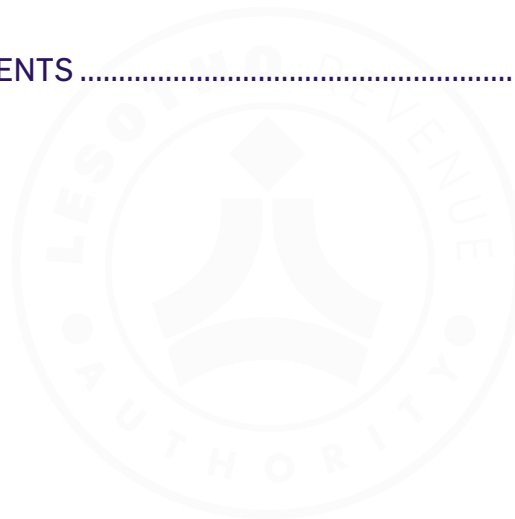


# ANNUAL REPORT

2014/15

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## LIST OF ABBREVIATIONS

CIT	Company Income Tax
CG	Commissioner General
EXCO	Executive Committee
GDP	Gross Domestic Product
LCCI	Lesotho Chamber of Commerce and Industry
LRA	Lesotho Revenue Authority
MOU	Memorandum of Understanding
NUL	National University of Lesotho
OSAS	Organisational Structure Alignment to Strategy
PAYE	Pay As You Earn
SACU	Southern African Customs Union
SADC	Southern African Development Community
VAT	Value Added Tax
WCO	World Customs Organization



# Lesotho Revenue Authority

## TAXPAYER CHARTER

### ***We commit to providing our Customers with:***

- Efficient, effective and timely professional advice and service
- Courteous treatment, rendered in the spirit of mutual respect
- Clear and concise information and educational materials, so that Taxpayers are aware of and understand their legal obligations
- Fair and impartial treatment, delivered to all without preference or favour
- Confidentiality and integrity in ensuring that Taxpayer information is used only for the purposes allowed by Law.

### ***In exchange, LRA expects the following from all Taxpayers:***

- Full compliance with all legal tax obligations
- Honesty and integrity in providing accurate and complete information
- Timely filing of returns and payment of all taxes due.

### ***In the interests of transparency and good governance, you have the right to:***

- Request an explanation of any tax decision
- Object to and appeal any tax decision
- Request that we advise you of the procedures to be followed in lodging an objection or appeal
- Insist on knowing the name and identification number of the person serving you.

## THE BOARD CHAIRMAN'S STATEMENT



Mr. LEHLOMELA MOHAPI

The 2014/15 financial year marked the first year of the implementation of the 2014/19 LRA strategy. In this strategy, the Authority has continued to prioritise the implementation of its modernisation agenda; the development of a structured way to deal with compliance issues; and the requirement to build staff capacity in order to effectively carry out its mandate

This year also marked a year in which the Ministry of Finance revised the revenue targets as a result of some key assumptions that predicated the initial target setting not materialising. The target was revised downwards from M5, 738 million to M5, 132 million. I cannot thank the Honourable Minister enough for this demonstration of openness to reason and evidence-backed persuasion.

Revenue performance exceeded the revised target by about M50 million with M5, 182 million remitted to the Government of

Lesotho over the review period. In terms of revenue growth this year's collection represents a 17.2 per cent growth over last year's collections and an increase of the Tax to GDP ratio from 20.1 per cent in 2013/14 to 21.1 per cent.

The Authority was able to pilot and rollout the new Customs procedures supported by the Automated System for Customs Data (ASYCUDA) at the second largest commercial border post, Maputsoe Bridge. The pilot introduced a massive change in the way in which cross-border trade is processed. As is usual with any introduction of new technology, implementation of the system has experienced some problems.

We are grateful for the cooperation and patience that we have been afforded by the trading community at Maputsoe and, we are cognisant that revenue collection cannot be conducted in a manner that

diminishes local businesses; as such we will continue to interrogate our processes to ensure that we reduce the cost of compliance.

It would be remiss of me not to recognise the role played by the different stakeholders in ensuring that the LRA is able to achieve its objective of maximising revenue collection. First, let me thank the Taxpayers for their continued support and compliance. Secondly, the various national, regional and international bodies with which we collaborate.

And last but not least, the government ministries which we work closely with. The increased support and cooperation that we have been provided by the Ministry of Finance during the financial year is highly appreciated.

During this year, as the Board, we have built a strong working relationship that has enabled us to provide the necessary guidance to the LRA. I appreciate the dedication shown by the Board members, in setting aside time from their otherwise demanding schedules in order to serve in directing the LRA.

I wish to end by thanking the Commissioner General and his Management Team for continuing to lead the Authority to achieve the performance that it has recorded to date. I also wish to thank the LRA staff for their continued commitment and to congratulate them on their performance in 2014/15.



## FOREWORD BY THE COMMISSIONER GENERAL

The 2014/15 financial year was underpinned by a special focus and emphatic drive to succeed in meeting the revenue targets and ensure adequate collection for the needs of the Basotho nation. Efforts towards ensuring that Taxpayers meet their obligations were intensified with special attention to debt collection and improving compliance levels. We also continued to provide the education required to increase Taxpayers' knowledge of their obligations and thereby improve voluntary compliance.

Recognising the need to understand Taxpayer compliance behaviours and apply necessary interventions, we commenced on a project aimed at the development of a compliance model. This project is supported by the International Monetary Fund (IMF) through the provision of technical expertise for which we are truly grateful. The development of the model and a detailed compliance program will be completed in 2015/16.

During this period, we also made strides in implementation of our modernisation agenda. On the customs front, we piloted new procedures supported by automation at Maputsoe Bridge and purchased scanning technologies aimed at augmenting our inspection processes. The full roll-out of the system and deployment of the scanning technologies will be carried out in the new financial year. We continued with the automation of our



Mr. THABO LETJAMA

domestic tax processes and during the period were able to pilot the VAT module with for processing Large Taxpayers transactions. We also carried out the upgrade of our corporate network in order to ensure that it adequately supports the new technologies that are being implemented.

As a corporate citizen we are also cognizant of our corporate social responsibility. The Authority has supported a number of corporate social investment initiatives, as we believe it is everyone's responsibility to make a meaningful contribution with special emphasis towards the less privileged. The social corporate investments undertaken this year have not only served to improve the lives of Basotho, but have offered an opportunity for providing Taxpayer education, whilst also bringing our staff closer to the communities we live in.

Members of the LRA staff remain the cornerstone towards the achievement of its mandate. I thank them for their professionalism, hard work, and dedication in serving their country and our fellow citizens of Lesotho. I thank them for their insatiable quest to keep improving in order to surpass even the highest expectations of our broad base of stakeholders.

On behalf of the LRA management and staff I wish to re-iterate my deepest gratitude to the LRA Board which has continued to provide strategic leadership to the Authority with utmost dedication and diligence. I also wish to thank our various stakeholders with whose support we have seen the LRA grow from strength to strength. Finally to the Taxpayers, we wish to congratulate you for fulfilling your duty by complying with the laws of our country, and thus contributing to the economic growth of Lesotho.



## **PART 1: LRA CORPORATE PROFILE**



## 1.1 MANDATE

The Lesotho Revenue Authority is a corporate body established under the Lesotho Revenue Authority Act no.14 of 2001 to be the:

**“... main body responsible for the assessment and collection, on behalf of the Government, of specified revenue; for the administration and enforcement of laws relating to such revenue and for related matters”**

The LRA is responsible for the administration and enforcement of the following revenue legislation:

- The Customs and Excise Act (1982);
- The Income Tax Act (1993);
- The Value Added Tax Act (2001).

The Authority, which became operational in January 2003, incorporates the functions of the old Income Tax, Customs and Excise and Sales Tax Departments. The LRA was established to enhance the efficiency and effectiveness of revenue collection and to provide an improved service to the public.

The Authority is required to maintain the highest standards of financial integrity and corporate governance.

Despite operating outside the framework of the Civil Service, as a public institution the Authority is fully accountable to Parliament through the Honourable Minister responsible for Finance.

The Authority is governed by a Board nominated by the Honourable Minister responsible for Finance and it is headed by a Chief Executive known as the Commissioner General.

## 1.2 BOARD OF DIRECTORS

# BOARD MEMBERS 2014-2017



**Mr. LEHLOMELA MOHAPI**  
*Chairman*



**Mrs. TSIRELETSO  
MOJELA**



**Adv. 'MAMOTSELISI  
KHIBA**



**Mrs. MANNETE  
RAMALI** 2014 - 2015



**Mr. KELEBONE  
LEISANYANE** 2014 - 2015



**Adv. LINDIWE  
SEPHOMOLO K.C.**



**Mrs. NEO PHAKOANA  
FOULO** 2014 - 2016

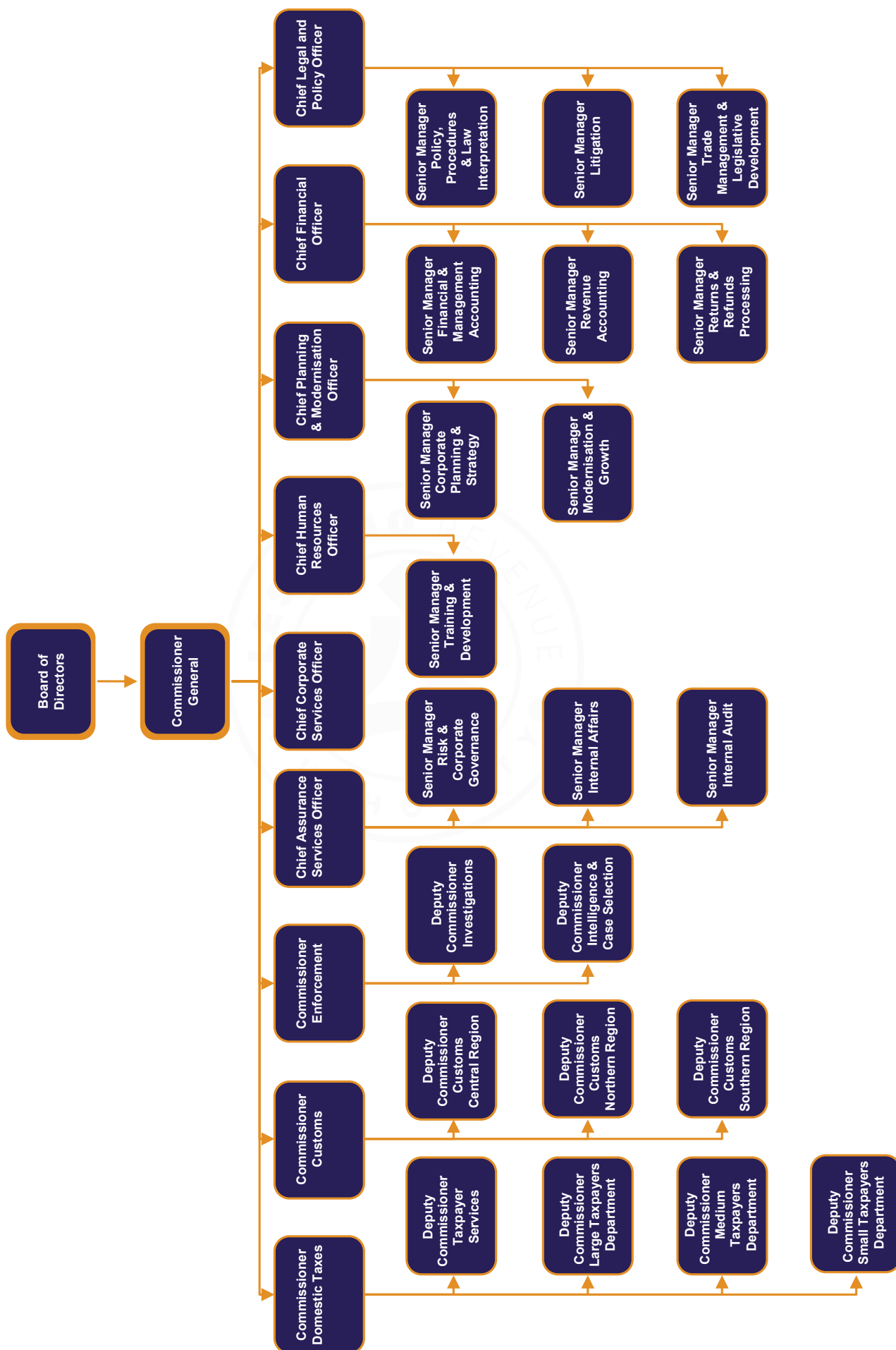


**Mrs. MOTENA  
TSOLO**



**Mr. THABO LETJAMA**  
*Commissioner General*

## 1.3 ORGANISATIONAL STRUCTURE



## 1.4 VISION

To be a leading performance oriented revenue administration, characterised by integrity, innovation and service excellence.

## 1.5 MISSION

To provide revenue collection, border management and advisory services through:

- A capable and motivated workforce;
- Understanding and responding to the needs of our market;
- Building strong and sustainable relationships with stakeholders ;
- Fast, efficient and cost effective programs.

## 1.6 CORPORATE VALUES

- **Teamwork** – the LRA staff should always work together with passion and mutual respect and support each other to achieve common goals.
- **Innovation** – the LRA staff should be able to come up with new ideas for continuous improvement aimed at best service delivery.
- **Integrity** – the LRA staff have to be and seen to be honest, reliable and transparent.
- **Service excellence** – the LRA staff should be helpful and patient in providing service to Taxpayers to promote voluntary compliance and to achieve the highest level of quality in their work.
- **Accountability** – the LRA staff are expected to be answerable for their actions; able to abide by the LRA stipulated rules and regulation; firm and consistent in applying the rules without fear and favour.

## 1.7 AREAS OF EXCELLENCE

In order to deliver against the vision and mission in the next five years, the LRA has developed a business concept that will be supported by the following key strategic capabilities required to ensure the successful delivery of the strategy:

### **Market Knowledge**

The LRA has committed to excel at developing an intimate understanding of our markets, legislation, stakeholders, value adding programs and services that form best practices in revenue collection, border management and advisory services, in order to deliver appropriate and sustainable solutions that meet the needs of Government, stakeholders and Taxpayers, enable improved revenue collection and enhance compliance

### **Stakeholder Management**

The LRA has committed to excel at building lasting relationships with its stakeholders including Government, strategic partners, development partners, agents and Taxpayers that are formalized, transparent, add value and are conducive to business growth and improved revenue collection.

### **Service Excellence**

The LRA is committed to excel at developing a total service culture across all areas of the business, supported by agile, seamless and responsive processes and systems that are dependable, accessible, user friendly and transparent, enabling every interaction between ourselves and our markets, and exceeding their expectations through quicker turnaround times.

## 1.8 CORPORATE CRITICAL ISSUES

In order to successfully implement the strategy the LRA has identified critical issues which are specific action programs that need to be undertaken. Five Critical issues have been prioritised for implementation in the medium term, these are;

1. Modernize LRA's processes and systems;
2. Develop and implement staff capacity building and retention program;
3. Develop a culture of accountability throughout the organization;
4. Develop and implement a compliance model that promotes voluntary compliance and deters non-compliance;
5. Develop and implement a change management capability to drive strategic change in the organization;

During the course of the 2014/15 financial year, the Authority added to this list a construction critical issue aimed at improving infrastructure.



## **PART 2: PERFORMANCE**

## PERFORMANCE HIGHLIGHTS

- **Revenue Collection:** The LRA exceeded the revised 2014/15 target by M49.89 million which is equivalent to 0.97 percent.
- **Launch of the Automated System for Customs Data (ASYCUDA):** Traders at the Maputsoe border post were the first to test the new customs declaration system which is being piloted there before the roll out to other commercial border gates.
- **LRA hosts the WCO Workshop on Gender Equality for the ESA Region:** The Lesotho Revenue Authority hosted the Regional Workshop for ESA Region on WCO Gender Equality Assessment Tool.
- **LRA hosts the Southern African Customs Union (SACU) Regional Trade Forum:** More than 30 representatives from the private sector in the SACU region attended the forum together with the five Heads of Customs from member states. The forum, which was established in collaboration with the World Customs Organization and Swedish International Development Agency (SIDA), was aimed at addressing tax collection challenges emanating from the evolution of the business environment.
- **LRA management attended a WCO Leadership and Management Programme:** 31 managers attended this 2 week programme facilitated by WCO which focused on improving their ability in leadership, decision making, and setting strategic vision.



## 1.1 REVENUE COLLECTION

### 1.1.1.Overall Tax Revenue Performance 2014/15

The 2014/15 tax revenue was initially projected at M5, 745 million but later revised to M5, 132 million in January 2015 as announced in the 2015/16 Budget Speech in May 2015. The reason for the revision could be pinned on the non-fruition of the assumptions employed when the 2014/15 target was set.

During the 2014/15 financial year, the LRA remitted a total of M5, 182 million exceeding the revised target by M49.89 million (0.97 percent).

Table 1 below depicts the remitted revenue against the initial and revised targets for the different tax types in 2014/15.

**Table 1: 2014/15 tax revenue by tax type (in million maloti)**

TAX TYPE	INITIAL TARGET	REVISED TARGET (Jan 2015)	VARIANCE FROM REVISED	REMITTANCES	VARIANCE AGAINST REVISED TARGET	% VARIANCE AGAINST REVISED TARGET
Overall Tax Revenue	5,745.13	5,132.41	(612.72)	5,182.30	49.89	0.97%
Income Tax (IT)	3,536.03	2,931.75	(604.28)	3,065.51	133.76	4.56%
Value Added Tax (VAT)	2,209.10	2,200.65	(8.45)	2,116.79	(83.86)	-3.81%

Figure 1 below shows the quarterly performance of overall revenue in 2014/15.

**Figure 1: Quarterly remittances against target (in million maloti)**

Figure 1 above depicts that there was a dip experienced in Quarter 2 resulted from two factors: firstly, the effect of PAYE rates that were adjusted downwards with effect from April 2014 but were applied in July 2014. This adjustment led to lower collections in Income Tax (IT) due to the retrospectively implementation of the policy. Secondly, VAT refunds made during this period were 58 percent higher than the average quarterly payment of refunds of M80.10 million.

Figure 2 below provides the year-on-year revenue performance for the past five years.

**Figure 2: Year on year revenue performance 2010/11 to 2014/15 (in million maloti)**

Revenue collection grew at a decreasing rate in 2012/13 but recovered during 2013/14 and 2014/15. The sluggish growth in 2012/13 was attributable to poor performance in Income Tax (IT). The growth observed in 2014/15 resulted from the improvement in IT, which is explained further in the next sections.

### 1.1.2 Income Tax (IT) Performance

In 2014/15, of the total tax revenue, IT remained the largest contributor at 59.2 percent. During 2014/15, IT remittances exceeded the revised target by M133.76 million (4.6 percent). Figure 3 below shows IT quarterly remittances for 2014/15.

**Figure 3: IT Quarterly remittances against target (in million maloti)**

The dip experienced in Q2 was brought about by poor performance in PIT as referred to under figure 1 and in CIT.

Figure 4 below provides the year-on-year IT performance for the past five years.

**Figure 4: Year on year IT Performance 2010/11 to 2014/15 (in million maloti)**

The dip observed in 2012/13 was as a result a decline in PIT collections. In 2012/13, IT collections improved due to an increase in CIT collections. In 2013/14 income tax target was set using a high base hence the recorded poor performance. In 2014/15 the situation was corrected where a correct base for the target was applied. This resulted in good performance on income tax registering a growth of 14%.

**1.1.2.1 Disaggregated IT Performance**

Figure 5 below depicts the year on year percentage contribution of the IT components.

**Figure 5: Year on year disaggregated IT performance 2010/11 – 2014/15**

As shown above, for the past five years Personal Income Tax (PIT) has contributed the largest share of collections across the income tax types followed by Company Income Tax (CIT).

Table 2 below shows IT remittances by tax component.

**Table 2: IT remittances by tax component (in million maloti)**

TAX TYPE	INITIAL TARGET	REVISED TARGET	REMITTANCES	VARIANCE AGAINST REVISED TARGET	% VARIANCE
Income Tax (IT)	3529.33	2931.76	3065.51	133.76	4.56%
Personal Income Tax (PIT)	2201.29	1701.57	1663.48	-38.09	-2.24%
Corporate Income Tax (CIT)	722.05	713.8	862.37	148.57	20.81%
Other Taxes (OT)	605.99	516.39	539.66	23.27	4.51%

**1.1.2.2 Corporate Income Tax (CIT)**

The largest contributors to CIT are the Mining sector, Financial and Insurance sector, and the Telecommunications sector. Performance in any of these sectors impacts on CIT, because there is a positive correlation between their performance and revenue collection.

CIT remittances in 2014/15 exceeded the revised target by M148.57 million. This performance was influenced by growth in the collections from the mining and the financial sectors. The increase in the price of rough diamonds which translated into increased production and volume of sales increased the performance of the mining sector. This resulted in more profits and hence more CIT collections.

Figure 6 below shows the quarterly CIT performance.

**Figure 6: Quarterly CIT performance 2014/15 (in million maloti)**

The CIT collections missed the target in Q1 and Q2. This was based on the fact that during Q1, the mining sector contribution declined. This performance improved in Q4 hence CIT collections exceeding the target by a large margin. The performance in Q2 was influenced by late payments which were effected in Q3.

Figure 7 below provides the year-on-year CIT performance for the past five years.

**Figure 7: CIT performance 2010/11- to 2014/15 (in million maloti)**

As indicated in previous section, one of the major contributors to CIT collections is the mining sector. The observed CIT collections growth in 2014/15 is attributed to the exceedingly good performance of this sector which realized higher profits as a result of a 26 percent hike in the price of diamonds. This was due to high global demand of diamonds.

### **2.1.2.3 Personal Income Tax (PIT)**

PIT remittances for 2014/15 were below the revised target by M38.09 million (2.2 percent). This was due to the downward revision of the tax rates of the upper and lower personal income brackets from 35 to 30 percent and 22 to 20 percent respectively as announced in the 2014/15 budget speech.

Figure 8 below depicts the quarterly PIT performance.

**Figure 8: PIT performance by months 2014/15 (in million maloti)**

Figure 9 below provides a year-on-year PIT performance for the past five years.

**Figure 9: PIT performance 2010/11 to 2014/15 (in million maloti)**

In 2010/11 and 2011/12, the tax brackets were not adjusted by inflation which emanated into a bracket creep. This means that more people were pushed into the tax net increasing their tax liability. In 2012/13, the inflation indexing was effected hence PIT was adversely affected and missed the target by 9 percent. Despite missing the target in 2013/14, PIT collections grew by 13.8 percent.

PIT collection in 2014/15 grew at a declining rate. This was due to the impact of the revised PAYE rates. This adjustment resulted in an estimated revenue loss of M267.30 million

### **Other Taxes (OT)**

Other taxes comprise withholding taxes, fringe benefit taxes and gambling levy. During this period, remittances from other taxes exceeded the revised target by M23.27 million.

Figure 10 below shows the quarterly performance of OT.

**Figure 10: Quarterly OT performance (in million maloti)**

### 1.1.3 Value Added Tax (VAT) Performance

In 2014/15, VAT contributed 40.8 percent to the total domestic revenue. During this period VAT remittances were below the revised target by M83.86 million (3.8 percent). This performance was impacted by the 2014/15 economic growth which was lower than expected from a projected 12.8 percent to 8 percent in nominal GDP and from 4 percent (IMF Country Report No. 14/201) to 2.3 percent in real GDP. Since VAT is driven by economic activities, a fall in the economy is expected to lead to a fall in VAT collections.

Figure 11 below shows VAT quarterly remittances for 2014/15.

#### **Figure 11: VAT Quarterly Performance 2014/15(in million maloti)**

Figure 12 below provides the year-on-year VAT performance for the past five years.

#### **Figure 12: VAT remittances 2011/11 to 2014/15(in million maloti)**

The Wholesale and Retail, and Construction sectors are the biggest contributors to VAT at 45 percent and 20 percent respectively. Their performance therefore directly impacts the performance of VAT. In 2013/14 VAT performed at a declining rate due to completion of some major construction works such as the construction of the Maseru Mall and phase two of the Pioneer Mall. Despite missing its annual target, VAT registered a 22 percent growth in 2014/15.

#### **2.1.4.1 VAT Refunds**

The Authority refunded a total of M394.02 million in VAT in 2014/15. The largest portion of these was refunds made to the Mining sector.

Figure 13 depicts the year on year VAT refunds for the past five years.

#### **Figure 13: Year on year VAT Refunds**

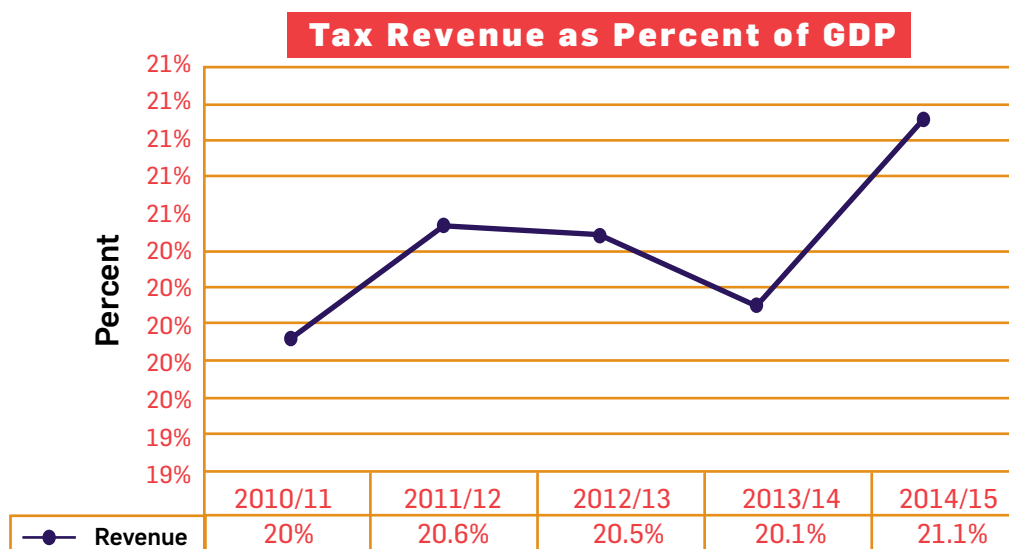
VAT refunds grew by 12 percent in 2014/15. The huge growth is mainly attributable to the growth of refunds going to other sectors.

### 1.1.4 Tax-to-GDP Ratio

The Tax to GDP ratio which means the amount of taxable goods and services that contribute to the country's revenue is used to evaluate the capacity and efficiency of revenue agencies. According to the World Bank, Lesotho is classified as a lower middle income country.<sup>1</sup> As per the African Economic Outlook, the tax-to-GDP ratio for lower middle income countries is around 22 percent.

Figure 14 below shows Lesotho's Tax to GDP ratio from 2010/11 to 2014/15.

#### **Figure 14: Tax revenue as percentage of GDP (2010/11 to 2014/15)**



In 2014/15, the Tax-to-GDP ratio increased by 1.0 percentage point. This is attributed to over performance in IT, particularly CIT contributions.

### 1.1.5 SACU Receipts

The total SACU receipts for 2014/15 amounted to M7, 124.46 million. Table 3 below shows the year on year performance of SACU receipts and also compares their contribution to other Government revenue sources.

**Table 3: Year on year performance of SACU receipts and other sources of Government revenue (in million maloti)**

		2010/11	2011/12	2012/13	2013/14	2014/15
Total Revenue		8,559.4	9,235.4	13,144.9	13,274.0	14,546.5
Tax Revenue		3,499.1	3,855.4	4,596.3	5,147.6	5,715.2
Grants		1,200.10	1,584.90	1,703.30	1,047.60	495.70
Other Revenue		1,232.30	1,042.50	878.8	1,024.80	1,301.60
SACU		2,627.90	2,752.60	5,966.30	6,054.60	7,034.10
<b>Revenue Sources as a percentage of Total Revenue</b>						
Tax Revenue		40.9%	41.7%	35.0%	38.8%	39.3%
Grants		14.0%	17.2%	13.0%	7.9%	3.4%
Other Revenue		14.4%	11.3%	6.7%	7.7%	8.9%
SACU		30.7%	29.8%	45.4%	45.6%	48.4%

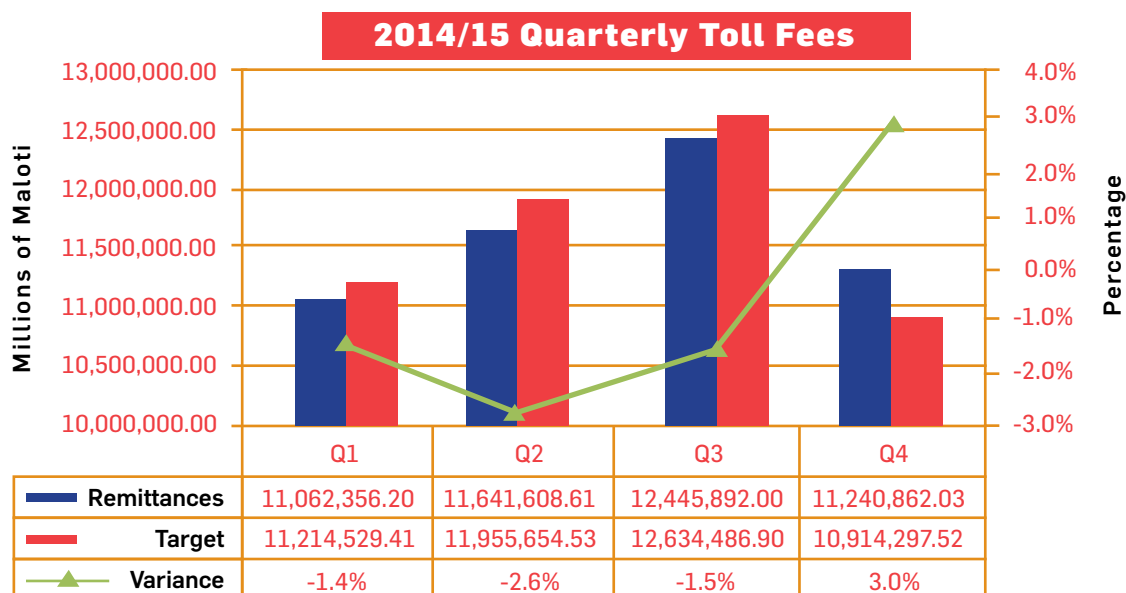
Between 2010/11 and 2011/12, tax revenue was the major source of income for Government. In 2012/13 this changed with SACU receipts becoming the major source of Government revenue with a contribution of 48.4 percent in 2014/15.

### 1.1.6 Other Fees: Toll-gate Fees

In 2014/15, toll fees the LRA collected M46.39 million in toll-gate fees.

Figure 15 below presents the 2014/15 quarterly toll fee collections.

**Figure 15: Toll-gate collections**



### 1.1.7 Cost of Collection

The cost of revenue collection is an important indicator of the efficiency of a revenue authority and is calculated by dividing the internal cost of operations (recurrent costs) by the total tax revenue collected. The total tax revenue collected includes SACU revenue and domestic tax revenue.

The observed cost of collection for 2014/15 still remains higher than 1 percent which according to SARS Annual Report of 2013/14 is the international benchmark for revenue authorities.

Table 4 below shows the cost of collection from 2010/11 to 2014/15

**Table 4: Cost of collection 2010/11 to 2014/15 (in million maloti)**

	2010/11	2011/12	2012/13	2013/14	2014/15
<b>Total Tax Revenue</b>	5,904.68	6,523.35	9,961.71	10,476.48	12,216.40
<b>Operating Cost</b>	188.2	201.8	241.02	297.67	342.6
<b>Cost of Collection</b>	3.19%	3.09%	2.42%	2.84%	2.80%

In 2014/15, the LRA was able to reduce its cost of collection by 0.4 percent. This improvement was largely driven by the 17.2% increase in collection by from the previous year.

### 1.1.8 Revenue Foregone on Tax Relief Measures

During 2014/15 the Government's Policy on tax relief, pro-poor policy and exemptions provided various measures on tax relief with the aim of reducing the tax burden and encourage tax compliance.

- The lower and upper personal income tax rates were reduced from 35 and 22 percent to 30 and 20 percent respectively resulting into a revenue loss of M267.30 million.
- The use of tax credit has increased assistance to the low income employees and medium and small self-employed people. In the current year 66,000 employees and self-employed individuals (of which 43,000 are textile manufacturing employees) were relieved from paying personal income taxes through the use of the tax credit. A total of 67,469 employees that are liable for personal income tax were also the beneficiaries of the M6, 100.00 annual tax credit. In 2014/15 this tax credit system gave back M639 millions of income tax to the taxpayers, making it the largest cash-transfer programs of the government of Lesotho.
- The Government of Lesotho's pro-poor policy of zero-rating basic food stuffs, illuminating paraffin and agricultural inputs has cost M450.59 million in terms of VAT revenue foregone during the 2014/15 financial year.

## 1.1 ENHANCING COMPLIANCE

### 1.1.1 Taxpayer Education

In an attempt to increase Taxpayer's knowledge about the tax laws and their obligations and to enhance voluntary compliance, the LRA carries out Taxpayer education initiatives on an annual basis. The taxpayer education activities for the year involved an amalgamation of vibrant TV and radio programmes, and tax clinics, the latter of which experienced an attendance of five thousand two hundred and sixty (5260). This year, two (2) TV and fifty two (52) radio programmes were run, and eighty three (83) tax clinics conducted. These were supplemented by publications in local newspapers.

Unlike in previous years where the only radio programme used for educating the public about tax issues was Mokhafisi, run on Government media only, LRA has increased its coverage and gone on to use private media. It has run additional programmes on radio stations such as the People's Choice, Harvest and Moafrika radio stations.

### 1.1.2 Enforcement Activities

During the period under review, the Authority carried out the following enforcement activities aimed at combating non-compliance:

- Through anti-smuggling activities the authority detected 1031 cases of smuggling, mainly of imported vehicles, fruits and vegetables, and by private shoppers. These amounted to M1, 308,922 of which M726,189 was collected during this period;
- 51 cases were investigated out of which 47 were completed and closed and resulted in the recovery of M85, 549,811.93.



## 1.2 CORPORATE CRITICAL ISSUES

### 1.1.1 Modernization

In the 2014/15, the LRA continued with its modernization agenda. The objectives of the LRA's modernization agenda are to provide excellent service to the Taxpayer; reduce the burden of compliance on the Taxpayer; and reduce the cost of collection to the Government of Lesotho.

The Modernization Agenda is broken down into 3 major programs that are geared towards the Modernization of the processes related to collection of Inland Taxes, the modernization of those related to Customs Operations, and those related to core support processes within the Authority. Below are some highlights of the milestones achieved in the 2014/15 with respect to these programs:

- The LRA completed the development of the VAT module within its new tax system and piloted it within the Large Taxpayer segment;
- A review of the LRA's Debt Management process was carried out. This included the policies, process artifacts, and system requirements for the process to enable the Authority to effectively manage its debt stock and ensure its collectability;
- The Authority completed the development of its Customs basic import and export processes and automated them using the regionally utilized Automated System for Customs Data (ASYCUDA) World system. These were piloted at the Maputsoe border-post. Lessons learnt from the pilot will be used to prepare for the Maseru and National roll-outs in the 2015/16 financial year;
- The Authority procured non-intrusive scanning technology that is aimed at supporting the Customs Inspections process. One baggage scanner and two compact mobile scanners were acquired and shall be deployed in the 2015/16 financial year;
- The LRA upgraded its network in order to more effectively connect all of its offices and provide better communications infrastructure. The upgraded network is also designed to support the Integrated Revenue Management system; that is made up of the new Tax and Customs systems;
- The Authority upgraded its Backup and Recovery system which has the capacity to backup and recover the core systems and data, including those that are being implemented as part of the Tax and Customs modernization programs.

In order to support its modernization agenda, the Authority has commenced the review of the revenue laws. During the period under review, the LRA reviewed and drafted the Customs Control Bill which is currently at the Office of Parliamentary Counsel. A revision on the Customs Regulations, Tax Administration Bill, and the Income Tax Amendment Bill is being undertaken.

### 1.1.2 Staff Capability and Retention

In order to meet its strategic objectives, the Authority has embarked on a journey that is aimed at ensuring that it has the right people in the right roles, in support of its strategic goals.

During this period, over 70 percent of staff members attended training courses. 30 percent of these members of members of staff underwent training under the Customs Modernization programme in preparation for the roll out of the new Customs processes. Other training programmes included the induction of new employees on the Customs, VAT and Income Tax laws, and the Debt Management Manual.

The following interventions were also undertaken to enhance management and leadership capability within the Authority:

- Around 30 managers attended a two week management development program facilitated by the World Customs Organization (WCO);
- The Executive Management underwent an intensive team development and coaching program. This program is aimed at strengthening the leadership skills of the LRA executive. The program will be completed in 2015/16. The Executive Committee also started a peer coaching program aimed at holding peers accountable for results.

### 1.1.3 Accountability

The Authority established that in order for it to meet its desired levels of service excellence, and to meet its other strategic goals, that it is required to foster an environment that is underpinned by a culture of accountability at all levels. To this end, the following were carried out:

- A charter for the LRA's Executive Committee was developed which clearly outlines the roles, responsibilities, powers, expected conduct and mandate of the Executive Committee and its members. This shall form the foundation of the charters of all other management structures within the Authority;
- A review of the LRA's policies was kicked off, and in the period under review, the Finance, HR, and IT policies were prioritized and are approaching completion, for implementation in the 2015/16 financial year.

The programme runs into the 2016/17 financial year and has a number of initiatives that shall make sure that the culture of accountability is inculcated at all levels within the Authority.

### 1.1.4 Compliance Model

The Authority has identified a requirement to accumulate knowledge on the compliance requirements and patterns of its Taxpayers in order to put in place a programme that shall provide a structured approach to the management of Taxpayers based on their compliance patterns. In order to address this, the Authority embarked on a project aimed at the development of a Compliance Model and corresponding Compliance Programme.

Progress against this initiative is as follows:

- The Authority has developed a first-pass Compliance Model matrix. This has been based on global best practice, and information gathered from study tours and assistance from International Monetary Fund (IMF) experts;
- The Authority has procured the services of a service provider that shall assist in the carrying out of a baseline survey that shall assist in the development of the Compliance Programme, in line with the Compliance Model.

## 2.3.5 Change Management

The implementation of programmes in the LRA Strategic Plan 2014-19 is guaranteed to bring about significant changes to how things are currently being done at the LRA. Core to this is therefore the

requirement to build Change Management capability within the LRA supported by strong Strategic Management and Project Management principles. During the period under review, the LRA therefore initiated a project aimed at building these capabilities.

Progress against this project is as follows:

- A Strategic Management Framework that guides the Authority on how to go about developing its organizational strategy and cascading it into annual plans that encompass the activity plans, budgets, manpower plans, and training plans to name a few was developed. This framework also includes the monitoring and evaluation of the organizational strategy. The framework is currently in use and capacity at various levels has been developed for its use;
- The LRA also developed a Project Management Framework that guides the Authority on how to effectively manage the projects that are used to bring about the strategic change, in order to ensure implementation within time, budget, quality, and scope constraints as set out by stakeholders.
- The Authority has kicked off the development of an organizational Change Management Framework that shall be used to effectively institutionalize and sustain organizational changes and is focused on the people aspect of changes that is often erroneously ignored. The Framework is also going to be developed within the context of the Strategic and Project Management frameworks that have been developed.

## **2.3.6 Construction**

### **1.1.4.1 LRA Border-Post Refurbishment**

The Authority continued with its programme that is aimed at the refurbishment of the border-posts in order to align them with business requirements, including Health and Safety issues. In the period under review, the Authority was focused on the refurbishment of the Caledonspoort (Butha-Buthe) border-post. The construction of the border-post is nearly complete, including the road works, new staff housing, and the new border-post building. It is anticipated that it shall be opened in the 2nd quarter of the 2015/16 financial year.

## **1.4 CORPORATE SOCIAL INVESTMENT**

### **1.5 LRA on Developing Young Minds**

During the period under review, the Lesotho Revenue Authority held a Spelling Bee contest for primary schools. This contest brought together eight primary schools around Maseru namely; 7th Day Adventist, Phethahatso, St. James, Iketsetseng, Unity, Montessori, New Millennium, Maseru Prep, and NULIS. The objective of this contest was primarily to instigate and entrench the culture of voluntary compliance among Taxpayers in Lesotho by amongst others providing students with an opportunity to acquire tax knowledge at a tender age, while at the same time developing their communication and presentation skills. This was done by incorporating Tax nomenclature in the words that students were required to spell.

#### **1.5.1 High School Debates**

The Authority continued to host high school debates and competitions, during this reporting period. A total of thirteen (13) high school debate competitions were held around the country. These debates were around Tax related matters and were aimed at getting students discussing tax matters from as young an age as possible, whilst also developing them and providing them with a platform to present their talents in debating.

#### **1.5.2 LRA Awards Best NUL Students**

In an effort to recognize excellence in education, and in partnership with the National University of Lesotho, the Lesotho Revenue Authority (LRA) bestowed awards of excellence to two students at the National University of Lesotho (NUL) during the 2014 graduation ceremony. Each student received M3, 500 from the LRA as best students in bachelor degrees in Accounting and Economics respectively. The awards were mainly targeted towards those who excelled in subjects with elements of taxation.

The LRA also plays a key role in acquiring skills instilled in the NUL graduates through an internship and temporary employment programme.

#### **1.5.3 Bacha Entrepreneurship Project**

The lives of youth in Lesotho are set to change following the launch of the Bacha Entrepreneurship Project. The Lesotho Revenue Authority (LRA) entered into a tripartite agreement with the Basotho Enterprise Development Corporation (BEDCO) and Standard Lesotho Bank (SLB), to sponsor young entrepreneurs. The project is targeted at unemployed youth who hold at a minimum, a university degree qualification, are aged between 21 and 35, and are aspiring to be entrepreneurs. Three owners of winning proposals will be provided with capital totalling M500, 000 to start their business. The entrepreneurs will be capacitated in business skills, which will help them to run their businesses and also draw up their own business proposals to enable them to qualify for better financing by financial institutions.

#### **1.5.4 Construction of classrooms at Likoabing Primary School**

In September every year, the LRA engages in a social responsibility activity nominated by staff members, with an the intention to make a meaningful impact on the lives of citizens by creating space for staff members to participate in community development projects.

Members of staff suggested that this year the LRA should assist the community of Likoabing in Rothe. This view came in response to a story that was aired on Lesotho Television in September 2013 about a school which has extremely limited class rooms and toilets. A sod turning ceremony was held in September 2014 and marked the commencement of construction of four classrooms, a staff room and toilets for both teachers and pupils, which the LRA has committed to provide for this school.

### **1.6 MANAGING STAKEHOLDER RELATIONSHIPS**

#### **1.6.1 Collaboration with WCO**

The Lesotho Revenue Authority hosted the Regional Workshop for ESA Region on the World Customs Organisation (WCO) Gender Equality Assessment tool. Twenty participants at Senior Management level represented nine Revenue Authorities from the East and Southern African region. The Gender Equality Assessment Tool measures Revenue Authorities on the following equality principles:-

Principle 1 – Employment and Compensation;

Principle 2 – Work-life Balance and Career Development;

Principle 3 – Health, Safety, and Freedom from Violence;

Principle 4 – Governance and Leadership;

Principle 5 – Customs Administration and Stakeholder Relations.

The aim of gender equality in the workplace is to ensure equal access to both men and women, and to ensure they enjoy the same rewards, resources and opportunities regardless of whether they are a woman or a man.

#### **1.6.2 LRA hosts the SACU Regional Trade Forum**

The Southern African Customs Union (SACU) has launched a platform for interaction between member-states and the private sector. The forum offers business leaders from the regional trade block, the opportunity to comment on the impact of some customs systems and, procedures on business in general. It is also expected to address tax collection challenges emanating from the evolution of the business environment

More than 30 representatives from the private sector in the SACU region attended the forum together with the five Heads of Customs from member states.

## **2.5.3 Treaties and Agreements**

### **1.6.2.1 Double Taxation agreements**

Tax treaties are bilateral international agreements between countries, whose aim is to facilitate trade through elimination of double taxation which is inherent in international trade. These agreements help allocate taxing rights where a resident of one country trades in another, and in that way ensures that taxes are being paid or collected where appropriate. They also help to attract investment through reduced withholding tax rates that will be applicable on passive income, and furthermore by providing certainty on tax treatment.

During the 2014/15 financial year the authority negotiated the Lesotho-Malawi Double Taxation Agreement, and reviewed and updated both the Lesotho-Botswana Double Taxation Agreement, and the Lesotho-Swaziland Double Taxation Agreement.

### **2.5.3.2 LRA and the Ministry of Finance sign MOU**

The Lesotho Revenue Authority (LRA) and the Ministry of Finance signed a Memorandum of Understanding (MOU) on strengthening working relations between their legal departments. The MOU is aimed at promoting efficiency in the role of the two parties relating to the development of legislation as well as signing accession and ratification of treaty's and similar instruments.

This agreement not only formalized relations between the two parties but also provided a guide on how to approach different tasks.

### **2.5.3.3 LRA teams up with POSTBANK**

The Lesotho Revenue Authority (LRA) signed an agreement with Lesotho Postbank to enable Taxpayers to file their Value Added Tax (VAT) returns through the bank. The signing of the Memorandum of Understanding (MOU) between LRA and Lesotho Postbank is expected to bring benefits to afford the two institutions to better carry out their respective mandates. The partnership will enable Taxpayers to pay their taxes while doing banking and this will cut extra costs for them to go to the LRA offices to file a return.

The partnership with the Lesotho Post Bank is taking the LRA a step closer towards the desired improvement of the VAT system in Lesotho. The partnership further helps the bank to broaden its service portfolio while also expanding access to its financial services to smaller communities.

In previous years, the authority signed similar MOU's with Standard Lesotho Bank, First National Bank Lesotho, and Nedbank Lesotho, these agreement are still in place and operating successfully.

### **2.5.3.4 Lesotho Trade Portal MOU Signed**

Lesotho Revenue Authority signed a Memorandum of Understanding (MoU) to officiate partnership in the implementation of the Lesotho Trade Portal with seven Government ministries. The Government agencies which took part in the signing ceremony were the Ministries of Agriculture and Food Security, Tourism, Environment and Culture, Public Works and Transport, Health, Home Affairs and Public Safety and Trade and Industry, Cooperatives and Marketing.

The website hosts all regulatory information from all agencies involved in the importation and exportation of goods and services. The web portal is created as a single hub that aggregates and integrates information on import and export trade requirements including procedures and regulations concerning trade in Lesotho, the Southern African Customs Union (SACU) and other international organizations.



## **PART 3: FINANCIAL STATEMENTS**



**LESOTHO REVENUE AUTHORITY**

**Financial statements**

For the year ended 31 March 2015

**LESOTHO REVENUE AUTHORITY**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2013**

**DIRECTORS' STATEMENT OF RESPONSIBILITY AND APPROVAL**

The Board of Directors of the Lesotho Revenue Authority (LRA) is required to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the Board's responsibility to ensure that the financial statements fairly present the state of affairs of the Authority at the end of the financial year and the results of its operations and cash flows for the year then ended, and in conformity with the requirements of the Government of Lesotho and the manner required by the Lesotho Revenue Authority Act No. 14 of 2001.

The financial statements are prepared in accordance with the requirements of the Government of Lesotho and the Lesotho Revenue Authority Act No. 14 of 2001 and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board of Directors acknowledges that it is ultimately responsible for the system of internal financial controls established by the authority and places considerable importance on maintaining a strong control environment. To enable it to meet these responsibilities, the Board sets standards for internal controls aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Authority and all employees are required to maintain the highest ethical standards in ensuring the Authority's business is in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the LRA is on identifying, assessing, managing and monitoring all known forms of risks across the Authority. While operating risk cannot be fully eliminated, the Authority endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board is of the opinion that the system of internal controls provides reasonable assurance that the financial records may be relied on for the presentation of the financial statements. However, any system of internal financial controls can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

The Board has reviewed the LRA's cash flow forecast for the year to March 31, 2016 and is satisfied that the LRA has access to adequate resources to continue in operational existence for the foreseeable future. The financial statements support the viability of the LRA.

The external auditors are responsible for independently reviewing and reporting on the LRA's financial statements. The financial statements have been examined by the LRA's external auditors and we await the audit report from the Auditor General.

The financial statements set out on pages 5 to 15 which have been prepared on the going concern basis, were approved by the Board of Directors on 25<sup>th</sup> June 2015 and were signed on its behalf by:

.....  
Chairman

.....  
Director

**LESOTHO REVENUE AUTHORITY**  
**Statement of Comprehensive Income**  
**For the year ended 31 March 2015**

	<u>Notes</u>	<b>2 015</b> <b>M</b>	<b>2 014</b> <b>M</b>
<b>INCOME</b>			
Government funding		302 749 643	287 641 440
Interest received		3 264 945	2 090 274
Tollgate fees income		5 641 341	4 996 491
Storage income		1 254 543	1 453 606
Commission received		160 117	122 740
Other income		85 811	69 744
Amortization Project Funds		3 556 265	3 556 264
Project Funding		1 327 395	1 039 235
		<b>318 040 059</b>	<b>300 969 794</b>
Staff related expenses		200 139 609	178 073 564
Administration expenses		119 381 752	106 448 663
Inspection and enforcement expenses		16 035 402	6 747 772
Vehicle running expenses		7 044 497	6 397 905
<b>Total expenditure</b>		<b>342 601 261</b>	<b>297 667 904</b>
<b>Surplus /(deficit) for the year</b>	<b>3</b>	<b>(24 561 202)</b>	<b>3 301 890</b>

**LESOTHO REVENUE AUTHORITY**  
**Statement of Financial Position**  
**For the year ended 31 March 2015**

<b>ASSETS</b>	<b>Notes</b>	<b>2015 M</b>	<b>2014 M</b>
<b>Non Current Assets</b>			
Property, Plant and Equipment	2	269 161 221	181 513 881
<b>Current Assets</b>			
Accounts Receivable	6	10 032 921	714 528
Bank and Cash	7	25 998 965	142 252 196
Collections Bank Account Balances	8	62 945 065	21 151 728
Total Current Assets		<u>98 976 951</u>	<u>164 118 452</u>
<b>TOTAL ASSETS</b>		<u>368 138 172</u>	<u>345 632 333</u>
<b>CAPITAL AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
GOL Funding	9	222 709 733	214 265 998
Accumulated Surplus		32 573 760	48 926 908
Trust Account	15	1 597 292	1 154 603
Total Capital and Reserves		<u>256 880 785</u>	<u>264 347 509</u>
<b>Non-current Liabilities</b>			
Provisions for Terminal Benefits	11	22 986 029	15 932 816
		<u>22 986 029</u>	<u>15 932 816</u>
<b>Current Liabilities</b>			
Provision for leave pay	12	2 471 798	2 174 596
Collections Account balances Remitabl	8	62 945 065	21 151 728
Accounts Payable and Accruals	13	22 854 495	42 025 683
Total Current Liabilities		<u>88 271 358</u>	<u>65 352 008</u>
<b>TOTAL CAPITAL AND LIABILITIES</b>		<u>368 138 172</u>	<u>345 632 333</u>

## LESOTHO REVENUE AUTHORITY

### Statement of Changes in Capital and Reserves For the year ended 31 March 2015

	Notes	GOL Funding M	Accumulated Surplus M	Total M
<b>Balance at 31 March 2011</b>		119 478 140	5 159 967	124 638 107
Funds from government		17 878 666	-	17 878 666
Prior year adjustment		-	(2 179 102)	(2 179 102)
Surplus for the period		-	3 320 597	3 320 597
<b>Balance at 31 March 2012</b>		<b>137 356 806</b>	<b>6 301 462</b>	<b>143 658 268</b>
Funds from government		40 290 298	-	40 290 298
Prior year adjustment		-	1 851 218	1 851 218
Surplus for the period		-	(47 610 328)	(47 610 328)
<b>Balance at 31 March 2013</b>		<b>177 647 104</b>	<b>(39 457 648)</b>	<b>138 189 456</b>
Funds from government		28 596 687	-	28 596 687
Grants - Project Funding		95 203 313	-	95 203 313
Prior year adjustment		(83 624 842)	85 082 667	1 457 825
Current year armotisation		(3 556 264)	-	(3 556 264)
Surplus for the period		-	3 301 889	3 301 889
<b>Balance as at 31st March 2014</b>		<b>214 265 998</b>	<b>48 926 908</b>	<b>263 192 905</b>
Funds from government		8 000 000	-	8 000 000
Grants - Project Funding		4 000 000	-	4 000 000
Prior year adjust	14	-	8 208 054	8 208 054
Current year armotisation		(3 556 264)	-	(3 556 264)
Deficit for the period		-	(24 561 202)	(24 561 202)
<b>Balance as at 31st March 2015</b>		<b>222 709 733</b>	<b>32 573 760</b>	<b>255 283 494</b>

# LESOTHO REVENUE AUTHORITY

## Cash Flow Statement For the year ended 31 March 2015

	Notes	2015 M	2014 M
<b>Cash flows from operating activities</b>			
(Deficit)/Surplus for the year		(24 561 202)	3 301 889
Adjustments for item not involving cash movement:			
Interest (received)/paid		(3 264 945)	(2 090 274)
Depreciation		10 061 105	10 227 023
Prior year adjustments	14	8 208 054	85 082 666
(Gain)/Loss on fixed asset disposal		-	(2 212)
Surplus /(deficit) before changes in working capital		(9 556 987)	96 519 092
(Increase)/Decrease in accounts receivable		(9 318 394)	(358 379)
(Decrease) /increase in accounts payable			
Provisions and collection accounts		29 972 563	81 103 778
<b>Net cash inflow from operating activities</b>		<b>11 097 182</b>	<b>177 264 491</b>
<b>Cash flows from investing activities</b>			
Interest received		3 264 945	2 090 274
Purchase of property, plant and equipment		(97 708 445)	(64 148 528)
Proceeds on disposal of assets		-	27 976
<b>Net cash outflow from investing activities</b>		<b>(94 443 500)</b>	<b>(62 030 278)</b>
<b>Cash flows from financing activities</b>			
GOL capital funding		4 443 736	(58 584 434)
Grants Project Funding		4 000 000	95 203 313
Funds Account		442 687	1 154 603
		8 886 422	37 773 482
Increase/(Decrease) in cash and cash equivalents		(74 459 896)	153 007 695
Cash and cash equivalents at beginning of the year		163 403 924	10 396 229
<b>Cash and cash equivalents at end of the period</b>		<b>88 944 028</b>	<b>163 403 924</b>



## LESOTHO REVENUE AUTHORITY

### Statement of accounting policies For the year ended 31 March 2015

#### 1. Accounting policies

The annual financial statements incorporate the principle accounting policies set out below:

##### 1.1 Statement of compliance

The financial statements are consistent with International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards Board.

##### 1.2 Property, plant and equipment

###### *Owned assets*

Items of property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and impairment losses. Where parts of an item of furniture and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

###### *Depreciation*

Depreciation is charged to the income statement on the straight-line basis over the estimated useful lives of each part of the relevant asset. The estimated useful lives are as follows :-

	%
Property	10
Motor vehicles	25
Furniture & fittings	10
Office equipment	20
Computer equipment	33

The residual value, if not insignificant, is re-assessed annually.

##### 1.3 Impairment

The carrying amount of the Authority's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

##### 1.4 Financial instruments

###### *Measurement*

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

###### *Trade and other receivables*

Trade and other receivables originated by the Authority are stated at cost, less provision for doubtful debts.

###### *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value.

###### *Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt, less principal payments and amortisation.



## LESOTHO REVENUE AUTHORITY

### Accounting policies (continued) For the year ended 31 March 2015

#### 1.5 Income

Income comprises of funds received from the Government of Lesotho, interest on investments storage income, grants and commission received during the period. Income is accounted for using the accrual basis of accounting and taking into the terms of relevant agreements. The GoL funded some of the projects which the LRA needed to implement in the current financial year, whereas some needed donor assistance. The projects are as follows:-

Projects InconNote	2 015 M	2 014 M
LRA SARS Income	1 327 395	1 039 235
IRMS Project	-	6 830 917

#### 1.6 Provisions

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted.

#### 1.7 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at banks, net of overdrafts, all of which are available for use by the Authority unless otherwise stated.

## 2 Employee benefits

#### Short term employee benefits

The costs of all short term employee benefits is recognised during the year in which the employee renders related service

The provision for employee entitlements to wages, salaries, and annual sick leave represents the amount which the organisation has a present obligation to pay as a result of employees' services provided to the balance sheet date. The provisions have been calculated at undiscounted amounts based on wage and salary rates.

#### Long term employee benefits

The Authority is bound to two long term benefits:

- The severance pay entitlement provided by Section 79 of the Labour Code 1992
- The gratuity granted to contract staff on completion of their contracts.

The respective provisions for the above employees entitlements have been accounted or progressively under non-current liabilities at undiscounted amounts.

Gratuity payable within 12 months has been accounted for under current liabilities.

## LESOTHO REVENUE AUTHORITY

### Accounting policies (continued) For the year ended 31 March 2015

#### 1.8 Employee benefits (continued)

Long term employee benefits

The Authority is bound to two long term benefits:

- The severance pay entitlement provided by Section 79 of the Labour Code 1992
- The gratuity granted to contract staff on completion of their contracts.

The respective provisions for the above employees entitlements have been accounted or progressively under non-current liabilities at undiscounted amounts.

Gratuity payable within 12 months has been accounted for under current liabilities.

#### 1.9 Financial Assets and Liabilities

##### Financial assets

The Authority's principal financial assets are cash and cash equivalents, which comprise collection accounts, bank balances and cash on hand, and deposits and prepayments. These assets are stated at their nominal value and provisions are made against assets where there is a permanent impairment in the expected recoverable amounts from the assets.

##### Financial liabilities

Financial liabilities are classified according to the contractual agreements entered into. Significant financial liabilities include accounts payable, accruals, and collection accounts at their nominal value.

#### 1.10 Government Grant/ Assistance

Government Grants/ Assistance are recognised when there is reasonable assurance that the entity will comply with the attached conditions, these grant are amortised over the useful live of the respective assets.

**LESOTHO REVENUE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE MONTH ENDING 31, MARCH 2015**

**2. PROPERTY, PLANT AND EQUIPMENT**

Depreciation rates: <i>Owned Assets</i>	Cost	2015		Cost	2014	
		Accumulated Depreciation	Carrying Amount		Accumulated Depreciation	Carrying Amount
	M	M	M	M	M	M
10 Immovable Property	90 331 064	(55 123 341)	35 207 723	90 005 260	(50 196 079)	39 809 181
25 Motor Vehicles	7 143 831	(6 650 318)	493 513	7 143 831	(6 173 643)	970 188
10 Furniture and Fittings	15 968 342	(11 132 092)	4 836 250	14 045 607	(10 120 105)	3 925 502
20 Office Equipment	5 043 228	(4 341 865)	701 363	4 887 216	(3 691 974)	1 195 242
33 Computer Equipment	22 933 070	(18 370 884)	4 562 187	20 650 510	(15 375 594)	5 274 916
<b>Managed Assets</b>						
Work -In-Progress- Border Refurbishment	59 715 059	-	59 715 059	33 770 131	-	33 770 131
IRMS	128 583 802	-	128 583 802	87 652 240	-	87 652 240
Scanners	34 298 287	-	34 298 287	5 706 953	-	5 706 953
DCS Customs	175 345	-	175 345	-	-	-
LRA Housing	144 530	-	144 530	-	-	-
Assets Work in Progress	162 606	-	162 606	3 209 528	-	3 209 528
Oracle Upgrade	280 556	-	280 556	-	-	-
	<b>364 779 720</b>	<b>(95 618 499)</b>	<b>269 161 221</b>	<b>267 071 276</b>	<b>(85 557 394)</b>	<b>181 513 881</b>

The carrying amounts of property, plant, and equipment can be reconciled as follows:

Depreciation rates: <i>Owned Assets</i>	Carrying Amount at 2015/01/03	Additions during the year	Disposal/ reclassification during the year	Depreciation for the year	Carrying Amount at 31/03/2015
				M	M
10 Immovable Property	39 809 181	65 500	260 304	4 927 262	35 207 723
25 Motor Vehicles	970 188	-	-	476 676	493 513
10 Furniture and Fittings	3 925 502	82 091	1 840 643	1 011 987	4 836 249
20 Office Equipment	1 195 242	152 991	3 021	649 891	701 363
33 Computer Equipment	5 274 916	2 204 902	77 658	2 995 289	4 562 187
<b>Managed Assets</b>					
Work -In-Progress- Border Refurbishment	-	-	-	-	-
IRMS	33 770 131	25 944 928	-	-	59 715 059
Scanners	87 652 240	40 931 562	-	-	128 583 802
DCS Customs	5 706 953	28 591 334	-	-	34 298 287
LRA Housing	-	175 345	-	-	175 345
Assets Work in Progress	-	144 530	-	-	144 530
Oracle Upgrade	3 209 528	162 606	(3 209 528)	-	162 606
	-	280 556	-	-	280 556
	<b>181 513 881</b>	<b>98 736 346</b>	<b>(1 027 901)</b>	<b>10 061 105</b>	<b>269 161 221</b>

**LESOTHO REVENUE AUTHORITY**  
**Notes to the financial statements**  
**For the year ended 31 March 2015**

**3. (Deficit)/Surplus for the month**

	<b>2015</b>	<b>2014</b>
	<b>M</b>	<b>M</b>
(Deficit)/Surplus for the period is stated after charging the following:		
Depreciation	10 061 105	10 227 023
Board fees and expenses	938 771	1 243 985
Auditors' remuneration	292 529	308 367
	<b>11 292 405</b>	<b>11 779 375</b>

**4. Related parties**

**4.1 Identity of related parties**

The Lesotho Revenue Authority is a 100% Government controlled entity.

**4.2 Material related party transactions**

Government of Lesotho

The Lesotho Revenue Authority is funded mainly by the Government of Lesotho

**5. Financial instruments**

Exposure to currency, interest rate and credit risk arises in the normal course of the Authority's business.

**5.1. Currency risk**

At the balance sheet date there were no balances that were exposed to exchange rate fluctuations.

**5.2 Interest rate risk**

The Authority does not limit its risk in respect of interest rate changes. Accordingly, interest rate fluctuations will directly impact on the Authority's results. At the balance sheet date, however, there were no significant balances that were exposed to interest rate fluctuations.

**5.3 Fair values**

The fair values of all financial instruments are substantially identical to the carrying amounts reflected in the balance sheet.

**LESOTHO REVENUE AUTHORITY**  
**Notes to the financial statements**  
**For the year ended 31 March 2015**

<b>6. Accounts receivable</b>	<b>2015</b>	<b>2014</b>
	<b>M</b>	<b>M</b>
Deposit	257 611	220 790
Prepayments	672 558	439 097
Accrued income	9 057 210	-
Accrued interest	904	1
Accounts receivable	37 240	47 240
Other debtors	7 400	7 400
	<b>10 032 921</b>	<b>714 528</b>
<b>7. Bank and cash</b>		
LRA Operating account	(2 685 912)	(752 752)
88 day deposit account - Nedbank	509 312	7 787
Other short term deposits	11 994 485	51 890 615
LRA Call account	169 971	37 349 262
LRA SARS Account	433	433
IRMS Account	27 383	18 550 625
Border refurbishment project account	13 901 426	34 033 468
Money Market GOL	464 593	-
Cash on hand	19 982	18 155
Mascon development Fund	1 597 292	1 154 603
	<b>25 998 965</b>	<b>142 252 196</b>
<b>8. Collection accounts</b>		
LRA refund account	10 909 761	1 023 818
VAT call account	13 928 027	1 366 489
VAT current account	5 056 495	638 620
Income Tax call account	4 430 652	11 645 284
Income Tax current account	15 046 578	3 854 454
Income Tax refund account	(10 019 268)	889 118
Refunds Cash on hand	-	-
Toll Fees Current account	491 806	751 978
	<b>39 844 052</b>	<b>20 169 760</b>
<b>SACU accounts</b>		
Current account	575 897	65 034
SACU 32 day account- Nedbank	-	80 032
Customs call account	22 525 116	836 902
	<b>23 101 013</b>	<b>981 968</b>
<b>Net Balance</b>	<b>62 945 065</b>	<b>21 151 728</b>

The above accounts represent monies collected on behalf of GOL and SACU and held pending their transfer to the respective institutions.

**9. Government funding**

The Memorandum of Understanding between the Government of Lesotho (Ministry of Finance and Development Planning) and the Lesotho Revenue Authority provided for the transfer of all assets (non-movable and movable) free of charge, previously held by the Departments for Customs and Excise, Sales Tax and Income Tax to the Lesotho Revenue Authority. These assets

## LESOTHO REVENUE AUTHORITY

### Notes to the financial statements For the year ended 31 March 2015

#### 10. Border Post Refurbishment

These are funds that the Government of Lesotho has set aside for the refurbishment of other Border Posts. The money has been deposited into the Authority's accounts as it is the one which is leading the refurbishment project. The refurbishment costs have been capitalised as work in progress in the assets, and the funds received are treated as capital injection.

#### 11. Provision for terminal benefits

	March 2015 M	March 2014 M
Gratuity	12 781 731	7 205 432
Severance pay	10 204 298	8 727 384
	<b>22 986 029</b>	<b>15 932 816</b>

#### 12. Provision for leave pay

Leave pay	2 471 798	2 174 596
	<b>2 471 798</b>	<b>2 174 596</b>

#### 13. Accounts payable and accruals

Creditors	10 428 283	27 428 294
Accruals	11 517 913	13 008 869
Salary Control Account	-	(2 398)
Other creditors	908 299	1 590 917
	<b>22 854 495</b>	<b>42 025 683</b>

#### 14. Prior year adjustments M8,208,054

This is a refund from the World Bank for the LRA/SARS project expenses incurred in the previous financial year, payments for separation policy, Commutable leave for the 2013/14 and adjustments done for Source tax deductions for previous year

#### 15. Trust Account(Rental income Mascon)

This is rental income received from the Maseru Station and Container Terminal site(MASCON). Ministry of Works and LRA agreed to charge one of the occupants of the site rent. The rent is put in a trust account which will be used to develop that site.

#### 16. Contingent Liabilities

A number of companies and individuals have sued the Lesotho Revenue Authority over the last several years for various matters. Management has made an assessment of the possible liability as a result of these pending case. The total exposure has been estimated at M 5.6m