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Certified Fraud Examiner - Fraud Prevention and Deterrence Exam

ACFE CFE-Fraud-Prevention-and-Deterrence

Version Demo

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Topic Break Down

Topic	No. of Questions
Topic 1, Fraud Prevention and Deterrence	364
Total	364

QUESTION NO: 1

During an external audit of an organization's financial statements. Peter, the external auditor, uncovers significant internal control deficiencies at the audit client's organization. He believes these deficiencies could result in a material misstatement of the financial statements. Which of the following should Peter do with regard to these findings?

A. Peter should make a public announcement that he is withdrawing from the audit engagement.

B. Peter should provide a written communication about the findings to those charged with governance.

C. Peter should report the findings in writing directly to the appropriate regulatory agencies

D. Peter should discreetly work with senior management to correct the underlying internal control deficiencies.

ANSWER: B

Explanation:

Peter should provide a written communication about the findings to those charged with governance. Deficiencies that create a reasonable possibility that a material misstatement will not be prevented or detected and corrected on a timely basis are considered material weaknesses; other important deficiencies may be significant deficiencies. In either case, the auditor has a professional responsibility to communicate the matter in writing to those charged with governance, such as the board of directors or audit committee. This communication enables the body responsible for oversight of financial reporting and internal control to understand the seriousness of the condition and take appropriate remedial action. The communication should be made timely—ordinarily before the auditor's report is released—and should describe the deficiencies and their potential effects clearly enough to support informed governance oversight. Under PCAOB auditing standards, material weaknesses and significant deficiencies identified during an audit must be communicated in writing to the audit committee. The AICPA's auditing standard likewise requires written communication of significant deficiencies and material weaknesses to those charged with governance. See PCAOB AS 1305, Communications About Control Deficiencies and AICPA AU-C Section 265, Communicating Internal Control Related Matters Identified in an Audit.

QUESTION NO: 2

XYZ. Inc. is a publicly traded, multi-national corporation. Which of the following statements is TRUE regarding the corporate governance requirements that XYZ is subject to?

A. XYZ must comply with the various laws and regulations in the countries in which it operates

B. XYZ is subject to the Universal Corporate Governance Act because it is a publicly traded corporation.

C. XYZ is required to comply with G20'OECD Principles of Corporate Governance.

D. XYZ is not required to comply with any corporate governance requirements because it operates in multiple jurisdictions

ANSWER: A

Explanation:

"XYZ must comply with the various laws and regulations in the countries in which it operates" is correct because corporate-governance obligations arise from the legal and regulatory regimes that apply to a company's place of incorporation, securities listing, operations, subsidiaries, and regulated activities. A multinational public company therefore must identify and comply with applicable local requirements, which can include company-law duties for directors, financial-reporting and audit requirements, disclosure and securities-law obligations, internal-control expectations, anti-bribery rules, data and records requirements, and stock-exchange listing standards. The precise mix of obligations will vary by jurisdiction and by the company's business activities, but operating across borders does not remove those obligations. Effective governance includes establishing policies, oversight, reporting processes, and compliance monitoring that account for these differing legal requirements. The OECD describes its corporate-governance principles as an international benchmark used by policymakers and market participants, while national authorities and exchanges implement enforceable requirements within their own frameworks. See the OECD Principles of Corporate Governance and the SEC's overview of ongoing public-company reporting obligations.

QUESTION NO: 3

Which of the following is FALSE regarding an organization's response to a substantiated fraud?

A. Management should evaluate whether control weaknesses contributed to the fraud.

B. Management should focus exclusively on recovering losses and need not evaluate control failures.

C. Management should consider whether similar fraud risks exist elsewhere in the organization.

D. Management should take corrective action that is consistent with applicable policies and legal requirements.

ANSWER: B

Explanation:

The statement that management should focus exclusively on recovering losses and need not evaluate control failures is false. Recovery can be an important objective, but a complete response also requires management to determine how the fraud occurred, whether related misconduct might exist, and what changes are needed to reduce the risk of recurrence. Failure to address root causes can leave the organization exposed to a similar scheme.

An appropriate response can include preserving evidence, imposing consistent discipline, considering legal action or referral to law enforcement, and remediating control weaknesses. The response should be coordinated with legal counsel and other appropriate stakeholders based on the facts and applicable requirements. See the ACFE's Fraud Risk Management Resource Center and the COSO Guidance on Fraud Risk Management.

QUESTION NO: 4

To reduce the probability of fraud in financial reports, the National Commission on Fraudulent Financial Reporting, also known as the Treadway Commission, made which of the following recommendations?

A. Appoint a mandatory independent finance committee.

B. Develop a written charter for the audit committee.

C. Assign oversight of the hotline reporting program to shareholders.

D. Provide adequate resources and authority to management.

ANSWER: B

Explanation:

Develop a written charter for the audit committee is correct because the Treadway Commission identified an effective audit committee as a central corporate-governance safeguard against fraudulent financial reporting. The Commission's recommendations stressed that audit committees need a clearly defined role, sufficient authority, independence, and active oversight of the financial-reporting process. A written charter formally documents those responsibilities, including the committee's relationship with management, internal audit, and the independent public accountant. It also establishes a durable framework for the committee to oversee the integrity of financial statements, accounting policies, internal controls, and the audit process. By making expectations and reporting responsibilities explicit, a charter promotes accountability and helps the audit committee carry out informed, vigilant oversight—conditions the Commission viewed as important to reducing the opportunity for financial-reporting fraud. The original Commission report is available through the National Commission on Fraudulent Financial Reporting. The recommendation also aligns with the governance focus of the SEC's audit committee disclosure requirements, which require issuers to disclose whether their audit committee has a charter.

QUESTION NO: 5

Which of the following is one of the three general methods used to control corporate crime?

A. Pressure from changes in the competitive environment

B. Lowered regulatory enforcement by the government

C. Loss of funding from financial institutions

D. Demands from consumers to change

ANSWER: A

Explanation:

Pressure from changes in the competitive environment is a recognized method of controlling corporate crime because market conditions can create powerful incentives for organizations to alter conduct that creates legal, financial, and reputational risk. Competition can affect a company's ability to retain customers, obtain investment, recruit personnel, access business partners, and maintain its standing in an industry. When unethical or unlawful conduct threatens those interests, management has a practical business incentive to strengthen compliance controls, improve governance, and prevent misconduct. This illustrates that corporate-crime control is not limited to criminal prosecution after a violation occurs; external economic forces can also influence organizational behavior and encourage prevention. Fraud examiners should understand these broader deterrence mechanisms when evaluating an organization's fraud-risk environment, because competitive pressures can either encourage misconduct or, when ethical conduct becomes a market expectation, promote stronger internal controls and compliance. ACFE materials emphasize the importance of fraud prevention and organizational anti-fraud measures in reducing fraud risk; see the ACFE Fraud Resources. The broader federal emphasis on effective corporate compliance and accountability is also reflected in the U.S. Department of Justice's Evaluation of Corporate Compliance Programs.

QUESTION NO: 6

Which of the following statements is MOST ACCURATE regarding an organization's fraud risk management program?

A. The punishment for intentional noncompliance should be decided solely based on the perpetrator's specific circumstances.

B. Formal sanctions for intentional noncompliance should be kept private in all circumstances.

C. Staff at all levels of the organization should be responsible for monitoring compliance with the program.

D. The program must include systems designed to identify, address, and monitor compliance violations.

ANSWER: D

Explanation:

The program must include systems designed to identify, address, and monitor compliance violations. An effective fraud risk management program is not limited to a written code of conduct or a general statement that misconduct is prohibited. It requires operational mechanisms that enable the organization to detect suspected violations, receive and assess reports, investigate matters appropriately, resolve substantiated issues, and track whether corrective actions have been implemented effectively. Monitoring is essential because it helps management identify recurring issues, evaluate whether controls are functioning as intended, and adapt the program as risks, business operations, and regulatory expectations change.

This approach aligns with the ACFE's fraud risk management framework, which emphasizes a continual process of assessing fraud risk, implementing preventive and detective controls, reporting concerns, investigating allegations, and taking corrective action. It also reflects the U.S. Sentencing Guidelines' expectation that an effective compliance and ethics program include monitoring and auditing to detect criminal conduct, along with systems for responding to detected offenses and preventing further similar misconduct. See the ACFE/COSO Fraud Risk Management Guide and the U.S. Sentencing Guidelines, Chapter 8.

QUESTION NO: 7

(Management at XYZ Inc. wants to mitigate one of the risks identified during the company's fraud risk assessment process. Which of the following actions would be MOST APPROPRIATE to support this response?)

A. Discontinuing the underlying activity completely

B. Deciding not to implement any responsive measures

C. Purchasing fidelity insurance to protect against the associated risk of loss

D. Implementing additional internal control measures

ANSWER: D

Explanation:

Implementing additional internal control measures is the most appropriate action because risk mitigation means reducing a fraud risk to an acceptable level by decreasing its likelihood, its potential impact, or both. After a fraud risk assessment identifies a specific exposure, management should select and implement proportionate preventive and detective controls that address the conditions enabling that risk. Depending on the risk, these measures might include segregation of duties, approval thresholds, independent reconciliations, access restrictions, monitoring, exception reporting, mandatory vacations, or strengthened supervisory review. Controls should be tailored to the identified scheme, the people and processes exposed to it, and the organization's risk appetite. Management should also assign control ownership, document the response, communicate relevant responsibilities, and periodically test whether the controls are operating effectively. This creates a direct, sustainable link between the assessed fraud risk and the organization's response activities. COSO's fraud risk management guidance describes selecting and deploying fraud-control activities as a core component of responding to assessed fraud risks. The ACFE likewise emphasizes internal controls as an essential element of an effective fraud-risk-management program. See COSO's Fraud Risk Management Guide executive summary and ACFE fraud risk tools and COSO resources.

QUESTION NO: 8

Which of the following statements is MOST ACCURATE regarding the internal audit function?

A. The primary objective of the internal audit function is to ensure that public resources are used efficiently, legally, and for their intended purposes.

B. The most common type of internal audit engagement involves performing an audit of the financial statements to provide assurance regarding their accuracy and reliability to the organization's external stakeholders.

C. Internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

D. Internal auditors are auditors who are not employed by, and thus are fully independent of, the organization being audited.

ANSWER: C

Explanation:

Internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. This description aligns with the globally recognized definition and purpose of internal auditing. Internal audit provides independent, objective assurance and advisory services intended to add value and improve organizational operations. Its focus is broader than financial reporting: it assesses whether governance structures, risk-management practices, internal controls, operational processes, and compliance activities are designed and functioning effectively in support of the organization's objectives.

In fraud prevention and deterrence, this role is especially important because internal auditors can evaluate the organization's fraud-risk-management program, assess the design and operation of anti-fraud controls, identify control gaps and emerging risk indicators, and communicate recommendations to management and those charged with governance. To perform this work credibly, internal audit must maintain organizational independence and individual objectivity while applying a disciplined, risk-based methodology. The Institute of Internal Auditors describes internal auditing's purpose and core role in governance, risk management, and controls in its Global Internal Audit Standards. Additional guidance on the relationship between internal controls and fraud risk is available in the COSO Internal Control—Integrated Framework resources.

QUESTION NO: 9

In identifying the inherent fraud risks that could apply to the organization, the fraud risk assessment team should discuss:

A. The organization's incentive programs

B. The possibility of management's override of controls

C. Risks to the organization's reputation

D. All of the above

ANSWER: D

Explanation:

All of the above is correct because an effective fraud risk assessment identifies fraud risks broadly, before considering the controls that may reduce those risks. The assessment team should examine the organization's incentive programs because compensation arrangements, performance targets, and reward structures can create pressures or motivations that increase the likelihood of fraudulent conduct. The team should also explicitly consider the possibility of management's override of controls. Even well-designed internal controls can be bypassed by individuals with sufficient authority, making override a fundamental inherent fraud risk that warrants direct discussion. In addition, risks to the organization's reputation should be considered because fraud can arise in areas where employees, management, or third parties may seek to avoid adverse publicity, protect the organization's image, or conceal damaging conduct. Reputational consequences can also help the team understand the potential impact of a fraud scheme and prioritize risk responses. Discussing these areas together supports a complete, organization-specific assessment of fraud incentives, opportunities, and potential consequences. ACFE guidance describes fraud risk assessment as a proactive process for identifying and evaluating fraud risks, including risks arising from organizational circumstances and management behavior. See the ACFE Fraud Risk Assessment resources and the COSO Fraud Risk Management Guide.

QUESTION NO: 10

Gregory, an internal auditor, and Brandon, the company's purchasing manager, have had several heated disagreements over purchasing procedures and policies. Gregory has just been told that he will be the lead on the company's fraud risk assessment. During the fraud risk assessment. Gregory should:

A. Confront Brandon about the disagreements and discuss how they increase the organization's risk of fraud-

B. Have someone else perform the fraud risk assessment work related to the purchasing function

C. Include his disagreements with Brandon as a factor when assessing the risk of fraud in the purchasing function.

D. Automatically designate the purchasing function as a high-risk area.

ANSWER: B

Explanation:

Have someone else perform the fraud risk assessment work related to the purchasing function. A fraud risk assessment must be conducted with sufficient objectivity so that identified risks, likelihood assessments, and control evaluations are based on relevant evidence rather than personal views or prior disputes. Gregory's heated disagreements with the purchasing manager create at least an appearance that his judgment about purchasing could be influenced by bias, even if he believes he can remain impartial. Reassigning the purchasing-related portion of the assessment to a qualified, independent team member protects the credibility of the assessment and allows Gregory to continue leading other portions where his objectivity is not impaired.

This approach is consistent with internal-audit ethics and professional practice: internal auditors are expected to maintain an impartial, unbiased mental attitude and to address circumstances that impair, or appear to impair, objectivity. It also supports a sound fraud risk-management process, which depends on an appropriately objective assessment team to identify and evaluate fraud risks reliably. See the Institute of Internal Auditors' Global Internal Audit Standards and COSO/ACFE's Fraud Risk Management Guide.

QUESTION NO: 11

Professional auditing standards require that auditors incorporate an "element of unpredictability" in the selection of auditing procedures to be performed.

A. True

B. False

ANSWER: A

Explanation:

True is correct. Professional auditing standards addressing the auditor's responsibility to consider fraud explicitly require an element of unpredictability in the selection of audit procedures from year to year. This requirement is designed to make it more difficult for management or employees to anticipate the auditor's work and conceal a material misstatement caused by fraud. Unpredictability can be introduced in several ways, such as performing substantive procedures at locations not previously tested, selecting accounts or transactions for testing that would not ordinarily receive attention because of their size or risk profile, changing the timing of audit procedures, or using unannounced procedures. The auditor applies professional judgment in determining which procedures should be unpredictable while still obtaining sufficient appropriate audit evidence responsive to the assessed risks of material misstatement due to fraud. The requirement does not mean that the entire audit must be random; rather, unpredictability is a deliberate component of the overall fraud-risk response. PCAOB Auditing Standard 2401 specifically directs auditors to incorporate an element of unpredictability in selecting audit procedures. See PCAOB AS 2401, Consideration of Fraud in a Financial Statement Audit and AICPA AU-C Section 240, Consideration of Fraud in a Financial Statement Audit.

QUESTION NO: 12

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), internal control is defined as:

A. A process aimed at proactively identifying, assessing, and managing an organization ' s vulnerabilities to fraud by both internal and external sources.

B. The system enacted to ensure effective oversight of the board of directors, management, and all other parties responsible for an organization ' s direction, operations, and performance.

C. The system that is designed and implemented to eliminate all uncertainty and risk while also ensuring the achievement of organizational goals.

D. A process, effected by an entity ' s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

ANSWER: D

Explanation:

A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. is COSO's formal definition of internal control. The definition emphasizes that internal control is an ongoing process embedded in an organization's activities, not a single policy, department, or isolated compliance exercise. It also makes clear that responsibility extends beyond management: the board and personnel throughout the entity have roles in establishing, operating, and monitoring controls.

COSO organizes the intended results of internal control into three objective categories: effective and efficient operations, reliable reporting, and compliance with applicable laws and regulations. Importantly, COSO uses the standard of *reasonable assurance*. Controls can reduce risk to an acceptable level and support achievement of objectives, but they cannot guarantee results because of inherent limitations such as human judgment, error, management override, changing conditions, and collusion. This definition is the foundation of COSO's Internal Control—Integrated Framework, widely used to design, assess, and improve organizational control systems. See COSO's Internal Control guidance and the Internal Control—Integrated Framework executive summary.

QUESTION NO: 13

Which of the following is TRUE regarding corporate governance?

A. Fraud risk management is considered to be the foundation of effective corporate governance

B. Corporate governance's primary purpose is to ensure the accuracy of the organization's financial reports

C. Effective corporate governance practices are most necessary in an organization in which the owners are also the individuals responsible for setting the corporate strategy.

D. An entity's corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization

ANSWER: D

Explanation:

An entity's corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization. This reflects the established meaning of corporate governance: the framework of relationships, authority, accountability, and decision-making through which an organization is directed and controlled. A governance structure identifies the respective roles of the board of directors, management, shareholders or other owners, and, where applicable, stakeholders. It also provides the framework for setting objectives, monitoring performance, exercising oversight, and holding responsible parties accountable.

The G20/OECD Principles describe corporate governance as involving a set of relationships among a company's management, board, shareholders, and stakeholders, and as providing the structure through which company objectives are set and the means of attaining and monitoring them are determined. This broad structural and accountability function is central to sound governance and supports such activities as risk oversight, reliable reporting, ethical conduct, and compliance. Fraud risk management can be an important governance responsibility, but corporate governance is the overarching system that allocates decision rights and oversight responsibilities across the organization. See the G20/OECD Principles of Corporate Governance and the ACFE/COSO Fraud Risk Management Guide.

QUESTION NO: 14

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:

Focus groups are most helpful because they bring several employees together for a facilitated discussion, allowing the fraud risk assessment team to observe how participants interact, respond to each other's views, and develop shared or differing perspectives about the organization's fraud awareness training. This group dynamic can provide useful qualitative information that would not be apparent from responses collected separately. For example, the facilitator can explore whether employees understand training messages consistently, whether particular concerns are widely shared, and how employees discuss reporting expectations or ethical challenges with peers. In a fraud risk assessment, obtaining employee input is an important means of identifying fraud risks and evaluating whether existing anti-fraud controls, including training and communication, are understood and functioning as intended. ACFE materials describe focus groups as a method for gathering information from groups of employees and emphasize that the fraud risk assessment process should use appropriate information-gathering techniques to obtain relevant perspectives from across the organization. See the ACFE

Fraud Risk Management Resource Center and the ACFE training and events resources for fraud risk management and assessment guidance.

QUESTION NO: 15

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:

False is correct. An effective fraud-prevention program does not rely on secret observation as its principal approach; it establishes and communicates that the organization takes fraud seriously, has reporting channels, investigates credible concerns, and uses appropriate oversight and monitoring. This transparency strengthens deterrence because employees understand that dishonest conduct can be detected and addressed. It also helps create an ethical culture in which personnel are encouraged to report concerns without fear of retaliation.

Management and those charged with governance should monitor fraud-risk indicators, including significant unexplained lifestyle or behavioral changes, but such observations must be handled professionally, consistently, and with appropriate respect for privacy. Awareness of organizational anti-fraud controls and monitoring is compatible with fair treatment: managers should avoid accusations based solely on a red flag and instead use observed indicators as a basis for proportionate review under established policies. The ACFE identifies a strong anti-fraud culture, employee reporting mechanisms, and proactive fraud-risk management as key deterrence measures. See the ACFE Fraud Prevention Check-Up and the COSO guidance on anti-fraud.

QUESTION NO: 16

According to social control theory, which of the following questions are people MOST LIKELY to ask themselves when considering the possibility of violating the law?

A. " How can I prevent someone from learning what I did? "

B. " How likely am I to be punished for this crime? "

C. " Will I lose my job if my actions are discovered? "

D. " What will my parents think if they find out? "

ANSWER: D

Explanation:

“What will my parents think if they find out?” is correct because social control theory holds that people are less likely to violate laws when they have strong bonds to conventional society. Developed most prominently by Travis Hirschi, the theory emphasizes attachment to significant others, commitment to conventional goals, involvement in legitimate activities, and belief in societal rules. When a person considers how parents will react, the person is recognizing an attachment to an important social relationship and the potential social disapproval that wrongdoing could bring. The anticipated harm is therefore not limited to a formal legal penalty; it includes jeopardizing acceptance, trust, and emotional ties with people whose opinions matter. These informal social controls can restrain misconduct even when immediate detection or punishment is uncertain. In fraud-prevention terms, strong ethical cultures and meaningful relationships can reinforce these bonds by making employees more conscious of the personal and social consequences of dishonest conduct. See the Office of Justice Programs summary of Hirschi’s social-control framework and Oregon State University’s overview of social control theory.

QUESTION NO: 17

Which of the following is a responsibility of an organization ' s board of directors?

A. Serving as the intermediary between staff-level employees and management.

B. Assessing the strategy and underlying purpose of management ' s decisions and actions.

C. Electing the company shareholders and supervising their decisions and actions.

D. Directing employees to organize and execute business activities.

ANSWER: B

Explanation:

Assessing the strategy and underlying purpose of management ' s decisions and actions is a core board responsibility because the board provides independent oversight of management on behalf of the organization and its stakeholders. Effective governance requires directors to understand the organization's mission, strategic objectives, risk appetite, major initiatives, and significant management decisions. The board then challenges management constructively, asks whether proposed actions align with the organization's purpose and long-term interests, and monitors whether management is carrying out approved strategy responsibly. This oversight role is particularly important in fraud prevention and deterrence: a board that critically evaluates strategic decisions, incentives, ethical culture, and risk information is better positioned to identify conditions that could enable misconduct or lead management to prioritize inappropriate short-term results. The board does not merely receive information; it exercises informed judgment, maintains appropriate skepticism, and holds senior management accountable for performance, risk management, and internal control. The Organisation for Economic Co-operation and Development describes the board's key functions as reviewing and guiding corporate strategy, major plans of action, risk-management policies, and oversight of management. Likewise, the COSO internal-control framework emphasizes board oversight as a governance component supporting accountability and integrity. See the OECD G20/OECD Principles of Corporate Governance and COSO Internal Control guidance.

QUESTION NO: 18

(Acme, Inc. is a publicly traded, multinational corporation. Which of the following statements is TRUE regarding the corporate governance requirements that Acme is subject to?)

A. Acme is subject to the Universal Corporate Governance Act because it is a publicly traded corporation.

B. Acme is not required to comply with any corporate governance requirements because it operates in multiple jurisdictions.

C. Acme must comply with applicable corporate governance-related legislation and requirements in the jurisdictions in which it operates.

D. Acme is required to comply only with the corporate governance standards adopted by the company's board of directors.

ANSWER: C

Explanation:

Acme must comply with applicable corporate governance-related legislation and requirements in the jurisdictions in which it operates. Corporate governance is not governed by one worldwide statute; instead, a public multinational company's obligations arise from the legal and regulatory regimes that apply to it. Those obligations can be triggered by such factors as the company's place of incorporation, securities listings, status as an issuer, and business activities in particular jurisdictions. They commonly address matters including board oversight, financial reporting, internal controls, shareholder rights, audit committees, disclosures, and accountability of senior management.

This approach is consistent with the G20/OECD Principles of Corporate Governance, which provide an internationally recognized framework while recognizing that governance is implemented through differing national legal, regulatory, and institutional arrangements. A company operating across borders therefore needs a governance and compliance framework capable of identifying relevant local requirements and applying the controls, policies, disclosures, and oversight needed to meet them. For a publicly traded organization, this includes attention to the requirements associated with each relevant

securities market and regulator, as well as applicable company-law obligations. See the G20/OECD Principles of Corporate Governance and the SEC's overview of its role in protecting investors and maintaining fair markets.

QUESTION NO: 19

The internal auditor's fraud-related responsibilities include which of the following?

A. Obtaining reasonable assurance that the organization's financial statements are free of material misstatements caused by fraud

B. Overseeing management's actions to manage fraud risks

C. Evaluating indicators of fraud and deciding whether any further action is necessary or whether an investigation should be recommended

D. Establishing and maintaining effective anti-fraud controls at a reasonable cost

ANSWER: C

Explanation:

Evaluating indicators of fraud and deciding whether any further action is necessary or whether an investigation should be recommended is an internal audit responsibility because internal auditors must remain alert to conditions that can indicate misconduct while conducting assurance and consulting engagements. Their role includes evaluating whether identified red flags, control failures, unusual transactions, or allegations warrant escalation under the organization's fraud-response procedures. Internal auditors do not ordinarily perform a full fraud investigation unless they have the appropriate authority, competence, and independence; however, they should communicate significant concerns to the appropriate parties and recommend that a qualified investigation be initiated when the circumstances warrant it. This approach preserves internal audit's independent assurance role while helping ensure that potential fraud is addressed promptly and through appropriate channels. The Global Internal Audit Standards require internal auditors to consider fraud risks in their work and communicate significant risk information to management and the board. The standards also recognize that internal audit's work should be performed with due professional care, including attention to the possibility of fraud. See the Institute of Internal Auditors' Global Internal Audit Standards and its practice guides for fraud-risk-related internal audit guidance.

QUESTION NO: 20

Baldwin, a Certified Fraud Examiner (CFE), has an ethical dilemma regarding his business contract with his professional partners. Which of the following scenarios demonstrates Baldwin consulting a source of guidance that would be considered the LOWEST level of reference to use for determining the most ethical action to take?

A. Baldwin asking for guidance from his family and friends.

B. Baldwin reviewing the ACFE Code of Professional Ethics.

C. Baldwin contemplating philosophical principles related to ethics.

D. Baldwin reading the applicable contract law.

ANSWER: A

Explanation:

Baldwin asking for guidance from his family and friends is the lowest-level reference because this advice is informal and is based on the personal experiences, beliefs, and values of individuals who may not possess relevant legal, contractual, professional, or ethics expertise. Such input can help a person reflect on a dilemma, but it does not supply an authoritative standard for a CFE's professional conduct or for resolving obligations arising from a business contract. Ethical decision-making in a professional setting should be grounded first in more authoritative sources, including binding law and the profession's governing ethical requirements, and then supported by reasoned ethical analysis. The ACFE Code of Professional Ethics establishes duties that members agree to follow, including commitments to integrity, lawful conduct, and avoiding conflicts of interest. Consulting personal contacts before applying those authoritative standards therefore represents

the least reliable level of ethical guidance for determining the appropriate professional action. The ACFE publishes its ethical requirements at ACFE Code of Professional Ethics. Additional professional-practice resources are available through the ACFE Anti-Fraud Resource Center.

QUESTION NO: 21

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:

False is correct because a clearly documented and communicated organizational hierarchy generally strengthens, rather than hinders, fraud prevention. Defined reporting lines establish who has authority to approve transactions, oversee activities, receive concerns, and escalate suspected misconduct. When employees understand the appropriate flow of information, they are better able to report control failures or red flags to personnel who can investigate and respond. Clear structure also supports accountability by making ownership of key controls and supervisory responsibilities identifiable.

This is consistent with the COSO Internal Control—Integrated Framework, under which an effective control environment includes established organizational structures, reporting lines, and appropriate authorities and responsibilities. These elements help management design, implement, and maintain internal control, including controls directed at preventing and detecting fraud. Formal communication channels are particularly important for ensuring that relevant information moves upward, downward, and across the organization in time for informed action. Fraud-risk management therefore benefits from clear hierarchy and information flows, provided the organization also offers safe reporting mechanisms and avoids unnecessary barriers to escalation. See COSO's Internal Control guidance and the ACFE's Fraud Resources.

QUESTION NO: 22

(During a fraud risk assessment, an interview would be MOST HELPFUL in which of the following situations?)

A. The assessment team would like to observe the interactions of several employees discussing the organization's current fraud awareness training.

B. The assessment team would like to get candid one-on-one feedback from employees in a private setting.

C. The assessment team would like to provide a means for anonymous employee suggestions or responses to questions posed.

D. The assessment team would like to obtain individuals' responses through a formal electronic questionnaire.

ANSWER: B

Explanation:

The assessment team would like to get candid one-on-one feedback from employees in a private setting. Interviews are particularly valuable in a fraud risk assessment because they allow the assessment team to have a confidential, two-way conversation with an individual. The interviewer can ask tailored follow-up questions, clarify vague statements, explore circumstances that may create fraud opportunities or pressures, and better understand whether employees know of control weaknesses or potentially improper conduct. A private setting can also make personnel more comfortable raising sensitive concerns that they might not discuss in a group or identify in a written response. Interviewers can assess the details and context of information provided while maintaining appropriate confidentiality and documenting relevant fraud-risk themes for evaluation. ACFE guidance describes fraud risk assessments as a structured process that includes gathering information from knowledgeable personnel and evaluating fraud schemes, controls, and residual risks. Meaningful input from employees and management helps the organization identify risks that may not be evident from policies, records, or control

documentation alone. See the ACFE's fraud risk assessment resources and the COSO internal-control guidance for further context on risk assessment and information gathering.

QUESTION NO: 23

Which of the following options is an example of an anti-fraud control that is primarily preventive in nature?

A. A whistleblower hotline.

B. Proactive data analysis techniques.

C. Continuous audit techniques.

D. Employee background checks.

ANSWER: D

Explanation:

Employee background checks are primarily preventive because they occur before an individual is hired or placed in a position of trust. Their purpose is to help an organization make informed hiring decisions by verifying relevant information such as prior employment, education, professional credentials, identity, and—where lawful and relevant—the candidate's criminal history. This screening can identify undisclosed conduct, misrepresentations, or risk factors that warrant further evaluation before the person receives access to organizational assets, financial processes, sensitive data, or authority to override controls.

In an effective fraud-risk-management program, personnel screening supports a strong control environment by reducing the opportunity for unsuitable individuals to enter roles where fraud could be committed. Background checks should be consistently designed, proportionate to the responsibilities and risk level of the role, conducted in compliance with applicable employment and privacy laws, and supported by documented hiring policies. They are most effective when combined with ongoing supervision, ethical culture initiatives, clear policies, and appropriate segregation of duties. The Association of Certified Fraud Examiners identifies employee screening as an important component of fraud prevention and organizational anti-fraud efforts. See the ACFE's Fraud Risk Management resources and its Fraud Resources for related guidance.

QUESTION NO: 24

Which of the following Is NOT Included In Ihe five fraud risk management principles described In Fraud Risk Management Guide, a joint publication by COSO and the ACFE?

A. Communicating the expectations of those governing the fraud risk management program

B. Performing comprehensive fraud risk assessments to identify specific fraud schemes

C. Deploying preventive and detective fraud control activities to mitigate fraud risk

D. Developing one-time evaluations for each fraud risk management principle

ANSWER: D

Explanation:

Developing one-time evaluations for each fraud risk management principle is the correct response because the COSO–ACFE Fraud Risk Management Guide calls for fraud risk management to be an ongoing, adaptive process rather than a set of isolated, one-time evaluations. Its five principles establish a framework in which the organization governs the fraud risk management program, performs fraud risk assessments, designs and deploys preventive and detective fraud controls, conducts investigations and takes corrective action when fraud occurs, and monitors and evaluates the program for continual improvement. Evaluation is therefore an important component of the framework, but it must be continuing and responsive to changes in the organization's risks, operations, controls, and fraud environment. A one-time evaluation would not provide the recurring monitoring, reassessment, and improvement needed to keep a fraud risk management program effective over time. The Guide emphasizes that fraud risks can change as business processes, personnel, technology, and external conditions

change, making periodic assessment and ongoing monitoring essential. See the COSO–ACFE Fraud Risk Management Guide executive summary and the ACFE COSO fraud risk management resources.

QUESTION NO: 25

Which of the following is TRUE regarding proactive fraud auditing procedures?

A. Analytical review of the financial statements is best used to uncover small frauds that might be missed by other detection methods.

B. Fraud assessment Questioning techniques are most appropriately used when attempting to determine who might be responsible for a particular fraud scheme.

C. Implementing proactive fraud audit procedures demonstrates the organization's intention to aggressively look for possible fraudulent conduct.

D. Surprise audit procedures are an effective fraud detection mechanism, but they do not help prevent fraud

ANSWER: C

Explanation:

Implementing proactive fraud audit procedures demonstrates the organization's intention to aggressively look for possible fraudulent conduct. Proactive auditing goes beyond responding after a reported allegation or an identified loss. It involves deliberately planning and performing procedures designed to identify indicators of fraud, such as targeted data analysis, testing of higher-risk transactions, unannounced reviews, and inquiries directed by the fraud-risk assessment. This visible and systematic effort strengthens detection capability because it increases the likelihood that irregular conduct will be identified before losses become substantial. It also has an important deterrent effect: personnel who understand that the organization actively examines transactions, controls, and fraud-risk areas may perceive a greater likelihood of detection. Effective programs therefore connect fraud-risk assessment results to ongoing monitoring and audit activities, rather than treating fraud detection as an entirely reactive process. The ACFE describes fraud prevention as a program of measures that reduces opportunities and improves the ability to detect wrongdoing, while its fraud-risk-management guidance emphasizes assessing fraud risks and implementing responsive controls and monitoring. See the ACFE Fraud Prevention Resource Center and its Fraud Risk Management resources.

QUESTION NO: 26

Which of the following is a detective anti-fraud control?

A. Hiring policies and procedures

B. Independent reconciliations

C. Separation of duties

D. Fraud awareness training

ANSWER: B

Explanation:

Independent reconciliations are a detective anti-fraud control because they compare related records, balances, transactions, or assets and identify discrepancies after activity has occurred. For example, a person who is independent of cash handling or transaction recording can reconcile bank statements to the general ledger, investigate unexplained differences, and escalate anomalies for timely resolution. That independent review is crucial: it provides objective scrutiny of information that could otherwise be manipulated or concealed by the person performing the underlying transaction. Effective reconciliations should be performed regularly, supported by appropriate documentation, reviewed promptly, and followed by investigation of unusual or unresolved items. These activities help an organization discover errors, unauthorized transactions, asset misappropriation, or financial-reporting irregularities and can also create evidence useful for a fraud examination. The ACFE identifies proactive detection measures and internal controls as important components of an anti-fraud program; its research

also shows that control weaknesses are commonly associated with occupational fraud. See the ACFE 2024 Report to the Nations and the ACFE Fraud 101 resource.

QUESTION NO: 27

At the end of an engagement, a Certified Fraud Examiner (CFE) might provide a report to their client about the information uncovered during the investigation. Which of the following statements is TRUE regarding the potential privilege that applies to this report?

A. A fraud examiner's report is considered privileged information and is therefore protected from being legally demanded by outside parties.

B. A fraud examiner's report may be privileged from disclosure in certain circumstances, but it does not have an absolute legal privilege.

C. A fraud examiner's report is privileged from disclosure by anyone other than the client.

D. A fraud examiner's report is only privileged from disclosure if the author is also a professional legal advisor.

ANSWER: B

Explanation:

A fraud examiner's report may be privileged from disclosure in certain circumstances, but it does not have an absolute legal privilege. Privilege is a legal protection that depends on the nature, purpose, and handling of the communication—not simply on the fact that a CFE prepared an investigative report for a client. For example, a report or related investigative materials can potentially receive protection when the CFE is engaged by counsel to assist counsel in providing legal advice to the client, or when the materials are prepared because litigation is reasonably anticipated. The applicable protection may involve attorney-client privilege, attorney work-product protection, or both, depending on the governing jurisdiction and the specific facts. To preserve a potential claim, counsel and the client should define the engagement appropriately, limit distribution to those with a legitimate need to know, and handle the report consistently as confidential legal material. The CFE should understand that privilege is ultimately a legal determination and should coordinate with the client's legal counsel concerning report distribution, document retention, and testimony. This conditional treatment is consistent with the legal principles summarized by the Legal Information Institute's discussion of attorney-client privilege and the Federal Rules of Civil Procedure Rule 26 treatment of trial-preparation materials.

QUESTION NO: 28

Which of the following is NOT explicitly prohibited by the ACFE Code of Professional Ethics?

A. Acting in a way that could be deemed unethical by the industry

B. Drawing conclusions based upon evidence

C. Participating in an activity where there is an undisclosed conflict of interest

D. Engaging in behavior that is against the law

ANSWER: B

Explanation:

"Drawing conclusions based upon evidence" is not prohibited; it reflects a core ethical requirement for Certified Fraud Examiners. The ACFE Code of Professional Ethics requires members to perform their duties with professionalism, diligence, and a proper evidentiary foundation. In particular, the Code states that members must not express an opinion as to the guilt or innocence of any person or party, and that the evidence must support all conclusions reached. Thus, an examiner may reach and communicate conclusions within the scope of an engagement when those conclusions are grounded in sufficient, relevant evidence and are presented objectively. This standard promotes reliable fraud examinations by tying professional conclusions to documented facts, analysis, and competent investigative work rather than speculation or unsupported assumptions. It also preserves the distinction between an examiner's evidence-based professional findings and a legal

determination of guilt or innocence, which is reserved for the appropriate legal process. The governing language appears in the ACFE's Code of Professional Ethics. Additional guidance on conducting objective, evidence-based fraud examinations is available through the ACFE's training and professional development resources.

QUESTION NO: 29

Susannah Is conducting an external audit of a company In a jurisdiction that is subject to International Standards on Auditing (ISAs). While undertaking her audit procedures, she discovers evidence that senior management has been fraudulently manipulating the financial statements. Which of the following is Susannah's BEST response to these findings?

A. Susannah should confront management with her audit findings and try to get a confession.

B. Susannah should Immediately report her findings to the secunties regulators

C. Susannah should report her findings to the audit committee of the board of directors.

D. Susannah should not disclose her findings to any other parties due to client confidentiality.

ANSWER: C

Explanation:

Susannah should report her findings to the audit committee of the board of directors. Under ISA 240, when an auditor identifies or suspects fraud involving management, particularly senior management, the auditor must communicate the matter on a timely basis to those charged with governance. The audit committee ordinarily fulfills this governance role and is appropriately positioned to oversee the integrity of financial reporting, assess management's response, and direct an independent investigation or remedial action where necessary. Prompt communication is especially important because the alleged misconduct concerns individuals who may have responsibility for preparing the financial statements and could potentially interfere with the audit or conceal additional evidence.

This communication should describe the nature of the suspected fraud, its potential effect on the financial statements and audit, and any implications for the auditor's assessment of risk, planned procedures, and ability to rely on management representations. The auditor must also consider whether the circumstances create a duty to report externally under applicable law or regulation, but the core ISA response is timely communication with those charged with governance. See ISA 240 and ISA 260 (Revised).

QUESTION NO: 30

According to criminologist Charles McCaghy, which of the following is the most compelling factor behind deviance by organizations?

A. Executive failures

B. Excessive regulatory requirements

C. Profit pressure

D. Unethical corporate culture

ANSWER: C

Explanation:

Profit pressure is the most compelling factor behind organizational deviance in McCaghy's analysis. Organizations operate within competitive environments in which financial performance, growth, market position, and returns to owners or investors can become overriding priorities. When leaders and employees perceive that achieving financial targets is essential to organizational survival or success, that pressure can encourage conduct that departs from legal, ethical, or professional standards. The key point is that organizational misconduct is often connected to the pursuit and protection of economic interests, rather than being explained solely by an individual actor's character. This perspective is especially relevant to fraud prevention because financial goals, incentives, and performance demands can create conditions in which improper reporting,

concealment, bribery, or other deceptive practices appear useful to those acting for the organization. Effective prevention therefore requires governance and compliance measures that identify and manage pressures created by financial objectives and incentives. The U.S. Department of Justice similarly emphasizes that organizations should assess the risks associated with their business operations and evaluate whether compensation systems create inappropriate incentives for misconduct. See the DOJ Evaluation of Corporate Compliance Programs and the National Criminal Justice Reference Service entry for McCaghy's work on deviant behavior.

QUESTION NO: 31

Which of the following statements regarding the use of behavioral nudges as part of a fraud prevention program is MOST ACCURATE?

A. To be effective, a behavioral nudge should leave full autonomy for the final decision or action within the employee's control.

B. Including information in employee training programs about the importance of properly disposing of confidential documents is an example of a nudge.

C. A nudge reinforces the reasons why a specific behavior is beneficial, while a reminder makes it easier or more likely that individuals will engage in the desired behavior.

D. The goal of behavioral nudges is to remove all options other than the desired behavior from the choices available to the employee.

ANSWER: A

Explanation:

To be effective, a behavioral nudge should leave full autonomy for the final decision or action within the employee's control. This reflects the defining feature of a nudge: it alters the choice environment in a way that predictably encourages a desired behavior while preserving the individual's ability to choose differently. In a fraud prevention program, an organization might make an ethics-reporting link prominent on an internal portal, prepopulate compliance forms with appropriate defaults, or place a timely prompt at the point where an employee handles sensitive information. These measures can make ethical, compliant conduct easier, more salient, or more convenient without compelling it. Preserving voluntary choice distinguishes nudges from mandatory policies, prohibitions, or controls that eliminate alternatives. This is particularly useful in fraud prevention because organizational culture and day-to-day decisions are influenced not only by formal rules, but also by how choices and information are presented. Properly designed nudges can reinforce an ethical culture, encourage reporting, and reduce opportunities for misconduct while respecting employee agency. The concept is consistent with the definition of nudging described by the OECD and with behavioral-science approaches to improving compliance and integrity outcomes. See the OECD's guidance on behavioural insights and the ACFE's fraud risk management resources.

QUESTION NO: 32

Patrick is conducting an external audit of a company in a jurisdiction that is subject to International Standards on Auditing (ISAs). While undertaking his audit procedures, he discovers evidence that senior management has been fraudulently manipulating the financial statements. Which of the following is Patrick's BEST response to these findings?

A. Patrick should confront management with his audit findings and try to get a confession.

B. Patrick should immediately report his findings to local law enforcement authorities.

C. Patrick should not disclose his findings to any other parties due to client confidentiality

D. Patrick should report his findings to those charged with governance of the organization.

ANSWER: D

Explanation:

Patrick should report his findings to those charged with governance of the organization. Under ISA 240, an auditor who identifies or suspects fraud must communicate the matter on a timely basis to the appropriate level of management. However, where the suspected fraud involves management at a sufficiently senior level, the auditor must communicate directly with those charged with governance, such as the board of directors or audit committee. This escalation is essential because the implicated executives cannot be relied upon to investigate or remediate their own misconduct, and those charged with governance have oversight responsibility for the financial reporting process, internal control, and management's conduct.

The communication should describe the fraud or suspected fraud, its possible effect on the financial statements, and relevant implications for the audit. Patrick should also reassess the risks of material misstatement due to fraud and consider the effect on the audit opinion. Any external reporting obligation depends on applicable law or regulation; ISA requirements recognize confidentiality while allowing or requiring disclosure when a legal duty overrides it. See ISA 240: The Auditor's Responsibilities Relating to Fraud and the IAASB standards and pronouncements.

QUESTION NO: 33

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as:

A. A process implemented to review how well the organization's risk management capabilities have increased value over time and how they will continue to drive value for the organization

B. A process, effected by an entity's board of directors, management, and other personnel,designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

C. A process involving personnel at all levels of the organization that aims to eliminate all uncertainty and risk while also ensuring the achievement of organizational goals

D. A process aimed at proactively identifying, evaluating, and addressing an organization ' s vulnerabilities to fraud by both internal and external sources

ANSWER: B

Explanation:

"A process, effected by an entity's board of directors, management, and other personnel,designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance" is the COSO definition of internal control. This definition emphasizes that internal control is not a single policy, a department, or a one-time activity. It is an ongoing process carried out throughout the organization by people at every organizational level, including governance bodies, management, and employees. The purpose is to provide *reasonable*, rather than absolute, assurance that the entity can achieve its operational, reporting, and compliance objectives. Reasonable assurance recognizes practical limitations inherent in any control system, such as human judgment, the possibility of error, management override, and cost-benefit considerations. COSO's Internal Control—Integrated Framework organizes effective internal control around five integrated components: control environment, risk assessment, control activities, information and communication, and monitoring activities. These components support the organization's ability to manage risks to the achievement of its stated objectives and are foundational to fraud prevention and deterrence efforts. COSO presents this definition in its Internal Control—Integrated Framework; see the COSO Internal Control—Integrated Framework and the SEC overview of internal control.

QUESTION NO: 34

Which of the following is among the board of directors' primary responsibilities related to fraud risk management?

A. Overseeing the organization's fraud risk management activities

B. Designing the fraud risk management program

C. Punishing fraud perpetrators discovered through fraud risk management activities

D. Implementing the fraud risk management program

ANSWER: A

Explanation:

Overseeing the organization's fraud risk management activities is correct because the board has ultimate governance responsibility for ensuring that fraud risk is appropriately addressed. The board, often through an audit committee or comparable oversight body, sets the tone at the top; understands management's assessment of fraud risks; evaluates whether management has established an effective fraud risk management program; and monitors whether the program is operating as intended. This oversight includes making sure management has assigned clear responsibility, provided adequate resources, established reporting channels, and communicated significant fraud risks and incidents to the board. The board does not normally perform management's operational work. Rather, it provides independent challenge, direction, and monitoring, helping ensure that management's fraud-risk responses align with the organization's risk appetite, ethics expectations, and internal-control objectives. This governance role is reflected in the COSO/ACFE fraud risk management guidance, which identifies board oversight as a foundational principle of an effective fraud risk management program. See the COSO Fraud Risk Management Guide and the ACFE fraud risk management resources.

QUESTION NO: 35

Which of the following is FALSE regarding an organization's anti-fraud policy?

A. A detailed anti-fraud policy can make it easier to investigate and punish employees who commit fraud and other dishonest acts.

B. To avoid legal problems in discharging employees, the anti-fraud policy should not include any specific examples of frau and misconduct.

C. In developing the anti-fraud policy, management should check with legal counsel regarding any legal considerations with respect to the policy.

D. One of the most important considerations in developing the anti-fraud policy is to ensure every allegation is handled in a uniform manner.

ANSWER: B

Explanation:

"To avoid legal problems in discharging employees, the anti-fraud policy should not include any specific examples of frau and misconduct." is false. An effective anti-fraud policy should clearly define prohibited conduct and provide representative examples of fraud and other misconduct. Specific examples help employees understand the organization's expectations, recognize that misconduct can take many forms, and receive clear notice of behavior that may result in discipline. They also support consistent application of the policy by giving management, investigators, and human resources a common framework for evaluating reported conduct. Clear policy language does not replace consultation with employment counsel or compliance with applicable law, collective-bargaining obligations, and internal procedures; instead, it helps ensure that disciplinary decisions rest on communicated standards. The Association of Certified Fraud Examiners emphasizes that a formal anti-fraud policy communicates the organization's stance toward fraud and identifies prohibited conduct and consequences. The policy should be tailored and reviewed for legal appropriateness, but omitting useful examples is not the recommended way to manage legal risk. See the ACFE's anti-fraud resources and the U.S. Department of Justice's Evaluation of Corporate Compliance Programs for guidance on clear, well-communicated compliance standards.

QUESTION NO: 36

(Andrea is leading the fraud risk assessment process for her organization. Which of the following considerations about the fraud risk assessment process is MOST ACCURATE and should be incorporated into Andrea's plans?)

A. The fraud risk assessment is most effective when management's influence on the process is limited.

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

C. If the individuals conducting the fraud risk assessment believe that fraud could not happen at the organization, then the assessment process should reflect that belief.

D. To ensure the independence of the team members, a consultant or another external party must conduct the fraud risk assessment.

ANSWER: B

Explanation:

Conducting an effective fraud risk assessment requires thinking like a fraudster. This means the assessment team deliberately considers how someone could perpetrate and conceal misconduct in the organization, rather than beginning from the assumption that fraud is unlikely or that existing controls will always operate as designed. A fraud-focused perspective helps the team identify plausible schemes in light of the organization's operations, incentives and pressures, access to assets or information, control weaknesses, and opportunities for management override. It also promotes sufficiently specific risk scenarios: who might commit the fraud, what might be targeted, how the activity could be hidden, and what controls or monitoring activities could prevent or detect it. This approach supports a practical, tailored assessment that management and the board can use to prioritize fraud-risk responses. The ACFE emphasizes that an effective fraud risk assessment considers the ways fraud can occur and should be performed with a skeptical, fraud-aware mindset. COSO likewise describes fraud risk assessment as considering incentives and pressures, opportunities, and attitudes and rationalizations, including the risk of management override. See the ACFE Fraud Prevention and Deterrence examination resources and COSO's Guidance on Internal Control.