

### DRAFT PROJECT PROPOSAL TO REVISE AUDIT EVIDENCE STANDARDS RELATED TO INVENTORY AND EXTERNAL CONFIRMATIONS AND CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER ISAs – CLEAN

This project proposal was developed and approved by the International Auditing and Assurance Standards Board (IAASB). *[Text subject to IAASB approval of project proposal in March 2026.]*

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board (PIOB), which oversees the activities of the IAASB, and the Stakeholder Advisory Council (SAC), which provides public interest input at the strategic level into the development of standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

#### I. Subject

1. This project proposal addresses the revision of the following audit evidence standards in the ISA 500 Series:
  - (a) International Standard on Auditing (ISA) 501, *Audit Evidence—Specific Considerations for Selected Items – Inventory*; and
  - (b) ISA 505, *External Confirmations*.
2. The IAASB aims to modernize these standards to more appropriately reflect the business and audit environment so that they remain fit-for-purpose and address new or evolving risks and practical considerations. The IAASB actions proposed as part of this project proposal include revisions to audit evidence standards related to inventory and external confirmations. The project proposal also addresses conforming and consequential amendments to other ISAs.

#### II. Introduction

##### Background

3. In December 2023, the IAASB approved the [Strategy and Work Plan for 2024–2027](#), in which the Board agreed to pursue revising targeted standards<sup>1</sup> in the ISA 500 Series in order to modernize these standards to reflect the business and audit environment more appropriately, including the impact of the use of technology by entities, auditors and the organizations they interact with.
4. The project's prioritization was informed by stakeholders' feedback from both the [Consultation Paper on the Proposed Strategy and Work Plan for 2024–2027](#), as well as the feedback received from respondents to the [Exposure Draft of Proposed ISA 500 \(Revised\), Audit Evidence and Proposed](#)

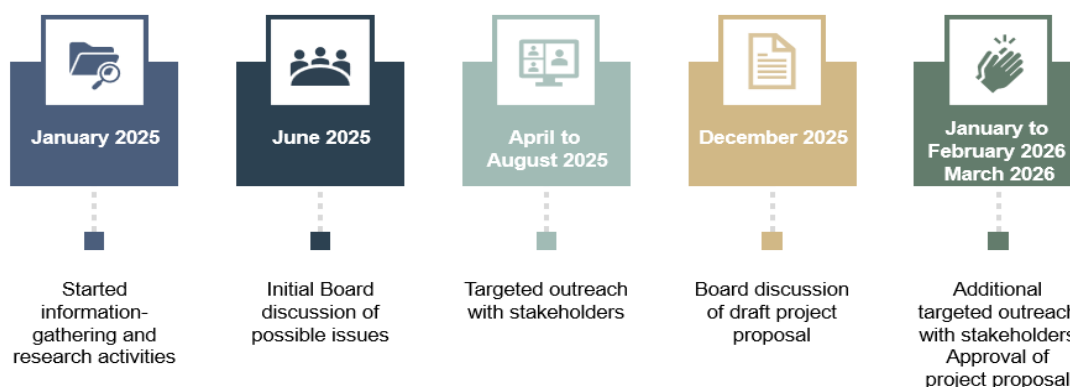
<sup>1</sup> These include ISA 501, ISA 505 and ISA 530, *Audit Sampling*.

[Conforming and Consequential Amendments to Other ISAs](#) (ED-500). The collective feedback on these consultations indicated that proposed revisions in ED-500 as a foundational standard alone are insufficient to address all audit evidence-related matters, across the suite of ISAs, including those related to the use of technology. In this respect, respondents called for timely revisions to other ISAs to be considered in an integrated manner among the priorities to be addressed by the IAASB in the 2024–2027 strategy period, which also highlighted revisions needed for certain other audit evidence standards in the ISA 500 Series.

5. In addition, the IAASB established a [Technology Position](#) in September 2024. As a first step to operationalize its position statement, the IAASB undertook a gap analysis presented as a [Catalog of Issues and Possible Actions](#) that have identified several technology-related issues in exploring how current IAASB standards align with technological advancements. This includes issues and possible actions that are relevant to the audit evidence standards in the ISA 500 Series.<sup>2</sup>
6. There have also been various initiatives globally by other standard-setting bodies, who are seeking to, or have clarified or enhanced certain of their equivalent audit evidence standards for inventory and external confirmations, highlighting the broader public interest in these topics (see [Appendix](#)).

### Information-Gathering and Research Activities

7. The objective of the information-gathering and research activities undertaken in response to the topics included in the IAASB Strategy and Work Plan for 2024–2027 (see paragraph 3) was to inform the identification and understanding of relevant issues, decide whether standard setting is warranted and, if so, develop a project proposal. The Board deliberated these matters at the [June 2025](#) and [December 2025](#) IAASB meetings. A summary of the information-gathering and research activities is included in the [Appendix](#).
8. The timeline illustrated in the diagram below sets out the activities performed in progressing the information-gathering and research activities relating to the targeted standards in the ISA 500 Series and the planned milestones for this project proposal, as guided by the processes and procedures in the IAASB's [Framework for Activities](#).



<sup>2</sup> These relate to issues and possible actions described in the Catalog in Item 6(f), appropriate use of technology-enabled procedures for confirmations, and in Item 6(g), appropriate use of technology-enabled procedures in inventory counts.

## Public Interest Framework

9. The IAASB leveraged the Public Interest Framework (PIF) published by the Monitoring Group in July 2020 (as part of their report “[Strengthening the International Audit and Ethics Standard-Setting System](#)”) in developing this project proposal to articulate the public interest responsiveness of the project.
10. Throughout the duration of the project, the IAASB will benefit from the independent, direct oversight by the PIOB, and will remain transparent and adhere to the IAASB’s agreed strategies, policies and procedures, including the Integrated Due Process and PIF Operating Procedures.<sup>3</sup>

## III. Project Objectives that Support the Public Interest

11. Taking into account the information-gathering and research activities performed, with a focus on delivering standards that respond to stakeholders’ needs and on more closely aligning with the concepts and requirements in foundational ISAs (e.g., ISA 315 (Revised 2019),<sup>4</sup> proposed ISA 330 (Revised)<sup>5</sup> and proposed ISA 500 (Revised)<sup>6</sup>), this project seeks to:
  - (a) Modernize audit evidence standards related to inventory and external confirmations to reflect more appropriately the business and audit environment, including the implications of the use of technology by entities, auditors and organizations they interact with.
  - (b) Promote consistent practice and behavior in obtaining and evaluating audit evidence about inventory and from external confirmation procedures, including reinforcing the appropriate exercise of professional skepticism in relation to these topics.
12. The IAASB has the view that these project objectives capture an effective response to stakeholders’ needs and will contribute to the continued relevance and credibility of the ISAs in supporting the consistent performance of quality audit engagements. This project is focused on standard-setting actions through revising audit evidence standards related to inventory in ISA 501 and external confirmations in ISA 505 (i.e., the ‘in-scope standards’), and conforming and consequential amendments to other ISAs. In addition to standard-setting, the IAASB may develop non-authoritative materials (see paragraph 22), and will continue to engage with relevant stakeholders, as appropriate (see paragraphs 23–25).

## IV. Stakeholders Impacted

13. Under the PIF,<sup>7</sup> standard setting that is in the public interest requires a process that elicits views from all stakeholders, with a focus on assessing the merits of the various stakeholder views, irrespective of whether the views are a majority or a minority. The public interest of standards cannot be ensured

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<sup>3</sup> See ‘Due Process’ under Quick Links on the [IAASB website](#).

<sup>4</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>5</sup> Proposed ISA 330 (Revised), *The Auditor’s Responses to Assessed Risks*

<sup>6</sup> Proposed ISA 500 (Revised), *Audit Evidence*

<sup>7</sup> The PIF sets out a framework for the development of high-quality international standards by the IAASB that are responsive to the public interest. Among other matters, the PIF explains for whom standards are developed, clarifies whose interests need to be served, and includes a set of qualitative characteristics used to assess the public interest responsiveness of its standards. These are referred to herein as “the PIF qualitative characteristics.” The operationalization of the PIF has been incorporated into the IAASB’s Due Process, and forms part of the Integrated Due Process and PIF Operating Procedures.

through a mere aggregation of all stakeholder interests, rather the public interest requires weighing and balancing all stakeholder views.

14. The PIF identifies broad stakeholder groups, such as users of financial statements, the profession, those in charge of adoption, implementation, and enforcement of standards, preparers, and others, whose varying perspectives and needs have been considered when determining the project objectives that support the public interest.
15. Stakeholders whose interests are most affected by the project are:

Stakeholder group	How their needs are addressed by the project
Intended users of financial statements	By enhancing the comprehensiveness, clarity and understandability of extant principles and requirements for the topics of inventory and external confirmations, the ISAs can better support the consistent performance of quality audit engagements globally. This contributes to strengthening intended users' confidence about an entity's financial statements through an auditor's opinion based on sufficient appropriate audit evidence, including, as appropriate in the circumstances, in relation to inventory and when performing external confirmation procedures.
Preparers (e.g., management, as well as those charged with governance (TCWG))	By aligning and modernizing the standards to business practices of preparers, including their information systems and reporting processes.
Those in charge of adoption, implementation and enforcement of standards (i.e., regulators and audit oversight authorities, and jurisdictional auditing standard setters)	By enhancing the extant global baseline principles and requirements for the topics of inventory and external confirmations that will benefit intended users of financial statements (see above), support effective supervision and enforcement, and contribute to standards that remain fit-for-purpose in evolving audit environments.
The profession (i.e., accounting firms)	By providing clear, practical, and proportionate requirements that promote consistent and effective application of the standards, while recognizing and remaining adaptable to evolving audit environments.

## V. Key Issues Identified that Will Be Addressed by the Project

16. The needs of the IAASB's stakeholders, which embody the public interest for this project, have been identified and are described in this project proposal as the "key issues."

17. These key issues have been identified through the extensive information-gathering and research activities described in **Section II** and the [Appendix](#). The key issues described below recognize the input and views of stakeholders.

### **Inventory in ISA 501**

- (a) *Implications of the use of technology by entities in managing inventory and by auditors in auditing inventory, respectively*
- ISA 501 does not sufficiently reflect the use of new and evolving technologies by entities in inventory management or by auditors in performing audit procedures for inventory. As a result, there is a risk that auditors may not adequately address emerging risks or practical challenges arising from the use of technology by both the entity and the auditor.
- (b) *Attendance at inventory counting*
- There is a lack of clarity about whether “attendance” at inventory counting (unless impracticable) can include the use of technological tools for remote observations (e.g., visual footage from drones, scanners, camera systems). As a result, auditors may be uncertain whether or how such practices meet the relevant requirements of ISA 501.
  - With the growing availability of reliable, technology-enabled, and third-party audit evidence sources, questions arise as to whether the standard should place greater emphasis on the sufficiency and appropriateness of audit evidence—regardless of whether it is obtained through physical attendance or alternative means.
- (c) *Alignment with concepts for the identification and assessment of, and responding to, risks of material misstatement*
- 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). Irrespective of identified and assessed risks of material misstatement regarding inventory, the current requirements in ISA 501 are conditional based on inventory being “material to the financial statements.” A stronger link to ISA 315 (Revised 2019) and proposed ISA 330 (Revised) would support auditors’ professional judgments when obtaining audit evidence regarding inventory.
- (d) *Inventory under the custody and control of a third party*
- 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.
- (e) *Sufficiency and appropriateness of audit evidence obtained for inventory*
- There are identified recurring issues in audit procedures related to inventory (e.g., lack of appropriate audit procedures for testing inventory movements between interim count dates and period-end dates, not evaluating the accuracy and completeness of period-end inventory reports, inadequate audit procedures when the entity performs cycle counts<sup>8</sup> or maintains inventory in multiple locations).

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<sup>8</sup> 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.

(f) *Professional skepticism*<sup>9</sup>

- Given the issues that have been highlighted in items (a) to (e) above, including the impact of technology and other areas of modernization, there is a need to emphasize the exercise of professional skepticism when obtaining and evaluating audit evidence about inventory.

**External Confirmations in ISA 505**

(g) *Implications of using technology and third-party intermediaries in external confirmations*

- ISA 505 does not sufficiently address the use of technology in external confirmation procedures (e.g., when using firm-acquired or developed technological tools, third-party intermediaries and direct data access mechanisms), including its impact on the auditor's ability to maintain control over external confirmation requests.

(h) *Negative confirmations*

- 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.

(i) *Assertions addressed by external confirmations*

- There is a lack of clarity about whether external confirmation procedures, on their own, may in some circumstances be appropriate or sufficient as audit evidence for all, or for certain, assertions about a class of transactions, account balance or disclosure. Providing clarity about such circumstances would support auditors' professional judgments when designing and performing external confirmation procedures to obtain sufficient appropriate audit evidence.

(j) *Reliability of responses to external confirmation requests*

- In practice, addressing the reliability of responses to external confirmation requests has become more complex due to several factors (e.g., reliance on electronic or automated confirmation systems that may lack sufficient authentication mechanisms, and potential interception or manipulation of confirmation requests or responses).
- Certain stakeholders also cite misalignment with foundational principles addressed by proposed ISA 500 (Revised) to evaluate the relevance and reliability of information intended to be used as audit evidence, given that ISA 505 sets an obligation to obtain further audit evidence only if the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request.

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<sup>9</sup> Professional skepticism is a fundamental concept and core to audit quality. With respect to the key issues relating to professional skepticism described in paragraphs 17(f) and 17(m) and the related proposed actions identified in paragraph 19, Items B.4 and B.10, this 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.

(k) *Considerations about the need to perform external confirmation procedures*

- 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.

(l) *Non-responses and exceptions in external confirmation procedures*

- There are identified recurring challenges in how auditors address non-responses and exceptions in external confirmation procedures, including:
  - The sufficiency and appropriateness of alternative procedures performed when non-responses occur.
  - Inadequate investigation into whether exceptions identified may indicate misstatements.
  - Insufficient evaluation of how identified misstatements affect the assessed risks of material misstatement, including implications for the effectiveness of internal controls.

(m) *Professional skepticism<sup>10</sup>*

- Given the issues that have been highlighted in items (g) to (l) above, including the impact of technology and other areas of modernization, there is a need to emphasize the exercise of professional skepticism when designing and performing external confirmation procedures.

18. The IAASB will address the key issues in paragraph 17, including the specific areas of focus as noted for each, through standard setting as outlined in the proposed actions in paragraph 19 below.

## VI. Scope of the Project

19. The table below sets out proposed IAASB actions to address the key issues identified relating to the in-scope standards for this project:

#	Key Issues <sup>11</sup>	Proposed Actions
A.	<b>Project Objective: Modernize audit evidence standards related to inventory and external confirmations to reflect more appropriately the business and audit environment, including the implications of the use of technology by entities, auditors and organizations they interact with.</b>	
<i>The PIF qualitative characteristics<sup>12</sup> of most relevance when determining proposed actions to address Project Objective A are <b>coherence, scalability and proportionality, relevance, completeness,</b></i>		

<sup>10</sup> See footnote 9.

<sup>11</sup> For each key issue, '[Ref: para.]' identifies the issue as described in paragraph 17 of **Section V**.

<sup>12</sup> See footnote 7.

#	Key Issues <sup>11</sup>	Proposed Actions
<b>clarity and conciseness and implementability and ability of being consistently applied and globally operable.</b>		
<b>Inventory</b>		
<b>A.1</b>	<i>Implications of the use of technology by entities in managing inventory and by auditors in auditing inventory, respectively [Ref: para. 17(a)]</i>	<p><b>ISA 501 – Application Material</b></p> <ul style="list-style-type: none"> <li>Enhance application material to recognize the impact of management's use of emerging technologies in inventory management or by auditors in performing audit procedures for inventory.</li> </ul> <p><i>In doing so, also consider emphasizing in application material the auditor's responsibilities relating to:</i></p> <ul style="list-style-type: none"> <li><i>The design, implementation and operating effectiveness of relevant controls in accordance with ISA 315 (Revised 2019) and proposed ISA 330 (Revised), particularly where entities use sophisticated end-to-end systems and perform cycle counts.</i></li> <li><i>Determining the need for an auditor's expert in accordance with ISA 220 (Revised)<sup>13</sup> and ISA 620,<sup>14</sup> including when obtaining and evaluating audit evidence for complex and technology-enabled inventory systems.</i></li> </ul>
<b>A.2</b>	<i>Attendance at inventory counting [Ref: para. 17(b)]</i>	<p><b>ISA 501 – Requirements or Application Material</b></p> <ul style="list-style-type: none"> <li>Enhance requirements or application material to clarify the concept of "attendance" at inventory counting, including the use of technological tools for remote inventory observations.</li> </ul> <p><i>In doing so, clarify circumstances when attendance at inventory counting is necessary to obtain sufficient appropriate audit evidence about the existence and condition of inventory.</i></p>

<sup>13</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>14</sup> ISA 620, *Using the Work of an Auditor's Expert*



#	Key Issues <sup>11</sup>	Proposed Actions
<b>External Confirmations</b>		
<b>A.3</b>	<i>Implications of using technology and third-party intermediaries in external confirmations</i> [Ref: para. 17(g)]	<p><b>ISA 505 – Definitions, Requirements or Application Material</b></p> <ul style="list-style-type: none"> <li>Clarify the role of confirming parties and third-party intermediaries in the external confirmation process through a definition or description of such terms. <i>In doing so, consider how the issue is addressed across jurisdictions. This may also include clarifying whether direct access (e.g., through open banking Application Programming Interfaces or bank portals) to information maintained by a knowledgeable external source (e.g., bank, credit institution, or payment processor) constitutes an external confirmation or another means of obtaining relevant and reliable audit evidence.</i></li> <li>Enhance requirements or application material, as appropriate, to address implications of using third-party intermediaries in the external confirmation process, including with respect to: <ul style="list-style-type: none"> <li>Maintaining control over external confirmation requests.</li> <li>Evaluating the integrity of external confirmation requests and the reliability of responses received.</li> </ul> <i>In doing so, also consider:</i> <ul style="list-style-type: none"> <li><i>Clarifying the auditor’s responsibilities regarding the use of intermediaries in the external confirmation process, including when the intermediary has a system and organization controls report.</i></li> <li><i>Reinforcing linkages to the requirement in proposed ISA 500 (Revised) to evaluate the relevance and reliability of information intended to be used as audit evidence, which extends to all information used, regardless of whether technology is used in performing audit procedures (e.g., use of digital confirmation platforms in performing external confirmation procedures).</i></li> </ul> </li> </ul>

#	Key Issues <sup>11</sup>	Proposed Actions
<b>B. Project Objective: Promote consistent practice and behavior in obtaining and evaluating audit evidence about inventory and from external confirmation procedures, including reinforcing the appropriate exercise of professional skepticism in relation to these topics.</b>		
<i>The PIF qualitative characteristics<sup>15</sup> of most relevance when determining proposed actions to address Project Objective B are <b>coherence, completeness, comprehensiveness, clarity and conciseness</b> and <b>implementability and ability of being consistently applied and globally operable</b>.</i>		
<b>Inventory</b>		
<b>B.1</b>	<i>Alignment with concepts for the identification and assessment of, and responding to, risks of material misstatement [Ref: para. 17(c)]</i>	<b>ISA 501 – Requirements and Application Material</b> <ul style="list-style-type: none"> <li>Determine appropriate revisions to requirements and application material to align with ISA 315 (Revised 2019) and proposed ISA 330 (Revised).</li> </ul>
<b>B.2</b>	<i>Inventory under the custody and control of a third party [Ref: para. 17(d)]</i>	<b>ISA 501 – Requirements and Application Material</b> <ul style="list-style-type: none"> <li>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.  <i>In doing so:</i> <ul style="list-style-type: none"> <li><i>Clarify 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.</i></li> <li><i>Clarify 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.</i></li> <li><i>Reinforce 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.</i></li> </ul> </li> </ul>

<sup>15</sup> See footnote 7.

#	Key Issues <sup>11</sup>	Proposed Actions
<b>B.3</b>	<i>Sufficiency and appropriateness of audit evidence obtained for inventory</i> [Ref: para. 17(e)]	<p><b>ISA 501 – Requirements or Application Material</b></p> <ul style="list-style-type: none"> <li>Enhance requirements or application material that apply when obtaining sufficient appropriate audit evidence about: <ul style="list-style-type: none"> <li>The accuracy and completeness of the entity's inventory records at the date of the financial statements.</li> <li>Changes in inventory between the count date and the date of the financial statements.</li> </ul> </li> </ul> <p><i>In doing so, also consider emphasizing in application material 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). For example, when management performs cycle inventory counts throughout the period or maintains inventory in multiple locations and the accuracy and completeness of the entity's inventory records at the date of the financial statements depends on the operating effectiveness of controls.</i></p>
<b>B.4</b>	<i>Professional skepticism</i> [Ref: para. 17(f)]	<p><b>ISA 501 – Requirements or Application Material</b></p> <ul style="list-style-type: none"> <li>Enhance requirements or application material, to reinforce the exercise of professional skepticism when obtaining and evaluating audit evidence about inventory (e.g., with respect to inventory under the custody and control of a third party in ISA 501).<sup>16</sup></li> </ul> <p><i>In doing so, take into account how the concept of professional skepticism has been reinforced in recently revised ISAs.</i></p>
<b>External Confirmations</b>		
<b>B.5</b>	<i>Negative confirmations</i> [Ref: para. 17(h)]	<p><b>ISA 505 – Definitions, Requirements and Application Material</b></p> <ul style="list-style-type: none"> <li>Determine whether the requirements and application material allowing the use of negative confirmation requests in certain circumstances remain appropriate in</li> </ul>

<sup>16</sup> See footnote 9.

#	Key Issues <sup>11</sup>	Proposed Actions
		<p>the current business and audit environment, including whether the standard should prohibit their use.</p> <ul style="list-style-type: none"> <li>If determined that the use of negative confirmation requests remains appropriate, enhance requirements and application material over when their use may be appropriate.</li> </ul>
<b>B.6</b>	<i>Assertions addressed by external confirmations</i> [Ref: para. 17(i)]	<p><b>ISA 505 – Objective, Requirements or Application Material</b></p> <ul style="list-style-type: none"> <li>Enhance requirements or application material to clarify that external confirmation procedures, by themselves, may not provide sufficient appropriate audit evidence for all or certain assertions about a class of transactions, account balance or disclosure.</li> </ul> <p><i>In doing so, also consider clarifying the objective of ISA 505 to incorporate obtaining relevant and reliable audit evidence about one or more assertions.</i></p>
<b>B.7</b>	<i>Reliability of responses to external confirmation requests</i> [Ref: para. 17(j)]	<p><b>ISA 505 – Requirements and Application Material</b></p> <ul style="list-style-type: none"> <li>Enhance requirements and application material that apply when addressing the reliability of responses to confirmation requests.</li> </ul>
<b>B.8</b>	<i>Considerations about the need to perform external confirmation procedures</i> [Ref: para. 17(k)]	<p><b>ISA 505 – Requirements or Application Material</b></p> <ul style="list-style-type: none"> <li>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).<sup>17</sup></li> </ul>
<b>B.9</b>	<i>Non-responses and exceptions in external confirmation procedures</i> [Ref: para. 17(l)]	<p><b>ISA 505 – Requirements and Application Material</b></p> <ul style="list-style-type: none"> <li>Enhance requirements and application material that apply when addressing non-responses and exceptions resulting from external confirmation procedures.</li> </ul>

<sup>17</sup> 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.

#	Key Issues <sup>11</sup>	Proposed Actions
<b>B.10</b>	<i>Professional skepticism</i> [Ref: para. 17(m)]	<p><b>ISA 505 – Requirements or Application Material</b></p> <ul style="list-style-type: none"> <li>Enhance requirements or application material, to reinforce the exercise of professional skepticism when obtaining and evaluating audit evidence from external confirmation procedures (e.g., with respect to the reliability of responses to confirmation requests and evaluating the evidence obtained in ISA 505).<sup>18</sup></li> </ul> <p><i>In doing so, take into account how the concept of professional skepticism has been reinforced in recently revised ISAs.</i></p>

### Basis of Proposed Standard-Setting Actions

20. The proposed standard-setting actions for inventory in ISA 501 and external confirmations in ISA 505 have been developed on the basis that they will result in revised standards that satisfy the PIF qualitative characteristics (see also **Section IV**). Any standard-setting project also reflects an appropriate balancing of these PIF qualitative characteristics in the context of what informed the project, and the nature and extent of the key issues being addressed in the project.
21. In developing the proposed revised standards for ISA 501 (in respect of inventory) and ISA 505, the IAASB will follow the [Complexity, Understandability, Scalability and Proportionality Drafting Principles and Guidelines](#). Among other matters, these principles and guidelines are designed to ensure the development of clear and concise standards, which appropriately take into account scalability and proportionality in assessing the standards' responsiveness to the public interest.

### Non-Authoritative Guidance and Other Actions

22. This project anticipates responding to the key issues that have been identified regarding inventory and external confirmations through standard-setting actions as set out in paragraph 19. However, as the project progresses, it may become apparent that some of the key issues regarding inventory and external confirmations may be resolved through the development of non-authoritative materials that support the implementation of the IAASB's standards.

### Collaboration and Coordination Activities

#### *International Ethics Standards Board for Accountants (IESBA)*

23. In delivering on the project, the IAASB will continue coordinating with the IESBA to ensure ongoing alignment of the IAASB's standards with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and on any other matters that may impact the work of each Board.<sup>19</sup>

<sup>18</sup> See footnote 9.

<sup>19</sup> The IAASB will also consider, as applicable, the [technology-related revisions](#) and the [revisions addressing using the work of an external expert](#) in the IESBA Code and the results from ongoing or future IESBA workstreams.

### Other Collaboration and Coordination

24. The project will also involve continued collaboration and coordination with other IAASB project teams or consultation groups on a timely basis, as appropriate. These include:
- (a) Project teams for other IAASB projects, including the Audit Evidence and Risk Response project, on matters of relevance to inventory in ISA 501 and external confirmations in ISA 505 and on consistency of alignment actions with proposed ISA 330 (Revised) and proposed ISA 500 (Revised).
  - (b) The Technology Consultation Group, on matters of relevance to the use of technological tools in obtaining and evaluating audit evidence for inventory in ISA 501 and from external confirmation procedures in ISA 505.
  - (c) The Professional Skepticism Consultation Group, to inform proposed actions that involve clarifying the need for requirements or application material relating to the exercise of professional skepticism.
25. In addition, the IAASB will monitor and consider the impact of relevant jurisdictional developments, including relevant standard-setting projects, and liaise with relevant parties as appropriate. In doing so, the IAASB will consider how the matters are addressed across jurisdictions and by firm methodologies. This will also include focused outreach with intended users of financial statements and regulators to understand their expectations about audit evidence in relation to inventory and from external confirmation procedures.

## VII. Project Timeline, Priorities and Resources

### Project Timeline and Priorities

26. The project will operate in accordance with the Integrated Due Process and PIF Operating Procedures.
27. The IAASB proposes the following timetable, noting that specific project milestones and outputs may change as the project progresses:

Timeline	Proposed Activities and Deliverables
Q1 to Q4 2026	<ul style="list-style-type: none"> <li>Develop an Exposure Draft of Proposed ISA 501 (Revised) (in respect of inventory) and Proposed ISA 505 (Revised), including IAASB deliberations of issues, proposals and relevant discussion of the Exposure Draft.</li> <li>Perform outreach activities with key stakeholders on proposals as the Exposure Draft is developed.</li> </ul>
Q4 2026	<ul style="list-style-type: none"> <li>Approve the Exposure Draft of Proposed ISA 501 (Revised) (in respect of inventory) and Proposed ISA 505 (Revised), with proposed conforming and consequential amendments to other ISAs.</li> </ul>

Timeline	Proposed Activities and Deliverables
Q1 to Q2 2027	<ul style="list-style-type: none"> <li>Publish the approved Exposure Draft for public comments.</li> <li>Perform outreach activities with key stakeholders on proposals.</li> </ul>
Q3 2027 to Q1 2028	<ul style="list-style-type: none"> <li>Analyze comments and deliberate responses to the Exposure Draft and resulting proposed changes to ISA 501 (Revised) (in respect of inventory) and ISA 505 (Revised).</li> <li>Perform outreach with key stakeholders on key issues as the final pronouncements are developed.</li> </ul>
Q1 2028	<ul style="list-style-type: none"> <li>Approve the final pronouncements of ISA 501 (Revised) (in respect of inventory) and ISA 505 (Revised), with conforming and consequential amendments to other ISAs.</li> </ul>
Late Q2 or early Q3 2028	<ul style="list-style-type: none"> <li>PIOB certification.</li> <li>Publish final revised standards and Basis for Conclusions after PIOB certification.</li> <li>Develop a general fact sheet to facilitate stakeholders' understanding of the changes introduced in ISA 501 (Revised) (in respect of inventory) and ISA 505 (Revised).</li> </ul>

## Project Resources

28. The project is led by IAASB Staff (i.e., the project team), supported by one or two Board members (i.e., Project Board Members) assigned to the project to provide strategic and technical advice. Throughout the project, the project team may reach out for technical input or views in addressing the proposed actions or on balancing of stakeholder interests or the PIF qualitative characteristics to any IAASB members or others, as appropriate, with relevant experience and subject-matter expertise. In addition, external experts or specialists may be consulted to address targeted issues where specific expertise is required, including as it relates to technology. Throughout the project, other resources may also be engaged to contribute to other related activities, for example, for communications with stakeholders.
29. In addition, the IAASB will:
- Allocate sufficient Board plenary time to deliberate significant matters;
  - Allocate sufficient time to consult with the SAC, as appropriate, to discuss public interest issues requiring significant decisions;<sup>20</sup> and
  - Allocate sufficient time to consult with the PIOB on its public interest issues relevant to the project.

<sup>20</sup> The IAASB may consult the SAC on any matter at any time, recognizing the strategic advisory role and objective of the SAC.

## **VIII. Project Output and Impact**

30. The expected output of the project is the approval and issuance of the following two proposed revised standards, with conforming and consequential amendments to other ISAs as applicable, which meet the PIF qualitative characteristics in the public interest, based on the criteria described in paragraph 20: (i) ISA 501 (Revised) (in respect of inventory); and (ii) ISA 505 (Revised).
31. In addition, supporting non-authoritative materials, including implementation materials and activities, such as fact sheets, explanatory flow charts or illustrative examples, questions-and-answers, webinars and presentations, may also be issued as part of the project. The need for any such materials, and their specific nature and timing, will be determined as the project progresses.
32. The IAASB will evaluate the impact of the project by asking specific questions, as part of the Explanatory Memorandum accompanying the Exposure Draft, about whether the revisions will achieve the intended PIF qualitative characteristics and project objectives. In addition, all respondents will be invited to provide insights on the implications or effects of implementing the proposed revised standards.
33. Following the implementation of the revised standards, the IAASB will determine whether to perform a formal post-implementation review (PIR) to assess whether the revised standards are being consistently understood and implemented in a manner that supports the achievement of the project objectives. Even if a formal PIR is not undertaken, the IAASB's ongoing monitoring of the environment, including its general outreach program, will provide a feedback mechanism regarding any implementation challenges.



## Appendix

### Basis of Project Proposal

1. The project objectives, key issues and the scope of the project have been determined based on a wide range of information-gathering activities performed, following the Integrated Due Process and PIF Operating Procedures and the Framework for Activities, with a view to:
  - (a) Identify and understand practical challenges and concerns with the extant standards;
  - (b) Research and understand how they are being addressed in practice while the extant standards apply;
  - (c) Further understand the underlying factors causing these challenges; and
  - (d) Determine whether a standard-setting project to concurrently revise provisions in respect of inventory in ISA 501 and external confirmations in ISA 505 to modernize these standards to reflect the business and audit environments more appropriately, including the impact of the use of technology by entities, auditors and the organizations they interact with, may contribute to resolving these challenges.
2. Information-gathering and research activities performed in developing this project proposal are summarized as follows:
  - (a) Analysis of stakeholder feedback from prior IAASB consultation papers and exposure drafts (and the associated board papers incorporating staff and task force analysis of responses), including:
    - (i) [Exposure Draft of Proposed ISA 500 \(Revised\), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs](#) (ED-500).
    - (ii) [Consultation Paper for the IAASB's Proposed Strategy and Work Plan for 2024–2027](#).
    - (iii) [Survey Consultation on the IAASB's Work Plan for 2022–2023](#).
    - (iv) [Exposure Draft of Proposed ISA 240 \(Revised\), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs](#) (ED-240).
    - (v) [Discussion Paper, Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit](#).
  - (b) Review of recent audit inspection reports from a wide range of jurisdictions, including:
    - (i) Canadian Public Accountability Board (CPAB), [2022 Annual Inspections Results, March 2023](#), [2023 Interim Inspections Results, October 2023](#), [2023 Annual Inspections Results, March 2024](#), [2024 Interim Inspections Results, October 2024](#), [2024 Annual Inspections Results, March 2025](#), and [2025 Interim Inspections Results, October 2025](#).
    - (ii) India's National Financial Reporting Authority, [Inspection Reports from 2022 and 2023](#).

- (iii) International Forum of Independent Audit Regulators (IFIAR), [Survey of Inspection Findings 2022](#), [Survey of Inspection Findings 2023](#) and [Survey of Inspection Findings 2024](#).
  - (iv) Japan's Certified Public Accountants and Auditing Oversight Board, [Case Report from Audit Firm Inspection Results, July 2023](#) and [Case Report from Audit Firm Inspection Results, July 2024](#).
  - (v) Kingdom of Saudi Arabia's Capital Market Authority (CMA), [Most Prominent Observations on Listed Companies Financial Statements Disclosures for the Years 2020 and 2021](#) and [The Most Prominent Observations of the Supervision on Registered Accounting Firms for the Years 2020 and 2021](#).
  - (vi) Securities Commission Malaysia's Audit Oversight Board, [Annual Inspection Report 2022](#), [Annual Inspection Report 2023](#) and [Annual Inspection Report 2024](#).
  - (vii) Singapore's Accounting and Corporate Regulatory Authority, [Audit Regulatory Report 2023](#) and [Audit Regulatory Report 2024](#).
  - (viii) South Africa's Independent Regulatory Board for Auditors (IRBA), [2022 Public Inspections Report on Audit Quality](#), [2023 Public Inspections Report on Audit Quality](#) and [2024 Public Inspection Report on Audit Quality](#).
  - (ix) United Kingdom's Financial Reporting Council (UK FRC), [Tier 1 Firms – Overview, Audit Quality Inspection and Supervision Report, July 2022](#), [Tier 1 Firms – Overview, Audit Quality Inspection and Supervision Report, July 2023](#), [Tier 2 and Tier 3 Audit Firms – Audit Quality Inspection and Supervision, December 2023](#), [Tier 2 and Tier 3 Audit Firms – Audit Quality Inspection and Supervision, December 2024](#), [Annual Review of Audit Quality, July 2024](#), [Annual Review of Audit Quality, July 2025](#), and [Key Findings and Good Practice Report, October 2025](#).
  - (x) United States' Public Company Accounting Oversight Board (US PCAOB), [Spotlight – Staff Update on 2023 Inspection Activities, August 2024](#) and [Spotlight – Staff Update on 2024 Inspection Activities, March 2025](#).
- (c) Benchmarking to exposure drafts or analogous auditing standards issued by other standard-setting bodies, including:

*Inventory*

- (i) US PCAOB: [Auditing Standards \(AS\) 2510, Auditing Inventories](#).

*External Confirmations*

- (ii) American Institute of Certified Public Accountants (AICPA): [Statement on Auditing Standards \(SAS\) AU-C Section 505, External Confirmations](#). The standard includes an extended definition of “external confirmation” as well as extended guidance and examples on confirmation requests sent by e-mail, evaluating the reliability of responses to confirmation requests and non-responses or oral responses.
- (iii) AICPA: [Exposure Draft – Proposed SAS, External Confirmations](#) released on February 28, 2025. The exposure draft's consultation period closed on June 30, 2025.

- (iv) UK FRC: [ISA \(UK\) 505 \(Revised October 2023\), External Confirmations](#). The standard was revised to take into consideration new digital means of obtaining confirmations as well as to respond to enforcement findings on insufficient audit work on investigating exception and over reliance on negative confirmation.
- (v) US PCAOB: [AS 2310, The Auditor's Use of Confirmation](#). The new standard was released by the PCAOB in September 2023 to improve the quality of audits when the auditor uses confirmations to reflect changes in the means of communication and in business practice, such as the increasing use of electronic communications and third-party intermediaries in the confirmation process.
- (d) Review of IAASB issued non-authoritative guidance and other literature issued by other standard-setting bodies or regulators on relevant topics, including:
  - (i) IAASB: [Staff Audit Practice Alert – Emerging Practice Issues Regarding the Use of External Confirmations in an Audit of Financial Statements](#) (November 2009).
  - (ii) IFIAR: [Use of technology in audits – observations, risk and further evolution – 2025](#).
  - (iii) Australia's Auditing and Assurance Standards Board (AUASB): [Guidance Statement \(GS\) 016, Bank Confirmation Requests \(June 2022\)](#). The AUASB GS016 on Bank Confirmation was updated in 2022 to modernize the guidance on bank confirmation requests to respond to changes in the way in which bank confirmations are performed.
  - (iv) Canada's CPAB: [CPAB Risk Alert, Third party involvement in the inventory management process](#) (December 2024).
  - (v) China's Chinese Institute of Certified Public Accountants: [Bank Confirmation Guidance \(2024\)](#) – In Mandarin.
  - (vi) Japan's Japanese Institute of Certified Public Accountants (JICPA): [Remote Work Series No.2 – Considerations in Relation to Remote Attendance at Physical Inventory Counting](#) (December 2020).
  - (vii) South Africa's IRBA: [South African Auditing Practice Statement \(SAAPS\) 6, External Confirmations from Financial Institutions](#) (July 2013).
  - (viii) US PCAOB: [Spotlight: Data and Technology Research Project Update](#) (May 2021). This Spotlight discusses, among other things, the use of technology in the confirmation process.
  - (ix) US PCAOB: [Spotlight: Observations and Reminders on the Use of a Service Provider in the Confirmation Process](#) (March 2022). This Spotlight specifically discusses observations and reminders on the use of a service provider in the confirmation process.
  - (x) US PCAOB: [Standards and Emerging Issues Advisory Group Meeting – Briefing Paper, November 2, 2023](#) for the part relating to "Auditing Inventory." Inventory is currently an active project of the US PCAOB.
- (e) Meetings and working sessions with the following stakeholder groups:
  - Monitoring Group Members*
    - (i) IFIAR's Standards Coordination Working Group.

- (ii) International Organization of Securities Commissions, Committee on Issuer Accounting, Audit and Disclosure (Committee 1).

*Regulators and Audit Oversight Authorities*

- (iii) Australian Securities and Investment Commission (Australia).
- (iv) CPAB (Canada).
- (v) CMA (Kingdom of Saudi Arabia).
- (vi) Committee of European Auditing Oversight Bodies' International Auditing Standards Subgroup (Europe).
- (vii) Dutch Authority for the Financial Markets (Netherlands).
- (viii) FRC (United Kingdom).
- (ix) Financial Services Agency (Japan).
- (x) IRBA (South Africa).
- (xi) PCAOB (United States).
- (xii) Securities and Exchange Commission of Brazil (Brazil).

*Jurisdictional Standard Setters*

- (xiii) AICPA (United States).
- (xiv) AUASB (Australia).
- (xv) Auditing and Assurance Standards Board (Canada).
- (xvi) Compagnie Nationale des Commissaires aux Comptes (France).
- (xvii) Hong Kong Institute of Certified Public Accountants (Hong Kong).
- (xviii) Instituto Mexicano de Contadores Públicos, A.C. (Mexico).
- (xix) JICPA (Japan).
- (xx) New Zealand Auditing and Assurance Standards Board of the External Reporting Board (New Zealand).
- (xxi) Nordic Federation of Public Accountants (Denmark, Finland, Iceland, Norway and Sweden).
- (xxii) Royal Netherlands Institute of Chartered Accountants (Netherlands).
- (xxiii) Saudi Organization for Chartered and Professional Accountant (Saudi Arabia).

*Accounting Firms*

- (xxiv) Baker Tilly International Limited.
- (xxv) BDO International.
- (xxvi) Crowe Global.
- (xxvii) Deloitte Touche Tohmatsu Limited.

- (xxviii) Ernst and Young Global Limited.
- (xxix) Forvis Mazars Global Limited.
- (xxx) Grant Thornton International Limited.
- (xxxi) KPMG International Limited.
- (xxxii) PricewaterhouseCoopers International Limited.
- (xxxiii) RSM International.

*A Bank Platform Confirmation Provider*

- (f) Discussions at the following stakeholder events:
  - (i) [IAASB–Jurisdictional Standard Setters \(JSS\) Liaison Group](#) meeting in New York (May 2025).
  - (ii) Forum of Firms meeting in New York (June 2025).
  - (iii) The International Federation of Accountants' Small and Medium Practices Advisory Group virtual meeting (July 2025).
- (g) Focused discussions with members of the SAC that are identified as users of financial statements and preparers, including TCWG (February 2026).
- (h) A Request for Information to the IAASB–JSS Liaison Group on areas of focus for the targeted standard in the ISA 500 Series (May 2025).
- (i) A request to complete a questionnaire to JSS members of the IAASB–JSS Liaison Group on selected audit evidence topics related to inventory and external confirmations (January 2026). Written responses were received from the IAASB-JSS Liaison Group members from Australia, Austria, Canada, France, Hong Kong, Japan, Netherlands, New Zealand, the Nordic Region (Denmark, Finland, Iceland, Norway, and Sweden), Saudi Arabia, South Africa, United Kingdom and the United States.
- (j) Review of relevant academic literature on inventory and external confirmations in audits of financial statements.