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Certified Fraud Examiner - Fraud Prevention and Deterrence Exam

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Question: 1

Benjamin, a Certified Fraud Examiner (CFE). was contacted regarding an engagement to investigate a complex money laundering case spanning numerous international jurisdictions and involving multiple cutting-edge technologies. Benjamin had previously attended a seminar on investigating money laundering schemes, but he had no other training or experience in such cases. However, he accepted the engagement and chose to conduct the work himself. Benjamin's conduct would likely be a violation of the ACFE Code of Professional Ethics.

A. True
B. False

Answer: A

Explanation:
Understanding the ACFE Code of Professional Ethics:The ACFE Code of Professional Ethics requires Certified Fraud Examiners to demonstrate competence and due care in their professional services. Specifically:
Rule 2 states that CFEs must "perform all professional engagements with due diligence."
Rule 4 emphasizes that CFEs must "avoid conduct that discredits the profession or the Association."
Competence and Due Care:
Benjamin, despite his attendance at a seminar on money laundering, lacks the requisite expertise or experience in investigating complex money laundering cases. Accepting an engagement of this nature without possessing adequate training, knowledge, or resources indicates a failure to exercise due care.
The Code emphasizes the importance of competence, meaning professionals must decline engagements that exceed their expertise unless they involve qualified individuals or teams.
Violation Assessment:
By choosing to conduct the investigation alone, Benjamin disregards the ethical requirement to ensure competence and quality in professional work. This likely jeopardizes the investigation's integrity and results.
This conduct could lead to suboptimal outcomes, legal liabilities, and reputational harm, which discredit the profession, violating the ACFE ethical framework.
Conclusion:Benjamin's decision is a breach of the ACFE Code of Professional Ethics because he failed to ensure adequate preparation, skills, and resources for the engagement.
ACFE Code of Professional Ethics: Sections on Competence and Due Care.
Relevant standards and case studies from "Auditor Essentials" and "Excel for Auditors," emphasizing ethical adherence in engagements.

Question: 2

For its compliance program to be effective, an organization must promote the program through appropriate incentives for compliance.

A. True
B. False

Answer: A

Explanation:
Overview of Compliance Programs:An effective compliance program requires clear communication, enforcement, and promotion of ethical standards within an organization. Promoting compliance involves setting up positive incentives, such as rewards for ethical behavior, to encourage adherence to policies and regulations.
Role of Incentives:
Incentives serve as motivators for employees to align with the compliance culture. Examples include bonuses for meeting compliance goals, recognition for ethical behavior, and career advancement opportunities tied to compliance performance.
The U.S. Federal Sentencing Guidelines for Organizations emphasize that for a compliance program to be effective, it must include incentives to encourage proper behavior and discipline to deter violations.
Supporting Reference Materials:
The Association of Certified Fraud Examiners (ACFE) highlights the importance of integrating incentives into compliance programs. These incentives are seen as essential for fostering a culture of ethics and preventing fraud.
Industry standards and frameworks, such as COSO's "Internal Control - Integrated Framework," also stress the integration of incentives to promote adherence to internal controls and compliance standards.
Importance of Positive Reinforcement:
Positive reinforcement through incentives leads to higher employee morale, enhanced commitment to ethical practices, and a reduced likelihood of non-compliance.
A compliance program that merely penalizes non-compliance without rewarding adherence can fail to motivate employees to prioritize compliance.
Application in Fraud Prevention:
By actively incentivizing compliance, organizations can proactively mitigate risks of fraud and unethical practices. This aligns employees' personal goals with the organization's ethical standards.
ACFE's Fraud Prevention Guidelines.
COSO Framework for Internal Controls.
Relevant sections fromAuditor EssentialsandExcel for Auditorssupporting the implementation of compliance measures.

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Question: 3

In response to a risk identified during a fraud risk assessment, management decides to implement additional internal control measures. This response is known as:

A. Assuming the risk
B. Mitigating the risk
C. Avoiding the risk
D. Transferring the risk

Answer: B

Explanation:
Understanding Fraud Risk Management Responses:
Risk mitigation refers to implementing controls or measures to reduce the likelihood or impact of a risk.
In this case, by implementing additional internal controls, management aims to mitigate the identified fraud risk.
Definition of Other Options:
A . Assuming the risk:This refers to accepting the risk without taking action to mitigate it. This is generally done when the risk is deemed tolerable.
C . Avoiding the risk:This involves changing business practices or ceasing activities to eliminate the risk entirely.
D . Transferring the risk:This occurs when the responsibility for the risk is shifted to another party, such as through insurance.
Conclusion:The described response clearly aligns with risk mitigation, as it focuses on reducing the risk through internal control measures.

Question: 4

Which of the following is TRUE regarding the communication of the fraud risk assessment process?

A. The more personalized the communication, the more effective it will be in encouraging employees to participate
B. The communication should be made in a format mat is most appropriate for the culture of the organization
C. The communication should be visibly disseminated throughout the business
D. All of the above

Answer: D

Explanation:

Communication of Fraud Risk Assessment Process:Effective communication ensures that employees understand the objectives and importance of the fraud risk assessment process. The following practices contribute to its success:
A . Personalization:Personalized communication increases engagement by making the information relevant to employees' roles and responsibilities.
B . Appropriateness to Culture:Aligning the communication format with the organization's culture ensures clarity and resonance.
C . Visibility:Disseminating communication broadly reinforces its significance and encourages widespread participation.
Why All Options are Correct:
Fraud risk assessments require buy-in and participation across all levels of the organization. Combining personalization, cultural alignment, and visibility creates an effective communication strategy.
Conclusion:All three practices—personalization, cultural appropriateness, and visibility—are critical for effective communication.

Question: 5

Gray, an independent Certified Fraud Examiner (CFE), was hired by Green, president of the ABC Corporation, to investigate allegations that one of ABC's employees is taking kickbacks. During the investigation. Gray teams that Green is involved in an unrelated fraud. Under the ACFE Code of Professional Ethics. Gray should:

A. Not disclose the information about Green.
B. Report Green to law enforcement
C. Tell the company's board of directors about Green.
D. Resign from the engagement

Answer: C

Explanation:
 Professional Responsibility Under ACFE Code of Ethics:
The ACFE Code of Professional Ethics requires Certified Fraud Examiners (CFEs) to disclose material information to the proper authorities. When fraud is discovered, the CFE must act in the best interest of the organization while adhering to ethical standards.
In this scenario, Gray must report Green's involvement in unrelated fraud to ABC Corporation's board of directors. This ensures transparency and accountability without breaching client confidentiality unnecessarily.
 Relevant Principles from ACFE Code of Ethics:
Integrity:CFEs must act honestly and report findings to the appropriate parties.
Objectivity:The CFE must avoid conflicts of interest and ensure impartiality in all findings and disclosures.
 Board Reporting Responsibility:

Reporting to the board is appropriate because they are responsible for corporate governance and oversight. Law enforcement involvement should follow organizational protocols unless laws explicitly mandate direct reporting.

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