

Targeted Standards in the ISA 500 Series – Cover Note

Objective

The objective of the IAASB discussion in March 2026 is to approve the project proposal to revise audit evidence standards related to inventory in ISA 501¹ and external confirmations in ISA 505² and conforming and consequential amendments to other ISAs.

Request for Board Comments in Advance of Meeting

Prior to the March 2026 meeting, Board members are requested to communicate significant or editorial matters on the draft project proposal to the project team by March 12, 2026. Please provide comments on the clean version of the draft project proposal in **Agenda Item 4-A**. This is to assist the project team to provide a final turnaround of the draft project proposal for Board approval on March 19. All significant matters should still be raised and discussed on public record during the Board plenary session on March 17.

Approach to the Board Discussion

The project team will walk through the draft project proposal set out in **Agenda Item 4-B** and the relevant “Matters for IAASB Consideration” included in **Part B** of this paper, taking comments on matters in the following order:

- Sections I–IV;
- Sections V–VI; and
- Sections VII–VIII and Appendix.

Introduction

Background

1. In December 2025, 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. The Board agreed that the information-gathering and research activities performed to date provide an appropriate basis for developing a standard-setting project proposal for these standards. For more information about the Board’s decisions and directions, see the draft minutes presented in **Agenda Item 1**.

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

² ISA 505, *External Confirmations*

Materials Presented

2. This paper sets out the following:
 - (a) **Part A:** Integrated Due Process and Public Interest Framework Operating Procedures³ and Coordination activities.
 - (b) **Part B:** Updates to the draft project proposal.
 - (c) **Part C:** Way forward.
3. This agenda item includes the following appendix and other agenda items:

| | |
|------------------------|--|
| Appendix | Project Assignments and Activities |
| Agenda Item 4-A | Draft Project Proposal (Clean) |
| Agenda Item 4-B | Draft Project Proposal (Marked from December 2025) |

Part A: Integrated Due Process and Public Interest Framework Operating Procedures and Coordination Activities

4. In developing the draft project proposal, the project team considered the Public Interest Framework operating procedures that apply at project commencement. In doing so, the project team:
 - (a) Identified and considered the varying perspectives and needs of stakeholders with legitimate interests in relation to the project (see Section IV of the draft project proposal).
 - (b) Defined the desired goal of the project in terms of the project objectives that support the public interest (see Section III of the draft project proposal).
 - (c) Identified the qualitative characteristics set out in the Public Interest Framework of most relevance to the project as criteria to assess the standards' responsiveness to the public interest (see the qualitative characteristics identified in Section VI of the draft project proposal).
5. In January 2026, the project team circulated the draft project proposal and consulted with senior staff of the International Ethics Standards Board for Accountants, as required under the Integrated Due Process and Public Interest Framework Operating Procedures, to identify matters requiring coordination, or of possible relevance to the project. Topics identified as requiring ongoing coordination include the [technology-related revisions](#) and the [revisions addressing using the work of an external expert](#) in the IESBA Code.⁴
6. In February 2026, the project team circulated the draft project proposal and consulted with the Audit Evidence and Risk Response project team to identify coordination matters. The project team also consulted with the Professional Skepticism Consultation Group on the professional skepticism-related matters in the draft project proposal and considered their input in further refining the draft project proposal.

³ See "Due Process" under Quick Links on the [IAASB website](#).

⁴ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

Part B: Updates to the Draft Project Proposal

7. The table below summarizes significant changes, and the rationale for those changes, made in the draft project proposal since the December 2025 IAASB meeting, as reflected in the marked draft in **Agenda Item 4-B**. Unless otherwise indicated, references to “paragraph(s)” within the table below refer to paragraph(s) in the draft project proposal.

| Reference | Significant Changes and Rationale for Those Changes ⁵ |
|--------------------------|--|
| <i>Sections I–IV</i> | |
| Paragraph 2 | <ul style="list-style-type: none"> In the second sentence, clarified that the revisions will cover audit evidence standards related to inventory and external confirmations. This change is intended to: <ul style="list-style-type: none"> Simplify the sentence as it was deemed confusing; and Align with the updated project proposal title. |
| Paragraph 5 | <ul style="list-style-type: none"> Added a footnote to explicitly refer to issues and possible actions in the Technology Catalog that are relevant to the project. |
| Paragraph 8 and Appendix | <ul style="list-style-type: none"> Updated the diagram in paragraph 8 and the Appendix to reflect the additional targeted stakeholder outreach with: <ul style="list-style-type: none"> Members of the Stakeholder Advisory Council that are identified as users of financial statements and preparers, including those charged with governance. Jurisdictional standard setters from the IAASB-JSS Liaison Group. |
| Previous paragraph 11 | <ul style="list-style-type: none"> Deleted this paragraph as it was deemed not needed since it was not adding value in merely referring to other sections of the draft project proposal. |
| Paragraph 11 | <ul style="list-style-type: none"> Incorporated in the lead-in of paragraph 11 an overarching objective to align the revisions with the concepts and requirements in foundational ISAs (e.g., ISA 315 (Revised 2019),⁶ proposed ISA 330 (Revised)⁷ and proposed ISA 500 (Revised)⁸). This change highlights the importance of ensuring that the revisions are coherent with other IAASB Standards. |

⁵ These reflect the changes made in response, to decisions and directions provided by the Board at the December 2025 IAASB meeting, and to input and feedback provided by the ISA 500 Series Project Board Members during the quarter, the Professional Skepticism Consultation Group, as well as from the additional stakeholder outreach in January and February 2026 with jurisdictional standard setters from the IAASB-JSS Liaison Group and with Stakeholder Advisory Council members that are identified as users of financial statements and preparers, including those charged with governance.

⁶ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁷ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

⁸ Proposed ISA 500 (Revised), *Audit Evidence*

| Reference | Significant Changes and Rationale for Those Changes ⁵ |
|--|---|
| <i>Sections V–VI</i> | |
| Paragraph 17(c) and paragraph 19, Items A.1, B.1 to B.3 and B.8 | <ul style="list-style-type: none"> Clarified that a stronger link will be made to “proposed ISA 330 (Revised)” and “proposed ISA 500 (Revised)” as these are the standards that are relevant to the project (and not extant ISA 330⁹ and ISA 500¹⁰). This change was made to clarify that the alignment actions would consider the revisions being proposed under the Audit Evidence and Risk Response project. |
| Paragraph 17(e) and paragraph 19, Item B.3 | <ul style="list-style-type: none"> Added “maintains inventory in multiple locations.” This change recognizes the importance of addressing multi-location inventories in ISA 501. |
| Paragraphs 17(f) and 17(m) as well as paragraph 19, Items B.4 and B.10 | <ul style="list-style-type: none"> Added a footnote to clarify that in addressing professional skepticism, the project will consider, as applicable, how the importance of the role of professional skepticism can be emphasized, or how the revisions may be structured to encourage and support the appropriate exercise of professional skepticism. Added examples of specific requirements in ISA 501 and ISA 505 where the auditor’s exercise of professional skepticism can be reinforced. <p>These changes clarify that any revisions to ISA 501 and ISA 505 addressing professional skepticism are not intended to repeat core requirements on professional skepticism in ISA 200.¹¹</p> |
| Paragraph 17(g) | <ul style="list-style-type: none"> Deleted the reference to “shared service centers” because, although auditors may use them, they are not linked to the issue identified when using technology and third-party intermediaries in external confirmations. |
| Paragraph 17(k) | <ul style="list-style-type: none"> In the second sentence, clarified that only certain jurisdictions and firm methodologies require auditors to perform external confirmation procedures in specific circumstances, resulting in inconsistency in practice. |
| Paragraph 19, General | <ul style="list-style-type: none"> For consistency in terminology, changed the verb describing certain proposed actions from “strengthen” or “clarify” to “enhance” to avoid confusion about unintended differences in meaning. See changes to the descriptions of the proposed actions for issues: <ul style="list-style-type: none"> B.2 – Inventory under the custody and control of a third party; |

⁹ ISA 330, *The Auditor’s Responses to Assessed Risks*

¹⁰ ISA 500, *Audit Evidence*

¹¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

| Reference | Significant Changes and Rationale for Those Changes ⁵ |
|-------------------------|---|
| | <ul style="list-style-type: none"> ○ B.3 – Sufficiency and appropriateness of audit evidence obtained for inventory; ○ B.5 – Negative confirmations; ○ B.7 – Reliability of responses to external confirmation requests; ○ B.8 – Considerations about the need to perform external confirmation procedures; and ○ B.9 – Non-responses and exceptions in external confirmation procedures. |
| Paragraph 19, Item A.1 | <ul style="list-style-type: none"> • Clarified that the proposed actions to enhance application material in ISA 501 would also consider emphasizing the auditor’s responsibilities relating to: <ul style="list-style-type: none"> ○ The design, implementation and operating effectiveness of relevant controls in accordance with ISA 315 (Revised 2019) and proposed ISA 330 (Revised). ○ Determining the need for an auditor’s expert in accordance with ISA 220 (Revised)¹² and ISA 620.¹³ <p>These changes were made to avoid unintended implications that the proposed actions will consider mandating certain procedures (e.g., testing the operating effectiveness of controls or using auditor’s experts) in ISA 501.</p> |
| Paragraph 19, Item A.3 | <ul style="list-style-type: none"> • Indicated in the description of the proposed action that the role of confirming parties and third-party intermediaries will be clarified through a definition or description of such terms. • Simplified the description of the proposed action regarding the auditor’s use of intermediaries in the external confirmation process, including when the intermediary has a system and organization controls report. |
| Paragraph 19, Items B.1 | <ul style="list-style-type: none"> • Deleted the proposed action to determine whether the objective of the auditor to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory remains appropriate. This deletion is in response to the Board’s direction at the December 2025 IAASB meeting that any revisions contemplated by the project should remain focused on the existing scope of ISA 501 relating to the existence and condition of inventory, rather than all relevant assertions. |

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

¹³ ISA 620, *Using the Work of an Auditor’s Expert*

| Reference | Significant Changes and Rationale for Those Changes ⁵ |
|------------------------|---|
| Paragraph 19, Item B.3 | <ul style="list-style-type: none"> Clarified that the accuracy and completeness of the entity's inventory records refer to those "at the date of the financial statements." Clarified that the proposed actions would also consider emphasizing (in application material of ISA 501) the auditor's responsibilities relating to the design, implementation and operating effectiveness of relevant controls in accordance with ISA 315 (Revised 2019) and proposed ISA 330 (Revised). This change was made to avoid implying that the proposed action will mandate certain procedures (e.g., testing the operating effectiveness of controls) in ISA 501. |
| Paragraph 19, Item B.8 | <ul style="list-style-type: none"> Added a footnote that clarifies that further insights obtained throughout the course of the project may indicate that the proposed action for Item B.8 can be better addressed through revisions of the relevant requirement and application material in proposed ISA 330 (Revised). |
| Paragraph 24 (a) | <ul style="list-style-type: none"> Clarified that the collaboration and coordination with the Audit Evidence and Risk Response project will include determining that the alignment actions to inventory in ISA 501 and external confirmations in ISA 505 are consistent with proposed ISA 330 (Revised) and proposed ISA 500 (Revised). |

Matters for IAASB Consideration

- The Board is asked for its views on the significant changes to the draft project proposal (**Agenda Item 4-B**), explained in paragraph 7. This will be addressed on Tuesday, March 17.
- The Board is asked to approve the draft project proposal to revise audit evidence standards related to inventory in ISA 501 and external confirmations in ISA 505 and conforming and consequential amendments to other ISAs. This will be addressed on Thursday, March 19.

Part C: Way Forward

- Subject to the Board's approval of the draft project proposal, the project team will progress the proposed activities of the project.
- At the March 2026 meeting, the project team will also discuss with the Board selected topics related to inventory in ISA 501 and external confirmations in ISA 505. See **Agenda Item 8** for more information.
- For the next IAASB meeting in June 2026, the project team intends to present for the Board's discussion additional selected topics on audit evidence standards related to inventory in ISA 501 and external confirmations in ISA 505.

Appendix

Project Assignments and Activities

Project Team

1. The Project Team is composed of:
 - Jasper van den Hout
 - Hankenson Jane L. Talatala
 - Nathalie Baumgaertener Dutang

Project Board Members

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

Activities in the Period

4. Since December 2025, the project team held two virtual meetings with the Project Board Members to receive strategic and technical advice.
5. During the quarter, the project team conducted outreach activities with the following stakeholders:

| Stakeholder | Date Held | Details |
|---|------------------------|---|
| Jurisdictional standard setters from the IAASB-JSS Liaison Group | January 27–29, 2026 | The project team requested jurisdictional standard setters to complete a Questionnaire, and discussed the following selected topics: <ul style="list-style-type: none">• Inventory under the custody and control of a third party;• Negative confirmations; and• Considerations about the need to perform external confirmation procedures. |
| Members of the Stakeholder Advisory Council that are identified as users of financial statements and preparers, including those charged with governance | February 2 and 4, 2026 | The project team discussed the following selected topics: <ul style="list-style-type: none">• Negative confirmations; and |

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| Stakeholder | Date Held | Details |
|--|------------------|---|
| | | <ul style="list-style-type: none">• Considerations about the need to perform external confirmation procedures. |
| American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) | February 3, 2026 | The project team met with AICPA ASB representatives and staff, to discuss what they learned from their work on revising their equivalent external confirmations standard. |