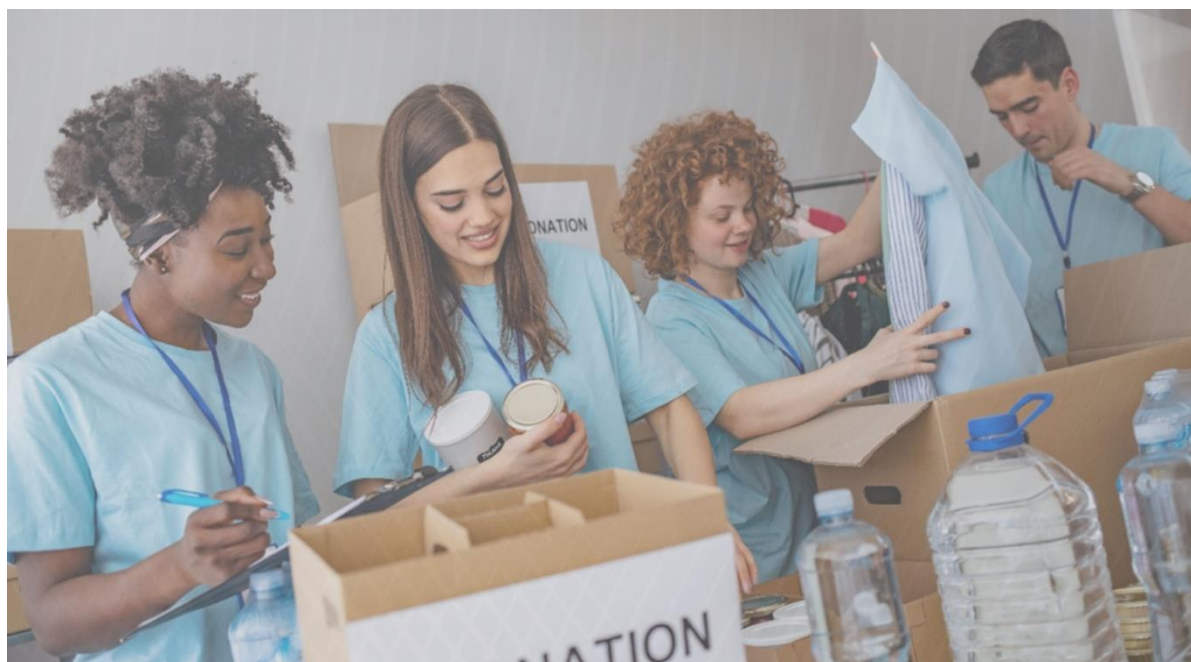


## WHEN GOOD INTENTIONS ARE NOT ENOUGH



When any person or group starts a non-profit organisation, they do it with great enthusiasm and altruistic passion to make a difference. There's nothing to fault such intentions but whilst they're caught up in the moment of making a difference one area that's often neglected is financial management.

This is backed up by a recent statement by the Department of Social Development (DSD) that says only half of the more than 250,000 registered non-profit organisations are compliant with legal requirements. Whilst they may have sufficient initial funding to run their organisations, there are no controls or expertise in place in terms of financial management. The result is likely to be the early demise of the organisation, as is seen time and again in a country that desperately needs such help.

When we speak of NGO and NPOs these can be as small as a granny running a daycare centre in Alexandra Township, to an old age home in the Eastern Cape or a sanctuary for ex-cart horses. They are all great causes and are often initially well supported but unless they're run as businesses, they may find their funding soon disappears.

So why is there so much financial mismanagement in this field? It's perhaps not surprising when you look at the makeup of such organisations, often run by medical people, clergy or teachers – all highly-skilled professionals in their fields but not always used to running businesses or employing the right qualified personnel to run such projects.

### **The make-up of a board**

It's one thing to have names of board members on a letterhead but quite another to have those members play a relevant and useful role in the organisation. For instance, in the running of a school where facilities need to be maintained, you would need a practical person, as well as the obvious financial, legal and human resources members – which wouldn't necessarily be old boys. One needs to look at the activities of the non-profit you have started or are considering and make a list of skills which would be useful based on

these activities. Once you have this list, you then construct your board members ensuring as far as possible that amongst the board members you have a combination of business acumen and activity-based acumen.

Another common mistake when convening a board is having too many members, sometimes the old adage of less is more rings true. This is often only realised when it comes to decision making. It's a good idea to perhaps nominate three people who are put in charge of making day-to-day decisions. This will speed up decision making, instead of waiting for every member's consent.

### **The dangers of fraud**

Unfortunately, when NPOs do make headlines it's often for the wrong reasons – fraud being one of them. In such settings unless there are stringent financial checks in place, this type of monetary mismanagement can easily happen.

One such essential check being to have one person load a payment whilst another is responsible for releasing that payment. This exercise alone could save a lot of money in the long run, ensuring good governance.

### **Tax Compliance**

Whilst tax compliance is something that may not be uppermost in NPOs' minds, if it's not done, it can also lead to their swift downfall. To this end all NGO/NPOs must register with SARS for tax exemption as a 'Public Benefit Organisation' (PBO) to get exemption from income tax on their primary activities, whilst those with Section 18A approval will be able to issue proper certificates for any donations received, enabling the donors to claim a tax deduction. There are many NPOs who go for years without staying tax compliant or being registered as PBO's, which can ultimately lead to them losing their PBO and 18A status or be subjected to income tax. (See links below for guidance)

### **Accountability**

As NGOs rely on donations to stay afloat, they not only have a legal duty but a moral duty to be transparent in all their dealings, and to show exactly how people's donations are being used. For example, if people see a building for instance that's run down and in need of repair, even though they've donated to this organisation in the past, they'll soon offer their funding elsewhere.

Below are a few examples of actions which will assist in transparency:

- Provide regular updates to funders what the funds have been used for and for large donations illustrate with a simple Income and Expense statement.
- Issue simple newsletters illustrating what the organisation has been busy with.
- Keep Minutes of all meetings illustrating the organisation has been run not just by a single person and that informed financial decisions have been made.
- Ensure financials have been audited and approved by the board of the organisation.

### **Sustainability**

Sustainability means having a long-term plan to make sure their operation isn't just effective in the short term but will be able to carry on its work, making a difference for the foreseeable future. People and communities depend on these organisations and the importance of such plans and financial sustainability are key to success.

With the demand for funding so high, particularly after COVID, it's no longer viable to simply rely on funding from outside sources but to start thinking 'outside the box' to come up with ways to self-sustain their organisations. Gone are the days of annual fetes, raffles and cake sales to fill the coffers, now we're talking about solid business plans and initiatives that make long term sense.

For instance, an old age home which not only offers medical care but also spiritual care, could also offer various services to the community. If they're catering for their residents, they could also offer meals outside the home, as well as sell tickets to various entertainments they put on, or even organise day care for elderly family members for a fee.

One thing all these organisations have in common is that they serve the most vulnerable. In most cases, the people concerned didn't choose to be there, they need to be, so the responsibility to make sure they are cared for is paramount. There is no alternative other than to run these NGOS or NPOs in exactly the same way a business would be run, with complete accountability and transparency using best practices – without losing the passion for what they do.

Some useful links:

- SARS Basic Guide to Income Tax Exemption for Public Benefit Organisations:  
<https://www.sars.gov.za/wp-content/uploads/Ops/Guides/LAPD-IT-G16-Basic-Guide-to-Income-Tax-for-Public-Benefit-Organisations.pdf>
- VAT Guide for Associations not for Gain and Welfare Organisations  
<https://www.sars.gov.za/wp-content/uploads/Ops/Guides/LAPD-VAT-G07-VAT-414-Guide-for-Associations-not-for-Gain-and-Welfare-Organisations.pdf>

Author:

**Frans Boonzaaier**

Partner, PKF Constantia Valley Cape Town

[frans.boonzaaier@pkf.co.za](mailto:frans.boonzaaier@pkf.co.za)

**Contact us:**

Should you have any queries on these matters, please contact your PKF relationship partner or firm.

PKF Cape Town PKF Constantia Valley Cape Town PKF Durban PKF George	PKF Octagon Johannesburg PKF Port Elizabeth PKF Pretoria PKF VGA (East Rand) PKF Welkom
------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------

**Disclaimer:**

*The information provided herein may not be construed as legal and/or tax advice. Professional advice should be sought with reference to specific background facts before any action is taken based on the information contained herein. We hereby disclaim any responsibility should any person act upon the contents of this publication without due consultation.*

*PKF South Africa Inc. member of PKF International. PKF South Africa Inc. is a member firm of the [PKF International Limited](#) family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.*