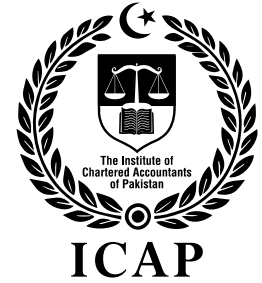


# Certified Finance and Accounting Professional Stage Examination

## Audit, Assurance and Data

5 June 2026  
100 marks



CRN:

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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 questions 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**

Your firm, Hassan Raza & Company, Chartered Accountants, is the statutory auditor of Horizon Pharma Limited (HPL), a listed company engaged in the manufacture and distribution of generic medicines across Pakistan. During the year ending 31 December 2026, HPL acquired a 90% equity stake in Med Core (Private) Limited, a mid-sized pharmaceutical company.

Following the completion of the acquisition, HPL's CFO, Mr. Zain Mahmood, sends the following email to the engagement partner, Mr. Hassan Raza:

To: Hassan Raza, Engagement Partner  
From: Zain Mahmood, Chief Financial Officer — Horizon Pharma Limited  
Date: 02 June 2026  
Subject: Assistance Required — Post-Acquisition Integration of Med Core

Dear Hassan,

As you are aware, we completed the acquisition of a 90% equity stake in Med Core (Private) Limited (MCL) in May 2026. We are now focused on integrating MCL into our group reporting structure and would greatly appreciate your firm's assistance in the following matters, given your deep familiarity with our operations.

At the outset, I would like to highlight that MCL has its own external auditors, Tariq Saeed & Company. Accordingly, your firm does not have an auditor-client relationship with MCL. I therefore believe that all of the services requested below are ethically permissible.

**Design of a Unified Chart of Accounts:**

MCL currently operates using an accounting structure that differs from that of HPL. To standardise transaction classification and reporting across the group, we require a unified chart of accounts. We would like your firm to align MCL's chart of accounts with HPL.

**Training of MCL's Finance Team:**

MCL's finance staff members are unfamiliar with HPL's group accounting policies and IFRS consolidation requirements. We would like your firm to conduct training sessions to familiarise them with group reporting policies, intercompany transaction procedures, and consolidation reporting timelines.

**Design and Implementation of Safety and Environmental Controls at MCL:**

Our post-acquisition review of MCL's identified significant weaknesses in its safety and environmental framework. In particular, MCL's manufacturing facility lacks formalised procedures for:

- monitoring regulatory limits relating to chemical waste disposal;
- conducting periodic workplace safety inspections; and
- maintaining documentation required under applicable environmental protection laws and regulations.

We would like your firm to design and implement an appropriate framework to address these deficiencies.

**Assessment of Integration Risks for the HPL's Audit Committee:**

HPL's Audit Committee has requested an independent assessment of the financial reporting risks arising from the integration of MCL into the HPL group. We would therefore like your firm to prepare a briefing paper for presentation at the next Audit Committee meeting.

I look forward to your guidance on the above.

Best regards,

Zain

**Required:**

In the light of ICAP's Code of Ethics for Chartered Accountants, identify and evaluate the threats to compliance with the fundamental principles arising from the above requested services. Also, recommend, where possible, appropriate safeguards to mitigate the identified threats to an acceptable level. **(15 marks)**

**QUESTION 2**

You are the audit manager of SkyLink Solutions Limited (SLS), a listed company providing integrated IT infrastructure and cyber-security solutions, for the year ended 31 March 2026.

In January 2026, SLS offered a bundled package titled "Global Connect 360" to a customer at a fixed contract price of Rs. 5,200,000, comprising the following components:

Component (i)	An enterprise-grade physical server, delivered and accepted by the customer on 1 February 2026. The stand-alone selling price of this component is Rs. 2,200,000.
Component (ii)	A 3-year cloud management software license granting the customer access to the software as it exists at the license availability date of 1 February 2026, with no contractual obligation on SLS to provide future updates. The stand-alone selling price of this component is Rs. 1,500,000.
Component (iii)	A 3-year "Managed Cyber-Security" monitoring service commencing on 1 April 2026, under which SLS continuously monitors, detects, and responds to cyber-security threats affecting the customer's IT infrastructure. The stand-alone selling price of this component is Rs. 1,800,000.

The Managed Cyber-Security service is governed by a separately enforceable service schedule included within the bundled arrangement. SLS may terminate this service at any time providing two months' prior written notice, refunding any unearned consideration attributable to the service, and paying a fixed termination penalty of Rs. 700,000. Termination of this service does not affect the transfer of the server or the software license already provided to the customer.

Except for the Managed Cyber-Security service schedule as described above, the overall contract is non-cancellable.

Revenue relating to the server and software license was recognized in February 2026 upon transfer of control to the customer. Revenue relating to Managed Cyber-Security service will be recognized on a straight-line basis over the 36-month service period commencing on 1 April 2026.

At contract inception, management estimated fulfillment costs of Rs. 1,600,000, Rs. 710,000, and Rs. 1,500,000 for components (i), (ii), and (iii), respectively.

In March 2026, a coordinated global ransomware attack exposed critical vulnerabilities in third-party security tools used by SLS. Consequently, SLS is now required to procure mandatory vulnerability patches and implement additional security measures in order to continue delivering the Managed Cyber-Security service to the customer.

Management has revised its estimates of the total fulfilling costs for the Managed Cyber-Security service to Rs. 2,850,000 over the 3-year contract period.

Management has reviewed the financial implications of this development and concluded that no adjustment to the financial statements is necessary because the total contract revenue of Rs. 5,200,000 still exceeds the revised aggregate estimated contract costs of Rs. 5,160,000.

**Required:**

Identify and discuss the matters that would require the auditor's attention arising from the "Global Connect 360" arrangement and outline the key audit procedures to be performed in this respect.

**(15 marks)**

**QUESTION 3**

Your firm is the statutory auditor of Agri-Grow Fertilizers Limited (AGL) for the year ended 31 March 2026. AGL operates a large-scale fertilizer manufacturing facility producing urea and related nitrogen-based products through continuous chemical processing.

The following are extracts from the draft financial statements of AGL:

	<b>2026 (Draft)</b>	<b>2025 (Audited)</b>
	----- Rs. in million -----	
<b>Extracts from the income statement</b>		
Revenue	52,800	45,600
Cost of sales	39,200	35,100
Gross profit	<b>13,600</b>	<b>10,500</b>
<b>Extracts from the statement of financial position</b>		
Inventory	12,400	7,200
Trade receivables	9,800	6,100
Long-term borrowings	18,500	11,200

**Additional information:**

- (i) On 1 July 2025, AGL commissioned a new production line (“Line-2”) in addition to its existing production facility (“Line-1”) to increase overall production capacity. Line-2 has a designed monthly production capacity of 15,750 tonnes. The expansion was financed through long-term borrowings.
- (ii) AGL’s production process is highly dependent on natural gas supplied under a government preferential pricing arrangement applicable to the fertilizer sector. During the year, unexpected intermittent gas curtailments resulted in temporary production shutdowns and restart activities. Management is also considering importing LNG to maintain operational continuity. AGL has provided a spreadsheet (**Appendix 1, provided below the RTF editor**) containing batch-wise gas consumption and related production overheads allocated to inventory for the year ended 31 March 2026.

Instructions relating to spreadsheet are provided in **Appendix 2**.

- (iii) The manufacturing process generates both primary fertilizer products and by-products, including industrial-grade ammonia. Joint production costs are allocated between these outputs based on management’s estimates of their respective net realizable values at the reporting date. Management has noted significant fluctuations in market prices for both fertilizers and by-products during the year.
- (iv) In addition to its traditional dealer network, AGL entered into a distribution arrangement during the year with Green Distributors Limited (GDL), a recently established entity engaged to expand AGL’s presence in rural markets. Sales to GDL represent a significant proportion of revenue recognized during the final quarter of the year and were made on extended credit terms than those offered to other distributors.

**Required:**

Identify and explain the audit risks arising from the above scenario that the engagement team should consider for the audit of AGL. **(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 point no. 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**

Remit Solutions (Private) Limited (RSPL) is a cloud-based payroll and human resource management service provider. RSPL has appointed your firm, Rahman & Company, Chartered Accountants, to provide a Type 2 assurance report under ISAE 3402 for the year ended 31 March 2026.

The following is an extract from the description of RSPL's system prepared by management:

**EXTRACT FROM THE DESCRIPTION OF RSPL'S SYSTEM PREPARED BY MANAGEMENT****Services covered**

RSPL provides payroll processing, statutory deduction management, employee benefits administration, and employee master data maintenance services to user entities in the manufacturing, retail, and financial services sectors through a cloud-based Software-as-a-Service (SaaS) platform accessible via a secure web portal.

**Period covered by the description**

This description relates to the period from 1 April 2025 to 31 March 2026.

**Payroll processing and authorization**

*Control objective:* To ensure payroll transactions are properly authorized, accurately processed, and disbursed only to accounts in the approved employee master file.

*Controls in place:* Payroll processing follows a two-stage process whereby a Payroll Processor prepares the payroll and a Payroll Supervisor independently reviews and approves it prior to disbursement. The system prevents payroll disbursement without supervisory approval, and Payroll Processor and Supervisor are assigned separate and non-overlapping access rights.

**Access management**

*Control objective:* To ensure payroll system access is granted only to authorized personnel and is modified or revoked promptly upon changes in roles or employment status.

*Controls in place:* Access to the payroll system is administered through role-based access controls. User access is granted, modified, or revoked in accordance with agreed access management policies and procedures.

**Subservice organization**

RSPL uses Data Vault Limited (DVL), a third-party data centre operator, for server hosting and database management services. DVL stores payroll and employee data and performs daily database backups. The controls operated by DVL are excluded from both the scope of this engagement and the system description.

During the course of engagement, the following matters were identified:

- (i) In October 2025, RSPL migrated to an upgraded payroll platform involving changes to user access configurations, payroll calculation processes, and temporary disabling of certain automated controls during the migration period. However, the system description does not disclose these significant changes to the control environment or their impact on related controls.
- (ii) In 9 out of 40 payroll authorization samples tested, approval was performed by the Payroll Supervisor without completion of the sign-off checklist required for approval of the payroll. Management has informed you that this was due to increased workload caused by the platform migration.
- (iii) RSPL informed the engagement team that DVL's backup systems failed during November and December 2025, resulting in no daily database backups during that period. However, no data loss was reported during the affected period. They further informed that DVL has not issued an ISAE 3402 assurance report, and RSPL relies on the controls performed by DVL in relation to backup management.
- (iv) User entities are responsible for submitting employee master data changes, including new joiners, resignations, and salary revisions, through the online portal within three business days of the relevant change becoming effective. RSPL does not independently verify the accuracy or completeness of the information submitted by user entities; therefore, this has not been made part of the description.

**Required:**

In the light of the above information, explain the deficiencies, if any, in the description prepared by management, and evaluate their implications for the fair presentation of the description under ISAE 3402. (15 marks)

**QUESTION 5**

Your firm, Asim Ghani & Company, Chartered Accountants, is the statutory auditor of Falcon Engineering Limited (FEL), a company listed on the Pakistan Stock Exchange, for the year ended 31 March 2026. FEL is engaged in the manufacture of industrial turbines used in power generation projects.

During finalisation of the audit, the following matter has come to your attention:

In the year ended 31 March 2025, FEL recognised a Deferred Tax Asset (DTA) of Rs. 60 million in respect of accumulated tax losses carried forward, on the basis that management considered future taxable profits to be probable. Your firm disagreed with management's assessment and concluded that there was insufficient appropriate evidence to support recognition of the DTA. Management declined to make the required adjustment, and a qualified opinion was consequently issued.

On 31 March 2026, considering the profitability of the current year and forecasts for future years, management now considers that 40% of the unused tax losses, representing a DTA of Rs. 24 million, satisfies the recoverability criteria under IAS 12. Your firm concurs with this revised assessment.

Management has elected to derecognise the remaining 60% of the DTA, amounting to Rs. 36 million, by recording an additional tax charge in the current year statement of profit or loss. Management is of the view that this adjustment constitutes a change in accounting estimate under IAS 8 and, accordingly, the prior year audit qualification has been fully resolved.

Overall materiality for the year ended 31 March 2026 is Rs. 23 million (2025: Rs. 22 million). No other misstatements have been identified in the course of current year audit.

**Required:**

Evaluate the above scenario and advise on the appropriate course of action. Also, discuss the implications for the auditor's report. (*Audit procedures are not required*) (10 marks)

**QUESTION 6**

You are an audit manager at Hamid Raza & Co, Chartered Accountants, and have been assigned to the audit of Cosmic Textile Mills Limited (CTM), a listed company, for the year ended 31 March 2026. The draft separate financial statements reported a net profit of Rs. 18,340 million and total assets of Rs. 212,680 million.

The engagement partner, Salman Farooq, has asked you to review a memorandum summarizing unresolved fieldwork findings (**Appendix 1**). He further informed you that Bilal Ahmed, the audit team member assigned to this area, has gone on extended medical leave before completing the audit work assigned to him. Salman Farooq has asked you to review audit procedures performed by Bilal Ahmed (**Appendix 2**) and identify further audit procedures to be performed in respect of transfer of receivables before concluding on the appropriateness of management's accounting treatment.

**Required:**

- (a) Explain the financial reporting issues arising from your review of memorandum in **Appendix 1** and identify the accounting adjustments required to be made. (10 marks)
- (b) Identify the further audit procedures to be performed in respect of transfer of receivables from your review of procedures in **Appendix 2**. (05 marks)
- (c) Explain the implications for the auditor's report on CTM's separate financial statements if management refuses to adjust the financial statements for the matters identified in (a) above. (10 marks)

**APPENDIX 1 – MEMORANDUM SUMMARIZING UNRESOLVED FIELDWORK FINDINGS****Finding 1 – Transfer of Receivables**

On 1 March 2026, CTM transferred trade receivables of Rs. 9,400 million to National Trade Finance Bank (NTFB) and received cash proceeds of Rs. 8,950 million. CTM is currently in advance negotiations to acquire a spinning unit in Faisalabad, and the proceeds were used to finance the initial deposit for the proposed purchase.

CTM has derecognized the receivables and recorded a loss of Rs. 450 million. Management concluded that derecognition was appropriate because contractual rights to the cash flows from the receivables had been transferred to NTFB. All the receivables transferred were due after ninety days. Under the transfer of receivable agreement, CTM is required to pay any uncollected receivables after ninety days to NTFB.

**Finding 2 – Alliance Cotton Procurement Ltd**

In June 2025, CTM and two other textile companies jointly incorporated Alliance Cotton Procurement Ltd (ACP), as a special-purpose entity established solely for the procurement and sale of raw cotton. CTM holds a 40% equity interest in ACP, initially subscribed at a cost of Rs. 1,170 million. The investment has been accounted for as an associate in CTM's separate financial statements and is carried at Rs. 1,250 million as at 31 March 2026, comprising the initial cost and CTM's share of ACP's profit of Rs. 80 million for the period. CTM accounts for investments in associates using the equity method.

ACP's main activity is procurement, and decisions relating to procurement are determined by a simple majority of the five-member board. CTM has the right to appoint three of the five directors and therefore has the ability to direct ACP's key operating decisions.

During the year, CTM procured 68% of its raw material through ACP.

In July 2025, CTM also extended an interest-free working capital facility of Rs. 600 million to ACP, repayable in three years, and recorded as a long-term receivable at face value. The market rate of interest for long-term borrowings is 14% per annum.

**APPENDIX 2 – AUDIT PROCEDURES PERFORMED BY BILAL AHMED**

- Obtained and read the signed transfer of receivables agreement between CTM and NTFB.
- Agreed the receivables transferred of Rs. 9,400 million, to the accounts receivable sub-ledger at the date of transfer.
- Verified cash proceeds of Rs. 8,950 million by tracing the receipt to the bank statement.
- Obtain a written confirmation from NTFB.

**(THE END)**

