A compliance test is an [audit](https://www.accountingtools.com/articles/2017/5/5/audit) that determines whether an organization is following its own policies and [procedures](https://www.accountingtools.com/articles/2017/10/15/procedure) in a particular area. An [auditor](https://www.accountingtools.com/articles/2017/5/5/auditor) engages in compliance tests in order to be assured that the evidence being reviewed as part of an audit is valid. If a compliance test reveals that policies and procedures are functioning properly, the auditor can reduce the amount of [analytical review](https://www.accountingtools.com/articles/2017/8/30/analytical-review) and validation procedures that would otherwise be used. The activities commonly used in a compliance test are:

Asking [employees](https://www.accountingtools.com/articles/2017/5/4/definition-of-an-employee) about their duties

Observing employees in the conduct of their duties

Reviewing documentation to see if procedures have been followed

Substantive testing is an [audit procedure](https://www.accountingtools.com/articles/audit-procedures.html) that examines the [financial statements](https://www.accountingtools.com/articles/2017/5/10/financial-statements) and supporting documentation to see if they contain errors. These tests are needed as evidence to support the assertion that the financial records of an entity are complete, valid, and accurate. There are many substantive tests that an [auditor](https://www.accountingtools.com/articles/2017/5/5/auditor) can use. The following list is a sampling of the available tests:

Issue a bank [confirmation](https://www.accountingtools.com/articles/2017/5/14/confirmation) to test ending cash balances

Contact [customers](https://www.accountingtools.com/articles/2017/5/4/customer) to confirm that [accounts receivable](https://www.accountingtools.com/articles/2017/5/7/accounts-receivable) balances are correct

Observe the period-end [physical inventory](https://www.accountingtools.com/articles/2017/5/16/physical-inventory) count

Confirm the validity of [inventory valuation](https://www.accountingtools.com/articles/what-is-inventory-valuation.html) calculations

Confirm with experts that the [fair values](https://www.accountingtools.com/articles/2017/5/10/fair-value) assigned to [assets](https://www.accountingtools.com/articles/what-is-an-asset.html) obtained through a [business combination](https://www.accountingtools.com/articles/2017/5/10/business-combination) are reasonable

Physically match [fixed assets](https://www.accountingtools.com/articles/2017/5/10/fixed-asset) to fixed asset records

Contact [suppliers](https://www.accountingtools.com/articles/2017/5/16/supplier) to confirm that [accounts payable](https://www.accountingtools.com/articles/2017/5/5/accounts-payable) balances are correct

Contact [lenders](https://www.accountingtools.com/articles/2017/5/9/lender) to confirm that [loan](https://www.accountingtools.com/articles/2017/5/13/loan) balances are correct

Review [board of directors](https://www.accountingtools.com/articles/2017/5/10/board-of-directors) minutes to verify the existence of approved [dividends](https://www.accountingtools.com/articles/what-are-dividends.html)

As indicated by the examples, substantive testing is likely to include confirmation of [account balances](https://www.accountingtools.com/articles/what-is-an-account-balance.html) with third parties (such as confirming receivables), recalculating calculations made by the client (such as valuing inventory), and observing transactions being performed (such as the physical inventory count).

If substantive testing turns up errors or misstatements, additional audit testing may be required. In addition, a summary of any errors found is included in a management letter that is shared with the client's [audit committee](https://www.accountingtools.com/articles/2017/5/7/audit-committee).

Substantive testing may also be conducted by a company's [internal audit](https://www.accountingtools.com/articles/2017/9/27/internal-audit) staff. Doing so can provide assurance that internal recordation systems are performing as planned. If not, the systems can be improved to eliminate the issues, thereby providing for a cleaner audit when the [external auditors](https://www.accountingtools.com/articles/2017/5/6/external-auditor) conduct their tests at year-end. Internally-conducted substantive testing may occur throughout the year.

| **COMPLIANCE TEST** | **SUBSTANTIVE TEST** |
| --- | --- |
| **Determines controls are being applied that complies with management policies and procedures.** | **Determines the integrity of actual processing.** |
| **In compliance testing we gather evidence with the objective of testing an organization's compliance with control procedures** | **Substantive procedures are tests designed to obtain evidence to ensure the completeness, accuracy and validity of the data.** |
| **Compliance testing checks for the presence of controls** | **Substantive testing checks the integrity of contents.** |
| **Ex: Verification of Assess rights controls, Presence of procedures for Program Change control management, incident management, problem management, review of existing network controls** | **Review of transactions/numbers/values. Eg: Inventory validation, record matching, balance checks** |
| **Compliance testing will be performed first** | **Substantive testing is always performed after compliance testing** |
| **Compliance testing is independent of Substantive testing** | **However, the results of compliance testing are used to determine if Substantive testing is required** |
| **if compliance testing indicates strong internal control, substantive testing may be waived off or reduced** | **In case compliance testing indicates weak internal controls then substantive testing to be more rigorous** |