Certified Finance and Accounting Professional Stage Examination

Sustainability Reporting and Assurance

2 September 2026
100 marks

ICAP

CRN: | | | | | | |

Name: ______________________________

INSTRUCTIONS

Please carefully read the following instructions:

1. You are required to access your answer working area by using your Student ID and Password as mentioned on your Admit Card.
2. The overall duration of the exam is 3 hours and 30 minutes, which includes the 15-minute reading time and an extra 15 minutes of time that has been allocated due to the introduction of computer-based examinations.
3. All **six** questions are compulsory. There is no specific time allocated for individual questions.
4. An auto-save function runs every minute. Further, your answers are saved automatically when you navigate between questions or click on the > **(NEXT)** or < **(BACK)** symbols.
5. Each question provides a designated answer area with a Rich Text Format (RTF) editor for writing your answers. You must answer each question within its respective RTF editor only. **Answers written in another RTF editor instead of the designated RTF editor for the question or more than one question answered in a single RTF editor shall not be considered for marking.**
6. Below the RTF editor, a spreadsheet is provided to facilitate examinees in doing rough calculations or other workings. **However, please note that any work performed in the spreadsheet will not be considered for marking. To ensure your work is considered, you must copy and paste it from the spreadsheet to the RTF editor.**
7. You may use MS Excel for rough working. However, please remember that any work performed in this application cannot be copied into the examination software, and vice versa. Furthermore, any such work will not be uploaded with your exam for marking.
8. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last page of the question paper that are specifically allocated for this purpose. Remember that any rough work done on this page will not be uploaded with your exam for marking.
9. In accordance with the open book policy of this paper, you are allowed to use only digital copies of the permissible study material. Keeping a hard copy of any book or notes is not permissible and will be considered a violation under the policy on the use of unfair means.
10. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
11. During the exam, access to any website other than exam software website is strictly prohibited. Engaging in such activities will be considered a violation under the policy on the use of unfair means.

QUESTION 1

Nova Mart Limited (NML) is a listed company that operates an online marketplace on which independent sellers list goods.

NML is preparing its first sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards for publication with its consolidated financial statements for the year ended 30 June 2026. NML has elected not to apply the transition relief in paragraph E5 of IFRS S1. The NML group's Scope 1 greenhouse gas emissions for the year were about 14,000 metric tons of CO_2 equivalent, arising mainly from the distribution centers.

The following information is available regarding NML's operations and group companies:

(i) About 70% of customer orders by value are fulfilled through Nova Mart Fulfilment (Pvt.) Limited (NMFL), a wholly-owned consolidated subsidiary included in NML's reporting entity for sustainability-related financial disclosures. NML sources the packaging used at these centers and packs the goods before dispatch. The remaining 30% orders are dispatched directly by the sellers.

(ii) Three logistics companies deliver about 60% of customer orders, whereas four smaller logistics companies deliver a further 15% of orders. The remaining orders are delivered using a fleet of 210 vans operated by Nova Mart Logistics (Pvt.) Limited, a wholly-owned consolidated subsidiary included in NML's reporting entity. All seven contracts allow the logistics companies to recover increases in regulatory compliance costs from NML and to suspend routes where vehicles or drivers do not comply with applicable requirements.

(iii) Pack Right Limited (PRL), in which NML holds 40% equity interest and one of five board seats, is an equity-accounted associate but is not part of NML's reporting entity. It supplies about 60% of the packaging used at NML's distribution centers under an agreement expiring on 30 June 2030. No alternate supplier could meet NML's required volumes within 18 months.

(iv) Nova Pay Limited (NPL) is an 80%-owned consolidated subsidiary that processes about 60% of customers' payments; the remainder are processed through third-party payment gateways. The sustainability team has excluded NPL from NML's reporting entity.

Extract from the minutes of the Sustainability Steering Committee meeting held on 12 June 2026

Reporting entity: NPL is managed independently and its Scope 1 emissions are less than 2% of the group's total. The Committee therefore concluded that NPL should be excluded from NML's reporting entity and that the disclosures should focus on the marketplace and distribution operations, where the group's sustainability-related risks principally arise.

Packaging and delivery: From 1 July 2028, new packaging rules will require recyclable or reusable packaging to be used for at least 50% of orders. These requirements will apply to all orders from 1 July 2030. The Committee discussed that the packaging requirements and the logistics companies' ability to meet vehicle and driver-safety rules are sustainability-related risks that could reasonably be expected to affect NML's prospects. However, the Committee concluded that PRL and the delivery companies fall outside the analysis because NML neither controls their operations nor owns the vehicles used by the logistics companies.

Required:
In light of IFRS S1:

(a) evaluate the Committee's conclusions in the minutes regarding the entities and relationships considered in NML's sustainability-related financial disclosures. **(12 marks)**

(b) explain the approach NML is required to apply and implications for its sustainability-related financial disclosures. **(08 marks)**

You are not required to reconsider the Committee's conclusion that the packaging and delivery matters are sustainability-related risks that could reasonably be expected to affect NML's prospects.

QUESTION 2

Pure Chem Limited (PCL) manufactures specialty chemicals at five plants and sells its products to household and personal care brand owners.

PCL is preparing its sustainability-related financial disclosures for the year ended 30 June 2026 in accordance with IFRS Sustainability Disclosure Standards. The following material information is extracted from PCL's Environment, Health and Safety (EHS) data pack prepared for the EHS and Sustainability Committee (the Committee):

Hazardous waste generated
PCL's sustainability-related financial disclosures for the year ended 30 June 2025 reported hazardous waste of 3,900 tons.

The plant-wise details of hazardous waste generated, with comparative amounts, are as follows:

Year	Plant A	Plant B	Plant C	Plant D	Plant E	Total
	----------------------------- in tons -----------------------------					
2026	1,180	1,340	1,610	480	370	4,980
2025	1,090	1,255	1,555	350	250	4,500

Plants A, B and C moved to PCL's EHS reporting system during 2024. Plants D and E remained on legacy monthly reports until March 2026. Their hazardous waste registers and monthly reports were included in the reporting packs circulated to the Committee during the year ended 30 June 2025 and remained available when the 2025 sustainability-related financial disclosures were authorized for issue. However, these disclosures drew the reported amounts only from the EHS reporting system.

Committee's comments
The 2025 amount was based on data drawn into the disclosure from the EHS reporting system. The 2026 amount reflects the completion of the EHS roll-out. The Committee considers the difference to be a refinement of an estimate resulting from additional information becoming available, and therefore, believes that revision of the 2025 comparative amount is not required. It proposes to explain the increase in hazardous waste as reflecting expanded system coverage.

Production waste intensity
The aggregate production and waste data for all five plants, with comparatives, are as follows:

	2026	2025
	------- in tons -------	
Total production	88,000	84,000
Production waste	7,700	8,000
Saleable production	82,000	80,000

Draft disclosure
Production waste intensity was 87.5 kg per ton (2025: 100.0 kg per ton), representing an improvement of 12.5%.

Committee's comments
The denominator used to calculate production waste intensity has been changed from saleable production to total production so that it reflects total production activity, including rejected and off-specification batches. The revised basis is also used in PCL's internal reporting. The Committee considers both the 2025 and 2026 amounts to be properly stated because each was calculated using the basis applicable at that time. The Committee believes that recalculating the 2025 amount using the current basis would involve hindsight.

Required:
In light of IFRS S1, evaluate the Committee's proposed treatment of hazardous waste generated and production waste intensity, including the 2025 comparative amounts, and recommend the amendments required to PCL's sustainability-related financial disclosures. **(15 marks)**

QUESTION 3

Mega Bio Limited (MBL) develops medicines for oncology and rare diseases and operates subsidized-access programs. MBL has engaged Zafar & Co. to provide reasonable assurance on its sustainability disclosures for the year ended 30 June 2026. The following information in this respect is available:

Extract from draft disclosures subject to assurance

Sustainability disclosure	2026 (draft)
Trial participants experiencing at least one serious adverse event during the year	1.92% (48 of 2,500)
Patients who received medicines under subsidized-access programs during the year	38,400

MBL's reporting criteria

- An adverse event is classified as serious if it results in death, is life-threatening, requires or prolongs inpatient hospitalization, causes persistent or significant disability or incapacity, or results in a congenital anomaly or birth defect. Other medically important events may also be serious based on medical judgement. Seriousness is assessed separately from causality.
- Trial participants comprise persons enrolled at any time during the year in MBL-sponsored trials. Each participant is counted once.
- A subsidized-access patient is counted once if eligibility was approved and at least one subsidized medicine was dispensed to that patient during the year.

Information available at the planning stage

(i) The engagement team proposes to determine materiality at 5% of each reported quantitative disclosure and performance materiality at 75% of materiality. It proposes to evaluate misstatements solely by reference to these quantitative thresholds.

(ii) One of four performance conditions for management's annual incentive is that the reported serious adverse event rate remains below 2.0%.

(iii) On 1 January 2026, MBL replaced its clinical-trial database and migrated the existing records to the new database. The migration reconciliation remains incomplete: 11 adverse-event records and 64 participant records are unmatched, while 29 participant records appear to be duplicates.

(iv) The safety committee identified 50 participants whose events met at least one seriousness criterion, including two participants who died. The medical monitor assigned to the trials assessed both deaths as unrelated to the investigational medicine. MBL therefore excluded those participants and reported 48 participants. The regulator is reviewing the causality assessments relating to the two deaths.

(v) The subsidized-access program system recorded 35,800 patients. The reporting team added 2,600 patients based on regional administrators' summaries containing aggregated totals by region and medicine. No patient-level data accompanied the summaries.

(vi) Data from the clinical-trial and subsidized-access systems is exported to spreadsheets in which the sustainability-reporting team combines the figures and records classification adjustments. One analyst maintains the spreadsheets and overwrites the working files at each monthly close.

Required:

(a) Evaluate Zafar & Co.'s proposed approach to materiality. **(05 marks)**

(b) Identify and assess the risks of material misstatement at the assertion level for the sustainability disclosures. **(10 marks)**

QUESTION 4

Textura Apparel Limited (TAL) is a listed manufacturer and exporter of garments and home textiles. Revenue for the year ended 30 June 2026 was Rs. 34 billion and profit before tax was Rs. 2.6 billion.

TAL is preparing its climate-related disclosures for the year in accordance with IFRS Sustainability Disclosure Standards. The following information is available:

(i) TAL's main dyeing and finishing facility is located in a low-lying coastal industrial area and accounts for about 45% of production capacity. The facility has a carrying amount of Rs. 6.4 billion and a remaining useful life of 22 years. It requires a continuous supply of freshwater.

(ii) About 70% of TAL's cotton, its principal raw material, is sourced from two regions experiencing increasingly frequent drought and extreme heat. TAL's approved sourcing strategy assumes that these regions will remain its principal source for the next 12 years.

(iii) Two major export customers have introduced water-intensity requirements for suppliers effective from 2028. TAL's commercial team considers that certified low-water processing would support continued access to those customers.

Board paper extracts – Climate-related scenario analysis, June 2026

As part of its assessment of climate resilience, TAL performed climate-related scenario analysis in June 2026. The board paper documenting the analysis set out the time horizon, scenario considered and key assumptions applied, as summarized below:

Time horizon

Five years to 30 June 2031, consistent with the board-approved financial forecasts and strategic planning cycle.

Climate-related scenarios considered

Scenario	Basis recorded	Selected
Orderly transition (1.5°C-aligned)	Publicly available, authoritative source	Yes
Moderate warming – gradual increase in flooding and water scarcity	Provided by an external consultant; not used in board-approved forecasts	No
High physical impact – more frequent storm surges, prolonged drought and extreme heat	Provided by an external consultant; wider range of outcomes; not used in board-approved forecasts	No

Key assumptions applied

Assumption	Basis applied in the model
Flooding and water availability	National-average data applied to all locations
Water supply	Sufficient at present production capacity throughout
Insurance for coastal facility	Existing terms maintained throughout
Cotton cost	Escalated 4% a year for general input-cost inflation

Other information available at 30 June 2026 is as follows:

(i) Flooding closed the coastal facility for 12 days, resulting in repair and idle-capacity costs of Rs. 180 million and additional storage and shipping costs of Rs. 70 million. Drought in one cotton-growing region increased cotton costs by Rs. 260 million.

(ii) Alternative cotton suppliers have been identified but would require 18 months to obtain quality approval, and their prices are expected to be 7–10% higher than those of existing suppliers.

(iii) The insurer has advised that the premium at the next renewal could rise significantly and the renewed policy may include flood exclusions.

(iv) The regional water authority has proposed reducing industrial water withdrawals by 25% from July 2030.

Required:
In light of IFRS S2, evaluate TAL's approach to climate-related scenario analysis, including the time horizon, the scenario selection and key assumptions applied, and recommend the amendments required in TAL's approach. **(15 marks)**

QUESTION 5

(a) Meridian Motors Limited (MML) is a listed manufacturer of passenger cars and light commercial vehicles. It operates three vehicle-assembly plants and an engine and transmission plant that produces internal-combustion powertrains. MML also manufactures electric and hybrid vehicles and is commissioning a battery-pack facility.

MML is preparing its sustainability-related financial disclosures for the year ended 30 June 2026 and proposes to include the following climate-related disclosure:

> MML has invested Rs. 80 billion in green manufacturing capacity to capture the commercial opportunities arising from the transition to electric and lower-emission vehicles, representing 26.7% of capital expenditure. MML also applies an internal carbon price when evaluating major capital proposals.

The following information in this respect is available:

(i) MML's property, plant and equipment has a carrying amount of Rs. 1,200 billion. Most of MML's asset base relates to internal-combustion-engine vehicles.

(ii) The Rs. 80 billion referred to in the proposed disclosure comprises:

- Rs. 40 billion spent on the battery-pack facility and the dedicated zero-emission assembly line. These assets form part of a segregated program whose board-approved scope is restricted to zero-emission vehicle production capacity;
- Rs. 28 billion spent on a new paint shop and press shop at Assembly Plant 2, which serve all model lines, including vehicles with internal-combustion-engine powertrains; and
- Rs. 12 billion spent on rooftop solar generation and a waste-heat recovery system at the engine and transmission plant.

(iii) MML incurred capital expenditure of Rs. 300 billion during the three years ended 30 June 2026. The Rs. 80 billion referred to in the proposed disclosure was also incurred during this three-year period. The disclosed 26.7% was calculated as Rs. 80 billion divided by Rs. 300 billion. Management considers this basis more representative because, in its view, it reflects the direction of MML's investment rather than its historically accumulated asset base.

Extract from MML's capital investment policy

A shadow carbon price of Rs. 7,500 per metric ton of carbon dioxide equivalent (CO_2e) applies to capital proposals exceeding Rs. 5 billion where the resulting operations are estimated to generate annual emissions exceeding 50,000 metric tons of CO_2e. The carbon price is based on management's estimate of a possible carbon levy in 2030. It is incorporated into project-appraisal cash flows and may affect project approval, phasing, technology selection or plant location.

Required:

With reference to IFRS S2, evaluate MML's proposed disclosures relating to climate-related opportunities, capital deployment and internal carbon pricing, and recommend the amendments necessary for compliance. **(08 marks)**

(b) MML also proposes the following Automobiles SASB disclosures:

> During the year, MML sold 18,400 zero-emission vehicles and recovered 92,000 metric tons of end-of-life material, 58% of which was recycled.

The following information in respect of the proposed disclosures is available:

(i) The 18,400 vehicles comprise 7,600 battery-electric vehicles, 6,900 plug-in hybrid vehicles and 3,900 hybrid vehicles.

(ii) The 92,000 metric tons comprise the following:

- 36,000 metric tons received and processed at MML's own recovery centers. Of these, 21,000 tons were reprocessed into components, 4,200 metric tons were reclaimed for regeneration and 2,600 metric tons were reused directly as replacement parts. The 58% was calculated as 21,000 divided by 36,000. The rest was not recyclable.
- 40,000 metric tons collected by independent dismantlers under MML's take-back branding, which were neither received nor physically handled by MML.
- 16,000 metric tons of parts collected for repairs under warranty or because they were subject to recall.

Required:
With reference to the Automobiles SASB Standard, evaluate MML's proposed disclosures and recommend any amendments considered necessary, explaining the financial significance of the matters identified. **(07 marks)**

QUESTION 6

(a) Kohistan Steel Limited (KSL) is a listed integrated steel producer whose sustainability-related financial disclosures for the year ended 30 June 2026 are being finalized.

In 2025, KSL announced an absolute target to reduce its net Scope 1 and Scope 2 greenhouse gas emissions from operated facilities by 25% by 30 June 2030, against a base year ended 30 June 2024, in which emissions were 2.50 million tons of carbon dioxide equivalent (tCO_2e), with an interim milestone of a 15% reduction by 30 June 2026. The interest rate on a sustainability-linked loan will be reduced if KSL demonstrates that the interim milestone has been met, subject to independent reasonable assurance over the disclosure.

An extract from the draft sustainability-related financial disclosures is set out below:

	Million tCO_2e
2024 base-year Scope 1 and Scope 2 emissions covered by the target	2.50
2026 gross Scope 1 and Scope 2 emissions covered by the target	2.40
Less: contracted carbon credits	(0.35)
Reported 2026 net Scope 1 and Scope 2 emissions	**2.05**
Reduction from the base year	**18%**

The accompanying note states that: 'KSL has reduced its operational emissions by 18% since 2024 and has met the interim milestone set for 30 June 2026. The reduction reflects investment in waste-heat recovery and an increased scrap charge, together with carbon credits contracted from a third-party project developer.

Extract from the carbon credit purchase agreements
KSL has agreed to buy, 350,000 tCO_2e of carbon credits at a fixed price from a project developer running a 30-year program to prevent deforestation across a defined area of forest. The credits will be delivered only once the project has been validated and verified and the credits have been issued under the relevant carbon-crediting program, which is expected to occur between 2028 and 2030. KSL can cancel the arrangement if delivery does not take place as scheduled.

Required:
In accordance with IFRS S2, evaluate how KSL has measured and disclosed its performance against the climate-related target, including its treatment and planned use of carbon credits. Also recommend the amendments required to be made in the disclosures. **(10 marks)**

(b) Raza & Co. was appointed to conduct a reasonable assurance engagement on KSL's target-performance disclosure; the assurance report has not yet been issued. This is the first year in which KSL's performance against the target has been linked to the sustainability-linked loan. KSL has paid 60% of Raza & Co.'s agreed assurance fee in advance and has proposed that the remaining 40% be payable only if the lender confirms that the milestone has been achieved and the associated interest-rate reduction takes effect.

After several rounds of queries from the engagement team during fieldwork, KSL's chief financial officer remarked that the board expected a smooth conclusion to the assurance engagement given the forthcoming lender review, and noted that Raza & Co.'s appointment for the next year would also be considered shortly.

Required:
In accordance with the International Ethics Standards for Sustainability Assurance, evaluate the ethical implications of the matters described above and recommend the actions Raza & Co. should take. **(10 marks)**

(THE END)

Rough Sheet