FINANCIAL REPORTING OF THE SOCIAL SECURITY SYSTEM

Sometime last July the U.P. Virata School of Business ("UPVSB" and formerly U.P. College of Business Administration) had a partial celebration of its 100th anniversary featuring academic lectures on different subjects of interest. I attended one that dealt with government owned corporations, which was the Social Security System. Dr. Helena Agnes Valderrama , a UPVSB faculty member presented *"**An Assessment of the Quality of Financial Reporting of the Social Security System ("SSS").*** The study finds that, despite the unqualified opinion given the reports by the Commission on Audit, there are inadequacies in the reporting practices of the SSS as regards receivables, investment property, and its pension and insurance liabilities." The SSS reported unfunded liability of P1.22 trillion as of 2011.

At the end of the presentation, I reacted, not by focusing on the above finding but by questioning the basis of its audited financial report. According to the audit report of the Commission on Audit *"*the financial statements of the SSS have been prepared in accordance with Philippine Financial Reporting Standards (PFRS*)."* The Statements of Profit or Loss and Other Comprehensive Income for the year 2015 (and preceding years for that matter) report revenues as coming from members' contribution and investment and other income. Now , the PFRS defines revenue as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.(emphasis added.

In the above financial statements "Members contributions" form the major source of revenue of SSS The report showed the amount of P133 billion of contribution in 2015 as compared with P29 billion from investment and other income .

I consider the above reporting of revenues faulty and misleading. For how can one consider members' contributions as revenues as defined by PFRS? For private companies, revenues come from income generating activities of the firm, such as sales of products or services. Any fund coming from owners would be considered as capital contributions. To consider the members' contributions as revenues would be like receiving capital contributions and using the same to pay members for benefits. Is this not similar to a Ponzi pyramiding scheme? There are problems related to this. I will mention only one, for lack of space.

Such practice would hide the efficiency (or lack of it) of management's ability to earn revenues from the investment activities of SSS. This practice of including members' contribution as revenues of the SSS would overstate the reported revenues. It would look as if the SSS was earning a lot of money when in reality, it is not. In the above case, the SSS only earned P29 billion from income generating activities, out of which, benefits of P63 billion were returned to members in different forms of benefits.

If the intention were to pay off members' benefits from contributions, the report should show that and not hide the shortage through misrepresentation.

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This column accepts contributions from accountants, especially articles that are of interest to the accountancy profession, in particular, and to the business community, in general. These can be e-mailed to boa.secretariat.@gmail.com