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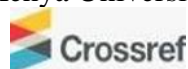
Effect of Month End Close Practices on the Financial Performance of International Non-Governmental Organizations in Rwanda (2020-2021)

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Abstract

Purpose: Month-End Close Practices are tasks performed by finance department every month (or accounting period) prior to and following the closedown of the relevant books of accounts. It is good practice to closedown financial systems for each accounting period to allow the institution to compile its management accounts (e.g. showing the actual expenditure versus budget) to assess its financial position. Therefore, month-end procedures involves running reports to check transactions and balances, as well as preparing management accounts to assess the financial position of the organization. This study focused on the evaluation on Month-End Close Practices on the Financial Performance of International Non-Governmental Organizations in Rwanda. It aimed to finding out whether the Month-End Close Practices were effective and whether they really have effect on Financial Performance of International Non-Governmental Organizations in Rwanda especially in the selected NGOs over the period of 2020-2021.

Methodology: The design of this study was a quantitative and qualitative descriptive in nature. The study enrolled 20 respondents senior finance

staff from the selected NGOs. Quantitative data were collected using data collection sheet while qualitative data were collected using interviews, focus groups and observation. Quantitative data were analyzed using statistical package for social sciences (SPSS) version 20 and qualitative data were to look for emerging themes then further distilled to identify any abstract themes that could be understood holistically.

Findings: The study findings revealed that Month-End Close Practices have a significant effect on the Performance of International Non-Governmental Organizations. The study found a strong positive correlation between moth end practices and financial performance.

Recommendation: International Non-government organizations (NGOs) should maintain internal control system and policies related to the month-end close practices as it showed the high standard of compliance and financial performance.

Keywords: *Month-End Close, Financial Performance, Trial Balance, Reconciliations, Balance Sheet, Posting, General Ledger, Overhead Cost Allocations, Accruals and Audits.*

1.0 INTRODUCTION

International Non-government organizations have been globally found to play a crucial role in various interventions including Health, Education, Emergency response, Protection, Gender Equality, Policy & Advocacy, tertiary and primary care (Martz, 2013). The board and management are focused on raising funds and deploying them to meet the objectives of the NGO. The donors are only interested for those NGOs that are able to use granted funds and meet with the project indicators. Government and regulatory agencies are concerned about the sources of funds, utilization and management of funds so that inappropriate activities do not happen (Ben, 2010). International Non-government organizations have been facing challenges in the areas of accountability, transparency, internal control system and budget monitoring and control.

For NGOs to be accountable, they must explain how they have used donors funds and what it has achieved as a result to all stakeholders in terms of key performance indicators (Ben, 2010). In order to align the activities with their objectives and to meet the project indicators as per donor accountability, NGO's need to measure and monitor performances through how well it achieves the goals it has set itself and at what efficiencies. The two main functions of performance measurement systems are, firstly to ensure that organizations are held accountable for their performance and actions and secondly, to facilitate learning and improve performance (Dasbach, 2021).

Worldwide, the month-end closure has been being done at the beginning of every month and usually takes up to two working weeks. During this process, the previous financial period. cases of the previous month is are closed. The bookkeeping department needs to gather information from all other departments about their financial transactions from the month that is being closed. This information is then processed and archived. Once a month is closed nothing can be booked on this period anymore.

It is important to have all information as accurately as possible (Dasbach, 2021). Financial performance includes also preparing the financial statements which begins with the adjusting trial balance. However, preparing the adjusted trial balance requires closing of books of account and making the necessary adjusting entries to align the financial records with the true financial activity of the business. Closing the books of account is simply a matter of ensuring that transactions that take place after the organization's accounting period are not included in the financial statements. An adjusting entry is a journal entry made at the end of an accounting period that allocates income and expenditure to the appropriate years.

Adjusting entries are generally made in relation to prepaid expenses, prepayments, accruals, estimates and inventory. Throughout the year, a business may spend funds or make assumptions that might not be accurate regarding the use of a good or service during the accounting period. Adjusting entries allow the company to go back and adjust those balances to reflect the actual financial activity during the accounting period. Failure to record the adjusting entries can result in understatement of expenses and overstatement of income, which ultimately can affect the amount of taxes paid (Baskerville, 2007; Mahendra, 2012; Martz, 2013; Jennings, 2013; Farhad, Al. 2012).

Recent reported financial scandals have galvanized considerable interest and discussions on the role of effectiveness of month-end close practices on organization financial performance has become a crucial issue of discussion (Otley, 2003; Don, 2017). In this way, NGOs face with difficulties in area of financial performance on the aspect of month-end close practices. The performance of such organizations has been deteriorating and even some NGOs in Rwanda are facing with the challenges of poor month-end close and mismanagement which affect negatively their performance as per Rwanda Governance Board report 2015. Below variables were scrutinized;

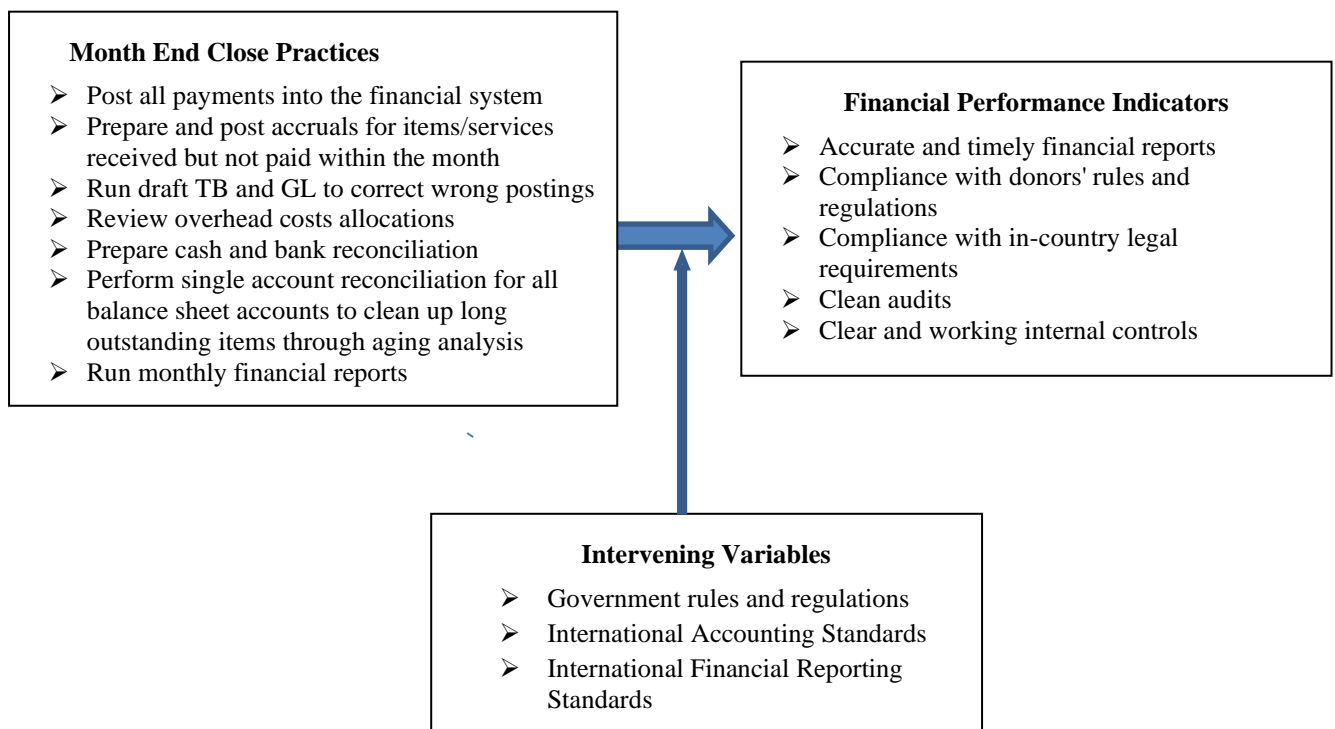


Figure 1: Study Variables

The Month-End Close Practices tasks include post all payments into the financial system, prepare and post accruals for items/services received but not paid within the month, Run draft Trial Balance and General Ledger to correct wrong postings, Review overhead costs allocations, prepare cash and bank reconciliation, perform single account reconciliation for all balance sheet accounts to clean up long outstanding items through aging analysis and Run monthly financial reports. The financial performance indicators are Accurate and timely financial reports, Compliance with donors rules and regulations, Compliance with in-country legal requirements, Clean audits, Clear and working internal controls.

2.0 METHODOLOGY

An exploratory quantitative and qualitative descriptive design was used in this study to find out whether month-end close practices was effective and whether they really have effect on International Non-Governmental Organizations in Rwanda. This study used convenient sampling technique that reached 20 finance staff from selected NGOs while qualitative data were collected from 5 key informants. Data were collected using observational questionnaire and interview administered questionnaire. Observational questionnaire served to get information by observing procedures and techniques used in the month-end close practices. During interview, the researcher exchanged ideas with the interviewees and gathered information about the effect of month-end close practices on financial performance.

It involved closed-ended types of questions directed to the respondents of the selected NGOs. Participants' names were not written on questionnaire for anonymity and confidentiality of information. The study participants were informed that they are free to withdraw from the study from any time. Quantitative data were analyzed using the Statistical Package for Social Sciences (SPSS) version 20 while qualitative data were to look for emerging themes then further distilled to identify any abstract themes that could be understood holistically. Inferential statistics analysis was applied. The level of significance computed p-value <0.05 together with their corresponding 95% confidence

interval were considered to declare the relationship between month-end close practices and financial performance.

2.0 FINDINGS

The Month-End Close Practices Affecting Financial Performance

As shown on table 1 below, the researcher gave the respondents various statements regarding Month-End Close Practices which require to post all payments into the financial system, prepare and post accruals for items/services received but not paid within the month, run draft Trial Balance and General Ledger to correct wrong postings, review overhead costs allocations, prepare cash and bank reconciliation, perform single account reconciliation for all balance sheet accounts to clean up long outstanding items through aging analysis, run monthly financial reports to confirm and give their perceptions on how they affect financial performance.

On mean rating scale of 1-6, the researcher noted that those instances with a mean between 1-1.8 were rated to have a very low mean. It means that there is very low effect of -the month-end close practice to the financial performance. The instances with a mean between 1.9-2.6 were rated to have a low mean. This implies that they have a less effect of the month-end close practice to the financial performance. The researcher also noted that instances with a mean between 3.5-4.2 were rated to have a high mean and this means that-they have more effect on the month-end close practice to the financial performance while the instances with a mean between 4.3-5 and above, were rated to have a very high mean and this means that there is a very strong evidence which shows that there is an effect on the month-end close practice on the financial performance.

Table 1: The Month-End Close Practices Affecting Financial Performance

Month End Close Practices Affecting Financial Performance	Frequencies	Mean	SD
Post all payments into the financial system	100%	5.6	0.09
Prepare and post accruals for items/services received but not paid within the month	94%	4.4	0.04
Run draft Trial Balance and General Ledger to correct wrong postings	95%	4.9	0.24
Review overhead costs allocations	93%	4.2	0.33
Prepare cash and bank reconciliation	96%	5.1	0.12
Perform single account reconciliation for all balance sheet accounts to clean up long outstanding items through aging analysis	98%	5.3	0.11
Run monthly financial reports	94%	4.4	0.10

Source: Primary Data, 2022

From Table 1, It was also noted that all the respondents agreed with the statements regarding the listed Month-End Close Practice and indicated that the Month-End Close Practices have significant effect on the Financial Performance of International Non-Governmental Organizations. Posting all payments into the financial system was ranked as the first with mean (5.6) and frequencies of 100% to show that it obviously contribute to the financial performance. The second ranked month-end close practice was perform single account reconciliation for all balance sheet accounts to clean up long outstanding items through aging analysis with mean (5.3) and frequencies of 98% to show that it obviously contribute to the financial performance.

The third Month-end close practice ranked is prepare cash and bank reconciliation with mean (5.1) and frequencies of 96% to mean that it significantly contribute to the financial performance of NGOs,

however run draft Trial Balance and General Ledger to correct wrong postings was ranked as the fourth month-end practice that has effect on financial performance with mean 4.9 and frequencies of 95%. It was also noted that both prepare and post accruals for items/services received but not paid within the month and run monthly financial reports as the fifth ranked with mean 4.4 and frequencies of 94% has significant effect on the financial performance.

The findings were supported by those from the interviews where one of the respondents said that *''Month-End Close Practices like: Post all payments into the financial system, prepare and post accruals for items/services received but not paid within the month, run draft Trial Balance and General Ledger to correct wrong postings, review overhead costs allocations, prepare cash and bank reconciliation, perform single account reconciliation for all balance sheet accounts to clean up long outstanding items through aging analysis, run monthly financial reports have been found to have a great positive contribution to our financial performance. We have been measuring our financial performance through key performance indicators and the financial performance indicators that was confirming that we have well financially performed are: accurate and timely financial reports, compliance with donors rules and regulations, compliance with in-country legal requirements, clean audits, clear and working internal controls.''*

Relationship between Month-End Close Practices and Financial Performance

The researcher showed how strongly the two variables, which are Month-End Close Practices and Financial Performance, are related to each other and the degree of association of these variables.

Table 2: Correlation Matrix Showing the Relationship Between Month-End Close Practices and Financial Performance

		Month-End Close Practices	Financial Performance
Month End Close Practices	Pearson Correlation	1	.995**
	Sig. (2-tailed)		.000
	N	20	20
Financial Performance	Pearson Correlation	.995**	1
	Sig. (2-tailed)	.000	
	N	20	20

Correlation is Significant at the 0.01 Level (2-Tailed)

Pearson correlation coefficient, ($r=0.995$) shows that there was a very high positive and significant relationship ($p\text{ value}=0.000$) between Month-End Close Practices and Financial Performance. This indicates that-the month-end close practices are well done, the financial performance is maintained.

The findings were supported by those from the interviews where one of the respondents said that *'' The Financial Performance of International Non-Governmental Organizations in Rwanda, is obviously indicated by Accurate and timely financial reports, compliance with donors rules and regulations, compliance with in-country legal requirements, clean audits, clear and working internal controls and the interviewee mentioned also that there is a high positive effect of proper month-end close practices on the mentioned financial performance indicators in NGOs ''*. This is in agreement with the study by Don(2017) that revealed that there are critical financial performance indicators which are not limited to accurate and timely financial reports, compliance with donors rules and regulations, compliance with in-country legal requirements, clean audits, clear and working internal controls and that achievement of objectives, delivery on time and delivery on budget are also components of financial performance for NGOs.

Table 3: Regression Analysis Showing the Influence of Month-End Close Practices on the Financial Performance of International Non-Governmental Organizations in Rwanda

	Un-standardized Coefficients		Standardized Coefficients	t	p-Value
	B	Std. Error	Beta		
Constant	0.823	0.634	0.438	0.377	.000
Post all payments into the financial system	0.767	0.456	0.364	0.123	.000
Prepare and post accruals for items/services received but not paid within the month	0.812	0.112	0.01	0.393	.000
Run draft Trial Balance and General Ledger to correct wrong postings	0.634	0.213	0.912	0.044	.000
Review overhead costs allocations	0.921	0.291	0.345	0.344	.000
Prepare cash and bank reconciliation	0.834	0.812	0.219	0.532	.000
Perform single account reconciliation for all balance sheet accounts to clean up long outstanding items through aging analysis	0.816	0.812	0.21	0.742	.000
Run monthly financial reports	0.733	0.731	0.642	0.943	.000

Using linear regression analysis from SPSS databases, the Month-End Close Practices which are to post all payments into the financial system, to prepare and post accruals for items/services received but not paid within the month, to run draft Trial Balance and General Ledger to correct wrong postings, review overhead costs allocations, prepare cash and bank reconciliation, review overhead costs allocations, perform single account reconciliation for all balance sheet accounts to clean up long outstanding items through aging analysis, run monthly financial reports as independent variables, were regressed to find out how they impacted on financial performance. According to the above table, Month-End Close Practices has strong and significant influence on the financial performance p-value=0.000).

All the month-end close practices done by finance department in international NGOs significantly predict financial performance and should therefore be emphasized. The predicted model from above table was Financial performance = 0.823+ 0.767 post all payments into the financial system, +0.812 prepare and post accruals for items/services received but not paid within the month, + 0.634 run draft Trial Balance and General Ledger to correct wrong postings, +0.921 review overhead costs allocations, +0.834 prepare cash and bank reconciliation, +0.816 perform single account reconciliation for all balance sheet accounts to clean up long outstanding items through aging analysis and +0.733 run monthly financial reports.

4.0 CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The study concluded that the Month-End Close Practices evaluated in the study which are post all payments into the financial system, prepare and post accruals for items/services received but not paid

within the month, run draft Trial Balance and General Ledger to correct wrong postings, review overhead costs allocations, prepare cash and bank reconciliation, perform single account reconciliation for all balance sheet accounts to clean up long outstanding items through aging analysis, run monthly financial reports have a significant effect on the Performance of International Non-Governmental Organizations and there is a strong positive and significant relationship between moth-end close practices and financial performance. The study also revealed that the financial performance indicators in NGOs are accurate and timely financial reports, compliance with donor's rules and regulations, compliance with in-country legal requirements, clean audits, clear and working internal controls.

Recommendations

The study recommends that the International Non-government organizations (NGOs) should maintain enough strong internal control system and policies related to the month-end close practices as they remain crucial for the high standard of compliance and financial performance.

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