

Targeted Standards in the ISA 500 Series – Issues Paper

Objective:

The objective of this Agenda Item is to obtain the Board's views on the issues identified to date regarding revising International Standard on Auditing (ISA) 501, *Audit Evidence—Specific Considerations for Selected Items* (with a focus on inventory), ISA 505, *External Confirmations* and ISA 530, *Audit Sampling*, including:

Board Plenary Session:

- Whether the issues identified are, in the Board's views, matters that should be explored in scoping a project for the revisions of ISA 501, ISA 505 and ISA 530.
- Whether there are other issues that should be explored relevant to the revisions of ISA 501, ISA 505 and ISA 530.

Private Breakout Session:

- Identifying the key risks that should be explicitly addressed in the standards.
- Understanding the root causes of auditors' challenges in respect of the issues being explored.

Introduction

Background

1. In December 2023, the IAASB approved the [Strategy and Work Plan for 2024–2027](#), in which the Board agreed to pursue revising ISA 501 (with a focus on inventory), ISA 505 and ISA 530 to modernize these standards to reflect the current business and audit environments more appropriately, including the impact of the use of technology by entities, auditors and the organizations they interact with.
2. The project's prioritization was mainly informed by stakeholders' feedback from both the [Consultation Paper on the Proposed Strategy and Work Plan for 2024–2027](#), as well as the feedback received from respondents to the [Exposure Draft of Proposed ISA 500 \(Revised\), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs](#) (ED-500). The collective feedback on these consultations indicated that proposed revisions in ED-500 as a foundational standard alone are insufficient to address all audit evidence-related matters across the suite of ISAs, including those related to the use of technology. In this respect, respondents called for timely revisions to other ISAs to be considered in an integrated manner among the priorities to be addressed by the IAASB in the 2024–2027 strategy period, which also highlighted revisions needed for certain other audit evidence standards in the ISA 500 Series.
3. In addition, the IAASB established a Technology Position¹ in September 2024. As a first step to operationalize its position statement, the IAASB undertook a gap analysis presented as a [Catalog of Issues and Proposed Actions](#) that have identified several technology-related issues in exploring how

¹ See the [IAASB's Technology Position](#).

current IAASB standards align with technological advancements. This includes issues and possible actions that are relevant to the targeted standards in the ISA 500 Series.

4. There have also been various initiatives globally by other standard-setting bodies, who are seeking to, or have clarified and enhanced certain of their equivalent audit evidence standards in the ISA 500 Series, highlighting the broader public interest in these topics.

Materials Presented

5. The matters addressed in this Agenda Item are presented in the following sections:

- Information gathering to date (**Section I**).
- Development of project proposal (**Section II**).
- Drivers for revising ISA 501 (**Section III**).
- Drivers for revising ISA 505 (**Section IV**).
- Drivers for revising ISA 530 (**Section V**).
- Way forward (**Section VI**).

6. This Agenda Item includes the following appendices:

Appendix 1	ISA 500 Series Project Team Assignments and Activities
Appendix 2	Input from Jurisdictional Standards Setters (JSS)
Appendix 3	Information Gathering Activities Related to Targeted Standards in the ISA 500 Series
Appendix 4	ISA 500 Series Private Breakout Session

Approach for this Agenda Item

7. The IAASB discussion will comprise the following:
 - (a) Plenary discussion (90 minutes) on the relevance and completeness of the initial issues identified, as well as the approach for the development of a project proposal as set out in **Sections II–V** of this Agenda Item.
 - (b) Private breakout session (90 minutes) where Board members will be asked to reflect on specific questions to obtain deeper insights on selected issues and other matters identified in **Sections III–V**. See **Appendix 4** for further information about the private breakout session, including the discussion questions.

Section I – Information Gathering to Date

8. For a preliminary identification of the main drivers for revisions to ISA 501, ISA 505 and ISA 530, Staff performed the following:
 - Analysis of stakeholder feedback on prior IAASB consultation papers and exposure drafts.

- Review of recent audit inspection reports from a wide range of jurisdictions.
 - Benchmarking to exposure drafts or analogous auditing standards issued by other standard-setting bodies.
 - Review of non-authoritative guidance and other materials issued by the IAASB and other standard-setting bodies, as well as regulators on relevant topics.
 - Obtained feedback from JSS representatives through a Request for Input in advance of the May 2025 IAASB-JSS meeting on the prioritization of issues or concerns to be considered for modernizing ISA 501, ISA 505 and ISA 530, as well as a discussion on the relevant topics during their meeting in New York City (see **Appendix 2**).
 - Targeted outreach meetings with stakeholders, including audit firms, regulators and others.
9. **Section VI**, Way Forward, addresses the project team's plan to undertake further information-gathering activities after the June 2025 IAASB meeting.
10. The results of the information-gathering activities will inform the development of a project proposal, which will address the project objectives that support the public interest, the key issues to be addressed and the possible actions to address them. The development of the project proposal will consider the “qualitative standard-setting characteristics” set out in the Public Interest Framework (PIF).²

Section II – Development of Project Proposal

11. Information-gathering activities discussed in **Sections I** and **VI** will inform the Board's development of a project proposal, including whether such a project proposal would entail full-scope revisions or narrow-scope amendments³ of the targeted standards in the ISA 500 Series. Based on the information gathering to date discussed in **Section I**, the revisions to the targeted standards are anticipated to be full-scope revisions (recognizing that a decision is still needed on the three discrete topics of ISA 501). It is envisioned that such revisions would follow the CUSP Drafting Principles and Guidelines to enable the writing of standards that result in the consistent and effective application of the ISAs.⁴
12. ISA 501 addresses special considerations for three discrete topics: inventory, litigation and claims, and segment information. Without prejudging the outcome of the ongoing information gathering, Staff notes that to date, with regards to the three topical matters addressed by ISA 501, global technological advancements in inventory systems and management processes alongside the greater use of technological resources when auditing inventories are driving the need for change for that specific topic (see, for example, feedback from outreach with JSS in **Appendix 2**).
13. Staff will continue to gather feedback, and undertake research as appropriate, to inform the Board whether there are other significant issues related to litigation and claims, and segment information that may warrant a global standard-setting action.

² See the Monitoring Group's report, [Strengthening the International Audit and Ethics Standard-Setting System](#).

³ See Components II and III of the IAASB's [Framework for Activities](#).

⁴ See the [Complexity, Understandability, Scalability and Proportionality Drafting \(CUSP\) Principles and Guidelines](#).

Matter for IAASB Consideration:

1. The Board is asked for their views on the approach to the development of a project proposal described in **Section II**.

Section III – Drivers for Revising ISA 501

14. Since the last revision of ISA 501 prior to 2009, inventory management systems used by entities have evolved. For example, there have been increased use of:
 - Perpetual inventory systems that continuously update inventory records in real-time as transactions occur. For example, using radio frequency identification technology to monitor and manage inventory automatically.
 - Warehouse management systems that manage storage, movement and handling of inventory. For example, using fleets of fully autonomous robots to move and store inventory, and using artificial intelligence (AI) and machine learning technologies to predict product demand in order to optimize inventory placement, and streamline warehouse operations (e.g., AI algorithms that determine the most efficient way to store and retrieve items, ensuring that products are always available when needed).
 - Third-party custodians, public warehouses and third-party count services due to the rise in e-commerce and outsourcing inventory management. These third-party service providers offer scalable, flexible solutions that allow entities to manage inventory more efficiently without the need to invest in and maintain their own storage facilities or internal logistics teams.
15. In addition, business interruptions during the COVID-19 pandemic made attendance at physical inventory counts impracticable in some cases, leading auditors to leverage technology in attending inventory counts remotely (e.g., relying on location cameras or drone technologies to visually inspect assets). Also, the increasing use by entities of automated warehouses that operate with minimal human access has also made physical attendance by auditors at inventory counts impracticable.
16. Based on information gathering activities performed, Staff identified the following drivers for revising ISA 501 with respect to the auditor's specific considerations in obtaining sufficient appropriate audit evidence regarding the existence and condition of inventory:
 - (a) Addressing the increased use of technology in entity's management of, and audit of inventories (**Section III–A**). This driver is also informed by the Technology Catalog of Issues and Possible Actions (see Catalog, Issue 6(g)).
 - (b) Clarifying or enhancing the auditor's work effort relating to the existence and condition of inventory (**Section III–B**).
17. For each of the drivers noted in paragraph 16 above, Staff identified issues which could be addressed as part of the revision of ISA 501.

Section III–A – Addressing the Increased Use of Technology in Entity’s Management of, and Audit of Inventories

Issue #1: Evolving Inventory Systems Used by Entities Introduce New or Changing Risks of Material Misstatement

18. As discussed in paragraph 14, there have been notable advancements in the application of technology in inventory management processes, from the purchasing and receiving of inventory, warehousing, and ultimately to the sale and shipping of inventory. Respondents to previous IAASB consultations have noted that ISA 501 does not reflect the modern evolution in technology-based inventory systems and management processes.
19. Such technologies influence the frequency and design of inventory counts, which impact the risks of material misstatement related to inventory, including those arising from:
 - (a) System accuracy and data integrity (e.g., discrepancies between physical and recorded inventory due to scanning errors).
 - (b) Access controls and user management (e.g., weak user permissions when there are too many users with administrative privileges or there is a lack of role-based access controls).
 - (c) System configuration and integration (e.g., integration issues with other systems when inventory systems do not synchronize with enterprise resource planning, procurement, or point of sale platforms which result in misaligned data).

Issue #2: Appropriate Use of Technology for Remote Inventory Observations of the Existence and Condition of Inventory

20. ISA 501 paragraphs 4–7 require that if inventory is material to the financial statements, the auditor attends the entity’s physical inventory counting, unless impracticable, and include requirements about what this entails and actions under certain conditions. In their responses to previous IAASB consultations, stakeholders expressed strong support for addressing the use of technology for remote inventory observations in ISA 501, particularly given the increasing prevalence of highly automated, continuous inventory management systems. Certain stakeholders were of the view that the extant requirement in ISA 501 to attend the entity’s physical inventory count may no longer be relevant in many cases (e.g., highly automated perpetual inventory systems that continuously track inventory levels in real-time through automated updates). They also point out that there is growing use of remote observation tools, accelerated by the COVID-19 pandemic (e.g., where an entity conducts a physical stock count, but the auditor attends it virtually through the use of live video, screen sharing, etc.), and that ISA 501 should be modernized to reflect this shift in the audit environment. In particular, stakeholders noted that ISA 501 lacks:
 - (a) Authoritative material addressing the use of remote observation tools in inventory counts, such as live video, screen sharing, or drone footage.
 - (b) Clarity as to whether “attendance” at physical stock counts can include the use of remote observation tools.
 - (c) Appropriate guidance and examples regarding the use of automated tools and techniques (ATT) in remote inventory observations.

Matters for IAASB Consideration:

2. The Board is asked for their views on whether:
 - (a) The issues identified in **Section III–A** related to addressing the increased use of technology in entity's management of, and audit of inventories are matters that should be explored in the revision of ISA 501; and
 - (b) They are aware of other issues that should be explored related to addressing the increased use of technology in entity's management of, and audit of inventories.

Section III–B – Clarifying or Enhancing the Auditor's Work Effort Relating to the Existence and Condition of Inventory

Issue #3: Auditor's Responsibilities Regarding the Existence and Condition of Inventory Under the Custody and Control of a Third Party

21. If inventory under custody and control of a third party is material to the financial statements, ISA 501 paragraph 8 requires the auditor to obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:
 - (a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
 - (b) Perform inspection or other audit procedures appropriate in the circumstances.
22. Recent audit inspection reports highlighted recurring issues in respect to auditors obtaining sufficient appropriate audit evidence regarding the existence and condition of inventory under the custody and control of a third party, including:
 - (a) Lack of understanding internal controls at third-party service providers. Where inventory management was outsourced (e.g., warehousing and logistics), instances where auditors did not sufficiently understand the nature of services or evaluate the design and implementation of related internal controls—both at the audited entity and the service organization.
 - (b) Overreliance on confirmations from third-party service providers. Instances where auditors relied solely on confirmations from third-party service providers without considering the need for physical inspections or alternative procedures, despite the inventory being material to the financial statements. Regulators were of the view that this audit approach placed implicit reliance on the effectiveness of the controls at the third party, without obtaining an understanding of the third party's controls over inventory processing, including inventory count procedures (see also (a) above).
23. Relevant application material for the requirement described in paragraph 21(b) above is provided in paragraph A16 of ISA 501. Where information is obtained that raises doubt about the integrity and objectivity of the third party, paragraph A16 of ISA 501 provides guidance that sets out examples of audit procedures that the auditor may consider appropriate to perform instead of (or in addition to) confirming with the third party. Benchmarking to analogous auditing standards issued by other standard-setting bodies indicate that certain jurisdictions require more prescriptive procedures to be performed regarding inventory under custody and control of a third party. For example, the Public

Company Accounting Oversight Board's (PCAOB) analogous auditing standard AS 2510⁵ requires other procedures in addition to obtaining confirmation in writing from the custodian.

Issue #4: Challenges in Obtaining Sufficient and Appropriate Audit Evidence Regarding the Existence and Condition of Inventory

24. The following reoccurring challenges in obtaining sufficient appropriate audit evidence regarding the existence and condition of inventory have been identified from recent audit inspection reports:
- (a) Lack of appropriate procedures performed to test inventory movements between the interim count date and period-end date (i.e., when the physical inventory observation is not performed as of the period-end date).
 - (b) Lack of appropriate procedures performed to test the accuracy and completeness of the period-end inventory listing reports (including the completeness of the adjustments made to the inventory listing report used in the testing of the existence of inventory).
 - (c) Limited or no procedures performed to obtain evidence on the frequency, completeness and accuracy of cycle counts⁶ performed by management for perpetual inventory systems. In such cases, auditors failed to obtain sufficient appropriate audit evidence that the entity's cycle count procedures over inventory were sufficiently reliable to produce results substantially the same as those that would have been obtained by a count of all items at a point in time.
25. Such reoccurring challenges may indicate a need for further enhancement or clarification of requirements or application material in ISA 501.

Matters for IAASB Consideration:

3. The Board is asked for their views on whether:
- (a) The issues identified in **Section III–B** related to clarifying or enhancing the auditor's work effort relating to the existence and condition of inventory are matters that should be explored in the revision of ISA 501; and
 - (b) They are aware of other issues that should be explored related to clarifying or enhancing the auditor's work effort relating to the existence and condition of inventory.

Section IV – Drivers for Revising ISA 505

26. ISA 505 was last revised and redrafted in 2008 and addresses traditional external confirmation methods, such as postal services and electronic means, such as fax and email. Methods of communication with confirming parties have evolved significantly since then. In the current environment, auditors use various additional electronic means for confirmation, including:
- (a) Firm-acquired or developed ATT that enable secure communication, such as robotic process automation-enabled platforms and application program interfaces.

⁵ See Auditing Standard (AS) 2510, *Auditing Inventories*, paragraph 14.

⁶ When an entity performs an inventory cycle count instead of a full physical count, it means they are choosing to count smaller subsets of inventory items on a rotating basis, rather than counting all inventory items at once.

- (b) Third-party intermediaries or shared-service centers, which use automated platforms to facilitate confirmation requests.
27. The widespread adoption of confirmation procedures facilitated by using technology introduces risks and considerations not explicitly addressed in extant ISA 505. For example, considerations about the auditor's control over the automated confirmation process when using intermediaries, evaluating the reliability of the audit evidence obtained electronically, and ensuring the security of communication channels to verify that confirmations are sent to, and received from, the appropriate third party.
28. The lack of well-executed external confirmation procedures has also been highlighted in some high-profile financial reporting frauds, emphasizing the need to consider mandating external confirmation procedures for certain balances (e.g., cash and accounts receivable), as well as the importance of appropriately assessing the reliability of confirmation responses received, and when in doubt, performing additional procedures to obtain reliable audit evidence.
29. Based on the information gathering performed, Staff identified the following drivers for revising ISA 505:
- (a) Addressing the increased use of technology in external confirmation procedures (**Section IV–A**). This driver is also informed by the Technology Catalog of Issues and Possible Actions (see Catalog, Issue 6(f)).
 - (b) Clarifying or enhancing the auditor's work effort relating to external confirmation procedures (**Section IV–B**).
30. For each of the drivers noted in paragraph 29 above, Staff identified issues which could be addressed as part of the revision of ISA 505.

Section IV–A – Addressing the Increased Use of Technology in External Confirmation Procedures

Issue #5: Implications of Using Technology-Enabled Means, Including Third-Party Intermediaries, in External Confirmation Procedures for the Requirement in ISA 505 to Maintain Control Over the Confirmation Process

31. When using external confirmation procedures, ISA 505 paragraph 7 requires the auditor to maintain control over external confirmation requests. When an intermediary facilitates direct electronic communication between the auditor and the confirming party, the auditor is still required to maintain control over the confirmation process.
32. Regulators observed that procedures performed by auditors to address this requirement vary depending on facts and circumstances. Auditors in certain jurisdictions have used a report on controls at a service organization (“SOC report”) to evaluate the design and operating effectiveness of the intermediary's controls relevant to sending and receiving confirmations.
33. Respondents to previous IAASB consultations noted that certain external confirmations (e.g., bank confirmations) are now increasingly obtained electronically through secure digital confirmation platforms provided by third parties. Stakeholders also noted an increasing number of international banks who mandate the use of an intermediary as part of the confirmation process and will not otherwise respond to an auditor's confirmation request due to concerns around security of personal and financial information of customers.

34. Against this backdrop, stakeholders emphasize the need to consider the implications of using third-party intermediaries in the external confirmation process. Some believe that technology-facilitated platforms offer efficient and secure external confirmation responses that meet the attributes of reliability of information to be used as audit evidence (i.e., accuracy, completeness, authenticity, credibility and free from bias). Some stakeholders also suggest that ISA 505 permits the auditor to rely on the use of such services without treating these service providers as service organizations under ISA 402.⁷
35. Analysis of other standard-setting initiatives indicates enhancements or clarifications to analogous auditing standards, as follows:
- (a) The PCAOB's AS 2310⁸ includes principles-based requirements that are designed to apply broadly to all methods of confirmation, including the use of paper-based confirmation requests, methods that involve electronic means of communication (e.g., e-mail or an intermediary to facilitate direct electronic transmission of confirmation requests and responses), as well as methods that are yet to emerge.
 - (b) The Financial Reporting Council's (FRC) ISA (UK) 505 (Revised October 2023)⁹ clarified the external confirmation definition to indicate that an electronic or other medium could include auditors directly accessing information held by third parties through web portals, software interfaces or other digital means.
 - (c) The Exposure Draft of Proposed Statement on Auditing Standards (SAS), *External Confirmations*, issued on February 27, 2025 by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA), clarified in the definition of "confirming party" that an intermediary is a party, other than the auditor or the confirming party, who facilitates direct electronic transmission of confirmation requests and external confirmation responses between the auditor and the confirming party. In addition, the Exposure Draft proposes new requirements and guidance when evaluating the implications on the reliability of confirmation requests and external confirmation responses when determining whether to use an intermediary.

Matters for IAASB Consideration:

4. The Board is asked for their views on whether:
- (a) The issue identified in **Section IV–A** related to addressing the increased use of technology in external confirmation procedures is a matter that should be explored in the revision of ISA 505; and
 - (b) They are aware of other issues that should be explored related to addressing the increased use of technology in external confirmation procedures.

Section IV–B – Clarifying or Enhancing the Auditor's Work Effort Relating to External Confirmation Procedures

⁷ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

⁸ AS 2310, *The Auditor's Use of Confirmation*

⁹ ISA (UK) 505 (Revised October 2023), *External Confirmations*, paragraph 6(a)

Issue #6: Concern Over the Use of Negative Confirmations in the Current Environment

36. ISA 505 paragraph 15 explains that negative confirmations¹⁰ provide less persuasive audit evidence than positive confirmations and accordingly prohibits the auditor from using negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level unless specific conditions are all present. Paragraph A23 of ISA 505 provides guidance and examples about the nature of negative confirmation requests and explains why they provide less persuasive audit evidence than positive confirmation requests.
37. Respondents to previous IAASB consultations expressed concerns about the relevance and reliability of the audit evidence obtained from negative confirmation requests in the current environment. Certain stakeholders suggested revisiting the concept of negative confirmations, while others suggested prohibiting the use of negative confirmations on the basis of the evidence being unreliable, given that a failure to receive a response to a negative confirmation request may be an oversight or a desire not to respond.
38. In addition, findings from recent audit inspection reports indicated that some auditors did not fulfill their responsibilities under the existing standard to restrict the use of negative confirmation requests to situations where the risk of material misstatement was assessed as low.
39. Analysis of other standard-setting initiatives indicates that some analogous auditing standards have prohibited the use of negative confirmations, such as ISA (UK) 505 (Revised October 2023).¹¹ While not prohibiting the use of negative confirmations, AS 2310¹² explicitly recognizes that the use of negative confirmation requests alone does not provide sufficient appropriate audit evidence (and includes examples of situations where the auditor may use negative confirmation requests to supplement other substantive audit procedures).

Issue #7: Using External Confirmation Procedures Alone Does Not Provide Sufficient Appropriate Audit Evidence for All Assertions

40. Application material in paragraph A4 of ISA 505 sets out factors to consider when designing confirmation requests. Such factors, among other matters, refer to the assertions being addressed.
41. Recent audit inspection findings indicated that some auditors inappropriately rely on external confirmations for certain assertions (e.g., valuation of unquoted investments). Certain regulators were of the view that if the auditor intends to place reliance on external confirmations from custodians, fund managers or brokers for the valuation of unquoted investments, the auditor should also evaluate the objectivity, competence and the valuation methodology of such third parties.
42. Benchmarking of ISA 505 to analogous auditing standards issued by other standard-setting bodies indicates opportunities to consider enhancements or clarifications in the standard. For example:

¹⁰ A negative confirmation request directs the recipient to respond only when the recipient disagrees with the information included in the request.

¹¹ ISA (UK) 505 (Revised October 2023), paragraph 6(c)

¹² AS 2310, paragraphs .12–.13

- (a) The FRC's ISA (UK) 505 (Revised October 2023)¹³ enhances the auditor's work effort when designing confirmation requests by requiring the auditor to determine that requests are appropriately designed to provide evidence relevant to the assertions being addressed.
- (b) The PCAOB's AS 2310¹⁴ sets out examples of financial statement assertions for which a confirmation process, when properly designed and executed, can provide relevant and reliable audit evidence.

Issue #8: Challenges Over the Reliability of Responses to Confirmation Requests

- 43. ISA 505 paragraphs 10–11 include requirements addressing the reliability of responses to confirmation requests, in particular:
 - (a) If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request.
 - (b) If the auditor determines that a response to a confirmation request is not reliable.
- 44. Respondents to previous IAASB consultations noted that in certain cases, external confirmations, even when received directly by the auditor, may not be reliable on their own. Stakeholders also noted that it is critical for confirmation requests to be properly designed and that confirmation responses are appropriately evaluated, especially when there are exceptions or doubts about their reliability.
- 45. Regulatory inspection reports identified instances where auditors did not perform procedures to resolve doubts about the reliability of the response to a confirmation request or, when applicable, perform sufficient alternative procedures. For example, although confirmation responses were received directly by the auditor, mismatches in email domains between respondents and entity's websites were not investigated further. Regulatory findings also indicated failures by auditors to address doubts about the reliability of the response to a confirmation request, including considerations of the risk of fraud. Regulators noted that in the case of some financial reporting frauds, the entity's misconduct could possibly have been detected at an earlier point in time had the auditor made an appropriate assessment of the reliability of confirmation responses received, or performed alternative procedures needed to obtain reliable audit evidence.
- 46. Benchmarking of ISA 505 to analogous auditing standards issued by other standard-setting bodies indicates opportunities to consider enhancements or clarifications of the standard. For example, the PCAOB's AS 2310 identifies situations where other procedures should be performed by the auditor as an alternative to an external confirmation and sets out examples of alternative procedures that individually or in combination may provide relevant and reliable audit evidence.

Issue #9: Considerations About the Need to Perform External Confirmation Procedures

- 47. Recent regulatory audit inspection reports have highlighted findings about insufficient confirmation procedures over cash and cash equivalent balances and accounts receivables. As discussed in paragraph 28, high-profile financial reporting frauds have also called attention to the importance of well-executed confirmation procedures, including the confirmation of cash and cash equivalent balances.

¹³ ISA (UK) 505 (Revised October 2023), paragraph 7(c)

¹⁴ AS 2310, paragraph .06

48. Traditionally, auditors have commonly used external confirmations in circumstances where reliable audit evidence about financial statement assertions could be obtained directly from a third party that enters into transactions with the entity (e.g., to confirm the existence of cash or accounts receivable). However, increasing concerns about phishing attempts by unauthorized parties aimed at obtaining sensitive personal or financial information from customers have resulted in some customers not understanding or trusting an unsolicited confirmation request from an auditor. In addition, financial institutions and other companies more commonly advise customers not to reply to unsolicited correspondence concerning their accounts or other customer relationships.
49. Analysis of other standard-setting initiatives indicate that some analogous auditing standards mandate confirmation procedures for certain account balances or transactions. For example:
 - (a) The PCAOB's AS 2310 requires the auditor to perform confirmation procedures for cash held by third parties, accounts receivable, and to consider confirming the terms of certain other transactions in certain circumstances.
 - (b) The AICPA is also proposing amendments to its auditing standards to use external confirmation procedures for cash and cash equivalents when responding to the assessed risks of material misstatement, as well as enhanced documentation requirements for any determination not to use external confirmation procedures for both accounts receivable and cash held by third parties.

Issue #10: Clarifying the Auditor's Work Effort When Addressing Non-Responses and Exceptions in External Confirmation Procedures

50. ISA 505 paragraphs 12–14 include requirements addressing non-responses and exceptions in external confirmation procedures.
51. Respondents to previous IAASB consultations, as well as findings from recent audit inspection reports, highlighted concerns about the work performed by auditors when addressing non-responses and exceptions. The main concerns identified include:
 - (a) The sufficiency and appropriateness of alternative procedures addressing non-responses.
 - (b) The lack of investigation on whether exceptions are indicative of misstatements.
 - (c) The evaluation of the impact of the misstatements identified on assessed risks of material misstatement, including on internal controls.
52. Analysis of other standard-setting initiatives indicated that some analogous auditing standards have strengthened the work effort expected from the auditor when addressing non-responses and exceptions from external confirmation procedures. For example:
 - (a) The PCAOB's AS 2310 includes expanded requirements and guidance on evaluating confirmation exceptions and addressing non-responses and incomplete responses, including guidance on alternative procedures to perform for selected items for testing.
 - (b) With respect to exceptions, the FRC's ISA (UK) 505 (Revised October 2023)¹⁵ includes a new requirement for the auditor to consider specific factors when determining the timing and extent of any additional audit procedures. Also, with respect to non-responses, ISA (UK) 505 (Revised

¹⁵ ISA (UK) 505 (Revised October 2023), paragraph 14-1

October 2023)¹⁶ provides examples of alternative procedures that the auditor may include for bank balances.

Matters for IAASB Consideration:

5. The Board is asked for their views on whether:
 - (a) The issues identified in **Section IV–B** related to clarifying or enhancing the auditor’s work effort relating to external confirmation procedures are matters that should be explored in the revision of ISA 505; and
 - (b) They are aware of other issues that should be explored related to clarifying or enhancing the auditor’s work effort relating to external confirmation procedures.

Section V – Drivers for Revising ISA 530

53. ISA 530 only applies when the auditor has decided to use audit sampling in performing audit procedures. The design and performance of further audit procedures, including their nature, timing and extent that are responsive to the assessed risks of material misstatement are dealt with in ISA 330.¹⁷
54. ISA 530 deals with the auditor’s use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls or tests of details on each item selected, and evaluating the results from the sample. While the use of certain technologies (e.g., data analytics or more advanced technologies such as AI) will likely play a significant role in how auditors obtain audit evidence and may impact the circumstances for and extent to which substantive sampling is used, audit sampling for tests of details remains an important means of selecting items for testing when obtaining audit evidence.
55. Given the continued relevance of using audit sampling on most audit engagements, there has been strong support among a broad range of stakeholders for revising ISA 530 (which was last revised prior to 2009) to:
 - (a) Reflect current audit practices and technological developments, particularly the increasing use of technology and data analysis tools to facilitate audit sampling.
 - (b) Address actual or perceived performance issues in applying audit sampling by driving the clarity of, and consistency of applying, requirements and application material of ISA 530. Areas specifically highlighted include the determination of sample sizes and investigating deviations and misstatements.
56. Different sampling approaches can result in significant differences in the size and composition of the sample, and how representative it is of the population. This impacts the extent to which auditors can draw valid conclusions about the population and obtain sufficient appropriate audit evidence from the procedures performed.
57. Based on the information gathering performed, Staff identified the following drivers for revising ISA 530:

¹⁶ ISA (UK) 505 (Revised October 2023), paragraph A18

¹⁷ ISA 330, *The Auditor’s Responses to Assessed Risks*

- (a) Addressing the increased use of technology to facilitate audit sampling (**Section V–A**).
 - (b) Clarifying or enhancing the auditor's work effort relating to audit sampling (**Section V–B**). This driver is also informed by the Technology Catalog of Issues and Possible Actions (see Catalog, Issue 6(e)).
58. For each of the drivers noted in paragraph 57 above, Staff identified issues which could be addressed as part of the revision of ISA 530.

Section V–A – Addressing the Increased Use of Technology to Facilitate Audit Sampling

Issue #11: Implications of Using Technology-Facilitated Sampling Tools

59. Respondents to previous IAASB consultations noted that ISA 530 does not reflect the evolution in practice driven by the use of technology-facilitated sampling tools by auditors to obtain audit evidence. Stakeholders recognized the significant role that technology has to play in how auditors facilitate audit sampling, for example, in determining sample sizes and selecting items for the sample when responding to assessed risks of material misstatement.
60. Against this backdrop, certain stakeholders suggested modernizing ISA 530 to reflect the following:
- (a) The impact of using technology-facilitated sampling tools to support a more systematic and consistent determination of sample sizes and better estimation of parameters such as expected misstatements and tolerable misstatements, which directly affect the sample size.
 - (b) The impact of using technology-facilitated sampling tools to support the customization of audit sampling based on entity-specific data. Technology-facilitated sampling tools may allow for tailoring sampling strategies based on specific characteristics of the entity's data, including historical trends, transaction volumes and control effectiveness.
 - (c) Addressing concerns around overreliance on using technology-facilitated sampling tools, including failures in documenting significant judgments made by auditors.

Matters for IAASB Consideration:

6. The Board is asked for their views on whether:
- (a) The issue identified in **Section V–A** related to addressing the increased use of technology to facilitate audit sampling, is a matter that should be explored in the revision of ISA 530; and
 - (b) They are aware of other issues that should be explored related to the use of technology to facilitate audit sampling.

Section V–B – Clarifying or Enhancing the Auditor's Work Effort Relating to Audit Sampling

Issue #12: Applying Audit Sampling When Investigating Exceptions Identified from Interrogating or Analyzing Entire Populations Using ATT

61. Stakeholders noted that the use of ATT may allow auditors to interrogate or analyze entire populations, which may result in the identification of a greater number of exceptions (i.e., items that

are indicative of deviations for tests of controls or misstatements for substantive procedures) as compared to traditional audit sampling.¹⁸

62. Relevant IAASB non-authoritative material, [*Frequently Asked Questions \(FAQ\) on Investigating Exceptions and Relevance of Performance Materiality When Using ATT*](#), provides guidance that exceptions identified from using ATT to interrogate or analyze entire populations, which are indicative of deviations or misstatements, are further investigated by the auditor to determine whether a control deviation or a misstatement actually exists. When investigating such exceptions, the FAQ provides guidance that it may be appropriate to perform further testing by applying audit sampling in accordance with ISA 530 on a sample of exceptions when there is a reasonable basis on which to draw conclusions about the entire population of exceptions. The FAQ further provides guidance that when audit sampling is applied on the exceptions to be investigated, it is important that the auditor selects a representative sample, so that bias is avoided, by choosing sample items which have characteristics typical of the population of exceptions (which may be achieved with or without stratification of the population).
63. Certain stakeholders indicated that there may be a need for further enhancement or clarification of requirements or application material in ISA 530 on the basis of the guidance provided in the FAQ. On the other hand, the Technology Catalog of Issues and Proposed Actions noted that this FAQ has been challenged by audit regulators (see Catalog, Issue 6(e)) on the basis that it may suggest that auditors can choose to ignore exceptions in certain circumstances and revert to “alternative procedures” to test the underlying population (i.e., noting that the auditor cannot “unsee” what they have seen and that it would be inappropriate to ignore the outputs of an ATT used to interrogate or analyze an entire population). Therefore, there is a need to address this circumstance more broadly, including ensuring appropriate work effort, while not inadvertently driving inappropriate behavior.

Issue #13: Challenges in Defining the Population

64. ISA 530 paragraph 6 requires the auditor to consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.
65. Respondents to previous IAASB consultations as well as recent audit inspection findings have noted certain challenges for auditors in defining the population properly, including whether to stratify a population or combine sub-populations as a single population (e.g., inappropriate combination of multiple revenue streams as a single population, or inappropriate combination of research and development expenses with general expenses in one population) and in obtaining evidence regarding the completeness of the population. Such reoccurring challenges may indicate a need for further enhancement or clarification of requirements or application material in ISA 530.

Issue #14: Challenges in Determining Sufficient Sample Sizes

66. ISA 530 paragraph 7 requires the auditor to determine a sample size sufficient to reduce sampling risk to an acceptably low level.

¹⁸ The use of ATT to interrogate or analyze a population often requires the auditor to develop an expectation for the population on which that ATT will be applied, including what would constitute items that are indicative of control deviations or misstatements, by considering the purpose of the audit procedure. Such expectation is based on the auditor’s understanding of the entity and its environment, and their understanding of the classes of transactions, account balances or disclosures being addressed.

67. Respondents to previous IAASB consultations as well as recent audit inspection findings have highlighted issues with the determination of sample sizes, including:
- (a) Insufficient sample sizes when performing procedures for more than one purpose. While most firm audit methodologies include guidance on how to undertake, for example, dual-purpose testing, there appears to be challenges relating to the dual purpose of the tests. This can lead to, for example, auditors only selecting the smaller sample size determined for test of controls and performing test of details on that same sample size, without including additional samples needed to be able to conclude that sampling risk has also been reduced to an acceptably low level for the test of details.
 - (b) Inappropriate reduction of sample sizes substantially based on the results of other procedures. In instances where auditors overestimate the amount of audit evidence obtained from other procedures, auditors determined a smaller sample size that was deemed insufficient to reduce sampling risk to an acceptably low level—a common finding also raised in many audit inspection reports.
68. Such reoccurring challenges may indicate a need for further enhancement or clarification of requirements or application material in ISA 530.

Issue #15: Challenges in Selecting Items for the Sample, Including the Use of Non-Statistical Sampling

69. ISA 530 paragraph 8 requires the auditor to select items for the sample in such a way that each sampling unit in the population has a chance of selection.
70. Respondents to previous IAASB consultations as well as recent audit inspection findings have noted certain challenges in selecting items that are representative of the population and in a non-biased way. In particular, concerns were noted about the use of non-statistical sampling (i.e., haphazard selection). Haphazard selection was historically most useful when transaction listings were not available from audited entities in an electronic format that would allow for the statistical selection of items (i.e., random selection). Today, populations of transaction data can typically be exported into a format suitable for analysis and use in sampling tools. This makes random selection simpler to perform, although there may still be instances where haphazard selection may be the most appropriate method, for example, in stock-count floor-to-sheet testing. A sample selected haphazardly rather than randomly, has a greater risk of bias. As such, extrapolated errors are less likely to be representative of the error rate in the population as a whole. For this reason, while haphazard selection remains permissible and may, in certain situations, be most appropriate, regulators in certain jurisdictions have suggested that firm methodologies actively encourage the use of random selection over haphazard selection where it is feasible to do so. Systematic selection, for example, can also be used in non-statistical sampling.
71. There is a need to further explore issues and their root causes with respect to selection of a representative sample and how this may be addressed in ISA 530.

Issue #16: Challenges in Investigating Deviations and Misstatements, Including Anomalies, in Audit Sampling

72. ISA 530 paragraphs 12–15 include requirements addressing the nature and cause of deviations and misstatements, projecting misstatements, and evaluating the results of audit sampling.

73. Respondents from previous IAASB consultations as well as recent audit inspection findings have highlighted issues with the investigation of deviations and misstatements, including anomalies, identified from audit sampling procedures. The key concerns include:
- (a) Investigating the nature and cause of any deviations or misstatements identified, particularly those considered to be an anomaly.¹⁹
 - (b) Appropriately evaluating the impact of deviations or misstatements identified on the reassessment of the risks of material misstatement, including the impact on internal controls.
 - (c) Projecting misstatements identified to the population and evaluating the results of audit sampling. Although firms ordinarily have established methodologies to project misstatements identified in the sample to the population, regulators noted frequently observing auditors projecting misstatements without sufficiently understanding the nature and cause of misstatements identified.
74. Paragraph A19 of ISA 530 explains that when a misstatement has been established as an anomaly, it may be excluded when projecting misstatements to the population. However, the effect of any such misstatement, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous misstatements. Analysis of other standard-setting initiatives indicate that some analogous auditing standards, such as the PCAOB's AS 2315²⁰ and the AICPA's AU-C Section 530,²¹ do not address the concept of an anomaly, on the basis that anomalies identified by the auditor during audit sampling should be treated in the same manner as any other misstatements identified by the auditor.

Issue #17: Challenges Relating to Documentation in Audit Sampling

75. ISA 530 does not establish specific documentation requirements that would clarify the application of ISA 230²² for audit sampling. Stakeholders noted that this may have contributed to audit documentation not always reflecting the auditor's thought process in designing, performing and concluding on an audit sample. Recent audit inspection findings highlighted:
- (a) Insufficient documentation of professional judgments made when determining sample sizes.
 - (b) Insufficient documentation of the reasons for selecting items either as key items in audit sampling, or as specific items (e.g., documentation was generally focused on size, such as "selecting everything over 50% of performance materiality," with no consideration of why that was an appropriate threshold).
 - (c) Insufficient documentation of why haphazard selection would be the most appropriate method when random selection would also be a plausible option thereby reducing the possibility of bias.

¹⁹ ISA 530 paragraph 5(e) defines an anomaly as a misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

²⁰ AS 2315, *Audit Sampling*

²¹ AU-C Section 530, *Audit Sampling*

²² ISA 230, *Audit Documentation*

Matters for IAASB Consideration:

7. The Board is asked for their views on whether:
- (a) The issues identified in **Section V–B** related to clarifying or enhancing the auditor’s work effort relating to audit sampling are matters that should be explored in the revision of ISA 530; and
 - (b) They are aware of other issues that should be explored related to clarifying or enhancing the auditor’s work effort relating to audit sampling.

Section VI – Way Forward

76. Staff plans to perform the following information gathering activities after the June 2025 meeting:

Review

- (a) Review guidance, thematic reviews and other materials that have been issued by JSS, professional accountancy organizations and audit oversight bodies.
- (b) Further review of inspection findings. This involves reviewing additional inspection finding reports from various jurisdictions, including additional 2024/2025 reports that will be issued in 2025.

Targeted Outreach

- (c) Discussions with Monitoring Group members (e.g., International Forum of Independent Audit Regulators’ (IFIAR) Standards Coordination Working Group (SCWG) and International Organization of Securities Commissions’ (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1)).
- (d) Working sessions with firms, regulators and other stakeholders.
- (e) Deep-dive session with the Forum of Firms in June 2025.
- (f) Outreach with the International Federation of Accountants’ (IFAC) Small and Medium Practices Advisory Group (SMPAG).
- (g) Engagement with the Stakeholder Advisory Council (SAC) in October 2025.

Academic Research

- (h) Perform a review of relevant academic journals, papers and literature addressing topics of relevance to the targeted standards in the ISA 500 Series.

Coordination

- (i) Coordinate on certain topics with the International Ethics Standards Board for Accountants (IESBA).
- (j) Coordinate on certain topics with the Audit Evidence and Risk Response project team, the Professional Skepticism Consultation Group and the Technology Consultation Group.

77. At the IAASB meeting in December 2025, Staff intends to present to the Board the feedback obtained from the information gathering activities noted above and an initial draft outline of a project proposal for revising the targeted standards in the ISA 500 Series.

Matter for IAASB Consideration:

8. The Board is asked for their views on whether they are aware of any initiatives not already mentioned that may be of interest for the purpose of the information gathering for the project.

Appendix 1

ISA 500 Series Project Team Assignments and Activities

IAASB Staff Contacts

1. The IAASB Staff contacts for the project are:
 - Kalina Shukarova Savovska
 - Hankenson Jane L. Talatala
 - Nathalie Baumgaertener Dutang

Project Board Members

2. The Project Board Member contacts for this project are:
 - Josephine Jackson
 - Greg Schollum
3. The project team held two meetings (i.e., one physical in March 2025 and one hybrid in May 2025) with the Project Board Members to receive input and advice in the development of the issues presented in this Agenda Item, as well as for the ongoing outreach activities that inform the information-gathering of the project.
4. Information about the project can be found on the IAASB Website, [here](#).

Appendix 2

Input from JSS

Feedback from JSS

1. At their meeting in New York on May 7–9, 2025, JSS representatives were provided an overview of certain focus areas identified to date relevant to scoping a project for the revision of targeted standards in the ISA 500 Series that include ISA 501 (with a focus on inventory), ISA 505 and ISA 530. Input was sought from JSS representatives whether there are any additional matters regarding those focus areas (as outlined below) that have arisen in their jurisdiction as well as in the context of the overall information-gathering for the in-scope standards.

General Matters

2. JSS representatives supported the initiative to modernize the three standards and revise them, so they remain fit-for-purpose for an evolving business and audit environment. At an overarching level, JSS representatives supported a principles-based approach to the revisions and emphasized the need for conciseness and clarity while undertaking the revisions. In particular:
 - It was highlighted that as subject-specific audit evidence standards, the IAASB should remain mindful of preserving the conciseness of ISA 501, ISA 505 and ISA 530 and avoid introducing undue complexity or length to the standards.
 - They cautioned against embedding too much detail and granularity in the standards that are better addressed through firm methodologies or by non-authoritative guidance.

Focus Area #1: Auditor's Responsibilities When Using a Third Party

3. While supportive of the focus area, JSS representatives emphasized that predominant challenges relating to inventory and external confirmations within their jurisdictions stem from the evolution from how technology is used in business and auditing practices (e.g., developments in inventory systems, such as perpetual inventory systems, the use of remote observation tools, and digital platforms for external confirmation procedures), rather than the use of third-party services themselves. Additional observations included the following matters that may be further considered:
 - Whether the linkage between ISA 501 and ISA 402 is sufficiently clear in cases where a third party is used for inventory management.
 - The extent to which auditors may rely on third-party inventory systems, which is dependent on contractual terms governing the arrangement.
 - Whether situations in which inventories of multiple entities are co-mingled at a single third-party location may render physical observation by the auditor impracticable.
 - Considerations around independence and integrity of third-party services when performing external confirmation procedures.

Focus Area #2: Investigating Deviations and Exceptions

4. JSS representatives recognized the importance of this focus area, noting that:
- There are certain concepts relevant to audit sampling that may require further consideration or clarification, such as the expected auditor's work effort when 'interrogating' an entire population of items, investigating deviations, misstatements and anomalies.
 - It is important to retain a principles-based approach in this area, given that procedural details should be better addressed in methodologies or non-authoritative guidance.

Focus Area #3: External Confirmation Procedures

5. With respect to external confirmation procedures, JSS representatives:
- Had mixed views over the appropriateness of using negative confirmations and whether ISA 505 should mandate the use of external confirmations for certain balances such as for cash and cash equivalents.
 - Noted concern about observed trends of auditors opting to perform alternative procedures or even bypassing performance of external confirmation procedures.

Focus Area #4: Audit Sampling

6. With respect to audit sampling, JSS representatives noted that:
- Inspection reports recurrently observe audit sampling deficiencies, with an increasing trend in recent inspection cycles.
 - There are significant variations in sampling sizes across firms, even where similar risk profiles are present.
 - Common issues in practice relate to the inappropriate or incomplete definition of populations from which samples are drawn.

Other Matters

7. In commenting on whether there are any other matters relevant to ISA 501, ISA 505 or ISA 530 that are of relevance and should be considered when scoping the revisions to the targeted standards in the ISA 500 Series, JSS representatives provided the following feedback:
- For segment information, one JSS representative questioned whether it is necessary to retain the relevant requirements in ISA 501, given this is an area addressed by the financial reporting framework. Other views included that further revisions for segment information could be pursued only when the requirements in the financial reporting framework are strengthened.
 - One JSS representative questioned whether there are other more complex aspects of inventory that should be considered in the revision for ISA 501, such as introducing additional specific considerations related to inventory for work in progress.
 - For litigation and claims, one JSS representative highlighted that there could be benefits of exploring whether there is a need to enhance the interplay with written representations provided by management.

- One JSS representative suggested considering whether there is a need to introduce a high-level requirement in ISA 501 for the auditor's responsibility to consider climate risk, given this is an area where stakeholders expect a response from the auditor in the course of an audit.

Request for Input

8. Input was also sought from JSS in March 2025, through a written request for input, seeking input that highlights any jurisdictional developments and priority issues or concerns relating to modernizing ISA 501, ISA 505 and ISA 530. Eighteen JSS responded to the written request for input, and in their responses, the key priorities indicated matters of relevance consistent with the issues identified in **Sections III–V** of this paper.
9. Other comments provided by individual JSS in their written responses included:
 - Enhancing linkages between foundational requirements of ISA 315 (Revised 2019)²³ for risk identification and assessment and the auditor's work effort under ISA 501 for inventory, and litigation and claims involving the entity.
 - Strengthening the requirements in ISA 501 regarding the auditor's work effort for litigation and claims involving the entity.
 - Enhancing linkages with ISA 600 (Revised)²⁴ in relation to segment information, given the importance of the group auditor evaluating the sufficiency and appropriateness of audit evidence related to segment disclosures consolidated from multiple entities.
 - Addressing specific documentation requirements relating to professional judgments made concerning external confirmations.

²³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

²⁴ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Appendix 3

Information Gathering Activities Related to Targeted Standards in the ISA 500 Series

1. This Appendix summarizes the information gathering activities performed by Staff to identify and understand the main drivers for the revisions to ISA 501, ISA 505 and ISA 530:
 - (a) Analysis of stakeholder feedback from prior IAASB consultation papers and exposure drafts (and the associated board papers incorporating staff and task force analysis of responses), including:
 - (i) [*Exposure Draft of Proposed ISA 500 \(Revised\), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs*](#) (ED-500).
 - (ii) [*Consultation Paper for The IAASB's Proposed Strategy and Work Plan for 2024–2027*](#).
 - (iii) [*Survey Consultation on the IAASB's Work Plan for 2022–2023*](#).
 - (iv) [*Exposure Draft of Proposed ISA 240 \(Revised\), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs*](#) (ED 240).
 - (v) [*Discussion Paper, Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*](#).
 - (b) Review of recent audit inspection reports from a wide range of jurisdictions, including:
 - (i) Canadian Public Accountability Board (CPAB), [*2022 Annual Inspections Results, March 2023*](#), [*2023 Interim Inspections Results, October 2023*](#), [*2023 Annual Inspections Results, March 2024*](#) and [*2024 Interim Inspections Results, October 2024*](#).
 - (ii) IFIAR, [*Survey of Inspection Findings 2022*](#), [*Survey of Inspection Findings 2023*](#) and [*Survey of Inspection Findings 2024*](#).
 - (iii) India's National Financial Reporting Authority (NFRA), [*Inspection Reports from 2022 and 2023*](#).
 - (iv) Japan's Certified Public Accountants and Auditing Oversight Board (CPAFOB), [*Case report from Audit Firm Inspection Results, July 2023*](#) and [*Case report from Audit Firm Inspection Results, July 2024*](#).
 - (v) Saudi Arabia's Capital Market Authority (CMA), [*Most Prominent Observations on Listed Companies Financial Statements Disclosures for the Years 2020 and 2021*](#) and [*The Most Prominent Observations of the Supervision on Registered Accounting Firms for the Years 2020 and 2021*](#).
 - (vi) Securities Commission Malaysia's Audit Oversight Board (AOB), [*Annual Inspection Report 2022*](#) and [*Annual Inspection Report 2023*](#).
 - (vii) Singapore's Accounting and Corporate Regulatory Authority (ACRA), [*Audit Regulatory Report 2023*](#) and [*Audit Regulatory Report 2024*](#).

- (viii) South Africa's Independent Regulatory Board for Auditors (IRBA), [2022 Public Inspection Report on Audit Quality](#) and [2023 Public Inspection Report on Audit Quality](#).
 - (ix) UK FRC, [Tier 1 Firms – Overview, Audit Quality Inspection and Supervision Report, July 2022](#), [Tier 1 Firms – Overview, Audit Quality Inspection and Supervision Report, July 2023](#), [Tier 2 and Tier 3 Audit Firms – Audit Quality Inspection and Supervision, December 2023](#), [Tier 2 and Tier 3 Audit Firms – Audit Quality Inspection and Supervision, December 2024](#) and [Annual Review of Audit Quality, July 2024](#).
 - (x) US PCAOB, [Spotlight – Staff Update on 2023 Inspection Activities, August 2024](#) and [Spotlight – Staff Update on 2024 Inspection Activities, March 2025](#).
- (c) Benchmarking to exposure drafts or analogous auditing standards issued by other standard-setting bodies, including:

Inventory

- (i) AICPA: [Statements on Auditing Standards \(SAS\) AU-C Section 501, Audit Evidence – Specific Considerations for Selected Items](#)
- (ii) UK FRC: [ISA \(UK\) 501, Audit Evidence – Specific Considerations for Selected Items \(Updated May 2022\)](#).
- (iii) US PCAOB: [AS 2510, Auditing Inventories](#)

External Confirmations

- (iv) AICPA: [SAS - AU-C Section 505, External Confirmations](#). The standard includes an extended definition of “external confirmation” as well as extended guidance and examples on confirmation requests sent by e-mail, evaluating the reliability of responses to confirmation requests and non-responses or oral responses.
- (v) AICPA: [Exposure Draft – Proposed SAS External Confirmations](#) released February 28, 2025. The exposure draft is open to comments until June 30, 2025.
- (vi) UK FRC: [ISA \(UK\) 505 \(Revised October 2023\), External Confirmations](#). The standard was revised to take into consideration new digital means of obtaining confirmations as well as to respond to enforcement findings on insufficient audit work on investigating exception and over reliance on negative confirmation.
- (vii) US PCAOB: [AS 2310, The Auditor's Use of Confirmation](#). The new standard was released by the PCAOB in September 2023 to improve the quality of audits when the auditor uses confirmations to reflect changes in the means of communication and in business practice, such as the increasing use of electronic communications and third-party intermediaries in the confirmation process.

Audit Sampling

- (viii) AICPA: [SAS - AU-C Section 530, Audit Sampling](#).
- (ix) Australia's Auditing and Assurance Standards Board (AUASB): [Australian Auditing Standard \(ASA\) 530, Audit Sampling](#).

- (x) UK FRC: [ISA \(UK\) 530, Audit Sampling](#).
- (xi) US PCAOB: [AS 2315, Audit Sampling](#).
- (d) Review of non-authoritative guidance and other materials issued by the IAASB, including:
 - (i) [Frequently Asked Questions \(FAQ\) on Investigating Exceptions and Relevance of Performance Materiality When Using ATT](#) (February 2023).
 - (ii) [Staff Audit Practice Alert - Emerging Practice Issues Regarding the Use of External Confirmations in an Audit of Financial Statements](#) (November 2009).
- (e) Review of non-authoritative guidance and other materials issued by other standard-setting bodies or regulators on relevant topics, including:
 - (i) IFIAR: [Use of technology in audits – observations, risk and further evolution – 2025](#).
 - (ii) Australia's AUASB: [Guidance Statement \(GS\) 016, Bank Confirmation Requests \(June 2022\)](#). The AUASB GS016 on Bank Confirmation was updated in 2022 to modernize the guidance on bank confirmation requests to respond to changes in the way in which bank confirmations are performed.
 - (iii) Canada's CPAB: [CPAB Risk Alert, Third party involvement in the inventory management process](#) (December 2024).
 - (iv) China's Chinese Institute of Certified Public Accountants (CICPA): [Bank Confirmation Guidance](#) (2024) – In Mandarin.
 - (v) Japan's Japanese Institute of Certified Public Accountants (JICPA): [Remote Work Series No.2 – Considerations in Relation to Remote Attendance at Physical Inventory Counting](#) (December 2020).
 - (vi) South Africa's IRBA: [South African Auditing Practice Statement \(SAAPS\) 6, External Confirmations from Financial Institutions](#) (July 2013).
 - (vii) UK FRC: [Thematic Review of Audit Sampling](#) (November 2023).
 - (viii) US PCAOB: [Standards and Emerging Issues Advisory Group \(SEIAG\) Meeting – Briefing Paper, November 2, 2023](#) for the part relating to "Auditing Inventories." Inventory is currently an active project of the PCAOB.
- (f) Request for information on priorities and discussions with JSS on areas of focus for the targeted standard in the ISA 500 Series at their meeting in May 2025 in New York (see **Appendix 2**).
- (g) Targeted outreach with key stakeholders, including ongoing discussions audit firms, regulators and others (e.g., bank confirmation online platform providers).

Appendix 4

ISA 500 Series Private Breakout Session

Objective of Private Breakout Session

The objective of this private breakout session is to have more in-depth discussions and obtain deeper insights on selected issues and matters identified in **Sections III–V**, to contribute to the information gathering phase of the IAASB’s project on the targeted standards in the ISA 500 Series.

Breakout Group Allocations (In-Person Attendees Only)

Group 1	Group 2	Group 3	Group 4	Group 5
Facilitator: Josephine Jackson	Facilitator: Greg Schollum	Facilitators: Hankenson Jane L. Talatala Nathalie Baumgaertener Dutang	Facilitator: Kalina Shukarova Savovska	Facilitator: Willie Botha
1. Tom Seidenstein 2. Neil Morris 3. Antoine Boitard 4. Juan Carlos Guerra 5. Rene Herman 6. Ana Espinal Rae 7. Isabelle Raiche	1. Amaro Gomes 2. Chrystelle Richard 3. Wolf Böhm 4. Sachiko Kai 5. Jamie Shannon 6. Ida Diu 7. Fadi Mansour 8. Jasper van den Hout	1. Robert Koethner 2. Wendy Stevens 3. Xiaoyue Sun 4. Svetlana Berger 5. Angelo Giardina 6. Kazuko Yoshimura	1. Hernán Casinelli 2. Bill Edge 3. Edo Kienhuis 4. Susan Jones 5. Misha Pieters 6. Wenjing Shi 7. Claire Grayston	1. Nancy Cheng 2. Vishal Doshi 3. Mikiko Ono 4. Piyush Chhaged 5. Brian Wilson 6. Kevin Reinhardt 7. Kristie Zhang

Matters for Consideration by Breakout Groups

Groups 1 and 2

Specific Questions Related to ISA 501

1. In relation to Issues #1–#2, what are the key risks that should be explicitly addressed in ISA 501 because of the increased use of technology in entity's management of, and audit of inventories?
2. In relation to Issues #3–#4, what are the root causes of auditors' challenges in obtaining sufficient and appropriate audit evidence regarding the existence and condition of inventory, and are those causes related to differing interpretations or practical deficiencies in complying with the requirements of ISA 501?

Specific Questions Related to ISA 505

3. In relation to Issue #5, what are the key risks that should be explicitly addressed in ISA 505 because of the increased use of third-party intermediaries in external confirmation procedures?
4. In relation to Issues #6, #7 and #9, do you have feedback on matters for further consideration related to:
 - (a) The use of negative confirmations in the current environment?
 - (b) Relying on external confirmations solely as relevant and reliable audit evidence for certain assertions?
 - (c) How common it is in practice to use external confirmation procedures for cash and accounts receivable?
5. In relation to Issues #8 and #10, what are the root causes of auditors' challenges in addressing the reliability of responses to confirmation requests, non-responses and exceptions, and are those causes related to differing interpretations or practical deficiencies in complying with the requirements of ISA 505?

Groups 3, 4 and 5

Specific Questions Related to ISA 530

6. In relation to Issues #11–#12, what are the key risks that should be explicitly addressed in ISA 530 because of the increased use of technology-facilitated sampling tools, as well as the application of audit sampling in investigating an output of using ATT to interrogate entire populations?
7. In relation to Issues #13–#17, what are the root causes of auditors' challenges in:
 - (a) Defining populations for audit sampling?
 - (b) Determining sufficient sample sizes?
 - (c) Selecting items for the sample, including the use of non-statistical sampling?
 - (d) Appropriately investigating deviations and misstatements, including anomalies?
 - (e) Documentation for audit sampling?

In your view, are those challenges related to differing interpretations or practical deficiencies in complying with the requirements of ISA 530?

All Groups (i.e., Groups 1, 2, 3, 4 and 5)

Other Specific Considerations in ISA 501

8. In relation to litigation and claims, and segment information, are you aware of issues of broader relevance that need further enhancement or clarification of relevant requirements or application material in ISA 501?