

Message from the ACFE

On April 17th, the *CFE Exam Prep Course* was updated to reflect the release of the IIA’s *Global Internal Audit Standards*, the new *G20/OECD Principles of Corporate Governance*, and the ACFE’s *2024 Occupational Fraud: A Report to the Nations*, as well as to make some minor, non-substantive improvements to existing content. While these changes will have minimal impact on the foundational content tested on the CFE Exam, the CFE Exam will be updated on June 5th to reflect the most current version of this material. If you are planning on taking the CFE Exam prior to June 5th, you can find the older version of the affected Review Questions in this document. If you have questions or concerns, please contact us at PrepCourse@ACFE.com.

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Auditors' Fraud-Related Responsibilities

Review Questions

Question 1920

1. Internal auditing standards require the internal audit function, through the chief audit executive (CAE), to report periodically to senior management and the board of directors about the organization's fraud risks.

A. True
B. False

Question 1299

2. According to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, internal auditors must apply the care and skill of an expert whose primary responsibility is investigating fraud.

A. True
B. False

Question 1221

3. According to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, the internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding all the following EXCEPT:

A. Reliability and integrity of financial and operational information
B. Effectiveness and efficiency of operations
C. Compliance with laws, regulations, and contracts
D. Sale of tangible and intangible assets

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Question 1226

4. According to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, due professional care implies infallibility.
- A. True
 - B. False

Question 1225

5. According to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, the internal audit team must evaluate the potential for the occurrence of fraud and the organization's fraud risk management initiatives.
- A. True
 - B. False

Answer Key

Question 1920

1. Internal auditing standards require the internal audit function, through the chief audit executive (CAE), to report periodically to senior management and the board of directors about the organization's fraud risks.

A. True
B. False

The Institute of Internal Auditors' (IIA) Standard 2060, *Reporting to Senior Management and the Board*, notes that the head of an organization's internal audit function—the chief audit executive (CAE)—must report periodically to senior management and the board of directors on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with The IIA's Code of Ethics and its *International Standards for the Professional Practice of Internal Auditing*. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board of directors.

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Question 1299


2. According to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, internal auditors must apply the care and skill of an expert whose primary responsibility is investigating fraud.

A. True
B. False

The Institute of Internal Auditors' (IIA) Standard 1220 states that internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Standard 1220 also states, however, that due professional care does not imply infallibility.

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Question 1221


3. According to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, the internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding all the following EXCEPT:
- A. Reliability and integrity of financial and operational information
 - B. Effectiveness and efficiency of operations
 - C. Compliance with laws, regulations, and contracts
 - D. Sale of tangible and intangible assets 

According to The Institute of Internal Auditors' (IIA) Standard 2120.A1, the internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives
- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with laws, regulations, and contracts

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Question 1226

4. According to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, due professional care implies infallibility.
- A. True
 - B. False 

The Institute of Internal Auditors' (IIA) Standard 1220 states that internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Standard 1220 also states, however, that due professional care does not imply infallibility.

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Question 1225

5. According to 'The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, the internal audit team must evaluate the potential for the occurrence of fraud and the organization's fraud risk management initiatives.
- A. True 
- B. False

According to 'The Institute of Internal Auditors' (IIA) Standard 2120.A2, the internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

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Corporate Governance

Review Questions

Question 1036

1. According to the *G20/OECD Principles of Corporate Governance*, an entity's corporate governance framework should:
- A. Ensure the equitable treatment of all shareholders, including minority and foreign shareholders
- B. Ensure the timely and accurate disclosure of all material matters regarding the corporation
- C. Encourage active cooperation between corporations and stakeholders in creating wealth and jobs
- D. All of the above

Question 1926

2. According to the *G20/OECD Principles of Corporate Governance*, companies should disclose all financial information to investors, regardless of the cost burden of the disclosure or the disclosure's possible negative effects on the company's competitive position.
- A. True
 - B. False

Question 1927

3. According to the *G20/OECD Principles of Corporate Governance*, governments should have an effective framework to support good corporate governance practices that:
- A. Promotes transparent and fair markets
 - B. Is consistent with the rule of law
 - C. Supports effective supervision and enforcement
 - D. All of the above

Question 1929

4. The *G20/OECD Principles of Corporate Governance* include which of the following?
- A. A request that governments have an effective legal, regulatory, and institutional framework to support good corporate governance practices
 - B. Recognition of the importance of the role of stakeholders in corporate governance
 - C. An emphasis on the importance of timely, accurate, and transparent disclosure mechanisms
 - D. All of the above

Question 1930


5. The *G20/OECD Principles of Corporate Governance* support establishing stronger protection for foreign shareholders than for minority shareholders as a means to encourage increased international investment.
- A. True
 - B. False

Question 1190

6. The structure, responsibilities, and procedures of an organization's governing board is one of the primary areas covered by the *G20/OECD Principles of Corporate Governance*.
- A. True
 - B. False

Answer Key

Question 1036

1. According to the *G20/OECD Principles of Corporate Governance*, an entity's corporate governance framework should:
 - A. Ensure the equitable treatment of all shareholders, including minority and foreign shareholders
 - B. Ensure the timely and accurate disclosure of all material matters regarding the corporation
 - C. Encourage active cooperation between corporations and stakeholders in creating wealth and jobs
 - D. All of the above 


The *G20/OECD Principles of Corporate Governance* (the Principles), a publication by the Organisation for Economic Co-operation and Development (OECD), is regarded as one of the primary sources of guidance for corporate governance practices for organizations throughout the world. Broadly, the Principles state that an entity's corporate governance framework should:

- Promote transparent and fair markets and the efficient allocation of resources.
- Be consistent with the rule of law.
- Support effective supervision and enforcement.
- Protect and facilitate the exercise of shareholders' rights.
- Ensure the equitable treatment of all shareholders, including minority and foreign shareholders.
- Provide all shareholders with the opportunity to obtain effective redress for violation of their rights.
- Create sound incentives throughout the investment chain.
- Enable stock markets to function in a way that contributes to good corporate governance.
- Recognize the rights of stakeholders established by law or through mutual agreements.
- Encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
- Ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the company's financial situation, performance, ownership, and governance.

- Ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

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Question 1926

2. According to the *G20/OECD Principles of Corporate Governance*, companies should disclose all financial information to investors, regardless of the cost burden of the disclosure or the disclosure's possible negative effects on the company's competitive position.
- A. True
- B. False 

According to Chapter V of the *G20/OECD Principles of Corporate Governance* (the Principles), a publication by the Organisation for Economic Co-operation and Development (OECD), "The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company." However, such disclosure requirements are not expected to place unreasonable administrative or cost burdens on enterprises. Nor are companies expected to disclose information that may endanger their competitive position unless disclosure is necessary to fully inform the investment decision and to avoid misleading the investor. To determine what information should be disclosed at a minimum, many countries apply the concept of materiality. *Material information* can be defined as information whose omission or misstatement could influence the economic decisions taken by users of that information.

Fraud Examiners Manual Page #: 4.318-4.319

Question 1927


3. According to the *G20/OECD Principles of Corporate Governance*, governments should have an effective framework to support good corporate governance practices that:
- A. Promotes transparent and fair markets
 - B. Is consistent with the rule of law
 - C. Supports effective supervision and enforcement
 - D. All of the above 

Chapter I of the *G20/OECD Principles of Corporate Governance* (the Principles), a publication by the Organisation for Economic Co-operation and Development (OECD), states that governments should have a sound legal, regulatory, and institutional framework to support good corporate governance practices. This framework typically comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments, and business practices that are the result of a country's specific circumstances, history, and tradition.

Such a framework should promote transparent and fair markets and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement.

Fraud Examiners Manual Page #: 4.310-4.311

Question 1929

4. The *G20/OECD Principles of Corporate Governance* include which of the following?
- A. A request that governments have an effective legal, regulatory, and institutional framework to support good corporate governance practices
 - B. Recognition of the importance of the role of stakeholders in corporate governance
 - C. An emphasis on the importance of timely, accurate, and transparent disclosure mechanisms
 - D. All of the above 


The *G20/OECD Principles of Corporate Governance* (the Principles), a publication by the Organisation for Economic Co-operation and Development (OECD), cover six main areas, which are divided into chapters. The Principles:

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- Request that governments have an effective legal, regulatory, and institutional framework to support good corporate governance practices (Chapter I).
- Call for a corporate governance framework that protects the exercise of shareholders' rights and supports the equal treatment of all shareholders, including minority and foreign shareholders (Chapter II).
- Address the effect of institutional investors and other intermediaries in stock markets and the resulting corporate governance implications (Chapter III).
- Recognize the importance of the role of stakeholders in corporate governance (Chapter IV).
- Examine the importance of timely, accurate, and transparent disclosure mechanisms (Chapter V).
- Address board structures, responsibilities, and procedures (Chapter VI).

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Question 1930

5. The *G20/OECD Principles of Corporate Governance* support establishing stronger protection for foreign shareholders than for minority shareholders as a means to encourage increased international investment.
- A. True
 - B. False 

The *G20/OECD Principles of Corporate Governance* (the Principles), a publication by the Organisation for Economic Co-operation and Development (OECD), cover six main areas, which are divided into chapters. The Principles:

- Request that governments have an effective legal, regulatory, and institutional framework to support good corporate governance practices (Chapter I).
- Call for a corporate governance framework that protects the exercise of shareholders' rights and supports the equal treatment of all shareholders, including minority and foreign shareholders (Chapter II).
- Address the effect of institutional investors and other intermediaries in stock markets and the resulting corporate governance implications (Chapter III).


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- Recognize the importance of the role of stakeholders in corporate governance (Chapter IV).
- Examine the importance of timely, accurate, and transparent disclosure mechanisms (Chapter V).
- Address board structures, responsibilities, and procedures (Chapter VI).

Chapter II of the Principles states: “The corporate governance framework should protect and facilitate the exercise of shareholders’ rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders.” As such, the Principles support the equal treatment of foreign and domestic shareholders in corporate governance. They do not address government policies to regulate foreign direct investment.

Fraud Examiners Manual Page #: 4.309-4.310, 4.312, 4.315

Question 1190

6. The structure, responsibilities, and procedures of an organization’s governing board is one of the primary areas covered by the *G20/OECD Principles of Corporate Governance*.
- A. True 
 - B. False

The *G20/OECD Principles of Corporate Governance* (the Principles), a publication by the Organisation for Economic Co-operation and Development (OECD), cover six main areas, which are divided into chapters. The Principles:

- Request that governments have an effective legal, regulatory, and institutional framework to support good corporate governance practices (Chapter I).
- Call for a corporate governance framework that protects the exercise of shareholders’ rights and supports the equal treatment of all shareholders, including minority and foreign shareholders (Chapter II).
- Address the effect of institutional investors and other intermediaries in stock markets and the resulting corporate governance implications (Chapter III).
- Recognize the importance of the role of stakeholders in corporate governance (Chapter IV).

- Examine the importance of timely, accurate, and transparent disclosure mechanisms (Chapter V).
- Address board structures, responsibilities, and procedures (Chapter VI).

***Fraud Examiners Manual* Page #: 4.309-4.310**

White-Collar Crime

Review Questions

Question 1677

1. According to ACFE research, only a small percentage of occupational fraud perpetrators receive some form of internal punishment from their employer for their scheme.

A. True
B. False

Question 1628

2. According to *Occupational Fraud 2022: A Report to the Nations*, what is the primary reason why organizations decline to prosecute white-collar crime cases?

A. They plan to recover losses civilly.
B. They believe their internal discipline is sufficient.
C. They feel that there is a lack of evidence.
D. They determine that prosecution would be too costly.

Question 1682

3. According to *Occupational Fraud 2022: A Report to the Nations*, most white-collar crime cases are referred to law enforcement for prosecution.

A. True
B. False

Question 1193

4. According to *Occupational Fraud 2022: A Report to the Nations*, which of the following is the MOST COMMON internal response an organization will take when management discovers that one of its employees has committed fraud?
- A. Probation
 - B. Suspension
 - C. Permitted resignation
 - D. Termination

Question 1710

5. According to *Occupational Fraud 2022: A Report to the Nations*, more frauds are uncovered by external audit than by any other form of detection.
- A. True
 - B. False

Question 1666

6. According to *Occupational Fraud 2022: A Report to the Nations*, more occupational frauds are committed by men than by women.
- A. True
 - B. False

Question 1558

7. According to *Occupational Fraud 2022: A Report to the Nations*, what was the MOST COMMON behavioral red flag displayed by perpetrators prior to the discovery of their frauds?
- A. Living beyond their means
 - B. Divorce or family problems
 - C. Addiction problems
 - D. Complaining about lack of authority

Question 1667

8. Most people who commit occupational fraud are repeat offenders with prior criminal records.
- A. True
 - B. False

Question 1664

9. According to *Occupational Fraud 2022: A Report to the Nations*, most occupational frauds are committed by _____; median losses are highest in frauds committed by _____.
- A. Owners/executives; employees
 - B. Employees; owners/executives
 - C. Owners/executives; managers
 - D. Employees; employees

Question 1660

10. According to *Occupational Fraud 2022: A Report to the Nations*, which of the three major categories of occupational fraud has the highest median loss?
- A. Asset misappropriation
 - B. Corruption
 - C. Identity theft
 - D. Financial statement fraud

Question 1084

11. According to *Occupational Fraud 2022: A Report to the Nations*, which of the three major categories of occupational fraud is the MOST COMMON?
- A. Asset misappropriation
 - B. Corruption
 - C. Financial statement fraud
 - D. Identity theft

Question 1708

12. According to *Occupational Fraud 2022: A Report to the Nations*, having job rotations or mandatory vacations among employees can help reduce the financial impact of fraud on an organization.

- A. True
- B. False


Question 1598

13. According to the ACFE's research, employees are the MOST COMMON source of tips that lead to the detection of fraud.

- A. True
- B. False

Answer Key


Question 1677

1. According to ACFE research, only a small percentage of occupational fraud perpetrators receive some form of internal punishment from their employer for their scheme.
 - A. True
 - B. False 

According to *Occupational Fraud 2022: A Report to the Nations*, of perpetrators who were disciplined internally, 61% were terminated, 12% were either placed on probation or suspended, and 11% were permitted or required to resign.

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Question 1628

2. According to *Occupational Fraud 2022: A Report to the Nations*, what is the primary reason why organizations decline to prosecute white-collar crime cases?
 - A. They plan to recover losses civilly.
 - B. They believe their internal discipline is sufficient. 
 - C. They feel that there is a lack of evidence.
 - D. They determine that prosecution would be too costly.

Once a fraud has been discovered, there are various reasons why organizations choose to handle cases internally versus referring them to law enforcement for prosecution. According to *Occupational Fraud 2022: A Report to the Nations*, 50% of companies declined to refer cases to law enforcement because they believed their organization's internal discipline mechanisms were sufficient. Another common reason organizations prefer to handle fraud incidents internally is a fear of negative publicity; 30% of respondents cited this as their primary reason for not referring the case for potential prosecution. A fraud allegation, even if ultimately found to be untrue, could damage an organization's ability to retain customers and generate revenue in the future. According to the study, 20% of

respondents said that prosecution would be too costly, 10% stated that there was a lack of evidence, and 5% preferred to pursue a civil suit.

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Question 1682

3. According to *Occupational Fraud 2022: A Report to the Nations*, most white-collar crime cases are referred to law enforcement for prosecution.
- A. True
 - B. False

According to *Occupational Fraud 2022: A Report to the Nations*, the ACFE's global study on occupational fraud and abuse, 58% of occupational fraud cases were referred to law enforcement for prosecution. Of those that were prosecuted, 44% pleaded guilty or no contest and another 22% were convicted at trial. As the data show, most fraud cases brought to a court of law generally result in an unfavorable outcome for the offender.

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Question 1193

4. According to *Occupational Fraud 2022: A Report to the Nations*, which of the following is the MOST COMMON internal response an organization will take when management discovers that one of its employees has committed fraud?
- A. Probation
 - B. Suspension
 - C. Permitted resignation
 - D. Termination

According to *Occupational Fraud 2022: A Report to the Nations*, of perpetrators who were disciplined internally, 61% were terminated, 12% were either placed on probation or suspended, and 11% were permitted or required to resign.

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Question 1710

5. According to *Occupational Fraud 2022: A Report to the Nations*, more frauds are uncovered by external audit than by any other form of detection.
- A. True
 - B. False 

One of the principal goals of the ACFE's research is to identify how past frauds were detected so that organizations can apply that knowledge to their future anti-fraud efforts. *Occupational Fraud 2022: A Report to the Nations* shows that the leading detection methods are tips, internal audit, and management review. This finding is not surprising, as these have been the three most common means of detecting occupational fraud in every edition of the report since 2010. Collectively, these three detection methods were cited in 70% of the cases in the ACFE's most recent study. Tips were by far the most common means of detection for 42% of cases—more than internal audit (16%) and management review (12%) combined. External audit only accounted for 4% of detected frauds.

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Question 1666

6. According to *Occupational Fraud 2022: A Report to the Nations*, more occupational frauds are committed by men than by women.
- A. True 
 - B. False

A sizeable majority of the fraudsters studied in *Occupational Fraud 2022: A Report to the Nations* (73%) were males. Men also caused larger median losses (\$125,000) than females (\$100,000). Men are perpetrating an increasing percentage of frauds, but the gap in losses between men and women has narrowed.

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Question 1558

7. According to *Occupational Fraud 2022: A Report to the Nations*, what was the MOST COMMON behavioral red flag displayed by perpetrators prior to the discovery of their frauds?
- A. Living beyond their means
 - B. Divorce or family problems
 - C. Addiction problems
 - D. Complaining about lack of authority

As part of the study for *Occupational Fraud 2022: A Report to the Nations*, survey respondents were presented with a list of common warning signs and asked which, if any, were displayed by the perpetrator prior to the discovery of the fraud. The most frequently cited behavioral red flag in the reported cases involved fraudsters living beyond their financial means. This warning sign was noted in 39% of all cases in the study.

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Question 1667

8. Most people who commit occupational fraud are repeat offenders with prior criminal records.
- A. True
 - B. False

The ACFE's research indicates that most occupational fraudsters have no prior history of criminal fraud convictions. Only 6% of the perpetrators studied in *Occupational Fraud 2022: A Report to the Nations* had previously been convicted of a fraud-related offense, which is consistent with the findings in every study dating back to 1996. This suggests that most occupational fraudsters are first-time offenders. Additionally, 83% of the fraudsters had never been punished or terminated by an employer for fraud or abuse.

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Question 1664

9. According to *Occupational Fraud 2022: A Report to the Nations*, most occupational frauds are committed by _____; median losses are highest in frauds committed by _____.
- A. Owners/executives; employees
 - B. Employees; owners/executives 
 - C. Owners/executives; managers
 - D. Employees; employees

According to *Occupational Fraud 2022: A Report to the Nations*, staff-level employees commit the most fraud schemes; ACFE's study indicates that 37% of the cases were perpetrated by nonmanagement-level employees. The research also shows that there is a strong correlation between the fraud perpetrator's level of authority and the size of the fraud. While owners/executives only committed 23% of the frauds in the study, the schemes committed by these individuals resulted in a median loss of \$337,000, which was 2.5 times larger than the median loss caused by managers and 6 times larger than the median loss caused by low-level employees. A significant correlation between authority and fraud loss has been found in every edition of the report dating back to 1996. This correlation likely reflects the fact that high-level fraudsters tend to have greater access to an organization's assets than low-level personnel. They might also have greater technical ability to commit and conceal fraud, and they may be able to use their authority to override or conceal their crimes in ways that low-level employees cannot.

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Question 1660


10. According to *Occupational Fraud 2022: A Report to the Nations*, which of the three major categories of occupational fraud has the highest median loss?
- A. Asset misappropriation
 - B. Corruption
 - C. Identity theft
 - D. Financial statement fraud 

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All occupational frauds fall into one of three major categories: asset misappropriation, corruption, or financial statement fraud. Of these categories, asset misappropriation is by far the most common, occurring in 86% of the cases studied in *Occupational Fraud 2022: A Report to the Nations*. However, asset misappropriation is also the least costly, causing a median loss of \$100,000. Corruption schemes are the next most common form of occupational fraud, with 50% of the cases in the study involving some form of corrupt act. These schemes resulted in a median loss to the victim organizations of \$150,000. The least common and most costly form of occupational fraud is financial statement fraud, which occurred in 9% of the cases and caused a median loss of \$593,000.

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Question 1084

11. According to *Occupational Fraud 2022: A Report to the Nations*, which of the three major categories of occupational fraud is the MOST COMMON?
- A. Asset misappropriation 
 - B. Corruption
 - C. Financial statement fraud
 - D. Identity theft

All occupational frauds fall into one of three major categories: asset misappropriation, corruption, or financial statement fraud. Of these categories, asset misappropriation is by far the most common, occurring in 86% of the cases studied in *Occupational Fraud 2022: A Report to the Nations*. However, asset misappropriation is also the least costly, causing a median loss of \$100,000. Corruption schemes are the next most common form of occupational fraud, with 50% of the cases in the study involving some form of corrupt act. These schemes resulted in a median loss to the victim organizations of \$150,000. The least common and most costly form of occupational fraud is financial statement fraud, which occurred in 9% of the cases and caused a median loss of \$593,000.

Fraud Examiners Manual Page #: 4.247


Question 1708

12. According to *Occupational Fraud 2022: A Report to the Nations*, having job rotations or mandatory vacations among employees can help reduce the financial impact of fraud on an organization.
- A. True 
 - B. False

As part of the study for *Occupational Fraud 2022: A Report to the Nations*, the ACFE compared the losses experienced by the victim organizations that had specific controls in place against the losses experienced by those that had not implemented each control. Interestingly, the presence of every control analyzed was correlated with lower fraud losses. For example, organizations that had job rotations and mandatory vacations in place experienced a 54% reduction in fraud losses. Job rotations and mandatory vacations were also associated with one of the most significant reductions in fraud duration, indicating that this control is among the most useful tools in the fight against fraud.

Fraud Examiners Manual Page #: 4.258-4.259

Question 1598

13. According to the ACFE's research, employees are the MOST COMMON source of tips that lead to the detection of fraud.
- A. True 
 - B. False

Employees are a valuable source of information for discovering potential fraud. *Occupational Fraud 2022: A Report to the Nations* shows that half of all tips (55%) that led to the detection of fraud were provided by employees of the victim organizations. This is more than the amount provided by any other source.

Fraud Examiners Manual Page #: 4.251