

## **Working with Other Advisers in a PFP Engagement**

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CPAs who provide personal financial planning (PFP) services advise their clients on a wide range of financial issues. Clients have questions about: choosing investments; structuring savings plans for retirement, their children's education, and other goals; balancing the competing demands for their financial resources; protecting their property; preserving their estates; and many other concerns. To develop the recommendations and strategies to achieve their clients' goals in these diverse areas, CPAs often work with other advisers in the course of a PFP engagement.

This article, the second in a series devoted to the AICPA's Statements on Responsibilities in Personal Financial Planning Practice (SORs), explains the provisions of SOR No.2, *Working With Other Advisers*, and the compliance issues and practice opportunities that statement brings to CPAs providing PFP services.

SORs provide broad guidance on what constitutes good practice in PFP engagements. The professional responsibilities imposed by AICPA standards generally and by the SORs specifically are set out in SOR No. 1, the subject of a previous article in this series. SOR No. 2 supplements that guidance and applies to those specific situations in which CPAs work with other advisers in such engagements. Examples of when the guidance from this statement applies are included in the sidebar to this article.

### **The Importance of Other Advisers**

CPAs providing PFP services have a broad understanding of their clients' financial situation. The need for other advisers to deliver comprehensive financial services is due to number of factors, most notably—

- *Competency.* Of primary importance is a CPA's competency to provide the services being delivered. The AICPA ethics code indicates that AICPA members may provide only services the member or the member's firm reasonably expect can be completed with professional competence. Although CPAs are intimately familiar with their clients' financial situation and uniquely qualified to discuss many financial issues, they may be developing their expertise in certain fields, such as asset protection or retirement planning. Until they develop such competency, CPAs can provide their clients with comprehensive PFP services by working with other advisers.
- *Licensing and regulation.* Many jurisdictions require advisers to meet certain qualifications and to be licensed or registered before they can give advice regarding the selection or acquisition of financial products (such as insurance or investments). In addition, personal financial planning, especially in the area of estate planning, often tracks closely with the practice of law, which is licensed individually by each state. By agreement between the AICPA and the American Bar Association, CPAs are prohibited from assisting clients in tax matters if doing so constitutes the unauthorized practice of law. For example, CPAs are precluded from drafting wills in conjunction with estate planning recommendations.
- *Scope of practice.* Competency issues aside, many CPAs choose not to provide certain services and instead have developed a network of advisers to help them deliver comprehensive PFP services.
- *Efficiency.* Using experts in certain financial fields enables CPAs to provide efficient, high-quality PFP services.

### **Responsibilities Specific to Working With Other Advisers**

Depending on the needs of the clients, the available resources, and the CPA's technical background, the use of other advisers can occur in a number of ways: using the information or opinions of other advisers

to develop recommendations; referring clients to other advisers for particular products or services; coordinating the efforts of a team of advisers; or some combination thereof. SOR No. 2 offers guidance to meet the needs of CPAs in these situations.

***Limiting the Scope of the Engagement.*** According to the statement, CPAs who do not provide a service vital to a PFP engagement should clearly limit the scope of the engagement and recommend that the client seek another adviser for that service. For example, a CPA might not work in the area of insurance, and it would be necessary to identify an insurance professional for those services. Clients may also need the services of money managers, attorneys, appraisers, and others, depending on the extent of their financial affairs. Once CPAs have informed clients that there are limitations on the work to be undertaken and recommends that other advisers be employed for those services, clients might either engage the other advisers or agree to proceed with an engagement without employing such advisers. In either event, CPAs should communicate to clients any engagement scope limitations, including the fact that the information or advice obtained from another adviser or the decision not to seek out the other adviser could affect the recommendations or strategies developed.

In an illustration provided in the statement, a CPA has determined that a client's business should be valued; however, the CPA does not provide business valuation services and the client does not want to pay for a formal valuation. The CPA and the client may agree that the CPA will complete the engagement and develop recommendations using the client's estimate of the business's value rather than an independent appraisal. The following communication would be appropriate in this scenario: "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."

According to the statement, such client communications should ordinarily be in writing. Written communication provides clear documentation of the CPA's undertakings and the scope of the engagement. It also helps to manage client expectations about the outcome of the CPA's services, to facilitate the client's understanding of the nature and scope of the CPA's services, and to minimize the

possibility of misunderstandings.

**Referring Clients To Other Advisers.** When referring clients to other advisers, SOR No. 2 indicates that CPAs should be confident in the other advisers' ability to provide the needed products or services. The statement provides the following examples of information to consider when investigating other advisers' suitability for clients—

- *Previous experience.* If the CPA worked with the adviser on another matter, that experience can be a valuable indicator of suitability.
- *Credentials.* Professional certifications, licenses and other designations reflect the recognition of the adviser's competence in his or her field.
- *Reputation.* The reputation and standing of an adviser in the views of his or her peers and others who have worked with him or her can be checked, particularly if the CPA has not worked directly with the adviser before.
- *Relationships.* The existing relationship of the client and the adviser, if any, can affect the suitability of the adviser in the current engagement.

Other considerations beyond those highlighted in SOR No. 2 may be appropriate. For example, the CPA may wish to consider the objectivity of commissioned agents, the results an adviser has produced for a client in the past, or any other matters that the CPA deems relevant in his or her professional judgment.

The statement also indicates that CPAs should document the details of the referral in a communication to the client, preferably in writing, describing the nature of the work to be performed by other advisers and the extent to which they will evaluate that work.

The following illustration is included for a scenario in which a CPA recommends that a client engage an attorney to fulfill estate planning strategies: "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 any advice they may render."

***Using Advice Provided By Other Advisers.*** In some cases, as an alternative to referring clients to other advisers, CPAs may choose to contact other advisers directly and use their opinions to complete the engagement. In such instances, that information or advice is incorporated into the PFP strategies and recommendations. According to SOR No. 2, CPAs should understand and evaluate other advisers' opinions and the procedures used to develop them. The statement also indicates that when CPAs use and concur with the advice of others, they need not communicate this to the clients, since they have in effect assumed responsibility for the other advisers' work. This provision of SOR No. 2 would apply when CPAs, in developing PFP strategies and recommendations, engage in activities such as conferring with an estate planning attorney regarding available trust vehicles or contacting an insurance professional to review and evaluate alternative life insurance options.

In addition, CPAs occasionally may find it necessary to use another adviser's opinion in an engagement without evaluating it. For example, at the request of the client a CPA may use the advice of an insurance adviser with whom the client has a longstanding relationship. In such cases, CPAs should document in a client communication, again preferably in writing, that they did not evaluate the other advisers' opinion or work. The statement includes the following language illustrating a communication to a client where an appraisal has been used by a CPA in a PFP engagement without an evaluation of the appraiser's work product: "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."

### **Maintaining Professional Integrity and Objectivity**

In working with other advisers, CPAs must take care not to subordinate their professional judgment to that of anyone else—the other advisers or their clients. Doing so would be a violation of the AICPA *Code of*

*Professional Conduct* rules regarding integrity and objectivity, which apply to all professional services, including PFP engagements.<sup>1</sup>

CPAs who follow the guidance in SOR No. 2 would ordinarily be in compliance with the integrity and objectivity rules, even when their advice includes the advice, opinions and work product of other advisers. However, SOR No. 2 does not specifically address the responsibilities of CPAs when they do not agree with another adviser's advice or with a client's choice of another adviser. CPAs must then rely on their professional judgment. Faced with that situation, a CPA might inform the client that he or she does not agree with the choice of adviser or the other adviser's advice. From that point the CPA and client could agree to look for another adviser or perhaps restrict the scope of the engagement, as discussed above. Alternatively, a CPA might have to decline or withdraw from the engagement in order to avoid subordinating his or her judgment to the client or other adviser and to maintain professional integrity and objectivity.

### **Conclusion**

Effectively working with other advisers allows CPAs to create a one-stop team for delivering the financial services their clients need. Compliance with SOR No. 2 ensures that all of a client's stated needs and goals are addressed in the engagement and that the roles and responsibilities of all advisers are clear.

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<sup>1</sup> Rule 102 of the AICPA *Code of Professional Conduct* deals with integrity and objectivity and requires a member to maintain objectivity and integrity, be free of conflicts of interest, and not knowingly misrepresent facts or subordinate his or her judgment to others. This prohibition against subordinating a CPA's judgment to others is important to keep in mind at all times in working with other advisers.

SOR No. 2 applies whenever a CPA, in providing PFP services, interacts with or relies on another adviser in providing PFP services. Examples of when the statement applies include:

- Engaging a real estate appraiser to provide information that will serve as a basis for estate planning recommendations.
- Using a broker's advice as a basis for investment recommendations.
- Working with a client's insurance adviser to develop a comprehensive insurance program.
- Referring a client to an attorney for purposes of drafting updated will provisions in conjunction with estate planning recommendations.
- Working with a money manager to determine the appropriate asset allocation for a client's invested funds.

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.