

Bond Case Briefs

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GASB: Stakeholder Focus: Maximizing the Value of MD&A.

Management's discussion and analysis (MD&A) is a narrative introduction to the annual audited financial report. Intended to make the financial report easier for experienced analysts to analyze and more accessible to less-sophisticated readers, MD&A can be one of the most valuable parts of the financial report required by GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.

In an environment that often allows little time to make a decision or recommendation to buy bonds, a good MD&A is a significant time saver—both for the analyst and the finance officer.

What makes for a good MD&A? In 2004-05, the GASB interviewed more than 250 users of governmental financial information, a significant majority of who lauded MD&A. They were quick to point out, however, that not all MD&A are equally useful. The best MD&A, in the estimation of bond analysts, answered the questions they typically have to call a government's chief financial officer to ask. In an environment that often allows little time to make a decision or recommendation to buy bonds, a good MD&A is a significant time saver—both for the analyst and the finance officer.

Some MD&A, however, could be more useful. Analysts mentioned seeing boilerplate MD&A from multiple governments. It appears that the MD&As were prepared using a common template, a circumstance that runs contrary to the intended purpose of MD&A—to convey the uniquely knowledgeable insights of government's management.

These divergent views were heard again last year when the GASB conducted 11 research roundtables in eight cities around the country, seeking feedback on Statement 34. The roundtables included a variety of types of stakeholders both inside and outside of government. They echoed the view that MD&A often was the most valuable part of the financial report but, in practice, MD&A sometimes falls short of being the valuable document it was intended to be.

Recognizing governments' time and resource constraints, the GASB studies demonstrate that a well-written MD&A pays dividends.

What does it take to prepare a valuable MD&A, according to the GASB's stakeholders? First, MD&A should be developed throughout the process of preparing the financial report; it is not necessary to wait until every number has been thoroughly vetted by the auditor before drafting the document.

Second, the writers of MD&A should think about the questions they commonly receive from readers and answer them proactively. MD&A is required to cover a specific set of topics, but governments can include additional information that they consider relevant to those topics.

Third, MD&A should actually discuss and analyze. When MD&A states what numbers went up and down but fails to explain why amounts changed from year to year, it does not provide useful information. No one is better situated to help the reader understand what happened during the year than a government's finance officers, the typical authors of MD&A.

Lastly, the writers of MD&A should ask themselves, “Would my elected officials understand this? Would the taxpayers?” Communicating about financial information understandably is undoubtedly an acquired skill, yet it is one that finance officers demonstrate routinely with their governing bodies and constituents throughout their budget process. That same talent, applied to MD&A, promises to bear fruit for the preparers, auditors, and users of financial reports alike.