

## **Responsibilities in a Personal Financial Planning Engagement**

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The delivery of personal financial planning (PFP) services involves developing recommendations and strategies to help clients achieve financial goals in diverse disciplines, such as budgeting and cash flow management, income tax planning, retirement and education funding, risk management, and investment and estate planning. To provide a context for CPAs who provide these services, the American Institute of CPAs PFP executive committee has issued a series of Statements on Responsibilities in Personal Financial Planning Practice (SOR). The SORs provide broad guidance on what constitutes good practice for members of the Institute providing PFP services.

This article explains SOR No. 1 *Basic Personal Financial Planning Engagement Functions and Responsibilities*, which identifies the services that fall within the meaning of PFP and are subject to this guidance; highlights existing AICPA standards that impact the delivery of PFP services; and describes the CPA's responsibilities specific to PFP. It is the first in a series that explains the provisions of the SORs and addresses compliance issues and practice opportunities for CPAs providing PFP services.

### **What is Personal Financial Planning**

SOR No.1 broadly defines what services constitute PFP. A CPA is providing PFP services when he or she develops strategies and makes recommendations to assist a client in defining and achieving personal financial goals. A PFP engagement may involve creating comprehensive strategies for a client's entire financial picture, or it may focus on a limited number of financial goals. This definition covers a broad range of services; however, the statement specifically excludes from the definition of PFP those services limited to compiling personal financial statements; projecting future taxes; tax return preparation and other compliance activities; and tax advice or consultations. The sidebar to this article illustrates some of the situations in which the SORs apply.

## **Existing AICPA standards**

CPAs providing PFP services are already subject to a number of existing AICPA standards and reporting guidance. A brief summary of some of these provisions follows. The details of such guidance are beyond the scope of this article, and are explained more fully in the AICPA PFP Library Series CD-ROM (No. 017243HS), provided without charge to members of the AICPA Personal Financial Planning Section.

**Professional Conduct.** As in any professional engagement, CPAs providing PFP services are subject to the AICPA Code of Professional Conduct. These standards address the CPA's behavior in areas such as maintaining integrity and objectivity; competency; due professional care; adequate planning and supervision of engagements; having a reasonable basis for conclusions; maintaining the confidentiality of confidential client information; and commissions and contingent fees.

**Reporting Standards.** PFP engagements often include the preparation of personal financial statements or financial projections. In those PFP engagements, certain aspects of the AICPA's reporting guidance apply to that engagement.

**Other Guidance.** Certain disciplines within the AICPA have published guidance for members in their practice areas. For example, if the PFP engagement involves providing tax advice, provisions of the Statements on Standards for Tax Services<sup>1</sup> may apply.

## **Responsibilities Specific to Personal Financial Planning Engagements**

SOR No. 1, in delineating a CPA's responsibilities in providing PFP services, also provides a framework for the delivery of sound financial advice. Accordingly, SOR No. 1 does not prescribe specific activities,

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<sup>1</sup> At the time SOR No. 1 was published, guidance for tax services was published as Statements on Responsibilities in Tax Practice. That guidance was subsequently reissued as Statements on Standards for Tax Services.

but outlines certain steps, discussed below, that are important in delivering valuable PFP services to clients.

**Defining Engagement Objectives.** In this first step CPAs and their clients clarify the expectations for the engagement, and identify the responsibilities of various parties. Here the CPA should:

1. *Understand the client's goals and resources.* A thorough understanding of the client's situation is critical for the CPA to determine the extent of services to be provided. This understanding should include matters such as family situation, commitment to the planning process, current cash flow and assets available, personal preferences, and relationships with other professionals. CPAs can obtain this information through a variety of sources, including face-to-face interviews or the use of data gathering forms and questionnaires.
2. *Establish engagement objectives.* Once the client's goals and available resources are clear, the CPA and client can then move to define the engagement objectives. As a result of this activity the CPA and the client are both clear on the intended outcome of the engagement and the parameters of the work to be performed. As discussed earlier, a PFP engagement can focus on a client's full financial picture, or involve a limited number of distinct financial areas. For example, a client may only want to focus on education funding strategies. Even in such situations where a limited number of objectives are undertaken, the CPA should consider the client's overall financial circumstances, so that meeting these objectives does not jeopardize other aspects of the client's financial picture.
3. *Document the objectives.* As in any professional service, clear documentation of the scope and nature of the services to be provided helps to manage a client's expectations from the engagement. According to the statement, such documentation could be in the form of an engagement letter or file memos that document conversations with the client. A fully documented understanding of engagement objectives includes a description of the those objectives; the scope

of the CPA's proposed services; the responsibilities of the CPA, the client, and other advisors; compensation matters; any limitations on the services to be performed; and any other provisions that impact the services to be provided and expectations from the engagement. It is a good idea to have the client sign a copy of the documentation to clearly establish the understanding of all parties.

4. *Ongoingly evaluate the engagement objectives.* Throughout the engagement, matters will come to the CPA's attention that may not have been considered at the outset of the engagement. Often these new matters will impact the engagement objectives. CPAs should be on the lookout for new developments, economic shifts, or changes in the client's life that may impact the established engagement objectives. These matters often require the reevaluation and redefining of the client's goals and the engagement objectives. Some of these matters are obvious, such as the birth of a child; others might include a rise in interest rates, a career shift, or a scholarship award for the client's child.

***Planning Specific Procedures.*** The procedures to be undertaken flow from the engagement objectives and should be designed to produce information that is useful in developing the strategies that will fulfill the client's goals. According to SOR No. 1, the CPA should undertake those procedures that are appropriate to the engagement, given the client's circumstances, the goals for the engagement, and relative materiality and cost-benefit considerations. Well planned procedures provide a systematic approach to the engagement and establish that the analysis and other procedures performed are appropriate for the engagement and provide an adequate basis for the CPA's recommended strategies. A checklist or engagement workprogram are some of the tools that provide an effective structure for CPAs in planning and carrying out a PFP engagement.

***Developing a Basis for Recommendations.*** In developing financial recommendations and strategies, CPAs are often faced with voluminous information to be analyzed. A CPA's responsibility is to collect, analyze, and integrate sufficient relevant information to develop a basis for the recommended actions and

strategies. Relevant information may be grouped into broad categories such as an understanding of the client's goals, existing financial situation, and available resources for achieving the goals; nonfinancial factors, such as family size or special needs; external factors, such as inflation and interest rates; and reasonable estimates, projections, and assumptions. Within each of these broad categories are more specific information groups, such as detailed listings of assets and liabilities, expected inheritances, and others. Using tools such as interviews, questionnaires, or data gathering forms, the CPA should gather enough of such information and perform the analyses and calculations that support the strategies and recommendations generated in the engagement. Compliance with this responsibility involves the use of tools such as internally developed spreadsheets, commercial planning software, or outside experts (such as appraisers) to provide the information or perform the analyses to develop the engagement recommendations. The calculations and other analyses should take into account uncertainties that exist in dealing with the future, such as shifts in interest rates and market returns; potential additions to the family; or early retirement. This often involves developing recommendations based on different scenarios so that the client fully understands the implications of the strategies being chosen.

***Communicating Recommendations.*** Once the analyses are complete, it is important to communicate recommended strategies and actions in a way that facilitates action by the client. The statement does not prescribe a specific format for such communication, but does indicate that recommendations should ordinarily be in writing and include certain components, namely: 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. As an example of language that could be used when there are limitations on the work performed, SOR No. 1 includes the following illustrative language—

*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.*

Like all the responsibilities described in SOR No. 1, there is a practical benefit to compliance here. Clearly communicated recommendations enhance the usefulness of the CPA's work to the client and reduce the likelihood of misunderstandings by the client.

***Identifying the Tasks for Taking Action on Planning Decisions.*** A vital part of any PFP engagement is agreeing on the tasks or steps that will implement the planning recommendations and fulfill on the client's financial goals. A comprehensive approach to this might be to first identify the critical actions that must be taken, identify the parties responsible for completing the actions, and establish target dates for completion. Many CPAs include a written action plan with their recommendations when complying with this provision of SOR No. 1. This could be a summary of recommended strategies and target dates or a grid of the actions to be taken with space for identifying the status and the completion date.

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

Increasingly, CPAs are finding themselves more deeply involved in the financial services their clients demand. Accordingly, PFP engagements may also include—

- Implementation. More and more CPAs are providing services beyond identifying the actions to be taken on planning decisions and assisting their clients in taking those actions.
- Monitoring the client's progress in achieving goals.
- Updating recommendations and helping the client revise planning decisions.

A CPA's responsibilities in implementing, monitoring and updating are addressed in SOR No. 3 and SOR No. 4, the subject of future articles in this series. Whatever role the CPA undertakes, it is important that there is a clear understanding with the client regarding the extent and the limitations of those services.

## Conclusion

The SORs are designed with specific goals: first, to establish what constitutes good practices in a PFP engagement; second, to offer a framework for the delivery of solid, valuable financial advice; and third, to distinguish CPAs from other financial services providers. It is important for all CPAs providing PFP services to be aware of and in compliance with SOR No.1, and all other SORs. Failure to do so might result in questions about the quality or value of the services provided. Compliance, on the other hand, provides an opportunity for value-added service and increased client satisfaction.

The following are some activities that fall within the definition of personal financial planning in SOR No 1. When providing these services, even on an occasional basis, CPAs are subject to the guidance of the SORs.

- Preparing retirement projections
- Answering questions about the relative benefits of various retirement accounts
- Advising where to invest an income tax refund
- Reviewing existing insurance coverage
- Developing a comprehensive estate plan
- Advising a client about long term care insurance
- Reviewing the titling of a client's assets for estate planning purposes
- Creating a strategy to fund college costs
- Offering an opinion about a mutual fund
- Evaluating the current mix of investments in a portfolio

Alternatively, the following are activities that do not fall within the scope of PFP services. Although the SORs do not apply, CPAs are still subject to other guidance applicable to these services.

- Projecting a client's income tax liability
- Preparing personal financial statements to assist a client in obtaining a loan
- Valuing a client's business
- Preparing an estate tax return

For more information—

The full text of existing SORs are included in the PFP Library Series CD-ROM ( No.017243HS), provided without charge to members of the AICPA Personal Financial Planning Section. The AICPA Professional Standards includes a thorough discussion of all professional standards applying to members providing PFP services. To order the AICPA Professional Standards, please contact the Member Service Center at 1-888-777-7077 or [www.cpa2biz.com](http://www.cpa2biz.com). This subscription service is free of charge to PFP Section Members and PFS Credential Holders.