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 2022, 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 (issued February 10, 2022) published oversight report related to the NPRC. In general, NPRC peer reviews cover firms who audit public clients. Peer reviews of those firms are not administered by the TXCPA. **PROB has determined that the conclusions in the oversight report allows 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 (TXCPA)**

**TXCPA’s Peer Review Committee and its Report Acceptance Bodies (RABs)**

In accordance with the provisions of the Texas Administrative Code, Rule 527.7(d)(1)A, members of the PROB attended all 2022 meetings of the TXCPA’s Peer Review Committee and its Report Acceptance Bodies (RABs). Although most meetings were conducted remotely over Zoom, PROB members also attended both of TXCPA’s two in-person Peer Review Committee and RAB meetings in Dallas on May 9, 2022 and December 5, 2022. Using the criteria listed below to generate peer review sample selections from throughout the year, PROB members performed detailed reviews of all RAB documents for a risk-based sample of peer reviews processed by the TXCPA throughout 2022. The criteria included:

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

A special emphasis was placed on problematic peer reviewers (category 1 above). PROB’s risk-based selection for that category included 21 peer reviews conducted by reviewers who are on TXCPA’s watch list. 60 other reviews were randomly selected throughout the year, covering each of the above categories 2 through 7.

For the sample of peer reviews described above, PROB members reviewed in detail all of the documents presented to the RAB, consisting of peer review reports and the peer review documentation that had been prepared by the reviewers plus summary documents and conclusions prepared by TXCPA’s technical reviewers. The PROB members listened to the TXCPA RABs’ deliberations regarding these reviews and considered whether the conclusions were consistent with AICPA Peer Review Standards. In addition to the peer reviews that were specifically included in the sample selection for detailed oversight, PROB members also judgmentally perused summary documentation, and listened to RAB discussions covering substantially all the other peer reviews processed by the TXCPA during 2022.

During 2022, the TXCPA’s RABs considered and acted upon 248 System Reviews and 251 Engagement Reviews, for a total of 499 peer reviews. PROB members oversighted in detail 46 System Reviews (19%) and 31 engagement Reviews (12%), for a total of 77 reviews (aggregating 15% of all peer reviews). In addition, TXCPA’s RABs considered and acted upon 107 other actions pertaining to delayed acceptances, amendments to corrective actions that had been previously assigned to reviewed firms, and non-cooperation discussions regarding whether to refer certain firms to AICPA hearings. PROB members oversighted in detail 4 such RAB actions (5%) and observed substantially all of the discussions of the others. In aggregate, PROB members oversighted in detail 13% of all TXCPA RAB decisions. During RAB meetings, PROB members commented on peer reviews that were selected for detailed oversight or those as to which they may have developed a question; however, PROB members had no vote in any 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.

The results of Texas peer reviews accepted by TXCPA during 2022 were:

Pass: 80%
Pass with Deficiencies: 14%
Fail: 6%
To perform their oversight procedures, PROB members utilized customized checklists that have been designed to ensure appropriate considerations in assessing whether the TXCPA peer review program is being administered in accordance with the AICPA Peer Review Standards.

We did not disagree with any RAB conclusions that we observed, and we believe that the ultimate peer review ratings accepted by TXCPA were appropriate. We noted that the TXCPA’s technical staff and the RAB members were knowledgeable about both their responsibilities and the technical aspects of the peer reviews that were presented, and that they devoted a suitable amount of time to fully discuss each peer review.

**Other TXCPA Oversight Considerations**

In addition to the TXCPA RAB and Peer Review Committee meetings, PROB members also attend TXCPA Reviewer Evaluation Committee meetings. These meetings focus on problematic peer reviewers, including identification of individuals placed on TXCPA’s watch list. During 2022, PROB members attended such meetings in February, June and November. We noted that the full TXCPA Peer Review Committee further discusses those reviewers who are on the watch list twice each year.

PROB members monitor TXCPA reports that track the status of CPA firms that are overdue on their peer reviews (this is further monitored by AICPA). PROB noted that TXCPA has appropriately advised AICPA to drop certain firms from the Peer Review Program for noncooperation with the Program.

PROB members monitor the technical content of AICPA and TXCPA peer reviewer forums.

During 2022, PROB also reviewed and relied upon various outside oversight reports including:

- Oversight report from the AICPA Peer Review Program’s Oversight Task Force on TXCPA’s administration of the AICPA Peer review Program as well as AICPA’s written approval of TXCPA’s plan of administration.

- Administering Entity Benchmark Summaries issued by AICPA’s Peer Review Board and the underlying 13-14 page benchmark reports submitted by TXCPA to AICPA every four months.

- RAB observation reports issued by AICPA’s Peer Review Board (AICPA periodically oversights specific RAB sessions).
• Independent evaluations of TXCPA’s safeguards over improper bias due to familiarity threats. Such safeguards include procedures to avoid improper acceptance bias arising from situations such as familiarity with high volume reviewers or reviews performed by Peer Review Committee and RAB members, or overreliance on technical reviewers. To obtain these evaluations, TXCPA participates in familiarity cross reviews with other AICPA-approved administering entities. In 2022, three such reviews were performed by the Florida Institute of CPAs and the Peer Review Alliance (the administering entity for Illinois, Indiana, Iowa, Kentucky, South Carolina, West Virginia and Wisconsin). Each of the three 2022 reports concluded that TXCPA is appropriately complying with its Familiarity Threat policies and Procedures.

• Administrative Oversight Visit report by TXCPA on procedures conducted regarding the TXCPA Peer Review Department / Committee in accordance with the AICPA Peer Review Program Oversight Handbook.

Conclusions Regarding TXCPA
Based upon the results of the oversight procedures performed by PROB members, 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. We recommend that the TSBPA should continue to rely on TXCPA as a sponsoring organization.

Additional Comments
As was also true in 2021, fewer peer reviews were again processed by TXCPA in 2022 compared to the years prior to COVID. Some of this appears to have arisen from ongoing delays in receiving completed reviews, some of which have been related to firms that continue to run behind in completing reviewable engagements. Some firms report ongoing slowdowns in being able to access their clients’ underlying records because some of their clients are still not back up to speed. There has been a decline in the number of CPA firms issuing reviewable engagements (nationally as well as in Texas). As a result of mergers and acquisitions, retirements, and the level of professional standards overload some CPA firms have ceased performing reviewable accounting and auditing engagements. A previously predicted increase in the number of peer reviews during 2022 did not materialize and it is unknown whether the pace will accelerate to former levels in 2023.
There continues to be a national shortage of reliable peer reviewers. As of December 2022, there were only approximately fifty-four active peer reviewers remaining in Texas, of which some were not active or performed only a few peer reviews.

In past annual reports, PROB has expressed concerns about the “PRIMA” software developed by the AICPA to administer the scheduling and processing of peer reviews. We recognize that AICPA has gradually made some functional improvements to PRIMA which have slightly reduced the difficulty reviewed firms and peer reviewers have experienced in navigating through the process.

TSBPA PEER REVIEW OVERSIGHT BOARD

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Houston, Texas
January 11, 2023