
2021 Inspection Michael T. Studer CPA P.C.

(Headquartered in Freeport, New York)

December 1, 2022

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2023-026A

(Includes portions of Part II and Appendix A of the full report that were not included in PCAOB Release No. 104-2023-026)



TABLE OF CONTENTS

2021 Inspection.....	2
Overview of the 2021 Inspection and Historical Data by Inspection Year	3
Part I: Inspection Observations.....	5
Part I.A: Audits with Unsupported Opinions	6
Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules	7
Part II: Observations Related to Quality Control	9
Appendix A: Firm’s Response to the Draft Inspection Report.....	A-1

2021 INSPECTION

In the 2021 inspection of Michael T. Studer CPA P.C., the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review two audits of issuers with fiscal years ending in 2020. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2021 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not necessarily constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the [scope of our inspections and our inspections procedures](#).

OVERVIEW OF THE 2021 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2021 inspection as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2021	2019
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	12	14
Total engagement partners on issuer audit work¹	2	2
Audits reviewed		
Total audits reviewed²	2	3
Audits in which the firm was the principal auditor	2	3
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	2	3

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

¹ The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

² The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an audit report or issuer audit clients lost prior to the outset of the inspection.

Our inspection may include a review, on a sample basis, of the adequacy of a firm’s remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer’s public disclosures. We do not have direct access to the issuer’s management, underlying books and records, and other information.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2021 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer’s financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2021		2019	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	1	Revenue and related accounts	2
Related party transactions	1	Accruals and other liabilities	2
Cash and cash equivalents	1	Cash and cash equivalents	1
A significant account	1	Derivatives	1
Debt	1	Equity and equity-related transactions	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.

Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to a **Significant Account**, a **Related Party Receivable**, and **Journal Entries**.

Description of the deficiencies identified

With respect to a **Significant Account**:

The firm selected a sample of transactions to test a significant account during certain months of the year. The following deficiencies were identified:

- The firm did not test, or in the alternative, test any controls over, the accuracy and completeness of certain issuer data and reports it used to test these transactions. (AS 1105.10)
- The sample size the firm used in this procedure was too small to provide sufficient appropriate audit evidence because the firm did not take into account the relevant factors in determining its

sample size, including tolerable misstatement for the population, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .19, .23, and .23A)

In addition, the firm did not perform any substantive procedures to test whether the issuer appropriately recognized the transactions related to this significant account for the remaining months during the year. (AS 2301.08)

With respect to a **Related Party Receivable**:

The issuer concluded that a receivable from a related party was fully collectible at year end. The firm did not evaluate the financial capability of a related party with respect to the significant uncollected balance. (AS 2410.12) In addition, the firm did not perform substantive procedures to evaluate the appropriateness of the classification and presentation of this receivable. (AS 2810.30)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing. (AS 2401.58)

Audits with a Single Deficiency

Issuer B

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Journal Entries**.

Description of the deficiency identified

The firm identified journal entries and other adjustments for testing. The firm did not perform any procedures to test these journal entries and other adjustments. (AS 2401.61)

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In the two audits reviewed, the firm did not make certain required communications to the issuer's audit committee, or equivalent, related to (1) all of the significant risks identified through its risk assessment procedures and (2) critical accounting policies and practices. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of two audits reviewed, the firm did not make certain required communications to the issuer's audit committee equivalent until after the issuance of the auditor's report. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of two audits reviewed, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In two audits, the engagement team performed procedures to determine whether or not matters were critical audit matters but did not include in those procedures certain matters that were communicated to the issuer's audit committee, or equivalent, and that related to accounts or disclosures that were material to the financial statements. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. These instances of non-compliance do not necessarily mean that other critical audit matters should have been communicated in the auditor's report.
- In two audits, the firm's communication of critical audit matters in the audit report did not describe for one matter the principal considerations that led the firm to determine that the matter was a critical audit matter. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In one other audit, the firm's report on Form AP omitted information related to a Partner ID by which the engagement partner had been identified on a Form AP filed by a different registered public accounting firm. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

A. Firm Management's Approach to Quality Control

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will comply with PCAOB standards in the firm's issuer audit practice. (QC 20.03, .04, .13, .15, and .17)

In a significant portion of the firm's audit work reviewed in this inspection, the inspection team identified deficiencies in the performance of the work. The high incidence of such inspection observations is consistent with the incidence of such observations in previous inspections of the firm. Moreover, the substance of certain of the observations in this inspection is similar to the substance of observations in the previous inspection, including the observations of deficiencies in fraud procedures, testing a significant account, testing related party transactions, engagement quality review, and communications with audit committees (also identified in the 2019 inspection of the firm). The firm should evaluate whether its policies and procedures provide reasonable assurance that it:

- undertakes only those engagements that it can reasonably expect to complete with professional competence;
- assigns work on those engagements to persons who have the technical training and proficiency required in the circumstances;
- causes personnel to refer to authoritative literature or other sources and to consult, on a timely basis, with individuals within or outside the firm, when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues);

- provides proper supervision, including review of the work of engagement team members, and appropriate performance of engagement quality reviews; and
- implements policies and procedures such that firm personnel perform all professional responsibilities with integrity, maintain objectivity in discharging professional responsibilities, and perform audit work with due professional care, including with professional skepticism.

Identifying the underlying causes for the poor inspection results may assist the firm in assessing the need for changes or enhancements to its system of quality control. The firm should implement changes in its policies and procedures necessary to provide reasonable assurance that its personnel comply with the professional standards applicable to its issuer audit practice.

B. Fraud Procedures

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will perform the procedures necessary to comply with AS 2401. (QC 20.03 and .17)

In two audits,³ which are included in Part I.A, the inspection team identified deficiencies related to the firm's testing of journal entries.

C. Testing a Significant Account

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel with respect to testing a significant account will meet the requirements of AS 1105, AS 2301, and AS 2315. (QC 20.03 and .17)

In one audit,⁴ which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of the accuracy and completeness of certain issuer data and reports it used in its substantive procedures, the determination of the sample size, and testing whether the issuer appropriately recognized transactions.

D. Testing Related Party Receivables

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel with respect to testing related party receivables will meet the requirements of AS 2410 and AS 2810. (QC 20.03 and .17)

³ Issuers A and B

⁴ Issuer A

In one audit,⁵ which is included in Part I.A, the inspection team identified deficiencies related to the firm's substantive testing of the financial capability of a related party with respect to a significant uncollected balance and the classification and presentation of the related party receivable.

E. Engagement Quality Review

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the review procedures performed by the firm's engagement quality review (EQR) partners will meet the requirements of AS 1220. (QC 20.03 and .17)

In two audits,⁶ both of which are included in Part I.A and Part I.B, the inspection team identified deficiencies in areas that the EQR partner was required to evaluate. In these audits, the EQR partner did not identify a deficiency in an area in which the engagement team had identified a significant risk, including in some cases a fraud risk. In addition, in these audits, the EQR partner did not identify deficiencies in the engagement team's (1) determination of whether or not matters were critical audit matters and (2) communication of critical audit matters.

F. Practice Monitoring

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm is effectively monitoring its accounting and auditing practice. (QC 20.20)

Although the firm's policies and procedures for monitoring its accounting and auditing practice require the performance of annual internal inspections, the firm has not performed an internal inspection since 2019.

G. Audit Reports and Critical Audit Matters

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will comply with the requirements of AS 3101. (QC 20.03 and .17)

In two audits,⁷ both of which are included in Part I.B, the inspection team identified deficiencies related to the firm's procedures for determining whether or not matters were critical audit matters. In addition, in both of these audits, both of which are included in Part I.B, the inspection team identified deficiencies related to the firm's audit report, including the communication of critical audit matters.

H. Communications with Audit Committees

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will comply with the requirements of AS 1301. (QC 20.03 and .17)

⁵ Issuer A

⁶ Issuers A and B

⁷ Issuers A and B

In two audits,⁸ both of which are included in Part I.B, the inspection team identified deficiencies related to the firm’s communications with the issuer’s audit committee, or equivalent. In addition, in one audit,⁹ the firm did not inquire of the issuer’s audit committee equivalent regarding the risks of material misstatement, including fraud risks.

⁸ Issuers A and B

⁹ Issuer B

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

MICHAEL T. STUDER CPA P.C.
111 West Sunrise Highway, Second Floor East
Freeport, NY 11520
Phone: (516) 378-1000

July 22, 2022

George Botic, Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006

Re: Written response to Draft Report of Inspection dated July 8, 2022

Dear Mr. Botic:

Public responses to Part 1.A (Audits with Unsupported Opinions) follow:

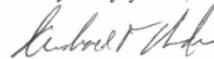
1. Issuer A – with respect to Journal Entries, the Firm identified and selected journal entries for testing on a judgement basis. In the future, we will better document those journal entries selected for testing.
2. Issuer B - with respect to Journal Entries, the Firm tested journal entries selected on a judgement basis. In the future, we will better document those journal entries selected for testing.

Public responses to Part 1.B (Other Instances of Non-Compliance with PCAOB Standards or Rules) follow:

1. Issuer A and Issuer B - some significant risks identified at PPC Form CX-7.1 (Risk Assessment Summary) at early stages of our audits were not deemed sufficiently material to be included in our planning communication to the issuers' audit committees or equivalent.
2. Issuer B – the audit report indicates “We have served as the Company’s auditor since 2017”. The engagement letter relating to our first audit of this issuer was dated December 29, 2016 but work did not commence until January 2017.

Regarding Part II (Observations Related to Quality Control), we have commenced remedial actions for those quality control deficiencies noted.

Very truly yours,



Michael T. Studer
President

Jul22mts-PCAOB-Letter

