

Fraud Red Flags Checklist: Financial Statement Fraud

EXECUTIVE QUESTION

Are multiple fraud red flags appearing across our financials, controls, and management behavior — and do they warrant deeper investigation?

CORE SIGNAL

Financial statement fraud rarely appears as a single warning sign. It emerges as clusters of anomalies across financial numbers, governance structures, and managerial behavior — and risk rises significantly when signals from more than one category appear together.

BUSINESS RELEVANCE

Undetected fraud risk can distort reported performance and expose the business to credit, financing, and reporting consequences. An isolated signal may have a legitimate explanation, but unexplained anomalies appearing across multiple categories warrant greater scrutiny.

WARNING SIGNS TO LOOK FOR

Financial Anomalies

- ☐ Reported earnings rising while operating cash flow stays flat or declines
- ☐ Receivables growing faster than revenue
- ☐ Unusual inventory or working-capital growth
- ☐ Rising debt or weakening liquidity alongside “strong” reported earnings

Governance & Control Weaknesses

- ☐ Decision authority concentrated in one dominant owner-manager or executive
- ☐ One person authorizes transactions, records them, and controls the related assets
- ☐ Heavy reliance on trusted finance staff without independent verification
- ☐ Passive board, audit committee, or internal oversight

Behavioral Signals

- ☐ Intense pressure to meet financial targets
- ☐ Secrecy around financial information
- ☐ Resistance to audit or questioning
- ☐ Discouraging concerns or reluctance to explain anomalies

WHAT TO REVIEW

- Trend of net income versus operating cash flow over recent reporting periods
- Receivables and inventory growth rate compared with revenue growth
- Who authorizes, records, and has custody of financial transactions
- Board or audit committee activity and any recent auditor changes
- Any pattern of restricted access to financial information or unexplained anomalies

CAUTION

A single anomaly rarely confirms fraud and may have a legitimate explanation. Concern increases when multiple unexplained anomalies appear across financial, governance, and behavioral categories.

ESCALATION LOGIC

Isolated red flag → seek and verify an explanation. Multiple unexplained red flags across different clusters → deepen the review.

NEXT STEP

First step: Compare the trend of earnings against operating cash flow, receivables, and inventory growth for the most recent reporting periods.

Assign next: Assign an owner to review the governance structure — including segregation of duties and oversight activity — alongside the financial findings.

Review point: Determine whether anomalies are isolated or clustered across financial, governance, and behavioral categories — and whether findings warrant escalation to the board or audit function.

Source: SignalJournal Research: **Clusters of Fraud Red Flags in Business Financials**

Read the full article: <https://signaljournal.com/financial-statement-fraud-red-flags-business-financials/>