

Management Discussion and Analysis

Presentation Key Points

Bill Cox, BDO Canada LLP - November 2011

Shortcomings of much current local government MD&A:

- Too much focus on budget/actual comparisons
- Presentation of fund information instead of big picture
- Not enough balance sheet and financial position analysis
- Not enough discussion of forward looking information
- Numbers stated without putting it all together in meaningful analysis

Key points from IFRS Document "IFRS Practice Statement - Management's Commentary" of December 2010:

- Provide management's view
- Supplement and Complement the Financial Statement Information
- Provide Forward-Looking information
- Information should have qualities of: relevance, faithful representation, comparability, verifiability, timeliness and understandability
- Presentation should be clear and straightforward
- Avoid duplicating information in financial statements or notes
- Provide description of the Nature of Business
- Disclose Objectives and Strategies
- Set out Critical Financial and Non-Financial Resources available
- Discuss Risk Exposures and changes in those risks
- Identify Significant Relations and their impact
- Provide explanations of Performance for the period AND position at end of period
- Provide analysis of Future Prospects

Key points from Canadian Performance Reporting Board Document "Management's Discussion and Analysis" of July 2009:

- 6 principles
 - Enable readers to view the entity through management's eyes
 - Supplement and complement the information in the financial statements
 - Be complete, fair and balanced
 - Have a forward-looking orientation
 - Focus on management's strategy for improving financial health over time
 - Be understandable, relevant and complete
- 5 part framework
 - Core business and strategy
 - Key performance drivers
 - Capability to deliver results
 - Results and outlook
 - Risk

Key points from Public Sector Accounting Board Statement of Recommended Practice
“Financial Statement Discussion and Analysis” of June 2004

Overall Purpose

- Enhance the user's understanding of the government's financial position and results of operations
- Enable the government to demonstrate its accountability for the resources entrusted to it

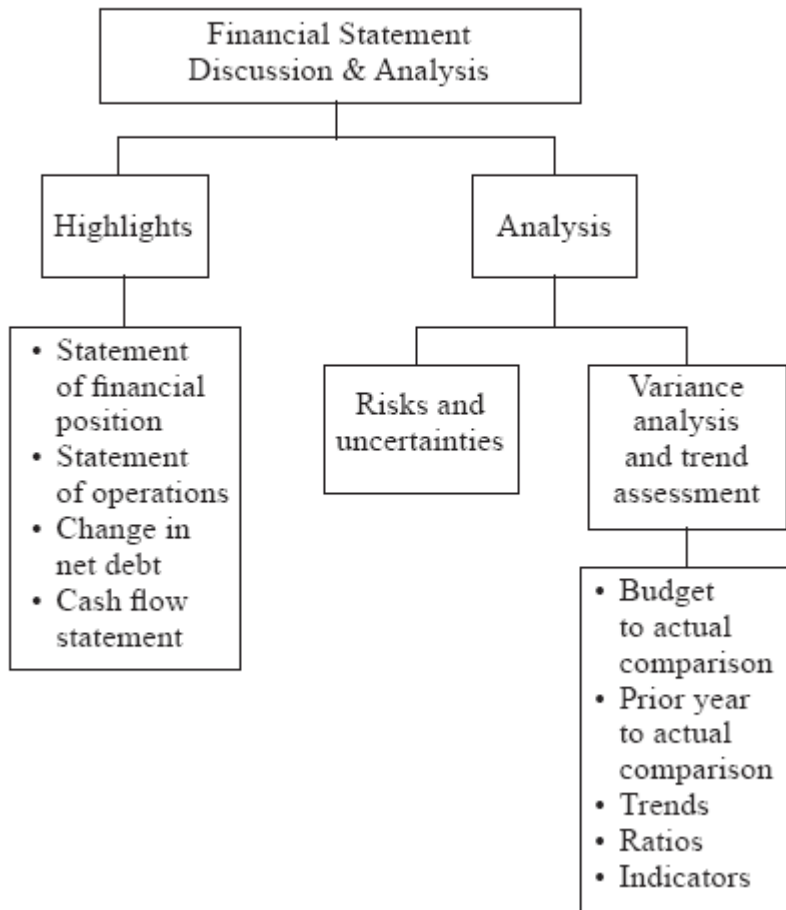
Main Principles

- FSD&A should be clearly referenced to the financial statements
- Should include a statement acknowledging government's responsibility for its preparation
- Should strive for understandability, relevance, and comparability
 - Understandability - clear and simple
 - Relevant - significant, material, will impact financial affairs
 - Reliability - no bias (no politics)
 - Comparability - use consistent policies and practices from year to year

Presentation

- Highlights (summary) section
 - Analysis section
 - Budget/Actual variances
 - Significant trends in financial indicators
 - Typical financial indicators
 - Financial assets and changes in components
 - Rates of returns on investments
 - Taxes receivable to total taxes
 - Levels of restricted assets
 - Debt details including foreign portion (if any)
 - Debt management policies
 - Changes in debt levels and ratios over time
 - Trends in net financial assets (net debt) with explanation
 - Analysis of tangible capital assets, explanation of changes in levels, analysis of required maintenance, age of assets, etc.
 - Overview of total expenses by function and by object
 - Analysis of debt servicing costs and future prospects
- Aggregate to appropriate level of detail
- Use Charts and Graphs whenever possible
- Discuss risks
 - Determine risk items and discuss potential impact and strategies for dealing with. Risk items arise from factors that would cause
 - Volatility in financial results
 - Imprecision due to estimates
 - Debt and treasury management issues including interest rates
 - Vulnerability to concentrations or dependencies on particular source of revenue
 - Risks of impairment of assets or replacement of assets
 - Other uncertainties such as environmental, legal, etc.

FSD&A REPORTING FRAMEWORK



Proper graphing techniques

Best type of charts:

1. Column charts
2. Bar charts
3. Surface charts
4. Pie charts

Be cautious with:

- All three dimensional charts
- Logarithmic charts

Chart types:

Message	Column	Bar	Surface	Pie
Specific amounts depicted	X	X		
Size of several items compared	X	X		
Trends over time displayed	X	X	X	
Proportionate relationships shown	X	X	X	X

Common graphing errors:

- Missing, obscure or multiple zero baseline
- Order of time series reversed
- Negative numbers obscure
- Exaggerated scales
- Creative visual effects

Summary:

- Improve your MD&A
 - Look at the guidance material available - particularly PSAB SORP 1
- Expand well beyond the budget/actual comparison
 - Financial position equally important
 - Long-term trends
 - Forward looking information
 - Risk information
- Use charts and graphs regularly and often
 - Be careful of context
 - Make clear and understandable
- Make the online focus more important than paper versions (paper can always refer to web address)