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AICPA Professional Standards: Statement on responsibilities in personal financial planning practice as of June 1, 1999

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

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PFP Section
PERSONAL FINANCIAL PLANNING

STATEMENTS ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs) 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. The Statements have been approved by at least two-thirds of the members of the Personal Financial Planning Executive Committee.

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PFP Section 100

Basic Personal Financial Planning Engagement Functions and Responsibilities

First Issued October 1992; Revised January 1996

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 Personal financial planning 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.

Guidance Applicable to Personal Financial Planning Engagements

.06 The following is a summary of existing professional standards and published guidance applicable to personal financial planning engagements. Other standards and guidance may apply depending on the scope of the services provided.

.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 following is a partial list of the rules of the AICPA Code of Professional Conduct:

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 Statements 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 [AR sections 100–600].

b. Statement on Standards for Attestation Engagements *Financial Forecasts and Projections* [AT section 200].

c. *Guide for Prospective Financial Information.*

d. *Personal Financial Statements Guide.*

.10 CPAs providing business valuation services as part of a personal financial planning engagement should consider the Statement on Standards for Consulting Services (SSCS), *Consulting Services: Definitions and Standards* [CS section 100].

Personal Financial Planning Engagements

Defining the Engagement Objectives

.11 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 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.

.12 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.

.13 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 advisers 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

.14 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

.15 Personal financial planning engagements involve collecting, analyzing, and integrating sufficient relevant information to develop a basis for recommendations. Relevant information may include, but is not limited to, an understanding of the client's goals, existing financial situation, the available resources for achieving the goals, nonfinancial factors, and external factors. Relevant information may also include reasonable estimates, projections, and assumptions furnished by the client, provided by the client's advisers, or developed by the CPA.

.16 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

.17 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 assumptions, a description of any limitations on the work performed, the recommendations made, and a statement that projected results may not be achieved.

.18 The following is an illustration of a 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

.19 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

.20 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

.21 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

.22 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

.23 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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PFP Section 200

Working With Other Advisers

First Issued October 1993; Revised January 1996

Introduction

.01 This section is intended to provide guidance to the CPA who uses the work of other advisers in performing a personal financial planning engagement.

.02 Personal financial planning engagements may require the CPA to interact with other advisers. Such interaction includes, but is not limited to, the following:

a. The CPA may use advice provided by others in developing recommendations for a client. Some advice will suggest that action be taken, other advice will provide information.

b. The CPA may refer a client to other advisers who assist the client in securing products or services that have been identified in the personal financial planning engagement.

c. The CPA may refer a client to advisers who provide services in areas in which the CPA either does not practice, or chooses not to practice, in a specific engagement.

.03 Circumstances in which the CPA may use the advice of other advisers or refer a client to other advisers include those in which there is a need for specialized expertise outside the scope of the CPA's practice and for services or products for which the CPA is not a licensed provider.

Working With Other Advisers in Personal Financial Planning Engagements

Guidance Applicable to Working With Other Advisers

.04 The CPA should apply existing applicable professional standards and should consider the guidance included in other published Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs).[1]

Engagement Scope Limitations

.05 If the CPA does not provide a service needed to complete an engagement, he or she should restrict the scope of the engagement and recommend that the client engage another adviser who provides the needed service.

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[1] Refer to paragraphs 6 through 10 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* [section 100.06–.10], for a discussion of applicable standards and guidance.

.06 If the client declines to engage another adviser, the CPA and the client may still agree to proceed with the engagement.

.07 In such situations, the CPA should communicate to the client any limitation on the scope of the engagement, as well as the fact that this limitation could affect the conclusions and recommendations developed in the engagement. Such communication should ordinarily be in writing. The CPA should refer to SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities*, paragraphs 5 and 18 [section 100.05 and .18], for further guidance when the engagement is limited in scope.

.08 For example, in the CPA's judgment, a valuation of a client's business may be appropriate to complete a personal financial planning engagement; however, undertaking such a valuation may be beyond the CPA's expertise and the client may be unwilling to incur the additional cost of an outside appraiser. The CPA and the client may therefore agree that the CPA will complete the personal financial planning engagement and develop planning recommendations using the client's estimate of the value of the business.

.09 The following is an illustration of a communication in the event that limitations are placed on the scope of information considered in the personal financial planning engagement.

> At your request, an independent valuation of your business has not been obtained. Such a valuation may have affected the conclusions reached in your financial plan.

Recommending Other Advisers

.10 The CPA should become satisfied concerning the professional qualifications and reputation of another adviser before referring the client to that adviser. The CPA should consider information such as the following:

a. The CPA's previous experience in working with the adviser

b. The professional certification or license or other recognition of the competence of the adviser in his or her field

c. The reputation and standing of the adviser in the views of the adviser's peers and others who have worked with the adviser

d. The adviser's relationship, if any, with the client

.11 When recommending another adviser to a client, the CPA should communicate to the client the nature of the work to be performed by the other adviser and the extent to which the CPA will evaluate that work. Such communication should ordinarily be in writing.

.12 The following is an illustration of a communication in the event that the CPA recommends that the client engage an attorney to take action on recommendations developed in the personal financial planning engagement.

> As we discussed, you should consult an attorney to prepare updated will provisions. We have provided you with the names of several attorneys whose professional credentials and reputations are familiar to us. The selection of an attorney is your decision. Our referral does not constitute an endorsement of these attorneys or of any advice they may render.

Using Advice Provided by Other Advisers

.13 When the CPA uses the opinions of another adviser in completing the personal financial planning engagement, the CPA should understand and evaluate the adviser's opinions and the procedures used to develop them. If the CPA concurs with the other adviser's opinions, he or she need not communicate this concurrence to the client.

.14 If the CPA uses the other adviser's opinions in the engagement without evaluating these opinions, he or she should communicate that fact to the client. Such communication should ordinarily be in writing.

.15 The following are illustrations of communications for instances in which the CPA uses the advice or opinion of another adviser in a personal financial planning engagement.

a. An appraisal provided by an outside appraiser is incorporated into a client's personal financial plan and the CPA has not evaluated the appraiser's opinion.

> We have used the ABC Company's estimate of the value of your real estate in developing your financial plan. We have not evaluated their estimate and do not accept responsibility for it. If a different value were used, different recommendations may have resulted.

b. An insurance agent has recommended that the client purchase a specific life insurance policy and the CPA, by agreement with the client, has not evaluated the agent's recommendation.

> Bob Jones, CLU, has recommended that you purchase a specific life insurance policy. As agreed, we have not evaluated this recommendation and do not accept responsibility for it.

[The next page is 20,031.]

PFP Section 300

Implementation Engagement Functions and Responsibilities

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Definition and Scope of Implementation

.01 Implementation engagements are those that involve assisting the client to take action on planning decisions developed during the personal financial planning engagement described in Statement on Responsibilities in Personal Financial Planning Practice (SRPFP) No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* [section 100]. Implementation includes activities such as selecting investment advisers, restructuring debt, creating estate documents, establishing cash reserves, preparing budgets, and selecting and acquiring specific investments and insurance products.

.02 This section is intended to address only those situations in which the CPA is engaged by a client to assist in implementation activities. This section does not extend to those situations in which the CPA is functioning in a fiduciary or an agency relationship.[1]

.03 The CPA may be engaged at one or more of the following levels to assist the client to take action on planning decisions:

a. The CPA may refer the client to other advisers (see SRPFP No. 2, *Working With Other Advisers* [section 200]).

b. The CPA may coordinate and/or review the delivery of services and/or products by other advisers (see SRPFP No. 2 [section 200]).

c. The CPA may participate in implementation by establishing selection criteria.

d. The CPA may participate in implementation by participating in the selection of service providers and/or the selection and acquisition of products.[2]

.04 Implementation is typically completed when products are acquired or services are rendered in accordance with the recommendations developed during the personal financial planning engagement.

Implementation Engagements

Guidance Applicable to Implementation Engagements

.05 The CPA may be engaged to assist the client to take action on planning decisions. When undertaking an implementation engagement, the

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[1] Agency and fiduciary relationships are defined by state law.

[2] CPAs advising clients on the selection or acquisition of products (such as investments or insurance policies) should determine whether they meet the qualifications and licensing requirements established by applicable federal and state laws.

CPA should apply existing applicable professional standards and should consider the guidance included in other published SRPFPs.[3]

Planning the Engagement

.06 Implementation engagements vary in complexity and scope, as well as in the level of assistance to be provided by the CPA. The CPA and the client should identify and agree on the level of the CPA's assistance in implementation. Regardless of the level of assistance, implementation decisions are made by the client, not by the CPA.

.07 The CPA should document his or her understanding of the nature and scope of the implementation services to be provided and the roles and responsibilities of the CPA, the client, and other advisers. The CPA should refer to SRPFP No. 1, paragraphs 13 and 14 [section 100.13–.14], for additional guidance.

Communicating With the Client

.08 The CPA should communicate information and recommendations to the client in a manner that assists the client in understanding the nature and scope of services performed by the CPA in an implementation engagement. Such communication ordinarily should be in writing and include a summary of the planning decisions being implemented, recommended actions to be taken, and a description of limitations on the work performed in the engagement and the results of the engagement.

.09 The following is an illustration of a communication in the event that a client instructs the CPA not to consider certain investment options (for example, limited partnerships) in developing implementation recommendations for funding a retirement plan.

> We have evaluated investment alternatives available to fund your retirement plan. However, you have instructed us not to consider limited partnerships as an investment alternative. If we had done so, it is possible that we would have recommended a different investment strategy.

Establishing Selection Criteria

.10 The CPA who is engaged to establish selection criteria should identify those attributes or other specifications that are required to accomplish the client's objectives, subject to any constraints that result from the client's circumstances. Selection criteria may be expressed in ranges if the CPA and the client agree that such practice is useful. Since it is not always possible to secure products or services that exactly match the established selection criteria, the CPA should assist the client in prioritizing attributes so that available alternatives can be compared.

Participating in the Selection Process

.11 When the CPA is engaged to participate in selecting and acquiring products, the CPA should gather data that provides a reasonable basis for de-

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[3] Refer to paragraphs 6 through 10 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* [section 100.06–.10], for a discussion of applicable standards and guidance.

termining whether the alternatives meet the selection criteria. Upon analyzing this information, the CPA may communicate to the client his or her evaluation of all alternatives that the CPA recommends for action.

Implementing Planning Decisions Developed by Others

.12 The CPA may be engaged to assist the client in taking action on planning decisions developed in a personal financial planning engagement in which the CPA did not participate. For example, the planning decisions may have been developed by another adviser or by the client acting alone. The CPA might also be asked to assist the client in developing more specific selection criteria or exploring issues related to each planning decision, other than those established in the personal financial planning engagement.

.13 In situations such as these, the CPA should obtain a sufficient understanding of the planning decisions to effectively assist in implementation. To obtain such an understanding, the CPA should consider factors such as the client's goals, existing financial situation, the available resources for achieving the goals, nonfinancial factors, and external factors. Relevant information may also include estimates, projections, and assumptions.

Illustrations

.14 Appendixes A and B [paragraphs .15 and .16] contain illustrations of possible procedures to be followed by the CPA who is engaged by a client to assist in implementing a personal financial planning decision. In each example, the initial personal financial planning engagement is presumed to have been completed before implementation, either by the CPA in the illustration or another adviser.

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Appendix A

Illustration: Implementation Involving Risk Management

Background

1. The CPA is engaged to assist a client in taking action on a planning decision that disability insurance be purchased. The CPA has the expertise to advise the client regarding the selection of disability insurance.

Communication

2. To assist the client in understanding the implementation decision-making process, the CPA should review with the client the disability coverage identified in the personal financial planning engagement, including options such as loss of earnings coverage, definition of occupation, coverage amounts, and exclusion periods.

Strategy Development and Product Selection

Planning the Engagement

3. The CPA and the client should agree on whether the CPA, the client, or another adviser is responsible for identifying available insurance products and carriers and clearly define who is responsible for reviewing the proposals provided by the solicited insurance carriers. A schedule of required actions should be developed that includes how and when the actions will take place.

a. When selecting insurance professionals, reference should be made to SRPFP No. 2 [section 200].

b. The rest of this illustration assumes that the CPA is responsible for identifying the appropriate insurance products and carriers and reviewing the proposals provided.

Establishing Selection Criteria

4. The CPA should identify the characteristics of disability insurance products that meet the criteria identified in the personal financial planning engagement. These characteristics generally include the following:

a. Appropriate protection levels, considering factors such as the amount of coverage needed, how disability is defined, the waiting period to receive benefits, partial disability coverage, and duration of benefits

b. Optional coverage conditions, such as cost-of-living adjustments, guaranteed insurability riders, and waiver of premium riders

c. Minimum quality standards for disability coverage, generally based on the insurer's financial stability

Participating in the Selection Process

5. The CPA should identify and solicit proposals from insurance carriers whose disability products meet the established criteria.

6. When selecting a specific disability insurance product, the CPA should review and discuss with the client the financial stability of the company providing coverage and determine that the policy meets the following criteria:

a. The client's goals, as identified in the personal financial planning engagement, are satisfied.

b. The policy is cost effective when compared to other insurance company proposals received.

c. The insurance carrier has demonstrated a commitment to servicing the disability market.

Documentation

7. The CPA should document meetings, discussions, or other contacts with the client and indicate the decisions regarding responsibilities for actions and product selections and the results of reviewing proposals from various insurance carriers. The CPA may supplement such docunentation by indicating when the application was filled out, insurance coverage bound, and the policy issued. The CPA may also document any insurability issues and the ultimate resolution of those issues.

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Appendix B

Illustration: Implementation Involving Investment Planning

Background

1. The CPA is engaged to assist a client in structuring an investment portfolio to take action on a planning decision that funds be invested to provide for the client's postretirement needs. The CPA has the expertise to advise the client regarding investment planning.

Communication

2. To assist the client in understanding the implementation decision-making process, the CPA should review with the client financial strategies, investment constraints, asset allocations, and rate of return goals identified in the personal financial plan or the investment policy statement.

Strategy Development and Product Selection

Planning the Engagement

3. The CPA and the client should agree on whether the CPA, the client, or another adviser is responsible for identifying available investment alternatives and clearly define who is responsible for reviewing prospectuses, partnership agreements, offering documents, and other such reports. A schedule of required actions, including how, when, and where these actions will take place, should be developed.

a. Other advisers may include money managers (private and public, such as mutual fund managers), general partners of partnerships, investment bankers, and stockbrokers. When selecting other advisers, reference should be made to SRPFP No. 2 [section 200].

b. The rest of this illustration assumes that the CPA is responsible for identifying the appropriate investment alternatives and reviewing the related documents.

Establishing Selection Criteria

4. The CPA should develop the appropriate investment strategy based on the specific investment criteria, rate of return requirements, and risk tolerance of the client, as identified in the personal financial planning engagement. This generally includes the following:

a. Developing an appropriate investment class allocation, including the amount of investment resources to be invested in financial assets, such as cash equivalents, stocks, or bonds, and the amount of investment resources to be invested in nonfinancial assets, such as real estate or oil and gas interests.

b. Developing an appropriate allocation within each investment class.

Participating in the Selection Process

5. When selecting specific investment assets, the CPA should review and discuss with the client the available investment alternatives and identify those investments that meet the following criteria:

a. The client's goals, as identified in the personal financial planning engagement, are satisfied.

b. The client's investment constraints, such as risk tolerance, capacity to assume financial risk, cash flow and asset availability, and personal preferences, as identified in the personal financial planning engagement, are honored.

c. The diversification plans established in the client's investment strategy are achieved.

Documentation

6. The CPA should document meetings, discussions, or other contacts with the client and indicate the decisions regarding responsibilities for actions and product selections. The CPA may supplement such documentation by providing the client with an inventory of investment assets in the client's portfolio along with a description of values, yields, portfolio percentages, and so forth.

[The next page is 20,051.]

PFP Section 400

Monitoring and Updating Engagements—Functions and Responsibilities

First Issued October 1994; Revised January 1996

Definition and Scope of Monitoring and Updating

.01 This section is intended to address only those situations in which the certified public accountant (CPA) is specifically engaged by a client to provide monitoring services, updating services, or both.[1]

.02 Monitoring engagements are those that involve determining the client's progress in achieving established personal financial planning goals.

.03 Updating engagements are those that involve revising the client's existing financial plan and financial planning recommendations, as appropriate, in light of the client's goals, current circumstances, and current external factors.

.04 Monitoring and updating activities are typically undertaken after implementation of actions and recommendations developed during a personal financial planning engagement (see Statement on Responsibilities in Personal Financial Practice [SRPFP] No. 3, *Implementation Engagement Functions and Responsibilities* [section 300]). Monitoring and updating services may be either separate or combined engagements.

.05 Updating generally occurs as a result of a monitoring engagement, but may also occur as a result of changed goals or circumstances or a lapse of time, independent of a monitoring engagement.

Guidance Applicable to Monitoring and Updating Engagements

.06 The CPA should apply existing applicable professional standards and should consider the guidance included in other published SRPFPs.[2]

.07 The CPA should document his or her understanding of the nature and extent of the monitoring and/or updating services to be provided and the roles

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[1] Although the CPA would typically have informed the client during a personal financial planning engagement in which planning recommendations are developed that monitoring and updating are important elements of the financial planning process, the CPA is not responsible for undertaking these services except by specific agreement with the client.

[2] Refer to paragraphs 6 through 10 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* [section 100.06–.10], for a discussion of applicable standards and guidance.

and responsibilities of the CPA, the client, and other advisers. The CPA should refer to paragraphs 13 and 14 of SRPFP No. 1 [section 100.13–.14] for additional documentation guidance.

Monitoring Engagements

.08 Monitoring engagements vary in complexity and scope, as well as in the nature and extent of assistance to be provided by the CPA. For example, the CPA may—

a. Undertake some, or all, of the monitoring services.

b. Coordinate and/or review monitoring services performed by other advisers (see SRPFP No. 2, *Working With Other Advisers* [section 200]).

c. Monitor the progress toward goals in a financial plan developed by other advisers (see SRPFP No. 2 [section 200]).

The CPA and client should agree on the nature and extent of the CPA's services in a monitoring engagement.

.09 In determining the client's progress toward achieving established financial planning goals, the CPA should—

a. Ascertain whether all recommended actions to achieve the goals were undertaken.

b. Measure and evaluate the actual progress toward achievement of the goals.

c. Identify developments in the client's circumstances and in external factors that affect the financial plan.

.10 The CPA and client should agree on how frequently the progress toward the client's financial planning goals should be monitored. The CPA should use monitoring criteria that are appropriate and consistent with the criteria used to establish the financial planning goals being monitored.

.11 The CPA should focus on criteria and other factors that are important to the ultimate attainment of the financial planning goals being monitored. For example, realizing a targeted investment rate of return may be important for the ultimate achievement of the client's retirement planning goals; however, at a particular time, monitoring the client's level of spending may be more important.

.12 The CPA should communicate to the client the CPA's evaluation of progress toward achieving the client's financial planning goals. Such communication should ordinarily be in writing.

.13 As a result of a monitoring engagement, the CPA may identify differences from the expected progress toward the client's financial planning goals or other circumstances that might warrant a review or update of the existing financial plan. In this case, the CPA should evaluate whether the differences or circumstances necessitate an update of the client's existing financial plan and financial planning recommendations and advise the client accordingly.

.14 The following is an illustration of a communication in the event that the CPA, during the course of a monitoring engagement, has determined that the progress in achieving the client's financial planning goals differs from the expected progress.

> Your children's college education funds have not earned the targeted rate of return assumed in your existing financial plan. If this trend continues, you will not have saved enough to meet anticipated costs. We, therefore, recommend that your education savings plan be updated.

.15 The following is an illustration of a communication in the event that the CPA, during the course of a monitoring engagement, has identified changes in the client's circumstances that warrant an update of the client's financial plan.

> During the course of our monitoring engagement, we learned that you have inherited a large interest in a closely held business. This change in your business circumstances may impact several of the recommendations contained in your financial plan, Accordingly, we recommend that your financial plan now be updated.

Updating Engagements

.16 Updating engagements vary in complexity and scope, as well as in the nature and extent of assistance to be provided by the CPA. The CPA should communicate to the client the fact that updating a personal financial plan affects all aspects of the plan and that all existing financial planning recommendations should be reviewed as part of the updating process. The CPA and client should agree on the nature and extent of the CPA's services in updating financial planning recommendations.

.17 An updating engagement generally involves the same functions and responsibilities outlined in SRPFP No. 1 [section 100] and expanded upon in other SRPFPs. Accordingly, the CPA should refer to other SRPFPs, as appropriate, when engaged to update a client's personal financial planning recommendations. For example, SRPFP No. 5 [section 500] and paragraphs 15 and 16 of SRPFP No. 1 [section 100.15–.16] provide guidance on developing a basis for recommendations; the CPA should, therefore, determine whether all criteria and assumptions used as a basis for existing financial planning recommendations are still valid before developing revised recommendations.

.18 In updating a personal financial plan and financial planning recommendations, the CPA should consider the integrated nature of financial planning and the effect of revising recommendations to achieve one financial planning goal on the client's ability to achieve all other financial planning goals. For example, if, as part of updating a client's financial plan, the CPA revises the amount to be saved each month to fund retirement goals, the CPA should consider the effect of this recommendation on the client's ability to fund other goals, such as children's education, and on the client's cash flow.

.19 The CPA should communicate to the client any revisions to financial planning recommendations that arise as a result of the engagement. Such communication should ordinarily be in writing.

.20 The following is an illustration of a communication in the event that the client has engaged the CPA to update the client's estate plan, but not to revise recommendations on other financial planning issues.

Updating any portion of your personal financial plan may affect other aspects of the plan. All of your financial planning recommendations should be reviewed periodically as part of the updating process. You have asked us to update only those financial planning recommendations for achieving your estate planning goals. Had we addressed all aspects of your financial plan, different recommendations may have resulted.

[The next page is 20,061.]

PFP Section 500

Developing a Basis for Recommendations

Issued January 1996

Definition and Scope

.01 This section is intended to provide guidance to the certified public accountant (CPA) engaged by a client to develop personal financial planning recommendations.

.02 Financial planning recommendations are suggested actions developed to assist the client in achieving financial goals.

.03 Recommendations are based on analyses and other procedures that are conducted prior to and in preparation for developing suggested actions. The CPA's knowledge and experience also contribute to the basis for recommendations.

.04 Developing a basis for the recommendations involves the following:

a. Collecting relevant quantitative and qualitative information, which may include but is not limited to—

1. The client's goals, existing financial situation, and available resources
2. Nonfinancial factors such as client attitudes, risk tolerance, family considerations, age, health, and life expectancy
3. External factors such as estimates of inflation, taxes, economic conditions, legislative activity, investment markets, and interest rates
4. Reasonable estimates, projections, and assumptions furnished by the client, provided by the client's advisers, or developed by the CPA

b. Analyzing the client's current situation as it relates to the client's goals and objectives and identifying strengths and weaknesses of the existing financial situation

c. Formulating, evaluating, and recommending appropriate strategies and courses of action for achieving the client's goals

Guidance Applicable to Developing a Basis for Recommendations

.05 The CPA should apply existing applicable professional standards and should consider the guidance included in other published Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs).[1]

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[1] Refer to paragraphs 6 through 10 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* [section 100.06–.10], for a discussion of applicable standards and guidance.

.06 The CPA should document the nature and extent of the procedures performed in developing financial planning recommendations.[2] The CPA should refer to paragraphs 13 and 14 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* [section 100.13–.14], for documentation guidance.

Collecting Information

.07 Since personal financial planning recommendations are developed to address specified goals, the CPA should obtain an understanding of the client's measurable goals.

.08 The CPA should obtain sufficient relevant information to form a basis for recommendations to assist the client in achieving his or her financial goals. The nature and amount of information will depend on the scope and complexity of the engagement and the professional judgment of the CPA.

.09 If the CPA is unable to collect sufficient relevant information to form a basis for recommendations, he or she may restrict the scope of the engagement to those matters for which sufficient information is available. The CPA should communicate to the client any limitation on the scope of the engagement, as well as the fact that this limitation could affect the conclusions and recommendations developed.

.10 If there is not sufficient information to proceed, the CPA should consider terminating the engagement. The CPA should communicate notice of such termination to the client.

.11 Communications involving limitations on the scope or terminations of engagements should ordinarily be in writing. The CPA should refer to SRPFP No. 1, paragraphs 5 and 18 [section 100.05 and .18], for further guidance when engagements are limited in scope.

Analyzing Information

.12 The nature and extent of analyses and other procedures performed in developing a basis for recommendations are affected by the scope and objectives of the engagement. However, even 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. For example, in considering ways to achieve the goal of providing for the education of the client's children, other planning areas, such as providing for the client's retirement, may have an impact on that goal.

.13 The CPA should evaluate the reasonableness of estimates and assumptions that are significant to the plan.

a. The CPA should consider the appropriateness of the assumptions used.[3] For example, the use of a current rate of return on investments

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[2] If the CPA will be developing investment recommendations, he or she may need to obtain information on becoming a Registered Investment Adviser and may want to refer to the AICPA's *Guide to Registering as an Investment Adviser*.

[3] Regarding the use of appropriate assumptions, the CPA should consider the guidance provided in paragraphs 6.30 to 6.36 of the Audit and Accounting Guide *Guide for Prospective Financial Information* (see the appendix [paragraph .21] of this section).

to calculate the amount of capital needed to fund a short-term goal is appropriate if the recommendation is to fund the goal with short-term investments.

b. The CPA should use assumptions that are consistent with each other. For example, an assumed low rate of inflation would be consistent with an assumed low rate of return for future investments in fixed-income securities.

c. When performing analyses based on estimates, assumptions, and projections, the CPA should consider their sensitivity in relation to the overall plan.[4] For example, in a long-range retirement funding projection, a slight change in the assumed rate of return on investments may have a significant impact on the projected result.

d. If, during the course of the engagement, the CPA determines that significant estimates, projections, or assumptions are no longer valid, the CPA should evaluate the appropriateness of the original engagement objectives. The CPA should also revise the collection of relevant information and the analysis of that information, as appropriate. The CPA should refer to "Defining the Engagement Objectives" (paragraphs 11 through 13) in SRPFP No. 1 [section 100.11–.13].

.14 The CPA should communicate to the client the assumptions and estimates that are significant to the plan and should identify those that have a high probability of variation that could materially affect the plan. Such communication should ordinarily be in writing and include a statement that projected results may not be achieved.

.15 The CPA should integrate analyses in one financial planning area with analyses in other financial planning areas for which the CPA has been engaged. For example, analysis for college funding may affect or be affected by analysis in risk management, retirement funding, cash management, investment strategies, and income, estate, and gift taxation.

.16 If the CPA determines that the client's goals cannot reasonably be achieved, the CPA should communicate to the client the need to reconsider the originally stated goals.

Formulating Strategies and Recommendations

.17 Recommendations are derived, in part, from analyses of relevant information and should be consistent with the client's goals.

.18 The client may impose a constraint on the engagement that affects the CPA's recommendations. For example, the client may stipulate that he or she will not purchase health insurance. This stipulation may affect the personal financial planning recommendations developed.

.19 In situations of a client-imposed constraint, the CPA should communicate to the client the fact that this constraint could affect the conclusions and recommendations developed. Communications involving client-imposed constraints on engagements should ordinarily be in writing. The CPA should refer

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[4] Regarding the sensitivity of appropriate assumptions, the CPA should consider the guidance provided in paragraphs 6.37 and 6.38 of the Audit and Accounting Guide *Guide for Prospective Financial Information* (see the appendix [paragraph .21] of this section).

to SRPFP No. 1, paragraphs 5 and 18 [section 100.05 and .18], for further guidance when the engagement is limited in scope.

.20 The CPA should integrate recommendations developed to achieve one financial planning goal with the recommendations regarding other goals. For example, recommendations for college funding may affect or be affected by recommendations in risk management, retirement funding, cash management, investment strategies, and income, estate, and gift taxation.

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Appendix

Excerpt From *Guide for Prospective Financial Information*

The appendix is an excerpt from chapters 1 and 6 of the AICPA Audit and Accounting Guide *Guide for Prospective Financial Information.*

Chapter 1—Introduction

Structure of the Guide

1.07 The guidance on forecasted financial information contained in chapters 6 through 23 generally also applies to projected financial information. Certain paragraphs in those chapters, however, do not apply—partially or fully—to projections. In those instances, readers interested in financial projections should refer to the corresponding *italicized* paragraphs (which bear the same paragraph numbers followed by the letter P) and consider the modifications discussed in those paragraphs in conjunction with the paragraphs that precede them.

Chapter 6—Preparation Guidelines

Assumptions used in preparing financial forecasts should be appropriate.

6.30 Assumptions are the essence of developing financial forecasts and are the single most important determinant of such statements. The quality of the underlying assumptions largely determines the quality of financial forecasts.

6.31 The attention devoted to the appropriateness of a particular assumption should be commensurate with the likely relative impact of that assumption on the prospective results. Assumptions with greater impact should receive more attention than those with less impact.

6.32 The assumptions should be reasonable and suitably supported. The level of support should be persuasive, although there are times when a number of assumptions within a narrow range of possibilities may appear equally likely.

6.32P Hypothetical assumptions need not be reasonable but should be appropriate in light of the purpose for which the financial projection is prepared. All other assumptions should be reasonable, given the hypothetical assumptions, and be consistent with the hypothetical assumptions and with each other. That is, the other assumptions should be developed to depict conditions based on the hypothetical assumptions. For example, if the financial projection is prepared to show the effect of the construction of a new production facility that is partially financed, the presentation should include the effect of the related debt service. Furthermore, hypothetical assumptions need not be supported, as they relate to the special purpose of the presentation. The other assumptions, however, should be suitably supported given the hypothetical assumptions.

6.33 The nature of a business enterprise is such that many underlying assumptions are interrelated, and certain of their elements may have multiple effects. For example, a slowdown in economic activity typically will not only cause a slowdown in sales volume, but may also affect sales prices and the availability and cost of resources. The conditions assumed in arriving at the prospective sales or revenue data should be consistent with those assumed in developing the prospective financial data for the cost of operations. Care should be exercised to ensure that appropriate costs and revenues have been considered, that sufficient capacity and resources would be available to produce the forecasted revenues, that capital expenditures have been recognized as appropriate, that provision has been made for applicable taxes, and that the need for financing has been considered.

6.34 Support for assumptions might include market surveys; general economic indicators; trends and patterns developed from the entity's operating history, such as historical sales trends; and internal data and analyses, such as obligations under union contracts for labor rates.

6.35 In analyzing alternative assumptions, care should be exercised to assess the situation objectively. Relating assumptions to past or present conditions often is a useful approach for checking reasonableness or appropriateness; however, trends are not necessarily reliable indicators of the future. Particular attention should be given to the possibility of changes in conditions, which must rest mainly on theory and on an understanding of the basic causal factors.

6.36 It is ordinarily not feasible to exhaustively document and support all the assumptions underlying financial forecasts. It is nevertheless necessary to seek out and to identify explicitly the information that forms a basis for the most significant assumptions; although, frequently, the most basic assumptions with enormous potential impact, such as those relating to war or peace conditions, are not addressed explicitly. Despite precautions, hindsight will often reveal assumptions that have been overlooked or that, in light of later circumstances, received inadequate treatment. Furthermore, the nature of developing financial forecasts is such that some assumptions may not materialize, and unanticipated events and circumstances may occur no matter what effort, analysis, or support may be applied.

The process used to develop financial forecasts should provide the means to determine the relative effect of variations in the major underlying assumptions.

6.37 Prospective financial results are relatively more sensitive to certain assumptions and less sensitive to others. Small changes in certain assumed conditions can result in relatively large variations in the prospective results, while relatively large changes in other assumptions cause only minor shifts in the prospective results.

6.38 In developing financial forecasts, an understanding of the relative sensitivity of the results to the assumed conditions permits the allocation of analysis and study, as well as review by persons of higher authority, to those areas with the most significant effects. Particular attention should be devoted to those assumptions (*a*) to which the attainment of forecasted results is particularly sensitive (that is, those in which a small variation in the assumptions would have a large effect on forecasted results) and (*b*) for which the probability of variation is high.

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PFP TOPICAL INDEX

References are to PFP section and paragraph numbers.

References are to PFP section and paragraph numbers.

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