



Karli

Risk Assessment Overview



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Background

Effective risk identification and management are fundamental to achieving and maintaining regulatory compliance within law firms. The **Solicitors Regulation Authority (SRA)** mandates that all regulated firms implement robust processes and procedures, not only to manage risk effectively but also to clearly demonstrate how they are meeting their regulatory obligations.

To comply with these expectations, firms must operate transparently and maintain comprehensive systems that provide a clear and auditable trail of activities. This enables the SRA to assess compliance efficiently and with confidence. As part of sound governance, the continuous monitoring, analysis, and assessment of risks should be fully integrated into the firm's overall business management practices.

Why the Role of the SRA is Critical

The enforcement actions taken by the SRA fulfil several essential functions within the legal profession:

Protecting clients and the Public:

By controlling or limiting the risk of harm, preventing individuals or firms from repeating breaches, or deterring misconduct.

Sending a clear message to the wider regulated community:

To discourage similar behaviour across the profession.

Maintaining professional standards:

Upholding competence, ethical conduct, and integrity within legal practice.

Ensuring public confidence:

Safeguarding trust in the provision of legal services through visible and effective regulation.





Rising Regulatory Scrutiny in the SRA's AML Compliance Landscape

As of November 2024, the **SRA's 2023/24 Anti-Money Laundering (AML) Report** highlights persistent compliance challenges for law firms, particularly regarding AML obligations and financial sanctions controls. From April 2023 to April 2024, the SRA significantly intensified its oversight, conducting 254 on-site inspections and 258 desk-based reviews. This increased level of scrutiny suggests that the likelihood of regulatory audits continues to grow year over year.

The report revealed that while 21% of firms were fully compliant and 56% were partially compliant, a concerning 23% failed to meet their AML and sanctions obligations. These compliance failures led to various enforcement actions, including fines totalling approximately £560,000, along with formal findings and warnings. Additionally, four cases were referred to the Solicitors Disciplinary Tribunal (SDT), which issued further fines of £512,000 and imposed specific employment restrictions on individuals involved.



The most frequent breaches involved failures to:

- Conduct adequate client and/or matter risk assessments
- Maintain a compliant firm-wide risk assessment
- Implement effective AML policies, controls, and procedures
- Provide sufficient staff training on AML compliance
- Properly identify and verify clients during onboarding
- Assess and document client or matter-specific risks
- Undertake ongoing monitoring of transactions
- Verify the source of funds



Overcoming Cultural and Operational Barriers to Effective Compliance

Many law firms still perceive compliance, particularly around risk assessments, as an administrative burden or merely a “tick-box exercise,” often relying on in-house templates. For Fee Earners and administrative staff, the process is frequently viewed as time-consuming and cumbersome, with questions that may seem irrelevant and requested information that is not easily accessible.

This perception is driven by several common challenges: fragmented data collection and storage, typically in standalone Word documents rather than centralised systems; limited ability to efficiently reuse existing client data across different matters; fears that classifying a file as “high risk” could result in delays or unwanted scrutiny; and a continued dependence on subjective judgement rather than objective, evidence-based methodologies.

Why use the SRA Form?

The SRA Client and Matter Risk Assessment Form (October 2023 Edition) offers a standardised, regulator-endorsed framework designed to support compliance obligations. It facilitates comprehensive documentation, minimises the risk of oversight, and ensures consistency across all client matters, which results in an audit-ready approach to risk management. Karli's Initial Risk Management process is fully aligned with this SRA framework. As a digital assistant, Karli, has been purpose-built to automate key components of the form, enhancing efficiency and accuracy in the assessment process.

Section 1 – Client Details:

Karli captures and inputs client details, such as name, date of birth, address, and new or existing client status, through the onboarding process. It automatically retrieves client and matter references from the Case Management System, while employment status and source of income are gathered during onboarding. Karli also performs Soft ID and address verification checks, logging authenticated dates and uploading supporting documents as needed.

Section 2a – Client Risk:

Karli determines whether a third party is instructing the firm and selects the relevant supporting documentation required for upload, helping to ensure appropriate oversight and transparency.

Section 2b – Jurisdiction Risk:

Using information extracted from utility bills and onboarding entries, Karli identifies the client's location and automatically flags whether the instruction is domestic. It also employs natural language processing to analyse enquiry content and detect potential cross-border complexities.

Section 2d – Due Diligence Review:

All Soft ID, AML, and Know Your Client (KYC) checks are handled automatically by Karli. Each step in the verification process is thoroughly documented to ensure full traceability and compliance.

Section 2e – Entity-Specific Information:

For legal entity clients, Karli sources beneficial ownership information and verifies ultimate ownership through direct integration with Companies House, ensuring accurate and up-to-date entity records.

Human input and judgement are still required for several fields within the process. These include updating the date when due diligence on the client was last conducted, as well as assessing client risk through subjective questions related to client behaviour, third-party involvement, and the sufficiency of supporting documentation. Jurisdiction risk must also be confirmed manually, particularly to identify any overseas elements that may not be captured by natural language processing. Additionally, the delivery channel risk requires a determination of whether the client will be met in person. A human review is also necessary to identify any adverse media linked to the client or their beneficial owners. For corporate entities, users must report any discrepancies and verify that relevant checks of overseas entity registers have been completed.



Solicitors
Regulation
Authority

Data-Driven Risk Scoring with Human Oversight and Escalation Control



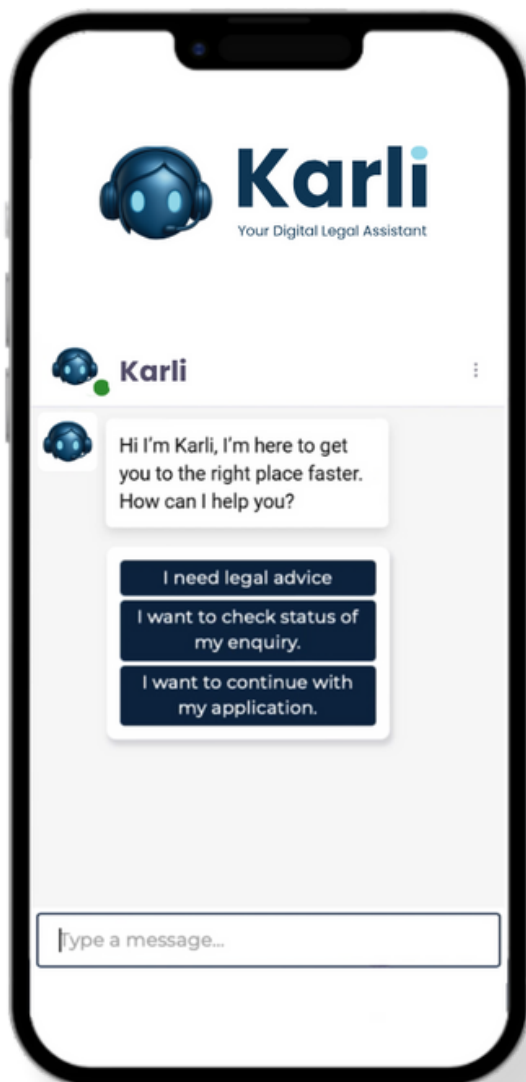
Once all relevant data is compiled, Karli applies a structured scoring methodology to determine the risk level of each matter. This enables firms to base their assessments on intelligent, auditable data rather than relying solely on subjective judgment. Importantly, Fee Earners retain complete oversight and accountability. They are required to review, validate, and either accept or challenge the outcomes of the automated scoring process.

Karli also strengthens risk governance by facilitating the automatic escalation of high-risk and medium-risk matters. This provides compliance teams with real-time visibility into cases that require oversight, improving their ability to manage and reduce the firm's overall risk exposure with clarity and control.

The Case for Karli Risk Assessment Over In-House Processes

By continuing to use in-house risk assessment templates law firms expose themselves to inconsistent data capture and heightened regulatory exposure. Although these forms may appear practical, Fee Earners and administrative staff frequently find them time-consuming and cumbersome, with questions that can feel irrelevant or require information not readily available. By aligning its Initial Risk Assessment process with the SRA Client and Matter Risk Assessment Form, Karli provides a significantly more efficient and accurate method of identifying, interpreting and managing initial risk assessment.

Beyond data automation, Karli enhances decision-making by proactively flagging issues and third-party involvement in real time. This ensures that high-risk scenarios are identified and addressed early in the client onboarding process. The platform also supports full compliance by maintaining detailed metadata, such as upload dates and source verification, and building an audit-ready trail of evidence that is fully aligned with the SRA framework.



What Happens Next? The Evolution of Kyanite & Karli

At the outset, Karli is deployed primarily as an intelligent automation solution, with AI-driven and self-learning capabilities deliberately restricted during the initial rollout. This approach ensures a controlled and compliant integration within the firm's existing processes.

After a minimum of six months of operational data has been gathered, Karli's Self-Learning Engine is activated. This marks a significant evolution in the platform's functionality, enabling it to analyse the firm's unique data patterns, continuously refine its risk assessment capabilities, and deliver smarter, faster, and more accurate risk scoring.



Have Questions? Click here to Contact Us for More Information



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