Certified Finance and Accounting Professional Stage Examination

Audit, Assurance and Data

3 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 hard copies of the permissible books. Examinees appearing in a remote proctoring environment will be required to show each book in the webcam before the start of the exam. Keeping a book or notes that are not permissible 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 and the digital copies of permissible books is strictly prohibited. Engaging in such activities will be considered a violation under the policy on the use of unfair means.

QUESTION 1

You are an audit manager at Tariq & Company, Chartered Accountants, and are assisting the engagement partner in determining whether to accept appointment as the statutory auditor of Horizon Engineering Limited (HEL), a listed company, for the year ending 30 June 2027. HEL has authorized your firm to communicate with its existing auditor.

The existing auditor, whose term of office will expire at the forthcoming annual general meeting, informed your firm that HEL's board did not intend to recommend its reappointment and that HEL had not communicated any reason for this decision. The existing auditor also stated that professional fees of Rs. 0.6 million remained unpaid.

You subsequently met HEL's CFO, Bilal Rauf. Bilal explained that, following the expansion of the company, HEL wished to appoint an audit firm with experience in group audits and the technology sector. He further stated that HEL had paid the statutory audit fee in full and that the outstanding amount of Rs. 0.6 million related to additional tax work. HEL disputed this amount because the existing auditor did not obtain the prior written approval required under the relevant engagement letter.

Bilal also informed you that HEL had recently acquired the entire share capital of Nexus (Private) Limited (NPL), which develops and supports various business software products. Your firm currently uses a software developed by NPL and pays NPL's annual maintenance and support charges under an existing agreement.

NPL's head of sales subsequently wrote an email to your firm, stating that, under NPL's customer loyalty program, a 50% discount would apply to the firm's annual maintenance and support charges from the date of this email until 31 December 2027. The email further stated that NPL would identify your firm as a preferred client on its website and in presentations to existing and prospective clients.

Required:
In light of the ICAP Code of Ethics for Chartered Accountants, identify and evaluate the threats to compliance with the fundamental principles arising from the above circumstances. Also recommend safeguards that your firm should take to address each identified threat. **(15 marks)**

QUESTION 2

You are the audit manager responsible for the audit of Rivermark Marketplace Limited (RML), for the year ended 30 June 2026. RML operates an online marketplace that connects third-party sellers with customers across Pakistan.

On 1 July 2023, RML obtained a long-term loan facility of Rs. 4,000 million from National Commercial Bank. The facility is RML's only borrowing and its main source of long-term finance, and was obtained to finance the continuing expansion of RML's fulfilment network and technology platform. The facility carried interest at a fixed rate of 10% per annum, payable quarterly in arrears. The principal was repayable in 20 equal quarterly instalments of Rs. 200 million, commencing on 30 September 2023, and the facility was due to mature on 30 June 2028.

During the year, growth in marketplace transaction volumes was below expectations, placing pressure on RML's operating cash flows. Consequently, RML did not pay the principal instalments due on 31 December 2025 and 31 March 2026. However, interest continued to be paid in full on outstanding principal as it fell due each quarter, together with a late-payment penalty equal to 2% of overdue instalments.

Following discussions with RML, on 15 June 2026, the bank issued a revised facility letter, which RML accepted on the same date. Under this letter, the revised terms are as follows:

- Quarterly principal instalments of Rs. 200 million are to recommence from 31 December 2027, with the final instalment to be paid on 30 June 2030.
- The interest rate was increased to 15% per annum payable quarterly with effect from 1 April 2026.
- The existing security arrangement remained unchanged.

Management has continued to recognize the loan at Rs. 2,200 million, being the outstanding principal after the last instalment paid on 30 September 2025. Management has accounted for its finance cost at the revised interest rate but has not made any accounting entry in respect of this revision in loan facility.

Required:
Evaluate the above matters and state the key audit procedures that should be performed in relation to the loan revision. ***(Implications for the auditor's report and calculations are not required.)*** **(15 marks)**

QUESTION 3

Your firm is the statutory auditor of Summit Education Limited (SEL) for the year ended 30 June 2026. SEL operates 62 private-school campuses across 11 cities. The following are extracts from SEL's draft financial statements:

	2026	**2025**
	--- Rs. in million ---	
Extracts from the income statement		
Campus operations revenue	11,081	9,700
Online tuition revenue	620	-
Extracts from the statement of financial position		
Intangible assets	770	145
Inventories	670	455
Trade and other receivables	1,560	940

Additional information:

(i) The academic year runs from July to June in three terms. Tuition fees are billed at the start of each term and are payable within 30 days. Parents who pay tuition fees for the entire academic year in advance are granted an 8% discount.

(ii) The conditions imposed by the provincial education regulators require at least 5% of the students enrolled to be admitted on a tuition-free basis on grounds of financial need. SEL applies this 5% benchmark for each term at each campus.

(iii) SEL awards merit-based scholarships following a test conducted before the start of each academic year. Each scholarship provides a full tuition-fee waiver; management determines the number of scholarships to be awarded at each campus.

(iv) SEL has provided a spreadsheet **(Appendix 1, provided below the RTF editor)** containing campus-wise fee and enrolment information for each term.

Instructions for using the accompanying spreadsheet are provided in **Appendix 2**.

(v) In March 2026, SEL entered into a 15-year licensing agreement with an international school (the group) for the right to use the group's name and curriculum. The fixed license fee is USD 1.15 million, of which SEL paid USD 0.8 million upon signing the agreement. The remaining USD 0.35 million became payable following completion of the training of SEL's teachers and delivery of the curriculum materials in June 2026.

Management has capitalized Rs. 320 million, representing the entire fixed license fee, and is amortizing this amount over 15 years from the date on which the agreement was signed. SEL will start using the group's name and teaching its curriculum at all campuses from July 2026. From that date SEL will also pay the group 5% of its fee income. SEL is contractually required to upgrade the facilities at each campus to the group's prescribed standards by June 2027.

(vi) SEL launched an online tuition service in July 2025 for students who are not enrolled at SEL and require additional academic support. Students may subscribe at any time, and each subscription runs for 12 months from the date of enrolment. Subscribers pay a single upfront price covering access to recorded lectures, printed workbooks supplied upon enrolment and 12 live teacher-led sessions. Subscribers are entitled to a full refund if they cancel their subscription within 30 days of enrolment.

Management has capitalized Rs. 330 million incurred in developing the platform and producing the recorded lectures, including the payroll costs of teachers reassigned from campuses to the online services.

(vii) The licensing arrangement and online tuition service were partly financed through advances of Rs. 300 million received on 1 July 2025 from SEL's directors, who are also its shareholders. The advances are unsecured and interest-free and are repayable in a single instalment on 1 July 2029. Management has recognized the advances at their face value.

(viii) Textbooks, workbooks and uniforms are sold through shops located at SEL's campuses. Inventories at 30 June 2026 include textbooks and workbooks relating to the curriculum, which was taught during 2025-26.

Required:

Identify and explain the audit risks arising from the above scenario that the engagement team should consider in planning and performing the audit of SEL. **(20 marks)**

APPENDIX 2: SPREADSHEET INSTRUCTIONS

- The spreadsheet, i.e., **Appendix 1**, is provided below the RTF editor. The worksheet is marked as "Protected" and cannot be edited.
- You may copy and paste the contents of this sheet into another sheet for calculations or working purposes.
- Do not delete the "Protected" sheet, as it will not be restored or provided again.
- As stated in points 5 and 6 of the instructions provided on the cover page of your question paper, only responses entered in the RTF editor will be considered for marking.

QUESTION 4

Prime Retail Limited (PRL) is a listed retailer of packaged foods and has a 31 December year-end. In August 2026, PRL entered into an agreement to acquire the entire share capital of Blue Route Distribution (Pvt.) Limited (BRD), a cold-chain logistics company with a 30 June year-end. The acquisition has not yet been completed. PRL intends to make a public offer of additional ordinary shares to part-finance the acquisition and is preparing a prospectus in connection with the proposed offer.

PRL has engaged your firm to perform a reasonable assurance engagement in accordance with ISAE 3420, and to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of applicable criteria.

The pro forma financial information comprises a statement of profit or loss for the year ended 30 June 2026 and statement of financial position as at that date. It has been prepared on the basis that PRL acquired BRD on 1 July 2025. Selected extracts are as follows:

Particulars	**PRL**	**BRD**	**Adjustment**	**Pro forma**
	------------------ Rs. in million ------------------			
Revenue	46,200	8,450	620	55,270
Cost of sales	33,100	6,180	(410)	38,870
Operating expenses	7,900	1,540	-	9,440
Goodwill	-	-	3,150	3,150

Adjustments relating to the proposed share offer and income tax are not included in the selected extracts and need not be considered.

Additional information:

(i) The adjustments of Rs. 620 million to revenue and Rs. 410 million to cost of sales represent expected additional sales volumes and anticipated savings from route rationalization. These amounts are based on an internal study of demand and planned changes to delivery routes.

(ii) The purchase consideration comprises cash of Rs. 12,600 million and a further amount of Rs. 900 million payable in September 2027 if BRD meets an agreed earnings before interest, tax, depreciation and amortization (EBITDA) target for the year ending 30 June 2027. An independent valuer estimated the contingent consideration at Rs. 600 million on both 1 July 2025 and 30 June 2026.

Management has not included the contingent amount in the pro forma financial information because it considers payment to be uncertain. All other acquisition-accounting inputs, including the fair values of BRD's identifiable net assets, have been correctly determined.

(iii) During the year ended 30 June 2026, BRD provided logistics services of Rs. 480 million to PRL. The amount is included in BRD's revenue and PRL's cost of sales. PRL has made no elimination adjustment because both entities were not part of the same group when the services were provided.

(iv) BRD depreciates its refrigerated vehicles using the reducing-balance method, whereas PRL applies the straight-line method to similar vehicles. Following the acquisition, BRD's vehicles are expected to be used on delivery routes with average mileage and replacement cycles similar to those of PRL's existing fleet. Management has made no adjustment to align the depreciation methods because it considers both methods acceptable under IFRS.

(v) BRD's figures have been extracted from its audited financial statements for the year ended 30 June 2026. PRL's figures have been drawn from a 12-month schedule prepared from its monthly general ledger for the period from 1 July 2025 to 30 June 2026. The amounts for July to December 2025 have been reconciled to the accounting records underlying PRL's audited financial statements for the year ended 31 December 2025. The amounts for January to June 2026 are unaudited.

Required:

(a) Evaluate the selected pro forma adjustments and source information in accordance with ISAE 3420 and state the corrections required. **(06 marks)**

(b) Recommend the key procedures that your firm should perform before expressing its opinion on whether pro forma financial information has been compiled, in all material respects, on the basis of applicable criteria. **(09 marks)**

QUESTION 5

Your firm is the group auditor of Solace Energy Limited (SEL), a listed power-generation company, for the year ended 30 June 2026. The auditor's report on the group financial statements is scheduled to be dated 5 September 2026.

The following matters require consideration.

Zephyr Wind (Private) Limited (ZWL), an 80%-owned subsidiary of SEL

ZWL's financial statements are audited by another firm. ZWL is developing a wind power project and has not yet commenced commercial operations.

In May 2026, the customs authorities withheld clearance of turbine components and related spare parts imported for the project pending resolution of a dispute concerning their tariff classification and the applicable customs duty. Consequently, the items remained in a customs-controlled area at the port and had not been delivered to the project site by the reporting date. During this period, neither ZWL nor the component auditor was permitted physical access to the items. The original shipping and customs-clearance documentation lodged with the authorities was also unavailable.

As at 30 June 2026, the turbine components and spare parts had carrying amounts of Rs. 760 million and Rs. 45 million, respectively, and together represented 75% of ZWL's total assets. As the component auditor was unable to obtain sufficient appropriate audit evidence regarding the existence and valuation of these items, it expressed a disclaimer of opinion in its auditor's report dated 10 August 2026.

On 18 August 2026, the customs authorities permitted access to the turbine components. At the group auditor's request, the component auditor physically inspected the components and performed further procedures, obtaining sufficient appropriate audit evidence regarding their existence and conditions at 30 June 2026. Components with a carrying amount of Rs. 260 million were found to have deteriorated before year-end following a shipping-seal failure. An independent surveyor estimated their recoverable amount at Rs. 80 million. The spare parts and original shipping and customs-clearance documents remain unavailable.

ZWL's management has refused to amend its financial statements, and SEL's management has refused to record the corresponding impairment adjustment in the consolidated financial statements. The component auditor has declined to amend or reissue its auditor's report, which has already been filed with the relevant regulator together with ZWL's financial statements. Group materiality is Rs. 150 million.

Aurora Solar (Private) Limited (ASL), a wholly owned subsidiary of SEL

ASL's financial statements are audited by your firm, and ASL accounts for 35% of the group's revenue. On 1 August 2026, the Federal Government notified a NEPRA-determined change to the tariff applicable to electricity supplied by ASL, effective from 25 August 2026. Under the revised mechanism, a tariff component currently linked to the US dollar will instead be linked to domestic inflation. The draft consolidated financial statements appropriately disclosed this fact.

Required:

Evaluate each of the above matters and advise the group engagement partner on appropriate action. Also discuss the implications, if any, for the auditor's report on the group financial statements. **(10 marks)**

(Audit procedures are not required)

QUESTION 6

You are an audit manager at Zaidi Nasir & Co, Chartered Accountants, responsible for the audit of Gulberg Stores Limited (GSL), a listed company operating a chain of supermarkets. The draft financial statements for the year ended 30 June 2026 report profit before tax of Rs. 4,200 million and total assets of Rs. 62,000 million. Overall materiality has been determined at Rs. 210 million.

The audit is at the completion stage. Two unresolved matters have been summarized in the memorandum in **Appendix 1** for consideration at the audit clearance meeting. An extract from the audit working paper referenced in Finding 1 of **Appendix 1** is set out in **Appendix 2**.

Required:

(a) Explain the financial reporting implications of the matters described in **Appendix 1** and determine the adjustments required to the draft financial statements. **(10 marks)**

(b) Evaluate whether the valuation report in **Appendix 2** provides sufficient appropriate audit evidence in respect of the values of the Faisalabad and Hyderabad properties at 31 December 2025 and 30 June 2026, and explain any further audit work required. **(05 marks)**

(c) Assuming that the further audit work required in part (b) has been completed and has confirmed the property values stated in **Appendix 1,** explain the implications for the auditor's report if management refuses to adjust the financial statements for the adjustments identified in (a) above. **(10 marks)**

(Ignore taxation)

APPENDIX 1 – MEMORANDUM SUMMARISING UNRESOLVED MATTERS

Finding 1 – Reclassification of branch properties

GSL ceased trading at its Faisalabad and Hyderabad branches on 31 December 2025 and charged depreciation up to that date. Both properties were let to unrelated retailers under three-year tenancies commencing on 1 January 2026 and were reclassified as investment property on that date.

GSL measures the owner-occupied property at cost less accumulated depreciation and investment property using the fair value model. At 30 June 2026, GSL measured the properties at their respective fair values and credited to profit or loss the aggregate increase of Rs. 530 million over their carrying amounts at 30 June 2026. No impairment loss had previously been recognized on either property.

The properties were valued by Sarwar and Associates, whose appointment was approved by GSL's board. The relevant carrying amounts and fair values are set out below:

	Faisalabad	Hyderabad
	-------- Rs. in million --------	
Carrying amount at 31 December 2025	880	500
Fair value at 31 December 2025	1,150	680
Fair value at 30 June 2026	1,210	700

Finding 2 – Share option scheme

On 1 July 2024, GSL granted 100,000 equity-settled share options to each of its 40 managers. Each option entitles the holder acquire one ordinary share of GSL at Rs. 185.

The options vest on 30 June 2027 if the manager remains in continuous service until that date. They may be exercised until 30 June 2030 only if GSL's share price reaches Rs. 200 at any time before the vesting date. GSL's share price was Rs. 150 at the grant date, and an independent valuer assessed that the appropriate grant-date fair value of each option for accounting purposes was Rs. 60.

GSL recognized an expense of Rs. 72 million for the year ended 30 June 2025, based on an estimate that 36 managers would remain in service until the vesting date. As at 30 June 2026, management expected 35 managers to remain in service until the vesting date and anticipated no further resignations. GSL's share price fell steadily after the grant date and was Rs. 100 at 30 June 2026.

On 14 August 2026, before the financial statements were authorized for issue, management assessed that the options were unlikely to become exercisable because the share price remained substantially below the target. Consequently, GSL concluded that no amount was required to be recognized in respect of this matter as at 30 June 2026. Accordingly, GSL reversed the previously recognized expense of Rs. 72 million in its financial statements for the year then ended.

APPENDIX 2 – EXTRACT FROM THE AUDIT WORKING PAPER

Extract from the valuation report

From: Sarwar and Associates, Property Consultants
To: The Finance Director, Gulberg Stores Limited
Date: 28 July 2026

We report our opinion of the fair value of the Faisalabad and Hyderabad properties for financial reporting purposes as at 30 June 2026. Following your instructions dated 14 July 2026, we have also reported our opinion of their value as at 31 December 2025. Those earlier values were derived from the evidence used for the 30 June 2026 valuation and adjusted for movements during the intervening period.

We physically inspected the Faisalabad property. As agreed with you in our previous email, we did not inspect the Hyderabad property and instead relied on the property records and photographic schedules provided by GSL.

The floor areas, tenancy schedules and comparable transaction evidence supplied by GSL's finance department have been assumed to be complete and accurate. Under the terms of the engagement letter, verification of information supplied by GSL falls outside the scope of our work.

Audit file note

Sarwar and Associates is included on the State Bank of Pakistan's approved panel of valuers and has valued GSL's properties since 2020. The audit file contains no further information about the valuer's professional qualifications or recent experience. The senior partner of Sarwar and Associates is a university friend of GSL's finance director.

(THE END)

Rough Sheet