ACCA

KYC: IS IT TIME TO DIGITALISE THE FIRST LINE OF DEFENCE?

Think Ahead

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KYC: IS IT TIME TO DIGITALISE THE FIRST LINE OF DEFENCE?

'Know your client' (KYC) checks are an integral part of client acceptance for accountants around the world, and a regulatory requirement for client due diligence (CDD) in many jurisdictions. But as technology pervades every aspect of practice administration, what role do digital tools have to play in client onboarding and the future relationship, and is there still a place for manual processes and human judgement? And if there are benefits to be had from digital tools, how can they be maximised?

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Risk, reputation and your client base

Building value, like building trust, is a slow and painstaking business – and both can be destroyed in an instant. When assessing the value of an accountancy practice, there's probably a debate to be had about which is more important to building sustainable value in the practice: good clients or good staff. But one thing is certain: a single bad client can destroy the practice and its value every bit as effectively as a rogue employee.

So how can accountants protect themselves from the risk to their reputation that entanglement with criminals could bring? Tell-tale signs, such as a bag labelled 'Swag' or a tendency to wear stripey shirts and climb into the office through the window are sadly restricted to the domain of storybooks and children's cartoons.

There are indicators though, and some of the clearest can be established at the outset of a relationship. When a new client presents themselves, knowing that they are who they say they are and that the source of their funds is legitimate may not be a guarantee of future conduct but it is very much the case that an attempt to use a false identity, or conceal the source of funds, should be an instant warning sign to any adviser that they should steer well clear.

In many jurisdictions, checking a client's identity and keeping records of those checks is not simply a matter of good practice, but a legal obligation under local anti money laundering and counter-terrorist financing rules. While the precise scope of national regulations vary, the goals are consistent, and in every case are guided by the outcome (disrupting criminal activity) rather than simply a desire to formalise and standardise certain aspects of business record keeping.

But even if policymakers approach KYC from that perspective, is there a risk that those who carry out these checks think solely about the process rather than the outcome – and if so, what should we seek to change?

Where do accountants sit on this?

The accountancy sector is typically viewed as medium-high to high risk in Country Risk Assessments carried out under international Financial Action Task Force (FATF 2012/2020) guidelines.[1] In some ways, this is perhaps unsurprising – accountants are closer to the flow of money than anyone but the banks (whose retail operations are often the only sector seen to be at higher risk). But do accountants themselves recognise this risk?

> 'For any system to be effective there needs to be an understanding of the underlying drivers – eg combat criminal activity, and the corresponding risk posed by individual clients. In this context I don't believe the regulators have achieved the right balance by adopting a blanket approach to all clients, irrespective of the potential risk posed. This has created a tick-box culture where the emphasis is on the implementation of a cost-effective admin function, rather than a client-focused approach to risk assessment and the need for greater due diligence on the few, with the resulting greater potential to identify and combat criminal activity.'
> **Survey respondent, Wales, UK**

In order to explore accountants' perceptions of the tools available, their value and how they might be improved, ACCA undertook a small global survey of professional accountants in January 2021. Of the 278 respondents, 170 were based in Western Europe (primarily the UK) but

1 For rules as they apply in a sample of countries, see UK: HM Treasury & Home Office, 2020: 79; Ireland: An Roinn Airgeadais/ Department of Finance and An Roinn Dli Agus Cirt Agus Comhionannais/ Department of Justice and Equality, 2016: 6; Luxembourg: Le Gouvernement du Grand-Duche de Luxembourg Ministere des Finances, 2018: 9. Links to the rules of nations around the world are given on the FATF website at https://www.fatf-gafi.org/publications/methodsandtrends/documents/ml-tf-risks.html, accessed 9 April 2021.

with every region of the world represented in the survey findings. While the sample size is of limited statistical value for the other world regions, the respondents' comments offer a useful (and remarkably consistent) insight into the viewpoints and concerns of professional accountants in small and medium-sized practices.

Survey respondents certainly recognised the potential value of KYC checks but rated the regulatory and reputational implications for their practice consistently more highly than the wider society benefits of reducing crime, and rated all three ahead of the scope for adding value to their client relationships.

The anecdotal evidence suggests that a significant minority of accountants would challenge the FATF assessment of risk. Several survey respondents volunteered their perceptions that the risk to them or their practice was negligible, and that the checks themselves are ineffective in tackling crime.

> 'I don't think it stops any major crime. Being a small practice, we know reasonably well from only existing client recommendations that these checks just add to our non-productive time, which is increasing year on year.' **Survey respondent, England, UK**

FIGURE 1: The benefits of client due diligence (CDD)

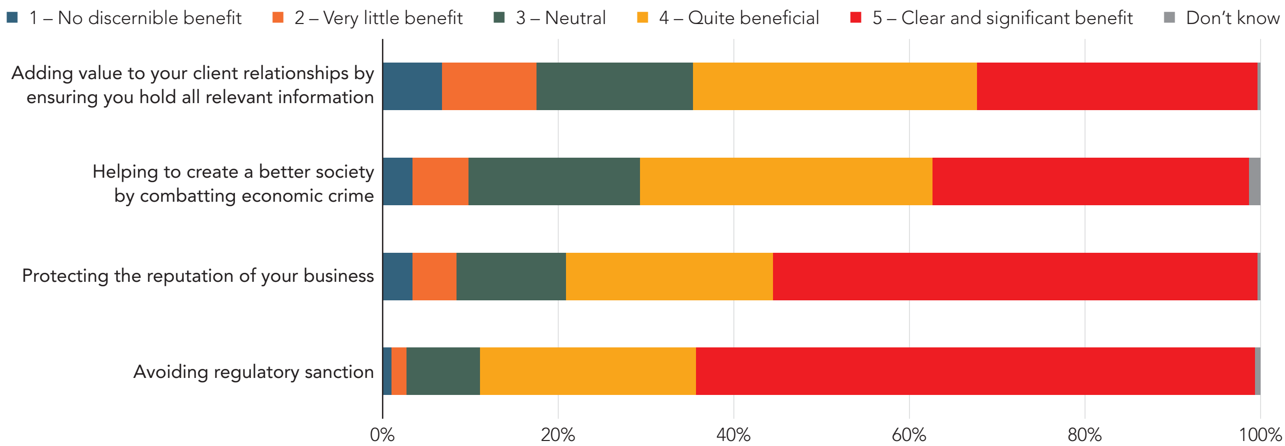
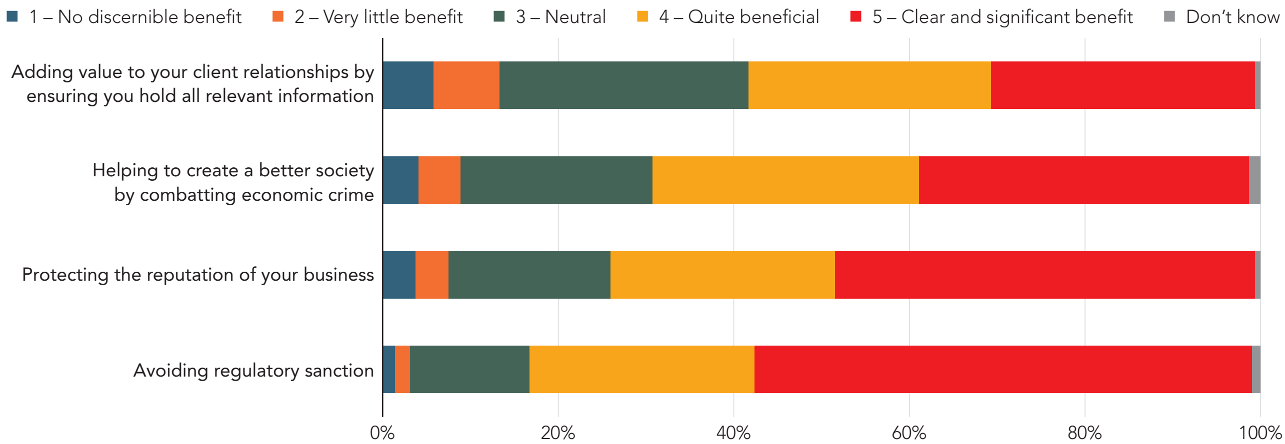


FIGURE 2: Benefits of enhanced due diligence (EDD)



'I don't think they perform any effective purpose in respect of stopping money laundering crimes. At present Companies House records are not particularly reliable and much of the information is self-reported and open to manipulation. Overall, a waste of time.' **Survey respondent, England, UK**

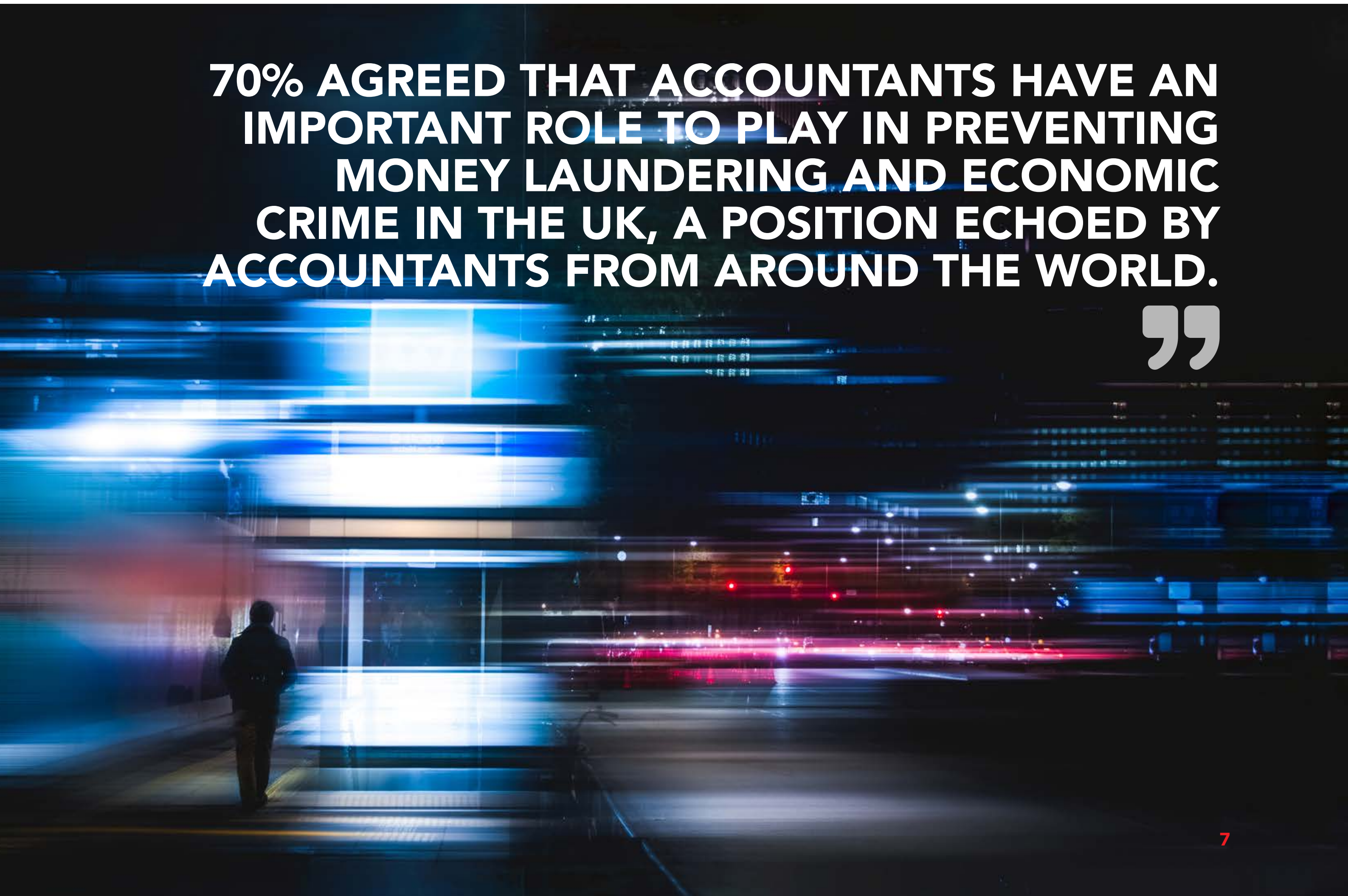
'In my case and experience AML [anti money laundering] adds no value, it is pure compliance. Hence the objective is to get it done at minimum cost.' **Survey respondent, Latvia, Central and Eastern Europe**

'Sadly, most of the regulation is aimed at large organisations/ very wealthy individuals but applies to the smallest clients just the same. The number of cases where large organisations bend the rules to get/keep large clients proves that the system is a waste of time in its current form. For small firms it is an irksome and unnecessary burden.' **Survey respondent, England, UK**

Even where the risks are recognised, a majority of UK accountants surveyed by the Central Council of Accounting Bodies (CCAB) in the summer of 2020 disagreed with the proposition that KYC checks are proportionate to the level of risks that their clients are likely to pose (CCAB 2021a). Despite this, 70% agreed that accountants have an important role to play in preventing money laundering and economic crime in the UK, a position echoed by accountants from around the world.

'The proportionality of the work required on client due diligence is an area where members expressed concern. This brings into focus the need for the CCAB [and by extension other global] professional bodies to promote the importance of taking a risk-based approach to client due diligence work. While the money laundering regulations do require a certain amount of due diligence on any type of client, the extent of the work needed should generally be proportionate to the perceived risk that a client may pose in terms of money laundering or terrorist financing.' **CCAB 2021b**

70% AGREED THAT ACCOUNTANTS HAVE AN IMPORTANT ROLE TO PLAY IN PREVENTING MONEY LAUNDERING AND ECONOMIC CRIME IN THE UK, A POSITION ECHOED BY ACCOUNTANTS FROM AROUND THE WORLD.



KYC tools and the modern accountant

While many of the documents relied on exist in paper format, digitalisation of the underlying information offers scope for alternative routes to identity verification.

To understand accountants' attitudes to KYC checks, it is helpful to look at how they actually carry them out. Of course, processes vary, and the largest multinational partnerships all operate fully online bespoke digital risk-management tools. In reality, the majority of practices worldwide are far smaller, and to the extent that they can use proprietary software at all will be restricted to off-the-peg applications.

For many of the smallest practices, we might expect that the legacy of generations of paper record keeping will be hard to overcome, especially in parts of the world where the adoption of digital tools is patchy. In accountancy, as in the wider economy, practices are changing.

Many things that were once done face to face are now done online. That shift has been accelerated by the COVID-19 pandemic in many parts of the world. As face-to-face checks became all but impossible in many jurisdictions, guidance was updated to allow for alternative verification of identity (CCAB 2020). Equally, there are parts of the world where neither the digital information nor the tools to process it exist. In some areas, even if the checks were practical, there's little appetite for digitalised transmission and recording of information among the regulators.

> 'In my environment, information about most potential clients cannot be found using the internet or other digital tools. You have to use other non-conventional means, such as inquiry of the client's customers and others associated with the client in one way or the other. [It is] difficult to get paper-based or internet-based information about institutions in this environment.' **Survey respondent, Liberia, Africa**

> 'The local regulators prefer paper-based documentation and going online is not common here [in Ethiopia].' **Survey respondent, Ethiopia, Africa**

> 'In the Eastern Caribbean, access to online KYC tools [is] cost prohibitive especially for small firms/sole proprietors, including access to appropriate software developers.' **Survey respondent, Grenada, Caribbean**

> 'Much easier to gather hard copy evidence and clients are more willing with this manner of verification.' **Survey respondent, Trinidad and Tobago, Caribbean**

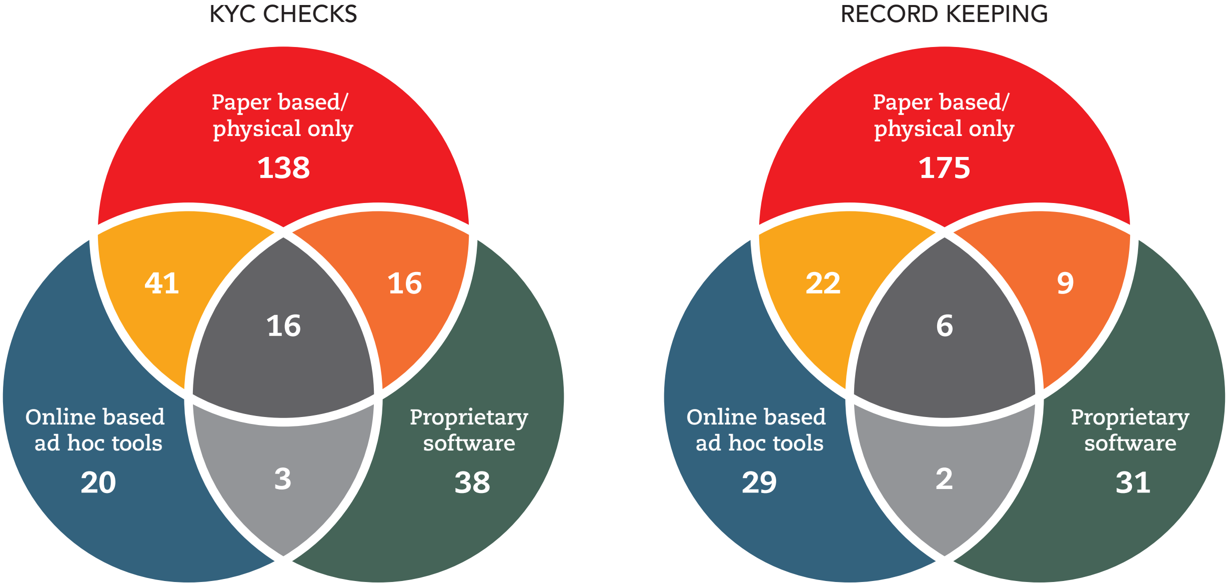
> 'T&T is a third-world country and we are generally a little more than one generation (25+ years) behind first-world countries in many things, including software, and it is always difficult to get local [T&T] assistance in the event of problems.' **Survey respondent, Trinidad & Tobago, Caribbean**

Even so, the indications from ACCA's survey work are that paper still forms the basis of most smaller practices' KYC procedures, even in Europe, with fewer than half (49%) of survey respondents using online tools in any form to carry out their checks, and 65% keeping all records manually with physical documentation. Around 20% have made the move to an entirely online process, while 'hybrid' processes, mixing physical and online tools, are more popular for verification checks than records maintenance, with 27% of practices using a blend for checks but only 14% opting for a blend of record keeping options.

The prevalence of physical processes raises a number of questions. Is it possible for accountants to carry out the checks properly without using online tools? And even if it is, could they do the checks more effectively using online tools? If online tools are potentially more effective for some practices, why aren't they using them?

In most jurisdictions the answer to the first question will of course be 'yes', it is legally possible to undertake the necessary checks without using digital tools.

FIGURE 3: Venn diagram showing the use of paper, ad hoc tools and proprietary software for KYC checks among respondents



Nonetheless, the practicality of doing so will depend upon the size of the practice undertaking the exercise – how many new clients it takes on, how complex those clients are, and how many records need to be kept. While regulations are sometimes criticised for adopting a 'one size fits all' approach to the requirements for evidencing identity, proportionality is a recurring theme of the FATF guidance, which allows for simplified due diligence, standard due diligence and enhanced due diligence (EDD).[2] A sole practitioner in a specialist field maintaining a small stable population of clients in a regulated industry whose identity and bona fides can be easily established by reference to physical copies of documents will be facing a very different challenge to a multi-partner firm with a number of offices and constant turnover of a mixed client base.

For individuals, records are still typically based on physical documentation, which may not be readily available online without access to commercial databases. For incorporated businesses, on the other hand, online company registries are common and in most jurisdictions offer a definitive record on which accountants can rely for their checks. Accessing the registry online will typically be easier for the accountant and for the client than demanding sight of physical incorporation documents, whether the copies of records are kept digitally or printed out and physically filed.

> 'I already 'know' most of my clients. They are family/ friends of existing clients. Having a computer check [to] verify their address and passport doesn't provide any extra assurance.' **Survey respondent, England, UK**

> 'I am a very small practitioner and meet nearly all my clients face to face or by recommendation from existing clients so [it is] easy just to get the info from them then.' **Survey respondent, England, UK**

> 'My practice is based on one specialist sector and most clients are present on media outlets – all come to me by recommendation [and are] only UK England [-based].' **Survey respondent, England, UK**

Where more detailed enhanced due diligence (EDD) processes are required, or prospective clients have a high profile on social media, online background checks will offer a significant potential advantage over paper verification processes, but typically these will also be relevant only to larger practices. There is, however, a recognised risk that determined criminals, seeking to legitimise their operations, will seek to engage with as large and well recognised a firm of accountants as possible. This has led to an 'arms race' between the

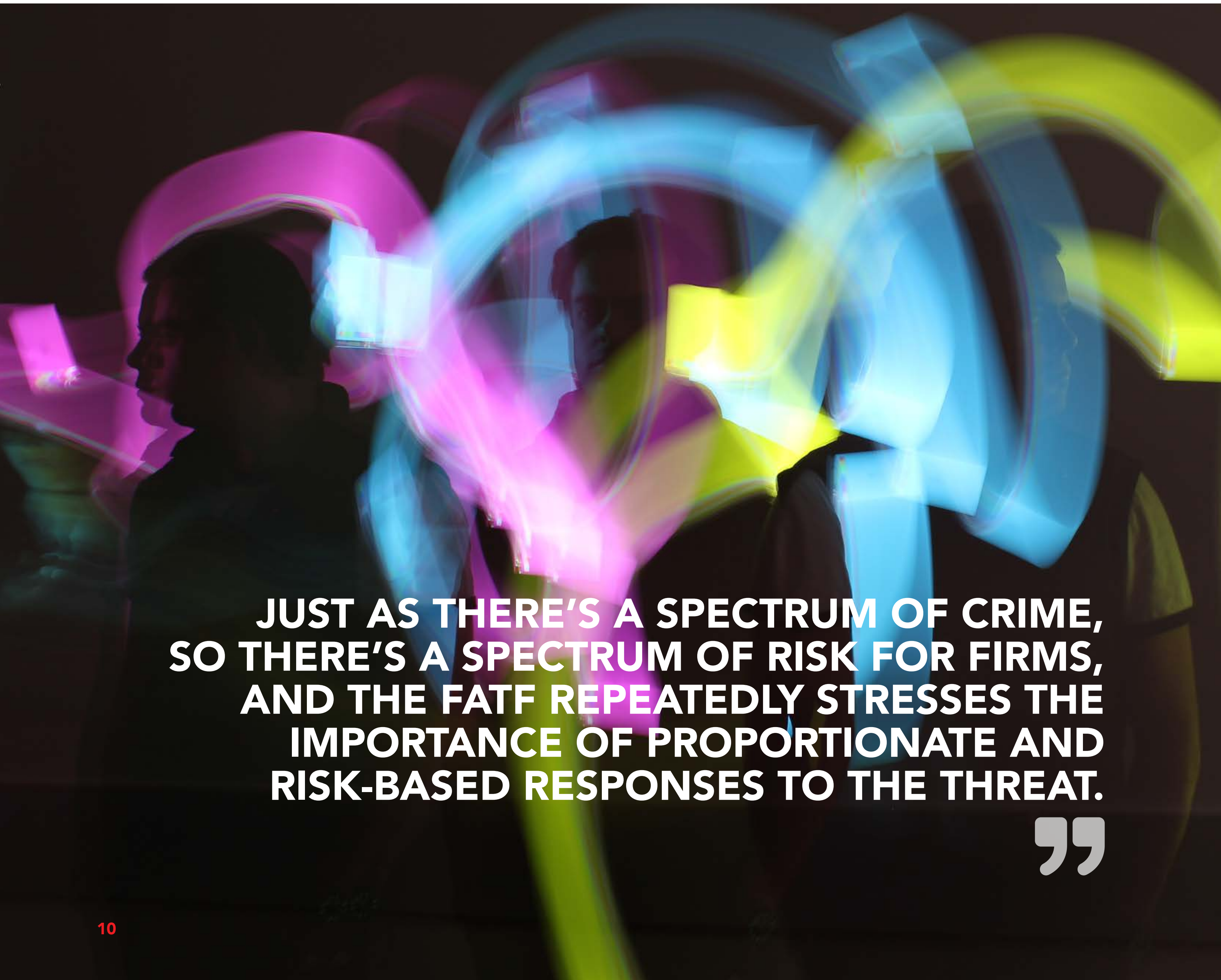
2 See FATF Recommendation 1 for applying a risk-based approach and Recommendations 20 and 21, respectively, for enhanced and simplified due diligence.

parties as compliance professionals at larger accountancy practices deploy increasingly sophisticated techniques to identify potential risks to their practices while, in parallel, criminals adopt a range of techniques to try to disguise their backgrounds and links.

The issue is, however, that even if the prospective client is rebuffed by the largest and most prestigious practices, they will simply move down the chain trying incrementally smaller firms until they find one that is unable to devote the same level of resource to background checks and will accept them as a client. Widespread availability of sophisticated digital monitoring tools would ease the burden on these firms and reduce the scope for criminals seeking to launder funds to gain access to professional advisers.

> 'Just seems like more admin for a sole trader who knows all their clients but useful for larger firms.'
> **Survey respondent, England UK**

Just as there's a spectrum of crime, so there's a spectrum of risk for firms, and the FATF repeatedly stresses the importance of proportionate and risk-based responses to the threat. In practice, for accountants to implement a proportionate response properly, they need first to assess the risk accurately and understand their own ability to measure and counteract it.



JUST AS THERE'S A SPECTRUM OF CRIME, SO THERE'S A SPECTRUM OF RISK FOR FIRMS, AND THE FATF REPEATEDLY STRESSES THE IMPORTANCE OF PROPORTIONATE AND RISK-BASED RESPONSES TO THE THREAT.

Why might it matter?

- **What are the risks?**
- **Can manual checks still 'cut it' – good old-fashioned trust based on a handshake?**

Business is fundamentally about trust in your counterparty: trust that they have both the ability and the intention to complete whatever agreement you and they come to. Over the centuries, various mechanisms have developed to accommodate changing patterns of business and investment. The place of trust based on a face-to-face meeting, or the assurances of mutual acquaintances, has been replaced by objectively comparable third-party assurances, such as audits and bank guarantees, or mechanisms for legal recourse.

Many of these are now so fundamental to society that individuals may not even be consciously aware of them. Comparatively few people could name the laws in their country that protect minority shareholders against fraud or abuse, but the widespread level of shareholdings in listed companies in many jurisdictions speaks to the trust that people have in the system.

> '[Using an] automated system may take away any personal perspective and often meeting and interacting with a client can give you a feel as to their integrity.' **Survey respondent, England, UK**

For verification of identity, with so much business now operating on the basis of formal regulated frameworks rather than personal recommendation, is there a case to be made for accountants likewise to rely more on tools than intuition?

Are you a good judge of character?

The ability to judge character is a widely claimed ability, and while there is a wealth of research to support the truism that 'first impressions last', most people seem less keen to explore in detail whether those first impressions are actually accurate. Scientific research first published in 1927 did seem to support the proposition that 'Good Judges' (people with a particular ability to judge character based on acquaintance) do exist, although it also concluded that they tend to be 'touchy, quick of temper, glum and moody' (Adams 1927).

Although the concept of the 'Good Judge' was subject to a degree of additional research since then, which cast some doubt on whether there are individuals with a particular skill in swiftly judging character, a 2019 paper by Katherine Rogers at the University of Tennessee at Chattanooga and Jeremy Biesanz at the University of British Columbia revealed evidence that Good Judges really do exist (Rogers and Biesanz 2019).

Before concluding that accountants can rely on their subjective assessments of character when taking on new clients, however, it's important to note two significant caveats among the findings.

Firstly, not everyone is a Good Judge. The research clearly indicated that individual ability to judge character varies. It is well documented, for example, that over 90% of some populations will rank themselves as having 'above average' driving skills (Svenson 1981), so the risk of an unwarranted confidence in one's own abilities is well researched. Even where individuals display the opposite trait, which has been observed in some cultures, the risk outcomes are asymmetric.

A person who combines the stereotype of the risk-averse accountant with a concern that their abilities to judge character may not be adequate for protecting their practice and reputation will probably adopt additional filters and safeguards. These will reduce the risk that criminals will bypass the checks. Conversely, those with an inflated belief in their abilities will readily bypass necessary support mechanisms, increasing the risk of regulatory failure.

The second caveat is, if anything, more directly relevant to detecting potential risks of criminal behaviour. Rogers and Biesanz find that the accuracy of character assessments depends on the target as much as the judge. That is to say, some individuals are more easily 'read' than others. For a Good Judge to derive any benefit from their skills, they also need to be reading a 'good target'.

Crucially, the Good Judges' performance depends on assessing individuals who make relevant and useful cues to their personality available. Whether through calculated strategy or unconscious self-deception, this will typically not be the case for a criminal seeking to evade detection.

So, we can create a matrix of targets, judges and outcomes in which we might see a satisfactory outcome only where a Good Judge reads a Good Target. When faced with a target who deliberately sets out to deceive there is no evidence that a Good Judge will perform any better than average at detecting the risk to their practice. A Poor Judge will never return a good outcome unless they rely on external aids or processes, and while that may be the case for someone who recognises their weakness in this area, perhaps the most significant risk comes from the over-confident accountant who assumes themselves to be capable of assessments which are not realistically within their ability. A Poor Judge who fails to recognise their weakness will never implement mitigating strategies, and expose themselves, their practice and society at large to the consequences of that failure of judgement.

Crucially, in the context of identifying potential money launderers or terrorist financiers, even a Good Judge will not be able to rely upon their unusual skills in every case. Indeed, even if the Good Judge can successfully assess character, that may not indicate an ability to detect deception, a subtly different (but equally vital) skill in this context (Warner 2018).3 Additional checks are essential if criminals are to be reliably detected.

Bookkeeping behind bars

'One client failed to keep a date to deliver his documents', said AccountingWEB member Truthsayer. They thought nothing of it, until the local paper dropped through their letterbox a week later.

'He had been arrested for bashing his mistress to death in a fit of jealousy, then trying to go on the run', they said. After being convicted, he was sentenced to life. Truthsayer was shaken – there was nothing about him that suggested he was dangerous.

'I sorted out his final tax return partly over the phone in prison, during which he tried to haggle down the fee!' (Brogan 2020).

FIGURE 4: Good Judge/Poor Judge vs Good Target/Poor/Deceptive Target

	GOOD JUDGE	POOR JUDGE
GOOD TARGET	*Good Outcome*	*Poor Outcome*
POOR/DECEPTIVE TARGET	*Poor Outcome*	*Poor Outcome*

It is also important for accountants to remember that KYC is a continuous process. FATF recommendations incorporate a requirement for annual risk appraisals of the client base and risk across the practice. In addition, there are a number of circumstances, based on trigger events or the simple passing of time, which should prompt accountants to revisit their clients' status. While published research data is not readily available for the accountancy sector, anecdotal evidence and reports from other sectors suggest that annual KYC reviews may not be seen as the priority that law enforcement might want.

Quite apart from the regulatory implications, maintaining a continuous focus on recognising and responding to client risk could have significant implications for the reputation of the firm. The 40-year-old client with two growing children and a maturing and complex business will present a very different risk profile and character to the 25-year-old client who registered as a budding entrepreneur fifteen years ago.

Recent external events will also have had an impact on every accountant's client base, and for the vast majority the global economic downturn consequent upon the COVID-19 pandemic will have increased the risk of non-compliance in one way or another. Previous research has shown there was increased pressure on businesses to present false financial information in the wake of the Global Financial Crisis (ACCA 2019), and while the causes and context of the pandemic-related downturn are very different, as businesses struggle to survive and cash flow is squeezed, the temptation to cut corners or take advantage of some 'too good to be true' opportunity will increase. Clients who two years ago might never have considered any unlawful activity may now present a significant risk of involvement in money laundering, whether wittingly or otherwise.

3 'Results indicated that participants were accurate in rating the personality of others and their accuracy of judging lies was significantly higher than chance. However, personality accuracy was not related to accuracy of judging lies' (Warner 2018).

To add to the temptations facing increasingly pressured owners and managers, governments in many countries have launched a sometimes-bewildering array of support mechanisms for genuinely disadvantaged businesses. The need for governments to roll these support mechanisms out quickly has meant that in many cases anti-fraud features that might normally be built into them have had to be omitted, as have many of the checks that might normally be expected before central taxpayer funds are passed to private business.

The combination of complex calculation requirements, unclear record keeping obligations and relaxed security checks has created an environment in which there is an increased likelihood of both innocent mistake and deliberate fraud. The increased pressure on claimants will similarly exacerbate the risk of each, while fraudsters will recognise the potential for their activities to be camouflaged among the innocent errors.

Of course, it is not just clients who have faced additional pressures as a result of the pandemic. Accountants are expected to advise on all these new regulations, in addition to their normal compliance and advisory roles, and against the unique background of the broader restrictions imposed in most countries. It is important that any response focuses on a risk-based approach to CDD so as to make best use of constrained resources (FATF 2020).

> 'I take on approximately two new clients per year, online KYC checks are subscription based. When I have used them in the past, they are sometimes unreliable; for instance incorrect name spelling or not on electoral roll.' **Survey respondent, England, UK**

> 'AML practices are driven by local legislation. In Latvia it changes frequently. To my knowledge, no localised cloud-based tools are available.' **Survey respondent, Latvia, Central and Eastern Europe**

A case study in poor outcomes

UK accountants will be familiar with the case of Mehjoo v Harben Barker, which made headlines for addressing the controversial issue of the extent to which accountants are under a duty to advise their clients of complex tax planning opportunities. The relevance in this context, however, is the reason that the case ended up in court in the first place. Mr Mehjoo was a successful businessman, in the words of the trial judge 'a very determined man who was keen at every opportunity to see if there were tax-planning opportunities';[4] he was a long-standing client of the firm.

The crucial point on which the client's initial claim turned was that at a time when he stood to incur a significant capital gains tax liability his advisers failed to mention the relevance of his place of domicile for tax purposes, and that had this been raised he would have sought specialist advice. Whether that advice would have been successful is neither here nor there when considering that if this point (acknowledged by all parties to be relevant and common knowledge) had been raised at all then the client's claim of negligence and resulting court case, damage to the firm's reputation and disruption to the retirement of the former partner involved would all have been avoided.

What could have gone better? As far as the initial checks are concerned, it would have made little difference whether the accountant checked the paper copy of the passport or used an online tool to verify his client's identity. What mattered was what happened years later – but this is where some kind of risk management could have helped. An advanced customer relationship management (CRM) package could have automatically flagged the non-UK domicile as soon as tax planning came up – or equally, with a paper-based client file system, a simple flag, such as a colour coded tab on the front of the file, would have done the job. Depending upon the risk profile of the practice it might have been proportionate as part of the annual appraisal of the KYC systems to revisit domicile for clients with overseas passports. Either way, recognising the risk and operating a proportionate and appropriate risk management system is key.

4 Mehjoo v Harben Barker [2013] EWHC 1500 (QB) At Para 218 <https://www.bailii.org/ew/cases/EWHC/QB/2013/1500.html>, accessed 9 April 2020.

ACCOUNTANTS ARE EXPECTED TO ADVISE ON ALL THESE NEW REGULATIONS, IN ADDITION TO THEIR NORMAL COMPLIANCE AND ADVISORY ROLES, AND AGAINST THE UNIQUE BACKGROUND OF THE BROADER RESTRICTIONS IMPOSED IN MOST COUNTRIES.”

Keeping other records online in digital format

As authorities adopt digital record keeping for other strands of activity, so the potential develops for greater efficiency across other fields of regulation. Clients themselves will often be subject to licensing or registration conditions and may well keep existing portfolios of evidence for satisfying insurers, supply chain partners or trade and professional bodies about their identity, qualifications or good standing.

There are broader benefits available here too. Accountants generally recognise the importance of KYC to reducing the incidence of economic crime (see Figures 1 and 2) but a number of survey respondents expressed concerns that the design of current regulatory obligations does not optimise the impact of the checks on criminal activity, especially for determined rulebreakers or organised crime.

> 'There appears to be very little evidence to illustrate that the enormous compliance burden placed on Sole Practitioners has reduced the risk of a crime being committed. If someone is determined to commit a crime the KYC checks will not prevent them.' **Survey respondent, Republic of Ireland, Western Europe**

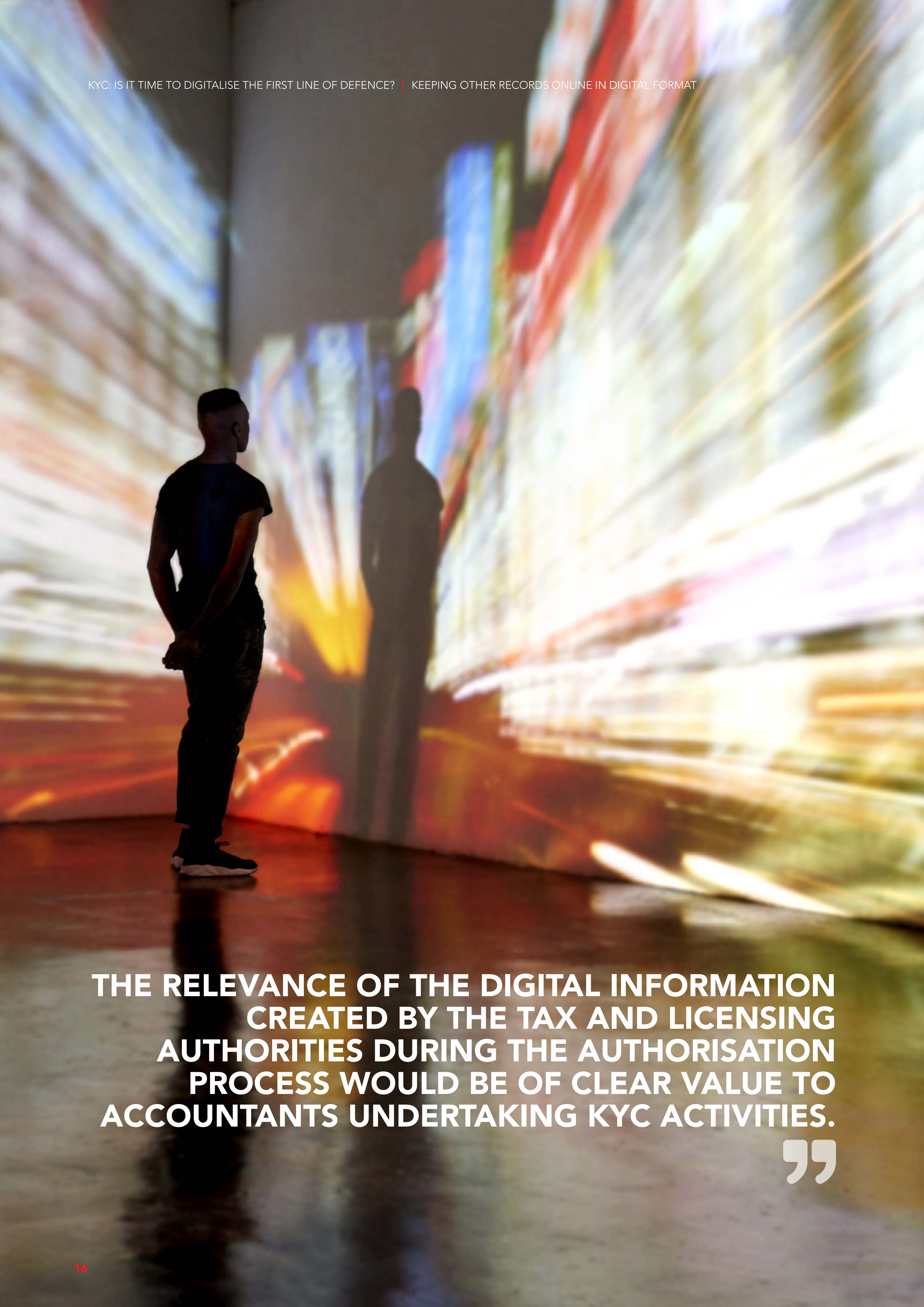
The extent to which accountants are exposed to dealing with laundered money and proceeds of crime is hard to establish. Successfully laundered funds will, by definition, escape detection as they pass through the economy. Estimates of the annual global cost of economic crime range from US$1.4 trillion to US$3.5 trillion (EY n.d.); the breadth of that range itself illustrates the difficulty in defining economic or financial crime as much as of measuring its impact.

Beyond purely monetary activities, such as bribery and fraud, money laundering includes dealing with the proceeds of all crime, including cybercrime and slavery and human trafficking (Refinitiv, 2018) all of which come at a significant cost to society. The money laundering which drives so much of the KYC regulation is a common factor affecting the stability of the financial system, while the terrorist financing that is increasingly a regulatory focus has an even clearer link to wider damage to individuals and society.

But even if the impacts of criminal activity, and the benefits of stemming it, are clear, what practical steps can be taken to restrict the freedom of criminals to enjoy the proceeds of their crimes? Proportionality is a common theme in conversations about regulatory burden, and there are well-rehearsed trade-offs between comprehensive and effective regulation on the one hand, and reduced administrative friction and the deadweight cost of confirming the compliant status of legitimate business on the other.

The growth in reliance of all manner of regulatory and licensing authorities on digital records opens up new opportunities for enhanced checks and information exchanges that might historically have been practically impossible. Recognising the scope for such 'easy wins' may, however, involve a change in mindset for the regulators, as the novel character of digital records drives fundamental changes to the way that social factors are measured, recorded and regulated.

Unpublished survey data from the CCAB report (CCAB 2021a) indicates that accountants in the UK consider tax evasion to be the economic crime to which their practice is the most likely to be exposed. The prevalence of tax evasion is of similar concern to HM Revenue and Customs (HMRC) and the Treasury, and with that in mind proposals are in hand for the issuing of permits and licences in certain high-risk regulated sectors to be contingent on demonstrating a certain level of tax compliance (UK Parliament 2021: Clause 121 and Schedule 32). The relevance of the digital information created by the tax and licensing authorities during the authorisation process would be of clear value to accountants undertaking KYC activities, and ensuring that the tools incorporate mechanisms to enable confirmation of the relevant details would be a clear win for all parties.



THE RELEVANCE OF THE DIGITAL INFORMATION CREATED BY THE TAX AND LICENSING AUTHORITIES DURING THE AUTHORISATION PROCESS WOULD BE OF CLEAR VALUE TO ACCOUNTANTS UNDERTAKING KYC ACTIVITIES.

Who needs to make the next move – and what is it?

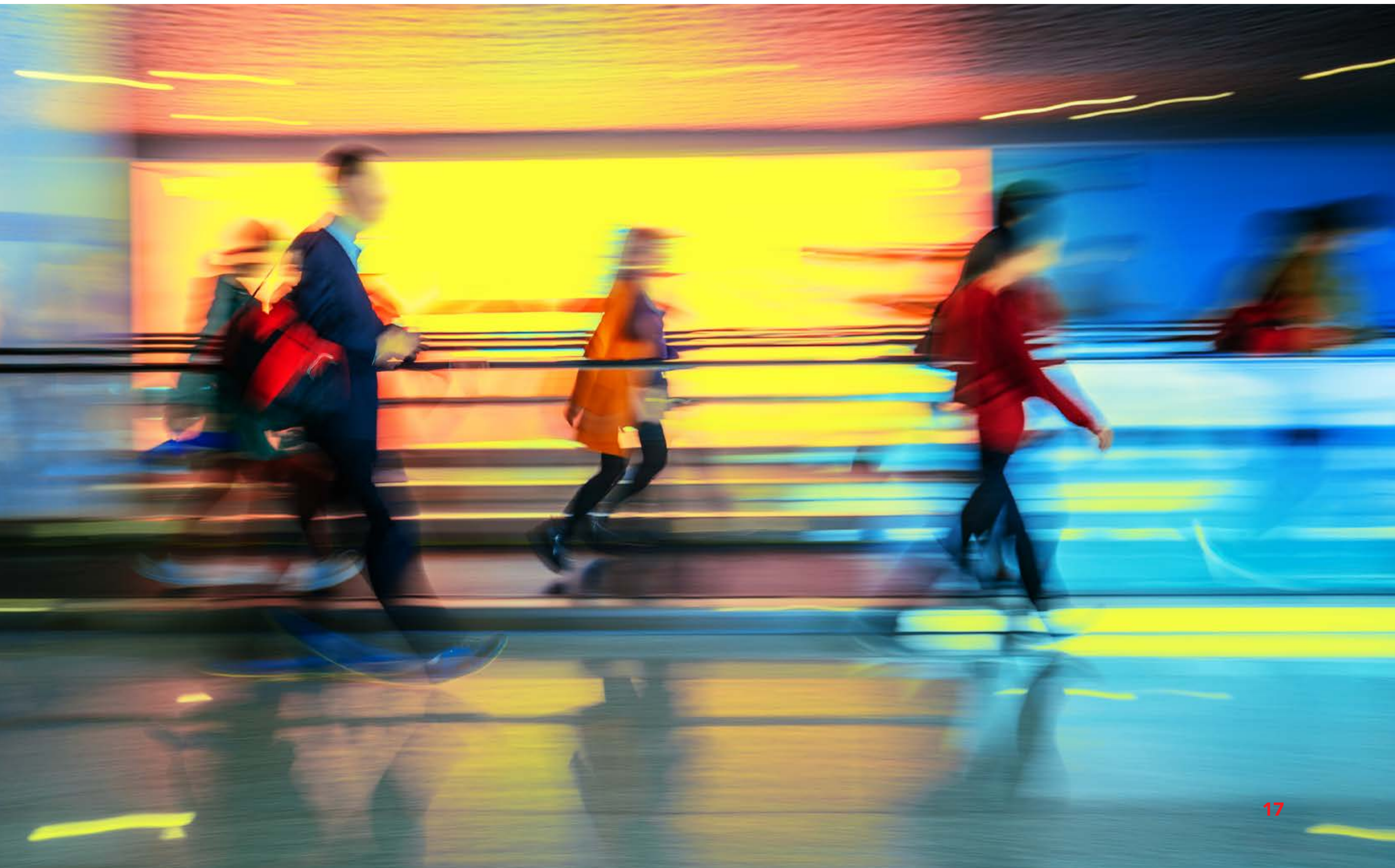
- Software houses need to make the tools available at an affordable price. The expense of digital tools was cited as a reason for non-adoption by 42% of survey respondents, especially for smaller practices with smaller numbers of checks to undertake. The provision of 'pay as you go' models was suggested as a potentially welcome development.
- Accountants need to recognise that while the risk of exposure may be low (and the evidence is that many are unduly optimistic) the outcome has a high impact if the risk should ever crystallise.
- For larger practices, where personal relationships between staff and clients do not exist, digital tools could offer additional commercial benefits – but these need to be available at a commercially justifiable cost.

Summary

All accountants should know exactly who their clients are and be able to prove their identities.

Some accountants could derive very real benefits from the right online tools.

The software houses and regulators need to work together to ensure that those tools are available.



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