



Texas Society of CPAs Annual Report on Peer Review Activities

Date Issued – March 3, 2025

Purpose of this Report

The purpose of this Annual Report on Peer Review Activities is to provide a general overview of the Peer Review Programs administered by the Texas Society of CPAs (Society or TXCPA), and the results of oversight procedures performed by the TXCPA Peer Review Committee (Committee) during the calendar year of 2024.

Summary of Peer Review Programs

The Texas Society of CPAs (TXCPA) serves as the administering entity for the AICPA Peer Review Program in the State of Texas, which began in 1989, and the Texas Society of CPAs Peer Review Program since 1991. Both programs adopted the AICPA "Standards for Performing and Reporting on Peer Reviews" as its minimum standards for review and operate similarly. As of June 1, 2024, the TXCPA moved all of the TXCPA state program peer review firms over to the AICPA Peer Review Program. This change impacted less than 250 firms. Statistics noted in this report only reflect one program. Prior year annual reports would have reflected results for the two different programs.

The Texas State Board of Public Accountancy (TSBPA) requires all firms in the state that provide attestation services as part of their public accounting process to be enrolled in a practice monitoring program. The TSBPA has designated TXCPA as an approved sponsoring organization to approve peer review reports issued for firms enrolled in peer review programs administered by TXCPA.

AICPA bylaws require that members engaged in the practice of public accounting be associated with a firm that is enrolled in an approved practice-monitoring program if the services performed by such firm are within the scope of the AICPA's practice monitoring standards, and the firm prepares reports in accordance with AICPA professional standards. For purposes of peer review under the AICPA program, an accounting and auditing practice includes engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARs); Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards (the Yellow Book)* issued by the U.S. Government Accountability Office; and Public Company Accounting Oversight Board (PCAOB) Standards. Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to the PCAOB permanent inspection.

There are **1375** firms enrolled in peer review as of March 3, 2025. Firms enrolled in either program are required to have a peer review every three years, the scope of which covers a one-year period. The review is conducted by an independent evaluator known as a peer reviewer and is not considered final until accepted by a committee of their peers, also known as report acceptance bodies (RABs). RABs must consist of at least three qualified individuals who are independent of the reviewed firm and the peer reviewer. In certain circumstances, reviewed firms are asked by the RAB to voluntarily complete one or more follow-up

actions as a condition of acceptance by the RAB. See Exhibit D for a summary of the required follow-up actions.

The following summarizes the different peer review types, objectives, and reporting requirements as defined under the AICPA *Standards*:

System Reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examination under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB, in addition to reviews, compilations, or other attestation engagements. The peer reviewer's objectives are to obtain reasonable assurance that the reviewed firm's system of quality control for its accounting and auditing practice has been designed and complied with to provide the firm reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects and report on the reviewed firm's system of quality control and communicate as required by the *Standards for Performing and Reporting on Peer Review*. The peer review report rating may be *Pass* (firm's system of quality control is adequately designed and the firm has complied with its system of quality control); *Pass with deficiencies* (firm has less than reasonable assurance of conformity with professional standards in one or more areas); or *Fail* (firm's system of quality control is not adequately designed or complied with and there is little or no assurance of conforming with professional standards).

Engagement Reviews: Engagement reviews are for firms that only perform services under SSARS or services under the SSAEs, other than examinations. Engagement reviews focus on work performed and reports and financial statements issued on particular engagements (reviews, compilations, preparations, or agreed-upon procedures). The peer review report may be a rating of *Pass* (nothing came to the reviewer's attention that caused him or her to believe the engagements submitted for review were not performed and /or reported on in conformity with applicable professional standards in all material respects); *Pass with deficiencies* (at least one but not all of the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects except for the deficiencies described in the report); or *Fail* (reviewer concludes that, all the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects).

See Exhibit A for a summary of results by type of peer review and report issued; Exhibit B for a summary of report deficiencies for system reviews; and Exhibit C for a summary of engagements not performed and/or reported on in conformity with professional standards in all material respects.

Oversight Process and Procedures

Reviewer Evaluation Committee

The Committee has established a Reviewer Evaluation Committee (REC) that is responsible for reporting to the full Committee on the activities of the oversight program regarding peer reviewers. The subcommittee is made up of the Committee Vice Chair and other committee members as deemed necessary. REC members meet during the year to review the oversights conducted, reviewer resume verifications, consider reviewer performance and consult with staff on the status of reviews. Guidance from the AICPA Peer Review Program Oversight Handbook and the Clarified Peer Review Standards is followed.

Oversight Selection

Annually, the Society will perform random and targeted oversights on reviews and reviewers using a risk-based approach. The selections are based on the criterion for selection as outlined in the AICPA Peer Review Program Oversight Handbook, Chapter 2. At least 2% of all reviews performed in a calendar year are subject to oversight and will include a minimum of two system and two engagement reviews.

Oversights are performed by either a member of the Peer Review Committee, other qualified peer reviewers, or the program's technical reviewers. A Peer Review Committee member or designee will perform all system reviews and must-select engagement oversights. This committee member must meet team captain requirements and experience.

Firms: All firms are subject to oversight and are selected based on a number of factors including but not limited to the types of peer review reports the firm has previously received, whether it is the firm's first system review (after previously having an engagement review), and whether the firm conducts engagements in high-risk industries.

Reviewers: All peer reviewers are subject to oversight and may be selected based on a number of factors including random selection, a notable and suspiciously too frequent submission of pass reports, conducting a significant number of reviews for firms with audits in high-risk industries, performance of their first peer review, or performing high volumes of reviews. Oversight of a reviewer can also occur due to performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review report, improperly considering matters that turn out to be significant, or failure to select an appropriate number of engagements.

Oversight Process

Oversights may be performed at the reviewed firm's office or at other locations. Committee members are required to document the results of the oversight by completing an AICPA Oversight Checklist and preparing a report for the committee. Oversight reports are maintained in an electronic file at AICPA and TXCPA. The reviewer is expected to respond to the oversight comments within 14 days of receiving the report via PRIMA. See Exhibit E for a summary of oversights performed.

Administrative Oversight

Administrative oversight is performed on the TXCPA administration of the peer review programs by a member of the Committee in the years when there is no AICPA Oversight Task Force (OTF) oversight. Procedures will cover the administrative requirements of the AICPA Peer Review Program.

Number of Enrolled Firms as of March 3, 2025

	AICPA Peer Review Program
Total Enrolled Firms	1375

Results of Peer Reviews Accepted during 2024

Exhibit A

Results by Type of Peer Review and Report Issued

	AICPA Peer Review Program	
System Reviews		%
Pass	136	79
Pass with deficiency(ies)	26	15
Fail	11	6
Total - System	173	100

Engagement Reviews		%
Pass	263	81
Pass with deficiency(ies)	37	12
Fail	23	7
Total- Engagement	323	100

Exhibit B

Number and Reasons for Deficiencies for System Reviews

The following lists the reasons, summarized by elements of quality control as defined by Statement on Quality Control Standards No. 10, for report deficiencies (when a pass with deficiencies or fail report is issued) from system reviews. It is important to note that one review may have more than one reason for a report deficiency.

	AICPA Peer Review Program
Leadership responsibilities for quality within the firm (the tone at the top)	9
Relevant ethical requirements	4
Acceptance and continuance of client relationships and specific engagements	5
Human resources	17
Engagement performance	34
Monitoring	28
Total	97

Exhibit C

Number of Engagements Not Performed or Reported on
in Accordance with Professional Standards in All Material Respects

The following shows the total number of engagements reviewed and the number identified as “not performed or reported on in accordance with professional standards in all material respects” (non-conforming). The Standards state that an engagement is ordinarily considered not performed and/or reported on in accordance with applicable professional standards when deficiencies, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards.

Engagement Type	AICPA Peer Review Program		
	Number of Engagements		
	Reviewed	Nonconforming engagements	%
Audits:			
Single Audit	67	34	53
Government Auditing Standards – All Other	56	12	21
ERISA	86	19	22
FDICIA	3	0	0
Other	206	39	19
Reviews	221	28	12
Compilations:			
With Disclosures	108	8	7
Omit Disclosures	669	66	10
Financial Forecasts & Projections	0	0	0
SOC Reports	2	0	0
Agreed Upon Procedures	49	11	22
Other SSAEs	1	0	0
Total	1468	217	15

Exhibit D

Summary of Required Follow-up Actions

The TXCPA Peer Review Committee is authorized by the Standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the Peer Review Committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The Peer Review Committee also considers the comments noted by the reviewer and the firm's response thereto. If the firm's response contains remedial actions which are comprehensive, genuine, and feasible, then the committee may decide not to recommend further follow-up actions. Follow-up actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions.

Type of Follow-Up Action	AICPA Peer Review Program
Agree to take/submit proof of certain CPE	247
Agree to pre-issuance reviews by team captain/outside party	23
Agree to post-issuance reviews by team captain/outside party	44
Submit monitoring or inspection report to team captain or committee	3
Submit to outside party to revisit on non-conforming engagements	67
Submit evidence of proper firm licensure to committee	1
Agree to hire outside party or consultant for inspection	7
Team captain to review Quality Control Document	3
Other	1
Total	396

Oversight Process

Exhibit E

Oversight Results of Peer Reviews

	AICPA Peer Review Program
Type of Peer Review	
System	2
Engagement	8
Total	10

"Must Select" Engagement Oversights	
ERISA	1
GAGAS	0
Total	1

Oversights Performed on the AE

Date of Last Administrative Oversight Performed by the TXCPA Peer Review Committee	November 14, 2024
Date of Last Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program and is available on the TXCPA's website).	December 11-12, 2023