

Targeted Standards in the ISA 500 Series – Cover Note

Objectives:

The objectives of the IAASB discussion in June 2026 are to obtain the Board's input on:

- (a) The project team's views and recommendations addressing all topics included in the [project proposal](#) on audit evidence related to inventory in ISA 501¹ and external confirmations in ISA 505.²
- (b) Selected preliminary drafting for Proposed ISA 501 (Revised)³ and Proposed ISA 505 (Revised).⁴

Introduction

1. During the March 2026 IAASB meeting, the Board approved a [project proposal](#) to revise audit evidence standards related to inventory in ISA 501 and external confirmations in ISA 505 (i.e., in-scope standards). The Board also discussed four selected topics on inventory and external confirmations. For more information about the Board's decisions and directions on the topics covered, see the draft minutes presented in [Agenda Item 1](#).

Key Outcomes of the Proposed Revisions to the In-Scope Standards



2. The diagram below summarizes the key outcomes of the project. The project team has remained mindful of these key outcomes when formulating its views and proposals discussed in **Agenda Items 4-A and 4-C**.

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

² ISA 505, *External Confirmations*

³ Proposed ISA 501 (Revised), *Audit Evidence—Specific Considerations for Selected Items – Inventory*

⁴ Proposed ISA 505 (Revised), *External Confirmations*

Materials Presented

3. This Agenda Item includes the following appendices and other agenda items:

<i>Appendices</i>	
Appendix 1	Project Assignments and Activities
Appendix 2	Feedback from Outreach with the User Advisory Group
<i>Agenda Items</i>	
Agenda Item 4-A	Issues Paper – Inventory
Agenda Item 4-B	Selected Preliminary Drafting for Proposed ISA 501 (Revised) – Inventory
Agenda Item 4-C	Issues Paper – External Confirmations
Agenda Item 4-D	Selected Preliminary Drafting for Proposed ISA 505 (Revised)

Overview of Stakeholder Outreach and Coordination Activities

Stakeholder Outreach

4. Further details about the outreach activities undertaken during the quarter and the key insights from the outreach activities are included in **Appendix 1** and **Appendix 2**.

Coordination Activities

Audit Evidence and Risk Response

5. In May 2026, the ISA 500 Series project team met with the Audit Evidence and Risk Response project team to coordinate on matters of relevance, including matters related to inventory, external confirmations and the consistency of the proposed actions with Proposed ISA 330 (Revised)⁵ and Proposed ISA 500 (Revised).⁶

Technology Quality Management

6. In May 2026, the ISA 500 Series project team met with the Technology Quality Management project team to coordinate on the findings of the technology gap analysis captured in the [Catalog of Issues and Proposed Actions](#).

⁵ See Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, presented in [Agenda Item 2-B](#) of the June 2026 IAASB meeting.

⁶ See Proposed ISA 500 (Revised), *Audit Evidence*, presented in [Agenda Item 2-C](#) of the June 2026 IAASB meeting.

Jurisdictional Developments

7. In determining how to address certain enhancements to Proposed ISA 505 (Revised), the project team considered the approaches used by:
- (a) The United States Public Company Oversight Board in Auditing Standards 2310, *The Auditor's Use of Confirmation*;
 - (b) The American Institute of Certified Public Accountants (AICPA) in the final proposed amendments to the Statement of Auditing, *External Confirmations* (AU-C Section 505),⁷ as approved on May 14, 2026, by the AICPA's Auditing Standards Board; and
 - (c) The United Kingdom (UK) Financial Reporting Council's ISA (UK) 505 (Revised October 2023), *External Confirmations*.

Approach to the Board Discussion

8. During the June 2026 IAASB meeting, the project team will introduce the topics on inventory and external confirmations included in **Agenda Items 4-A and 4-C**, respectively. Each topic will be separately introduced and discussed. Where applicable, the project team will refer to the selected preliminary drafting for Proposed ISA 501 (Revised) and Proposed ISA 505 (Revised) presented in **Agenda Items 4-B and 4-D**, respectively.

Way Forward

9. For the IAASB September 2026 meeting, the project team intends to present and discuss with the Board the first full drafts of Proposed ISA 501 (Revised) as it relates to inventory and Proposed ISA 505 (Revised).

⁷ See final turn document for Amendments to AU-C Section 505, *External Confirmations* ([Agenda Item 2I](#)).

Appendix 1**Project Assignments and Activities****Project Team**

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

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](#).

Outreach Activities in the Period

4. Since March 2026, the project team held one physical meeting and one virtual meeting 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
User Advisory Group	April 2, 2026	The project team discussed the following selected topics: • Negative confirmations; and • Considerations about the need to perform external confirmation procedures. See Appendix 2 for feedback from outreach with the User Advisory Group.
International Federation of Accountants' Small and Medium Practices Advisory Group	May 12, 2026	The project team discussed the following selected topics: • Alignment with concepts for the identification and assessment of, and responding to, risks of material misstatement; • Inventory under the custody and control of a third party;

Stakeholder	Date Held	Details
		- Negative confirmations; and - Considerations about the need to perform external confirmation procedures.
International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure	June 1, 2026	The project team will discuss the following selected topics: - Alignment with concepts for the identification and assessment of, and responding to, risks of material misstatement; - Inventory under the custody and control of a third party; - Negative confirmations; and - Considerations about the need to perform external confirmation procedures.
Forum of Firms	June 2, 2026	The project team will discuss the following selected topics: - Attendance at inventory counting; - Implications of the use of technology by entities in managing inventory and by auditors in auditing inventory; - Direct access to information maintained by a knowledgeable external source; - Reliability of responses to external confirmation requests; and - Need for stand-back requirement in ISA 505.

Appendix 2

Feedback from Outreach with the User Advisory Group

Introduction

1. In April 2026, the User Advisory Group members were updated on the ISA 500 Series project, which focuses on revising ISA 501 on inventory and ISA 505 on external confirmations. User Advisory Group members were asked to provide input on the use of negative confirmations and the need for mandating external confirmation procedures for certain account balances.

Key Observations, Advice and Suggestions from the User Advisory Group

2. On the use of negative confirmations, User Advisory Group members:
 - Questioned whether negative confirmations should be allowed to be used given their limitations and because they are rarely used in practice. In addition, there were concerns that the limitations of negative confirmations are exacerbated in today's environment. While negative confirmations may have been able to provide audit evidence when external confirmations were sent by mail, in today's digital environment emails are frequently overlooked or filtered as spam, making the evidence weaker.
 - Noted that for cash balances, positive confirmations are already the norm in several jurisdictions and reflects what investors and users are expecting. Also, for related-party transactions, positive confirmations, and potentially additional corroboration, should be expected given the heightened fraud risk.
 - Noted that for large volumes of low-value accounts receivables, negative confirmations combined with payment-against-balance testing may still be used.
3. On mandating external confirmation procedures for certain account balances, User Advisory Group members:
 - Questioned whether mandating external confirmations would prevent high-profile fraud cases. For example, in high-profile fraud cases in Europe, including the Wirecard case, external communications with banks and other third parties were manipulated by management over an extended period of time and the proposed changes to the standard do not address this.
 - Supported that the auditor should be required to consider whether external confirmations should be performed rather than requiring auditors to perform external confirmation procedures. It was noted that mandating auditors to perform external confirmation procedures will increase audit costs without necessarily improving audit quality. It was noted that while obtaining an external confirmation from a genuinely independent third party is among the most effective fraud prevention tools, auditor's professional judgment must guide when and how external confirmations are applied.
 - Noted that while the auditor's professional judgment is important, for certain high-risk balances such as cash and related-party transactions, a requirement to perform external confirmation procedures is in investors' best interest as it directly reduces the probability of fraud going undetected.
 - Supported transparency-related enhancements.