

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

## **Annual Report for 2024 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 2024, the Texas Society of CPAs (TXCPA) and the AICPA/National Peer Review Committee (NPRC) were the only sponsoring organizations approved by the TSBPA.

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| <b><u>EXECUTIVE SUMMARY – CONCLUSIONS</u></b>  |
| <b>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.</b> |

### **AICPA National Peer Review Committee (NPRC)**

In accordance with the provisions of the Texas Administrative Code, Rule 527.7(d)(1), the PROB has reviewed the most recent published Annual Report on Oversight covering the AICPA's National Peer Review Committee (issued May 9, 2024). In general, NPRC peer reviews cover firms who audit public clients under PCAOB standards. Accordingly, peer reviews of Texas firms who are subject to NPRC requirements are administered directly by NPRC and therefore are not administered by the TXCPA. **Based upon the conclusions in the current the NPRC oversight report, PROB recommends 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 2024 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 6, 2024 and December 9, 2024. Using the criteria listed below to generate a risk-based sample of peer reviews processed by the TXCPA throughout 2024, PROB members performed *in-depth* reviews of all RAB documents for those peer reviews that were selected in our 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/or reporting on the results of peer reviews in accordance with peer review standards.
2. Fail reports.
3. Pass with Deficiency(ies) reports.
4. Reviews in which the current report showed a dramatic improvement from a Fail report or Pass with Deficiency(ies) report compared to the previous peer review.
5. Reviews in which the current report revealed a dramatic deterioration to a Fail report or Pass with Deficiency(ies) 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 9 peer reviews conducted by reviewers who are on TXCPA's watch list. 50 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 aforementioned sample selection for detailed oversight, PROB members also read summary-level documentation and listened to RAB discussions covering substantially all the other peer reviews processed by the TXCPA during 2024.

During 2024, the TXCPA's RABs considered and acted upon 173 System Reviews and 323 Engagement Reviews, for a total of 496 peer reviews. PROB members oversighted in detail 36 System Reviews (21%) and 23 Engagement Reviews (7%), for a total of 59 reviews. The TSBPA has charged PROB with a duty to review "at least 10% of the peer reviews performed." For 2024, PROB achieved an overall coverage of 12%. The detailed oversights were weighted toward system reviews because they are inherently of higher risk than engagement reviews and because the reviewers who cause the most concern (including the "watch list" reviewers) perform principally system reviews.

The results of Texas peer reviews accepted by TXCPA during 2024 were:

**Pass: 80%**

**Pass with Deficiencies: 13%**

**Fail: 7%**

In addition to the peer reviews noted above, 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.

During RAB meetings, PROB members were permitted to comment on peer reviews and other actions; 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.

We did not disagree with any final RAB conclusions that we observed, and we believe that the ultimate peer review ratings accepted by TXCPA for each firm 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 all TXCPA Reviewer Evaluation Committee meetings. The TXCPA conducted two such meetings during 2024 to focus on problematic peer reviewers, and especially to identify individuals to be placed on TXCPA's watch list. We noted that, when tardy performing peer reviewers were identified, no new peer reviews were being scheduled for those individuals until they became current. During 2024, the Reviewer Evaluation Committee met in March and August, and all PROB members attended 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, when warranted by the AICPA Peer Review Program Standards, TXCPA has appropriately recommended to AICPA that it should 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 2024, PROB also reviewed and relied upon various outside oversight reports including:

- AICPA Peer Review Program Oversight Report, a 41-page detailed summary issued April 22, 2024 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 written approval of TXCPA's 2024 Plan of Administration as of January 18, 2024.
- Administering Entity Benchmark Summaries issued by AICPA's Peer Review Board and the underlying 13 to 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 26, 2024 and the 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 April 16, 2024 and October 16, 2024.

- 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 2024, three such reviews were conducted. They were performed by the Florida Institute of Certified Public Accountants in February 2024 and July 2024, and the Peer Review Alliance (the administering entity for Illinois, Indiana, Iowa, Kentucky, South Carolina, West Virginia and Wisconsin) in September 2024. Each of the three 2024 reports concluded that TXCPA is appropriately complying with its Familiarity Threat Policies and Procedures.
- Administrative Oversight Visit report dated November 14, 2024 on oversight procedures conducted internally by TXCPA in accordance with the *AICPA Peer Review Program Oversight Handbook* regarding the TXCPA Peer Review Department/Committee's administrative procedures, technical review procedures, CPA on staff, peer review acceptance procedures, and oversight program.

### **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 has been the national and local trend in recent years, the number of peer reviews processed by TXCPA in 2024 has diminished compared to the previous years. There has been a decline in the number of CPA firms issuing reviewable engagements. 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. It should be noted that a number of firms have begun to issue preparation engagements instead of compilations, which has allowed some firms to become exempt from peer review. At its December 9, 2024 meeting, the TXCPA Peer Review Committee reported that there were 102 Texas firms with 2024 peer review due dates for which the peer review workpapers had not yet been submitted for technical review, of which 99 were in progress. 210 Texas peer reviews due in 2025 were already in various stages of scheduling. TXCPA continually tracks the process of peer reviews throughout the process and it takes timely steps to encourage firms to schedule reviews on a timely basis. If a firm ignores scheduling requests, TXCPA has the ability to start proceedings to have the firm dropped from the Peer Review Program due to noncooperation.

There continues to be an ongoing national shortage of reliable peer reviewers. As of December 2024, the pool of Texas peer reviewers has continued to shrink. Although at times in the past there had been approximately 200 peer reviewers in Texas, there are currently 40 to 50 active peer reviewers in the state, including several new reviewers who were recruited in 2024. Some of the current peer reviewers perform only a few peer reviews or may no longer be active.

AICPA has discussed certain peer review points with a peer review focus group. The focus group identified the two top items that prevent individuals from becoming peer reviewers as:

1. Balancing peer review with existing workload (96%)
2. Allocating resources to peer review when faced with competing demands for potentially higher paying, less complex work (65%)

The top two complaints presented by peer reviewers in the focus group were:

1. Firm administrative and organizational challenges – reviewed firms misunderstanding requirements, confusion with steps in the peer review process, disorganization, unresponsiveness. (61%)
2. Performing the peer review – finding sufficient time to thoroughly review engagements, navigating the volume and complexity of required checklists, communicating effectively with firms about issues, etc. (48%)

AICPA has gradually made some functional improvements to the PRIMA software developed to administer the scheduling and processing of peer reviews. This has 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 still falls upon many reviewers when the reviewed firms seek assistance.

**TSBPA PEER REVIEW OVERSIGHT BOARD**

A handwritten signature in blue ink that reads "Robert D. Goldstein, CPA". The signature is fluid and cursive, with the letters "R", "D", and "G" being particularly prominent.

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

Houston, Texas  
January 16, 2025