

Targeted Standards in the ISA 500 Series – Issues Paper

Objective:

The objective of the IAASB discussion in March 2026 is to obtain the Board's input on the project team's views and recommendations addressing selected topics on audit evidence related to inventory in ISA 501¹ and external confirmations in ISA 505.²

Introduction

Materials Presented

Matters Addressed in this Agenda Item

1. This paper sets out the following:
 - (a) **Part A:** Overview of stakeholder outreach and coordination activities.
 - (b) **Part B:** Alignment with concepts for the identification and assessment of, and responding to, risks of material misstatement.
 - (c) **Part C:** Inventory under the custody and control of a third party.
 - (d) **Part D:** Negative confirmations.
 - (e) **Part E:** Considerations about the need to perform external confirmation procedures.
 - (f) **Part F:** Way forward.

Appendices Accompanying This Paper

2. This Agenda Item includes the following appendices:

Appendix 1	Feedback from Outreach with Jurisdictional Standards Setters (JSS)
Appendix 2	Feedback from Outreach with Users of Financial Statements and Preparers, Including Those Charged with Governance (TCWG)

Background

3. As set out in **Agenda Item 4**, during the December 2025 IAASB meeting, the project team presented to the Board a draft project proposal for a project to revise audit evidence standards related to inventory in ISA 501 and external confirmations in ISA 505 (i.e., in-scope standards).

¹ International Standard on Auditing (ISA) 501, *Audit Evidence—Specific Considerations for Selected Items – Inventory*

² ISA 505, *External Confirmations*

Part A: Overview of Stakeholder Outreach and Coordination Activities

Stakeholder Outreach³

4. In January 2026, the project team requested JSS members of the IAASB-JSS Liaison Group to complete a questionnaire and participate in virtual discussions on selected topics on audit evidence related to inventory in ISA 501 and external confirmations in ISA 505. In February 2026, the project team also met with representatives and staff of the American Institute of Certified Public Accountants' Auditing Standards Board, to discuss what they learned from their work on revising their equivalent external confirmations standard.
5. In February 2026, the project team invited members of the Stakeholder Advisory Council (SAC) that are identified as users of financial statements and preparers, including TCWG, to participate in virtual discussions about selected topics on audit evidence related to external confirmations in ISA 505.
6. Further details about the outreach activities undertaken in January and February 2026 and the key insights from the stakeholder feedback are available in **Appendices 1–2** to this paper.

Coordination Activities

Audit Evidence and Risk Response (AE&RR)

7. In February 2026, the ISA 500 Series project team circulated the draft project proposal to the AE&RR project team and met with them to coordinate on matters of relevance, including matters related to inventory in ISA 501, external confirmations in ISA 505 and on the consistency of alignment actions with proposed ISA 330 (Revised)⁴ and proposed ISA 500 (Revised).⁵

Part B: Alignment with Concepts for the Identification and Assessment of, and Responding to, Risks of Material Misstatement

Background Information

Key Issue

8. Since the last revision of ISA 501 in 2008 as part of the Clarity project (see paragraphs 11–12), there have been two revisions of ISA 315—ISA 315 (Revised)⁶ in 2011 and ISA 315 (Revised 2019).⁷ As a result, ISA 501 does not adequately reflect, or may not be sufficiently aligned, with the more robust risk identification and assessment process in ISA 315 (Revised 2019), because the type of change alluded to in paragraphs 10–12 may have gone beyond that of a conforming or consequential nature. Irrespective of identified and assessed risks of material misstatement regarding inventory, the current requirements in ISA 501 are conditional based on inventory and inventory under the custody and control of a third party being “material to the financial statements.” A stronger link to ISA 315 (Revised

³ Also, see [Agenda Item 11-B](#) of the December 2025 IAASB meeting for a comprehensive overview of the feedback received from the project outreach undertaken up to December 2025.

⁴ See Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, presented in [Agenda Item 5-M](#) of the December 2025 IAASB meeting.

⁵ See Proposed ISA 500 (Revised), *Audit Evidence*, presented in [Agenda Item 5-N](#) of the December 2025 IAASB meeting.

⁶ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

⁷ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

2019) and proposed ISA 330 (Revised) would support auditors' professional judgments in risk assessment and risk response decisions when obtaining audit evidence regarding inventory.

Proposed Action

9. The project proposal includes a standard-setting action to determine appropriate revisions to requirements and application material to align with ISA 315 (Revised 2019) and proposed ISA 330 (Revised).

Current Approach in the IAASB Standards

10. For inventory and inventory under the custody and control of a third party that are "material to the financial statements," paragraphs 4 and 8 of ISA 501 require auditors to obtain sufficient appropriate audit evidence regarding its existence and condition by performing specific audit procedures described in those paragraphs. This makes the inventory element of ISA 501 procedural and not risk-based.

Previous IAASB Deliberations

11. ISA 501 was last revised in 1994 and then redrafted as part of the Clarity project in 2007 and 2008. The reference to "when material to the financial statements" was discussed by the Board in its December 2007 meeting.⁸ The minutes⁹ from this meeting described the IAASB's deliberation on whether it was appropriate to retain the reference to "when material to the financial statements." It was noted that similar references in ISAs then redrafted had been removed and that including such references should be determined on a case-by-case basis.
12. With respect to then proposed ISA 501 (Redrafted),¹⁰ the IAASB agreed that the reference to materiality should be retained in light of the specificity and procedural nature of this particular standard, and to avoid any inadvertent change in practice or the scope of the requirements. In this regard, the IAASB agreed that reference to "material" should also be included in the requirement addressing inventory under the custody and control of a third party.

Feedback from Stakeholder Outreach¹¹

13. The table below summarizes the feedback from stakeholder outreach regarding this topic.

Lack of alignment with foundational ISAs on risk assessment

- Stakeholders:
 - Indicated that certain requirements in ISA 501 are inconsistent with the risk-based approach of ISA 315 (Revised 2019) (e.g., based on materiality rather than assessed risk of material misstatement, performing required procedures even if the auditor believes that they can

⁸ See Agenda Item 12 of the [December 2007 IAASB meeting](#).

⁹ See Agenda Item 1-A, Section 4 of the [March 2008 IAASB meeting](#).

¹⁰ Proposed ISA 501 (Redrafted), *Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures*

¹¹ Refer to [Agenda Item 11-B](#) of the December 2025 IAASB meeting and **Appendices 1–2** to this Agenda Item for a comprehensive overview of the feedback received from the project outreach undertaken to date with a broad range of stakeholders.

design and perform further audit procedures that are more effective in responding to the assessed risks).

- Highlighted 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 be driven by assessed risks of material misstatement.
- Provided suggestions to enhance the linkages between ISA 501 and the foundational standards (e.g., ISA 315 (Revised 2019), ISA 330¹² and ISA 500¹³).

Inconsistent approach across jurisdictions

- It was noted that the United States (US) Public Company Accounting Oversight Board's (PCAOB) equivalent standard on inventory, AS 2510,¹⁴ does not have requirements conditional on inventory being "material to the financial statements."¹⁵ Under the US PCAOB standard, specific audit procedures are required when inventory quantities are determined solely by means of a physical count, or if inventories held by third parties represent a significant proportion of current or total assets.

Project Team's Views and Recommendations

Risk-Based Approach

14. Based on stakeholder feedback, the project team recommends replacing the "materiality-based" with a "risk-based" conditionality in paragraphs 4 and 8 of ISA 501, supported by enhanced application material with stronger linkages to ISA 315 (Revised 2019) and proposed ISA 330 (Revised), to address concerns about inconsistency of provisions related to inventory in ISA 501 with the risk-based approach in the ISAs.
15. This proposed approach provides a strong and direct response to stakeholder calls about enhancing the alignment between ISA 501 and the foundational standards, particularly ISA 315 (Revised 2019) and proposed ISA 330 (Revised). It clearly links the requirements to perform specific audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory in response to assessed risks of material misstatement, reinforcing the ISAs' risk-based approach. This proposed approach is in line with the way ISA 315 (Revised 2019) has been significantly strengthened by requiring a more robust risk identification and assessment, thereby promoting better responses to assessed risks. This approach also aligns with the Board's current thinking as reflected in its decision to remove paragraph 18 of extant ISA 330, which was viewed as inconsistent with the risk-based approach of an audit as encompassed by ISA 315 (Revised 2019).

Level of Assessed Risk to Which the Conditional Requirements Apply

16. The project team recommends applying the conditional requirements in paragraphs 4 and 8 of ISA 501 in all instances where the inventory's existence or condition (related to its valuation assertion)

¹² ISA 330, *The Auditor's Responses to Assessed Risks*

¹³ ISA 500, *Audit Evidence*

¹⁴ AS 2510, *Auditing Inventories*

¹⁵ The US PCAOB currently has [a project in its agenda](#) to revise their inventory standard.

are identified as relevant assertions in accordance with ISA 315 (Revised 2019), paragraph 29. Doing so would ensure that the required audit procedures for inventory are directly linked to any assessed risk of material misstatement at the assertion level, thereby aligning ISA 501 with the risk-based approach in the IAASB standards, particularly with ISA 315 (Revised 2019) and proposed ISA 330 (Revised).

17. The project team also considered the applicability of the conditional requirements in paragraphs 4 and 8 of ISA 501 to other levels of assessed risk (e.g., only for significant risks) when obtaining sufficient appropriate audit evidence regarding the existence and condition of inventory. The project team is of the view that any other levels of assessed risk could be seen by stakeholders, in particular regulators, as a less rigorous requirement than in extant ISA 501 and therefore proposes not to do so.

Reinforcing Linkages to Foundational ISAs

18. In addition, the project team recommends enhancing the linkages to foundational ISAs by introducing explicit cross-references in application material linking inventory audit procedures in ISA 501 to the core requirements in ISA 315 (Revised 2019) and proposed ISA 330 (Revised). This reinforces that the inventory audit procedures in ISA 501 are not standalone ‘checklist’ requirements, but part of the broader risk assessment and response framework in the ISAs.

Matters for IAASB Consideration:

1. The Board is asked for their views on the project team’s views and recommendations discussed in **Part B**, in particular:
 - (a) The recommended approach in paragraphs 14–15 to replace the materiality-based conditionality in paragraphs 4 and 8 of ISA 501 with a risk-based conditionality.
 - (b) The recommended approach in paragraphs 16–17 for the conditionality of the requirements in paragraphs 4 and 8 of ISA 501 to apply in all instances where the inventory’s existence or condition (related to its valuation assertion) are identified as relevant assertions in accordance with ISA 315 (Revised 2019).

Part C: Inventory Under the Custody and Control of a Third Party

Background Information

Key Issue

19. There are identified instances of overreliance on external confirmations from third parties as the sole audit procedure to obtain sufficient appropriate audit evidence for the existence and condition of inventory held under the custody and control of third parties.

Proposed Actions

20. The project proposal includes standard-setting actions to enhance requirements and application material that address the sufficiency and appropriateness of audit evidence obtained for inventory under the custody and control of a third party. In doing so, proposed actions include:

- (a) Clarifying circumstances when sole reliance on third-party external confirmation procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory held by third parties may be appropriate.
- (b) Clarifying circumstances when inspection or other audit procedures may be necessary, for example, testing the entity's own reconciliation and monitoring activities over third-party records.
- (c) Reinforcing linkages to foundational requirements in ISA 315 (Revised 2019) and proposed ISA 330 (Revised), including obtaining more persuasive audit evidence the higher the auditor's assessment of inherent risk.

Current Approach in the IAASB Standards

21. For material inventory under the custody and control of a third party, paragraph 8 of ISA 501 requires the auditor to obtain sufficient appropriate audit evidence regarding its existence and condition by performing one or both of the following:
- (a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
 - (b) Perform inspection or other audit procedures appropriate in the circumstances.

Feedback from Stakeholder Outreach¹⁶

22. The table below summarizes the feedback from stakeholder outreach regarding this topic.

Overreliance on third-party external confirmations

- Stakeholders expressed concerns about auditors' overreliance on external confirmations from third parties. Feedback included:
 - Perceptions that external confirmation procedures alone may not provide sufficient appropriate audit evidence regarding the existence and condition of inventory held by third parties, and that relying solely on third-party confirmations is not an appropriate response:
 - To an assessed risk of material misstatement.
 - If the auditor has doubts about the integrity and objectivity of the third party, or the reliability of the confirmation.
 - Views that sole reliance on external confirmations from third parties may be appropriate if inventory held by third parties is material but is not associated with significant risks.

Circumstances when inspection or other audit procedures are necessary

- Stakeholders noted that the need to perform inspections or other procedures (e.g., testing the entity's own procedures for managing and monitoring the inventory held by the third party) should:
 - Be driven by auditors' assessed risks of material misstatement.

¹⁶ Refer to [Agenda Item 11-B](#) of the December 2025 IAASB meeting and **Appendices 1–2** to this Agenda Item for a comprehensive overview of the feedback received from the project outreach undertaken to date with a broad range of stakeholders.

- Not be required in all circumstances.

Consideration of inventory-related controls at both the entity and the third party

- Stakeholders' feedback emphasized the importance of auditors' considerations of inventory-related controls at both the entity and the third party, including:
 - The value of using system and organization controls reports when available, and whether inventories held by third parties fall within the scope of ISA 402.¹⁷
 - That auditors often do not adequately consider the effectiveness of controls at the third party, particularly when the entity's inventory is co-mingled with other inventories held by the third party.

Project Team's Views and Recommendations

Reinforcing Linkages to Foundational Requirements in ISA 315 (Revised 2019) and Proposed ISA 330 (Revised)

23. Based on the collective stakeholder feedback, the project team is of the view that the auditor's procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory under the custody and control of a third party need to be aligned with the relevant concepts in the foundational ISAs, consistent with the project team's views and recommendations in **Part B**. Therefore, the revisions to ISA 501 need to reinforce linkages to foundational requirements in ISA 315 (Revised 2019) and proposed ISA 330 (Revised), for example, through enhancements in application material.

Need to Obtain More Persuasive Audit Evidence the Higher the Auditor's Assessment of Inherent Risk

24. In addition to the alignment considerations in **Part B**, the project team is of the view that the auditor's procedures addressing inventory under the custody and control of a third party need to reflect the principle that auditors need to plan to obtain more persuasive audit evidence as the assessed inherent risk increases along the spectrum of inherent risk, consistent with the requirement in proposed ISA 330 (Revised), paragraph 7(c).

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence

25. The project team is of the view that as the auditor's assessment of inherent risk increases along the spectrum of inherent risk, sole reliance on third-party external confirmation procedures under paragraph 8(a) of ISA 501 is less likely to provide sufficient appropriate audit evidence regarding the existence and condition of inventory held by a third party. This is because of potential limitations in both appropriateness and sufficiency.¹⁸

¹⁷ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

¹⁸ Proposed ISA 500 (Revised), paragraph A14A, provides guidance that the sufficiency and appropriateness of audit evidence are interrelated and together affect its persuasiveness, in light of the assessed risks of material misstatement and relevant assertions.

- (a) Appropriateness
 - (i) Relevance – External confirmations from a third party are generally highly relevant to the existence assertion, as they directly address whether inventory recorded by the entity exists at the custodian’s premises at a specified date. However, they may be less relevant to the condition aspect of the valuation assertion, particularly for inventory susceptible to damage, deterioration, or obsolescence.
 - (ii) Reliability – The reliability of confirmation responses of a third party may be affected by concerns about authenticity, bias, or credibility. For example, with respect to credibility, a third-party custodian may lack the competence or systems necessary to provide reliable information about the inventory’s existence and condition, as evidenced by weak controls, limited expertise in assessing condition, or the absence of system and organization controls reports.
- (b) Sufficiency – When relying solely on external confirmations from the third party, the auditor obtains one type of evidence from a single source at a point in time. If the audit evidence obtained is limited in quality (as described in paragraph 25(a)), additional audit evidence is needed.

Clarifying Circumstances When Sole Reliance on Third-Party External Confirmation Procedures May Be Appropriate

26. Based on the considerations in paragraphs 24–25, the project team recommends that ISA 501 be revised to clarify the circumstances when sole reliance on third-party external confirmation procedures may be appropriate. The project team is of the view that sole reliance should be explicitly linked to the auditor’s risk assessment at the assertion level, including the auditor’s assessment of inherent risk on the spectrum of inherent risk. Such clarification would help address stakeholders’ concerns about auditors’ overreliance on third-party external confirmation procedures.

Level of Assessed Risk When Sole Reliance on Third-party External Confirmation Procedures May Be Appropriate

27. The project team considered the following levels of assessed risk when sole reliance on third-party external confirmation procedures may provide sufficient appropriate audit evidence regarding the existence and condition of inventory held by a third party:
- (a) For an assessed risk of material misstatement at the assertion level, regardless of the auditor’s assessment of inherent risk on the spectrum of inherent risk (Option A).
 - (b) For an assessed risk of material misstatement at the assertion level, where the auditor’s assessment of inherent risk is at the lower end of the spectrum of inherent risk (Option B).
28. The project team recommends applying Option B, because this option:
- (a) Is most consistent with the principles embedded in ISA 315 (Revised 2019) and proposed ISA 330 (Revised) because it directly links the nature and extent of audit procedures to the spectrum of inherent risk and reinforces the requirement to obtain more persuasive audit evidence as the auditor’s assessment of inherent risk increases.

- (b) Improves the robustness of audit procedures without imposing unnecessary audit work when the assessed risk of material misstatement is “low.” This approach appropriately reflects stakeholder feedback that performing inspection or other audit procedures should not be mandated in all cases, especially when the assessed risk is “low.”
29. The project team recommends not pursuing Option A since it does not reflect the underlying principle in proposed ISA 330 (Revised) that higher assessments of inherent risk require more persuasive audit evidence. As inherent risk increases (e.g., due to complexity, susceptibility to fraud, co-mingling arrangements, or rapid obsolescence), the potential limitations on the relevance and reliability of information provided by external confirmation procedures become more consequential and therefore, sole reliance on third-party external confirmation procedures is unlikely to provide sufficient appropriate audit evidence. Allowing sole reliance regardless of inherent risk assessments would also perpetuate stakeholders’ concern about instances of overreliance on external confirmation procedures.
30. The project team recommends addressing Option B in a requirement, as clarifications through guidance in application material alone may not sufficiently address recurring inspection findings and stakeholder concerns about overreliance on third-party external confirmations.

Clarifying Circumstances When Inspection or Other Audit Procedures May Be Necessary

31. Based on the considerations in paragraphs 24–27, the project team recommends that ISA 501 be revised to clarify that instead of, or in addition to, performing third party external confirmation procedures, it may be necessary for the auditor to perform inspection or other audit procedures appropriate in the circumstances, to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory held by a third party, in the following circumstances:
- (a) Following on from the recommendations in paragraphs 28–29, for an assessed risk of material misstatement at the assertion level, where the auditor’s assessment of inherent risk is not at the lower end of the spectrum of inherent risk.
 - (b) If the auditor is required to test the operating effectiveness of controls under the circumstances described in paragraph 8 of proposed ISA 330 (Revised). The project team notes that stakeholders highlighted the importance of the auditor’s consideration of inventory-related controls at both the entity and the third-party custodian.

Matters for IAASB Consideration:

2. The Board is asked for their views on the project team’s views and recommendations discussed in **Part C** regarding:
- (a) Reinforcing linkages to foundational requirements in ISA 315 (Revised 2019) and proposed ISA 330 (Revised), discussed in paragraphs 23–25.
 - (b) Clarifying circumstances when sole reliance on third-party external confirmation procedures may be appropriate, discussed in paragraphs 26–30.
 - (c) Clarifying circumstances when inspection or other audit procedures may be necessary, discussed in paragraph 31.

Part D: Negative Confirmations

Background Information

Key Issue

32. Certain stakeholders have raised concerns regarding the relevance and reliability of the audit evidence obtained from negative confirmation requests in the current business and audit environment. This stems from the nature of these confirmation requests; specifically, that a non-response may also be an oversight or desire by the confirming party not to respond. In addition, there are inconsistencies across jurisdictions in permitting their use.

Proposed Actions

33. The project proposal includes standard-setting actions to determine whether the requirements and application material in ISA 505 allowing the use of negative confirmation requests in certain circumstances remain appropriate in the current business and audit environment, including whether the standard should prohibit their use. If determined that the use of negative confirmation requests remains appropriate, proposed actions would also enhance requirements and application material over when their use may be appropriate.

Current Approach in the IAASB Standards

34. Negative confirmation requests are recognized as providing less persuasive evidence than positive confirmation requests and, in accordance with paragraph 15 of ISA 505, should not be used as the sole substantive procedure to address an assessed risk of material misstatement at the assertion level unless all specified preconditions are met.

Feedback from Stakeholder Outreach¹⁹

35. The table below summarizes the feedback from stakeholder outreach regarding this topic.

Inconsistent approaches across jurisdictions and firms

- Stakeholders noted inconsistent approaches across JSS and accounting firms regarding the use of negative confirmation requests. Such approaches include those that:
 - Explicitly prohibit its use (e.g., United Kingdom (UK) Financial Reporting Council (FRC)); and
 - Allow its use only when in combination with other substantive procedures (e.g., US PCAOB).

Mixed views over the appropriateness of its use

- Stakeholders had mixed views whether the use of negative confirmation requests is appropriate in responding to an assessed risk of material misstatement at the assertion level.
 - On one hand, stakeholders questioned the continued relevance of negative confirmation requests in the current environment and suggested that the related provisions in ISA 505 be

¹⁹ Refer to [Agenda Item 11-B](#) of the December 2025 IAASB meeting and **Appendices 1–2** to this Agenda Item for a comprehensive overview of the feedback received from the project outreach undertaken to date with a broad range of stakeholders.

removed. They also noted that such requests are either prohibited or rarely used in certain jurisdictions. Some noted that their confidence in an audit would be negatively affected if they knew negative confirmations were used as the sole substantive procedure for certain balances.

- On the other hand, stakeholders cautioned against prohibiting the use of negative confirmation requests entirely in the revisions to ISA 505. These stakeholders noted that, while such requests are used infrequently and generally provide less persuasive evidence, they can still, in combination with other audit procedures, provide sufficient appropriate audit evidence in certain circumstances. Some also expressed views that, as a general principle, they would prefer that the IAASB Standards do not preclude the use of certain audit procedures. 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.

Performance issues

- Regulators and audit oversight authorities identified instances where auditors used negative confirmation requests in situations where the risk of material misstatement was not assessed as low. They also identified instances when the use of negative confirmation requests were not supplemented by other audit procedures.

Project Team's Views and Recommendations

36. Based on the collective stakeholder feedback, the project team considered whether it is appropriate to:
- (a) Explicitly prohibit the use of negative confirmation requests; or
 - (b) Allow the use of negative confirmation requests only when performed in combination with other substantive procedures.

Explicitly Prohibit the Use of Negative Confirmation Requests

37. The project team notes that some stakeholders are asking to prohibit the use of negative confirmation requests because an explicit prohibition would provide a clear and enforceable requirement that eliminates the risk of improper application and therefore, may strengthen overall audit quality.
38. Such approach, as applied by the UK FRC, is intended to aid in improving the quality of audit evidence obtained when auditors use external confirmation procedures. The UK FRC noted the following reasons for prohibiting negative confirmation requests:
- (a) Enforcement findings. Instances were noted where auditors have inappropriately relied on negative confirmation requests, for example where a response was unlikely ever to be received even if there were relevant matters, thus calling into question the suitability of a negative confirmation request.
 - (b) Negative confirmation requests generally provide a less persuasive form of audit evidence than positive confirmation requests. There are better alternative audit procedures to obtain audit evidence when a response to a positive confirmation request is not obtainable.

39. However, the project team notes that a blanket prohibition would eliminate a form of audit evidence and would inhibit the auditor's ability to apply professional judgment in circumstances of low-risk and high-volume, homogeneous balances or transactions where negative confirmation requests may be appropriate. For example, when an entity has many small balances with a large number of suppliers or customers who are private individuals, using negative confirmation requests may be a practical approach. They may be especially effective where confirming parties are more likely to respond if they disagree with the stated amounts in the confirmation requests. A blanket prohibition may be perceived by stakeholders as overly prescriptive and inconsistent with the principle of allowing auditors to design audit procedures responsive to engagement-specific risks.
40. Stakeholders highlighted that negative confirmation requests are used in regulatory audits, for example:
- (a) The Financial Industry Regulatory Authority's [SEA Rule 17a-5 and Related Interpretations](#) (January 20, 2026) explains that an audit of a broker-dealer's financial statements should be made in accordance with the US PCAOB standards. The US PCAOB's equivalent external confirmations standard, AS 2310,²⁰ allows auditors to use negative confirmation requests only when performed in combination with other substantive procedures.
 - (b) Under the Canadian Investment Regulatory Organization's [Investment Dealer and Partially Consolidated Rules](#) (January 8, 2026), auditors of Dealer Members are required to send out negative confirmation requests for all remaining accounts that have not been selected for positive confirmation and are also required to confirm client accounts with no balance, using positive or negative written confirmation procedures.

Proposed Way Forward

41. In considering whether it remains appropriate to continue to allow the use of negative confirmation requests in the current business and audit environment, the project team considered the following, in addition to the matters in paragraphs 37–40:
- (a) Negative confirmation requests inherently provide less persuasive audit evidence than positive confirmation requests as recognized by ISA 505 (see paragraphs 15 and A23 of ISA 505).
 - (b) ISA 505, paragraph 15, already includes a 'general' prohibition of the use of negative confirmation requests as *sole* substantive procedure to address an assessed risk of material misstatement unless all specified preconditions are present.
 - (c) The specified preconditions already create a high threshold to be met before negative confirmations requests are allowed to be used as sole substantive procedure. Retaining these safeguards helps ensure that the inherent limitations of negative confirmation requests are mitigated.
42. Based on the considerations discussed in paragraphs 37–41, the project team is of the view that it is not appropriate to explicitly prohibit the use of negative confirmation requests. However, the project team is of the view that there is a need to enhance requirements and application material in ISA 505 to respond to stakeholder concerns regarding the relevance and reliability of audit evidence obtained from negative confirmation requests in the current business and audit environment. Accordingly, the

²⁰ AS 2310, *The Auditor's Use of Confirmation*

project team recommends allowing their use only when performed in combination with other substantive procedures. In addition, this could be supplemented by supporting application material in ISA 505 by providing examples of other substantive procedures auditors can perform to supplement their use of negative confirmation requests.

Allow the Use of Negative Confirmation Requests Only When Performed in Combination with Other Substantive Procedures

43. The project team is of the view that allowing the use of negative confirmation requests only when performed in combination with other substantive procedures ensures that auditors do not place undue reliance on the absence of responses to such requests.
44. Such approach, as applied by the US PCAOB, is based on the rationale that the use of negative confirmation requests alone does not provide sufficient appropriate audit evidence in response to an assessed risk of material misstatement at the assertion level. As in the UK, observations from US PCAOB inspections and enforcement actions indicated that some auditors did not restrict the use of negative confirmation requests to situations where the risk of material misstatement was assessed as low. They also observed that the amount of electronic correspondence has increased dramatically over the years, leading to an increased likelihood that a negative confirmation request would not be appropriately considered by the confirming party and, therefore, would provide less persuasive audit evidence. The new US PCAOB standard addresses this issue by providing examples of situations in which negative confirmation requests, in combination with the performance of other substantive audit procedures, may provide sufficient appropriate audit evidence.

Retaining 'General' Prohibition of the Use of Negative Confirmation Requests, Unless All Specified Preconditions Are Present

45. With respect to the specified preconditions in paragraph 15 of ISA 505, the project team notes that:
 - (a) The precondition which restricts the use of negative confirmation requests to risk assessed at the lower end of the spectrum of inherent risk ensures that they are applied only in appropriate circumstances vis-à-vis the persuasiveness of audit evidence needed. The precondition that requires auditors to test the operating effectiveness of controls relevant to the assertion compensates for the less persuasive audit evidence provided by negative confirmation requests. It also promotes the integration of tests of controls and substantive procedures, rather than a purely substantive approach.
 - (b) The precondition for a large number of small, homogeneous account balances, transactions or conditions reduces the risk of material aggregate misstatement from the confirming parties' 'assumed' agreement with the information provided in the negative confirmation requests when no responses are received.
 - (c) The precondition for a very low exception rate takes into account the results of the auditor's risk assessment procedures, the results of procedures performed in prior periods and the results of other further procedures performed in the current period.
 - (d) The precondition that the auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such request is intended to mitigate reliability concerns.

46. Given that under the approach described in paragraphs 43–44, auditors would be permitted to use negative confirmation requests only in combination with other substantive procedures, the project team reassessed whether the specified preconditions in ISA 505, paragraph 15, remain appropriate. In doing so, the project team considered whether the preconditions could be:
- (a) Retained as they are (Option A). This means that preconditions in ISA 505 must all be met before negative confirmation requests are allowed to be used. The project team notes that this option preserves a disciplined boundary around a substantive procedure that provides less persuasive audit evidence.
 - (b) Reframed that only one or more preconditions need to be present (and not all, as required by ISA 505 currently) before negative confirmation requests are allowed to be used (Option B). The project team notes that while Option B promotes flexibility, it risks undermining the protective architecture currently embedded in ISA 505.
 - (c) Enhanced by adding new preconditions or removing one or more of the current preconditions (Option C). The project team notes that the information gathering undertaken has not suggested any new preconditions or that any of the existing preconditions are not appropriate anymore.
 - (d) Moved to application material (Option D). The project team notes that this option would materially dilute existing safeguards without clear justification.
47. On balance, the project team recommends that the specified preconditions in ISA 505 must all be present before negative confirmation requests are allowed to be used and, if permitted, they should be used in combination with other substantive procedures (Option A). This is because the cumulative impact of these specified preconditions, if appropriately applied, can mitigate the inherent limitations of negative confirmation requests to provide persuasive audit evidence.

Matters for IAASB Consideration:

3. The Board is asked for their views on the project team's views and recommendations discussed in **Part D**, in particular:
- (a) The proposed way forward discussed in paragraphs 41–44:
 - (i) That it is not appropriate to explicitly prohibit the use of negative confirmation requests.
 - (ii) That while the use of negative confirmation requests (when the specified preconditions have been met) remains appropriate, it should only be allowed when performed in combination with other substantive procedures.
 - (b) If the proposed way forward is pursued, that the list and construct of the preconditions in paragraph 15 of extant ISA 505 be retained (see paragraphs 45–47).

Part E: Considerations About the Need to Perform External Confirmation Procedures

Background Information

Key Issue

48. High-profile financial reporting frauds have called attention to the need for well-executed external confirmation procedures, particularly when confirming cash and cash equivalent balances. While external confirmation procedures are widely used for cash and cash equivalents and accounts receivable, only certain jurisdictions and firm methodologies require auditors to perform them in specific circumstances, resulting in inconsistent practices.

Proposed Actions

49. The project proposal includes standard-setting actions to enhance requirements or application material regarding the auditor's considerations about the need to perform external confirmation procedures in certain circumstances (e.g., when responding to a significant risk, including fraud risk) and for certain classes of transactions, account balances and disclosures (e.g., cash and cash equivalents, accounts receivable, and terms of certain transactions).²¹

Current Approach in the IAASB Standards

50. ISA 505 currently does not mandate external confirmation procedures for certain account balances or circumstances. Proposed ISA 330 (Revised), paragraph 19, retains the requirement in extant ISA 330 for auditors to consider whether external confirmation procedures are to be performed as substantive procedures.

Feedback from Stakeholder Outreach²²

51. The table below summarizes the feedback from stakeholder outreach regarding this topic.

Inconsistent approaches across jurisdictions and firms

- Stakeholders indicated inconsistent approaches across JSS and accounting firms for considerations about the need to perform external confirmation procedures for certain account balances. For example:
 - In most jurisdictions, external confirmation procedures for cash and cash equivalents, and other balances are not mandated.
 - In some jurisdictions, there is an expectation that auditors will perform external confirmation procedures for cash and cash equivalents and accounts receivable, although not mandated (e.g., Saudi Arabia), or guidance has been developed to help auditors determine whether bank confirmation procedures are to be performed in certain circumstances (e.g., Australia).

²¹ The project proposal also indicates that further insights obtained throughout the course of the project may indicate that this proposed action can be better addressed through revisions of the relevant requirement and application material in proposed ISA 330 (Revised) regarding whether external confirmation procedures are to be performed as substantive procedures.

²² Refer to [Agenda Item 11-B](#) of the December 2025 IAASB meeting and **Appendices 1–2** to this Agenda Item for a comprehensive overview of the feedback received from the project outreach undertaken to date with a broad range of stakeholders.

- In some jurisdictions (e.g., South Africa for trust account audits when performing assurance engagements, and the US), auditors are required to confirm certain account balances (e.g., cash and cash equivalents and accounts receivable) when a risk of material misstatement has been identified.
- Some audit firm methodologies go beyond regulatory requirements by mandating or presuming that external confirmation procedures would be performed for certain account balances (e.g., cash and cash equivalents and accounts receivable). Where there is a presumption to confirm, accounting firms allow rebuttals of such presumption, supported by appropriate documentation.

Mixed views on mandating external confirmation procedures for certain account balances

- Practitioners had mixed views on introducing mandatory external confirmations for specific account balances in ISA 505. Feedback included that:
 - Other audit procedures (e.g., direct access to information maintained by a knowledgeable external source) may provide similarly persuasive evidence.
 - Greater emphasis is needed on the application of professional judgment in deciding whether external confirmation procedures are appropriate or necessary.
 - A globally prescriptive approach could create practical implementation challenges across different jurisdictions (e.g., practicality challenges in certain jurisdictions to obtain external confirmations).
 - Some accounting firms already provide guidance to consider whether external confirmation procedures would be an appropriate response to risks of material misstatement associated with relevant assertions.
 - Practitioners emphasized the need for additional guidance in ISA 505. For example, members of the International Federation of Accountants' Small and Medium Practices Advisory Group 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.
- Users of financial statements and preparers, including TCWG, were supportive of requiring external confirmation procedures for certain balances, such as cash and cash equivalents, even within a principles-based framework, because these procedures are already commonly performed in practice. They noted that high-profile frauds involving cash and cash equivalents have weakened confidence in audits and capital markets, and that mandating external confirmation procedures in this area would help strengthen audit quality and increase confidence. They were also supportive of more transparency with TCWG on external confirmation procedures performed during the audit.

Project Team's Views and Recommendations

Possible Approaches for a Way Forward

52. Based on the collective stakeholder feedback, the project team considered the following approaches regarding how considerations about the need to perform external confirmation procedures could be addressed:
- (a) Explicitly mandate external confirmation procedures for certain account balances (Option A);
 - (b) Explicitly require consideration of whether external confirmation procedures are to be performed for certain account balances (Option B); or
 - (c) Retain the extant approach, but add guidance for when external confirmation procedures for certain account balances may be needed (Option C).

Option A: Explicitly Mandate External Confirmation Procedures for Certain Account Balances

53. This approach is intended to respond to calls for well-executed external confirmation procedures for certain account balances, for example, cash and cash equivalents and accounts receivable, that may be associated with high risks or that are historically vulnerable to fraud risks.
54. Such approach, as required by the US PCAOB, indicates that when cash and cash equivalents or accounts receivable are significant accounts,²³ there is a presumption that auditors should obtain audit evidence from a knowledgeable source by performing external confirmation procedures or using other means to obtain audit evidence by directly accessing information maintained by knowledgeable external sources. This is because, in the US PCAOB standards, in general, evidence obtained from a knowledgeable external source that is independent of the company is considered to be more reliable than evidence obtained from internal company sources.
55. The project team notes that explicitly mandating external confirmation procedures for certain account balances may be perceived as overly prescriptive as it could limit the auditor's ability to apply professional judgment in designing and performing audit procedures responsive to assessed risks, particularly, where other substantive procedures (e.g., direct access to information maintained by a knowledgeable external source) could provide equally persuasive audit evidence. Stakeholders' views indicated that a mandatory approach may encourage a 'checklist' mentality, reducing the tailoring of audit procedures to the specific risks and circumstances of an engagement. This approach may also face practical implementation challenges, such as jurisdictional legal and regulatory restrictions, including data protection laws, which may limit a confirming party's ability to respond—particularly in cross-border situations.

Option B: Explicitly Require Consideration of Whether External Confirmation Procedures Are to Be Performed for Certain Account Balances

56. This approach would build on the core requirement in proposed ISA 330 (Revised), paragraph 19, by requiring auditors to specifically consider whether to perform external confirmation procedures as substantive procedures for certain account balances (e.g., cash and cash equivalents and accounts

²³ Under the US PCAOB standards, "an account or disclosure is a significant account or disclosure if there is a reasonable possibility that the account or disclosure could contain a misstatement that, individually or when aggregated with others, has a material effect on the financial statements, considering the risks of both overstatement and understatement."

receivable). Doing so adds greater emphasis to perform external confirmation procedures for certain account balances while still allowing auditors to exercise professional judgment based on risk and engagement circumstances. This approach also will introduce a performance requirement that will drive relevant audit documentation and will include developing supporting application material.

57. The project team notes that this approach does not materially change the current requirement for the auditor to consider whether to perform external confirmation procedures as substantive procedures in proposed ISA 330 (Revised), and therefore, may be viewed as not sufficiently strong to respond to calls for more robust requirements to address public interest expectations to perform external confirmation procedures, particularly for cash and cash equivalents and accounts receivable, in light of recent high-profile fraud cases.

Option C: Retain the Extant Approach, But Add Guidance for When External Confirmation Procedures for Certain Account Balances May Be Needed

58. Under this approach, application material can clarify when external confirmation procedures for certain account balances may be needed, helping auditors make informed judgments. For example, application material in ISA 505 could encourage auditors to perform external confirmation procedures when responding to a risk of material misstatement that is a higher assessed risk or a significant risk for certain account balances such as cash and cash equivalents and accounts receivable.
59. While this approach supports stakeholders' views not to explicitly mandate external confirmation procedures for certain account balances, it may also be perceived as an inadequate standard-setting action to address public interest expectations to perform external confirmation procedures, particularly for cash and cash equivalents and accounts receivable, in light of recent high-profile fraud cases.
60. Also, the project team notes that paragraph A50 of proposed ISA 330 (Revised) carries over guidance from extant ISA 330 on other situations where external confirmation procedures may provide audit evidence in responding to assessed risks of material misstatement. In addition, Appendix 1 to proposed ISA 500 (Revised) also provides guidance that the auditor may request an external confirmation of:
- Bank accounts and bank facilities with the bank. In some cases, this may be facilitated through third-party web-based and automated platforms.
 - Account balances, such as accounts receivable and accounts payable.
 - The terms of agreements or transactions an entity has with third parties.
 - Whether any modifications have been made to an agreement and, if so, what the relevant details are.
 - Whether "side agreements" have been entered into that may influence revenue recognition.

Proposed Way Forward

61. On balance, the project team recommends requiring auditors to explicitly consider whether external confirmation procedures are to be performed for certain account balances (Option B).
62. While this approach would not bring full convergence to certain equivalent external confirmations standards that include a presumption that auditors should obtain audit evidence from a

knowledgeable source by performing external confirmation procedures for certain account balances, this approach would provide a proportionate and targeted response to heightened public interest expectations without fundamentally altering the risk-based architecture of the ISAs.

Key Considerations Affecting How the Approaches Could Be Applied

63. The project team notes the following key considerations affecting how the recommended approach described in paragraphs 61–62 could be applied:²⁴
- (a) The specific account balances it intends to cover, for example cash and cash equivalents held by third parties and accounts receivable.
 - (b) The level of assessed risk it intends to address, for example, when responding to a higher assessed risk or a significant risk. Doing so anchors a proposed requirement in the risk-based approach in the ISAs.
 - (c) Whether there would be certain exceptions to the provisions addressing the need to perform external confirmation procedures, for example, when external confirmation procedures:
 - (i) Are prohibited by law or regulation; or
 - (ii) Would be ineffective.
 - (d) The type of audits of entities it intends to cover. For example, this could either be applied to audits of financial statements of all entities, regardless of size or complexity, or to audits of publicly traded entities only.
64. With regards to the considerations presented in paragraph 63, the project team recommends that the approach for requiring auditors to explicitly consider whether external confirmation procedures are to be performed for certain account balances (Option B):
- (a) Covers those account balances which would address public interest expectations to perform external confirmation procedures, for example, for cash and cash equivalents held by third parties and accounts receivable, as highlighted in stakeholder feedback and discussed in this section.
 - (b) Applies to the identified account balances, when the assessment of risks of material misstatement for relevant assertions of those account balances is at the higher end of the spectrum of inherent risk or is a significant risk.
 - (c) Not include exceptions to the requirement as it may be perceived as diluting the strength of the response to public interest expectations to perform external confirmation procedures for certain account balances.
 - (d) Applies to all audits of financial statements because the need to perform external confirmation procedures should be driven by the entity's specific facts and circumstances—not by its publicly traded or listing status. Inherent risk may be at the higher end of the spectrum, or constitute a significant risk, in any entity.

²⁴ The project team notes that the considerations set out in paragraph 63 can equally apply to Option A.

Matters for IAASB Consideration:

4. The Board is asked for their views on the project team's views and recommendations discussed in **Part E**, in particular:
 - (a) The possible approaches regarding how considerations about the need to perform external confirmation procedures for certain account balances could be addressed, discussed in paragraphs 52–60.
 - (b) The proposed way forward for Option B presented in paragraphs 61–62.
 - (c) The key considerations affecting how the approaches could be applied, discussed in paragraphs 63–64.

Part F: Way Forward

65. Subject to the March 2026 IAASB meeting, and subject to the Board's approval of the draft project proposal to revise audit evidence standards on inventory and external confirmations, the project team will progress the proposed activities of the project.
66. For the next IAASB meeting in June 2026, the project team intends to present and discuss with the Board additional selected proposed actions included in the approved project proposal.

Appendix 1

Feedback from Outreach with JSS

Introduction

1. In January and February 2026, the project team obtained written responses to a questionnaire on selected topics on audit evidence related to inventory in ISA 501 and external confirmations in ISA 505 and discussed the same topics with representatives of the IAASB-JSS Liaison Group members from Australia, Austria, Canada, France, Hong Kong, Japan, Mexico, Netherlands, New Zealand, the Nordic Region (Denmark, Finland, Iceland, Norway and Sweden), Saudi Arabia, South Africa, United Kingdom and the United States.

Key Insights from the Outreach

Inventory Under the Custody and Control of a Third Party

2. JSS representatives confirmed that they apply ISA 501, paragraph 8, or similar requirements in their jurisdiction and did not report any differences.
3. JSS representatives emphasized the importance of maintaining a risk-based approach and linking the audit procedures to be performed to the auditor's risk assessment in accordance with ISA 315 (Revised 2019). They noted that performing inspection or other audit procedures appropriate in the circumstances, in accordance with ISA 501, paragraph 8(b), should not be mandated as the nature and extent of audit procedures should respond to the assessed risks of material misstatement and the circumstances, including the complexity of the entity, the type of inventory, the auditor's ability to access the warehouse and commingling of inventory.
4. JSS representatives also noted that whether third-party external confirmation procedures provide sufficient appropriate audit evidence depends on the assessed risks of material misstatement and the nature and quality of the external confirmation, including considerations relating to the independence, objectivity and integrity of the third party. Representatives highlighted the importance of the auditor's consideration of inventory-related controls at both the entity and the third-party custodian.
5. JSS representatives also noted the following:
 - (a) The materiality of the inventory account and the reliability and integrity of the third party (including the quality of its internal controls) are critical factors when auditors assess whether to rely on the third-party external confirmation or conduct alternative audit procedures.
 - (b) The importance of exercising professional judgment when conducting audit procedures to obtain sufficient appropriate audit evidence about inventory held by a third party.
 - (c) External confirmation procedures alone are not appropriate when the identified risk of material misstatement is higher than low.
 - (d) The standard should remain principles-based.
6. JSS representatives suggested adding application material with examples of the following:
 - (a) Circumstances when sole reliance on external confirmation procedures may be appropriate.

- (b) Circumstances when, based on the risk assessment, inspection or other audit procedures may be necessary.
- (c) Further audit procedures that could be appropriate in the circumstances (ISA 501, paragraph 8(b)).

Negative Confirmations

- 7. JSS representatives had mixed views regarding whether it remains appropriate to continue to allow the use of negative confirmation requests in ISA 505:
 - (a) On the one hand, representatives noted that while such requests are used infrequently and generally provide less persuasive evidence, they can still, in combination with other substantive procedures, provide sufficient appropriate audit evidence in certain circumstances. They suggested maintaining the possibility to use negative confirmation requests in combination with other substantive procedures.
 - (b) On the other hand, representatives noted that negative confirmation requests are not permitted or are rarely used in their jurisdictions because they consider that such requests do not provide sufficient appropriate audit evidence. They suggested prohibiting the use of negative confirmation requests and are of the view that this would not impact auditors as they are rarely used in practice.
- 8. JSS representatives noted that negative confirmation requests are rarely used because:
 - (a) They provide less persuasive audit evidence.
 - (b) Of the resulting ambiguity when no responses are received.
 - (c) Of the low response rates.
 - (d) The preconditions set out in ISA 505, paragraph 15, are usually not met.

Considerations About the Need to Perform External Confirmation Procedures

- 9. Apart from the US, none of the jurisdictions that responded to the questionnaire or attended the discussion sessions require mandatory external confirmation procedures for certain account balances. In most jurisdictions, while it is not mandatory to perform external confirmation procedures for certain accounts or in certain circumstances, in practice, external confirmations are often used for cash and cash equivalents. Some representatives also noted that while not mandatory in their jurisdictions, there is a strong encouragement from their regulator and expectation to confirm cash and cash equivalents.
- 10. JSS representatives noted that some audit firms' methodologies include a rebuttable presumption to perform external confirmation procedures for certain account balances (e.g., cash and cash equivalents).
- 11. In some jurisdictions, certain regulatory frameworks applicable to specific industries (e.g., investment industry) require external confirmation procedures to be performed for certain balances.
- 12. While external confirmation procedures are largely used in practice for certain account balances (e.g., bank confirmations) in most jurisdictions, JSS representatives were not supportive of mandating

external confirmation procedures for certain account balances or in certain circumstances. Their views were based on the following considerations:

- (a) The auditor should determine the nature and extent of substantive procedures that are appropriate in the circumstances taking into account the assessed risk of material misstatement. The auditor should also apply professional judgment and professional skepticism.
 - (b) Other alternative substantive procedures like direct access to information may be more appropriate or more effective in certain circumstances.
 - (c) There are practical constraints, including:
 - (i) Third-party responsiveness and timeliness of responses (noting that this is a lesser constraint for cash and cash equivalent accounts as banks are usually responsive to external confirmation requests).
 - (ii) Clarity of what is being confirmed and errors in the responses received.
 - (iii) Confidentiality and data privacy.
 - (iv) Jurisdictional regulatory or legal restrictions.
 - (v) Cost and operational burden.
 - (vi) Authentication, integrity of responses and control over the confirmation process when using technological tools (e.g., confirmation platform), specifically for smaller firms that lack resources.
13. JSS representatives highlighted that it would be useful to have guidance addressing situations when alternative procedures are performed because a response is not received or where external confirmations are not used because the response rate is expected to be low.
14. JSS representatives noted that inspection findings about external confirmation procedures are usually related to practice issues in performing the procedure rather than on the decision-making.

Appendix 2

Feedback from Outreach with Users of Financial Statements and Preparers, Including TCWG

Introduction

1. In February 2026, the project team discussed selected topics on external confirmations with members of the SAC that are identified as users of financial statements and preparers, including TCWG.

Key Insights from the Outreach

Negative Confirmations

2. Participants noted that their confidence in an audit would be negatively affected if they knew negative confirmation requests were used as the sole substantive procedure for certain balances.
3. Participants had mixed views on whether the use of negative confirmation requests should be prohibited. Their feedback included that:
 - (a) Negative confirmation requests are rarely used in practice (or not used at all for certain jurisdictions) as the audit evidence obtained from them is less persuasive.
 - (b) Negative confirmation requests are appropriate to use in certain circumstances but its use should be limited (e.g., low risk, less important accounts) and should always be complemented by other substantive procedures. Examples could be given when it is appropriate to use negative confirmation requests.
 - (c) Negative confirmation requests are not appropriate in the current environment (e.g., fear of phishing).

Considerations About the Need to Perform External Confirmation Procedures

4. Participants supported mandating external confirmation procedures for certain account balances like cash and cash equivalents. Although they agreed that the ISAs should remain principles-based, they considered a requirement appropriate in this area because, in practice, auditors already commonly perform external confirmation procedures for these balances. Their views were based on the following considerations:
 - (a) High profile frauds, such as Wirecard, have weakened confidence in audits and capital markets. Mandating external confirmation procedures for cash and cash equivalents would help strengthen audit procedures in this area and increase confidence.
 - (b) The continued importance of risk assessment and professional skepticism in the following areas:
 - (i) The nature and extent of external confirmation procedures should be tailored to the assessed risk of material misstatement. For example, auditors would not necessarily be required to confirm every bank account or all receivables.
 - (ii) Mandatory external confirmation procedures should not restrict the auditor's ability to exercise professional judgment and professional skepticism in determining whether

there is a need to perform additional audit procedures to obtain sufficient appropriate audit evidence.

5. Participants emphasized that auditors may need to change the way external confirmation procedures are performed. For example, the reliability of a response needs to be more closely assessed in an environment where it is easy to falsify documents.
6. Participants were supportive of more transparency with TCWG on external confirmation procedures performed during the audit.