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Sectoral Risk Assessment of Accountants in Nigeria

Special Control Unit against Money Laundering

Economic and Financial Crimes Commission

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Acknowledgement

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Erin Harry, fsi
Director, Special Control Unit against Money Laundering

Executive Summary

The Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Sectoral Risk Assessment of accountants in Nigeria evaluates the sector's exposure to financial crime risks. Given their role in financial reporting, auditing, tax advisory, and business consulting, accountants can be exploited by criminals for money laundering (ML) and terrorism financing (TF) activities.

This assessment, conducted in alignment with international AML/CFT standards and Nigeria's regulatory framework, identifies a medium risk level for the sector. While accountants play a crucial role in detecting and preventing financial crimes, several vulnerabilities persist, including:

- Misuse of Professional Services: Criminals may exploit accountants to create complex corporate structures, manipulate financial statements, or provide legitimacy to illicit funds.
- Gaps in AML/CFT Compliance: Despite regulatory obligations, some accountants lack full compliance with AML/CFT requirements, such as customer due diligence (CDD), suspicious transaction reporting (STR), and record-keeping.
- Limited Awareness and Enforcement: Many practitioners, especially small and medium-sized firms, demonstrate inadequate awareness of AML/CFT obligations. Regulatory enforcement remains inconsistent.
- Exposure to High-Risk Clients and Sectors: Accountants frequently deal with high-risk clients, including politically exposed persons (PEPs) and businesses in cash-intensive industries, increasing their susceptibility to ML/TF risks.

Mitigation Measures

To strengthen AML/CFT resilience in the accounting sector, the following measures are recommended:

1. Enhanced Regulatory Oversight: Strengthen enforcement of AML/CFT compliance among accounting professionals through routine inspections and penalties for non-compliance.
2. Capacity Building & Training: Improve awareness by mandating AML/CFT training programs for accountants, particularly for smaller firms.
3. Strengthening Compliance Frameworks: Encourage firms to adopt risk-based approaches, conduct enhanced due diligence (EDD) for high-risk clients, and improve internal controls.
4. Collaboration & Information Sharing: Foster stronger cooperation between accountants, regulators, law enforcement agencies, and financial institutions to improve intelligence-sharing on financial crimes.

Conclusion

While the overall AML/CFT risk exposure of accountants in Nigeria is assessed as medium, proactive measures are necessary to mitigate existing vulnerabilities. Strengthening regulatory oversight, enhancing compliance culture, and improving

Chapter One
Introduction

Background

The accounting sector in Nigeria plays a crucial role in the financial ecosystem and the real economy by providing services such as auditing, tax consultancy, financial advisory, and bookkeeping. However, due to its nature and client interactions, the sector is vulnerable to Money Laundering (ML) and Terrorist Financing (TF) risks. Flowing from the from the National Risk Assessment in 2022, several vulnerabilities have been identified that can crystallize Money Laundering (TF), Terrorist Financing (TF) and Proliferation Financing(PF) Risk in the sector.

This Sectoral Risk Assessment (SRA) evaluates the ML/TF risks associated with accounting professionals and firms, identifying key vulnerabilities, threats, and mitigation measures to strengthen compliance with Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) obligations.

Objectives

The primary objectives of this assessment are:

1. To identify inherent ML/TF risks within the accounting sector.
2. To assess the effectiveness of existing AML/CFT controls and regulatory frameworks.
3. To recommend risk-based mitigation measures to enhance compliance and resilience.
4. To contribute to Nigeria's overall AML/CFT framework and align with Financial Action Task Force (FATF) recommendations.

Key Findings

1. **Threats:** Globally, the sector is susceptible to being exploited by criminals to launder illicit funds through services such as the creation of complex corporate structures, tax evasion schemes, and fraudulent financial reporting. However, given the nature of services rendered by most accounting practice the threat identified is largely laundering of proceeds of corruption through provision of non-audit consultancy services.

   The threat of terrorism financing and proliferation financing was found to be low.

2. **Vulnerabilities:** The study found out that the vulnerabilities vary across the sector from the small firms, who are the most prevalent operators in sector and exhibit most vulnerabilities, but control smallest portion of the industry market share to medium size firm and the big four firms.

   Generally, the most significant vulnerabilities identified from the assessment include weakness in detection and reporting of suspicious transaction, weak AML/CFT awareness, poor internal AML/CFT oversight and compliance (mostly in small firms) an high integration of the sector with other regulated sector and the real economy in general.

3. **Regulatory Framework:** While Nigeria has established and strengthened AML/CFT regulations applicable to Designated Non-Financial Businesses and Professions (DNFBPs), Self Regulatory Bodies are yet to fully align their oversight with expectations of the Nigerian AML/CFT regime.

4. **Reporting and Compliance:** There has been considerable adoption and implementation of AML/CFT preventive measures by

accounting firms in Nigeria. However, low levels of Suspicious Transaction Reports (STRs) from accounting professionals suggest potential underreporting, either due to lack of awareness or reluctance to report suspicious activities.

Risk Rating

Based on the analysis, the accounting sector is assessed as **medium risk.** While there are identified vulnerabilities and threats, the sector demonstrated significant controls to considerably counteract them.

- **Inherent Risk**: **Medium** – Most of the accountants practicing in Nigeria engage in audit and assurances services. However, the high complexity and integration of the sector with the real economy particularly high risk industry like Government, extractive industry and financial services present some considerable risks.
- **Control Effectiveness**: **High** – Regulatory oversight and enforcement mechanisms are strong, with significant improvements in transaction monitoring and compliance practices by the operators.
- **Residual Risk**: **Medium** – Despite some potential and actual ML/TF/PF vulnerabilities in the sector , the combination of strong controls, inter-agency collaborations, effective and dissuasive sanctions, and sustained outreach to the sector has reduced the sector ML/TF/PF residual risks.

Summary of the risk factors assessed is presented below:

	Assessed Potential Risk	Assessed Actual Risk
Geographic Risk	High	Low
Customer Risk	High	Medium
Service Risk	Medium	Low
Delivery Channel Risk	Medium	Low

Methodology

The assessment is a desk review which engaged an array of methods to collect and analyze information from official and open sources of information. The research methodology includes the following:

- **Review of Regulatory Reports & Compliance Data:** Compliance reports, STR/SAR filings, enforcement actions, and supervisory findings were reviewed to assess sector vulnerabilities.
- **Focus Group Discussions (FGDs):** The assessment engaged with stakeholders such as regulators, financial intelligence units (FIUs), Self Regulatory Bodies and industry professionals to identify elements of sectoral risks.

- **Interviews with Industry Experts:** One-on-one engagements with professionals in DNFBP sectors, investigative bodies, and compliance officers.

- **Supervisory & Enforcement Insights:** The assessment extract insights from past regulatory actions, including compliance levels, enforcement trends, and common sectoral weaknesses

Open-Source & Secondary Research

- **International Reports & Best Practices:** Utilize FATF Guidance on the accounting sector.
- **Media & Public Records Analysis:** Investigate reports of ML/TF incidents, fraud cases, and sectoral vulnerabilities from credible news sources.
- **Academic & Industry Research:** Extract insights from peer-reviewed studies, whitepapers, and financial crime research institutions.

Risk Indicator-Based Assessment

- **Sectoral Exposure Indicators:** Evaluate inherent risk factors such as high-value transactions, cash intensity, customer anonymity, and cross-border operations.
- **Product & Service Risk Indicators:** Assess the risk level of services offered (e.g., shell companies, trust services, high-value goods trade).
- **Geographical Risk Assessment:** Identify regions linked to high ML/TF risks based on international assessments or known criminal activities.

Legal & Regulatory Framework Gaps: Assess weaknesses in laws, supervision, and enforcement that may increase risks.

Case Study Analysis & Typologies

- **Real-World Cases & Patterns:** Review known ML/TF schemes and how criminals exploit the sector using analysis of STRs filed on the accounting sector.
- **Comparative Jurisdictional Analysis:** Study how similar sectors are exposed to risks in other jurisdictions

Risk Scoring & Heat Mapping

- **Risk Scoring Model:** Develop a scoring matrix using available data, expert input, and known risk factors.
- **Heat Maps & Visual Analytics:** Create visual representations to highlight high-risk areas, trends, and sectoral vulnerabilities.

Recommendations

1. **Strengthen Supervision and Enforcement:** Enhance risk-based supervision of accounting firms to ensure compliance with AML/CFT regulations.
2. **Capacity Building and Awareness:** Conduct regular training for accounting professionals on AML/CFT obligations, red flags, and risk-based approaches.

3. **Enhance Regulatory Coordination:** Improve collaboration between the Financial Intelligence Unit (FIU), regulatory bodies, and professional associations to streamline compliance efforts.
4. **Improve Reporting Mechanisms:** Encourage accountants to submit STRs and other mandatory reports through simplified and secure reporting channels.
5. **Adoption of Technology:** Promote the use of AML/CFT compliance tools, including Know Your Customer (KYC) and transaction monitoring systems, to strengthen risk management.
6. **Develop Sector-Specific Guidelines:** Establish clear AML/CFT guidelines tailored for accounting professionals, focusing on high-risk activities and emerging threats.

Conclusion

The accounting sector in Nigeria plays a critical role in financial integrity and economic stability. While existing regulatory frameworks provide a foundation for AML/CFT compliance, there is a need for enhanced supervision, training, and risk-based approaches to mitigate ML/TF risks effectively. Implementing the recommended measures will strengthen the sector's resilience and contribute to Nigeria's broader AML/CFT objectives in line with international best practices.

Chapter Two
Overview, Context, Legal and Regulatory Framework for the Accounting Sector in Nigeria

Structure and Size of the Accounting Service Sector

The accounting sector in Nigeria plays a vital role in the country's economic development, financial transparency, and corporate governance. As a critical part of the financial system, the sector ensures compliance with regulations, proper financial reporting, and accountability in both private and public sectors. Over the years, Nigeria has developed a strong accounting framework, guided by both local and international standards, to enhance financial integrity and attract investment.

The Nigerian accounting service sector has been divided into different categories of operators namely; **the "Big 4" Accounting Firms** (KPMG, PWC, Deloitte and EY), **Medium Size foreign audit practices with Nigerian partners**, including BDO, Grant Thornton International, RSM International, Baker Tilly, Crowe Horwath International and Nexia International, (describe as the Medium 6 or M6) and the **Small and Medium Nigerian Audit Practices (SMP)**[1]

The sector is largely dominated by the "Big 4" accounting firms such as KPMG, PWC, Deloitte, and EY, with a combined market share of 98% of the total audit revenue earned by the industry in 2023[2].

Further analysis shows that KPMG led the pack with a 34.5% market share in terms of income, followed by EY and PWC with 29% and 20.4% shares

[1] E.N Asien, 2014. Exploring the state of audit market in Nigeria, African Journal of Accounting, Auditing and Finance, Vol. 3, No. 4, 2014 287

[2] https://nairametrics.com/2024/06/14/big-4-maintain-market-dominance-as-audit-firms-earn-n17-34-billion-fees-in-2023/#:~:text=January%2025%2C%202025,overall%20stability%20of%20financial%20markets.

respectively. However, based on the number of clients, PWC ranked first with a share of 28%, closely followed by Deloitte at 26%, while EY accounted for 22% of the share.[3] However, developments in the recent years have shown increasing affiliation of national firms with foreign accounting firms.

Analysis of the big 4 Accounting Firms in Nigeria

	2023 Annual Revenue in U.S. Dollars	# of Employees	# of Countries of Operation/Headquarters
Deloitte	$64.9 billion	457,000	150/London, UK
PwC	$53.1 billion	364,000	152/New York City, U.S.
EY	$49.9 billion	395,442	150/London, UK
KPMG	$36 billion	273,000	143/Amstelveen, Netherlands

Source: Investopedia https://www.investopedia.com/terms/b/bigfour.asp

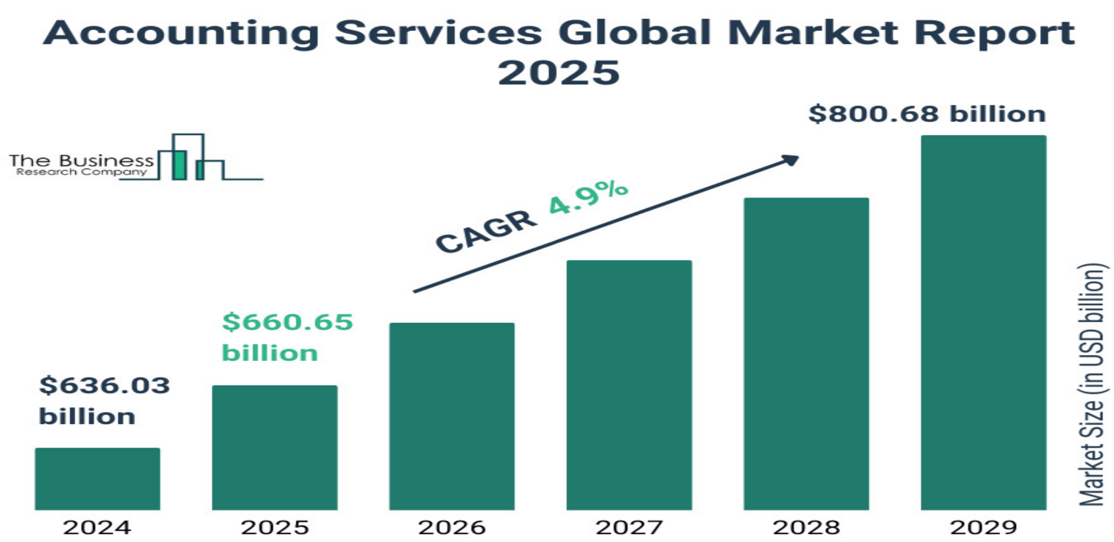
The accounting sector has two Self Regulatory Bodies in Nigeria namely the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN).

As at March, 2025, ICAN claimed it has 65,000(Sixty Five Thousand) members and associates around the world, with 79 districts in Nigeria and each in United Kingdom, USA, Canada, Cameroon, Ireland, Malaysia and South Africa.[4] ICAN which has a practice of issuing practicing license to individuals and not to firms, posted a 1,761 as the list of members-in-practice with active license, as at 10th August, 2023.[5]

[3] Nairametrics
[4] https://icanig.org/ican/
[5] https://icanig.org/members/documents/Valid_Licence_10_08.pdf

ANAN which was established in 1979 and Chartered by Act 76 of 1993, claimed to have over ANAN has over 58,000(Fifty Eight Thousand) nominal members in 47 branches across Nigeria, UK, Cameroon, and Cote d'Ivoire.[6] ANAN also posted on its website a total of 748(Seven Hundred and Forty Eight) active licensed firms as at March, 2025.[7]

Globally, the accounting sector has shown linear but steady growth. A report by the business research company posited that the accounting services market size will grow from $636.03 billion in 2024 to $660.65 billion in 2025 at a compound annual growth rate (CAGR) of 3.9%. The growth is also expected reach $800.68 in 2029 at CAGR of 4.9%.



Source: https://www.thebusinessresearchcompany.com/report/accounting-services-global-market-report

The growth has been largely attributed to globalization, outsourcing of back-end operations to low-cost economies, a rise in research and

[6] https://anan.org.ng/
[7] https://anan.org.ng/wp-content/uploads/2025/02/ActiveFirm2025.pdf

development (R&D) investments, and strong economic growth in emerging markets.[8]

The Nigerian accounting service sector has however shown a stronger growth. For example it was reported that in 2023, the 50 most capitalized companies in the Nigerian equities market paid a sum of N17.24 billion as audit fees in 2023, a remarkable 46.7% increase from N11.82 billion in 2022.[9]

Nature of Services

Accounting services are largely divided into Audit and Non-Audit Services. Audit service involves analyzing a business' financial data for accuracy to find unbiased or objective conclusions. Audits are mostly statutory requirements and may also include assurance services, where an independent party forms opinion on the accuracy of an audit.

The Institute of Chartered Accountants in England and Wales (ICAEW) categorize Non-audit services provided by auditors to their clients fall into three categories; **1.** Services required by legislation or contract to be undertaken by the auditors of the business, such as filing of regulatory returns, **2.** Services that it is most efficient for the auditors to provide because of their existing knowledge of the business, or because the information required is a by-product of the audit process. For example, tax compliance, where much of the information derives from the audited financial records, **3.** Services that could be provided by a number of firms. In this case, the fact that the firm is the auditor is incidental and it would generally only be chosen because, for example, it had won a tender process. Examples of such services include

[8] https://www.thebusinessresearchcompany.com/report/accounting-services-global-market-report
[9] https://nairametrics.com/2024/06/14/big-4-maintain-market-dominance-as-audit-firms-earn-n17-34-billion-fees-in-2023/

management consultancy, tax advice and human resources consultancy.[10]

The Financial Action Task Force (FATF) affirms that the requirement of Recommendation 22 regarding customer due diligence, record-keeping, Politically Exposed Persons (PEPs), new technologies and reliance on third parties set out in Recommendations. 10, 11, 12, 15 and 17 apply to accountants in when they prepare for or carry out transactions for their clients concerning the following activities: a) Buying and selling of real estate; b) Managing of client money, securities or other assets; c) Management of bank, savings or securities accounts; d) Organization of contributions for the creation, operation or management of companies; and e) Creating, operating or management of legal persons or arrangements, and buying and selling of business entities.[11]

The FATF however affirmed that services relating to the formation and management of companies and trusts are seen as being a particular area of vulnerability.

Legal and Regulatory Frameworks

The oversight of accounting service sector in Nigeria is under the AML/CFT, prudential and self regulatory legal and regulatory frameworks.

The framework is built upon the following key regulations and institutions:

1. **The Financial Reporting Council of Nigeria (FRCN**)

The FRCN plays a critical role in the regulation of accountants and financial reporting practices in Nigeria. The FRCN operates under the

[10] https://www.icaew.com/technical/trust-and-ethics/ethics/auditor-independence/provision-of-non-audit-services-to-audit-clients
[11] FATF Guidance For A Risk-Based Approach for the Accounting Profession, 2019

Financial Reporting Council of Nigeria Act, No. 6, 2011, with the mandate to ensure high-quality financial reporting and corporate governance.

The FRCN establishes accounting and financial reporting standards in line with international best practices, including the adoption and enforcement of the International Financial Reporting Standards (IFRS).

The FRCN oversees the activities of professional accounting bodies such as ICAN and ANAN to ensure compliance with ethical and professional standards. The council monitors corporate financial reporting and takes enforcement actions against violations of accounting and auditing regulations.

FRCN also investigates financial reporting irregularities, ensuring that accountants adhere to best practices to prevent fraud and misstatements.

2. Self Regulatory Bodies (ICAN & ANAN)

The accounting profession in Nigeria is regulated and supported by several professional bodies that oversee the training, certification, and ethical conduct of accountants. The key professional bodies include:

1. Institute of Chartered Accountants of Nigeria (ICAN) – Established in 1965, ICAN is the leading accounting body in Nigeria. It certifies chartered accountants and ensures adherence to ethical and professional standards (ICAN, 2023).
2. Association of National Accountants of Nigeria (ANAN) – Another recognized professional accounting body that trains and certifies professional accountants, contributing to capacity building in the sector (ANAN, 2023).
3. Chartered Institute of Taxation of Nigeria (CITN) – While primarily focused on taxation, CITN plays a role in ensuring tax compliance and proper accounting in tax matters (CITN, 2023).
4.

3. Special Control Unit against Money Laundering

The Special Control Unit against Money Laundering (SCUML) plays a critical role in the AML/CFT supervision of accountants in Nigeria. SCUML is an agency under the Economic and Financial Crimes Commission (EFCC) and is responsible for ensuring compliance with AML/CFT regulations by Designated Non-Financial Businesses and Professions (DNFBPs), including accountants and accounting firms in accordance with the provisions of the Money Laundering (Prevention & Prohibition) Act, 2022, Terrorism (Prevention &Prohibition) Act, 2022 and their supplementary regulations.

SCUML's Role in the AML/CFT Supervision of Accountants include the following

- **Registration and Licensing**

SCUML mandates all accounting firms that provide financial services—especially those engaging in transactions that may pose ML/TF risks—to register with the unit. This ensures that they are recognized, monitored, and regulated under the AML/CFT framework.

- **Risk-Based Supervision (RBS)**

SCUML conducts risk assessments on accountants and accounting firms to determine their ML/TF risk exposure. It classifies them into high, medium, or low risk categories, allowing for tailored supervision and compliance monitoring.

- **Issuance of AML/CFT Guidelines**

SCUML provides regulatory guidance and AML/CFT obligations specific to accountants, including:

- Customer Due Diligence (CDD) & Know Your Customer (KYC): Accountants must verify client identities, assess risks, and monitor transactions.
- Suspicious Transaction Reporting (STR): They must report suspicious activities to the Nigerian Financial Intelligence Unit (NFIU).

- Record-Keeping: Maintaining transaction records for at least five years for regulatory review.

- **Inspections and Compliance Monitoring**

SCUML conducts onsite and offsite inspections to evaluate whether accountants comply with AML/CFT laws. Non-compliance can lead to sanctions, warnings, or enforcement actions.

- **Capacity Building and Awareness**

SCUML organizes training programs and workshops for accountants to enhance their understanding of money laundering risks, compliance obligations, and best practices.

- **Enforcement and Sanctions**

SCUML collaborates with the EFCC and other agencies to investigate and sanction accountants found to be involved in money laundering or terrorist financing. Non-compliant firms may face fines, business restrictions, or criminal prosecution.

- **Collaboration with Professional Bodies**

SCUML partners with regulatory bodies like ICAN (Institute of Chartered Accountants of Nigeria) and ANAN (Association of National Accountants of Nigeria) to ensure that accountants adhere to AML/CFT standards in their professional practice.

Chapter 3
Threat Assessment

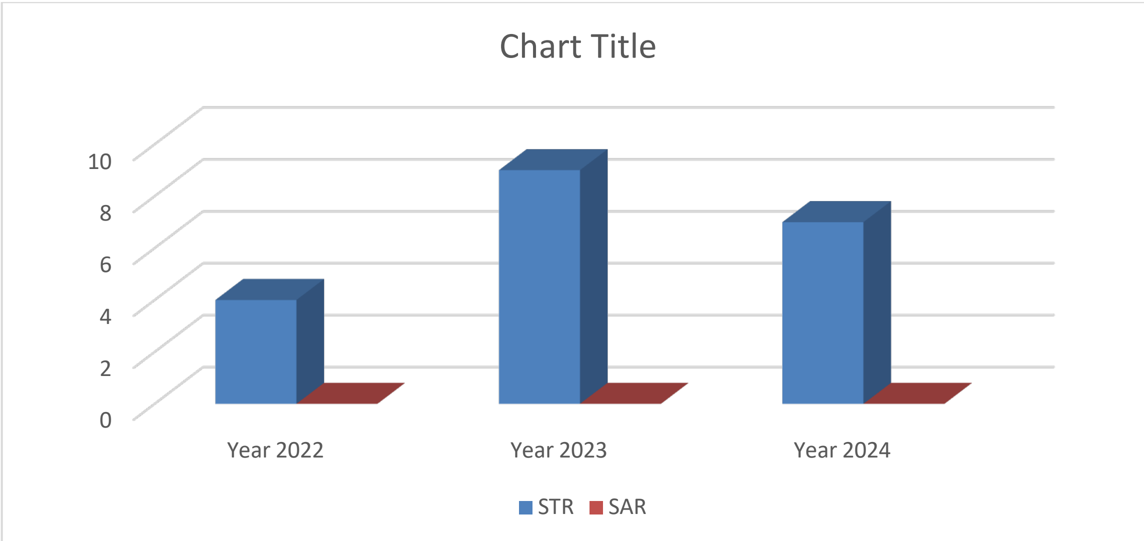
Overview of Relevant Data from Suspicious Transaction Reports Analysis of Accountants and Accounting firms

In accordance with Section 17 (2) (f) of the MLPPA, 2022, DNFBPs under which the accountants are classified are required to submit cash-based transaction reports and currency transaction reports (CTRs) to SCUML. In separate section of the same law, Accountants are required to file suspicious transaction report to the NFIU, within 24 hours. An analysis conducted on STRs filed on Accounting Professionals from the year 2022-2024, revealed that there was no regulatory report from Accounting Professionals/Accounting Firms in line with the requirement of MLPPA, 2022. However, a total of 20 STRs were received from banks with regards to Accounting Professionals/Accounting Firms using the search words Chartered Accountants, Auditors and Accounting Firms.

Table 1: Break Down of STRs filed by Banks 2022-2024

Type of Report filed by banks	Year 2022	Year 2023	Year 2024
STR	**4**	**9**	**7**
SAR	**Nil**	**Nil**	**Nil**

Chart 1: Bar Chart showing STRS filed on Accountants/Accounting Firms



Based on table and chart one above, it is observed that four (4) STRs were filed on activities of Accountants/Accounting Firms in the year 2022, nine (9) STRs were filed in the year 2023 on the same Accountants/Accounting Firms and seven (7) were filed in the year 2024. There was no suspicious activity report filed by banks on activities of the Accountants/Accounting Firms in the years 2022, 2023 and 2024. Overall, the number of STRs filed by banks on activities of Accountants/Accounting Firms has increased from the year 2022 to 2024.

ML/TF threats specific to Accountants/Accounting Firms

Based on the Twenty (20) Suspicious Transaction Reports (STRs) that were filed to the NFIU on the activities of Professional Accountants/ Accounting firms there was no transaction that the NFIU suspects to be of Terrorism Financing in nature.

The reason is because there was no transaction by the accountants/accounting firms reported to have taken place in a place of high insecurity (Lagos, Abuja, PH and Kaduna) or had the indicators/red flags for terrorism financing. These locations are also places known to have high volume of Government and financial activities.

In addition, all the transactions reviewed and analyzed highlighted that the individuals /firms reported are qualified Professional Accountants, Auditors, Tax Consultants, Financial consultants and Politically Exposed Persons in the Key Financial Sector of the Government.

However, the analyses of the 20 STRs by the NFIU resulted in conclusion that Professional Accountants/ Accounting firms could be used as vehicles for Money Laundering.

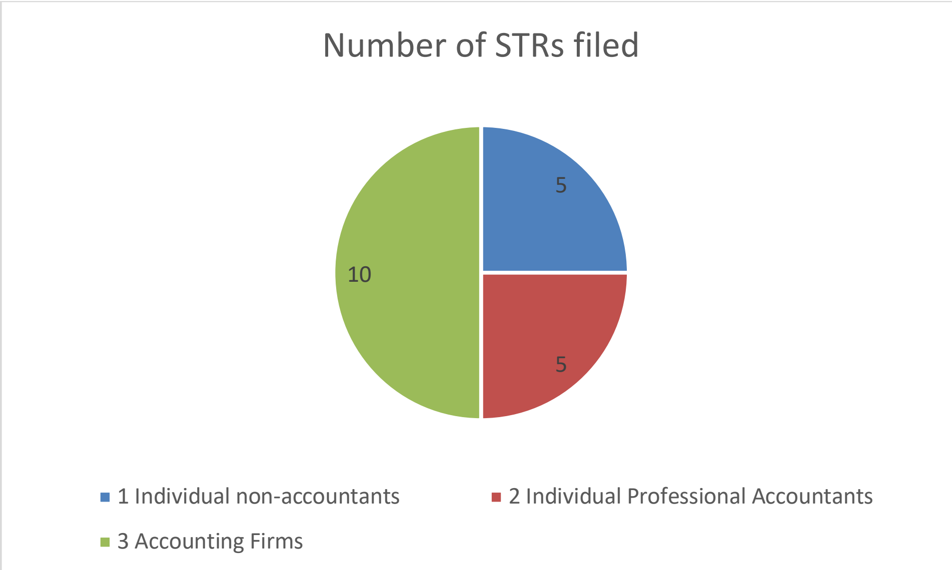
Predicate crimes associated with Accountants/Accounting Firms

The major AML/CFT abuse found to be associated with Professional Accountants/ Accounting firms is Money Laundering. The justification for this conclusion by the NFIU is based on the Money Laundering indicators/red flags found from the nature of STRs reported to the NFIU. The table and chart below provide a graphical presentation of the findings.

Table 2: Break Down of STRS on Accountants/ Accounting firms according to Clients

SN	Client Type	Number of STRs filed
1	Individual non-accountants	**5**
2	Individual Professional Accountants	**5**
3	Accounting Firms	**10**
	Total	**20**

Chart 2: Break Down of STRS on Accountants/ Accounting firms according to Clients



Based on table and chart 2 above, out of the 20 STRs filed on Accountants/ Accounting firms 5 of the STRs were related to individuals who are not qualified as Professional Accountants but received funds from Accounting Firms and Accounting Institutions in a suspicious manner that appeared to be Money Laundering. The narrations for these transactions showed huge inflows followed by immediate outflows, huge inflows in trenches and huge inflows from different unrelated entities including accounting firms.

Based on table and chart 2 above there were 5 STRs on individuals who are professional accountants providing consultation services (financial consultants, Audit and tax related) that were found to be receiving inflows from Government Agencies, other individuals and other companies in a suspicious manner. The narrations of these transactions indicated huge inflows followed by immediate outflows. Some of these individuals are also partners to other companies (Accounting/Non-Accounting Firms). A politically exposed person serving in key Financial Government Sector was also found to be receiving huge amount of funds from his employer beyond his salary and without economic justifications.

Based on table and chart 2 above the remaining 10 STRs were related to registered accounting firms that carried out transactions that had Money Laundering patterns. One of the firms had a signatory whose BVN is linked to other entities (Cooperative, Hotel and other accounting services) who received to separate huge inflows in to its different company accounts from the same Federal Government Agency as consultancy services. High frequency inflows were also observed into the accounts of accounting firms from unknown source and purpose of the transactions in both Naira and USD.

Case studies of ML/Tax Evasion activities involving Accountants/Accounting Firms

STR on Non-Professional Accountant receiving funds from Accounting Firms/ Accounting Institutions

CASE STUDY ONE
Details: Mr. AI with Account Number:0001, 00002 opened date: 08-12-2011 Branch: Abuja BVN: 000000000. Occupation: staff of Law Enforcement Agency (LEA) Source of Wealth: SALARY Mr. AI with account number:0001, 00002 was reviewed from 05-nov-2023 to 04-nov-2024 for possible Money Laundering, Terrorism Financing and Proliferation Financing red flags. total credit entries: usd6,195.00 NGN162,192,740.57 the customer was onboarded as an employee of LEA, of a federal law enforcement agency in Nigeria. Review of the customer's USD account showed inflows a single inflow into the account deposited by the customer, while outflow was cash withdrawal by the customer. Review of the customer's NGN account showed on 13 march 2024, the customer received inflows from XXX pharmaceutical

IND. LTD with narration payment for regulatory inspection, customer also received inflows from YYY pharmaceutical IND.LTD, ZZZ pharmacy, DDD pharmaceuticals Nigeria limited. The customer also received inflows from the INST of Chartered Accountants in two different transactions, transactions with UL concept, self-transfers and others personal transactions. The customer receiving payment for a regulatory supervision on his personal account makes it suspicious.
Indicators/Red Flags: ❖ Staff of a federal LEA receiving funds from various pharmaceuticals and Institute of charted accountants via personal account ❖ There is no economic justification for the transaction between institute of chartered accountants and staff of the LEA
Location: Abuja, Nigeria

STRs on Professional Accountants providing consultation services (Financial, Audit and tax related) to Government Agency

CASE STUDY TWO
details: Mr. AS0 owns and operates a business account with XXX Bank and account number 0000000 at our Lagos branch. The customer's BVN is 00000 with phone number 00000000.

Customer is a Chartered Accountant and Consultant. The account has experienced credit turnover of NGN 4,186,728,787.39 and debit turnover of NGN 2,948,751,920.74 over a period of one year. The account received the sum of NGN 1,720,252,546.44 in 2 tranches on the 18-may-2023 and 19-jun-2023. The account officer explained that customer is a Chartered Accountant and a lead consultant to an MDA. He audits banks and other financial institutions including XXX for all government revenues retained, he helps Federal Government recover collections, deductions, and remittances from collecting banks over a period. The inflow is a commission on recoveries of concluded audits over a period of time. He gets the funds as the lead consultant and share accordingly among other consultants. The documentary evidence provided was dated 2020.The customer does not have the SCUML certificate required for DNFP, we have requested for the certificate.
<u>Indicators/Red Flags</u>: ❖ Huge volume of transactions credit of NGN 4,186,728,787.39 and debit of 2,948,751,920.74 ❖ The account received the sum of NGN 1,720,252,546.44 in 2 tranches from an MDA ❖ The customer gets the funds as lead consultant to share with other consultant
<u>Location</u>: Lagos, Nigeria

STR on Registered Accounting Firms with Money Laundering transaction patterns.

CASE STUDY THREE

details:

The customer SKF Services with BVN 0000 established relationship with AAA Bank by opening a NGN Corporate Current Account* 00000 at Abuja Branch on 12 August 2022.

The BVN- 00000 attached to the account belong to Mr OLMY B who is the UBO and signatory to the account.

Other accounts linked to the BVN are OLMY B & CO * 0000 (USD), PRD Multipurpose Coop Society * 00000 (NGN), BLSD Garden and Suites * 000 (NGN), SKF Services * 00000 (NGN) and AC FRNSC Accounting Services * 0000 (NGN).

Customer is a firm of Chartered accountants, Management and Tax Consultants.

On 23 February 2023, the customer received an inflow of = N45,133,479.16. Our EDD revealed that the inflow is payment for audit of MDA XXX carried out by our customer. The inflow is the largest inflow in customer's account since inception.

Indicators/Red Flags:

- The largest inflow of = N45,133,479.16 since inception from MDA XXX as payment for Audit
- Another STR has been filed on payment from the same MDA XXX to another company (OLMY B & CO) linked to the same BVN
- The customers BVN linked to several businesses including outside the accounting profession

Location:

- Abuja, Nigeria

Emerging threats and typologies.

In a summery the emerging threats of Money Laundering through the Accountants/Accounting firm has been established based on the 20 STRs that were reviewed and analyzed by the NFIU.

Individuals who are not accountants have been found to be receiving huge inflows from accounting firms followed by immediate out flows.

Individual Professional Accountants have been found to be receiving inflows from Government Agencies in a manner found suspicious for Money Laundering. Some of these individuals are existing Federal Government employees and PEPs.

Signatory to an accounting firm whose BVN is linked to other entities (Cooperative, Hotel and other accounting services) has been found receiving funds in its different company accounts from the same Federal Government Agency as consultancy services.

Chapter Four
Vulnerability Assessment

Introduction

As a key component of any AML/CFT risk assessment, significant consideration is given to the assessment of key issues driving ML/TF vulnerabilities in the Accounting Sector. The vulnerability assessment covers sectoral drivers such as the size and number of operators, market entry control, cross boarder operations and exposures, regulatory frameworks etc. Vulnerabilities drivers at firm level such as gaps in adoption and implementation of compliance measures such as customers due diligence, identification and reporting of suspicious transactions etc were also examined.

The rating ranges from Lowly Significant to Very significant taking into account as follows:

- **Lowly Significant**- The sector shows a positive organizational framework and a negligible exposure to the risk of ML/TF/PF.
- **Moderately Significant**- The sector shows an organizational framework presenting some weaknesses and/or an exposure to the risk of ML/TF/PF
- **Significant**- The sector shows an organizational framework presenting very significant weaknesses and/or a significant exposure to the risk of ML/TF/PF
- **Very Significant**- The sector shows an organizational framework presenting highly significant weakness and/or a high exposure to the risk of ML/TF]

Vulnerability Analysis and Ratings

- **Size, Ownership Structure and Market Entry**

The accounting sector in Nigeria is largely oligopolistic in nature with the big four accounting firms having more than 90% 0f the Market Share.

Some foreign accounting firms with Nigerian partners are also increasing securing some portion of the market share. However, majority of the operators are small size national firms with ownership structure ranging from sole proprietorship to partnership of 2 to 5 persons.

In term of legal forms, most accounting firms in Nigeria are business names and limited liability partnerships. This places them in the category of medium to highly vulnerable forms of legal arrangements as ascertained by the outcomes of the National Risk Assessment of Legal person and Arrangement in Nigeria, 2022.

However, some of the drivers of vulnerabilities adduced for the rating in the NRA on legal person and arrangement may not apply to the accounting sector. For example foreigners cannot directly participate as partners in accounting firms in Nigeria except they are licensed by either of the two accounting SRBs in Nigeria, who subject them to rigorous AML/CFT market entry control. Open source information show that Politically Exposed Persons are active within the sector particularly in the small and medium national firms. This could expose the sector to vulnerabilities such as commingling of funds as observed in the NRA on Legal Person and Arrangements.[12]

Notwithstanding, the low barrier to entry, except the professional qualifications, market entry into the accounting sector is highly regulated by the two SRBs and the Financial Reporting Council (FRCN. This is evident by the almost nonexistent reported cases of unlicensed operators in the sector. It is also important to note the almost that indirect ownership and concealment of beneficial ownership is almost non-existent in the sector.

Consequently, ML/TF vulnerabilities arising from size, ownership structure and market entry to the sector is rated”**Lowly Significant”**

[12] Page 18, NRA of Legal Persons and Arrangements , 2022

Use of Cash

The use of in the sector is almost nonexistent. Analysis of Cash Based Transaction Report filed from the DNFBPs subsector revealed that sector has one of the lowest cash transaction profile in the sector. ML/TF Vulnerabilities arising from use of cash is rated **“Lowly Significant”**

Cross Border Operations and Exposures

Despite the harmonization of global accounting standards through the International Financial Reporting Standard, internationalization of accounting services in Nigeria remain largely restricted, therefore limiting the cross border operations and exposure of the sector in Nigeria. The Financial Reporting Council of Nigeria for instance, prohibits overseas audit/accounting firms whose certificates have not been domesticated from signing off on company accounts in Nigeria[13]. Effectively, it means partners of such firms and their principal partners must hold Nigerian equivalent of their professional qualification. Similarly local firms faces the same restrictions in the sub region and globally.

The Big 4 Accounting firms who dominate the industry have affiliations to their parent organizations, likewise the medium size national firms with foreign partners. However, analysis of home jurisdictions of many these foreign firms shows they are from jurisdiction with effective AML/CFT regimes.

KPMG	Netherlands
PWC	UK
Ernst & young	UK
Crowe Horwarth	USA
Graham Thorthon International	USA
BDO Global	Belgium
RSM International	UK

[13] https://www.thisdaylive.com/index.php/2016/05/30/frcn-bars-foreign-audits-accounting-firms-from-signing-off-on-company-accounts/

Baker Tilley International	UK
Accenture	Ireland

However, the Big 4 accounting firms and foreign firms with national partners are highly exposed foreign companies and Multi-National Corporations (MNCs) operating in Nigeria. However, these exposures are duly compensated with effective regulations and implementation of preventive measures.

Consequently, it is evident that the industry exposure to cross border operations and ML/TF vulnerabilities arising from it is "**Lowly Significant"**

Complexity of sector's structure and integration with other regulated sectors

The accounting service industry in Nigeria and almost globally is relatively simple. While the sector takes inputs from few sectors particularly ICT, its high integrated into almost all sectors of the economy. The accounting sector is highly integrated into other regulated and non-regulated sectors. In a study conducted by Adeusi(2018), analysis of the share of audit engagements across companies on the Nigerian Stock Exchange (NSE) between the big 4 accounting firms and the Non Big 4 accounting firms (comprising of medium size foreign firms with national partners and national Small and Medium size firms), shows that small and medium scale national accounting firms (Non BIG 4)are more or equally exposed to high risk sectors such as agriculture, construction and real estate, natural resources and financial services.

		BIG 4 (%)	Non BIG 4(%)
1	Agriculture	20	80
2	Conglomerates	67	33
3	Construction/Real Estate	50	50

4	Consumer Goods	59	41
5	Financial Services	56	44
6	Healthcare	33	67
7	ICT	43	57
8	Industrial Goods	39	61
9	Natural Resources	25	75
10	Oil & Gas	69	31
11	Services	29	71

Source: extracted from

Since registered and incorporated entities in Nigeria are mandated to prepare annual audited financial report as part of their annual returns to the CAC,[14] the sector is further exposed to other non-regulated and high risk sector in the economy. However, exploitation of the accounting services for ML/TF in these sectors of the economy is not common in investigations and prosecutions of ML/TF offences in Nigeria. More importantly such exploitation will require considerable amount of knowledge and/or higher technical expertise.

Vulnerability arising from the complexity of the sector and integration with other regulated sector is rated **"Moderately Significant (2)"**

Sectoral Controls and Gaps

- **AML/CFT Oversight and Compliance Culture**

The strength of AML/CFT oversight and compliance culture varies across the sector particularly between the Big 4 and the Non Big 4 small and medium scale firms. Outcomes SCUML compliance examinations shows that AML/CFT oversight and compliance culture in the Big 4 accounting firms and the Non-Big 4 medium size firm with foreign affiliations are more developed. Most of these firms have independent compliance functions

[14] CAMA 2020, Section ………

with capability to oversee the firms' AML/CFT compliance. Notably, these firms are more likely to adopt expensive and sophisticated ICT tools to address compliance requirements such as ongoing customer due diligence, targeted financial sanction screening, beneficial ownership verification etc,

While there has been significant improvements in the compliance of small and medium size national firms, capacity continue to be of concerns. Particularly in sole proprietorship ship firms. Notwithstanding, many of these small size national firms have adopted preventive measures commensurate to their risk.

Vulnerabilities arising from weaknesses in AML/CFT oversight and compliance culture s rated **"Moderately Significant"**

- **Customer Due Diligence**

The robustness of CDD measures in the sector also varies in accordance to the services offered. In most of the cases the engagement with clients are audit assurance services with minimal ML/TF risk elements an comprehensive documentations in accordance with self and government regulatory framework for conducting for audit. Across he sector, outcomes of examination shows robust CDD practices. The examinations have also shown increased implementation of preventive measures such as Politically Exposed Person Due Diligence, beneficial ownership identification and verification and implementation of Targeted Financial Sanction.

Outcomes of compliance examinations have also shown similar adoption of CDD measures in non-audit services. Generally, ML/TF vulnerabilities that may arise from gaps in application of CDD measures in the sector is "**Low Significant"** given the nature of the clients and services mostly offered.

- **AML/CFT Awareness and Training**

The accounting sector enjoys the participation of operators who are highly skilled professionals. Compliance examinations show considerable risk understanding and awareness of AML/CT obligations among the Big 4 and the medium the sized firms. Small sized firms have also shown increased understanding due to collaborative engagements between SCUML and their SRBs to increase awareness. However, most of the small sized do not show good understanding of the outcomes of the National Risk Assessment, 2022. The ML/TF vulnerabilities arising from the gaps in AML/CFT awareness and training is **"Significant"** given the high exposure of the small sized firms to high risk sectors of the economy?

- **Detection and Reporting of Suspicious Transaction Reports**

Over the past two years, registration on simplified goAML platform has increased by more than 65% across the sector. However, majority of the small sized firms often lack clear procedures for identification and reporting of suspicious transaction. Although these small sized firms may be exposed to non AML/CFT regulated sectors in the real economy, their engagements are largely low risk audit services with minimal transaction volumes. Similarly, while the big 4 and the medium sized accounting firms have robust mechanism for identification and monitoring of suspicious transactions, filing of suspicious transactions report from them is almost non-existent. However, given the low ML/TF threat of the industry, the vulnerabilities that may arise from detection and reporting of STRs is rated **"Moderately Significant"**

- **Beneficial Ownership Identification and Verification**

Across the sector, identification and verification of beneficial ownership has shown considerable adoption. However, most of the accounting services offered largely audit and assurances services with minimal criminal motivation for concealment of beneficial ownership information. Vulnerabilities arising from this element is rated **"Lowly Significant"**

- **Politically Exposed Person Due Diligence**

Outcomes of routine and thematic examinations on PEP due diligence show that the big 4 and the medium sized accounting firms, particularly those with foreign partnerships have robust procedures for PEP identification and due diligence. The examinations also saw considerable investment by these entities in proprietary software and commercial database for identification of PEPs.

However, similarly to the issue of beneficial ownership identification, vulnerabilities that may arise from abuse of accounting services that are largely provided by firms across the industry are minimally susceptible to abuse by PEP exploitation for ML or TF. Vulnerabilities arising from this element is rated **"Lowly Significant"**

- **New Technology and Payment Systems**

Adoption of new payment technologies and cyptocurrencies with capability to provide anonymity and instant cross border flows are also minimal for audit and assurance services which are the services largely carried out by firms across the sector. Analysis of Currency Transaction Reports (CTRs) filing by accounting firms shows that some accounting firms also under take payment service solutions particularly for government and companies, however this service is not a prominent one in the sector as it is carried by one or two accounting firms in the sector. Also, review of the CTRs does not show use of new payment technologies to pay for accounting services. Vulnerabilities arising from this element is rated **"Lowly Significant"**

- **Third Party Transaction and Use of Professional Intermediaries**

Accounting services are rarely carried out through third parties or other professional intermediaries in Nigeria. Engagements are directly with clients who are mostly legal persons with obligation to present audited financial statements as part of their annual returns to government agencies. Vulnerabilities arising from this element is rated **"Lowly Significant"**

- **Regulatory Framework**

The Accounting sector is subjected to stringent regulatory framework from market entry to practice. Entry into the sector is controlled by the two SRBs, who also provide stringent code of professional practice. In addition, the Financial Reporting Council of Nigeria provide regulations for conduct of audit services and the accounting professionals. In addition, the big 4 and the medium size firms with foreign partners are also subject to regulations in their home jurisdiction and around the world where they operate. Engagements with SRBs have seen implementation of AML/CFT market entry control for issuing practicing licenses and increased AML/CFT awareness among members. Accountants are also designated reporting entities in Nigeria, with attendant obligations to implement AML/CFT measures. As a prerequisite to operating a bank account, accounting firms like other DNFBPs are mandated to register with SCUML. This has helped to prevent accounting firms from operating outside the AML/CFT supervisory perimeter. However, compliance examinations have shown non-compliance with the AML/CFT regime and weak implementation of preventive measures in a number of small and medium size firms. Vulnerabilities that may arise from existing weaknesses in the supervisory framework is rated **"Moderately Significant"**

Vulnerabilities Risk Scoring

The scoring of the vulnerabilities is based on a 4 point rating scale as shown below

	Value	Rating Scale
Lowly significant	1 TO 1.5	Low
Moderately significant	1.6 TO 2.5	Medium
Significant	2.6 TO 3.5	High
Very Significant	3.6 TO 4.0	Very High

Summary and computation of Vulnerability rating for the sector

Vulnerability Drivers	Rating	Value
Size, Ownership Structure, and Market Entry	Lowly Significant	1
Use of Cash	Lowly Significant	1
Cross-Border Operations and Exposures	Lowly Significant	1
Complexity of Sector's Structure	Moderatly Significant	2
AML/CFT Oversight and Compliance Culture	Moderatly Significant	2
Customer Due Diligence	Lowly Significant	1
AML/CFT Awareness and Training	Significant	3
Detection and Reporting of STRs	Significant	3
Beneficial Ownership Identification and Verification	Lowly Significant	1
PEP Due Diligence	Lowly Significant	1
New Technology and Payment Systems	Lowly Significant	1
Third-Party Transactions	Lowly Significant	1
Regulatory Framework	Lowly Significant	1
Total Sectoral Aggregate		19
Average Sectoral Vulnerability Rating		1.46

Conclusion

With a total average sectoral vulnerability rating (after control) of 1.46, the existing sectoral vulnerability of the accounting service sector in Nigeria is **"Lowly Significant"** This demonstrate considerable strength of controls and low ML/TF vulnerabilities in the sector.

Chapter Five
Risk Assessment

Nature of Risk Faced by Accountants in Nigeria

Services/Product Risk

The services offered by accounting firms in Nigeria can be divided into Audit and Assurances services and Non Audit services. An audit ensures reports or processes adhere to the laws, industry standards or internal policies. On the other hand, assurance enhances the credibility and reliability of information for decision-making purpose[15]

Non Audit services on the other hand may include any services provided by an accountant that are not related to the examination of financial statements and the expression of an opinion on them. [16]

Such services could include tax advisory and compliance services, company formation and corporate structuring, trust and fiduciary services, management advisory services, and even Information Technology. Typologies and research papers are awashed with potential and actual abuse of these non audit services by criminals. For example businesses engage in aggressive tax avoidance schemes, could engage accounting firms for such purposes and consequently use them to facilitate laundering of proceeds from th tax crime.

In similar vein, accountants carry out company formation and corporate structuring services. Report of the National Risk Assessment on Legal Persons and Arrangements highlights the vulnerabilities of these structures to ML/TF. Illicit entities may also use accounting firms to create false

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[15] https://marshalljones.com/auditing-vs-assurance-services-is-there-a-difference/#:~:text=An%20audit%20ensures%20reports%20or,assessment%20of%20various%20organizational%20aspects.

16 https://www.sciencedirect.com/science/article/abs/pii/S0882611023000378#:~:%20Young%2C%202013).

financial records to launder proceeds of crime or even create semblance of business operations for companies or organizations that are actually used as a front for criminals.

Similarly, Accountants also offer trust and fiduciary services that can be exploited by criminals. Trusts are increasingly used in Nigeria to hold assets anonymously, posing ML/TF risks.[17]

Analysis of ML/TF threats to the accounting sector acknowledged the potentials vulnerabilities of the sector to ML abuses, but none of the identified audit or non-audit services was abused for ML. Also, evidence of accounting services vulnerability to TF abuse is nonexistent.

However, across the case studies presented from analysis of suspicious transaction reports filed on the accountants, there are evidences of accountants being use to comingle proceed of corruption from government officials through consultancy services(such as revenue recovery services or audit services)

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CASE STUDY: Use of Accountants as Financial Intermediaries to move illicit funds through Consultancy Service
Details: Mr. GOA, a chartered accountant, is the sole practitioner in an accounting firm operating from Abuja and Lagos. The firm was engaged by a government agency to carry out revenue recovery and management consultancy. However, Mr. GOA was later appointed as a technical assistance to the CEO of the MDA. The CEO was arrested on May 16, 2022 by the EFCC for diversion of funds and money laundering. He was subsequently arraigned on July 22, 2022 on 14-count charges.

[17] https://utltrustees.com/estate-planning-for-public-office-holders-the-blind-trust/#:~:text=A%20Blind%20Trust%20is%20established,include%20the%20asset%20owner%20themselves).

Investigation revealed that a payment of N15.1 million was made to the CEO of the government agency through the business bank account of the accounting firm. A compliance examination of the accounting firm conducted by SCUML officials on 26th January, 2023 also revealed personal withdrawals from the firm's account running into hundreds of millions of Naira. The analysis also revealed several transfers to individuals Mr. GOA was charged alongside the CEO of the government agency in the corruption and money laundering case.
<u>Indicators/Red Flags</u>: ❖ Several transfers of funds to government officials and individuals with no economic justification ❖ Personal withdrawals from the account of the firm running into hundreds of millions by the sole Mr. GOA is unexplainable.
<u>Location</u>: Abuja, Nigeria

Consultancy and audit service to government Ministries, departments and Agencies (MDAs) clearly present a significant money laundering and corruption threat to the sector, through commingling of funds and possibility of accounting firms acting as financial intermediaries for moving proceeds of corruption and bribery. Generally, accounting services present low ML/TF risk in Nigeria.

Customer Risk

Customer risk in the Nigerian accounting sector arises from the nature of clients and their associated financial activities. The diversity of clientele includes individuals and entities with varying levels of ML/TF exposure. The following categories of clients pose heightened risks:

- **Politically Exposed Persons (PEPs):** Nigeria has a high prevalence of corruption-related money laundering involving politically exposed individuals. Ongoing prosecutions and cases highlighted from analysis of STRs filed on Accountants have revealed significant risk pose by PEPs who exercise control over the MDAs that engages professional accountants for carrying out audit and non-audit services such as revenue management. Most prominent abuse is the use of of professional accounts for commingling of funds and conduit for transferring proceeds of corruption and bribery.

  In private business transactions, accounting firms handling, trust and fiduciary services financial records and tax advisory services for PEPs must implement enhanced due diligence (EDD). This includes verifying the sources of wealth and ensuring that financial dealings align with declared earnings.

- **High-Net-Worth Individuals (HNWIs):** Some Nigerian HNWIs use complex financial arrangements, including offshore accounts, private trusts, and layered financial transactions, to obscure the origin of funds. The significant numbers of Nigeria HNWIs involved in the Panama Papers scandal attest to active use of trust and offshore wealth planning by Nigerian HNWIs and PEPs.[18]

Accounting firms providing wealth management and tax advisory services must therefore apply stringent KYC procedures to detect potential ML risks.

[18] https://en.wikipedia.org/wiki/Panama_Papers_(Africa)

- **Cash-Intensive Businesses:** Nigeria's informal sector, which contributes significantly to the economy, is dominated by cash transactions. Sectors such as transportation, gaming, and open markets are particularly susceptible to illicit financial flows. However, with the advent of aggressive cashless policy of the Central Bank of Nigeria, there has been a continuous drop in transactions across the sector. According to WorldPay, Nigeria has seen the sharpest decline in cash transactions among seven major economies over the past decade, with cash usage dropping by 59% from 2014 to 2024. The decline surpasses that of the Philippines (43%), Indonesia (44%), Mexico (41%), Japan (31%), Germany (24%), and Colombia (22%).[19]

  Accounting firms that provide bookkeeping, tax preparation, and financial management services to such businesses must conduct thorough transaction monitoring and ensure cash-intensive clients comply with AML/CFT regulations.

- **Entities with Complex Ownership Structures:** Many Nigerian businesses operate through opaque ownership structures, including shell companies, trusts, and multiple layers of corporate entities, to conceal beneficial ownership. This creates opportunities for money laundering and tax evasion. Accounting firms involved in corporate structuring and financial statement preparation must apply enhanced scrutiny to such clients.

- **Foreign-Based Clients:** Nigerian accounting firms serving international clients or foreign subsidiaries of Nigerian companies must be aware of jurisdictional risks. Clients from high-risk jurisdictions

[19] https://allafrica.com/stories/202503210078.html#:~:text=accelerated%20the%20transition-,Nigeria%20has%20seen%20the%20sharpest%20decline%20in%20cash%20transactions%20among,to%20a%20report%20by%20Worldpay

or those engaged in cross-border transactions pose a heightened risk of trade-based money laundering and illicit capital flight.6

Given these risks, accounting firms must implement robust client on boarding processes, conduct ongoing transaction monitoring, and maintain a high level of AML/CFT compliance to prevent exploitation by illicit actors. **The Customer risk is rated Medium, given the existence of controls addressing a wide range of CDD issues in the accounting Sector**

Geographical Risk

Certain locations within and outside Nigeria present higher ML/TF risks due to regulatory weaknesses, conflict, and illicit financial flows:

- **High-Risk Domestic Areas:** States with high levels of criminal activity, such as the North-East (due to insurgency) and the Niger Delta (due to illicit oil bunkering), pose significant ML/TF risks.
- **Cross-Border Transactions:** Nigeria's economic ties with neighboring countries, including Benin, Togo, and Ghana, create opportunities for illicit financial flows, particularly in trade-based money laundering.
- **International Sanctions and High-Risk Jurisdictions:** Engaging with clients from sanctioned jurisdictions or countries listed by the Financial Action Task Force (FATF) increases ML/TF exposure.

However, there are controls from the Self Regulatory Bodies and SCUML to ensure that accounting firms undertake preventive measures when dealing with clients from high risk areas and factoring that factor into their risk assessment.

Delivery Channel Risk

The manner in which accounting firms deliver their services has a significant impact on money laundering (ML) and terrorist financing (TF) risks. In Nigeria, certain delivery channels present heightened vulnerabilities, particularly in sectors where anonymity, third-party involvement, and limited regulatory oversight can be exploited for illicit financial activities. Key concerns for Nigerian accounting firms include:

- **Remote and Online Transactions**

The rise of digital banking, fintech innovations, and cloud-based financial services in Nigeria has transformed the way businesses manage their finances. While these technologies enhance efficiency and accessibility, they also introduce ML/TF risks, especially if they lack adequate regulatory oversight. Criminals may exploit digital payment platforms, cryptocurrency transactions, and online invoicing systems to obscure the origin of illicit funds. For accounting firms handling client funds, preparing financial reports, or providing tax advisory services, the use of these digital platforms requires enhanced due diligence to prevent misuse.

- **Third-Party Intermediaries**

Many accounting firms in Nigeria engage third-party service providers such as external consultants, tax agents, or corporate service providers to facilitate transactions, audits, and compliance processes. Similarly, in government procurement and private sector contracting, intermediaries—including agents and brokers—often act on behalf of clients, increasing the risk of illicit financial flows. Without rigorous due diligence, accounting firms may unknowingly process transactions linked to bribery, fraud, or politically exposed persons (PEPs) seeking to launder illicit proceeds. Firms must implement stricter controls to verify the legitimacy of intermediaries and ensure they are not being used as conduits for financial crime.

- **Non-Face-to-Face Client Onboarding**

As Nigerian accounting firms embrace digital transformation, remte client onboarding may soon become a common place. While remote onboarding increases efficiency, it also presents significant ML/TF risks, particularly in verifying the true identity of clients. Fraudsters may exploit weak Know Your Customer (KYC) procedures to set up shell companies, falsify financial statements, or engage in illicit transactions. Given Accounting firms must adopt stronger verification measures to prevent abuse of remote onboarding channels. However, at the moment, remote client onboarding in the accounting sector is still very rare.

Chapter 6
Assessment of Controls

Industry Standards and Self Regulation

- **AML/CFT Market Entry Control**

The two professional bodies regulating the accounting profession in Nigeria i.e. the Institute of Chartered Accountants of Nigeria(ICAN) and the Association of National Accountants of Nigeria(ANAN)play a critical role in ensuring that the accountancy profession maintains high standards of integrity, transparency, and compliance with Anti-Money Laundering (AML) and Counter-Terrorist Financing (CFT) regulations.

As part of its regulatory responsibilities, these SRBs enforce rigorous market entry controls to prevent illicit actors from gaining access to the profession. These controls are designed to safeguard the financial system from the risks associated with money laundering, terrorism financing, and proliferation financing.

From their Establishment Acts, fit and proper persons controls are imposed to ensure that person of high integrity are on-boarded and continue to practice the profession. For instance, section 12 of the ANAN Act affirms penalties including reprimand and deregistering for person convicted persons, persons found guilty of infamous act in respect of professional conduct or fraudulently onboarded as a member of the association.[20]

The sector's SRBs have also adopted the SCUML AML/CFT Market Entry Control manual to implement the full range of AML/CFT controls such as criminal background checks, Targeted Financial Sanction screening, beneficial ownership identification and verification and Politically Exposed Persons due diligence.

- **Prudential Regulations**

[20] Association of National Accountants of Nigeria Act

Accounting firms are also subjected to prudential regulations of the Financial Reporting Council of Nigeria (FRCN. Apart from ensuring compliance with the accounting standards developed by the Council, the FRCN enforces high integrity and professional standards in the sector. One of such prudential regulations is the mandatory issuance of Transparency Report by accounting firms.

Transparency Reports generally contain information relating to legal structure and ownership, governance structure, internal quality control system, quality assurance, education and independence practices, firm revenue information, partner remuneration and lists of Public Interest Entities (PIE) and non-PIE audit clients. It should be noted that if a partnership is part of a network of affiliated audit firms, the requirement applies to each individual partnership (i.e. each partnership must prepare and lodge a separate transparency report).

The Financial reporting Council of Nigeria has also affirmed its compliance with Code of Ethics for Professional Accountants including International Independence Standards as issued by the International Ethics Standard Board for Accountants (IESBA).[21] The IESBA imposes AML/CFT related obligations on accountants such as prohibition on alerting relevant parties in their engagements subject to Anti-Money Laundering legislations[22].

When taking into custody a client's money the IESBA provides that professional accountants must make inquiries about the source of the assets and consider related legal and regulatory obligations (including those related to money laundering, terrorist financing and proceeds of crimes, section 260.5 A2)[23]

- **Implementation of AML/CFT Preventive Measures**

Customer Due Diligence

[21] Audit Regulations, 2022, section 14
[22] Section 260.6 A1, Handbook of the international Code of ethics for Professional Accountants, 2024 Edition
[23] R350.3, R350.4 & 50.4 A1, Handbook of the international Code of ethics for Professional Accountants, 2024 Edition

Customer Due Diligence (CDD) is a crucial measure undertaken by accountants as part of the client engagement procedures. In Nigeria, accounting firms fall under the DNFBPs category, as stipulated in the Money Laundering (Prevention and Prohibition) Act, 2022. These firms must conduct CDD to identify, assess, and mitigate the risks of money laundering, terrorism financing, and other financial crimes.

As a requirement of the ML(PP)A 2022, accounting firms must conduct client identification and verification. Outcomes of SCUML compliance examination in 2024 revealed that most accounting firm obtain and authenticate their client's identity using official documents such as National ID, Passport, or Corporate Affairs Commission (CAC) registration records. The examinations also showed that they conduct verification of beneficial ownership structure of corporate clients to prevent the concealment of illicit financial activities.

Risk Assessment and Customer Profiling

The outcomes of the National Risk Assessment (NRA, 2023 and its relevance to the accounting sector has been communicated to the sector operators through their SRBs and operators through the SCUML website, advocacy engagements, workshops and seminars.

SCUML examinations also revealed that several accounting firms have domesticated the outcomes of the NRA in their risk assessment framework, based on factors such as the nature of the client's business, transaction patterns, geographical exposure, and sector-specific risks identified in the NRA. Accounting firms in large numbers have also conducted risk categorization of clients into low, medium, or high risk to determine the appropriate level of due diligence required.

However, it was observed that the implementation of AML/CFT risk framework based on the outcomes of the NRA is largely lacking in many of the small sized firms and a good number of the middle sized firms who form majority of the operators in the sector.

Enhanced Due Diligence (EDD) for High-Risk Clients

A key rationale behind EDD is the adoption of a risk-based approach. High-risk clients require more in-depth scrutiny compared to lower-risk profiles. This means that beyond standard due diligence, accounting firms need to gather additional information, verify the source of funds, and continuously monitor transactions.

Review of compliance examination reports showed that as a standard practice, accounting firm conduct rigorous due diligence before on-boarding clients.

Notably in the big four accounting firms and the medium size practices, at on-boarding, firms seek to verify the client's identity and legal structure, understand the client's business activities, key partners, and suppliers, analyse the ownership structure and beneficial ownership information, examines the client's income sources and past financial performance helps assess their financial stability and potential for tax compliance issues. All these checks facilitate identification and application of additional scrutiny to high-risk individuals and entities, including Politically Exposed Persons (PEPs) and businesses operating in high-risk sectors.

Similarly, the big four and a considerable numbers of the medium size accounting firms have automated their CDD/EDD process and have deployed proprietary customer screening database such as PEPSCAN(now Biosynth) and World-Check.

However, with their meager resources, small accounting firms have relied mostly on open source information and available government information to conduct enhanced due diligence. Notwithstanding, implementation of EDD in small and many medium size accounting firms in Nigeria is still developing.

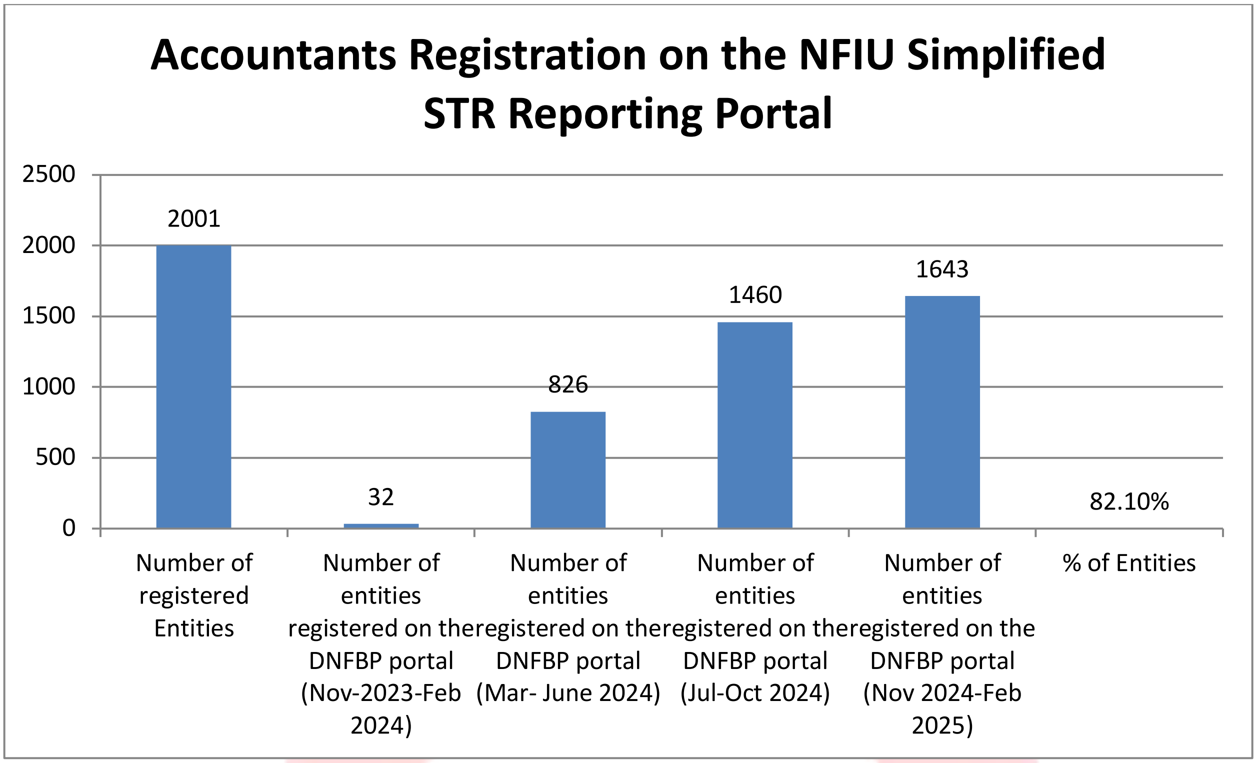
Suspicious Transaction Detection and Reporting

Accounting firms like other DNFBPs are mandated to put in place policies and procedures for identification, internal investigation and reporting of suspicious transaction report.

First, comprehensive policies and procedures are the foundation of an effective STR implementation framework. Outcomes of AML/CFT routine and thematic examinations conducted in the sector have shown increased adoption and implementation of risk based AML/CFT policies that outlined the firms' obligations, procedures for internal investigation and reporting of suspicious transaction reports.

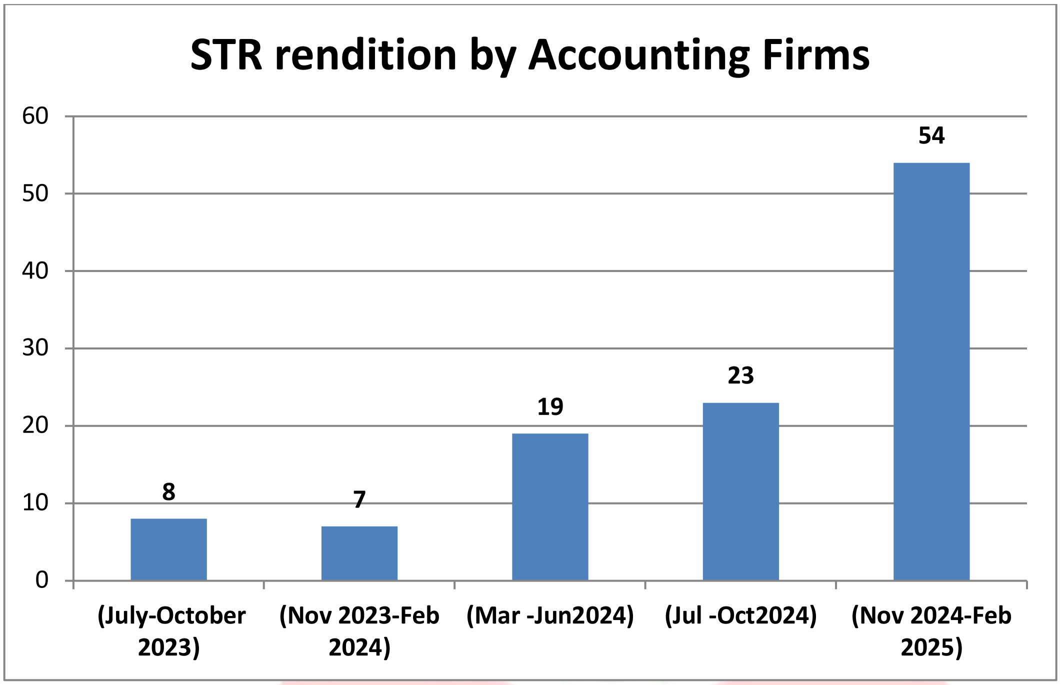
The examinations also revealed rapid decline in the number of accounting firms whose STR policies not compliant with SCUML regulations and firms not implementing their compliant policies

Notably, accounting firms' registration on the NFIU STR reporting platform has also increased significantly. From almost nonexistent at the beginning of this assessment period (2022), accounting firms registration on the NFIU Simplified STR reporting platform jumped to 1,643 at the end of February, 2025, pushing registration to 82.10% of total entities registered accounting firms(registered with SCUML)



Source: NFIU

While there is commendable growth in the number of STR renditions over the years, reporting continue to serious lag behind the registration for STR reporting. SCUML in collaboration with the NFIU has engaged in a number of outreaches to educate operators and boost their capacity to identify and report suspicious transactions.



Source: NFIU

Record Keeping

In Nigeria, accounting firms have a crucial AML/CFT compliance obligation to maintain robust record-keeping practices. Largely the sector has a good record keeping and preservation practice inherited from long years of professional practice and requirements in the sector.

Below are some of the observations from compliance examinations that assessed record keeping obligations in the sector:

- **Record Preservation**

While the ML(PP)A, 2022 stiputes a minimum of 5 years, findings from compliance examinations have shown that operators in the sector have a much extended period ranging from 7 to 10 years. This is attributed to nature of their services and also obligation to keep records for tax purposes.

- **Customer Identification Data (KYC):**

Compliances examinations have also shown strong performance of the accountants in respect of keeping records related to details of clients, beneficial owners, and authorized signatories, including their names, addresses, and other relevant identifying information. In recent times SCUML has been enforcing implementation of PEP due diligence, implementation of targeted financial sanctions and beneficial ownership identification and verification. In this respect, accounting firms have adopted the practice of documenting evidence of implementation of these obligations in the customers' files.

- **Transaction Records**

Accounting firms also show robust process in keeping detailed records of all financial transactions particularly bank statements, parties involved, and the nature of the transaction.

- **Suspicious Transaction Reports (STRs)**

The examinations have also seen good practices in respect to records of suspicious activities identified and reported to the NFIU. However, in the medium and small sized firms with one person or small compliance function high risk of tipping off abounds.

- **Training Records:**

Accounting firms examined within the period also proper documentation of records of AML/CFT training provided to staff, including dates, topics covered, and attendees.

- **Accuracy and Completeness**

Compliance examinations also revealed good practice in terms of accuracy and completeness of information kept by the accounting firms. In most cases in the compliance examinations, supporting documents are provided whether related to client on boarding, advisory services, or tax and audit work. This includes information on the nature of the service provided, client identification details, dates, and amounts involved etc.

- **Accessibility**

Largely, accounting firms' records are readily accessible to authorized personnel and regulatory authorities. However, it is notable that records in the smaller firms are stored in formats that better facilitate quick and accurate extraction than those in the big and medium size firm. This might be attributed to the complex enterprise solutions that many of the big and medium firms deploy to keep transaction records.

Chapter 7
Summary of Findings, Recommendation and Conclusions

Summary of Key Findings

- **Overall Threat ML/TF/PF Assessment**

In assessing the level of ML/TF threats, the study was limited by absence of certain threat information including frequency of abuse of the sector and the amount of criminal proceeds generated from such abuses.

Consequently the overall threat assessment was based on the analysis of 20 STRs filed on accounting sectors. The outcomes of the analysis posit that the accounting sector is more susceptible to money laundering than terrorist financing or proliferation financing. None of the STR filed on the sector was related to terrorism financing or proliferation financing.

Having reviewed the elements of all the factors presented from the analysis of the STRs, the focus group for the sectoral risk assessment of the accounting sector rated the threat level as **"Medium"** based on the following:

1. Most accounting firms in Nigeria are not carrying out many of the high risk services.
2. Frequency of abuse from the number of STRs is low.
3. Media and other open sources reportage of participation of accountants in cases related to the most prevalent predicate offences in Nigeria such as corruption, fraud and drug trafficking is low.

- **Overall Assessment of ML/TF/PF Vulnerabilities**

Vulnerabilities Risk Scoring

The scoring of the vulnerabilities is based on a 4 point rating scale as shown below

	Value	Rating Scale
Lowly significant	1 TO 1.5	Low
Moderately significant	1.6 TO 2.5	Medium
Significant	2.6 TO 3.5	High
Very Significant	3.6 TO 4.0	Very High

With a total sectoral aggregate vulnerability rating of 19 out of the maximum score of 52(highest score of 4 multiply by 13 Vulnerability Drivers), an average vulnerability rating of **1.46(Low)** was calculated for the sector. The reasons are as follows:

1. Nature of the Services Provided

- **Advisory and Auditing Focus**

Unlike sectors that directly handle large volumes of cash or execute high-frequency financial transactions, accounting services are generally focused on retrospective financial reporting, auditing, and advisory roles. This nature reduces the immediate risk of facilitating money laundering or terrorist financing. Therefore impact of transactional vulnerabilities such as beneficial ownership identification and verification, PEP due diligence, new technology and payment systems, cross boarder operations and exposures, use of cash and exposure to third party transactions and professional intermediaries were considered of low significance.

However, while the sector may be said to be complex, its high integration with other regulated sector and the real economy in general, provides some heightened vulnerabilities for the sector.

- **Lower Volume of Direct Financial Transactions**

Similarly in Nigeria, Accounting firms typically do not engage in direct handling or movement of funds, meaning they are less attractive as channels for large-scale illicit financial flows compared to sectors like banking or real estate.

2. Regulatory and Professional Oversight

Nigeria has a robust AML/CFT legal, regulatory and institutional framework for the sector, however most existing self regulatory provisions are not specifically AML/CFT in their target. Professional bodies, including the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN), enforce high ethical standards, however aligning their oversight and continuous professional education to AML/CFT requirements will help maintain a strong AML/CFT culture within the sector.

3. Lower Client Risk Profiles

Compared to sectors like money remittance or real estate, the typical client profile of accounting firms tends to be lower risk. Although high-net-worth individuals and complex corporate structures are present, these are often subject to enhanced due diligence protocols

Average Sectoral Vulnerability Rating

Vulnerability Drivers	Rating	Value
Size, Ownership Structure, and Market Entry	Lowly Significant	1
Use of Cash	Lowly Significant	1
Cross-Border Operations and Exposures	Lowly Significant	1

Vulnerability Drivers	Rating	Value
Complexity of Sector's Structure	Moderatly Significant	2
AML/CFT Oversight and Compliance Culture	Moderatly Significant	2
Customer Due Diligence	Lowly Significant	1
AML/CFT Awareness and Training	Significant	3
Detection and Reporting of STRs	Significant	3
Beneficial Ownership Identification and Verification	Lowly Significant	1
PEP Due Diligence	Lowly Significant	1
New Technology and Payment Systems	Lowly Significant	1
Third-Party Transactions	Lowly Significant	1
Regulatory Framework	Lowly Significant	1
Total Sectoral Aggregate		19
Average Sectoral Vulnerability Rating		1.46

Aggregate ML/TF Risk

Having reviewed the elements of all the risk factors from the foregoing, the focus group for the sectoral risk assessment of the accounting sector rated the various risk indicators as follows:

	Assessed Potential Risk	Assessed Actual Risk
Geographic Risk	High	Low
Customer Risk	High	Medium
Service Risk	Medium	Low
Delivery Channel Risk	Medium	Low

- **Inherent Risk**: **Medium** – Most of the accountants practicing in Nigeria engage in audit and assurances services. However, the high complexity and integration of the sector with the real economy particularly high risk industry like Government, extractive industry and financial services present some considerable risks.

- **Control Effectiveness**: **High** – Regulatory oversight and enforcement mechanisms are strong, with significant improvements in transaction monitoring and compliance practices by the operators.
- **Residual Risk**: **Medium** – Despite some potential and actual ML/TF/PF vulnerabilities in the sector , the combination of strong controls, inter-agency collaborations, effective and dissuasive sanctions, and sustained outreach to the sector has reduced the sector ML/TF/PF residual risks.

- ## Recommendations

1. Strengthening Self Regulatory Oversight & Supervision

- **Enforcement of Compliance Obligations:** Regulatory bodies such as the Financial Reporting Council of Nigeria (FRC), the Institute of Chartered Accountants of Nigeria (ICAN), and the Association of National Accountants of Nigeria (ANAN) should intensify AML/CFT supervision of accountants, ensuring they comply with statutory obligations.
- **Risk-Based Supervision (RBS):** Regulatory authorities should prioritize high-risk entities (e.g., accountants handling large financial transactions for Government, high risk businesses, or international clients) and tailor oversight measures accordingly.
- **Sanctions & Penalties**: Enhance effectiveness of enforcement actions(including fines and license revocation), through collaboration with SRBs and prudential regulators

2. Enhancing Know Your Customer (KYC) & Customer Due Diligence (CDD) Measures

- **Enhanced KYC Implementation**: Accountants should fully verify client identities before providing services, especially for activities involving high-value transactions, offshore clients, or politically exposed persons (PEPs).
- **Enhanced Due Diligence (EDD) for High-Risk Clients**: When handling transactions involving trusts, shell companies, or cross-border transfers, accountants should conduct deeper investigations and document their risk assessments.

3. Improved Reporting of Suspicious Transactions

- **Increased Compliance with Suspicious Transaction Reporting (STR):** Many accountants fail to report suspicious activities to the Nigerian Financial Intelligence Unit (NFIU). The assessment recommends capacity-building programs to improve awareness and compliance.
- **Automated Monitoring & Reporting**: Encourage firms(particularly firms with large clientele and volume of transaction) to adopt AML compliance software that flags unusual transactions for review.

4. Capacity Building & Awareness Programs

- **Training for Accountants on AML/CFT Risks**: ICAN, ANAN, and SCUML should mandate regular training to improve awareness of emerging financial crime trends, red flags, and AML compliance requirements.
- **Ethical Standards Reinforcement**: Accountants should undergo periodic ethics and integrity training to discourage complicity in financial crimes.

5. Collaboration Between Regulatory & Law Enforcement Agencies

- **Data Sharing & Joint supervision**: Enhanced cooperation between ICAN, ANAN, SCUML, NFIU and other agencies will improve the detection and prosecution of criminal operators.
- **Public-Private Partnership (PPP) Frameworks**: Encourage dialogue and collaboration between regulators and professional accounting bodies to enhance AML/CFT compliance culture.

• Conclusion

The Sectoral AML/CFT Risk Assessment of Accountants in Nigeria provides a roadmap for mitigating ML/TF risks within the profession. By strengthening regulatory oversight, promoting compliance, increasing transparency, and leveraging technology, Nigeria can reduce financial crime vulnerabilities in the accounting sector.

Way Forward

- **Full Implementation of the Recommendations**: Stakeholders must ensure the timely and full implementation of these recommendations to safeguard the integrity of Nigeria's financial system.
- **Continuous Monitoring & Review**: AML/CFT risks are dynamic; periodic sectoral risk assessments should be conducted to identify emerging threats and adjust policies accordingly.
- **A Collective Responsibility**: Regulators, Self Regulatory Bodies, accountants and law enforcement must work together to create a more transparent, accountable, and resilient accounting practice in Nigeria.