

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

**Annual Report for 2016 on the Continuing Oversight of Sponsoring
Organizations Approved 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 2016, 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 has 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 the year ended August 31, 2016, the TSCPA Peer Review Committee Review Acceptance Bodies considered and acted on 498 Engagement reviews, 317 Systems reviews, and 38 Corrective Actions for a total of 853 total peer reviews. PROB reviewed in detail 58 Engagement Reviews (11.65%), 83 Systems Reviews (16.78%), and 7 Corrective Actions (18.42%), a total of 111 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.

TEXAS SOCIETY OF CPA'S (Contd.)

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 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.

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.

TEAM AND REVIEW CAPTAIN

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 (the 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. PROB will continue to monitor the remediation efforts of the TSCPA Peer Review Committee for those review and team captains that continue to underperform.

PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS – NOVEMBER 10, 2015

In our last annual report we made reference to an AICPA discussion paper dated November 10, 2015 which contained proposed changes to AICPA Standards for Performing and Reporting on Peer Reviews. The changes contained within that discussion paper have now been adopted and are effective as of January 1, 2017. Although the changes affect all phases of peer review – planning, execution and reporting, the members of PROB feel that our methodology and resources presently used in performing our oversight of approved sponsoring organizations in the state of Texas is still appropriate for the fulfillment of the PROB's responsibility to monitor their conformity to the revised standards.

OTHER DISCUSSION PAPERS

In response to the feedback received from a solicitation to comment on the evolution of the peer review administration of the AICPA Peer Review Program contained in a discussion paper dated February 2016, the AICPA issued a discussion paper entitled "Proposed Evolution of Peer Review Administration" (revised January 2017) to address the concerns expressed by the respondents to the February 2016 discussion paper as to the efficiency and consistency in the administration of peer reviews. The revised January 2017 discussion paper proposes a Benchmark model that requires administering entities (AE) to meet specific benchmarks that will be monitored by the

OTHER DISCUSSION PAPERS (Contd.)

AICPA and will increase transparency of the AE performance. The benchmark criteria fall into three categories – administrator, technical reviewer and RAB committee and include qualitative, objective and measurable criteria. AEs will be evaluated based upon whether they consistently meet these benchmarks and their performance will be made transparent through new reporting requirements to various stakeholders.

After a cursory review of the changes contained in the discussion paper, it would appear that the TSCPA Peer Review Program is currently functioning at a level that meets the benchmarks as defined in that document. The members of PROB will continue to monitor the results of the proposed changes to determine whether additional oversight of TSCPA's performance as an administering entity is indicated.

Peer Review Oversight Board

**Mason Andres, CPA, Chair
Mike Waters, CPA
Rebecca Teague, CPA**