



Ethics

Demonstration question

ACCA AAA exam standard question

S/D21 exam paper (Gruber)



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Exhibit 1 – Email from audit engagement partner

To: Audit manager
From: Al Powell, Audit engagement partner
Subject: Audit planning for Gruber Co
Date: 1 July 20X5

Hello

I have provided you with some information which you should use to help you with planning the audit of Gruber Co for the financial year ending 30 September 20X5. As you know, Gruber Co is a new audit client and the firm's client due diligence (know your client) and acceptance procedures were all successfully completed. Based on the analysis I have done on this industry, it is appropriate for overall materiality to be based on the profitability of the company.

- (d) Using the information in Exhibit 5, discuss the ethical issues raised and recommend actions to be taken by our firm. **(8 marks)**

Exhibit 2 – Business and governance

The company was established 15 years ago by Martin Gruber, an engineer who had patented a new type of machine used in the oil industry. Martin, who is the company's chief executive officer, owns 60% of the shares in the company, with the remainder split equally between his brother and sister, Craig and Iris Gruber.

The company's board of directors includes Craig Gruber as chief finance officer (CFO), Iris Gruber as marketing director, and a non-family member, Kali Hayes, who is director of operations. Gruber Co has 300 employees, most of whom are mechanical engineers.

Martin is planning to sell his shares and retire from the business. Craig and Iris, who are younger than Martin, will retain their shares and their board positions. Initial discussion with a potential acquirer for Martin's shares began last month.

The company owns a head office and leases a production facility where machines are designed and assembled under contract with individual customers. Typically, an order takes 14 months to complete, from the initial design through to installation at the customer's premises. This is due to the large size of the machinery being produced to customer order and the very specific requirements of customers.

Exhibit 5 – Meeting notes

A meeting took place yesterday in which the audit engagement partner discussed the potential sale of Martin Gruber's shares with the company directors.

The company directors revealed that Willis Co is the company with whom negotiations have started in relation to the sale of Martin Gruber's shares. Willis Co is an existing audit client of McClane & Co.

The directors have requested that McClane & Co assist them with the sale by performing a vendor's due diligence service, in which they would conduct an independent review of Gruber Co's financial position and future prospects and produce a report on their findings to be provided to Willis Co.