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## AICPA Professional Standards: Statement on responsibilities in personal financial planning practice as of June 1, 1993

American Institute of Certified Public Accountants. Personal Financial Planning Executive Committee

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**AICPA**

American  
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Accountants

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# **AICPA PROFESSIONAL STANDARDS**

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## **Volume 2**

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**Accounting & Review Services**

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**Personal Financial Planning**

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**As of June 1, 1993**

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PFP

# STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

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Statements on Responsibilities in PFP Practice are published for the guidance of members of the Institute and do not constitute enforceable standards under Rule 202 of the AICPA Code of Professional Conduct. Such statements are adopted when approved by at least two-thirds of the members of the Statements of Responsibilities in PFP Practice Subcommittee and of the Personal Financial Planning Executive Committee.

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## PFP Section 100

# ***Basic Personal Financial Planning Engagement Functions and Responsibilities***

Issue date, unless otherwise indicated: October 1992

### **Definition and Scope of Personal Financial Planning**

.01 Personal financial planning engagements are only those that involve developing strategies and making recommendations to assist a client in defining and achieving personal financial goals.

.02 Personal financial planning engagements involve all of the following:

- a. Defining the engagement objectives
- b. Planning the specific procedures appropriate to the engagement
- c. Developing a basis for recommendations
- d. Communicating recommendations to the client
- e. Identifying the tasks for taking action on planning decisions

.03 Other engagements may also include—

- a. Assisting the client to take action on planning decisions.
- b. Monitoring the client's progress in achieving goals.
- c. Updating recommendations and helping the client revise planning decisions.

.04 Personal financial planning does *not* include services that are limited to, for example—

- a. Compiling personal financial statements.
- b. Projecting future taxes.
- c. Tax compliance, including, but not limited to, preparation of tax returns.
- d. Tax advice or consultations.

.05 Personal financial planning engagements may address all of a client's personal financial goals or may focus on a limited number of goals. When an engagement addresses a limited number of specific personal financial goals, the CPA should consider the client's overall financial circumstances in developing recommendations.

### **Standards and Guidance Applicable to Personal Financial Planning Engagements**

.06 The following is a summary of existing professional standards and published guidance that should be applied in personal financial planning engagements.

.07 The CPA should act in conformity with the AICPA Code of Professional Conduct in all matters related to a personal financial planning engagement. The CPA should carry out the engagement in conformity with—

- a. Rule 102, Integrity and Objectivity [ET section 102.01]. A member shall maintain objectivity and integrity, be free of conflicts of

interest, and not knowingly misrepresent facts or subordinate his or her judgment to others.

- b. Rule 201, General Standards [ET section 201.01]. A member shall undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence, shall exercise due professional care in the performance of professional services, shall adequately plan and supervise the performance of professional services, and shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations relating to any professional services performed.
- c. Rule 301, Confidential Client Information [ET section 301.01]. A member in public practice shall not disclose any confidential client information without the specific consent of the client.
- d. Rule 302, Contingent Fees [ET section 302.01]; Rule 503, Commissions and Referral Fees [ET section 503.01]. A member in public practice shall follow these rules in making fee arrangements.

.08 Personal financial planning often involves providing tax advice. The Tax Division of the AICPA has published guidance on tax advice in Statement on Responsibilities in Tax Practice (SRTP) No. 8, *Form and Content of Advice to Clients* [TX Section 182]. In addition to the Statement on Responsibilities in Personal Financial Planning Practice, CPAs should consider the guidance in SRTP No. 8 [TX section 182] when personal financial planning activities involve tax advice. Other tax-related matters may also come to the CPA's attention in the course of providing personal financial planning services. Additional guidance on these matters may be found in other SRTPs.

.09 When a personal financial planning engagement includes providing assistance in the preparation of personal financial statements or financial projections, the CPA should consider the applicable provisions of AICPA pronouncements, including—

- a. Statements on Standards for Accounting and Review Services.
- b. Statement on Standards for Attestation Engagements *Financial Forecasts and Projections* [AT section 200].
- c. Guide for Prospective Financial Statements.\*
- d. Personal Financial Statements Guide.

## Responsibilities of CPAs in Personal Financial Planning Engagements

### Defining the Engagement Objectives

.10 The personal financial planning engagement includes defining the objectives of the engagement so that the CPA can determine the services needed. The CPA should—

- a. Obtain an understanding of the client's goals and resources in order to determine the appropriate scope of service that will meet the client's needs.
- b. Reach an understanding with the client concerning the engagement objectives. When the CPA identifies issues not originally considered

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\* The *Guide for Prospective Financial Statements* was superseded by the Audit and Accounting Guide *Guide for Prospective Financial Information* in February 1993.

by the client that may require special attention, those issues should be brought to the client's attention.

- c. Evaluate the appropriateness of the original engagement objectives as the engagement proceeds.

.11 The CPA should obtain an understanding of matters such as the client's family situation, commitment to the planning process; current cash flow and assets available, personal preferences, and relationships with other professionals. This understanding can be obtained through knowledge gained during a long-term relationship with the client, inquiry, and information gathering.

.12 The CPA should document his or her understanding of the scope and nature of the services to be provided. Such documentation could be in the form of an engagement letter or in the form of file memos that document oral understandings. This documentation may include a description of (a) engagement objectives; (b) the scope of services to be provided; (c) the roles and responsibilities of the CPA, the client, and other advisors in the personal financial planning process; (d) the fee arrangements; and (e) scope limitations and other constraints.

### **Planning the Specific Procedures Appropriate to the Engagement**

.13 The personal financial planning engagement should be adequately planned. The engagement's objectives form the basis for planning the engagement. The procedures should produce information that is useful in making planning recommendations. Procedures should be selected that are appropriate in the circumstances and reflect materiality and cost-benefit considerations. The CPA should document personal financial planning engagements in a manner that—

- a. Shows that a systematic approach to the engagement was taken.
- b. Shows that the analysis and other procedures performed provide an adequate basis for the recommendations made.

### **Developing a Basis for Recommendations**

.14 Personal financial planning engagements involve collecting, analyzing, and integrating sufficient relevant information to develop a basis for recommendations. Relevant information includes an understanding of the client's goals, financial position, and the available resources for achieving the goals. External factors (such as inflation, taxes, and investment markets) and nonfinancial factors (such as client attitudes, risk tolerance, spending habits, and investment preferences) are also relevant information. Relevant information also includes reasonable estimates furnished by the client, provided by the client's advisors, or developed by the CPA.

.15 In personal financial planning, some information deals with the future, which is uncertain. Planning may also involve a broad range of goals, which may change as events occur. Consequently, the CPA may develop recommendations based on several selected hypothetical events.

### **Communicating Recommendations**

.16 The CPA should communicate recommendations to the client in a manner that assists the client in evaluating strategies and implementing financial planning decisions. Such communications should ordinarily be in writing and include a summary of the client's goals and significant assump-

tions, a description of any limitations on the work performed, and the recommendations made.

.17 The following is an illustration of an appropriate communication when recommendations are made only on selected goals and the CPA communicates the parameters of the limited engagement.

We have considered ways to achieve your goal of providing for the education of your children. However, you have instructed us not to consider other planning areas that might have an impact on that goal. If we had done so, it is possible that different conclusions or recommendations might have resulted.

### **Identifying the Tasks for Taking Action on Planning Decisions**

.18 The CPA should assist clients to identify tasks that are essential in order to act on planning decisions. The CPA may also assist the client to set target dates for the completion of tasks and identify parties responsible for completing them.

### **Other Personal Financial Planning Services**

.19 Unless undertaken by specific agreement with the client, the CPA is not responsible for additional services. Such services include—

- Assisting the client to take action on planning decisions.
- Monitoring progress in achieving goals.
- Updating recommendations and revising planning decisions.

### **Assisting the Client to Take Action on Planning Decisions**

.20 The CPA should have an understanding with the client, preferably in writing, regarding the degree of responsibility he or she will assume for helping the client to act upon planning decisions.

### **Monitoring the Client's Progress in Achieving Goals**

.21 A CPA is not responsible for monitoring the client's progress in achieving goals unless the CPA undertakes this obligation by specific agreement with the client.

### **Updating Recommendations and Helping the Client Revise Planning Decisions**

.22 A CPA is not responsible for updating recommendations unless the CPA undertakes this obligation by specific agreement with the client. The agreement should identify the scope of the CPA's responsibility for updating the plan and proposing new actions.

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