

# **The Effect of Accounting Information System (AIS) Practice in the Collection of Value Added Tax (VAT): Study On Wolaita Sodo and Tercha Town Tax Revenue Authorities in SNNPR, Ethiopia**

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**ABSTRACTS:** Accounting information system (AIS) is a system of collecting, storing and processing financial accounting data that is used by decision makers. The major objective of the study were to assess the Accounting information system (AIS) practice in the collection of Value added tax (VAT) in the case of Wolaita Sodo and tercha town tax revenue authorities. Therefore, the research design which have been selected for this study was descriptive. The sample size under this study were selected only some portion of the management and employees of the authority and also some portion of active customers of the authority, by using in some extent judgmental and mainly simple random sampling technique. The total all over data has been collected by using primary and secondary data collection methods. Data collection from the selected population has been through questioner and interview. After the data have been collected, the overall data were analyzed by using descriptive data analysis techniques. The authority did not create adequate awareness on the application of AIS to VAT payers and employees. It did not update the skill of its employees. Wolaita sodo and terch town tax revenue authority offices were also not much realized the awareness creation of purposes and benefits of AIS. Therefore, the authority should create adequate awareness to the society (VAT payers and employees) about AIS practice in VAT collection; the organization should also hire those highly skilled, flexible and experienced employees and should use advanced AIS application to effectively implement in VAT collection process

**Key words:** Accounting Information System, Value Added Tax, Wolaita Sodo, Tercha Town

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## **I. INTRODUCTION**

Accounting information system (AIS) is a system of collecting, storing and processing financial accounting data that is used by decision makers (Romney and Marshall, 2009). Accounting information system is a computer based method for tracking accounting activity in conjunction with information technology resources (Hollander and Moscové, 1999). The resulting statistical report can be used internally by management or externally by other interested parties including investors, creditors and tax authorities.

Accounting information system of the past focused on the recording, summarizing and validating of data about business financial transactions. These functions were performed for the various groups within the organizations that there were concerned about the respective decision associated with tax compliance issues (Hollander *et al.*, 1999). The need to integrate these diverse systems led to the accountant appreciation of shared data base that provide a cohesive picture of the organization information and reducing data conflicts (Hollander and Moscové, 1999).

(Elsa Negash, 2005) studied on the practice of accounting information system in VAT collection in Mekelle, Ethiopia. According to her finding; there is a problem that the authority did not create adequate awareness on the applications of AIS for VAT payers and not much realized the awareness creations of purposes and benefits of AIS. There were problems that most of the time the office software maintenance is done by other outside technician and this affect the AIS of the authority in VAT collection.

(Mahdi Salehi, 2007) studied on accounting information system practice in VAT collection in Iran his finding identified problems that there is a gap between what accounting information system is and what should be.

Active VAT registered customers of the WolaitaSodo tax revenue branch office usually blocks or fails to pay their VAT at the expected time (www.erca.gov.et). This is quite researchable. Therefore, the focus of this study is aimed at assessing the practice of accounting information system in the collection of VAT in case of Ethiopian tax revenue authority Wolaitasodo office.

### **Objective of the Study**

#### **General objective of the study**

To assess the Accounting information system (AIS) practice in the collection of Value added tax (VAT) in the case of Wolaita Sodo Tax Revenue Authority office.

**Specific objectives of the study**

In light of the general objective, the specific objectives of the study are as follows:

- To assess the role of AIS in the current VAT collection system of the authority and examine which AIS Practice fit for their operation.
- To assess the challenges in practicing AIS for the VAT collection process procedures of the authority.
- To provide basic information and support the authority to collect VAT revenues timely and effectively using AIS.

**II. RESEARCH METHODOLOGY**

**Research Design**

The research design which have been selected for this study was descriptive because it ensures the minimization of bias and maximization of reliability of the evidence collected.

**Sample size and sampling technique**

The sample size under this study were selected only some portion of the management and employees of the authority and also some portion of active customers of the authority. Since this helped to manage the research easily. So by using in some extent judgmental and mainly simple random sampling technique this research work has been taken representative management bodies, employees which have direct relation with the topic under the discussion of Wolaita Sodo tax revenue authority and tercha town revenue office and active registered customers.

Finally, the reason why simple random sampling has been applied is that it was mainly simple to be used and the respondents are equally important for the study.

**Source and method of data collection**

The total all over data has been collected by using primary and secondary data collection methods. Data collection from the selected population have been through questioner and interview.

**Data Analysis and Interpretation**

After the data have been collected, the overall data has been analyzed. The analysis of data required a number of closely related operations such as establishment of categories, the application of these categories raw data through tabulation, coding and then drawing statistical inference. Analysis work after tabulation was generally based on the computation of various percentage, coefficients, etc. by applying various well defined statistical formulas (Kothari, 1990). Therefore, the study was analyzed by using descriptive data analysis using percentage and related techniques.

**III. RESULTS AND DISCUSSION**

In the previous part, the overall methodology, which focused on research approach, research design and specific method of data collection and data analysis used in the study, has been presented. This part of the paper presents analysis of various data collected through questioner in Tax Revenue Authorities of Wolaita sodo and tercha town tax offices.

**Data Analysis for Employee’s Questionnaire**

60 questionnaires were distributed to the respondents which contains 40 for the offices employees and 20 for active VAT registered customers. The questionnaires were distributed and collected by the researcher.

**Table 1.** Assessing the current VAT collection system of the authority in relation with AIS practice.

No.	Questionnaire Questions	Strongly Agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %	Total	
							No	Percent %
5	The authority registered VAT Payers properly	80	10	7.5	2.5	0	40	100
6	AIS played a great role in facilitating VAT Collection process to increase government revenue	72.5	17.5	7.5	2.5	0	40	100
7	The employees in the office have higher understanding of what accounting and AIS	10	25	7.5	47.5	10	40	100

Source: questionnaire 2015.

In the above table statement No. 5, respondents were asked about the proper registration of VAT payers. Accordingly, out of all the respondents, the majority 80% of them strongly agree on the proper registration of VAT payers, 10% agree, 7.5% neutral, 2.5% disagree on the proper registration of VAT payers in Wolaitasodo tax revenue authority. Therefore, it can be concluded that there is proper registration of VAT payers in Wolaita sodo tax revenue authority office.

As it is clearly seen from the above table statement No. 6, respondents were asked towards the great role of AIS played in facilitating the VAT collection process to increase government revenue, as a result, the majority 72.5% strongly agree that AIS played a great role in facilitating VAT collection process to increase (improve) government revenue, 17.5% agree, 7.5% neutral and 2.5% disagree on the role AIS played in facilitating VAT collection process to increase government revenue. Therefore, it can be concluded that AIS has a great role in facilitating VAT collection process to increase government revenue year after year.

In the above table statement No. 7, respondents were asked towards employees higher understanding of what accounting and AIS is in the office. As a result, 47.5% disagree on the idea that employees have higher understanding of what accounting and AIS 25% agree, 10% strongly disagree. 10% strongly agree and finally 7.5% neutral on the idea that employees have higher understanding of what accounting and AIS is. Therefore, it can be concluded that the majority of employees do not have higher understanding of what accounting and AIS is in practice. This indicates that lack of understanding about AIS is an obstacle for the active practicing of AIS in the VAT Collection process of the authority.

**1. What is your attitude (opinion) towards the practice (application) of AIS in the authority?**

As they have said there is a good attitude that computerized AIS have several benefits because it is essential for any organizations long-run success by providing reliable accounting information in the field of recording, storing, processing, reporting and communicating over the important facts.

In addition to that it is more accurate than the manual system, simplifies the record keeping process that transaction are recorded in electronic forms and provides relevant information for the decision making process to improve VAT collection.

**Table 2.**The Challenges in practicing AIS in the collection process of the authority.

No	Questionnaire Questions	Strongly Agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %	Total	
							No	Percent %
8	Lack of skilled employees affects the authorities AIS practice in VAT collection.	12.5	65	7.5	12.5	2.5	40	100
9	Lack of well standardized motivational factor (incentive) for employees is a major problem to effectively practicing AIS in VAT collection process.	12.5	65	7.5	10	5	40	100
10	Offices software maintenance should have been done by outside technicians rather than the branch office IT department	5	7.5	5	12.5	70	40	100

Source: questionnaire 2015.

As it is clearly seen from the above table statement no. 8, respondents were asked that lack of skilled employees affects the authorities AIS practice in VAT collection. As a result, 65% agree that lack of skilled employees affects the authorities VAT collection process, 12.5% strongly agree, 12.5% disagree, 7.5% neutral and finally 2.5% strongly agree on the idea that lack of skilled employ is the major challenge to effectively practicing AIS in VAT collection. Therefore, it can be concluded that the majority 65% of t hem agree that lack of skilled employees affects AIS practice in VAT collection process of Wolaita sodd tax revenue authority office.

In the above table statement No. 9, respondents were asked that lack of well standardized motivational factor (incentive) for employees is a major problem to effectively practicing AIS in VAT collection Process of the Authority. As a result 65% of the respondents agree that lack of well standardized motivational factor for employees is a major challenge to effectively practicing AIS in VAT collection, 12.5% strongly agree, 10% disagree, 7.5% neutral and finally 5% strongly disagree on the idea that lack of well standardized motivational factor for employees is a challenge to effectively practicing AIS in VAT collection process. Therefore, it can be

conclude that, (as the majority 65% of responds agree), lack of well standardized motivational factor (incentive) for employees is a major problem to effectively practicing AIS in VAT Collection process of Wolaita soddax tax revenue authority office.

In the above table statement No. 10, respondents were asked that the offices software maintenance should done by outside technicians rather than the office IT department. As a result, 70% of them strongly disagree on the idea that the software maintenance should done by outside technicians rather than the offices IT department, 12.5% disagree, 5% neutral, 7.5% agree, and finally 5% strongly agree. Therefore, it can be concluded that the authority’s software maintenance is done by outside technicians rather than the offices IT department but the majority 70% of employees strongly disagree on this system.

**Table 3.** Providing information to update and use advanced AIS application, create adequate awareness for VAT payers and employees.

No.	Questionnaire Questions	Strongly Agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %	Total	
							No	Percent %
11	The authority create adequate awareness for VAT payers.	7.5	15	5	57.5	15	40	100
12	The authority organized trainings and seminars to widen AIS practice in VAT collection	12.5	22.5	5	47.5	12.5	40	100
13	The authorities have used a standardized measure of AIS practice performance for new employees.	10	15	7.5	55	12.5	40	100

Source: Questionnaire, 2015.

As it clearly seen from the above table statement No.11, the respondents were asked that they created adequate awareness for VAT payers on their duty to pay VAT. As a result, 57.5% of the respondents disagree on the adequate awareness creation in the past, 15% agree, 7.5% strongly agree 5% neural and finally 15% of the respondents strongly disagree on the idea that they have created adequate awareness to the society (VAT payers) on their duty to pay VAT. Therefore, it can be concluded that the (majority 57%) of responds agree on that the authority have not created adequate and satisfactory awareness for VAT payers on their duty to pay VAT.

In the above table 4.3, statement No. 12, respondents were asked about the authority’s organization of training and seminars for the society to widen AIS practice in VAT collection. As a result, 47.5% of the respondents disagree on the idea that the authority organized trainings and seminars for the society (VAT payers) to widen AIS practice, 22.5% agree 12.5% strongly agree 12.5% strongly agree 12.5% strongly agree 12.5% strongly disagree and finally 5% neutral. Therefore it can be concluded that the (majority 47.5%) of responds agree on that the authority have not organized/prearranged trainings and seminars for the society (VAT payers) and employees to widen or increase AIS practice in VAT collection process.

In the above table 4.3, statement No. 13, respondent were asked at the organization have used a standardized measure of AIS practice performance for new employees. As a result 55% of the respondents disagree on the idea that the organization have used a standardized measure of AIS practice performance for new employees, 15% agree, 12.5 strongly disagree, 10% strongly agree and finally 7.5% neutral on the idea that the organization have used a standardized measure of AIS practice performance for new employees. Therefore, it can be concluded that the (majority 55%) of responds agree on that the organization have not used a standardized measure of AIS practice performance for new employees. So that it may be one of the problem or challenge to not practicing the AIS system for the VAT collection process.

**Table 4.**Examining AIS practice which fit for their operation (VAT collection).

No	Questionnaire Questions	Strongly Agree %	Agree %	Neutral %	Disagree%	Strongly Disagree%	Total	
							No	Percent%
14	You have used effective computerized AIS in the authority	17.5	15	7.5	20	40	40	100
15	The authority have used advanced AIS application for VAT Collection	10	15	12.5	52.5	10	40	100

Source: questionnaire 2015.

As it is clearly seen from the above table 4.4, statement No. 14, respondents were asked towards effective application of computerized AIS in the office. The result indicates that 40% of them strongly disagree on the idea that the organization have used effective computerized AIS in the authority, 20% of the respondent disagree, 17.5% strongly agree, 15% agree and finally 7.5% neutral on the idea that the authority have used effective computerized AIS in the authority. Therefore, it can be concluded that the majority 40% of them strongly disagree on the effective application of AIS in the office.

In the above table 4.4, statement No.15, respondents were asked towards the authorities' application of advance AIS for VAT collection process. As a result,52% disagree on the application of advance AIS for VAT collection, 12.5% of them neutral, 15% agree on the application of advanced AIS, 10% strongly agree and finally 10% strongly disagree on the idea that the authority' applied advanced AIS application for VAT collection process. As it can be seen from the above table the majority of the respondents disagree on the offices application of advanced AIS for VAT collection. Therefore, it can be concluded that the authority did not used advanced AIS in the VAT collection process.

**1.2. Data Analysis for the Customer Questionnaire**

**Table 5.**Assessing the approach of VAT payers towards AIS and its effects on VAT collection.

No.	Questionnaire Questions	Strongly Agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %	Total	
							No	Percent%
16	You have good attitude towards AIS practice in VAT collection	10	20	0	45	25	20	100
17	You have achieved maximum effectiveness and improvement	10	40	0	20	30	20	100
18	Your limited knowledge about AIS greatly affects VAT collection process	55	15	10	15	5	20	100
19	Your complain about VAT got answer timely in the authority	60	15	10	10	5	20	100

Source: questionnaire 2015.

In the above table 4.5, statement No.16, respondents were asked that they have good attitude towards AIS practice in VAT collection. The result indicates that 45% disagree on the idea that they have good attitude towards AIS practice in VAT collection, 25% strongly disagree, 20% agree and good attitude towards AIS practice in VAT collection 25% strongly disagree, 20% agree and finally 10% strongly agree on the idea that they have good attitude towards AIS practice in VAT collection. Therefore, it can be concluded that the (majority 45%) of the VAT registered customers do not have good attitude towards the practice of AIS in VAT collection.

As it is clearly seen from the above table 4.5, statement No. 17, respondents were asked on their effectiveness and improvement in tax collection after registered for VAT. As a result 40% of them agree, 30% strongly disagree, 20% disagree and finally 10% strongly agree. Therefore it is concluded that majority 40% them have improvement in tax revenue after registered for VAT, but also 50% of them in general do not agree, disagree (20%) and strongly disagree (30%) on their effectiveness and improvement in tax collection after registered for VAT.

In the above table 4.5, statement No. 18, respondents were asked that their limited knowledge affects VAT Collection process. The result indicates that 55% strongly agree, 15% agree, 15% disagree, 10% neutral and finally 5% strongly disagree. Therefore, it can be concluded that the major factor that determine the accounting information system practice of VAT payers is limited knowledge about how to use the system.

In the above table 4.5, statement No. 19, respondents were asked toward the complain about VAT gets answer timely as a result 60% of them agreed strongly, 15% agree, 15% disagree, 10% neutral and finally 55% strongly disagree. Therefore, it can be concluded that the majority has strongly agree on the timely solution to their problems.

#### **IV. CONCLUSION AND RECOMMENDATION**

##### **Conclusion**

AIS is one of the most important functions of an organization for measuring and evaluating the effectiveness and efficiency of its financial activities. The main concern of this study is to assess those factors that hinder the AIS practice of Wolaita sodd tax revenue authority in VAT collection. On the basis of the data obtained from primary source through (interview and questionnaire), the present work made an attempt to study the practice of AIS in the collection of VAT.

In addition the system of information management and planning, network infrastructure management, custom procedure codes, standard integrated government tax administration system (SIGTAS), office maintenance system, model type of declaration, extended procedure code (EPC), practice (application) of AIS in collecting tax were thoroughly investigated. Furthermore possible solutions were made for the efficient, effective application (practice) of AIS in the collection of tax by the Wolaita sodd tax revenue authority office.

Finally major conclusion were drawn as follows

- AIS is essential for long-run success by providing reliable accounting information to users, simplify the record keeping process and provide relevant information for decision making. AIS played a great role in facilitating VAT collection process to increase government revenue.
- The tax revenue authority Wolaitasodo branch office registered VAT payers follow the rules and regulations set out by government. The authority provided timely answer for VAT payers; if they rise complain about VAT. As a result, VAT payers achieved maximum revenue collection improvement after they have been registered for VAT.
- The authority did not create adequate awareness on the application of AIS to VAT payers and employees. It did not update the skill of its employees. Wolaita sodo tax revenue authority office was also not much realized the awareness creation of purposes and benefits of AIS.
- The employee in Wolaita sodo tax revenue authority office has not higher understanding of what accounting and what AIS in practice is to collect VAT. There are factors that hinder AIS practice or implementation in VAT collection in case of Wolaita sodo tax revenue authority office. Among these the most common factors are lack of skilled man power, lack of technological advancement in the country, limited availability of resource and lack of awareness of VAT payers about AIS.
- The offices system software maintenance is done by other outside technician rather than the offices IT department. This negatively affects the AIS practice in VAT collection process.
- The authority did not have a standardized measure to see the performance of new employees about AIS.
- The organization did not use advanced AIS application for VAT collection.
- Wolaita sodo tax revenue authority office did not have a well standardized motivational factor to employees in the form of incentive and rewards to improve their commitment about AIS practice.

##### **Recommendation**

This part of the paper contains some significant possible solution of the research problems. Based on the study conducted the following necessary points are recommended as a solution for AIS practice (application) problem in Wolaita sodo tax revenue authority office.

- ❖ The authority should create adequate awareness to the society (VAT payers and employees) about AIS practice in VAT collection. The organization should also hire those highly skilled, flexible and experienced employees and should use advanced AIS application to effectively implement in VAT collection process.

- ❖ Regarding the computer maintenance it should be done by the IT department rather than outside technician. The organization should update the skill of IT department employee's to make the maintenance service within the authority.
- ❖ The organization should have a standardized measure to employee's professional performance in AIS practice, especially for new employees. The authority must update the skill of its existing employees and new employees through on job and pre job training.
- ❖ The authority is advised to have a well standardized motivational factors such as reward and incentives to improve employee's commitment in practice of AIS for VAT collection.
- ❖ Finally, different training and seminars should be organized and given by the authority to the society for the practice of AIS in the collection of VAT is going to grasped and capture by all interested entities.

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