

Auditing Red Flags

Steven M. Bragg

Table of Contents

Auditing Red Flags	1
Learning Objectives	1
Introduction.....	1
The Audit Risk Framework.....	3
Fraud Fundamentals for the Auditor	5
Red Flags in the Control Environment.....	8
Red Flags in Entity-Level Risk Assessment.....	10
Revenue Recognition Red Flags	13
Cash and Treasury Red Flags	16
Receivables Red Flags	18
Inventory Red Flags.....	21
Fixed Asset Red Flags.....	24
Liability and Expense Red Flags	27
General Ledger Red Flags.....	30
Estimate and Valuation Red Flags	32
Related Party Red Flags.....	36
Going Concern Red Flags.....	39
Information Technology Red Flags.....	42
Analytical Procedure Red Flags	45
Audit Evidence Red Flags.....	48
Inquiry Red Flags.....	52
Industry-Specific Red Flags	55
Auditor Responses to Red Flags.....	60
Documentation of Red Flags.....	63
Communication of Red Flags.....	65
Professional Judgement.....	67
Case Studies in Auditing Red Flags	70
Revenue Fraud Case Study.....	70
Inventory Manipulation Case Study.....	70
Cash Theft and Concealment Case Study.....	71
Related-Party Concealment Case Study	71
Management Override Case Study	72
Going Concern Warning Signs Case Study.....	72
Building an Audit Approach to Spot Red Flags	72
Summary.....	75
Review Questions.....	77
Review Answers	80
Glossary	85
Index	87