

Targeted Standards in the ISA 500 Series¹ – Issues Paper

Objectives:

The objectives of the IAASB discussion in December 2025 are to:

- (a) Provide an overview of the key findings from the information-gathering and research activities undertaken to date for scoping a project to revise targeted standards in the ISA 500 Series.
- (b) Obtain the Board's input and direction for developing a draft project proposal, including:
 - Determining the specific ISA 500 Series standards to be included in a standard-setting project (i.e., 'in-scope standards').
 - The public interest issues, the possible project objectives, the project actions and the project timeline for revising the in-scope standards.

Based on the Board's input, Staff will update the draft project proposal, which will be presented for discussion and approval at the March 2026 IAASB meeting.

Approach to the Board Discussion:

During the December 2025 IAASB meeting, Staff will provide an overview of the information-gathering and research activities that forms a basis for a project to revise targeted standards in the ISA 500 Series, including the key insights and messages received from the feedback of the stakeholder outreach (see **Agenda Item 11–B**). Board members will be asked for their reflections on the information gathering, as well as any views on the outreach activities and the consideration of the feedback.

Next, the discussion will focus on a draft project proposal. Staff will go through the questions for the Board (i.e., 'Matters for IAASB Consideration') in the order they are set out in this Agenda Item and where applicable, will refer to the ISA 500 Series Draft Project Proposal included in **Agenda Item 11–A**.

Introduction

Background

1. In June 2025, the IAASB discussed the main drivers and key issues identified to date relating to the targeted standards in the ISA 500 Series. The Board provided directional input and suggestions about matters:
 - (a) To be considered further in the information-gathering and research activities that provide a basis for development of a project proposal addressing the targeted standards in the ISA 500 Series.
 - (b) Relevant to the scope and approach to developing a project proposal (see paragraphs 18–19 below).

¹ The targeted standards in the ISA 500 Series include: the considerations in respect of inventory in the International Standard on Auditing (ISA) 501, *Audit Evidence—Specific Considerations for Selected Items*, ISA 505, *External Confirmations* and ISA 530 *Audit Sampling*.

2. The [approved June 2025 IAASB meeting minutes](#) are available on the IAASB Quarterly Board Meeting – June 16-18, 2025 webpage.

Materials Presented

Matters Addressed in this Agenda Item

3. **Sections I–III** of this Agenda Item set out the following:
- Overview of information-gathering and research activities (**Section I**).
 - Development of the project proposal (**Section II**).
 - Way forward (**Section III**).

ISA 500 Series Draft Project Proposal

4. **Agenda Item 11–A** includes an initial draft of a project proposal for revising the in-scope standards in the ISA 500 Series.

Appendices and Supplemental Agenda Items Accompanying This Paper

5. This Agenda Item includes the following appendices and supplemental agenda items:

Appendix 1	ISA 500 Series Project Team and Activities
Appendix 2	Key Insights from the IAASB’s Private Breakout Session in June 2025
Appendix 3	Input from the Technology Consultation Group (TCG)
Appendix 4	Mapping of Initial Issues Presented to the IAASB in June 2025 to Key Issues Proposed to Be Addressed by the Project
Agenda Item 11–B	Feedback from Outreach Activities
Agenda Item 11–C	Academic Research Review
Agenda Item 11–D	Benchmarking to Analogous Auditing Standards
Agenda Item 11–E	Other Research Activities

Input from the Board in June 2025

6. In June 2025, the Board provided Staff with deeper insights on selected issues relevant to the targeted standards in the ISA 500 Series during breakout group discussions. **Appendix 2** provides a summary of the key feedback received.

Coordination Activities

Audit Evidence and Risk Response (AE&RR)

7. Staff have continued to coordinate with the AE&RR project when undertaking outreach activities (e.g., joint meetings and discussions with stakeholders to gather feedback). In addition, in September 2025, Staff of both projects met to discuss stakeholder feedback relevant to topics that link to the concepts and principles addressed in ISA 330² and ISA 500,³ such as the auditor's consideration whether to perform external confirmation procedures as substantive procedures and audit sampling as a means of selecting items for testing.

TCG

8. In October 2025, Staff sought views from TCG members and Staff on certain technology-related matters addressed by the Draft Project Proposal to facilitate alignment with the findings of the technology gap analysis captured in the [Catalog of Issues and Proposed Actions](#). **Appendix 3** summarizes key insights shared by TCG members and Staff.

Section I – Overview of Information-Gathering and Research Activities

9. Staff undertook comprehensive information-gathering and research activities, as outlined in paragraphs 10–14 below and as further discussed in **Agenda Items 11–B to 11–E**. Such information-gathering provides an informed basis for the development of a project proposal for the targeted standards in the ISA 500 Series.



Stakeholder Outreach

10. Since April 2025, Staff undertook outreach activities with a broad range of stakeholders to gather feedback and insights to inform the development of a project proposal. Broadly, such outreach included:
 - (a) Deep-dive sessions with Monitoring Group (MG) members, engagement with regulators and audit oversight authorities, and working sessions with individual audit firms addressing a broad range of topics relevant to the specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to certain aspects of inventory (considerations in respect of inventory) in ISA 501, external confirmations in ISA 505 and audit sampling in ISA 530.
 - (b) Discussion with Jurisdictional Standard Setters (JSS) at the annual IAASB-JSS Liaison Group meeting in New York on May 8–9, 2025, to receive input and views on certain topics that was also discussed by the Board in June 2025.

² ISA 330, *The Auditor's Responses to Assessed Risks*

³ ISA 500, *Audit Evidence*

- (c) Deep-dive session with the Forum of Firms (FoF) at their meeting on June 24, 2025, in New York.
 - (d) Engagement with the International Federation of Accountants' (IFAC) Small and Medium Practices Advisory Group (SMPAG) at their virtual meeting on July 23, 2025.
 - (e) Meeting with a representative from a digital confirmation platform provider.
11. Further details of the outreach activities undertaken and the key insights from the stakeholder feedback are available in **Agenda Item 11–B**. Staff considered the collective feedback from the stakeholder outreach when determining the in-scope standards to be included in a proposed standard-setting project and for developing the Draft Project Proposal discussed in **Section II**.

Academic Research Review

12. **Agenda Item 11–C** sets out a register of relevant academic research papers that were further reviewed by Staff to inform a project to revise the targeted standards in the ISA 500 Series. The compilation of the initial list of research was outsourced to a team of researchers from the Postgraduate Department of the University of the Witwatersrand (i.e. Wits researchers), supervised by Professor Warren Maroun (IAASB Member 2022–2024) from the Wits Margo Steele School of Accountancy of the University of the Witwatersrand.

Benchmarking to Analogous Auditing Standards

13. A benchmarking analysis, presented in **Agenda Item 11–D**, was undertaken to compare the requirements relating to inventory in ISA 501, external confirmations in ISA 505 and audit sampling in ISA 530 with corresponding standards issued by certain JSSs. The objective was to identify key differences that may highlight potential enhancements or clarifications to the targeted standards in the ISA 500 Series.

Other Research Activities

14. To identify and understand the main drivers that provide a basis for developing a project proposal, Staff was also informed by analysis and review of papers from a wide range of other sources. **Agenda Item 11–E** provides an overview of the other research activities undertaken, including stakeholder feedback on prior consultation papers and exposure drafts, non-authoritative materials and other literature as well as audit inspection reports from a wide range of jurisdictions.

Matter for IAASB Consideration:

1. The Board is asked for their reflections on the information-gathering activities undertaken to date and the feedback received—specifically, whether they agree that the outreach that has been undertaken and that is still planned provide an appropriate basis for a standard-setting project proposal.

Section II – Development of the Project Proposal

15. This section highlights key matters considered by Staff relevant to the development and structure of the Draft Project Proposal but does not intend to cover all elements included in **Agenda Item 11–A**. It emphasizes those matters, as listed below, that are of most relevance to the Draft Project Proposal on which the Board’s input is sought in December 2025:
 - A. Determining the in-scope standards for standard-setting action.
 - B. Key issues identified that will be addressed by the project.
 - C. Other sections of the Draft Project Proposal:
 - C.1 Introduction, project objectives and stakeholders impacted.
 - C.2 Scope of the project.
 - C.3 Project timeline, priorities and resources, and project output and impact.
16. To support the Board’s consideration of the matters highlighted in paragraph 15 above, Staff have included cross-references to the relevant sections and paragraphs of the Draft Project Proposal in **Agenda Item 11–A**.

A. Determining the In-Scope Standards for Standard-Setting Action

Agenda Item 11–A Ref:	Section I, Paragraphs 1–2
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Strategy and Work Plan for 2024–2027

17. In its [Strategy and Work Plan for 2024–2027](#), the Board agreed to pursue revising the considerations in respect of inventory in ISA 501, external confirmations in ISA 505 and audit sampling in 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. The focus on technology followed from the Board’s [Technology Position](#) for addressing technology in the ISAs and other relevant recommendations resulting from the work undertaken for the AE&RR project. It was anticipated that the revisions to the targeted standards in the ISA 500 Series would cover both technology-related and other specific matters of modernization.

Previous IAASB Deliberations

18. In June 2025, the Board suggested that the Project Team:
 - (a) Consider a phased approach to the project, comprising two sequential tracks—one track focused on modernizing ISA 501 and ISA 505, which could be completed on a faster timeline; and a second addressing revisions to ISA 530. Board members noted that this approach may be more efficient and more timely, given that revisions to ISA 501 and ISA 505 could be developed independently of those for ISA 530. Some Board members also suggested that the revisions to ISA 530 could be considered alongside potential revisions to ISA 320.⁴

⁴ ISA 320, *Materiality in Planning and Performing an Audit*

- (b) Continue to gather information to refine the scope of the project—specifically, to assess whether other discrete topics in ISA 501 (i.e., litigation and claims, and segment information) would also warrant revisions.
19. In addition, the Board requested a focus on understanding whether the cited performance issues related to the targeted standards in the ISA 500 Series stem from deficiencies in auditors' application of the requirements or are issues relating to the clarity and conciseness of the standards.

Staff's Recommendations Based on Information-Gathering and Research Activities

20. On the basis of the collective information-gathering and research activities undertaken to date (see **Section I**), Staff recommends the following in relation to the scope of standard-setting activities:
- (a) **Modernization of considerations in respect of inventory in ISA 501 and external confirmations in ISA 505.** There is strong support and clear rationale for revising the considerations in respect of inventory in ISA 501 and external confirmations in ISA 505. Stakeholder feedback indicates that these standards would benefit from modernization to remain relevant and fit-for-purpose in a rapidly evolving audit and business environment shaped by technological advancements and emerging risks. This would exclude any further standard-setting action beyond those of a 'conforming and consequential amendment' nature for the other discrete topics in ISA 501 (i.e., for litigation and claims, and segment information) and for other ISAs.
 - (b) **Standard setting is not warranted at this time for the other topics in ISA 501—litigation and claims, and segment information.** Limited concerns were raised regarding these topics and the issues that were highlighted are not widespread or systemic. While some feedback suggested reconsidering the structure of ISA 501 or reallocating its discrete topics, these views are not driven by environmental factors but rather by structural preferences.
 - (c) **Revisions to ISA 530 are not currently justified, but ongoing monitoring and stakeholder engagement are important.** Feedback across stakeholder groups consistently indicated that the principles in ISA 530 remain sound and that non-authoritative materials may be the most appropriate way to address specific audit sampling challenges, should there be a need to do so. Stakeholders have cautioned against embedding prescriptive methodologies and emphasized that the standard's principles-based approach remains applicable, regardless of the use of technological tools. This caution extends to not developing methodology-type guidance at an international level. Clarifications of expectations related to the use of audit sampling as a means of selecting items for testing may be better addressed in foundational ISAs such as ISA 330 or ISA 500.
21. Based on the recommendation in paragraph 20(c), the topic of audit sampling will go into Category A under the [IAASB's Framework for Activities](#), for ongoing monitoring of global developments. Environmental factors or circumstances relevant to external reporting and audit engagements may affect such developments and may result in the need to take further action relating to audit sampling. This may include feedback received through the upcoming 2028–2031 Strategy and Work Plan stakeholder survey and/or public consultation.

Matters for IAASB Consideration:

2. The Board is asked for their views on Staff's recommendations discussed in paragraphs 20–21 above. Specifically:
 - (a) To pursue a standard-setting project to address audit evidence related to inventory and external confirmations by revision of the considerations in respect of inventory in ISA 501 and external confirmations in ISA 505, respectively (the 'in-scope standards').
 - (b) That standard setting is not warranted for the other topics in ISA 501—litigation and claims, and segment information.
 - (c) That ISA 530 will not be in-scope for purposes of this standard-setting project.
3. Are there any other matters that should be considered in relation to determining the in-scope standards for standard-setting action?

B. Key Issues Identified that Will Be Addressed by the Project

Agenda Item 11–A Ref:	Section V, Paragraphs 17–19
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22. **Appendix 4** shows how the updated issues presented in **Section V** of the Draft Project Proposal reconcile to the initial issues presented in [Agenda Item 6](#) of the June 2025 IAASB meeting.
23. At an overarching level, and based on the information-gathering and research activities performed to date (specifically, the feedback from outreach activities presented in **Agenda Item 11–B**), there was broad recognition, among all stakeholder groups, of the relevance of the issues identified for the considerations in respect of inventory in ISA 501 and external confirmations in ISA 505.
24. In addition, in further refining the issues based on information-gathering and research activities, Staff identified two new issues, as follows, which have been incorporated into the Draft Project Proposal:
 - (a) *Alignment with concepts for the identification, assessment and responding to risks of material misstatement* (see paragraph 18(c) of **Agenda Item 11–A**)

Feedback from outreach activities indicated that there is misalignment between concepts for identifying, assessing and responding to risks of material misstatement addressed by foundational ISAs, such as ISA 315 (Revised 2019)⁵ and ISA 330, and the specific considerations for inventory in ISA 501. For example, ISA 501 requires auditors to attend the entity's physical inventory counting (paragraph 4) and confirm or perform other audit procedures when inventory is held by a third party (paragraph 8), based on materiality. Stakeholders highlighted that this misalignment may create confusion, limit auditors' ability to apply professional judgment, and result in work that may not always be proportionate to the assessed risks of material misstatement. Ensuring consistency of concepts and their application across the standards would better support high-quality risk-based audits and reinforce public trust in independent audit and assurance.

⁵ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

(b) *Professional skepticism* (see paragraphs 18(f) and 18(m) of **Agenda Item 11–A**)

Feedback from outreach activities indicated that the exercise of professional skepticism needs to be reinforced when obtaining and evaluating audit evidence about inventory (e.g., inventory under the custody and control of a third party) and when designing and performing external confirmation procedures (e.g., the integrity of external confirmation requests and the reliability of responses received). Reinforcing professional skepticism in ISA 501 and ISA 505 supports the auditor in appropriately responding to risks of material misstatement due to fraud or error, including the detection of material misstatements, in two areas that have historically been linked to major corporate scandals—external confirmations (e.g., bank fraud, fictitious receivables, falsification of documents) and inventory (e.g., overstated assets, misappropriation of assets). The appropriate exercise of professional skepticism enhances audit quality and helps protect the credibility of audits, which underpins investor protection, financial stability, and public confidence in capital markets.

Matter for IAASB Consideration

4. The Board is asked for their views on whether the key issues identified are complete and appropriately reflect the issues to be addressed by this project (see **Agenda Item 11–A, Section V**).

C. Other Sections of the Draft Project Proposal

C.1 Introduction, Project Objectives and Stakeholders Impacted

Introduction

Agenda Item 11–A Ref:	Section II, Paragraphs 3–11
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25. The Introduction of the Draft Project Proposal sets out the rationale for a standard-setting project to concurrently revise considerations in respect of inventory in ISA 501 and external confirmations in ISA 505, including the evidential basis for doing so:
 - (a) Paragraphs 3–4 highlight that this project was included in the [Strategy and Work Plan for 2024–2027](#), and was informed by feedback from both the [Exposure Draft of Proposed ISA 500 \(Revised\)](#), [Audit Evidence and Proposed Confirming and Consequential Amendments to Other ISAs](#) (ED-500) and the [Consultation Paper on the Proposed Strategy and Work Plan for 2024–2027](#) (Consultation Paper).
 - (b) Paragraph 5 describes how the IAASB’s [Technology Position](#) and the related [Catalog of Issues and Possible Actions](#) inform and interact with this project.
 - (c) Paragraph 6 refers to various standard-setting initiatives to clarify or enhance equivalent audit evidence standards with respect to inventory and external confirmations, highlighting the broader public interest in these topics.
 - (d) Paragraphs 7–8 describe the objective and timeline of the information-gathering and research activities and include a reference to the Appendix summarizing the information-gathering and research activities performed to date, which informed the development of the project proposal.

- (e) Paragraphs 9–11 recognize that the IAASB leverages the Public Interest Framework (PIF) published by the Monitoring Group in July 2020 (as part of their report '[Strengthening the International Audit and Ethics Standard-Setting System](#)') to articulate the project's public interest responsiveness.

Project Objectives that Support the Public Interest

Agenda Item 11–A Ref:	Section III, Paragraphs 12–13
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26. The project objectives as presented in paragraphs 12–13 of the Draft Project Proposal follow the rationale for the project set out in the Introduction and reflect a response to the core public interest issues driving the need for this project. In determining the project objectives, Staff made use of the PIF and considered:
- (a) How each of the five broad groups of IAASB stakeholders⁶ are impacted by the issues that the project is seeking to address to ensure the proposed project is responsive to the public interest; and
 - (b) The remit of the IAASB in setting standards that appropriately serves the interests of its stakeholders.
27. Based on their understanding of the key issues that the project would seek to address (see **Section II–B** above and **Section V** of the Draft Project Proposal), Staff determined that the proposed project objectives reflect how the project aims to serve intended users of financial statements and others in the ecosystem who rely on financial information reported by entities.

Stakeholders Impacted

Agenda Item 11–A Ref:	Section IV, Paragraphs 14–16
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28. In developing the Draft Project Proposal, Staff considered:
- (a) The desired goal of revising the standards and how it would serve users' needs.
 - (b) The stakeholder groups with legitimate interests in the proposed standards, who would be impacted by a project to revise considerations in respect of inventory in ISA 501 and external confirmations in ISA 505.
 - (c) The qualitative characteristics that standards should exhibit under the IAASB's Integrated Due Process and PIF Operating Procedures.⁷

⁶ The five broad groups of stakeholders considered were those set out in the PIF: (a) users of financial statements, who rely on the audited financial statements to make resource allocation decisions; (b) auditors in public practice who apply the standards ('the profession'); (c) those in charge of adoption, implementation and enforcement of the standards as well as monitoring of the capital markets (including jurisdictional or national standard setters, regulators and audit inspectors, market authorities, public sector bodies, and professional accountancy organizations); (d) preparers of financial statements, including management and those charged with governance (e.g., audit committees who oversee the audit process); and (e) other users affected by the reliability of financial and non-financial information in society.

⁷ See 'Due Process' under Quick Links on the [IAASB website](#).

29. Stakeholders whose interests are most affected by the project and how their needs are addressed by the project are described in paragraph 16 of the Draft Project Proposal.

Matter for IAASB Consideration

5. The Board is asked for their views on the proposed Introduction, Project Objectives that Support the Public Interest, and Stakeholders Impacted sections of the Draft Project Proposal (see **Agenda Item 11–A, Sections II, III and IV**).

C.2 Scope of the Project

Agenda Item 11–A Ref:	Section VI, Paragraphs 20–26
<p>30. The Scope section of the Draft Project Proposal sets out the proposed actions to address the key issues that were identified in achieving the project objectives that support the public interest (see paragraph 20 of Agenda Item 11–A). The proposed revisions to considerations in respect of inventory in ISA 501 and external confirmations in ISA 505 may give rise to conforming and consequential amendments to other ISAs. The need for any non-authoritative materials, and their specific nature and timing, will be determined in the course of the project.</p> <p>31. Certain proposed actions (e.g., negative confirmations), where there was a range of views noted from the stakeholder outreach, recognize the need for further input from stakeholders, and in particular from intended users of financial statements. It is anticipated that such input will be obtained through further targeted outreach post project proposal approval to inform the IAASB's deliberation of issues and development of proposals.</p> <p>32. Paragraphs 21–26 of Agenda Item 11–A describe the basis of development of the proposed actions for revisions to the in-scope standards, including giving due consideration to the qualitative standard-setting characteristics of the PIF and the Complexity, Understandability, Scalability and Proportionality (CUSP) Drafting Principles and Guidelines. They highlight how the development of proposed actions was also informed by a wide range of information-gathering activities as set out in the Appendix to the Draft Project Proposal, and through ongoing collaboration and coordination with the Project Board Members, the AE&RR project team, the TCG and other relevant project teams, consultation or working groups as well as the International Ethics Standards Board for Accountants (IESBA).</p>	

Matter for IAASB Consideration

6. The Board is asked for their views on whether the proposed actions are sufficient and appropriate to address the issues identified and achieve the project objectives (see **Agenda Item 11–A, Section VI**, right-hand column of table in paragraph 20).

C.3 Project Timeline, Priorities and Resources, and Project Output and Impact

Agenda Item 11–A Ref:	Sections VII–VIII, Paragraphs 27–34
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33. It is anticipated that the revisions to the considerations in respect of inventory in ISA 501 and external confirmations in ISA 505 will be completed over a period of approximately two years. A detailed timeline will be finalized in quarter 1 of 2026, subject to any discussions and decisions on the current Work Plan and the allocation of resources.

Matters for IAASB Consideration

7. The Board is asked for their views on the proposed project timeline, priorities and resources, and project output and impact (see **Agenda Item 11–A, Sections VII–VIII**).
8. Are there any other matters that the Project Team should consider in updating the Draft Project Proposal for the March 2026 IAASB meeting?

Section III – Way Forward

34. Following the December 2025 IAASB meeting, Staff plan to continue:
- (a) Developing the Draft Project Proposal based on the Board’s feedback.
 - (b) Engaging with the IESBA.
 - (c) Coordinating on certain topics with the AE&RR project, and the TCG.
35. In March 2026, Staff will present an updated Draft Project Proposal for the IAASB’s approval.

Appendix 1

ISA 500 Series Project Team and Activities

IAASB Staff

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

Project Board Members

2. The Project Board Members for this project are:
 - Josephine Jackson
 - Greg Schollum
3. Information about the project can be found on the IAASB website, [here](#).

Project Meetings

4. Since June 2025, Staff held a number of meetings with the Project Board Members to receive input and advice in scoping the project to revise targeted standards in the ISA 500 Series, as well as for the ongoing information-gathering and research activities that form the basis for the development of the Draft Project Proposal.

Appendix 2

Key Insights from the IAASB's Private Breakout Session in June 2025

Introduction

1. On June 17, 2025, the IAASB held a private breakout session where Board members, Technical Advisors and Staff were asked to reflect on specific questions to obtain deeper insights on selected issues and other matters identified, which further informed the scoping of a project to revise targeted standards in the ISA 500 Series.

Topics Discussed by Breakout Groups

2. Five breakout groups discussed a broad range of topics and questions relevant to the targeted standards in the ISA 500 Series,⁸ to identify key risks that should be explicitly addressed in the standards and to understand the root causes of auditors' challenges in respect of audit evidence for inventory, from external confirmation procedures and from audit sampling.

Insights from the Breakout Discussion Groups – What We Heard?

Topics Relevant to ISA 501

New Risks and Challenges from the Increased Use of Technology

3. There was broad agreement that new risks and challenges stem from the increased use of technology by entities in managing inventory, and by auditors in performing audit procedures for inventory. For example:
 - Internal controls that are not properly designed or monitored in highly automated environments (e.g., robotics or automated warehouses), including risks of management override.
 - Overreliance on technology without adequate oversight may reduce auditors' ability to detect errors or irregularities. Also, in perpetual inventory systems auditors may place undue reliance on system-generated reports without adequately testing IT controls, data integrity and system interfaces, leading to unsubstantiated conclusions about the existence and condition of inventory.
 - Additional considerations around reliability of audit evidence (e.g., incomplete or biased visual evidence, integrity and reliability of smartphone-based counting applications, reliability of remote counting technologies).

Physical Attendance

4. It was questioned whether physical attendance at inventory counts remains the most reliable audit procedure. Views were also shared that the standard could be clearer about whether the use of remote observation tools is an acceptable form of 'attendance,' given that a key root cause is that auditors cannot always be physically present because of staffing constraints or barriers to physical access, yet ISA 501 does not explicitly state that remote attendance is allowable. There is also ambiguity in terminology, such as 'attendance' and 'impracticability,' which may be the cause of inconsistent interpretation and application. It may also be necessary to accommodate entities with highly advanced and reliable inventory

⁸ See Appendix 4 to [Agenda Item 6](#) of the June 2025 IAASB meeting for a full list of matters considered by the breakout groups.

systems that may resist or question the need for auditors to perform test counts, leading to tension between required audit procedures and client expectations.

Inventory Under the Custody and Control of a Third Party

5. Participants shared perspectives that auditors often depend on confirmations from custodians. Specific audit challenges in this area stem from considerations around independence of the confirming party, third parties only being able to confirm certain assertion(s) which may not fully address the auditor's objectives under the standard and practical challenges (e.g., large number of third-party storage sites creating logistical challenges in obtaining reliable audit evidence).
6. In addition, there may be, in some cases, a tendency for auditors to over rely (or implicitly rely) on third-party confirmations, without sufficiently assessing the controls relevant to third-party arrangements when evaluating the reliability of information obtained.

Other Matters

7. For litigation and claims, views were shared that while the requirement to seek direct communication with the entity's external legal counsel may appear outdated, it continues to align with a risk-based approach of an audit. Suggestions were made to consider the relationship between seeking direct communication with the entity's external legal counsel and the principles of ISA 505. Concerns were also raised about the sufficiency of legal letter responses, as overly defensive language in some responses can limit their usefulness as audit evidence.
8. For segment information, some supported retaining the requirements in view of frequent regulatory inspection findings around this topic. Some suggested gathering information from international and jurisdictional stakeholders on the significance of segment information.
9. Views were shared that ISA 501 may be perceived as an isolated standard covering three discrete topics rather than being integrated with the overall audit framework when identifying and assessing risks of material misstatement in accordance with ISA 315 (Revised 2019) and responding to assessed risks in ISA 330.

Topics Relevant to ISA 505

Use of Third-Party Intermediaries in External Confirmation Procedures

10. Participants discussed the risk that arises from auditors not having full control over the confirmation process, particularly when procedures are conducted through third-party digital confirmation platforms. There are also new considerations that arise, such as auditors need to assess the reliability of digital confirmation platforms.
11. Views were shared that implementing a consistent confirmation process across multiple jurisdictions is challenging due to differing practices and regulations. Also, there is variation among jurisdictions on use of third-party intermediaries in external confirmations (e.g., in some jurisdictions such practice is uncommon, while in others it is prevailing).
12. Auditors should consider ISA 505 within the broader context of ISA 500. They need to understand the entity's environment, relevant events and conditions to identify risks and assess the reliability of information received via intermediaries.

Use of Negative Confirmations

13. A range of views were expressed on whether it is appropriate to use negative confirmations in the current environment:
- While acknowledging that negative confirmations are rarely used, some were of the view that they can be appropriate in low-risk, high-volume, low-value settings. On this basis, an outright prohibition was considered unnecessary and one which could create challenges or unintended consequences. Suggestions were provided instead to strengthen the 'guardrails' in the standard over when their use is appropriate (e.g., further narrow the circumstances in which negative confirmations are permissible). There was a suggestion to investigate who is currently using negative confirmations and the rationale for their use.
 - Some believed that the use of negative confirmations should be restricted or prohibited, aligning with equivalent standards of certain jurisdictions which have done so. It was noted that negative confirmations have inherent limitations, such as the inability to determine whether a non-response reflects agreement or simply a lack of response. The relevance of the 'current environment' was questioned—for example, with digitization, paper-based procedures are less common, and alternative evidence-gathering methods may reduce the need for negative confirmations.

Using External Confirmations for Specific Assertions

14. Participants discussed that the nature and extent of the auditor's use of external confirmations should be driven by risk and materiality considerations. For example, caution is necessary about using external confirmations alone as sufficient appropriate audit evidence for certain balances (e.g., custody of gold or large receivable balances), as in such cases it would be appropriate to also perform additional audit procedures, such as inspection or control testing. On the other hand, in certain circumstances, based on the auditor's professional judgment, external confirmations may represent the only available or best audit evidence for specific assertions. While external confirmations can be sufficient for some assertions, their use as sole evidence should be evaluated on a case-by-case basis, considering the reliability of the external confirmation.

Reliability of Responses to Confirmation Requests

15. With respect to the reliability of responses to confirmation requests, challenges such as application of insufficient professional skepticism were cited (e.g., accepting external confirmations signed by unauthorized individuals or with mismatched email domains without appropriate follow-up).
16. Some participants also discussed improvements of linkages with Proposed ISA 500 (Revised)⁹ as the latter requires actively performing procedures to evaluate relevance and reliability of information, and the former only addresses reliability if the auditor identifies factors suggesting doubt.

External Confirmation Procedures for Specific Balances

17. Participants discussed that the use of external confirmations for cash and accounts receivable remains a common practice in many jurisdictions. In some jurisdictions, there is also an expectation

⁹ See the Proposed ISA 500 (Revised), *Audit Evidence*, 'Pre-finalization Holding Package' in [Agenda Item 5](#) discussed by the IAASB at the March 2024 quarterly meeting.

that 100 percent of cash balances be confirmed. It was discussed that some jurisdictions note a decline in the use of external confirmations for accounts receivable, which was seen as a concern because the use of external confirmations provides additional insights beyond the balance itself. Views were shared that external confirmations are rarely used for accounts payable.

18. Many shared the view that external confirmations should be driven by audit risk, focusing on areas where circumstances create doubt about the reliability of other information sources. Mandatory external confirmations based solely on regulation may not always align with a risk-driven approach.

Responses and Exceptions in External Confirmation Procedures

19. Challenges such as failing to design and perform appropriate alternative procedures regarding non-responses and exceptions in external confirmation requests were noted, as well as the need to address potential fraud risks by corroboration from multiple sources. It was also noted that strong direction, supervision, and review by engagement partners are critical to ensure that audit procedures in this area are performed with the appropriate level of expertise and professional judgment.

Topics Relevant to ISA 530

Overarching Observations

20. Views were shared that ISA 530 is not fundamentally broken and that significant changes to the standard may not be necessary, given that the fundamental concepts of audit sampling remain valid, irrespective of whether technology is used or not. Some also questioned the rationale for reopening ISA 530, noting lack of clarity about the specific issues to be addressed. There was also an emphasis that through further outreach clarity is needed on whether the issues identified represent audit performance issues or whether there are actual or perceived gaps in ISA 530, which warrant revision. This could inform the Board whether an appropriate response could be the development of non-authoritative materials, rather than standard-setting.
21. There was emphasis on the importance of maintaining a principles-based approach and avoiding embedding methodology in ISA 530. There were also views that many of the issues raised are too detailed to be addressed in a principle-based standard.

Need for Clarifications

22. There were suggestions to clarify what constitutes audit sampling contemplated by ISA 530, including that:
 - Interrogating 100 percent of a population using audit data analytics that results in the identification of a large number of outliers does not constitute audit sampling; however, the outliers themselves may be subject to audit sampling.
 - Selecting all items in a population is not audit sampling.
 - Selecting specific items based on high value or key items is not audit sampling. Using a tool to select items from the entire population based on specific characteristics or criteria is a response to risk. The selected outliers may then be tested using audit sampling; however, the initial selection itself does not constitute audit sampling.

23. Also, views were shared that there is a need to revisit the IAASB non-authoritative material that provides guidance about applying audit sampling when investigating exceptions identified from using audit analytics tools to interrogate or analyze entire population, in view of concerns:¹⁰
- About the appropriateness of applying audit sampling in such circumstances, particularly when the parameters established by the auditor to interrogate entire populations is based on high-risk items.
 - From regulators about interrogating entire populations and applying audit sampling to investigate outliers identified, recognizing that the issue largely depends on how these procedures are described and categorized. It was reiterated that the auditor cannot ‘unsee’ what they have seen and that it would be inappropriate to ignore the outputs of audit analytics tools used to interrogate or analyze an entire population.

Appropriate Use of Technology

24. It was acknowledged that relevant application material in ISA 530 could be developed, leveraging relevant concepts and requirements in ISQM 1¹¹ or ISA 220 (Revised),¹² as appropriate, to acknowledge that auditors may use technology to perform audit sampling. Some firms mandate the use of specific sampling tools, even though such requirements are not always in place for other procedures. While firms typically do not prescribe a particular technological sampling tool, they indicate preferred approaches, with the tool made available through the firm’s methodology platform. These tools also support consistent documentation. However, it was also recognized that auditors do not always use technological tools to facilitate item selection.

Defining the Population

25. The following were identified as potential root causes of auditors’ challenges in defining the population:
- Failure to understand the entity’s systems or processes (e.g., lack of understanding of how transactions are initiated, processed, or recorded that may result in auditors defining a population too broadly, too narrowly, or excluding relevant subpopulations).
 - Improper stratification or grouping of items and challenges around ensuring homogeneity of the population (e.g., failure to stratify or bucket items by relevant characteristics which reduces the effectiveness of audit sampling). Suggestions included highlighting the benefits of using data analytics tools to stratify a population by grouping items with similar characteristics into distinct buckets to which audit sampling can be applied more effectively.
 - Incomplete or inaccurate data sources and challenges around ensuring completeness of the population do not provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

¹⁰ See relevant IAASB non-authoritative material, [Frequently Asked Questions \(FAQ\) on Investigating Exceptions and Relevance of Performance Materiality When Using ATT](#).

¹¹ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

¹² ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Determining Sufficient Sample Sizes

26. While populations and transaction volumes have grown significantly, the relative percentage represented by samples has decreased, raising concerns about whether sample sizes remain sufficient. The following potential root causes were discussed around auditors' challenges in determining sufficient sample sizes:
- Insufficient sample sizes when performing procedures for more than one purpose – The use of dual-purpose tests (i.e., controls testing and substantive testing) have resulted to auditors not obtaining sufficient appropriate audit evidence needed to be able to conclude that sampling risk has been reduced to an acceptably low level.
 - Overestimated evidence obtained from other procedures – Overestimating the evidence obtained from other procedures, leading to sample sizes that are insufficient to reduce sampling risk to an acceptably low level. This has often resulted from uncertainty about whether certain procedures are risk assessment procedures or substantive procedures. It was also highlighted that substantive analytical procedures (SAPs) alone cannot provide sufficient appropriate audit evidence in response to significant risks. Some firms, however, may label SAPs as tests of details if the level of precision of an expectation can be supported by available and reliable financial or non-financial information.
 - Overreliance on sampling tools – Failure to tailor the use of automated sampling tools or templates to engagement-specific factors.
27. While some suggested additional guidance about factors influencing the determination of sample sizes, other views supported that the appendices in ISA 530 already contain examples of factors that drive sample sizes.

Selecting Items for the Sample, Including the Use of Non-Statistical Sampling

28. Participants discussed that while both statistical and non-statistical sampling approaches are permitted, non-statistical sampling poses a challenge because results cannot be extrapolated to the entire population. There is an expectation that sample sizes should be broadly comparable under both statistical and non-statistical methods. However, sample sizes and approaches inevitably may differ across engagements depending on other procedures performed, such as targeted testing of high-value items.

Investigating Deviations and Misstatements, Including Anomalies

29. Views were shared that the term 'anomaly' is often confused with other terms associated with audit sampling such as 'outliers,' 'exceptions,' 'notable items' or 'items of audit interest' used in audit sampling guidance issued in different jurisdictions.

Documentation for Audit Sampling

30. Participants discussed common challenges in documentation for audit sampling, such as failure to clearly document the rationale for sampling approach (e.g., missing details on stratification or segmentation of population) and failure to document how the sample size was determined (e.g., lack of justification for sample sizes).

Appendix 3

Input from the TCG

Introduction

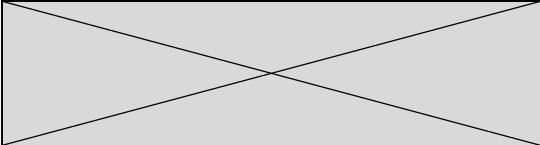
1. On October 16, 2025, Staff sought input from TCG members and Staff on technology-related issues relevant to scoping a project to revise the targeted audit evidence standards in the ISA 500 Series.

Key Insights

2. The following is a summary of key insights shared by TCG members and Staff:
 - (a) Considerations in respect of inventory in ISA 501
 - The importance was noted to clarify whether attendance at inventory counting can include the use of remote observation tools by the auditor. Views were shared that while ISA 501 establishes physical attendance as the default method for verifying inventory existence, the increasing availability of reliable, technology-enabled, and third-party evidence sources allows auditors to adapt how they meet that objective. Suggestions included to shift the focus on how the auditor obtains evidence to whether the evidence obtained—through attendance or alternative means—is sufficient and appropriate to support the existence assertion.
 - Further consideration is necessary about whether:
 - The auditor's attendance at management's physical inventory counting continues to be relevant and practicable with the increased use of automated inventory management systems. Views were shared that the extant standard remains relevant when management performs a discrete count at or near period-end, which reflects a traditional periodic system rather than a continuous one. However, explicit guidance is needed on how auditors should respond when inventory is maintained through real-time perpetual inventory systems with rolling cycle counts.
 - The assertions covered by ISA 501 should be expanded beyond the existence and condition of inventory. Views were shared that expanding ISA 501 to address other relevant assertions strengthens the link between risk identification and assessment in ISA 315 (Revised 2019) and obtaining audit evidence regarding inventory in ISA 501.
 - (b) External confirmations in ISA 505 – There was strong support from TCG members and Staff for revising ISA 505 so that the standard reflects modern audit practices, provides guidance on electronic and automated confirmation methods, and supports auditors in obtaining sufficient, appropriate, and reliable evidence in a technology-driven environment (e.g., digital confirmation platforms, direct access to third-party systems).
 - (c) Audit sampling in ISA 530 – Views were shared that ISA 530 remains sound, and revisions are not currently warranted. In addition, comments were made that the standard needs to maintain a principle-based approach, cautioning against prescriptiveness. Clarifications on the applicability of audit sampling (e.g., when investigating exceptions identified from interrogating full populations using technology) may be better addressed in ISA 330 or ISA 500, or through non-authoritative materials.

Appendix 4

Mapping of Initial Issues Presented to the IAASB in June 2025 to Key Issues Proposed to Be Addressed by the Project

Initial Issues as Presented in June 2025 (Ref. Agenda Item 6 of June 2025)	Key Issues Proposed to Be Addressed by the Project (Ref. Agenda Item 11–A, Section V)	
	Paragraph	Description
<i>Considerations in Respect of Inventory in ISA 501</i>		
Issue #1: Evolving Inventory Systems Used by Entities Introduce New or Changing Risks of Material Misstatement	Para. 18(a)	Implications of the use of technology by entities in managing inventory and by auditors in auditing inventory, respectively
Issue #2: Appropriate Use of Technology for Remote Inventory Observations of the Existence and Condition of Inventory	Para. 18(b)	Attendance at inventory counting
	Para. 18(c)	Alignment with concepts for the identification, assessment and responding to risks of material misstatement
Issue #3: Auditor's Responsibilities Regarding the Existence and Condition of Inventory Under the Custody and Control of a Third Party	Para. 18(d)	Inventory under the custody and control of a third party
Issue #4: Challenges in Obtaining Sufficient and Appropriate Audit Evidence Regarding the Existence and Condition of Inventory	Para. 18(e)	Sufficiency and appropriateness of audit evidence obtained for inventory
<i>External Confirmations in ISA 505</i>		
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	Para. 18(g)	Implications of using technology and third-party intermediaries in external confirmations
Issue #6: Concern Over the Use of Negative Confirmations in the Current Environment	Para. 18(h)	Negative confirmations

Initial Issues as Presented in June 2025 (Ref. Agenda Item 6 of June 2025)	Key Issues Proposed to Be Addressed by the Project (Ref. Agenda Item 11–A, Section V)	
	Paragraph	Description
Issue #7: Using External Confirmation Procedures Alone Does Not Provide Sufficient Appropriate Audit Evidence for All Assertions	Para. 18(i)	Assertions addressed by external confirmations
Issue #8: Challenges Over the Reliability of Responses to Confirmation Requests	Para. 18(j)	Reliability of responses to external confirmation requests
Issue #9: Considerations About the Need to Perform External Confirmation Procedures	Para. 18(k)	Considerations about the need to perform external confirmation procedures
Issue #10: Clarifying the Auditor’s Work Effort When Addressing Non-Responses and Exceptions in External Confirmation Procedures	Para. 18(l)	Non-responses and exceptions in external confirmation procedures
<i>Matters Relating to Both the Considerations in Respect of Inventory in ISA 501 and External Confirmations in ISA 505</i>		
	Paras. 18(f); 18(m)	Professional skepticism
<i>Audit Sampling in ISA 530¹³</i>		
Issue #11: Implications of Using Technology-Facilitated Sampling Tools		
Issue #12: Applying Audit Sampling When Investigating Exceptions Identified from Interrogating or Analyzing Entire Populations Using ATT		
Issue #13: Challenges in Defining the Population		
Issue #14: Challenges in Determining Sufficient Sample Sizes		

¹³ See paragraphs 20–21 of this Agenda Item for Staff’s recommendations based on information-gathering and research relating to the audit sampling issues that were presented to the Board in June 2025.

Initial Issues as Presented in June 2025 (Ref. Agenda Item 6 of June 2025)	Key Issues Proposed to Be Addressed by the Project (Ref. Agenda Item 11–A, Section V)	
	Paragraph	Description
Issue #15: Challenges in Selecting Items for the Sample, Including the Use of Non-Statistical Sampling		
Issue #16: Challenges in Investigating Deviations and Misstatements, Including Anomalies, in Audit Sampling		
Issue #17: Challenges Relating to Documentation in Audit Sampling		