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# Proposed statement on responsibilities in personal financial planning practice : basic PFP engagement functions and responsibilities; Basic PFP engagement functions and responsibilities

American Institute of Certified Public Accountants. Statements on Responsibilities in PFP Practice Subcommittee

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# **EXPOSURE DRAFT**

## **PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE**

### **BASIC PFP ENGAGEMENT FUNCTIONS AND RESPONSIBILITIES**

**MARCH 31, 1992**

**Prepared by the AICPA Statements on Responsibilities  
in PFP Practice Subcommittee and the PFP Executive Committee  
for comment from persons interested in personal financial planning**

**Comments should be received by May 31, 1992, and addressed to  
Phyllis Bernstein, Director, PFP Division, File 1101,  
AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775**

## SUMMARY

Although CPAs have provided personal financial planning services to clients for a long time, they now provide such services in a more structured way. Consequently, significant practice issues in personal financial planning are not covered by existing professional standards. In 1989, the Personal Financial Planning (PFP) Division undertook a project to provide guidance on the CPA's responsibilities in personal financial planning engagements. Its purpose was to promote consistency and quality in the performance of personal financial planning services.

This proposed statement on responsibilities in personal financial planning practice (SRPFPP) is not intended to establish a separate code of conduct in personal financial planning practice, yet it provides useful guidance to CPAs performing such services. The proposed Statement is advisory, that is, it does not constitute an enforceable technical standard and is educational in nature. The proposed Statement also protects the public by ensuring the competency of personal financial planning services provided by CPAs.

The AICPA's Personal Financial Planning Executive Committee is the senior technical committee of the AICPA designated to issue advisory statements on personal financial planning practice. However, the PFP Executive Committee, concerned about preventing standards overload, expects to limit SRPFPPs to substantive issues of general usefulness not covered by existing standards.

This proposed Statement does not supersede the Statements on Standards for Accounting and Review Services, the Statements on Responsibilities in Tax Practice, the *Personal Financial Statements Guide*, the *Guide for Prospective Financial Statements*, and the Code of Professional Conduct. This proposed Statement defines and provides guidance for financial planning engagements. It defines a personal financial planning engagement as developing strategies and making recommendations that will assist clients in achieving their personal financial goals.

The proposed SRPFPP provides guidance on defining engagement objectives, planning specific procedures appropriate for the engagement, developing a basis for recommendations, communicating those recommendations, assisting the client to act on planning decisions, monitoring the client's progress in achieving established goals, updating recommendations, and helping the client to revise planning decisions. Furthermore, the proposed SRPFPP recommends that the CPA disclose the fact that recommendations are based only on selected goals. A sample disclosure to be made when recommendations are made only on selected goals is contained in the proposed SRPFPP.

This proposed SRPFPP was approved by the Statements on Responsibilities in PFP Practice Subcommittee and the PFP Executive Committee. In addition, the Tax Executive Committee has approved the issuance of this exposure draft. After the conclusion of the comment period, the Statements on Responsibilities in PFP Practice Subcommittee will consider all comments received and make any necessary changes to the proposed Statement. The revision will then be voted on by the Statements on Responsibilities in PFP Practice Subcommittee and the PFP Executive Committee. A two-thirds vote for approval by each committee is required for this proposed Statement to become effective.

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*This exposure draft has been sent to—*

- *Members of the AICPA PFP Division.*
  - *Members of the AICPA Board of Directors.*
  - *Members of the AICPA Council.*
  - *Chairmen of AICPA technical committees.*
  - *State society committees on personal financial planning, with information copies to state society presidents and executive directors.*
  - *AICPA legal counsel.*
  - *The Director of Investment Management, Securities and Exchange Commission (for information only).*
  - *Organizations that the PFP Division has identified as having an interest in personal financial planning principles.*
  - *Persons who have requested copies.*
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March 31, 1992

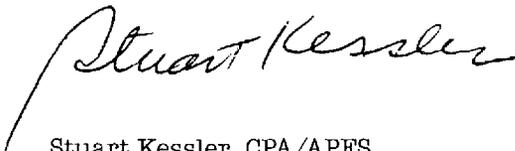
Accompanying this letter is an exposure draft of the first proposed statement on responsibilities in personal financial planning practice (SRPFPP), entitled *Basic PFP Engagement Functions and Responsibilities*. Proposed SRPFPP No. 1 provides guidance on the responsibilities of a CPA who accepts a personal financial planning engagement. The proposed SRPFPP has been developed by the Statements on Responsibilities in Personal Financial Planning (PFP) Practice Subcommittee.

The purpose of this exposure draft is to solicit comments from members of the AICPA PFP Division, the AICPA Board of Directors, the AICPA Council, and other interested parties. Comments or suggestions on any aspect of this exposure draft would be appreciated. Please refer to specific paragraphs of the proposed Statement and include supporting reasons for any suggestions or comments.

Comments on this exposure draft should be sent to Phyllis Bernstein, Director, PFP Division, File 1101, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775, in time to be received by May 31, 1992. For convenience, a response form is included with the exposure draft.

Written comments on this exposure draft will become part of the public record of the AICPA PFP Division and will be available for public inspection at the library in the New York office of the AICPA after June 30, 1992, for one year.

Sincerely,



Stuart Kessler, CPA/APFS  
Chairman  
PFP Executive Committee



D. Larry Fowler, CPA/APFS  
Chairman  
Statements on Responsibilities in  
PFP Practice Subcommittee

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The committee gratefully acknowledges the contributions of former committee and subcommittee members who served in 1990–1991.

# PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

## BASIC PFP ENGAGEMENT FUNCTIONS AND RESPONSIBILITIES

### DEFINITION AND SCOPE OF PERSONAL FINANCIAL PLANNING

1. Personal financial planning engagements are those that involve developing strategies and making recommendations to help a client define and achieve personal financial goals.

2. 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. Assisting the client to act on planning decisions

3. An engagement may also include—

- a. Monitoring the client's progress in achieving goals.
- b. Updating recommendations and helping the client revise planning decisions.

4. Personal financial planning engagements may address all of a client's personal financial planning 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 obtain sufficient information to make recommendations that are consistent with the client's overall financial circumstances.

5. Personal financial planning does not include services that are limited to—

- a. Compiling personal financial statements.
- b. Projecting future taxes.
- c. Tax compliance, including, but not limited to, preparation of tax forms.

d. Tax advice or consultations.

### STANDARDS AND GUIDANCE APPLICABLE TO PERSONAL FINANCIAL PLANNING ENGAGEMENTS

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

7. 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 the following:

- a. Rule 102, Integrity and Objectivity. 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 that of others.
- b. Rule 201, General Standards. A member shall undertake only those professional services that the member or the member's firm can reasonably expect to complete 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. A member in public practice shall not disclose any confidential client information without the specific consent of the client.
- d. Rule 302, Contingent Fees; Rule 503, Commissions and Referral Fees. A member in public practice

shall follow these rules in making fee arrangements.

8. 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." In addition to the Statements on Responsibilities in Personal Financial Planning Practice, CPAs should consider the guidance in SRTP No. 8 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.

9. 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. The Statement on Standards for Attestation Engagements *Financial Forecasts and Projections*.
- 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 whether the client can benefit from personal financial planning services and, if so, the appropriate scope of service that will meet the client's needs.
- b. Reach an understanding with the client concerning the engagement objectives. The CPA should identify issues not originally considered by the client that require special attention and need to be brought into the process.
- c. Evaluate the appropriateness of the original engagement objectives as the engagement proceeds.

11. By making appropriate inquiries, 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 a long-term relationship with the client, through information gathering, or both.

12. The CPA should document his or her understanding of the scope and nature of the services to be provided. Such documentation can be in the form of an engagement letter or in the form of file memos that document verbal 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 available resources for achieving the goals. External factors (such as inflation, taxes, and investment markets) and non-financial 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 assumptions, a description of the work performed, including any limitations thereon, and the recommendations made.

17. When recommendations are made only on selected goals, the CPA might communicate the parameters of the limited engagement in the following terms:

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.

### **Assisting the Client to Act on Planning Decisions**

18. Personal financial planning is not complete until action is taken on planning decisions. The CPA should assist clients to identify tasks that are essential for acting on planning decisions, set target dates for their completion, and identify the parties responsible for completing them. Taking action is the client's responsibility, although the CPA may be engaged to assist.

19. 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 act upon planning decisions.

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

20. The client's progress in achieving goals should be monitored. 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**

21. Personal financial planning recommendations should be updated and revised over time. A CPA is not responsible for updating the recommendations unless the CPA undertakes this obligation by specific agreement with the client. This agreement should identify the scope of the CPA's responsibility for updating the plan and proposing new actions.