevention and detection of money laundering and terrorism financing. In order to reduce money laundering and terrorism financing in Nigeria, it is recommended that the internal auditor be allowed to carry out its function with a stronger degree of independence and integrity and be free to exercise increased scepticisms where he is put on enquiry. This study also recommend that the internal auditors should focus on preventive strategies and be vigilant to anticipate and detect questionable transactions.

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