**Analysis of Target Company**

**Name of Student**

**Name of Teacher**

**Corporate Governance**

The Sarbanes Oxley act was passed by the Congress in the year 2002. This act that was applied in the year 2003 and 2004 had significant impact on the responsibilities of the auditors, the top managers and the board of directors. All these sets were affected with respect to their roles in the financial reporting. The outcome of the act also included the formation of the public companies accounting oversight board that looked after the audit reports of the companies. This act was basically passed to increase the investor confidence in the published financial statements of the corporations. This act made the board to highlight the issues regarding the external audit and corporate governance issues. The responsibilities of the corporate managers have also increased in relation to the preparation of the financial reports. The activities performed by the external auditors are also restricted by the application of the act. This will ensure that the external auditors remain independent from the companies that they are providing services for.

**Responsibilities of Public Companies Accounting Oversight Board**

The board is directly answerable to the Securities and Exchange Commission that also appoints the members of the board. This board comprises of five full time members. The outlines on which the audit of the public companies is to be done are put in place by the board. The board also controls the firms that provide the audit services. The firms that work as external auditors have to get registered with this board. These firms also have to provide the details of their clients along with the fees charged and the services that have been provided by them to the client. The board issues certain outlines for the auditors in terms of independence and ethics. The other aspects covered by the board are the hiring, supervision and development of the audit people. The board has to review the firms if they are adhering to the laid down principles or not.

**Responsibilities of the Organizations**

The corporations are affected by the act considering the way in which they have to report the financial information to the Securities and Exchange Commission. The companies are required to provide a certificate both by the Chief Executive Officer and Chief Financial Officer separately along with the financial reports. This is a compliance certificate that shows that the prepared reports are in accordance with the requirements of Securities and exchange act of 1934 and represents the financial condition of the firm in a correct and precise manner.

The report further specifies that the various aspects of the financial reporting have been duly fulfilled. The balance sheet represents the financial position of the company while the other set of accounts represents the operations carried on by the company. The officers have to certify that the statements prepared by the company are in line with the actual activities undertaken by the company. The annual as well as the quarterly reports prepared by the firm are affected by these changes.

The following points must be considered:

The officers should specify that they have reviewed the financial reports. The reports do not mislead about the company. The reports are able to show the financial condition of the company as well as the results of the company operations. Proper internal controls systems have been put in place to ensure that the financial information is reliable and the assessment has been done about these controls. The auditors and the related parties know about any deficiencies in the financial reports and any fraud that may have been initiated by the people serving at some place from where they can affect the audit procedures. Keeping these points in view, we will now assess the company under consideration i.e. Target corporation.

The company under consideration is Target. The first sentence of the certificate shows that the management is taking the responsibility of the information presented in the annual report. This will mean that they will also take responsibility if some fraud comes out of these statements. The word used consistency is important because this will help the users of the information to compare the results from this year to those from the last year. This is especially important for those deciding to invest in the company. This is also very important for the authorities to check the company against certain basic requirements. The presentation of the annual report means that the annual report especially the financial information has been presented in a proper way as prescribed by the Securities and Exchange Commission.

The companies are also required to make an audit committee as an integral part of the board of directors. The managers serving in the company are not allowed to work on the committee of auditors. All the matters related to the external auditors are handled by the committee. The external auditor must report to the committee rather to the management of the company. At least one member of the committee must have adequate knowledge regarding the current aspects of the generally accepted accounting principles and also has the experience of making, analyzing and interpreting the financial statements of certain companies. The extra services that are provided by the external auditors other than the audit itself should be approved by the committee. Any such services should be reported clearly to the Security and Exchange Commission.

The financial reports of the company must show all the transactions that can affect the overall performance or condition of the company. There are certain aspects that have to be disclosed but do not fit the definition of liabilities. These are shown as off balance sheet items.

The company must also point out whether the managers have some particular code of conduct to follow or not. Some of the aspects include honest reporting, disclosing the financial information in time for the authentication by the auditors and for the usage of the various stakeholders. This code of ethics should be made available to the public so that the organization can be audited on various aspects of the ethics.

**Responsibilities of External Auditors**

The external auditors prepare the financial statements of the organization. They also report to the Securities and Exchange Commission about the various accounting policies and practices followed by the company. This will also include any discussions between the management and the auditors pertaining to the changes or the alternatives for these policies. If the two parties are not able to reach a common solution to any of the issues, this must also be reported to the Commission.

The external auditors cannot help in any way in making the financial statements of the client. The company has to make the accounting and finance system on its own. No services will be forwarded by the auditors with respect to the evaluation of any kind. The same firm cannot be performing the internal and external audit services for the same company. The external auditors should not be managing the organization in any capacity. The external auditors should not carry on any kind of investment services for the company. No other services should be provided to the company than the audit. This list can be added in by any regulations passed by the accounting board to be impermissible.

The external auditors are the attesters of the internal audit services undertaken by the company. They will also report the effectiveness of internal controls implemented by the company. This is important because in the absence of effective internal control methods, the company will not be able to prepare the accurate and correct financial statements. The auditors give their opinion regarding the internal control processes. The report that contains this assessment on the part of the auditors is attached to the financial statements of the company. As a part of the company’s drive to play an active part in the responsible business activities, the company focuses on the conservation of water and recycling on the part of sewage water. The company is trying to minimize the usage of water for the various raw materials produced. The production process is also shaped in a way that needs the least water resources and can produce the maximum output at the same time. The company was able to accomplish the water usage reduction goal much earlier than it was anticipated. The company aims to reduce the water usage by 15% considering 2010 as the base. Similar targets have been set regarding the waste management by the company. In this regard the company will recycle the portion of the waste that can be used as the raw materials for some other industries.

**Financial Statement Fraud**

The term refers to an intentional effort to change the financial outlook of a company by manipulating certain aspects involved. These may include the wrong statement or skipping of certain amounts or disclosure from the financial statements to make sure that the users will not get to the factual position of the company. All this is a deliberate effort on the part of the company.

This fraud may occur due to many reasons. However these reasons may not always be to get some immediate financial benefit. The manager or company may be under some pressure from outside of the company to do the manipulation. There may be some big opportunity to commit certain fraud due to the weakness in the system. Sometimes some certain situations force the company or managers to commit this kind of fraud. The company may suffer from a sudden decrease of the revenues forcing the managers to manipulate or commit certain frauds. The company may have announced some short term bonus plans that can be achieved if the short term economic performance of the company is good. Thus in this case the managers may commit certain frauds to show that the short term economic outcome of the company is very good. The budget results to improve the short term results may also force the company to manipulate the data.

There are a large number of reasons out of which these frauds can occur. The foremost of these reasons is the absence of board of directors or the audit committees. There may be a very weak board of directors that may not be able to point out the fraud. The company may lack the internal controls necessary to avoid or control the frauds. The internal audit staff may not be well trained and there will be a complete absence of the external audit checks. There may be some transactions that are very complex to comprehend or are unusual in nature. These transactions may provide a valid opportunity to commit various kinds of fraud. There are certain figures in the financial statements that cannot be clearly stated until and unless some judgment is not applied by the management.

The main reason to commit this kind of fraud is to find some time to fix some certain flaws. The management may be looking to get some new source of financing or some old source of financing may be getting expired shortly. It may want that the price of the shares may be increased and the company may benefit from the exercise of options. It may have announced that the bonuses are linked to the company performance so the people may manipulate the figures to get the bonuses. It may try to bring in some investment by selling the stock so it will manipulate the figures to show that the right time to sell the stock is here. It can also show higher earnings per share to depict that the company is paying out a higher dividend. It may not be able to generate the required amount of cash flow and to cover this inability, the company may commit fraud.

The companies may show their assets or revenues at a price that is higher than their original prices. The other way to do the same thing is to show the values of the liabilities ate a lower value than the actual. It generally commit this type of fraud by showing fictitious revenues, creating timings differences, no implementing proper rules for asset valuations, not fully showing the liabilities or expenses and some inappropriate disclosures on the part of the company. Statement of the sales that have not taken place as yet make up the fictitious revenue . There are some other events of sale that are subject to certain conditions. As long as the ownership of the goods has not been passed on to the customer, the revenue of sales is not allowed to be recorded. There are certain aspects that can check whether the company has used fictitious assets. It may show a very fast growth or a high amount of sales as compared to the other companies in the industry. It is reporting earnings at one end and on the other end the cash flows are constantly negative for the company. Some of the major transactions that have taken place involve the same related parties. There are some aspects that have been treated as special purpose businesses. There are certain transactions that are significant in amount and are performed near to the end of accounting periods. The company may record the expenses or revenues at some unusual time periods.

The company may also value the assets in some wrong or improper way. The company may include some wrong information to be included in the inventory, accounts receivable, business combinations or fixed assets. The basic method used to value the inventory is the lower of the cost or market value. Some frauds in this regard can include the wrong counting of the inventory. It can also increase the price of the unit of the inventory to show the higher value of the inventories. Some doubtful inventory can be created out of the wrong counting of the inventories. The company may also show that there is some large stock of inventory in the transit. The shortage of inventory at one place can be overcome by the transfer of inventory for the short time to that place from some other place.

The accounts receivable can be manipulated by the company or the managers who take commission on sales. The companies do it to show that it has no financial problems at hand. The company can show a huge amount in the reserves for bad debts and will not write off the actual bad debts.

The fixed assets can be inflated by recording the doubtful assets which will increase the assets; the company will also increase the owner equity to balance it off. The company can also show the leased assets as the assets owned by the company. The company can also manipulate the value of fixed assets by recording the assets at the market value. It can use the capitalizing of noncurrent assets to make the things look better. The fixed assets at lower value can be shown in the current assets section of the balance sheet.

As far as the liabilities are concerned, the company can fail to post some bills or can create some doubtful debit notes. This is the easiest way to manipulate the books and the hardest for the users to pick up.

The company can also show some revenue expenses as the capitalized ones. This method increases income and the assets in the short term for the company. These expenses will then be written off over a longer period of time and will affect the incomes of those years.

The lesser income is shown to save the taxes. Thus the company shows the capital expenditures as the revenue ones. The financial statements have to include all the information necessary to guide the stakeholders properly about the company. It can skip some of the contingent liabilities from showing in the books of accounts. It may not also show some court judgments on some of the important past events. It may not show some of the transactions that relate to the third parties. The company may have changed some policies specifically to manipulate the figures.

This type of fraud may occur if the company management is controlled or dominated by one person or by a small group of people. The company may have a weak board of directors or the oversight of the committee on the financial statements may be very weak. The company may not provide the full information to the external auditors or may limit them from meeting certain people. The company may have deliberately made the structure so complex that it would be hard to see into it easily. The company may have some irrelevant aspects in the tax free zones that have been shown in the statements related to the business.

The financial statement analysis has to be done to detect the frauds. The vertical, horizontal and ratio analysis has to be done to analyze the statements.

If we look into the financial statements of the company, the current ratio for this year is 0.95. The same ratio for the last year was 0.94. Thus there is not much difference between these two figures. If we further assess the company by calculating the quick ratio, we see that the ratio is 0.85 for this year and 0.85 for the last year thus maintaining the general pattern of the ratios. This however can be questioned by the auditors as to how such exact figures have been maintained. If we go through the receivable ratios, we see that the number of times that the company is collecting the receivables is 8.47 times for the year. In the last year the same ratio was 8.36 times. This ratio has slightly declined for the company but does not show that it may contain some fraud. If we see the fixed assets of the company, we see that the last year figure was 24658 ad this year it is 25018. Thus there is not a big difference in these values. There is an item in the fixed assets section named as construction in progress which should be a part of the cost of production report prepared by the managerial accounting expert of the company. The addition to the fixed assets is suspicious. If we analyze the income statement of the company, we can see some considerable changes in the figure reflecting the earning per share aspects. There is a decrease in this figure in the last year and considerable increase has been shown in the current year. This variation may show some unusual activity on the part of the company. However the prerequisites for the company have been fulfilled for the proper verification of the financial statements by the auditors and there is also certificate duly signed by two officers of the company.

**The Risk factors**

The company is prone to certain risk factors which are discussed in the upcoming lines.

The first and foremost risk that the company comes across is the competitive and reputational risks. The company success is highly dependent on the positive perception of the company in the minds of the customers. This aspect can negatively affect the performance of the company as well as the reputation of the company. The company keeps the four sets of stakeholder at the forefront while doing the business. These are the customers, employees, shareholders and the society as a whole. It reputation has to be preserved if it has to survive in the future. In this era, it is very difficult to stop the negative publicity to expand due to the easy access to the social media. It must be able to keep a distinct identity other than the other retailers if it wants to survive in the market. It has been successful in providing the customers a complete shopping experience. This has been possible by making a combination of pricing, setting up the store in a friendly manner and greater marketing efforts. The company is able to make the experiences of the customers great by collecting timely and latest data about the customers. The mindset of the customers about the overall experience helps us to compete effectively against the competitors. These include the customers’ perceptions with the pharmacies and the medical stores that are run by some other company within our stores. The negative aspects of the services provided by these facilities may result in the loss of customers or reputation for the firm. This may also affect the company in a way that the employees may have to be laid off and new employees have to be employed. We have certain products that have to be sold under our own brand. These products have higher margins and they show a significant percentage of our overall sales. These also allow us to earn higher margin on them as compared to similar products offered by the competitors. The risk may be that we are not able to keep our leadership in these products. The customer must continue to demand the product in the same way as they are doing now. The company should also protect the rights associated with the intangible assets or the intellectual property. The introduction of various channels that involve the least human part is also a considerable challenge for the company. This challenge has made it a bit different for the company to keep itself distinguished from the others. The digital tools allow the consumers to compare and contrast the various aspects of the products available. This sort of decision may be taken on the basis of price only or on the availability of the digital tools. The basic aim of the company is to provide a consistent and convenient shopping experience to the customers irrespective of the channel used to shop. Any difficulties in this process will allow the competitors to jump in and take advantage of any opportunities in the market. Any failure on the part of the company to provide a better experience as compared to the competitors will lead to the lack of differentiation of the company from competitors. The start of our business was marked by the direct sales in our stores. By now we have changed the experience to more aspects of the sales. We also have gathered feedback from the customers with the passage of time. We have implemented new technology for the experience of the customers to improve. We have made sure that the promised times of delivery are met and we can also provide the promised level of services to the customers over a longer period of time. The company should also collect the reliable and accurate customer data in order to be able to compete successfully. The products should be available in the right place and at the right time for the customers to buy from any channel. Thus the company has to cover every aspect of the customer services in order to compete successfully with the competitors. The inventory management efficiency also plays an important part in the process of customer’s satisfaction. This applies to a very broad range of products. Thus the data collected from the various sources about the customers has to be accurate to let the company know how much of the inventory will be suitable for it to maintain.

**Investment and Infrastructure Risks**

The competitive position of the company will be in some distress if the various investments in the store up gradation and relate aspects do not return the expected amount over the amount invested. This aspect may not only affect the operations of the company but also the financial position of the company. The business in some cases depends upon the ability of the company to come up with the new outlook of the old stores. This ability requires certain amount of investment on the part of the company. This investment is done on the expectations of certain percentage of return on the said amount. Thus if the required percentage of return is not achieved, the company may suffer. The amount invested is decided on the basis of the current situation of the stores and the level of revenues generated from the particular stores. The company may suffer if it goes for the wrong model of the expansion for wrong type of store. The company may also suffer if it lacks the certain investments in the technological aspects of the business. The investment in this regard is more risky. The reason behind this is that the rate of return on this aspect is harder to predict. The company is making considerable changes to the design, accessibility and the number of channels available and connected to the technological aspects. These investments may result in the development of some intellectual property rights of the company. This will also mean that the company has to save these rights so that the competitors are not able to copy them. If the company is not able to protect these property rights, the competitive advantage of the company may be lost. IT may suffer if the wrong investment is made. This may mean that the company has invested in some aspects that are not in line with the objectives and goals set by the company. It has to be able to clearly measure the costs and effects of some certain investment opportunity. This will give the company a better chance to assess the overall effect of the decision. The operations of the company will be affected if the computer systems of the company are not updated or if these systems are not properly maintained. The customers will not show the same confidence on the company if the systems are not properly maintained. This will affect the ability of the company to manage the inventory in a proper manner. Many other aspects like power break downs and other related things may affect our ability to satisfy our customers. The company is willing to invest in the systems and is doing it on a continuous basis.

**Data Security and Privacy Risk**

The company is continuously receiving and storing the data about the various aspects of the customers and other related parties. The company has put in ample resources in the data security aspects. The up gradation in the seeking in aspects against the data is very fast. It is difficult for the company to keep up with the pace of technology change in this regard. In 2013, the company experienced the major data breach. The company has to keep an eye on these activities and attempts. Thus the company will be facing some legal consequences if the data breach could happen again.

**Supply Chain and Third party risks**

The company has many suppliers and the relationship between the company and these suppliers have to be managed carefully. The company has to keep an eye on the relationships with the vendors for many reasons. The poor relationship with the vendors will cause the costs of the management of supply chain to increase. The company is also involved in the import of certain materials from the other countries. This makes the company more vulnerable to the changes in the tax and other laws that are prevailing in these countries. The same goes for the changes in political and financial environment of these countries. One example from within the USA is that the labor have gone to strike many times on the various ports and this has forced the company to go for the alternate options in this regard. The company may also face some problems in managing the relationships with the third parties. This will affect the ability of the company to provide proper services and goods to the customers. The third party relations specifically affect the technology aspects of the company. Thus the relationships with these parties have to be maintained properly for the company to work properly.

**Conclusion**

From the above discussion we have assessed that the company is playing the due part in the corporate responsibility area. The financial statements of the company also adhere to the basic aspects of reporting and giving information The Company has put in place some aspects needed for proper corporate governance practices. Thus over the company performance is satisfactory in all the scenarios studied. There are certain areas that can further be improved for the company so that the company can provide much improved service to the customers.

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