

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

This Agenda Item shows changes to selected requirements in paragraphs 3A, 3B and 7A of Proposed ISA 501 (Revised), as it relates to inventory, in mark-up from [Agenda Item 7–E](#) discussed by the Board at the September 2026 meeting, as a result of comments received. Other sections grayed out are shown for references purposes only and will not be included in the Board discussion. These sections have not been updated and reflect the drafting as presented at the September 2026 meeting.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with Proposed ISA 330 (Revised),¹ Proposed ISA 500 (Revised)² and other relevant ISAs, with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements.

Effective Date

2. This ISA is effective for audits of financial statements for:
 - (a) Periods beginning on or after December 15, 20XX for the section relating to inventory; and
 - (b) Periods beginning on or after December 15, 2009 for the sections relating to litigation and claims and segment information.

Objective

3. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:
 - (a) Existence and condition of inventory;

...

Requirements

Inventory

3A. In applying ISA 315 (Revised 2019),³ the auditor shall: (Ref: Para. AXX)

- (a) Obtain an understanding of the following matters relevant to the existence and condition of the entity's inventory:
 - (i) The nature and location of the entity's inventory, including its characteristics and whether the inventory is held by the entity or by third parties.
 - (ii) The entity's information system as it relates to inventory, including:

¹ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

² Proposed ISA 500 (Revised), *Audit Evidence*

³ [ISA 315 \(Revised 2019\), paragraphs 19–27](#)

a. The flow of information about inventory through the entity's information system;
and

b. The entity's process for establishing the existence and condition of inventory at
the date of the financial statements.

(iii) Identified controls in the control activities component that address risks of material
misstatement relating to the existence and valuation (in relation to the condition) of
inventory.⁴

(b) If applicable, discuss with management the reasons for not conducting any inventory count(s).

~~3A3B~~. If the auditor determines, in accordance with ISA 315 (Revised 2019),⁵ that existence ~~and or~~
valuation (in relation to condition) are relevant assertions for inventory, the auditor's further audit
procedures, as required by Proposed ISA 330 (Revised),⁶ shall include one or more of the following
approaches depending on the circumstances: (Ref: Para. ~~A0AAXX–A0GAXX~~)

- (a) ~~If the entity conducts a full inventory count, testing~~ Performing procedures addressing the
entity's full-year-end inventory count in accordance with paragraphs 4–6 and 7;
- (b) ~~If the entity conducts cycle counts, testing~~ Performing procedures addressing the entity's
inventory cycle counts in accordance with paragraphs 4 ~~and~~ 6A and 7; or
- (c) ~~If Performing procedures addressing circumstances in which~~ the entity does not conduct a
full any inventory ~~count or cycle count(s), testing how the entity addresses the existence and~~
~~condition of inventory~~ in accordance with paragraph ~~6B7A~~. [Moved from paragraph 3A]

Testing the Entity's Full Inventory Count or Cycle Counts

4. When testing the entity's full inventory count or cycle counts, the auditor's further audit procedures
shall include: (Ref: Para. A0H)

- (a) Attending the entity's inventory count, unless impracticable, to: (Ref: Para. A0I–A3C)
 - (i) Evaluate management's instructions and procedures for recording and controlling the
results of the entity's inventory count; (Ref: Para. A4–A4A)
 - (ii) Observe the performance of management's count procedures; (Ref: Para. A5)
 - (iii) Inspect the inventory; and (Ref: Para. A6)
 - (iv) Perform test counts; and (Ref: Para. A7–A8)
- (b) Determining whether the inventory records at the entity's count date accurately reflect the
results of the entity's inventory count. (Ref: Para. A8A)

⁴ ISA 315 (Revised 2019), paragraph 26

⁵ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 29

⁶ Proposed ISA 330 (Revised), paragraphs 6–7

Full Inventory Count

5. If the entity's full inventory count is conducted at a date other than the date of the financial statements,⁷ the auditor shall, in addition to the procedures required by paragraph 4, perform further audit procedures to obtain audit evidence about whether changes in inventory between the entity's count date and the date of the financial statements are properly recorded. (Ref: Para. A9–A9A)
6. If the auditor is unable to attend the entity's full inventory count due to unforeseen circumstances, the auditor shall perform the following further audit procedures on an alternative date: (Ref: Para. A9B)
 - (a) Evaluate management's instructions and procedures for recording and controlling the results of the entity's inventory count;
 - (b) Inspect the inventory;
 - (c) Perform test counts; and
 - (d) Determine whether the entity's inventory records on the alternative date accurately reflect the results of the auditor's test counts.

Cycle Counts

- 6A. When testing the entity's cycle counts, the auditor shall determine whether further audit procedures in addition to those in paragraph 4 are necessary to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory at the date of the financial statements. (Ref: Para. A10–A11A)

Attendance at the Entity's Full Inventory Count or Cycle Counts Is Impracticable

7. If the auditor's attendance at the entity's full inventory count or cycle counts in accordance with paragraph 4 is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory at the date of the financial statements. (Ref: Para. A12–A14)

~~Testing How the Entity Performing Procedures Addresses Addressing the Existence and Condition of Inventory Where Circumstances in Which the Entity Does Not Conduct a Full Any Inventory Count or Cycle Count(s)~~

- ~~6B7A. When testing how the entity performing procedures addresses addressing circumstances in which the existence and condition of inventory where the entity does not conduct a full any inventory count or cycle count(s), the auditor shall determine whether an inventory count by the entity is necessary in the circumstances, and: (Ref: Para. A11BAXX)~~
- (a) ~~If an inventory count by the entity is not necessary. Obtain-obtain~~ audit evidence about the operating effectiveness of ~~the-identified~~ controls ~~relating to the entity's inventory system and evaluate the results of such tests of control that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence regarding the existence and condition of inventory in accordance with Proposed ISA 330 (Revised).~~⁸ (Ref: Para. A11C)

⁷ Proposed ISA 330 (Revised), paragraphs 12 and 18

⁸ Proposed ISA 330 (Revised), paragraph ~~s~~ 14–~~26~~

- (b) ~~Determine whether and, if so, the nature, timing and extent of additional substantive procedures, tests of controls, or a combination of both, that are necessary in the circumstances to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory at the date of the financial statements.⁹; (Ref: Para. A14D)~~
~~(i) Request management to conduct an inventory count at or near the date of the financial statements and apply the requirements in paragraphs 4 and 5; and~~
~~(ii) If management is unwilling to do so, apply the requirement in paragraph 8A. [Moved from paragraph 6B]~~

Inventory Under the Custody and Control of a Third Party

8. If the auditor determines, in accordance with ISA 315 (Revised 2019),¹⁰ that existence and valuation (in relation to condition) are relevant assertions for inventory under the custody and control of a third party, the auditor shall obtain sufficient appropriate audit evidence¹¹ by: (Ref: Para. A14A–A14B and A15A)
- (a) Requesting confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity; or (Ref: Para. A14D and A15)
- (b) Performing inspection of that inventory or determining other types of procedures in performing substantive procedures, tests of controls, or a combination of both, appropriate in the circumstances.¹² (Ref: Para. A14E–A14F)

Unable to Obtain Sufficient Appropriate Audit Evidence

- 8A. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory, the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised).¹³ (Ref: Para. A14 and A14B)

⁹ ~~Proposed ISA 330 (Revised), paragraph 7(b)~~

¹⁰ ISA 315 (Revised 2019), paragraph 29

¹¹ Proposed ISA 330 (Revised), paragraphs 6–7

¹² Proposed ISA 330 (Revised), paragraph 7(b)

¹³ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 13