

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY PEER REVIEW OVERSIGHT BOARD

Annual Report for 2023 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 2023, the Texas Society of CPAs (TXCPA) and the AICPA/National Peer Review Committee (NPRC) were the only sponsoring organizations approved by the TSBPA.

EXECUTIVE SUMMARY – CONCLUSIONS

As described in this report, PROB recommends continuance of both the AICPA/NPRC and the TXCPA as the approved sponsoring organizations for peer reviews of Texas CPA firms.

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 oversight report related to the NPRC (issued May 11, 2023). 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, based upon the conclusions in the NPRC oversight report, we 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)(2)A, members of the PROB attended all 2023 meetings of the TXCPA's Peer Review Committee and its Report Acceptance Bodies (RABs). Most RAB meetings were conducted remotely over Zoom. In addition, TXCPA held two face-to-face RAB meetings in Dallas, in conjunction with full TXCPA Peer Review Committee meetings. PROB members attended both of these in-person meetings on May 8, 2023 and December 12,

2023. Using the criteria listed below to generate a risk-based sample of peer reviews processed by the TXCPA throughout 2023, PROB members performed in-depth reviews of all RAB documents for those peer reviews that were selected in the sample. 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 showed a dramatic improvement from a Fail report or Pass with Deficiencies report in the prior peer review.
5. Reviews in which the current report revealed a dramatic deterioration to a Fail report or Pass with Deficiencies report for firms that had previously received a Pass report.
6. Reviews conducted by Association Formed review teams.
7. Reviews conducted by Team captains who perform a large number of peer reviews.
8. 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. 43 other reviews and a corrective action were selected throughout the year, covering each of the above categories 2 through 8.

For the sample of peer reviews described above, PROB members reviewed in detail all of the same documents that were 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 perused summary-level documentation and listened to RAB discussions covering substantially all the other peer reviews processed by the TXCPA during 2023.

During 2023, the TXCPA's RABs considered and acted upon 174 System Reviews and 194 Engagement Reviews, for a total of 368 peer reviews. PROB members oversighted in detail 26 System Reviews (15%) and 37 engagement Reviews (19%), for a total of 63 reviews (aggregating 17% of all peer reviews). In addition, TXCPA's RABs considered and acted upon 109 other actions pertaining to delayed acceptances, amendments to corrective actions that had been previously assigned to reviewed firms, and discussions regarding whether to refer certain potentially noncooperative firms to AICPA for formal hearings. PROB members oversighted in detail 1 such RAB action and also observed

substantially all of the discussions of the others. In aggregate, PROB members oversighted in detail more than 13% of all 2023 TXCPA RAB decisions. During RAB meetings, PROB members were permitted to comment on peer reviews that had been selected for in-depth 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 2023 were:

Pass: 82%

Pass with Deficiencies: 10%

Fail: 8%

To perform their oversight procedures, PROB members utilized internally developed checklists that were designed by PROB to facilitate 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 final 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 attending the TXCPA RAB and Peer Review Committee meetings, PROB members also attend TXCPA Reviewer Evaluation Committee meetings. These meetings are held three times each year to focus on problematic peer reviewers, especially identification of individuals placed on TXCPA's watch list. We noted that tardy peer reviewers were identified and that no new peer reviews were being scheduled for those individuals until they became current. During 2023, the Reviewer Evaluation Committee met in March, August and November and PROB members attended all of those meetings. We also 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 who are overdue on their peer reviews (this is further monitored by AICPA). PROB noted that TXCPA has, when warranted, appropriately advised AICPA to drop certain firms from the Peer Review Program for noncooperation with the Program.

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

During 2023, PROB also reviewed and relied upon various outside oversight reports including:

- AICPA Peer Review Program Report on Oversight, a 40-page detailed summary issued April 17, 2023 by the AICPA Peer Review Program's Oversight Task Force pertaining to TXCPA's administration of the AICPA Peer Review Program.
- TXCPA's Plan of Administration to Administer Peer Reviews in 2024 and AICPA's most recent (May 4, 2023) written approval of TXCPA's 2023 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, along with related AICPA approvals.
- TXCPA Annual Report on Peer Review Activities issued March 22, 2023 and related AICPA approval.
- RAB observation reports issued by AICPA's Peer Review Board (AICPA periodically oversees specific RAB sessions). The most recent reports covered AICPA observations on January 9, 2023 and September 18, 2023.
- Reports on 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 2023, three such reviews were conducted. They were performed by the Peer Review Alliance (the administering entity for Illinois, Indiana, Iowa, Kentucky, South Carolina, West Virginia and Wisconsin) in April and October 2023 and by the Pennsylvania Institute of Certified Public Accountants in August 2023. Each of the three 2023 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 and the additional oversight procedures performed by AICPA and other parties, 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 approve and rely upon TXCPA as a peer review sponsoring organization.**

Additional Comments

As was also true in 2022, fewer peer reviews were again processed by TXCPA in 2023 compared to the years prior to COVID. Some of this appears to have arisen from ongoing delays in receiving completed reviews, some of which were related to firms that continued to run behind in completing reviewable engagements. Some firms reported ongoing slowdowns in being able to access their clients' underlying records because certain clients apparently were 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 2023 did not materialize and it remains unknown whether the future pace will accelerate to former levels. At its December 12, 2023 meeting, the TXCPA Peer Review Committee noted that there were still 84 Texas firms with 2023 peer review due dates for which the peer review workpapers had not yet been submitted for technical review and that 246 Texas peer reviews due in 2024 and 2025 were in various stages of scheduling.

There continues to be an ongoing national shortage of reliable peer reviewers. As of December 2023, the pool of Texas peer reviewers has continued to shrink. It was reported at TXCPA's December 2023 Peer Review Committee meeting in Dallas that there are only 40 to 50 active peer reviewers remaining in Texas. At one time there had been approximately 200 peer reviewers in Texas and at the end of 2022 TXCPA had reported approximately 54 listed reviewers, although it was noted at that time that some of them might not be 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. Because PRIMA is not intuitive for a reviewed firm that needs to use it at only three-year intervals, a burden of interruptions and wasted time falls upon many reviewers when the reviewed firms seek assistance.

We do not have verifiable data as to whether this situation is a factor in causing some reviewers to limit or cease their peer review activity.

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
J. Michael Waters, CPA
Thomas A. Akin, CPA

Houston, Texas
January 12, 2024