

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY PEER REVIEW OVERSIGHT BOARD

Annual Report for 2020 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 to administer peer reviews under the auspices of the AICPA Peer Review Program for firms that are licensed or registered in the State of Texas. During 2020, the Texas Society of CPAs (TXCPA) and the AICPA/National Peer Review Committee (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 CPAs

In accordance with the provisions of the Texas Administrative Code, Rule 527.7(d)(1)A, members of the PROB attended all meetings of the TXCPA's Peer Review Committee and its Report Acceptance Bodies (RABs) by telephone or Zoom conference call (there were no in person meetings during 2020 because of COVID-19 restrictions). Using the criteria listed below for sample selection, PROB members performed detailed reviews of all peer review documents for a sample of peer reviews processed by the TXCPA:

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

In addition to detailed reviews of all peer review documents for the sample of peer reviews described above, PROB members also reviewed summary documents and listened to the TXCPA RABs' deliberations over substantially all other peer reviews processed by the TXCPA.

During 2020, the TXCPA's RABs considered and acted upon 264 System Reviews and 264 Engagement Reviews, for a total of 528 peer reviews. PROB members reviewed in detail 48 System Reviews (18%) and 33 Engagement Reviews (12%), for a total of 81 reviews (15% of all reviews). In addition, TXCPA's RABs considered and acted upon acceptance of or amendments to 49 corrective actions and PROB members reviewed in detail 17 of those actions (35%). PROB members commented on those reviews included in their detailed sample and participated in or observed the deliberation of all of the reviews presented. PROB members had no vote, however, in RAB decisions. Assignment of PROB members to RABs was made in such a way as to avoid independence or familiarity conflicts with the peer reviews being discussed.

PROB members performed their oversight procedures with the assistance of standardized checklists that have been designed to ensure appropriate procedures in assessing whether the TXCPA peer review program is being administered in accordance with the minimum AICPA peer review standards.

In addition to TXCPA meetings, PROB members attended or observed from time to time various meetings of the TSBPA and/or its committees as well as certain discussions by the AICPA Peer Review Board.

Based upon the results of the procedures performed by PROB, in our opinion the TXCPA is administering its peer review program in accordance with the standards promulgated by the AICPA Peer Review Board and the rules of the TSBPA, and we recommend that the TSBPA should continue to rely on TXCPA as a sponsoring organization.

Additional Comments

In past annual reports, PROB has expressed concerns that the "PRIMA" software developed by the AICPA to administer the scheduling and processing of peer reviews had not been sufficiently tested before being required as the mandatory software for peer reviewers and administering entities (such as the TXCPA) to perform and administer peer reviews. Although we have noted some improvements in the functionality of the system, it remains difficult and time-consuming for reviewed firms and peer reviewers alike to navigate through the process. As we have previously reported, the mechanics of dealing with PRIMA diverts reviewers' and reviewed firms' focus and available time away from the underlying purpose of peer reviews.

There continues to be a desperate need for the leadership of the accounting profession to coordinate an effort to streamline the national peer review program into one that protects the public interest by providing practitioners with useable educational and remedial resources without micromanaging the peer review process into one in which a diminishing number of qualified professionals wish to take part as peer reviewers. Nationally, and in Texas as well, there is a shortage of reliable peer reviewers. PROB believes that some of the shortage has been brought on, at least in part, by the frustration of wasting valuable time in dealing with PRIMA's poorly executed but mandatory infrastructure as well as, in some circumstances, unrealistic guidance and an overly regulatory mindset from AICPA.

A Brief History of Peer Review in Texas

Peer review evolved from the accounting profession's deep interest in providing the highest possible quality of professional services. It was accelerated by media spotlight on audit failures in the 1970s and by investigations of the profession that were spearheaded by the late Senator Lee Metcalf and the late Congressman John D. Dingell. The AICPA created the voluntary Division for CPA Firms in 1977 and member firms began to have PCPS and SECPS peer reviews as part of their membership requirements if they joined the Private Companies Practice Section or the SEC Practice Section.

Texas has always been a leader in promoting quality control. Before the advent of the AICPA's mandatory national quality review program, Texas practitioners had the opportunity in the 1980s to receive confidential, risk-free comments on their work by voluntarily submitting representative financial statements to a report review service established by the Texas Society of CPAs' Public Practice Association.

The AICPA's national quality review program was introduced with a small pilot program in 1989 and phased in over approximately the next three years. Texas was one of the first states to become a full administering entity under the new AICPA program. The forerunner of TXCPA's current Peer Review Committee, known at that time as the TSCPA Quality Review Committee, held its first official meeting on May 18, 1989 in Clear Lake City. The Committee has been in continuous service for the past 32 years. Its name was changed to include "peer review" when the same change was made to the national program.

TSBPA PEER REVIEW OVERSIGHT BOARD

A handwritten signature in blue ink that reads "Robert D. Goldstein, CPA". The signature is written in a cursive style.

Robert D. Goldstein, CPA, Chair
Mason Andres, CPA*
J. Michael Waters, CPA
Thomas A. Akin, CPA**

* *Member of and chair of the TSBPA Peer Review Oversight Board through February 28, 2021*

** *Member of the TSBPA Peer Review Oversight Board for the period beginning March 1, 2021*

Houston, Texas
March 4, 2021