

Agenda Item 11–B (Supplemental)

Targeted Standards in the ISA 500 Series¹ – Feedback from Outreach Activities

This Agenda Item sets out the feedback from the stakeholder outreach activities undertaken to inform a project to revise targeted standards in the ISA 500 Series.

Section I – Introduction

Background

1. Since April 2025, Staff engaged with a broad range of stakeholder groups to gather perspectives on the targeted standards in the ISA 500 Series.

Stakeholder Engagement

2. The engagement was either through virtual or in-person meetings, undertaken jointly with Staff of the Audit Evidence and Risk Response project, and through participation at various stakeholder events and meetings. **Appendix 1** provides an overview of the outreach meetings and events, including the stakeholders who participated in the outreach.

Feedback from the Collective Outreach

3. The feedback from the collective stakeholder outreach undertaken since April 2025 is presented in **Appendices 2–7** to this paper, as follows:

Appendix 2	Deep-Dive Sessions with Monitoring Group (MG) Members
Appendix 3	Engagement with Regulators and Audit Oversight Authorities
Appendix 4	Input from IAASB–Jurisdictional Standard Setters (JSS) Liaison Group
Appendix 5	Engagement with Accounting Firms
Appendix 6	Feedback from International Federation of Accountants' (IFAC) Small and Medium Practices Advisory Group (SMPAG)
Appendix 7	Meeting with a Digital Confirmation Platform Provider

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

Section II – Highlights of the Feedback²

Implications of the Increased Use of Technology for the Targeted Standards in the ISA 500 Series

- Broad recognition across all stakeholder groups:
 - For the need to modernize the audit evidence standard for external confirmations so it remains fit-for-purpose in view of the increased use of technology in the evolving business and audit environment.
 - That the principle-based requirements for audit sampling remain appropriate, as they continue to apply regardless of whether technology is used or not.
- Support for:
 - Emphasizing the importance of considering the entity's inventory-related controls and the use of specialists for sophisticated and complex technology driven inventory systems.
 - Clarifying whether attendance at inventory counting can include remote observations, as well as circumstances when this would be appropriate.
 - Reflecting the impact of using technology-enabled confirmation procedures, irrespective of whether firm acquired/developed or involving third-party intermediaries, shared service centres and direct data access mechanisms.
 - Clarifying how the use of audit sampling applies when using technological tools to analyze entire populations of items and when investigating identified exceptions.

Inventory

- Views from certain stakeholders for the need to:
 - Better align the specific considerations for inventory in ISA 501 with foundational concepts addressed by other standards (e.g., with ISA 315 (Revised 2019),³ ISA 330⁴ and ISA 500⁵).
 - Enhance the auditor's procedures for inventory under the custody and control of a third party (e.g., emphasize the importance of understanding the entity's internal controls and exercising professional skepticism) in view of concerns about overreliance on third-party confirmations.
 - Improve the specific considerations for inventory to support auditors in obtaining sufficient appropriate audit evidence regarding inventories, including when the entity performs cycle counts.⁶

² Refer to **Appendices 2–7** to this Agenda Item for a comprehensive overview of the feedback received from the targeted outreach undertaken to date with a broad range of stakeholders.

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

⁵ ISA 500, *Audit Evidence*

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.

External Confirmations

- Feedback indicates inconsistent approaches across firms and jurisdictions for:
 - Using negative confirmations. For example, in some jurisdictions the use of negative confirmation is prohibited. Also, while some believe negative confirmations remain appropriate as audit evidence in certain cases, others state concerns around their use and note that they are not widely used in practice.
 - Considerations about the need to perform external confirmation procedures for certain account balances and transactions. For example, in some jurisdictions auditors are required to confirm certain account balances (e.g., cash and receivables).
- Views from certain stakeholders for the need to:
 - Emphasize that external confirmations alone may not provide sufficient appropriate audit evidence for all or certain assertions, particularly for high-risk balances (e.g., crypto assets, complex investments).
 - Enhance the auditor's procedures around resolving doubts about reliability of responses to confirmation requests, including performing sufficient alternative procedures, and emphasis on the need to maintain professional skepticism.
 - Strengthen the sufficiency and appropriateness of alternative procedures addressing non-responses, the investigation of whether exceptions are indicative of misstatements, and the evaluation of the impact of the misstatements identified on assessed risks of material misstatement, including on internal controls.

Audit Sampling

- Broad agreement that the recurring challenges in audit sampling (e.g., defining the population, sufficiency of sample sizes, selecting items from the sample, investigating deviations and misstatements and insufficient documentation) are performance-related.
- Broad agreement that the standard should remain principle-based and caution against embedding prescriptive methodology style revisions that could be better addressed through non-authoritative guidance.

Litigation and Claims, and Segment Information

- Limited concerns were raised for litigation and claims, and segment information.
- Suggestions from firms to reconsider the structure and form of ISA 501, including whether it should remain a standalone standard and for repositioning the three discrete topics within the relevant foundational ISAs (i.e., ISA 315 (Revised 2019) and ISA 330).

Appendix 1

Outreach Activities and Meetings

Meetings and Working Sessions

1. Staff engaged with representatives of the following stakeholders in-person or at virtual meetings:

MG Members

- International Forum of Independent Audit Regulators' (IFIAR) Standards Coordination Working Group (SCWG).
- International Organization of Securities Commissions (IOSCO), Committee on Issuer Accounting, Audit and Disclosure (Committee 1).

Regulators and Audit Oversight Authorities

- Australian Securities and Investment Commission (Australia).
- Canadian Public Accountability Board (Canada).
- Capital Market Authority (Kingdom of Saudi Arabia).
- Committee of European Auditing Oversight Bodies' (CEAOB) International Auditing Standards Subgroup (Europe).
- Dutch Authority for the Financial Markets (Netherlands).
- Financial Reporting Council (United Kingdom).
- Independent Regulatory Board for Auditors (South Africa).
- Public Company Accounting Oversight Board (United States).
- Securities and Exchange Commission of Brazil (Brazil).

Accounting Firms

- Baker Tilly International Limited.
- BDO International.
- Crowe Global.
- Deloitte Touche Tohmatsu Limited.
- Ernst & Young Global Limited.
- Forvis Mazars Global Limited.
- Grant Thornton International Limited.
- KPMG International Limited.
- PricewaterhouseCoopers International Limited.
- RSM International.

Other Stakeholder Groups

- Meeting with representatives from a digital confirmation platform provider.

Stakeholder Events

2. The ISA 500 Series project was discussed at the following stakeholder events:
 - IAASB-JSS Liaison Group (IAASB-JSS) meeting in New York (May 2025).
 - Forum of Firms meeting in New York (June 2025).
 - SMPAG virtual meeting (July 2025).

Appendix 2

Deep-Dive Sessions with MG Members

IFIAR SCWG⁷

Introduction

1. On August 12, 2025, Staff of the ISA 500 Series team engaged in a deep dive session with IFIAR SCWG representatives to obtain their viewpoints on the possible revision of the targeted standards in the ISA 500 Series.

Key Takeaways from the Engagement

2. With respect to the specific considerations for inventory in ISA 501, IFIAR SCWG representatives:
 - Highlighted that attendance at physical inventory counting provides persuasive audit evidence, particularly when responding to risks of material misstatement due to fraud. In this context, it was emphasized that auditors may need to attend inventory counting over multiple days and locations.
 - Recognized the importance of appropriately using technology to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory.
 - Commented that auditors are often unclear:
 - Whether attendance at physical inventory counting is a test of control or a substantive procedure.
 - Whether ISA 501 allows the use of technology, such as remote observation tools, to obtain audit evidence regarding the existence and condition of inventory.
 - About the alternative audit procedures that could be performed to obtain audit evidence regarding inventory when attendance at the inventory count is impracticable.
 - Noted recurring instances where auditors:
 - Relied solely on confirmations from a third party for inventory under the custody and control of a third party without considering the need for performing inspections or other audit procedures appropriate in the circumstances.
 - Performed limited or no procedures on cycle counts performed by management for perpetual inventory systems.
3. With respect to ISA 505, IFIAR SCWG representatives:
 - Emphasized the need for clarity in ISA 505 whether direct access to information is considered an external confirmation (i.e., when data is received via access to information and that access is provided by management).
 - Highlighted circumstances when external confirmation procedures alone do not provide

⁷ While the meeting was facilitated by the IFIAR SCWG, views provided by representatives at the meeting were in the context of individual regulatory bodies, and not the IFIAR as a whole.

sufficient appropriate audit evidence in relation to certain assertions or for all assertions (e.g., crypto assets, or other circumstances where external confirmations are obtained from entities other than reputable banks).

4. With respect to ISA 530, IFIAR SCWG representatives:

- Broadly agreed that the challenges observed with audit sampling are often due to performance issues rather than deficiencies in ISA 530 itself.
- Highlighted recurring inspection findings in:
 - Defining the population, including when stratifying a population or combining sub-populations as a single population.
 - Determining the appropriate sample size, including not fully understanding the underlying firm methodology that supports the determination of sample sizes, or only using professional judgment to determine the sample size.
 - Projecting the sample results to the population and evaluating the results of an audit sample.

IOSCO Committee 1

Introduction

5. On August 19, 2025, Staff of the ISA 500 Series team engaged in a deep dive session with IOSCO Committee 1 representatives to obtain their viewpoints on the possible revision of the targeted standards in the ISA 500 Series.

Key Takeaways from the Engagement

6. With respect to the specific considerations for inventory in ISA 501, IOSCO Committee 1 representatives:
- Broadly agreed that ISA 501 does not sufficiently address the use of technology in the managing and auditing of the existence and condition of inventory and should therefore be updated to reflect the current business and audit environment more appropriately.
 - Pointed out that there is growing use of remote observation tools, accelerated by the COVID-19 pandemic.
 - Noted that while the standard should be revised to address responses to new or changing risks arising from technology, it should not mandate the use of technology when performing audit procedures to obtain audit evidence for inventory.
 - Observed that the requirement for the auditor's attendance at management's physical inventory counting, unless impracticable, is overly restrictive. It was suggested that the standard should be revised to allow greater flexibility by explicitly permitting the use of technology for remote observations when appropriate in the circumstances.
 - Noted that the standard should also address cycle counts performed by management for perpetual inventory systems.

- Questioned whether ISA 501 would also apply to the audit of digital inventory assets as those are not physically observable.
 - Acknowledged the need to clarify and strengthen audit procedures to be performed when inventory is under the custody and control of a third party.
 - Highlighted the value of using a report on controls at a service organization (SOC report), when available, and emphasized the need for the auditor to consider relevant inventory controls at both the entity and the service organization.
7. With respect to ISA 505, IOSCO Committee 1 representatives:
- Suggested that ISA 505 include principles-based requirements that are designed to apply to all methods for performing external confirmation procedures.
 - Suggested providing examples of new or changing risks from using technology-enabled means, including third-party intermediaries, in the external confirmation process.
 - Recommended addressing implications of using an intermediary to facilitate confirmation requests and responses.
 - Questioned whether the certification of digital platforms is carried out at the firm or engagement level. The need for additional guidance, including considering scalability, was emphasized, given that smaller audit firms may not have the same capabilities as larger firms.
 - Suggested providing more examples on when negative confirmation requests remain appropriate to be used and of circumstances when external confirmations provide sufficient appropriate audit evidence regarding certain assertions.
 - Recommended clarifying the application material in paragraph A7 of ISA 505 indicating that ‘the auditor may send an additional confirmation request when a reply to a previous request has not been received within a reasonable time.’ There was concern that auditors may use this as a basis for replacing non-responses with new external confirmation requests, without performing alternative audit procedures over the original external confirmation requests.
8. With respect to ISA 530, IOSCO Committee 1 representatives:
- Broadly agreed that while there are challenges observed with audit sampling, those are often linked to audit performance rather than deficiencies in ISA 530 itself, which is not fundamentally broken and should remain principles-based.
 - Instead of pursuing revisions to ISA 530, suggested to develop non-authoritative materials addressing matters such as:
 - Defining the population, including when stratifying a population or combining sub-populations as a single population is appropriate. Guidance could include criteria to assist auditors when considering the homogeneity of populations.
 - Determining the appropriate sample size, including when performing procedures for more than one purpose.
 - Selecting items, including considerations that items are representative of the population.

- Investigating deviations and misstatements (including anomalies) identified in sample of items, projecting the sample results to the population and evaluating the results of an audit sample.
- Noted that scalability should be kept in mind and that audit sampling is less used by smaller firms due to lack of guidance and training.
- Suggested providing clarifications around the other types of testing that are not audit sampling, including:
 - Testing entire populations.
 - Testing key items.
 - Interrogating or analyzing entire populations using technological tools.

Appendix 3

Engagement with Regulators and Audit Oversight Authorities

Introduction

1. Between May and August 2025, Staff of the ISA 500 Series team engaged in individual working sessions with the following regulators and audit oversight authorities:
 - Australian Securities and Investment Commission (Australia).
 - Canadian Public Accountability Board (Canada).
 - Capital Market Authority (Kingdom of Saudi Arabia).
 - CEAOB International Auditing Standards Subgroup (Europe), representatives from France, Netherlands, Denmark and Poland.⁸
 - Dutch Authority for the Financial Markets (Netherlands).
 - Financial Reporting Council (United Kingdom).
 - Independent Regulatory Board for Auditors (South Africa).
 - Public Company Accounting Oversight Board (United States).
 - Securities and Exchange Commission of Brazil (Brazil).
2. In selecting participating regulators and audit oversight authorities, efforts were made to ensure representation from a diverse range of global regions.

Key Insights from the Outreach – What We Heard?

Topic 1: Inventory, Litigation and Claims, and Segment Information

3. The following key matters and perspectives were shared regarding ISA 501:

Appropriate Use of Technology

- There is a need to update the specific considerations for inventory in ISA 501 to reflect the evolution in the entities' use of new technologies in inventory management processes, including emphasizing the importance of an entity's system of internal controls.
- Perpetual inventory systems, including cycle counts, are becoming more common. Such counts add complexity and new considerations for auditors. Inspection findings often note findings around the reliability and sufficiency of the audit evidence obtained in cycle counts.
- The use of technology for remote attendance should be complementary only and not a substitute for physical attendance during inventory counts. However, in some circumstances, remote attendance may provide persuasive audit evidence.

⁸ While the meeting was facilitated by the CEAOB, views provided by representatives at the meeting were in the context of individual regulatory bodies, and not the CEAOB as a whole.

Inventory Under the Custody and Control of a Third Party

- Auditors often do not adequately consider the effectiveness of controls at third-party organizations, particularly when the entity's inventory is co-mingled with other inventories held by the third party.
- It is unclear whether inventory held by a third party falls within the scope of ISA 402.⁹ Irrespectively, views were shared that the procedures outlined in ISA 402 could be relevant and applicable to inventory under the custody and control of a third party in ISA 501.
- Concerns about overreliance on confirmations from third-party service providers. Views were shared that the work in this area may be superficial, and that there is an expectation for more robust procedures such as inspection or other substantive audit procedures.

Audit Procedures for Inventory

- Instances of failure to perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory have been noted from inspections.
- Inspection findings also noted insufficient roll-forward or roll-back procedures when inventory counting is performed before or after year end.

Alignment with Foundational ISAs

- There is a need to consider whether the requirements in ISA 501 addressing the existence and condition of inventory should continue to be conditional on materiality or whether they should depend on the risks of material misstatement.
- It was suggested to enhance the linkages between ISA 501 and the foundational standards (e.g., ISA 315 (Revised 2019), ISA 330 and ISA 500).

Litigation and Claims, and Segment Information

- It was noted that auditors mainly rely on lawyers in determining the probable outcome of litigation and claims.
- There have been instances of insufficient documentation relating to segment information from inspection findings.

Topic 2: External Confirmation Procedures

4. The following key matters and perspectives were shared regarding ISA 505:

Appropriate Use of Technology

- The use of digital confirmation platforms is increasing, and the need for updating ISA 505 to reflect this change was suggested, including to provide clearer guidance for auditors when their use is appropriate.
- Some jurisdictions noted that certain banks only respond through digital confirmation platforms, such as Thomson Reuters® Confirmation. However, other jurisdictions noted that such

⁹ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

platforms are not yet widely used. In some jurisdictions, confirmations are still sent by email or traditional mail, with technology mainly used to prepare templates.

- Concerns raised by regulators about using digital platforms for external confirmations included:
 - Auditors not maintaining control over confirmation requests.
 - Auditors not addressing the completeness of items to be confirmed.
 - Fraud risks due to possible manipulation of confirmation responses are inadequately considered, especially when internal controls to prevent such risks are poorly designed or not properly implemented.
- There were also concerns raised around the use of shared service centers, such as assigning external confirmation procedures to non-accounting professionals, that may undermine the exercise of professional skepticism (possibly due to a lack of competence, capability or objectivity) when addressing the reliability of responses to confirmation requests.

Reliability of Responses to External Confirmation Requests

- Concerns were raised around auditors not maintaining control over the confirmation process and the lack of application of appropriate professional skepticism when evaluating the reliability of responses to confirmation requests (e.g., mismatches in email domains between respondents and the entity's websites were not investigated further in certain cases).

Addressing Non-Responses and Exceptions in External Confirmation Procedures

- Issues, such as inappropriately replacing non-responses with new external confirmation requests and failing to investigate exceptions of whether they indicate misstatements were noted in inspections.

Use of Negative Confirmations

- Instances have been noted where auditors did not restrict the use of negative confirmation requests to situations where the risk of material misstatement was assessed as low, including instances when the use negative confirmation requests were not supplemented by other audit procedures.
- Views were shared that the use of negative confirmation requests in practice is limited to external confirmations for accounts receivable and accounts payable, and they are not used for bank confirmations.

External Confirmations for Specific Balances

- The following professional expectations and/or jurisdictional practices were shared:
 - In most jurisdictions, external confirmation procedures for cash, cash equivalents, and other balances are not mandated.
 - In some jurisdictions (e.g., Saudi Arabia), there is an expectation that auditors will perform external confirmations for cash and accounts receivable, although not mandated.

- In some jurisdictions (e.g., Brazil), auditors typically perform external confirmations only for larger engagements.
- Some jurisdictions impose specific requirements (e.g., US PCAOB and South Africa¹⁰).
- Some audit firm methodologies go beyond regulatory requirements by mandating external confirmations for material balances, such as cash and receivables (e.g., South Africa).

Topic 3: Audit Sampling

5. The following key matters and perspectives were shared regarding ISA 530:

Appropriate Use of Technology

- It was noted that technology is increasingly used in audit sampling over the last five years, especially by larger audit firms.
- Views were shared that irrespective of the auditor's use of technological tools in audit sampling, the basic principles and requirements of ISA 530 remain fit-for-purpose.
- The importance against over-relying on technological tools without fully understanding how the sampling tool works was emphasized.
- Although analyzing 100 percent of a population, facilitated by the use of technological tools, does not constitute audit sampling, if auditors identify similar types of exceptions through such analysis, they can still apply audit sampling to investigate these exceptions. In such cases, the sampling approach must be tailored to the specific facts and circumstances.

Performance Challenges with Audit Sampling

- While audit sampling remains a regular feature in audit inspections, many regulators noted their views that the issues identified are more performance-related (e.g., inappropriate application of, or non-compliance, with firms' methodology rather than actual gaps in ISA 530).
- Audit inspections often note recurring performance challenges around:
 - Defining the population, due to the auditor's lack of understanding whether there is a need to stratify a population or combine sub-populations within a single population.
 - Determining the sufficient sample sizes to reduce sampling risk to an acceptably low level, impacted by the inappropriate reliance on the results of other procedures (e.g., test of controls and substantive analytical procedures) and materiality levels determined in accordance with ISA 320.¹¹
 - Selecting items representative of the population given tendencies to 'select items that are easier to test.'
 - Investigating deviations and misstatements, including anomalies, such as replacing samples with identified deviations or misstatements, not sufficiently investigating the

¹⁰ In South Africa, auditors must obtain external confirmations from financial institutions as part of trust account audits—particularly for cash and cash equivalents—when performing assurance engagements under IRBA rules and regulations. See the relevant Guide for Registered Auditors: Engagements on Legal Practitioners' Trust Accounts (Revised March 2020).

¹¹ ISA 320, *Materiality in Planning and Performing an Audit*

nature and cause of deviations and misstatements identified or not including immaterial misstatements identified in projecting misstatements found in the samples to the population.

- Insufficient documentation of professional judgments made when using non-statistical sampling

Other Matters Relating to Audit Sampling

- Some regulators highlighted the benefit from additional guidance on the following matters:
 - What constitutes ‘sufficient appropriate audit evidence’ in the context of audit sampling to help determine the appropriate extent of audit sampling needed. Also, providing practical examples to demonstrate a complete approach to obtaining sufficient and appropriate audit evidence in different scenarios, including distinctions between the evidence required for reasonable assurance versus limited assurance engagements when applying audit sampling.
 - Linkages among documentation requirements in ISA 230¹² and how those apply to audit sampling in ISA 530.
 - Linkages in ISA 530 with ISA 500 to ensure alignment and consistency in how audit evidence concepts are applied across the standards.
 - Clarify that ISA 530 also applies to testing information produced by the entity.
- There were also suggestions for expanding the existing examples and guidance for audit sampling in the ISA for LCE.¹³ There was emphasis on the need for simple, practical illustrations that clearly show how risk assessment drives audit responses and evidence gathering when applying audit sampling.

¹² ISA 230, *Audit Documentation*

¹³ *International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (the ISA for LCE)

Appendix 4

Input from IAASB–JSS Liaison Group

Introduction

1. At the IAASB–JSS Liaison Group meeting on May 8-9, 2025, in New York,¹⁴ Staff provided an overview of certain focus areas identified to date relevant to scoping a planned project for the revision of targeted standards in the ISA 500 Series and sought views from representatives for the matters outlined below.

Key Insights from the Outreach – What We Heard?

General Matters

2. JSS representatives supported the initiative to modernize the three standards, so they remain fit-for-purpose in the current business and audit environment and in future. At an overarching level, JSS representatives supported a principle-based approach to the revisions and emphasized the need for conciseness and clarity while undertaking the revisions, and to avoid introducing undue complexity and length to the standards. Also, the JSS 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 the predominant challenges relating to inventory and external confirmations within their jurisdictions stem from how technology is used in business and audit practices, rather than the use of third-party services themselves. Additional observations were:
 - Whether the linkage between ISA 501 and ISA 402 is sufficiently clear in cases where a third party is used for inventory management. This includes consideration of the 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 interrogation of an entire population of items (i.e., while this is not

¹⁴ JSS representatives from Australia, Austria, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, Nordic Federation, Saudi Arabia, South Africa, United Kingdom, and United States attended the meeting.

sampling, questions pertain to how does it affect further sampling procedures), and investigating deviations, misstatements and anomalies.

- It is important to retain a principle-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 negative confirmations and whether ISA 505 should mandate the use of external confirmations for certain account balances such as for cash and cash equivalents.
- Noted concerns about observed trends in audits opting to perform alternative procedures or 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.
- A common issue is the inappropriate or incomplete determination of the population from which the sample is drawn.

Other Matters

7. JSS representatives shared the following views when commenting on whether there are any other matters relevant to ISA 501, ISA 505 or ISA 530 that are of global relevance and should be considered when scoping the revisions to these standards:

- For segment information, one JSS representative questioned whether it is necessary to retain the 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 in exploring the interplay with written representations provided by management.

8. One JSS representative suggested considering whether there is a need to introduce a high-level requirement in ISA 501 relating to 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.

Appendix 5

Engagement with Accounting Firms

Deep Dive Session with Forum of Firms (FoF)¹⁵

Introduction

1. At their meeting on June 24, 2025, in New York, feedback was sought from FoF representatives to obtain their perspectives on scoping a project to revise the targeted standards in the ISA 500 Series.
2. The format of the deep dive session included a project overview and a breakout discussion. The composition of each breakout group was as follows:
 - Group A – Global Public Policy Committee (GPPC)¹⁶ Networks (in-person).
 - Group B – Larger Mid-Tier Networks (in-person).
 - Group C – Medium to Smaller Mid-Tier Networks (in-person).
 - Group D – GPPC Networks (virtual).
 - Group E – Grouping of Larger, Medium and Smaller Mid-Tier Networks (virtual).

Key Insights from the Outreach – What We Heard?

Overarching Comments

Group A

- Group A expressed their strong support for the International Standards on Auditing (the Standards) to remain robust and principles based, which they consider will help the Standards remain relevant over the longer term, and better enable them to be applied in a dynamic, fast changing, environment. Views were expressed that highly prescriptive or specific requirements should only be incorporated into the Standards when considered absolutely necessary as they risk becoming obsolete, and could potentially inhibit the auditor's freedom to appropriately exercise professional judgment, their ability to integrate technology tools into the audit, and make the Standards more difficult to apply.
- Participants acknowledged that the IAASB has received feedback from certain stakeholders that appear to support a standard setting response to Standards in scope of the ISA 500 Series project, in part due to inspection findings, such as deficiencies with respect to audit sampling. Participants cautioned that, without greater specificity as to the nature and extent of inspection findings in these areas, it is difficult to judge whether a standard setting response is needed or indeed appropriate, or whether the issue may lie elsewhere, such as audit methodologies that may not be consistent with

¹⁵ The comments in this report do not constitute a 'view' of the Forum of Firms (FoF) but rather the views of the individual FoF member firms who participated in discussions with the standard setter – all in support of Audit Quality. The collective diversity of the FoF provides a useful opportunity for the standard setting community to hear a spectrum of views – this is encouraged at the FoF in support of Audit Quality. This Report does not attempt to achieve consensus of views across the entire FoF but instead enables the standard setter to better appreciate how their projects/standards are being received by a wide variety of firms, with diverse audit client bases. Comments in this report do not identify any individual firms but are categorized broadly by size of the Global Network – which we hope provides useful context for the standard setter.

¹⁶ See the <https://www.globalpublicpolicycommittee.org/>.

the requirements of the standards, or engagement teams that may not be appropriately applying their firm's audit methodology. Views were expressed that it is very important to better understand and correctly identify the root causes for these matters to determine whether the IAASB should respond and, if so, whether this should be done through standard setting or other actions (implementation guidance etc.). In those instances where findings predominately relate to issues with audit methodologies not being consistent with the Standards or engagement team execution, a more appropriate response may be for these matters to be addressed by a firm's system of quality management.

- Questions were raised on the continued need for ISA 501 as a standalone standard that covers three discrete topics. Some noted that it is unclear what the rationale is for maintaining a standard that focuses on three discrete topics, whilst the auditor is able to exercise their professional judgment to apply the foundational auditing standards as appropriate to address other items, which may be equally or more challenging to audit. Concerns were also raised that by requiring prescribed procedures to be performed for certain items, this creates a risk that these procedures may “age” over time and become less relevant. This could potentially inhibit the adoption of technology into certain aspects of the audit, and could result in the auditor performing procedures not because they consider them to be the most appropriate to respond to the assessed risks of material misstatement, but rather because they are required to.
- Views were expressed that it would be preferable for the IAASB to modernize and enhance ISA 330 to strengthen it (as well as more closely align it with ISA 315 (Revised 2019)), for example, by enhancing and expanding application material relating to relevant considerations when designing audit procedures that are responsive to assessed risks of material misstatement at the assertion level. In doing so, this could provide a robust, principles-based approach to responding to assessed risks of material misstatement that could be appropriately applied to a wide range of items, and eliminate the need to maintain existing (or develop new) auditing standards with specific requirements and considerations for selected items, such as those covered in ISA 501.

Topic 1: Inventory

Group A

- Views were expressed that certain requirements in ISA 501 are not entirely consistent with the risk-based approach that underpins ISA 315 (Revised 2019). For example, ISA 501 requires the auditor to obtain sufficient and appropriate audit evidence regarding the existence and condition of inventory when inventory is material, as well as regarding the presentation and disclosure of segment information, even if the auditor has not identified risks of material misstatement associated with these classes of transaction, account balances or disclosures (COTABD). Further, ISA 501 also requires certain procedures to be performed by the auditor in relation to these items even if the auditor believes that they can design and perform further audit procedures that are more effective at responding to the assessed risks of material misstatement. Views were expressed that inventory and segment information could be removed from the IAASB body of standards entirely (whilst also enhancing application material relating to responding to assessed risks of material misstatement in ISA 330). This would enable the auditor greater flexibility to exercise their professional judgment to determine what combination of audit procedures they consider are most appropriate to respond to assessed risks of material misstatement, rather than performing required procedures for selected

items and then “topping up” if the auditor does not believe the required procedures are sufficiently responsive on their own.

- Suggestions were made that, if the requirements relating to inventory in ISA 501 were removed, the IAASB could consider developing non-authoritative material that covers aspects relevant to the auditor’s attendance at inventory counts, including considerations relevant to the existence and condition of the inventory.

Group B

- Group B noted its support for the views shared by Group A. In addition, the need was highlighted to develop non-authoritative material addressing the use of technology in the context of obtaining sufficient appropriate audit evidence for the condition and existence of inventory.

Group C

- Views were shared that the requirement in ISA 501 for physical attendance at inventory counts, unless impracticable, is outdated. In addition, the need for the standard to recognize the benefits of using technology in auditing inventory was highlighted (e.g., to conduct remote inventory observations in multiple locations).

Group D

- Questions were raised whether ISA 501:
 - Is necessary to be retained in the IAASB body of standards.
 - Should benefit from stronger alignment with the concepts and requirements of ISA 315 (Revised 2019) and ISA 330. In particular, the requirement to attend the entity’s physical inventory counting ‘if inventory is material to the financial statements’ is currently inconsistent with the risk-based approach of ISA 315 (Revised 2019).
- Suggestions were made that ISA 501 could clarify that it allows physical or remote attendance as acceptable modes of attendance at the entity’s inventory counts, given that remote attendance is not an alternative procedure where physical attendance is impracticable.
- In addition, it was noted that the objective of ISA 501 only addresses specific assertions (e.g., completeness of litigation and claims) and does not cover all relevant assertions for the discrete topics covered by the standard.

Group E

- If ISA 501 is retained as a standalone standard, the importance of maintaining a principles-based approach was highlighted.
- It was also suggested that the IAASB consider developing non-authoritative material covering special considerations for inventory that could encourage, and provide guidance on, the use of technology.
- Views were shared around the limitations that may arise when attendance at inventory counts is done remotely rather than physically (e.g., it may limit the auditor’s ability to observe certain aspects of inventory such as obsolescence or damage to the condition of the inventory and other non-inventory

related information and casual observations which can be obtained by having a physical presence at the entity's premises).

Topic 2: External Confirmations

Group A

- It was observed that ISA 505 is outdated and does not reflect the evolving use of technology in external confirmation procedures.
- It was suggested that as there are other types of audit procedures that can be performed on external information sources that are similar to, and may provide similarly persuasive audit evidence to, an external confirmation, and therefore it may be timely for the requirement in ISA 330.19 to be reconsidered.
- Caution was expressed against prohibiting the use of negative confirmation requests. While such requests are used infrequently and generally provide less persuasive evidence, it was emphasized that they can still, in combination with other audit procedures, provide sufficient and appropriate audit evidence in certain circumstances. Some also expressed views that, as a general principle, they would prefer that the Standards do not preclude the use of certain audit procedures in any circumstances. Rather, it would be preferable to clarify relevant considerations where certain audit procedures may not be effective, or may not provide sufficient appropriate audit evidence on a standalone basis.
- The need to perform additional procedures alongside negative confirmation requests was highlighted and certain challenges in the current environment emphasized—such as phishing—that may reduce confirmation response rates.
- There was a lack of support for introducing mandatory external confirmations for specific account balances in ISA 505 for the following reasons:
 - Other audit procedures may provide similarly persuasive evidence.
 - The classification of certain types of instruments in the financial statements may sometimes require significant judgment. As these items may not be consistently classified with the same account, this could result in confusion and inconsistency in practice as to whether certain types of instruments are subject to external confirmation or not.
 - A globally prescriptive approach could create practical implementation challenges across different jurisdictions (e.g., practicality challenges in certain jurisdictions related to restrictions and limitations of the auditor's ability to obtain external confirmations).

Group B

- Group B noted its support for the views shared by Group A. In addition, addressing the importance of the reliability of digital confirmation platforms provided by third-party intermediaries was noted.
- Questions were raised around the continued relevance of negative confirmation requests in the current environment and suggestions shared that the related provisions in ISA 505 be removed during the development of the exposure draft.

Group C

- There was support for recognizing the use of digital confirmation platforms provided by third-party intermediaries in ISA 505, while reinforcing the auditor's responsibility to maintain control over the confirmation process in these circumstances.
- There was support to retain negative confirmation request in ISA 505 primarily because they may provide evidence in combination with other procedures.
- There was lack of support for introducing mandatory external confirmations for specific account balances in ISA 505 due to possible implementation challenges across different jurisdictions.

Group D

- Group D noted its support for the views shared by Group A. It was also suggested to clarify in ISA 505 that:
 - Directly accessing information held by third parties—such as through web portals, software interfaces, or other digital means—may provide persuasive audit evidence similar to external confirmations, but does not constitute an external confirmation itself.
 - The firm may centrally 'certify' the suitability of digital confirmation platforms provided by third-party intermediaries for use in audit engagements.
- It was noted that auditors are sometimes unable to access digital platforms directly and must instead go through the entity, which is inconsistent with the requirement in ISA 505 for the auditor to maintain control over the confirmation process.
- There was a lack of support for introducing mandatory external confirmations for specific account balances in ISA 505 given that third-party intermediaries across jurisdictions have different operational procedures that may create implementation challenges at the local level.

Group E

- Group E noted its support for the collective views shared by the other breakout groups. In addition, the importance of exercising professional skepticism in ISA 505 was emphasized, especially when external confirmations are processed through systems that are directly integrated with the audit engagement file.

Topic 3: Audit Sampling

Group A

- Participants acknowledged feedback the IAASB has received that certain stakeholders support strengthening ISA 530 in response to regulatory findings relating to audit sampling. However, participants cautioned that, without more specific information as to the nature of the regulatory findings, it is difficult to judge whether a standard setting response is needed, or whether the issue relates to audit methodologies that may not be consistent with the requirements of ISA 530, or engagement teams are not appropriately applying their firm's audit methodology when sampling. In the absence of more specific information, participants expressed the view that they consider extant ISA 530 remains appropriate as a principles-based auditing standard and does not require revision.

- It was noted that the documentation requirements in ISA 230 adequately address the documentation aspects related to audit sampling.

Group B

- Group B noted its support for the views shared by Group A in terms of extant ISA 530 being appropriate and not requiring revisions.

Group C

- Group C agreed with views shared by Group A, noting that extant ISA 530 does not need to be revised. In addition, it was observed that the use of technology to facilitate audit sampling has not rendered ISA 530 outdated in the current environment as the concepts and requirements that apply, whether using technology or not to facilitate audit sampling, remain the same.

Group D

- There was support for not revising ISA 530 given that the issues identified to date are mainly performance-related and are not associated with the impact of technology used to facilitate audit sampling.

Group E

- Group E noted its support for the views shared by Group A in terms of extant ISA 530 being appropriate and not requiring revisions. In addition, the development of non-authoritative guidance was suggested, including practical examples. In doing so, the IAASB may leverage jurisdictional guidance issued and other developments relevant to audit sampling.

Topic 4: Other Matters

Group A

- As noted in the feedback relating to Topic 1: Inventory, it was suggested that the specific considerations for inventory and segment information could be removed entirely from ISA 501.
- Participants were supportive of retaining the requirements and application material for litigation and claims in the IAASB standards. Some noted that these could be repositioned into ISA 315 (Revised 2019), ISA 330 and other relevant standards, as appropriate (e.g., ISA 580¹⁷). Others noted that they believe that there needs to be a clear benefit to relocating requirements to other auditing standards before doing so as, even if the requirements are unchanged, simply relocating them can result in significant effort to remap audit methodologies and guidance.

Group B

- It was noted that there are significant differences in legal, regulatory, and cultural frameworks across jurisdictions with respect to litigation and claims.
- Questions were raised as to the need of ISA 501 to specifically focus on segment information only, over other disclosures in the financial statements.

¹⁷ ISA 580, *Written Representations*

Group C

- Questions were raised of the benefit of introducing new requirements for litigation and claims and segment information in ISA 501.
- Views were also shared around whether there is a benefit of incorporating the specific considerations for litigation and claims of ISA 501 into ISA 315 (Revised 2019).
- The group discussed the point that where revisions are proposed to the 500 series in many instances the objectives of a revision could potentially be achieved through enhanced application guidance rather than revising the requirements in the applicable standard.

Group D

- No specific comments around other matters, including litigation and claims or segment information.

Group E

- No strong views were noted regarding litigation and claims, segment information or for other matters.

Working Sessions with Individual Accounting Firms

Introduction

3. Between April to June 2025, Staff engaged in individual working sessions, either virtually or by in-person meetings, with representatives of the following accounting firms:
 - Baker Tilly International Limited.
 - BDO International.
 - Crowe Global.
 - Deloitte Touche Tohmatsu Limited.
 - Ernst and Young Global Limited.
 - Forvis Mazars Global Limited.
 - Grant Thornton International Limited.
 - KPMG International Limited.
 - PricewaterhouseCoopers International Limited.
 - RSM International.

Key Insights from the Outreach – What We Heard?

Topic 1: Inventory

Appropriate Use of Technology

- In the current business environment, entities are using end-to-end and more complex inventory systems, so auditors need to adapt their approach and understand internal controls. IT specialists are also often needed.
- Cycle counts are replacing physical counts. Many companies use perpetual systems with cycle

counts, and auditors face new challenges, such as assessing the reliability of management's methods. Audit teams often seek expert guidance in this area.

- Remote observations are increasing. Tools like drones and scanners are being used, especially since COVID-19. These methods have benefits (e.g., coverage, access, safety) but also limitations (e.g., blind spots, less persuasive evidence). Views were shared that physical attendance continues to provide persuasive audit evidence.

Inventory Under the Custody and Control of a Third Party

- Some audit firms explained that they require auditors to understand how third-party service providers manage and control inventory. If available, a SOC report on the third party's controls is also useful in these circumstances.
- Some firms' policies encourage auditors to go further than just requesting third-party confirmations. For example, they may need to perform inspections or other relevant procedures depending on the situation. Views were shared that ISA 501 could include clearer guidance to guard against overreliance on third-party confirmations.
- The importance for auditors to understand the entity's own procedures for checking the existence and condition of inventory held by a third party was emphasized.
- It was noted that at times, auditors may face difficulties accessing inventory at third-party locations or getting confirmation responses.
- Suggestions were made to consider difficulties regarding the access of auditors to third-party inventory locations.

Other Matters Relating to Inventory

- Further guidance was suggested for addressing multi-location inventory counts, cycle counts, specific industry considerations for inventory counts (e.g., manufacturing, auto dealership) and implementing a controls approach for inventory counting.

Topic 2: External Confirmations

Appropriate Use of Technology

- Auditors are increasingly using third party digital confirmation platforms¹⁸ in some jurisdictions (e.g., UK, Germany and US) to obtain external confirmations for balances such as bank, legal, and investment confirmations.
- Some firms noted that they also develop their own technological tools for external confirmations.
- While some encourage using firm developed or approved third-party platforms, they do not require them, given that traditional methods (e.g., mail, fax, email) continue to be used.
- Third-party intermediaries that provide digital confirmation services are not considered 'service organizations' as defined under ISA 402, because they mainly serve the auditor, not the user

¹⁸ For example, Thomson Reuters® Confirmation and Circit.

entity. SOC reports for third-party platform providers are considered at the firm level, rather than at the engagement level.

- The use of shared service centers to manage external confirmations audit processes is becoming more prevalent, particularly in larger firms.
- Suggestions were made to clarify in ISA 505 whether direct access to information (e.g., when auditors access data, where access is provided by management) constitutes as an external confirmation. Some firms allow direct access as a valid source of audit evidence but do not treat it as formal external confirmation. Some firms also use open banking platforms (e.g., Inflo) to securely access bank account information via Application Programming Interfaces (APIs).

Use of Negative Confirmations

- With respect to the use of negative confirmations, some firms indicated that their audit methodologies:
 - Mirror relevant requirements of ISA 505. However, for some jurisdictions there are adaptations to reflect changes made regarding use of negative confirmations by jurisdictional standards setters in their equivalent standards (e.g., the UK auditing standard prohibits the use of negative confirmations).
 - Neither prohibit nor encourage their use, given that these procedures are not widely used by engagement teams.
- Views were shared that using negative confirmation requests is relevant and effective in some cases, for example, for accounts payable balances.

Requiring External Confirmations for Specific Balances

- With respect to requiring the use of external confirmations for specific balances or circumstances, firms indicated the following approaches:
 - While not mandating use of external confirmations for specific account balances or transactions, including cash, firms provide guidance to consider whether external confirmation procedures would be an appropriate response to the risks of material misstatements associated with relevant assertions.
 - For some jurisdictions, there are adaptations to reflect changes made by jurisdictional standards setters in their equivalent standards (e.g., for audits under PCAOB standards).
 - Some firms presume that external confirmation procedures for certain accounts (e.g., cash, account receivables and relationships with financial institutions) are best practice, but allow rebuttals of such presumption, supported by appropriate documentation.
 - Emphasize the need to apply professional judgment whether external confirmation procedures are appropriate or necessary.
- Some firms emphasized the need for additional guidance in ISA 505 on when external confirmations are appropriate to be used.

Other Matters

- The importance of defining an ‘intermediary’ in the standard was highlighted.
- An accounting firm also raised concerns about the reliability of responses to confirmation requests.

Topic 3: Audit Sampling

Appropriate Use of Technology

- Firms rely on technological tools¹⁹ to test or analyze entire populations. Some firms also mandate the use of certain technological tools, while others leave it up to engagement teams.
- There are questions about when audit sampling could be applied when using technological tools to analyze entire populations, especially when exceptions are found. Also, some firms allow the use of audit sampling to investigate whether exceptions found are misstatements or control deficiencies and there is recognition about the need for more guidance in this area.

Defining the Population

- Common challenges stem from difficulties in properly defining the population—such as determining whether to stratify the population or to combine sub-populations into a single population.

Determining the Sufficiency of Sample Sizes

- Several factors were highlighted that influence the determination of sample sizes for substantive testing:
 - Specified assurance level – sample sizes are affected by the confidence level expected from other audit procedures already performed.
 - Reliance on control testing – greater reliance on effective controls can justify reductions in substantive testing sample sizes.
 - ‘Haircuts’²⁰ – firm methodologies often allow greater sample size reductions if tests of controls have been performed than from substantive analytical procedures—a distinction that is not explicitly addressed by ISA 530.
 - Dual-purpose testing – firm methodologies permit audit procedures to achieve both control and substantive objectives.
 - Use of audit data analytics – firm methodologies increasingly recognize the use audit data analytics to interrogate or analyze entire populations. In such cases, auditors set parameters based on the identification and assessment of risks of material misstatement. However, the ISAs offer limited recognition of audit data analytics when applied as analytical procedures, creating challenges such a regulatory interpretations

¹⁹ For example, Excel, Alteryx, IDEA, and DataSnipper.

²⁰ The use of the term ‘haircut’ in sample sizes refers to reducing (or adjusting downward) the sample size needed for tests of details based on the level of assurance obtained from audit procedures already performed.

and findings—particularly when sample size reductions are based on such analysis. Typically, sample size reductions are not credited to using audit data analytics in performing analytical procedures for audit engagements subject to regulatory inspections.

- Partial reductions – some methodologies permit reduced sample sizes when using substantive analytical procedures and audit data analytics, but not when both are applied together—indicating a cautious approach that may benefit from clearer standard-setting direction.

Selecting Items Representative of the Population

- Accounting firms noted that both engagement quality reviewers and regulators emphasize the importance of auditors demonstrating that sampling units are selected appropriately, ensuring each unit has a chance of selection. Firm methodologies are generally neutral toward haphazard selection—neither explicitly encouraging nor prohibiting its use. Some firm methodologies use random selection methods in audit sampling tools.

Using Statistical versus Non-Statistical Sampling

- Firm methodologies employ both statistical and non-statistical approaches to audit sampling. However, some noted that non-statistical sampling is rarely applied in practice.

Topic 4: Litigation and Claims, and Segment Information

- Views were shared that for litigation and claims, challenges stem around evaluating whether provisions, contingent liabilities, or disclosures are complete and appropriate under the applicable financial reporting framework based on the assessment of likelihood and impact of litigation and claims obtained through direct communication with the entity's external legal counsel. Also, the need for professional skepticism was noted.

Appendix 6

Feedback from IFAC's SMPAG

Introduction

1. Views were sought from members of the SMPAG for matters relevant to scoping a project for the revision of the targeted standards in the ISA 500 Series at their virtual meeting on July 23, 2025.

Key Insights from the Outreach – What We Heard?

Topic 1: Inventory

Addressing the Increased Use of Technology in ISA 501

2. SMPAG members shared the following views with respect to auditing inventory in response to evolving audit practices and technological advancements:
 - Principle-based approach – SMPAG members emphasized the importance of keeping the standard principles-based as inventory processes in small- and medium-sized entities (SMEs) have not significantly evolved and avoiding overly prescriptive requirements that could limit the adoption of future technologies.
 - Guidance on using technology – SMPAG members emphasized the need for practical guidance on how technology used by entities to manage inventory affects the risks of material misstatement related to the existence and condition of inventory, and how this could influence the auditor's approach. It was suggested that non-authoritative materials be developed to enhance auditors' professional judgment in using technology and to understand their associated risks instead of revising the standard.
 - Remote attendance at inventory counts – There was a range of views regarding remote observation of inventory counts:
 - Some expressed support for continuing to require the auditor's physical attendance at inventory counts when practicable, as there may be an increased risk of manipulation by management when using technological tools (e.g., deep fake risks). It was also suggested that it be permissible by the standard to use experts to attend inventory counts, given the limited resources of SMP auditors to attend multiple counts occurring at the same time at different entities.
 - It was suggested that additional guidance would be useful in situations where physical attendance is challenging, highlighting the potential benefits of remote attendance using technological tools (e.g., broader coverage, flexibility across multiple locations, and reduced travel constraints).
 - Importance of internal controls – SMPAG members noted that the modernization of the standard should emphasize the importance of internal controls, including general information technology controls (GITCs) when observing remote inventory counts.
 - Scalability – It was noted that many SMEs continue to use basic inventory management systems and manual inventory counts. The standard should remain scalable and suitable for varying levels of technological sophistication, without requiring the use of technology. It was

also emphasized that the IAASB should avoid adding unnecessary prescription to the standards, as this could stifle innovation; other forms of support material may be more appropriate.

Clarifying or Enhancing the Auditor's Work Effort in ISA 501

3. With respect to enhancements or clarifications that are necessary in ISA 501 to improve the auditor's work effort for the existence and condition of inventory, SMPAG members commented as follows:
- Stronger linkage with ISA 315 (Revised 2019) – It was suggested that ISA 501 should be aligned more closely with ISA 315 (Revised 2019), especially in auditing the existence and condition of inventory counts based on the identified risks of material misstatement.
 - Inventory held by third parties – Audit procedures for inventory under the custody and control of a third party should reflect a risk-based approach and may include a range of options given the assessed risks of material misstatement (e.g., obtaining the third-party external confirmation, attending the inventory count, or reviewing the third-party SOC report). Views included that if inventory held by third parties is material but not significant, external confirmation procedures may be sufficient in the circumstances.
 - Multi-location inventory – SMPAG members supported guidance about:
 - Inventory locations not included in the count, which are not individually material, but are material when considered in the aggregate (e.g., guidance about rotation audit strategies and incorporating unpredictability in selecting locations).
 - Inventory counts which occur on different days (e.g., guidance that emphasizes the risks of unaccounted inventory movements between locations during the count).
 - Cycle counts and year-end reconciliation – SMPAG members suggested additional guidance on the use of cycle counts and how to reconcile them with year-end inventory balances, including the application of roll-forward or roll-back procedures.

Other Specific Considerations in ISA 501

4. With respect to the other discrete topics covered in ISA 501 (i.e., litigation and claims, and segment information), some SMPAG members emphasized the need for guidance on specific challenges in practice, including:
- Non-responses when seeking direct communication with external counsel about litigation and claims.
 - Alternative procedures to perform when direct communication is not possible.
 - Inadequate audit work on litigation and claims related to a component for purposes of a group audit.
 - Disputes over supplier contracts in some jurisdictions and specific sectors.

Topic 2: External Confirmations

Addressing the Increased Use of Technology in ISA 505

5. With respect to the use of third-party intermediary platforms for external confirmations in the context of SMEs, SMPAG members commented as follows:
- In some jurisdictions (e.g., Mexico), banks require the use of such platforms to respond to external confirmation requests and the use of these platforms is becoming more widespread. In other jurisdictions, these platforms are rarely used due to their high cost.
 - Some members emphasized the need for modernization, recognizing that the growing role of technology is reshaping the broader ecosystem—including in how banks and suppliers facilitate auditors access to information.
 - Some members also emphasized the importance of updating the standard to clarify that the auditor is still required to maintain control over external confirmation requests, even when using third-party intermediaries. However, members cautioned against mandating the use of an intermediary in the standard.

Clarifying or Enhancing the Auditor's Work Effort in ISA 505

6. SMPAG members provided the following perspectives:
- Distinction between external confirmation and direct access to information – SMPAG members highlighted the need to clarify the distinction between obtaining audit evidence directly from third parties through external confirmations versus directly accessing the same information through other means (e.g., through APIs).
 - Use of negative confirmation requests – Views were mixed on the appropriateness of using negative confirmation requests:
 - Some SMPAG members questioned their continued relevance, noting that such requests are either prohibited or rarely used in certain jurisdictions (e.g., United Kingdom, Australia and Japan).
 - Others cautioned against prohibiting their use, recognizing that although they are used infrequently and provide less persuasive evidence, they can still provide audit evidence in certain circumstances. While negative confirmations are less common in practice, there are circumstances where they remain appropriate—particularly when used in combination with other audit procedures, consistent with ISA 505, paragraph 15, which together with the 'stand-back' requirement in ISA 505, paragraph 16, may often mean they will not serve as the only audit procedures applied in obtaining sufficient appropriate audit evidence relating to a specific item. For example, in entities with many small, diverse suppliers or customers who are private individuals, negative confirmations can be an efficient and practical approach. They may be especially effective where recipients are more likely to respond if they disagree with the stated amount in the confirmation request. The current standard already contains safeguards against misuse. ISA 505, paragraph 12, requires alternative procedures for non-responses, preventing them from being treated as implicit agreement. ISA 505, paragraph 13, prohibits their use where positive confirmation is necessary, while ISA 505, paragraph 15, prohibits reliance on

negative confirmations as the sole substantive procedure for addressing an assessed risk of material misstatement. Finally, ISA 505, paragraph 16, requires auditors to evaluate the sufficiency of evidence obtained and whether additional procedures are necessary. Accordingly, while their use should be carefully considered, SMPAG members expressed concern if negative confirmations were prohibited entirely in revisions to ISA 505.

- Guidance on alternative procedures – SMPAG members noted frequent difficulties in obtaining responses to external confirmation requests, particularly from banks and credit card providers. They suggested further guidance on what alternative procedures could be performed when no response to an external confirmation request is received.
- Reliability of responses received – It was noted that the limited internal controls commonly found in SMEs and their customers and suppliers may affect the reliability of responses received to external confirmation requests. Auditors also face issues relating to time delays in receiving confirmation responses.

Topic 3: Audit Sampling

Addressing the Increased Use of Technology in ISA 530

7. SMPAG members did not provide specific comments on the use of technology in ISA 530.

Clarifying or Enhancing the Auditor's Work Effort in ISA 530

8. SMPAG members emphasized the need to clearly state that ISA 530 only applies when the auditor has decided to use audit sampling in performing audit procedures. It was observed that some SMPs would test entire populations especially if they are unable to rely on internal controls or if they are able to use technological tools to interrogate or analyze entire populations. However, auditors may be unclear as to whether audit sampling can be applied when investigating exceptions identified from such interrogation or analysis. There were some views that this confusion is not due to deficiencies in the standard itself, but rather because of a lack of practical guidance.
9. Additionally, there is also confusion around the definition of 'population' in the context of stratified sampling, particularly when stratification is based on monetary value, as described in ISA 530, paragraph 5(h). In such cases, the sampling approach is inherently biased toward higher-value items, which can distort the projection of misstatements across the 'population.' This bias may lead to inaccurate conclusions about the overall level of misstatement, especially if the projection does not appropriately consider the untested lower-value items.
10. Specific issues regarding the auditor's work effort in ISA 530 that were also highlighted as needing enhancement or clarity included:
- Defining the population – Auditors would benefit from guidance on how to appropriately define the population to be tested, including when to stratify a population or combine sub-populations as a single population.
 - Selecting items representative of the population – The requirement that each sampling unit in the population must have a chance of selection is frequently misunderstood as meaning an 'equal chance of selection.' Paragraph 8 requires that each sampling unit in the population must have a chance of selection, but it does not require an equal chance. This distinction is

often misunderstood. In practice, this requirement supports the use of monetary unit sampling or stratified sampling, where higher-value items may have a greater probability of selection due to their risk or materiality. However, the standard also permits random sampling, which implies that all items have an equal chance of selection, regardless of value or risk. This creates ambiguity in how paragraph 8 should be interpreted and applied. It would be helpful for the standard to clarify the intent and scope of this requirement, particularly in distinguishing between risk-based sampling approaches and purely random methods, to ensure consistent and appropriate application in practice.

- Documentation – There is a general lack of explanation and documentation when auditors choose to apply haphazard sampling methods.

Appendix 7

Meeting with a Digital Confirmation Platform Provider

1. On May 19, 2025, Staff met with a representative of a digital confirmation platform provider to discuss their perspectives and views on:
 - (a) Trends in external confirmation procedures, including the current landscape and anticipated developments in the medium term.
 - (b) The IAASB's extant confirmation standard (i.e., ISA 505) and how it accommodates this evolving landscape, including any perceived or actual barriers in ISA 505 and notable areas for improvement.
2. The following perspectives and views were provided:
 - At the firm level, ISQM 1²¹ sets a requirement to establish quality objectives that address the appropriateness of technological resources obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements. Accordingly, some accounting firms have centralized the external confirmation process in shared service centers, that may use digital confirmation platforms.
 - When using digital confirmation platforms, auditors act as users of the platform and are the ones covering the cost for the third-party intermediaries' service, with agreements in place between auditors, entities, and banks.
 - Banks impose strict security requirements and may request SOC reports.
 - There is ambiguity whether direct access to information (e.g., open banking platforms) constitutes an external confirmation under ISA 505. This raises the need for clearer guidance on what qualifies as an external confirmation and when it is needed.
 - Using open banking platforms add further challenges to maintaining control over external confirmation requests. Auditors need the entity's consent, and even then, they cannot be sure they have full or complete access to the population of items to be confirmed. This creates risk over the completeness of items to be confirmed.
 - Observations were shared that auditors sometimes do not perform external confirmation procedures and alternatively rely on reviewing client systems directly or performing alternative procedures.
 - Negative confirmations are rarely used in practice. Instead, auditors perform alternative procedures based on perceived views that negative confirmations do not provide sufficient audit evidence.

²¹ 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*