



IAASB

International Auditing and Assurance Standards Board

AN IFEA BOARD

Targeted Standards in the ISA 500 Series

Agenda Item 8

March 2026 IAASB Meeting
New York, United States

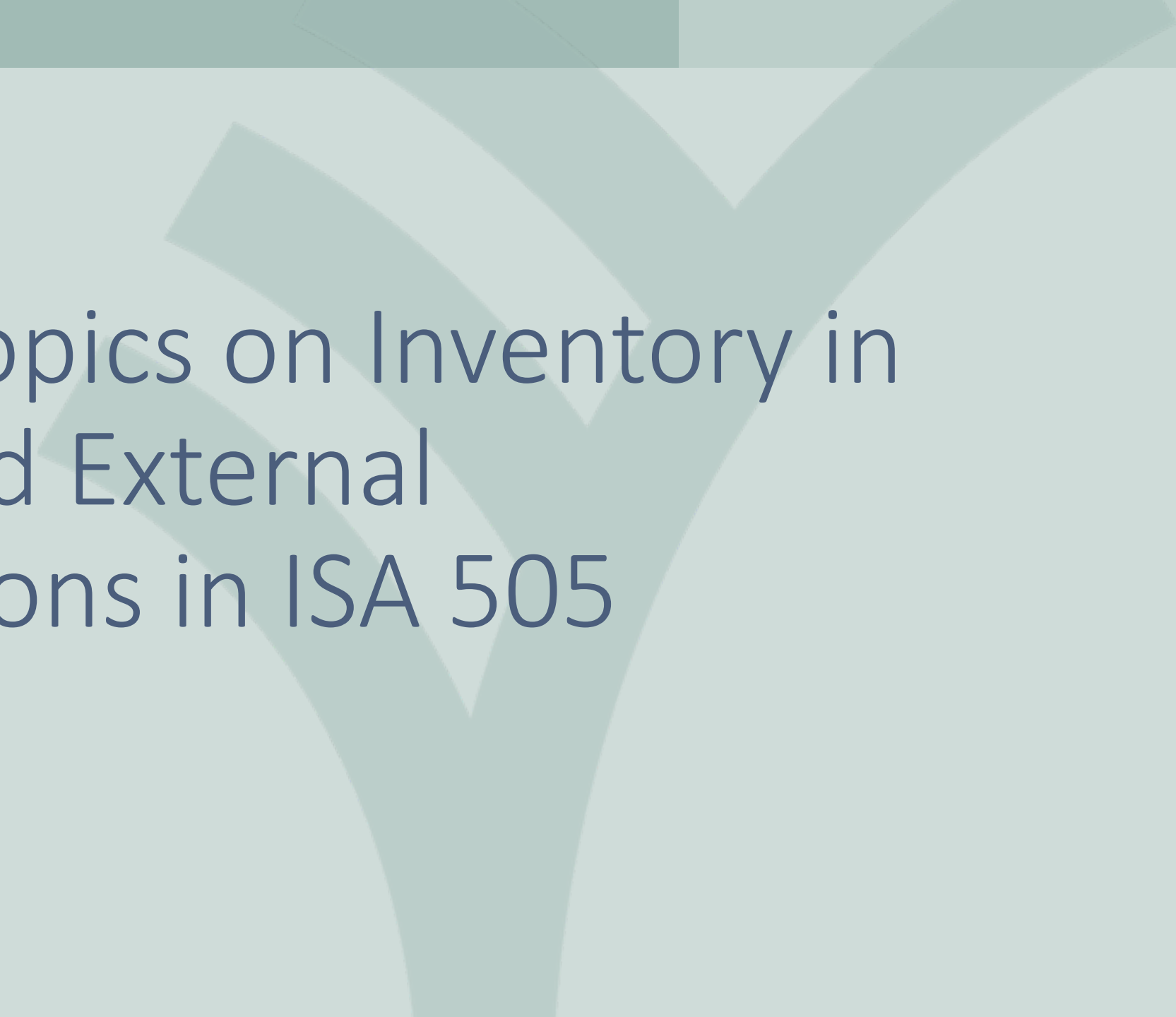


What Informed Our Views and Recommendations

Decisions made and directions provided by the Board from previous meetings

Input and feedback provided by the ISA 500 Series Project Board Members

Input and feedback from stakeholder outreach



Selected Topics on Inventory in ISA 501 and External Confirmations in ISA 505

Alignment with Concepts for Risk Assessment and Risk Responses

Key Issue

- Conditionality based on materiality
- May not be sufficiently aligned with the more robust risk assessment process in ISA 315 (Revised 2019)

Proposed Action

- Determine appropriate revisions to ISA 501 – Inventory, to align with ISA 315 (Revised 2019) and proposed ISA 330 (Revised)

Stakeholder Feedback

- Lack of alignment with foundational ISAs on risk assessment
- Inconsistent approach across jurisdictions

Alignment with Concepts for Risk Assessment and Risk Responses (Cont.)

Project Team's Views and Recommendations

Risk-Based Approach

- Replace the “materiality-based” with a “risk-based” conditionality in ISA 501

Level of Assessed Risk to Which Conditionality Applies

- Apply the conditional requirements in ISA 501 in all instances where the inventory's existence or condition (related to its valuation) are relevant assertions in accordance with ISA 315 (Revised 2019)

Linkages to Foundational ISAs

- Enhance linkages to foundational ISAs to reinforce that the inventory audit procedures in ISA 501 are part of the broader risk assessment and response framework in the ISAs

Matters for IAASB Consideration



Agenda Item 8 – Question 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).

Inventory Under the Custody and Control of a Third Party

Key Issue

- Overreliance on external confirmations from third parties as the sole audit procedure to obtain sufficient appropriate audit evidence (SAAE)

Proposed Action

- Enhance requirements and application material (AM) that address SAAE obtained for inventory under the custody and control of a third party

Stakeholder Feedback

- Overreliance on third-party external confirmations
- Circumstances when inspection or other audit procedures are necessary
- Consideration of inventory-related controls at both the entity and the third party

Inventory Under the Custody and Control of a Third Party (Cont.)

Project Team's Views and Recommendations

Linkages to Foundational ISAs

- Need to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk
 - Sole reliance on third-party external confirmation procedures is less likely to provide SAAE as inherent risk increases

Circumstances When Sole Reliance on Third-Party Confirmations May Be Appropriate

- When assessment of inherent risk is at the lower end of the spectrum of inherent risk

Circumstances When Inspection or Other Audit Procedures May Be Necessary

- When assessment of inherent risk is *not* at the lower end of the spectrum of inherent risk
- If required to test controls in accordance with proposed ISA 330 (Revised)

Matters for IAASB Consideration



Agenda Item 8 – Question 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.

Negative Confirmations

Key Issue

- Concerns about relevance and reliability of audit evidence from negative confirmations
- Inconsistency across jurisdictions in permitting their use

Proposed Action

- Determine whether allowing the use of negative confirmations remain appropriate, including whether to prohibit their use

Stakeholder Feedback

- Inconsistent approaches across jurisdictions and firms
- Mixed views over the appropriateness of its use
- Performance issues

Negative Confirmations (Cont.)

Project Team's Views and Recommendations

Use of Negative Confirmation Requests

- Allow the use of negative confirmation requests only when performed in combination with other substantive procedures
 - Ensures auditors do not place undue reliance on negative confirmation requests

Treatment of Specified Preconditions

- Retain the specified preconditions as they are, which means that the preconditions must all be met before negative confirmation requests are allowed to be used in combination with other substantives procedures
 - Mitigates the inherent limitations of negative confirmation requests to provide persuasive audit evidence

Matters for IAASB Consideration



Agenda Item 8 – Question 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).

Considerations About the Need to Perform External Confirmation Procedures

Key Issue

- Calls for well-executed external confirmation procedures, particularly for cash and cash equivalent balances
- Inconsistencies in practice

Proposed Action

- Enhance requirements or AM regarding the auditor's considerations about the need to perform external confirmation procedures

Stakeholder Feedback

- Inconsistent approaches across jurisdictions and firms
- Mixed views on mandating external confirmation procedures for certain account balances

Considerations About the Need to Perform External Confirmation Procedures (Cont.)

Project Team's Views and Recommendations

External Confirmation Procedures for Certain Account Balances

- Explicitly require consideration of whether external confirmation procedures are to be performed for certain account balances

Key Considerations Affecting How the Approach Could Be Applied

Specific account balances

Cash and cash equivalents and accounts receivable

Level of assessed risk

When assessed risk is at the higher end of the spectrum of inherent risk or is a significant risk

Exceptions to the provisions

Not include exceptions to the requirement

Type of audits of entities

Applies to all audits of financial statements

Matters for IAASB Consideration



Agenda Item 8 – Question 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.

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Way Forward

Way Forward to Approval of Exposure Draft



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