

## FRAUD PREVENTION REVISION PAPER 1

1. According to the 2014 Report to the Nations, what was the most common behavioural red flag displayed by perpetrators prior to the discovery of their frauds?  
☒ A. Living beyond his/her means  
☐ B. Complaining about lack of authority  
☐ C. Divorce or family problems  
☐ D. Addiction problems
2. The Public Interest Oversight Board (PIOB) is responsible for which of the following?  
☐ A. Promulgating best practices for corporate governance for global organizations  
☐ B. Establishing international standards for financial reporting  
☐ C. Overseeing the process for setting international auditing standards  
☒ D. All of the above
3. According to The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, the internal audit team must evaluate the potential for the occurrence of fraud, as well as the organisation's fraud risk management initiatives.  
☒ A. True  
☐ B. False
4. To reinforce an anti-fraud culture, management should:  
☐ A. Visibly adhere to the same set of ethics policies that are required of all employees  
☐ B. Show employees that unethical behavior will not be tolerated  
☒ C. Create an environment in which employees feel safe challenging management's decisions.  
☒ D. All of the above
5. Components necessary to develop, implement, and manage a comprehensive ethics programme include:  
☒ A. Designated ethics official  
☐ B. Sanctions for unethical behavior  
☐ C. A vision statement  
☒ D. All of the above
6. Requiring employees in certain functions (e.g., accounts payable clerks) to periodically rotate job duties can be an effective anti-fraud measure.  
☒ A. True  
☐ B. False
7. Which of the following is FALSE regarding employee anti-fraud education?  
☐ A. Mid-level managers should be charged with assisting in training their teams about fraud  
☒ B. All anti-fraud training should be based on the organization's specific operations and fraud risks.  
☒ C. Fraud awareness training efforts should be restricted to formal education mechanisms.  
☐ D. Fraud awareness training should be required for employees both at time of hire and periodically thereafter.
8. Fraudulent customer payments, corporate espionage, and hacking schemes are all fraud risks pertaining to which of the following categories?

- ~~A.~~ External fraud  
B. Asset misappropriation  
C. Reputation risk  
D. Regulatory and legal misconduct
9. In response to a risk identified during a fraud risk assessment, management ~~chooses to accept~~ the risk, rather than to implement any responsive measures. This approach is known as:  
~~A.~~ Assuming the risk  
B. Transferring the risk  
C. Avoiding the risk  
D. Mitigating the risk
10. Which of the following is NOT one of the 11 principles for risk management provided by ISO 31000:2009?  
~~A.~~ The risk management programme takes human and cultural factors into account.  
~~B.~~ The risk management programme is based on a mandate and commitment.  
C. The risk management programme is dynamic, iterative and responsive to change.  
D. The risk management programme explicitly addresses uncertainty
11. Which of the following is an example of a violation of the CFE Code of Professional Ethics' requirement for diligent, professional behaviour?  
~~A.~~ Obtaining more evidence than the minimum amount needed to prove a case  
~~B.~~ Skipping vital investigation steps to improve the efficiency of a fraud examination  
C. Delegating a task to a lower-level employee and overseeing that individual's performance  
D. All of the above
12. In considering general ethics, a person's primary goal is to arrive at a set of acceptable methods for making ethical decisions to fulfil all his roles.  
~~A.~~ True  
B. False
13. According to COSO, \_\_\_\_\_ is a process that is designed to identify potential events that may affect the entity and manage risk to be within its risk appetite in order to provide reasonable assurance regarding the achievement of the entity's objectives.  
~~A.~~ Internal control  
B. Fraud prevention  
C. Corporate governance  
~~D.~~ Enterprise risk management
14. The fraud risk assessment should include input from both management and auditors to ensure a holistic view of the organisation's risks, but should exclude all others to maintain the independence and objectivity of the assessment process.  
~~A.~~ True  
~~B.~~ False
15. Management of Blue Top, Inc. is implementing a formal background check policy for its employees. Which of the following is NOT a best practice that it should implement as part of this initiative?  
A. Ask a candidate's previous employers whether the individual is eligible for rehire. ✓

- ~~B.~~ Place a low priority on checking professional references, since most people won't provide a bad reference.
- C. Run a background check on existing employees who are being promoted or moved to positions that include access to easily stolen assets. ✓
- D. Check the background of any employee who will have constant access to cash, cheques and credit card numbers. ✓
16. An organisation's board of directors <sup>80%</sup> does not necessarily have to be knowledgeable about the implementation of an organisation's compliance and ethics programme if the board has delegated that responsibility to a compliance officer.
- A. True
- ~~B.~~ False
17. International Standard on Auditing (ISA) 240 delineates two types of frauds that are relevant for audit purposes: those that involve intentional fraudulent financial reporting and those that involve the misappropriation of company assets.
- A. True
- ~~B.~~ False
18. The Treadway Commission made which of the following recommendations to reduce the probability of fraud in financial reports?
- A. A written charter for the audit committee
- ~~B.~~ A mandatory independent audit committee
- ~~C.~~ Adequate audit committee resources and authority
- ~~D.~~ All of the above
19. The term occupational crime covers which of the following types of white-collar offences?
- A. Crimes by professionals ✓
- B. Crimes by officials ✓
- ~~C.~~ Crimes by individuals
- D. All of the above ✓
20. Which of the following is NOT one of the factors that Diane Vaughan cites as contributing to organisations being inherently prone to committing crime?
- A. Loyalty is encouraged through social interaction, such as company parties and social functions. ✓
- ~~B.~~ Long-term loyalty is encouraged through company retirement and benefits. ✓
- ~~C.~~ Rewards are given to employees who "rock the boat." ✗
- D. Organizations tend to recruit and attract similar individuals ✓
21. According to the differential reinforcement theory, behaviour is weakened by negative stimuli (punishment) and loss of reward (negative punishment).
- ~~A.~~ True
- B. False
22. Which of the following behavioural responses involves withdrawing a positive stimulus or applying a negative stimulus in response to an undesired behaviour?
- ~~A.~~ Punishment
- ~~B.~~ Negative reinforcement
- C. Positive reinforcement

D. None of the above

23. Efforts to control corporate crime generally include which of the following approaches?

A. Voluntary changes in corporate attitudes ✓

B. Consumer action ✓

C. Government intervention ✓

☒ D. All of the above

24. Which of the following is TRUE regarding organisational structure?

A. Companies with departments that are isolated geographically have a reduced risk of fraud

☒ B. The exercise of many specialized department within a company generally increases the overall risk of fraud within the organization

C. Misbehavior is more likely to be detected in a complex organizational structure✗

D. All of the above

25. According to COSO, internal control is a process "designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

☒ A. True

B. False

26. Under an effective document retention policy, when an organisation is faced with potential litigation or a legal document request is pending or imminent, the destruction of documents should cease.

☒ A. True

B. False

27. Which of the following parties has some responsibility regarding an organisation's fraud detection and prevention efforts?

A. Board of directors

☒ B. In-house legal counsel

C. Management

☒ D. All of the above

28. Which of the following should be covered in employee anti-fraud training?

A. Examples of past transgressions and how they were handled ✓

B. A detailed explanation of the company's anti-fraud controls ✓

C. The exact procedures management uses to detect fraud

☒ D. All of the above

29. The fraud risk assessment should be formally incorporated into the annual audit planning process.

☒ A. True

B. False

30. Designating an area as having a high fraud risk and putting the related activity under increased scrutiny can deter potential fraudsters by increasing their perception of detection.

☒ A. True

B. False

31. Which of the following represents one of the legs of the fraud triangle?

A. Rationalization

- ☐ B. Perceived opportunity
- ☐ C. Perceived non-shareable financial need
- ☒ D. All of the above

32. Who is responsible for holding the board of directors accountable for proper governance and oversight?

- ☐ A. The external auditors ✕
- ☒ B. The shareholders
- ☐ C. The chairman of the board ➤
- ☐ D. Executive management

33. COSO identified five interrelated components of \_\_\_\_\_.

- ☐ A. Fraud
- ☐ B. Ethical theories
- ☐ C. Professional development
- ☒ D. Internal control

34. In the context of a fraud examination, the preservation of integrity requires that the CFE avoid all differences of opinion regarding all material matters with the other parties to the engagement.

- ☐ A. True
- ☒ B. False

35. Preventive anti-fraud controls include all of the following EXCEPT:

- ☒ A. Continuous audit techniques
- ☒ B. Fraud awareness training
- ☐ C. Segregation of duties ✓
- ☐ D. Hiring policies and procedures

36. Which of the following factors complicates the ability of determining clear ethical rights and wrongs?

- ☐ A. Different groups within the same society might have conflicting ideas of right and wrong
- ☐ B. Tension often exists between personal standards and organizational needs
- ☐ C. Moral standards and accepted social behavior change over time
- ☒ D. All of the above

37. When establishing a document retention policy, companies should consider:

- ☐ A. Any trade-specific rules for documenting and retaining records
- ☐ B. Specific concerns related to electronic documents and data
- ☐ C. Applicable laws and regulations regarding recordkeeping requirements
- ☒ D. All of the above

38. Establishing and communicating the proper flow of information to everyone in the organisation is an essential component of a fraud prevention programme.

- ☒ A. True
- ☐ B. False

39. Which of the following techniques for gathering information during a fraud risk assessment enables the fraud risk assessor to observe the interactions among several employees as they collectively discuss a question or issue?

☒ A. Anonymous feedback mechanisms

☐ B. Focus groups

☐ C. Interviews

☐ D. Surveys

40. Which of the following is regarded as the essential factor that makes a leader's authority effective?

☐ A. Ability to instill fear in subordinates

☒ B. Legitimacy

☐ C. Strong morals

☐ D. Experience in similar roles

41. The risk of an auditor not detecting a material misstatement resulting from fraud is higher than the risk of an auditor not detecting a material misstatement resulting from error.

☒ A. True

☐ B. False

42. \_\_\_\_\_ controls are designed to stop something bad from happening before it occurs, while \_\_\_\_\_ controls are designed to identify something bad that has already occurred.

☐ A. Detective, investigative

☒ B. Preventive, detective

☐ C. Investigative, deterrent

☐ D. Investigative, detective

☒ 43. The \_\_\_\_\_ provide(s) guidance for stock exchanges, investors, corporations, and other parties that have a role in the process of developing corporate governance practices.

☐ A. INTOSAI code of ethics

☐ B. IIA standards for the professional Practice of Internal Auditing

☐ C. IOSCO principles for Auditor Oversight

☒ D. OECD principles of Corporate Governance

44. To convey their dedication to the fraud risk management programme, the board of directors and senior management should provide a formal statement of commitment that:

☐ A. Is in writing

☐ B. Is providing to all employees, vendors and customers

☐ C. Acknowledges the organization's vulnerability to fraud

☒ D. All of the above

45. If a Certified Fraud Examiner fails to meet the specified annual minimum continuing professional education requirements, he will be in violation of the Certified Fraud Examiner Code of Professional Ethics.

☒ A. True

☐ B. False

46. Which of the following is among the audit committee's responsibilities for fraud risk management?

☐ A. Receiving regular reports on the status of reported or alleged fraud

☐ B. Monitoring and proactively improving the fraud risk management programme

C. Performing and regularly updating the fraud risk assessment

~~7.~~ All of the above

7. Which of the following should be emphasised in an employee reporting programme?

I. Fraud, waste, and abuse occur in only a few companies.

II. The company actively encourages employees with information to come forward.

III. The employee's name must be disclosed.

IV. The report need not be made to one's immediate supervisor.

A. I,II,III and IV

B. II and III

~~C. I,II and IV~~

~~D. II and IV~~

48. A mid-level manager at the XYZ Company inflated revenue figures in order to meet the company's quarterly targets. The officers and directors of XYZ did not know the fraud was occurring; therefore, the company cannot be held criminally liable for the fraud.

~~A. True~~

~~B. False~~

49. In addition to the specific risks related to each of the three primary categories of fraud, the fraud risk assessment team should consider:

A. Incentives for individuals to engage in fraud

B. Reputation risk

~~C. Risk to information technology~~

~~D. All of the above~~

50. Research has shown that most individuals feel that breaking the law is morally wrong and that laws should be obeyed even when they do not agree with them.

~~A. True~~

B. False

51. Dr. Steve Albrecht conducted research that focused on fraud-related red flags in two principal categories: perpetrator characteristics and organisational environment. Which of the following was the organisational-environment factor that was most present in the frauds studied?

~~A. Too much trust in key employees~~

~~B. Inadequate attention to details~~

C. Lack of clear lines of authority

D. None of the above

52. The term \_\_\_\_\_ refers to the oversight responsibilities of different parties for an organisation's direction, operations, and performance.

~~A. Risk management~~

~~B. Corporate governance~~

C. Corporate compliance

D. Fraud risk assessment

53. Which of the following is a responsibility that the internal auditor should carry out in conducting audit engagements?

A. Evaluate whether management is actively retaining responsibility for oversight of the fraud risk management programme

B. Consider fraud risks in the assessment of internal control design and determination of audit steps to perform

C. Evaluate the indicators of fraud and decide whether any further action is necessary or whether an investigation should be recommended

☒ D. All of the above

54. Detective anti-fraud controls include all of the following EXCEPT:

☒ A. Hiring policies and procedures

B. Proactive data analysis techniques

C. Hotline

D. Physical inspections

55. In response to a risk identified during a fraud risk assessment, management decides to eliminate an asset or discontinue an activity because the control measures required to protect the organisation against the identified threat are too expensive. This response is known as:

A. Assuming the risk ☒

B. Mitigating the risk

☒ C. Avoiding the risk

D. Transferring the risk

56. In general, the lowest level of reference for making moral decisions is:

A. Philosophical principles

☒ B. The law

C. Individual standards

D. None of the above

57. Which of the following is NOT one of the responsibilities that the internal auditor should carry out in conducting audit engagements?

☒ A. Report all findings of fraud to the Securities and Exchange Commission within 10 working days.

B. Consider fraud risks in the assessment of internal control design and determination of audit steps to perform.

C. Have sufficient knowledge of fraud to identify red flags indicating fraud might have been committed.

D. Be alert to opportunities that could allow fraud, such as control deficiencies.

58. Which of the following is an effective method of increasing the perception of detection?

A. Requiring strong management oversight

B. Forcing employees to take time off

☒ C. Conducting surprise audits

☒ D. All of the above

59. Which of the following is TRUE regarding a corporation's board of directors?

A. The directors represent the middlemen between the shareholders and management

- B. The directors are generally elected by the company shareholders
- C. The directors oversee business operations by assessing the strategy and underlying purpose of management's decisions and actions
- ☒ D. All of the above
60. The typical white-collar crime offender is a male with a moderate social status.
- A. True
- B. False
61. According to International Standard on Auditing (ISA) 240, the auditor is only concerned with fraud that:
- A. Is perpetrated by one or more members of management ✓
- ☒ B. Is determined to meet the legal definition of fraud ✓
- C. Involves the misappropriation of company assets ✓
- D. Causes a material misstatement in the financial statements ✓
62. According to the OECD Principles of Corporate Governance, governments should have in place an effective framework to support good corporate governance practices that:
- A. Is inconsistent with the rule of law ✓
- ☒ B. Clearly articulates the division of responsibilities among different supervisory, regulatory and enforcement authorities ✓
- C. Promotes transparent and efficient markets ✓
- ☒ D. All of the above
63. For analytical procedures performed during an audit to be most effective in uncovering fraud, the scheme must materially impact the financial statements.
- A. True
- ☒ B. False
64. During a fraud risk assessment, the assessment team should consider the way employees make decisions, behave, or treat others and assess how those actions affect the company's vulnerability to fraud.
- ☒ A. True
- B. False
65. The reason the Certified Fraud Examiner Code of Professional Ethics restricts the types of opinions CFEs may express is to protect the fraud examiner from claims of:
- A. Compounding a felony
- ☒ B. False imprisonment
- ☒ C. Libel
- D. None of the above
66. Communications regarding the organisation's fraud policy should be presented in a positive, nonaccusatory manner.
- ☒ A. True
- B. False
67. In the area of criminological theory \_\_\_\_\_ is the theory that tries to prevent crime by using the threat of criminal sanctions.
- A. Adherence

B. Deterrence

☒ C. Punishment

D. None of the above

68. Surprise audits can be effective in both preventing and detecting fraudulent conduct.

☒ A. True

B. False

69. Fraud examiners should consider the nature of the assignment and the preliminary information available in forming the engagement hypothesis.

☒ A. True

B. False

70. The fraud risk assessment team should include:

☒ A. Individuals with diverse knowledge, skills and perspectives

B. Individuals who are credible

C. Individuals with experience gathering and eliciting information

☒ D. All of the above

71. As a strategy to control crime, \_\_\_\_\_ is designed to achieve conformity to the law by providing economic incentives for voluntary adherence to the law and using administrative efforts to control violations before they occur.

☒ A. Deterrence

B. Prevention

☒ C. Compliance

D. None of the above

72. The theory of differential association is used frequently to explain white-collar criminality.

Which of the following is one of the assertions or principles of differential association?

☒ A. Criminal behavior is acquired through participation with intimate personal groups.

B. People are genetically predisposed to be criminals.

C. Criminal behavior is explained by an individual's general needs and values.

D. Learning is the same as pure imitation

73. According to the social control theory, an individual considering criminal behaviour will likely ask himself which of the following questions?

☒ A. "How likely is it that the crime will be detected?"

B. "What would my family think if they find out?"

C. "In what way can I rationalize this behavior?"

D. "What is the legal punishment if I get caught?"

74. The IOSCO Principles for Auditor Oversight state that auditor oversight should:

☒ A. Be performed by a body that acts and is seen to act in the public interest

B. Involve a regular review process designed to ascertain whether audit firms adhere to quality control policies and procedures

C. Take place within the audit firm, by professional associates, and through government regulation

☒ D. All of the above

75. According to the joint IIA, AICPA, and ACFE publication Managing the Business Risk of Fraud: A Practical Guide, who has responsibility for dealing with fraud risk?

- A. Internal audit  
B. The board of directors  
☒ C. Personnel at all levels of the organization  
D. Executive management
76. Which of the following principles of corporate governance pertains to the duty of internal parties to act in the best interest of the organisation?
- ☒ A. Responsibility  
B. Fairness  
C. Transparency  
D. Accountability
77. The theory of differential association is used frequently to explain white-collar criminality. Which of the following is one of the assertions or principles of differential association?
- ☒ A. Criminal behavior is acquired through participation with intimate personal groups.  
B. People are genetically predisposed to be criminals.  
C. Criminal behavior is explained by an individual's general needs and values.  
D. Learning is the same as pure imitation
78. In the context of a fraud examination, the preservation of integrity requires that the CFE avoid all differences of opinion regarding all material matters with the other parties to the engagement.
- ☒ C. True  
☒ D. False
79. Which of the following is among the board of directors' responsibilities pertaining to fraud risk management?
- A. Overseeing the organization's fraud risk management activities -  
B. Setting realistic expectations of management to enforce an anti-fraud culture -  
☒ C. Raising awareness of the risks of fraud throughout the organization -  
☒ D. All of the above
80. Which of the following is the primary foundation for the INTOSAI professional framework for auditing in the public sector?
- A. The call for supreme audit institutions to develop their own independence standards  
B. The call to keep government auditors employed by the organizations that they audit. ✓  
C. The call for supreme audit institutions to influence industry regulations  
☒ D. The call for legislated independence of government auditing institutions
81. A corporation cannot be held criminally liable for its employees' actions if there were specific policies in place that prohibited the activity undertaken by the employees.
- ☒ A. True  
☒ B. False
82. Cressey found that embezzlers' offences are motivated by situations that either threaten their current status or threaten to prevent them from achieving a higher status.
- ☒ A. True  
B. False

83. The evaluation and communication of internal control deficiencies in a timely manner to those parties responsible for taking corrective action is a principle related to which component of COSO's Internal Control—Integrated Framework?
- ☒ A. Monitoring
  - ☐ B. Information and communication
  - ☐ C. Risk assessment
  - ☐ D. Control activities
84. Which of the following is FALSE regarding the communication of the fraud risk assessment process?
- ☐ A. The communications should be in the form of a message from the assessment sponsor.
  - ☐ B. The communication should be personalized to make it more effective in encouraging employees to participate in the process.
  - ☒ C. The communication should be limited to management and the board.
  - ☐ D. The communication should be visibly disseminated throughout the business
85. According to COSO, the effectiveness of an overall system of internal controls can be determined by assessing whether several specific components are in place, functioning effectively, and operating together in an integrated manner.
- ☒ A. True
  - ☐ B. False
86. To show appreciation for an employee's hard work, a manager exempts the individual from several undesirable administrative tasks. This is an example of positive reinforcement.
- ☐ A. True
  - ☒ B. False
87. According to COSO, an internal control system should be designed to provide reasonable assurance regarding the achievement of the organisation's objectives pertaining to which of the following?
- ☒ A. The effectiveness and efficiency of the organization's operations
  - ☐ B. The organization's adherence to the laws and regulations to which it is subject
  - ☐ C. The reporting of financial and non-financial information to internal and external parties
  - ☒ D. All of the above
88. When performing a fraud risk assessment, the fraud examiner should only designate an area as high risk if the assessment has conclusively revealed that fraud is occurring there.
- ☐ A. True
  - ☒ B. False
89. An effective system of internal controls:
- ☐ A. Mitigates the risk of fraud, but cannot completely eliminate it
  - ☐ B. Increases the perception that fraud will be detected
  - ☒ C. Involves balancing preventive controls and detective controls
  - ☒ D. All of the above
90. Leo, a Certified Fraud Examiner, conducted a fraud examination at Blue Corp. Anna was a prime suspect in the disappearance of money, but Leo could not prove it. Later, Leo discovered Anna

had been recently hired by Red Corp., another client of his. Under the Certified Fraud Examiner Code of Professional Ethics, Leo must:

- A. Inform Red Corp. if the evidence is clear and convincing
- ☒ B. Not inform Red Corp
- C. Inform Red Corp.
- D. None of the above

91. The IOSCO Principles for Auditor Oversight state that the auditor oversight body should have the authority to stipulate remedial measures for problems detected, and to initiate and/or carry out disciplinary proceedings to impose sanctions on auditors and audit firms.

- ☒ A. True
- B. False

92. The OECD Principles of Corporate Governance support establishing stronger protection for foreign shareholders than for domestic shareholders as a means to encourage increased international investment.

- A. True
- ☒ B. False

93. Factors that affect employees' ethical decisions include:

- A. Tension between personal standards and organizational needs
- B. Industry and organizational ethical codes
- C. The law and other government regulations
- ☒ D. All of the above

94. The board of directors holds the primary responsibility for designing, implementing, monitoring, and improving the fraud risk management programme.

- ☒ A. True
- ☒ B. False

95. Fraud risks that remain after management action are considered inherent risks.

- A. True
- ☒ B. False

96. The fraud risk assessment team might include:

- A. The general counsel ✓
- B. External consultants ✓
- C. Accounting and finance personnel ✓
- ☒ D. All of the above

97. An accounting clerk stealing incoming customer payments is an example of:

- A. Neither organizational crime nor occupational crime
- B. Both organizational crime and occupational crime
- ☒ C. Occupational crime
- D. Organizational crime

98. Which of the following is one of the ways Silk and Vogel found that businesses rationalise illegal or noncompliant conduct?

- A. Violations aim to protect the job security of employees
- B. Compliance with government regulations is too costly

~~C.~~ The damage done by violations is diffused among a large number of parties

~~D.~~ All of the above

99. The Treadway Commission was established with the purpose of defining the responsibility of the auditor in preventing and detecting fraud.

A. True

~~B.~~ False

100. Which of the following types of personnel can potentially bind a corporation through their own misconduct?

A. Independent contractors ✓

B. Executive officers and directors ✓

~~C.~~ Low-level employees ✓

~~D.~~ All of the above

101. In general, a corporation cannot be held vicariously liable for the acts of an employee unless the employee acted for the ostensible purpose of benefiting the corporation.

~~A.~~ True

B. False

\* 102. Which of the following is an example of a risk factor relating to the incentive or pressure to commit fraudulent financial reporting?

A. Low morale among senior management ✓

B. Deficient internal controls ✓

~~C.~~ Excessive pressure on management or operating personnel to meet financial targets ✓

D. All of the above

103. Which of the following is TRUE about the fraud risk assessment process?

A. The assessment team must be perceived as independent and objective by others for the assessment to be effective

~~B.~~ Management and auditors should share ownership of the process and accountability for its success

C. Conducting an effective fraud risk assessment requires thinking like a fraudster

~~D.~~ All of the above

104. An organisation's fraud risk management programme should include which of the following components?

~~A.~~ A way to disclose conflict of interest

~~B.~~ Quality assurance activities

C. Whistleblower protection policies

~~D.~~ All of the above

105. During a fraud examination, Johan, a CFE, becomes aware of a situation that might appear to others as though he has a conflict of interest, even though there is no actual conflict. To address the situation, Johan's best course of action is to:

A. Continue working on the assignment without disclosing the potential conflict but take care to avoid any areas where an actual conflict might arise. X

B. Immediately withdraw from the engagement without disclosing the potential conflict to management ✓

~~C.~~ Immediately disclose the situation to company management

D. None of the above

106. According to the social control theory, the more important that social relationships are to a person, the less likely it is that the person will commit crimes.

~~A.~~ True

B. False

107. According to Steve Albrecht's Fraud Scale model, the variables that drive the occurrence of occupational fraud include:

A. Perceived opportunity ✓

B. Personal integrity ✓

C. Situational pressure

~~D.~~ All of the above

108. Which of the following is NOT one of the core principles of sound corporate governance?

~~A.~~ Fairness ✓

B. Independence ✓

C. Responsibility ✓

D. Transparency ✓

109. Which of the following parties is responsible for directing employees to carry out business activities and managing their performance of those tasks?

A. Shareholders ✓

B. External auditors ✓

~~C.~~ Management

D. The board of directors ✓

110. Unless specific unacceptable conduct is detailed in a fraud prevention policy, there can be legal problems in discharging a dishonest employee.

A. True

~~B.~~ False

111. Which of the following influences the level of fraud risk faced by an organisation?

A. The effectiveness of its internal controls ✓

B. The geographic regions in which it operates ✓

~~C.~~ The ethics of its leadership team ✓

~~D.~~ All of the above

112. Theft of competitor trade secrets, anti-competitive practices, environmental violations, and trade and customs regulations in areas of import and export are all fraud risks pertaining to:

A. Fraudulent financial reporting ✓

~~B.~~ Regulatory and legal misconduct ✓

C. Asset misappropriation ✓

D. Reputation risk ✓

113. A fraud risk management programme must include mechanisms specifically designed to monitor, identify, and address breaches in compliance.

~~A.~~ True

B. False

114. Under the Certified Fraud Examiner Code of Professional Ethics, information provided to a CFE by a client is considered privileged information and is therefore protected from being legally demanded by outside parties.

A. True

~~B. False~~

115. Managers and executives should be expected to be fully aware of fraud risks and controls and should therefore be exempt from the organisation's fraud awareness training initiatives.

A. True

~~B. False~~

116. The primary purpose of International Standard on Auditing 240 is to:

A. Establish standards and provide guidance on the auditor's responsibility to consider fraud in an audit of financial statements ✓

B. Establish requirements for auditors related to designing and implementing fraud-related internal controls ✓

C. Establish auditors as being primarily responsible for the prevention and detection of fraud within an organization

~~D. All of the above~~

117. Two selling points of a fraud prevention programme are fraud's potentially negative impact on a company's profits and its potential effect on the organisation's public image.

~~A. True~~

B. False

118. According to criminologist Donald Cressey, which of the following is NOT essential to the commission of fraud?

A. Technical skill ✓

~~B. Absence of controls~~ ✓

C. General information about how the company might be defrauded ✓

D. All of the above are essential ✓

119. An entity's corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation and lays down the rules and procedures for organisational decision-making.

~~A. True~~

B. False

120. Cressey found that embezzlers' offences are motivated by situations that either threaten their current status or threaten to prevent them from achieving a higher status.

~~C. True~~

D. False

121. According to the 2014 Report to the Nations, which of the three major categories of occupational fraud is the most common?

A. Corruption

B. Financial statement fraud

- C. Identity theft
- ☒ D. Asset misappropriations

122. During a fraud risk assessment, the assessment team should consider:

- A. Opportunities for collusion
- B. The inherent limitations of internal controls
- ☒ C. Internal controls that might have been eliminated due to restructuring efforts
- ☒ D. All of the above

123. Risk management includes which of the following activities with regard to the risks that threaten an organisation?

- A. Monitoring
- ☒ B. Identification
- C. Treatment
- ☒ D. All of the above

124. Good corporate governance practices:

- A. Define the relationships and expectations of the parties involved
- B. Provide clear lines of accountability and reporting
- ☒ C. Ensure that no single party is capable of making all the business decisions without influence, input or approval of other parties.
- ☒ D. All of the above

125. Management from several IT consulting firms conspires to take turns submitting the lowest bids for all contracts in their area; this is considered an organisational crime.

- ☒ A. True
- B. False