



Financial administration and record-keeping

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Chairman of the Friends Indaba (an umbrella organisation for all the Friends groups in the City of Cape Town)

The people involved in financial administration

Treasurer

The treasurer is elected at the Annual General Meeting (AGM) or by the Executive Committee at its first meeting after an AGM. He is responsible for the day-to-day financial administration and record-keeping of the Association, and should preferably have some book-keeping experience.

Signatories for expenditure

An authorised signatory is responsible for checking every withdrawal slip he signs, making sure that the expenditure has been authorised and that there is corroborating documentation for the spending.

Auditor

The auditor, whether honorary or paid, is appointed at the AGM. It could be a firm or an individual with accounting competency. A fee is negotiable, especially for a non-profit entity.

Documentation to be submitted to the auditor:

- ✓ minutes of meetings held (executive committee, AGM and Special General Meetings)
- ✓ deposit slips
- ✓ invoices for every item of expenditure
- ✓ bank statements reflecting income and expenditure

- ✓ statements of any investments.

If the treasurer keeps accurate and meticulous records, it cuts down on auditing expenses.

The audited financial statements are presented to the Executive Committee, which recommends its adoption at the AGM. The treasurer presents them at the AGM and after approval, signed copies are sent to the auditors and the non-profit organisation (NPO) if you are registered as an NPO. A copy will also accompany your tax return to SARS.

Banking

Finding seed money to start up a new Friends could be a problem for small libraries in low income areas. One would need at least R200 to open a bank account. Fundraising such as a raffle, selling refreshments or a book sale (and here one could ask established Friends to help with donations of books) could provide the initial seed money.

What kind of bank account should one open? One that levies the lowest bank charges, which will probably be a savings account. Discuss with the chosen bank what the best option is for an 'informal body' and how to curtail bank charges. For example, cheques can be expensive, so a once-off stop order in payment of an account, offered by a bank I consulted, would be a money saver.

What is needed to open an account for the Friends?

- ✓ A green barcoded ID for signatories
- ✓ Proof of physical address (this is usually c/o the library)
- ✓ Proof of physical address for each signatory (a utility bill not older than three months)
- ✓ Copy of the constitution
- ✓ All signatories must be present to sign the application

documents – usually two out of three or four signatories are needed for withdrawals

- ✓ Resolution/minutes for mandated signatories
- ✓ If it's an NPO, NPO documents and certificate.

What bank documentation should be kept?

- ✓ *Deposit slips* for income – write what the deposit is for on the slip, for example, membership fees, writer's evening, children's programme
- ✓ *Withdrawal slips* – write the name of creditor and what the expenditure is for, for example, Exclusive Books 20 books; PNA paint and paper for children's programme
- ✓ *Bank statements* – request monthly (you may have to pay for them)
- ✓ *Investments* – spare cash which you are not planning to use soon can be deposited in a 32-day or fixed deposit account to earn a higher interest. Retain the original statement of deposit and monthly statements.

Documentation

Income

Sources of income could be membership fees; sale of books or other items, such as library bags; registration fees for a course or event; refreshments/catering for an event; photocopying machines, et cetera.

All income must be receipted. Buy a standard receipt book at the stationers. Have a rubber stamp made with your name ('Friends of the XYZ Library') and stamp every receipt. Make sure the source and what the receipt is for, is clearly written. If you have printed receipt books, include logo if you have one, and remember to keep a record of continuous numbering of receipts.

Keep a separate till or cash box for Friends money. Be aware of the cash management policy of the local authority to which your library is responsible. Library staff will be handling Friends money, as Friends representatives cannot be on duty all day, so it is important that the LiC (Librarian-in-charge) informs staff of procedures to be followed.

Expenditure

Keep a list of creditors with their bank details.

- ✓ *Petty cash*: keep a cash float and make smaller purchases from that. There must be a till slip or petty cash voucher for every purchase, however small. Do not take money from sales or other receipted income to pay for an item or a programme, to avoid cash banking costs. Always bank income and have a paper trail for all income and expenditure.

While Friends may initiate expenditure, it will usually be the LiC who will make his/her needs known at a committee meeting. It would be unwise of Friends to spend money on projects without consulting the LiC.

The LiC should motivate fully for proposed expenditure. Why, for example, can it not be accommodated in the current year's

municipal budget? Is an item really necessary for the volume of work performed, for example, is a paper shredder really necessary to shred a few hundred membership applications a month?

- ✓ Specifications must be presented for the item motivated, for example, a book trolley: wood or metal (colour); dimensions; how many shelves, straight or sloping; type of wheels. If IT equipment, is it compatible with the local authority's IT infrastructure? What is the cost of consumables needed to maintain the equipment, for example, cartridges for a printer; till rolls for a cash register.
- ✓ *Quotations*: if specifications are detailed, quotations can be compared. The cheapest quotation is not necessarily the best. After-sales service is important when purchasing an item which may need maintenance. Is there a local agent? A recommendation from other Friends is always helpful.
- ✓ *Shared purchases*: for example, plastic bags or disc armour guards for protecting DVDs, where the minimum quantity to be ordered may be too high for one library.

Items purchased by Friends are donated to the local authority for maintenance and insurance. The only exception might be when an item is income generating, for example, a photocopying machine, where the Friends would receive the income but also be responsible for maintenance and insurance. Insurance for copying machines is expensive, so those libraries with machines take out the coin boxes at night to show there is no money in the box and so hopefully prevent damage or theft.

- ✓ *Invoices*: expenditure is authorised by the Executive Committee. An invoice/cash slip must be on record for every expense. If no cash slip is issued, a signed 'chit' should be submitted by the claimant, with full details of the expenditure.
- ✓ *Payments*: withdrawal slips are completed by the treasurer and signed by bank signatories. Ask suppliers to provide their banking details on invoices so that the treasurer can transfer funds (if the same bank), or pay a cheque into the creditor's account at another bank. Banks are encouraging Internet banking but this remains problematic, as there should be two signatories to withdrawals.

Record of income and expenditure

The most efficient way of recording income and expenditure is on Excel spread sheets, which are submitted to the auditors at the end of the financial year, together with documentation mentioned above.

SARS (South African Revenue Service)

According to SARS any organisation can register for tax exemption as long as it conducts public benefits activities. If your application for tax exemption is approved, you will be issued an income tax number:

The mere fact that an organisation has a non-profit motive or is established or registered as an NPO does not mean that it is automatically exempt from income tax.

All exempt organisations formally approved by SARS are obliged to render annual income tax returns, notwithstanding the income tax exemption, which may result in no tax liability. The submission

of an annual income tax return is stipulated as a condition in the approval letter issued to the exempt organisation confirming the tax-exempt status.

Organisations wishing to apply for exemption from income tax and/or for approval for donations to be tax deductible in terms of section 18A of the Income Tax Act must complete an application form *EI 1 - Application for Exemption from Income Tax*. The dated and undersigned completed *EI 1 - Application for Exemption from Income Tax* together with the relevant required supporting documentation must be submitted directly to the Tax Exemption Unit (TEU). The relevant postal address is provided on the *EI 1 - Application for Exemption from Income Tax*.

Public Benefit Organisation (PBO)

Registering as a Public Benefit Organisation (PBO) with the South African Revenue Service (SARS) in terms of section 10(1)(cN), requires that an organisation complies with a number of initial administrative requirements in terms of section 30 of the Income Tax Act 58 of 1962. Further, compliance procedures are prescribed in the Act which has to be adhered to in order for an income tax exempt organisation to retain its exempt status.

It remains beneficial for organisations which conduct public benefit activities listed in the ninth schedule to the Act, to apply for income tax exempt status.

Firstly, once an organisation is exempt from income tax in terms of section 10(1)(cN) of the Act, and becomes a Public Benefit Organisation (PBO), provision is made that certain receipts and accruals of that organisation will be tax exempt. PBOs are permitted to carry on limited business or trading activities on a tax-free basis within certain specific parameters, but will be taxed on receipts and accruals derived from any business undertaking or trading activity that falls outside the parameters of these permissible trading rules. Therefore, preferential tax treatment is provided to PBOs.

Further, a PBO could consider applying for section 18A donor deductibility status. An organisation which qualifies as a PBO in terms of section 30 of the Act and conducts PBAs listed in part II of the ninth schedule, will qualify for this status. Subsequently, donors of funds to such a PBO will be permitted to deduct the value of its donation from its taxable income.

Non-Profit Organisation

The Register of Non-profit Organisations (NPOs) is a voluntary registration facility that enhances the credibility of the registered NPO as it reports to a public office. The NPO directorate of the Department of Social Development, as a public office, holds information about registered NPOs for the public to access. This accountability and transparency improves the governance of an organisation as it is also expected that a registered NPO must comply with the requirements of the Non-profit Organisation Act. The NPO registration status is also a funding requirement for most donor and funding agencies.

An NPO is defined, in terms of section 1 of the NPO Act, as a

trust, company or other association of persons established for a public purpose and of which its income and property are not distributable to its members or office bearers except as reasonable compensation for services rendered. Non-governmental organisations (NGOs) and community based organisations (CBOs) are collectively known as non-profit organisations (NPOs).



To apply for registration as a NPO, organisations complete a prescribed application form and submit it to the directorate for Non-profit Organisations with two copies of the organisation's founding document, that is, a constitution for a volunteer association; memorandum and articles of association with the company's registration letter for a not-for-profit company; and a deeds of trust with the trustees authorisation letter for a trust. The founding document of the organisation must meet the requirements of section 12 of the NPO Act.

Once the organisation is registered, it is obligated, in terms of sections 18 and 19, to submit within nine (9) months after the end of its financial year; annual reports (a narrative report, annual financial statement and an accounting officer's report) including any changes to the organisation's constitution, physical address and office bearers.

Conclusion

Responsible, accurate financial record keeping is essential to show accountability to members and the local authority to which the befriended library reports.

References

www.sars.gov.za

www.dsd.gov.za

<teu@sars.gov.za> (SARS Tax Exemption Unit)