



IAASB

International Auditing and Assurance Standards Board

AN IFEA BOARD

Targeted Standards in the ISA 500 Series

Agenda Item 4

June 2026 IAASB Meeting

Mainz, Germany



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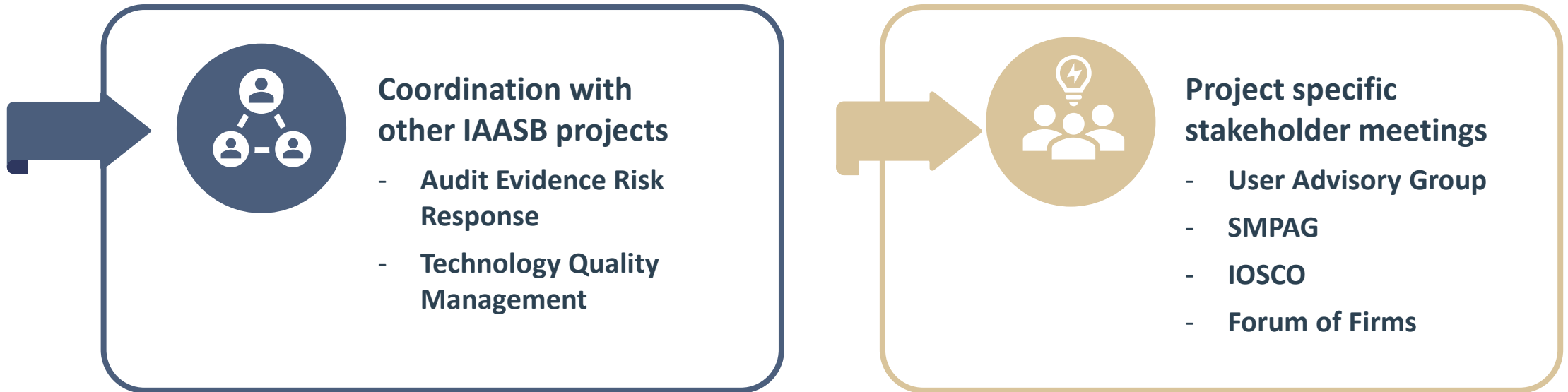


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Coordination and Outreach Activities



Key Issues Identified

Inventory in ISA 501

Implications of the use of technology by entities in managing inventory and by auditors in auditing inventory

Attendance at inventory counting

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

Sufficiency and appropriateness of audit evidence obtained for inventory

External Confirmations in ISA 505

Implications of using technology and third-party intermediaries in external confirmations

Negative confirmations

Assertions addressed by external confirmations

Reliability of responses to external confirmation requests

Considerations about the need to perform external confirmation procedures

Non-responses and exceptions in external confirmation procedures



Emphasis on the exercise of **Professional Skepticism**

Proposals to Address Selected Topics on Inventory

Implications of the use of technology by entities in managing inventory and by auditors in auditing inventory

Key Issue

- ISA 501 does not sufficiently reflect the use of new and evolving technologies by entities in inventory management or by auditors

Project Team Views and Recommendations

- Enhance application material to
 - Recognize how entities' use of technology in inventory management may impact the audit
 - Highlight the auditor's responsibilities in relation to IT applications and identified GITC when entities use technology
 - Emphasize that the auditor may involve an expert to obtain SAAE regarding the existence and condition of inventory
 - Highlight linkages with foundational standards

Matters for IAASB Consideration



Agenda Item 4-A – Question 1

The Board is asked for their views on the project team’s proposals to develop application material in ISA 501 addressing the implications of the use of technology by entities in managing inventory and by auditors in auditing inventory, as set out in paragraphs 8, 11 and 12 of **Agenda Item 4-A**.

Proposals to Address Selected Topics on Inventory

Attendance at Inventory Counting

Key Issue

- There is a lack of clarity about whether “attendance” at inventory counting can include the use of technological tools for remote observations

Further Information Gathering

- Circumstances where the entity may not perform any form of physical inventory verification
 - How prevalent is this?
 - How does management verify the existence and condition of inventory?

Proposals to Address Selected Topics on Inventory

Attendance at Inventory Counting

Proposed Actions

- Circumstances where the entity performs physical inventory verifications
 - Align with core requirements in ISA 315 (Revised 2019), proposed ISA 330 (Revised) and proposed ISA 500 (Revised)
 - Clarify the concept of “attendance” at inventory counting, including the use of technological tools for remote inventory observations
 - Option A: Remove the reference to “physical” in the requirement to allow greater flexibility in how auditors could comply to attendance at inventory counting
 - Option B: Retain extant approach, but clarify in application material that remote attendance is an alternative procedure

Matters for IAASB Consideration



Agenda Item 4-A – Question 2

The Board is asked for their views on the project team's views and recommendations regarding the possible approaches for addressing attendance at inventory counting in revising ISA 501 discussed in paragraphs 28–37 and the proposed way forward for Option A presented in paragraph 38 of **Agenda Item 4-A**.

Proposals to Address Selected Topics on Inventory

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

Key Issue

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

Project Team Views and Recommendations

- Enhance requirements by
 - Replacing the materiality-based conditionality in paragraphs 4 and 8 with a risk-based
 - Clarifying that the requirements in paragraphs 4 and 8 apply when the inventory's existence or condition (related to valuation assertion) are assessed as relevant assertions
 - Clarifying in paragraph 4(b) that the entity's inventory records refer to "those at the date of the count"
- Various suggestions on how to enhance the application material

Matters for IAASB Consideration



Agenda Item 4-A – Question 3

The Board is asked for their views on the proposed revisions in paragraphs 4–8 and A0A–A0C of Agenda Item 4-B and as discussed in paragraphs 41–43 of **Agenda Item 4-A**.

Proposals to Address Selected Topics on Inventory

Inventory Under the Custody and Control of a Third Party

Key Issue

- There is overreliance on external confirmations from third parties as the sole audit procedure to obtain SAAE for the existence and condition of inventory held under the custody and control of third parties

Project Team Views and Recommendations

- Enhance requirements by
 - Clarifying in paragraph 8 that the auditor performs procedures “depending on the circumstances”
- Various suggestions on how to enhance the application material

Matters for IAASB Consideration



Agenda Item 4-A – Question 4

The Board is asked for their views on the proposed revisions in paragraphs 8 and A14A–A15 of Agenda Item 4-B and as discussed in paragraph 46 of **Agenda Item 4-A**.

Proposals to Address Selected Topics on Inventory

Sufficiency and Appropriateness of Audit Evidence Obtained for Inventory

Key Issue

- There are identified recurring issues in audit procedures related to inventory

Project Team Views and Recommendations

- The accuracy and completeness of the entity's inventory records: no changes proposed
- Changes in inventory between the count date and the date of the financial statements: enhancing application material for when management uses a perpetual inventory system supported by cycle counts
- Inventories in multiple locations: enhancing application material to highlight risks associated with inventories at multiple locations and what the auditor may need to do in response to those risks

Matters for IAASB Consideration



Agenda Item 4-A – Question 5

The Board is asked for their views on the project team's views and recommendations related to the sufficiency and appropriateness of audit evidence obtained for inventory discussed in paragraphs 55, 57, 59 and 61 of **Agenda Item 4-A**.

Proposals to Address Selected Topics on Inventory

Professional Skepticism – Inventory

Key Issue

- There is a need to emphasize the exercise of professional skepticism when obtaining and evaluating audit evidence about inventory

Project Team Views and Recommendations

- No changes proposed as professional skepticism is sufficiently covered by:
 - Other proposed enhancements to ISA 501 that reinforce the appropriate exercise of professional skepticism
 - Use of an expert in interpreting results of technology-enabled procedure (Part A)
 - Whether physical or remote attendance is responsive to assessed ROMMs (Part B)
 - Clarifying potential limitations of external confirmation procedures in obtaining SAAE (Part D)
 - Proposed ISA 330 (Revised) and proposed ISA 500 (Revised)

Matters for IAASB Consideration



Agenda Item 4-A – Question 6

The Board is asked for their views on the project team's views based on proposals in **Parts A, B and D** addressing professional skepticism in Proposed ISA 501 (Revised) discussed in paragraphs 66 and 67 of **Agenda Item 4-A**.

Proposals to Address Selected Topics on External Confirmations

Implication of Using Technology and Third-Party Intermediaries in External Confirmations

Key Issue

- ISA 505 does not sufficiently address the use of technology in external confirmation procedures

Project Team Views and Recommendations

- Defining the terms “confirming party” and “intermediary”
- Adding a requirement for auditors to evaluate the implications on the reliability of confirmation requests and responses when using an intermediary
- Enhanced requirement to emphasize the auditor’s responsibility to maintain control over the confirmation process
- Direct access: clarifying in application material that direct access could in certain circumstances constitute relevant and reliable audit evidence
- Various suggestions on how to enhance the application material

Matters for IAASB Consideration



Agenda Item 4-C – Question 1

The Board is asked for their views on the project team's proposals to:

- a) Clarify the role of a confirming party and an intermediary discussed in paragraph 9 of **Agenda Item 4-C**.
- b) Address implications of using third-party intermediaries discussed in paragraph 18 of **Agenda Item 4-C**.
- c) Clarify direct access to information maintained by a knowledgeable external source discussed in paragraph 23 of **Agenda Item 4-C**.
- d) Clarify other matters relating to the auditor's responsibility to maintain control over the confirmation process discussed in paragraph 24 of **Agenda Item 4-C**.

Proposals to Address Selected Topics on External Confirmations

Negative Confirmations

Key Issue

- There are concerns regarding the relevance and reliability of the audit evidence obtained from negative confirmation requests in the current environment

Project Team Views and Recommendations

- Enhancing the requirement by
 - Limiting the use of negative confirmations to circumstances in which they are used in combination with other substantive procedures.
 - Relocating extant paragraph 15 after the requirement addressing the use of an intermediary, to improve the logical flow of the requirements in the standard
- Various suggestions on how to enhance the application material

Matters for IAASB Consideration



Agenda Item 4-C – Question 2

The Board is asked for their views on the proposed revisions in paragraphs 7B and A7B–A7C of Agenda Item 4-D and as discussed in paragraphs 27 and 28 of **Agenda Item 4-C**.

Proposals to Address Selected Topics on External Confirmations

Assertions Addressed by External Confirmations

Key Issue

- 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

Project Team Views and Recommendations

- Enhancing application material by clarifying which assertions may or may not be addressed in certain circumstances by external confirmation procedures

Matters for IAASB Consideration



Agenda Item 4-C – Question 3

The Board is asked for their views on the project team's views and proposals to enhance application material in ISA 505 discussed in paragraphs 33–35 of **Agenda Item 4-C**.

Proposals to Address Selected Topics on External Confirmations

Reliability of Responses to External Confirmation Requests

Key Issue

- The reliability of responses to external confirmation requests has become more complex due to several factors

Project Team Views and Recommendations

- Adding a requirement to evaluate the reliability of confirmation responses
 - Builds on proposed ISA 500 (Revised)
- Enhancing requirements addressing
 - Doubts about the reliability of the response to a confirmation request
 - Circumstances where the auditor determines that a confirmation response is not reliable

Matters for IAASB Consideration



Agenda Item 4-C – Question 4

The Board is asked for their views on the proposed revisions in paragraphs 9A, 10 and 11 of Agenda Item 4-D and as discussed in paragraphs 43, 46, 48, 51 and 53 of **Agenda Item 4-C**.

Proposals to Address Selected Topics on External Confirmations

Considerations About the Need to Perform External Confirmation Procedures

Key Issue

- Need for well-executed external confirmation procedures, particularly when confirming cash and cash equivalent balances

Project Team Views and Recommendations

- Adding a requirement for auditors to determine whether to perform external confirmation procedures for cash and cash equivalents held by third parties and accounts receivable
 - Builds on proposed ISA 330 (Revised)
 - Placed in ISA 505 because of coherence and consistency other standard setters
- Various suggestions on how to enhance the application material

Matters for IAASB Consideration



Agenda Item 4-C – Question 5

The Board is asked for their views on the proposed revisions in paragraphs 6A and A0A–A0C of Agenda Item 4-D and as discussed in paragraphs 56–59 of **Agenda Item 4-C**.

Proposals to Address Selected Topics on External Confirmations

Non-Responses and Exceptions in External Confirmation Procedures

Key Issue

- Recurring challenges in how auditors address non-responses and exceptions in external confirmation procedures

Project Team Views and Recommendations

- Non-responses
 - Enhancing requirements by clarifying that in the case of each non-response, the auditor is required to perform alternative procedures “for the selected item”
 - No changes to the definition of a non-response
- Exceptions
 - Enhancing paragraph 14 of ISA 505 by requiring the auditor to determine whether exceptions are indicative of (i) misstatements or (ii) deficiencies in the entity’s system of internal control

Matters for IAASB Consideration



Agenda Item 4-C – Question 6

The Board is asked for their views on the project team’s proposals addressing non-responses (as discussed in paragraphs 65–68 of **Agenda Item 4-C**) and exceptions (as discussed in paragraphs 69–70 of **Agenda Item 4-C**).

Proposals to Address Selected Topics on External Confirmations

Professional Skepticism – External Confirmations

Key Issue

- There is a need to emphasize the exercise of professional skepticism when designing and performing external confirmation procedures

Project Team Views and Recommendations

- No changes proposed as professional skepticism is sufficiently covered by proposed enhancements addressing the reliability of responses to confirmation requests (see Part D of **Agenda Item 4-C**)
- Possible way forward on stand-back requirement
 - Remove
 - Retain and enhance
 - Build on and align with the stand-back requirement introduced in proposed ISA 330 (Revised)
 - Leverage approach taken in the PCAOB's and the AICPA's external confirmation standards

Matters for IAASB Consideration



Agenda Item 4-C – Question 7

The Board is asked for their views on:

- a) The project team's views based on the proposals in Part D addressing professional skepticism in Proposed ISA 505 (Revised) discussed in paragraph 76 of **Agenda Item 4-C**.
- b) Whether there is a need to remove, or retain and enhance, the stand-back requirement in Proposed ISA 505 (Revised) discussed in paragraphs 77–80 of **Agenda Item 4-C**.

Way Forward to Approval of Exposure Draft

September 2026



Further deliberations
and first full read of
standards

**December
2026**



Targeted
approval of
exposure draft

Ongoing Stakeholder Outreach and Coordination Activities

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