

**TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
PEER REVIEW OVERSIGHT BOARD**

**Annual Report for 2015 on the Continuing Oversight of Sponsoring
Organizations by the TSBPA to Administer Peer Reviews**

The Peer Review Oversight Board (PROB) was established under the provisions of The Texas Administrative Code, Title 22, Rule 527.7 (c) and is retained by the Texas State Board of Public Accountancy (TSBPA) to monitor sponsoring organizations that have been approved by the TSBPA for the administration of peer reviews under the auspices of the AICPA peer review program for those firms that are licensed or registered in the state of Texas. During 2015, the Texas Society of CPA's (TSCPA) and the AICPA/NPRC were the only sponsoring organizations approved by the TSBPA.

AICPA/NPRC

In accordance with the provisions of the Texas Administrative Code, Rule 527.7 (d) (1), the PROB has reviewed the most recent published reports related to the AICPA/NPRC and have concluded that the conclusions in those reports allow us to recommend the continuance of the AICPA/NPRC as a sponsoring organization within the requirements stipulated in the Texas Administrative Code, Rule 527.9.

TEXAS SOCIETY OF CPA'S

In accordance with the requirements of the Texas Administrative Code, Rule 527.7 (d) A), members of the PROB attended all meetings of the TSCPA's Peer Review Committee and their Review Acceptance Bodies (RAB's) either by telephone conference call or in person. Detailed reviews of all peer review documents for a sample of peer reviews processed by the TSCPA was made by members of PROB using the criteria listed below in selecting the sample:

1. Reviews in which the current report shows a dramatic improvement from a failed or pass with deficiencies in the prior peer review.
2. Pass with Deficiencies reports.
3. Team and Review Captains whose performance has been problematic in the performance of conducting and reporting the results of peer reviews in accordance with professional standards
4. Reviews conducted by Association formed review teams.
5. Team Captains who perform a large number of reviews.
6. Randomly selected reviews.
7. Failed reports.

In 2015, the TSCPA Peer Review Committee Review Acceptance Bodies considered and acted on 540 Engagement reviews, 336 Systems reviews, and 46 Corrective Actions for a total of 922 total peer reviews. PROB reviewed in detail 52 Engagement Reviews (9.63%), 57 Systems Reviews (16.96%), and 12 Corrective Actions (26%), a total of 121 detailed reviews for a total of 13% of all reviews. In all of the meetings of the TSCPA Peer Review Committee and their acceptance bodies, members of the PROB not only commented on those reviews included in their detailed sample but also participated in the deliberations on all of the reviews presented.

Standardized programs to perform these oversights have been designed to ensure that sufficiently appropriate procedures are being performed by the PROB to allow them to assess whether the

TEXAS SOCIETY OF CPA'S (Contd.)

TSCPA peer review program is being administered in accordance with the minimum peer review standards. These standardized programs contain updates that conform to the requirements of Statements on Quality Control Standards #8 and are critically reviewed by members of the PROB on a continuing basis to assure that they continue to provide effective guidance. We have previously reported that the PROB has been asked to share our programs with other states to assist them in their performance of oversights within their jurisdictions.

Team and review captains have always been and continue to be a key factor in the performance of peer reviews that conform to the peer review standards. Team and review captains that are identified in the RAB deliberations as problematical are referred to the TSCPA's Team and Review Captain Evaluation Task Force for their recommendations on improving their level of performance. Members of PROB have attended the meetings of the Task Force and have concluded that their imposition of continued monitoring and oversight of these individuals has generally proved effective in elevating their level of performance. We have noted that a few of the review and team captains have been repeatedly identified as underperforming and have been subjected to monitoring and oversight, but are continuing to demonstrate that these additional efforts have not resulted in significant improvements in discharging their responsibilities as review and team captains. As a result, an inordinate amount of additional time by the TSCPA technical review staff and members of the RAB's has been required in reviewing their work. PROB is of the opinion that the number of review and team captains who continue to underperform is not indicative of a pervasive problem. TSCPA sponsoring organization personnel are aware of our observations.

Based upon the results of procedures performed by PROB, it is our opinion that the TSCPA is administering its peer review program in accordance with the standards promulgated by the AICPA Peer Review Board and the rules of the Texas Board of Public Accountancy and should be continued as a sponsoring organization.

PEER REVIEW STANDARDS

In our last report to the Peer Review Committee of the Texas State Board of Public Accountancy, we made reference to proposed changes to the AICPA Standards for Performing and Reporting on Peer Reviews and our intention to keep the members of the Peer Review Committee of the TSBPA apprised of our assessment of its impact on the sponsoring organizations and on any changes that should be made in PROB's programs. Our initial assessment of the proposed statement indicated that there would be a significant impact on the performance and administration of peer reviews for all approved sponsoring organizations including the Texas Society of CPA's. Those changes were not as dramatic as initially envisioned and did not result in any changes in our materials or methodology in monitoring the TSCPA as an approved Sponsoring Organization.

A new Exposure Draft of Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews (Draft) dated November 10, 2015 contains these changes.

- Supplement the existing guidance for peer reviewer, reviewed firm, technical reviewer and Report Acceptance Body (RAB) responsibilities for non-conforming engagements.
- Enhance the peer review of the firm's system of quality control to better assist the team captain and firm in identifying systemic causes and appropriate remediation of non-conforming engagements and systemic weaknesses.
- Clarify the timing of when results of the peer review should be communicated to the firm to allow time for the firm to identify appropriate remediation.

PEER REVIEW STANDARDS (Contd.)

- Clarify the guidance for drafting descriptions of findings, deficiencies and significant deficiencies.
- Clarify the peer review report model and provide greater transparency on the results of the review.
- Clarify the required firm representations for System and Engagement Reviews.
- Clarify information the AICPA and administering entities may provide about a review to third parties.

The Draft is replete with changes to the wording of reports, representation letters and other documents associated with performing peer reviews and contains an apparent shift in philosophy by bringing more focus on the reviewed firm's responsibility to design their own quality control document as a more customized guide appropriate to their practice as opposed to utilizing the broader canned models for various firm sizes.

This brief discussion of the impact of the Draft is intended to make you aware of the proposed changes and to alert you to the possible increased workload that will be imposed upon the TSCPA in their role as a Sponsoring Organization. We will monitor the progress of the Draft and will have ongoing discussions with the TSCPA technical staff to determine what, if any, additional expansion of the oversight of their activities will be required.

Peer Review Oversight Board

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