

# [Example of essay on audit plan abercrombie fitch co](https://assignbuster.com/example-of-essay-on-audit-plan-abercrombie-fitch-co/)

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## Nature of the entity

Abercrombie & Fitch Co. (“ A&F”) refers to a Delaware company incorporated in 1996. Abercrombie & Fitch Co. A specialty retailer, it operates direct-to-consumer operations and stores that supplies sportswear apparel, accessories, and personal care products. These products are sold under Abercrombie & Fitch, Hollister brands, Gilly Hicks, and Abercrombie kids. The company maintains similar store formats and display of merchandise irrespective of the store location. As of January 2012, Abercrombie & Fitch Co. had 1045 stores, 946 of which are located in the United States and 99 other in international locations. Generally, the company operates a fifty-two week fiscal year that ends on the Saturday closest to 31 January. All fiscal years are titled in the consolidated financial statements while notes are labeled according to the beginning of the calendar year. All information and documents regarding the company can be accessed freely from the company’s website www. abercrombie. com. The websites are also used for marketing purposes because each brand is well represented.

The company’s operations are facilitated using management information systems and other technological applications. Examples of these information systems include financial reporting, point-of-sale, sourcing, inventory management, and management of the supply chain.

## Regulatory environment

All information presented in the latest 10-K annual report is complaint with SEC regulations. The annual report was prepared pursuant to the section 13 or 15 (d) of the Securities Exchange Act of 1934. In order to maintain accuracy of information collected from the audit process, it crucial to gather enough information about the entity and the surrounding factors. This is crucial for facilitating the assessment of risks. During the audit analysis of Abercrombie & Fitch, information contained in the 10-k report was subject to legislation from a number of sources. These include but not limited professional regulations, internal controls, industry conditions, and other applicable accounting pronouncements.

First, Abercrombie & Fitch Co. is subject to national regulations specified under the Delaware certificate of incorporation. Second, internal auditing standards that comply with the annual 10-k for the period ending 28 January 2012 representing the document amended and restated in accordance to the laws and bylaws of Abercrombie & Fitch Co. The annual report is also compliant with international and domestic standards standard relating to environmental matters because so far, the company has not had or is expecting any legal implications on its earnings, expenditures on capital, or any other information regarding its competitive position.

The company is also complaint with income tax levies and other foreign jurisdictions. International operations also means that majority of products from the company are subjected to excise duties and import taxes. Value Added Taxes (VAT) is also required to be submitted to local tax authorities, failure to which the company is subject to penalties and substantial fines. Such regulations are likely to impact adverse measures on the financial positions of such companies.

Equally, the company is managed under the principles of exceptional corporate governance that can be split according to different sections. There are principles that are applicable to directors, the company’s relations with stockholders, and those principles applicable to audit and accounts. Speaking of regulations from directors, Abercrombie & Fitch is governed by an effective board of directors who are charged with the responsibility of ensuring success for the company. Shareholders have the responsibility to vote and exercise their authority during the annual general meeting. Finally yet important, the accountants and audits personnel are responsible for providing a balanced and understandable assessment of Abercrombie & Fitch’s financial position and prospects. In addition, auditors and accountants are responsible for maintaining a sound internal control system in order to ensure the safety of shareholder’s investments, the company’s assets, and effectiveness of internal control systems within the company.

## Objectives and Strategies

Abercrombie & Fitch is assessed to gain an understanding of its strategies and objectives, including the relevant business activities that may lead to misstatements of financial statements. As evidenced from the above factors, Abercrombie & Fitch conducts its business operations depending on the context of regulatory factors, industry factors, internal controls, and other external factors. For this reason, the objectives and strategies of the company are used in defining the plans for the company. In this case, the strategies refer to the operational approaches adopted by the management of Abercrombie & Fitch to realize its objectives. However, realization of such objectives and execution of strategies can be impeded by several risk factors surrounding the company’s operations. Identification of such business risks will be vital in the development of an audit report.

An assessment of Abercrombie & Fitch’s annual report contained in form 10-K reveals several business risk factors and forward-looking statements. Depending on the identified risks, several measures have been developed to address such risks as part of the internal control measures set by the company. Examples of factors to be considered when designing the audit include the following:   
Considering changes in financial and economic conditions because the company identified such factors as having a great factor in influencing the purchasing capabilities of consumers

Examining the fashion trends because Abercrombie & Fitch deals in apparel and accessories that are subject to several fluctuations

Fluctuations in the cost, quality, and other production essentials such as raw materials   
Compensations awarded under the employment agreement which have a significant impact in influencing the financial positions and cash-flow statements of the company

## An examination of international expansion growth strategies

Evaluation of numerous risks that are likely to impact sales in company stores   
Changes and fluctuations in the international foreign exchange market   
Disruptions in information technology systems   
Experience and conduct of members of the executive management board who control majority of the company’s decision making processes   
Changes in the operating environment and other industrial conditions   
Examination on the level of compliance with regulations within the regulatory environment

In line with the assessment of these business risk factors, the audit will be undertaken with an intention of evaluating, assessing, and estimating the level of risk management, control measures, and the level of governance arrangements that the company has implemented in readiness for the prevention of the identified risks.

The strategies to be followed during the auditing process will be dependent upon the several factors. These factors include the priority given to each of the possible risk factor concerning its level in impeding the process of realizing the objectives, the level of management concerns, severity of risks, and any changes in organizational arrangements since the last audit was undertaken.

## Industry factors

The company faces several lawsuits and legal proceedings relating to different courses of its business activities. As such, it has incurred large costs in its efforts to resolve claims and offer compensations. The actual liabilities stipulated under the form 10-k are likely to exceed the amounts reserved for the resolution of such cases thereby affecting the company’s financial position.

## Competition

The company trades its personal care and apparel products through its in-stores and direct consumer channels, which is certainly competitive due to the presence of many competing firms. For this reason, competition occurs as a central industry factor for Abercrombie & Fitch Co. In addition, the company seeks to develop in the international markets and it faces competition from Asian, European and other international firms that have already established themselves in the international market. Constant changing trends in the fashion industry are another industry factor faced by Abercrombie & Fitch Co. As such, the company faces various challenges in aligning its brand so that they can sustain its pricing position. Moreover, economic conditions hinder development of sustained promotional activities. To curb this, Abercrombie & Fitch Co purposes of increasing its product promotions in order to preserve the value of its brands.

## Economic conditions

The constantly changing economic conditions are another industry factor facing the company. As an example, company merchandise and other unrestricted items purchased by consumers decline during periods of economic recession, thus having a significant effect on the company’s earnings. Overall, possible company returns are dependent on global economic factors such as consumer debt, mortgage markets, energy prices, the value of foreign currencies when compared to the dollar, interest rates, as well as other economic related factors. As a result, the capital resources and liquidity of the company becomes uncertain and the material effect of its operations is jeopardized. The fact that the economic settings may intensify various risks such as strategies for internal growth and consumer demand is also another industry factor attributed to changing economic conditions.

## Changing consumer preferences

Certainly, consumer preference is a core element with regard to the fashion industry. In fact, the success of the company mentioned herein is largely dependent on the capability of the company's merchandise to generate consumer satisfaction. For this reason, the company’s products must generate appeal to consumers similar to other products traded in by firms found in the fashion industry. Consequently, the company faces difficulties in predicting the preference of its customers, since they change over time. Since the company trades in manufactured goods, it has entered into agreements with manufacturers of its merchandise prior the manufacture of these products. The company is thus vulnerable to loses occurring due to abrupt changes in customer preference in cases where it had ordered products from manufacturers but upon ordering of such products, the customer preference changes. The company must thus make adequate anticipations on its customer preference, which is a difficult endeavor. To this purpose, customer preference is an industry factor to be focused on in order to avoid low returns caused by its effects.

## Market share

As previously connoted herein, competition is a core industry factor in the fashion industry, which the Abercrombie & Fitch Company trades in. Therefore, it is relatively difficult to achieve sustained brand recognition in order to obtain a larger market share. Attaining a larger market share calls for efficient souring of products from manufactures, which is not feasible because of constantly changing customer preferences. Deductively, the expansion of the company in its bid to attain a larger market share is dependent on various factors, which calls for increased costs in developing major locations where attainment of a competitive advantage and mutual expansion is feasible.

## Possible Fraud Risk Factors

Based on the information provided in the 10-K form of the Company, various possible risk factors are evident. Generally, fraud risks are classified into three broad categories: corruption, misappropriation of assets, and fraudulent statements. However, the most common fraud risks in this particular case are both fraudulent statements and misappropriation of assets. It is of importance to note that the three categories of fraud risks mark the starting point of the fraud risk assessment process. Additionally, it is also important to note that there are three conditions under which the risk factors can be analyzed, which include incentives/pressures, attitudes/rationalizations, and opportunities. It is emphatically crucial that an auditor obtains a thorough understanding of the auditing components that will assist in the assessment fraud and risks. This will guide the procedure of designing the audit process and other risk assessment issues. Realization of such objectives calls for the possession of particular knowledge to provide guidance in the identification of potential misstatements, guiding the procedure of outlining the factors that affect the risks of material misstatements, and designing test controls to guide the substantive procedures.

## Fraudulent Statements Risk Factors

Incentives/Pressures   
a. Financial stability, which is influenced by the industry, economic, conditions under which the Company operates. This could be illustrated by considerable reduction of demand from the customers and a rise of business failure; high levels of competition; as well as persisting negative flows.   
b. High pressure on the management to achieve the expectations of the various stakeholders as a result of for instance   
c. Pressure on the management to achieve the expected goals of the board of directors, which includes sales incentive goals.   
d. Availability of information showing that the financial condition of the managers or directors is threatened by the financial achievement of the company

## Opportunities

Some of the risks factors associated with this condition include:   
a. Existence of ineffective management monitoring, possibly due to ineffective board of directors or a dominating individual within management.   
b. Presence of unstable or complex structure of the company, which makes it difficult for instance to clearly identify people with controlling interests in the company   
c. Deficient internal control components

## Attitudes/Rationalization

Arguably, it is a bit challenging for an auditor to discover them. However, based on various sources of information, it is possible for the auditor to identify a risk factor. Such information include the management’s attempt of justifying inappropriate accounting based on the argument of materiality, the managements attempt to either maintain or increase the stock price of the company, and participation of nonfinancial management in establishment of policies of accounting of the company.

## Misappropriation of Assets Risk Factors

These risk factors can as well be categorized into the above-mentioned three conditions   
Incentives/Pressures   
a. Employees’ or managers’ personal problems are likely to be a source of pressure for misappropriation of the assets   
b. Poor relations between the company and individuals responsible for handling cash as well as other assets, may contribute to misappropriation of these assets.

## Opportunities

There are higher chances of misappropriation of assets occurring, when for instance, there is ineffective asset internal control such as poor asset record keeping, untimely and incomplete asset reconciliation, and lack of segregation of duties.

## Attitudes/Rationalizations

In some cases, the attitudes/rationalization of employees may reflect asset misappropriation. Some of the attitudes that the auditor should look for include poor attention for the need to monitor risks associated with asset misappropriation, indicators of the employees’ dissatisfaction on the way they are treated by the company, and finally, a change of behavior that indicates possible asset misappropriation.

## Procedures of Assessing the Risk of Fraud

Generally, there are three major elements in the assessment of risks or fraud:   
a. Identification of inherent fraud risk. This involves collecting data of the population of risks of fraud that are relevant to the company.   
b. Assessing the probability and significance of inherent fraud risk. This entails establishing the probability as well as the significance of the recognized risks of fraud based on for instance, historical data.   
c. Responding to likely and significant residual and inherent fraud risks. This involves deciding the possible responses to the risks that have been identified, and determining a cost-benefit assessment regarding the fraud risks that the company aims at controlling.

## Work Cited

Abercrombie & Fitch Co. Form 10-K.