

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY PEER REVIEW OVERSIGHT BOARD

Annual Report for 2025 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 2025, the Texas Society of CPAs (TXCPA) and the AICPA/National Peer Review Committee (NPRC) were the only sponsoring organizations approved by the TSBPA.

<u>EXECUTIVE SUMMARY – CONCLUSIONS</u>
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 National Peer Review Committee (NPRC)

In accordance with the provisions of the Texas Administrative Code, Rule 527.7(d)(1), PROB has reviewed the most recent published Annual Report on Oversight covering the AICPA's National Peer Review Committee (issued May 22, 2025). 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. The AICPA's Peer Review Board Oversight Task Force performed oversights on 14% of NPRC peer reviews. **Based upon the conclusions in the current 22-page 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 substantially all 2025 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. Two PROB members attended each of these in-person meetings on May 5, 2025 and December 9, 2025. Using the criteria listed below to generate a risk-based sample of peer reviews processed by the TXCPA throughout 2025, 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 14 peer reviews conducted by reviewers who are on TXCPA's watch list. 40 other reviews and a corrective action were also 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 2025.

During 2025, the TXCPA's RABs considered and acted upon 178 System Reviews and 145 Engagement Reviews, for a total of 323 peer reviews. PROB members oversighted in detail 33 System Reviews (19%) and 21 Engagement Reviews (14%), for a total of 54 reviews. The TSBPA has charged PROB with a duty to review "at least 10% of the peer reviews performed." For 2025, PROB achieved an overall coverage of 17%. The detailed oversights were weighted toward system reviews because audit firms are inherently of higher risk as well as higher public interest than firms subject to engagement reviews and because the reviewers who cause the most concern (including the "watch list" reviewers) typically perform principally system reviews.

The results of Texas peer reviews accepted by TXCPA during 2025 were:

Pass: 83%

Pass with Deficiencies: 11%

Fail: 6%

This represents an improvement over the 2024 results of 80%, 13% and 7%, respectively.

In addition to the peer reviews noted above, TXCPA's RABs considered and acted upon 115 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 one 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.

To enhance efficiency under “Texas DOGE,” the TSBPA approved a plan whereby, beginning in September 2025, PROB members now observe only one Zoom TXCPA RAB each month instead of both monthly RAB sessions (if applicable). When the TXCPA convenes two simultaneous in-person RABs in May and December each year, however, both of those RABs will continue to be observed. This plan retains excellent overall coverage of the RAB meetings and will not impair PROB’s ability to oversight at least 10% of peer reviews administered by TXCPA.

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 2025 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 2025, the Reviewer Evaluation Committee met in June and September, 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.

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

During 2025, PROB also reviewed and relied upon various outside oversight reports including:

- AICPA Peer Review Program Oversight Report, a 40-page detailed summary issued April 23, 2025 by the AICPA Peer Review Program’s Oversight Task Force.
- TXCPA’s Plan of Administration to Administer Peer Reviews in 2026 and AICPA’s most recent written approval of TXCPA’s 2025 Plan of Administration as of December 8, 2025.
- Administering Entity Benchmark Summaries issued by AICPA’s Peer Review Board related to the detailed underlying 13 to 14-page benchmark reports submitted by TXCPA to AICPA every four months, along with AICPA’s approvals.

- TXCPA Annual Report on Peer Review Activities issued March 3, 2025. As of that date, 1375 CPA firms were enrolled in peer reviews subject to TXCPA administration. This includes almost 250 non-AICPA firms that had previously been enrolled in a TXCPA state peer review program who have been moved over to the AICPA Peer Review Program regardless of membership. The report summarized numerous follow-up actions assigned to some firms as a condition of acceptance of their peer reviews. By far, the most common of such actions was the firms' agreement to obtain and submit proof of certain specified CPE. Other frequent follow-up actions were submission of non-conforming engagements to an outside party to review remediation and agreement to have the peer reviewer or an outside party perform pre-issuance or post-issuance reviews of certain future engagements.
- RAB observation reports issued by AICPA's Peer Review Board. AICPA periodically oversights specific RAB sessions; the reports covered AICPA observations on February 13, 2025 and October 15, 2025. In addition, two AICPA Oversight Task Force members were present at the December 9, 2025 RAB and full TXCPA Peer Review Committee meetings.
- Reports on independent evaluations of TXCPA's safeguards over improper bias due to conflicts and/or 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 2025, three such reviews were conducted. They were performed by the Florida Institute of Certified Public Accountants on February 10, 2025 and July 14 2025, and by the Peer Review Alliance (the administering entity for Illinois, Indiana, Iowa, Kentucky, South Carolina, West Virginia and Wisconsin) on November 10, 2025. Each of the three 2025 reports concluded that TXCPA is appropriately complying with its Familiarity Threat Policies and Procedures.

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

Trend

As a continuation of a noticeable national and Texas trend in recent years, the number of peer reviews processed by TXCPA in 2025 has diminished compared to previous years. There has been an ongoing decline in the number of CPA firms issuing reviewable engagements. As a result of mergers and acquisitions, retirements, and obstacles related to professional standards overload, some CPA firms have ceased performing reviewable accounting and auditing engagements. A number of firms now issue only preparation engagements instead of compilations, which has allowed some firms to become exempt from peer review. At its December 9, 2025 meeting, the TXCPA Peer Review Committee reported that there were 83 Texas firms with 2025 peer review due dates for which the peer review workpapers had not yet been submitted for technical review, of which 80 were in progress. 207 Texas peer reviews due in 2026 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.

Peer Reviewer Pool

There continues to be an ongoing national shortage of reliable peer reviewers and some of the currently listed peer reviewers perform only a few peer reviews each year or may no longer be active.

PROB has reviewed a 2025 report on peer reviewer pool replenishment that was issued by the Illinois CPA Society as the result of a study pertaining to states administered by the Peer Review Alliance (with which TXCPA has a limited relationship). It found that barriers to sustaining the reviewer pool included a challenging learning curve, unprecedented time pressures arising from the volume of recent professional standards, and the opportunity cost of accepting triennial projects (rather than annual work) at the partner level without much opportunity to delegate the work. These findings are consistent with the AICPA findings PROB has previously reported whereby the two top items noted that prevent individuals from becoming peer reviewers were (1) balancing peer review with existing workload and (2) allocating resources to peer review when faced with competing demands for potentially higher paying, less complex work.

AICPA Exposure Draft

In September 2025 the AICPA exposed a proposed standards amendment to “modernize” peer review administration. It specifically addresses Alternative Practice Structures (APS) wherein private equity investors have gained ownership interests in certain CPA firms. Proposed peer review changes would require APS firms to have their peer reviews administered by NPRC instead of by state societies and would also require the team captain performing such reviews to be from a firm that has had its most recent peer review conducted through NPRC. Numerous interested parties have responded to the exposure draft. TXCPA’s detailed response disagreed with the proposed changes and offered several alternative suggestions. It is unknown at this time how many Texas CPA firms would be affected if the proposed amendment were to be adopted. The amendment would affect only APS firms that are not already subject to NPRC peer reviews.

PRIMA

AICPA has gradually made some functional improvements to the PRIMA software it developed to administer the scheduling and processing of peer reviews. However, 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 continues to fall upon reviewers when many of the reviewed firms seek assistance in navigating through the process.

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 last name "Goldstein" being the most prominent part.

Robert D. Goldstein, CPA, Chair
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Houston, Texas
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