Vendor: ACFE

Exam Code: CFE-Fraud-Prevention

Exam Name: Certified Fraud Examiner - Fraud Prevention and Deterrence

Version: DEMO

QUESTION 1
Which of the following is NOT considered a conflict of interest that is prohibited under the ACFE Code of Professional Ethics?

A. Accepting an assignment to secretly infiltrate the fraud examiner's employing organization and transmit inside information to another party
B. Undertaking an engagement that decreases the fraud examiner's ability to perform their duties for their full-time employer
C. Accepting an assignment to evaluate the anti-fraud controls at an organization in which the fraud examiner is a shareholder, provided the fraud examiner's ownership interest is disclosed
D. Undertaking engagements for both sides in a case of alleged vendor overbilling

Answer: C
Explanation:
The ACFE Code of Professional Ethics prohibits any engagements that impair the fraud examiner's objectivity, even with disclosure.

Ownership interests in a client organization create significant potential for bias, compromising the integrity of the evaluation.

QUESTION 2
Which of the following is TRUE regarding the internal audit function's reporting responsibilities pertaining to fraud?

A. The internal audit function should discuss how and when to report fraud-related issues with senior management and the board of directors before such issues arise.
B. The internal audit function is permitted, but not required, to periodically report about the organization's fraud risks to senior management and the board of directors.
C. The internal audit function should not disclose the results of its fraud audits to senior management or the board of directors in order to maintain independence.
D. The internal audit function is not permitted to communicate with the board of directors about fraud, as that is the responsibility of external auditors.

Answer: A
Explanation:
Internal audit must maintain open communication with senior management and the board to ensure appropriate handling of fraud-related issues.

Establishing reporting protocols in advance ensures timely and consistent responses when fraud occurs.

QUESTION 3
During a fraud risk assessment, the assessment team determines that it would like to observe the interactions among several employees as they collectively discuss the organization's current fraud awareness training. Which of the following techniques would be MOST HELPFUL for the team to use in gathering this information?

A. Focus groups
B. Surveys
C. Anonymous feedback mechanisms
D. Interviews

Answer: A
Explanation:
Definition of Focus Groups:

Focus groups involve small groups of individuals discussing a specific topic under the guidance of a facilitator. This technique is used to gather qualitative insights through direct interaction and observation.

Why A is Correct:

Observing employee interactions during a focus group provides rich, contextual data about attitudes, understanding, and engagement with fraud awareness training.

QUESTION 4
Professional auditing standards suggest that auditors incorporate an "element of predictability" in the selection of auditing procedures to be performed so that they ensure the same areas are tested in the same manner during each audit.

A. True
B. False

Answer: B
Explanation:
Professional Auditing Standards:

Standards such as ISA and GAAS emphasize the need for "unpredictability" in audit procedures to prevent fraudulent actors from anticipating audit actions.

Why B is Correct:

Predictability undermines the effectiveness of audits by allowing individuals to manipulate activities in areas repeatedly tested in the same way.

QUESTION 5
The objective of anti-fraud controls is to:

A. Completely eliminate inherent fraud risk.
B. Reduce the inherent fraud risk to a level that is significantly smaller than the residual fraud risk.
C. Completely eliminate residual fraud risk
D. Reduce the residual fraud risk to a level that is significantly smaller than the inherent fraud risk

Answer: D
Explanation:
Fraud Risk Reduction Objectives:

Inherent fraud risk:The risk present before any controls are applied.

Residual fraud risk:The remaining risk after controls have been implemented.

Why D is Correct:

The goal of anti-fraud controls is to minimize residual risk to acceptable levels, recognizing that complete elimination of risk is unattainable.

QUESTION 6
Which of the following is FALSE regarding the fraud risk assessment learn?

A. The team members should have experience in gathering and eliciting information
B. The team members might include both internal and external sources.
C. The team size should be limited to a maximum of three individuals
D. The team should consist of individuals with diverse knowledge, skills, and perspectives

Answer: C
Explanation:
Composition of Fraud Risk Assessment Teams:

Effective teams require diverse perspectives, skills, and experiences to identify and address fraud risks comprehensively.

Why C is Incorrect:

Limiting team size to three individuals restricts diversity and may not provide sufficient expertise for a thorough assessment. Larger teams, with a range of skills, are often necessary.

QUESTION 7
Glenda. an internal auditor, and Brldgette. an accounts receivable clerk, have had several heated disagreements over accounting procedures and policies. Glenda has just been told that she will be the lead on the company's fraud risk assessment. During the fraud risk assessment. Glenda should:

A. Confront Bridgette about the disagreements and discuss how they increase the department's risk of fraud.
B. Include her disagreements with Bridgette as a factor when assessing the risk of fraud in the accounts receivable department.
C. Automatically designate the accounts receivable department as a high-risk area.
D. Have someone else perform the fraud risk assessment work related to the accounts receivable department's activities.

Answer: D
Explanation:
Impartiality in Fraud Risk Assessment:

As the lead on the fraud risk assessment, Glenda must maintain objectivity and avoid the appearance of bias.

Her history of disagreements with Bridgette creates a potential conflict of interest, which could compromise the assessment's credibility.

QUESTION 8
Management at ABC Corp. is assessing the company's ethical tone and how it affects the organization's fraud risk. To MOST EFFECTIVELY reinforce an anti-fraud culture, management should:

A. Use a checklist of initiatives to make sure all the elements of a strong tone at the lop are in place
B. Create an environment in which employees are dissuaded from challenging management's decisions
C. Visibly adhere to the same set of ethics policies that is required of all employees
D. All of the above

Answer: C
Explanation:
Management must set a strong example by adhering to the same ethical standards as employees.

Visible adherence builds trust and reinforces an anti-fraud culture.

QUESTION 9
According to the 2020 Report to the Nations._____schemes ate the MOST COMMON form of occupational fraud, while_____schemes are the MOST COSTLY form of occupational fraud.

A. Asset misappropriation; corruption
B. Corruption, asset misappropriation
C. Financial statement fraud: corruption
D. Asset misappropriation: financial statement fraud

Answer: D
Explanation:
Findings from the 2020 Report to the Nations:

Asset misappropriation:Most common form of occupational fraud (e.g., theft of cash or inventory). It is frequent but less costly.

Financial statement fraud:Most costly, involving significant manipulation of financial data.

QUESTION 10
Formally documenting and communicating organizational hierarchies, including the proper flow of information, can hinder an organization's fraud prevention initiatives.

A. True
B. False

Answer: B
Explanation:
Effect of Documenting Organizational Hierarchies:

Properly documenting hierarchies improves fraud prevention by clarifying responsibilities, ensuring accountability, and establishing clear information flow.

This reduces ambiguity and limits opportunities for fraud.

Why the Statement is False:

Documenting and communicating hierarchies strengthens fraud prevention, rather than hindering

it.

Conclusion: The statement is false because clear hierarchies enhance fraud prevention initiatives.

QUESTION 11
Which of the following Is NOT considered a conflict of Interest that Is prohibited under the ACFE Code of Professional Ethics?

A. Undertaking an engagement that decreases the fraud examiner's ability to perform their duties for their full-time employer
B. Accepting an assignment to assess red flags of fraud at an organization in which the fraud examiner is a partner, provided the fraud examiner's ownership interest is disclosed
C. Undertaking engagements for both sides in a case of an alleged product substitution scheme
D. Accepting an assignment to secretly infiltrate the fraud examiner's employing organization and transmit inside information to another party

Answer: B
Explanation:
Fraud examiners must avoid situations that compromise their objectivity, independence, or professional duties.

Disclosure of ownership does not eliminate the conflict of interest if it could impair objectivity.

QUESTION 12
Green, a Certified Fraud Examiner (CFE). had an ethical dilemma regarding her business contract with her professional partners. Which of the following sources of guidance would be considered the lowest level of reference to help Green in determining the most ethical course of action?

A. Contract law
B. Guidance from her family and friends
C. The ACFE Code of Professional Ethics
D. Philosophical principles related to ethics

Answer: B
Explanation:
Family and friends: While valuable for personal advice, they are the lowest reference point in determining professional ethics.

QUESTION 13
Employees should be kept unaware that management is watching for lifestyle and behavior changes In staff members that might indicate fraud.

A. True
B. False

Answer: B
Explanation:
Management's Role in Fraud Monitoring:

Employees should be aware that management monitors lifestyle and behavior changes. Transparency discourages fraudulent behavior by reinforcing accountability.

Effect of Transparency:

Awareness of monitoring helps maintain a culture of ethical behavior and reduces the likelihood of fraud.

Conclusion: The statement is false because employees should know that management is vigilant about potential fraud indicators.

QUESTION 14
Smith, a retail sales manager, wants to decrease the level of cash register over-and-short discrepancies among his sales team. According to behaviorist theories, which of the following options would be the MOST EFFECTIVE way for Smith to encourage his team members to keep their cash drawers in balance?

A. Offer a bonus to anyone whose drawer reconciles perfectly for sixty days.
B. Publicly call out and criticize employees whose cash drawers are over or short.
C. Take away an hour of paid time off for each time the drawer is over or short
D. Demote employees who continue to have reconciliation discrepancies

Answer: A
Explanation:
Positive reinforcement is the most effective way to encourage desired behavior by providing rewards for compliance.

QUESTION 15
Which of the following is NOT a responsibility of the organization's board of directors?

A. Serving as the intermediaries between shareholders and management
B. Acting as guardians of the organization's resources and assets
C. Directing employees to execute business activities
D. Assessing the strategy and underlying purpose of management's decisions and actions

Answer: C
Explanation:
Responsibilities of the Board of Directors:

The board is primarily responsible for oversight, governance, and ensuring the organization operates in the best interest of stakeholders. Key responsibilities include:

Acting as intermediaries between shareholders and management.

Safeguarding resources and assets.

Assessing management's strategies and decisions.

Why C is Correct:

Directing employees is a management responsibility, not a board function. The board focuses on oversight rather than operational execution.

QUESTION 16
Daniela, an independent Certified Fraud Examiner (CFE), was hired by Charles, executive director of a nonprofit organization, to investigate a straightforward embezzlement case. Duringthe investigation, Daniela learns that Charles is involved in an unrelated fraud. Under the ACFE Code of Professional Ethics. Daniela should:

A. Tell the nonprofit's board of trustees about Charles
B. Report Charles to law enforcement
C. Not disclose the information about Charles.
D. Resign from the engagement.

Answer: A
Explanation:
ACFE Code of Professional Ethics:

CFEs must act with integrity and report material fraud findings to the appropriate authority within the organization.

Why A is Correct:

Informing the board of trustees ensures that those responsible for governance can take appropriate action. Reporting to law enforcement (option B) may breach contractual obligations unless legally required.

QUESTION 17
Reputational damage is an indirect cost of fraud that can be difficult for organizations to calculate.

A. True
B. False

Answer: A
Explanation:
Indirect Costs of Fraud:

Reputational damage is a significant indirect cost of fraud. It can lead to loss of customer trust, reduced employee morale, and long-term financial impact.

Why A is Correct:

Quantifying reputational damage is challenging due to its intangible nature. The effects often manifest over time and are influenced by various factors, making precise calculation difficult.

QUESTION 18
_____Is the criminological theory that presents crime as a conscious decision that can be deterred by reducing opportunities for criminal activity and increasing the personal risk to an Individual of being caught and punished.

A. Differential association theory
B. Routine activities theory
C. Justification of action theory

D. Rational choice theory

Answer: D
Explanation:
Rational Choice Theory Overview:

This theory asserts that individuals make conscious decisions to commit crimes after weighing the costs (risk of detection and punishment) and benefits.

Why D is Correct:

Rational choice theory aligns with strategies to deter crime by reducing opportunities and increasing personal risks.

QUESTION 19
XYZ, Inc. Is a specialty retailer of high-end ergonomic office furniture. The company receives a very large order from ABC Company, a new customer in a different country that wants to pay on credit. Which of the following is MOST ACCURATE regarding the due diligence procedures XYZ should perform on ABC before proceeding with this transaction?

A. XYZ only needs to undertake due diligence procedures if ABC conducts business in countries with known corruption risks.
B. XYZ does not need to take any specific procedures to verify ABC's identity before accepting the transaction
C. XYZ should examine ABC's net worth as part of deciding whether to allow the purchase on credit.
D. XYZ should perform the same level of due diligence as it would for any other customer to avoid claims of discrimination

Answer: C
Explanation:
Before extending credit, it is critical to assess the financial stability of the new customer to mitigate credit risk.
Examining net worth provides a direct measure of ABC's ability to fulfill financial obligations.

QUESTION 20
Which of the following is NOT one of the three general approaches used to control corporate crime?

A. Withdrawal of financial institution funding
B. Strong intervention of the government
C. Consumer action to force change
D. Voluntary changes in corporate attitudes and structure

Answer: A
Explanation:
Common approaches include government intervention, consumer action, and voluntary corporate changes.
Financial institution funding is not typically listed as a direct control mechanism for corporate crime.

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