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Brad Coffey, CPA
Technical Manager-Peer Review
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110
PR_expdraft@aicpa.org

Re: Proposed Peer Review Standards Update No. 3, *Modernizing Peer Review Administration Requirements*

Dear Mr. Coffey:

On behalf of the Texas Society of Certified Public Accountants (TXCPA), we respectfully provide the following comments on the Proposed Peer Review Standards Update No. 3, *Modernizing Peer Review Administration Requirements* exposure draft issued by the Peer Review Board (PRB). TXCPA represents more than 28,000 accounting and finance professionals and, as part of its mission, advocates on issues that impact CPAs and the practice of accounting.

The TXCPA has established a Peer Review Committee (PRC) to represent those interests on peer review matters of importance to the TXCPA membership. We appreciate the opportunity to share our perspective on this important issue for the profession.

General Comments

While we agree that improved clarity is needed regarding independence implications and other risks in alternative practice structures (APS), we are concerned with the proposed change. The revision to state that, "*The firm's practice structure is deemed by the board to present an elevated risk to quality and to the profession, or the firm's practice includes certain engagements or services deemed to present such risk.*" is very broad and all-encompassing with no clarity on what the determining factors would be. We question how the PRB will communicate the rationale for elevating the risk of certain engagements, services or other emerging areas and how the PRB will develop transparent and open communication in that decision-making process.

The proposed change assumes that the risks associated with a change in the firm's structure, specifically as it relates to private equity investors and related alternative practice structures, would elevate risks to accounting and audit quality and the CPA profession to such a level that current peer reviewers, technical reviewers and report acceptance bodies (RABs) at the State administering entity level would not have the expertise to identify, document and evaluate those risks during the peer review process as it currently stands.

Current Peer Review Program Structure

The Texas Peer Review Program prides itself on administering an exceptional peer review program, in full compliance with the AICPA Peer Review Standards and consistently within the designated AICPA benchmarks. We seek to utilize well trained, highly experienced individuals as peer reviewers, technical reviewers and PRC/RAB members. We have a history of running a strong peer review program through changes in accounting and audit (A&A) standards, updates to the AICPA peer review standards, changes in peer review technology (PRIMA), State Board changes and many other demographic and cultural shifts impacting the CPA profession over the years.

Our peer review firms seek counsel and assistance from peer reviewers, since they are considered the A&A "experts" by fellow practitioners, on how to better implement and document new A&A areas and standards, as well as how to appropriately design and implement certain areas of their quality control/management systems. Part of this consultation requires that the peer reviewers are well versed in new A&A standards and any emerging areas. The proposed change would take away the ability for our peer reviewers to provide consultation in the emerging area of alternative practice structures if experienced reviewers are centralized at the NPRC level. This reasoning would also apply to any major changes that the profession faces in the foreseeable future related to emerging areas, technologies, practice structures, engagements or other services that present an elevated risk to the profession. It is in the profession's best interest that the peer reviewers nationwide, in all administering entities, are well versed and experienced in these emerging areas.

The backbone of the peer review program has always been continuous and substantial training provided to our peer reviewers so they can appropriately recognize non-conforming engagements, evaluate weaknesses in the firm's system of quality control and subsequently elevate these matters, as necessary, to findings and deficiencies in the peer review. Technical reviewers and RAB members are also expected to maintain a high level of training and CPE to continue to serve in their roles. Our technical reviewers thoroughly review all peer reviews and ensure that reviewers are appropriately documenting their peer reviews, following peer review standards and utilizing guidance provided by the AICPA via PRB meetings, peer review training courses, TR quarterly meetings and peer reviewer alerts. If there are unique scenarios or unusual situations, our technical reviewers consult standards/guidance and seek AICPA technical staff consultation to ensure appropriate disposition of matters and consistency with the program requirements. The AICPA has always encouraged those involved in the peer review process to contact AICPA technical staff should they have any questions related to the assessment of noncompliance with standards. Our RABs review and discuss each peer review, based on their many years of experience, to ensure that reviewers have documented their rationale and formed the correct conclusions and periodically oversight peer reviews to ensure that standards are being followed. There are checks and balances during each part of the peer review process and we do not believe that this current APS risk requires the process to change to the extent proposed.

<u>APS Risks</u>
We consider the risk in this area to be potentially overstated by the AICPA and recommend that APS-level risk be managed similarly to already designated high-risk must-select engagements (GAS/SA, EBP, SOC, FDICIA), with enhanced peer reviewer training, heightened documentation expectations, and an increased chance of oversight by the PRC or the AICPA. Peer review of firms with alternative practice structures itself is not a new issue to the Peer Review Program and while revision to existing guidance and checklists to address private equity investment may be needed, the AICPA currently already has guidance and an APS checklist that can be expanded upon to help guide peer reviewers, technical reviewers and RABs on APS peer reviews.

We believe that the recent change related to Quality Management Standards (QMS) should also assist in this area and mitigate some of the related risks. Firms that have an APS/private equity investment would be required to adequately document the quality risks related to such an arrangement and subsequently design and implement adequate responses to address the assessed quality risks. Peer reviewers should be able to determine if this was adequately performed and if the firm's system of quality management is set up in a manner that produces engagements that conform to professional standards in all material respects. If the related risks and responses were not adequately considered and documented in the risk assessment, it would clearly be a matter to be elevated to an FFC or deficiency, as necessary.

<u>Other Concerns</u>
We are concerned with the proposed change as it relates to NPRC peer reviewer pool and technical reviewer/RAB capacity to take on a large number of new peer reviews and process them in a timely manner. Another concern of the proposed change relates to experience at the NPRC level, mainly with the system of quality control/management of large firms, while peer reviewers and administering entities around the country have experience with a much wider range of firm sizes, from small to large.

We wish to point out that expanding the requirement that all firms closely aligned with a non-CPA-owned entity to be administered by the NPRC, regardless of size or other risk factors, is significantly different than the current standards. Current peer review standards only require firms that "performed or played a substantial role in (as defined by the PCAOB) an engagement under PCAOB standards with a period end during the peer review year" to be administered by the NPRC.

We understand the unique risks and considerations associated with understanding and assessing risks in a firm whose quality control/management system is designed to consider compliance with both PCAOB and AICPA standards, including consideration of the impact of matters noted in PCAOB inspections. That knowledge, whether at the peer reviewer level or administration level, does not appear to support an enhanced ability to either perform or administer the peer review of an APS firm. Accordingly, we do not understand the benefit of both requiring the peer review of an APS firm to be administered by the NPRC or for the firm of the team captain performing the review to be "required to be administered by the NPRC."

We are also concerned with the proposed change as it relates to various administering entities' ability to allocate the appropriate resources required in peer review. We do not know the extent of the expected growth in this area, what kind of firms this will affect, the proposed capacity of the NPRC, and which firms will be deemed risky by the PRB in the future. This could have a noted impact on the operation of peer review programs within administering entities nationwide.

<u>Recommendations</u>
Rather than the proposed changes, we would support the following approach to mitigate the potential risks related to APS firms/reviews:

- Collaboration between the Auditing Standards Board (ASB), the Professional Ethics Executive Committee (PEEC) and the Peer Review Board (PRB) to provide additional guidance on APS, independence and the related risks of private equity investors to peer review (A&A) firms
- Development of additional APS guidance and training for peer reviewers, technical reviewers and RABs similar to already designated high-risk must-select engagements (GAS/SA, EBP, SOC, FDICIA)

- Consideration of specific reviewer resume experience/training codes in PRIMA for APS or any other new/emerging areas
- Inclusion of APS peer reviews in the AICPA enhanced oversight program
- Consideration of an APS/emerging area technical manager/consultation resource for peer reviewers and administering entities

Peer reviewers, administrative entities and RAB/peer review committee members would appreciate and welcome additional technical guidance from the AICPA to help identify risks and address the issues presented by APS and other emerging areas; however, we believe that our current peer review program is set up adequately to address the risks presented by these emerging areas.

We appreciate the opportunity to provide feedback on the proposed Peer Review Standards Update No. 3 to aid in its standard-setting efforts.

Sincerely,

Julia Hayes

Julia Hayes, CPA
Chair, Peer Review Committee
Texas Society of Certified Public Accountants

W Kelley

Billy J. Kelley, CPA
Chair, Texas Society of Certified Public Accountants