

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

**Annual Report for 2017 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 2017, 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, 2017, the TSCPA Peer Review Committee Review Acceptance Bodies considered and acted on 274 Engagement reviews, 376 Systems reviews, and 16 Corrective Actions for a total of 666 total peer reviews. PROB reviewed in detail 43 Engagement Reviews (11.44%), 46 Systems Reviews (16.79%), and 7 Corrective Actions (143.75%), 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 10 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.

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**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.

**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 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. AE's 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.

### **PRIMA**

The AICPA, the only approved sponsor to administer peer reviews within the State of Texas, has just recently implemented new software to assist them in the administration of peer reviews. Because of the real and perceived effect of the new software on the processing of peer reviews in Texas, the members of PROB felt the need to make the members of the Peer Review Committee of the Texas State Board of Public Accountancy aware of the early reactions of peer reviewers to the utility of this software in a memorandum dated August 1, 2017 in which we advised you the software that is used by the AICPA to process peer reviews had recently undergone a major revision which is a key step in Phase 2 of altering the objective of practice monitoring discussed in the Future of Practice Monitoring Concept paper dated December 31, 2014. The new software (Prima) became totally functional in May 2016 and replaced the prior software (Prism) for all peer reviews performed after May 2016.

The members of PROB are deeply concerned that the profession's past efforts to demonstrate our ability to monitor our profession without the assistance of outside regulation will be adversely affected by the impact that this software has had on the administration of peer reviews. PROB members feel that this new system which should have been exhaustively tested before its implementation has removed the focus of peer reviewers from determining whether reviews are conducted in accordance with Quality Control standards and has shifted that focus to attending to the nuances associated with the software.

Although the new software only became operational in May of 2016, early reports from peer reviewers suggests that the navigation of the new software is most difficult and that attempts to smooth the transition have resulted in the AICPA publishing more than 70 usability enhancements to improve the PRIMA experience. This action by the AICPA is highly suggestive of the difficulties that have been encountered by peer reviewers.

PROB's expectation for the new software was that it would provide a means of achieving efficiencies in the administration of peer reviews and provide more time for reviewers and administering entities to focus on whether the peer review materials were appropriate to the changing business environment and the proliferation of professional standards associated with the dynamics of an evolving international business climate. That expectation was not met and quite to the contrary has added to the costs associated with performing and administering peer reviews.

The investment of time of peer reviewers and administering entities in attempting to conform to the requirements of PRIMA is not quantifiable but is likely well beyond what should be expected of a software that was designed to assist in achieving efficiencies in performing and administering reviews.

The members of PROB fear that the enormity of the impact on the role of peer review has very likely resulted in a decrease in the utility and purpose of peer review which is the timely assessment of the design and effectiveness of a member firm's System of Quality Control.

We have noted several instances in which peer reviews have taken over a year to process not only because of the inadequacies of PRIMA but by the blurring of the lines between the peer reviewer's judgement of materiality of matters noted while performing the peer review and those professionals who perform technical reviews for the administering entities.

**The peer review committee of the TSCPA and its volunteers are working diligently to continue processing peer reviews in a timely manner but are also hampered by the flaws in PRIMA. There should be some effort not only by the TSCPA but other states as well to demand more intense oversight of the AICPA's peer review program to assure that the original mission of performing peer reviews as a monitoring tool of the profession's conformity with professional standards continues to be effective.**



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

**March 8, 2018**

**MA/gm**